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1. GET OUT OF THE CRISIS
 2. TACKLE DEMOGRAPHIC AGEING
 3. FIGHT CLIMATE CHANGE
 4. ENSURE ACCESS TO ENERGY AND RAW MATERIALS
 5. STRENGTHEN EUROPE'S ROLE IN THE GLOBAL ECONOMY



FIVE KEY CHALLENGES

‘Europe has to meet its challenges today to play at its full strength in the future’

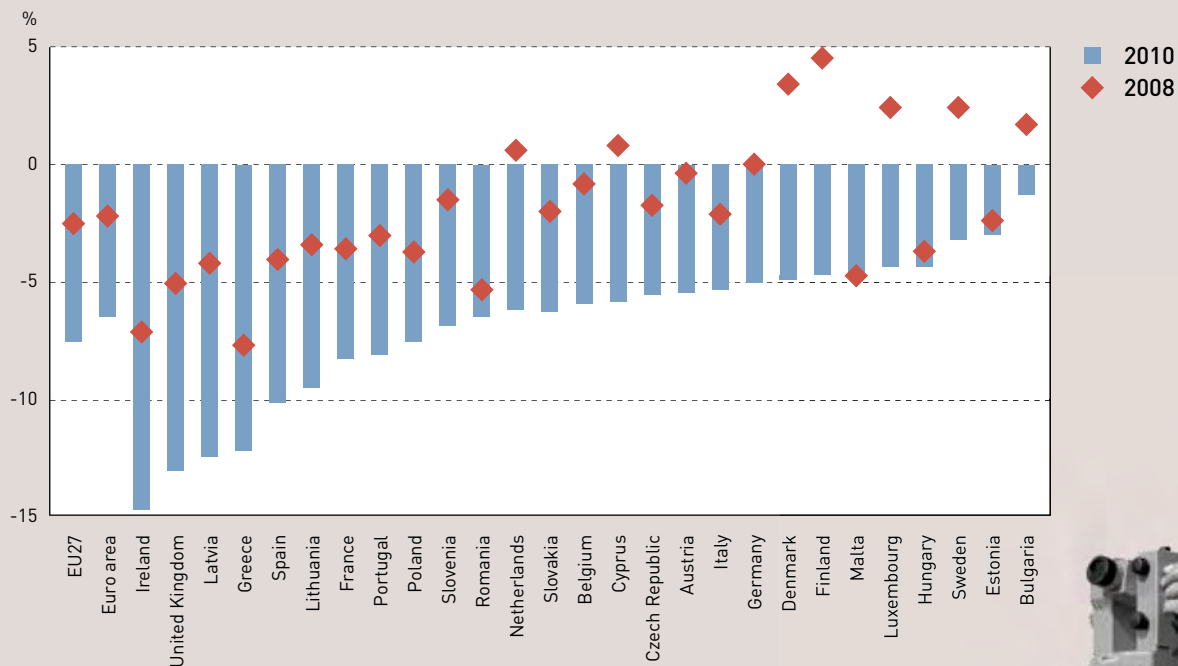
1. GET OUT OF THE CRISIS

Although the recession may be drawing to a close, dramatic economic figures highlight the challenges ahead. By the end of 2010, unemployment will increase to 10% and private investment will decline by around 15% from its 2008 level. Public debt will reach 80% of the European Union's GDP and public deficits 7%. Now is the time for policy-makers to commit to reforms.

Companies need access to affordable financing to start investing again. Weak bank balance sheets and a dramatic re-assessment of credit risks create a major constraint for the recovery. In addition, the poor state of public finances and rising public debt is putting pressure on long-term interest rates, with the effect of crowding out private investment.

Stabilising financial markets, returning to sound public finances, speeding up structural reforms and keeping markets open is indispensable if we want to have a sustained economic recovery.

Chart 1 Budgetary balance as % of GDP



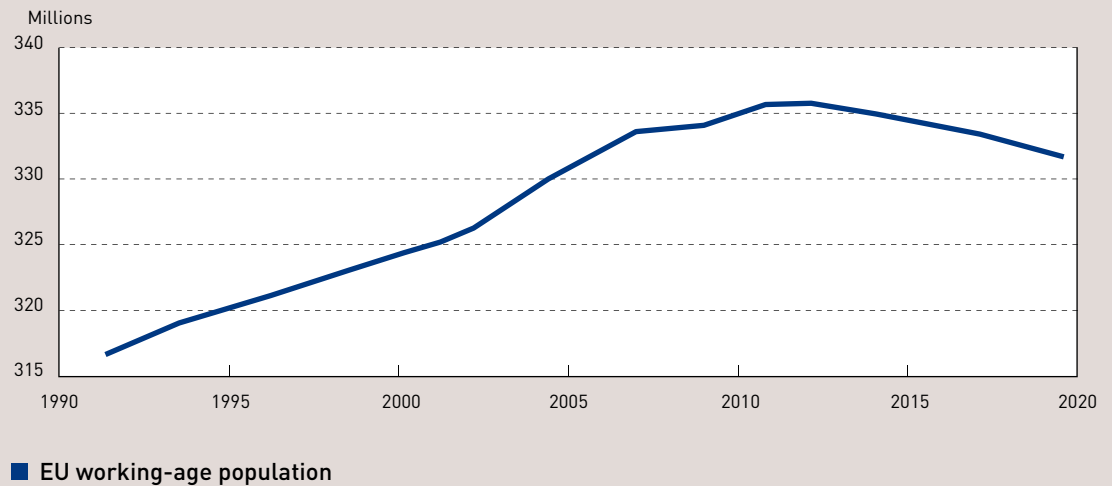
Source: DG ECFIN (AMECO Database)



2. TACKLE DEMOGRAPHIC AGEING

The economic upswing will not last if companies lack a sufficiently qualified workforce. As the European population ages, it creates a demand for new products and services in Europe. But from 2010, it will also result in a decline of the working-age population, with a loss of over 3 million potential workers by 2020 and over 50 million by 2060. If the EU continues to ignore this trend, it will not only undermine its social protection systems, but also lose business opportunities and the related jobs and growth.

Chart 2 The EU's demographic challenge



Source: Eurostat and BUSINESSEUROPE

Europe is already suffering from a deficit in the provision of scientific and technological skills. Ageing will exacerbate the mismatch between people's skills and those that are needed in labour markets. We face massive competition in the global race to grow, attract and retain talents. Highly-qualified third-country workers only make up 1.72% of total of the employed population in the EU, compared with 9.9% in Australia, 7.3% in Canada, 3.2% in the US and 5.3% in Switzerland. At the same time, around 400,000 Europeans with scientific skills live and work in the United States.

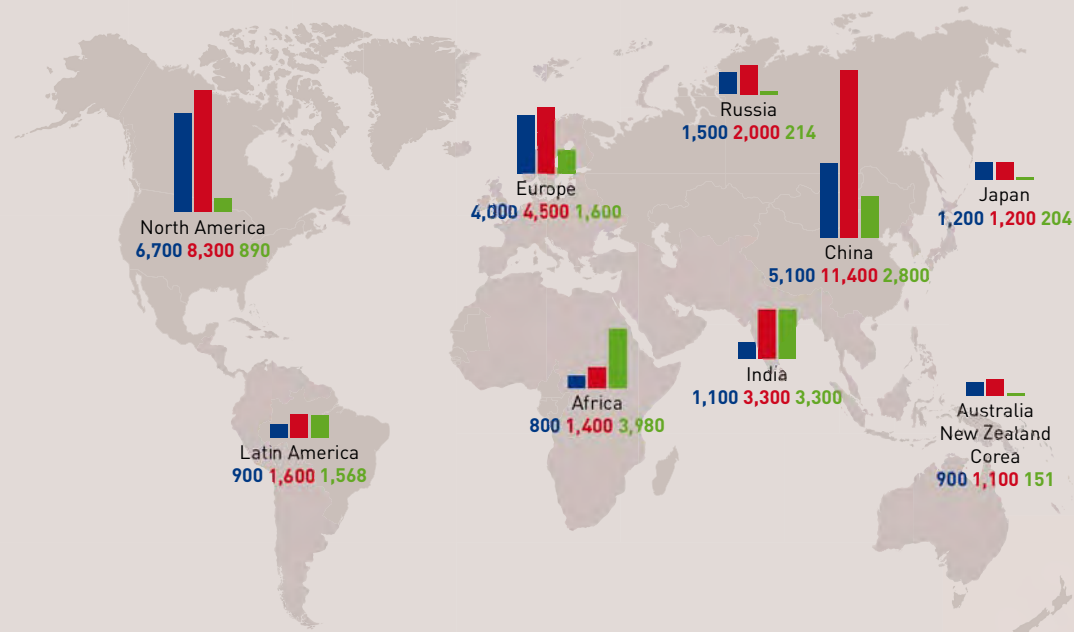
Increasing the supply of skilled workers and adapting labour markets and social protection systems to demographic ageing is essential if we want to boost employment in Europe.

3. FIGHT CLIMATE CHANGE

Fighting climate change requires a variety of innovative products and services, as well as significant changes in production and consumption patterns. Between 1990 and 2005, the EU energy-producing sector reduced its green house emissions by 11% and manufacturing industry by 13%. These sectors will further reduce their emissions by at least 21% by 2020 through the EU emissions trading scheme.

However, EU energy producers and industry account for only 6.5% of global emissions. Society at large must contribute and all countries must make their fair share of efforts.

Chart 3 Current and future greenhouse gas emissions in the world



- 2005: CO₂ emissions (million tonnes)
- 2030: projected CO₂ emissions without climate policies (million tonnes)
- 2050: greenhouse gas emissions allowed under 2 tonnes/capita scenario (million tonnes)

Source: IEA World Energy Outlook 2007, United Nations



Climate change is also an opportunity. The global market for low-carbon and environmental goods and services is projected to grow to over €4.8 trillion by 2015. European industry is a world leader in low-carbon and eco-efficient technologies. Through continuous product innovation, it helps others to reduce emissions in Europe and around the world. However, green technology cannot be the only engine of European growth. To develop a broad range of innovative products and services, we need to address the weaknesses in Europe’s innovative capacity.

A global effort in the fight against climate change and enhancing Europe’s overall capacity to innovate is indispensable if we want to reduce global greenhouse gas emissions without jeopardising growth in the European Union.

4. ENSURE ACCESS TO ENERGY AND RAW MATERIALS

The EU is dependent on imports for most raw materials and is the largest importer of gas and oil. As world consumption increases due to growth in emerging markets, pressure on raw materials is mounting. Accessible oil reserves are shrinking, gas supplies can be uncertain and export restrictions on raw materials are on the rise. These factors could undermine the EU’s future growth.

Chart 4 Rising oil prices



Source: ECB

More secure access to energy through the diversification of energy sources and consumption efficiency is desirable for environmental as well as economic reasons. Renewable energies, nuclear power, carbon capture and storage and other new technologies are essential to meet

the challenges of security of supply and climate change. Establishing a comprehensive and competitive European internal market for gas and electricity is another critical factor for reaching these goals.

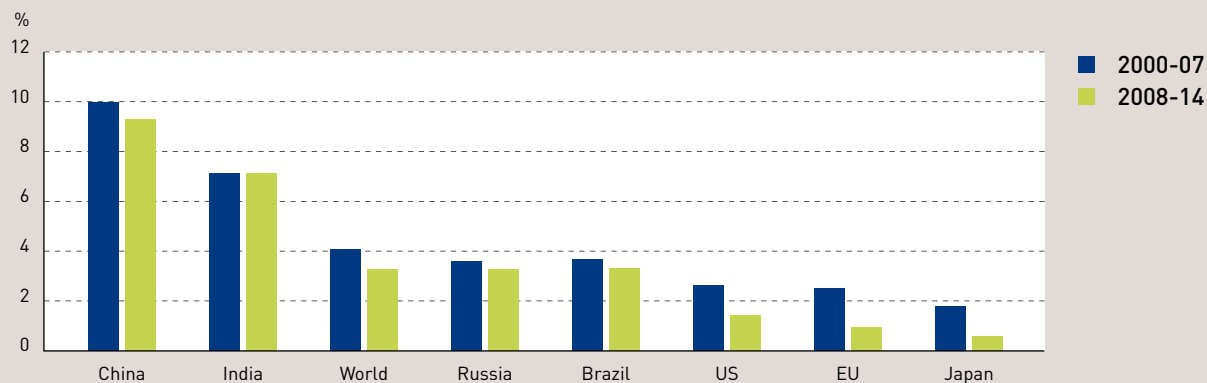
Access to raw materials is crucial for producing technologically sophisticated products. If Europe wants to develop a wide range of innovative products in green technology and clean production, fair and undistorted access to raw materials from global markets must be ensured. Effective implementation of the EU's Raw Materials Initiative, notably through trade negotiations and enforcement of WTO rules, should be at the forefront of Europe's policy.

5. STRENGTHEN EUROPE'S ROLE IN THE GLOBAL ECONOMY

Europe is the world's largest exporter of manufactured goods and services and Europe's prosperity depends to a large extent on trade, which accounts for 15% of its GDP. Exports will be even more important in the future since growth is increasingly taking place outside Europe. Average GDP growth in 1980-2008 reached 2.2% in the European Union, 2.3% in Japan, 2.9% in the United States compared with 6.3% in newly industrialised economies and 7.4% in developing Asia.

Europe's economic strength at home depends on its competitiveness in the world. We should therefore not be complacent about our performance in the global economy. As emerging economies increase their share of world trade, Europe's share is declining. It is estimated that by 2025, the EU will no longer be the world's first exporter. Europe is also underperforming in the export of high-tech products, where it is losing market share even faster than in other product categories. It is also worrying that the EU has suffered significant losses on some important markets, such as India and Russia.

Chart 5 Real GDP growth: Gap with emerging countries widening in post-crisis period



Source: IMF