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INTRODUCTION

When assessing Portugal's progress towards the Lisbon Strategy goals, the general elections brought forward to the end of the 1st quarter of 2002 should be taken into account. In fact, if on the one hand, this event affected government decision-making for some time, on the other, it is still too soon to evaluate correctly the impact of measures most recently adopted.

Business, represented here by the Confederation of Portuguese Industry (CIP) and the Portuguese Industrial Association (AIP), has made a positive evaluation of the trend followed so far, namely, concerning public finances, the labour market and the implementation of the Programme for Productivity and Growth, in which a schedule of concrete measures covers the most critical areas affecting business competitiveness.

We are well aware of the challenges ahead, namely in those areas in which Portugal's EU ranking is quite low, and in which underlying shortcomings are even greater cause for concern in the present context of EU enlargement.

AIP and CIP have always considered the roadmap set out in Lisbon ^(*) as an important basis for turning the whole European Union into the most competitive and dynamic knowledge-based economy in the world, a final goal that we fervently share.

Meanwhile, the success of this strategy depends crucially on its implementation at a national level, ie, on efficient reforms and innovative policies introduced by each country individually.

With the aim of ensuring better investment conditions, namely by improving the overall business environment and promoting the use of dynamic competitive factors, CIP and AIP present the Portuguese government with the following priorities for 2003:

- Ensure efficient performance of public institutions, especially in the areas of administrative and tax services and Justice;
- Give signs of confidence in the future to reduce present social disturbance;
- Liberalise markets while ensuring efficient and fair competition;
- Promote business investment in R&D and Innovation;
- Provide conditions for widespread availability and use of broadband infrastructures at competitive prices;
- Promote entrepreneurship among young people in schools and universities, enhancing their capacities as future entrepreneurs for getting firms to grow;
- Enhance flexibility in the labour market – namely, concerning work organization and matching human resources to the ever-changing needs of companies - as a decisive factor in raising labour productivity;
- Efficiently structure and implement life-long learning, in order to properly overcome permanent education and skills shortages in human resources.

* see in Conclusions of the Lisbon European Council, March 2000

COMPLETE MARKET OPENING

- TELECOMMUNICATIONS AND INFORMATION SOCIETY

PRESENT SITUATION

Effective liberalisation of the Portuguese telecommunications market has been progressing at varying speeds in the different areas. Concerning the mobile communications market, healthy competition between the three main operators has so far enabled high market penetration, price reductions and high quality service.

In other areas, namely fixed telephone and value added services, 2000 marked the start of legal market liberalisation (after a two-year derogation of the community liberalisation deadline) and some progress has been made. Competition has been introduced with the arrival of new entrants, stimulating innovation in the market and enabling price reductions, although absolute price levels still reflect higher costs than the community average when compared through common composite baskets for users.

Since then, the world-wide downturn in telecommunications and ICT markets along with drawbacks caused by lengthy delays in unbundling the local loop, still not relevant in the market, have overshadowed what could have been a success.

Broadband access was not introduced until 2000. The dominant position of the incumbent in current available technologies - ADSL and cable modem – has led to a similar, less competitive situation. In fact, European indicators on Internet, BB and e-commerce penetration show an extremely low performance in Portugal.

While telecommunications liberalisation will enable price reductions and improved quality, it is regarded as an instrument, if not a condition, for achieving widespread broadband access. Another fundamental condition is the availability of useful contents, applications and services. Portugal is a fast adopter of new technologies, as is shown by the early market successes of mobile communications and the ATM banking network, where technology proved to be a fast and efficient way of benefiting from good, useful and inexpensive services.

When developing contents and services, if, on the one hand, business is willing to reinforce its role, on the other hand, the Government can and must act as stimulator, while also completing the necessary, but flexible and unburdensome, legislative framework. In this context, improvements are expected from the outcome of the recently created high-level government Mission, aggregating information society, innovation and e-government policies (UMIC), the programme of which includes eEurope 2005 priorities.

PRIORITIES

- Ensure rapid transposition of the new community communications framework, enabling fair competition between different local loop access platforms, while aiming at extending broadband access;
- Provide further means to ensuring enforcement of the decisions of the national regulator and competition authority;

- Maintain momentum for consistent implementation of eEurope 2005 priorities, mainly the ensuring of widespread Broadband access at competitive prices, for which the public authorities should use their purchase power to aggregate demand, thus fostering the creation of new networks and introducing effective competition into the market;
- Aim at best performance instead of community averages.

- ELECTRICITY

PRESENT SITUATION

In legal terms, the opening up of the Portuguese electricity market has been progressing, now standing at a rate of 45%, above the annual minimum quota established by the Commission. In operational terms, the results are, by far, less positive. In January 2003 there were less than 1400 clients connected to the independent electrical system, representing around 7% of total eligible clients, a still low level on a community context. It is worth recalling that although this connection was already possible in 1999, it was not until 2002 that the vast majority of these clients (over 95%) were registered as such ... the same year in which the new tariff regulations came into force, leading to a sharp rise in electricity costs for some medium and very-high voltage clients.

In general, the non-falling general evolution of prices, especially for large users, who have meanwhile been rationalising energy use, does confirm that the liberalisation process is lagging behind. Indeed, companies are still facing higher energy costs on the Internal Community Market. This situation is surely connected to the still high market concentration of the generating incumbent. Competition on the supply side might then come from cross-border transactions that are growing, but still far from significant.

In this context, the gradual establishment of an Iberian market (MIBEL) from 2003 until 2006 is seen as a valuable opportunity for tackling the present situation if competition, interconnection capacity, tariff structure harmonization and balanced regulation are correctly addressed.

PRIORITIES

- Proceed with effective market liberalisation bearing in mind that its final goal is to lower price differentials vis-à-vis other community countries, namely Spain;
- While MIBEL is not fully operational, large-scale users should be able to benefit from special prices, as do Spanish users;

- RAILWAYS

PRESENT SITUATION

Following the transposition of Directives 91/440 in 1995, the rail system has separate undertakings to operate railway services and to build and manage the network (since 1997), and a rail regulator was created in 1998. Directives 95/18, 95/19 and 96/48 were transposed to national law in 2000, enabling, namely, EU railway undertakings to access the national infrastructure.

Since 2000, the railway sector has been a lesser priority for governmental authorities, while important decisions should have been taken, namely concerning:

- infrastructure renewal,
- linking Portugal to Europe by means of high-speed railway and
- railway access to the main harbours.

In this context, the recently created Strategic Transport Council - CET, grouping all sectoral business associations and main state companies, is to address the Government on these pending issues and put forward concrete proposals.

Concerning the community "First Railway Package", it should be noted that Government stated in its 2002 Report on Economic Reform that transposition is to be completed by March 2003.

However, if effective liberalisation is to take place, legislation is not sufficient. In fact, interoperability problems arising from differences in gauge infrastructures between Iberian countries and other European countries ought to be firmly addressed and cleared if Portugal is to be truly integrated into the European railway market.

PRIORITIES

- Address the transport sector as a market in which successful intermodality is fundamental for competitiveness and further integration into the European market; in this context, measures aimed at the objectives laid down in the Marco Polo community programme should be firmly adopted;
- Enhance participation of economic partners in planning and drawing up transport policy;

FACILITATE ACCESS TO FINANCE

PRESENT SITUATION

Facilitating access to finance is a fairly important issue in Portugal relative to start-ups and business projects based on intangible assets, especially those originating from SMEs. Access to finance is thus perceived as a major barrier to entrepreneurship and to innovation, as it severely hinders their business potential.

It should be noted that, in Portugal, manufacturing shows a relatively high proportion of self-financing, especially common in family-based companies. The low ratios of market capitalisation and also venture capital in percentage of GDP should be assessed in this context, and also bearing in mind the traditional tight prudential regulations concerning stock investment in portfolio composition of institutional investors.

Portugal has a sound financial system and its relationship with business is healthy, despite the readjustment of the credit boom in the late 90's, a result of historically low interest rates, producing some turbulence in current credit access, namely for SMEs. However market failure in financing start-ups, intangible assets and also restructuring of companies persists.

Recent governmental measures are positively assessed – a new simplifying legal framework for risk capital companies and funds, setting up of funds aggregating risk capital companies and the public partner through participation of the new Risk Capital Syndicated Fund, and the setting up of a programme (NEST) targeting start-ups that depend critically on recently developed and advanced technologies to be financed by the new risk capital funds.

Other relevant measures were recently taken, such as the reinforcement of a mutual guarantee system and the setting up of a guarantee fund for credit securitization.

PRIORITIES

- Stimulate awareness of the advantages of risk capital, focusing on how new measures will overcome drawbacks that led to the weak impact of past government initiatives;

REDUCE TAX PRESSURE AND PUBLIC DEFICITS

PRESENT SITUATION

Among the European countries, corporate taxation in Portugal is relatively high: the nominal rate is 30% (plus municipal surcharge of up to 10% of tax), and the effective rate is one of the highest among community countries (in 1999, Portugal ranked 4th highest). This heavy tax burden on companies is considered to be an important factor in holding back business investment.

Public deficit, after some fiscal policy relaxation (and also some statistical tuning) reached a final value of 4.1% in 2001. Business considers the present efforts to reduce public current expenditures to be a fundamental step in obtaining a desirable longer term sustainability of public finances, therefore enabling a stable macroeconomic environment with low interest rates and inflation, and also improved credibility of Portugal in international capital markets.

Although the general government budget for 2003 presents a still high growth of current expenditures, it can be considered as an effort to consolidate public finances, especially concerning the improvement of primary surplus and the underlying objective of slowing down public consumption growth. On the other hand, business is apprehensive about a reduction in investment expenditure, even if it positively assesses the growth efforts made in areas specifically devoted to competitiveness, such as communications, transport and the Operational Programme for Economy.

For companies, both consolidation of public finances and reduction of tax pressure are important economic policy measures, while considering them not contradictory in the medium-term. In fact, the tax reduction included in the Government Programme of April 2002 when it took office, while generating positive effects on the level of economic activity, will contribute to a sustainable growth of tax base and thus higher tax revenue.

PRIORITIES

- In 2003, the Government should establish a timetable with precise measures to be adopted on a relatively short-term horizon, aimed at reducing, even if gradually, the tax burden on companies.
- Reduction in public expenditure should focus on the current account, the high proportion of which illustrates the need for structural reforms to be addressed, starting most urgently with reform of public administration.

STIMULATE INNOVATION

PRESENT SITUATION

In a context of stimulating innovation, if R&D is undoubtedly a major source, participation in the Information Society has no lesser role in enhancing this competitiveness factor (see Telecommunications section for evaluation).

Concerning R&D, Portugal has a low ranking among European countries: the ratio R&D expenditures % of GDP is 0.8% in 2001 ^(*). In addition, although R&D business expenditures grew annually between 1999 and 2001 at 28% ^(*), and value added of high and medium/high-tech industries grew at a considerably higher rate than the community average (1995-1999), the ratio between business/government spending on R&D is relatively low.

Since Portugal is well placed in international rankings in terms of its fundamental research performance, this weak business participation can be explained by a frustratingly low interaction between knowledge producers and users. To fight against this trend, the Government launched the IDEIA programme in January 2003 associating companies, universities and R&D institutes in consortia, aimed at supporting projects in the areas of valuation and transfer of technology to companies and also promoting participation in international R&D projects. Business associations, namely AIP, have been working in this field through a joint-venture created with the main industrial research public institute, INETI.

Another major problem concerns human resources. There is an urgent need to strengthen the relationship between availability and mobility of R&D human resources, creating conditions to attract researchers that have gained work experience worldwide. On the business side, problems arise from the mismatch between supply and demand of skilled human resources. This is the main purpose of the technological business oriented degrees that have been designed in the framework of a protocol between business associations, namely AIP, universities and the Government.

Other recent initiatives should be mentioned:

- The launching of the government programme NEST, supporting business undertakings that critically depend on recently developed and advanced technologies through risk capital funding.
- A renewed government strategy for attracting and promoting national and foreign investments for which R&D projects will be a clear priority.

PRIORITIES

- Promote flexibility of R&D public institution administration, financing and human resource management, enabling their effective cooperation with companies and aiming at eliminating the gap between supply and demand of R&D services;
- Ensure that Universities have the right conditions for attracting high-quality researchers;

* Provisional results from the National Scientific and Technological Survey 2001 (IPCTN)

- Adapt basic education curricula given the need to stimulate the interest of young people in sciences;
- Promote patenting performance of R&D activity.

IMPROVE THE LABOUR MARKET

OBJECTIVES

In the context of “*More and better jobs for Europe: developing an active employment policy*”, some key areas of action were defined as objectives of the Lisbon strategy, namely improving employability and reducing skills gaps, increasing employment in services, including personal services, where there are major shortages, furthering all aspects of equal opportunities, including reducing occupational segregation, and making it easier to reconcile working life and family life.

PRESENT SITUATION

The Luxembourg process has enabled Europe to reduce, to a certain extent, the level of unemployment. Nevertheless, the outcome of Luxembourg has demonstrated that the actions developed were unbalanced (more a strategy focusing on enlargement of the labour force rather than increasing the number of new jobs), and therefore far below expectations, in terms of number and sustainability of jobs created.

The fact that Entrepreneurship has been, until now, very little promoted – and Entrepreneurship should be the first priority – has determined a lack of the structural conditions required to create sustainable employment. The promotion of new means for fostering the improvement of employment and the reduction of tax pressure on labour is lagging behind.

Another aspect that needs focus is the unsatisfactory involvement of social partners, in certain countries, in the European Employment Strategy, namely in drawing up, implementing and following up the appropriate guidelines. On the other hand, it is fundamental to respect their independence, which has not always been the case.

In short, the structural reforms needed to improve the labour market have not been sufficiently implemented, nor have the practical means indispensable for addressing existing needs and reaching the ambitious goals of the Lisbon Strategy.

PRIORITIES

Portugal has one of the highest employment rates in the EU.

However, the Portuguese labour market presents structural problems, which need to be addressed. Systems must be adapted as part of an active policy to ensure that work pays, to solve problems related with an ageing population, to promote social inclusion and gender equality, and to diminish long-term unemployment drastically.

Given the labour legislation currently in force, the Portuguese labour market is one of the most rigid in the European Union (see several documents of OECD and European Commission).

Having considered that a revision of some fundamental aspects of the current labour legislation would be decisive in reversing this trend, the Portuguese government has presented a Proposal for a new labour law, in the form of a Code, which would modernize employment relations globally.

Among the most positive aspects of this Proposal, the revision of the collective bargaining system should be noted – aimed at introducing dynamism and modern priorities into the system – in addition to flexibilization of short-term contracts, alteration of the night work regime in line with European standards, easier implementation of lay-off, and increased professional mobility.

However, this Proposal also has some negative aspects, namely the considerable increase of redundancy payments, a less flexible working time regime, the reduction of legally authorized working hours - from 200 hours per year to 175 or 150, depending on the size of the companies - and the huge, in some cases intolerable, rise in the amount of sanctions in labour law.

MODERNISE SOCIAL PROTECTION

OBJECTIVES

The objective of modernising social protection, targeted by the Lisbon Strategy, is strongly linked with the implementation of crucial reforms as well as the adoption of more moderate social protection systems.

Aware that this challenge could be better addressed as part of a global effort, a decision was made in the EU to strengthen cooperation between Member States by exchanging experiences and best practices on the basis of improved information networks that are the basic tools in this field, and to make (by means of a High Level Work Group on Social Protection) a study on the future evolution of social protection from a long-term point of view, paying particular attention to the sustainability of pension systems.

PRESENT SITUATION

It is with a deep concern that we see the little progress being made to ensure the sustainability and quality of the Social Security systems in a very serious context of the demographic ageing process throughout the EU.

Another important aspect relates to the need to ensure that these systems can promote social inclusion, equal opportunities between women and men and, at the same time, develop priority actions within specific target groups. It is unacceptable that a huge proportion of these people continue to live below the poverty line and in a situation of social exclusion.

Although important measures are being adopted to eradicate poverty and targets have been set out in this field, the problem is far from being solved.

PRIORITIES

In Portugal, the implementation report of the National Action Plan on Social Inclusion shows that objectives are very far from being reached, meaning that policies and measures are not suitable or satisfactory.

Recently, a framework law on Social Security was adopted by the Portuguese Parliament with the aim of reforming some of the main points of the social Protection system.

Among the fundamental aspects of this law, one should underline the re-definition of the pension system and the implementation of some measures to improve their sustainability. Moreover, other aspects have been changed, namely the diversification of the system's financing sources, transferability of complementary regimes, etc. Regulation of this new law is in progress.

Nevertheless, some of the fundamental objectives of modernisation of Social Protection remain to be solved: the reduction of the tax burden on companies, the development of capitalization financing instruments, the means to reinforce combat of

fraud and evasion and reinforcement of the sickness control system, aimed at eradicating the illegal use of subsidies, very frequent in Portugal.

ADAPT EDUCATION AND TRAINING

OBJECTIVES

One of the key-elements of the Lisbon Strategy was to speed up the transition process to a knowledge-based economy, developed through the e-Europe initiatives and a Research European Market, at one end, and at the other, a European Strategy for Life-Long Learning – to complement the European Employment Strategy from an Education, Training and Knowledge perspective.

The European educational and training systems need to be adapted not only to the demands of the knowledge society but also to the need for a higher level of employment quality. The promotion of new basic skills, especially in the information technology area, and more transparency in qualifications, accompanied by technological and linguistic skills, have been defined as strategic objectives.

PRESENT SITUATION

As a whole, the European Union has demonstrated a negative performance in training and qualification areas and, although there have been some developments in these policies, the degree of investment, and particularly the low effectiveness of these resources at company level have not been able to obtain the necessary results.

It is urgent to re-equate vocational training systems and their financing. In practice, life-long learning is not satisfactory and does not cover – as it should – the overall European workforce.

Also, policies regarding recognition of qualifications and learning of foreign languages have not shown results in line with their level of priority.

Comparison of the main data on Knowledge, Research & Development, Science, and use and dissemination of Information Technology with the USA and Japan, shows that the EU is far behind its competitors and that this gap has increased since the establishment of ambitious European targets. This is particularly worrying and reveals the insufficient impact of the European Employment Strategy in the policies relative to these matters.

PRIORITIES

The Portuguese deficit in training and workforce qualification levels is one of the decisive factors affecting the productivity and competitiveness of national companies (very low, as is known).

Another serious structural Portuguese problem is related with early school drop-out. In spite of progress in this area, solving this problem has proved to be very slow.

In 2001, the Portuguese Social Partners and the Government signed an Employment and Training Agreement, setting out a package of structural measures that can respond to the existing educational and training needs of the Portuguese population.

This Agreement considers vocational training as a basic instrument for boosting business competitiveness and to giving more value to professional upgrading.

New Laws were recently approved to develop training in the information society, and also to promote the employment of workers with special skills in this field, namely through financial support to Research & Development and giving incentives to companies to engage workers.

As we have said, it is still necessary to develop a better education and training system that enhances labour productivity, company competitiveness, preventive management of business crises and quality of work. The capacity and competence of the public employment services is another domain that needs improvement in Portugal.

DISMANTLE UNNECESSARY REGULATIONS

PRESENT SITUATION

Dismantling unnecessary regulations and also improving existing regulations is highly important in Portugal, a country whose high entrepreneurial spirit needs to be fully released and not hindered by a burdensome legislative and administrative environment.

Tackling this issue involves not only dealing with legislation but also with administrative practices. In this context, public administration reform, mainly in those areas that deal directly with business, should be considered as a major instrument.

New political intentions regarding further improving e-government is a praiseworthy initiative in itself. But it should also be regarded as an opportunity for adapting organisational structure and procedures to current needs, as it pressurizes public services to rationalize and become intrinsically user-friendly, upstream of on-line contact.

Even though the regulation and administrative burden is still perceived as an important barrier to competitiveness, some progress must be recognized in this area, namely relative to company set-up processes, some e-government development and reduced notary procedures.

Recently, the government has reinforced its action in these areas, and some improvements are expected in industrial licensing. The setting up of a one-stop shop and the creation of the so-called "Entrepreneurial Location Areas", should be mentioned, which will provide previously licensed common infrastructures for certain business activities, enabling simplified and fast licensing for companies established on the premises.

PRIORITIES

Improvement of the legislative and regulatory environment should:

- Focus on present critical areas, such as justice and the environment;
- Prevent disproportional burdens on SMEs;
- Rely on better communication between different public administration services;

while benchmarking Business Impact Assessment procedures, covering the lawmaking and regulatory processes and including minimum standards for consultation, according to the basic principles of the 2002 European Commission "Better Regulation Package".

RECONCILE SUSTAINABLE DEVELOPMENT AND COMPETITIVENESS

GOTHENBURG GOALS

- *Adoption of an EU Strategy for Sustainable Development by the Gothenburg European Council (June 2001) – based on the principle that the economic, social and environmental effects of all policies should be examined in a coordinated manner and be taken into account in decision making. Emphasis on*
 - *Combating climate change*
 - *Ensuring sustainable transport*
 - *Addressing threats to public health*
 - *Managing natural resources more responsibly*

PRESENT SITUATION

Portugal has been developing major efforts concerning the legal and operational framework, aimed at achieving the Gothenburg objectives:

- Presenting and discussing the National Strategy for Sustainable Development.
- Discussion on the setting up of a System of Sustainable Development Indicators, namely within the framework of the National Commission for Environment and Sustainable Development, in which CIP and AIP's Environment Commission actively participate.
- Approval of a set of laws and Guiding documents, in particular, the National Programme on Climate Change and the ratification of the Kyoto Protocol, along with the E4 Programme that establishes targets and measures on Energy Efficiency and Endogenous Energy Resources.

In spite of these initiatives, the outcome has not been positive, namely concerning enforcement and awareness. This is essentially a result of the unrealistic level of targets imposed and also the lack of flexibility in enabling business choice of different instruments to achieve compliance. The less favourable quality and availability of infrastructures, the skilled human resources shortage, and also the low consumer awareness that ends up affecting profitability of environmental business investments should also be taken into account.

The withdrawal of political decision concerning the establishment of co-incineration of hazardous industrial waste in cement plants prevents industry from achieving sound waste management, even if stronger efforts in waste reduction and recycling are developed.

PRIORITIES

- Give priority to consensus and realism in adopting measures and conducting administrative procedures and to efficient planning in management of public infrastructures.
- Recognize the value of proactive business initiatives, promote environmental agreements and enhance business partnership and consultation. This kind of instrument is especially relevant in the field of compliance with the Kyoto Protocol and IPPC Directive implementation.
- Stimulate innovation in environmental business approach, mainly aimed at SME.
- Urgently implement the hazardous industrial waste treatment policy and also create landfilling for non-hazardous industrial waste.

Access to the national Lisbon strategy reports 2003 of the industrial and employers federation of the EU-member states, Norway and the UNICE-report "Time is running out, action is needed now" is at : www.unice.org/lisbon

The Confederação da Indústria Portuguesa and the Associação Industrial Portuguesa are members of UNICE, the leading independent organisation representing European business. UNICE's members are 35 central industrial and employers federations from 27 European countries, speaking for more than 16 million companies, the vast majority of which are small and medium sized."

