UNICE

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Conference mid-term review of the Lisbon Strategy

"New Member States advantages and challenges in the Lisbon process"

on 23 February 2005, Vilnius
10h50 – 11h05

President, Prime Minister, Ladies and Gentlemen.

I am happy to be here in Vilnius and to speak, on behalf of the European business community, about a subject which is vital for the future of the enlarged Europe: the Lisbon Strategy to make Europe the most competitive economy in the world.

The enlarged Europe is a huge opportunity for our competitiveness, and thus for more growth and jobs. Central and Eastern European countries joined the Union in 2004, but for companies, enlargement happened a long time before that. In the 1990s imports and exports with Central and Eastern Europe have steadily increased – from 1995 to 2000 alone they grew ninefold to almost 400 billion Euros in imports and almost 500 billion Euros in exports. Companies understood very early the vast opportunities of an internal market of more than 450 million people.

UNICE, as the confederation of business organisations in Europe, also "enlarged" internally last year and now has member federations from each of the ten new Member States. We were happy to welcome the Lithuanian Confederation of Industrialists as an associate member in March 2004. It is important that the business community speaks with one voice in the EU.

Looking ahead, how can we ensure that the economic success story of the European Union goes on? In less than four weeks heads of state and government will meet at the European Spring Council to discuss the mid-term review of the Lisbon Strategy. The Lisbon Strategy is the major overall strategy for economic policy in the EU. It was proclaimed in 2000 and vowed to make Europe the most competitive economic region in the world. Five years later, however, Europe's position in global competition is shaky. Overall EU growth has deteriorated. Unemployment remains dramatically high. The European society is only slowly beginning to awake to its dramatic problem of an ageing population; new technologies and the emergence of economic powers like China or India necessitate profound changes in our society's structures.

The Lisbon Strategy is about exactly these necessary changes in order for Europe to be able to succeed in global competition. But reforms foreseen by the Lisbon Strategy have not been sufficiently implemented. Now it is high-time to finally start the reforms because, as the Wim Kok report *(Wim Kok will speak just before Philippe* *de Buck)* has put it: “Nothing less than the future prosperity of the European model is at stake.”

Your report, Mr Kok, made an excellent analysis of Europe’s current problems and the need to refocus the Lisbon Strategy. It lacks clarity, however - and we said that to you when your report was published - when it comes to the concrete policy recommendations. The goal of the Lisbon Strategy must be crystal clear: to focus on growth and jobs *in order to be able* to live up to our social and environmental ambitions.

At the Spring Summit, the EU must finally set the course of the Lisbon Strategy for those changes that will bring Europe on track for a sustainable and prosperous future. The Spring Summit must unambiguously focus the Lisbon Strategy on growth and jobs by setting the right policy priorities.

The new Commission with President Barroso and Vice President Verheugen has made an important step towards making the Spring Summit and the mid-term review of the Lisbon Strategy a success. They have made clear that the Commission will focus its work programme on growth and jobs in the framework of a European-wide partnership.

What does focusing on growth and jobs mean in concrete policy terms? It means creating an environment conducive to doing business, because sustainable growth and secure jobs can only be created by companies. Many of the new Member States have understood that, and created a reform dynamism from which the rest of Europe can learn.

Take as an example competition on company taxation. Impressive reductions of corporate tax rates have been taking place in the last years. Lithuania has a corporate tax rate of only 15%. This is only surpassed by Estonia, with a rate of 0% for reinvested profits. Hungary intends to reduce its corporate tax rate to 12%.

Due to favourable business conditions, foreign direct investment has increased over the years. Investment from German firms alone to Central and Eastern Europe grew by 430% from 1995 to 2001 to almost 30 billion Euros. An end to that trend is not in sight.

You can see the results of that reform dynamism in the figures: productivity growth has been above 4% in recent years, far higher than in EU15. Lithuania had one of the highest growth rates in Europe – 7.1% in 2004 and even 9.7% in 2003, which put it in the same league as high-performance countries such as China and India. According to the new UNICE Economic Outlook, which will be published mid-March, Lithuania’s growth rate will stabilise at 6,4% in 2005 and 5,9% in 2006. With moderate inflation rates, and Lithuania’s successful accession to the European Exchange Rate Mechanism (ERM II) in June of last year, the way seems paved for a future Euro accession, provided public authorities watch out that the growing public deficit does not get out of hands.

We can observe in many new Member States a certain “hunger for reform” as the Irish Presidency has expressed it. Or as UNICE wrote in its “Business Vision for

Europe": "new Member States know a lot about change. We urge the European Institutions to take the golden opportunity of enlargement to spread the positive attitude towards change across the entire European Union."

But let us be clear: transition economies did not really have the option – they are obliged to profoundly transform their economies. This is also the major challenge for you: catching up quickly.

In 2004, GDP per capita of the ten new Member States was at 48% of EU15. The trend is positive: in 1995 the level was only 42%. But if the current speed of convergence remains as it is now, it will take decades until similar levels of prosperity as in EU15 are reached. Unemployment in many of the new Member States is still dramatically high.

Many Central and Eastern European countries have profited so far from cheaper production costs. Foreign direct investment has been impressive over the last decade. But this competitive advantage will not last forever. Especially with global developments and emerging economies like China, new EU Member States must transform themselves into high-productivity regions, embracing new technologies and the knowledge society.

There remains a lot to do throughout Europe to modernise our society and fulfil the Lisbon goals. Some of it can be done at the EU level. For example, the EU must strive to create an Internal Market for Services, which has the potential to create 700,000 jobs according to a recent study by the European Commission. Therefore a Services Directive must be quickly adopted, eliminating obstacles to cross-border provision and establishment of services. The current debate about possible social erosion due to the Services Directive is often guided by emotion rather than reason. We as business must explain that there is no link between cross-border provision of services and the free movement of labour, which is regulated by the posting of workers directive.

Furthermore, the EU must ensure that its legislative measures are conducive to creating growth and jobs and do not obstruct business activity in Europe. Current law proposals such as the 10th and 14th Company Directive or the Chemicals Legislation Package REACH must be brought in line with the overall objectives of growth and jobs.

We are also worried that the new EU Social Policy Agenda, presented by the Commission two weeks ago, could lead to new burdens for companies in Europe. We do not need an additional layer of EU collective bargaining above the national, sectoral, regional or company level. But this proposal along with many others was put forward in the Social Policy Agenda. The Commission is walking a very thin line; it must prove that it is serious with its initiative on growth and jobs.

But most reform policies need to be implemented at national level. Two and a half months ago, UNICE organised its yearly Competitiveness Day, with major EU policymakers like Mr Barroso, Mr Trichet, and Mr Verheugen. It was there that UNICE called for national initiatives for competitiveness: national business federations are called on to push for reform action in their respective countries. These national initiatives are complementary to the “National Action Programmes” heads of state and government will hopefully commit to at the Spring European Council. Each national government must draw up a reform programme for growth and jobs with clear targets and deadlines in the framework of the Lisbon Strategy.

I call on Lithuania and all other new Member States to take up the call and commit to national reform action. This action needs as wide a commitment as possible, involving national Parliaments, social partners, media and the wider public.

Boosting innovation and research, for example, must be a prominent part of these programmes. It is an area in which new Member States have a lot to catch up. It is necessary to fix national targets to increase public and private R&D spending in order to achieve the overall European target of 3% R&D expenditures in relation to GDP. It is also up to national or even regional authorities to create the right conditions for building technology clusters – bringing together research, entrepreneurs, and finance in which innovations can be developed and brought to market.

The EU can play an important catalyser role with its programmes on research and innovation. The future EU budgets must reflect the importance of innovation and competitiveness in general, and we support the Commission proposal and Commissioner Dalia Grybauskaite to considerably increase the spending on competitiveness related programmes in the financial perspectives 2007-2013

Labour market reform is perhaps the most urgent of all national reforms in many European countries. But we have good practices right here in Europe of how labour markets should function nowadays. This afternoon, Hans Skov Christensen, Director General of Danish Industries will speak at this conference. The Danish labour market is a striking example that flexible labour markets do not necessarily engender erosion of social conditions.

Better regulation is not only an issue at European but also at national level. In most countries companies – and citizens – are choked by too much red tape and unnecessary legislation in areas where co- or self-regulation would be much more efficient. In addition, every country should think of setting up an agency for impact assessments on new law proposals, as the Dutch or British authorities have done.

Each country’s situation is different, so each country has to draw up different action plans. But all countries need to take action in order to prepare themselves for the future, for intensified global competition and the burden of an ageing population. It is important that the European business community shows unity when calling for reform action. We can only get a strong commitment for reform from policymakers at the Spring Summit if we stand together.

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