

More Europe for more competitiveness

Introduction

- On 1 January 2001 the euro became the single currency of 12 Member States of the EU.
 - Now we have the euro, we must ensure that the market in which it will be spent is effective and competitive.
 - Over the last ten years, the European economy has become less competitive in comparison with that of the US, as shown recently by the European Commission¹. The relative differential of Europe, and of Italy in particular, is measured in terms of innovation in products and processes, of evolution of quotas on international markets, and of labour productivity and added value per employee.
 - The challenge of competitiveness is therefore the priority of European society, and is the only way to sustain and reinforce business profitability and the processes of accumulation, internationalisation and economic development – particularly in a environment increasingly characterised by growing competition and a more integrated market.

- In Lisbon, the Heads of State or Government set themselves the objective of making the EU the most competitive and dynamic knowledge-based economy in the world. The EU set ambitious objectives and action plans, and defined a detailed and precise work programme on how to achieve them. In a few months it will be two years since the process began. The results achieved so far are disappointing, and the European Commission itself has spoken of a "**delivery gap**".

- The slowing of the economy is no reason for delaying important decisions. On the contrary, it should serve as an incentive to speed up reform if the Lisbon objectives are still to be met and if Europe wants to become the area with the strongest economic and employment development by 2010.
 - Despite the fact that the Lisbon commitments were made during a period of strong growth and in a stable and optimistic climate, they are even more relevant today in an economic period that requires firm and courageous choices.
 - Awareness that the reforms are even more important during an economic downturn led the Heads of State and government to reiterate their commitment at the October summit in Ghent, and this prompted the European Commission to make a strong political call in setting the agenda for Barcelona's summit: "**Making change happen**".

¹ 2001 Competitiveness report, 29 October 2001

- The coordination process agreed in Lisbon showed that the European Union is ready for change. The Spanish Presidency document "**Más Europa**" is a significant starting point for the implementation of this major change at the Barcelona summit. It cannot be postponed any longer.
 - Europe needs to revitalise its economy and modernise its social model. For this purpose, it will need to be given effective regulations and instruments that will enable a future Community of over 25 States to decide as a whole and with due regard for a multitude of interests. The outcome of the Convention and the start of the Intergovernmental Conference will be essential in designing the new Europe.
 - Enterprises, all the more so if they are small – small businesses form the economic backbone of Europe, since over 90% of enterprises are SMEs – require a competitive Europe where the regulations governing the single market are clear and definitive and where the markets can operate freely with due regard for stronger competition.
- The successful introduction of the euro shows that the European Union can take decisions and achieve ambitious goals when there is the political will to do so. This same determination must accompany the process of economic reform.
- We must translate our words into action and progress from being pro-European to becoming European. This is a precondition for competitiveness because deciding means not only setting precise objectives, but also indicating how to reach these objectives quickly and decisively.

SUMMARY OF PROPOSALS


- In Lisbon, the Heads of State and Government set the objective of making the European Union the most competitive and dynamic knowledge-based economy in the world. The aim is to restore the competitiveness of Europe with respect to the United States. With this in mind, the Union and the Member States must **decide** on the **economic and institutional reforms** required to enable the European Union to revitalise its economy and reform its decision-making process.
- Confindustria agrees with the European Commission's assessment that time has been wasted over the past two years and that changes are urgently needed to give new impetus to the Lisbon process. The problems have been properly diagnosed and the options have been identified; it is now up to the Heads of State and Government to decide.

Economic reforms

Among the objectives established in Lisbon, Confindustria has singled out a few that it regards as priorities in addressing both Italy's backwardness compared with the other European countries, and the European institutions' delay in implementing the work programme established in 2000.

Confindustria trusts that, on the basis of the Commission's proposals, the European Council will decide on the points below at its meeting in Barcelona:

Energy market

- To complete the single energy market, Confindustria recommends that:
 - the European Parliament and Council adopt during 2002 the proposal for a directive on the energy sector amending the directive 92/96/EC that is to **liberalise supply in all Member States**  **bring forward the liberalisation at least for industrial users to 2003;**
 - the European Parliament and Council adopt, by December 2002, the review of the Guidelines and accompanying financial rules on the major energy and transport networks. **Infrastructure measures** – in particular the priority projects of the trans-European networks – are required to increase interconnection between networks and prevent the energy market from continuing to develop a compartmentalised model to the detriment of European citizens and enterprises;
 - the European Commission proceed without delay to use the means available under the treaty (**Art. 86**) with respect to the Member States that have failed to implement directives 96/92/EC and 98/30/EC.

Labour market

- To promote employment and improve the labour market structure, Confindustria calls on the European Council to promote a number of urgent reforms at national level, and in particular to:
 - pursue efforts to **reduce taxation on labour**, above all for low-income and low-skilled workers;
 - promote active employment policies with the aim of curbing unemployment, improving employment prospects, raising the employment rate among women and older workers

and increasing **the flexibility and capacity of the labour market to adapt to changing cyclical conditions**;

- complete the **reform of the education and training system**, to adapt it to the new requirements of the economy and of society, in the light of the debate initiated by the Union on the new objectives of the European teaching systems;
- speed up the **pension systems reforms** with a view to reducing the impact on public finances and ensuring full financial sustainability, strengthening the capacity of the systems to meet the requirements of a changing society and offering adequate incentives to encourage a longer presence on the labour market;
- promote greater worker mobility and proceed with the speedy implementation of the measures proposed in the European Commission's action plan to **remove obstacles to mobility and skills** in the European labour markets.

Research and innovation in the knowledge-based economy

➤ To close the gap with the US in terms of research and innovation in the knowledge-based economy and help restore the competitiveness of European enterprises, Confindustria calls on the European Council and the Member State to:

- promote measures to encourage the use of **broadband networks** in both urban and rural areas of the Community, setting as the objective the greatest possible availability of this technology in the whole of the European Union by 2005;
- implement the **European Research Area** by promoting greater investment in research and technological development and setting the objective of 3% GDP expenditure for public and private sector R&D by 2010;
- focus on public investment in research, on quality and on networks;
- facilitate cooperation between the public and private sectors and the mobility of researchers;
- fulfil the commitments and implement the measures of the **eEurope** action plan;
- encourage measures that help to make **life-long learning** a reality throughout the Union by pursuing the co-ordination of national policies with the full participation of the social partners;
- rapidly implement the new "**telecoms package**" which will reduce the regulatory burden and facilitate market access;
- introduce a legal framework for **biotechnology** that is simple, effective and transparent.

- Confindustria further requests that the Council:
 - should approve by June 2002 the proposal for a regulation on the **Community patent**;
 - should take the decisions required for the formal launch of the development phase of the satellite navigation system (**Galileo**).

Transport policy

- In order to resolve at least two of the pressing issues in the field of transport policy, Confindustria calls on:
 - the European Council to give the necessary political impetus to continue with the creation of **infrastructure**, and thus address the root cause of transport congestion, by completing the trans-European networks projects approved at the European Council meeting of Essen in 1994, taking into consideration in particular the questions of links through the Alps and of traffic congestion throughout the Alpine region. For this reason, as has already been indicated for the energy market, the Council and the European Parliament are invited to adopt, by December 2002, the review of the Guidelines and accompanying financial rules for the major energy and transport networks;
 - the European Parliament and the Council to approve by the end of 2002 the **second package of measures for the liberalisation of rail transport**, recently submitted by the Commission, and aimed at allowing the implementation of a truly integrated European railway area and the creation of regulated competition to liberalise the markets.

Financial markets

- The lack of a single market for financial services is one of the main obstacles to the completion of the single market. Confindustria requests:
 - the European Council to renew their political **commitment**, in this critical economic phase, to implementing the financial services action plan along the lines indicated in the **Lamfalussy Report**, respecting the deadlines planned for the liberalisation of the markets: 2003 for fully integrated securities markets and 2005 for fully integrated financial services markets;
 - the European Parliament and Council to adopt, within the deadlines indicated by the European Commission, the pending legislative proposals needed to proceed with the harmonisation of rules on **accounting, transparency and corporate governance**.

Institutional reforms

Urgent need for reforms: the White Paper on European Governance and the Convention on the future of Europe

- Confindustria supports the initiative that the Commission launched with its White Paper and hopes that the new governance of European institutions will be characterised by **greater decision-making ability, efficiency of procedures, accountability and responsibility of the institutions**. It is essential that the new practices of good governance of the European

institutions should be implemented promptly, pending the institutional reforms that will define the new order of the European Union.

- As regards institutional reforms, Confindustria hopes that the Convention's proposals and the decisions taken at the next Intergovernmental Conference will be able to reconcile respect for democratic representation and the national interests of the Member States with the need for joint action and joint decision-making.
- In the light of this principle, Confindustria hopes that steps will be taken towards the division of **powers** between the European Union and Member States with the objective of facilitating and speeding up the decision-making process.
- As regards decision-making procedures, Confindustria, without prejudice to the protection of fundamental rights and the amendment of treaties, supports sustained recourse to **qualified majority voting** so as to avoid dangerous blocking minorities that could paralyse the institutions. Confindustria furthermore upholds the right of the Member States to proceed with further levels of integration through procedures such as **closer cooperation**.
- As regards the instruments for the application of decisions, Confindustria stresses the need for enterprises to benefit from a **regulatory framework that is simple, coherent and consistent** across the Union. Confindustria deplores the extreme complexity of the present legislative apparatus of the Community, and the widespread failure to implement Community legislation which has serious consequences for the smooth operation of the single market. Confindustria hopes that in future there may be greater recourse to voluntary forms of self-regulation and, if recourse to the legislative body should be necessary, a greater use of regulations that will ensure the homogeneous implementation of rules at Community level.
- Confindustria calls on Member States to resolve institutional matters before the accession of the new candidate countries.

Europe and federalism

- Within the framework of the institutional reforms and the new European governance, alongside the division of powers between the European Union and Member States, it is necessary to single out models of participation in Community decisions that are able to guarantee a balanced representation of the various institutional levels present in the national systems of government. In our country, the issue is entangled with the questions of federalism and the devolvement of powers and responsibilities to the regions, putting the business community in a state of uncertainty typical of all transition phases. Confindustria hopes that an overall system of coherent, synergistic and effective rules may emerge from these two reform processes, in the awareness of the unifying role held by Community legislation at both national and regional level.

Enlargement and reform of the main policies of the Union

- In order to ensure that the accession of the central and eastern European countries results in enhanced competitiveness, Confindustria maintains that wealth-generating projects (innovation, support for new entrepreneurs) must be given precedence over the wealth-redistribution projects that are largely prevalent today.
- Confindustria therefore maintains that enlargement is the opportunity to **radically reform those Community policies** that currently govern the budget, in particular by modifying the CAP and



the structural policies in order to curb their distortion effect, reduce their financial impact and allow them to be at least partially re-nationalised.

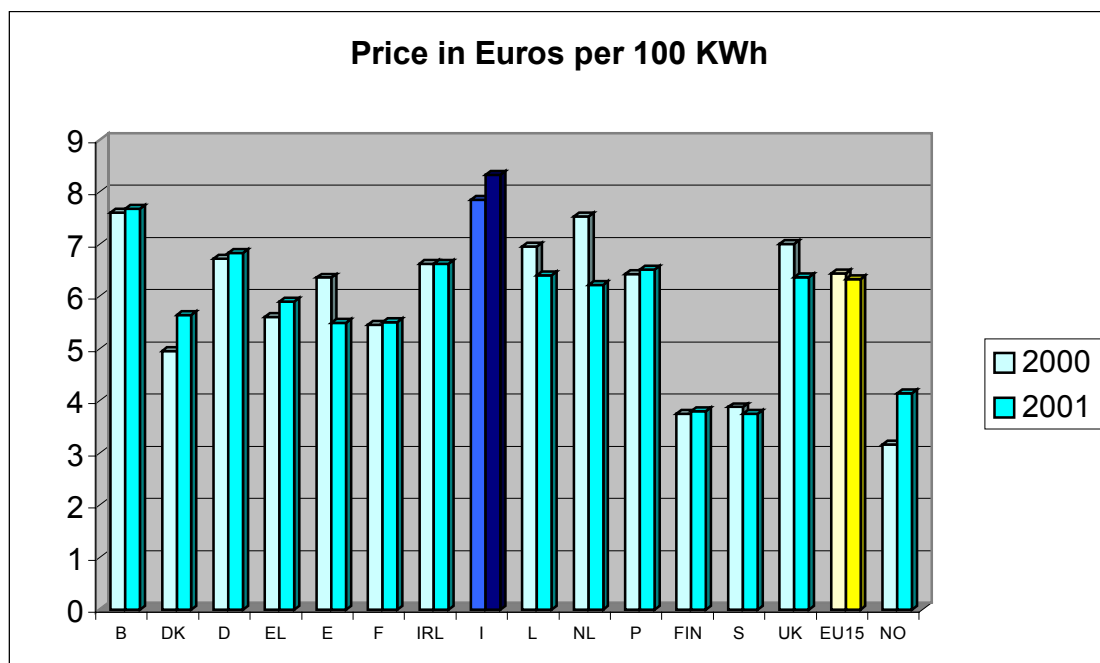
- Confindustria considers that the Commission's recent proposal of 30 January 2002 "Enlargement and Agriculture: Successfully integrating the new Member States into the CAP" brings up the question of financial re-balancing problems that will have to be dealt with decisively and with economically sustainable solutions.
- Lastly, Confindustria maintains that **reforms** of the above policies must be carried out **before the accession of the candidate countries**.
- To become the most dynamic economy world-wide, the EU has to guarantee balanced and sustainable development throughout the Union. With the accession of the candidate countries, **the south of Europe becomes the new European frontier**, in which an extraordinary economic growth project can be achieved. Confindustria calls on the European Council to promote a single integrated infrastructure system, that can place the EU's *Mezzogiorno* at the centre of economic development and make it a bridge for integration between the Mediterranean partner countries and the European Union.

The next two chapters deal with the critical points that will be on the agenda of the European institutions as of the Barcelona summit meeting on 15 and 16 March 2002. In the first chapter, "*Giving new momentum to the Lisbon process through economic reforms*", Confindustria has emphasised the sectors where the European Union is trailing behind the United States, and where Italy in particular is also trailing behind the other European countries, singling out the decisions that the European institutions should make as a matter of urgency in Barcelona. The second chapter, "*Competitiveness and institutional reforms*", deals with the topics of institutional reforms as a key factor of EU competitiveness and attempts to outline some preliminary suggestions regarding the reforms that Confindustria feels could make Community policies and institutions more dynamic and effective.

Giving new momentum to the Lisbon process through economic reforms

1. Liberalisation and the opening-up of the energy market

- The need for rapid liberalisation of the energy markets is a priority for the European economy today. The relative costs of electrical energy and a guaranteed energy supply are crucial factors in the competitiveness of European industry worldwide. The positive effects of liberalisation on price levels must push the European institutions to speed up the implementation of a single energy market that is more efficient, safer and more competitive than the present one.
- The electricity market is the most important secondary source of energy of the European Union. For Italy, electricity is the sector in which our country has delayed reforms to a much greater extent than its European counterparts. A price comparison of electricity shows that the costs for Italian enterprises – in particular SMEs –, net of tax, are on average higher than in the rest of the European countries.

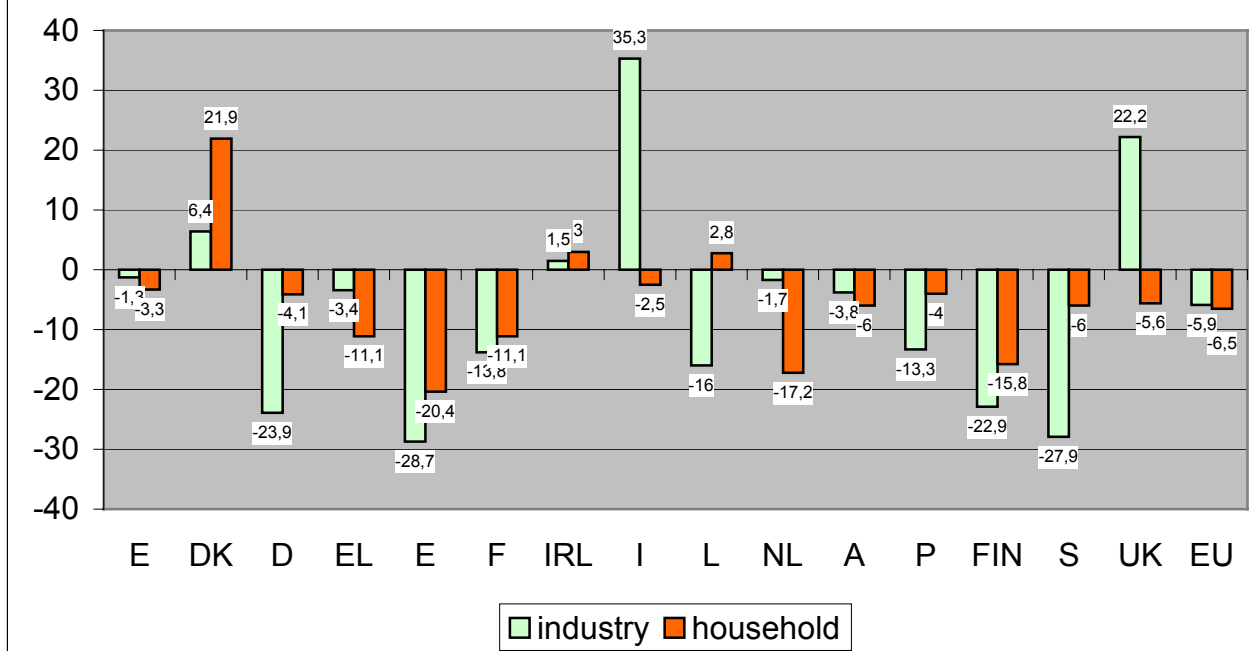


Source: Eurostat, structural indicators, January 2002

Even if it is true that the prices of electricity depend on how it is generated and, therefore, on the price of petrol and of gas, it is equally true that in those countries where the liberalisation process has been more effective, prices have dropped more sharply.

- Considering the various factors that influence the determination of prices, in the period 1996-2001, Italy registered a price increase rate of approximately 50% compared with the European average. The structure of the market in terms of concentration and access shows that Italy is almost always among the five European countries that are lagging the furthest behind. Such discrepancies penalise Italian SMEs to a greater extent.

Percentage change in the electricity prices (1996-2001)



Source: "Report on the implementation of the electricity and gas directives" of the European Commission SEC (2001) 1957

- As an importing country, Italy could benefit from the implementation of the single energy market, but the energy exchanges between Member States clearly indicate that a single energy market does not exist at present. The intra-Community trade of electricity is equal to 7-8% of the total production of the European Union. There doubtlessly exists a structural problem of interconnection that is due not only to the lack of investments in network infrastructures and in development plans but also to the shortage of rules to allocate and to manage interconnection capacity.
- The implementation of a single energy market depends not only on the opening-up of the market, but also on the liberalisation of access to the network. It seems obvious that the non-liberalisation of access by national and foreign operators to the distribution and transmission networks severely hinders the integration of the domestic markets. On this aspect², the proposal for a European Parliament and Council regulation on conditions access to the network for cross-border exchanges in electricity (cross-border regulation) should resolve the main problems which are:
 - the persisting high network costs, which discourage new players from entering the market and encourage cross subsidy schemes;
 - having to operate in a situation marked by insufficient unbundling of the network, which will encourage cross subsidy interventions over time;
 - the lack of adequate rules with regard to the fixing of prices for cross-border trade;
 - the lack of rules to allocate and manage the scarce interconnection capacity.
- The existing picture shows that Italy remains far behind within a European context which is itself problematic. The adoption of the "electricity directive" (96/92/EC) has created asymmetries that are jeopardising the main objective: a single energy market (table: implementation of the electricity directive). The flexible implementation provisions contained in

²As was pointed out by the European Commission in its recent report on the implementation of the electricity and gas directives, SEC(2001) 1957 of 3/12/2001

the directive have created electricity markets with differing structural characteristics which are hindering the creation of a homogeneous and competitive market.

Implementation of the "Electricity" directive							
	Opening up of the market declared	Date of full opening	Separation of the transmission network operator	Regulatory body	Tariffs for access to the network	Balancing Market	Market share of the three main producers (%)
Austria	100%	2001	Legal	ex-ante	High	YES	68
Belgium	35%	2007	Legal	ex-ante	Medium	NO	97 (2)
Denmark	90%	2003	Legal	ex-post	Low	YES	75 (2)
Finland	100%	1997	Legal	ex-post	Low	YES	54
France	30%	None	Operation	ex-ante	Medium	planned	98 (1)
Germany	100%	1999	Operation	Not present	High	only 2/6 GRT	63
Greece	30%	None	Operation	ex-ante	No	NO	100 (1)
Ireland	30%	2005	Legal	ex-ante	Medium	NO	97 (1)
Italy	45%	None	Legal	ex-ante	Medium	planned	79 (2)
Netherlands	33%	2003	Legal	ex-ante	Medium	YES	64
Portugal	30%	None	Legal	ex-ante	High	NO	85
Spain	45%	2003	Legal	ex-ante	High	YES	79
Sweden	100%	1998	Ownership	ex-post	Low	YES	77
United Kingdom	100%	1998	Ownership	ex-ante	Low	YES	44

Source: Commission report on the implementation of the directives on gas and electricity, SEC (2001) 1957

Key: Blue = positive conditions; Yellow = potentially negative consequences for the development of the internal market

- The lack of a market convergence process has not favoured the Italian consumer. Instead, the heterogeneity of the structural frameworks favours operators in Europe who, owing to their energy policy, have a competitive advantage in terms of production cost differentials. Given the persistence of monopolistic public operators at European level and a process of liberalisation of the energy market adopted at different speeds, the emphasis of the new proposal for a directive amending the previous 92/96/EC should be based **on the need to liberalise supply in all the Member States**.
- If the Community's objective is to promote a competitive European energy market, the constraints associated with persisting dominant positions in the individual countries could be countered by increasing the size of the market, if necessary by a policy of energy sources and infrastructure development coordinated at Community level.

Competition and Prices				
	Clients who have changed supplier (in % of requests)		Average price for the end user (in Euros/MWh) - month of July 2001	
	Large consumers	Others	Large consumers	Families and small traders
Austria	5 - 10%		Not available	98
Belgium	5 - 10%		68	120
Denmark	not available		56	68
Finland	30%	10 - 20%	36	55
France	5 - 10%		51	87
Germany	10 - 20%	<5%	61	122
Greece	-		54	76
Ireland	30%		60	101
Italy	<5%		77	110
Netherlands	10 - 20%		62	94
Portugal	<5%		59	106
Spain	<5%		52	88
Sweden	100%	10 - 20%	34	52
United Kingdom	80%	>30%	58	91

Source: Commission report on the implementation of the gas and electricity directives, SEC (2001) 1957

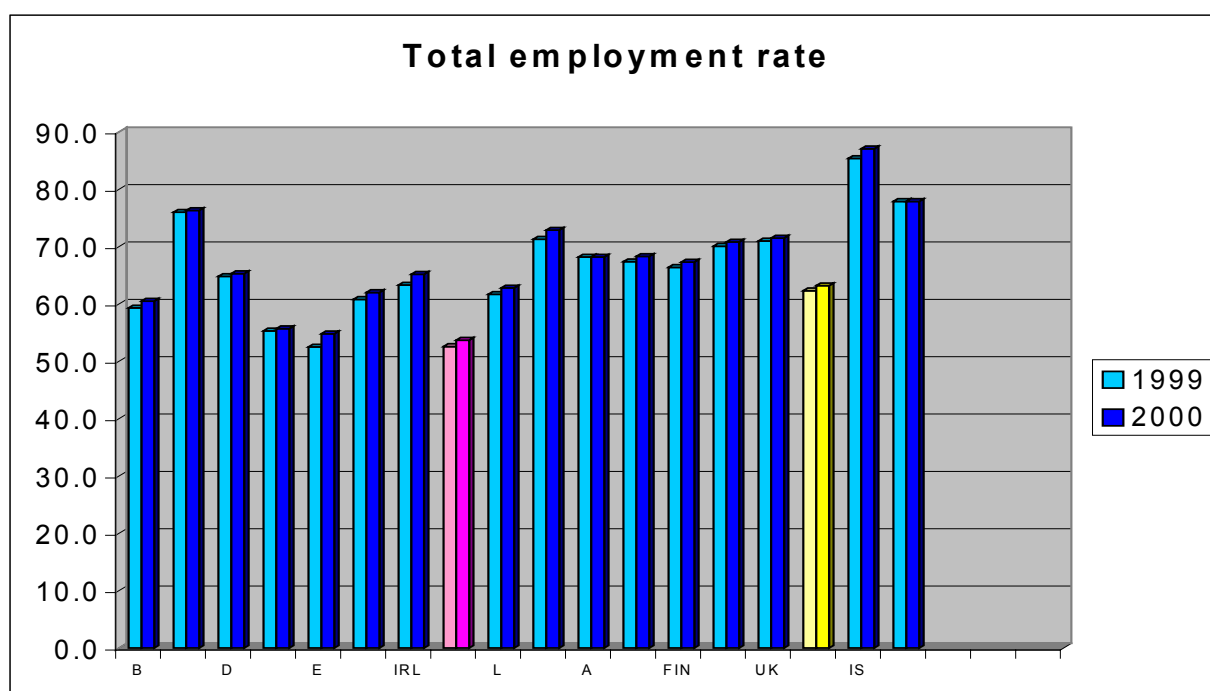
- The interconnection capacity between networks must be increased by means of infrastructural interventions coordinated at European level, otherwise the energy market is destined to develop with a "compartmentalised" structure: the most efficient markets will be able to increase production yields thanks to the increased ability of the States with higher internal energy costs to pay; for the less efficient markets, the integration process will ensure that the previous most reasonable importation prices will conform to the higher internal costs. For this reason Confindustria recommends that the priority projects within the scope of trans-European energy networks should be implemented as soon as possible.
- The failure of the March 2001 proposal submitted to the Stockholm summit, through which the European Commission tried to bring the single energy market forward to 2005, and the costs that such a delay will entail for European industrial production and competitiveness, must encourage the Member States to proceed without further delay with the full liberalisation of the energy market. Any reluctant Member States defending purely national interests against the interests of European citizens and enterprises must be dealt with firmly by the European Commission, using if necessary the instruments available under the Union's Treaty, as was recently suggested by President Prodi. In order to meet the competitive requirements of the European productive system, the liberalisation of energy supply must be implemented for industrial users within the next few months by lowering, if necessary, the suitability threshold to promote free market access for SMEs.
- This is the only way to overcome some of the major outstanding points and implement a more decisive competitive process, and thus build "**a more dynamic and prosperous Europe at the service of its citizens**".

To complete the single energy market, Confindustria recommends that:

- the European Parliament and Council adopt during 2002 the proposal for a directive on the energy sector amending the directive 92/96/EC that is to **liberalise supply in all Member States and bring forward the liberalisation at least for industrial users to 2003;**
- the European Parliament and Council adopt, by December 2002, the review of the Guidelines and accompanying financial rules on the major energy and transport networks. **Infrastructure measures** – in particular the priority projects of the Trans-European networks – are required to increase interconnection between networks and prevent the energy market from continuing to develop a compartmentalised model to the detriment of European citizens and enterprises;
- the European Commission proceed without delay to use the means available under the treaty (**Art. 86**) with respect to the Member States that have failed to implement directives 96/92/EC and 98/30/EC.

2. Development of employment

- The negative effect of the current economic downturn on employment is forcing the EU governments to have the courage to take concrete measures and strong initiatives to make the labour market more flexible. This will take the form of reducing constraints on entering and leaving the market and strengthening employment services, and will require a welfare system and labour policies focused on training and active reintegration into the labour market and on reducing the tax burden on wages. These are some of the components needed for the Union to make a significant contribution to economic recovery.
- The data emerging from EU indicators and various Italian analyses show how urgent it is to rewrite the rules in order to revitalise a labour market that is too rigid and to promote active employment policies in line with the EU proposals.
- We continue to trail far behind the other European countries.
 - The rate of employment in 2000 (53.7%) is still about 10 percentage points lower than the EU average and is far below the Lisbon objective (70% by 2010), as well as being the lowest in the EU; the rate of employment of women (39%) is the lowest in the Union and that of older workers (28%) is one of the lowest.



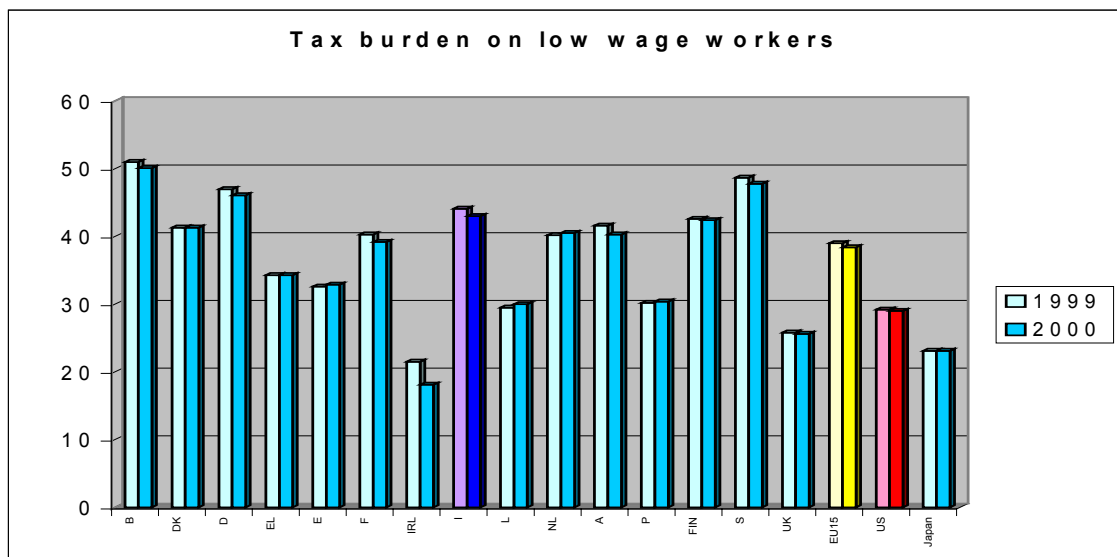
Source Eurostat, structural indicators, January 2002

- The rate of unemployment in 2000 dropped to 10.5%, but still exceeds the EU average by almost 2 percentage points. However, these figures do not represent a homogeneous picture as there are still significant regional disparities, with rates of unemployment that vary by 20 percentage points.



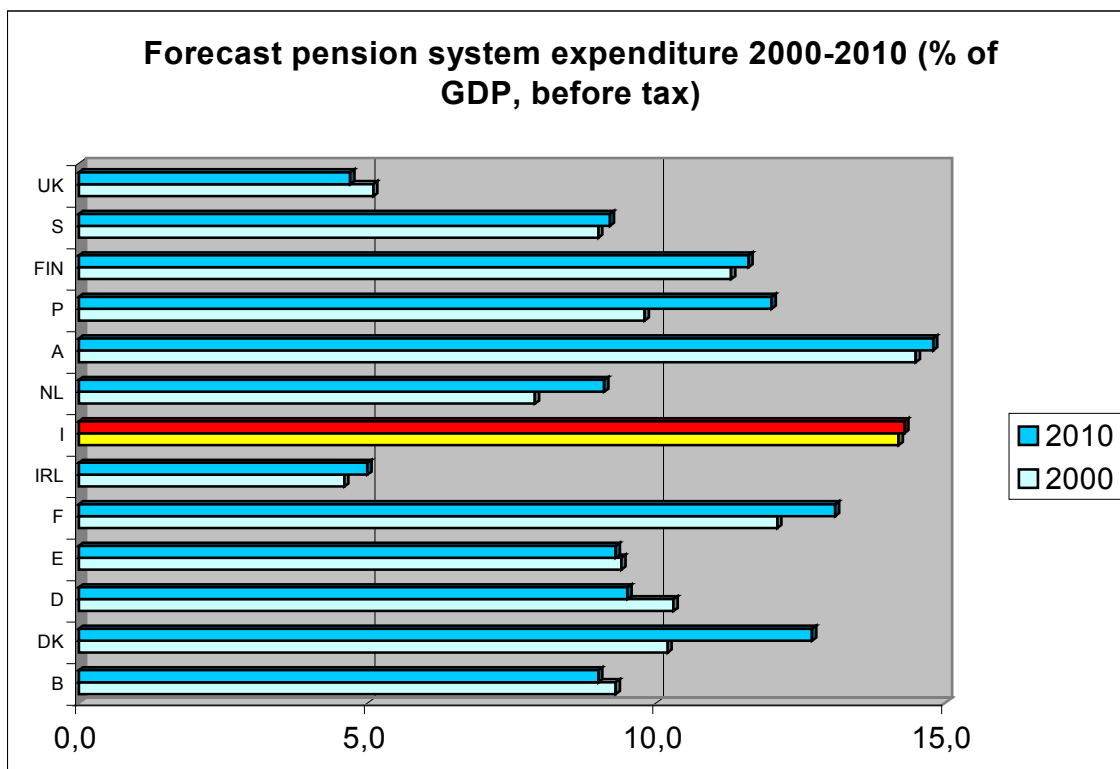
Source: Eurostat, structural indicators, January 2002

- The tax burden continues to be one of the heaviest in Europe. The level of taxation on the lowest wages is 43% compared with an EU average of 38.4% (and a US average of 29% and Japanese average of 23.1%).



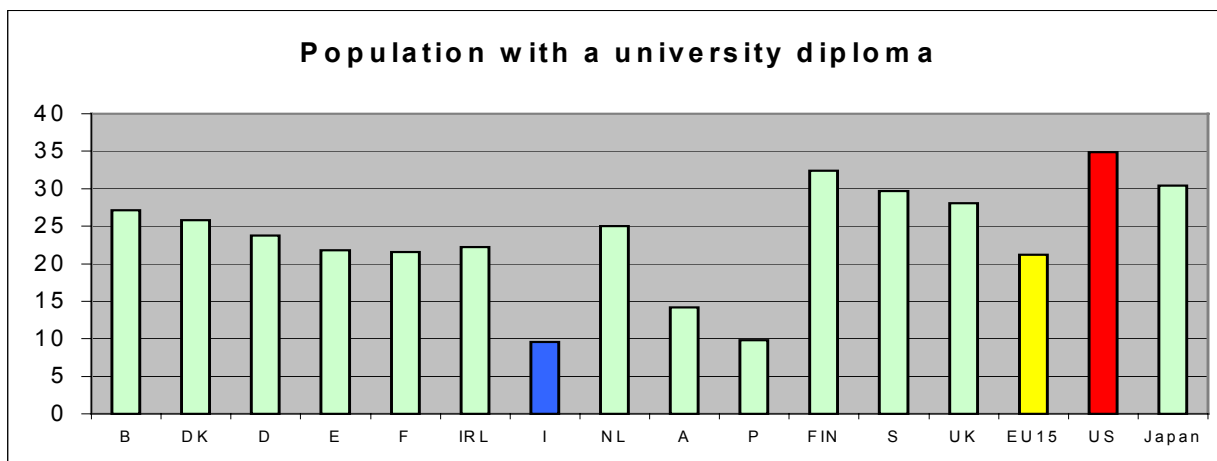
Source: Eurostat, structural indicators, January 2002

- Spending on social security is among the highest in Europe and is set to increase further over time with a peak which, according to recent Union forecasts, could – if present trends continue – reach 15.9% of GDP in 2030.



Source: Progress Report of the Ecofin Council on the impact of ageing populations on public pension systems – November 2000

- School enrolment rates are still low and the participation of adults (25-64 years) in continuing education remains poor. In this field in 2000 the percentage for Italy is 5.1% compared with an EU average of 8.4%. We take last place in Europe for the number of people with a university diploma in scientific disciplines (in the 20-29 age group) and in all disciplines (in the 25-64 age group).



Source: Eurostat, structural indicators, January 2002

- Given this picture, the risk of losing ground in competitive terms against the other EU countries must be addressed decisively, through a downscaling of the excessive system of safeguards that has characterised the development of Italian legislation and governed – if not actually hindered – the growth of Italian SMEs. Action on labour market flexibility and on curbing the use of welfare system services will be decisive in making an impact on economic growth and creating new jobs.
- The coordination of employment policies at European level is a significant factor for the competitiveness of the European Union with respect to the United States and all Member

States must unconditionally undertake to adjust to the guidelines set down by the EU. Even if the European Union does not have the authority to eliminate the stiffness deriving from discipline imposed at national level, it can and must act as a catalyst for change. In this context, social dialogue is a valid means of improving labour policies and contributing to implementation of the Lisbon objectives. Modernising the European social model does not mean selling off what has been acquired in the social sphere but rather adapting it to the requirements of a continually evolving reality. Change is necessary in order to protect future generations, to take up the challenges of globalisation and to face the problems deriving from the uncertainty that characterises the current economic context. Without change Europe will have less growth and less employment.

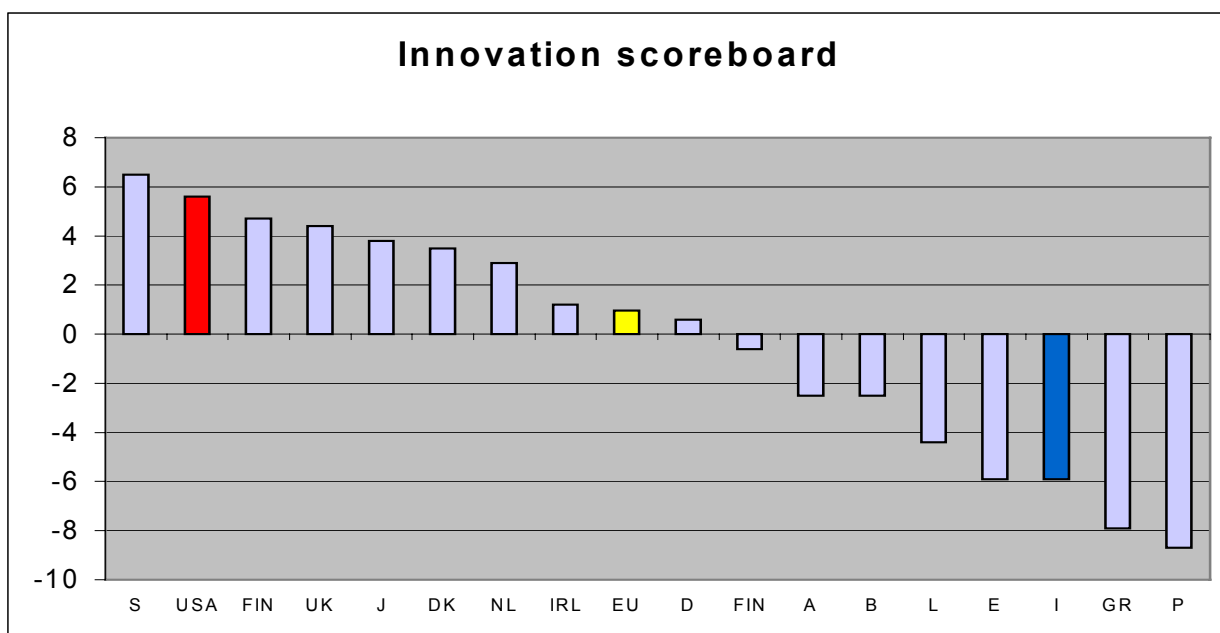
The proposals for the removal of obstacles that the European Commission has prepared for the Barcelona Summit should be given the full political support of the heads of State and government. To this end, Confindustria invites the European Council to promote some urgent reforms at national level, and in particular to:

- pursue the efforts to **reduce taxation on labour**, above all for low-income and low-skilled workers. Between 1999 and 2001, the Member States already reduced the tax burden by approximately 0.75% of GDP. However, they will have to continue in this direction so as to achieve a further reduction of 1 percentage point by 2005. This process will spark off an increase in investment, encourage enterprises to recruit again and promote employment;
- increase **the capacity of the labour market to adapt to changing cyclical conditions**. Greater recourse to regulated forms of access to the market other than the traditional open-ended contract that is widespread throughout the European Union has improved the labour market's allocation function. However, further and more decisive measures will be called for to improve the structure of the labour market, paving the way for policies to reduce the cost of labour and stimulate demand on the part of the enterprises and schemes to help workers position themselves on the market;
- complete the **reform of the education and training system**, adapting it to the changed demands of the economy and of society, on the back of the reflection initiated by the Union on the new objectives of European teaching systems. The reform initiated in this country will in particular need to allow a raising of the general cultural level among young people, increase structural investments in order to ensure a provision of training that is innovative and of a high quality, reinforce the integration of education and training systems with the labour market, both in terms of the coherence between training and the professional requirements expressed by enterprises and of the direct participation of the enterprises in sandwich courses;

- to speed up the **pension scheme reforms** with the objective of reducing the impact on public finances and ensuring full financial sustainability. The European Union has pointed the way towards a reform that can safeguard the ability of pension schemes to fulfil their social purposes and has suggested to Member States measures that could immediately reduce the burden of welfare spending, such as for example the extension of the retirement age, the elimination of early retirement schemes and other passive incentive mechanisms. This would contribute to a more gradual departure from working life for older workers and an increase in the rate of employment of this category;
- to promote **skills and mobility** on the European labour markets. The competitiveness challenge will also hinge on the ability of the European Union and its Member States to create a labour market featuring greater skills and mobility. The Commission has already submitted an action plan aimed at removing the obstacles on the labour markets by 2005. The action plan proposes measures aimed at adapting education systems to the requirements of the labour market, ensuring life-long learning, reducing the regulatory and administrative barriers to professional recognition and ensuring that social security rights are fully transferable throughout Europe. These proposals should now be followed by practical action.

3. Research and innovation in the knowledge-based economy

- In Lisbon in March 2000 the European Council defined the strategy for change that will lead the European Union to become in 2010 "**the most competitive and dynamic knowledge-based economy in the world**". The essential precondition for this process of transition will be the European Union's ability to strengthen, in the coming years, its research activities, innovation in products and processes, the dissemination of ICTs (information and communication technologies) and education.
- The recent 2001 report on competitiveness³ shows that notwithstanding the growth and the increase in employment registered in the 1990s, Europe lost out in terms of competitiveness with respect to the United States. Labour productivity in the European Union is markedly lower than in the US: the European Commission's report underlines how productivity is directly linked to certain factors such as research, production and the use of ICT products and services, human resources and the ability of enterprises to establish relations and cooperate with other enterprises and institutions in the research sector. On all these factors, Europe is significantly behind the United States.
- In the latest European Innovation Scoreboard⁴ of autumn 2001, the European Commission drew up a chart based on 17 indicators and four areas (human resources; creation of knowledge; transmission and application of new knowledge; innovation finance, output and markets). Italy is among the last, together with Greece and Portugal.



Source: Commission Staff Working Paper : 2001 Innovation Scoreboard. Document SEC (2001)1414

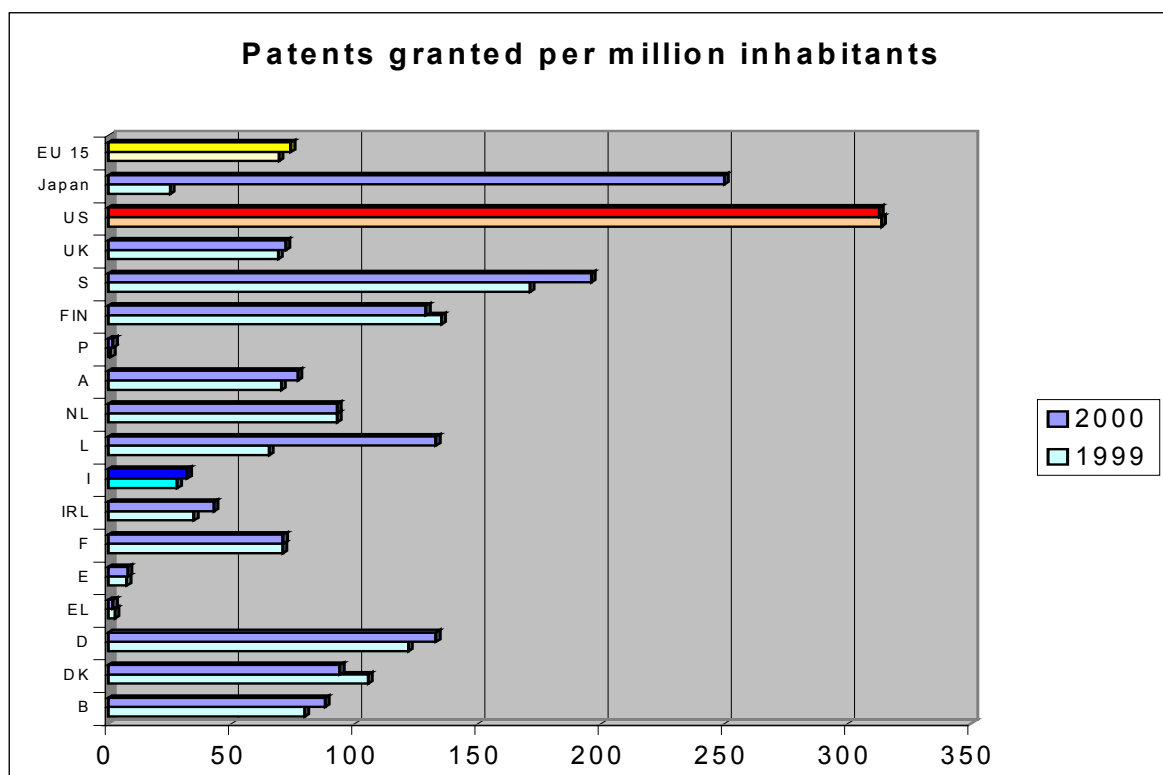
- Education, research and innovation are the fundamental elements of a knowledge-based economy and the determining factor for economic renewal, sustainable growth and job creation. Europe's capability to produce, disseminate and use knowledge is based on the possibility of training highly qualified people, of having quality research and being able to transfer knowledge and innovation to enterprises.
- In the field of **education**, Italy is penalised by the national education system. Only 40% of the adult population has a secondary school-leaving certificate, compared with 61% in

³ European Competitiveness Report 2001, SEC(2001) 1705

⁴ Commission Staff Working Paper: 2001 Innovation Scoreboard. Document SEC(2001) 1414

France and 94% in Germany. We rank last in Europe in terms of the number of people with a university diploma in the scientific disciplines and this also has direct effects on the availability of researchers. On this latter aspect the comparison between Europe and the US is significant: for every thousand inhabitants in Europe there are 5.1 researchers compared with 8.1 in the US and 9 in Japan. In terms of jobs, researchers in Europe account for 2.5% of the work force employed in enterprises, compared with 6.7% in the United States and 6% in Japan.

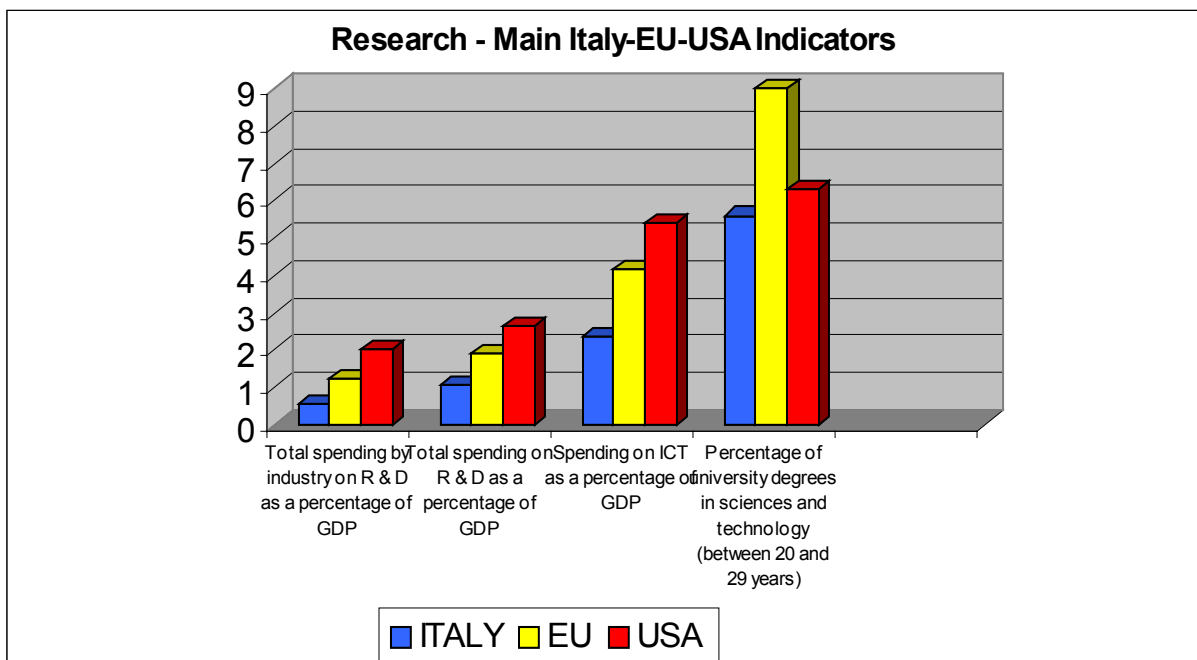
- It is essential to invest at national and European level in order to build up a stronger university-enterprise relationship, while trying to direct research so as to make it more sensitive to industrial impacts and to favour the development of arrangements for the networking and mobility of human resources that can ensure the division of powers between university and enterprise.
- As regards *research and innovation*, Italy invests little in scientific research. In 2000, the share of R&D expenditure in GDP was 1.04%, compared with 2.29% in Germany, 2.18% in France and 2.84% in the United States. This gap relates to both private and public spending: the latter accounts for 0.48% of the GDP, compared with 0.75% in Germany, 0.80% in France and 0.95% in Finland. In the case of private spending, Italy is ahead only of Spain, Portugal and Greece. Italy is also behind the others as regards the number of patents filed at the European Patents Office (EPO), in particular in the sector of high technology products, and as regards their impact on industry and the economy, in particular compared with the United States.



Source: Eurostat, structural indicators and EPO, January 2002

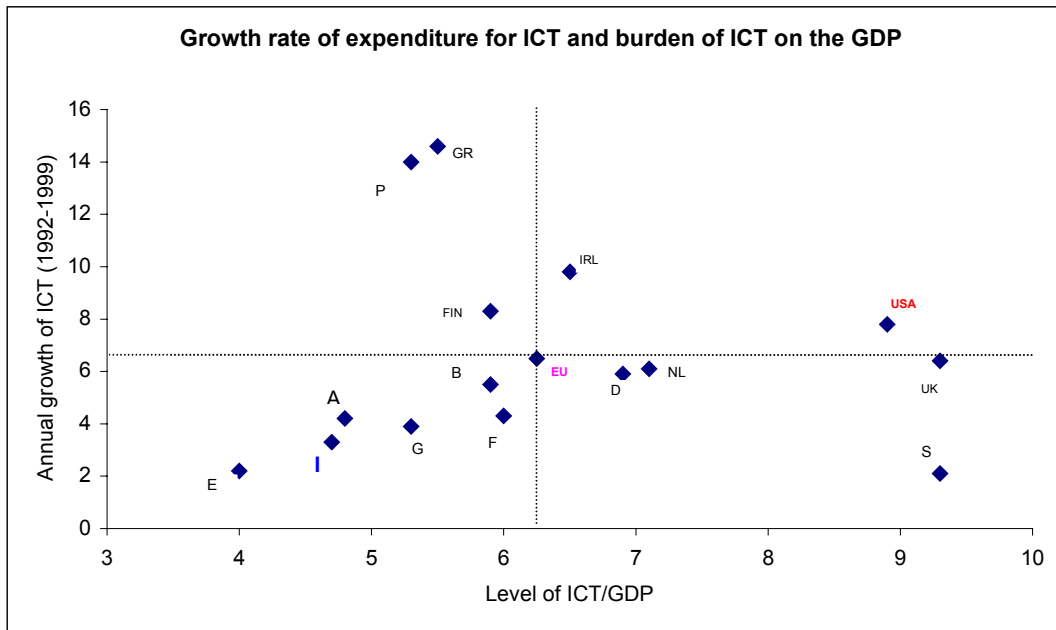
- The European Commission intends to increase investment in human resources, develop the European Research and Innovation Area, transform education systems into ongoing learning structures and create networks and centres of excellence in research and in education, with a

view to promoting researcher mobility. Some progress has been made, with the sixth Community R&TD Programme in particular: the focus should be on excellence and on strengthening the research networks in high technology sectors, and particularly in the most dynamic sectors and those with a greater horizontal impact. At the same time, it is also necessary to ensure ongoing and transparent assessment of excellence, so as to make the networks open and up to international standards. Greater courage and determination are required on the part of the Member States in deciding whether Europe really wants to restore the competitiveness of European enterprises with respect to US enterprises. A first indication is already possible in Barcelona: Community research accounts for a relatively small share of both the Community budget and the budgets of the individual Member States. This is why the European Council should adopt the Commission's proposal to raise the level of expenditure on research (by both the public and private sectors) to 3% of GDP by 2010.



Source: Eurostat, structural indicators, January 2002

- Economic growth in developed countries depends not only on research and human resources but also on the implementation and dissemination of new technologies. It has been demonstrated that investment in certain sectors of the economy such as **information and communication technologies or biotechnology** drive the economy. The assessments of the European Commission contained in the competitiveness report clearly show that the European Union has lost a lot of ground both in the sectors themselves and in their development potential for European enterprises.
- In the European Union, investment in **information and communication technologies (ICTs)** in the industrial sector has been distinctly lower than in the US, on average 2.4% of GDP compared with 4.5% (1999 data). For Italy the figure is barely 1.7%. If we take into account the fact that according to recent studies, ICTs in the US in the second half of the 1990s accounted for between 0.8-1% of the growth of GDP, we can see that the annual growth of GDP in the EU in the same period was proportionally less than 0.3-0.5% owing to lack of investment in ICTs. In this respect as well, Italy is among the last in Europe: in practice we spent little and consequently ICTs had little impact on the growth of GDP. To alleviate this phenomenon the introduction of ICTs should be encouraged in small businesses, including by means of existing Community programmes.



Source: 2001 Competitiveness report, 29 October 2001

- The new technologies have an effect on labour productivity and on growth in general. Their use will improve the integration of enterprises in the single market further to the introduction of the euro (**e-commerce**), their application by the authorities will speed up bureaucracy (**e-government**), and their dissemination will enable the transmission of knowledge and facilitate ongoing learning (**e-learning**). Real, not virtual, commitments are needed in order to implement the knowledge-based economy.
- One of the essential factors of the revolution introduced by the new technologies is interconnection speed. Already today, on the European market, we can note a growing demand for high-speed Internet access. According to estimates by the European Commission, the number of home Internet users with broadband access doubled between October 2000 and November 2001. The European Commission has indicated the wider take-up of **broadband** as one of its priorities for 2002, underlining the fact that Europe will not become an entirely knowledge-based economy, able to bank on its assets in terms of competitiveness, growth, work and quality of life, until broadband has become a generalised service. The Member States should also assume this same determined stance. The regulatory framework on telecoms, approved by the EU in December 2001, must become operative as soon as possible so as to enable enterprises to have a more streamlined, more flexible and more transparent legal framework at the earliest possibility.
- As regards **biotechnology**, the European Council meeting of Stockholm had already highlighted the need to introduce innovative technologies in sectors with a strong potential for development and had identified biotechnology as a test area for reinforcing the competitiveness of European industry. Confindustria supports the adoption of a European policy for the sector that is able to place European enterprises within an international development framework. The main elements of such a policy should be the strengthening of research and innovation in particular, to the specific advantage of the most innovative SMEs, and the introduction of a simple and transparent legislative framework which will allow enterprises to develop in this new market sector in the most responsible way. However, in order for the sector to fully realise its growth potential, the moratorium on genetically modified organisms (GMOs) must be removed, once legislation on the labelling of such products has been introduced. It is of equal importance that

the forthcoming European Food Safety Authority should become a reference centre for evaluation of the risks related to genetically modified organisms.

- European enterprises need **projects** that are up to the ambitious objective of making the European Union the most dynamic knowledge-based economy in the world by 2010. The **GALILEO project**, which will create the European navigation satellite system (GNSS – Global Navigation Satellite System) as an alternative to the American GPS, is one example, both for its economic value and also for the social and employment implications it may have. European citizens and enterprises will be able to benefit from greater security in the transmission of information and from more efficient and environmentally-aware transport management. With projects like this, Europe will be able to compete with the United States, the leading manufacturer today in the market of satellite navigation products and services. The positive spinoffs for the competitiveness of European industry will be seen in the wide range of applications that may be found for GNSS in the sector of integrated systems and of services, and navigation in transport systems and telematic services in particular. The project will also have a significant knock-on effect on the smaller enterprises, in that it will open up new possibilities of technological and productive development. From the cost-benefits analyses of the Galileo project over a period of 20 years, against a spending figure of 6 billion euros, the estimated benefits are in the order of 74 billion with a return on investment of 75% and the creation of at least 100,000 jobs.
- Research and innovation in the knowledge-based economy is one of the areas in which the EU is furthest behind the US. The Heads of State and Government in Barcelona will have an opportunity to show how determined they are by deciding on measures that can help to restore the competitiveness of European enterprises.

To close the gap with the US in terms of research and innovation in the knowledge-based economy and help restore the competitiveness of European enterprises, Confindustria calls on the European Council and the Member State to:

- promote measures to encourage the use of **broadband networks** in both urban and rural areas of the Community, setting as the objective the greatest possible availability of this technology in the whole of the European Union by 2005;
- implement the **European Research Area** by promoting greater investment in research and technological development and setting the objective of 3% GDP expenditure for public and private sector R&D by 2010;
- focus on public investment in research, on quality and on networks;
- facilitate co-operation between the public and private sectors and the mobility of researchers;
- fulfil the commitments and implement the measures of the **eEurope** action plan;
- encourage measures that help to make **life-long learning** a reality throughout the Union by pursuing the co-ordination of national policies with the full participation of the social partners;
- rapidly implement the new "**telecoms package**" which will reduce the regulatory burden and facilitate market access;
- introduce a legal framework for **biotechnology** that is simple, effective and transparent.

Confindustria further requests that the Council:

- should approve by June 2002 the proposal for a regulation on the **Community patent**;
- should take the decisions required for the formal launch of the development phase of the satellite navigation system (**Galileo**).

4. For a renewal of the European transport policy

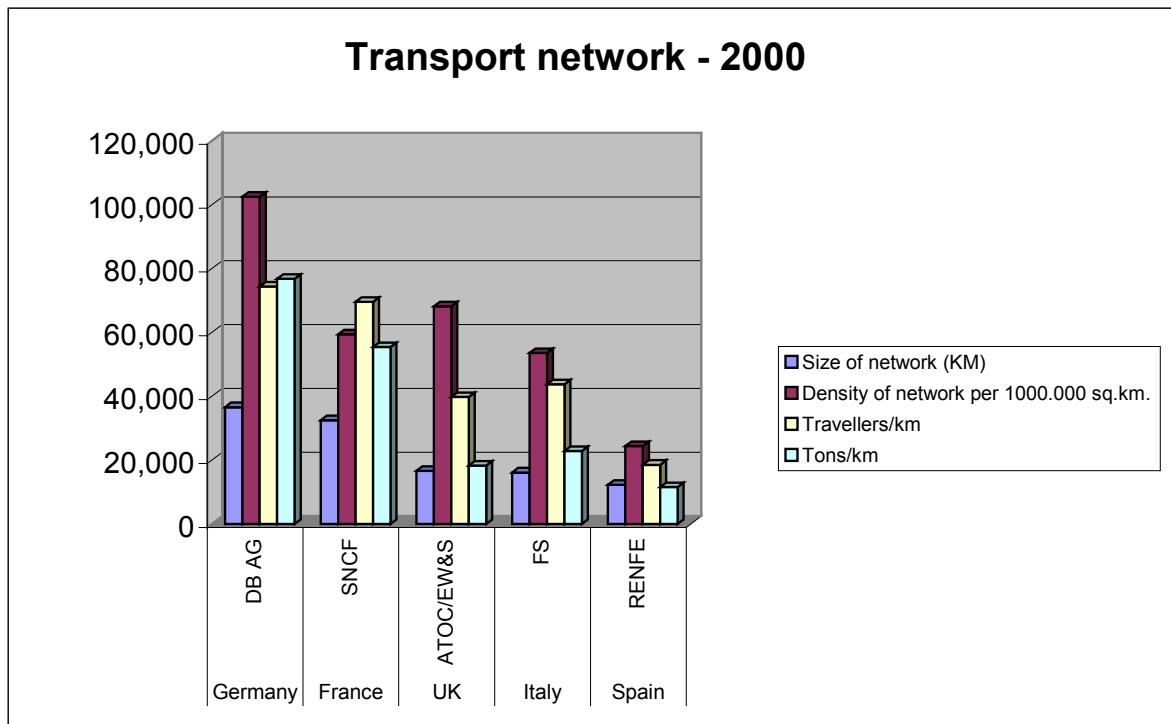
- Transport is a vital instrument for adding value in production sectors and is indicative of an economy's degree of integration and competitiveness. The delays accumulated in adapting the European transport system to freedom of movement in the single market have made the European institutions realise that it is now **"time to decide"**, as indicated in the recent white paper on transport policy. The Spanish Presidency has, in turn, acknowledged the urgency of breathing new life into a joint European effort in transport policy – a comparatively recent policy which has not been implemented consistently throughout the Union.
- The consequences of the lack of coordination in transport policy are clearly apparent today: unbalanced growth of the various transport systems, where road transport prevails over rail transport; congestion of Europe's main road and rail links; and deterioration of the environment and public health, in particular in urban areas. In economic terms, road transport congestion alone is costing the Union 0.5% of its GDP. According to the European Commission's estimates, if corrective action is not taken, the costs related to worsening road network congestion will rise by 142% by 2010 to reach 1% of the Union GDP (EUR 80 billion per year).⁵
- We have before us a scenario likely to become more complicated if decisions are not taken. The economic recovery will result in an increase in the need for mobility of goods and persons and enlargement of the European Union will require greater efforts not only to establish infrastructure that is currently lacking in the candidate countries, but also to cope with increased pressure along the EU's border areas.
- In its new white paper on transport policy, the Commission has put forward an action plan to harmonise and considerably improve the quality and efficiency of transport in Europe, involving more than 60 measures. The stated objective is to:
 - restore, by 2010, the balance between the various transport modes by revitalising the railways, promoting transport by sea and inland waterways and developing intermodality;
 - eliminate bottlenecks by creating trans-European networks and strengthening infrastructure;
 - ensure that all European citizens can benefit from a form of transport development that is efficient, of high quality and safe, including in terms of environmental protection.

The result is a long list of measures, that can be fully supported and implemented within deadlines and in ways that take account of the specific features and existing situations of national transport systems. As is often the case, however, the European Commission's proposals are not being followed by decisions of the Council and European Parliament.

- At Barcelona, the European Union will be expected to answer at least two of the pressing issues in the field of transport: **the introduction of regulated competition to liberalise the markets and allow Europe-wide development of intermodality and the establishment of infrastructure**, whose lack is the main cause of transport congestion.

⁵ White paper, "European transport policy for 2010: time to decide", COM(2001) 370 of 12 September 2001.

- On the first point, the institutions are invited to approve, by the end of 2002, the second package of measures recently submitted by the European Commission⁶, that will enable the creation of a truly integrated European railway system. Only 8% of goods are transported by rail in the EU, compared with 40% in the US. This alarming discrepancy must be addressed not only by speeding up interoperability processes but by achieving a faster opening-up of the goods transport market: the liberalisation of national markets for the rail transport of goods should be brought forward with immediate effect and the liberalisation of the entire network should be completed by 2006 instead of 2008, as envisaged by the first package of proposals submitted in 2001. The competition resulting from further opening-up of the market will inevitably provide the impetus for renewal and change of the national railway companies which are often, as in the case of Italy, lagging far behind.



Source: FS s.p.a. calculations – Year 2000

In any case, the railway restructuring processes will have to take into account the impact that the reforms will have in terms of employment and the costs deriving from modernisation and adaptation to European interconnection.

- On the second point, namely setting up infrastructure, the European Union will have to make up for the time lost in the past decade. Of the 14 trans-European network projects approved at the Essen European Council meeting in 1994, only three have been completed. Another six are under way and will be completed by 2005. Going forward, the European Commission intends to find a way round the financing and work completion problems it has encountered up to now, and has suggested redefining and updating the list of projects to reflect the requirements of Europe today. Given the time needed to achieve results, however, it is essential to set the main priorities and be able to identify the measures required immediately to resolve problems that could paralyse entire economies, such as the questions of links through the Alps and of traffic congestion throughout the Alpine region caused by the lack of adequate infrastructure and the application of extremely restrictive environmental regulations.

⁶ Commission communication, "Towards an integrated European railway area", COM(2002) 18

- Increasing infrastructure for road, rail and sea transport is a crucial factor for the development and cohesion of the Europe Union. Enlargement will expand the borders of the Union and could further worsen the outlying position of regions whose development is already hamstrung by the distance separating them from the main economic poles. Transport and transport infrastructure have a key role to play in reducing disparities between regions and in improving the competitiveness of peripheral and island regions whose development is lagging behind. Indicators such as distance and the access these regions have to the more prosperous areas of the European Union must be taken into consideration in identifying the European Union's structural investment measures.
- To achieve the target of establishing a European transport area, transport policy decisions must be coordinated with national and Community decisions in the field of urban and regional development, tax and budgetary policy, competition, and energy and the environment. The European Union cannot become the most dynamic economy in the world without a transport system that can allow it to make the most of the single market and the opportunities offered by globalisation. In this area too, we need more Europe to be able to compete on a world scale.

In order to resolve at least two of the pressing issues in the field of transport policy, Confindustria calls on:

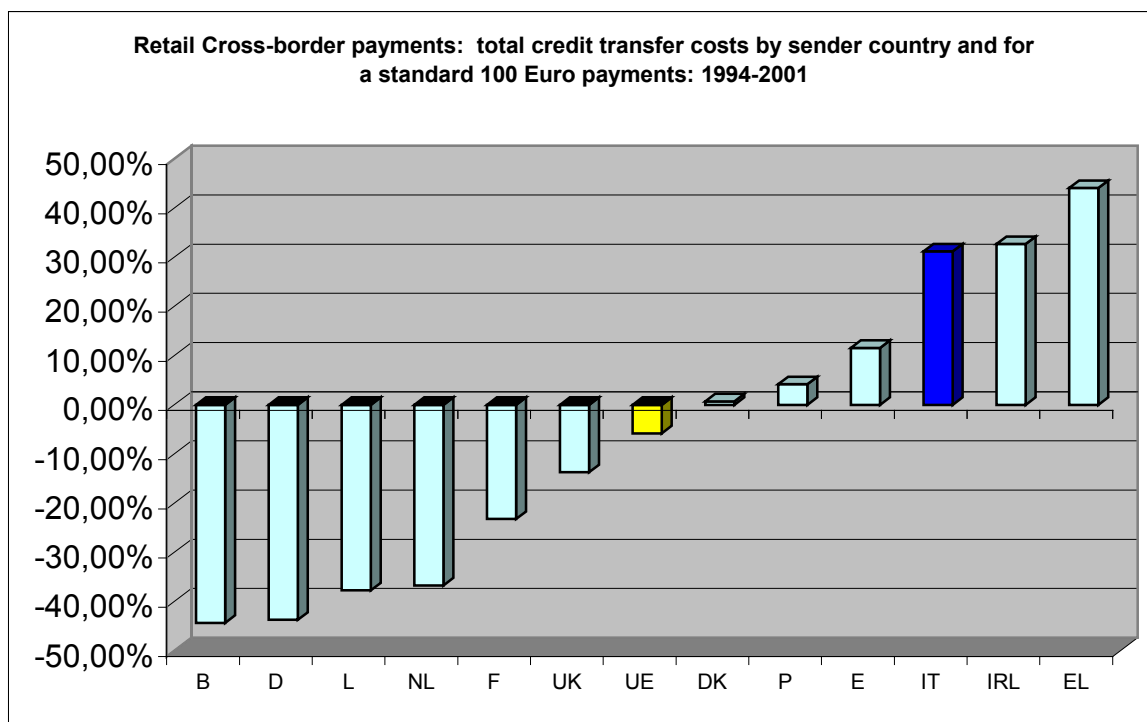
- the European Council to give the necessary political impetus to continue with the creation of **infrastructure**, and thus address the root cause of transport congestion, by completing the trans-European networks projects approved at the European Council meeting of Essen in 1994, taking into consideration in particular the questions of links through the Alps and of traffic congestion throughout the Alpine region. For this reason, as has already been indicated for the energy market, the Council and the European Parliament are invited to adopt, by December 2002, the review of the Guidelines and accompanying financial rules for the major energy and transport networks;
- the European Parliament and the Council to approve by the end of 2002 the **second package of measures for the liberalisation of rail transport**, recently submitted by the Commission, and aimed at allowing the implementation of a truly integrated European railway area and the creation of regulated competition to liberalise the markets.

5. Towards a single market in financial services

- The 15 Member States must undertake to create a single market in financial services in Barcelona for at least three reasons:
 - the correlation between growth and economic stability in a region and its level of financial integration;
 - the need to reap the full benefits of the introduction of the euro;
 - the competitive edge companies and citizens could derive from increased competitiveness in the financial services sector.

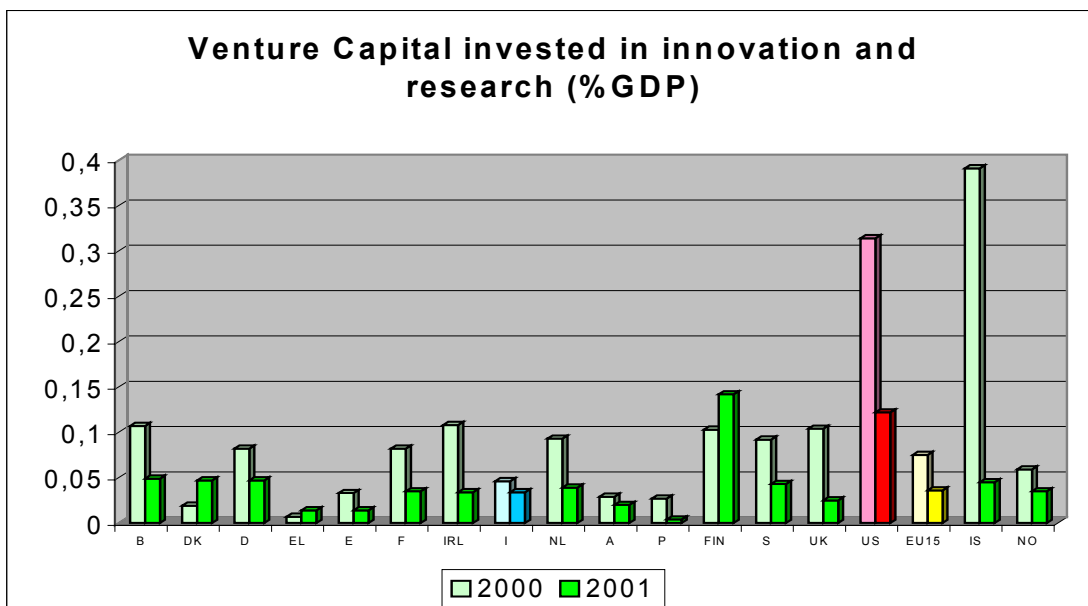
At a time of economic sluggishness and market crises, a single market in financial services would be an anchor of stability and an impulse for growth and employment.

- Completion of economic and monetary union accelerated the process of financial integration in the second half of the nineties and some effects on competition can already be noted in the credit system. The increase in general terms of competition in the banking system, owing to the increased presence of international banks and the restructuring in the sector have already yielded some positive results in terms of services and costs for companies, but the Italian banking system is low in the European rankings both in terms of the size of the banks and in terms of the cost of services.



Source: Studio RBR, Study on the verification of a common and coherent application of the directive 97/5/EC on cross border credit transfer in the 15 Member States. European Commission report (DG Internal Market).

- In Italy, access to finance for small and medium-sized enterprises is problematic, above all for companies that want to invest in new technology and human resources to increase their worldwide competitiveness and encourage growth. Alternatives to the traditional recourse to credit are scarce. Access to capital markets is an option only for a limited number of companies owing to a range of technical, economic and even cultural barriers which should be removed as soon as possible. But above all there is no access to other finance mechanisms which are widespread throughout Europe, such as venture capital or the use of other innovative financing methods for SMEs (such as *business angels*).



Source: Eurostat, structural indicators, January 2002

- The establishment of a European financial services market must be driven mainly by the market itself, but also by some political and legislative measures to facilitate the creation of a framework common to all 15 Member States. The introduction of the European single currency is a strong foundation for market integration but certain – chiefly legal – obstacles limit its effect. At the Lisbon summit, the Heads of State and Government approved the financial services action plan which set two target dates: 2003 for integration of the securities markets and 2005 for integration of the financial services markets. The plan sets out 42 legal and non-legal measures, 25 of which have been adopted to date. In view of the list of legislation which will have to be passed during the coming three years, the European Commission itself has serious reservations regarding the institutions' ability to achieve the targets by the agreed deadlines.
- The financial services action plan must therefore be revitalised along the lines indicated by the *Lamfalussy Report*. The deadlines set for liberalisation must be met, and the authorities must be invited to renew their political commitment in spite of this more critical phase the economy is going through. The aspects of the financial services action plan that are under consideration have significant implications for the growth of an open and integrated capital market, and it is thus important to take action in order to remove the obstacles to its growth and define a consistent legislative framework. To stimulate cross-border investment, it is important to pursue the harmonisation of accounting and transparency principles and a debate should be opened on the harmonisation of corporate governance rules, taking into account the differences in the traditions and cultures underpinning company law in the various EU countries.
- The European Commission has defined a precise timetable of steps to be taken during 2002 and has clearly indicated that successful creation of the single market for financial services within the deadlines set depends on the same three basic elements which accounted for the success of economic and monetary union: **long-term vision, political will, and method**. The Member States meeting in Barcelona should endorse these recommendations.

The lack of a single market for financial services is one of the main obstacles to the completion of the single market. Confindustria requests:

- the European Council to renew their political **commitment**, in this critical economic phase, to implementing the financial services action plan along the lines indicated in the *Lamfalussy Report*, respecting the deadlines planned for the liberalisation of the markets: 2003 for fully integrated securities markets and 2005 for fully integrated financial services markets;
- the European Parliament and Council to adopt, within the deadlines indicated by the European Commission, the pending legislative proposals needed to proceed with the harmonisation of rules on **accounting, transparency and corporate governance**.

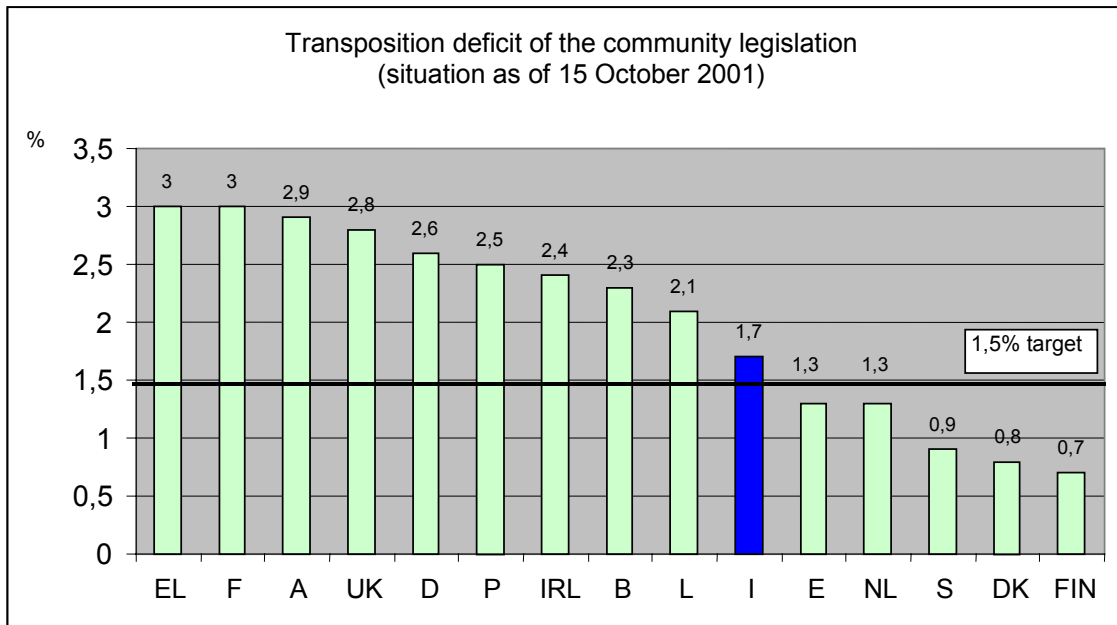
Competitiveness and institutional reform

1. The urgency of reform: the White Paper on Governance and the Convention on the future of Europe.

- As stated in the previous sections, economic reforms are an essential tool to revitalise European competitiveness, but they must be introduced quickly into a market in which all players observe the same rules and behaviour.
- The European institutions have accumulated significant delays in implementing the institutional reforms essential to making the European Union the most dynamic economy in the world and a major player on the world stage. Reform is urgently needed to bolster competitiveness, strengthen the bond between the European Union and its citizens and ensure good governance in a Europe moving confidently towards closer integration and the accession of new Member States.
- Enlargement of the Union eastwards, which will be confirmed in 2002 and begin in 2004, is a momentous step which calls for a rapid and pragmatic review of the EU's institutional setup. The institutions and the decision-making procedures will not be able to survive in their current form once at least 10 new countries have joined. A Europe designed for six States cannot function with 25 or more members. Enlargement will require a redefinition of the institutional architecture, simplification of the decision-making procedures and streamlining of the instruments for implementing decisions. In substance, it is a question of finding solutions to problems that had already been identified before the European summit in Nice, but where the courage to make the necessary decisions failed to materialise.
- The Commission has initiated an important reform of European governance and the Council has established a Convention which will simultaneously seek to shape the future European constitution before the accession of the new candidate countries.
- The reform of **governance** should result in greater **decision-making capacity and efficiency** of processes, and greater **accountability and responsibility** of institutions.
- However, the debate on institutional reform within the Convention – which is due to begin meeting in March on the basis of the guidelines set in Laeken and will have to meet the efficiency requirements set out in the white paper on governance – will be more complex.
- It is too early at this stage to assess the major elements of the institutional reforms that will be decided at political level. As business leaders and European citizens we hope that the Convention's proposals and the decisions taken at the next IGC will be able to combine respect for democratic representation and the national interests of Member States with the need for joint decision-making and joint action.
- Among the themes to be tackled as part of the work of the Convention, the "**division and definition of powers in the European Union**" will be of fundamental importance. This is an issue which will influence the future of the Union and allow the introduction of the reforms needed to build a strong Union, capable of making decisions respecting both the Member States and the Community method without which the single market and economic and monetary union could not have been achieved. This division of powers and of responsibility between the European, national and regional authorities will make it possible to achieve the transparency

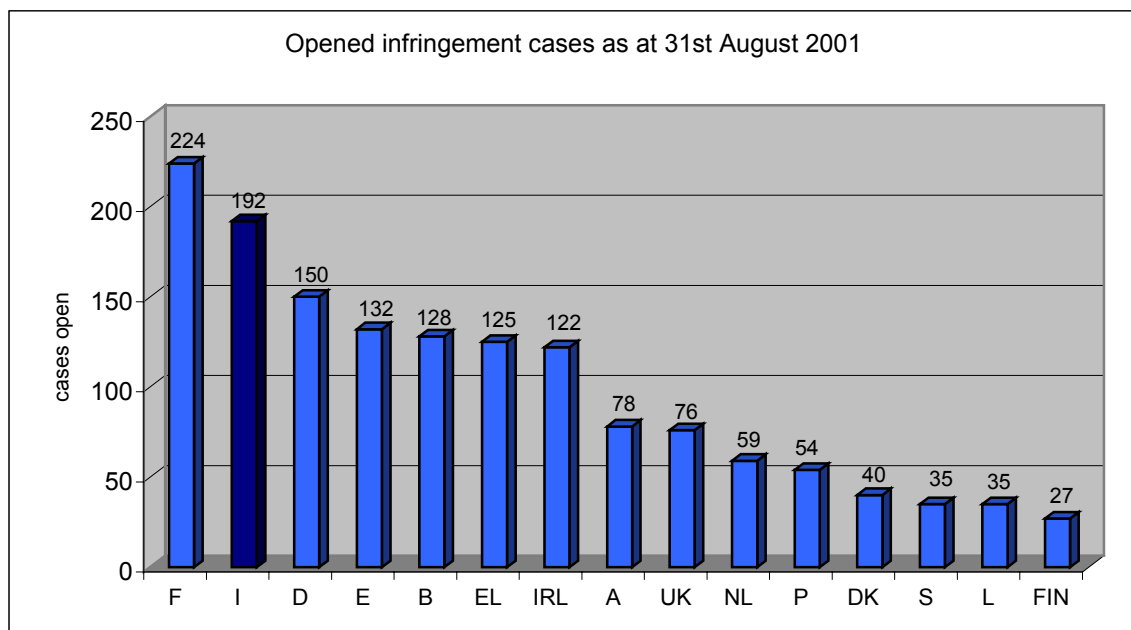
needed for citizens and enterprises to monitor and help shape decisions which are of direct concern to them.

- Another fundamental aspect of the reforms currently under way is defining *how* decisions are made rather than simply *who* makes them. With regard to **decision-making procedures** this involves limiting the power of veto which in a Union of 25 States would paralyse Europe. This entails debating whether unanimous voting should be continued after enlargement of the union, except in areas which involve the actual democratic foundations and fundamental values of the European Union. On the other hand, it is also worth asking whether qualified majority voting will be enough to resolve the problems posed by enlargement or if it might lead to stagnation in certain areas. Flexibility offers a plausible alternative: in other words the more systematic use of forms of "closer cooperation", along the lines of the system introduced with monetary union and border controls. In this case, a "hard core" of countries might form the basis for the extension of policy across the continent.
- Where **instruments for implementing decisions** are concerned, throughout the history of the Union, we have witnessed an accumulation of procedures alongside the extension of Community competence and the gradual emergence of a three-pillar Union. Enhancing competitiveness will involve not only putting the suggested reforms into practice but also creating a simple but coherent regulatory framework and ensuring that its provisions are implemented and correctly applied by all members of the Union. The forthcoming enlargement makes these steps even more urgent. Doubts have already emerged during the ongoing negotiation phase as to the ability of the administrations of the central and eastern European countries to fully apply Community law, in particular in sectors such as product safety and the environment, where there are concrete risks of environmental dumping that could be detrimental to the present Union's enterprises. Also in view of the future enlargement, the Community's body of law must be streamlined and reduced. The European Commission has proposed reducing the Community *acquis* by 25% between now and 2005 and has undertaken to limit the issuing of new legislation unless it is to unify and rationalise existing law. The Commission recently demonstrated that approximately EUR 50 billion could be saved by improving the quality of legislation.
- At the European Council meeting in Stockholm (March 2001), the Heads of State and Government agreed to implement 98.5% of directives, leaving a maximum deficit of 1.5% of directives by the time the Barcelona summit is held. The European Union's current **transposition deficit** stands at 2%. For once, Italy seems to be doing well compared to the other large countries, having a deficit of 1.7%, compared with France's 3%, the UK's 2.8% and Germany's 2.6%.



Source: Internal Market Scoreboard, November 2001

- But the legislation must not only be properly implemented, it must also be properly applied. Failure to do so has damaging consequences not only for the enterprises and citizens of the State in question but also and above all for those of other Member States. This has a detrimental effect on competition and undermines consumers' and companies' faith in the benefits of the single market. Italy and France are responsible for nearly 30% of infringement proceedings and are the two countries most frequently called before the European Court of Justice. This has serious consequences, not so much in administrative terms as in terms of intra-Community trade. It is no accident that Italy is perceived to be the most difficult Member State to trade with, owing to the complexity of the legal system.



Source: Internal Market Scoreboard, November 2001

- In order to ensure a high level of quality for a given measure and ensure its correct implementation, more attention needs to be paid at a European level to aspects concerning its future application, and all potential effects must be considered and analysed. Moreover, given the confusion often encountered during the national implementation phase of Community law, an ever greater **use of voluntary agreements and Community regulations** would be desirable. Voluntary agreements ensure that EU objectives can be met without excessive rigidity in their application, while regulations ensure that the complex process of implementation in Member States can be applied uniformly.
- The debate on the future of the European Union and European governance should not revolve around abstract principles, but must be modelled according to the Union's institutional requirements. Institutional reform should be seen as an opportunity to inject greater efficiency into decision-making procedures. Such reforms should certainly be carried out *before* the accession of new Member States.

Confindustria's proposal

- Confindustria supports the initiative that the Commission launched with its White Paper and hopes that the new governance of European institutions will be characterised by **greater decision-making ability, efficiency of procedures, accountability and responsibility of the institutions**. It is essential that the new practices of good governance of the European institutions should be implemented promptly, pending the institutional reforms that will define the new order of the European Union.
- As regards institutional reforms, Confindustria hopes that the Convention's proposals and the decisions taken at the next Intergovernmental Conference will be able to reconcile respect for democratic representation and the national interests of the Member States with the need for joint action and joint decision-making.
- In the light of this principle, Confindustria hopes that steps will be taken towards the division of **powers** between the European Union and Member States with the objective of facilitating and speeding up the decision-making process.
- As regards decision-making procedures, Confindustria, without prejudice to the protection of fundamental rights and the amendment of treaties, supports sustained recourse to **qualified majority voting** so as to avoid dangerous blocking minorities that could paralyse the institutions. Confindustria furthermore upholds the right of the Member States to proceed with further levels of integration through procedures such as **closer cooperation**.
- As regards the instruments for the application of decisions, Confindustria stresses the need for enterprises to benefit from a **regulatory framework that is simple, coherent and consistent** across the Union. Confindustria deplores the extreme complexity of the present legislative apparatus of the Community, and the widespread failure to implement Community legislation which has serious consequences for the smooth operation of the single market. Confindustria hopes that in future there may be greater recourse to voluntary forms of self-regulation and, if recourse to the legislative body should be necessary, a greater use of regulations that will ensure the homogeneous implementation of rules at Community level.
- Confindustria calls on Member States to resolve institutional matters before the accession of the new candidate countries.

2. Europe and federalism

➤ In our country, the debate on the future of the Union, and in particular on the division of powers between the European Union and the Member States, is closely linked to the issue of **federalism** and the redistribution of powers and functions between the various levels of the State. The process known as "double devolution" will have a considerable impact on Italy's constitutional and governmental structure and thus its overall coherence and its impact on competitiveness must both be assessed.

➤ Italy is at the start of a delicate process involving the transfer of power to the regions, which necessarily has a bearing on the way the representation of national interests within the European Union is organised.

Constitutional reform will entail the recognition and enshrinement in the constitution of the right of the regions to participate in decisions contributing to the creation of Community legislation (input phase), and the recognition of the rights and duties of the regions in implementing and applying Community law (output phase), while observing procedural rules established under national law.

➤ The regional or federal structure of certain EU Member States is no longer an incidental fact. The Community's legal order now recognises certain mechanisms reflecting this phenomenon: in addition to the strengthening of the subsidiarity principle and of the role of the Committee of the Regions, these include the opening-up of the Council to representatives from sub-State authorities.

➤ Thus, in the context of the reform of Community governance, models of participation in Community options and decisions need to be identified. These must be capable of ensuring a balanced representation of the various institutional levels within systems of national government. Signs can already be noted of a series of experiments along these lines within the European framework (*see figure*).

➤ The reform of Community governance, combined with the constitutional changes currently under way in Italy, has placed the business community in a state of uncertainty typical of all transition phases. It is nevertheless important that the overall coherence, synergy and functionality of the regulatory system should be assured.

This should occur in the awareness of the unifying role of Community legislation with respect to national and regional legislative activity and the resulting need to fully involve those entities with law-making powers in the relevant areas in the European decision-making process.

➤ This should lead to positive effects in terms of the impact and efficiency of Community policies and laws, by incorporating them more directly and accurately into the national and regional legal systems. Competitiveness and a process of modernisation and development require the Union to ensure the adoption of common parameters which, while respecting the principle of subsidiarity and taking into account domestic requirements, allow the internal market to continue operating smoothly.

GERMANY

Germany is now the most advanced model. The German Basic Law provides that, with respect to EU powers, the Länder collaborate with the federal chamber via the federal Council (Bundesrat) every time the Länder have responsibility under domestic law. This facilitates the participation of regional bodies in the Council of the European Union, to which are admitted representatives at ministerial level – a status granted to the members of the German Land governments. The Länder participate in the Community decision-making procedure not only during the input phase, but also at the output stage: where a process chiefly involves the Länder's exclusive legislative competence, the protection of rights vested in the Federal government is transferred to a representative of the Länder, while a general State responsibility can be maintained and directives can thereby be implemented according to the respective powers.

SPAIN

The Spanish constitution provides for exclusive State competence in international relations. Certain autonomous statutes provide for the autonomous communities' involvement in the shaping of treaties (Canary Islands) and the right to be consulted (Basque Country). Almost all of them provide for the communities' right to be informed by central government in cases where international treaties are negotiated and concluded in areas which fall within their sphere of competence or affect their interests. Relations with the European Community are governed by the principle of cooperation between the State and the autonomous communities, in particular as regards the incorporation of legislation into national law.

UNITED KINGDOM

Notwithstanding the process of devolution instituted by Prime Minister Blair, the government of the United Kingdom retains control of foreign policy, including relations with the European Union. Where the subject matter of the UK's relations with the Community coincides with a devolved policy area, the government consults the administrations of Scotland, Wales and Northern Ireland, who thus have the opportunity of participating in the input phase of developing relations between the UK and the EU, and may therefore contribute to formulating a common position.

FRANCE

France forbids her regional councils to become involved in international relations with other countries, since it applies a concept of unitary State which does not provide for "local sovereignty". In the French legal order, any power devolved to the regions is solely administrative in nature.

Confindustria's proposal

- Within the framework of the institutional reforms and the new European governance, alongside the division of powers between the European Union and Member States, it is necessary to single out models of participation in Community decisions that are able to guarantee a balanced representation of the various institutional levels present in the national systems of government. In our country, the issue is entangled with the questions of federalism and the devolvement of powers and responsibilities to the regions, putting the business community in a state of uncertainty typical of all transition phases. Confindustria hopes that an overall system of coherent, synergistic and effective rules may emerge from these two reform processes, in the awareness of the unifying role held by Community legislation at both national and regional level.

3. Enlargement and reform of the Union's main policies

- The competitiveness of a European Union of 25 or more Member States will also have an impact on the modifications that the European Union intends to introduce to the principal budget headings which today absorb almost all the EU's resources and do not benefit competitiveness.
- The area in which enlargement will impose in-depth reconsideration of the Union's policies (with particular regard to agricultural policy and regional cohesion, which account for the greater part of the Union's spending) is the Community budget. With this in mind, Member States are faced with inescapable choices, which must be made **before** the accession of candidate countries.
- For the period 2000-2006, the Community budget was for the most part set at the Berlin European Council meeting in 1999, in the form of the so-called "Agenda 2000". The cost of enlargement has therefore broadly been decided until 2006. Negotiations to set the EU's *new financial framework* for the period 2007-2013 will take place during 2004-2005 and will thus involve the new members.

Financial framework for enlargement (EUR million)

Scenario: Accession of 10 new Member States in 2004	2004	2005	2006
Policy area			
Agriculture	2048	3596	3933
Structural policy	7067	8150	10350
Internal policy	1176	1096	1071
Administration	503	558	612
Total	10794	13400	15966
Total budgeted in "Agenda 2000" (Berlin 1999)	11610	14200	16780

Source: European Commission, IP/02/170, Brussels, 30 January 2002.

- The accession of the central and eastern European countries should result in a better use of the EU's financial resources. There is the problem of reallocating expenditure currently under headings which are obsolete and give poor value for money (above all the common agricultural policy or CAP), but also the need to radically rethink the structural and cohesion policies which have not always been very fruitful. There seem to be three fundamental needs:
 - with enlargement, available Community resources will fall in proportion to the number of citizens, there should be negotiations with the candidate States to reallocate resources so as to balance the interests of the current and new members;
 - for this to be achieved, the Member States must be willing to reform – before enlargement – those Community policies which absorb the majority of resources;
 - lastly, certain policy areas must be returned to the Member States' sphere of competence, thus reducing the burden on the Union's budget. To ensure that the accession of the central and eastern European countries results in enhanced competitiveness, wealth-generating projects (innovation; support for start-ups) must be given precedence over the wealth-redistribution projects which are largely prevalent today. In addition, costs and inefficiency within the Community's bureaucracy must be reduced.

- It is broadly recognised that the CAP is inefficient, distorts the economy, places a considerable burden on the Community budget (accounting for nearly one half), represents more than half of the 80,000 pages making up the Community *acquis*, and needs to be reformed further to the WTO accords reached in Doha. Not only does the CAP not create wealth, but by distributing it in an unbalanced way, it actually reduces social well-being. According to reliable estimates, if the candidate countries were to join the current agricultural policy, Community expenditure would rise by at least EUR 10 million and possibly up to EUR 15-17 billion annually (depending on the number of new members and other variables).

Agricultural policy budget transfers to new Member States (EUR billion)

Scenarios	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
No direct aid, rapid enlargement	2	2.1	2.2	2.3	3.3	3.6	3.9	4.3	4.8	5.2
No direct aid, progressive enlargement	1.7	1.8	1.9	2	2.8	3.1	3.4	3.7	4.8	5.2
Direct aid, rapid enlargement	3.6	5.3	7	7.6	10.6	11.7	12.8	14.1	15.5	17.1
Direct aid, progressive enlargement	3.1	4.7	6	6.5	9.1	10	11.1	12.2	15.5	17.1

Source: European Parliament working document on the financial implications of EU enlargement (11 April 2001)

- The current regional and cohesion policies are themselves criticised for ineffectiveness, for failing to contribute to the convergence of less-developed areas in proportion to the financial commitment needed.
- In the light of the budgetary framework published by the European Parliament in April 2001, we can draw the following substantive conclusions:
 - As far as structural policy is concerned, enlargement eastwards will result in greater disparity between the Union's nations and regions, and will thus require a review of the EU's financial compatibility with its structural policy instruments.
 - Following the accession of the central and eastern European candidates, the least-developed regions (those with a per capita income under 50% of the 25-member EU average) will almost all be in Eastern Central Europe, while those with a per capita income of between 50% and 75% of the EU average will be distributed equally between western Europe and eastern Europe.
 - The Union's average regional income will fall by 15% in the case of enlargement to 10 countries (without Bulgaria and Romania), and by 18% in the case of enlargement to 12 countries.
- According to European Parliament reports, transfers to new Member States for structural funds may turn out to cost more than EUR 170 billion between 2004 and 2013. The two main hypotheses which emerge from the Parliament's figures are in this case a transfer of funds to central and eastern European countries up to a maximum ceiling of 4% of GDP, or a gradual phasing-in; there also remain the two hypotheses of enlargement (rapid or progressive).

Transfers to new Member States for structural policies (EUR billion)

Scenario	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Rapid enlargement; up to ceiling of 4% of GDP	16.2	16.8	17.5	18.2	21.4	22.3	23.2	24.1	25.0	26.0
Progressive enlargement; up to ceiling of 4% of GDP	14.3	14.8	15.4	16.0	18.9	19.7	20.4	21.3	25.0	26.0
Rapid enlargement; phasing in	6.1	8.4	10.9	13.6	17.5	21.0	22.2	23.4	24.7	26.0
Progressive enlargement; phasing in	5.3	7.4	9.6	12.0	15.4	18.5	19.8	20.6	22.9	24.5

Source: European Parliament working document on the financial implications of EU enlargement (11 April 2001)

- The recent Commission proposal of 30 January 2002, entitled "Enlargement and Agriculture: Successfully integrating the new Member States into the CAP", is designed to mitigate the financial consequences of enlargement, proposing transitional periods of ten years for the application of the CAP and of three years for the full implementation of the structural funds in new Member States. In any event, if the Commission proposal is accepted, at the end of the transitional periods, there would be two consequences:
 - firstly, there would be a significant increase in net contributions by the 15 current members, which according to the gloomiest forecasts would rise from EUR 10 billion to EUR 21 billion for Germany, from EUR 5 billion to EUR 16 billion for the United Kingdom and approximately from EUR 1 billion to EUR 8 billion for France and Italy;
 - moreover, the Community budget would have to be adapted to the new requirements, and the ceiling on resources would fall from 1.27% to approximately 1.4% of the EU's GDP.
- These trends are not economically sustainable.
- It is therefore necessary to use the opportunity offered by enlargement to carry out a radical reform of the Community policies which determine the budget today, modifying the CAP and the structural policies to curb their distortion effect, reduce their financial impact and allow them to be at least partially renationalised. In this respect, it is interesting to note how the Commission proposal on the financing of enlargement acknowledges the possibility for the new Member States to use domestic financial resources in order to complement Community funds for the purpose of achieving Community aims.
- It is our belief that the European Union will be able to take full advantage of the great opportunities enlargement will bring if it starts to find a solution to the issue of geographical rebalancing within its current borders. The existing problem of the weaker regions is not merely one of financial transfers, but above all one of infrastructure. In time, this lack of infrastructure may further weaken backward regions, since the greater mobility of resources will tend to strengthen areas with better infrastructure.
- The process of economic integration cannot be achieved in a three-speed Union (North, South and East) and if the potential of Mediterranean integration is not fully exploited. The latter factor will be an opportunity for fresh international investment and market growth.

- Following the completion of the single market and introduction of the single currency, a single integrated infrastructure system needs to be built in order to overcome the current regional imbalances and sustain the ever greater mobility of resources.
- Andalusia, southern Italy and Greece could become the **new European frontier**, where an extraordinary plan for economic growth could be implemented to integrate Europe and the Mediterranean basin. The development of these areas is no longer a local issue, but one which involves the whole of Europe.

Confindustria's proposals

- In order to ensure that the accession of the central and eastern European countries results in enhanced competitiveness, Confindustria maintains that wealth-generating projects (innovation, support for new entrepreneurs) must be given precedence over the wealth-redistribution projects that are largely prevalent today.
- Confindustria therefore maintains that enlargement is the opportunity to **radically reform those Community policies** that currently govern the budget, in particular by modifying the CAP and the structural policies in order to curb their distortion effect, reduce their financial impact and allow them to be at least partially re-nationalised.
- Confindustria considers that the Commission's recent proposal of 30 January 2002 "Enlargement and Agriculture: Successfully integrating the new Member States into the CAP" brings up the question of financial re-balancing problems that will have to be dealt with decisively and with economically sustainable solutions.
- Lastly, Confindustria maintains that **reforms** of the above policies must be carried out **before the accession of the candidate countries**.
- To become the most dynamic economy world-wide, the EU has to guarantee balanced and sustainable development throughout the Union. With the accession of the candidate countries, **the south of Europe becomes the new European frontier**, in which an extraordinary economic growth project can be achieved. Confindustria calls on the European Council to promote a single integrated infrastructure system, that can place the EU's *Mezzogiorno* at the centre of economic development and make it a bridge for integration between the Mediterranean partner countries and the European Union.