Change course now or face irreversible decline - the family business call for competitiveness.

Europe's industry stands at a critical tipping point, grappling with a range of challenges that continue to, day by day, weaken its competitiveness. Across our continent, jobs are being lost at an alarming rate, with **companies simply unable to continue making a viable business case to continue producing and investing** in Europe. Industries that were once the envy of the World, are now seemingly unable to compete.

The Draghi and Letta reports lay bare the deep structural challenges facing Europe as it navigates a rapidly changing and worsening economic and geopolitical landscape. Inhibiting economic and regulatory policies, lagging investment in innovation, little to no control over critical raw materials, and an aging workforce with a growing skills gap, are some of the things that are contributing to this critical situation.

Europe is deindustrialising before our very eyes. Without decisive measures today, the next generation will bear the brunt of this decline, facing a less prosperous future.

The family business call

On behalf of the European family business community, European Family Businesses (EFB) wants to reiterate the importance of family businesses to Europe's long-term competitiveness, growth, and strategic autonomy. EFB is the voice of the 14 million family businesses in the EU, employing more than 60 million people.

Europe and its single market need to be a place where companies can scale up from Micro-enterprises to SMEs to Mid-Caps to large enterprises. There are simply too many barriers to growth at each stage of a company's lifecycle. Thus, below, we set out four main pillars that the European Commission and Member States must act upon as quickly as possible.

1. Reduce administrative burden and reporting.

Over the last five years, the amount of administrative burden imposed on businesses increased greatly. As Draghi highlighted in his report, the EU passed approximately 13,000 acts compared to 3500 pieces of legislation and 2000 resolutions passed in the US at the federal level over the last three Congress mandates (2019-2024) in the US.[1]

[1] Mario Draghi, The future of European competitiveness Part A | A competitiveness strategy for Europe.

We call for a review of existing directives, regulations, and upcoming laws. We call for removing redundancies and overlapping requirements from existing and future legislation. All three European legal sources (Council, Commission and Parliament) must have the courage to simplify or even abolish regulations that have only recently been adopted and implemented. For example, urgent reviews are needed of the Corporate Border Adjustment Mechanism (CBAM), Corporate Sustainability Reporting Directive (CSRD), Corporate Sustainability Due Diligence Directive (CSDDD), the GDPR, the AI Act, to name a few. EU regulations must become more streamlined and easier to apply and go through an extensive competitiveness review before being rolled-out. Therefore, we recommend:

- A different approach to legislation from now on: quality over quantity!
- Reporting once should be enough. Enforcing the once only principle is vital.
- Policymakers should consult those stakeholders that will have to implement rules throughout the entire policymaking process to ensure that the policy is adaptable to daily life. A competitiveness test which is robust and fit for purpose.

2. Re-thinking Europe's Industrial strategy – strengthening Europe's industrial base, trade agreements, and job preservation.

Europe's diversified industrial base is key. It is responsible for 35 million jobs, more than 20% of the EU economy and 80% of the EU's goods exports.[2] However, the business case for remaining in Europe is becoming, day by day, impossible to justify. The decline of Europe's industrial base is here. Every day more and more factories and production sites are being shut or business activities are being transferred outside Europe. From automotive via steel to agile services, jobs are being lost at an alarming rate. Drastic action is needed if we are to reverse this decline.

Moreover, there is a need to ensure companies can grow within the single market. Specifically, we need to encourage companies to grow beyond the SME category. it is for this reason we have been calling for a Mid-Cap category at the EU level to ensure that companies still have some support beyond the confines of the SME definition and while they are not yet large enough to be considered large enterprises.

Especially for SMEs and Mid-Caps the European cross border acceleration of their business cases is hindered by a single market which to some extend is still or not any more fully integrated. For services and goods simplicity of the market entrance must be a priority. Conformity of goods and services must be looked at much more

[2] https://www.consilium.europa.eu/en/policies/eu-industrial-policy/#importance

through the eyes of the European suppliers. This is of course possible without restricting consumer protection in the slightest.

Another boost to growth to all sizes of companies is the facilitation of international trade of goods and services. The smaller a company the more burdensome the regulations are which apply to business interchange on the global market. Europe still is a very relevant market, and we are convinced that our products are of the highest quality fit to tackle global competition. Exploding costs deriving mainly from overregulation and protectionism has by far overridden the positive effects in recent years.

Not only for the sake of growth in Europe but also to gain more geopolitical resilience with the right partners, we call for a completely new approach to European trade facilitation. This means the urgent conclusion of pending Free Trade Agreements with trading partners, including Mercosur, India and others. Building alliances regarding standards, multiple recognition and raw materials has to be a strategic priority for the EU.

In addition, for family businesses, the bottom line is Europe needs to consider the importance of business continuity and business transfers in terms of economic output, strategic autonomy, job creation and preservation along with business growth. We must ensure that family business owners can easily transfer their company's assets to the next generation of entrepreneurs. The very resilience of the EU relies on how simple the intra-family business transfer process is, mainly because family businesses want to stay rooted in their local communities. While heavily subsidised Megaprojects often fail and induce severe damage to societies on the ground and to public budgets, family businesses are there to stay if the regulators conditions are sound.

Therefore:

- Encourage scaling up of companies within the EU by ensuring that the barriers to growth within the single market are removed. This will enable SMEs to grow into Mid-Caps and then Mid-Caps to grow into large companies
- Trade policy needs to be aligned with Europe's industrial strategy. The two must work together to ensure consistency and a fair playing field. FTAs are taking far too long to complete. FTAs such as EU-Mercosur, EU-India, EU-Kenya, EU-Chile, EU-Indonesia, EU-Philippines, EU-Singapore, and EU-South Korea need to be concluded. They are crucial for our future competitiveness.

- Business transfers are critical for Europe's competitiveness as they enable companies to scale up over generations, turning SMEs, which are currently 99% of European companies, into Mid-Caps and then the latter into larger enterprises.

3. Increase investment in Research, Development, and Innovation.

Innovation is key to competitiveness. Investing in research and development of innovative technologies and businesses makes Europe more competitive in the medium and long term. Furthermore, while applied research is key, basic research is still essential. Increasing the collaboration between private and public financing will fill the innovation and research gap in Europe. What's more, Europe's competitiveness relies on how easily we can streamline access to finance for businesses to innovate and invest in the research and development of products and services.

Therefore, we recommend that:

- The rules governing the access of R&D programmes should be greatly simplified for SMEs and Mid-Caps.
- Develop a uniform methodology for permitting and to shorten permitting times.
- Promote a fifth freedom to enhance research, innovation and education in the Single Market as mentioned by Mr Letta in his report.[3]

4. Closing the Skills Gap and preparing for the skills shift.

Skills shortages represent a serious problem for all types of companies especially SMEs in Europe.[4] This issue is not new. In addition, Europe is undergoing a demographic shift with an increasingly older population coupled with the migration of European talent to third countries. This is not only hampering innovation and growth at present, but it is set to exacerbate these issues in the long-term if it continues. Thus, we need:

- the countless exceptional colleges and universities that Europe has to work with the business community to fill the skills gap.
- the EU needs to encourage member states to promote vocational learning and encourage universities and colleges to work with businesses to

[3] Enrico Letta, Much More than a Market report, https://www.consilium.europa.eu/media/ny3j24sm/much-more-than-a-market-report-by-enrico-letta.pdf
[4] https://europa.eu/eurobarometer/surveys/detail/2961

understand the skills and better understand the needs of the employment market. We need to upskill and reskill people while promoting life-long learning. This is a project that requires a commitment from all member states and educational institutions.

- Europe needs interoperability of national social security systems to enhance labour mobility. Mutual recognition rather than inventing new pan European barriers is the key for a swift solution.
- The automatic recognition of diplomas needs to take place at a more efficient rate. This goes back to the fifth freedom Mr Letta mentioned in his report.
- If we want Europe to attract talent from within the union and outside of it, then the EU needs a more efficient and flexible labour market capable of providing businesses with a consistent flow of skilled labour.

5. There is a need for solid financing.

We are fully aware that a strong Europe must be underlaid with crucial financial resources. To achieve this Europe has to tackle its many historically grown inefficiencies in spending taxpayers' money. On the national and on the European level expenditures schemes have to be revised from the ground. The announcement to adjust the next Multiannual Financial Framework is a crucial step which should also be considered for the upcoming annual budgets. The principal logic of financial contribution through the Member states according to their size and economic power should be strengthened. This is a future guarantee that commonly spend money has a strong democratic control mechanism in place. Given the indebtedness all over Europe and the rather opaque track record of the Next Generation EU's 800-billion-euro Fund, Europe should not fall into the trap that debt financed public investment, and subsidies are the key for competitiveness. Moreover, the European Investment Bank's (EIB) potential must be raised on the one hand with regards to their capability to lend money and one the other hand on the practicality for business and investors to obtain loans.

If new challenges with no doubt ignite new common efforts as a common defence and security strategy family businesses are the first to advocate for higher contributions from the member states.

Overall, as family businesses, we play an integral role in the EU's economy, as we are one of the main pillars of the EU's social market economy and are the cornerstone of responsible ownership and long-term entrepreneurship. We remain committed to Europe, as we have done for generations. However, we currently operating with regulators which as of a matter of fact have boosted complexity instead of being a partner in challenging times, making it more difficult to do business in Europe.

As the new Commission is about to start its new mandate, we share the common feeling that this term is crucial for Europe's future. The EU and especially the Commission has to change the course now or face irreversible decline.

We must ask ourselves, now, what kind of Europe do we want to leave for our children. During the last mandate, the value of companies to their local communities, to the livelihoods of millions, to the national balance sheets, and to the European economy at large were an afterthought. This must change.

At stake is more than European competitiveness, it is the climate neutrality goal of 2050, it is millions jobs and the future continuity of our companies. Businesses of all sizes are the vehicles through which the EU will reach its goals. They are vital and need to be seen and treated as such.

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European Family Businesses (EFB) *is a federation of national family businesses associations. Our aim is to make political decision makers aware of the contribution of family businesses to society at large and to promote policies that are conductive to long term entrepreneurship. Our members represent turnover in excess of one trillion Euro, 10% of European GDP.*