

# Stabilising Growth, Securing Skilled Employees

Economic Policy Positions 2011 of the Association  
of German Chambers of Industry and Commerce



**DIHK**

Deutscher  
Industrie- und Handelskammertag



# FOREWORD



In the year 2011 German economy is continuing its upturn. Many companies have taken advantage of the crisis in order to position themselves better and develop new markets, products and processes. With structural reforms before the crisis and many short-term measures, politicians have also contributed to the positive developments. As a result, Germany as a business location is in a better position after the crisis than might be expected.

The tragic events in Japan and the upheavals in Maghreb clearly show that in spite of all of the successes, we are nevertheless required to continue developing the competitiveness of society, the state and companies, as well as their ability to act. This applies even more as a result of the instabilities in the euro region and developments in raw material prices.

In the competition for credibility and an identifiable sense of responsibility we in economy cannot limit ourselves to making demands on politicians without offering starting points for solutions to the impending questions in the public debate. As a result we – as the German Chambers of Industry and Commerce Organisation – face the challenge of aligning our work

to a situation in which we can always respond to economic policy themes in a manner which is financed less by debt at the expense of future generations. There is therefore also a greater demand among our own ranks to supplement legitimate demands by concrete proposals for their realisation. A good example is the federal government's training initiative in conjunction with trade and industry. Our activities with respect to the important topic of the compatibility of family and profession also bear such a signature. Not least our proposals for the requisite reform of business taxes should be understood against this background: should the opportunities available for financing not be sufficient in spite of the major improvement in the overall economy, we offer politicians discussions about reducing subsidies to economy in return for tax reforms.

The shortage of skilled workers which companies are already feeling will require a significant amount of problem-solving skills from industry, society and politicians in 2011 and beyond. The German Chambers of Industry and Commerce Organisation is facing up to this challenge – not least with its annual theme of "together for skilled employees – educating, employing, integrating". On the part of business this includes more education and training, as well as a higher labour participation rate among women and the elderly. At the same time we must also try to attract qualified people from around the world. The abolition of the protracted priority check for shortage occupations, for example engineers, must only be an initial step towards a sustainable concept for qualified immigration.

With the economic policy positions presented here, the German Chambers of Industry and Commerce Organisation is formulating its fundamental recommendations for many political fields which affect the concerns of enterprises and also have a wide range of impacts on the economy as a whole. With these positions the German Chambers of Industry and Commerce Organisation is representing the interests of German business, trade and industry in a compensatory and deliberative manner. These are based on a clear commitment to freedom and responsibility.

A handwritten signature in blue ink that reads "Hans Heinrich Driftmann". The signature is fluid and cursive.

Prof. Dr. Hans Heinrich Driftmann

<b>7 TOP PROPOSALS of the Association of German Chambers of Industry and Commerce</b>	<b>4   5</b>
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- 1st Top Proposal: Securing Skilled Employees!**  
Developing an overall concept for securing skilled employees. Through improved education, an increase in the labour participation rate, the compatibility of family and profession, qualified immigration and greater recognition of foreign qualifications. Pages 7, 11, 15, 17
- 2nd Top Proposal: Reforming the Tax System!**  
Consolidating budgets and designing the tax system to be simpler and internationally competitive by cutting back state expenditures and subsidies, as well as the removal of taxation on costs. Pages 27, 29
- 3rd Top Proposal: Expanding Traffic Infrastructure!**  
Removing bottlenecks in road and rail networks. Stabilising investment funds for the traffic routes, improving harbours and airports. Page 37
- 4th Top Proposal: Securing the Industrial and Innovation Location!**  
Expanding research work, designing tax law to be innovation and investment-friendly. Ensuring access to raw materials and international markets. Pages 13, 25, 35, 39

**5th** **Top Proposal: Noticeable Reduction in Bureaucracy!**  
Consistent continuation in the reduction of administrative burden. Noticeably reducing the compliance effort and costs in all regulatory areas.

Pages 27, 49

**6th** **Top Proposal: Designing a Climate-Friendly Energy Supply!**  
Ensuring that the energy supply is climate-friendly through a broad energy mix and efficient energy infrastructure, acceleration of planning procedures.

Pages 33, 35, 41

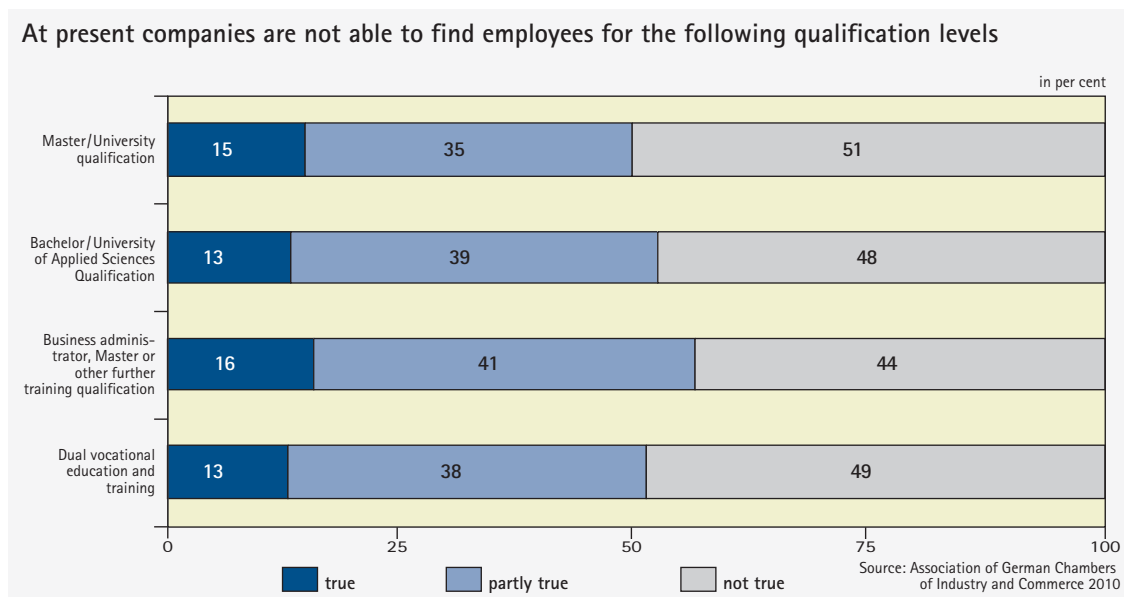
**7th** **Top Proposal: Regulating Financial Markets with a Sense of Proportion!**  
Avoiding going it alone nationally with respect to financial market regulation, taking into account the impacts of financial market regulation on corporate financing.

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# LABOUR MARKET

## Securing skilled employees, expanding employment

### The status quo



- **Labour market in good shape:** In 2010 unemployment fell by 179,000 to 3.24 million. More full-time jobs were again created. Short-time working was reduced significantly. With the simplified regulations this proved in the crisis to be as important a bridge for employment as work time flexibility in the companies – so that it was possible to retain skilled employees.
- **Challenge of securing skilled employees:** Demographic change is making it increasingly difficult for companies to find skilled employees. Even today, approximately every second company is finding it impossible to fill at least some of its vacancies across all qualification levels. An equal number are expecting the situation with regards to the shortage of skilled workers to deteriorate in the coming years. Without appropriate measures the German economy is threatened in the medium term with major growth losses. The Chamber of Industry and Commerce Organisation has committed itself to a wide range of measures for securing skilled employees.
- **Not losing sight of the challenges:** The ratio of long-term unemployed out of the total number of unemployed remains too high at 45%. Those with low qualifications are having difficulty finding work: their unemployment rate is 17% – amongst individuals with university degree this is just 3%, for example. More than every third company sees high employment costs as a risk to its own economic development.
- **Flexibility still required:** Forms of employment such as fixed-term contracts and temporary work are important flexibility tools for companies and thereby make it easier for those looking for work to find it. More flexible employment protection legislation is seen by companies as one of the most important conditions for supporting the recruitment of older employees in particular.

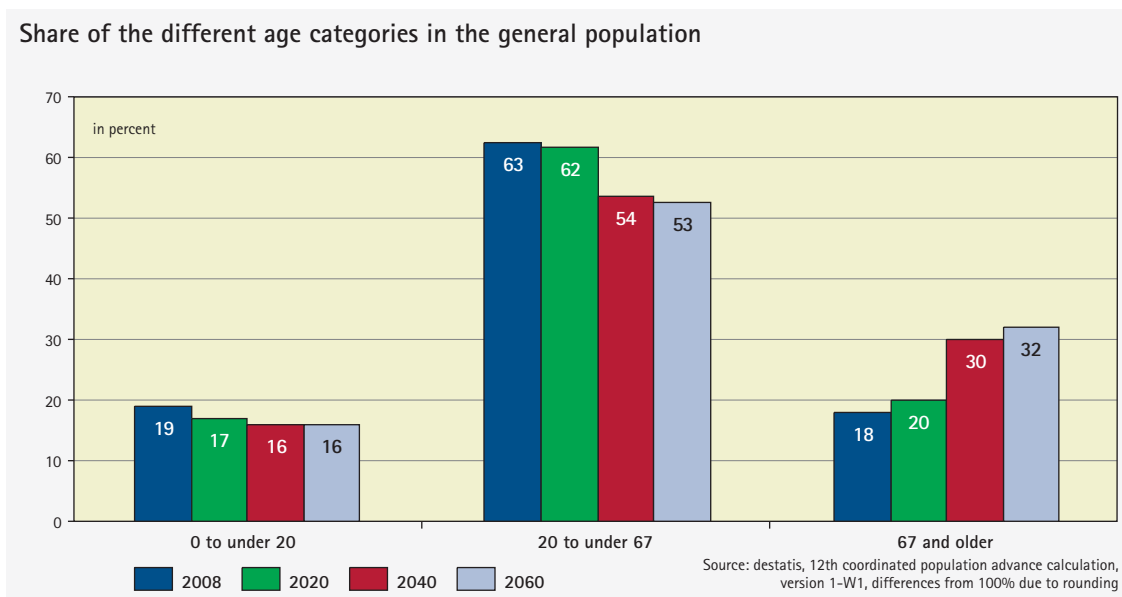
## What needs to be done

Politicians must make their contribution towards stabilising the positive developments on the labour market and securing the skilled employee base.

### Economic policy must be based on the following guidelines:

- **Taking advantage of potentials:** In order to secure skilled employees it is necessary to increase the labour participation rate. In spite of the positive development which is already becoming clear, this applies both to older employees and to parents. The extension of the working period up to 67 years must not be placed in jeopardy. A further improvement in the compatibility of family and profession is just as important as education and training. For the better integration of foreign skilled employees it is also necessary to introduce a simplified and transparent procedure for recognising foreign qualifications.
- **Facilitating immigration:** The immigration of foreign skilled employees must be part of an overall concept for securing skilled employees. In the short term the gross income limit for the settlement of highly qualified employees should be reduced to € 40,000. The labour market test should be abolished – at least in the case of shortage occupations. Foreign graduates of German institutions of higher education must be provided with easier access to the labour market. In the medium term targeted and flexible immigration control by means of a points system should be established which takes into account the criteria of qualification, professional experience and language skills. In addition, more advertising should be carried out abroad for Germany as a location to work and study. The EU freedom of movement from May 1, 2011 on opens up new employee potentials which should not be restricted by additional regulations.
- **Reducing labour costs:** In order to reduce the burden on labour, the contributions for health and nursing care insurance should be uncoupled from earned income. Minimum wages increase labour costs and can diminish the opportunities for finding employment, particularly amongst low skilled workers. If state transfers are provided, these must offer incentives for own efforts, and if possible also for taking up full-time employment.
- **Expanding flexibility:** Employment Protection legislation should only apply in companies with more than 20 employees. Upon conclusion of the employment contract it must be possible to agree an appropriate severance pay as an alternative to Employment Protection legislation. Fixed-term employment without a material reason should generally be possible for four years. Temporary work must not be restricted with new regulations.
- **Structuring labour market policy more efficiently:** Unemployment benefit should be paid for a maximum of 12 months – also in order to support the positive development in the labour participation rate of older employees. Labour market policies should generally be streamlined and reduced to measures which are shown to be effective. In spite of the improvements that have been achieved, placement service must become more efficient and closer to operational requirements overall. The activation of unemployed individuals for the primary labour market must have a clear priority over programs for public employment – these must not be in competition with trade and industry.

### The status quo



- **Increasing burdens on the systems:** Demographic change – with an increasing share of elderly citizens and fewer gainfully employed individuals – will prove a major challenge for the social insurance systems in the future. Growing benefit demands, particularly with respect to health and long-term care insurance, will place greater burdens on companies and citizens in the form of increasing contributions unless countermeasures are taken.
- **Statutory health insurance – higher non-wage labour costs:** The latest health reform is placing an additional burden of €3 billion per annum on companies due to the rise in the contribution rate to 15.5%. In contrast, the wage-independent additional contribution, which is intended to absorb future cost increases, is expedient. Here attention must be paid to ensuring social compensation which involves as little bureaucracy as possible. There is a requirement for more elements of a funded system and more competition on the benefits side.
- **Statutory long-term care insurance – a possible ray of hope:** The linking of wages to the contributions towards long-term care insurance continues to place a strain on businesses. Moreover, long-term care insurance is not yet secured against demographic developments, so that the burdens will continue to increase. However, at least the introduction of a supplementary, mandatory funded system is planned.
- **Pensions – stability is required:** The pension guarantee and the suspension of the Riester factor are jeopardising the financing of the pension insurance system. Contribution payers, businesses and future generations will be additionally burdened over many years with payments amounting to billions as a result of these interventions in the pension system. The stability of the pension contribution is in danger.

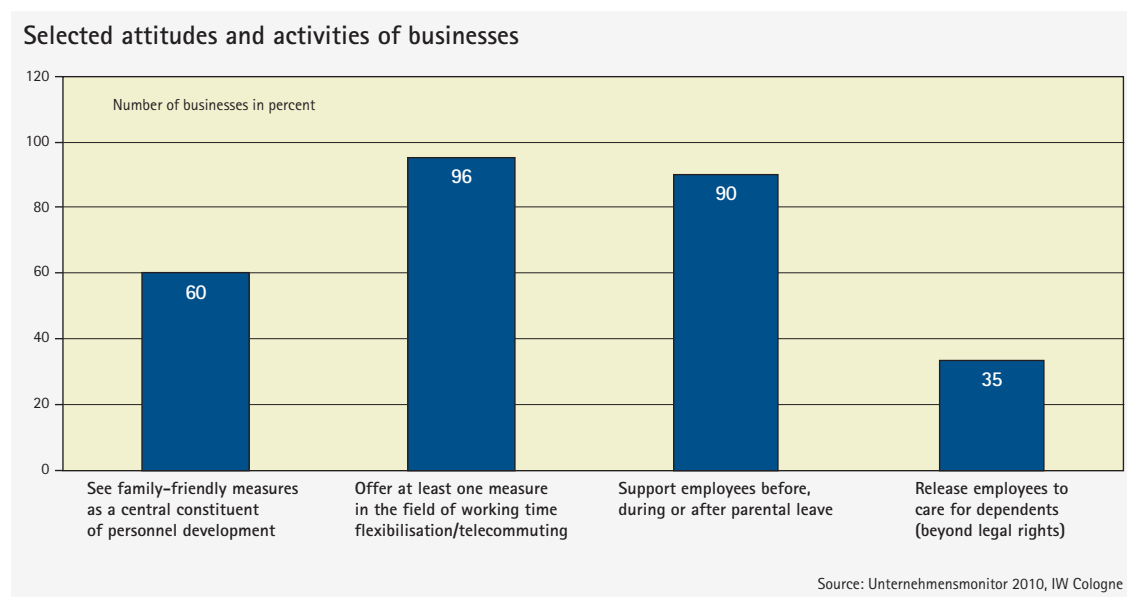
## What needs to be done

The time is pressing for sustainable reforms. Good reform approaches in health and nursing care insurance have to be consistently implemented. And furthermore, the goals which have already been achieved – e.g. in the statutory pension insurance – must not be recklessly compromised.

### Economic policy must be based on the following guidelines:

- **Re-structuring statutory health and long-term care insurance in order to make it competitive:** The transition to lump-sum, wage-independent premiums is necessary in view of the high and otherwise increasing burdens due to labour costs in both branches of social insurance. Social compensation should be implemented in a targeted and transparent manner in the tax transfer system. Elements of a funded system are required in order to reduce pressure resulting from demographic developments.
- **Taking advantage of the opportunities presented by the healthcare industry:** Efficiency reserves can be leveraged through more competition between service providers. Greater cost transparency in the first health market, which is financed by insurance, would increase the cost awareness of the insured. In combination with extensive opportunities for the flexible purchasing of services from the second health market, the overall healthcare industry – a sector with enormous growth and employment potentials – would be strengthened.
- **Implementing the retirement age of 67:** The step-by-step increase in the retirement age in the statutory pension age to 67 is correct. Greater life expectancy has to be reflected in a longer working life – in order to limit the burdens of contributions and secure skilled employees. Flexible transitions to retirement are important, however, provided that contribution and taxpayers are not additionally burdened. Early partial retirement – with corresponding deductions – offers good opportunities. However, the limits on additional earnings inhibit supplementary employment and should be abolished.
- **Modernising the statutory accident insurance system in a meaningful way:** The burdens on companies have not yet been sufficiently reduced as a result of the latest reform. In order for this to happen, the services would have to concentrate more on operational risks. As an introduction to the future-proof financing of accident insurance by means of a funded system, employees should – in a first step – insure themselves privately in the future against commuting accidents.
- **Reforming social security insurance for artists:** The social security contribution for artists encumbers the businesses involved with excessive bureaucracy. Such businesses should at least only have to pay this contribution if they commission an artist or publicist who is covered by social security insurance for artists. Simplifications such as a minimum threshold for the fee which determines the level of the contribution or the clear definition of "regular contracts" would unburden small and medium-sized businesses in particular and reduce bureaucracy.

### The status quo



- Commitment of businesses is growing:** The compatibility of family and work life helps to leverage employment potentials and improve employee loyalty – there is after all a shortage of skilled employees. Businesses are increasingly becoming aware of this. According to a survey of the Association of German Chambers of Industry and Commerce (DIHK), 34% of businesses are planning to expand their offers for improved compatibility. 38% want to continue with their current offers, while a further 6% of those who currently do not offer any measures intend to introduce them.
- Politicians have initiated important developments:** In order to make family and work life more compatible, a well-developed childcare infrastructure is necessary. To this purpose important steps have been introduced: by 2013 an average childcare rate of 35% is to be achieved for children under the age of three. Furthermore, from 2013 there is to be a legal claim to childcare for children who are more than one year old.
- Lack of flexibility in childcare:** The opening times of day-care facilities for children during the week are too short, on Saturdays they are hardly ever open, and there are also problems with childcare during the holidays. But it is flexibility in particular which – in combination with flexible working hours as offered by an increasing number of businesses – results in more room for manoeuvre for parents and businesses.
- Long-term care is becoming an important task:** In the future the compatibility of work and long-term care will become a major challenge, as by 2020 the number of those requiring long-term care will rise from its current level of 2.3 million to 3 million. Even today over one third of businesses offer flexible periods of time off for family members in need of care. And the need for action continues to grow.

## What needs to be done

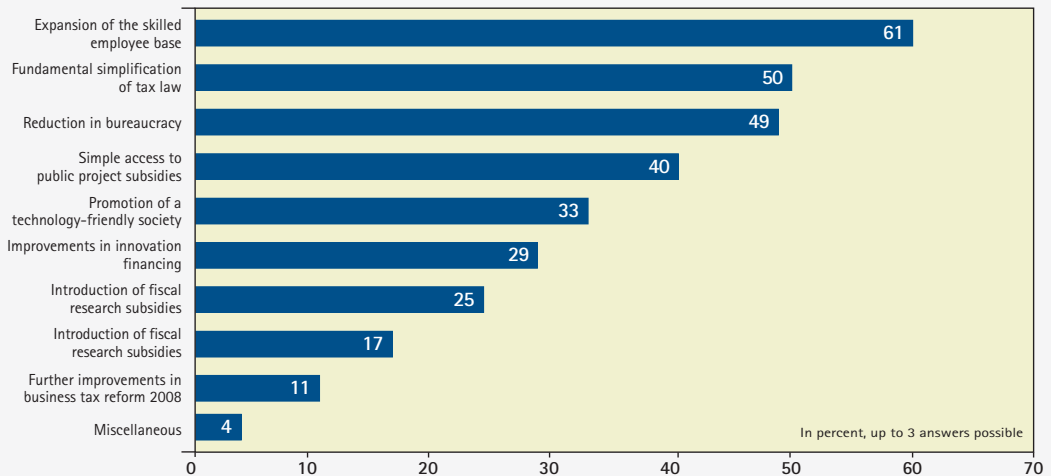
In an overall concept on the compatibility of family and profession, the quality of the care of children or family members who require long-term care should be in the main focus. Improved compatibility can lead to more employment.

### Economic policy must be based on the following guidelines:

- **Improving flexibility:** Childcare must be expanded quickly. Furthermore, the opening times of the day-care facilities for children must be more in line with the working hours of parents. This also applies to weekends and holidays. Otherwise the offers made by businesses for their employees – for example flexible working hours or places in day-care facilities for children – will come to nothing.
- **Promoting quality and diversity:** Public subsidies could be implemented in the medium term by means of a voucher system. Parents receive childcare and education vouchers for their children and redeem these at recognised facilities, including private ones – whether this be a day-care facility for children or a childminder. This way they directly support service providers who offer high quality, promote competition and therefore also the entry of private institutions and providers into the market.
- **Reducing bureaucracy:** Often it is restrictive legislation which hinders compatibility – in the case of childcare this is frequently a result of federal state legislation. Kindergarten subsidies should generally be provided irrespective of the place of residence. This increases flexibility while at the same time reducing pressures on parents and businesses.
- **Not losing sight of school:** A lack of full-time schools, insufficient day-care facility opening hours in the afternoons or inadequate offers during the school holidays make things difficult for the parents of primary school children and businesses, particularly during the transition period from day-care facilities to school. Fully functioning whole-day childcare must be offered extensively so that more parents can participate in economic life. This will also reduce the shortage of skilled employees in companies.
- **Focusing on long-term care, offering information:** Flexible, voluntary solutions between businesses and employees are the right approach for achieving compatibility between work and long-term care tasks in a manner which is profitable for both sides. The corporate network "Erfolgsfaktor Familie" with the network office at the Association of German Chambers of Industry and Commerce (DIHK) provides assistance with good examples and information. In contrast, statutory regulations place a strain on businesses.
- **Compatibility is the key to labour participation:** Inequality of remuneration between men and women and the small number of women in managerial positions are mainly based on women's more frequent, prolonged interruptions to employment, a higher prevalence of part-time work and their selection of specific professions. Successful compatibility which allows continuous participation in working life, as well as the promotion of a broad spectrum of professions for women, are the path which should be taken. Statutory stipulations such as female quotas limit the ability of businesses to take decisions and therefore have a negative effect on them.

### The status quo

From the point of view of your company, what has priority now for the innovation location of Germany?



Source: DIHK Innovation report 2010

- Lack of skilled employees, complicated tax law and bureaucracy are putting a brake on innovations:** During the upturn the problem of a lack of skilled workers is becoming acute and is again the number 1 obstacle to innovation – companies are having great difficulty recruiting suitable researchers, engineers and technicians. Tax law can also only be followed by businesses with a high level of consulting and administration costs, thereby hindering their innovation potential. Moreover, bureaucracy is frequently making it more difficult to successfully launch products on the market.
- Research potential of small and medium-sized businesses is not being exhausted:** In spite of all their successes, SMEs (up to 500 employees) are currently investing a below-average share of the research and development expenditure. With respect to financing, capacities and strategy development they suffer from disadvantages of size. Although the extended "Central Innovation Program for Small and Medium-Sized Businesses (ZIM)" and the globally unique model of "Industrial Community Research" are providing strong stimuli, a good deal of potential is still going to waste here.
- Financing is a bottleneck for innovations:** The still relatively low equity position of German SMEs is making it difficult to finance innovations. 21 % of all businesses state in a current Association of German Chambers of Industry and Commerce (DIHK) survey that they are not receiving any financing for their innovation plans.
- Shortage of venture capital:** The German venture capital market is comparatively poorly developed, and here there are relatively few so-called "Business Angels". This is having a negative effect on the number of business start-ups in the field of high and cutting edge technology.

## What needs to be done

In order to strengthen the innovation location of Germany, the economic framework conditions for private research and development have to be improved by means of an overall approach.

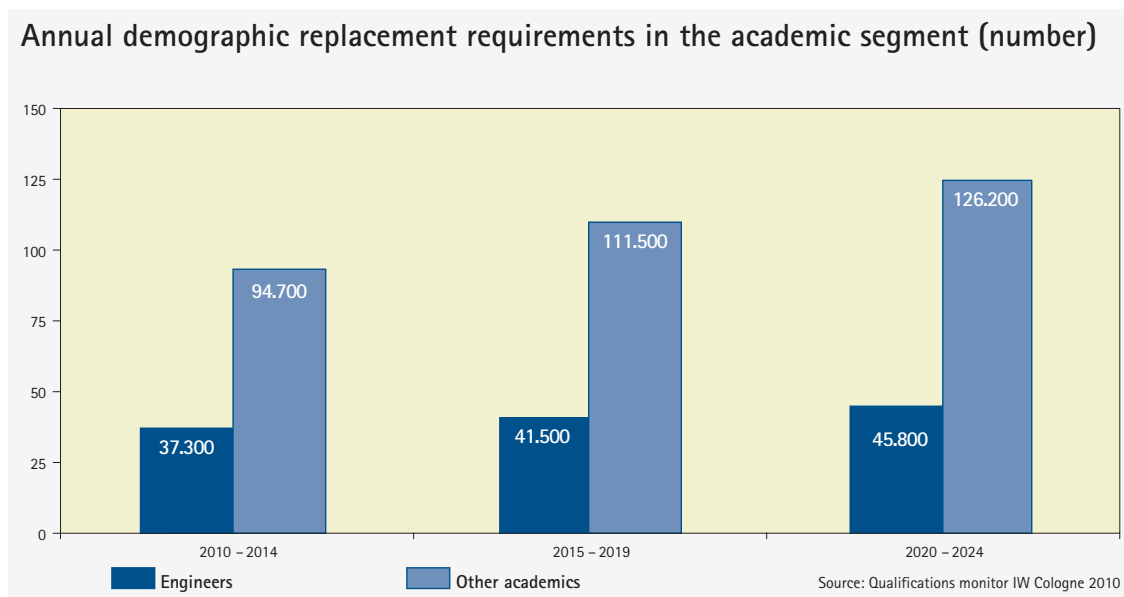
### Economic policy must be based on the following guidelines:

- **Overcoming the shortage of skilled employees:** In addition to the improved utilisation of the labour force potential and increased training efforts, the immigration of qualified skilled employees and researchers must be further facilitated. Furthermore, politicians and industry must increase their commitments to bringing about the return of highly qualified German skilled employees and scientists who are working abroad.
- **Releasing the brakes on innovations in fiscal law:** The elements of the business tax reform of 2008 which are harmful to various company locations, such as the taxation on transfers of functions, the interest barrier and trade tax add-backs (e.g. in the case of licences) have to be corrected in full and enduringly. The improved depreciation opportunities for investments ("degressive depreciation") introduced within the framework of the economic stimulus package up to the end of 2010 are having a positive effect on innovation decisions and their introduction should be continued.
- **Reducing bureaucracy:** Approval and authorisation processes which take too long or complicated administration procedures in research and development subsidy programs inhibit innovations and have to be reduced.
- **Structuring standardisation to be SME-friendly:** Norms and standards can contribute towards anchoring innovations on the market. SME participation in the standardisation process and access to norms must be made easier. As a matter of principle, standardisation must not be allowed to penetrate areas which do not require regulation or be subject to tried and tested regulatory systems (e.g. professional training).
- **Enlivening the venture capital market:** The creation of legal safeguards, for example statutory tax transparency for venture capital funds, must be part of an urgently required venture capital law.
- **Increasing the transparency of public research:** SMEs in particular often do not have enough information on content, results and contact persons in public research. An overview/search portal for research and development and transfer skills of research facilities could therefore facilitate cooperations between companies and public research.
- **Improving research funding:** In order to create incentives for research and development investments, more focus should be placed on improving support for projects (e.g. transparency of the funding environment, streamlined funding processes) – the ZIM can serve as a guideline here. Moreover, SMEs must become more involved in the new high-tech strategy of the federal government. A research tax-credit is an important part of the overall package, provided that it is structured in an appropriate, practical way. It also has to be integrated at the same time into an extensive tax reform process – however not at the expense of the tried and tested open-topic project funding.

# SCHOOLS AND UNIVERSITIES

Improving quality, making full use of skilled employee potential

## The status quo



- **The shortage of skilled employees is becoming more acute:** In 25 years there is a threat of a demographic gap of 10 million gainfully employed people in comparison to today. Businesses will find it increasingly difficult to acquire suitable skilled employees. Even today it is scarcely possible to replace engineers retiring from professional life due to their age by young people.
- **Educational potentials are not exploited to the full:** The opportunities presented by education in early childhood are not sufficiently taken advantage of. Schools release too many young people into the outside world without sufficient skills for a successful apprenticeship. High access barriers and a lack of part-time offerings at institutions of higher education make the further qualification of graduates with a professional education more difficult.
- **STEM-skills are inadequately communicated at schools:** The teaching of sciences begins too late and is often deselected. The practical application of sciences in industry and technology is seldom demonstrated. In these subjects the shortage of teachers is particularly large.
- **Teaching in higher education has only improved slightly:** The Bologna targets, such as the promotion of employability and mobility, have not been implemented at all institutions of higher education. There is above all a lack of practical relevance. The number of college dropouts is much too high in technical subjects at 30% to 40%.
- **Education in economics is inadequate:** Young people know too little about economic relationships. As a result their role as consumers and economic citizens is weakened; acceptance of the social market economy is diminishing.

## What needs to be done

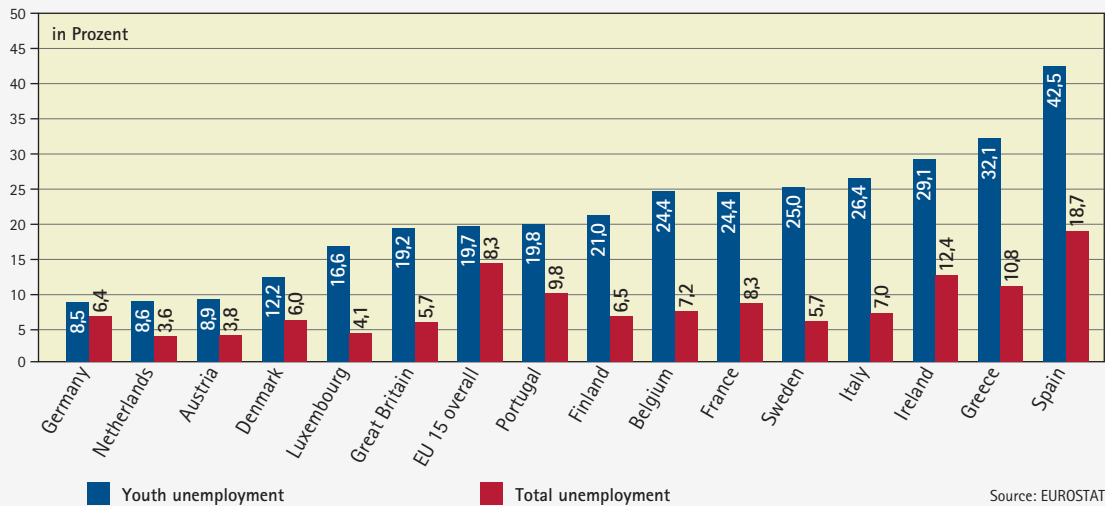
Education policy is economic policy. Failures in education impair not least the competitiveness of companies. Demographic developments also make it necessary to take full advantage of all education potentials.

### Economic policy must be based on the following guidelines:

- **Promoting learning in pre-schools:** Early childhood education creates a good basis for learning success at school and the subsequent ability to undergo training. Many scientific studies have shown that a pre-school period of one year is an important part of a successful educational and professional career. The promotion of language must also be further improved. By the time children start school they must all master the German language.
- **Intensification of cooperations between schools and industry:** Cooperation of schools and teachers with businesses improves the vocational education and study orientation of school leavers and helps to improve their ability to undergo training.
- **Further expansion in the number of full-time schools:** Varied, all-day learning opportunities improve individual advancement and therefore pupil performance. The development and full exploitation of special talents can be more successful at school, e.g. with external partners (SMET-initiatives, sports clubs).
- **Strengthening science and technology education:** In order to secure the potential of skilled workers, a good science and technology education in schools is particularly important.
- **Improving the quality of teaching in higher education:** The Bologna reform is aimed at preparing students for the requirements of the employment market and introducing internationally comparable Bachelor and Master qualifications. It is therefore in the interests of industry to implement these consistently. Integrated practical phases and the participation of practical experts from companies must be increased. An across-the-board Diploma Supplement added to the certificate from the institution of higher education would clearly show companies the qualifications of applicants. More part-time and dual study courses are the right way to go. Transitions from vocational education to institutions of higher education must be made easier and pre-qualifications taken into account.
- **Improving economic education:** The standards for education in economics proposed by business stakeholders should serve as a basis for new curricula. In economics courses and higher education studies the opportunities and risks of the professional perspectives of "entrepreneurship and self-employment" must be presented.
- **Investing in the quality of training offers:** The quality of training and academic studies is the basis for the competitiveness of tomorrow. The agreed investments in education of 7% of GDP must be invested increasingly in quality assurance. Schools and institutions of higher education must assume greater responsibility for the quality of their activities and output.

## The status quo

Youth unemployment in comparison to overall unemployment in the EU 15 countries



- **Youth unemployment continues to fall:** In spite of the after effects of the economic crisis, youth unemployment in Germany was 8.5% in September 2010, in comparison to the EU average of 20%. Dual vocational education and training is the guarantor of this. The 1.6 million young people who are currently undergoing training have outstanding prospects of finding employment.
- **Committed industry:** The training enterprises contribute around 80% of the training costs with an annual amount of €30 billion. Moreover, entrepreneurs have voluntary commitments to around 30,000 Chamber of Industry and Commerce examination boards, thereby demonstrating their social responsibility.
- **Applicants for apprenticeships becoming increasingly scarce:** According to figures of the German Federal Employment Agency there were more vacancies (19,600) than unplaced applicants (12,300) in 2010 even before subsequent placement. The number of apprenticeship contracts in trade and industry remained almost constant in 2010 – in spite of a drop in the number of school leavers by around 3% in comparison to 2009. The demographic trend has arrived: it is not jobs which are scarce, but applicants.
- **Too many young people with placement constraints:** Around 60,000 young people, and therefore 7% of school leavers, left school last year without any qualifications. According to the PISA study, around 20% of 15-year-old pupils (170,000 adolescents) are only able to read, write and perform arithmetic at primary school level. This lack of ability to undergo training often makes it impossible to fill apprenticeship places; according to a Chamber of Industry and Commerce education survey, at least 50,000 apprenticeship places remain unfilled every year in the area of the Chamber of Industry and Commerce alone.

## What needs to be done

The successful dual vocational education and training system must be strengthened so that Germany does not run out of skilled employees with practical qualifications.

### Economic policy must be based on the following guidelines:

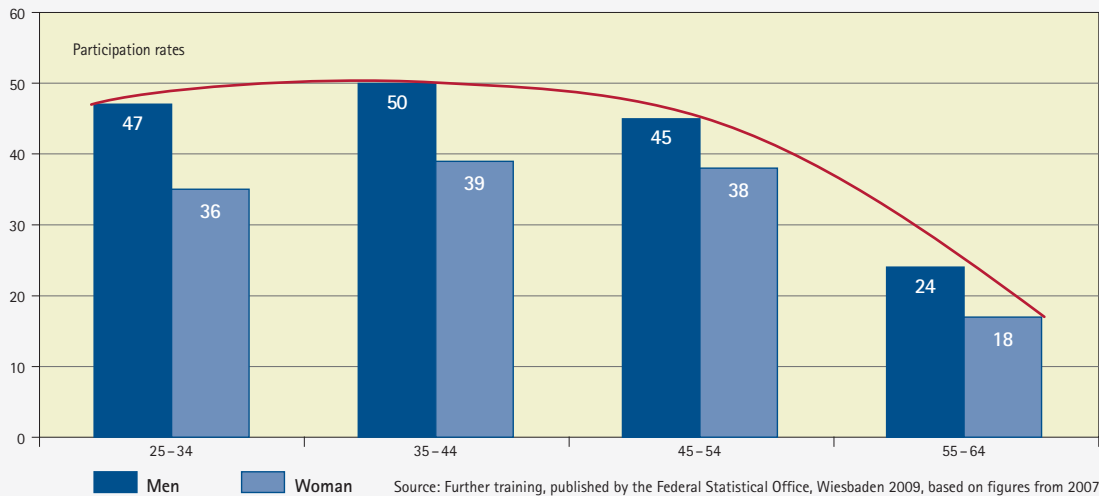
- **Structuring the federal government's training initiative in conjunction with trade and industry with new partners and points of focus:** The National Pact on Apprenticeship, which has been prolonged until 2014, is placing new emphasis on ensuring that pupils are ready to undergo training and improving their work orientation. The federal government, and above all the federal states, must achieve substantial progress on these issues in order that businesses can secure their own next generation of skilled employees with their own training measures. The Chamber of Industry and Commerce organisation will be committed to ensuring that every school that is interested is provided with a partner from industry.
- **Strengthening dual vocational education and training and vocational school partners:** The Chamber of Industry and Commerce model "dual with a choice" forms the basis for the structuring of professions and must be further implemented. In view of the demographic developments, dual – and therefore practical – training must have priority. Full-time school education should therefore only be provided if there is a demonstrable requirement on the employment market. Companies need strong and reliable partners in the form of the vocational schools, which should be provided with more independence and responsibility in the selection of teachers and the organisation of their tuition, as well as their own budgets.
- **Securing high-quality examinations:** The dual vocational education and training system must continue to conclude with high-quality, practical and federally standardised examinations. Volunteering is the trump card in this, as it ensures the quality of the examinations. Overloading the amount of work involved in the examinations would be the wrong way to go. The use of training modules for the qualification of less able and disadvantaged youths must culminate in a final examination regulated by public law.
- **Improving recognition of foreign qualifications:** Individuals with foreign educational qualifications should be able to present their performance profile in a more transparent way in the future. The Chambers of Industry and Commerce will be committing themselves to this – to the benefit of migrants and companies searching for skilled employees.
- **Positioning dual vocational education and training to the best possible effect in Europe:** The German and European Qualifications Framework (GQF, EQF) must reflect the high level of dual vocational education and training. Therefore, A-levels and qualifications of full-time vocational schools must not be placed above industrial qualifications. GQF, EQF and the European Credit System for Vocational Education and Training (ECVET) must provide companies with added value – employment market orientation, transparency and transnational mobility are the most important criteria here.
- **Acquiring more high-ability school leavers for Chamber of Industry and Commerce training:** Through active advertising and joint campaigns between Chambers of Industry and Commerce, schools, companies and politics, more high-ability young people should be acquired for entry into a corporate career path.

# FURTHER TRAINING

## Maintaining competition, increasing participation

### The status quo

Participation in the further training in Germany according to age groups



- **Skills of older employees insufficiently utilised:** Demographic change and the shortage of skilled employees demand a fundamental rethink in order to maintain the employability of older workers. The further training rate of older employees is still too low. Knowledge based on experience and entrepreneurial spirit will be required for longer in the future in industry and on the employment market.
- **Performance potentials not utilised to the full extent:** Many unused manpower resources are currently not being sufficiently developed. In particular, individuals with few qualifications are currently only rarely involved in further training measures.
- **Falling qualification levels demand more further training:** According to forecasts, the "PISA generation" will be less well-educated than today's working population – as a result of which further training requirements will increase significantly. Moreover, due to demographic changes the following applies to international locational competition: the fewer we become, the better we have to be.
- **Increasing further training participation:** With the 2008 Education Summit the federal government also set targets for further training, for the achievement of which all parties involved will have to make a contribution: The increase in individual further training participation from 43 to 50% by 2015 cannot remain a mere announcement.
- **Missing connections:** In spite of the decision of the Conference of the Ministers of Education to improve the access of those with professional qualifications to institutions of higher education, structural obstacles nevertheless remain. There are only a few in-service study courses, only rarely are professionally acquired skills recognised and there is a lack of preparation for higher education learning.

## What needs to be done

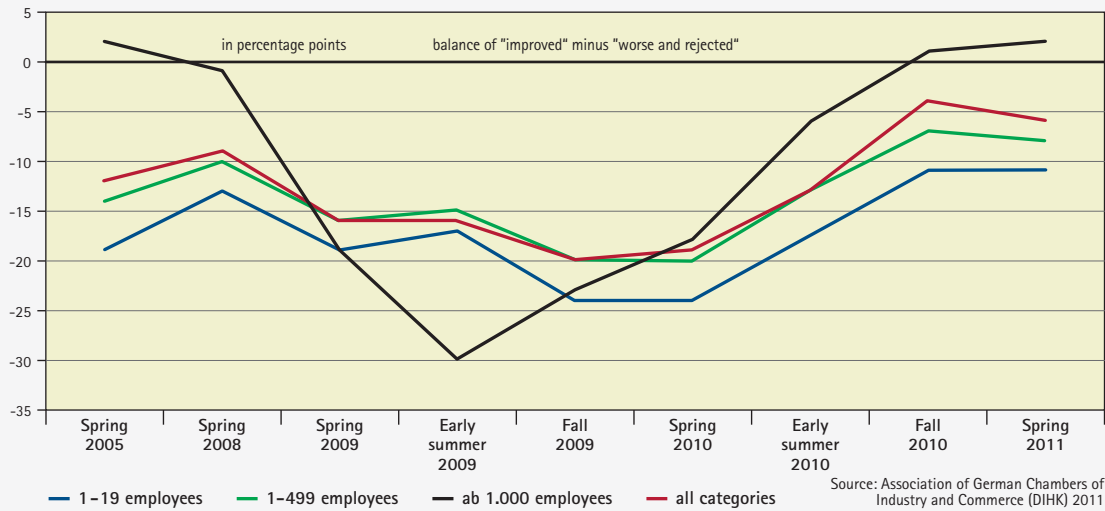
More further training is an important part of securing skilled employees.

### Economic policy must be based on the following guidelines:

- **Maintaining a diverse and free further training landscape:** In the future further training must remain the responsibility of businesses and their workforces. State specifications concerning the scope and orientation would not be in line with requirements. Companies need freedom of scope in order to allow them to develop efficient and custom-fit further training systems and human resources development. The Chambers of Industry and Commerce support companies with innovative training and guidance concepts and guarantee the proximity to business of further training measures through the direct participation of experts from everyday working life.
- **Making further training fit for Europe:** The German Qualification Framework (GQF) can facilitate the comparability of educational qualifications in the EU. All levels must be fundamentally accessible via all educational paths. For advanced training qualifications such as business administrators or master craftsmen which reach comparable skill levels to academic qualifications, the Chamber of Industry and Commerce Organisation is calling for the internationally comprehensible qualification of "Bachelor Professional": this would promote permeability between the vocational and higher education systems.
- **Improving statistics:** International comparative statistics must be better coordinated and more carefully researched. This applies equally to the OECD and UNESCO categories for education systems. Only then can statistical data be used as a basis for discussions on educational policy.
- **Making use of education monitoring tools:** Further training measures often fall flat because what has been learned is often not successfully transferred to everyday working life. Providers should increase their practical relevance when designing and performing such measures. Assistance must be provided in order to be able to measure and demonstrate the transfer of what has been learned.
- **Creating intelligent systems:** In the future further training must be more closely aligned to operational needs and therefore the requirements of the entire workforce. Here a company competence management system can help to optimise human resources development. The Chamber of Industry and Commerce Organisation is the contact partner here for companies.
- **Providing financial incentives:** Insofar as public funding is provided for the start of further training, this should be as flexible as possible and be granted in respect of operational requirements. Any new line of funding must be judged by this means.

### The status quo

Change in credit conditions compared to the previous year according to size categories



- **Recovery on the credit market in sight:** Thanks to the good order situation and the associated higher credit rating, the financial situation of many businesses has also become much better. The feared depreciation on lendings to companies has not materialised. Small and medium-sized companies proved to be more robust during the crisis than expected.
- **Credit hurdles remain at different heights:** In spite of the general improvement in the credit situation, financing problems remain, particularly for smaller and innovative companies.
- **Financing increasing investment activities:** The demand for credit is lagging behind the business cycle. As increasing numbers of companies are planning to expand their capacities, the demand for credit will continue to rise initially. If during this process companies reach their funding limits, this may reduce their growth and cost jobs as a result.
- **Financial institutions facing more extensive regulation:** The aim of greater financial market regulation is to prevent future crises. In addition to Basel III, further regulatory measures (e.g. accounting rules, investor protection, deposit insurance systems) are planned at the European and national level or about to be implemented. This also includes a restructuring concept for banks in difficulty in order to avert dangers to the stability of the financial market at an early stage. Financial institutions will in the future be able to assume less of a risk. This will be felt above all by companies which are classified per se as "more risky", such as start-ups or innovative businesses.

## What needs to be done

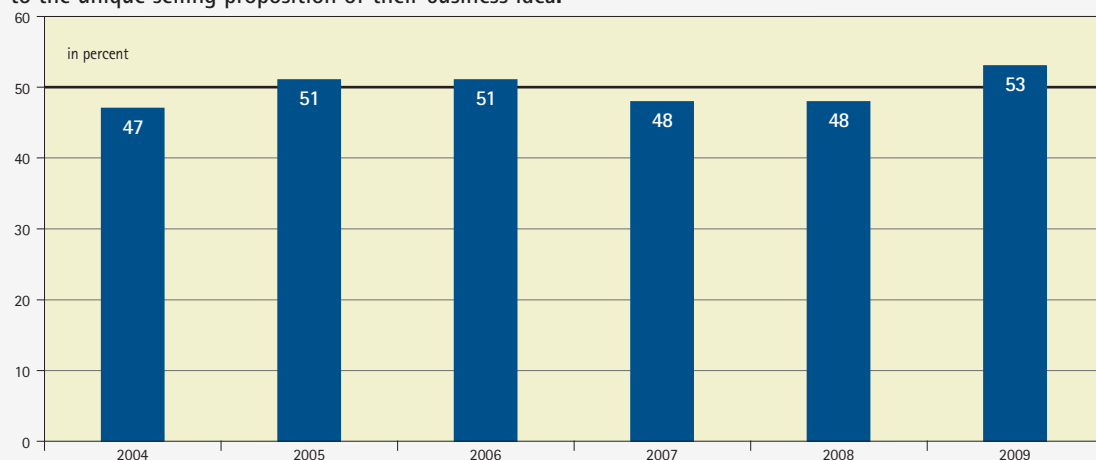
Financial market stability is a basic precondition for growth, investments and employment. Politicians should advocate financial market regulation with a sense of proportion and take into account its effects on lending.

### Economic policy must be based on the following guidelines:

- **Ensuring lending, getting banks fit:** The German economy, which is strong on exports, requires financial institutions that work on the international stage. In order to secure lending over the long term, the resistance of the financial system has to be increased.
- **Strengthening self-financing capacity:** The trade tax add-back of rents, leases and interest, the restrictions on loss accounting and the interest barrier place burdens on the equity of companies and thereby weaken the self-financing capacity of businesses, while at the same time making access to borrowed capital more difficult. The taxation on costs must be abolished.
- **Backlog demand in the case of venture capital and equity financing:** In view of the traditionally weaker equity base of German companies, an expansion in venture capital and equity financing is important. The framework conditions for these forms of finance therefore have to be improved. This includes the creation of legal safeguards, for example through statutory fiscal transparency for venture capital funds.
- **Financial market regulation, international and with a sense of proportion:** The danger of future crises must be reduced. An international regulatory framework for financial markets can contribute to this, e.g. through more transparency and the partial assumption of risks. Basel III has to be implemented worldwide. Going it alone nationally would be wrong. With respect to the regulations, a distinction has to be made according to the risk of the transactions and the system relevance of the financial institutions. Specific national aspects, such as the structure of the banking system and its financing, should be taken into consideration here.
- **Considering effects on companies:** Requirements placed on banks, e.g. with respect to capital adequacy, can stabilise financial markets and help to avoid future crises. However, this restricts business options in the financial sector and increases the costs of financing. The effects of the regulations on corporate financing should therefore be checked and the measures improved if necessary. For example, Basel III should require that loans to small and medium-sized enterprises need to be backed with less equity due to the lower default rate.
- **Maintaining innovative financing instruments:** The financial market crisis has particularly shaken confidence in some forms of financing particularly badly, such as the securitisation of SME loans. Nevertheless, such instruments create room for manoeuvre in lending and will still have to be available in the future. Greater transparency, also in the trading of products – and more quality standards are, however, indispensable in order to regain the confidence of the market participants.

### The status quo

The following percentages represent the number of business founders using the Chamber of Industry and Commerce start-up advice service who give too little thought to the unique selling proposition of their business idea.



Source: DIHK Startup Report 2010

- **Germany threatened by a lack of entrepreneurs:** New business ideas create new knowledge and promote growth and employment. As Germany has very few natural resources, it is particularly reliant on entrepreneurship and a spirit of innovation. But for demographic reasons the number of self-employed will fall from its current level of around 3.5 million by more than half a million by the year 2050. Demographic changes are also making business succession more difficult: the number of companies on offer will rise, but at the same time entrepreneurial role models will become scarcer.
- **Too little pioneering spirit, underestimated requirements:** Although the Chambers of Industry and Commerce are observing increasing numbers of people who are interested in starting their own business and taking over as the successors of other company owners, the incentive for this is mostly the threat of unemployment and not so much entrepreneurial drive. More than half of those starting new companies are not able to convince customers or lenders of the advantages of their idea. These are poor pre-conditions for surviving on the market. As a result many businesses are also unable to find qualified entrepreneurs to take over their companies.
- **Few business start-ups with a high innovation potential:** Only around 6% of the 300,000 business founders advised by the Chambers of Industry and Commerce want to start up in a high-tech industry. Many business founders have financing problems – particularly high-tech start-ups whose projects are often characterised by long lead times, require a good deal of explanation or have difficult market forecasts.
- **Weak entrepreneurial culture:** In the education system the topic of "self-employment" is almost unheard of. Young people give too little consideration to this as a prospective career. Moreover, the start is frequently delayed by bureaucracy, e.g. in the case of business registrations or approval procedures.

## What needs to be done

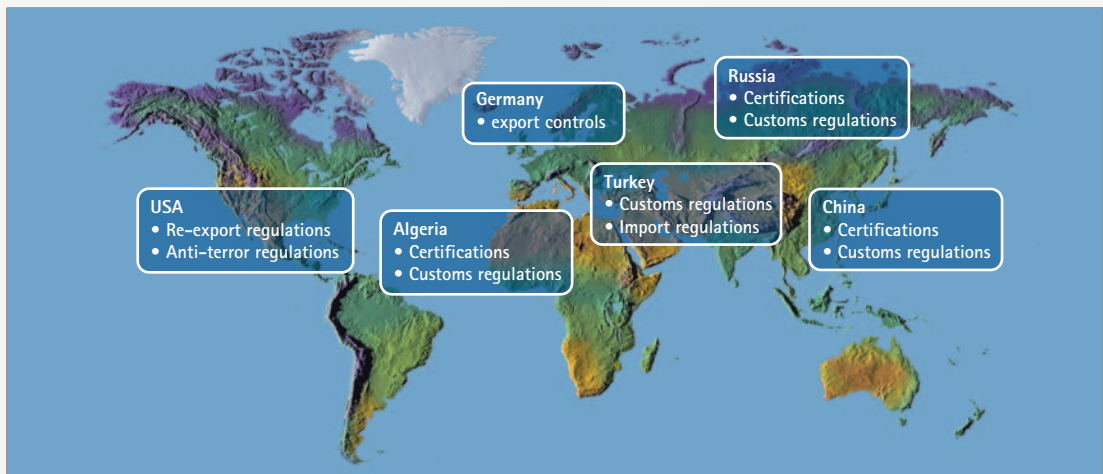
Business start-up policy must promote a pioneering spirit. This includes not only reliable economic framework conditions and economic freedom, but also an entrepreneurial culture. The federal government should continue with its campaign for entrepreneurship and business start-ups. The federal states of Germany should be integrated more closely into the focal point of the campaign "Entrepreneurship as part of school education".

### Economic policy must be based on the following guidelines:

- **Using education to create a foundation for a sustainable positive climate for business start-ups:** The theme of "entrepreneurship" has to be part of curricula throughout Germany – from school to university. Know-how and enthusiasm improve the chances of starting one's own business, provide the next generation of skilled employees, form the basis for business start-ups with a high degree of innovation potential and are indispensable for business successions. The education system should put across the option of "self-employment" to young people. Institutions of higher education should also systematically oversee spin-offs with partners from industry.
- **Increasing culture of entrepreneurship in economic policy and administrative activity:** With respect to work, taxes and social insurance the aim must be to create framework conditions which are conducive to starting a new business. Elements of taxation on non-income values, such as rents, interest and leasing instalments, must also be eliminated, as well as the restriction on the loss carried forward. An improvement in the compatibility of family and work, e.g. through more flexible childcare opportunities, would make it easier for more parents to become entrepreneurs. Companies must be able to find competent contact persons in urban administrations. Schools, institutions of higher education, media and entrepreneurs must provide more encouragement for others to become self-employed.
- **Reducing bureaucracy for business founders and young companies:** The state should place more trust in the opportunities provided by new businesses and give such start-ups more room to manoeuvre. Regulations must not be allowed to put the brakes on new ideas. The complicated mandatory tax m "statement of excess of receipts over expenditure" should be abolished. Those establishing new businesses should be allowed to submit a quarterly – instead of monthly – turnover tax advance return, as should all other companies as well.
- **Accelerating business start-ups:** Approval procedures should be streamlined and – where appropriate – replaced by faster notification procedures – if necessary online. The Chambers of Industry and Commerce, the first contacts for those starting new businesses, should be allowed to process business registrations with a legally binding effect. With service from a single source – from initial information, through a business plan check to the business registration – the Chambers of Industry and Commerce want to make the start easier.
- **Targeted financing of entrepreneurs:** In order to create more transparency in the funding maze, fewer subsidy programs are required – and these must have clear structures. The quality of the business idea must be the main criterion for a funding decision – including in the case of business start-ups by the unemployed. For innovative business start-ups and successions the market for private venture capital has to be livened up, e.g. through better opportunities for fiscal loss offsetting.

### The status quo

Serious problems in customs and foreign trade law



Source: DIHK Foreign Trade Report 2010

- **The liberalisation of trade is stalling, distortions are endangering the supply of raw materials:** The Doha Round has still not been completed – so that gains in prosperity are being given away. Worldwide there are also more than 1,000 export restrictions for 400 raw materials. These restrictions are jeopardising the supply of raw materials and therefore the competitiveness of the economy in Germany and Europe.
- **EU Commission taking over the promotion of foreign trade:** Up to now the promotion of foreign trade has been a task for the individual EU member states. As part of the EU 2020 strategy there will be increased Europeanisation in this field. As part of the "Small Business Act" and the increased presence of the EU's foreign and trade policy in the world, "European Business Centres" have already been opened in India, China and Thailand in order to support SMEs on international markets.
- **Threatened over-complication of the rules of origin in customs law:** Under current law the commercial origin of goods is determined according to simple criteria: the last significant manufacturing location determines the origin. In order to protect its anti-dumping measures the EU Commission wants to give up this approach and is developing specific criteria of origin for each individual commodity, which are to be included in lists. Companies would have to check and document compliance with the criteria according to the rules based on this list for each commodity individually – the German foreign trade is threatened with substantial costs.
- **Bureaucracy making foreign trade more difficult:** For years companies from Germany and their business partners from the partner countries have been complaining about bureaucratic hurdles in foreign business. In particular, the reluctance to issue visas for business travellers to Germany and the sluggish approval procedure as part of export controls are criticised. German companies are disadvantaged in international competition as a result of these hurdles.

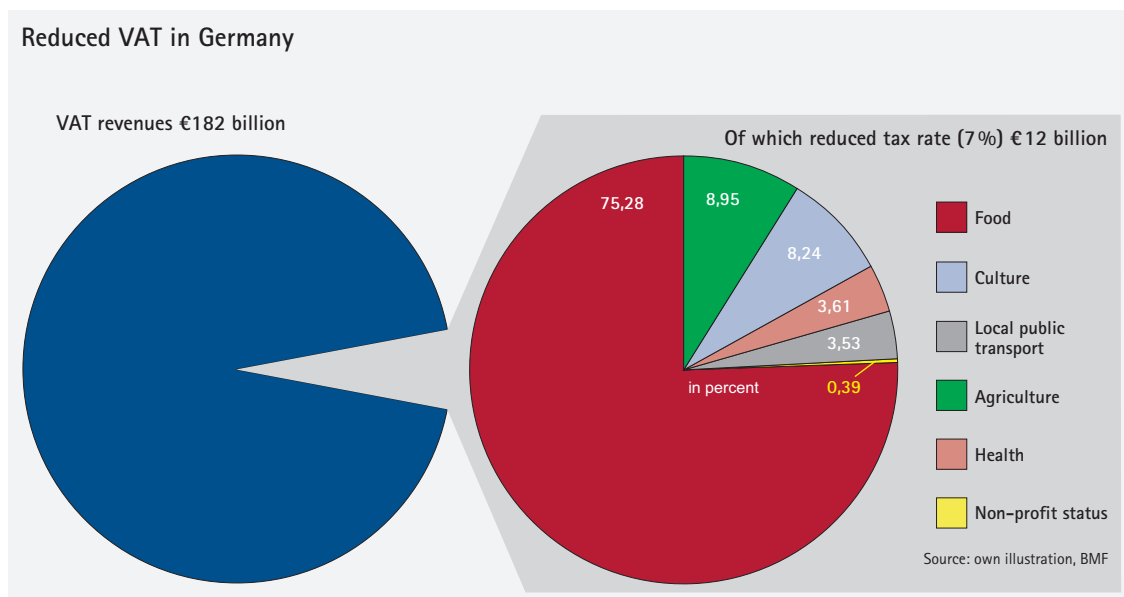
## What needs to be done

Foreign trade policy should strengthen the opportunities of German companies in globalisation and their competitive position on international markets.

### Economic policy must be based on the following guidelines:

- **Opposing protectionism, promoting the liberalisation of trade:** The EU must take on a pioneering role in pushing through a liberal trade policy – with an eye to the future also with bilateral trade agreements. The federal government must identify trading policy issues in good time and influence the positioning of the EU at an early stage. The most important signal for open markets would be the completion of the Doha world trade round. Bilateral treaties in Europe should take greater account of free access to raw materials. At the same time the fair trade in raw materials should be protected through the WTO with bans on subsidies, export duties and taxes which restrict competition.
- **Avoiding parallel structures in the promotion of foreign trade:** The EU should only create institutions for the promotion of foreign trade if this creates added value for Europe – both with respect to SME subsidies and from the trade policy point of view. New EU structures can only be successful if they build on tried and tested national forms of promotion for foreign trade. In particular, EU funds are not to be used at the expense of fully functioning public-private models of the national promotion of the export economy – such as the worldwide German-bilateral Chambers of Commerce Abroad (AHK).
- **No modification of the rules of origin in customs law:** The simple and transparent rules of the current law of origin must be retained. The new version of the law of origin planned by the EU Commission would considerably increase the administrative burden on companies and might trigger the establishment of new trade policy barriers for exports to third countries.
- **Debureaucratisation and harmonisation of foreign trade law:** Foreign trade law must become leaner and simpler. The visa-issuing policy of German diplomatic representations abroad should be brought into line with standard practice in its neighbouring European countries and the IHK-AHK-Organisation should be integrated more strongly into the preliminary examination of visas for business trips. In the case of export permits the aim must be to achieve harmonisation at the EU level in order to ensure fair competition conditions. Moreover, export controls by the Federal Office of Economics and Export Control must be handled more quickly; particularly when Federal Ministries are included in individual decisions.
- **Development policy – taking more economic risks:** The stronger integration of German industry in development cooperation (DC) is part of the coalition agreement. Its implementation should be carried out by expanding the cooperation of Chambers of Industry and Commerce and Chambers of Commerce Abroad with DC organisations and partners locally. The aim must be to develop the private sector in developing countries for sustainable growth.

### The status quo



- **Fiscal law is not coherent:** German fiscal law is becoming increasingly lost in a maze of abuse prevention and competing interests. High levels of red tape and legal uncertainty are the consequences. As a result Germany is becoming less attractive as an investment location for companies.
- **Turnover tax incomprehensible:** The reduced VAT rates are unsystematic. This leads to problems of demarcation which impair the planning reliability of companies and hinder their ability to handle them. This leads to a public debate about the justification for the reduced VAT rates. A similar burden for companies is the explosion in obligations to prove the accuracy of tax returns and maintain records as stipulated by turnover tax law, e.g. in the case of cross-border deliveries, with costs and tax risks amounting to billions.
- **Business tax reform reduces liquidity:** Although the business tax reform in 2008 lowered corporation tax rates, individual elements of counter-financing (e.g. trade tax add-backs, shell company acquisition regulations) are putting a brake on investments or restructuring on the way out of the crisis. Taxation on costs and a lack of opportunities for setting off the losses of the crisis year of 2009 are taking away the necessary liquidity from companies.
- **Municipal taxes are not future-proof:** The local authority financial reform is standing still. Up to now the required reform of trade tax has not been carried out. With respect to real estate tax, the second important local authority tax, considerable doubts have already been expressed by the highest judicial authority concerning their legality under the Constitution. Local authorities and companies need a legally sound and stable basis for municipal taxes.

## What needs to be done

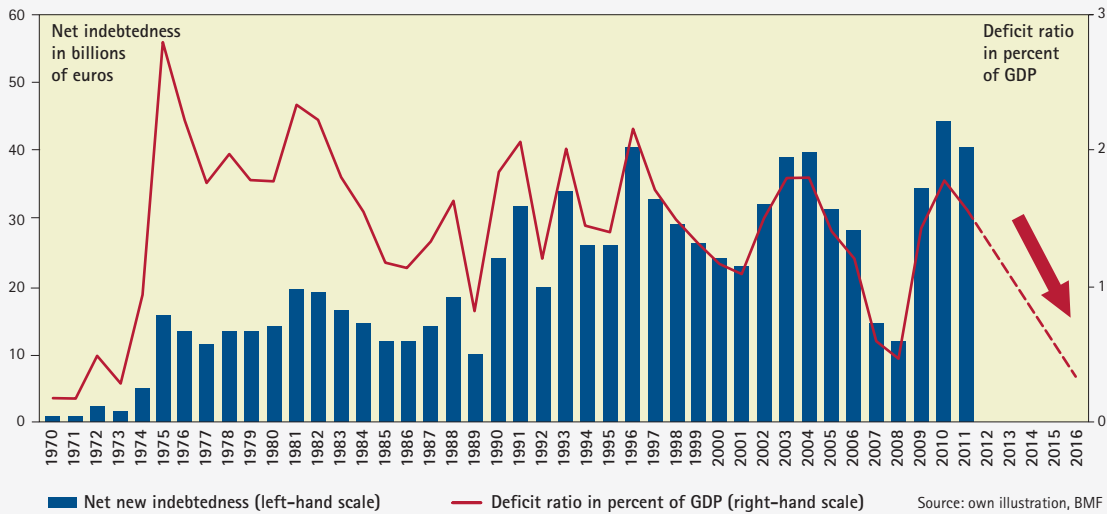
The reform gridlock in fiscal law has to be overcome. This can also be achieved in times of economical budgeting.

### Economic policy must be based on the following guidelines:

- **Notable simplification of fiscal law:** Germany needs a clear and simple fiscal law with low tax rates which is in line with the Constitution – orientation can be provided here with the idea of the flat tax rate. This makes complicated arrangements for individual cases and control regulations superfluous. Few exceptions and more flat rates result in greater transparency and acceptance.
- **Income tax tariff reform should not be postponed:** The first step towards a tariff reform should be the removal of the steep progression in the lower and middle income range ("middle-class bulge") and the resulting negative performance incentives. This also applies to the "cold progression", so that companies and citizens do not have to pay higher taxes merely due to inflation. A reform of the tariff must be pushed forward with in 2011.
- **Business tax adjustment:** The trade tax add-backs, interest barrier and shell company acquisition regulations must be abolished. This will improve the liquidity and equity capital situation of companies. Moreover, it will lead to more innovations and investments, as will the reintroduction of declining-balance depreciation.
- **Creating a sound foundation for municipal taxes:** a profit-oriented local corporation tax levied by local authorities or a surcharge on income and corporation tax would give both local authorities and companies financial and planning security. The local authority financial reform must lead to results which fulfil this specification. Furthermore, the federal states have an obligation to set up new assessment rules for real estate tax without encumbering companies with higher taxes or more bureaucracy.
- **Unbureaucratic VAT:** The exceptions in the case of value-added tax must be reduced. Above all the catalogue of reduced value-added tax rates must be revised. This will bring about a noticeable reduction in bureaucracy, while creating room for the necessary tax reforms and low tax rates. Lower documentation obligations for intra-community transactions would facilitate and promote exports to other European countries.
- **No further increase in bureaucracy through the e-balance sheet:** The implementation of the so-called e-balance sheet, the electronic transmission of balance sheets to Inland Revenue Offices, must be strictly in line with statutory regulations. No additional fiscal bookkeeping must be imposed on companies which goes beyond the requirements pursuant to commercial and fiscal law.

### The status quo

Additional national debt and route to the 2016 federal debt brake



- Austerity package as an introduction to consolidation:** The Federation must reduce its new indebtedness at an annual rate of about € 7 billion by 2016 in order to comply with the debt brake specified in the German Constitution. For this, the austerity package of the Federal Government requires contributions from all groups of society – including from industry as a whole. This is the right route to go down. Successful consolidation reduces the worries of companies that in future the state will resort to tax increases in order to refurbish its budgets.
- Increase in expenditure requests:** The return to increasing tax revenues is resulting in new requests for expenditure, although the expected new indebtedness of the Federation – at € 40 billion in 2011 – remains very high. The situation of the public budgets is only improving slowly and will only do so if spending is restricted.
- Time for reforms:** The federal government announced in the coalition agreement that it would be carrying out an income tax reform, a municipal finance reform and a turnover tax reform. These reforms can get under way in 2011. Any room for manoeuvre which may result in spite of strict consolidation can be used to release brakes on investment and simplify taxes.
- Local authority finance in disarray:** The local authorities carry out two thirds of state investments which form the framework conditions for entrepreneurial activity. However, the balance of investment expenditure in the budgets has changed dramatically. While the share of investments in 1992 was still 24% and welfare spending 15%, the ratio in 2010 was reversed: 23% welfare spending, 13% investments. Local authorities claim that the cause is structural under-financing, but block any fundamental financial reforms.

## What needs to be done

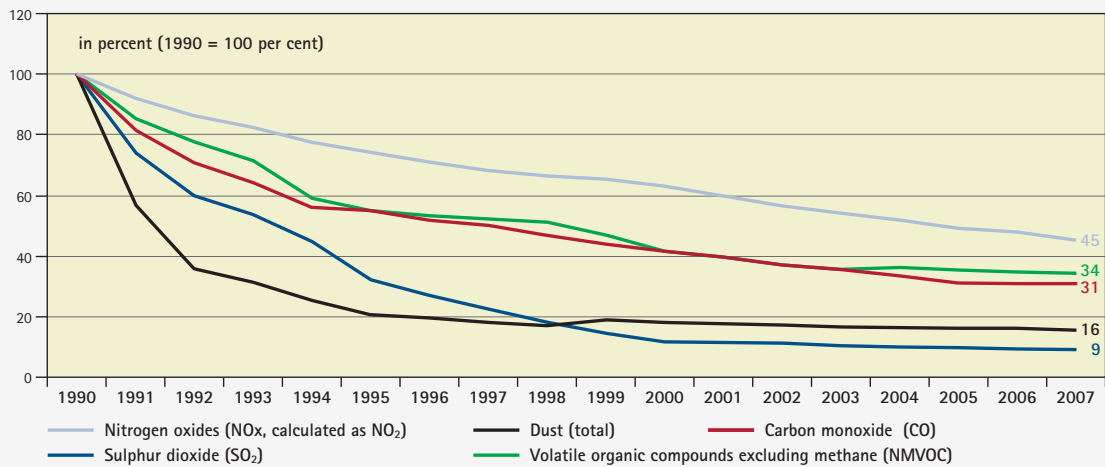
The good economic situation is a tailwind for the urgently required reforms. These will improve the competitiveness of Germany while securing growth and prosperity.

### Economic policy must be based on the following guidelines:

- **Reducing the ratio of government expenditures to gross national product:** Public spending recently increased dramatically due to the financial crisis. This has to return from its current high level to the level it was at before the crisis. The aim remains a ratio of government expenditure to gross national product of below 40%, associated with simple, low and fair taxes. Companies disencumbered of bureaucracy and taxes refinance the state with their increased competitiveness; this brings growth and results in long-term stable income.
- **Tax reform accompanied by reductions in subsidies:** According to the data of the Kieler Institut für Weltwirtschaft (Kiel Institute of the World Economy), the German Federation alone distributes €48.7 billion a year in subsidies to companies. If the financing of the necessary reforms of business taxes is not fully secured in spite of increasing income as a result of the booming economy and self-financing effects, counter-financing may be necessary through the cutting back of the total amount of subsidies to industry with a standardised annual percentage („lawnmower method“).
- **Increasing the responsibility of the federal states for their own finances:** The structure of federal state financial relations is an obstacle to growth for the donor and recipient states. There remains a lack of reform with which the responsibility of the states for their own finances and for a location-friendly financial and economic policy is strengthened. Transparency in the redistribution of income between central government, the states and local authorities must increase and taxes have to be broken down more quickly.
- **Restoring the ability of local authorities to act:** Local authorities need stability with respect to their income, as well as relief and flexibility in terms of their expenditure. The introduction of a bed tax is the wrong way to go however. Instead, trade tax should be fundamentally reformed, as demanded for years by the Chamber of Industry and Commerce Organisation. Together with spending discipline and strict compliance with the connexity principle (securing of finance with the transfer of tasks by the Federation or federal state), such consolidation of local authority budgets is possible.
- **Making competition fair:** If the public sector enters into competition with private companies, the same conditions must apply to everyone, and in particular public companies must not receive tax privileges.

### The status quo

Development in emissions of selected "conventional" air pollutants since 1990



Source: Federal Environment Agency, national trend tables for the German reporting of atmospheric emissions. Development in emissions 1990-2007 (endpoint February 20, 2009), <http://www.umweltbundesamt.de/emissionen/publikationen.htm>

- **Industry doing a lot for environmental protection:** In spite of growing production, the pollution of the environment is falling. The perceived responsibility, creative innovation and environmental management of German companies, improvements in the efficient use of resources and ambitious environmental standards are making this possible.
- **Ecological and economic innovations frequently find too little acceptance:** German companies lead the way on the world market with respect to innovations in environmental and energy technology. The construction of modern plants often fails in Germany, however, due to the length of time it takes to plan them and the resistance of the population. More transparency of the planning process and the provision of better information to those affected facilitate the expansion of infrastructure and the introduction of innovations.
- **Bureaucratic resources policy places a burden on companies:** The aim pursued by the amendment of the German Recycling and Waste Management Act, namely an improvement in the efficient use of resources, is being counteracted by bureaucratic regulations. In the implementation of the EU Waste Framework Directive, e.g. the monitoring process and company notification obligations, the Federation does not take advantage of the room for manoeuvre that is available, including the avoidance of legal uncertainties. Moreover, there is a lack of clear signals for more competition and liberalisation in waste management.
- **Spatial restrictions endangering locations:** Excessive regulations relating to air quality, environmental noise or nature conservation cause traffic restrictions, space constraints or conflicts of use. This hinders the availability, settlement, production and expansion of industry and commerce. Towns and cities in particular are not only places of residence, however, but also indispensable as trading, service and production locations.

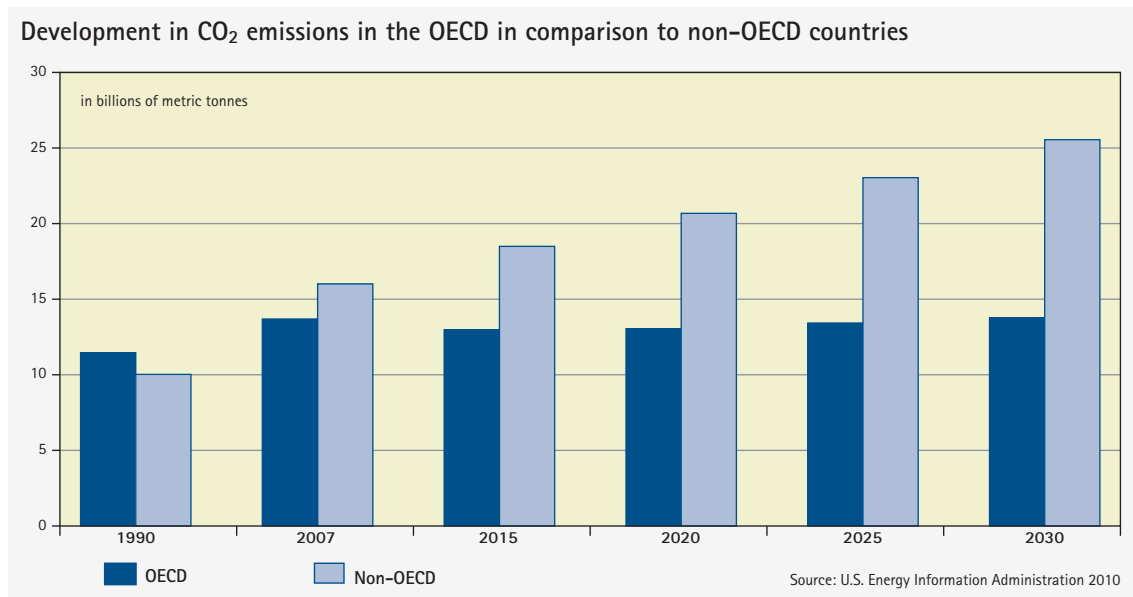
## What needs to be done

A balance between economic and environmental interests is achieved if politicians put more faith in the ability of industry to act and innovate and help to develop the economic opportunities offered by modern environment technology, for example.

### Economic policy must be based on the following guidelines:

- **Avoiding environmental policy activism:** The precautionary principle is rightly an environmental policy guideline. Economic activity may only be restricted if this is kept in proportion and if risks exist to humans and the environment. EU regulations must be avoided if the national legislature, as in the case of soil protection, can regulate the situation more meaningfully within the framework of subsidiarity. European directives must be implemented on a one-to-one basis in national law in order to avoid competitive disadvantages for German companies.
- **Personal responsibility instead of reliance on the state:** What is required is the provision of incentives for action based on personal responsibility instead of state paternalism. Before each legislative initiative it should be determined whether a target can be achieved equally well or even better by voluntary or contractual agreements. The "Partnership for Climate Protection, Energy Efficiency and Innovation" between the Association of German Chambers of Industry and Commerce (DIHK) and the Federal Government is a good example of how voluntary agreements work. This potential of the companies should be taken advantage of to a greater extent by politicians. This is supported by the Chambers of Industry and Commerce.
- **Organising recycling management to be compatible with industry:** In the new Recycling and Waste Management Act companies must be relieved of the costs of bureaucracy and given more scope to introduce innovative production processes and products. What is required is fair and legally sound competition between private and state waste disposal. The introduction of a recyclable material container must not result in additional duties and costs for companies. Here it is possible to build on the good experience of the dual disposal system secured by the Chamber of Industry and Commerce Organisation and organised by the private sector.
- **Participating in future markets:** The Federal Government should improve environmental research. At the same time it should use a stronger "environmental foreign policy", including at the EU level, in order to motivate other states to redouble their efforts. This will ensure that global environmental problems are also addressed globally. At the same time the demand for efficient environmental technology from Germany will be opened up. The Chambers of Industry and Commerce and Chambers of Commerce Abroad are willing to participate in the implementation.
- **Enabling economic development at suitable locations:** Politicians must ensure the provision of fully functioning, accessible business locations, e.g. in towns and cities, and promptly rectify any "controlling errors" resulting from the EU nature conservation directives, for example. Wherever regulations provide room for manoeuvre, as in the air quality directive or UV protection ordinance, this must be used to introduce appropriate solutions. New tools for land management are superfluous, as current law already provides sufficient control opportunities.

### The status quo



- **Lack of worldwide binding reduction targets:** The UN Climate Change Conference in Cancun ended in December 2010 without a binding treaty to limit greenhouse gas emissions. The time for a binding post-Kyoto agreement from 2013 on is running out.
- **Germany's pioneering role on climate policy continues:** In its energy concept the Federal Government has confirmed its intention to reduce CO<sub>2</sub> emissions by 2020 by 40% compared to 1990. In order to achieve this goal a broad energy mix is required, as well as the introduction of new technologies such as the capture and storage of CO<sub>2</sub> (Carbon Capture Storage – CCS).
- **Tougher EU climate target would cause additional costs:** The EU intends to increase its already-adopted CO<sub>2</sub> savings target of 20% (1992 – 2020) to 30%, provided that other industrialised countries undertake similar commitments. If these conditions are not achieved, the number of certificates in emissions trading will also become scarcer. As Germany has already adopted the ambitious 40% target, this would again detract from the competitiveness of German companies compared to their competitors outside of the EU.
- **The new EU emissions trading directive is placing a strain on German companies:** The full auctioning of certificates for energy suppliers adopted at the end of 2008 at the EU level may result in electricity price increases of up to 50%. The procedure to provide relief for energy-intensive companies ("carbon leakage"), which is aimed at preventing the outsourcing of investments to other countries, is very expensive and bureaucratic.

## What needs to be done

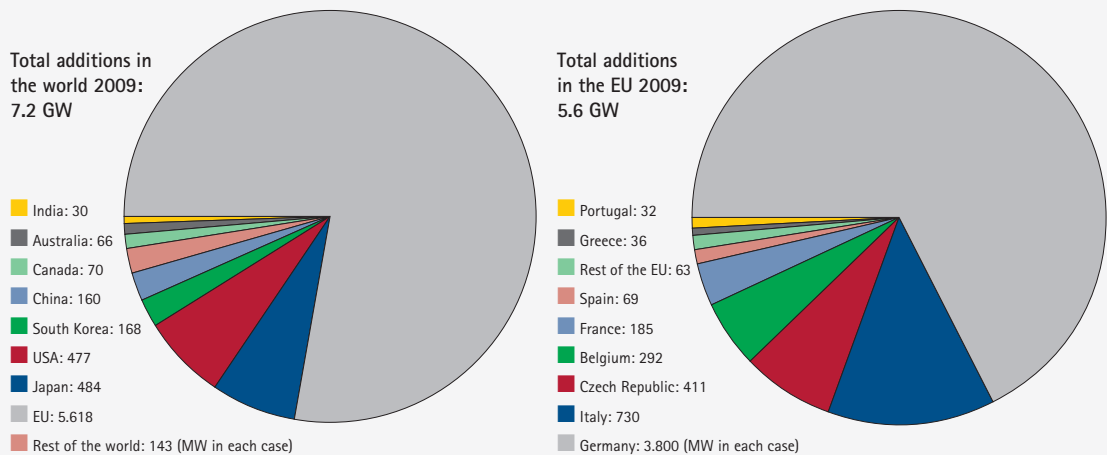
The reduction in greenhouse gas emissions is a global challenge. Even today, scientists are expecting a noticeable change to the climate. For this reason it is necessary not only to reduce greenhouse gases in Germany, but also to develop the cornerstones of an adaptation strategy together with industry.

### Economic policy must be based on the following guidelines:

- **Involvement of all major emitters in a global climate agreement:** The EU and the Federal Government must continue to work towards ensuring that the largest emitters (e.g. China, USA) undertake to limit their emissions. A mere prolongation of the Kyoto Protocol with a unilateral EU obligation without the participation of the world's largest emitters would endanger the competitiveness of German industry due to the high cost burdens. The climate protection duties of the EU which are under discussion are counter-productive: they would lead to countermeasures by our trading partners with competitive disadvantages for the export-oriented German economy.
- **Implementing EU emission trading in Germany in an economically viable way:** With the proposed amendment to the Greenhouse Gas Emission Trading Act (TEHG) the EU specifications must be implemented in Germany on an unbureaucratic, economically viable and one-to-one basis. Important specifications of the EU Emissions Trading Directive, for example the reduction of burdens on energy-intensive industries through the free allocation of CO<sub>2</sub> certificates, must be organised quickly. The adopted EU exemption from emissions trading for small emitters of less than 25,000 metric tonnes of CO<sub>2</sub> per year must also be implemented in Germany without any alternative encumbrances. What is also required is the rapid implementation of the compensation scheme contained in the EU Emissions Trading Directive for additional burdens on companies resulting from emissions trading.
- **Further development and simplification of international climate protection projects:** Closer cooperation in international climate protection projects is necessary; this will result in an economically and ecologically efficient worldwide reduction in emissions which are relevant to the climate. More credits from these projects must be recognised. At the same time new markets will be opened up by the export of technologies and new jobs created. To this purpose the Federal Government should make greater use of the export initiatives "Renewable Energies" and "Energy Efficiency".
- **Optimising the mix of climate policy instruments in Germany and the EU:** The measures contained in the Integrated Energy and Climate Program must be better coordinated with one another in order to avoid ecologically ineffective and economically harmful multiple burdens. Here, CCS is also important as a new technology for supply reliability and climate protection.

### The status quo

World photovoltaic market, additional in 2009



Source: European Photovoltaic Industry Association (EPIA); press release "Global Market Outlook for Photovoltaics until 2014"; as of April 2010; provisional data

- Energy concept sets ambitious goals:** By 2050 80% of the electricity supply in Germany is to be generated from renewable sources and the necessary expansion of the grid – including cross-border sections – achieved. A further aim is a 10% reduction in electricity consumption and a 20% improvement in energy efficiency by 2020. It is also assumed that other states will pursue similar energy and climate targets as the Federal Government and support Germany in the achievement of its goals.
- State-induced pressures on energy prices continue to increase:** The generation of electricity from renewable sources will continue to rise. This politically desired increase will, however, lead to a significant rise in funding costs, above all for the expansion of photovoltaics. Even commercial consumers finance a significant proportion of the promotion of renewable energies by means of higher electricity costs. CO<sub>2</sub> emission certificates and energy taxes also have additional impacts on electricity prices.
- The construction of power stations and energy grids is being blocked locally:** Increasing shares of wind and solar energy require not only a significant expansion to grids and storage, but also the construction of highly efficient and flexibly controllable power stations in order to integrate the strongly fluctuating range of renewable energies into the energy supply while at the same time guaranteeing supply reliability for energy-intensive industry. Obstacles to the expansion of infrastructure make access to the grid difficult for new suppliers and therefore restrict competition in Germany.

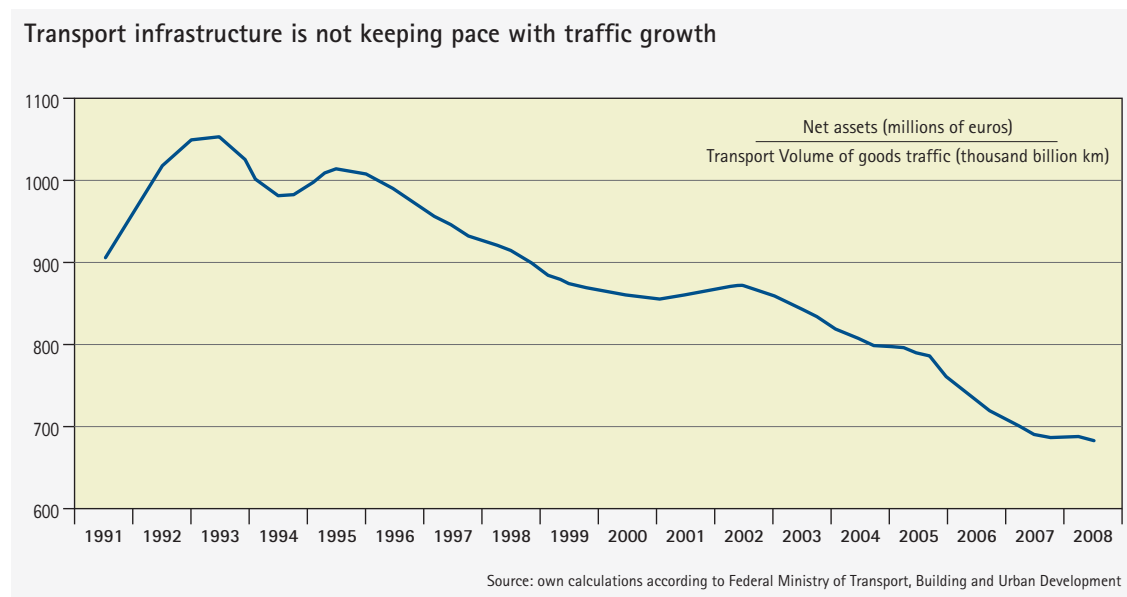
## What needs to be done

The energy concept of the Federal Government requires rapid changes to the law and broad social acceptance in order to achieve the objectives without adverse effects on competitiveness and the security of supply. As the implementation of the concept presupposes a fully functioning EU domestic energy market with efficient infrastructures, the Federal Government also has to do all it can to ensure the appropriate implementation of the EU Energy Strategy 2020.

### Economic policy must be based on the following guidelines:

- **Eliminating barriers to a new energy infrastructure:** In order to ensure that the implementation of the energy concept does not become an adventure with an uncertain outcome, significantly increased and non-technology-specific research and development efforts are urgently needed. Together with industry, politicians must break down information barriers and in this way attempt to achieve acceptance for new, highly efficient power stations, power lines and storage facilities among local citizens. At the same time planning and approval procedures, especially for the expansion of the transmission grid, must be structured in such a way that they can be carried out with a speed which is in line with the objectives included in the general energy concept. Incentive arrangements for the grid operators should provide more motivation to make investments in the security of supply and innovative network technologies.
- **Intensifying competition, limiting additional burdens:** Competition in the field of electricity supplies must be further stimulated in order to have a positive influence on price developments. Additional financial burdens on companies resulting from the Renewable Energy Act, as well as from energy taxes and further state-induced burdens, must be limited. The costs of the required expansion of the grid – including cross-border sections – should be distributed among all consumers in accordance with these principles.
- **Working towards the Europeanisation of support for renewable energies:** The amendment of the Renewable Energy Act must actively include cooperation with other EU member states, which is already possible according to EU law. More favourable development potential in other EU member states speaks in favour of the harmonisation of support mechanisms in the EU domestic market. In this way the time to market for renewable energies will become shorter with less effort and expense.
- **Promoting efficiency instead of prescribing savings:** Fixed savings targets for the EU member states would provide false stimuli for economic development. Politicians must create incentives for improvements in efficiency, dismantle information barriers and promote energy services, rather than prescribing the use of energy management systems. Efficiency potentials in industry, trade and the housing sector should be developed by means of streamlined regulations and market forces. The Partnership for Climate Protection and Energy Efficiency concluded between the Federal Government and Association of German Chambers of Industry and Commerce (DIHK) helps to develop economic potentials.

### The status quo



- **No economic growth without growth in traffic:** The current forecast of the Federal Government is for an increase in freight traffic volumes from 2004 to 2025 of more than 70%. There is no decoupling of economic and transport growth. The mobility of people and goods will remain indispensable in the future for most economic activities.
- **Realigning investment policy:** Many necessary projects have been put on ice due to insufficient funds – in spite of high revenues from energy and vehicle taxes and the toll on lorries on German motorways. The budget allocation for the expansion of the traffic infrastructure is held rigid by state quotas. In order to overcome the bottlenecks on the main traffic routes, as well as for their maintenance, additional funds are required.
- **Pressure from environmental policy on traffic is growing:** In spite of the use of technology which is not only quieter, but also causes less and less pollution, traffic is increasingly becoming the focus of environmental policy. The aim is to reduce traffic levels by means of bans and increases in costs – with serious consequences for the economy but only minimal relief for the environment.
- **Markets for local public transport have not been opened up sufficiently:** It is unclear whether the amendment of the Passenger Transport Act (PBefG) will result in more competition. Medium-sized providers fear that the prospects for their own commercial local public transport systems will be curtailed. The Federal Court of Justice ruling on February 8, 2011 that local passenger rail transport services have to be offered for tender must now be followed up in practice.

## What needs to be done

The efforts to adapt the traffic system to the growing mobility requirements of society and industry have to be increased significantly.

### Economic policy must be based on the following guidelines:

- **Stabilising investments:** The funds for transport investments have to be increased and stabilised over the long term. The current dependence on the yearly budgetary decisions makes long-term investment planning more difficult. The separate funding cycles for roads represent a step in the right direction, but to do not yet offer any guarantee of sufficient funding.
- **Expanding main transport axes:** The call in the coalition agreement for priority to be given to congested main traffic axes has to be implemented swiftly. Individual projects have to be assessed on the basis of their effect on the performance of transport axes overall. The Federal Government must take appropriate stock of the situation, define the expansion required for the main transport axes in the case of road, rail and waterways and formulate a binding schedule for their implementation. The development of structurally weak regions for traffic can continue to be based on the state quota. There is considerable ground to be made up in the downstream network.
- **Boosting ports and airports:** These are essential for exports and imports, as well as passenger traffic. Their capacities, as well as the sea and land-based connections, must be expanded. Their tax burden, environmental specifications and operating times must be aligned to the aim of maintaining international competitiveness.
- **Reducing pressure on the environment by innovation instead of making transport more expensive:** Brussels and Berlin should concentrate more on the use of new technologies for vehicles, innovative logistics concepts and telematics. For all measures the benefit to the environment must be weighed up against the costs.
- **Supporting the field trial with long trucks:** Truck-trailer combinations of a greater length (25.25 m instead of 18.75 m) and a higher gross vehicle weight (44 t instead of 40 t) can transport high-volume goods more economically and in a more environmentally-friendly manner. In order to obtain reliable experience, the field trial should be extended to all federal states.
- **Economic use of tax revenues for local public transport, maintaining medium-sized businesses:** Priority should be given to transport without public subsidies. If public funds are used to expand local public transport, the services must be awarded in the form of public competition. Awards must offer medium-sized companies genuine opportunities. Long-distance bus routes must be made possible quickly.

### The status quo

Obstacles for German industrial companies in 2011



- **Pillar of the German economy:** Manufacturing industry in Germany contributes more than a quarter of the economic performance – more than in most other industrialised countries. The share of industry in value creation is even growing – due to the export strengths of companies. The strong industrial core also provides the basis for the creation and securing of jobs in the services sector. This is particularly striking in the field of industry-related sectors such as freight forwarders, the wholesale trade, business consultancies, IT and the advertising industry – i.e. the "network industry".
- **Industry drives progress forward:** More than 90% of the national research and development expenditure is provided by manufacturing industry, which therefore creates the basis for Germany's position as a leading international high-technology location. As a provider of research and development, industry has developed efficient processes and technologies. It therefore also contributes increasingly to solving environmental problems and the sustainable use of resources.
- **Obstacles for industry:** In order to be competitive, German industry requires an efficient infrastructure, affordable energy and well-trained skilled employees and researchers. In fact, however, public investments in infrastructure are not sufficient. The majority of industrial companies also see the developments in energy and raw material prices as the main risk to their business development. The costs of labour and the shortage of skilled employees are also increasingly becoming a bottleneck for industrial companies.
- **Danger of distortion of competition:** At the international level there are still protectionist reactions in individual industries, such as the automotive sector, which distort competition to the detriment of German companies.

## What needs to be done

In order to exploit the potential of Germany as an industrial location more efficiently, the government has to invest in the requisite location factors while complying with and improving competition rules.

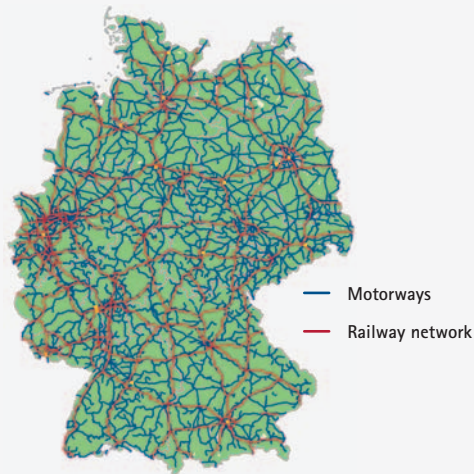
### Economic policy must be based on the following guidelines:

- **Good industrial policy is based on competition:** A state-controlled industrial policy inhibits innovations and diversity, cements structures and furthers a subsidy mentality – dynamic markets cannot be planned. The primary task of the state must be to guarantee framework conditions which promote the innovation capability of companies, as well as competitiveness and growth – at the national and European level.
- **Commitment to an industrial location:** The policy must pay the necessary attention to industrial location factors. In particular, it must guarantee an efficient infrastructure, support the economy in overcoming the shortage of skilled employees and lower non-wage labour costs. Furthermore, the policy must not overload companies with unnecessary bureaucracy, a fiscal law which is too complex and other special charges. Moreover, the industrial location requires correctly functioning financial markets – also in order to pre-finance new orders and secure against fluctuating commodity prices.
- **Creating good framework conditions for the supply of raw materials:** The policy should concentrate on pushing through international raw material agreements with transparent rules for the exporting and importing countries of raw materials and securing access to domestic raw materials. Public subsidies for research and development into raw material efficiency must be non-technology-specific. Companies must be able to regulate their raw material purchases themselves – there must be no centrally organised provision and storage of raw materials.
- **Making use of cluster potentials for industry:** As a supporting instrument of location policy, cluster policy can promote entrepreneurial dynamism and innovation. The basis of all political activity should be the requirements and activities of local companies („bottom-up“ approach). Direct financial cluster support (e.g. for cluster management) should be of a temporary nature from the beginning and be structured in a degressive manner, as well as demanding a contribution from the regional participants and providing incentives for self-supporting structures.
- **Counteracting international distortion of competition:** Subsidies and protective tariffs preserve structures which are not sustainable and may provoke countermeasures – for the export-intensive German industry this would be fatal. The Federal Government must not only ensure compliance with the WTO standards and the EU state aid framework, but also demand this from trading partners.

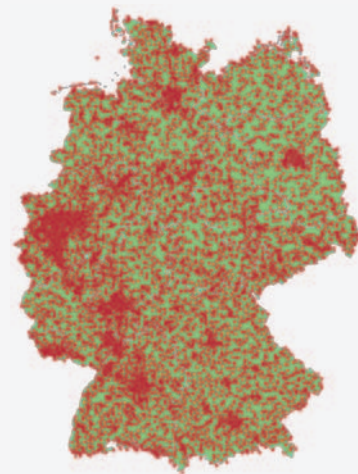
### The status quo

#### Network infrastructure in Germany

Main transport routes (2009)



Main distribution locations of German Telekom (2009)



Source: Association of German Chambers of Industry and Commerce (DIHK)

- **Structurally weaker regions facing central issues:** In the coming years structurally weaker regions must solve central issues. These include in particular the demographically-related problem of finding employees and the connection to the broadband network of the global production network and the knowledge society. These potential factors will play a critical role in determining the extent of private investments in the regions.
- **Finding suitable locations becoming increasingly difficult:** Infrastructure projects of national importance (e.g. traffic routes, power lines) and large private investments (e.g. power stations, chemical plants) trigger public discussions and are made more difficult by problems not only pursuant to building law, but above all environmental law. The result is a procedure lasting years whose costs are difficult to calculate. For the overall economy such projects are essential.
- **Municipalities and local communities under pressure:** Municipalities have hardly any or no funds for investments, thereby limiting their scope for action. Falling population figures are forcing towns to be rebuilt, for which not only money, but also entrepreneurial creativity is also required. Ultimately the aim has to be to keep the town or city as a driving force together with its core identification.
- **EU structural funds not purely a supplement to budgets:** EU subsidies are too often considered by state ministries as being a financial allocation from Brussels. The consequence of this is that the focus is more on the distribution of such ministries instead of their strategic use for strengthening regional growth.
- **Lack of broadband connections as a locational disadvantage:** Rural areas in particular are frequently still insufficiently supplied with broadband Internet connections. This affects in particular many industrial estates, for example. In the last few years it has been shown that one third of economic growth depends on the presence of fast Internet connections, and therefore also many jobs.

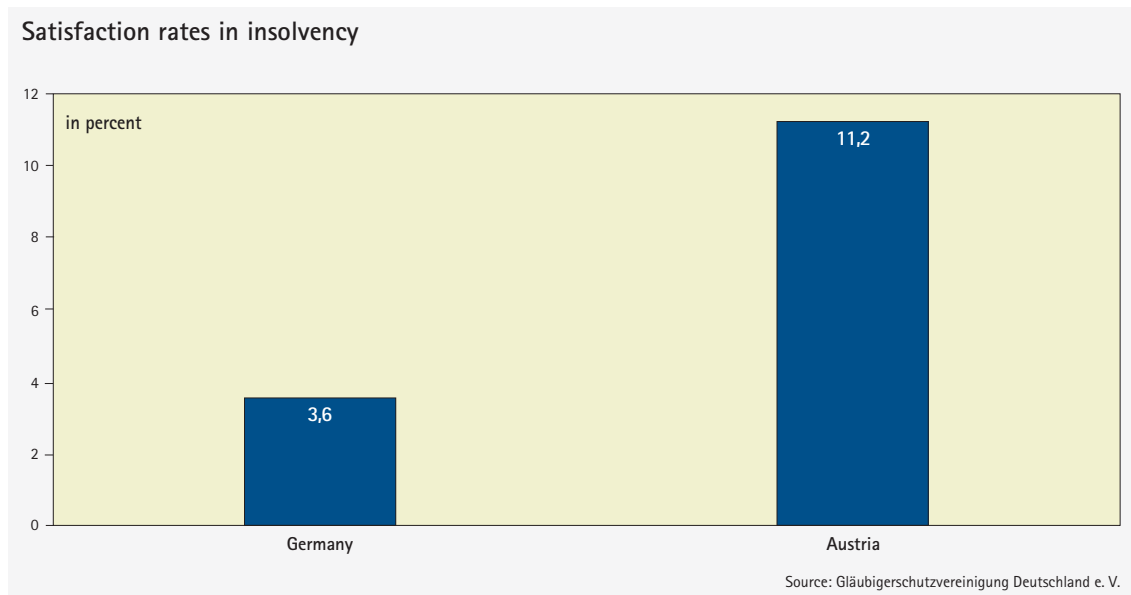
## What needs to be done

The aim of regional economic policy must be to create self-sustaining growth in the regions. Success factors are also local entrepreneurial involvement and legally sound framework conditions.

### Economic policy must be based on the following guidelines:

- **Using EU funds in eligible regions for growth policy:** The EU Structural Funds aim to provide an additional impetus for reducing disparities. Consequently, EU funding should be specifically used in eligible regions for creating self-sustaining growth.
- **Regional disparities are not cemented:** Regions must make efficient use of funding. This is more successful the better the participants cooperate with one another, line up in a strategic manner and search for ways of strengthening the potential of their workforce.
- **Strengthening regional strengths:** Regional growth policy presupposes a strength-weakness analysis of the region. Funding should mainly be used for building on existing strengths. The development of clusters should be aligned to the requirements of companies, not political preferences. Cluster policy must not limit the diversity of economic structures, nor must it be allowed to preserve structures.
- **Accelerating planning processes:** Legal specifications which make the length of the process unpredictable have to be reviewed. From the beginning the population should participate in the planning process through the use of new media. The aim is to make the planning process transparent by means of prepared information for citizens, as well as holding discussions with those who are seriously interested and in this way developing possibilities for optimising such plans. Dialogue should promote the acceptance of plans, but must not replace the current processes stipulated by the Constitution.
- **Transforming the redistribution of income between central government, the states and local authorities in order to promote growth:** The redistribution of income between central government, the states and local authorities should provide more incentives to promote growth in the federal states and therefore maintain the fiscal bases of assessment. Supplementary federal grants and funds from Solidarity Pact II in particular should be used to create a balance based on solidarity between the federal states.
- **Advancing the location through participation:** Citizens and companies become involved in urban redevelopment and location design for their own interests. As representatives of regional trade and industry, the Chambers of Industry and Commerce also promote co-operative urban development processes beyond their own immediate work, e.g. in Business Improvement Districts (BIDs). They facilitate adjustment to structural change and secure competitive investment locations. Local authorities should become involved in this willingness to participate.
- **Pushing forward with the nationwide expansion of broadband:** Wherever expansion is not economically feasible, joint efforts between the public sector and private economy are required. The broadband strategy of the Federal Government is fundamentally correct. It must support local authorities in their efforts.

### The status quo



- **The honest businessman is being forgotten:** The economic and financial crisis is putting people's confidence to the test. There is a lively public discussion about more regulation. The concept of the "honest businessman" is being used more and more, but in many cases this is associated with completely different expectations and assessments.
- **Freedom of contract being increasingly breached:** Contractual freedom is increasingly being restricted through consumer protection regulations and those intended to protect against discrimination – particularly in online trading. The same applies to business transactions between companies: here there is increasing use of regulations pursuant to consumer protection.
- **The freedom to trade is being increasingly restricted:** The freedom to trade is constantly under threat. Frequently restrictions are demanded for the introduction or expansion of new professional entry and professional practice rules, e.g. certification, registration and information obligations, in the interests of the individual or a particular industry – even if the common good is often stated as being the main reason.
- **Creditors often receive nothing in the case of insolvency:** The rate for creditors in Germany is clearly at the lower end in international comparisons (see graph). One reason for this is that insolvency proceedings do not offer companies sufficient prospects of being saved and insolvency applications are therefore often submitted very late. Similarly, there is a lack of sufficient quality controls and incentives for insolvency administrators to restructure companies.
- **A "better legislative process" is all too often just an empty shell:** In many areas of the law there are significant implementation deficits. These become obvious in individual cases that attract public attention – e.g. data protection cases. The result is frequently a call for new laws with new, additional burdens for companies. Often there is no appropriate appraisal of the consequences. New laws also often do not bring any legal certainty.

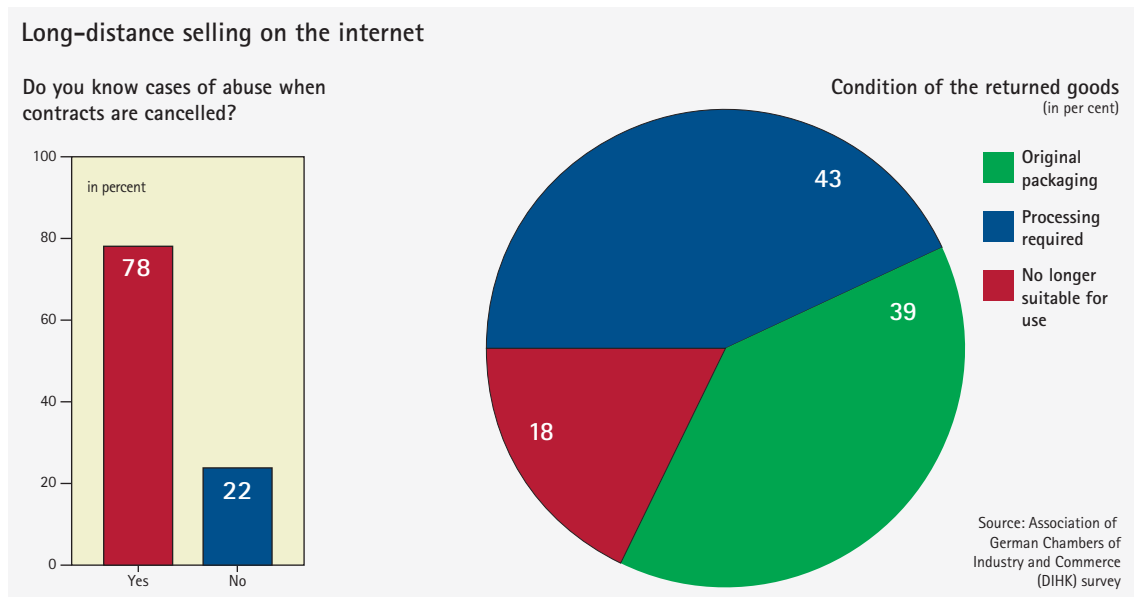
## What needs to be done

The basic principles of our legal system, such as freedom of contract, freedom of trade and property, must be guaranteed.

### Economic policy must be based on the following guidelines:

- **Putting life back into the "honest businessman":** Compliance with rules in general, codes of conduct and corporate governance must earn more respect again. However, codes and corporate governance must not lead to overregulation and restrictions on the ability of companies to define their own statutes. Alternative dispute resolution instruments (ADR), e.g. commercial mediation or arbitration, should be reinforced. A return to the honest businessman leads to more responsibility and can prevent excessive regulation
- **Placing the focus back on contractual freedom:** Before any restriction is placed on contractual freedom, a review must be carried out as to whether this restriction has a legitimate purpose and whether it is proportionate. Contractual freedom must become more important again, particularly in consumer policy. Restrictions in commercial transactions should remain limited to a few exceptions. Existing restrictions (e.g. checks of General Terms and Conditions) and obligations to provide information should be reviewed.
- **Increasing the freedom to do business:** Regulation must not act as a barrier to market entry. Current opportunities for simplifying procedures – in particular by "one-stop-shops" – should be used consistently. Any proposed legislation should be reviewed from the point of view of freedom to do business, suitability, necessity and adequateness.
- **Strengthening creditors' rights in insolvency:** In order to increase restructuring opportunities and the satisfaction rates of creditors, the rights of the creditors in insolvency and the possibility of self-administration must be strengthened. The selection of insolvency administrators should also be in line with their business administration qualification and the remuneration system should provide incentives for restructuring.
- **More rights – fewer, but better laws:** The quality of regulatory impact assessment in legislative processes should be improved. The resulting costs and other burdens should be concretised. If there are enforcement deficits, enforcement has to be strengthened and new regulations should be avoided. New laws should always result in improved legal and planning reliability. EU directives should only be implemented on a one-to-one basis in German law.

### The status quo



- Digital world poses new questions:** The technical and social developments resulting from the internet and digital media are leading to issues which cannot be sufficiently solved with current laws. Above all copyright and contract law in the case of contracts concluded on the internet (see graph) are particularly affected by new business models.
- Data protection is too one-sided:** The amendments in data protection law lead to additional costs for companies. There is significant legal uncertainty of how they should handle the data of their customers or employees. Consent as one of the legal bases for data processing is being increasingly restricted by legislation. Facilities for in-house data-processing, such as group privileges, are insufficiently regulated.
- Intellectual property at risk:** The defence of intellectual property is becoming more difficult in a global business world. All types of products and services are affected. The capacities of, for example, the police, customs authorities and local Trade Supervisory Offices to effectively fight the infringement of intellectual property, and in particular product and trademark piracy, are inadequate.
- Accounting must not be an end in itself:** Companies who have to perform their accounting according to international principles (IFRS) or do so voluntarily for market reasons, need sustainable representation of their interests in the International Accounting Standards Board (IASB). This private committee develops the IFRS, which is then implemented by the EU Commission in EU law. In contrast, SMEs are as a rule aligned to accounting in accordance with the German Commercial Code (HGB) and want to continue doing so in the future.

## What needs to be done

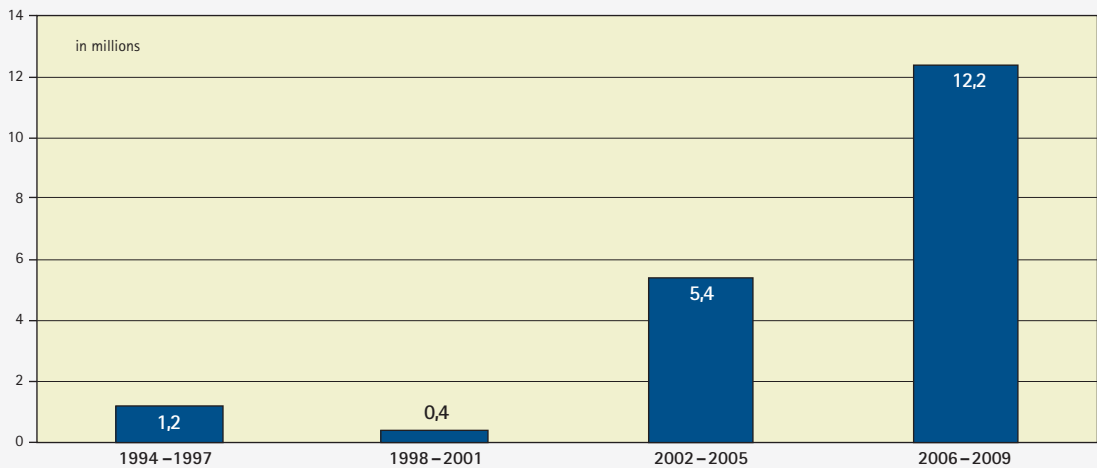
Companies require a reliable legal framework which provides the necessary freedoms and offers legal security at the same time.

### Economic policy must be based on the following guidelines:

- **Creating legal certainty in the digital world:** Media, telecommunications and internet law should be designed in such a way that companies can act with legal certainty. Changes to copyright law should be carried out with a sense of proportion and the burdens imposed on companies as a result of additional copyright levies should be kept to a minimum. Legal reforms must take into account the interests, needs and rights of all parties involved (users, content creators, content providers) in an appropriate manner.
- **Modernising data protection:** Globalised data-processing requires first and foremost the personal responsibility of the individual for the protection of his or her data. Furthermore, there must be greater avoidance of data and forceful use of data economy, e.g. through technical measures. The regulations on data protection must be formulated more clearly in order to give companies more legal certainty.
- **Protecting intellectual property more effectively:** The effective prosecution of violations of intellectual property rights, as well as trademark and product piracy, must be ensured by improved collaboration between the police, customs authorities and local Trade Supervisory Offices. Moreover, it is important that politicians and industry sensitise consumers and entrepreneurs to the harm caused by plagiarism.
- **Strengthening influence in the IASB and streamlining accounting:** In the setting of standards the interests of all IFRS companies must be incorporated into the German position. The Federal Government should also work at the European level towards ensuring that the EU Commission is involved more strongly in the creation of standards on the international committees in order to look after the interests of European companies. The EU accounting directives, and therefore also the German Commercial Code (HGB), should be deregulated. Specific requirements according to the size of the company must be taken into account. SMEs must not be placed under an obligation to carry out accounting according to IFRS for SMEs. Explanations on sustainability in the management report only inflate the annual financial statements unnecessarily and increase the costs of preparation and auditing. Companies should themselves decide about the "whether" and "how" of additional information.

### The status quo

Cartel law proceedings: average fine per company



Source: Federal Competition Authority

- **Cartel law proceedings are not transparent:** Over the past few years fines have increased enormously. Despite the guidelines on setting of fines issued by the Federal Competition Authority (BKartA), the procedures are often not transparent. The result of unpredictable processes is enormous pressure to conclude settlement agreements. Even if the companies concerned are aware that they are responsible for their infringement of the law, there must nevertheless be a procedure in place which satisfies the demands of a constitutional state and a fair trial.
- **Unbundling plans unsettling companies:** The Federal Government has announced the introduction of the unbundling of companies which are strong on the market in the Act against Restrictions on Competition, (GWB) even if there is no abuse of market power. Sufficient justification for the necessity of unbundling and an appraisal of the consequences for competitiveness has so far not been given.
- **Competition in public procurement law too restricted:** As part of economic stimulus package II the value limits for the tendering requirement for open procurement processes of the federation and federal states were raised significantly. This hinders competition and higher prices cannot be excluded. The measures have been extended beyond 2010 in many federal states.
- **Remunicipalisation threatens liberalisation of services of public interest:** Above all in the fields of energy supply, telecommunications and waste management, successful liberalisation steps have been carried out over the past few years. Not least the financial market crisis has, however, invoked a new debate about the role of the state and industry. Currently a number of local authorities are reconsidering the privatisation of services of public interest and planning instead their reintegration into state structures.

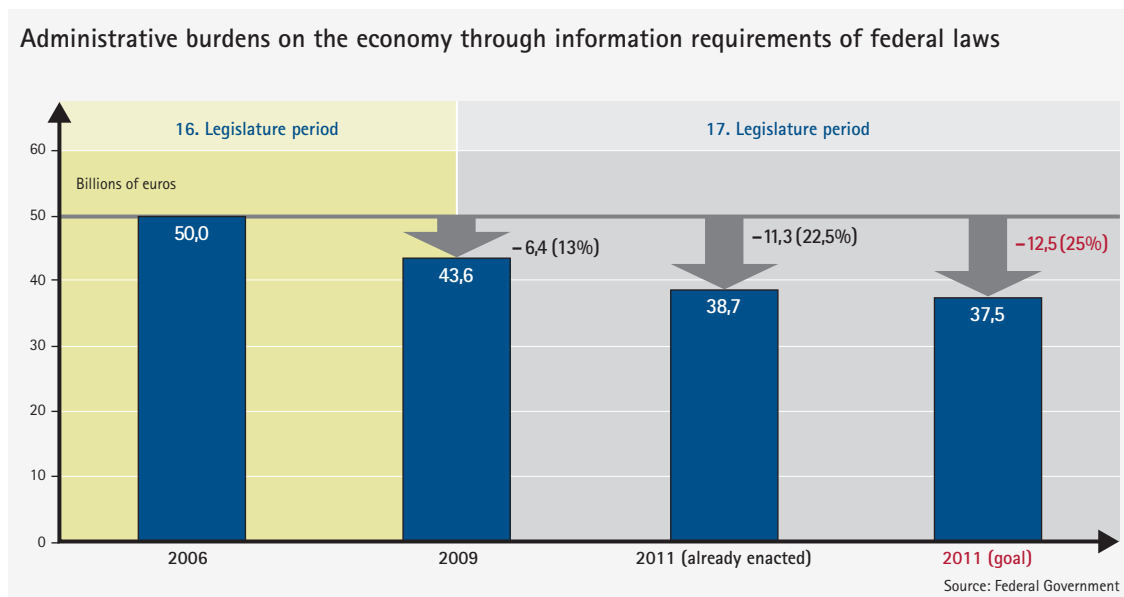
## What needs to be done

The guideline of competition policy must be to strengthen competition and prevent competition distortions. Fair competition conditions make it possible for companies to be successful on the market through investments in and innovations of products and processes.

### Economic policy must be based on the following guidelines:

- **Making cartel law proceedings transparent:** Although fines must have a deterrent effect, companies must also understand and be able to verify by judicial review how they are imposed. The principle of proportionality must remain in place. The wide scope for discretion, which is justified, requires on the other hand a transparent process which secures the right of defence. This process is not currently guaranteed.
- **No unbundling without market abuse:** Market power resulting from a company's own efforts is not objectionable. Only abuse of market power should be punished. The introduction of an unbundling tool without abuse on the other hand reduces incentives for companies to carry out investments and innovation. Without appropriate compensation there are also constitutional concerns with respect to unbundling.
- **Re-establishing transparency and competition in public procurement law:** The best offer is only obtained by the public principal if it is able to select from several of them. The value limits raised by economic stimulus package II prevent competition and transparency and therefore the economical use of taxes. A unilateral decision in favour of local companies results in the medium term to higher prices and prevents innovative offers. Furthermore, competition and transparency are good means for preventing corruption. Moreover, legal protection below the EU thresholds is important for small and medium-sized enterprises.
- **Services of public interest should be further liberalised:** The state must only ensure that these services of public interest are provided. The services themselves can often also be offered by private parties. Here it is important to ensure maximum competition. At the same time the providers of these services must be in a position to provide them at all times. If public and private companies work in the same market, distortions of competition, e.g. as a result of unequal treatment under fiscal law, must be rectified.

### The status quo



- Priority must be given to reducing administrative burdens for information obligations:** In 2006 9,200 documentation obligations and obligations to provide proof from federal laws encumbered the economy to the tune of € 50 billion per year. By 2009 it was possible to reduce the annual burden resulting from bureaucracy by € 6.4 billion – also on the basis of numerous proposals of the Chamber of Industry and Commerce Organisation. With further measures which have already been adopted, the aim is to save a total of € 11 billion per year by 2011 – this would be a cut of 22%. The aim of the Federal Government is to reduce the total burden on companies by a net amount of 25% by 2011
- Bureaucracy places a particular burden on small companies:** The smaller the company, the higher the bureaucracy costs per employee. The average cost of bureaucracy per employee is approximately € 4,300 per year in the case of companies with up to 9 employees. For companies with 10 to 19 employees the costs are around € 2,700 per employee and year.
- Potential relief available for companies and administration:** Companies have approximately 130 contacts with administrative bodies per year, for example information pertaining to residential registrations or business registrations or re-registrations. Increased use of e-government would save costs for companies and administrative bodies. But a lack of realistic implementation planning for e-government processes (ELENA, e-balance sheet), a lack of standardisation (e-procurement) and insufficient communication with respect to existing offers mean that the potentials of these applications go unused.
- No common approach to e-government:** The new Art. 91 c of the Basic Law is a binding mandate for the Federation and federal states to now actually implement common IT infrastructures and a joint strategy. Non-standardised federal state solutions cause costs for companies, as the economy does not stop at the borders of the federal states. Here the IT Planning Council has a binding mandate which will be decisive for the future of Germany as a business location.

## What needs to be done

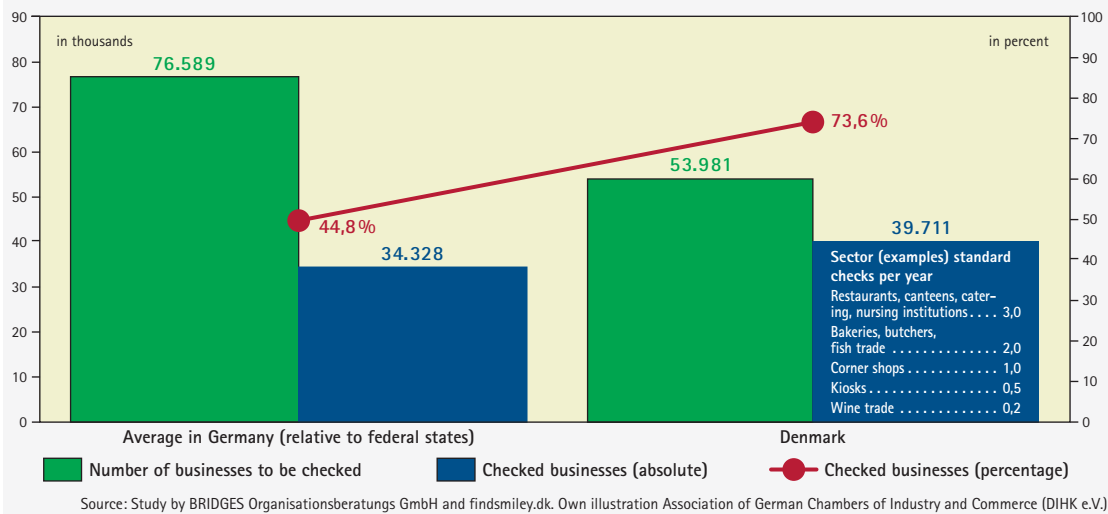
The Federal Government has taken steps in the right direction for the reduction in bureaucracy. This path must be vigorously pursued. The potentials of e-government should be used consistently. This will provide relief for the economy, facilitating the establishment of companies and leading to more entrepreneurial room to manoeuvre – for investments and growth.

### Economic policy must be based on the following guidelines:

- **Setting and achieving ambitious goals:** The Federal Government must achieve its 25% reduction target by 2011 and aim for a new ambitious bureaucracy reduction target for the entire compliance effort in all areas of regulation, as this places enormous burdens on companies. The Chamber of Industry and Commerce Organisation has already submitted numerous specific proposals for reducing information requirements and streamlining substantive law.
- **Providing appreciable relief for companies from unnecessary bureaucracy:** This presupposes that for all planned legislation the amount of bureaucracy involved for companies is taken into account at the conception phase. Laws initiated by the Bundestag and Bundesrat, some of which have so far not been reviewed, also cause bureaucracy and have to be included. The close examination of the burdens caused by information obligations should be expanded to include the entire effort involved in compliance for companies within the meaning of a comprehensive regulatory impact assessment – in all regulatory areas. The mandate of the National Regulatory Control Council must be extended accordingly. The burdens caused by red tape resulting from EU legislation must be examined at an early stage at the national level.
- **Improving the availability of good online services:** The goal of the electronic provision of administrative services without the discontinuity of media must be implemented at all federal levels. Only in this way can the online availability of e-government offerings be increased overall. Furthermore, companies must be informed of existing offers, which must be made readily available to them (e.g. via business portals). It is important that before any digitisation of processes these are examined with respect to their simplification potentials and ease of handling. With its own e-government program the Chamber of Industry and Commerce Organisation makes its own contribution to continuous further development.
- **Cooperation of all participants required:** Added-value in e-government can only come about if the parties involved cooperate at an early stage. To this purpose the administrative bodies at the Federation, federal state and local authority level must work together more closely. Here the IT Planning Council has an important role to play in such coordination. Its job must be to involve industry from the beginning. The Chambers of Industry and Commerce are available here as mediators between administrative bodies and industry.

### The status quo

Food checks in 2009: Comparison between Germany and Denmark



- National state consumer information:** The Consumer Protection Department has evaluated the Consumer Information Act and ascertained that it is not being used by consumers, but by environmental and consumer protection organisations. Their enquiries often cause considerable costs among the authorities. Nevertheless, the law should be tightened. Furthermore, with the "truth and clarity" initiative, consideration is being given to the creation of an Internet platform for product queries from consumers.
- More transparency for food and feed checks:** The Consumer Protection Conference decided that it wanted to make official food controls transparent through standardised assessment criteria for consumers. The so-called "Danish smiley model" serves as a discussion basis. According to this, a check is carried out on a single-page form with a smiley rating. The report is hung up in the company and published on the Internet. The companies are involved and have a right to a follow-up check.
- Financial advisers under scrutiny:** Although the regulation of investment advisers is planned at the EU level, the Federal Government wants to expand the permit requirements for investment advisers and introduce compulsory registration. In addition to the introduction of proof of expertise and professional third-party liability insurance, the documentation of the consultations should be monitored more closely in the future.
- Share and bond brokers subject to bureaucratic monitoring:** Companies which provide advice on shares and bonds are subject to securities regulation, although monitoring under trade law would also be permissible according to the EU financial market directive. The brokers therefore have to pay substantial fees and pay into the compensation scheme of the securities trading companies. Only sizeable companies are able to afford this.

## What needs to be done

Consumer protection must be comprehensible, transparent and unbureaucratic. This applies not only to the corresponding laws, but also to their enforcement by authorities. The requirements must not be excessive. Too much consumer protection restricts competition and places a disproportionate burden on SMEs – and ultimately on consumers themselves.

### Economic policy must be based on the following guidelines:

- **There are enough legal obligations for consumer information:** Any new Consumer Information Act should not create a direct right of information from companies. This is not included in any other European legal system, nor in American legislation. Additional costs would only be caused if the application of all products and services were extended. Consumer queries are already answered today directly by the companies in shops, via hotlines or on the Internet. An additional Internet portal – with restricted opportunities for companies to express their official opinions – should be rejected.
- **Making food controls effective:** In order to prevent the further tightening of statutory laws, the aim must be to carry out checks effectively and in a standardised manner nationally. Before the publication of the results of official checks of businesses, a fair process also requires that those concerned be heard.
- **Restoring confidence in financial services:** The confidence of investors which has been shaken by the financial market crisis must be restored. Here, the divergence of national and future European regulations should be avoided. Otherwise the consequence would be distortions of competition. There is also a danger that companies will adapt to national legislation, which a short time later changes as a result of European stipulations.
- **Opening up further choices for consumers with respect to investment advice:** In the regulation of share and bond brokers, simple jurisdictional rules and cost-efficient self-administration solutions of industry should be found. This would also make it possible for smaller broker companies to provide more targeted advice in line with customer interests.

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