LISBON STRATEGY
Status 2004

RELEASE COMPANIES' POTENTIAL

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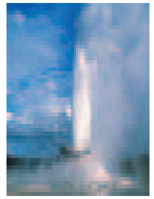

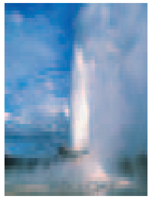

UNICE speaks for more than 16 million small, medium and large companies in Europe. Active in European affairs since 1958, UNICE's members are 35 central industrial and employers' federations from 28 countries, working together to achieve growth and competitiveness in Europe.

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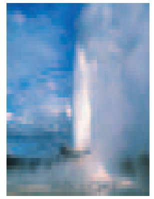


INTRODUCTION - RELEASE COMPANIES' POTENTIAL

On 1 May 2004 ten new Member States with more than 75 million people will join the European Union, making it the biggest market in the developed world. Companies embrace enlargement as a tremendous opportunity to do business. Apart from the historic and political significance of this event, enlargement will increase the size and diversity of European markets and is therefore set to trigger improved economic well-being in our society.

At the same time, however, the European economy is not doing well. Growth rates have been disappointing in recent years, other economies around the globe are doing much better. A web of costly and rigid regulation is tying down entrepreneurial activity in Europe. The challenges of globalisation, technological change and population ageing are not being met with the necessary vigour. Europe is in danger of losing its attractiveness as a place for doing business.

The European Lisbon Strategy that defined the goal of making Europe the most competitive, dynamic, knowledge-based economy in the world by 2010 is still the right one for hopping on the train of the 21st century and succeeding in global competition. But a strategy needs to be implemented. As this report shows, opportunities for implementation and reform delivery have been missed in the last three years since the launch of the Lisbon Strategy. In consequence, progress in many of the priority areas defined by the Lisbon Strategy is still insufficient.

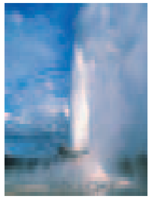
This UNICE report will, on the one hand, define the concrete competitiveness challenges and priority areas of reform. It will benchmark the performance of European countries in achieving the Lisbon goals as compared with their main competitors. It will also assess progress made in recent years, in particular since the launch of the Lisbon Strategy.

On the other hand, European competitiveness challenges necessitate political responses. Therefore, this report will put forward responses of what needs to be done by policy-makers at national as well as at European level in order to meet these challenges. In addition, the report will present, for each competitiveness challenge, one national best practice of recently adopted reform policy.

In benchmarking Europe's performance and defining policy solutions, UNICE makes no difference between the fifteen countries of the current EU and the ten countries that will accede to the EU in 2004. Enlargement does not alter the Lisbon Strategy. If anything, the reform agenda has become even more urgent, as all European countries face similar problems of competitiveness. But if framework conditions are right, enlargement will be a huge economic success. Therefore we need to modernise our economic and social models in Europe and to create an integrated strategy for competitiveness among all European and national policy-makers that will strive to release the potential of our companies, our people and, consequently, our economy.

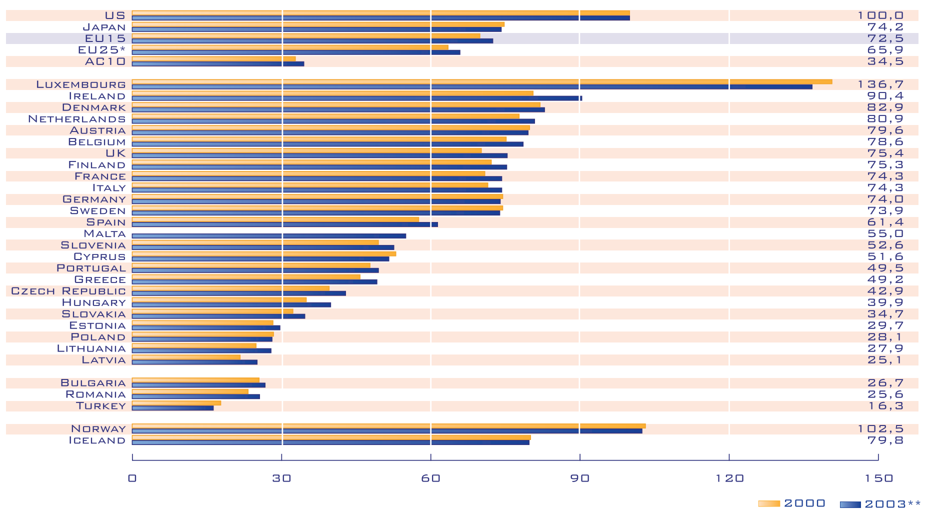
Philippe de Buck
Secretary General of UNICE

Dr Jürgen Strube
President of UNICE



The Competitiveness Challenge

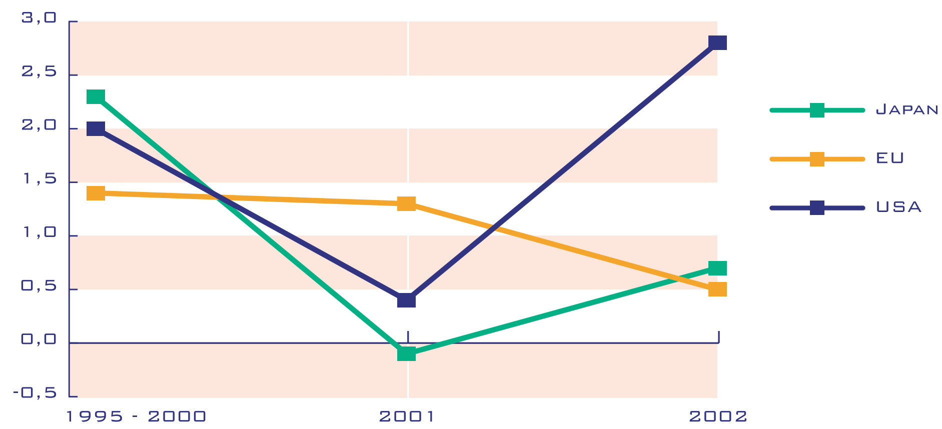
GDP per capita (US=100)



* UNICE calculation
** 1999 for Malta

Source: Eurostat

Labour Productivity Growth in % (annual average)



Source: The Conference Board 2003

The level of economic output per head is about one third lower in Europe than in the US. Since the launch of the Lisbon Strategy in 2000, this gap has narrowed only slightly.

Any recent improvement is due to a positive trend in working hours, since progress has been achieved in raising the employment rate in Europe over the last few years, although Europe is still far from reaching the Lisbon goals, and although the number of hours worked by those Europeans who are in employment is still significantly fewer than in the US.

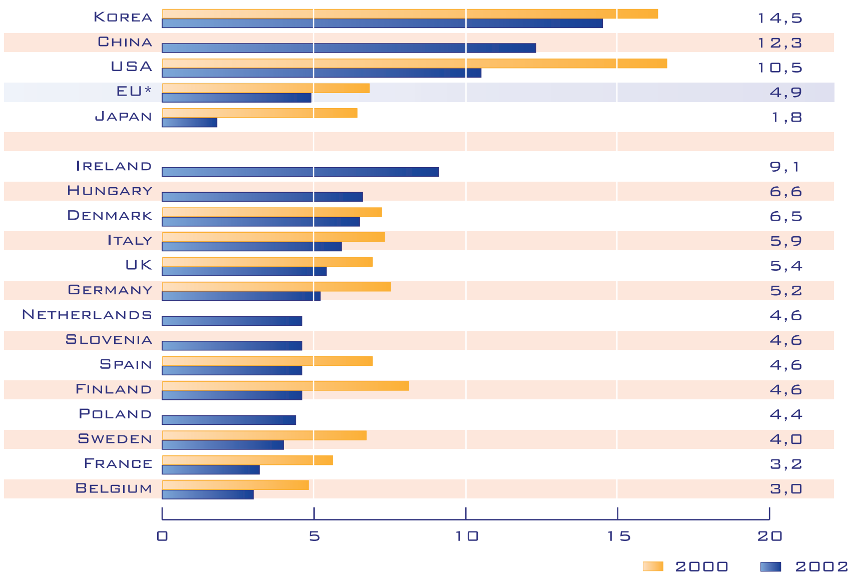
But behind this moderate progress in the employment rate looms Europe's real problem, which is a negative trend in productivity. In recent years, productivity growth has been deteriorating in relative as well as in absolute terms. Not only has Europe never caught up with the take-off of US productivity in the second half of the 1990s, but productivity is also growing less over time.

The low productivity growth reflects structural shortcomings in our economy that prevent it from growing by hindering the full development of Europe's economic potential. Enlargement will not alter that picture of structural shortcomings. Even though living standards in the Acceding Countries are much lower on average than in the EU-15, the challenges that are to be met by policy-makers are strikingly similar for both Member States and Acceding Countries.

Policy-makers must focus on five priority areas in order to release companies' potential, and raise productivity and economic output:

- Foster Entrepreneurship in a Lean and Efficient State
- Boost Innovation
- Improve Conditions for Employment
- Complete Product Market Reforms
- Find Competitive Environmental Policy Solutions.

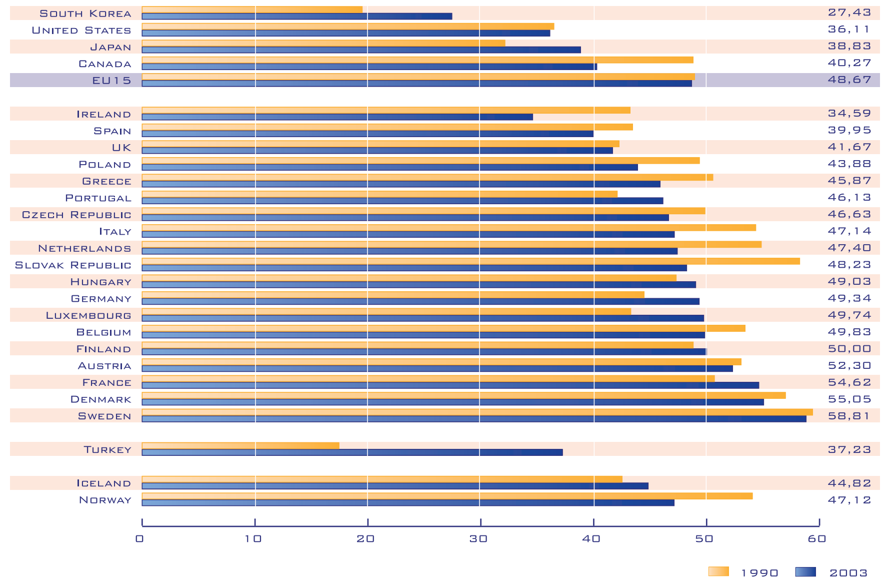
Number of entrepreneurs per 1000 population



* Weighted average of Member States and Acceding Countries for which data are available

Source: Global Entrepreneurship Monitor

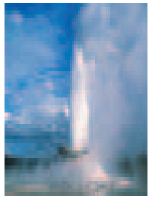
Public Spending ratio in % of GDP



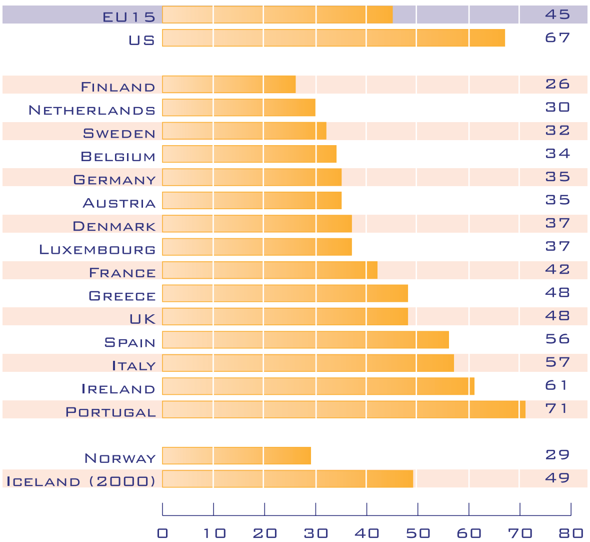
Source: OECD

Entrepreneurs are much scarcer in Europe than in the US or in many Asian countries. Only 5 in 1,000 Europeans earn their living with their own business, whereas in the US entrepreneurs are twice as numerous. This is due to cultural differences but above all to a regulatory and fiscal environment in Europe which makes it difficult for potential entrepreneurs to start and grow a business. The European Commission's Green Paper on entrepreneurship is a good first step for raising awareness of this specific European deficit and for preparing concrete and concerted action in Member States. Fostering entrepreneurship must become a cornerstone of the Lisbon Strategy. Without a good entrepreneurial climate, Europe's competitiveness will not take off.

More entrepreneurship implies trimming the weight of the state. The obesity of the European public sector is crowding out private activity through a much too high tax burden and stifling entrepreneurs with inefficient bureaucracy. Although many Member States have made progress in driving down the public spending ratio over the last decade, still almost every second Euro in the EU is spent by the public sector.



Preference for self-employment (in % of population)



Source: Eurobarometer 134 (2000)

If they had to make a choice between employment and self-employment, 45% of Europeans would prefer becoming their own boss, which is substantially less than in the US. This reflects partly a risk-averse attitude in European society. But additionally, many would-be entrepreneurs are deterred by the regulatory web that authorities in Europe have woven to complicate entrepreneurial activity.

Europe must become a society based on merit rather than envy, in which women and men who take the initiative and realise business opportunities by successfully creating their own enterprise are seen as role models. This is first and foremost a task for educational systems. However, a more positive attitude towards entrepreneurship must prevail in the public sector in general. This should also encompass attitudes regarding failure: a culture must be developed where it is possible and normal to restart a business after failure.

What needs to be done

- National level: Promote entrepreneurship by making it a subject of school and university education
- EU and national level: Improve attitudes among civil servants and politicians at all levels
- National level: Change attitudes regarding failure

Law for economic initiative in France

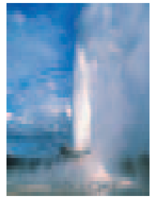
On 1 August 2003 a law was passed in France to boost the currently insufficient degree of entrepreneurial activity. While translating the will to encourage business creation, it additionally improves the conditions for existing entrepreneurs. The new law enables and encourages entrepreneurship by:

- Simplifying social declarations for small enterprises
- Free fixing of authorised capital for limited liability companies
- Giving future contractors of start-ups personal securities
- Exempting entrepreneurs from national insurance contributions
- Giving "entrepreneurial" employees the right to work part-time
- Cutting taxes for transmission of companies, in particular in the case of gifts to employees.

Masterplan " 4x4 pour entreprendre " in Belgium (Wallonia)

Starting from an analysis that the lack of start-ups and the low growth of existing companies was mainly due to factors linked to mentality and information, the Walloon Government launched a masterplan in order to stimulate entrepreneurship. The plan involves over 100 measures, divided into 4 axes: stimulating entrepreneurial spirit (foundation of FREE “fondation pour la recherche et l’enseignement de l’esprit d’entreprendre”), supporting enterprise creation (Development of financial products, such as SBIC) , inspiring enterprise developments (foundation of MEWE "Maison de l'Entreprise Wallonne auprès de l'Europe" to profit from the advantages of the single market), and improving governance (creation of the "Walloon Club Governance" gathering all the actors in the field of the entrepreneurship).

The basic idea was that fundamental change of mentality had to involve the whole population, which explains the name chosen for the plan "4x4 pour entreprendre": just as a car needs a driver behind the wheel, this plan relies on people to make it work. More details on the programme as well as the first activity report on this programme is available on the website www.4x4entreprendre.be

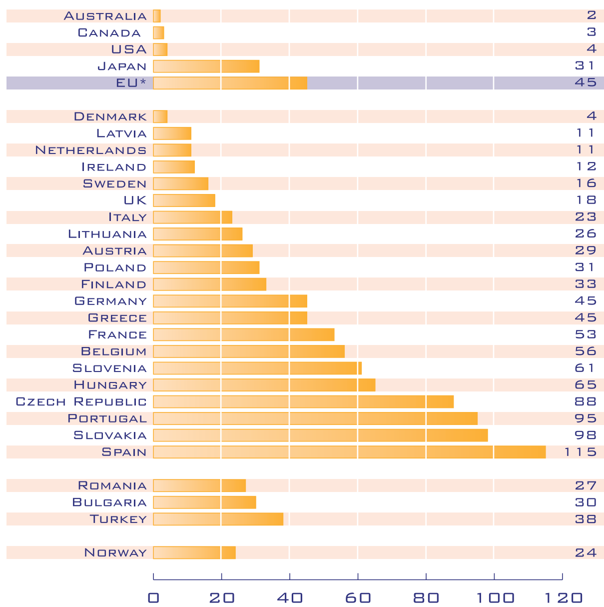


European entrepreneurs live in a dark regulatory cloud. According to the World Bank Report "Doing business in 2003" it takes over 11 times as long on average to start a business in Europe as it does in the USA.

The bulk of company regulation comes from the national level. But the European level is catching up, as "Brussels" has developed an infamous reputation among business people as an imposer of bureaucratic and costly rules, particularly in the domains of health, safety, privacy and environment. This is regrettable as the EU is actually in a position to ease the regulatory burden by facilitating cross-border activities of companies.

Every economy and especially a diverse one such as Europe needs rules in order to function properly. But often the quality of these rules is sub-optimal in Europe. Methods such as self-regulation or co-regulation could fulfil many goals much more efficiently than rigid rules passed by bureaucrats. Europe needs to liberate itself from the ties of existing superfluous regulation, and, at the same time, scrutinise the need for and potential impact of new regulation on business.

Number of days to start a business



* *Weighted average of Member States and Acceding Countries for which data are available*

Source: World Bank 2003

The independent regulatory impact assessment *Actal* in Holland (www.actal.nl)

Actal was established as an independent body in May 2000 to advise the Dutch government on regulatory issues. It consists of three members and a permanent secretariat. Its purpose is to conduct a critical evaluation of proposed legislation and regulations and to assess their potential administrative burden for companies.

It looks first at the way in which possible consequences of laws and regulation for companies are already taken into account in the explanatory notes to the laws and regulations concerned.

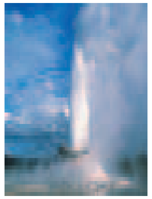
It then evaluates the degree to which the legislator has tried to choose the least burdensome option - in terms of administrative costs - for achieving the stated policy goal. Actal will assess how accurately the legislator has quantified the level of administrative burdens and how carefully and reliably less costly alternatives have been sought.

Finally, it considers whether the least costly alternative has been found within the specific aims of the law or regulation.

In addition, Actal evaluates action programmes of Dutch ministries for reducing administrative costs. These annual action programmes have been designed to reduce the administrative burdens of existing legislation and regulations. Ministries in the Netherlands have standard assessment tools at their disposal to quantify the administrative burden in legislation for most policy areas. Actal advises the government, and the Upper and Lower House of Parliament on these matters.

What needs to be done

- EU and national level: Develop independent regulatory impact assessments for all legislative proposals
- EU and national level: Examine existing regulation with the aim of substantially reducing the regulatory burden on companies

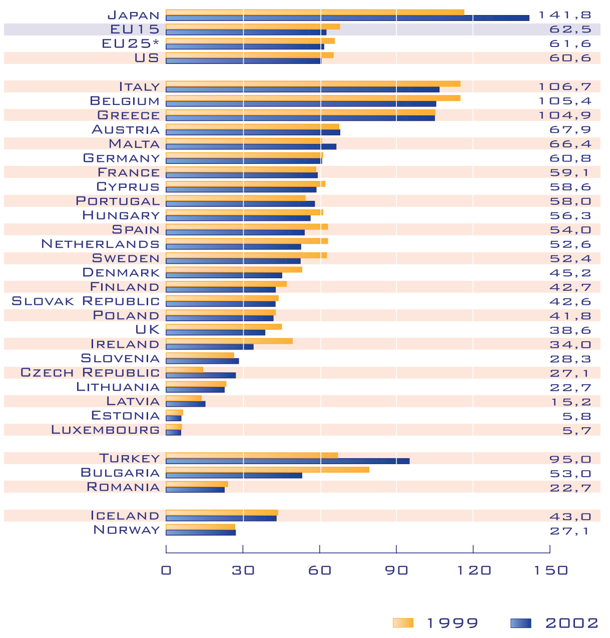


European public finances are strained. Although many countries consolidated their budgets in the boom years of the millennium in line with the rules of the Stability and Growth Pact, some failed to do so. They now have to start to get their budgets under control, if they are to be kept sustainable, in particular as Europe must urgently face up to the dramatic ageing of its population.

Already every fifth person in the EU is older than 60; in 2020 it will be every fourth person. In comparison, the USA enjoys a much higher share of younger people in its population, not to mention future economic powers like China or India. The growing share of the elderly and a longer life expectancy means higher pension bills, but also increased health care expenditure. Simultaneously, birth rates have been falling, so fewer people will be of working age and contributing to pensions and health care systems. The resulting increases in age-related expenditures are putting pressure on public finance. In 2000 the EU was already spending 10.4% of its GDP on public pensions and 6.6% on public health care, figures which are projected to increase to 13.3 and 9.3% respectively over the next decades.

Many employees in Europe retire early because pension systems often make it economically irrational to work beyond a certain age. This is why older citizens are an untapped potential for the European economy: every second person aged 55-59 and 4 out of 5 aged 60-64 are not in employment.

General Government Debt (in % of GDP)



* *UNICE calculation*

Source: Eurostat

Pension reform in Finland

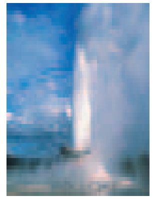
In a successful example of tackling the challenge to keep older citizens in work, the Finnish government, in cooperation with social partners and authorised pension providers, has recently undergone the largest pension reform of the past 40 years. The aim was to allow older workers to remain in the labour market for 2-3 years longer before retirement. Following successful agreements between the social partners in 2001 and 2002, the final reform package was approved by the Finnish Parliament in February 2003.

The reformed pension scheme not only considerably reduces the overall financial burden, but also allows increased flexibility for workers and rewards them for continuing to participate in the labour market. Retiring on an old-age pension will be made optional between the ages of 62 and 67; a worker opting to continue will be rewarded by a bonus accrual. In addition early retirement systems will be reduced, the minimum age for part-time retirement will be raised, pensions will be calculated taking into account the worker's entire career and a so-called life expectancy coefficient will affect the amount of pension as well.

According to current estimates the total costs of the employment pension system will be 30 % of wages (instead of 32,3 % without the reform) in the year 2030 and 31,3 % (instead of 35,7 %) in the year 2050, thus mitigating the financial burden caused by the ageing population. Accordingly, contributions to the scheme will reduce considerably. Despite these positive advances the involved parties should not consider these measures as the end of the reform process but rather as a first step. The system requires continued maintenance and critical examination.

What needs to be done

- National level: Reduce structural budget deficits in the framework of the Stability and Growth Pact to achieve sustainable public finance
- EU and national level: Keep the momentum in pension reforms in the framework of the open method of coordination, in particular by providing incentives for older citizens to stay on the labour market and by encouraging private pensions to develop
- National level: Create a pan-European pensions market by implementing the Pension Funds Directive
- National level: Reform health care systems to contain costs, encouraging the role for the private sector in financing health care provision.



The state keeps on suffocating entrepreneurial activity through taxes. Although several European countries have made progress in reducing the tax rate on company profits, the share that has to be paid to the public sector is still too large, thus paralysing investment activities. Companies do not only have to pay profit taxes but they are subject to numerous tax types that vary considerably from country to country.

The competitiveness of a business location is strongly influenced by the overall tax a company has to pay. According to a study that evaluated the competitiveness of the maritime industry in 5 European countries, firms evaluate the propitiousness of public policy on the basis of a combination of tax and other conditions. The study shows that Dutch firms are very satisfied with public policy in the Netherlands, due to numerous factors, such as a favourable system of personal taxation, a competitive tonnage tax system, tax exemption for seafarers resident abroad as well as well functioning cooperation between government and the industry. ("Attracting the winners", BI Centre for Value Creation, Norway 2003)

At the European level, cross-border business activity would be facilitated if the EU could create an optional common consolidated tax base in all Member States, thus eliminating the cost of setting up tax accounts for each Member State in which a European company is active.

Tax reform in Iceland

As of the beginning of 2002, Iceland's corporate income tax was lowered from 30% to 18%. Partnerships with unlimited liability that file for taxes as distinct legal entities had their tax rate lowered from 38% to 26%. Furthermore, the corporate net wealth tax was reduced from 1.2% to 0.6% at the end of 2002. The corporate net wealth surtax was abolished at the same time.

Along with a number of other changes this has made Iceland's corporate taxation regime one of Europe's most competitive.

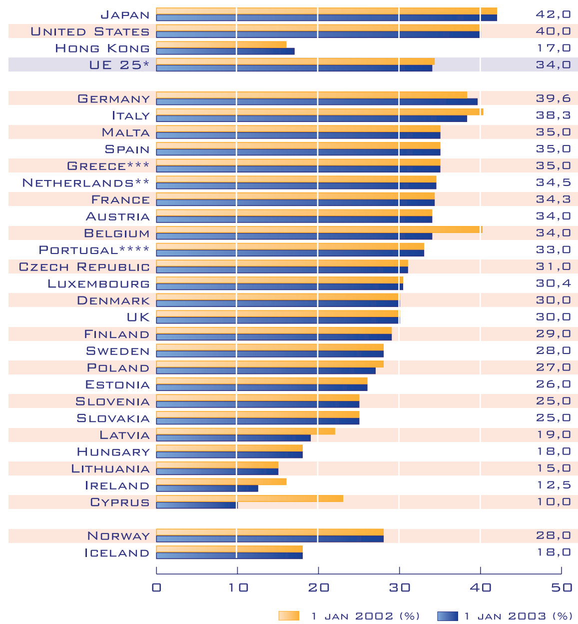
Not only have these measures prevented a number of Icelandic businesses from moving their operations abroad, but they have in turn encouraged foreign businesses to invest in Iceland. The tax reforms have also encouraged people to start businesses, which Icelanders have been doing more than ever in the past year and a half.

The state budget was not affected by the tax reforms, as the overall tax revenue was boosted by higher economic activity, partly triggered by the reforms, which have thus started a virtuous cycle.

What needs to be done

- National level: Launch or accelerate tax reforms by taking into account the overall tax burden for companies and entrepreneurs
- EU level: Provide for a level playing field to create incentives for healthy tax competition in Europe
- EU level: Create an optional common consolidated tax base in the context of the European Company Statute

Corporate Tax Rates (in %)



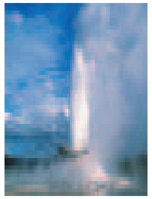
Source: European Commission 2001

* *UNICE calculation*

** *In the Netherlands, a reduced rate of 29% is applied on the first 22,689 Euros of taxable profit*

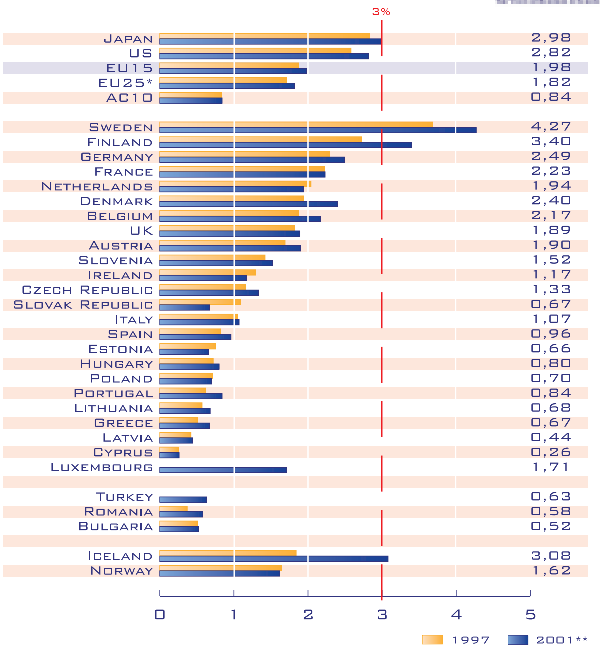
*** *In Greece, General Partnerships and Limited Partnerships are subject to the corporate tax rate of 25%*

**** *includes the maximum level of municipal tax adding to the statutory rate of 30%*



PRIORITY AREA II: BOOST INNOVATION

R&D Spending in % of GDP



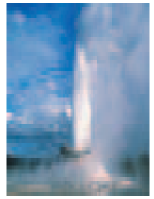
* *UNICE calculation*

** *2000 for Japan, Netherlands, Luxembourg, Italy, Slovenia, Czech Republic, Hungary, Poland, Slovakia, Estonia, Bulgaria, Romania, Cyprus; 1999 for Greece, Turkey*

Source: Eurostat

At the 2002 spring summit in Barcelona, heads of state and government set a quantitative goal to boost innovation: raise overall spending on Research and Development in the EU to 3% of GDP. Although a couple of Member States have made strong efforts to increase R&D spending, this is far from enough to bring the overall EU rate close to that goal.
There is no doubt that good financial conditions are a necessary condition for innovation to happen. However, solely writing cheques cannot enable innovation. Innovation must be encouraged through creation of an environment in which it is likely that ideas and research results will be turned into innovation. Especially promising future industry sectors such as bio- or nanotechnology must be given particular attention. Young talents must be given the opportunity to unfold their research drive in Europe.

Member States recently endorsed the European Commission's "3% Action Plan", which outlines the right measures to achieve such an environment. But Europe must improve conditions for innovation now. Otherwise it will suffer an exodus of innovation activity in the near future. Recent surveys from the European Round Table of Industrialists found that many European companies are about to move large parts of their R&D activities outside Europe. In absolute figures, China is already the third biggest spender on R&D, just behind the US and Japan.



Europe has a rich potential of able young people, and excellently educated scientists from Acceding Countries will further enrich this potential. The EU has more science and technology graduates in percentage of population than the US. However, actual research activity does not match this potential. Only 5 in 1,000 of the EU workforce are researchers compared with 8 in the USA and 9 in Japan.

European universities must come out of their protective shell of state regulation and face up to national and international competition. For every Asian student coming to Europe there are almost two Asian students going to the United States, opting for an education system which is more attractive for them and their career plans. One of the biggest shortcomings in the European system is the lack of funding in tertiary education. The US spends more than twice as much on its universities. If European universities had to compete more for brain and funding, their competitive position would be much better.

At the European level, efforts must be increased to make Europe's research activities grow together in order to create a real European research area.

University reform in Austria

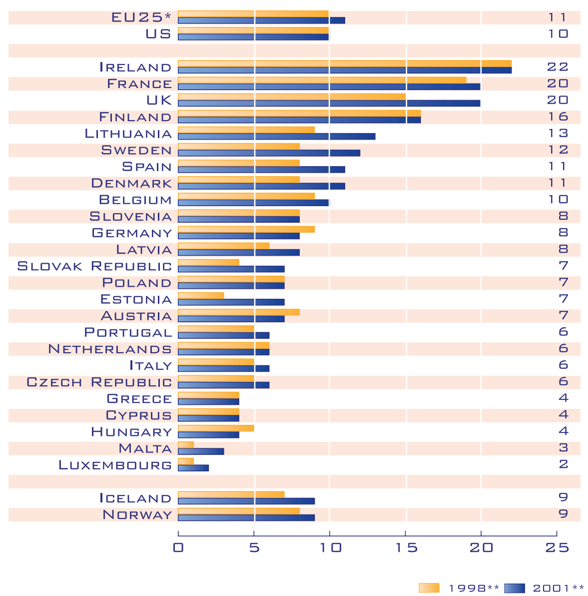
With the Universities Act 2002 the Austrian University sector has undergone a far-reaching reform, weaning universities away from a system traditionally based on central command and control, towards autonomy and competitive university structures. The cornerstones of the reform are:

- Full autonomy: the universities will become legal entities from January 2004. Universities will take over complete responsibility for university development and strategy. All new staff members will be university employees and no longer members of the permanent civil service establishment. Universities will enjoy complete autonomy in preparing and implementing curricula. In order to fulfil the objectives of the Bologna declaration, all new courses offered will be on a two-cycle basis (bachelor and master degrees).
- New relationship: the relationship between state und university will change from central control and steering to a collaborative partnership regulated by a specific performance agreement for a three-year term.
- New organisational structure: governance of the university will be divided between three bodies - the rectorate (management and strategic issues), the senate (academic matters) and the university council (acting like a board of governors consisting of representatives from society and economy).
- Quality assurance: universities are required to establish quality management systems. A quality assurance agency will operate from autumn 2003.

What needs to be done

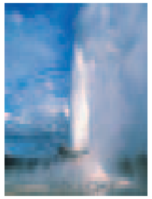
- National level: Reform university systems for more innovation-oriented research
- EU and national level: Encourage university-business research partnerships
- EU level: Develop coherent national research policies with EU support
- EU level: Improve mobility of researchers within and from outside the EU

S&T Graduates (per 1000 population)



Source: Eurostat

* *UNICE calculation*
** *2000 for Cyprus; 1999 for Malta; 1997 for Portugal; 1993 for Greece, Belgium*
*** *2000 for Cyprus, Hungary, Luxembourg, Italy, Denmark, Finland, France, UK; 1993 for Greece*



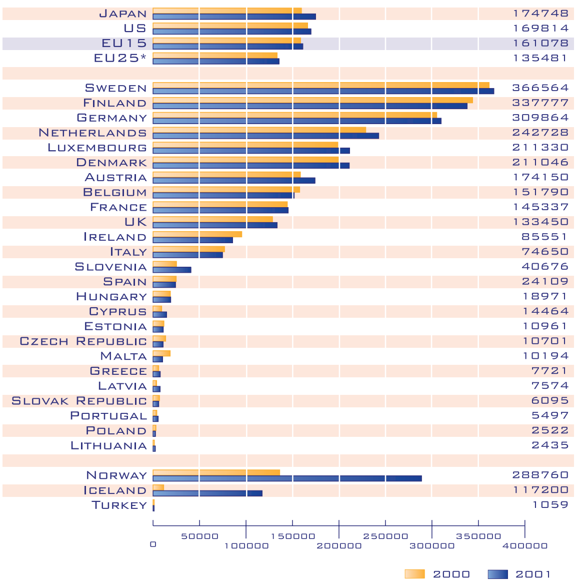
CHALLENGE: TURN RESEARCH INTO RESULTS

In order to turn R&D into innovation, an entrepreneurial "spark" must be present, in terms of management and market know-how as well as financing. The more R&D is driven by business the more likely will it turn into marketable results that will enhance the well-being of society. Supporting company investment in R&D therefore has economic benefits which stretch far beyond the mere company that undertakes the research activity.

A good patent system in terms of cost efficiency and usability is a necessary condition for an environment conducive to innovation, as patents provide the legal framework for an entrepreneur who decides to market an invention. Therefore the current project for creating a Community Patent, enabling entrepreneurs to protect an invention throughout the EU is important. However European policy-makers must watch out that the Community Patent is available at a competitive price. The Community patent currently under negotiation would be cheaper than the existing patent from the European Patent Office, but substantially more expensive than a US patent.

European countries must join forces to boost R&D and innovation. In that respect, the new initiative on "European Technology Platforms", which the Commission outlines in the "3% Action Plan", and which is intended to bring together talent, business know-how, finance and other stakeholders for specific technological fields, is a good one, provided it puts industry in the driving seat, and projects are selected with the mindset of increasing European competitiveness.

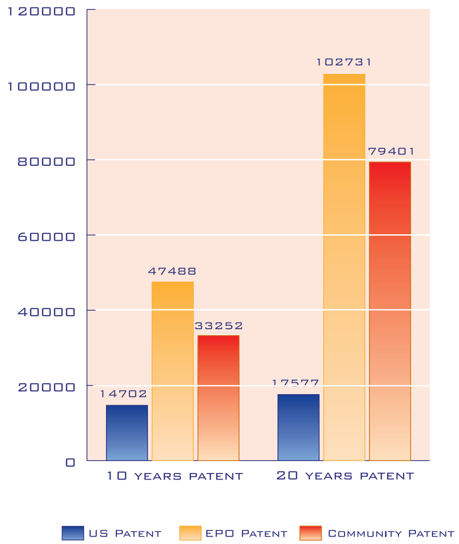
Number of patent applications to the EPO per million inhabitants



* UNICE calculation

Source: Eurostat

Total cost of patenting (estimate, in Euros)



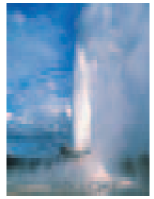
Source: MEDEF

What needs to be done

- EU and national: Modernise state aid rules for all companies investing in R&D
- EU and national: Increase budget for R&D stimulation
- EU level: Improve protection of intellectual property, inter alia by adopting a cost-effective Community Patent
- EU level: Generate industry-driven Technology Platforms which must be selected according to their contribution to innovation and growth
- EU level: Improve industry's access to the 6th framework programme

The tax system supporting R&D investment in the UK

The UK introduced an R&D tax credit for SMEs in 2000 and extended it to all companies in April 2002. The tax credit recognises that R&D investment by business is not only risky but may bring longer-term benefits to other companies and the economy in general. This 'spillover' effect often means that companies will under-invest in R&D, as they do not consider the full benefits of investment in their calculations. Thus the tax credit aims to influence R&D decision-makers by reducing the cost of R&D work and offsetting some of the investment risk. To keep the system as simple as possible, the tax credit is awarded according to the volume of research carried out. This also allows companies to benefit even if economic conditions mean that they cannot increase R&D spending year on year. Currently the R&D tax credit in the UK is equivalent to a reduction in R&D costs of 9.5% for SMEs and 7.5% for larger companies on qualifying R&D expenditure. The government is now considering ways to increase the value of this credit by re-examining the types of activity and cost elements in R&D that can qualify.



Challenge: Support Biotechnology

The biotechnology sector is one of the most promising high-tech sectors as a potential future driver of innovation and growth. Its development in Europe is lagging behind, however, and losing further ground.

The lack of public acceptance in Europe, often due to insufficient information, has led to legal uncertainty for biotechnological products, which is unnaturally hampering this industry from growing. Amid understandable concerns and precautions taken, there are very easy and straightforward political decisions that can be taken without harm, most importantly the lifting of a moratorium blocking the development of agricultural biotechnological products in Europe.

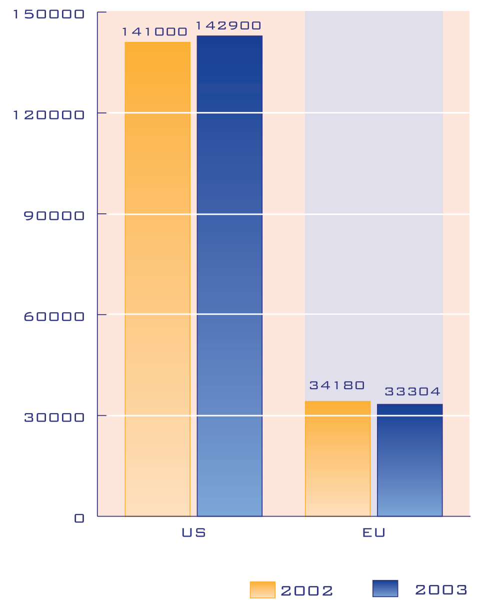
A survey conducted on behalf of the European Commission among private companies and research institutes active in the field of Genetically Modified Organisms (GMOs) reveals that 39% of the respondents have cancelled R&D projects on GMOs over the last four years, mentioning as main reasons the uncertain regulatory framework and market situation in Europe.

Biotechnology in Ireland

At the beginning of 2002 the Irish government launched a strategy to double the number of start-up companies in the area of biotechnology over the following 5 years. A number of initiatives have been undertaken to help achieve these objectives including:

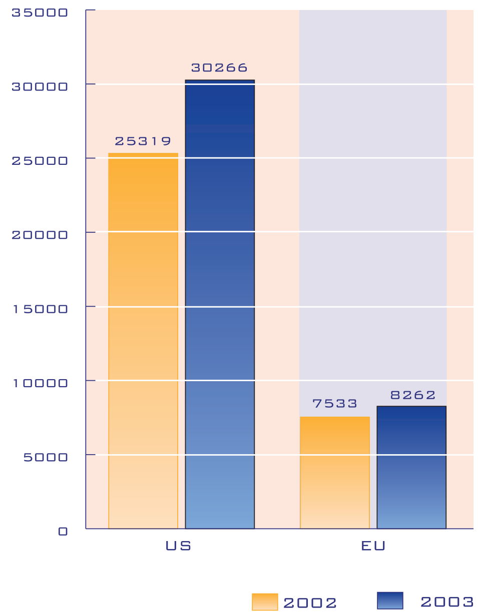
- The *Science Foundation Ireland (SFI)* promoting research and innovation in the biotechnology and ICT sectors as well as in areas connecting the two disciplines, such as bioinformatics and nanobiotechnology. *SFI* will invest 635 million Euros in research projects by 2006 and facilitate the establishment of university-based centres of excellence.
- The *Irish Bio-Sciences Venture Capital Fund* of 15 million and the Growcorp European Bioscience Fund of 25 million Euros to support entrepreneurs and start-up bioscience and medical technology companies. The *Irish Bio-Science Fund* is managed by the public-private partnership Seroba Bio Ventures, with the state-sponsored body Enterprise Ireland providing half of its capital. The Growcorp Fund is supported by a partnership of leading Irish and international companies.
- The Irish Industrial Development Agency has been successful in encouraging multinational biotechnology companies to invest in Ireland because of the high quality science graduates and the strong emphasis on R&D activities in industry, conducted in collaboration with local universities.

Number of employees in biotech companies



Source: Ernst&Young

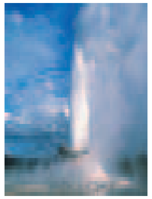
Revenues of biotech companies (Mill $)



Source: Ernst&Young

What needs to be done

- EU level: Lift moratorium on GMO products and production
- EU and national level: Restore confidence in biotech products and production
- National level: Implement Directive on legal protection of biotechnological inventions
- National level: Implement the European Biotechnology Strategy

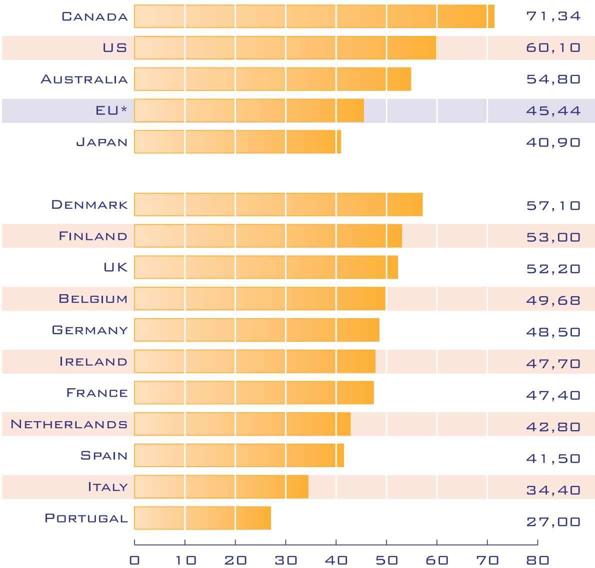


Challenge: Use ICT

Despite the bursting of the "Internet bubble" the revolution in Information and Communication Technology (ICT) has undeniably changed society. European business, too, has embraced ICT and gone "online": in 2002, 80% of European companies were connected to the Internet, most companies run their own web pages and B2B electronic commerce is growing rapidly.
Now the challenge lies in the swift transformation of all business and business-related processes to be supported by ICT, where insufficient usage is still holding back European productivity growth from attaining US levels. Especially a part of the SME sector is in danger of not catching up swiftly enough with the network economy.

Heads of state and government have recently set up the e-Europe Action Plan 2005, which sets the course for state action. The public authorities must above all support ICT usage in three domains: First, they should provide the regulatory framework for the rapid roll-out and usage of broadband on market-driven basis. Besides completing the internal telecom market by implementing the Telecom package in all Member States, this means that authorities should strive for interoperability of ICT services and devices through open platforms and open standards for interfaces. Second, security must become a key issue at all levels, including the EU level. Viruses, worms, attacks, spam and other harmful content stifle ICT usage. Third, developing public digital content ("e-government") not only increases efficiency of public services, but also boosts demand for broadband and development of ICT infrastructure. According to an index of e-government maturity developed by Accenture, the EU Member States are lagging behind North America in terms of online availability of public services. All public sector actions should remain technology-neutral and support digital convergence in order not to stifle innovative activity in ICT.

Overall e-government maturity (% of public services available online)



* *weighted average of Member States for which data are available*

Source: Accenture, "e-government leadership - engaging the customer" (2003)

The "Internet miracle" in Estonia

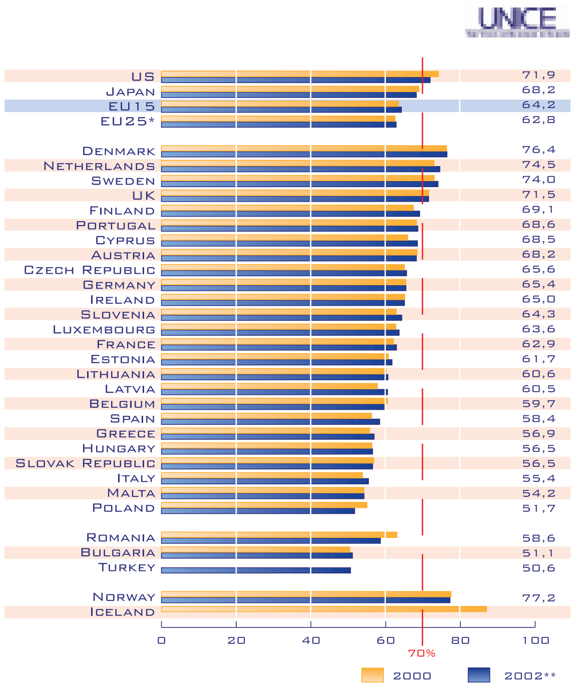
Thanks to a resolute strategy promoting high technology by successive governments since the fall of communism and independence, Estonia has succeeded in drawing abreast with leading EU Member States with regard to the Internet.
Estonia was the first country to introduce an entirely Internet-based system of frontier controls. Taxpayers have already been able for several years to fill in their tax returns online. This year, forms were pre-completed with taxpayers required simply to check the details and click on "send". The "tiger's leap" programme has ensured that all schools are now linked to the Internet. Estonia is actively preparing for electronic voting which is due to be introduced in 2005. Citizens' identity cards have digital signatures, which will permit electronic voting without any risk of fraud. In August 2000, the government itself set the example by replacing paper at its meetings with an internal Internet-based system.

Free Internet access points have been created throughout the country, the majority of which are to be found in the country's libraries. Library staff has been trained in assisting citizens not versed in using the Internet. In 2001, the Government opened a site featuring all the bills being drafted by the various ministries. Citizens are free to consult these texts and offer their comments.

What needs to be done

- EU and national level: Boost ICT-related R&D
- EU: Simplify and clarify data protection requirements whilst avoiding unnecessary sectoral data protection measures, as well as burdensome data retention legislation
- EU and national level: Create a European Network and Information Security Agency and set up a European Network Security Forum where private and public sectors together seek solutions to security concerns
- National: Make all public services interactive and available online
- National: Remove the barriers identified in the Commission's "Legal review of barriers to e-business"
- National: Promote SME participation in the e-Economy

Total Employment Rate in % of working population



* UNICE calculation

** 2001 for Norway, Turkey, Malta;

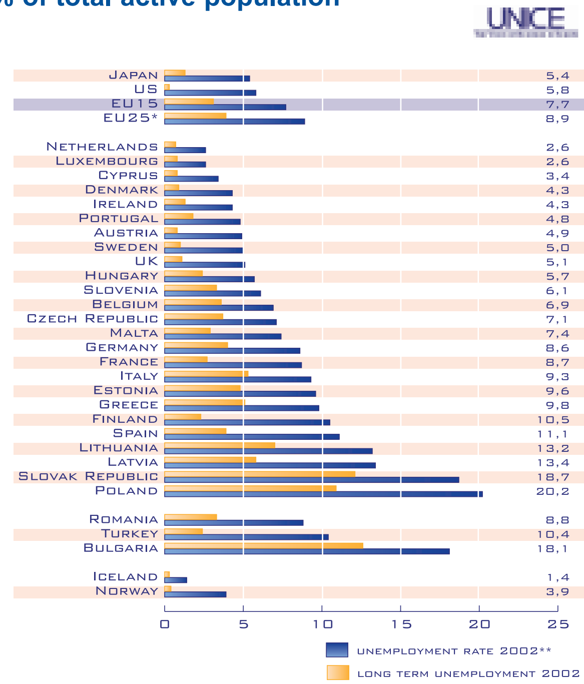
Source: Eurostat

A competitive economy needs a high employment rate. Progress has been achieved in increasing the number of people active on the labour market: with five million jobs created in the first two years of the Lisbon Strategy, the employment rate has risen from 63.4% in 2000 to 64.1% in 2002. Yet this progress must be accelerated if Europe wants to reach the Lisbon goal of 70% in this decade. Almost three out of the five million new employees are women, but again this will not be sufficient to reach the Lisbon goal of a 60% female employment rate by 2010. Much more off-track for achieving the Lisbon goal of 50% is the employment rate of older workers. It was at only 40.1% in 2002.

One of the causes for the relatively low European employment rate is the exceptionally high unemployment rate compared with other OECD countries. Moreover 40% of EU-15 unemployment is long-term. Unemployment is a particular problem in many of the Acceding Countries, with an unemployment rate of almost 15% on average. More than half of these were long-term unemployed in 2001.

In many European countries, working and being a parent at the same time is difficult to reconcile, which is another important reason for low European employment rates. A working society needs childcare facilities in all regions, as well as all-day schools attaining high quality levels of education.

Unemployment and long-term unemployment in % of total active population

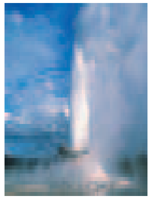


* UNICE calculation

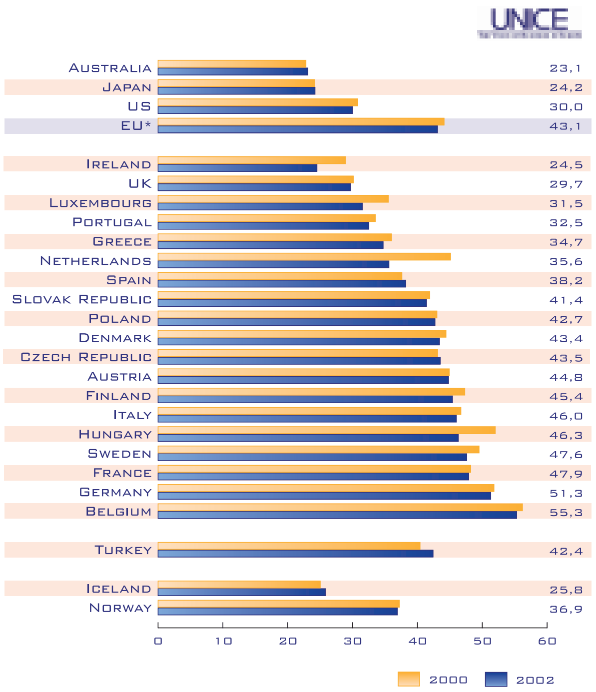
** 2001 for Iceland, Malta,

*** 2000 for Luxembourg, Germany, Cyprus, Lithuania, Poland

Source: Eurostat



Total tax wedge in % of gross labour income



* *weighted average of Member States and Acceding Countries for which data are available*

Source: OECD

Work in Europe pays less for an employee and is more costly for an employer than elsewhere. The difference between employees' take-home pay and what it costs to employ them - the so-called "tax wedge" - consists of income tax and the social-security contributions of employees and employers. As the graph comparing tax wedges across countries shows Europe has considerably higher labour costs than the US, Japan or Australia.

From a European employer's point of view, employing somebody is not only expensive but the value in working time which the employer gets in return is also low. An average European worker had 37.5 days of vacation and public holidays in 1999 compared with 31 days in Japan and only 23 in the US, without this gap in working time being matched by higher productivity.

Reduction of social security contributions in Belgium

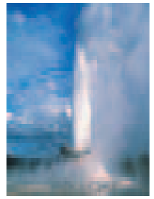
Since 1999 Belgium has been pursuing a multi-annual programme to eliminate the competitive handicap it faces due to its high employer social-security contributions.

It tackled this problem by implementing the 'structural reduction', an unconditional general cutback. On the occasion of a tripartite conference on employment in October 2003 this structural reduction was reinforced. Starting on 1 January 2004, it will amount to 400 Euros (before: 381.33 Euros) per quarter for all employers.

The additional reduction for low wages (i.e. less than 1,956 Euros per month) - the lower the wage, the greater the reduction - will also be reinforced in 2004. The conference on employment also introduced an extra reduction for higher wages (greater than 4,000 Euros per month).

What needs to be done

- National level: Lower fiscal levies and social-security charges on labour, not only for low-paid workers, but for all employees
- National level: Remove rules and legislation that artificially reduce the working time of employees



At the Barcelona spring summit European heads of state and government set the goal of becoming world-class in education. Recent OECD studies suggest, though, that many of the once famous education systems in Europe have been losing in quality. Spending on education has stagnated since the mid-1990s. The number of early school leavers is still far too high for an information society, in which the average person will not work with the hands but with the mind.

A world-class labour force must be constantly learning in order to master the ever faster technological and organisational changes of the economy. The increase in the share of population participating in lifelong learning activities seems to have been only marginal so far, however, since the launch of the Lisbon Strategy.

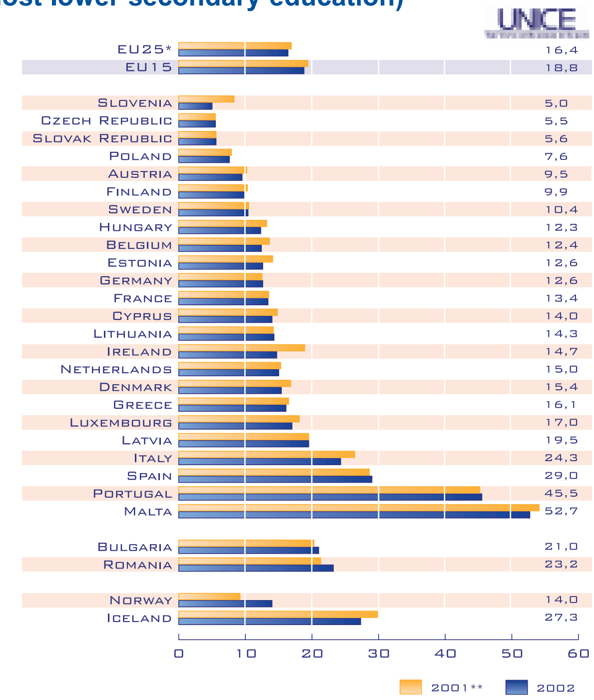
Austrian tax incentives for investments in training

In Austria, companies are the main investors in human capital in particular regarding training expenses. Having realised that additional efforts have to be made in the training and qualification of the workforce, industry has proposed models for tax incentives.

Since 2000, Austrian employers can claim a tax allowance for investment in training. Starting with a tax allowance of 9% in 2000, the allowance has been increased to 20% in 2002, and extended to company internal training as of 2003. The incentive allows companies to deduct 120% of specific training costs incurred (as specified by law). The training costs are offset from the tax base. Companies which do not make enough profit can also benefit from a tax deduction: such companies can alternatively claim a credit of 6% for training expenses. This credit is deducted from the tax liability.

In addition, individuals can profit from similar incentives. In order to promote the idea of lifelong learning and to support individuals to invest in their employability, training expenses are treated as income-related expenses in the framework of an individual's tax declaration. All employees and self-employed people can gain from this incentive for expenses on vocational training related to the professional field of the individual but also (in the case of longer-term courses) training measures leading to a complete re-qualification.

Early school leavers in % (18-24 years old with at most lower secondary education)

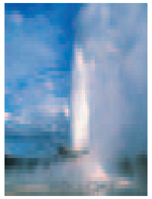


* UNICE calculation
** 2002 for Latvia, Slovakia, Czech Republic; 1997 for Ireland

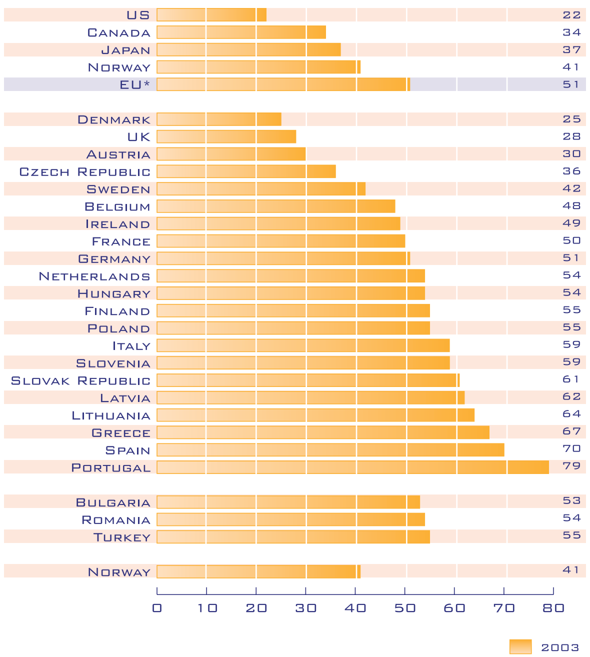
Source: Eurostat

What needs to be done

- National level: Improve learning programmes in languages, IT and entrepreneurial culture
- National level: Implement comprehensive lifelong learning strategies in each Member State
- National level: Encourage investment in competence development, for example through tax incentives
- EU level: Improve cross-border transparency of competencies in Europe



Labour market regulation



* *Weighted average of Member States and Acceding Countries for which data are available*

Source: World Bank 2003

The World Bank index of employment laws takes into account the flexibility of hiring, the flexibility of firing, and general conditions of employment. In Europe the rigorously regulated labour market puts a brake on the demand for labour. Companies, and in particular SMEs, would be much quicker to invest and hire new staff if the possibilities to dismiss employees were widened. In consequence, the employment threshold, i.e. the GDP growth that is needed in order for employment to grow, is lower in more flexible economies than the EU.

Flexible ways of working must spread throughout society, as labour demand has to adapt ever quicker to the needs of a globalised and customer-oriented economy. Some businesses need to be available to customers 24 hours a day, which calls for much more flexibility in working time than in the past. Instead of hindering the development of part-time jobs and fixed term or temporary agency work, policy-makers must support these working patterns of the future.

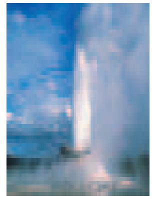
Italian labour market reforms

In July 2003 the Italian government approved the reform of the labour market, also known as Marco Biagi reform. In line with recommendations coming from the EU Employment Strategy, the main objective of the reform is the realisation of a transparent and efficient labour market. The reform intends, on the one hand, to introduce new flexible forms of labour contracts and, on the other hand, to liberalise employment agencies. The main reform elements consist of:

- Creating a system of modern and efficient employment services, approaching private and public actors and facilitating the match between labour supply and demand.
- Introducing new types of contracts, which will contribute to the establishment of regular forms of work by fighting against undeclared work. In particular, the reform foresees innovation of temporary agency work legislation, new provisions for secondments, new measures such as "job on call" and "job sharing", a simplification of part-time work and introduction of a new "project work" contract for workers hired until the fulfilment of certain project goals.
- Defining training conditions in line with the objective of lifelong learning.

What needs to be done

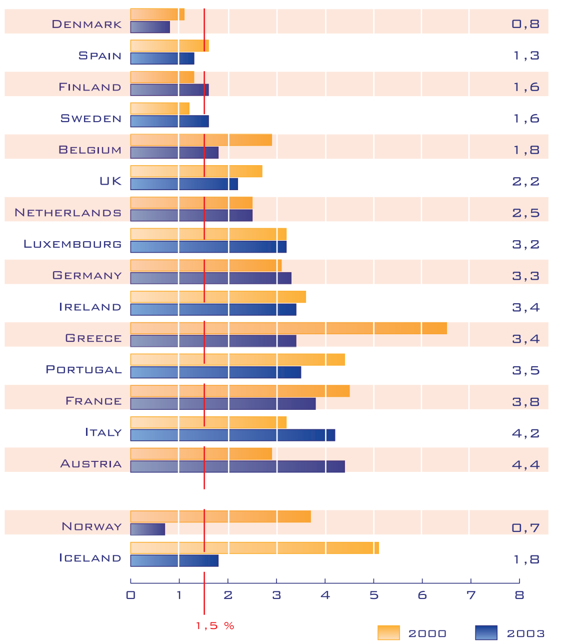
- National level: Launch or accelerate reform of labour market regulation
- EU level: Enable mobility of workers across Europe
- EU level: Avoid imposing constrains to labour market flexibility through EU legislation as in the case of the Directive on temporary work agencies.



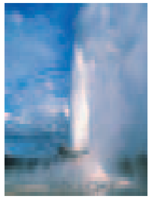
Due to the Internal Market, 164.5 billion Euros more growth and 2.358 million more jobs have been created in Europe since 1992. However, much more urgently needed growth and jobs could be created, if completion of the internal market was accelerated. Many Internal Market directives already adopted at EU level have not yet been transposed into national law. Only two Member States meet the 1.5% target of national transposition of EU directives. Five Member States have actually become worse in the implementation of internal market directives since the launch of the Lisbon Strategy in 2000. Member States themselves now need to devise action plans for timely and effective implementation of EU rules, which should also include points on informing business about Internal Market opportunities. The Commission should assist these plans by adopting recommendations on best practices in transposing directives.

Europe must grow together and complete its internal market, especially in view of enlargement. The mutual recognition principle must be applied everywhere and for all relevant markets. Acceding Countries' governments and parliaments must accelerate efforts to guarantee the full functioning of the internal market in their countries. With more than 1,600 Directives to be officially transposed into national law, Acceding Countries must now start to look beyond the concept of "acquis communautaire" and go towards official transposition.

Directives in % not yet transposed into national legislation



Source: European Commission



Challenge: Efficient European Network Industries

UNICE supports the initiative for growth which intends to boost the completion of Trans-European Networks. Efficient, complete and interoperable infrastructures are necessary to reap the benefits of further market integration, enlargement and international trade liberalisation. However, just building market infrastructure is not enough. European business needs better functioning and more competitive services to operate on these infrastructures. Regulation must provide for free market forces to work without distortion.

As regards the transport of people and goods, markets for railways, postal and port services as well as air travel must be liberalised by fully adopting or implementing the relevant Internal Market Directives. UNICE takes note of the fact that eight Member States have missed the deadline of 15 March 2003 for implementing the first railway package.

A	B	D	DK	FIN	F	EL	IRL	IT	L	NL	P	E	SW	UK	N
Not implemented	Not implemented	Not implemented	Implemented	Implemented	Implemented	Not implemented	Not implemented	Implemented	Not implemented	Implemented	Implemented	Not implemented	Not implemented	Implemented	Implemented

Implemented

Not implemented

Source:European Commisssion/UNICE

For efficient transport of information, telecommunication infrastructures are key. In order to avoid fragmentation of the EU's internal communications market it is essential that all EU Member States ensure rapid implementation of the telecommunications package and avoid divergent national interpretations of the legislation. More than half of the Member States have still not fully implemented the package despite an application deadline of 25 July 2003. UNICE has repeatedly stressed the importance of implementation and expressed concerns about slow implementation in Member States.

A	B	D	DK	FIN	F	EL	IRL	IT	L	NL	P	E	SW	UK	N
Implemented	Not implemented	Not implemented	Implemented	Implemented	Not implemented	Not implemented	Implemented	Implemented	Not implemented	Not implemented	Not implemented	Not implemented	Implemented	Implemented	Not implemented

Implemented

Not implemented

Source: World Bank 2003

Finally, liberalised electricity and gas markets must provide for an efficient and cost-effective use of energy all over the EU. To this end, the internal market directives for electricity and gas must be swiftly and fully transposed in all Member States. The price of energy, especially electricity and gas, affects the competitiveness of European industry, in particular in energy-intensive sectors. There is an increasing upward pressure on energy prices in Europe stemming mainly from EU environmental policy measures, like energy taxation, which is a competitive disadvantage on a global comparison. Liberalisation can only partly counteract this price development. Cost-increasing policy measures must be substituted by measures alleviating the negative effects on competitiveness.

What needs to be done

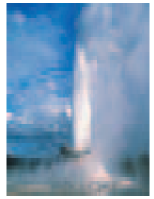
- EU level: Boost projects to complete Trans-European Networks, in particular by improving opportunities for Public-Private Partnerships
- National level: Implement first railway package (deadline was 15 March 2003)
- EU level: Adopt second railway package before the end of 2003
- National level: Ensure fiscally neutral and non-discriminatory infrastructure charging measures
- EU and national level: Full liberalisation of postal services before 2009
- EU level: Adopt Port Services Directive
- EU and national level: Adopt and implement the Single European Sky by December 2004
- National level: Implement the Telecom Package (deadline was 25 July 2003)
- National level: Ensure swift national transposition of energy liberalisation package

The Danish telecommunication market

During the early 1990s it became clear that developing an efficient ICT infrastructure would become a fundamental prerequisite in the evolution of an information society.
In order to enforce that development, Denmark in 1995 decided not only to make a formal implementation of all EU liberalisation directives within the sphere of telecommunication but also to implement "the spirit" of the regulation and thereby promote a more competitive environment. "Best and cheapest" became a general political goal for the development of the sector. Concrete measures in that process include:

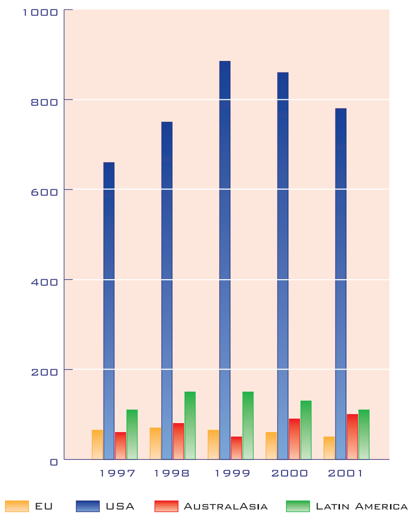
- Increasing competition at all levels through very liberal licensing procedures
- Technical deregulation and removal of regulatory barriers for provision of services
- Privatisation and strict regulation of the incumbent operator
- Efficient complaints procedures and protection of consumers.

Today Denmark has one of the most competitive ICT environments in the world. Prices have decreased dramatically, broadband services are accessible for more than 95% of the population and the penetration rate of fixed telephony, data, mobile and Internet services are among the best and cheapest in the world.



Challenge: European Market for Financial Services

Average fund size (in million $)

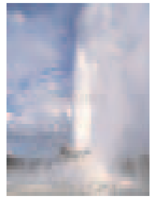


Source: Zentrum für Europäische Wirtschaftsforschung 2001

Investment needs finance. But European companies increasingly face difficulties in obtaining adequate finance. In particular, the relationship between banks and SMEs has been strained lately, due to overall restructuring activities in European banks and to worries linked with adoption and implementation of the Basel II accord on new capital requirements for banks.
Business is dependent on an efficiently functioning financial market. The wider the choice of financial products and the lower the cost for capital, the more investment projects will be realised. There is a lot of catching up to do in terms of size in the European financial markets. Therefore business calls for a pan-European financial market, which attracts capital from all over the world, to become a reality. Several Directives of the EU Financial Services Action Plan are still pending, before its supposed completion in March 2004, and must then be transposed into national law.

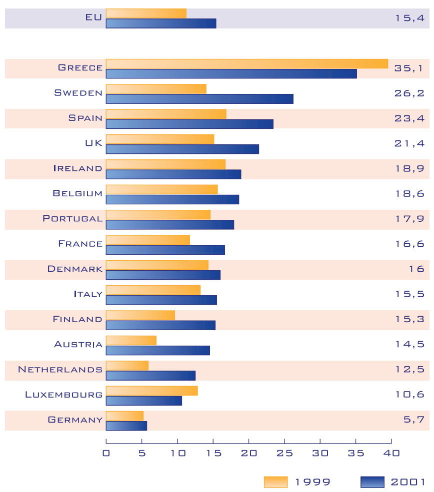
What needs to be done

- National: Avoid introduction of competitive distortions when transposing FSAP Directives into national law
- EU: Extend the "Lamfalussy Procedure" to the banking and insurance sectors, provided that adjustments in the procedure ensure that speedy legislation does not impede quality of legislation



Challenge: Transparent and Market-Driven Public Procurement

Value of Public Procurement which is advertised European-wide (in % of total public procurement)

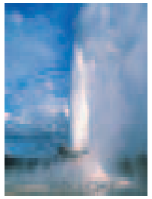


Source: European Commission

Public Procurement in Europe represents 1,400 billion Euros, which is the equivalent of 70% of the German economy. For Europe's competitiveness it is indispensable to have this market function in a transparent and undistorted way. But too little of this market is advertised throughout the EU, which is also due to the fact that thresholds above which a public offer has to be published EU-wide are too high.

What needs to be done

- EU level: Further develop European procurement markets on the basis of a new framework for Public Procurement, which should aim at further market opening and strict orientation on competition



PRIORITY AREA V: FIND COMPETITIVE ENVIRONMENTAL POLICY SOLUTIONS

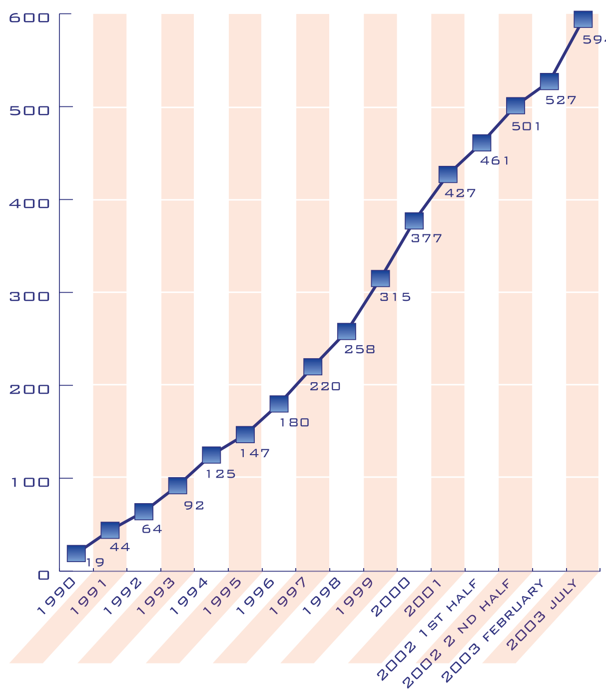
In Europe a trend of ever more environmental legislative acts can be observed, whose implementation has become extremely complex for companies. The volume of legislation is increasing without any genuine long-term strategic approach for making the best use of society's limited economic and technological resources.

In 2002, the Commission decided that adoption of its major proposals would be preceded by an extended impact assessment substantiating the policy approach chosen (as compared with the possible alternatives) and setting out in detail their economic, social and environmental impacts. This decision reflected an intention to ensure the necessary balance between the economic, social and environmental components of sustainable development.

Regrettably, such an impact assessment process has not been properly implemented in the case of the Commission proposal for registration and authorisation of chemicals (REACH), which raises major problems. It must be revised to reflect a risk-based approach, and to allow priority management of substances. REACH currently places a high emphasis on description and registration of the individual uses of substances by companies. It is necessary to create an efficient option enabling the downstream users to register a new use of a substance on the basis of a system of exposure categories. In this system, the supplier would provide the required data to control the risks linked to certain categories of exposure to the substances they produce.

To find competitive solutions for efficient environmental strategies Europe should in general make much more use of self- and co-regulation, engaging companies and public authorities in joint definitions of long-term objectives and of tailor-made tools supporting environmental performance.

Number of environmental laws adopted in the EU



Source: Federchimica

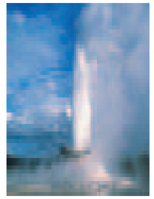
Negotiated agreement to reduce sulphur dioxide (SO_2) emissions in Norway

In 2001 the Federation of Norwegian Process Industries (PIL) and the Norwegian authorities signed a declaration to reduce SO_2 emissions from process industries in Norway. They have since established a system that lets market forces work in a manner compatible with environmental protection goals.
The industries have undertaken to reduce emissions of SO_2 by 5,000 tons by 31 December 2009, compared with emissions in 1999. Furthermore, PIL will put forward a proposal on how to reach a total reduction of 7,000 tonnes, which is the total reduction Norway has to achieve under the Gothenburg protocol.

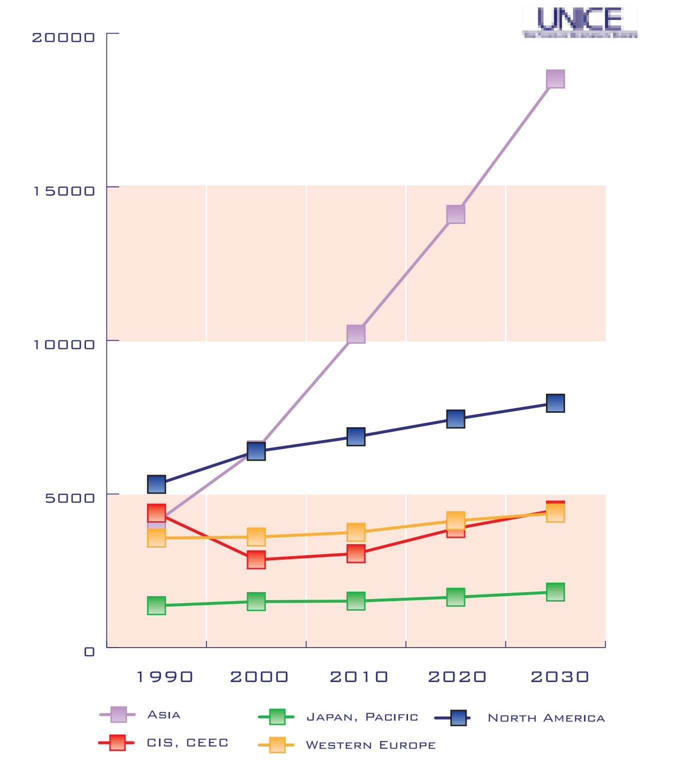
The authorities, on their side, removed the tax on SO_2 in January 2002. They now provide favourable conditions for the industries to carry out cost-effective initiatives by establishing "bubble permits" allowing companies to co-operate and to choose which of their plants will install cleaning plants, thereby finding the most cost-efficient solution for emissions reductions.

A fund used to finance equipment was established in December 2001, into which each participating company pays an amount corresponding to the previous SO_2 tax.

Forecasts show that the objective of reducing SO_2 emissions by 5,000 tons by 2010 will be achieved. With this innovative agreement, national authorities are satisfied as companies take responsibility and contribute to fulfilling Norway's international obligations. The companies, in turn, are guaranteed that the money previously paid as a tax to the authorities now goes directly into SO_2 emission reduction.



CO_2 Emissions (M / tonnes) - Projections



Source: European Commission, "Energy and Technology Trends to 2030" (2003)

The EU is making progress in putting in place policies to implement the Kyoto Protocol, including the EU Emission Trading Scheme (ETS). However, a unilateral EU approach will not prevent climate change: projections for the next decades show that the real future challenge will be to contain greenhouse gas emissions in rapidly developing parts of the world. A unilateral EU approach could act against this challenge by encouraging increased manufacture of energy intensive products in these parts of the world. Therefore, the real challenge for the EU is to achieve full global participation in future climate change regimes, and to fully link the ETS with Kyoto mechanisms for investment projects in developing countries that will reduce harmful emissions there ("Joint Implementation" -JI, and "Clean Development Mechanism" -CDM).
JI and CDM reflect the Kyoto commitment by developed countries to encourage investments that curb greenhouse gas emissions (GHG) in developing countries through a market mechanism based on tradable "emission credits" for emissions reductions achieved. Efficient deployment of JI/CDM consistent with the Marrakech Accords will encourage global emission reductions. It is therefore vital that the EU adopts an effective and flexible directive linking the ETS and JI/CDM.

As regards markets within Europe, the EU emissions trading directive is a complex market-based mechanism that has the potential to assist companies in meeting their greenhouse gas commitments in a more cost-effective manner. It is crucial that the Directive is implemented in a consistent, timely fashion throughout the EU in order to ensure fair competition. National Allocations Plans must be developed in an open, transparent, fair and equitable manner.

Nigeria Gas Master Plan developed by AGIP-NAOC (ENI GROUP)

The AGIP-NAOC Gas Master Plan for Nigeria, adopted in 2000, illustrates how Clean Development Mechanism (CDM) can contribute to sustainable development. Gas flaring and venting leads to considerable emissions of greenhouse gases in the world, with Nigeria accounting for 19% of all flaring and venting in the world.

The Master Plan is a complex programme for better energy production and management that delivers economic and social benefits for Nigeria and helps fight global climate change by:

- using gas as an energy source to reduce Nigeria's high electricity shortage (5 - 6,000 MWe)
- installing a new power generation capacity supplied with gas previously flared
- developing gas storage, gas cycling and production of liquefied natural gas from associated gas

with the final goal of complete elimination of flaring down in large land and swamp areas by 2005.

Environmental improvements are impressive: gas that was previously burned down and thus produced harmful CO2 emissions will be used for power generation. 455 MWe of power will be generated with a 52% thermal efficiency and the greenhouse gas reductions amount to 1.8 million tonnes of CO_2/year.

The Italian government has indicated the possibility of participating in financing CDM/JI projects up to 25% of the capital investment. An effective EU JI/CDM linking directive is needed to encourage this type of project.

What needs to be done

- EU-level: Protect both intra-EU and EU international competitiveness, particularly for energy-intensive industries
- EU-level: Facilitate the inclusion of the Russian Federation and the USA in future climate change regimes and thereby develop a global emissions trading market
- EU-level: Enable the inclusion of project emission credits in the EU Emission Trading scheme without establishing artificial limits such as a ceiling on the contribution that trading mechanisms (ETS, JI and CDM) can make for reaching national GHG reduction objectives

Responsible Editor: Philippe de Buck

Avenue de Cortenbergh 168
1000 Brussels - Belgium
Tel: ++32 (0)2 237 65 11 - Fax: ++32 (0)2 231 14 45

For further information on this document, please contact Folker Franz: f.franz@unice.be

www.unice.org