

Strengthening Investment, Advancing Europe

As the world's largest trading block, a prosperous Europe is essential for the health of the global economy. One of the key drivers of economic growth and job creation is sustainable investment. However, investment has dropped in recent years in the Euro area. Whereas the average rate of investment between 1996 and 2010 was roughly 22% of GDP, this figure has declined, also due to the crisis, to 19.7% in 2013. Both public and private investment are affected by this downward trend. There is thus a clear need for viable and targeted investment with the aim to boost growth prospects and lay the foundation for future growth in Europe.

Time and again, Germany and France have advanced the European cause with joint initiatives. By launching a joint investment initiative, we aim at unleashing a powerful impetus for more growth and employment in Europe, for instance by removing impediments to investments wherever needed, with a view to increasing Europe's growth potential. In this way, we can contribute to the €315 billion investment plan announced by the new President of the European Commission, Jean-Claude Juncker, which we welcome.

We agree with the Commission that boosting growth in Europe in both the short and the medium term requires a triad of structural reform, growth-friendly fiscal consolidation, and measures to boost both public and private investment. Progress in all three areas is critical to restore confidence, reduce the uncertainty that is impeding investment and maximise their joint effect. The initiative outlined in this paper should be seen as part of this agenda.

I. European level

Europe's investment gap is a threat for growth in the short and long term. The reason for weak private investment, in particular, lies in a mixture of insecure growth prospects in Europe with weak demand, funding problems in some areas, rising international risks, and a backlog of structural reforms. This situation underpins the backdrop to the investment plan announced by the European Commission.

Financing

France and Germany welcome the Commission's Investment Plan for Europe announced on 26 of November and are fully committed to its rapid implementation and to make it as strong as possible, including by developing more equity-type instruments, examining additional resources and working further on a strong pipeline of French-German projects. Building on this ambitious proposal, we will work with our partners in order to implement the plan, with the aim to maximise its ultimate effect on investment. We support the proposal of a European Fund for Strategic Investments (EFSI). We agree that EIB finance and know-how should be leveraged through the European budget in order to produce both a volume of risk financing and a project pipeline that can significantly accelerate investment in Europe. Voluntary contributions from national promotional banks and member states should be examined. We strongly endorse the objective of encouraging the participation of private investors to the co-financing of the projects selected by the EFSI. Part of this participation could take place in the form of equity.

Priorities and governance

In terms of investment priorities, we welcome the Commission's plan's focus on infrastructure for transportation, digital networks and contents, energy efficiency, energy transmission, smart grids and renewable energy, education and research and innovation. Particular consideration should be given to financing SMEs in their ongoing energetic, environmental and digital transitions.

In terms of governance, a strong and efficient monitoring is required to avoid lengthy processes. France and Germany welcome the idea of a compact and professional investment committee based on the proposal by the Commission. Projects should be selected along transparent criteria within the framework of the sectoral priorities that have been established. It would build on the pipeline of projects that has been identified by the Task Force and identify investment programmes in order to feed this multiyear initiative.

Regulatory agenda

We are also prepared to undertake regulatory initiatives to maximise the effect of the investment plan. Two aspects of the regulatory agenda, in particular, need to be given a very high priority.

First, positive regulations, in particular in the environmental/climate field that could help to boost investment by accelerating the energy transition/efficiency investments. Specific measures, in particular in the context of the energy and climate targets of the EU should be put forward to this effect as long as they do not impede the competitiveness of our industry.

Second, an initiative to open new investment opportunities by establishing a real single market in sectors that are particularly intensive in investment via commensurate regulation and deregulation. These include energy and digital but also capital markets where a stronger integration could play a catalytic role across all sector of the economy.

II. German-French cooperation

In cooperation with the European Commission, we aim to work on raising the growth potential of the European Internal Market, ,i.e. by ambitious further steps towards better regulation and the abolition of unnecessary regulatory burdens and improving borrowing conditions for industry by way of a capital market union. A targeted approach should be followed, with digital and energy as priorities. We invite the Commission to swiftly develop the appropriate framework and instruments towards this end, including standards for high-quality securitisation and possibly for a well-regulated cross-border private placement market. In the context of infrastructure financing, France and Germany will encourage the use of new innovative instruments, such as private investment funds, equity holdings and other vehicles to pool - and thus diversify - risk, make services available and initiate private-sector investment.

We will initiate medium-term measures to improve energy efficiency as an important step in boosting competitiveness. In the future, energy-efficient locations will have clear competitive advantages. We consequently plan to step up public and private cooperation on:

- Research collaboration, e.g. SET-Plan or ERA-Net
- Research and development projects, e.g. Solar Decatlon or E-Highway
- Innovative pilot projects for better energy efficiency, e.g. plans for building refurbishment, efficiency contracting models, efficiency bidding projects
- Technology dialogues with German-French companies, e.g. wind-offshore cost cutting

- Investment partnership for intelligent digital networks

We aim at strengthening cooperation between the KfW and BPI France in the framework of a European network of promotional banks in order to support corporate initiatives for research and development in new technologies and processes, notably in the areas of digitalisation and environmental technologies, for investment in greening and in the digitalisation of production processes.

As regards renewable energy, Germany and France will examine the feasibility of investing in joint projects in order to foster regional cooperation and joint learning on how best to implement the new state aid guidelines. The already established high level group on energy will be used for this. Regarding electric mobility and mobile energy storage, we want to bring together stakeholders from industry, innovative SMEs and research to ensure the application of battery cell technologies that deliver the best results on measures such as performance, range, cost and longevity. We intend to appraise what support we are able to provide with regard to the building of a production facility.

At the end of 2013, agreement was reached at EU level on CO₂ emission standards for cars from 2021. Targets and developments beyond that are surrounded by considerable uncertainty. We will develop joint key points for a future CO₂ emissions regime for vehicles from 2030, and discuss these with our partners in the European Union.

France and Germany plan to push together for European policymakers to do more than in the past to strengthen industrial heartlands. Vital steps in this connection are stabilising energy prices.

In the upcoming revision of the European Emission Trading System, France and Germany will therefore be working together to ensure a well-functioning emission trading scheme, including the introduction of the market stability reserve as proposed by the Commission already in 2017 and transferring the backloading allowances into the reserve, to periodically assess the effects of the market stability reserve, to review the impacts of energy and climate policies on the functioning of the ETS – including impacts on the covered sectors – energy, industry. In order to maintain international competitiveness, installations in relevant sectors should not face undue carbon costs leading to carbon leakage. The benchmarks for free allocations will be periodically reviewed in line with technological progress in the respective industry sectors.

We will form partnerships for the rollout of smart digital networks in sectors such as education, health, transport, energy and public administration. We will also push forward the rollout of broadband networks in under-served areas along the Franco-German border. Additionally, we plan to stimulate demand for broadband access within a cross-border regional test area in areas such as eHealth, eLearning, eMobility, eGovernment, and eProcurement.

We will launch an initiative to strengthen digital sovereignty. By creating a Franco-German technology and piloting programme for the economy, we will strengthen the European IT market in order to reduce the dependence of European industry in key ICT areas and improve the safety of our communications networks. To achieve this, we will establish a Franco-German – or, better still, European – quality label for cloud computing. Further possibilities for cooperation are seen in the area of “Big Data”. These initiatives will be implemented jointly with industry.

We are including our partners elsewhere in the EU in these considerations.

France and Germany will aim to jointly develop a new generation of carriers within the framework of European Space Agency activities. With a modern and competitive Ariane 6 we will maximize value for both institutional and private users. This will involve a new management approach which will transfer a greater share of risks and design responsibility to private industry, and lower the costs for ESA member states.

We would welcome further EBRD’s operations in the Northern Mediterranean (EBRD’s prospective financial involvement in Greece being an example), with a focus on SME equity finance and other areas in which the EBRD can add to and complement the role of the EIB.

III. National Level

France

France is committed to pursue an ambitious investment strategy. Through the “Programme d’investissements d’avenir”, in particular, France is promoting the development of key sectors for growth (energy transition, research and innovation, higher education, digital, industry modernisation etc.).

It also aims at raising private investment first by providing a stable and business-friendly fiscal and legal environment for firms as well as by facilitating the mobilization of private

savings towards long-term investments, especially in infrastructure and businesses. In this perspective, we are pursuing our efforts conducive to strengthening the business environment and simplifying our administrative and investment procedure. The French Government is committed to cut red-tape and to stabilize several fiscal schemes that foster R&D and innovation. Efforts are also aimed at improving access to finance, especially for SMEs and young innovative firms.

The new law for Growth and Economic Activity will also help promote competition and foster investment with a series of concrete measures that will benefit businesses and consumers. It will especially allow easier access to regulated professions and more transparent prices in these areas, open up key economic sectors like transportation (by coach for instance) and increase possibilities to work on Sundays.

French priorities for investments include:

- Supporting R&D and innovation. In line with the European objective (Europe 2020), the French Government committed to raise the level of R&D expenditure as a share of GDP to about 3% by 2020.
- Investing in human capital. The French Government committed to complete a tertiary education degree for around 50% of 25-34-year-olds by 2020, more than the Europe 2020 strategy target of 40%. Efforts are also dedicated to reduce the mismatch between supply and demand of jobs (supply exceeding demand) and to strengthen the training of the users to New Technologies, to improve the productivity and the competitiveness of the economy.
- Developing digital technology. The Government plans to achieve ultra-fast broadband coverage for all the French population by 2022. This target calls for an additional spending of EUR 20bn by 2022, including one third of public funding.
- Facing climate change. Achieving the European objectives for the reduction of greenhouse gases' emissions calls for an ambitious energy transition. This ambition is set out in the draft law on Energy Transition for Green Growth. Significant investments will be dedicated to energy efficiency and renewable energies, focusing on the most efficient technologies.

- Developing transport infrastructure, by strengthening the budgets for maintenance and modernization and launching new investments projects. Investments will focus on profitable projects with high socio-economic opportunity.

Germany

We wish to further increase the additional funding provided for in the Coalition Agreement for public investment by €10 billion from 2016 until 2018 in areas such as infrastructure and energy efficiency. We will carefully appraise each project for economic viability and sustainability in the light of the given budget scope.

It is essential for the strength of the German and European economies that we uphold trust in public finances. Turning away from the overarching requirement of a balanced federal budget would squander hard-won confidence as sustainable fiscal policy is key to build confidence in financial markets, among retail investors and among taxpayers. For these reasons, we stand by our policy of growth-friendly consolidation and sound public finances.

Potential project areas in our public investment initiative are consistent with the ongoing work of the EU task force on investment and include:

- Boosting energy efficiency, with measures such as low-carbon building refurbishment, bidding systems for energy projects, and energy efficient industry networks.
- Implementing road, rail and water transportation projects that are shovel-ready or already in progress, and starting procurement of larger-scale refurbishing investments in transport infrastructure. Deutsche Bahn, too, is planning more investment.
- Rolling out of digital networks for faster Internet access and implementing the digitalisation of infrastructure sectors and of public administration with a view to the Point of Single Contact and in areas such as public procurement.
- Increasing funding for innovative start-ups, primarily through improved growth funding.

We will pay particular attention to raising investment at the communal level, where infrastructure investment gaps are particularly significant.

We expect increased public investment to have significant knock-on effects on private investment. Additional private-sector investment will also be stimulated by grants for thermal building refurbishment and measures to promote broadband rollout.

The Federal Government is consulting with representatives of German finance and industry on ways in which privately funded infrastructure projects can be accelerated and expanded. The aim is to significantly raise private financing of infrastructure, particularly through equity capital and other financial instruments that shift risk away from the public sector and offer private savers and investors better returns.

To achieve this, we aim to review regulation on an ongoing basis to see how the conditions for privately funded long-term infrastructure investment of this kind can be improved without diluting supervisory objectives and standards. We are also exploring new institutional frameworks that will strengthen the capacity of local and state authorities to engage with the private sector, lower the transactions and agency costs associated with public-private-partnerships, diversify the risks of individual infrastructure projects, and facilitate the intermediation between the pools of German private savings and infrastructure investment.

We also aim to raise private investment more broadly through measures that improve the investment climate. In the near future, the Federal Government will adopt a key issues paper featuring measures to cut red-tape and, building on this, will implement measures to help reduce the cost of bureaucracy, most of all for small and medium-sized enterprises.