



UEL

UNION DES ENTREPRISES LUXEMBOURGEOISES



# WHAT DO BUSINESSES WANT?

CONTRIBUTION TO THE ELECTORAL DEBATE



2018



# WHAT CAN UEL BRING TO THE ELECTORAL DEBATE?

The Union des Entreprises Luxembourgeoises (Luxembourg Business Union – UEL) represents the private Luxembourg companies. Its mission is to work towards sustainable economic growth which generates jobs and protects social security systems and social cohesion.

It is too often the case that political dialogue overlooks the role of private business as a cornerstone of our society as well as our primary source of wealth. Business forms a hub for ideas and innovation, funds the public sector and social security systems, generates jobs and provides training and guidance to young people. It is a meeting point where investors, employees, clients and suppliers create value and realise their plans.

UEL has therefore decided to take an active role in the socio-political debate, basing its actions on the values of the social market economy, sustainable development and business ethics. Its practical proposals and initiatives aim to increase Luxembourg's appeal, while promoting a legislative and regulatory environment which benefits existing companies. They form part of a process towards qualitative growth, which is described in full in the UEL contribution to the European Semester procedure, and debated on the [www.uel2018.lu](http://www.uel2018.lu) website.

UEL would like to remind the political arena that although it is indisputable that the economy must serve society, in practice businesses serve as the crucial juncture between private and public interest. In this context, UEL is mindful that it has a duty to list its priorities, which include:

- Fight against unemployment and development of additional employment opportunities
- Education, training, research and development
- Sustainable State funding and an efficient public sector
- Maintaining social security and intergenerational justice
- Social dialogue, State governance and reducing bureaucracy
- Sustainable development, social cohesion and promoting well-being, including integration, health and safety at work, transport, housing and the environment.

What businesses want, they want it in the best interest of the country and all of its constituent parts.

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A fundamental component of social cohesion

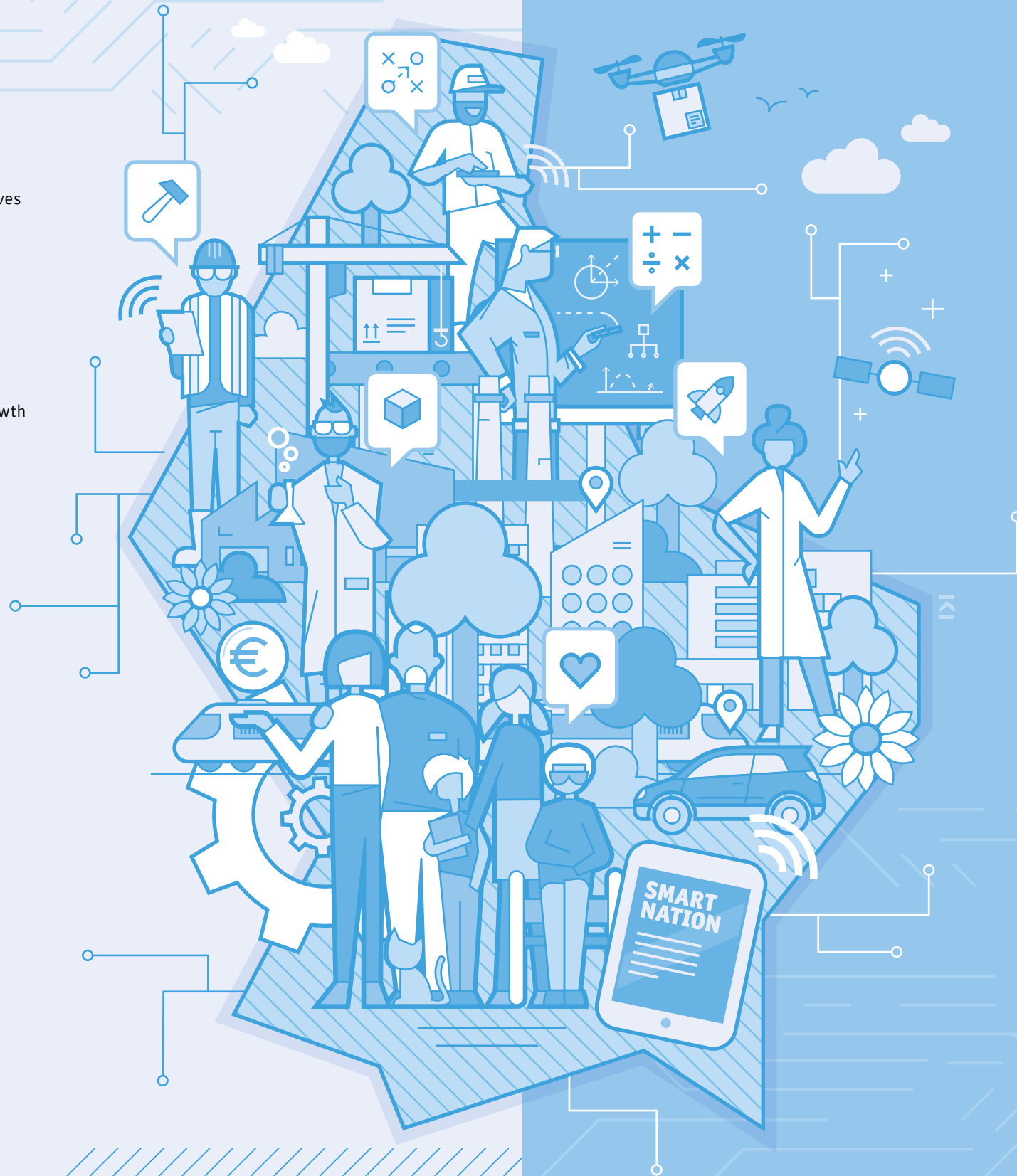
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# DIGITALISATION

A springboard for all initiatives

The past few years have seen digitalisation grow at an increasing rate to become a must-have at all levels. This trend is now established and has already produced visible effects worldwide.

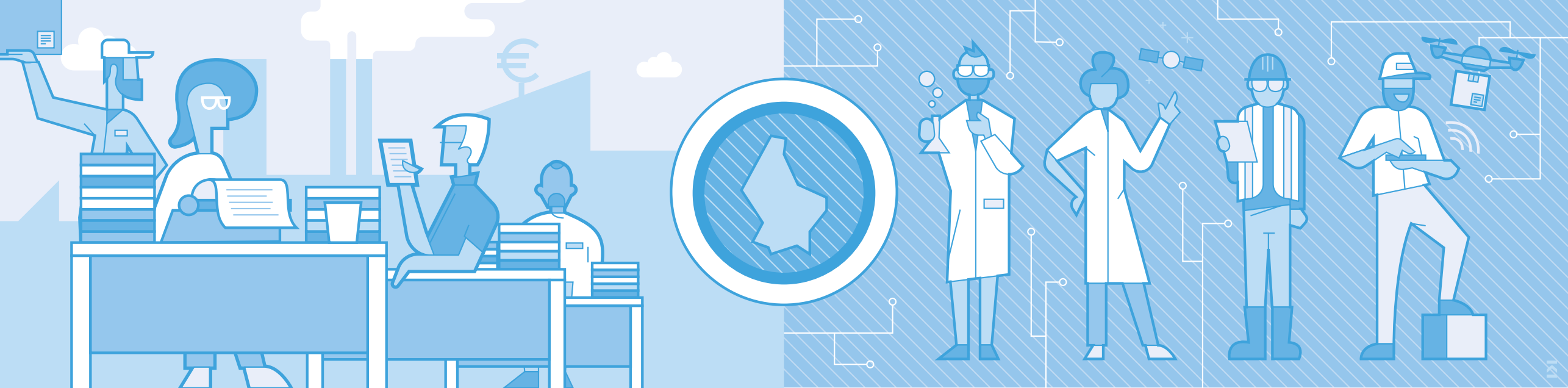
Digitalisation is a key challenge both for society as a whole, and for businesses, which have had to adapt their strategies, managerial structure and the way in which they work collaboratively.

Digital tools are transforming our economic landscape through profound changes to consumer standards and production processes for goods and services, as well as changes to the labour market.

It also constitutes a vast source of opportunity, innovation and creativity.

## OUR PROPOSALS:

- Position digitalisation at the heart of Luxembourg's growth strategy
- Ensure that the State is the driver of the digital transition by:
  - Digitising State departments and their processes
  - Extending e-Government
  - Modernising justice services
  - Continuing to develop the country's digital infrastructure
- Ensure that businesses make digitalisation a priority, given its key role in driving productivity and efficiency while also opening up new business opportunities
- Raise awareness and provide support to SMEs with the digital transition
- Build on digital tools, the sharing economy and the circular economy to develop new business models, which are both more productive and sustainable, while maintaining a level playing field between different economic sectors
- Prepare and adapt the world of work to digitalisation, primarily through training
- Adapt the training system to the new digitalised landscape, and promote digital knowledge
- Ensure that school pupils and students are made familiar with digitalisation from a young age



# ECONOMIC DIVERSIFICATION

Essential for qualitative growth

Economic diversification towards additional activities in high value-added sectors remains a key challenge for Luxembourg's economic development and viability. Given its technological development and high labour costs, Luxembourg's comparative advantage lies in high value-added sectors and those requiring a high level of qualification.

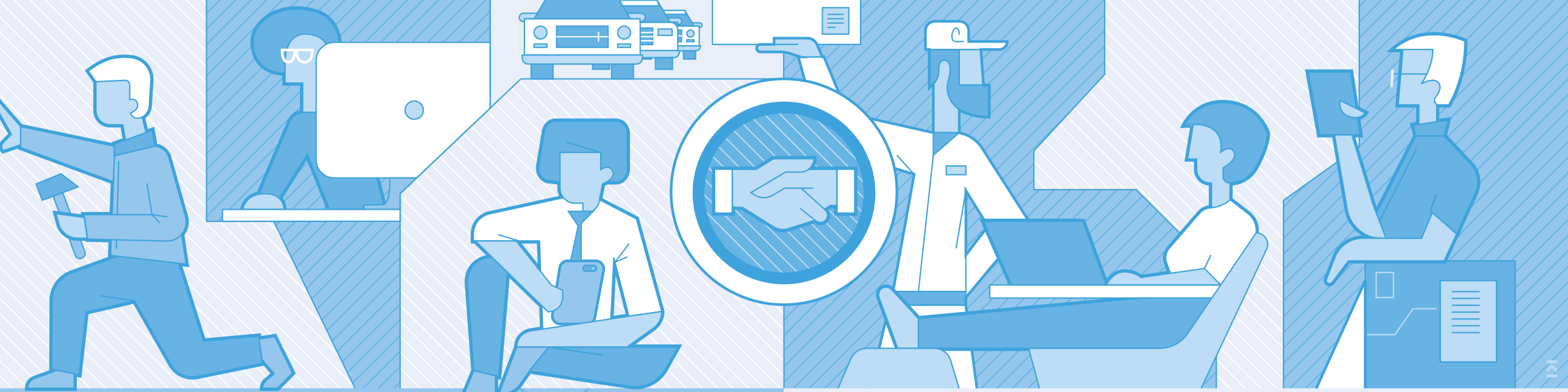
The Government's successful diversification policy, which includes ICT, Space Mining and logistics initiatives, is to be applauded. Luxembourg is, however, facing stiff competition and must constantly adapt to a world in

permanent flux. Moreover, diversification is naturally far more difficult to achieve in a smaller country than in one of the larger nations with a higher population.

It is therefore crucial to establish an environment in which the creation and development of economic activity can flourish, both in new sectors and more traditional sectors. This creation and development must be maintained in order for diversification to happen.

## OUR PROPOSALS:

- Establish Luxembourg's role as a genuine "Start-up Nation", using as a basis best practice from other countries
- Support the creation and development of business by:
  - Promoting structures dedicated to new businesses
  - Actively including entrepreneurship in training programmes
  - Establishing grants for entrepreneurs ("Chèques Entrepreneurs")
  - Granting tax incentives for investment in new business
  - Reviewing the Luxembourg freelancer status
- Ensure a warm welcome, support and follow-up to foreign investors
- Provide high-quality infrastructure (connectivity, adoption of sectoral plans)
- Assist businesses with the energy and environmental transition
- Provide a suitable regulatory framework and boost efforts to reduce bureaucracy
- Strengthen the innovation and adaptation abilities of existing businesses



# EMPLOYMENT

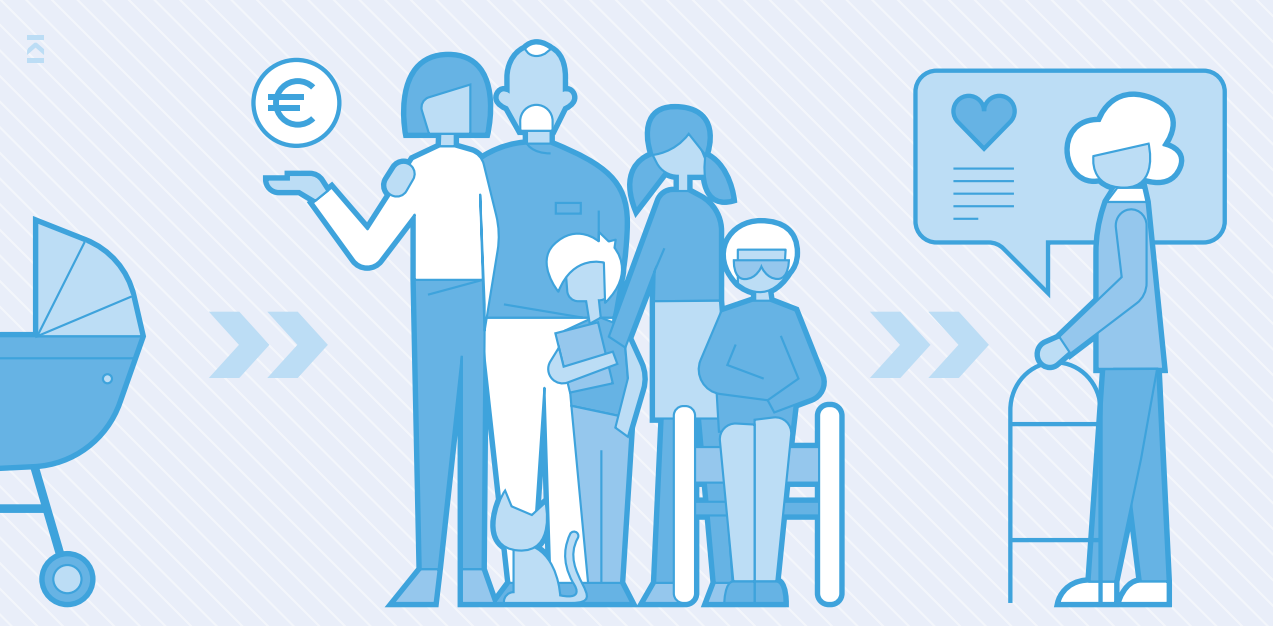
At the core of business

The world of work is undergoing a rapid and total transformation. Both companies and employees must address a number of challenges, including digitalisation, the ageing population, new working structures and a shortage of labour in certain professions. We must establish an employment environment and legal framework (particularly in the areas of taxation and social security) which enable businesses to be run efficiently and which allow for the necessary adaptations to be made in response to major changes under the best possible conditions. Indeed, they may even allow us to anticipate such changes.

Although our current employment statistics are positive, given good (albeit somewhat precarious) performance, there are still too many job vacancies, not only in ICT but also other sectors including construction, banking and hospitality. It is therefore vital to redress the balance between employment supply and demand, with a focus on pursuing training programmes and supporting career changes.

## OUR PROPOSALS:

- Support companies which adapt their productivity and appeal to international competition, enabling them to better balance the needs of the company and the employee, by promoting:
  - Decision-making at company level
  - Working structures which are more in tune with the reality on the ground
  - Consideration of new ways of working
  - A range of training (hard and soft skills) which meets companies' needs
  - Better strategies for attracting talent
  - Better worker mobility internally and on the labour market
  - Movement of workers and telework
- Promote careers and ensure that the labour market is accessible to all, particularly the most vulnerable, by:
  - Performing a comprehensive review of income replacement benefits to ensure that there is an incentive to work
  - Performing an in-depth assessment of employment assistance measures to improve their efficiency
  - Removing automated salary adjustments for employees which tend to exclude the least employable employees or jobseekers
  - Ensuring that salaries match job value in order to promote skills, experience and performance
  - Continue efforts to improve ADEM's performance for finding employment for jobseekers in the mainstream labour market.



# SOCIAL SECURITY

A fundamental component of social cohesion

Health, well-being in the workplace, social security and intergenerational solidarity are all areas which increase Luxembourg's economic and social appeal and form the basis of a harmonious society.

forecasts of major demographic growth, whereas in this era of digitalisation and technological transformation, the future economy should be based increasingly on qualitative rather than quantitative growth.

The social security system provides benefits such as healthcare, old-age and disability insurance and family benefits, as well as combating social exclusion.

The welfare model must be reformed if we are to achieve sustainable development, which is dependent not only on the current population but also subsequent generations.

Luxembourg's social security system is extremely generous, but comes at a cost and is reliant on strong economic growth. Moreover, social security funding is currently based on costed

## OUR PROPOSALS:

### Health insurance

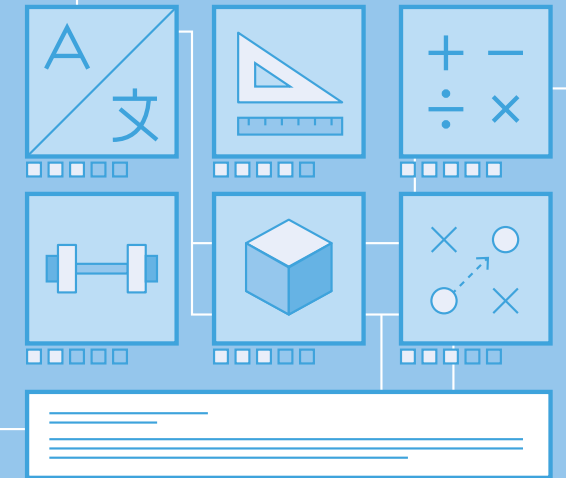
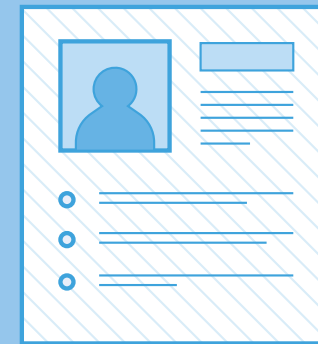
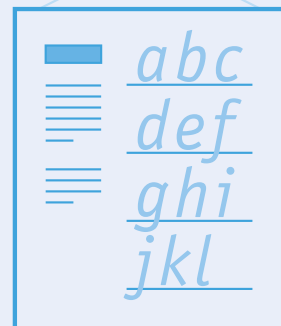
- Reform the health insurance system to ensure that it is managed and funded with greater consistency and transparency:
  - Solely companies would be responsible for funding absences (cash benefits)
  - Companies would no longer manage or fund healthcare (benefits in kind). Employees would fund healthcare costs, while the financing balance would be offset by an increase in gross salaries
- Ensure that social security contributions remain the same
- Guarantee long-term and responsible management of health-insurance reserves
- Reduce unjustified absenteeism by continuing the process of administrative and medical checks
- Review governance and provide efficient leadership tools
- Set up a shared treatment record in order to create a genuine healthcare database, which is crucial for medical research and for setting up a proper eHealth Agency
- Improve the efficiency of the system by:
  - Liberalising the foreign transfer system
  - Reviewing the healthcare nomenclature and implementing a quick update procedure to make the system fairer and more transparent
  - Increasing the use of outpatient surgery
  - Boosting service specialisation
  - Optimising the use of current equipment before making any further investment

### Pension insurance

- Calculate benefits on a contribution basis
- Unlink pension adjustments from general salary trends
- Identify a sustainable turnover rate which does not harm intergenerational solidarity
- Link the official retirement age to changes in life expectancy, and reduce benefits accordingly
- Lower the cap for contributory earnings, and reduce the maximum pension amount
- Remove the child upbringing allowance for parents
- Promote pillars 2 and 3, for which take-up is low in Luxembourg in comparison with other countries
- Align the public-sector scheme with the general scheme, initially by imposing uniform contribution and benefit limitations







# EDUCATION AND TRAINING

## Talent and skills in high demand

The academic system aims to prepare young people for the labour market and to provide them with a more positive view of potential careers, as well as preventing them from finding themselves in a situation in which they are excluded from the labour market.

Indeed, education is a key component of inclusion and forms the basis for a country's economic, social and cultural development. Luxembourg's extremely diverse student population requires a high-performing education system in order to meet the needs of the knowledge society (in the 2016/17 academic year, 64% of students in mainstream education spoke a first language, which was not Luxembourgish). Moreover, OECD reports invariably confirm that academic success or failure are largely determined by the student's socioeconomic background.

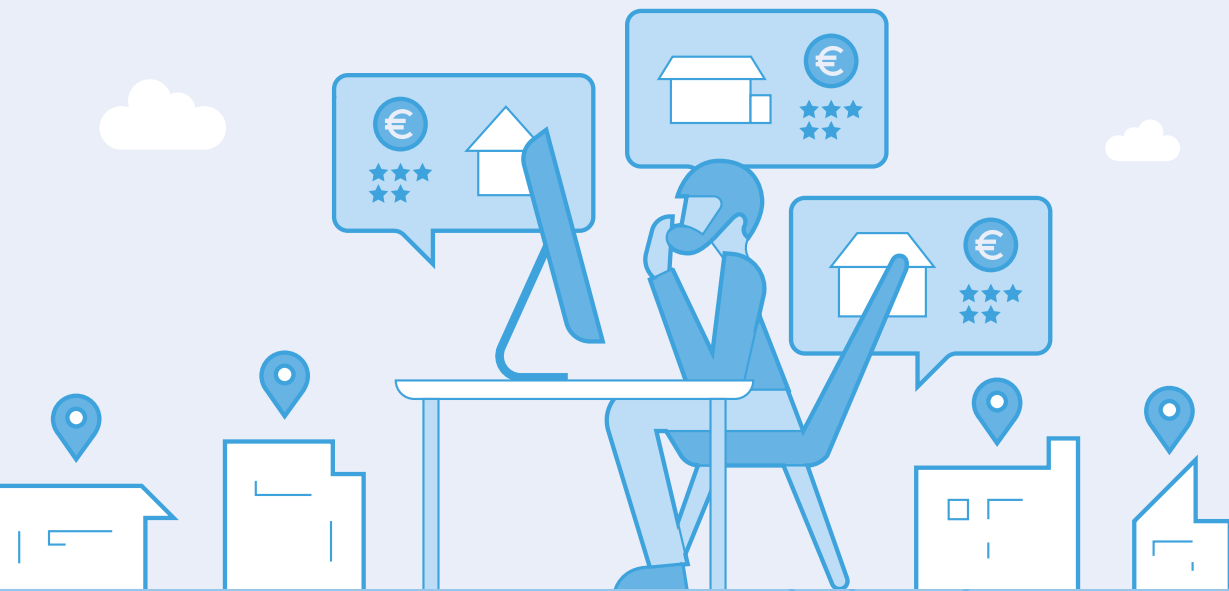
Over past years, measures have been put in place which include boosting multilingualism, restructuring care for students with specific needs and the introduction of an IT section in secondary school. These measures must be pursued. This is also true of lifelong learning, which can help to improve employability and combat structural unemployment.

The goal is to prepare the younger generations for a future in an increasingly complex world, but one which is also full of opportunities. Schools and companies must therefore forge links and work together to achieve this ambition, and performance objectives must be set.

## OUR PROPOSALS:

- Ensure that a dual literacy system is available throughout the mainstream education system, and incorporate the learning of a second language at a lower level of proficiency
- Promote positive guidance: identify talent and skills from a young age and promote positive perspectives of careers and trades
- Prevent failure and delays and stem drop-out rates by proactively managing students in difficulty
- Enhance the value of vocational training with a particular emphasis on apprenticeships, particularly the "dual" option
- Reduce the length of the secondary education cycle from 7 to 6 academic years, making it more competitive in relation to systems in neighbouring countries and international schools
- Train pupils, students, teachers and employees on digital tools
- Strengthen social skills, creativity and innovation
- Adapt the role of the teacher, which is no longer simply to transfer knowledge, but to facilitate skills, manage diverse groups, motivate, empower and reward effort
- Implement a system to assess and promote the continuous improvement of skills and quality in the teacher role
- Ensure that links are established between all schools (knowledge) and the world of business and economics (implementation of knowledge), to gain a better understanding of the economy and the expectations of future employers
- Work with businesses to define what training is needed in order to provide ongoing improvement of employee skills and employability
- Establish a genuine lifelong learning policy





# HOUSING

Access to housing: a huge challenge

The cost of property creates an immense challenge for Luxembourg and is a considerable financial burden for both households and businesses.

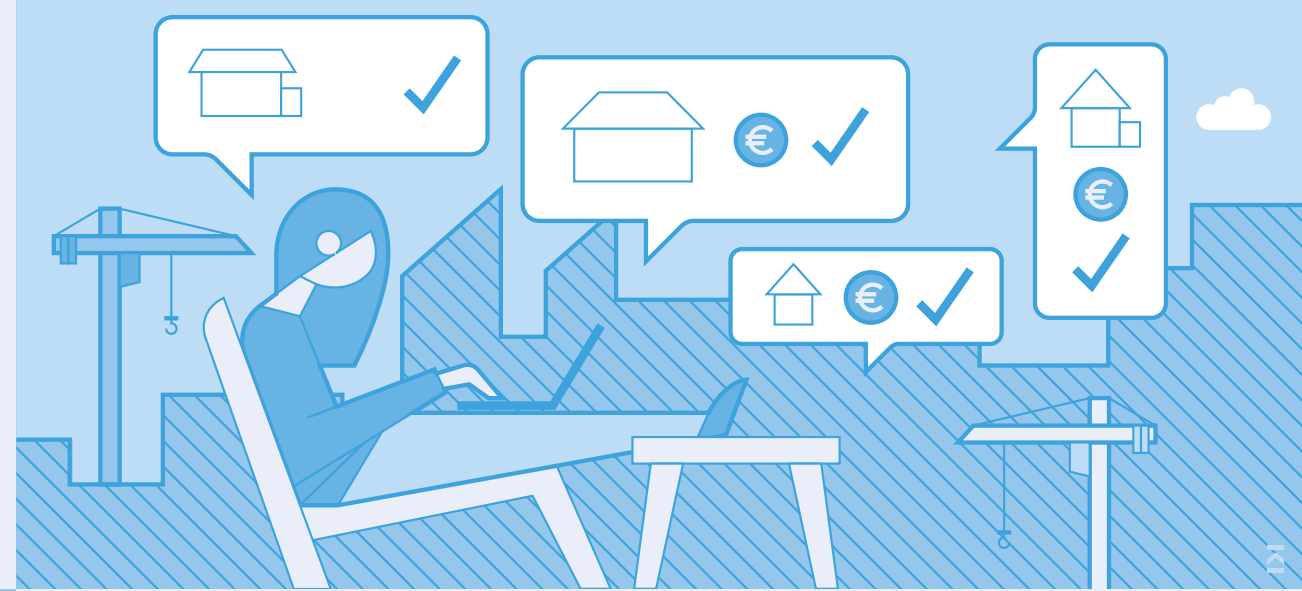
The supply of available housing cannot keep pace with demand, limited by a shortage of land suitable for immediate construction and by cumbersome bureaucratic procedures with excessively long waits for permits. These planning permit delays are the cause of the housing bottleneck rather than the actual construction process.

An increase in wages will not solve the problem of the cost of housing: given that demand for housing outstrips supply, the cost of property will always increase faster than personal income. This will be the case for as long as the number of homes built remains lower than the number needed to meet the demand of a constantly growing population.

It is both vital and urgent that we establish a housing policy focused primarily on supply, in order to redress the balance between supply and demand.

The housing policy goes hand-in-hand with an effective sustainable development policy (a three-pronged approach covering economic, social and demographic development), as well as land use planning and management, with a view to preventing land speculation and any artificial or intended shortage of land.

Therefore, practical and immediate measures must be taken to stem this phenomenon, which has been ongoing for a number of years.



## OUR PROPOSALS:

- Increase available construction land:
  - Implement the sectoral plan for housing
  - Extend conurbation boundaries, in accordance with the principles of sustainable land use planning
  - Establish the “Baulandvertrag” development contract
  - Grant tax breaks for capital gains on property sales
  - Make use of “Baulücken” (available space between buildings and waste land)
- Implement a single State decision-making body for land use planning, to prevent long and contradictory decisions
- Simplify town planning and environmental permit procedures
- Boost the density of residential building, by increasing maximum surface area use ratios in areas for which this is appropriate
- Lead a consistent housing policy with governance based on coordination between the various stakeholders involved in the administrative procedures
- Stimulate the supply of rental housing in order to move away from the “owner only” principle
- Prevent retrospective reassessments of land which has already been deemed suitable for construction



# PUBLIC FINANCES

## Sustainable management of public finances

At a glance, Luxembourg's public finances look healthy. In 2016, the government budget balance posted a surplus of 1.5% of GDP, and according to the most recent data this was set to continue into 2017. Moreover, the general pension scheme reserve currently stands at 34% of GDP according to the most recent IGSS report for 2017 (€17.8 billion in 2016).

Although this situation appears to be favourable, the reality is somewhat different. While central Government hides its chronic deficit behind the surplus cash in the social security system, an increase in expenditure due to the ageing population and unpredictable revenue threaten the long-term viability of the public finances. Moreover, the public finance policy is based on

the current growth model and the assumption that it will continue in the future, which forecasts that the population and workforce will virtually double by 2050.

Within any economy, and particularly in a very open country like Luxembourg, public finances need to be balanced not only in the short term, but also in the long term. We therefore require a budget strategy that is both intelligent and prudent, which attracts investment without jeopardising our public finances.

## OUR PROPOSALS:

- Retain a central administration surplus in economic boom periods
- Reform the public accounts to allow for monitoring as well as a comprehensive and transparent overview of State assets (including property assets and State holdings), and liabilities (including salary and pension obligations on an actuarial basis)
- Measure public finance performance by examining expenditure per capita and trends in relation to other countries
- Take into consideration the precarious nature of public revenue, a situation compounded by often very rigid public expenditure, primarily by increasing payments to the Intergenerational Sovereign Fund
- Limit increases in expenditure linked to the ageing population (see "Social Security")
- Implement an attractive tax and social security system for businesses, which generates the revenue required to fund Luxembourg's social security system (see "Taxation")
- Maintain or even increase investment expenditure to improve infrastructure and stimulate economic activity
- Plan infrastructure needs in advance with an investment strategy which takes into account demographic growth forecasts



# TAXATION

## Enhancing Luxembourg's appeal

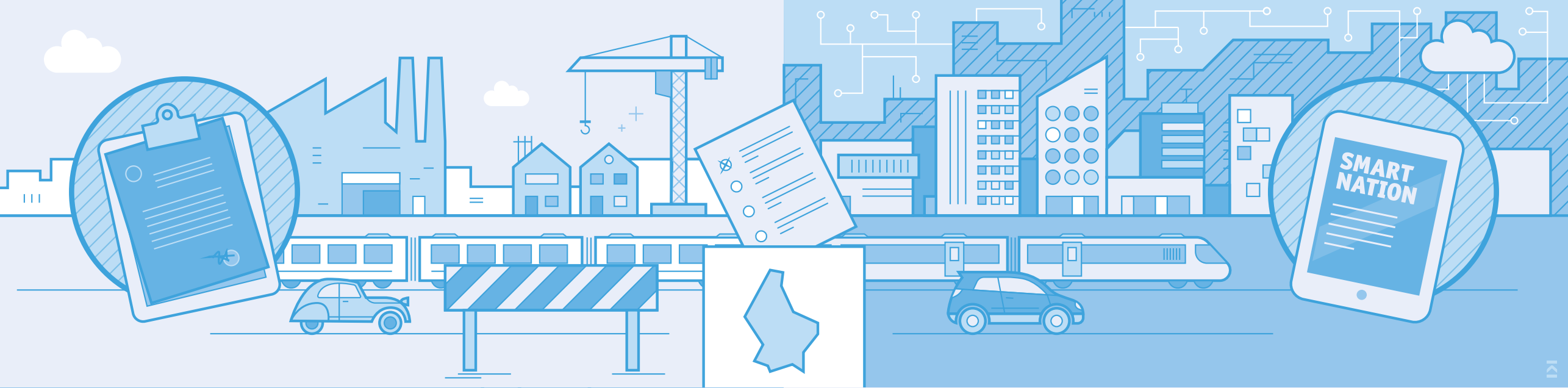
In a shifting international economic environment, tax incentives can increase the sustainability of existing business in Luxembourg, and even attract new business. They can also encourage or discourage Luxembourg-based companies from investing in our country.

In an increasingly costly and cumbersome regulatory environment, taxation is one of the only areas which countries can leverage in order to attract more foreign investors. Indeed, the tax burden on business is one of the main factors influencing managers' decisions to base their companies in one country rather than another, or to relocate their businesses. It also provides guarantees and assurance for investors.

The tax reform adopted at the end of 2016 embodies the need for better social redistribution and a more stringent selection of tax incentives. Measures implemented for SMEs and housing as well as the overall reduction of direct corporate tax must be applauded. Further measures are, however, required in order to address developments both at European and global level, in order to extend and pool the taxable base. We must therefore build on the consolidation of Luxembourg's fiscal appeal.

## OUR PROPOSALS:

- Oversee a consistent and effective tax policy to provide the stable and predictable tax framework needed to reassure businesses and investors
- Merge CIT (corporate income tax), MBT (municipal business tax) and corporate tax to offer legal entities a single unified corporate tax rate, as part of a bid to reduce bureaucracy and increase transparency and fiscal appeal
- Gradually adapt the income tax rate to be in line with the median income tax rate within the EU, and to anticipate a broadening of the taxable base under BEPS
- Gradually remove wealth tax and withholding tax on movable capital
- Facilitate the transfer of businesses
- Set up a notional interest scheme
- Introduce an untaxed investment reserve to boost SME self-funding and encourage SMEs to make regular investments in their production tools
- Establish incentivised tax treatment to encourage businesses to set up a supplementary pension scheme for their employees (Pillar 2)
- Maintain the lowest VAT rate of the EU Member States
- Improve tax incentives for workers by reducing taxation of low wages
- Develop a competitive impatriate scheme in order to attract and retain the profiles and talents which Luxembourg needs



# GOVERNANCE

The State as driver of the economic transition

In order to be efficiently managed, a country's policies must be open and transparent in all government areas, and all measures must be fully coordinated. This is all the more important currently as Luxembourg adapts its growth model to the technological revolution.

A government seeking to position its country as a Smart Nation must ensure that the State itself adopts a leading role in this transition. This must go hand-in-hand with good governance, a balanced regulatory framework and the ability to work in close cooperation with the relevant stakeholders.

## OUR PROPOSALS:

- Emphasise the State's entrepreneurial role in attracting and developing new economic activities in Luxembourg
- Review the role and skills of the Prime Minister by granting him the authority for the political direction of the government beyond ministerial coordination, thereby reinforcing the principle of joint responsibility
- Coordinate data management between authorities and municipalities to improve efficiency and prevent duplication of information in the system
- Improve administrative processes by:
  - Continuing to reduce bureaucracy and rolling out electronic administration in conjunction with the single point of contact policy
  - Implementing a single process to apply for several related permits at once
  - Encouraging all economic stakeholders to contribute to the implementation of an ambitious electronic administration programme



# CORPORATE SOCIAL RESPONSIBILITY

A strategy which contributes to sustainable development

It is essential for companies to address sustainable development challenges. In order to do so, they need to improve their governance, social commitment and environmental protection.

It is vital that the interests of all stakeholders are considered when creating value for the company, whether it be investors, clients or suppliers. SMEs should receive support with the CSR process in accordance with their business sector and size. CSR should be seen as a true driver for performance and growth: enhanced risk management, attraction and retention of talent, improved skills, optimised processes, the development of innovation, increased productivity, access to particular markets, and a more positive image of entrepreneurship.

The new Luxembourg public procurement law

also includes an extra-financial component whereby in the future, companies will have to file information on social, environmental and quality criteria along with their annual financial statements.

CSR covers areas in which there are societal expectations to be met, including the governance component (transparency), the social component (health and safety in the workplace, diversity and HR policy), and also the environmental component (environmentally friendly products, the circular economy). Its systemic approach is conducive to inclusive and sustainable growth.



## OUR PROPOSALS:

- Support measures to raise business awareness of the benefits of CSR engagement
- Encourage support for businesses, particularly SMEs, by setting up a CSR process
- Encourage training, which enables companies to assess their own performances and rank themselves on the CSR scale
- Provide incentives for companies to follow the formal process of gaining their “ESR - Entreprise Socialement Responsable” certification
- Recognise the ESR certification as a positive criterion for participation in public tenders

# UEL AT A GLANCE

The Union des Entreprises Luxembourgeoises (Luxembourg Business Union – UEL) represents the private sector companies with the exception of the primary sector, and brings together the Grand Duchy’s professional chambers and employers’ federations. The companies that it covers provide 80% of Luxembourg’s jobs and generate 85% of its GDP.

Being convinced that business is at the heart of society, UEL works for a sustainable and prosperous economy for Luxembourg, its inhabitants and those who work there. It endeavours to provide an economy that is attractive to both investors and talented individuals.

UEL’s initiatives are based on the values of the social market economy, sustainable development, business ethics, good governance and consultation.

In 2007, UEL founded INDR (the National Institute for Sustainable Development and Corporate Social Responsibility), whose mission is to promote CSR to national companies so that they are able to contribute to sustainable development.



## MEMBERS OF UEL

The Luxembourg Bankers’ Association (ABBL)  
Association of Luxembourg Insurers and Reinsurers (ACA)  
Luxembourg Trade Confederation (confédération luxembourgeoise du commerce)  
Federation of Craftsmen (Fédération des Artisans)  
FEDIL – The Voice of Luxembourg’s Industry  
National Federation of Hoteliers, Restaurant Owners and Café Owners (HORESCA)  
Chamber of Commerce of the Grand Duchy of Luxembourg  
Chamber of Trades of the Grand Duchy of Luxembourg

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