PRESIDENT SEILLIÈRE'S ADDRESS AT THE BRUSSELS ECONOMIC FORUM ON 18 MAY 2006

***** Check Against Delivery *****

Background information:

The Conference:

- The Brussels Economic Forum is a two-day event organised every year by DG ECFIN of the European Commission. It gathers high-level speakers with an academic, political or business background and is characterised by a strong economic dimension of its topics. This year's theme is "Renewal in Europe". (French title: "Une nouvelle renaissance en Europe")
- The session in which President Seillière will speak is titled "Competition and Innovation: Making it Happen", and will be chaired by Mario Monti, President of Boconni University, President of Bruegel and former Member of the European Commission. The person which was likely to attract most attention in the session was Bill Gates, Chairman of Microsoft but in a last minute decision Microsoft decided not to be represented. President Seillière is expected to comment on the speakers intervening before him.
- The time slot for President Seillière is 15 minutes. (17h00 – 17h15)

The Microsoft case:

- In 2004 the European Commission imposed a fine on Microsoft over 497 million Euros for breaching the EU competition law. Microsoft was found guilty for having stifled competition by
  - hindering inter-operability between its operating system "Windows" and software from competitor companies, by keeping important parts of the "Windows" source code secret.
  - tying its "Windows Media Player" (a special software to listen to music and watch movies) to "Windows" which is by far the most used operating system on the market, and thus preventing a level playing field with other media player products in the market.
- Microsoft was thus condemned of abusing its near monopoly position to keep new entrants from entering the market, and to open up its operating system "Windows" by:
  - o offering a version of "Windows" without the Windows Media Player;
  - o making some of the "Windows" software code publicly available.
- The latter obligation illustrates a vital problem with the Commission's Microsoft decision: there is a conflict in the software industry between widespread market access on the one hand, and protection of intellectual property on the other. Both aspects, however, are important conditions for fostering innovation.

- Recently, the Microsoft case has made headlines again:
    - Microsoft has appealed to the European Court of Justice (ECJ) against the Commission decision. The ECJ started working on the case in April 2006 but is not expected to reach a verdict before 2007.
    - In March 2006 the Commission warned Microsoft that it still has not fully complied with the 2004 Commission decision, and threatened the company to impose a daily fine of 2 million Euros if it continues to do so. The final decision whether or not to impose the fine is pending.

<u>Suggested topics for President Seillière's panel intervention</u>:

<u>Narrative</u>:

- *Innovation is crucial for Europe's future*
- *Europe needs structural reforms to improve its innovation capacity*
- *The EU must provide the right framework conditions:*
    - *Better Regulation*
    - *Use EU funds as catalyser*
    - *Enact a globally oriented competition policy*
    - *Modernise state aid rules*
    - *Enforce EU law*
    - *Make real progress in WTO negotiations*
    - *Complete the Internal Market, especially in services*
    - *Enlargement is an opportunity, not a threat*
- *Conclusions – European companies need Europe*

<u>Innovation is crucial for Europe's economic growth</u>

- Innovation must become the key growth driver for Europe. Today a company can develop a product in one continent, produce it in another and sell it all over the world. In this global division of work, Europe cannot, in the long run, win the competition for lower cost, but only the competition for innovation. We must strive to become the world's top destination for business research, development and innovation.
- Therefore it is worrying that Europe is losing ground as an attractive place to develop new products and services, and this even more so since it is not only competing with the US and Japan anymore, but also increasingly with emerging economies: the number of foreign-invested R&D centres in China has risen from 200 to 750 in the last four years.
- Some European countries, in contrast, have a fantastic innovation track record. In search for best practise in creating the right climate for innovation

we do not necessarily have to look beyond Europe. Finland for example filed twice as many patents per person at the European Patent Office in 2002 than the US; Switzerland even filed three times as many per person than the US.

- However, we have to face the facts: whereas former key innovations such as the steel and chemical revolution originated in Europe, the latest business revolution in Information and Communication Technologies (ICT) came from the US. In the wake of this revolution, many US companies grew from little start-ups to global players in only a few years time. Microsoft is one of them. In contrast, European success stories in ICT are thin on the ground – although there are notable exceptions such as SAP or Nokia.
- Now Europe must watch out that it does not miss the innovation train in other sectors. It is a worrying signal that out of the 20 largest biotechnology firms in the world, 19 are American and one is Swiss.

Europe urgently needs structural reforms to increase its innovation capacity

- Why is there an insufficient level of innovation in Europe? There is a common joke that Bill Gates, who famously started his company in a garage, would never have been able to create Microsoft in Europe, because here regulation does not allow using garages as offices for lack of outdoor windows. There lies some truth in this joke – Europe definitely suffers from overregulation.
- But the regulatory environment is not the only area where Europe has to improve. In order for innovation to happen, a wide range of conditions needs to be fulfilled, such as:
  - a workforce with the skills and knowledge needed in the 21st century.
  - world-class research facilities where entrepreneurial spirit and know-how can turn inventions into innovations

- flexible labour markets so that labour can move from unproductive to productive work
- favourable financing conditions for investment
- good intellectual property rights
- a regulatory environment in which SMEs can grow.

- Most of these conditions have to be worked on at national level. Member States know what reforms to carry out and have committed to them in the European Growth and Jobs Strategy. Now the task is - and UNICE and its national members have made that very clear - to implement the reforms that have been promised in the past.
- But the EU level also has a vital role to play in ensuring proper framework conditions in many policy areas crucial for innovation:

Better Regulation

- One of these areas is better regulation. All too often EU legislation, in the pursuit of a virtuous cause such as protection of human health, ends up putting the innovative capacities of European entrepreneurs at risk by placing too costly administrative burdens on them. The proposed REACH regulation is a prominent example.
- Therefore thorough impact assessments on all legislative proposals are key. Before adopting a law, the possible impacts on the competitiveness and innovation for Europe must be clear.

Use EU funds as catalyser

- EU funds can be an important catalyser for research and innovation activities in Europe. European business attaches high importance to Community programmes supporting research and innovation, such as the 7th Framework Programme for R&D, or the Competitiveness and Innovation

Framework Programme. The EU must eventually move towards a budget whose main priority is to help moving Europe towards an innovative knowledge society.

- The final agreement between EU institutions on the financial perspectives 2007-2013 reached in April, which earmarked some 2 billion Euros more for such programmes than initially foreseen by the European Council are definitely a good step in the right direction. But we are still far away from an EU budget that fully responds to Europe's structural needs.

Enact a globally oriented competition policy:

- Competition is indispensable to trigger innovation, and therefore rightly at the heart of this afternoon's discussions. The EU has a key role to play in ensuring the right framework for competition.
- According to McKinsey Global Institute (*Ian Davis, Director General of McKinsey will also speak in the panel*) there is no full-employment economy in the world that is innovative and growing and that maintains at the same time rigid restrictions on competition. The stronger the competition the more innovative companies tend to be, the better and cheaper the products and services become, and in consequence the more growth and jobs are created.
- Enacting competition policy today is a new challenge because nowadays competition means *global* competition. The age of national champions has passed. Nowadays Europe needs companies that are able to face the strong winds of competition from the US and Japan on the one side, and from emerging economies on the other side. We call on European competition policy to take this new reality into account. We expect from the Commission to make a dynamic, forward looking economic analysis when deciding on whether or not to allow mergers and acquisitions in Europe.

Modernise state aid rules

- Another area where we count on the EU to trigger innovation is by modernising state aid rules. It is understood that state aid must be applied horizontally so that it benefits all companies within an economy or a sector.
- But Member States must be allowed to redirect state aid towards promotion of research, development and innovation, including a policy of tax incentives. The US or Japan do not have state aid regimes. Therefore its companies are not submitted to comparable competitive constraints as EU companies.

Enforce EU law

- The EU's mission is not only to ensure proper competition rules but more generally to intensify competition across borders by overcoming national barriers. It is therefore that we are alarmed by a rise in national protectionism that could lead to a negative domino effect. Examples of this tendency have been the recent attempts to prevent takeovers. The necessity to stay competitive on globalised markets has spawned a wave of takeovers, acquisitions and alliances among European companies. Some of these mergers have encountered defensive national reactions, of which UNICE disapproves.
- Preventing mergers out of national political considerations is bad for the European economy. We support the Commission and Commissioner McCreevy in their actions to ensure that EU law is respected. This includes strong measures against anyone infringing existing Internal Market Directives.

Make real progress in WTO negotiations

- National protectionism is not only a European phenomenon, but can unfortunately be witnessed on both sides of the Atlantic and beyond. We are especially worried about the risk of failure of the WTO negotiations to complete the Doha Development Round. A successful conclusion of the Round would send the strongest possible signal that protectionism does not make acceptable policy and give governments around the world stronger tools to combat it.

- As we approach the endgame of the DDA, European business calls on all sides to reach an ambitious conclusion. The EU must continue to push hard: to get emerging countries to commit to reducing their highest tariffs to 15%; to ensure that non-tariff barriers are effectively tackled and to guarantee that the Round delivers new opportunities for companies to sell their services abroad. A legally binding agreement to reduce the costs and delays of border procedures is also vital. None of these results can be achieved without further movement from current negotiating positions on agriculture.

<u>Complete the Internal Market, especially in services</u>

- Thanks to the Internal Market, the EU has in the past been very successful in creating intra-EU competition to the benefit of European society, for example in telecoms: due to increased competition, the average price in the EU15 to make a ten-minute phone call to the US has fallen from 6,63 Euros in 1997 to 1,85 Euros in 2004.
- However, the dynamics of opening up European markets has stalled. The legislative procedure of the services directive shows how limited the current willingness is in some Member States to allow outside competition. The services directive the European Commission proposed in 2004 was responding to a real need to open up the services sector, which is the biggest and most growing part of the economy. An impact assessment study by *Copenhagen Economics* found that this initial services directive proposal by the Commission would have created up to 600,000 jobs in Europe. UNICE deplored that the initial proposal has been much watered down,

leaving opportunities for national legislators to protect their services market from outside competition.

- But we have to live with the political facts of what is currently feasible in Europe and what is not. Europe is still better off with than without a services directive. We are now waiting for a new and thorough impact assessment by the Commission, whose findings must be taken into account in the further legislative process in the Council and in the Parliament.

Enlargement is an opportunity, not a threat

- One of the victims of the rise in protectionist tendencies are the new Member States. Europe must not make the mistake to take a defensive stance towards enlargement. The recent enlargement of the European Union has created the biggest market in the western world with 460 million participants. The new Member States most of which have growth rates way above the EU average are exactly what the EU needs to have a fresh dose of dynamism injected into its economy.
- The watering down of the services directive or the failed referendums in France and the Netherlands are in part outcomes of the fear European citizens are having of the competition form new Member States. These fears have also manifested themselves in the restrictions imposed on the free movement of workers from new Member States within the EU. We call on all Member States who have not already done so to abandon these restrictions as soon as possible.
- Economic growth is not a zero-sum-game. Europe as a whole will profit from the rapid development of new Member States. The experience with past enlargements like the accession of Spain and Portugal in 1986 shows that new Member States which are poorer than the EU average do not make established Member States any poorer. Therefore the EU regional and

cohesion policy must be used to further enhance economic development throughout the EU.

Conclusions – European companies need Europe

- European companies need Europe. Only with an EU that provides the right framework for competition and innovation can companies stay competitive and create the growth and the jobs needed to sustain Europe's prosperity.
- The European project must not stop or even go backwards which is currently a real risk. There is a deep-seated crisis of confidence in Europe. With European citizens fearful of European integration, the business world fears that fundamental elements of the EU such as the Internal Market, the single currency or the common commercial policy could be brought into question and replaced by a narrow conception of national interests.
- Dynamic and competitive European markets are the trampolines for European companies to be innovative and thus to successfully face global competition. We need the competition and the dynamism of the Internal Market of 25, 27 and more countries to succeed. Therefore we call on all policymakers in Europe to help make Europe a success.

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