

José Manuel Barroso

President of the European Commission

GLOBAL COMPETITION – does the EU play to win ?

*Check Against Delivery
Seul le texte prononcé fait foi
Es gilt das gesprochene Wort*

UNICE
European Parliament's Hemicycle
Brussels, 20 October 2005

I very much congratulate UNICE on the organisation of this Competitiveness Day entitled Crossing Frontiers. I'm very happy to be here today, as I was last year when in December I addressed your 2nd Competitiveness Day, on *Play to Win*.

- Globalisation is indeed a challenge and an opportunity for the EU economy. It is imperative that both the EU institutions and European businesses urgently discuss and address the issue.
- How should the EU react to globalisation? As you know the Commission adopted today a Communication on the *European values in the globalised world*. The challenge of globalisation – as well as that of ageing - is directly addressed in that document. I will comment later on our communication, but let me first elaborate on some more specific aspects of globalisation.
- How does the European economy stand in the face of the challenge of globalisation? We

have certain strengths and some weaknesses and it is important to try to understand these.

- Europe has several industries that are clear global champions. For instance, mechanical engineering, chemicals, and motor vehicles have consistently demonstrated their strength through constant innovation. Each of the industries makes a major contribution to the EU's balance of payments each year.
- However, EU trade and production is still in overall terms concentrated in sectors with medium-high technologies and using low to intermediate labour skills. These sectors would be particularly exposed to competition from the Asian emerging economies, if they do not upgrade the quality and technology of their products and the skills of their workers. Thus adaptability and structural change is critically needed for the EU to maximise its potential gains from globalisation.
- As well as competition for market shares, globalisation results in increased competition for the location of jobs, investment, and R&D.

On the whole, international relocations of EU jobs to low cost countries have been limited in most sectors, though the media often over-focuses on a few relatively rare instances. However, there have been some instances with painful consequences on a local or individual sectoral basis. This is where management of change is needed to ensure especially that lower skilled workers are helped to cope with the consequences of industrial restructuring.

- Moreover there have been some indications that the EU has not made as much of its strengths as a location for research and development as it might have done. Both the US and Japan are at the moment attracting more international R&D than the EU. For instance, EU business invests some €2 billion a year more in R&D spending in the US, than US firms do in Europe. Moreover, China and India are also becoming important locations for new R&D investments. Chinese R&D is growing at a rate of 10% a year, much of which is foreign financed. These trends also raise serious policy concerns.

- The challenge for EU manufacturing industry and individual sectors is therefore to innovate and adapt to be able to maintain and further improve their performance in the future in the face of further technological breakthroughs and continued internationalisation. The challenge for policy makers is to make a clear and coherent response by making substantial improvements to the framework conditions and general environment in which European industry operates.
- But globalisation also offers huge opportunities for European businesses. European companies must do the necessary to exploit the huge market potential which countries like China and India represent.
- Let me now turn to the communication the Commission adopted this morning. We argue that Europe must modernise its policies to preserve its values. Modernisation is essential to continue keep Europe's historically high levels of prosperity, social

cohesion, environmental protection and quality of life.

- Today, ageing and globalisation are often perceived as threats. Ageing jeopardizes the financing of future social services, while globalisation seems to put our current jobs at risk. The threat feeling leads to fear and often Europe is looked at as the source of this fear.
- Now is time to reverse the debate. Globalisation can create wealth for all as the highly successful enlargement did before. Ageing implies we live longer in good health.
- Europe has an enormous potential to reap the benefits from ageing and globalisation. It has a solid foundation of high quality health care, pensions and education on which it can build and it is the world's single largest trading block. It has seen peace for many decades, and is more fortunate than other parts of the world when it comes to natural disasters.

- Yet, a big potential alone is clearly not enough. Without comprehensive modernisations, the potential dries up. Europe will then lose ground on education and R&D and it will have substantial difficulties financing high quality health care and pensions. The lack of adequate action today will leave our children with an immense burden.
- The response to the challenges of globalisation and ageing lies in economic reform and the modernisation of social systems.
- The much needed economic reform will be hampered if we do not modernise our social systems. For example: childcare facilities must be significantly developed to allow more women to work while reversing the falling trends in birth rates.
- On economic reform. The new Lisbon agenda for Growth and Employment which we launched last February is a response for the needed economic reform. It takes a fresh

approach to competitiveness policy. We acknowledge that it is primarily businesses and not the public sector that create growth and jobs. The role of public policy is therefore to focus on framework conditions and horizontal policies. It is not about choosing winners or subsidising losers, but rather about creating a level-playing field that will encourage entrepreneurship and competition. This is particularly important for SMEs that provide so much of the dynamism and innovation in the EU economy.

- But the Strategy for Growth and Employment also about the need to manage the social and economic consequences of economic change. But the Commission and Member states have some tools at their disposal to help anticipate and accompany, particularly the social consequences of such changes. It is essential to protect lower-skilled workers and disadvantaged groups from the consequences of such changes, in order to preserve the values of the European social model and hence develop the social consensus needed to foster economic

change. This is why we have today proposed the creation of a Global Adjustment Fund. I would like to avoid misunderstanding here. This new Fund is not intended to support firms which are no longer economically viable. No. The Fund is to help people. Is to help those who loose their job as a consequence of globalisation to be able to find a new job.

- The new Lisbon strategy is a partnership between the EU and Member states. Several policy challenges need to be addressed at the European level, since individual Member states acting in isolation cannot succeed in tackling issues such as major competition cases, the regulation of the single market, or social and economic cohesion. However Member states have the main responsibilities for structural reforms which form the National Reform Programmes being submitted by Member states. I will focus on the Commission's own direct contribution to the delivery of the Lisbon strategy.

Key Commission initiatives to strengthen competitiveness and foster economic change

- The Commission has recently come forward with a number of key initiatives as its part of the delivery of the Lisbon strategy, the Lisbon Community Programme. A number of important elements of this approach were presented in the Communication on Industrial Policy that was published two weeks ago on 5 October. This presented a more integrated and relevant approach to industrial policy, based on a detailed assessment of the policy challenges faced by individual sectors of manufacturing and construction industry.
- Recent initiatives contained in the Communication on Research and Innovation adopted last week that sets out a new integrated approach to policies and actions in these areas to ensure greater research efforts and more success in making bringing these innovations to market;

- The proposals in the Communication on State Aids for innovation for a new regime for state support for innovation;
- Initiatives on intellectual property rights and counterfeiting and on improving sectoral skills, announced in the Industrial Policy Communication.

The second set of measures relates to making Europe a more attractive place for businesses to invest. Better regulation is an essential part of this. We have already withdrawn one third of the proposals pending in the Council and Parliament since at least 2004, including proposals that do not meet our competitiveness criteria. But this is only the first part of our better regulation initiative. Further key elements that were announced in the industrial policy communication include:

- A new High-level group on competitiveness, energy, and the environment, designed to ensure the consistency of policy and legislation in these areas, including climate change policy, the functioning of energy

markets, and the uptake of environmental technologies.

- A new legislative simplification initiative focussing on legislation on the automotive, construction, and waste sectors.

The third set of measures relates directly to ensuring a level playing field in global markets. We are making all effort to reach an ambitious result in the Doha-trade round and will continue our support for closer economic integration with our neighbours and other partners. With a specific focus on competitiveness, two future strategies are currently being worked on:

- A strategy on market access focussing on tackling barriers in particular sectors and countries
- A strategy dealing with wider aspects of external competitiveness, including international aspects of intellectual property rights, regulatory issues, investment, and public procurement.

Finally, a further initiative on managing structural change in manufacturing was announced in the

industrial policy communication. This will ensure that the new structural funds programmes will also reflect the need to respond to economic restructuring, alongside active measures to reinforce the wellbeing of regions.

Let me conclude:

First that The Commission is delivering, we are implementing the Lisbon Community Programme: Better regulation, State aids, Industrial Policy, Programme for Research and Innovation.

In the Communication we adopted today we call again the Member States to implement the agreed structural reforms and policies within the renewed Lisbon agenda for growth and jobs.

We also restate our commitment to complete the internal market, including for services, telecoms, economy and financial services.

We propose the creation of a Global Adjustment Fund.

We need a budget. We need an agreement on the financial perspectives before the end of the year.

I can assure that we will pursue these objectives with determination.

Ladies and gentlemen,

The need for reform and modernisation is clear. This will give us confidence to reap the benefits of globalisation. Europe has a central role to play. These are the messages I will convey to the Heads of State and Government in Hampton Court next week. Through modernisation we will preserve our values.