

Speech by Chancellor Merkel at the 1st European Family Business Summit

Date: November 25, 2014

Location: Berlin

Mr Goebel,
Mr Libano and Mr Vetter,
Mr Pedder,
Entrepreneurs,
Ladies and Gentlemen,

I am delighted that the First European Family Business Summit is being held here in Berlin. I was very pleased to accept your invitation given how much I welcome the project. I believe that it is right and good that this Summit will initiate the start of a tradition of European cooperation amongst family businesses.

I am aware of the special importance that family businesses already have here in Germany for which there are several reasons, the very first one being, of course, their large number: Approximately 95 per cent of German businesses are run by families. They represent some 60 per cent of all jobs subject to social security contributions. They characterise German small and medium-sized enterprises and, as such, their world renown.

Family businesses carry weight not only quantitatively but also qualitatively. Many a family name is also a well-known brand at the same time. And finally, an important and essential characteristic of family businesses is the responsibility they assume: responsibility for their own workers, responsibility for the region and responsibility for the generations to come. Family businesses are often socially committed. They lend their support to fostering education, sport and culture. They are actively involved in environmental protection, or engage in international development. This means that their actions, for the most part, pursue long-term considerations. They do not consider their business so much as speculation funds, but much more as sites for the creation of sustainable added value and, more often than not, this is passed on through several family generations. In short, family businesses are actually exemplary of what our social market economy in Germany is all about as an economic and social model: They combine the fundamental values of freedom and responsibility.

It was quite a different situation more than 25 years ago when the GDR was governed by a planned economy. A few days ago we looked back on the fall of the

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Berlin wall 25 years ago. At that time, the full extent of mismanagement manifested itself again and again. Indeed, one of the catastrophes of the former GDR was that family businesses were expropriated. Their tradition was only evoked by faded logos on building walls. There was, effectively, a high degree of organised irresponsibility. It is wonderful that today the new Federal States are once again home to approximately 300 family businesses. Some are also here today and I would like to give them a special welcome.

After the fall of the Iron Curtain, which extended throughout the whole of Europe, completely new prospects opened up for widespread European-wide cooperation. It is ten years since Poland joined the European Union and as from 1st December Donald Tusk will be the first Eastern European Council President. This proves just how much things have changed.

Yet another quantum leap has been taken by European cooperation in the last ten years. In a manner of speaking, the global economic and financial crisis and the subsequent European sovereign debt crisis needed us to do so. However, they also acted as clear proof as to the weaknesses and neglect when establishing Monetary Union. Today it can be said: We have the crisis under control, however we have not overcome it permanently. That is precisely why competitiveness, which you, Mr Goebel, referred to, is naturally such a key issue.

We have a very high rate of youth unemployment in Europe. We must not, under any circumstances, accept on a permanent basis that young people are not given the opportunity to enjoy a working life. Therefore, from a German perspective that is why we find it of paramount importance that we in Europe observe the rules that we ourselves make. You alluded to everything that was already promised. An example is also the pledge to allocate three per cent of the gross domestic product to research and development. Only a few of the EU Member States have done so. During the European debt crisis we set ourselves a tightened and more precise stability and growth package. And now we must ask ourselves: Do we all really strictly adhere to it? My response would be: Only if we keep our own promises and agreements can trust in Europe be regained; and that is exactly the currency that attracts investors, in which financial actors invest and which demanders are interested in. Every location needs trust.

As such, with regard to the stability and growth package, it is not a question of thinking that it is merely about saving. No, it is about stability, sound budget management and growth in equal measure. We are convinced that growth can stem from prudent budget management if structural reforms to maintain competitiveness are implemented at the same time. Reforms for increased

competitiveness are required; and they have indeed been implemented in several European countries.

Mr Goebel made critical remarks regarding Germany. I believe that first and foremost it can be said that: We implemented important reforms many years ago, both on the employment market and with the gradual increase in the retirement age to 67 by 2029. For those who do not come from Germany I would only say the following: The criticised provision refers to a group of people who have paid into the pension system for 45 years. For them the retirement age now increases from 63 to 65 and, for all others, it increases further to 67. I am only saying this to ensure that the impression is not given that we have taken everything back.

However, I believe that the most important point, which on the whole we are aware of in Europe, is that the mediocrity of our own competitiveness is not a measure of all things in the world but rather that you, who are entrepreneurs operating throughout the world, know that we must orient ourselves to the best in the world. Given that I have just returned from the G20 Summit in Brisbane in Australia and was given insight into Asian dynamism, I know that Europe has long since stopped being the measure of all things. That is why it was also important for us to decide on a Strategic Agenda after the European election. In this case it is a question of concentrating on the essential aspects which can be resolved in Brussels better than on a national or regional level.

The Strategic Agenda is more important than ever, particularly given the complexity of the current geopolitical situation. In this context the crisis in the Ukraine should be mentioned. Here I would like to emphasise once again that we are working tirelessly for a diplomatic solution to this crisis. Nevertheless, the territorial integrity of the Ukraine unfortunately continues to be violated. As long as Russia makes no, or too little, input into overcoming this crisis we also require economic sanctions. They are unavoidable. However I am aware that they also affect the German and European economy. Nevertheless, we also know: Nothing is more important for entrepreneurs than legal security, stability and peace as a basic prerequisite to pursuing successful economic activity.

MrGoebel brought up the issue and I would like to underline it: As open-minded trading nations, the Member States of the European Union have a natural interest in open markets and worldwide trade which is as free as possible. As such it is, in particular, European Union trade and investment partnerships with the United States of America, just as well as with Canada, that are of the greatest interest and significant meaning since they open up the way to new opportunities for growth. Whilst bearing in mind utter transparency in negotiations we should make it quite

clear that: The opportunities far outweigh the risks. I would like to mention the Pacific Region again: Every endeavour is being made to work on the Transpacific Partnership Agreement; it will most certainly be concluded in 2015. If we do not want to be left behind by growth markets Europe must make haste.

We want as comprehensive an agreement as possible. The customs barriers which continue to exist are one aspect. However we also wish to make inroads in the non-tariff area with its unnecessary duplication of regulations, since this frees the resources which we can invest in research, development and other areas. In other words this is a relief programme for the economy without public budgets being put under strain. This provides an example that it is possible to grow without requiring state investments.

A similar example is the dismantling of unnecessary bureaucracy. The issue of improved legislation should take on even greater meaning in the new Commission. We already approached this issue with the Expert Group from the Commission, led by Edmund Stoiber, during the last European Parliament legislative period. There is the so-called EU Commission REFIT Programme. With regard to the investment programme which you referred to, it will however now also be of paramount importance that at the same time as its implementation that bureaucratic rules are removed to ensure that investments can truly get under way. Capital is first and foremost; this is followed by framework conditions which are as good as possible in the shape of correct and prudent legislation and, finally, the right projects must be chosen to ensure that private investors also show interest. In short, this means that dismantling bureaucracy plays an important role and is worthwhile for two reasons: both for the economy and the state investments are facilitated without having to spend money ourselves.

That a responsible budget policy is important is I think, self-evident for all of you. Anyone who is familiar with financing conditions on markets knows that it is better to manage with the money you have. Then you are always on the safe side. This year we are extremely proud that in the federal budget proposal for 2015, which we will adopt this week, we do not have to incur any new debt for the first time in 46 years. One has the impression that in this respect we almost have to justify ourselves internationally. Mr Goebel referred to a specific aspect as to why consolidation is very important in Germany: We have to overcome a demographic problem. When thinking of future generations then it would be good to have at least another 46 years without having to incur new debt. The old debts are still a long way from being repaid.

We also want to invest of course. Germany definitely has need to do so. In the budget proposal to date we have forecast seven billion euro for additional

investments. To provide room for manoeuvre, by 2018 we will add another 10 billion euro. However it depends above all on also bringing private investment to Germany and creating the right framework conditions to do so. We are currently working on this in the area of the Digital Agenda for example. After all, we must not forget: For small and medium-sized enterprises, for family businesses, the issue of the digitalisation of their own business will be of the utmost importance.

We are likewise convinced that fiscal reliability is of the utmost importance. That is why we have also said: We will not increase taxes; we can organise ourselves with what we have in the fiscal framework. In this respect, in Germany at least, the issue of inheritance tax is a specific feature which plays a role when making it possible to transfer a business from one generation to the next. In this regard we will have a decision from the Federal Constitutional Court. In the Coalition we are unanimous: We want to ensure that a business transfer can proceed sensibly for every case. That is why we stand by the regulation we have now.

Energy prices also play a decisive role. You are right Mr Goebel that the energy market is excessively fragmented - moreover the services market is as well. We must work on ensuring that the energy market becomes a European energy market. In doing so relationships emerge, the interconnectors, between individual countries as an important investment area. After all, these interconnectors are important if there is to be a freer energy flow at all. In the European Union for example, we have an Iberian Peninsula which continues to be completely isolated. This does not depend on Spain and Portugal, but rather on the fact that to date absolutely no interconnectors have been able to be built in the direction of France. That is exactly what we must, and want, to change.

Germany is currently experiencing a turnaround in energy policy. We are increasing the volume of renewable energy. This has increased the levy for renewable energy. This, in turn, has led to requiring exceptions for energy intensive businesses. This also means, however, that many companies are concerned about energy prices. As such, we have already amended the Law on Renewable Energy. And we will therefore have to develop prudent capacity markets, push ahead with building lines and create a European domestic market to keep the prices under control.

We are therefore engaged in improving a series of issues in Europe. I have already discussed the energy issue. I can, for example, discuss more investments in research and development. Germany has almost met its three per cent target for research and development. That will also be achieved to a large extent through private investments in research and development since two thirds of investments proceed from the private sector and a third from the state. Nevertheless, I would

like to add: Since 2005, since I have been Chancellor, public spending on a Federal level for research and development has risen by 60 per cent. We have therefore clearly made progress.

Ladies and Gentlemen, as the Association for Family Businesses, I wish you the very best. It is important that your voice is heard loudly and clearly in Brussels and at home. As German Chancellor I can say that you are the backbone of our economic strength. You are aware what is required to guarantee competitiveness. We could still say so much more about state investments, however if there are no private investments, if there are no projects, if one does not know what to invest in, when there is no investment climate, then no state measures help. However you are the ones who create jobs for younger and older people on a permanent basis. Unemployment is not overcome by state programmes alone, such programmes can help; they can drive incentives. After all, jobs which financially sustain themselves are created by you as entrepreneurs who have ideas, who evolve from generation to generation, who are sustained by lifeblood, who assume risks and who often speculate by night and day as to which products can be sold next. I would like to express my most sincere thanks for that. With laws we can indeed achieve a great deal, however to force someone by law to be an entrepreneur - moreover to be a Family Business - that we cannot do. As such, thank you very much.