

SNAPSHOT

A €300 billion Investment Plan for Europe

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INTRODUCTION

Investment in growth is a number one priority for the new European Commission led by Jean-Claude Juncker. He has repeatedly emphasised his ambition to propose an unprecedented €300 billion investment package to boost the EU economy and create employment.

Aiming to collect national and European public resources in order to crowd in as much private money as possible for public-private investments, the eagerly expected plan should be tabled by Christmas.

Executive Summary

When he outlined the political guidelines for the next European Commission in July 2014, President Juncker stated that his first priority as Commission President will be the strengthening of Europe's competitiveness and the stimulation of investment for the purpose of job creation.

Within the first three months of his mandate and in the context of the Europe 2020 review, he therefore intends to present an ambitious Jobs, Growth and Investment Package worth €300 billion over the next three years, taking into account the following starting points:

- Sustainable growth cannot be built on ever-growing mountains of debt (a lesson learnt from the crisis)
- It is mainly companies that create jobs, not governments or EU institutions
- Better use needs to be made of the common EU budget and the European Investment Bank (EIB)
- Public funds available at EU-level must be used to stimulate private investment in the real economy

Investment priorities & policy drivers

Speaking to the European Parliament last week, President Juncker made it clear that the overall investment environment in Europe needs to be improved.

Concretely, he stressed that:

- The preparation of projects by the EIB and the Commission should be intensified and expanded

- New, sustainable and job-creating projects that will help restore Europe's competitiveness need to be identified and promoted
- More effective financial instruments need to be developed, including in the form of loans or guarantees with greater risk capacity
- A further increase in the EIB's capital should be considered

In terms of sectorial priorities, Juncker wants to focus on infrastructure, notably broadband and energy networks as well as transport infrastructure in industrial centres; education, research and innovation; and renewable energy and energy efficiency.

A significant amount should also be channelled towards projects that can help get the younger generation back to work in decent jobs, further complementing the efforts already started with the Youth Guarantee Scheme, the implementation of which must be accelerated and progressively broadened.

Overall, Juncker believes that jobs, growth and investment will only return to Europe through creation of the right regulatory environment and promotion of a climate of entrepreneurship. Innovation and competitiveness must not be stifled with too prescriptive and too detailed regulations, notably when it comes to SMEs, who need to be freed from burdensome regulation.

Fresh money? New tools?

A key question asked by many is how much of the €300 billion will be new investment and how much will draw upon existing tools and reshuffled allocations. Given the EU budget cycle and the fact that a long-term financial framework until 2020 is already planned, the margin for manoeuvre may be limited with the next budget review not on the agenda before 2016.

This relates to another important unknown: how much of the public-private package will be actually provided by the public sector? Part of the plan will likely include an increase in EIB capital to stimulate financial markets and increasing lending activity. But analysts suggest that this may not be sufficient to close completely the existing "investment gap" in the Eurozone.

A likely area of action seems to be regulatory incentives for investment or new financing tools such as risk-sharing mechanisms, which could guide new products and technologies through the 'valley of death' to the market. This would simultaneously address another key issue where the EU urgently needs to step up its game – R&D and innovation.

Penholders & key voices

Although the new College of Commissioners does not formally enter office until 1 November, the Commission services and freshly formed Cabinets of incoming Commissioners have been busy collecting input and drafting what will – in the first instance – be a top-level investment strategy.

Jean-Claude Juncker has mandated Jyrki Katainen, the new Commission Vice-President for Jobs, Growth, Investment and Competitiveness, to play a central role in the drafting of the package. And Katainen has reassured Members of the European Parliament (MEPs) that he would tackle the task in a "bold and determined way".

The Commission effort is being closely followed by Member States. At a Summit meeting on 23-24 October, EU leaders noted the importance of investment and supported the incoming Commission's initiative. Member States called on the Commission to analyse the factors that are conducive to improving the business climate in Europe, notably the key nexus between investment and the implementation of structural reforms. They also welcomed the creation of a taskforce, co-chaired by the EIB and the Commission with the participation of all Member States, to analyse the main barriers and bottlenecks to investment and propose solutions to overcome them.

MEPs have also swiftly picked up on Juncker's announcement, eager for more concrete details and specific initiatives tied to this package. Led by French liberal MEP Dominique Riquet, the Parliament is currently assembling an Intergroup (which gathers MEPs of all political backgrounds) on long-term investment called Invest4Future.

Its mission would include defining long-term financing needs, thinking about ways to diversify funding instruments, promoting cooperation among financial

institutions, sharing best practices and monitoring EU policies. In particular, Invest4Future intends to watch where the €300 billion from Juncker's plan will come from and where it will go.

Long-term vision: 'Fiscal Union'

With less than 60 days to the announced publication date, the €300 billion package is rapidly becoming THE topic of conversation in Brussels corridors. If successful, the initiative may be just the beginning of a profound economic transformation in Europe.

According to Laszlo Andor, European Commissioner for Employment and Social Affairs for the last five years, the investment plan lays the ground for a fiscal union, a system of transfers from Brussels to EU Member States, although no one dares to call it that yet. He believes that countries will begin to ask themselves why they are putting up with growth that is lower than the US or Japan simply because they are in an imperfect monetary union.

Andor also stresses that Germany will have to boost investment at home instead of maintaining a high budget surplus but not spending it, while at the same time stop hindering the ECB from taking measures to prevent deflation. Such a change of course will however not come easily in Germany.

Before any of this materialises, there is an excellent opportunity in the coming weeks for stakeholders to express their views, contribute ideas and shape the focus of the package. The question is clear: *How would you invest €300 billion to boost the EU economy?*



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