FROM COPENHAGEN TO COPENHAGEN

CONFINDUSTRIA PROPOSALS

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CONFINDUSTRIA

Introduction

From the Copenhagen Summit in 1993 to the Copenhagen Summit in 2002: 9 years later enlargement becomes a reality.

The enlargement of the European Union to 10 new countries is now a reality. The process initiated 10 years ago will culminate at the forthcoming Copenhagen Summit on 12-13 December 2002. After the signature and subsequent ratification of the Treaties, the applicant countries will be able to participate in the European Parliament elections in 2004.

The present enlargement has no precedent in terms of the number of States that will join the Union. The European Union, according to President Prodi, will change in look, "our unity and our diversity will be the shared values and distinguishing traits that characterise the European Union"[1].

The reunification of the continent is an historic moment of unquestionable value. Confindustria supports the process of enlargement to the applicant countries on the condition that the economic and political criteria agreed in Copenhagen in 1993 are indeed fulfilled.

The enlargement, that the European Union is preparing to complete, nonetheless raises a whole series of questions on whether the European Union - its institutions and policies - is truly prepared to receive this wave of new countries. Over the past few months, the political imperative of completing the accession negotiations as soon as possible has speeded up the rigorous negotiation process. On the one hand, the new applicant countries and their respective governments need to be genuinely capable of assuming responsibility for the application of the Community *acquis*. On the other hand, the Community institutions and EU policies need to be prepared for an enlargement of this magnitude.

On the preparation of the applicant countries, the European Commission has already expressed itself positively in the progress reports towards accession presented in November. In 2003 it will also be issuing a report on progress of the new Member States.

On the preparation of the European Union for the new enlargement, the discussion has already been launched, at least on the **institutional aspects**. This began with the Convention whose work is expected to be completed in the course of next year and to launch the Intergovernmental Conference under the Italian Presidency (second half of 2003). A debate is also now under way on **Community policies,** having begun with the publication of the second cohesion report on what cohesion policy could be after 2006, and a mid-term review on the common agricultural policy has already been presented.

The challenge that the European Union will have to face in the years to come will actually be very ambitious and not limited to the two main spending policies, the CAP and the Structural Funds (which in any case will be redefined in 2006 as part of the revision of the Berlin financial agreements which will define the new agenda for the period 2007-2013). **Attention should focus on all the policies that have helped build the internal market and that have to guarantee its efficiency and the capacity to pursue the ambitious objectives of competitiveness set in Lisbon. Rules need to be defined for the coordination of macro-economic policies that must be inspired not only by the criterion of stability but also and**

[1] Address by Romano Prodi to the European Parliament – 6 November 2002

especially by the criterion of growth, taking into consideration the slowdown of the economy. It is important to understand that all Community policies need to be reviewed to comply with the financial limits that will be imposed by budgetary discipline. In other words, it is necessary to define what in the immediate future will have to be the economic governance of the European Union enlarged to 25 or more Member States.

Confindustria intends to launch a reflection on these topics without necessarily coming up with solutions but limiting itself to suggesting priorities and seeking a debate that will have to be deepened in the years ahead.

The European Union should have already some time ago embarked on the road of reform in order to assume with greater force the economic role that it would actually like to have on the international scene. The enlargement that will materialise in Copenhagen is an additional stimulus, perhaps an obligation, to carry out these reforms as quickly as possible.

It must not be forgotten that the process of enlargement will not end with the next 10 countries. Three other countries – Romania, Bulgaria and Turkey – have already mapped out the road they will take to join the European Union based on the time it will take them to carry out the necessary reforms. The Balkan countries also hope to enter the European Union. So enlargement is a process that will not end in Copenhagen.

In this dynamic vision of Europe it is therefore essential to begin planning a Europe of 25 or more Member States, as the Convention on the future of Europe is doing. It is also important not to neglect the problems that the European Union is today having to face and the competitive challenges in which the EU is already lagging behind and which risk becoming even greater with enlargement if the appropriate policies are not adopted.

The following chapters seek to identify the critical areas of the European Union that need to be tackled today and those of the enlarged Union that will need to be addressed tomorrow.

CHAPTER 1

The coordination of economic policies: an essential instrument of the enlarged Union

1.1 Stability and growth: the two reference parameters to overcome the economic crisis

The autumn economic forecasts published by the European Commission indicate that the economic recovery announced in the European Commission's spring forecasts this year is at least one year late in occurring. Average growth in the euro area is estimated at 0.8% in 2002 and expected to rise to 1.8% in 2003[2], provided, however, that variables like consumer confidence, the price of oil and financial markets remain under control. The international instability that for the most part has determined the situation the past year is also weighing on the future of economic recovery.

Main features of the Autumn 2002 forecasts – euro area*

(real annual percentage change unless otherwise stated).				autumn 2002			Differ. with spring spring 2002^	
	1999	2000	2001	2002	2003	2004	2002	2003
GDP growth	2.8	3.5	1.5	0.8	1.8	2.6	-0.6	-1.1
Investments in equipment	8.5	8.8	-1.1	-4.1	2.6	6.1	-3.4	-3.3
Employment	1.8	2.1	1.4	0.4	0.4	1	0.1	-0.7
Unemployment rate°	9.4	8.5	8	8.2	8.3	8	-0.3	0.2
Inflation²	1.1	2.4	2.5	2.3	2	1.8	0.1	0
Government balance (% of GDP)³	-1.3	0.1	-1.5	-2.3	-2.1	-1.8	-0.9	-0.9
Government debt (% of GDP)	72.5	70.1	69.3	69.6	69.1	48.2	1	1.9
Current Account balance (% GDP)	0.6	-0.1	0.4	1	1	1.1	-0.1	0
GDP growth EU-15	2.8	3.4	1.5	1	2	2.6	-0.5	-0.9

*The Commission services Autumn 2002 forecasts are based on available data up to 4 November 2002.
^A "+" (o "-") sign means a higher (or lower) positive position or a higher (or lower) negative position in comparison with spring 2002. °Percentage of the labour force.²Harmonised consumer price index, nominal change. ³Including proceeds relative to UMTS licences in 2000, 2001 and 2002. The UMTS amounts as a % of GDP would be, according to the 2002 autumn forecasts, 1.1%, 0% e 0.

The major slowdown in the economy has been accompanied by an equally preoccupying worsening of public finances. The average deficit in the euro area will be 2.3% of GDP in 2002 and will only slightly go down to 2.1% in 2003. Turning its attention away from the averages to look at the specific situations of the three main economies of the euro area, the European Commission has already begun the “excessive deficit” procedure in the case of Germany (ex art.104 of the Treaty), sent France an “early warning” that in 2003 it will have a deficit of 2.9% of GDP (2.7% in 2002) and expressed concern that Italy's deficit will be close to 2.4% in 2003 and that its public deficit increased in 2002 (even if only very slightly from 109.9% of GDP in 2001 to 110% in 2002).

[2] Autumn Economic Forecasts 2002-2004. The OECD outlook paints a picture similar to that of the European Commission and sees 2004 as the year when the recovery will be more strongly felt in all the countries of the OECD.

In relation to the slowdown in the economy and to the increase in public debt, there has been intense debate these past few months on the interpretation of the Stability Pact, with those supporting no modification of the Stability Pact and those wanting to make the Pact a little more flexible to stimulate growth.

The "stability culture" introduced by Germany in the Maastricht criteria and given concrete expression in the Stability Pact has undoubtedly been beneficial in the past. At the beginning of the 1990s, the 12 economies of the euro area had an average inflation rate of 5% compared with today's 2%. The ratio of deficit to GDP has fallen from an average of 5.5% in 1993 to a little more than 2% in 2002. During this same period Greece and Italy have managed to reduce their own deficits by 10 and 7 percentage points respectively.

However, not all the economies of the euro area have been able to benefit from this period of growth, and it is during periods of recession that the budget policies of certain governments in the euro area appear inadequate. It also becomes obvious that these governments missed opportunities because of their failure to introduce the structural reforms, among all the tax reforms and reforms in social expenditure. These past three years, the 8 most virtuous countries of the euro area have succeeded in cutting public expenditure on average by about 1.5% of GDP while the four countries at the bottom of the list (Italy, Germany, France and Portugal) have only managed 0.5%. In the light of this, it becomes clear that although fiscal policies must remain a exclusive competence of the Member States, some form of coordinated intervention is needed to maintain stability in the euro area – a necessary condition for growth and employment. **This need for coordination will become even more urgent with the forthcoming enlargement**.

On the other hand, when there is a general slowdown in the economy it also becomes clear that maintaining extremely rigid rules to guarantee stability can be harmful. To avoid this it is important to take into account the effect of the deterioration of the economic cycle and to enable Member States in certain cases to adopt fiscal policies that put growth before stability.

We must not forget that Economic and Monetary Union is based not only on the principle of healthy finances at European level but also on the integration of markets (from the labour market to financial services markets) and on the structural reforms spelled out in the Lisbon process.

In its recent communication on “Strengthening the coordination of budgetary policies”[3], the European Commission comes up with innovative proposals stressing the need for a greater correlation between budget policies and the necessary structural reforms in the European Union.

Working on the basic assumption that healthy public finances form the solid base of EMU, the European Commission presents five proposals to prevent the economic situation from having an impact on the budget situation. In these proposals, it also suggests ways to promote at national level economic policies related to the Lisbon strategy, meaning policies capable of contributing to growth and employment. The Commission states that “a small temporary deterioration in the underlying budget position of a member state could be envisaged, if it derives from the introduction of a large structural reform, like for example a tax reform or a

[3] Communication from the Commission to the Council and the European Parliament. COM(2002) 668 final. Strengthening the co-ordination of budgetary policies.

long term public investment programme whether in physical infrastructure or in human capital. However, this should only be envisaged if the Member State concerned fulfils strict starting budgetary conditions: substantial progress towards the 'close to balance or in surplus' requirement and general government debt below the 60% of GDP reference value”[4].

Confindustria considers the Commission's proposals a step in the right direction, introducing in the interpretation of the Stability and Growth Pact the necessary flexibility to take account of swings in the economy and to enable the virtuous countries to undertake the reforms requested in the Lisbon process.

However, Confindustria is also of the view that certain types of investment should not be considered (meaning the portion of the public investment made) when assessing the budget situation of countries directly concerned by the investment. This should particularly be the case for public investments in projects of European interest such as the large-scale trans-European networks, which are needed to guarantee the free movement of goods and persons, one of the basic principles of the Treaty.

Also with a view to combining stability and growth, Confindustria believes that monetary policy too can play a more active role in stimulating the economy and not just guarantee stable prices. This is especially true in the light of the trend in inflation in the countries of the euro area. Regarding this, Confindustria welcomes the recent interest rate reduction by the European Central Bank.

[4] Press conference by Pedro Solbes regarding the Communication from the Commission to the Council and the European Parliament. COM(2002) 668 final, Strengthening the co-ordination of budgetary policies

1.2 The urgent need to coordinate the economic policies of the euro area: enlargement of the euro area

The euro area is bound to feel the effects of enlargement over the next few years. Aside from the fact that Sweden and the United Kingdom may join the Economic and Monetary Union, some of the new Member States are already in such a decidedly favourable situation that they may be able to join the EMU by 2006.

It should be underlined that in general the economic crisis that has affected the European Union has obviously affected the applicant countries as well, albeit to a lesser degree than the current Member States. The Commission's Autumn forecasts show average growth rising from 3% in 2003 to 4% in 2004.

Gross domestic product

	Annual average real growth rate		GDP per head (PPS, in % on EU average)	
	1997-2001	2002-2005	2001	2005
Bulgaria	2	4.9	28.1	30.7
Cyprus	4.2	4.2	79.5	84.7
Czech Rep.	1	3.7	27.2	59.8
Estonia	5.2	5.5	42.3	47.3
Hungary	4.5	4.6	51.2	55.3
Latvia	5.7	5.3	33.2	37.2
Lithuania	3.1	5.5	37.6	41.7
Malta	3.4	3.4	n/a	n/a
Poland	4.1	3.6	39.7	41.3
Romania	-1	5.1	25.2	27.8
Slovak Rep.	3.3	4.2	46.4	49.8
Slovenia	4.5	4.4	68.8	73.2
Turkey	1.2	4.7	22.4	24.4
EU	2.6		100	100

Source: European Commission, DG Economic and Monetary Affairs, "Evaluation of the 2002 pre-accession economic programmes of the applicant countries" No.14, November 2002

As far as the deficit is concerned, there was a slight increase in 2002, and in 2003-2004 it will be running on average at 3.9% for the 10 applicant countries.

With regard to the Maastricht criteria, a few recent economic analyses indicate that Poland, Hungary and the Czech Republic are in a better position to be a part of the euro area than were the Mediterranean countries (Italy, Spain, Portugal and Greece) when they joined the EMU.

MAASTRICHT CRITERIA – APPLICANT COUNTRIES AND MEDITERRANEAN COUNTRIES

	Deficit (end 2001)	Debt (end 2001)	Inflation	Long-term interest rates
Bulgaria	-1.5	100	7.9	5
Czech Rep.	-4.5	29.1	4.8	5.4
Estonia	-1	5.9	5.9	6.8
Hungary	-3.7	56.7	9.6	6.6
Latvia	-1.4	9.2	3.1	10.2
Lithuania	-1.5	26.1	1.2	6.3
Poland	-5.1	48.4	6	8.4
Romania	-3.5	34.1	34.4	49.2
Slovakia	-5.2	45	7.5	7.7
Slovenia	-1.2	25	8.5	Na
Average	*-2.9*	*38*	*8.9*	*11.7*
Average EEC-3	*-4.4*	*44.7*	*6.8*	*6.8*
Maastricht criteria (2000)	*-3*	*60*	*1.4+1.5=2.9*	*5.4+2=7.4*
	Mediterranean countries – figures 1993-1995			
Portugal	-5.9	61.1	6.9	9.5
Spain	-6.7	58.7	5.3	10.1
Italy	-9.4	118.2	5.5	11.1
Greece	-10.5	108.7	8.9	Na
Average	*-8.1*	*86.7*	*6.7*	*10.23*

Source: Daniel Gros, Rivista di politica economica, Central Europe on the way to EMU, p. 83

We can therefore assume that in 2006 we will have a euro area consisting of 17[5] of the 25 Member States. At that point a better coordination of economic policies becomes unavoidable.

On the coordination of economic policies, the Commission's recent communication presents clear proposals[6] that strengthen the current situation. Here, the national nature of the fiscal

[5] The countries supposed to join are Poland, Hungary, the Czech Republic, the United Kingdom and Sweden.

[6] The Commission's proposals are as follows:

- Member States should reaffirm their political commitment to the SGP in a "Resolution to reinforce the coordination of budgetary policies". The Resolution would represent the solemn political commitment of the Commission, Member States and Council to implement the Pact in a strict and timely manner in accordance with the proposals set down in this Communication.
- The Commission intends to upgrade the analysis of economic and budgetary polices by embarking on a wide range of measures. In particular, the Commission intends to pay increasing attention to the quality of public finances when assessing stability and convergence programmes. More emphasis will be put to budgetary measures conducive to growth and employment. The Commission calls for an upgrade of the euro area economic and budgetary statistics. In particular it calls on the Ecofin Council to adopt a code of best practices on the reporting of budgetary data ahead of the next excessive deficit procedure reporting date of 1 March 2003.
- Fiscal rules need to be backed up with effective and credible enforcement procedures. To this end, the Commission in this Communication clarifies the criteria to be used when deciding whether to activate the early-warning mechanism. It also clarifies that the Article 104 procedures will be used in the future for the debt

and budget policies of the Member States is retained, but the EU goes beyond the current stage of just laying down guidelines.

The European Commission's proposals can be considered the first phase of the desired coordination, which will serve to mutually monitor the pursuit of economic policies that are capable of ensuring stability and growth. Confindustria is of the view that these are steps in the right direction and should be accompanied, in the context of the work of the Convention, by the formalisation of meetings of Ecofin Ministers of the euro area[7] and by the creation of a "Mr. Euro" who represents the economic and monetary policy of the European Union on the international scene, together with the president of the ECB.

To cope with the current economic situation and in view of enlargement, Confindustria recommends that the Heads of State and Government:

- strengthen the coordination of economic policies on the basis of the indications presented by the European Commission;
- introduce in the interpretation of the Stability Pact the elements of flexibility proposed by the European Commission;
- allow certain types of investment, particularly those in projects of European interest (like the major trans-European networks), not to be considered (meaning the portion of the public investment made) when assessing the budget situation of the countries directly concerned by the networks;
- formalise the role of the euro group as an integral part of the Ecofin Council and create a Mr. Euro to represent the EMU on the international scene.

criterion as specified in the Treaty in the case of non 'satisfactory pace' of debt reduction towards the 60% of GDP reference value.

ü Greater external pressure on Member States to run sound public finances can be achieved through better communication. The Communication commits itself to make public its detailed assessment of stability and convergence programmes. In addition to the annual report on public finances, the Commission intends to publish a mid-term review of budgetary developments in Member States.

[7] With the entry of the 10 applicant countries, the 12 Ecofin Ministers of the euro area would find themselves in an absurd situation, representing a minority at Council meetings while the 13 other Ministers form the majority.

CHAPTER 2

2.1 Enlargement and the internal market: will it be possible to meet the objectives of competitiveness set in Lisbon?

For the internal market, enlargement is an opportunity and, above all, a challenge. It represents an **opportunity** to derive economic benefit from the integration of the two areas, the European Union and the applicant countries. The economic effects of enlargement can be summed up as follows:

- the population of the European Union will increase by about 100 million (+ 28%) and European gross domestic product by 5%, thereby creating the largest internal market in the world;
- the applicant countries will benefit from accession to the European Union in terms of growth, which may vary between 1.4% and 2.7%, depending on the level of reform carried out;
- the impact of enlargement on the European Unionwill be more modest, resulting in growth of less than one percentage point (this can be explained by the fact that the EU's gross domestic product will only increase by 5% with enlargement and that all the applicant countries combined account for 12% of the EU's exports);
- the Member States (Germany and Austria in particular) sharing borders with the applicant countries will have a positive effect on growth, increasing it by a maximum of 0.5% per year.

Enlargement also poses **challenges** linked especially to the capacity to keep an internal market operating, an internal market where there is more economic diversity and where the new member countries have little experience of a "functioning market economy" to use the wording of the Copenhagen economic criteria. It is not a coincidence that the European Commission only mentions two countries, Cyprus and Malta, as "functioning market economies", the other countries being defined as "likewise functioning market economies[8]."

But in addition to having a market economy and being able to face the competitive pressures of the internal market, the new applicant countries will have to assume the obligations that come with accession to the European Union.

This is the real challenge of the forthcoming years, not only for the applicant countries but for the European Union: being a member of the European Union **not only means applying and complying with the Community *acquis* but also contributing to the objectives of the European Union, especially the objective of making Europe the most dynamic and competitive area of the world in 2010.**

The process of integration of the new applicant countries is a process of economic convergence of two profoundly different areas in terms of income levels and levels of productivity. This process of convergence, although begun in the 1990s, will continue to require the assistance and support of the Union and the Member States.

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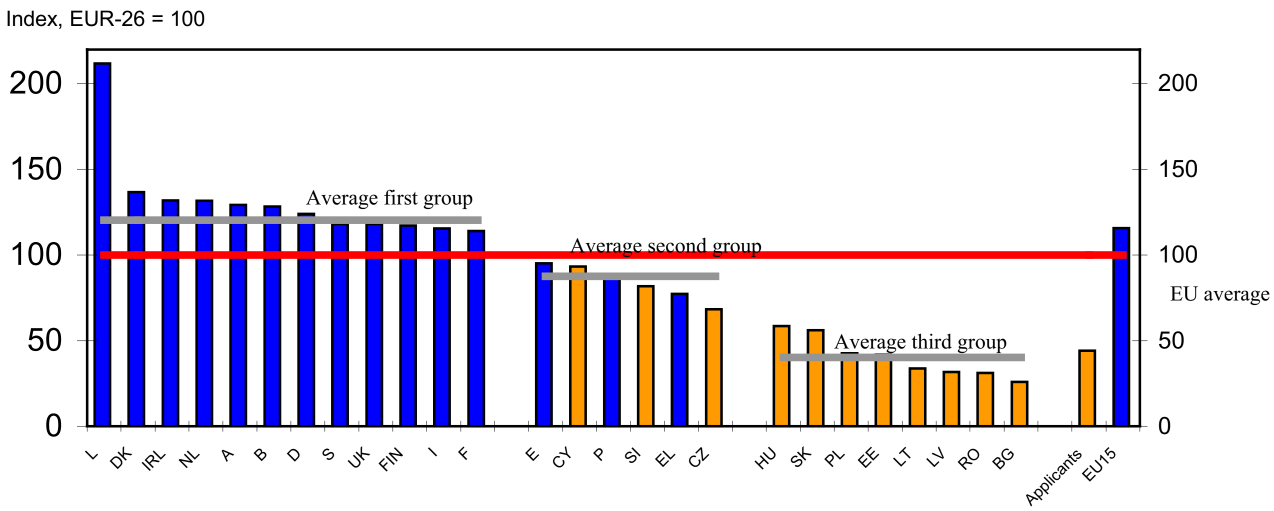
[8] The Commission continues with: "It is concluded that these ten countries will have fulfilled the Copenhagen economic criteria by the foreseen date of accession" p. 11 European economy, enlargement paper no.10, October 2002.

According to the first progress report on economic and social cohesion, with enlargement, per capita income in Europe will fall 18%, and of the 105 million new inhabitants of the European Union, over 98 million will live with a per capita income of less than 75% of the Community average. The European Union will be redrawn around three areas according to the income differential: the first area will include 9 countries whose per capita income will be 41% of that of the EU-27[9], the second area will include Greece, Portugal, Spain, Cyprus, Slovenia and the Czech Republic with a per capita income of 87%, and lastly the third area will consist of the other Member States[10].



Source: Second cohesion report 2001, DG Regional policy, European Commission.

Given that for Portugal, Greece and Spain per capita income has increased from 68% to 79% after 10 years of intervention by the Structural Funds, it may take the poorest areas of the applicant countries two generations to arrive at the European averages[11].

It is obvious that cohesion policy will play an essential role in speeding up this process of convergence. **However, cohesion is not achieved only through regional policy but also through the other fundamental policies of the single market:** research policy, transport policy, competition policy, environmental policy, energy policy, and financial markets policy to mention just a few.

It is on the correct application of the policies that the European Union will bring into play its capacity to fully integrate the internal market and to compete with the United States. If enlargement were to make the internal market and its policies less effective, the objectives of competitiveness decided in Lisbon would be at risk.

In the case of competitiveness, there is no time to lose. On the basis of the figures of the World Economic Forum, it appears rather obvious that there is a gap between the European

[9] Malta is included but does not appear in the picture (in the third group) because there are no reliable data available.
[10] First progress report on economic and social cohesion, COM (2002) 46 final, p. 8.

Union and the United States when it comes to all the Lisbon objectives, and the applicant countries are lagging relatively behind the European Union.

Lisbon Process: gap between the EU and the United States and between the applicant countries and the EU	**US figures**	**EU in relation to the US**	**CEEC average in relation to the EU**
Information society	**5.94**	**-0.52**	**-0.91**
Innovation and Research	**5.99**	**-0.84**	**-1.27**
Liberalisation	**5.06**	**-0.28**	**-1.27**
Completion of the single market	5.53	-0.36	-1.35
State Aid	4.58	-0.19	-1.19
Network industries	**6.17**	**-0.87**	**-0.81**
Telecommunications	6.12	-0.81	-0.52
Utility services and transport	6.22	-0.92	-1.09
Efficient and integrated financial services	**5.75**	**-0.62**	**-1.84**
Business environment	**4.40**	**-0.92**	**-0.44**
Start-up conditions	5.48	-1.28	-0.83
Legislative burden	3.31	-0.55	-0.05
Social inclusion	**4.75**	**0.10**	**-1.04**
Lifelong learning	5.76	-0.60	-0.75
Modernisation and social protection	3.73	0.80	-1.33
Sustainable development	**5.72**	**-0.27**	**-1.28**
Environment	4.80	0.02	-0.85
Climate change	6.63	-0.55	-1.70

Source: ***World Economic Forum***

The European Union is particularly lagging behind the United States when it comes to the creation of an environment favourable to businesses and innovation. This also explains in part the decline in productivity in the European Union in relation to the United States these past five years. Another serious difference is in the area of liberalisation, which in practice means completion of the internal market. Unfortunately, the joining of the applicant countries will not improve the situation in the field of research and innovation or with regard to liberalisation.

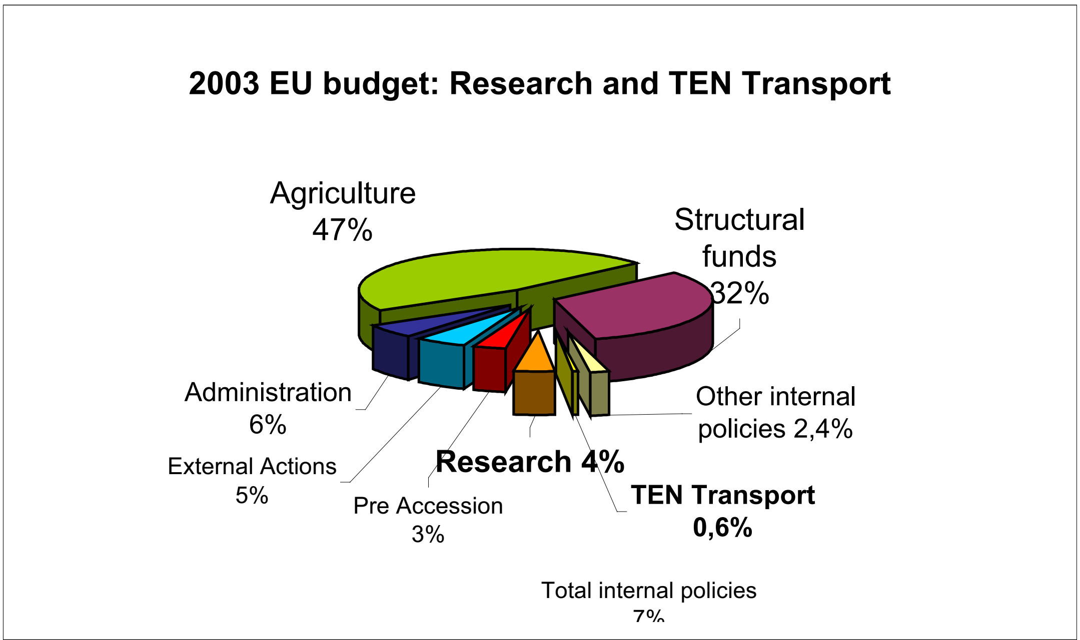
Ten years on, the internal market has still not been completed and is now preparing to receive 10 new applicant countries, which in turn are in a transition period as they put into place competitive markets. Assuming that **the Lisbon objectives and its deadlines will not have to be changed**, solutions will have to be found. The Community institutions, and the European Commission in particular, urgently have to assess the need to:

1. rearrange the priorities of the European Union for the forthcoming years to focus attention and resources on actions essential to completing the internal market and achieving the objectives set in Lisbon;
2. redefine certain policies, in addition to the main policies of expenditure, the CAP and Structural Funds;
3. review the course of action and instruments defined in order to achieve by 2010 the objectives set in Lisbon.

2.2 Confindustria's proposals

2.2.1 *Rearrange the priorities of the European Union for the forthcoming years to focus attention and resources on actions essential to completing the internal market and achieving the objectives set in Lisbon,* ***particularly transport and research policy****.*

The new internal market, that will be created with enlargement, will have to have the necessary resources and policies. Confindustria believes that priority must be given, including in terms of resources, to transport and research policies. Of all the internal policies, these are the ones that within a short period of time can have a beneficial impact on the enlarged market and improve the competitiveness of Europe. In the EU budget both policies are included in heading 3 (internal policies) and have marginal effect on the budget of the European Union. In the EU budget, both transport and research policy fall under "heading 3 - internal policies" and have a marginal impact: research only represents 4% and trans European priority projects 0.6%.



Source: Financial report 2000 and Financial programming 2000-2006 (SEC 2001/1013) – European Commission

For the future revision (2006) of the financial agreements reached in Berlin, heading 3 and the specific budget lines for research and networks need to be increased by at least 30%. Until the financial prospects change, the leeway allowed the budget authorities to increase the amounts earmarked for the two policies will have to be used.

	2003	**2004**	**2005**	**2006**
Total EU budget	97226	95680	95040	94551
Heading 3 – internal policies	6500	6614	6729	6853
Research	4055	4310	4500	4635
TEN	594	605	605	622
Effect in % of R&D and TEN on the budget	*4.78%*	*5.14%*	*5.37%*	*5.56%*

Source: Financial report 2000 and Financial programming 2000-2006 (SEC 2001/1013) – European Commission

Connecting Europe by the major transport networks in an effort to complete the internal market

It is rather symptomatic that on the eve of enlargement to the east the free movement of goods and persons is a right embodied in the Treaty but hindered in actual practice.

Over the years, the European Union has come up with a map (see below) of the TEN priority projects (14 priority projects decided in Essen in 1997) that are to unite the internal market by creating 10 pan-European corridors. These were decided after the collapse of the Berlin Wall to facilitate multi-modal trade between the EU countries and the Balkan states, crossing the applicant countries. In addition to this north-south integration of Europe, the final objective is to pave the way for enlargement by developing the main east-west routes.

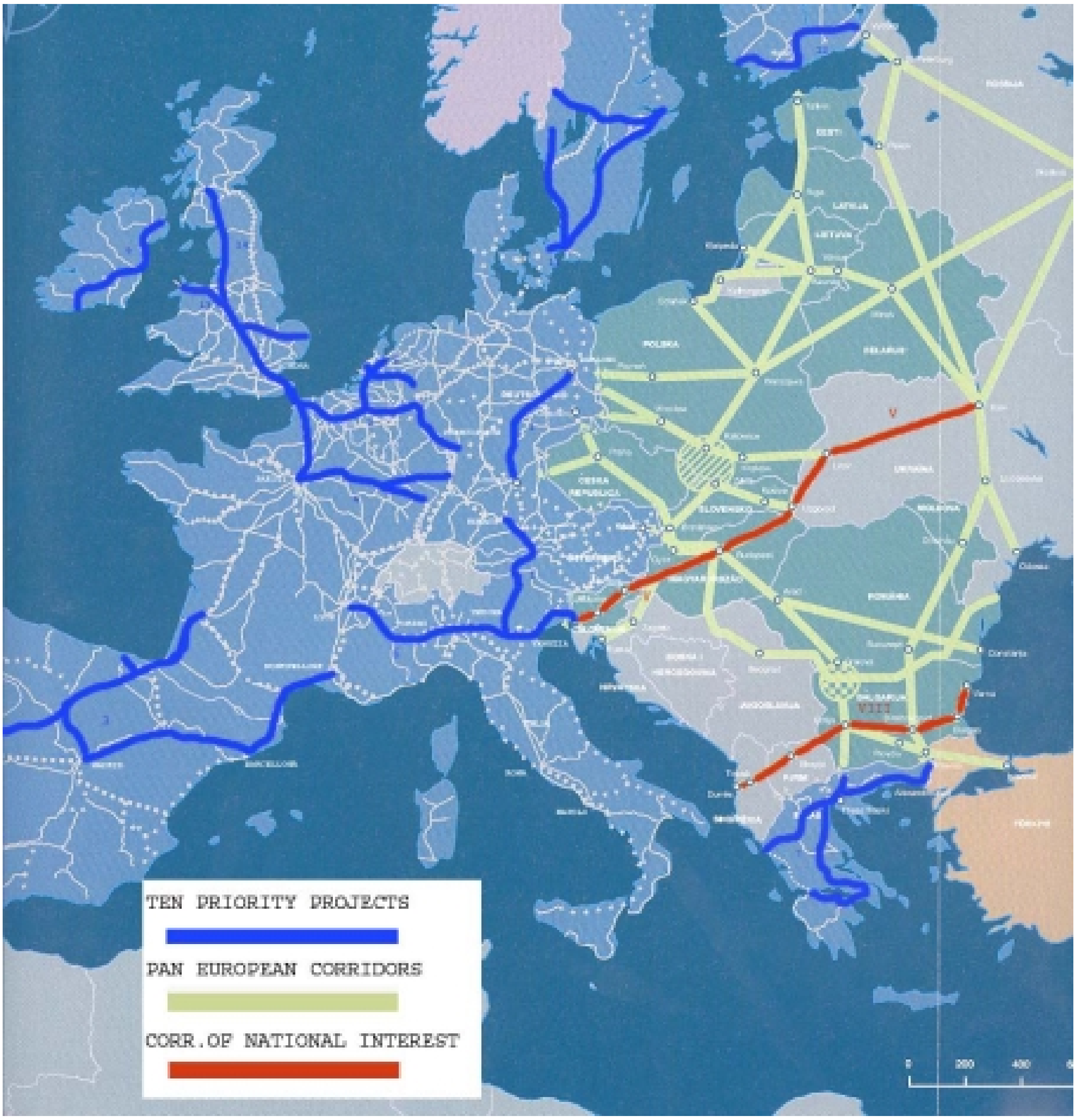
There have been considerable delays in the work on the TEN priority projects and pan-European corridors, especially in the completion of the cross-border projects. The delays are due to a lack of coordination between bordering States (which have given priority to projects within their own national borders) and a lack of public funds to finance the work, making the completion date of 2010 look rather utopian.

Enlargement will set into motion a huge movement of goods and persons between the countries of the Union. Already now bottlenecks are forming at the Alpine passes and borders, with a serious risk of saturation of the main east-west routes. The possible consequences of the absence of efficient networks of transport infrastructures to cope with this increased flow of trade are underestimated. Yet these networks are a key element of the economic development and integration strategy of the applicant countries in the internal market.

Confindustria is calling for three urgent actions:

1. **the territorial integration of Eastern and Western Europe** by building new infrastructures and developing existing ones in the regions of Europe covered by the Alpine arc. In this sense it is extremely important to complete as soon as possible the TEN projects involving southern Europe and corridors VIII and V (which will cross the entire continent and connect Lisbon and Kiev).

   The high-level group headed by Karel Van Miert and assigned with the task of reviewing the priorities of the TEN must take account of the integration of the applicant countries and favour an expansion of the trans-European network to eliminate the "barriers" separating Italy and the Mediterranean from Central and Eastern Europe.



Source: Confindustria

2. **The adequate financing of the work** to ensure completion of the projects. Insufficient funding is currently one of the main reasons standing in the way of completion. For the TEN projects alone, out of an overall cost of 400 billion euros, the fifteen Member States contribute between 15 and 20 billion euros per year and the Community about 2.5 billion. **The Commission's proposal of raising the current minimum level of Community funding of 10% should certainly be supported. But instead of setting a limit on funding of 20% of the cost of the work, Confindustria suggests raising this to 30%. Also, investments concerning the major trans-European networks should not be taken into account (meaning the portion of the public investment made) when assessing the budget situation (ratio of deficit to GDP) of the countries directly concerned by the networks.**

   Of course in addition to these solutions, there must also be **private funding**, and other solutions can be considered like **charging for the use of transport infrastructures**, according to the "user-pays" and the "polluter-pays" principles. However, care must be taken not to increase what are already high costs and a burden on road transport.

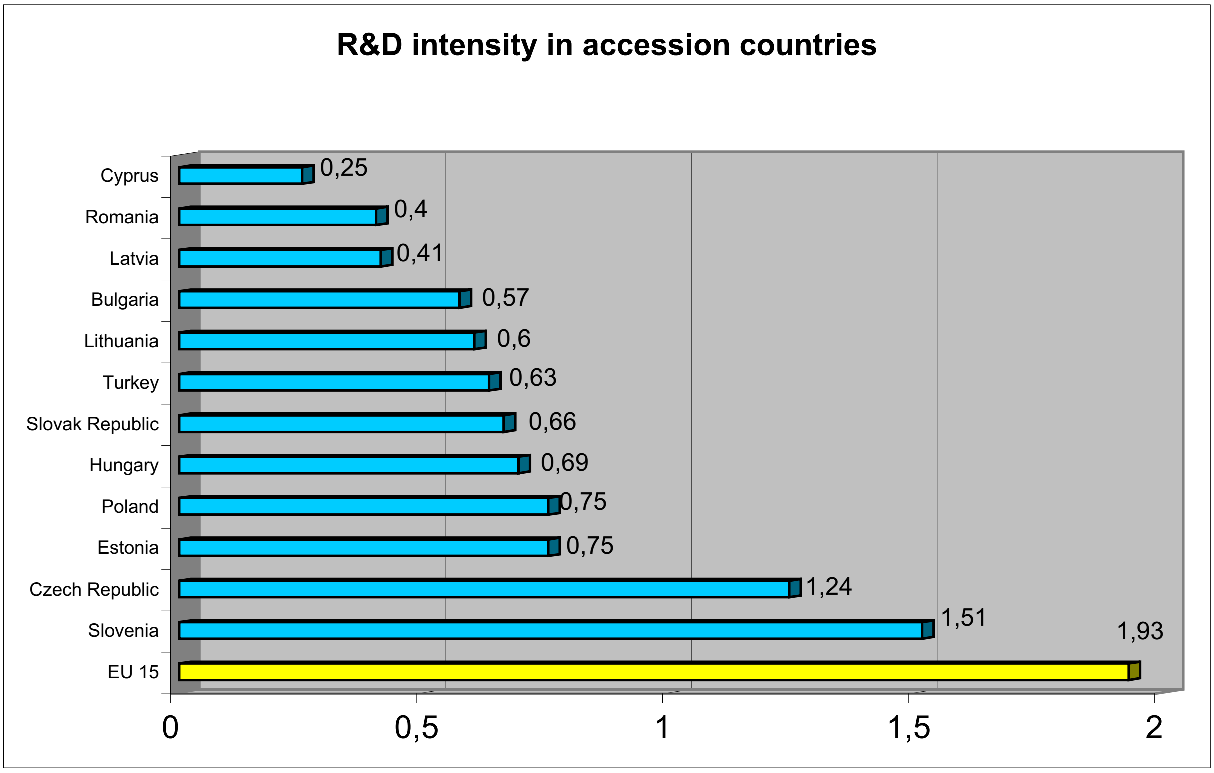
3. The European Union's acceptance of **special fast-track procedures** for projects of European interest in order to enable rapid completion of the work.

- **strengthening research and innovation policy**

Aware that most Member States have fallen behind in investment in research, the European Council in Barcelona set a common investment objective of 3% of Community GDP for research and technological development. With enlargement, this objective will be a particularly ambitious if not impossible one to achieve by 2010[12].

In terms of **investment in research**, **none of the applicant countries comes anywhere near the EU average of 1.9%**, except for Slovenia (1.5%) and the Czech Republic (1.2%). The average among the applicant countries is 0.78% and will lower the European average to 1.34%.

[12] Regarding the achievement of this goal, ERT (a forum of 44 European industrial leaders) discussed the issue of 3% GDP for research. According to a report, ERT, in its conclusions, attributes this situation to various unattractive conditions: insufficient human resources, infrastructure, tax incentives and regulations. In the light of this, the Barcelona objective is unrealistic.



Source: Toward a European Research Area - science, technology and innovation key figures 2002, p. 71

The percentage of **research financed by the industrial sector** – which is profit-oriented research – in all the applicant countries is much lower (37%) than the European average of 56%. This reflects a low level of creation and a low rate of absorption of knowledge and technology in the private sector, and especially the very limited capacity to think research and development from a market perspective.

In terms of knowledge products, measured according to the **number of patent applications filed with the European Patent Office** by the applicant countries, between 1 and 22 patent applications are filed per million inhabitants, a figure well below the European average of 126 patent applications.

To revitalise research policy, and taking account of the general trend in the economy and the budget situation of many current and future Member States, actions need to be taken to tackle the problem of funding but also to create an environment favourable to research and innovation.

Confindustria suggests that:

1) **the Community budget for research be increased** in the next revision of the Berlin financial agreements in 2006 to take account of the accession of the 10 applicant countries. It is estimated that the percentage of Community GDP devoted to research, which today stands at 1.94%, will fall by 30% with the entry of the enlargement countries. This reduction will have to be offset by an equivalent increase in EU funding for research. In practice, this means that the current amount earmarked for research of about 4 billion euros per year should be increased by 1.2 billion. The increase in direct financing should also be accompanied by legislation on state aid for

research that is more effective in stimulating R&D. The revision just approved has done nothing other than confirm the previous guidelines.

2) **ambitious European projects like Galileo have to be carried out**, the direct and indirect benefits of which will accrue to the market as a whole;

3) **an attractive environment be created for industrial research in the EU**, by:

- ü creating a favourable legislative framework and reducing obstacles to the development of the market (inadequate standards and legislative requirements that slow down or prevent the access of innovative products to Community markets);

- ü introducing a coherent approach in national research throughout the enlarged EU, a step that is essential in creating a European Research Area;

- ü launching actions to support public research and the mobility of researchers, increasing the links between academia and the business world to establish research objectives for the public sector and stimulate the exchange of research workers.

2.2.2 *Redefine a number of policies in addition to the main policies of expenditure, CAP and structural funds,* ***especially industrial policy and competition policy****.*

For Europe, enlargement represents a major advantage in facing the challenges of the globalisation of the economy provided that the internal market becomes an environment which is favourable to business. For this to happen, two conditions are needed:

1. *an industrial policy that stimulates business and innovation, and therefore growth;*
2. *a competition policy which guarantees the uniform application of the provisions of the Treaty throughout the territory of the Union.*

Confindustria considers that industrial policy and competition policy must adapt to the changed conditions and to the challenges of the enlarged internal market.

Industrial policy ought to become Europe's competitiveness policy

Competitiveness is closely linked to entrepreneurship and the innovative capacity of a production system. But it is also linked to a set of other factors, such as the flexibility of labour markets, the liberalisation of service markets, efficient bureaucracy and investments in new technologies. In order to achieve the ambitious objective of the Lisbon process – making Europe the most dynamic and competitive area in the world - it is thus not enough to concentrate only on industrial policy; other policies need to be considered. For this reason, Confindustria feels that a coordination of the policies which determine the competitiveness of the industrial system would be needed.

In Europe, we are seeing a proliferation of decisions that affects business costs. These decisions are made without any prior analysis of the impact they have on businesses. The

European Commission has proposed an impact analysis that takes account of the social, environmental and economic consequences of the new set of rules; this is certainly a step in the right direction but does not go far enough. Already when the European Commission uses its right of initiative, as granted by the Treaty, the Union's various policies need to be coordinated.

Confindustria proposes that, like the Seville European Council's decision to merge various Councils of Ministers (Industry, Internal Market, Research) into a single Competitiveness Council, the European Commission should assign the Commissioner responsible for industrial policy the same directing and coordinating role as assigned to the Competitiveness Council. The institutional complexity arising from enlargement could only benefit from the solution suggested. But, above all, the measures taken will be inspired by competitiveness criteria.

- **A competition policy that supports the competitiveness of the European system.**

In an internal market extending to 10 new countries, competition policy must represent a watertight guarantee of the uniform application of the rules of the Treaty whereby "competition in the internal market is not distorted."[13] This principle is more important still in the light of the recent reform providing for a greater involvement by the courts and national authorities in relation to competition and consequently the greater likelihood of non-uniform behaviour among the 25 governments of the Member States.

The need for the same rules to be applied throughout the internal market is undisputed. However, whether competition policy supports the competitiveness of the European system, as compared with the United States, remains a question.

The Green Paper on the review of Council Regulation No 4064/89 on concentrations not only considers the future of concentrations policy, but also makes an interesting comparison between two systems of competition policy, the European and the American. These are extremely important considerations which are not only about the reformulation of a Union policy but also about securing competitive advantages for one industrial system over another.

Confindustria has already stated, as regards the substantial criterion of assessing concentration operations, that the *substantial lessening of competition* which is applied in the United States would yield no advantage over the present test of dominance applied in Europe. However, there is criticism of the absence of any assessment of the "efficiency" brought about by a concentration operation. Indeed, the Commission in certain cases has rejected proposed concentrations (cf. the GE/Honeywell case or the Alenia/de Havilland case), declaring them operations which might achieve too much efficiency, and therefore almost formulating a theory of *efficiency offense*. Albeit absurd, the lack of efficiency of the market would be rewarded with this theory.

Another point to be considered in this comparison between the enlarged European market and the United States is the question of state aids. The United States has no rule controlling aids, apart from WTO Rules and some general guidelines in the US Constitution and it allows state aid to be used for purposes other than those in Europe.

[13] Article 3, EC Treaty.

US subsidies are oriented towards strategic industrial sectors, such as the aerospace industry (70% of the research and development budget comes from NASA and the Department of Defense) or the electronics industry[14].

The European Union recognises the lawfulness of public aids for remedying shortcomings on the market - typically research and study activities and access to risk capital for innovative businesses. However, in connection with the decisions taken at the Barcelona Summit in March, the Member States were requested to reduce the overall level of state aid as a percentage of GDP by 2003 and, onwards, to "redirect such aid towards horizontal objectives of common interest, including economic and social cohesion, and target it to identify market failures"[15].

With enlargement, the European Union will have to resolve an important internal problem of economic and social cohesion and at the same time be capable of competing internationally. The challenge it faces is of crucial importance.

In several instances, not only in competition policy but, for example, as regards the Kyoto agreements, Europe has made a different choice from the main competitor. Confindustria calls on the institutions to place all European businesses on an **equal level playing field** with those of other countries, so that the competitiveness race can be played with the same rules.

[14] 2002 European Competitiveness Report, COM (2002) 262 final, p. 110.

Confindustria proposes that:

1. priority be given to **major networks of infrastructure**, particularly in terms of resources:

   ü **by fostering East-West territorial integration** by building new infrastructures and reinforcing existing ones in Alpine regions of Europe. Regarding this, the completion, as soon as possible, of the TEN projects involving southern Europe and Corridors VIII and V is of great importance;

   ü **by raising the Community funding threshold to 30%** for the construction of the major trans-European networks (TENs). Investments relating to these also need to be separated from the calculation of the budget situation (deficit-GDP ratio) of the countries directly affected by the networks for the quota of public investment made;

   ü with the acceptance by the European Union of **extraordinary accelerated procedures** for projects of European interest whereby rapid progress may be made in carrying out the works;

and in **research**

   ü **by increasing the Community budget devoted to research by 30%**, with the forthcoming reviews of the Berlin financial agreements in 2006, so that it can handle the entry of the 10 applicant countries;
   ü **by carrying out ambitious European projects like Galileo**, the direct and indirect benefits of which will accrue to the market as a whole;
   ü **by favouring an attractive environment for industrial research in the EU** by establishing a favourable legislative framework, reducing barriers to the development of the market, introducing a consistent approach to national research throughout the enlarged EU - which is essential for the creation of a European Research Area – and adopting measures to support public research and the mobility of researchers, thereby creating more links between universities and businesses.

2. in addition to the main policies of expenditure, the CAP and structural funds, some of the other **Union policies be reformulated**, and in particular:

   ü industrial policy so that it becomes Europe's competitiveness policy;
   ü competition policy so that it supports the competitiveness of the European system.

3. **there be a review of the progress made and the instruments established between now and 2010** to achieve the objectives tabled in Lisbon, taking into consideration the effects of enlargement.