17 February 2005

THE 2007-2013 MULTIANNUAL FINANCIAL FRAMEWORK

UNICE POSITION PAPER

EXECUTIVE SUMMARY

The EU budget should be a lever to achieve the Lisbon Strategy and enhance European competitiveness. The shift of priorities in the Commission proposals which give a strong dynamic to competitiveness-enhancing policies is welcomed. UNICE calls upon European policy-makers to preserve the resources allocated to competitiveness. UNICE would not support any compromise at the end of the negotiations achieved at the expense of competitiveness heading.

In a context where fiscal discipline has to be reinforced in many countries, budget spending must be strongly justified. The best way to promote competitiveness throughout the EU budget is to focus on actions where most EU added value can be achieved with due respect to the subsidiarity principle.

Within the heading ‘competitiveness’, preserving at least the proposed increase of resources for research and technological innovation should be an absolute priority. Trans-European networks, innovation policies, and the lifelong learning programme are clear priorities for European businesses.

UNICE also supports the enhanced synergy of cohesion policy towards competitiveness. The cohesion policy should concentrate means on the regions that are most in need and support structural changes most appropriate to improve their competitiveness.

Despite the recognition of the efforts provided since 2002 and in the likely context of a very tight budget constraint, the question of the Common Agricultural expenditure will have to be addressed.

I. COMMISSION PROPOSAL : A GENERAL BALANCE

The shift of priorities pursued by the Commission is welcomed and the tripling of resources allocated to competitiveness should be regarded as a minimum (i.e. around €133 billion over the period 2007-2013).

The stronger dynamic given to competitiveness-enhancing policies (research, innovation, Trans-European Networks, education and training) against those of other key policies (e.g. cohesion, agriculture, etc.) is an important signal of the importance given to the Lisbon Strategy by the European Commission. Regarding policies that are not financed under the proposed heading ‘Competitiveness’, programmes should also be consistent with the Lisbon Agenda.

Union of Industrial and Employers’ Confederations of Europe – Union des Confédérations de l'Industrie et des Employeurs d'Europe AISBL
Av. de Cortenbergh 168 - B-1000 Brussels -VAT BE 863.418.279 -Tel. +32(0)2 237.65.11 - Fax +32(0)2 231.14.45 - E-mail: main@unice.be -Website: //www.unice.org

Considering the Commission proposal as a good basis for negotiations, UNICE calls upon European policy-makers to reach an agreement by June 2005. Europe cannot afford any delay in the subsequent legislative preparation of eligible programmes to implement Community policies in 2007.

II. HOW SHOULD THE EU BUDGET BE PRIORITISED?

1. Prioritise competitiveness-enhancing programmes

Particularly under a tight budget constraint, a sufficient allocation of resources to competitiveness-enhancing programmes should be the priority objective independent of other decisions about the overall ceiling and/or the cost of common policies.

2. Prioritise the successful integration of new and future Member States

As the growth stimulus provided by the new and future Member States is a unique opportunity to boost Europe's competitiveness, the EU budget should support actions that help to speed up the catching-up process of these economies. Past experience underlines the importance of promoting capacity-building in the countries where significant EU resources are invested.

3. Prioritise well-managed and strongly justified programmes

In a context where fiscal discipline has to be reinforced in many countries, EU spending must be strongly justified. The best way to promote competitiveness throughout the EU budget is to focus on actions where the most added value can be achieved with due respect to the subsidiarity principle. Spillover effects generated for private investment are to be also considered while assessing the opportunity cost of EU spending. Two different financial instruments should not pursue the same objective.

III. COMPETITIVENESS, THE TOP PRIORITY

In order to substantiate the strong priority to be given to the Lisbon Strategy, additional means must primarily focus on enhancing competitiveness in Europe. UNICE would not support any compromise at the end of negotiations achieved at the expense of the competitiveness priority. The amount foreseen for competitiveness should be maintained, even at the expense of other categories.

Within the heading 'Competitiveness', the Commission has given a differentiated dynamic to five objectives, i.e. an increase between 2006 and 2013 by more than 150% on research and development, 300% on transport and energy, 300% on education and training, and 100% on other competitiveness-related policies and social policy. UNICE will emphasise its strong support for the need to more than double the resources allocated to research and technological innovation. The Trans-European Networks and innovation policies are clear priorities for European business.

1. Research and technological innovation, an absolute priority

Investing more in R&D is an absolute necessity for Europe. Investing more in R&D should improve Europe's productivity and help it develop new cutting-edge technologies such as biotech, nanotechnology, food technology or environmental technology. On top of research investments at company and member state level, the EU provides a real added value in stimulating excellence, collaboration and competition across Europe.

Preserving at least the proposed increase for European research and innovation policy should be an absolute priority. The EU budget could contribute further to achieve the 3% of GDP target spent on R&D. This requires research projects to be designed in such a way to maximise the leverage effect for private investment, which is key since two thirds of the increased investment should come from the private sector. Without discriminating against existing programmes, this significant increase in EU funding should stimulate "poles of excellence" and support projects of European interest selected on a competitive basis.

A research agenda set by the European Technology Initiatives/Platforms (ETI/Ps) should ensure that research will be supportive to the long-term needs of industry. It should emphasise the strong links between basic and applied research particularly in broad areas where Europe faces significant challenges and facilitate EU-wide research projects. A reduction in the bureaucratic hurdles facing applicants and improving management in the distribution of available public funds (via a grant-based system) in the Seventh Research Framework Programme (FP7) is strongly needed. Finally, encouraging Public Private Partnerships, cooperation between enterprises and research centres and improving the current State Aid regime are likely ways of improving industry participation and facilitating the interface between research and profitable technological innovation. European business welcomes the creation of a European Research Council with excellence and result-oriented emphasis as selection criteria for ERC funded projects.

2. Trans-European Networks, obvious trans-border benefits

UNICE welcomes the strong emphasis given to the Trans-European Networks (TENs) in the Commission proposal. TENs have a crucial role to play in the economic integration and facilitation of trade of the enlarged EU.

EU financing is not the only issue. Certainty of financial commitments from the Member States is a pre-condition for a competitive Trans-European Network to become reality. A clear commitment should be taken by all Member States within their multiannual budgets also to attract private investment and promote Public-Private Partnerships (PPPs) in order to increase the catalyst effect of community support. UNICE supports the Commission's proposal to increase the funding percentages to 30 and 50% in selected areas. For these cases, it is important to have a clearer specification about the criteria to be used to access the different financing rates.

TENs will only become reality if efforts – together with interoperability, intermodality, liberalisation of the railway sector and a competitive system of infrastructure charging - are coordinated at EU level and go beyond national interests. Cross-border cooperation should be further promoted. An automatic preference for railway infrastructure, as currently exists, risks excluding many projects that potentially contribute to more efficient logistics and a better functioning, more sustainable transport system. UNICE certainly welcomes the strong emphasis and increased funding percentages to the cross-border sections as announced by the Commission. However, more could be done to overcome the legal and technical obstacles that stand in the way of private investment in complex cross-border projects.

3. Competitiveness and innovation in the single market, an ambitious agenda

The new Competitiveness and Innovation Framework Programme (CIP) aims to provide a coherent approach between existing and planned programmes targeting innovation and sustainable use of resources, ICT, SME access to finance and better regulation for entrepreneurship and business environment. UNICE welcomes this initiative and calls for adequate EU financing. Innovation should be seen as a horizontal issue which must not be compartmentalised in individual action plans. UNICE supports the view that competitiveness is an overriding theme that must inspire and drive the sub-actions on innovation, entrepreneurship, ICT, and better regulation.

UNICE takes note of the Commission's intention to differentiate between innovation and research & development (R&D). Indeed, innovation is broader than R&D. Nevertheless, close cooperation and coordination between R&D and innovation is necessary and should be conducted in synergy, avoiding a fragmented approach. Coordination is particularly needed between the different Commissioners and especially between DG Enterprise and DG Research.

4. Education and training, focus on EU actions that provide added value

Improving education and training is certainly one of the most important determinants of competitiveness. Education and training programmes should play an active role in making Europe the most competitive and dynamic knowledge-based economy in the world by 2010. That being said, it should be recognised that most of the responsibility to finance remains in the hands of national and regional authorities. Under a very tight budget constraint, spending will have to focus on areas where EU funding provides the most significant added value to national and regional efforts.

Particular attention should be paid to tailoring the new lifelong learning programme to better respond to labour-market needs. Labour shortages in advanced managerial science and technology are still creating important bottlenecks for economic and employment growth in Europe. Encouraging students to choose scientific paths at university and for graduates to continue their careers in the scientific field are necessary to meet the increasing demand from enterprises. Simplification and rationalisation of the programmes as proposed by the Commission could allow such an evolution. However, such a step would be more promising if a more outcome-focused approach was adopted.

5. Social Policy Agenda, focus on priority actions

As part of the implementation of the EU Social Policy Agenda, the Commission has proposed the following programmes: a single programme for employment and social solidarity ("PROGRESS") and "Sustaining social dialogue, free movement of workers and studies and special reports in the social field".

In order to make an efficient use of limited EU resources, these programmes should focus on three priorities: promoting labour market flexibility, supporting employability and increasing the efficiency of employment services. However, like for education and training, the bulk of financial resources has to come from national and regional budgets. Emphasis should also be placed on areas where EU funding can provide the most significant added value to national or regional efforts.

IV. COHESION, THE REGIONALISATION OF LISBON

UNICE strongly supports the enhanced synergy of cohesion policy towards competitiveness. Cohesion has been necessary to deepen the integration process and should aim to increase regional economic performance. EU funding should not be used to support lame-duck enterprises and in a way that distorts competition. Actions should primarily focus on supporting structural changes to increase competitiveness, improving human and physical capital and strengthening innovative capabilities.

Strengthening the role of the private business sector in needs identification, planning and evaluation processes should contribute to translate the new orientation towards competitiveness into practice. UNICE welcomes the simplification of objectives and the reduction of instruments from six to three (ERDF, ESF and Cohesion funds). However, greater control and efficiency means that EU funds must not be distributed into too many projects that would unduly increase the administrative burden of these instruments.

The Commission has defined three priorities: ‘Convergence’ that will broadly cover present cohesion fund and objective 1, ‘Regional competitiveness and employment’ that will broadly cover present objectives 2 and 3 and ‘European territorial cooperation”.

Convergence

- The cohesion policy should help to speed up the catching-up process of the least developed economies by concentrating resources towards the regions lagging behind. The stronger orientation of cohesion actions towards competitiveness should pave the way to a closer fit with the general strategic goals of the EU.

- The transition regime, scaling down subsidies for the regions affected by the statistical effect of enlargement on GDP per head data, is appropriate.

- Efficient management of EU funds requires paying more attention to the administrative capabilities of local and regional actors that are in charge of particular projects financed by the European Regional Development Fund (ERDF) or the European Social Fund (ESF). Accountability should accompany the decentralisation of project management to shift responsibility to the local actors responsible for implementation.

Regional competitiveness and employment

- For regions neither eligible to convergence programmes nor covered by the transition regime, the priority ‘Regional Competitiveness and Employment’ represents the best catalyst of a real orientation of cohesion policy towards the Lisbon Strategy, spreading ownership of this Strategy at regional level. The criteria for subsidies in the relevant regions must be developed along clear and strict guidelines.

- As proposed by the Commission, new programmes under this sub-heading financed by the ERDF should focus only on three priority themes, i.e. innovation and entrepreneurship, access to networks and eco-efficiency.

- It is also important to ensure proper coordination and consistency between regional policy, programmes financed under the competitiveness heading (TENs, R&D, innovation, etc) and competition policy.

.

European Territorial Cooperation

- Cross-border and trans-national programmes is also welcomed by UNICE, regarding the interdependence between neighbouring regions across borders. Cross-border cooperation is also essential to integrate the internal market more deeply.

More particularly on the European Social Fund Regulation …

UNICE welcomes the strong link between the European Social Fund and the European Employment Strategy, even if it could still be reinforced. The ESF should help workers and companies to adapt to change by supporting employability and labour productivity. To that end, sufficient resources of the ESF should be allocated to human resources development projects within the priorities 1 and 2.

UNICE supports the strong emphasis given by the Commission on social partners‘ involvement in the preparation and monitoring of the National Strategic Reference Framework as well as the preparation, implementation, monitoring and evaluation of the Operational Programmes. However, UNICE would like to see more simplification in the proposed new procedures to reduce bureaucracy. Simplification is particularly needed to increase private participation in ESF projects.

V. AGRICULTURE AND COHERENCE WITH THE LISBON AGENDA

The October 2002 European Council decision has managed to cap the amount of agricultural expenditure in the EU budget. The resulting significant and appropriate decrease in the relative share from 2006 to 2013 in the Commission proposal should be taken as an important signal with regard to the development of the agricultural share in the budget. Of course, strict budget constraint could change this development.

UNICE considers that previous efforts to make agriculture more market-driven and environment-friendly should be enhanced, taking into account third countries development policy issues. But UNICE asks for greater coherence between the CAP and the Lisbon Strategy, by focusing more on innovation and competitiveness in this area. UNICE would not support that compromise at the end of the negotiations is achieved at the expense of the competitiveness priority. With the likely possibility of a very tight budget constraint and notwithstanding the recognition of the efforts provided since 2002, UNICE considers that the question of the Common Agricultural expenditure will have to be addressed.

VI. THE EU AS A GLOBAL PARTNER

UNICE welcomes the priority given to the external dimension in the Commission proposal. For European companies, external markets are vital (around 20% of its GDP). UNICE considers of strategic importance the EU’s capacity to creating an environment enabling its operators to compete successfully in third countries. Considering that companies are the main engine for wealth creation, external economic cooperation should fully recognise the role of the private sector. This is a key condition for the success of development cooperation, which, at the same time, should focus on the countries that need it most.

UNICE welcomes the proposed simplification of EU instruments, which should focus on concrete and measurable results, incorporating the private sector in its implementation and be flexible enough to meet the specific needs of each country and region. The incorporation of the European Development Fund in the EU budget also represents an improvement in terms of better accountability and budget coherence. Finally, enlargement reduces the financial needs of external actions. Promoting further the involvement of the private sector could increase the leverage effect of public spending.

VII. THE FINANCING SYSTEM

Following the Commission proposal to strengthen the tax base resource in the financing of the EU budget, it should be ensured that there will not be any increase in the overall tax burden on companies and citizens. Either EU energy or corporate income taxes would require a minimum tax rate, which UNICE cannot support. This would negate the interdependence between the different types of tax that Member States levy on an independent sovereign basis.

* * *