

JOINT DECLARATION BDI-MEDEF

Recommendations for new initiatives in industrial economic cooperation between Germany and France

January 17, 2018

Franco-German Cooperation

The governments of Germany and France agreed at the Franco-German Council of Ministers on July 13, 2017, in Paris to cooperate more closely. Besides strengthening their common efforts in the fields of education and culture they also agreed on deepening their economic ties.

Recommendations for new initiatives in industrial economic cooperation between France and Germany

BDI and MEDEF were tasked with contributing to this effort by bringing forward recommendations for closer economic cooperation between both countries. BDI and MEDEF set up working groups on industrial policy and corporate finance, energy and climate change, trade and investment, security and defence and taxation.

The policy recommendations were finalised in December 2017 and submitted to our governments in January 2018.

Table of contents

Industrial Policy and Corporate Finance 3

Energy and Climate Policy 8

Trade and Investment 11

Security and Defence..... 14

Taxation..... 16

Imprint 19

Industrial Policy and Corporate Finance

Introduction

The industrial recovery is on its way. The economic recovery in our two countries has spread to industrial production in the course of the last year much more strongly than before. The pick-up in industrial activity and in European and global trade in manufacturing is a welcome development. The strengthening of our industrial companies is important, as many must invest heavily in new technologies and new business models to stay competitive.

Manufacturing firms are enjoying new opportunities and must meet new challenges, too. The French and German manufacturing sectors, however, face a number of structural challenges that are affecting most companies in most branches today. Intense international competition in open goods markets, the emergence of new competitors from emerging markets, the digitalisation of production, new business models affecting not only business-to-consumer but also business-to-business relationships, platform economics, investment patterns increasingly shaped by software, patents and intangible assets and concomitant shifts in the needs of corporate finance are common challenges.

Economic links between Germany and France should be strengthened further. In several industrial branches and sectors, close links between Germany and France have developed over more than sixty years of economic integration and trade. We do have a strong trading relationship and a considerable amount of mutual foreign direct investment. In some fields, cross border mergers and acquisitions have led to the emergence of stronger players able to compete internationally more recently. The merger of two rail companies is a case in point. In aerospace, an integrated production system has emerged. In automotive, a recent take-over has strengthened German-French integration, too. Automotive and electronics branches benefit from an intense relationship and highly integrated production networks. In IT services to businesses, strong market players have emerged from joint German-French corporate efforts.

Cooperation in the field of digital industrial technologies between Germany and France should be intensified. The digitalisation of economies and societies creates extraordinary growth opportunities through innovation and efficiency gains. To make full use of the opportunities provided by digitalisation, governments and businesses must intensify international cooperation.

Industrial policies in Germany and France have addressed a number of issue areas more recently. In a number of areas, our two governments have adopted stronger policies affecting industrial innovation and competitiveness, separately and jointly, and in the framework of the European Union itself. We applaud these new initiatives. The strengthening of the venture capital market, business-friendly product market regulation and initiatives supporting SMEs in adopting new production technologies are good examples.

Public policies in our countries should adapt to these new opportunities and challenges. These broad industrial and technological trends do present numerous opportunities for companies to raise productivity, develop new or better products and processes and create good jobs. However, they also do present numerous challenges for companies to make digitalisation, new business models and new technologies work and for public policies to be adapted to changing circumstances.

Policy proposals to strengthen cooperation in industrial policies in Germany and France

In a number of fields, we would like to see additional efforts by our governments and by the European Union in order to strengthen the competitiveness of our two industrial sectors.

A new approach in the industrial policy of the European Union

The renewed industrial policy strategy is the first one of the current European Commission. This is an opportunity for our two countries but also for the whole of Europe. MEDEF and the BDI consider that this is the right moment to act, when the economic conjuncture is much more favourable to the development of industry in Europe. Furthermore, this industrial strategy is innovative, insofar as it is integrated into other major EU policies (trade, digital, innovation, low-carbon and circular economy...). Financial tools are also available to support and facilitate the different policies. However, this communication should be the first step towards an ambitious, holistic and concrete industrial policy and not an end in itself.

For this reason, MEDEF and BDI propose the following actions that we believe will help the initiative to have a greater chance of achieving successful outcomes for industry:

Develop an ambitious industry target to 2030 and put in place a scoreboard to monitor the different actions and initiatives of the Commission. The conditions for the success of this new, integrated approach lie in the capacity to keep track of progress on the key actions identified in the Communication “A renewed EU Industrial Policy Strategy”: thematic legislative packages, trade agreements, initiatives or action plans, financial instruments... There is also a need to check that all these actions remain coherent as a whole, all aiming to improve the competitiveness of European industry.

Make sure there is a strong presence of industry in the High Level Industrial Roundtable, which will be put in place in early 2018. This high-level group requires strong leadership from the highest political level within the Commission and must be the body that provides the interface between industry representatives in each Member State, in order to make sure the interests and expectations of industry are known and understood. Furthermore, the establishment of a governance structure including the private sector (Industry days and High level industrial round table) is a crucial element of the strategy that must be prioritised and used to the fullest possible extent. It will only be in close dialogue and cooperation with industry that this strategy will be translated into concrete positive impacts for European industry.

Ensure effective feedback mechanisms within BusinessEurope charged with monitoring the implementation of the strategy, but also to be the link between the High-Level Industry Roundtable and the business organisations of the Member States.

This list of elements is not exhaustive. The future development and implementation of a European industrial policy that will enable European industry to be competitive in the world requires wide and ongoing dialogue and cooperation with stakeholders to support a strategy over the long term.

Promotion of a modern manufacturing sector (Industrie 4.0, industrie du futur)

With regard to the agreement made at the Franco-German Council of Ministers, MEDEF and BDI, recommend the following points:

Collaboration in standard-setting. The existing collaboration between the German “Plattform Industrie 4.0” and the French “Industrie du futur” within the trilateral cooperation with Italy is a key

element for the digital transformation of European Industries. It could serve as a blueprint for other fields of digitalisation. We recommend replicating activities of the trilateral cooperation – like the systematic exchange of best-practice – in other areas (e.g. smart cities, e-government, e-health, connected driving).

Demonstration projects and technology transfers. To further strengthen the adoption of digital technologies by industry, it is important to show how Industrie 4.0 technologies can be applied. France and Germany should further support the establishment of demonstration centres and test labs to facilitate and accelerate technology transfer by demonstrating and testing technologies in real scenarios. Access to the test labs should be open to all European countries.

Reduction of national data localisation restrictions required. To lay the regulatory foundations of an innovation-friendly data economy, France and Germany should advocate for a “free flow of data” on EU-level. Compulsory data localisation rules laid down in Member States’ laws should be reduced to the most necessary exceptions. Therefore, we welcome the proposal on the free flow of non-personal data by the EU Commission.

Flexible approach to data usage advisable. In contrast to the free flow of data, no regulation is needed with regard to questions of data ownership and access to (non-personal) machine data. We recommend solving all data usage questions by contractual solutions between the involved companies and institutions. This would allow for flexible solutions in the developing data economy rather than a one-size-fits-all approach by law. Regulation should only be considered in cases of market failure.

The promotion of digital skills must be stepped up. Digital skills are key factors in the competitiveness of industry in both countries. France and Germany should share information and best practices on work, education and training relevant for the digital transformation. Additionally, MEDEF and BDI support the promotion of programmes like an “Erasmus for enterprises” to offer companies the possibility to send employees abroad to experience how digital solutions are implemented abroad.

Our governments should cooperate on cyber security. A joint declaration by France and Germany on strengthening cybersecurity cooperation would be beneficial to set the tone at European level. A functioning digital single market will need robust cybersecurity and common technical standards to enhance trust in an interconnected economy and society. In particular, MEDEF and BDI would support more industry involvement regarding the planned EU-wide certification scheme by the European Commission.

Funding of industrial Investment, Innovation and Entrepreneurship

Promotion of investment in digital technologies. We welcome the creation of investment instruments to support companies with the financing of digital solutions. The governments should not limit the access to small- and micro- enterprises. The instruments should also be accessible for all companies. Moreover, we consider it essential to pursue investment instrument simplification, better coherence and better targeting to support the digital transformation of enterprises in an optimal manner.

Review of investment promotion schemes (national and EU-wide) and concomitant banking regulatory issues desirable. Our two governments should also launch a working group on adapting the current national and European policy frameworks to shifting patterns of investment, in particular to software, R&D, patents and other forms of knowledge-based capital. There are many issues in which traditional approaches are not sufficient or adequate any longer:

- the definition of investment and innovation in laws and policy guidelines underlying investment promotion schemes,
- the treatment of business cooperation and joint venture issues in bank business models and banking regulation,
- the changing requirements concerning the debt/equity mix in investment,
- the treatment of intangible assets in classic investment promotion schemes by policy banks,
- the procedures for obtaining investment promotion in projects involving start-ups and/or joint ventures,
- the treatment of international collaboration in those projects,
- the types of costs for which investment promotion is available,
- issues of liabilities and guarantees in complex business projects involving established firms and start-ups.

Much of this is technical work, but without strong policy leadership the numerous players, schemes and instruments may not adapt sufficiently fast or in any coherent manner.

Promoting the supply of risk capital. BDI and MEDEF approve of the plans of our two governments to launch new projects in risk capital investment by *Bpifrance* and *KfW* and by new instruments of the European Investment Bank as stated in the joint declaration as of July 13, 2017. Venture capital is an essential requirement for start-ups to scale-up. BDI and MEDEF support the combined action to boost investments through venture capital. The planned agreement between *Bpifrance* and the *KfW* to conduct co-investments will be an important economic lever to trigger public and private investments for start-ups. It will also be a signal to national venture capital markets to start investing cross-border. We suggest to gradually extend this initiative to mid-caps or larger SMEs in need of risk capital exceeding the planned threshold of 10 million euros. We also applaud the recent initiative of the European Commission to strengthen European risk capital funds.

Investment promotion by the EU itself. We clearly support the various initiatives in recent years to counter sluggish private investment in most Member States including France and Germany, through existing and new investment promotion schemes such as the Cohesion Funds, EFSI, COSME and others. The use of those schemes by manufacturing companies can truly help to strengthen private investment.

We suggest that our governments look closely at improving the tax framework for R&D and start-ups. Improvements across a range of issues are possible, in particular for R&D, the investment in intangibles, the tax treatment of start-ups and of IPOs. Public policy should strengthen innovation and entrepreneurship through direct funding programmes for research and development of new products. This should be done through a well-designed system of tax credits for corporate R&D activities and by providing broad tax incentives for implementing new (often) digital technologies in private investment. This can involve simple research or experimental equipment or infrastructure.

Germany and France should push for stronger public EU innovation financing post-2020. We urge our governments to support a continued emphasis on EU R&D funding for growth and competitiveness, including a strong innovation in manufacturing and in related industries component in the up-coming decisions on the next Multiannual Financial Framework, in particular regarding the Framework Programme 9.

Our governments should promote the aeroplane of the future. Our governments should push for a continuation of R&D programmes pertaining to this objective, with specific funding for electric or

hybrid engines and alternative fuels, and promote single pilot operations. This can either be done jointly or by a coherent adjustment of the national programmes. We also support the strengthening of EASA. Our governments should also evaluate the potential of autonomous flying and air mobility in cities.

Opportunities arising from a new approach to Public Ownership and Privatization

We take note of ongoing discussions and plans in our two countries to launch new efforts at privatization of state capital participations in companies. This may open up new business opportunities for German and French companies.

Energy and Climate Policy

Introduction

French and German companies are committed to the transition towards a low-carbon, resource- and energy efficient economy that provides security of supply at competitive prices in a global market environment.

BDI and MEDEF support the willingness expressed in the conclusions of the French-German Council of ministers of July 13th and in the meeting between our respective Secretaries of States on September 4th to accelerate cooperation in the field of energy between both countries.

Climate action

In 2017 the 23rd Conference of the Parties in Bonn and the One Planet Summit in Paris marked important milestones in the implementation of the Paris agreement, especially in the context of the upcoming stocktaking exercise in 2018. The objective should be to support technology transfer – in full respect of intellectual property rights – and to promote harmonized carbon pricing mechanisms worldwide. The expertise of the business community is essential to achieve the implementation of the Paris Agreement. Several business leaders took part in the launch of the Business Dialogue initiated in 2015 to discuss the main issues relating to climate change and their implications for business, its supply and value chains. We call for continuation and expansion of this Dialogue in the context of preparation for the future COP process.

Businesses in France and Germany are committed to playing a central role in climate action by developing and bringing technological solutions to the market. In order to innovate, companies need long term predictability while at the same time flexibility, clear signals and suitable frameworks for investment and job creation. Therefore, we call for measures and tools which encourage private investment. MEDEF and BDI clearly caution against unpredictable regulatory intervention, which increases investment uncertainty for our companies. We ask governments to refrain from any kind of technological bans and acknowledge the necessity of a technology neutral approach towards existing solutions and future technological developments.

Research & Development

More research and development will be needed in order to identify the most efficient technological development paths for sustainable transformation of the energy systems across Europe. Our companies are already committed to several joint R&D projects and industrial initiatives in the field of energy storage, smart grids, power-to-gas, hydrogen, batteries, for example the Ecolabel consortium for solar panels or the Hydrogen Council. MEDEF and BDI strongly support the initiative of the European Commission Vice President Maros Sevcovic to establish an EU Battery Alliance and are willing to contribute to this initiative. The exchange in research and development between German and French businesses should be further strengthened in the European context as well as in bilateral initiatives.

Cooperation within the European regulatory framework

MEDEF and BDI support the efforts of our governments to strengthen the European Energy Union. We see the completion of the internal energy market to be central to enabling the unhindered flows of electricity across borders. This allows for competitive energy prices for European businesses and affordable energy for private households.

We support joint efforts of the governments in both countries to cooperate in the framework of the EU package “Clean energy for all Europeans”. A stable and predictable EU framework is a key factor for the success of the energy transition in both countries and in the European Union as a whole.

The EU must stick to the target architecture as defined in the Council conclusions of 2014. Binding energy efficiency and renewable targets bear the risk of undermining the EU emissions trading scheme (EU ETS), which must remain the central instrument for reaching the EU’s decarbonisation targets. The revision for phase four (2021 – 2030) is a first key step in further strengthening the efficiency of EU ETS to deliver a predictable CO₂ price signal, to incentivize low-carbon technologies and to ensure the competitiveness of our industries. The reform takes the EU one step further in the ambition level of its climate policy.

Higher targets for renewable energy and energy efficiency must not lead to further increasing price burdens for energy consumers and must be accompanied by adequate grid development. Overlaps with regulations affecting the transport sector should also be avoided. Incentives to favour fuel efficient and low-emission vehicles as well as technology neutral R&D programmes, for instance, are more effective means of tackling this complex area.

The predictability of the long-term CO₂-reduction paths and the primacy of EU ETS is key to support a cost-effective decarbonisation of the power system. The long-term decarbonisation pathways will be expansive. Symbolic but premature, nationally isolated policies on energy carriers and unilateral carbon pricing initiatives with unclear overall emission results on the European level hold the risk of further driving up transition costs, while decreasing acceptance of climate policy in our societies. They lead to fragmentation and competition distortions and should thus be avoided. The debate on CO₂ reduction should take place primarily at a European level in the wider context of the EU ETS and supported by transparent and harmonized compensation schemes in order to ensure fair competition. Cooperation between Germany and France is key to achieve these goals.

Improving cost competitiveness of renewable energy projects

Bilateral and regional cooperation in the field of renewable energies can contribute to improving the economic competitiveness of renewable energy projects and bring down costs for energy consumers. EU Member States must better coordinate and interlink their renewables deployment efforts to avoid excessive market fragmentation and ensure the completion of the EU internal market.

We take note of the decision of our Secretaries of State from September 4, 2017 to develop a framework for implementing a pilot joint tender between our countries. We consider that following points have to be taken into account in order to establish fair competition and a level playing field for participating companies:

- The cooperation shall be based on reciprocity: if country A opens its support scheme to projects in country B, country B must open its renewable support to installations from country A too.

- Cross-border auctions shall attract investments in most competitive technology and at most competitive sites. They shall consider existing grid infrastructure availability as well as planned infrastructure development and encourage integration of renewable energies into the market.
- In order to improve acceptance and equally benefit both countries, criteria linked to interconnection and physical capacity to transfer electricity should apply. These criteria do not imply a contractual delivery obligation from country B/A to country A/B, which goes beyond the EU electricity trading rules. At the same time no export restrictions on the plants constructed as a result of the tender should apply.
- Significant differences in location-specific conditions such as site-restrictions, construction permits, compensation for curtailment, taxes and levies can have major impacts on the competitiveness of the projects. Those differences should be analysed and addressed. Adjustments might be needed on a case-by-case basis to avoid distortion of competition.
- Planning and approval procedures and requirements, grid connection requirements, land-use requirements et cetera are different both on Member State and regional level. It must be ensured that these differences do not lead to unfair competition between participating companies.
- To be successful in a cross-border auction, local content criteria in any form must be avoided.

As these conditions have not been fulfilled yet, implementation of these measures would help creating acceptance for potential joint tenders among businesses in Germany and France.

Essentially, any cooperation between France and Germany in this field would be a première and would have a pilot character in order to gather experience for possible further auctions. Hence, should a pilot project be carried out, BDI and MEDEF ask governments to choose the bilateral auction model, as it is easiest to implement, review and optimise. Before moving beyond the pilot character and possibly implementing the joint auction model governments in both countries have to make sure that acceptance among businesses is established and the lessons learned from the pilot tender have been implemented. Bidders in both countries should bid on a level playing field. Administrative barriers must be removed as much as possible in both markets to organize fair competition. System friendly solutions and regional distribution should be supported as much as possible in both markets to support system adequacy and acceptance in Germany and France.

Both governments have a strong role to play, in relation with the German-French Office for the Energy Transition, to give French and German companies more visibility on the existing projects. This way, our companies can better seize business opportunities to support sustainable energy transition in both countries.

Trade and Investment

Introduction

Trade is a strong motor of prosperity in France, Germany, Europe, and the world as a whole. France and Germany are strongly integrated in the world economy. Together, the two countries account for 7.6 percent of global GDP with 2.0 percent of the world's population. Companies from the two countries account for 11 percent of the world's goods exports, 10.5 percent of the world's services exports, and 10.0 percent of the global FDI-stocks. Both exports and imports enhance economies of scale, specialization, and competition, while lowering input prices. Imports significantly contribute to consumer welfare, as trade provides access to a more diverse range of goods and services at lower prices. Mercantilist policies and protectionism are thus misguided. They risk destroying innovation, wealth, and growth potential. Instead, trade policies need to focus on removing discrimination and unnecessary trade barriers to both exports and imports while ensuring fair competition, sustainability, and inclusiveness through a rules-based global trading system.

As the public debate on the Transatlantic Trade and Investment Partnership (TTIP) and the protests against the G20 Summit in Hamburg in July 2017 have clearly shown, there are significant reservations within the population when it comes to Free Trade Agreements (FTAs) and globalization. These reservations, as well as growing populism, can only be dismantled by a policy that addresses valid concerns. The social security systems must remain stable, investments in the economy must be made, and education must prepare people for the rising challenges of globalization, including the disruptions caused by the digital transformation.

However, these challenges can only be overcome if we take advantage of the opportunities of international trade and investment. A future oriented trade policy is therefore important for France, Germany, and the EU as a whole.

European Trade Policy

It is undeniable that the trade policy needs to be updated, both regarding its processes and its content. The European Commission has already taken note of some of the problems and has now proposed ways to tackle them. French and German business agrees that some important changes are necessary, but the main objective of the EU trade policy must continue to be threefold. First, it must generate opportunities for European companies, especially small and medium-sized enterprises, through market access for their goods, services, and investments all over the world. The EU should continue to vigorously implement its broad and ambitious negotiation agenda in order to secure deals, especially with our Asian and Latin American partners (e.g. Japan, Mercosur, Mexico), and put into practice what has been agreed upon so far (e.g. FTAs with Singapore and Vietnam). Second, EU trade policy must create an international level playing field based on common rules, which is crucial for ensuring fair competition in an extremely competitive environment. In order to strike faster and more reliable free trade deals, it will be necessary to split the parts relating to investment protection and other provisions falling within the exclusive or shared competence of the EU Member States into a different agreement. It is also important that agreements like CETA, which are already provisionally in force, are rapidly ratified by the Member States. Thirdly, it is of great importance to strengthen the legitimacy of trade policy. This requires more transparency in negotiations, e.g. by publishing the negotiation mandate and having an informed debate on FTAs in the parliaments of Member States, from the very beginning of the process. Civil society organizations need to be systematically consulted during the impact assessments and the negotiation and implementation phases in order to ensure optimal results regarding the inclusiveness and sustainability of future trade and investment

agreements. The European Commission and the Member States must pay more attention and devote more efforts to the implementation phase and to the enforcement of FTAs.

The needs of businesses have to be at the core of that process. Companies are the ones who can ensure in practice that EU trade policy delivers in terms of employment and growth. BDI and MEDEF encourage the French and the German governments to make sure that any decisions taken in this upcoming critical period are based on deep reflection and on constructive cooperation with business representatives.

WTO and Global Governance

No country can master the global challenges on its own. Enabling trade requires clear global rules. That is the task of the World Trade Organization (WTO), the guardian of the world trading system. If it is to continue to guarantee free trade among its 164 Member States, it needs to be strengthened, and its rulebook needs to be updated and expanded. Modern trade requires a modern multilateral trade regime. BDI and MEDEF call upon political leaders to follow-up on the results and missed opportunities of the 11th WTO Ministerial Conference in December 2017. They should also pave the way towards negotiating modern trade rules under the umbrella of the WTO, e.g. on digital trade, SMEs, transparency, market access for non-agricultural products, trade in services, investment facilitation, and state-owned enterprises. The functioning of the WTO dispute settlement systems remains crucial and must be strongly supported by the EU and the Member States.

Global governance must also initiate joint action and bundle resources, as is the case in the OECD, the IMF, and the World Bank Group. Loose groupings (such as the G7 and G20) and informal discussion fora (such as the World Economic Forum) also contribute to effective global governance. The governments of the two countries, France and Germany, as well as the European Commission, must play a greater role in global governance. The G20 must revitalize its actions in domains such as the fight against protectionism, and make a step forward on issues such as investment and e-commerce.

Transatlantic Relationship: Integration on the Grounds of Common Values

The transatlantic relationship is of great importance for Germany and France. The United States and the EU are still each other's most important trading partner. U.S. foreign direct investment (FDI) in the EU is three times higher than in all of Asia. However, this relationship has experienced a rough patch in recent months.

We must continue to approach the U.S. administration and Congress with our concerns regarding extraterritorial measures, potential protectionist practices and their negative impact on the multilateral system, on EU trade interests, as well as on the EU-U.S. relations, in the short- and long-term. There is also room for cooperation. BDI and MEDEF in fact share some of the concerns of the U.S. administration and the American businesses, such as unfair competition caused by overcapacities or the insufficient protection of intellectual property. We all want a level playing field for our companies. The EU and the United States could jointly address these issues on the multilateral level. Furthermore, the reduction of trade and investment barriers on the basis of high standards still has significant potential to create jobs and growth.

Market Access, Anti-Dumping and Investment Screening

Many countries around the world have chosen to screen incoming foreign direct investment including twelve of the EU Member States. It is a sovereign right used in critical areas linked to national security.

For French and German business it is fundamental to preserve the openness of the EU market to FDI, as investments are an important source of jobs and growth in the EU. Furthermore, investment screening must respect the principles of proportionality, transparency, and non-discrimination.

Solid trade defence instruments are just as important for companies to restore fair trade and a global level playing field. The recently adopted anti-dumping reform is one of the tools allowing to ensure such fair trade against imports from distorted markets. At the same time, it is crucial to preserve free trade. Environmental and labour dumping are understandably negative phenomena for sustainability and fair trade. However, we must neither politicise trade defence instruments nor nourish protectionism attempts.

Security and Defence

Introduction

On 13 July 2017, the governments of Germany and France agreed to strengthen Europe's Common Foreign and Security Policy through strong Franco-German cooperation in the areas of Permanent Structured Cooperation (PESCO), the EU Defence Fund (EDF), the European Defence Industrial Development Programme (EDIDP), the development of joint military capabilities and a deepening of their mutual operational cooperation. MEDEF and BDI welcome this agreement. Cooperative defence projects can strengthen political, military and industrial ties, can generate economic benefits through more efficient defence programmes and have the potential to support a more ambitious European Security and Defence Policy.

Permanent Structured Cooperation (PESCO)

BDI and MEDEF support the determination expressed by both governments to foster tangible PESCO programmes under the Common Security and Defence Policy. PESCO can help avoid industrial fragmentation in Europe and promote consolidation of the European defence industry. Other European countries are invited to join such programmes in the PESCO framework. PESCO can help to reinforce military capacities. In addition, it promotes projects, innovations and investments by German and French companies and common or complementary military acquisitions. Both the French and German governments should find a path in order to generate value added for PESCO by defining very concrete and at the same time multinational programmes.

Current European Union Initiatives (EDF and EDIDP)

In addition, BDI and MEDEF support current EU Commission initiatives designed to foster European cooperation in armaments programmes for the purpose of efficiency and competitiveness. From an industrial perspective, a successful cooperative programme between two or more European Member States primarily requires political determination among the participating governments, supported by a military operational need. This precondition then translates into generating common equipment by an adapted industrial structure. Such industrial structures need to follow an industrial logic, which should not be put at risk by political requirements such as Offset or requests for nationally balanced participation (in case this national balance is not in line with viable industrial structures). Therefore, it remains an imperative for industries involved to retain full responsibility in making strategic decisions on value and supply chains of common projects. BDI and MEDEF strongly recommend that both EDIDP and EDF incorporate this kind of understanding.

Joint Projects (as mentioned by the two Governments)

BDI and MEDEF as leading industrial associations fully support stronger European cooperation in security and defence issues and welcome joint projects as mentioned in the German-French Declaration of July 13, 2017. Concrete programmes first have to be rolled out by the governments. Second, agreements must follow which require industries in Germany and France to form viable structures of cooperation (perhaps also with industrial capacities from additional EU or EU associated countries). These structures must, of course, be in accordance with the requirements of the respective programmes. In any case, it is important to undertake a portfolio approach and include clear government and industrial leads in all programmes.

The French and German governments as well as the EU Commission are encouraged to support such industrial efforts by R&D-funding. However, funding should not burden the product with highly complex requirements, and must be useful for industrial roadmaps.

Armament Export Control

Arms exports are an integral and indispensable part of a nation's defence and security policy and its sovereignty. CSDP and PESCO, which would truly strengthen Europe's industrial defence base, require the simplification of cross procedures between our regulations and processes in the area of arms exports. Therefore, BDI and MEDEF promote a closer cooperation on Germany's and France's export control policies on armaments. BDI and MEDEF recommend to both of our state administrations to require industry advice when options for matching standards and regulations are formulated. So far, the export control standards applied in Germany have differed significantly from those applied in France. This has repeatedly impeded industrial cooperation in the defence sector.

Space

Germany and France have developed a close and vital partnership as major European space players. Together they take a lead role in many ESA (European Space Agency) space programmes. Yet, governments and industries face changing markets. So in future, this essential partnership and competitiveness need to be strengthened. Bilateral cooperative projects in observation, surveillance, early warning and other space fields will reinforce autonomous strategies for our industries. This is a matter of credibility, for example as relates to Galileo, with its high level of security requirements. Ariane 6 is also a flagship project for the European industrial cooperation, especially with regard to the bilateral cooperation between Germany and France. To ensure Europe's long-term independent access to space and to guarantee a level playing field for its industry, it is useful to accept European preference with a minimum of launches per year to Ariane 6 in face of competitors. France and Germany could advocate such a commitment towards their European partners.

Taxation

Introduction

BDI and MEDEF welcome the renewed initiative by Germany and France to look for potential to further harmonize company taxation between the two countries. Harmonization can increase tax certainty, lower the risk of double taxation and compliance cost and therefore can help to strengthen businesses in France and Germany vis-a-vis their global competitors.

However, to achieve this objective it is vital that any measures agreed to along the “Roadmap” are aimed at fostering growth, investment and innovation within the EU in general and Germany and France in particular. Instead of focussing exclusively on revenue raising and tax avoidance, there needs to be a change to a pro-growth narrative of taxation. While a bilateral approach can serve as a means to speed up the process in general, the target must remain a multilateral consensus in order to establish a true level playing field for businesses in Germany, France, the EU and globally. While such a multilateral approach understandably will take some time, Germany and France must refrain from introducing any measures to the detriment of their businesses.

In their joint “Roadmap”, four priorities were identified by the French and German Finance Ministers in the tax area:

C(C)CTB – Harmonization of the Tax Base

Originally, one of the main objectives of CCCTB in 2011 was to improve the business environment in the Single Market, by making it simpler and cheaper for companies to operate cross-border. Today, CCCTB is presented as a powerful tool against corporate tax avoidance by removing the current mismatches between national systems and fixing common anti-avoidance provisions.

To be attractive for business, CCCTB must meet its original objective, which is to tackle cross-border obstacles including compliance costs, double taxation and over taxation occurring mainly due to the absence or limited availability of cross-border loss relief and unilateral transfer pricing adjustments.

Therefore, harmonization of the tax base can only be a first step, if the introduction of full consolidation of cross-border profits and losses has also already been agreed in parallel from the start. Harmonization of the tax base must not lead to an overall increase of the tax burden. Further, it can only serve as a means of simplification if individual country options are avoided or at least limited.

A harmonization of the proposed provisions with general accounting principles, on which the tax base will be computed, could be a viable approach for further improvement.

Ways and Means to Prevent a Race towards the lowest Tax Rates

BDI and MEDEF support fair competition on tax rates, as many Governments tend to overspend and overtax. If a state decides to have a low expenditure level, it must also have the possibility of adapting its tax system to an equally low tax level. This will not lead to a race to the bottom but rather is a journey to the optimum as long as harmful tax competition is avoided. It is up to countries to collectively define and agree what harmful tax practices are.

If “minimum level of taxation” is to be understood as a minimum effective taxation in the sense that every revenue should be **at least** taxed once, we then recommend that every revenue should be taxed

once **only**. Should this not be the case, the recent directive on dispute resolution mechanisms should give an efficient answer to double taxation issues.

If “minimum level of taxation” means a minimum tax rate within the EU, this is for national parliaments to decide. They should bear in mind that the tax burden of a company is not only composed of corporate income tax, but also of multiple other taxes and social charges borne by companies. Further, a high percentage of companies pay individual income tax instead of corporate income tax. Therefore and also due to the absence of a harmonized tax base, it would be a misapprehension that a minimum tax rate will level the playing field between Member States in the EU.

Taxation and digital Business Models

Change of narrative to pro-growth

As digitalization continues to be an important driver for global economic growth, BDI and MEDEF strongly believe that any discussions around the broader tax challenges of the digitalized economy should promote, and not hinder, growth and cross-border trade and investment.

The political debate on the taxation of the digital economy is currently too much dominated by a one-sided perspective on digital business models and the threat they may pose to tax revenue, while technological progress and digital connectivity can spur innovation in business models, business networking and knowledge transfer and also facilitate access to international markets.

Importance of a multilateral uniform approach together with business

From a business perspective, the integrity of the international tax system is of crucial importance. A coherent and coordinated implementation of international guidelines is essential in establishing a consistent global tax system that better facilitates cross-border trade and economic growth and avoid an additional layer of taxation. BDI and MEDEF strongly oppose any inconsistent approaches not in line with existing international taxation principles.

Germany and France as well as the EU, must refrain from any unilateral and precipitous action. We therefore support an international answer to a global issue through a careful analysis and thorough assessment of the implications of possible approaches instead of “quick fixes”.

A pro-growth oriented approach implies

- No ring-fencing of the “digital economy” while at the same time there is a need to prevent an increase in costs and double taxation for “traditional” businesses (e.g. by equalization taxes including tax on turnover or lowering the PE threshold to include a “virtual PE”).
- Addressing the relevant questions of:
 - o competence of the EU,
 - o delineation between business models of the “digital economy” and those of increasingly digitalized companies of the “Industry 4.0”,
 - o application of double taxation treaties (as a “consumption tax” will not be covered by a treaty),
 - o coherence with WTO law, state aid rules, EU fundamental freedoms and constitutional law,
 - o avoidance of shifting the tax burden to the consumer (due to the “hybrid” character of such a tax),
 - o technical application (profit allocation would need to be settled and countries like Germany and France are very likely to lose tax revenue to developing market states),
 - o proposed integration in the CCCTB proposal (as the CCCTB explicitly dismisses intangible assets from their formulary apportionment).

Environmental Taxation

Environmental taxes are either presented as means to influence consumer and/or business behaviour or they are mainly created to raise revenue. Necessary exemptions from taxation for businesses to ensure their competitiveness lead to difficult questions with regard to differentiation, compliance and most of all state aid (e.g. identifying the correct reference frame).

Any increase in tax burden would need to be at least compensated by lowering other taxes or social charges. However, we believe that this simultaneous decrease in the taxation of labour or any other compensation mechanism is not at all realistic. Moreover, once such a tax is introduced within the EU, Member States would stick to the tax be it alone for fiscal reasons. Thus, such an approach is very likely to effectively lead to an overall tax increase for businesses in Europe and especially in Germany and France to the detriment of the competitiveness of European businesses.

There must be an open discussion on these issues. Incentivising environmental friendly behaviour by tax measures should be considered as alternative to punishing unwanted behaviour by increased taxation.

Ecological taxation schemes should comply with a number of conditions. They should:

- ensure a proper socio-economic and environmental assessment to guarantee the efficiency to fulfil the environmental and economic objectives,
- give priority to the European level to avoid any distortion of competition and ensure a level playing field,
- be flexible to take into account technical progress likely to meet the objective of the measures,
- remain compatible with the existing technological level and not pursue a pure objective of budget performance,
- be consistent with other economic instruments (such as the EU ETS for instance) or any other restrictive legislation and exclude double regulation, and
- provide the necessary accompanying measures.

Imprint

Bundesverband der Deutschen Industrie e.V. (BDI)
Breite Straße 29, 10178 Berlin
www.bdi.eu
T: +49 30 2028-0

Mouvement des Entreprises de France – MEDEF
55, Avenue Bosquet, F-75330 Paris Cedex 07
www.medef.fr
T: +33 1 5359-1919