

**2nd COMPETITIVENESS DAY
9 DECEMBER 2004**

AT THE EUROPEAN PARLIAMENT'S HEMICYCLE IN BRUSSELS

PLAY TO WIN



WILL THE EU PLAY TO WIN?

Jürgen Strube
President of UNICE



Philippe de Buck
Secretary General

“Nothing less than the future prosperity of the European model is at stake”

(Wim Kok Report, November 2004)

Are the new EU institutions – the Barroso-Commission, the new Parliament and the upcoming Council Presidencies – ready to PLAY TO WIN? In our recently published “Business Vision for Europe” we urge EU institutions to become the “engine for change”, because change is what Europe needs. If Europe’s economic structures do not change, then the ageing European society will fail to keep up its standard of living in the globalised economy of the 21st century.

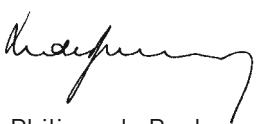
Almost five years ago, the EU committed itself to a winner’s agenda that foresaw many changes for the better: the Lisbon Strategy to become *“the most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion”*. But since then not much progress has been achieved, as the report on the mid-term review of the Lisbon Strategy by a high-level group chaired by former Dutch Prime Minister Wim Kok has recently confirmed. Europe’s performance has even become worse since 2000 in terms of productivity growth and unemployment.

Although it is widely known that we are off the winner’s track, policy-makers hesitate to draw the obvious conclusion about what needs to be changed: we need to focus our energies on making Europe more competitive, on creating economic dynamism in order to achieve the growth, the jobs and the prosperity necessary to live up to our social and environmental ambitions. This diagnosis is not new. At last year’s Competitiveness Day 2003, we presented the “Manifesto for Competitiveness” that asked

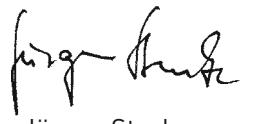
for an integrated competitiveness strategy and called for European companies to be freed from:

- an oversized public sector and an excessive tax burden...
to release **entrepreneurial energy**,
- financial and regulatory constraints on R&D...
to **boost innovation**,
- distortions in markets for products and services...
to unleash the **internal market**,
- rigidities in the labour market...
to raise **employment**,
- inefficient and therefore costly environmental instruments...
to remain an engine for **sustainable development**,
- trade and investment barriers...
to realise **global market opportunities**,

so they can create growth, jobs and prosperity for European society. As the mid-term review of the Lisbon Strategy approaches, we repeat the policy recommendations that are vital for bringing Europe back on track for a sustainable future. In the last weeks we have also listened carefully to what EU politicians have said about these subjects. Although not everybody agrees about focusing the Lisbon Strategy on competitiveness, in general key political decision-makers seem to have the right intentions. **This is a good start**. But not only must the good intentions be translated into hard actions, they must also permeate through to all the Member States, because it is also at the national level that the crucial reforms have to take place. Only if the national level implements what is decided at EU level will Europe really change and PLAY TO WIN!



Philippe de Buck

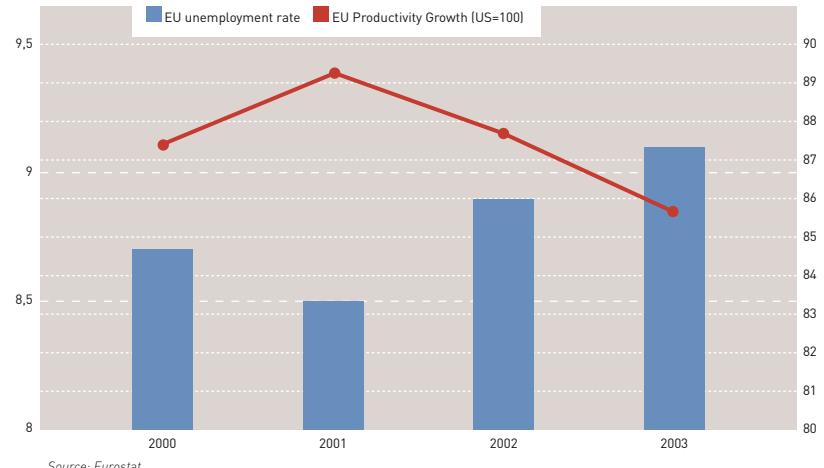


Jürgen Strube

LISBON STRATEGY

The core of Europe's problems is the lack of growth and jobs. As the graph shows, EU unemployment has actually risen since the year the Lisbon Strategy was proclaimed. Productivity growth in Europe has also been declining. This adds up to more than mediocre growth whereas GDP in the rest of the world is currently growing at its fastest rate in decades.

Europe needs a clear strategy for growth and jobs. But the Lisbon Strategy, which was designed to solve Europe's employment and productivity problems by making Europe more competitive has become so diluted that it is now "about everything and thus about nothing" as the Wim Kok Report on the mid-term review rightly states. The same report suggests, however,



■ WILL THE EU MANAGE TO REFOCUS THE LISBON STRATEGY?

that "the Lisbon Strategy wants to embed Europe's commitment to social cohesion and the environment in the core of the growth and jobs generation process so they are part of Europe's competitive advantage". As UNICE President Strube said at the Tripartite Social Summit on 4 November 2004, "we can only

agree to this statement if all stakeholders accept this to mean that social cohesion and environmental ambitions are only possible in a growing economy. If we had to understand that sentence differently, the Lisbon Strategy would go in the wrong direction leading directly to unsustainable development".

WHAT NEEDS TO BE DONE AND WHAT EUROPEAN POLICY-MAKERS HAVE SAID

→ As the Lisbon Strategy approaches its mid-term review, its focus must be crystal-clear: competitiveness, in order to obtain more growth and jobs, so Europe can fulfil its social and environmental ambitions.

President Barroso (at the European Parliament, 21/07/04):
"We must put growth centre stage. Our social ambition must be fuelled by economic success. Wealth creation is the key to our model of social solidarity and sustainability. This is the core of the Lisbon Strategy"

→ The Commission must fulfil its mandate from the Spring Council 2004 "to further refine the integrated impact assessments process" with "a particular emphasis [...] to develop [...] a method to measure administrative burdens on business".

Commissioner Verheugen (at the European Parliament, 30/09/04):
"All new legislative initiatives will be assessed for their impact on competitiveness"

Competitiveness Council Conclusions (25-26/11/04):
"[...] reiterate the need to enhance the competitiveness dimension of Commission impact assessments"

Most competitive economies in the world according to the World Economic Forum

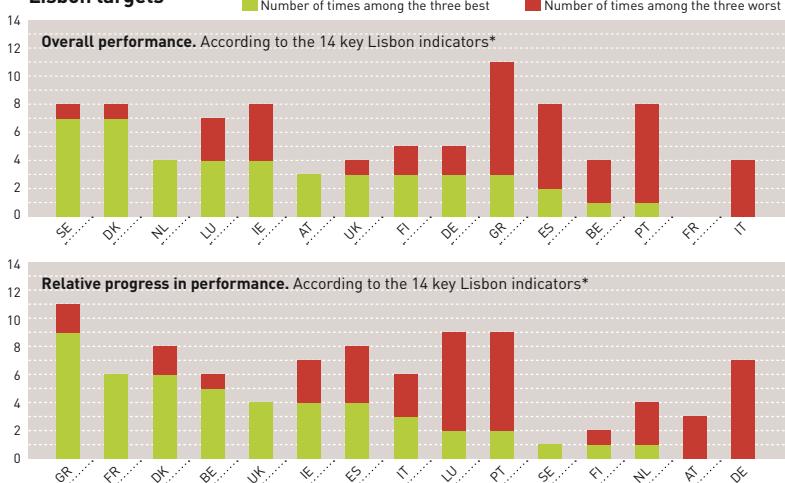
1 Finland	9 Japan	24 Portugal	37 Greece
2 United States	10 Iceland	25 Belgium	38 Cyprus
3 Sweden	11 UK	26 Luxembourg	40 Czech Rep
4 Taiwan	12 Netherlands	27 France	43 Slovak Rep
5 Denmark	13 Germany	30 Ireland	44 Latvia
6 Norway	17 Austria	32 Malta	47 Italy
7 Singapore	20 Estonia	33 Slovenia	60 Poland
8 Switzerland	23 Spain	36 Lithuania	

Source: "The global competitiveness report 2004-2005", WEF (Growth Competitiveness Index)

WILL THE LISBON STRATEGY BE IMPLEMENTED AT NATIONAL LEVEL?

The two tables alongside show overall performance and relative progress of EU15 Member States on the 14 key Lisbon indicators. Significant differences among Member States exist not only in performance – which is further exacerbated by the ten new Member States – but also in progress. According to the index of the World Economic Forum, which assesses countries'

Overall performance and relative progress of EU15 Member States on the Lisbon targets



Source: UNICE average with data from the Kok report

* Structural indicators: GDP per capita in PPS, labour productivity, employment rate, employment rate of older workers (%), educational attainment (20-24) (%), research and development expenditure (% of GDP), business investment (% GDP); comparative price levels (EU 15=100), at-risk-of-poverty rate (%), long-term unemployment (%), dispersion of regional employment rates, greenhouse gas emissions, energy intensity of the economy, volume of transport.

macro-economic environment, their state of public institutions and technological readiness, the Nordic countries are the most competitive economies of Europe, and among the best in the world.

"Member States must take their responsibility and take ownership of the [Lisbon Strategy]"

(Wim Kok Report)

WHAT NEEDS TO BE DONE AND WHAT EUROPEAN POLICY-MAKERS HAVE SAID

→ The most important reform policies must be implemented at national level. Therefore business calls on Member States to launch national Lisbon initiatives in line with the recommendations by the Wim Kok Report: "[...]National governments should present a national action programme before the end of 2005 [...], which should be subject to debate with national parliaments and social partners". Furthermore, "the European Commission should present to the Heads of State or Government and the wider public annual updates of the key 14 Lisbon indicators in the format of league tables with ranking praising good performance and castigating bad performance – naming, shaming and faming. Countries that have performed well should be praised, those that have done badly castigated".

European Council Conclusions (5/11/04):

"[The European Council] reiterated the importance of implementation of agreed measures by the Member States"

→ The Competitiveness Council must function as the guardian of European competitiveness taking a horizontal view in the process to refocus the Lisbon Strategy. Each Member State must nominate one national "competitiveness minister" to represent his or her country with one single voice in that Council formation.

Mr Laurens Jan Brinkhorst, Dutch Minister for Economic Affairs and President of the Competitiveness Council

(Competitiveness Council Priorities Paper, Dutch Presidency): "We [the Dutch Presidency] are wholeheartedly convinced that the Competitiveness Council has a crucial role to play in respect of the Lisbon strategy. [...] It must increase its capacity to deliver in the coming years. [...] A more efficient decision-making process is needed"

UNICE POLICY PRIORITIES



RELEASE ENTREPRENEURIAL ENERGY



BOOST INNOVATION



UNLEASH THE INTERNAL MARKET



IMPROVE THE FUNCTIONING OF THE LABOUR MARKET



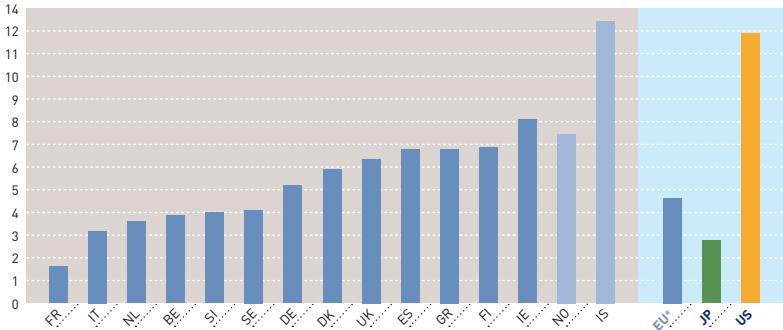
MAKE ENVIRONMENTAL POLICY MORE EFFECTIVE AND EFFICIENT



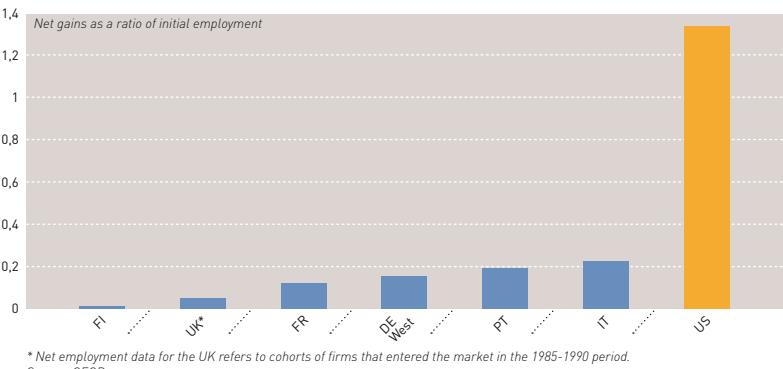
FOSTER INTERNATIONAL TRADE AND INVESTMENT

The cultural, fiscal and regulatory environment in Europe has not sufficiently improved to match the entrepreneurial potential of competitors. The regulatory burden in Europe is still such that it takes longer, on average, to start a business than in most other parts of the OECD. Entrepreneurs have become scarcer in recent years in Europe and are now less than half as numerous as in the US. Moreover, newly created companies in the US grow significantly bigger in the first two years than in Europe.

Number of entrepreneurs per 100 working population, 2003



Net employment gains among manufacturing firms two years after creation, 1990s



“[Europe] is not attractive enough as a place in which to do business”

(Wim Kok Report)

WHAT NEEDS TO BE DONE AND WHAT EUROPEAN POLICY-MAKERS HAVE SAID

→ A raft of measures is needed to foster Europe's entrepreneurial spirit and support growth of SMEs, such as integrating entrepreneurship education in school curricula, reducing the overall tax burdens borne by companies, improving access to finance and ridding Europe's entrepreneurs of unnecessary burdens.

Heads of State or Government (The European Charter for SMEs, 19/09/00):

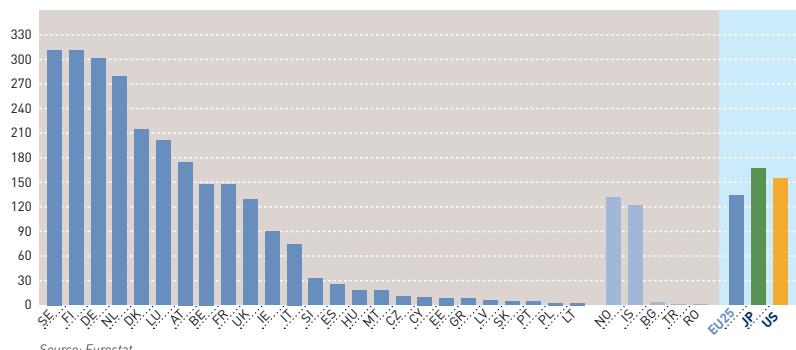
“General knowledge about business and entrepreneurship needs to be taught at all school levels”

Commissioner Spidla (at the European Parliament, 27/09/04):

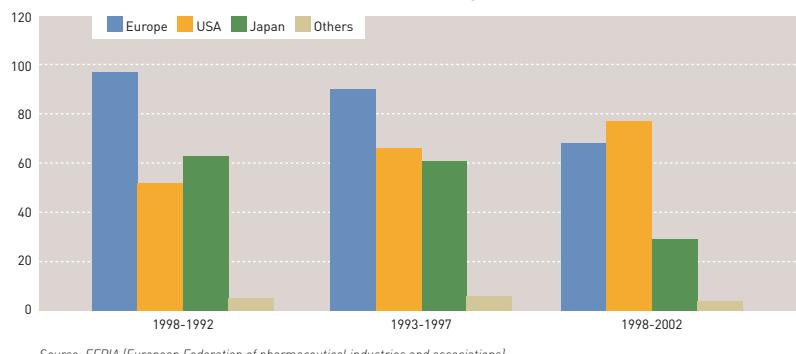
“Impact assessments must focus on needs of SMEs”

Even in their own continent, Europeans file fewer patents than US Americans and Japanese, as the graph on patent applications to the European Patent Office (EPO) shows. Innovation in high-tech sectors such as the pharmaceutical industry increasingly takes place outside Europe. Especially for high-income economies like Europe, to be innovative is the only viable long-term strategy against declining prosperity. The challenge for Europe is to resolve the “European paradox” where quality research fails to deliver enough marketable products. Without an improvement in the regulatory environment, the Lisbon goal of 3% R&D spending as percentage of GDP will not be reached, because firms will lack incentives to invest in R&D.

Number of patent applications to the EPO per million inhabitants, 2002



New medicines launched (chemical and biological entities)



“Only by being at the technological frontier [...] can Europe secure its economic future”

(Wim Kok Report)

WHAT NEEDS TO BE DONE AND WHAT EUROPEAN POLICY-MAKERS HAVE SAID

→ General framework conditions, be they financial or regulatory, must be improved to support private investment in research and the transformation of research into marketable products. The European level can play an important catalyst role by fostering a European Research area, promoting business-science relationships with “centres of excellence” or “technology platforms”, and ensuring business-friendly state aid rules for R&D.

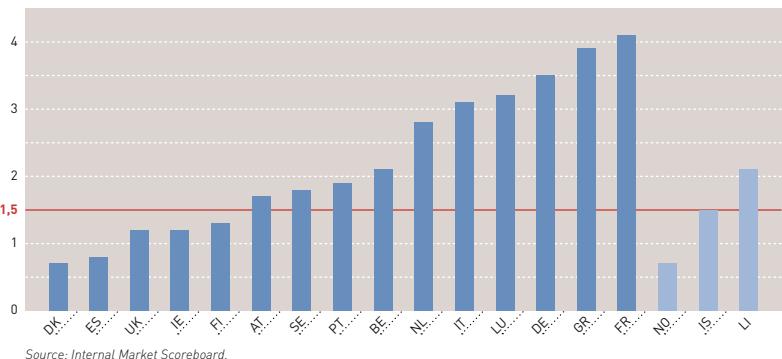
President Barroso (at the College of Europe, 23/11/04): “*We must strengthen the interface between the research community and innovative businesses that can turn good ideas into European products and services*”

→ European companies need to obtain as affordable protection for their intellectual property as their US and Japanese counterparts. In terms of cost and legal certainty, the single-language solution, English, for the Community Patent can certainly be recommended.

Commissioner McCreevy (European Parliament hearing, 7/10/04, written answers): “[A Community Patent] could not contribute to the stimulation of innovation and growth if it were not affordable in terms of cost for inventors and firms. It is thus important to avoid imposing constraints on this system, including requirements for translation of the patent, which would go beyond what is really necessary and useful”

The implementation rate of internal market regulation has become worse again after an improvement in earlier years of the Lisbon Strategy, and is nowhere near the 1.5% target set by the Lisbon Strategy. New Member States must make additional efforts to realise the enlarged internal market. The transposition deficits for "Lisbon" directives are 27.6% for EU15.

Deficit in transposing EU legislation, 2004



Key "Lisbon" directives whose transposition is late in EU15 Member States

Directives	Not yet transposed by
Legal protection of biotechnology inventions	BE, DE, FR, IT, LU, AT
Release into the environment of genetically modified organisms	BE, DE, EL, FR, NL, AT, FI
Recognition of professional qualifications (amendment)	BE, DE, EL, FR, AT, SE
Competition of Community postal services	FR
1st railway package	DE, EL, SE, UK
Competition in the markets for electronic communications	DE, EL, FR, LU, NL
Taxation of saving income in the form of interest payments	DK, EL, FR, IT, LU

Source: European Commission, June 2004.

"[...] the internal market programme is felt to be yesterday's business and does not receive the priority it should. It is a fatal policy error"

(Wim Kok Report)

WHAT NEEDS TO BE DONE AND WHAT EUROPEAN POLICY-MAKERS HAVE SAID

→ The most pressing hindrance to cross-border activities is the nonchalance of Member States in properly implementing internal market directives they have agreed on at EU level. The right *application* of legislation is as important as the transposition. Too often the mutual recognition principle is not applied throughout the EU.

Commissioner Bolkestein [speech on 4/02/03]:

"Our political leaders [...] need to go beyond playing lip service to the need to build a better internal market and actually get down to taking the tough decisions needed to do so"

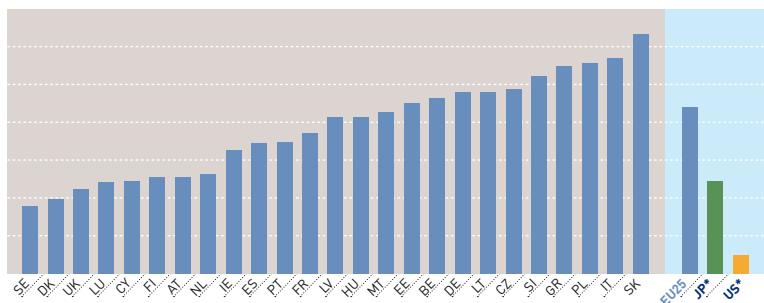
→ The internal market also needs to be reinvigorated by eliminating obstacles to cross-border provision of services.

Commissioner McCreevy [at the European Parliament, 7/10/04]:

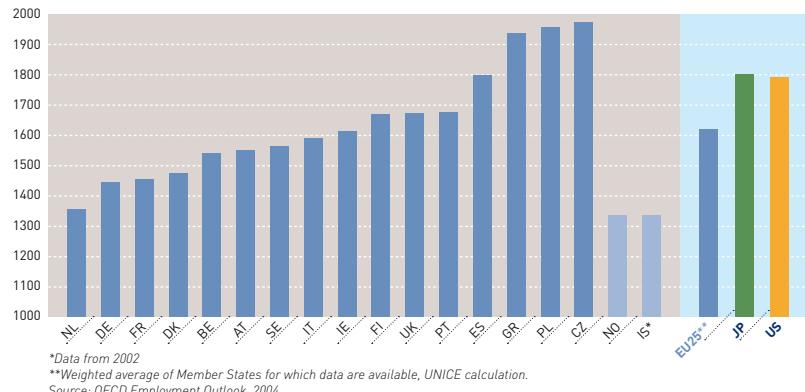
"I consider it of utmost importance to place the highest priority on removing obstacles to creating a genuine internal market in the area of services"

Reaching the Lisbon employment targets will only be possible if we substantially reform Europe's rigid labour markets. A high long-term unemployment rate is a symptom of a badly functioning labour market. As the table shows, in some European countries the long-term unemployment rate is huge. Besides, Europeans work fewer hours on average than in both the US and Japan due to shorter weekly working time and a smaller number of yearly working days.

Long-term unemployment as a % of total unemployment, 2003



Average annual hours actually worked per person in employment



WILL THE EU IMPROVE THE FUNCTIONING OF THE LABOUR MARKET?

"Job creation [in the EU] stopped in 2001, and the risk is apparent that the 2010 employment targets [70% of total work force, 60% of female work force, 50% of older workforce] will not be reached"

(Wim Kok Report)

WHAT NEEDS TO BE DONE AND WHAT EUROPEAN POLICY-MAKERS HAVE SAID

→ Employment is the best way to ensure social cohesion. The EU's first priority should be the promotion of job creation and integration of more people in labour markets. It should not be to try and protect activities which are no longer competitive or to enhance the rights of those already at work. The next EU social policy agenda should avoid putting further constraints on companies and concentrate on encouraging necessary national labour market reforms, the adaptation of national pension systems to demographic ageing, and investment in human resources responding to real labour market needs.

Commissioner Spidla (European Parliament hearing, 27/09/04, written answers):

"We have a full range of complementary instruments at our disposal for underpinning the implementation of the Lisbon Strategy in the social field: the European employment strategy, the open methods of coordination on social inclusion, the modernisation of pension systems and healthcare"

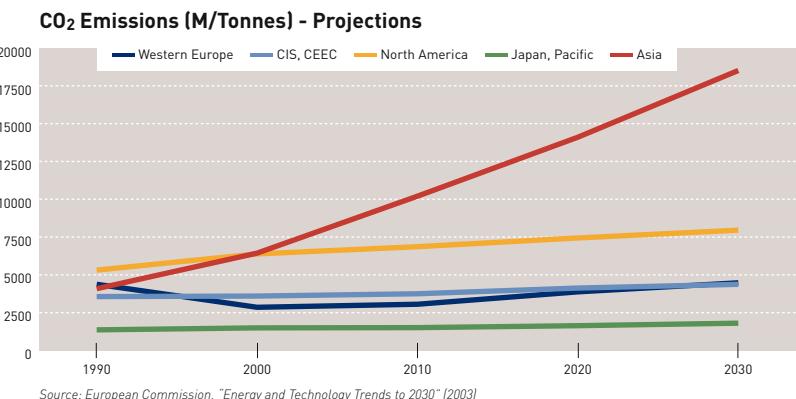
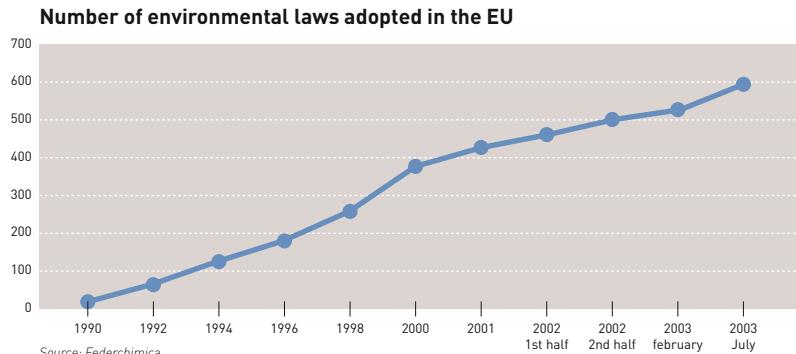
Commissioner Mandelson (Speech at CBI conference, 8/11/04):

"I believe in a strong social agenda, like my colleague, Vladimir Spidla; but not over-regulation that destroys jobs, benefits insiders at the expense of outsiders or discourages people, especially young people, from joining the payroll or condemns too many over-50s to idleness"

Has the right balance been struck between costs and benefits in European environmental policy? A recent UNICE/COWI study calculates that the current EU Strategy to implement the Kyoto Protocol will result in an annual loss of GDP which, making cautious assumptions, would be 0.48% just for the year 2010 – up to five times higher than in other studies. Emerging economies like China are not taking part in the Kyoto Protocol, although their share in global CO₂ emissions is rapidly growing.

Impact studies on the proposed legislation on chemicals registration, called “REACH”, calculate very different costs for the European economy. Before decisions on environmental legislation can be reached, clarity needs to be established about its potential impacts.

WILL THE EU MAKE ENVIRONMENTAL POLICY MORE EFFICIENT?



“The way forward for environmental protection is a healthy economy, which means profitable companies with resources to invest in research and innovation”

(UNICE “Business vision for Europe”)

WHAT NEEDS TO BE DONE AND WHAT EUROPEAN POLICY-MAKERS HAVE SAID

→ The REACH proposal must be thoroughly assessed for consequences on the entire industry, including chemical producers and downstream users.

Commissioner Verheugen (at the European Parliament, 30/09/04):

“The studies on REACH must be taken into account and companies must not be overburdened”

Dutch Presidency (press release for Workshop on REACH Impact Assessment, 27/10/04):

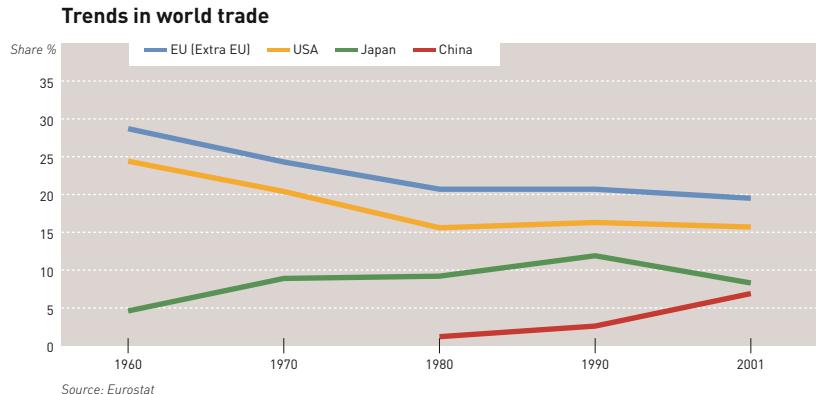
“REACH may affect the competitive position of European companies on the global market if the direct and indirect costs are not kept under control”

→ Since climate change is a global problem, it must be tackled at the global level, including major emerging economies.

Commissioner Verheugen (at the European Parliament, 30/09/04):

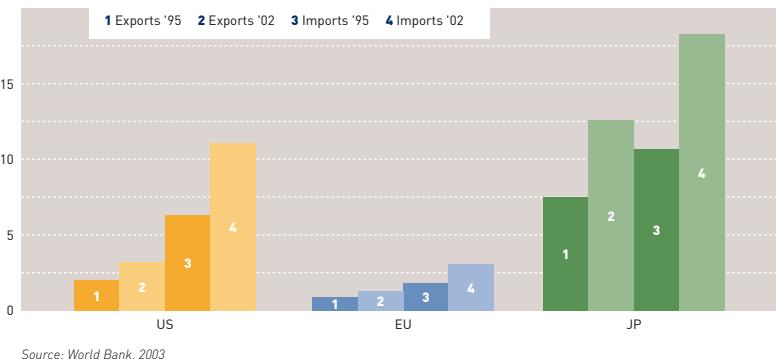
“The EU must implement Kyoto and find global solutions”

The economic weights in the world are shifting. As Europe's share in world trade is diminishing, access to growing markets like China must be assured. But as the second graph shows, as an example, EU trade with China lags well behind US and Japan's trade with China.



► WILL THE EU FOSTER INTERNATIONAL TRADE AND INVESTMENT?

Trade with China as share of total Exports and Imports



“Trade oils the wheels of the global economy
the momentum towards lower barriers and clear rules must not be lost”

(UNICE “Business vision for Europe”)

WHAT NEEDS TO BE DONE AND WHAT EUROPEAN POLICY-MAKERS HAVE SAID

→ The WTO Doha Development Agenda negotiations must succeed so as to increase trade and investment liberalisation in all countries and improve the level playing field for European companies.

Commissioner Mandelson (at the European Parliament, 4/10/04):

“First and foremost, complete the Doha Round to open markets for industrial goods, services and agriculture – including between developing countries”

→ As a complement to the WTO multilateral negotiations, the EU should also pursue the bilateral/regional route to achieve additional market access for European goods, services and investments.

Commissioner Mandelson (European Parliament hearing, 4/10/04, written answers):

“I shall also endeavour to deepen bilateral and regional trade relations and to ensure that our handling of trade disputes and sectoral policies promotes the EU interest, in its widest interest”

WHAT IS UNICE

UNICE represents more than 20 million small, medium, and large companies.

Active in European affairs since 1958, UNICE's members are 36 central industrial and employers federations from 30 countries, working together to achieve growth and competitiveness in Europe.



This brochure has been produced for the 2nd Competitiveness Day, "Play to Win", held at the European Parliament's hemicycle in Brussels on 9 December 2004.

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