



Bundesministerium
der Finanzen



Bundesministerium
für Wirtschaft
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50th Franco-German Economic and Financial Council

Franco-German priorities for the next European institutional cycle on economic, financial and trade matters

The Franco-German Economic and Financial Council proposes the following priorities for an ambitious policy agenda of the next institutional cycle:

1. Further strengthening the Euro area and deepening the Single Market

1.1. Completing the Economic and Monetary Union and the Banking Union

Regarding the strengthening of the Euro area, the next institutional cycle should be used to advance at least on three fronts:

- **The new budgetary instrument for convergence and competitiveness (BICC) needs to be instituted and operationalized** with a credible size including resources to be provided by an intergovernmental agreement. It will foster reforms and finance investment in the Euro area.
- **We will continue to examine the issue of a European unemployment stabilization fund, for the case of severe economic crises, without transfers.**
- **Acknowledging that fiscal policy should support monetary policy at any time, we are committed to deliver a strategy for growth** following three pillars: (i) continuing with the implementation of structural reforms, (ii) pursuing the debt reduction efforts in countries with high debt levels and (iii) pursuing strong public investment and increasing it where possible. We are ready to counteract a potential further deterioration by activating the appropriate fiscal responses if needed.
- **A financial integration agenda for the Banking Union** should combine the objectives of a better financing of the economy, the protection of tax payers and a more resilient and competitive banking sector able to contribute to the Capital Markets Union as well. This can be achieved via higher private risk sharing in an integrated market for banks which allows for cross-border diversification in the Euro area, and by implementing Basel III standards while preserving risk-sensitivity of banking regulation.

1.2. Further deepening the Single Market, while achieving substantial progress on social and tax convergence

- **Further economic integration** would boost Europe's growth potential. The Single Market has to evolve so that it fully embraces **the digital transformation, the rise of the service economy and the transition to a greener and sustainable economy.**
- An agenda to further **deepen the Single market** needs to be based on an effective sectorial and bottom-up approach in order to tackle the effective barriers businesses and consumers face. In the development of the Single Market, better Regulation principles should always be

taken into account. We fully support the Commission's announcement of its intention to propose concrete **commitments and objectives** to prevent and remove unnecessary regulatory and non-regulatory burdens and barriers in the Single Market, including exploring the possible introduction of the « one in one out » principle.

- Building on the small business act, the framework conditions for small and medium-sized enterprises should be reviewed with the aim of helping them scaling up and expanding.
- This agenda needs to be accompanied by the advancement of measures contributing to upward **social convergence and higher tax standards in the EU**. **Social convergence** could be further strengthened through new horizontal enabling conditions of the structural funds. On **tax convergence**, work on the common consolidated corporate tax base, completion of the EU VAT system, taxation of the digital economy and the fight against tax fraud and evasion should be pursued.

2. Boosting innovation and investment in Europe

2.1. *Advancing on the Capital Markets Union*

The **Capital Markets Union (CMU)** is key to strengthen the resilience of the EU and of the Euro area by providing alternative financing capacities for investors and reducing our dependency to the banking system, notably by mobilising financing stemming from insurers, asset managers and pensions' funds and increasing the attractiveness of EU financial markets. The CMU should therefore be advanced and deepened with a focus on strengthening private-sector investment, facilitating investors' and companies' access to and increasing liquidity in EU financial markets and on protecting customers.

France and Germany will further advance on the setting-up of the Capital Markets Union based on the work of the **Next CMU Working Group**. We expect the European actors from both private sector and public institutions to give the adequate attention and means to the follow-up of this strategic priority.

2.2. *Enacting an ambitious and long-term industrial strategy for the EU and modernising EU competition law*

We advocate for a **renewed industrial policy including competition law in a globalised and digitalised economy**, taking into account the Franco-German manifesto for a European industrial policy fit for the 21st century of 18 February 2019 and the Proposal from France, Germany and Poland for a modernised European competition policy of 4 July 2019 and making the most of the potential of the EU Single Market as driver of competitiveness.

- **Stimulating disruptive innovation and strengthening competitiveness and uptake of key technologies** must be at the heart of this strategy, and capital must be made more readily available to innovators, at all stages from research and development to scale-up.
- Support from the EU needs to be provided also at the **more mature stage of the research and development process**. We advocate for the development of further important projects of common European interest (IPCEI), and for further guidance on the creation of European joint ventures and cross-firms cooperation vis-à-vis state aids rules. Moreover the results of the Strategic Forum IPCEI concerning strategic value chains should be developed to concrete sectorial programmes. In the review of the state-aid guidelines, the aim of a significant innovative industrial capacity in Europe should be taken into account.
- The European Commission should **evaluate and modernise state aid and competition rules**, notably **the current guidelines** on the assessment of horizontal mergers and on the definition of the relevant market, aiming at introducing more flexibility, better take into account competition at global level and protect strategic common European interest. Particular attention should be paid to competition from third countries' state-controlled or subsidised companies, which could create long-term market conditions detrimental to European consumers.

- **Competition law enforcement and regulation** needs to better deal with the challenges arising from the digital economy since large players are very difficult to dislodge due to the specifics of digital markets, such as extreme returns to scale, network externalities, the role of data, and the risk of predatory acquisitions.

3. Strengthening Europe's economic leadership

3.1. Stepping up the fight against climate change

- The increased fight against climate change has to be placed in the framework of actions coordinated at the international level. Overall, we support efforts to achieve an ambitious **European climate strategy for carbon neutrality in 2050**. This requires technology-neutral solutions and a policy framework that allows to define distinct measures to transform the energy, transport, housing, industry and agriculture sectors. In this regard we fully support the work on the strategy planned by President-elect von der Leyen, to examine possible measures to prevent carbon leakage, inter alia a carbon border tax. Strengthening international cooperation could allow us to raise ambition also on the global level.
- As part of this strategy, we advocate for strengthening the role of the European Investment Bank in climate financing by developing it into a “**European climate bank**”. The next Franco-German Council of Ministers will be dedicated to common efforts to manage the necessary ecological transition. Reaching carbon neutrality in 2050 should be one of the major priorities of the **next Multiannual Financial Framework**. The **State Aid framework** could also contribute to the reaching of ambitious climate goals. It should allow Member States to support new value chains and structures as a substitute for the ending of functioning but climate-damaging value chains.
- Our willingness to coordinate our actions for climate change at the international level should also be addressed through the dedicated **climate funds** (Green Climate Fund, Global Environment Facility among others) in which both France and Germany play a major role as major contributors. We strongly promote engaging in recurrent and transparent dialogue between all European countries in order to reinforce our shared positions.

3.2. Ensuring openness and a level playing field for trade

We reaffirm our attachment to open markets, to multilateralism and to an ambitious and assertive EU trade policy along the following lines:

- **Preserving the multilateral rules-based trading system with the WTO at its centre and leading its reform** notably on the issues of dispute settlement, industrial subsidies and forced transfer of technologies. The EU must also give further impetus to other WTO negotiations. In particular, the EU must be a frontrunner in negotiations on e-commerce, to harness the full potential of data, protect EU companies from unjustified barriers and enhance consumer and business trust.
- The EU should complement its support of the multilateral trading system by maintaining an **ambitious bilateral trade agenda** in particular with regard to the fast growing emerging markets. Ongoing bilateral negotiations should be concluded as quickly as possible. Where conditions are met we will support new bilateral negotiations.
- **Using more effectively and complementing the EU toolbox of WTO-compliant enforcement instruments dedicated to strengthening the EU's competitiveness and ensuring a level playing field**, notably by resuming discussions on the International Procurement Instrument (IPI) and other instruments, including those contained in the EU-China strategic outlook of the 12 March 2019. We will work on the objective laid out by the Commission to create a trade enforcement officer to monitor and improve the compliance with our trade rules and agreements.
- **Promoting the consistency of trade and EU sustainable development policies** in their social and environmental dimensions. In general, trade agreements should play an important role in supporting and promoting the implementation of multilateral labour and environmental agreements, including the Paris Agreement.

- **Better implementation of EU free trade agreements and economic monitoring of the regional and sectorial effects of international trade** in order to ensure that the benefits of globalisation are widespread.

3.3. Strengthening the EU's capacity to conduct an independent and ambitious external action in support of a fair and sustainable market economy

- EU external action should support **multilateralism and a fairer and more sustainable market economy**. Building a strong multilateralism is in the European interest and entails bringing forward proposals to **strengthen and modernise international organisations** (in particular the WTO). The EU should also be at the forefront on **international taxation issues**, notably ensuring a minimum taxation of corporate profits and fighting against non-cooperative jurisdictions.
- An effective EU strategy on the international stage should include: (i) rationalising the **European development architecture** (clarifying the division of labour between EIB and EBRD to enhance the efficiency and the visibility of the EU's development aid), (ii) achieving **greater unity** in multilateral fora and international organisations, as well as towards world-wide initiatives such as The Belt and Road Initiative, notably by swiftly implementing the EU Strategy on Connecting Europe and Asia, (iii) increasing **the international role of the euro**, by strengthening the EMU, and (iv) developing new tools to defend EU businesses against extraterritorial policies.
- The EU should also **regularly update its strategy towards key third countries**, taking into account the related opportunities and challenges. In particular, the EU should intensify its coordination on China, on the basis of the EU-China strategic outlook adopted on 12 March 2019 by the European Commission and the High Representative for Foreign Affairs and Security Policy.

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