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Editorial

In the aftermath of the French and Dutch referendums and the current budget row, the European Union is said to be in a deep political crisis. As various formations are being created around different visions of Europe, there are reasons to rejoice in the fact that the EU finally is being debated outside Brussels. Will the Blairite vision of a Europe -liberal in economics with strong social institutions- conquer the French vision of Europe of social economics? No matter what side finally wins the argument, the so-called crisis has increased interest in the politics of the EU. The Union is no longer a club where technocrats and diplomats strike secret deals far from the scrutiny of the public. This is indeed a highly positive development. As the EU system faces up to its own decisions, so its citizens will start to accept and think of the Union as a political entity.

In the lead article of this summer-autumn edition of the EEI Journal, the Austrian State Secretary of Finance Dr. Alfred Finz has kindly agreed to put to on paper thoughts on the priorities of the 2006 Presidency. Dr. Finz offers a candid analysis of the challenges facing his Presidency, but also on the ways forward in meeting these challenges. He takes the view that only through a joint collaboration between the EU and Members States will the EU continue to be a place of prosperity. An important turning point for the EU's global aspirations will be the December WTO meeting in Hong Kong. There, the WTO ministers will have to pick up the remains of the failed trade talks of Cancun two years ago. In these talks the very essence of a free and multilateral trading system is at stake. Whether the EU will be ready to play its role in these talks is up for grabs, but what is certain is that the EU has an important role to play in setting standards for a fair and efficient trading system.

In this issue of *the European Enterprise Journal* we have therefore chosen to publish a range of articles that deal with the EU in a wider perspective. For example several different voices in this debate argue their cases on the "state of play". Christian Pitschas and Olivier Cattaneo provide in their *Analysis* an overview of the EU and what instruments it has to offer the world, moving the agenda forward for trade and development. The EU is not, however, the only player in the WTO. Foreign aid assistance and development have long been seen as two related issues. Reducing Third World debt levels has therefore become a priority in the public eye and has caught the attention of both campaigners and politicians. There are, naturally, divergent views on how efficient this debt-relief is in tackling poverty. In his *Opinion* Fredrik Erixon from the Timbro think tank makes the case that debt-relief in itself does not solve the problem of poverty. In his view governance is much more of an issue and warns against letting the "rock-roll economists" drive the public debate. With the July G8 summit focusing on Africa and the British holding the Presidency of the European Union, this issue is sure to stay on the Brussels agenda for a long time to come.

Another issue are EU-U.S. relations. The EU-U.S. summit in June was perhaps overshadowed by EU's internal problems, but there is little doubt that the transatlantic partnership will finally have to reinvigorate itself in the face of growing competitive pressure from Asia. This is a statement underlined by the now famous Quinlan Report, which showed that at the height of political tensions over Iraq the transatlantic economy grew stronger. So when the hype is focused on China the transatlantic partnership is the foundation on which the European economy stands. Erika Mann, Member of the European Parliament, gives us an optimistic view on how to move forward for further integration.

In this issue of the European Enterprise Journal we have also a distinguished group of authors that have written on the EU itself, providing different perspectives on some of the more controversial political issue debated in Europe today. Ever since the launch of the internal market we have taken the idea of integration and free circulation of capital goods and labor for granted. Although the internal market has yet to be completed and many barriers remain, a new development has occurred. In the debates running up to the referendum campaigns on the constitutions and regarding the proposal for a service directive, the logic of integration itself has come under fire.

The restrictions of the movement of labour are and have always been at the very heart of the internal market, but its logic is increasingly under attack. Whether this is caused by an increased fear of globalization or not, there are reasons to be concerned about this development. The very essence of the EU is open markets not restrictions. This is why we have chosen some important arguments on this debate in the EEJ. In his article *Pierre, Piotr and Bolkestein*, Claus Kastberg Nielsen goes directly to the heart of this discussion when providing concrete numbers and figures of the benefits of such a directive. But leaving economics aside, the future of the directive lies in the hand of the politicians, and in order for any agreement to be made a balance will have to be struck. In his *Opinion* one of the key players in this debate, Malcolm Harbor, explores the way forward.

As mentioned previously, the European Union has ceased to be a club for technocrats and the citizens' visions of Europe have found their ways into the Brussels debating arena. We believe that this can only be good news. Policymakers, whether they are elected politicians, business representatives or Commission officials, will increasingly have to focus their decisions on the public's desires. In such a world only ideas matter and the Editors of this journal hope that it will be a place where a sincere and frank debate can be held. This would not, however, be possible without the openness and sincerity of the mentioned and non-mentioned authors in this journal that - by appearing in this journal- have all contributed to make Europe even better by engaging in a public debate.

The Editors

Word from the President

Dear Friend,

It has now been a little bit more than a year since the European Enterprise Institute (EEI) was launched and what a year it has been! Then, the EU had just embraced ten new members and now we are starting to see the consequences of this enlargement. The new member states have introduced a fresh breath into the political debate pushing the EU to embrace the reality globalization. The new member states have brought with them more opportunities for European companies in these markets and the old members can enjoy higher quality services. New ideas and more competition between them are needed if we are to find new ways in tackling common problems. Some people are concerned about this development.

In my view enlargement was not only a historical obligation but more importantly the opportunity of the century. Europe has become a richer place with the ten new members and as it turned out the enlargement was probably more important to the old member states that all have been influenced by countries such as such as Estonia and Slovakia where reforms of the economy have paved the way for higher employment and increased competitiveness.

This year has also been the first when the European Enterprise Institute has been fully active on the European scene. A year ago, EEI was launched in the atmosphere of entrepreneurship. Europe needs 5 million new entrepreneurs was the motto under which our institute was launched to the public. Then it was a bold statement. Today, it has become common truth that the way to reduce unemployment is through starting new business and letting them grow. I am proud to say that the EEI has tried to play its modest role in raising understanding of this issue. In fact, almost 1000 people have attended our events, either in Brussels, Madrid or Rome. We have hosted events, big and small, on a wide range of topics: how to foster innovation; the commission agenda for entrepreneurship and industry, the role of advertising in a modern economy; Kyoto and Lisbon; obesity, and patents.

Many attend our events regularly, including many Members of the European Parliament, and for this we are very grateful. We have also been proud to welcome a range of very distinguished speakers, among them Commissioner Jan Figel; Commissioner Gunter Verheugen; Slovak Minister of Finance and Deputy Prime minister Ivan Miklos; Giles Chichester, Chairman of the European Parliament Industry Committee;

Claudio Murri, chairman of the American Chamber of Commerce to the EU; Luwig Hantson, Head of Novartis European and a host of others.

Through our written publications we have set out to provide additional input to the political debate. Our OPINION and ANALYSIS series has been widely quoted in national and international media on issues ranging from the likely impact of a French 'No'-vote for the future of the European constitution all the way to the Working Time directive and the biotech industry.

We have set out to discuss aspects on the European Social model with leading scholars and we have published two issues of the European Enterprise Journal and the third one - which you currently are reading- hopefully will provide some fresh insights. In this we have featured contributions from academia, industry, and politics and I must mention here especially the contribution by José Manuel Barroso in the winter edition.

But first and foremost, we have set out to prove that ideas matter. In this spirit we have decided recognised individuals or institutions that in the spirit of entrepreneurship have shown the way forward by taking on new ideas. The European Entrepreneurship Awards was accordingly given to the Government of the Republic of Georgia and to the Platforma Obywatelska of Poland for their spirit of entrepreneurship and willingness to finding new solutions to old problems by introducing and arguing the case for Flat Tax.

For a start-up the first year is a great challenge. Not only is one forced to deal with all the administrative work but one must also work build a trust and reputation for quality amongst the audience. I believe that we have been able to do so. Through our publications and many events we have raised issues pertinent for European competitiveness. Raising the level of the debate and exploring new ideas is the motto under which the EEI have worked during the last year. In short we have aimed to be a place where the discussion is taken seriously and where ideas really matter.

Peter Jungen
President

Responding
to the Challenges of Europe

By State Secretary Alfred Finz

Europe faces two main challenges: *First, there is the increasing competitive pressure on Europe as business location and hence on employment from the fast growing emerging economies and their intensified export of technology and capital intensive products. The second challenge is the demographic development of the European population, which increasingly is becoming older putting strains on the solidarity between generations.*

To meet these challenges is both the member states' and the EU's responsibility. They can not be split from each other. The crucial question is which kind of policies are needed in order to compete successfully in the increasingly globalized world? The European partnership for growth and employment delivers the answers. The key words are: Increasing Europe's competitiveness, enhancing productivity, increasing excellence and preserving an effective social model.

Austria will assume the Presidency of the European Union on January 1, 2006. The overarching goal of our Presidency is to facilitate Europe's successful tackling of these challenges. Our priorities will be:

Improving the preconditions for growth and employment by ensuring solid public finances and accelerating structural reforms: Past experiences show that member states with stability oriented fiscal policy and structural reforms under implementation have a better growth performance. The revised Stability and Growth Pact provides more fiscal flexibility and additional leeway for structural reforms, and urges Member States to step up consolidation efforts during periods of higher economic growth. Our aim therefore is to improve the sustainability and quality of public finances and to ensure a more symmetric application of fiscal rules over the business cycle in all member states. Additional attention will also be given to the quality of statistics and data reliability, in order to further improve the framework for economic and fiscal analyses and policy-oriented debates at the EU level.

Increasing competitiveness by more flexible markets: Flexible markets, a transparent and cost-efficient regulatory framework, fair and transparent rules for competition and for state aid strengthen Europe's growth and employment potential and Europe's global role. Our aim is to stimulate a positive reform climate and to increase awareness of the added value of structural reforms at the European level and nationally. As the national reform programmes are the key documents for assessing the member state's commitment to the Lisbon reform agenda, they must be analysed systematically. Furthermore, we have to strive towards more coherence between macroeconomic, structural and employment policy in order to advance more flexible labour markets and to make incentive systems more effective as regards re-entry into and longer stay in employment. In addition, Europe has to further deepen the integration of financial markets and to reduce the administrative burden in general.

Increasing employment by investment into the future: As technology and innovation, education and training are key elements for more economic dynamism and future productivity development and therefore for more jobs, Europe has to invest more, and more efficiently in these areas. We must take further steps to establish the conditions needed to stimulate private investment and innovation. Hence accelerating the transition to the knowledge-based society should not only be the main focus of government spending at national level but also of the EU budget.

Strengthening Europe's global role: Europe, so far, has coped quite well with the challenges of globalisation - balanced current account and stabile share of world export at a high level. This shows that there is no reason for pessimism and fatalism. However, protectionism and protectionist solutions are not the right answers on the intensifying international competitive pressure. In order to realise the potential gains of this process we should work together with our non-European partners not only on more trade openness but also on how to tackle short- and long-term risks of globalisation. One focus of the Austrian Presidency will, therefore, be to build up a global framework ensuring long-term economic, social and ecological sustainability.

Our aim therefore is to improve the sustainability and quality of public finances and to ensure a more symmetric application of fiscal rules over the business cycle in all member states.

In June 2005 the European Heads of State agreed on the need for urgent action at the European level and nationally in the context of Lisbon national reform programmes. The Austrian reform programme on growth and employment was submitted to the European Commission in mid October. This programme shows the government's clear commitment to proceed with ongoing reforms and to devise new measures where necessary. The seven strategic priorities are: Sustainable public finances by further decreasing public spending and improving the quality of public finances via investment into the future; modern labour market und employment policy to match flexibility with fairness and to ensure that people are equipped with the skills they need to succeed in a changing world; further resources, 1 billion Euro up to 2010, for promoting R&D and innovation; additional 300 million Euro for infrastructure investment; improving the business climate and thus strengthening Austria as a business location, in particular for SMEs; modernizing the national education and training systems to accelerate the transition to the knowledge-based society; and finally, measures to promote energy efficiency and renewable energy.

The Austrian reform process spans already several years. Comparison with other EU member states confirms Austria's good performance:

	Austria	EU-25
GDP per capita (in purchasing-power parity 2004)	122	100
Labour productivity (2004)	104,9	100
Employment rate (2004)	67,8	63,3

We are aware of the fact that the reform process will still need to go on, especially as international conditions will continue to change. Our past record shows that Austria is aware of this challenge.

** **Alfred Finz** is State Secretary in the Federal Ministry of Finance of Austria*

The Link
Between the Trade and Development Policies of the European Union

By Olivier Cattaneo and Christian Pitschas [1]

The EC's foreign trade policy lies largely within the exclusive competence of the Community. That is to say, European Member States have ceded their negotiating power with respect to foreign commercial policy to the European Community and its Trade Commissioner. This allows European countries to speak with a single voice in their external trade relations as well as to obtain greater bargaining power in international trade negotiations.

Member States do have some say, however, in the EC's foreign trade policy via the European Council, which establishes the scope of the European Commission's mandate for negotiating trade agreements; must be consulted during such negotiations and can issue directives for such negotiations; and ratifies these agreements on behalf of the EC. Although a new Commission has taken office at the end of 2004, no fundamental change in the EC's foreign trade policy has occurred.[2]

After failing to reach an agreement at their ministerial meeting in Cancun in 2003, WTO members completed a new framework of agreement on modalities for further negotiations at the end of July 2004 (the so-called Framework Agreement).[3] The EC has supported the Doha Development Agenda (DDA) and has taken credit for reviving the negotiations that led to the July Framework Agreement.

Agriculture

Confirmation of the Framework Agreement by the WTO General Council hinged primarily on concessions that were made by the EC in the area of agriculture.

The EC has offered to phase out its export subsidies completely over a yet-to-be determined period of time, provided that other WTO members also agree to eliminate all types of export subsidies. Although this offer is conditional, it is significant nonetheless, since the EC is, so far, the heaviest user of direct export subsidies. WTO members must now agree on: (i) the time period during which export subsidies are to be phased out; and (ii) disciplines and conditions for export credits, export credit guarantees, insurance programs, trade distorting practices of exporting state trading enterprises and food aid. The EC could show flexibility on these issues as a demonstration that its initial offer of export subsidy elimination is not purely a tactical manoeuvre.

In addition to export subsidies, reduction in domestic support is high on the agenda of many WTO members. The EC seems willing to reduce the overall level of its trade distorting domestic support substantially. This will likely happen as part of the ongoing reform of the Common Agricultural Policy (CAP). An important element of this reform is the so-called de-coupling of (some) subsidies from production and their transformation into a single farm payment. Rather than being tied to production levels, the current CAP reform plan would provide a single payment to farmers that meet mandatory environmental, animal welfare, food safety and quality standards. If the EC adopts these reform measures across the board, it is thought that the overall level of European agricultural production will decrease, leading to significantly reduced exports and increased imports of agricultural products from the developing world. For the time being, however, the reform plan is limited to a few farm products.

In the July Framework Agreement, WTO members agreed to new modalities on the thorny issue of improving market access for developing-country agricultural products in industrial economies. The Framework Agreement sets forth broad guidelines for negotiations on market access; it foresees that WTO members such as the EU and USA will continue tariff protections for certain products and goods they identify as sensitive. In the end, WTO members may find it harder to agree on the market-access issues than on export competition, as the latter set of issues is more straightforward in technical terms. This has been demonstrated by the acrimonious negotiations on how to convert specific volume-based duties into ad valorem equivalents (AVEs), a process which had to be completed before moving on to negotiate the formulae for the reduction of import duties.[4]

The former EC Agriculture Commissioner, Franz Fischler, told the European Parliament's Agriculture Committee on 21 September 2004 that the EC's main goal was "to keep adequate external protection for sensitive EU products." The EC is therefore, keen to designate a certain number of agricultural products as sensitive, making market access for comparable developing country products more limited.[5] From a development perspective, efforts by the EC to designate too many products as sensitive could undermine the negotiations.

The Singapore Issues/ Trade Facilitation

Three of the four Singapore issues - trade and competition, trade and investment, transparency in government procurement - have been dropped from the DDA. Trade facilitation,[6] however, remains on the negotiating agenda.[7] The Trade Negotiations Committee established the negotiating group on trade facilitation on 12 October 2004. At its first meeting on 15 November 2004, this negotiating group agreed on a work plan and a schedule of meetings.

The EC was one of the main proponents of the Singapore issues. On trade facilitation, the EC has advocated a rules-based approach that would foster transparency, predictability and reduced costs for traders. The EC is of the view that trade facilitation is especially important to developing countries since it would make border controls and thus security more efficient; generate higher revenues from simpler and better applied customs procedures; and improve the investment climate, by increasing the inflow of foreign direct investment. The EC contends that negotiations should focus on increasing the transparency of trade regulations; simplifying, standardizing and modernizing import, export and customs procedures; and improving the conditions for transit.

As part of its development co-operation initiatives, the EC provides trade-related assistance (TRA) for trade facilitation. TRA needs are identified jointly by the EC and the recipient country and are allocated on the basis of terms laid down in national and regional indicative programs.[8]

Regional Trade Agreements

The EC has concluded regional trade agreements with many developing countries. Some of these agreements have a distinct development aspect. An outstanding example of this is the Cotonou Agreement, concluded between the EC and the African, Caribbean and Pacific (ACP) countries on 23 June 2000.[9] The Cotonou Agreement envisages that Economic Partnership Agreements (EPAs) will be negotiated between the EC, on the one hand, and regional groups of ACP countries, on the other. EPAs are intended to extend trade in goods and services, remove barriers to trade, and enhance co-operation in all areas relevant to commercial relations. EPAs are scheduled to enter into force by 1 January 2008, at the latest. Until then, non-reciprocal trade preferences, granted on the basis of the Lome IV Convention, will continue to be applied.

It should be noted, however, that market-access concessions by developing countries in the DDA negotiations would have the effect of eroding trade-preferences granted under regional trade agreements to developing countries. This effect was highlighted by former Commissioner Fischler in a speech delivered in Washington. He called for "stable and predictable preferences, because such dependability is a precondition for further investment and the development of the food and agriculture sector in developing countries... I believe that the proposals currently under debate in the WTO show very well that separate and differential treatment is a major topic and that there is scope for helping the developing countries in this way." [10]

Generalized System of Tariff Preferences (GSP)

The present GSP cycle will expire on 31 December 2005. It covers products from 178 GSP beneficiaries that may be imported into the EC either duty-free or at reduced tariff rates. Total imports from developing countries into the EC under the GSP amounted to €52 billion in 2003, half of which enjoyed duty-free access. Currently, there are five GSP schemes. However, the Commission has proposed to modify the current GSP for the next ten-year cycle, from 2006 to 2015.[11] According to this proposal, the GSP will be reduced to three schemes: (i) a general scheme with somewhat increased product coverage (from 6,900 to 7,200 products); (ii) a special scheme for LDCs (the so-called Everything but Arms (EBA) initiative which already exists and which grants all products from LDCs - except arms and ammunition - duty-free access to the Community market); and (iii) a special scheme for vulnerable countries with special development needs (see section III below for more details). The EC could go further with its new GSP scheme by relaxing the so-called rules of origin, which currently exclude about one half of total eligible developing-country products from tariff preferences.[12]

Effective and Adequate Development Assistance

The EU is responsible for more than 50% of worldwide Official Development Assistance (ODA). Based on current forecasts, a total of €19 billion of additional EU ODA will be made available during 2003-2006 (an increase of 35% from 2002). The annual ODA effort will progressively increase to €38.5 billion or 0.42% of the total EU Gross National Income (GNI) 2006.

These projections show that the EU is firmly engaged in the achievement of the Millennium Development Goals (MDGs) and on track for meeting its Monterrey Summit commitment to increase the average ODA of EU Member States to 0.39% of GNI in 2006 (with a minimum of 0.33% for each Member State) and 0.7% by 2007. In an April 2005 Communication, the Commission proposed a new collective average target of 0.56% (0.51% for each Member State) to be reached by 2010.

In addition, at the European Council in Barcelona on 14 March 2002, the EU committed to:

1 Improving aid effectiveness through closer coordination and harmonization; 2 Increasing aid to Least Developed Countries (LDCs); 3 Increasing its Trade Related Assistance (TRA); 4 Tackling the issue of Global Public Goods (GPGs); 5 Further exploring innovative sources of financing; 6 Reforming the International Financing System (IFS); 7 Restoring debt sustainability through the Heavily Indebted Poor Countries (HIPC) initiative.

A number of concrete measures have been taken to meet these commitments. Initiatives in most of these fields, however, are the work of individual Member States. For example, France and Sweden, in collaboration with the UN Development Program (UNDP), launched an International Task Force on Global Public Goods (GPGs) at the Johannesburg World Summit on Sustainable Development (WSSD) in September 2002. The Task Force aims to clarify and give a practical definition of the concept of GPGs and will analyze how successfully GPGs are currently being provided. Since its 2002 launch, the European Commission and several EU Member States have actively supported the Task Force. Individual or joint proposals of Member States on innovative sources of financing include: international levies, de-tax public/private partnership, and increased use of the International Financing Facility.

Joint initiatives of the EC and Member States launched at the WSSD include the EU Energy Initiative for Poverty Eradication and Sustainable Development (EUEI), the EU Water for Life Initiative (EUWI), and the Action Plan for Forest Law Enforcement, Governance and Trade. In a recent speech to the European Parliament in Strasburg, UN Under-Secretary Louise Frechette cited the EUEI as an illustration of an innovative contribution towards the achievement of the MDGs. The EU is also a major international donor to health interventions in developing countries, and it participates in the public/private partnership of the Global Fund to fight HIV/AIDS, tuberculosis and malaria. Since 1990, the EU has contributed around €42 billion to health-related interventions in more than 100 developing countries.

Over the last ten years, the EU has given increasing amounts of aid to middle-income neighbouring countries in response to events in the Balkans and the former Soviet Republics. The EU is, however, trying to balance its concern for security with its commitment to support achievement of the MDGs. To its credit, the EU has started to move in the right direction: 52% of aid went to low-income countries in 2002, up from 44% and 38% in the previous two years.

2003 assessment of progress on the implementation of the Program concluded that additional efforts are required to effectively combat AIDS and noted the absence of large-scale political action in this area. Indeed, little progress has been made

The Need for Additional Efforts

In 2001, the European Commission adopted a Program for Action on HIV/AIDS, tuberculosis and malaria within the context of poverty reduction worldwide. This entailed a series of actions to increase the impact of existing interventions, increase the affordability of key pharmaceuticals and encourage research into and development of specific actions to tackle these diseases at the national, regional and global level. To date, the EC has allocated more than €1 billion to the Action Program. Nevertheless, a 2003 assessment of progress on the implementation of the Program concluded that additional efforts are required to effectively combat AIDS and noted the absence of large-scale political action in this area. Indeed, little progress has been made since the pledging conference in Barcelona on achieving closer coordination and harmonization of aid policies and procedures. Individual Member States have been reluctant to compromise their individual external priorities, which reflect their own specific interests. Absent a single European voice or identity, and despite its position as the world's largest donor in financial terms, the EU has not exercised much leadership in the global aid process. Also, the EU could hardly define common sector policies and increase spending in the areas most relevant to the MDGs (e.g. basic education represents only 0.33% of EU's commitments). Closer

Member States have been reluctant to compromise their individual external priorities, which reflect their own specific interests.

coordination among EU member states could contribute to reinforcing the efficiency of EU aid programs (leveraging economies of scale through co-financing, dividing labour according to comparative advantages, lowering transaction costs, etc.) and make them more responsive to new initiatives such as the Global Fund to fight against HIV/AIDS, tuberculosis and malaria or the Education for All Initiative.[13]

Reform Proposals

Previous reforms, which included the establishment of EuropAid as a technical office in early 2001 and the abolition of the Development Council in 2002, created a rift between policy/programming and implementation and have been subject to criticism. In its most recent Communications, the European Commission proposed a drastic simplification of external actions' instruments, driven by the need to facilitate coherence and consistency in EU policy and achieve more with existing resources. Among these new instruments, the Development Cooperation and Economic Instrument (DECI) aims to tackle crises and instability in developing countries and will also address trans-border challenges including nuclear safety and non-proliferation, the fight against human trafficking, organised crime and terrorism.

In addition, the Commission expressed the need to concentrate on a limited number of development issues, selected on the basis of their contribution towards reducing poverty and the extent to which the EU action provides added value. Six specific areas have been singled out: the link between trade and development; support for regional integration and cooperation; support for macro-economic policies; transport; food security and sustainable development; and institutional capacity-building, particularly in the area of good governance and the rule of law.

In June 2005, the Council endorsed three Communications of the Commission on the subject of the MDGs (the 'MDG package'), which made specific proposals for action, in particular in the areas of Finance for Development, Coherence for Development, and Focus on Africa. In April 2005, a Communication on a European Program for Action to Confront HIV/AIDS, malaria and tuberculosis through External Action (2007-2011) also proposed collective EU (EC and Member States) action to support country-lead programs to confront these diseases and action at global level in selected areas where the EU can add value.

The stillborn Treaty establishing a Constitution for Europe also set out that the EU and the Member States "shall comply with the commitments and take account of the objectives they have approved in the context of the UN and other international organizations." This was interpreted by most member states as a reference to the MDGs. It also called for more complementarity and coordination to improve overall effectiveness of aid policies.

Finally, while the accession of 10 new countries to the EU represents a chance for development, it also presents yet another challenge for coordination: these countries have started to make the transition to becoming donors and shouldering the part of the "acquis communautaire" relating to development policy, including the Barcelona Commitments. From €107 million in 2002, their contribution to ODA should rise to €389 million in 2006.

Democracy and political reform

The Common Foreign and Security Policy (CFSP) is the weakest pillar of the EU, due to its intergovernmental nature and the way it operates: decision-making requires consensus, whereas a majority vote suffices in traditional Community policies. In order to promote political reforms efficiently in developing countries, the EU will therefore have to use traditional methods borrowed from trade policies or development cooperation.

Cotonou Agreement

The Cotonou Agreement, which is funded through the EDF and links development, trade and political relationships, is one example of a traditional method. The agreement promotes, amongst other things, participatory methods of social dialogue and respect for basic social rights (Art. 25). Crosscutting issues identified as areas of support by the agreement (Art. 33) also include gender issues, environment, and institutional development and capacity building. This latter area specifically refers to, amongst others, the promotion of democracy, transparent and accountable governance, and the fight against bribery and corruption. By 2008, the Cotonou Agreement could be replaced by European Partnership Agreements (EPAs, see above I. 4.). TRA and development efforts will be increased, and the whole process should prompt political reforms in ACP countries.

Trade and Tariff Preferences

The EU commonly uses trade and tariff-preferences as an incentive for developing countries to adopt political reforms. The EU's Generalized System of Tariff Preferences (GSP) is currently under review (see above). In particular, a new special GSP+ has been created for vulnerable countries with special development needs. GSP+ covers around 7,200 products that can enter the EU free of duty, under the condition that beneficiaries meet a number of criteria including the ratification and effective application of 27 key international conventions on sustainable development and good governance. Examples include the International Covenants on Civil and Political Rights, Economic Social and Cultural Rights; the Conventions on the Elimination of All Forms of Discrimination Against Women, on the Rights of the Child, on the Abolition of Forced Labour, on the Freedom of Association and Protection of the Right to Organize; the Montreal, Cartagena and Kyoto Protocols; the Convention on Biological Diversity; CITES; the UN Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances; and the Mexico-UN Convention against Corruption.

The challenges ahead

The European Union contribution to development efforts is crucial. The EU is the largest global trading bloc and aid donor for developing countries. It is not, however, a single political entity, and the diffusion of powers makes it sometimes harder for the EU to play a leading role in the definition and implementation of development policies.

Trade is one of the very few common policies where the EU speaks with a single voice. It has therefore often been used to achieve other foreign policy objectives, like the promotion of political reforms in developing countries. The two pillars of trade policy as a development tool are currently under review: a new GSP will enter into force in 2006, and the Cotonou Agreement should be replaced by EPAs by 2008. In both instances, however, the EU is under serious pressure. In a recent WTO dispute, the conditionality of its GSP system was successfully challenged by India; although the WTO Appellate Body reversed some aspects of the panel decision, the EU is required to modify its current GSP system. Unfortunately, the increased conditionality of the future GSP system that has resulted is likely to raise new tensions. Rules of origin attached to the new GSP system will also come under close review. The negotiations on EPAs are another source of stress, and some ACP countries criticize both the passage from unilateral preferences to reciprocity and the division of developing countries' front in the regional phase of negotiations.

Trade is one of the very few common policies where the EU speaks with a single voice. It has therefore often been used to achieve other foreign policy objectives, like the promotion of political reforms in developing countries

Finally, in the WTO, the EU is facing a dilemma: while it entered into the Doha Round with a view to promoting a better regulatory framework for free trade, the negotiations on trade and environment, geographical indications, etc., have stagnated, and three out of four Singapore issues have been dropped of the agenda. The EU is thus left with hard concessions to make in agriculture and limited expectations for its own initial agenda. The July Framework Agreement was salutary, but the hardest nuts remain to be cracked, including the deadline for the phasing out of export subsidies and market-access issues in the agriculture sector. The question is whether the Member States will support the European Commission in concluding an agreement that is somewhat remote from its original mandate.

In the field of development, the main challenge for the EU is to coordinate and harmonize the policies of its Member States. Europeans have displayed 30 years of good intentions, but lack of coherence continues to dilute both their message and aid efficiency. Since development is not a common policy, the issue is whether a greater efficiency could be achieved through further integration of development with trade or foreign policies, or whether such a dilution would be a threat to the identity of development policies.

EU is thus left with hard concessions to make in agriculture and limited expectations for its own initial agenda.

Paradoxically, the EU has continuously increased its contribution to development efforts, but without gaining leadership -- the giant has no head. Internal reform of EU institutions and budget allocation is underway, but previous reforms have proven inefficient. Rivalries among Member States and European institutions (or even within each institution, like the Commission) still abound. With enlargement, the European Community will have an opportunity to become more influential, but will also face new challenges. The recent shortcomings in the ratification process of the European Constitution, which included a new framework for development and aid policies, prove that co-ordination remains, however, a long shot.

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1. This article is a re-worked version from an paper that was initially commissioned by the German Marshall Fund of the United States as a background document for the participants of the "Trade and Poverty Forum" at their meeting in Nagoya, Japan, in April 2005.

2. In his answers to the questionnaire of the European Parliament, the then Commissioner designate for trade Mandelson had emphasized, inter alia, that "sustainable development must continue to be an important feature of our trade policy".

3. The agreement has been confirmed by a formal decision of the WTO General Council on 1 August 2004 (WT/L/579 of 2 August 2004). The original deadline for negotiations, 1 January 2005, has been dropped. Instead, negotiations are to continue, at least, until the 6th WTO Ministerial Conference, to be held in Hong Kong, China, in December 2005.

4. See Bridges, Year 9, No. 4 April 2005, page 1.

5. Products that are likely to be designated as "sensitive" by the EC include sugar, beef and dairy products as well as certain fruits and vegetables, see FT, 25 May 2005, page 9.

6. Trade facilitation means the simplification, standardization and automation of trade procedures, especially the import, export and transit requirements and procedures applied by customs and other agencies.

7. Modalities for negotiations on trade facilitation are to aim, first, at clarifying and improving the relevant WTO rules (in particular, Articles V, VIII and X of the GATT 1994), and, second, at enhancing technical assistance and support for capacity building in this area.

8. For an overview on TRA by the EC and its Member States see the Communication from the EC to the WTO Council for Trade in Goods of 6 March 2003 (G/C/W/442/Rev. 1 of 10 March 2003).

9. The Cotonou-Agreement succeeds the former Yaounde (I and II) and Lome-Conventions (I - IV) that governed the ACP-EC (trade) relations since the 1960ies.

10. European Institute Luncheon discussion, Washington, DC, 19 February 2004.

11. Communication from the Commission to the Council, the European Parliament and the European Economic and Social Committee, COM(2004) 461 final, 7 July 2004.

12. The Commission has set out a new approach to rules of origin in all preferential trade agreements, concluded by the EC, Communication of 16 March 2005 (COM(2005) 100 final); the Commission intends to adopt a specific proposal on new GSP rules of origin.

13. See Communication from the Commission of 6 March 2002 on education and training in the context of poverty reduction in developing countries.

The Transatlantic Market
- a political reality soon?

By Erika Mann

This years' EU-U.S. summit, held on the 20 June 2005 in Washington, made significant progress to strengthen transatlantic co-operation. Despite the severe crisis that Europe definitely slipped into, when the European Council adjourned its meeting over stiff EU budget fights two days prior to the summit, European Commission President Jose Manuel Barroso, the High Representative for Foreign Policy Javier Solana, and European Commissioners Benita Ferrero-Waldner, Peter Mandelson and Gunter Verheugen all made it to Washington.

A turn in transatlantic relations

The EU returned to the centre stage of strategic perceptions in Washington's political thinking immediately after President George W. Bush was re-elected. His first visit to Brussels in February 2005, to meet with representatives of different EU institutions, symbolises this new paradigm.

Political or trade-related conflicts continue to exist, but a more pragmatic approach is visible. A new European Commission and a new administration in Washington have shown their genuine desire to move beyond previous disagreements and to find ways and means of working more closely together. This is particularly relevant today because global challenges, threats and opportunities make it more important than ever to co-operate on the basis of common values and interests. The current EU crisis, triggered by the double defeat of the EU constitutional treaty in referenda in France and the Netherlands, as well as the failure to reach consensus over the EU budget package for the next seven years, reveals, in an ironic way, that the U.S. has a strategic interest in a strong Europe. Without the European Constitution, it will be more difficult for Europe to become a global player in foreign policy and to continue with the policy of Enlargement.

The economic dimension

The summit declared "an initiative to enhance transatlantic economic integration and growth" and called for the establishment of a "high level Regulatory Co-operation Forum", which should improve communication between the administrations and agencies involved in regulation on both sides of the Atlantic. The declaration also enumerated a number of economic sectors where concrete results could be worked out in the near future. The liberalisation of capital markets figures prominently on this list, next to areas such as research and development, investment facilitation, competition policy and enforcement, government procurement or services (including mutual recognition of professional qualifications), as well as protection and enforcement of intellectual property.

The two economists Daniel Hamilton and Joseph Quinlan published in "Europe: Still the Most Popular Destination for U.S. FDI" [1], in 2004 and in "Deep Integration: How Transatlantic Markets are Leading Globalization" [2], in June 2005 where they make a compelling case for the strength of the economic ties between the U.S. and EU economies. For example, in 2001, the foreign direct investments (FDI) of the three German Federal States of

Hesse, Baden-Wurttemberg and Northern-Westphalia in the U.S. surmounted their joint investments in Europe as a whole. Even in the difficult times of the war in Iraq, economic intertwinement between the EU and the U.S. has gown and in 2003 only the mutual direct investments between the U.S. and the EU by roughly 30% as compared to the previous year.

The Transatlantic Market

The ever growing economic interdependence between the EU and the U.S. justifies speaking of a real Transatlantic Market. A common Atlantic market that does bears resemblance the European Single Market. The notion of a "Transatlantic Market" has been pushed for within the Transatlantic Policy Network (TPN) and is based on the idea of a complete liberalisation of key markets that will stimulate global economic growth and stability. Such an approach would involve a gradual approximation of the regulatory environments in both the EU and U.S. through the alignment of regulatory policies and mutual recognition of rules and standards for key sectors.

To fully understand the importance of the Transatlantic Market, it is necessary to take into account trade with goods and services as well as investments by European and American subsidiary companies. In 2002, investment in Europe and the U.S. reached €2.14 billion and created an estimated 12 - 14 million jobs on both sides of the Atlantic. American subsidiary companies alone created 400,000 jobs in Germany. These estimates do not even include jobs created by trade, strategic partnerships or joint ventures.[3]

To reduce unnecessary impediments to trade and investment between the two biggest world markets promises significant potential for mutual growth and welfare gains. A detailed study by the OECD published on 7 June 2005 offers convincing support for this idea, estimating that reducing "trade, investment and competition barriers to 'best practice' levels could significantly raise GDP per head" in the EU by between 2 - 3% and in the U.S. by between 1 - 3%.[4] Other countries would also profit from increased economic integration: Countries already well intertwined with the EU or US markets, such as Norway, Switzerland, Canada or Mexico, can expect the highest welfare gains.

The ever growing economic interdependence between the EU and the U.S. justifies speaking of a real Transatlantic Market.

Apart from the existing economic interdependence, an active exchange of opinions has developed between the European and American administrations and legislators. Over the years, this has lead to a number of agreements, for example in the field of competition policy, or to a co-ordinated approach, for example in the area of agriculture in the current World Trade Organisation (WTO) round.

It is true that trade disputes between the EU and the U.S. are still stealing the headlines. But if one looks at the facts, disputes account for only 1 - 2 % of the economic transactions. Even with regard to the potentially biggest transatlantic conflict before the WTO, the Airbus-Boeing fight over subsidies, it should be recalled that both aircraft competitors technically and economically depend on each other by approximately 40%. However, there are a number of conflicts, such as over genetically modified products or hormone-treated beef, which are caused by cultural differences due to different approaches towards risk management.

Greater involvement of legislators

The process leading to the completion of the Transatlantic Market, which would aim at establishing a transatlantic barrier-free market cannot, however, succeed without a more active and direct involvement of both EU and U.S. legislators. In the New Transatlantic Agenda (NTA), which was agreed in 1995, it promised to "consult parliamentary leaders on both sides of the Atlantic regarding consultative mechanisms ... and to discuss matters related to the transatlantic partnership." Little such consultation has taken place in practice. It is therefore good news that the summit declaration calls for a better involvement of legislators involving the already existing "Transatlantic Legislators Dialogue (TLD)."

The road ahead

At the Washington summit, stakeholders' efforts to design a path towards a stronger economic relationship that will deliver more innovation, more jobs and more competitiveness have paid off.

The next summit will take place in Vienna in 2006 under the Austrian Presidency. Until then, the newly created EU-U.S. Regulatory Forum should hopefully have succeeded to prepare the ground for a range of further issues for regulatory co-operation. In 2006, the EU and the U.S. should also reconsider the idea of a new Partnership Agreement, updating the 1995 New Transatlantic Agenda. The European Parliament has called for such an agreement already in a resolution of January 2005, and a US Congress resolution pointed in the same direction. It would seem that Parliaments have been co-driving the process of deepening the Transatlantic Market. Now we have to keep the political momentum to ensure that the next milestone will be reached in Vienna for the 2006 EU-U.S. summit.

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1. *Daniel S. Hamilton and Joseph P. Quinlan, "Europe: Still the Most Popular Destination for U.S. FDI", BioTechConnect Newsletter, June 11, 2004., Featuring Daniel S. Hamilton and Joseph P. Quinlan, "Partners in Prosperity - The Changing Geography of the Transatlantic Economy", Center for Transatlantic Relations, Washington D.C., 2004:*

2. *Daniel S. Hamilton and Joseph P. Quinlan edt., "Deep integration : how transatlantic markets are leading globalization", CEPS Paperback Books, June 2005.*

3. *Daniel S. Hamilton and Joseph P. Quinlan, "Drifting Apart or Growing Together? The Primacy of the Transatlantic Economy", Center for Transatlantic Relations, Washington D.C., 2003:*

4. *Jean-Phillipe Cotis, "The Benefits of liberalizing product markets and reducing barriers to international trade and investment: the case of the US and the EU", OECD Editorial, Paris:, 7 June 2005.*

Corporate Citizenship in Europe: *helping drive competitiveness, growth and inclusion*

By Horacio Gutierrez

Although there are certainly sceptics who question the validity and value of "corporate social responsibility" (CSR) - The Economist ran a cover story earlier this year casting doubt on the whole exercise - it is clear that CSR in Europe is evolving well beyond merely "doing good through philanthropy" or the tool for further regulation that some NGOs wish to see. Instead, it is emerging as an organising principle for companies who want to contribute, through partnerships, to meeting major social and economic challenges, such as those of the Lisbon Strategy for Growth and Jobs.

To harness CSR to goals of this scale is to envisage CSR as going well beyond the main features that have heretofore defined it, such as increased community philanthropy, annual reporting on social and environmental practices, and the voluntary/ regulatory debate. It requires a top-to-toe internal assessment by a company of how its business and community investments contribute to economic growth and social capacity, and what additional expertise and resources it can bring to the table in partnership with others to deliver big results. This new wave of CSR is best understood as "quality of management", which needs to be innovative and to be manifest at all levels of the company, and translates into responsible leadership. CSR today requires multi-sector and multi-stakeholder creativity and teamwork that do not arise from, or respond to, a regulatory approach. At the same time, partnerships on a scale to match the goals will create challenges for traditional CSR reporting and measurement by individual companies. In this context, the new wave of CSR will succeed in breaking through only if businesses themselves step up to the challenge of wider partnerships to help build bigger and more prosperous markets and societies.

No matter where you live and work in the world - Europe, Africa, the Americas or Asia - an ever-increasing number of companies are incorporating corporate citizenship policies into their business plans, strategies, reporting and partnerships. While that trend continues to grow, much work remains to be done. This article will show how one major company seeks to define and execute its CSR responsibilities the "European way". It is my belief that an active corporate citizenship should not be, and can not be seen as, something done in response to regulatory pressure from legislators, but is instead a necessary element of any successful business strategy. It is just smart business.

The European Way

In Europe, at the dawn of the new century, the European Union (EU) recognised the importance of CSR when it adopted the Lisbon Agenda, where it cited it as one of the key vehicles for making the EU the world's most competitive and dynamic knowledge-driven economy by 2010, with more and better jobs. This high-level recognition of the policy relevance of corporate citizenship has been a feature that has distinguished Europe from other regions in the world. Indeed, active EU leadership has brought players in the market to refer to a "European way" on CSR. The European way is characterised by three features: a voluntary approach of businesses to play an active role on CSR; a dynamic process of stakeholder engagement; and alignment with government policy goals.

The link to the Union's economic and social development goals is probably best summarised by comments made by the President of the European Commission, Jose Manuel Barroso, in March of this year[1]:

As you know, at the beginning of February (2005), the Commission called for a fresh start to the Lisbon Agenda by proposing a European Partnership for Growth and Jobs. In its proposal, the Commission explicitly recognised that voluntary business initiatives, in the form of corporate social responsibility [CSR] practices, can play a key role in contributing to sustainable development while enhancing Europe's innovative potential and competitiveness... The Commission is preparing an Action Plan to promote an enabling environment for CSR. The European Union will keep playing its role as a facilitator. At the end of the day, companies are the key players in this process and I rely on your continued commitment to take forward the CSR agenda, in cooperation with all the stakeholders.

Setting corporate goals

Promoting growth, job creation, innovation and inclusion in Europe's knowledge-based economy are all important components of the "European way". Creating employability opportunities for more people through investments in IT skills training, and supporting the growth and competitiveness of SMEs through easier access to IT and IT funding for their business growth are concrete examples of how companies can exercise leadership while promoting competitiveness.

The "European Roadmap for Businesses: Towards a Sustainable and Competitive Enterprise" launched by CSR Europe[2], provides some important guidance by establishing a common vision of the socially responsible enterprise. This vision is built on short and long-term value creation, innovation and stakeholder engagement, and a commitment to strategic goals and processes that facilitates corporate responsibility while enhancing competitiveness. In my view corporate citizenship has not only to be an integrated part of a corporate mission but it has also to be driven and sustained by a sense of personal engagement throughout the entire organisation.

At Microsoft the "European way" has been pushed through *corporate* and *citizenship* missions that are considered to be *one and the same thing*: in practise this means that wherever it operates, the company works proactively with businesses, communities, and governments in order to help advance social and economic well-being and to enable people around the word to realise their full potential.

Corporate Citizenship work at Microsoft is grouped around three major themes:

- Promoting local economic development and IT skills by partnering with governments and communities worldwide to help individuals, communities, and nations gain access to the technology tools, skills, and innovation they need to realise their full potential in the Information Society.
- Enhancing Internet safety and security by partnering with governments, industry leaders, and others to address a range of issues, including, but not limited to, children's online safety, spam, phishing (identity theft), and privacy. Microsoft supports anti-spam legislation, partners with law enforcement to identify and eradicate threats, and works closely with such groups as the International Centre for Missing & Exploited Children to help improve online safety. Through our partnership with the Centre, for example, we provide training sessions to combat computer-facilitated crimes against children.
- Ensuring integrity and transparency in all of our business practices, and providing a healthy, safe work environment for our employees. We are also committed to openness in our technology practices and to designing products that provide high levels of integration and interoperability.

Addressing key European challenges through corporate citizenship initiatives

Achieving strong economic growth and creating more knowledge-based jobs in Europe require a policy framework that promotes and rewards innovative research. The Microsoft European Science Initiative invests in research at the intersection of science and computing. Through this kind of project, a company like Microsoft can reach out and make its technology and expertise available to universities and research centres across Europe (the University of Trento in Italy and INRIA in France are both participating in this programme).

Access to finance is widely recognised as one of the main obstacles to growth for small and medium enterprises, and the European Union provides a significant funding pool to support them. Even so, surveys show generally low SME awareness and use of these European Union funds. Private companies have a role to play in securing SME finance. The European Union Grants Advisor programme (EUGA) which aims to help SMEs to better understand and benefit from EU funding, has been launched as a pilot programme in Poland, Spain and Hungary, and is now being expanded across the European Union. EUGA provides a dedicated SME Web site and an independent, specialised consultancy service offering information on available technology, employment, and business start-up grants. In addition, the programme offers help with the grant applications process.

In Europe, there is a particular need to strengthen employability skills for the young unemployed and for older workers to help them transition between sectors, or to start small businesses. Microsoft's Unlimited Potential (UP) programme focuses on providing ICT skills training to promote digital inclusion, employability, and entrepreneurship amongst underserved groups, including unemployed youth, people with disabilities and senior citizens. In the last two years across Europe, the Middle East and Africa, Unlimited Potential has supported over 100 projects in over 50 countries, working with more than 300 partners in over 1000 community-based technology learning centres, providing training to 300,000 people and ICT access for thousands more. By working in partnership with chambers of commerce, industry training bodies and employment agencies, our goal is to help train 20 million people across the EU by 2010 and help them realise their potential in the new economy.

As Jan Noterdaeme, Senior Director Stakeholder Relations, at CSR Europe has noted:

> *CSR Europe recognises employability to be one of the major issues facing corporations operating in Europe today. Maintaining a sustainable performance and ensuring that our members' employees remain employable in the labour market resonates both with company performance and Europe's implementation of the Lisbon strategy, particularly in relation to competitiveness. Europe's political orientation with regard to employment focuses in particular on the prolongation of professional life, life-long learning, and responsible restructuring. CSR Europe and its members will in the course of the following years be focusing on a number of these issues and in particular looking at the link between employability and company performance.*

A vision for the future

Global citizenship is a goal that can never be fully achieved. The social and economic problems it addresses are simply too complex and rapidly evolving for the work to ever be completed. Microsoft has come a great distance over the years in embracing our role as a leader within the global IT industry. We recognise that we still have a long way to go, and we strive to learn - from our customers, partners, competitors, and the many communities we serve.

It has been five years since EU leaders launched the Lisbon Agenda to make Europe's economy more globally competitive and dynamic, and much has been accomplished. However, a renewed urgency and commitment are required by our elected and corporate leaders to reinforce the drive for increased innovation, jobs, and growth in Europe that is at the very heart of the Lisbon goals.

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1. *Jose Manuel Barroso at CSR Europe's European CSR Marketplace event held March 3- 4, 2005 www.csreurope.org/marketplace*
2. *CSR EUROPE is a membership organization with 65 member companies and 19 National Partner Organisations.*

Why regulating
corporate social responsibility is a conceptual error and implies a dead weight for competitiveness

By Pablo Nieto

In the debate surrounding Corporate Social Responsibility (CSR) there are two diverging schools of thought. The first one believes that only regulation can be effective in implementing CSR. Taking the opposite view, the opponents of regulation consider CSR as a voluntary and a non-regulated exercise, which must be left to the individual corporations. It is our view that a regulative approach -as it is proposed in some European Union countries- would mean costs for individual companies and a dead weight loss for the whole European economy. In the following sections we will therefore discuss the reasons for such conclusion.

Reasons for regulation

The supporters of regulating CSR base their argument in a perceived need to take decisions and clarifying concepts at a government level in order to prevent CSR from becoming pure corporate propaganda or a pointless marketing tool. They assume that State intervention is needed in order to level-playing field and ensure an effective implementation of rules on CSR.

When analysing these arguments we can identify two orientations. The first one suggests that the government has the role to support the CSR culture among enterprises. The second one assumes that a 'CSR Law' is needed to define concepts, normalize actions, standardise conducts, put in order audit systems, establish triple bottom line obligations for corporations present in the financial markets, favour ethical investment funds and stimulate public buying and hiring with those companies that can be classified as socially responsible. It is primary this second orientation of governmental policy that we judge is negative for the development of CSR.

Arguments against regulating CSR based on ideology

There are two ideological reasons why regulation of CSR policies is wrong. The first one is that it goes in stark contrast against the entrepreneurial mentality, which is at the base of the socially responsible enterprise. The second argument is more philosophical by nature and addresses the semantics of the concept.

The origin of corporate social responsibility

The proponents of regulation argues that the term 'social' has been developed and ultimately integrated between the words 'corporate' and 'responsibility' by social agents as trade unions and non governmental organisations. Their idea is that only because of this meddling of external agents in the business activity CSR has developed as a concept. It might be true that the demands of the wider society have pushed for the visibility of corporate social responsibility *but the basic thinking, the initiative, the project and the strategic vision have all their origin in the enterprise.* Corporate social responsibility considers the survival of the enterprise in the long run and must be founded on the assumption of maintained competitiveness. CSR is pointless if it does not maintain or enhance the competitive advantage of the enterprise. In this respect, *corporate social responsibility is a foremost idea that has an entrepreneurial origin.* It is therefore absurd to suggest that the government or any social agent can regulate or foresee *what constitutes corporate social responsibility.* Thinking that the regulator is best placed to implement CSR at a business level contradicts the very essence of the entrepreneurial activity, namely, allowing the entrepreneur to innovate and create new business ideas. In a way, it would be like teaching Karl Marx what Marxism is or should be.

corporate social responsibility is a foremost idea that has an entrepreneurial origin

A semantic dissertation of 'corporate social responsibility'

The idiom 'corporate social responsibility' originates -as all words and elements of the language- to express an idea. It incorporates to the noun 'responsibility' two adjectives, 'corporate' and 'social', to limit its broad meaning. After integrating the three words, their meanings are harmonized, creating a concept as simple or complex as the combination of the three words that form it. To propose more elaborate definitions is a mistaken or deliberate act of confusion. Therefore, to make clear *what* is corporate social responsibility we must fix *what we understand* for responsibility.

Responsibility is defined, as 'the quality or state of being responsible, understood as a moral or mental accountability'. Responsibility is a self-reflection of moral basis. Given that morality is the doctrine, which distinguishes the principles of right and wrong in behaviour, it is necessary for a moral obligation to exist that the responsible subject has judgement, free will and knowledge of its actions. If animals or kids are not considered responsible for their actions it is because they are not capable of moral perspective. For that reason, being responsible implies a mature mind, educated according to a system of values.

Once we have made clear what we understand for responsibility, to analyse the use of the two adjectives that complement the noun will be easier. 'Social' means 'relative to society' -being 'society' a 'community, nation, or broad grouping of people having common traditions, institutions, and collective activities and interests'. Corporate means 'relative to a corporation'.

If we add to 'responsibility' the two adjectives that limit its meaning we can define in the most fundamental way what we understand for 'corporate social responsibility': 'a moral or mental accountability by which a corporation is responsible in relation to society'. Moral principles lead the enterprise to judge the errors of its behaviour and to assume their consequences.

The entrepreneurial essence of CSR and the semantic interpretation of the concept clearly point out the voluntary nature of corporate social responsibility. Regulating or directing the responsibility of the enterprise transforms its roots as an idea, changing it completely, destroying its uniqueness. A law that establishes obligations and norms to regulate the social behaviour of the company implies that, in the end, the government establishes what corporate social responsibility is in practical terms.

Arguments based on competitiveness

The equilibrium between efficiency and equity offers economic and political thought one of its basic dilemmas. Market regulation is mainly justified by two reasons directly related to this conflict. Assuming that we strive to achieve an efficiency principle, laws must be established in order to protect free competition and make sure that the market process pushes for an optimal allocation of scarce resources. On the other hand, the equity principle stipulates that regulation should protect those members of society less favoured by economic dynamics, suffering from unfair resource allocation and extreme inequality.

Due to the opposed nature of these two principles, measures tending to reduce inequality in the short term may derive in economic inefficiencies or disincentives to innovation and creativity in the long term. As over time both options bring costs to the society as whole, a policy choice must be based on common sense and a sharp analysis of the circumstances rather than closed ideological positions. Excessive or inappropriate regulation brings as a result a reduction in the flexibility of the enterprise to adapt itself to the economic and social circumstances, compete or innovate. Therefore, regulation must be handled with intelligence and care.

Another dimension of regulation that governments tend to ignore is that it generally implies high costs. With time, regulations tend to restrain economic development and efficiency, affecting the citizen's welfare. They imply wider state bureaucracy and increase the number of civil servants and government employees that must be hired to control that the normative is applied. Logically, all this must be financed through taxes that are either taken from the individual taxpayer -affecting his consuming and investing habits- or from the business -reducing its capacity to reinvest or hire new employees-.

Regulation also implies higher costs for the individual company, as it has to take care of fulfilling normative requirements. Those costs are of course transmitted to the price of the products, affecting once more the citizens' welfare.

We must not forget that higher prices derived from new regulations imply a reduction in competitiveness that favours companies located in areas where those laws are not applied. New rules make less attractive the economic area, establishing an obstacle for the creation or settlement of businesses. If the regulation falls upon the whole economy, the loss of competitiveness and the vicious circle explained above will affect the economy at a national or continental level.

Although the benefits of a new regulation may seem obvious at first, it may contain countless costs difficult to assess. They do not manifest themselves immediately -the complexity of economic relations allows us only to suspect them-, but they end up undermining economic growth and, with it, future progress. As such, the tendency is always to over-regulate implying higher costs in the long run. This is another reason why a regulative approach must only be applied in cases of strict necessity. Is it therefore really needed to normalize corporate social responsibility? If we accept that CSR is a business strategy that ensures a competitive advantage it becomes ridiculous for the regulator to normalise what in the real world is no more than a business practice.

Corporate social responsibility in a European perspective

In July 2001, the European Commission presented its Green Paper "Promoting a European framework for Corporate Social Responsibility". Its objectives were basically two: to stimulate the debate over the concept of CSR and to define the means of establishing a European framework of corporate social responsibility. Corporate social responsibility was defined as *"a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis"*. The Commission assumes in the document that a responsible management of the individual company development would have positive effects for all enterprises at an aggregate level.

In its communication of July 2002, "Corporate Social Responsibility: A business contribution to Sustainable Development", the Commission supported the following idea: *"CSR can therefore make a contribution to achieving the strategic goal of becoming, by 2010, the most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion"*.

The European Commission seems to have accepted the entrepreneurial view that commercial success and long term benefits for their shareholders can not only be obtained by a short-term profit-maximization strategy. Instead they need to support themselves in a market oriented responsible behaviour. The Commission says that *"in principle, adopting CSR is clearly a matter for enterprises themselves, which is dynamically shaped in interaction between them* *and their stakeholders. Nevertheless, as there is evidence suggesting that CSR creates value for society by contributing to a more sustainable development, there is a role for public authorities in promoting socially and environmentally responsible practices by enterprises".* It seems clear that the European Commission has chosen to promote rather than regulate CSR. This plausible choice is in line with the objectives of the Lisbon Strategy, which aims to reduce costly and rigid regulation.

Among the action principles proposed by the Commission for its CSR promotion strategy the first one recognizes the voluntary nature of corporate social responsibility. This is supported by an EU Commission business survey that points out that *"enterprises stressed the voluntary nature of CSR, its integration in the sustainable development context and that its content should be developed at global level. Enterprises emphasised there would not be "one-size-fits-all" solutions. In the view of businesses, attempts to regulate CSR at EU level would be counterproductive, because this would stifle creativity and innovation among enterprises which drive the successful development of CSR, and could lead to conflicting priorities for enterprises operating in different geographical areas".*

Given that a regulatory CSR framework would lead to dead weight costs and heavy burdens for entrepreneurs, the Commission's voluntary approach seems to be the best suited for the modern economy. Still, various trade unions and NGO's continue to push for regulation at a European level. According to them, the *"voluntary initiatives are not sufficient to protect workers and citizens rights".*

Trade unions and non-governmental advocacy organizations have a legitimate right when they push forward their interests. However, regulators must make sure that all the interests of society are considered. While trade unions might want to achieve short-term social benefits the state must guarantee that future development is taken into consideration. By promoting the concept of Corporate Social Responsibility through a voluntary approach the right balance will be struck. Walking down the regulatory path will only benefit special interest groups at the expense of the society as a whole.

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Helping the worlds poor
- why aid and debt relief do not work

By Fredrik Erixon

Contrary to many people's expectations, the aid sector is booming. In the last three years, foreign aid has risen by approximately one third and today stands at US$ 78.6 billion. Aid will by any measure increase even more in the coming years. Following the 2002 resource mobilisation summit in Monterrey, all the participating first-world countries have, by virtue of the Monterrey consensus, agreed on a rapid increase in aid to meet the UN Millennium Development Goals.

Furthermore, in the run-up to the G8 summit in Scotland this July, the largest industrialised economies have agreed to cancel debt to multilateral institutions for 18 developing countries, primarily on the African Continent. The G8 countries, after heavy pressure from Sir Bob Geldof and other organisers of the Live8 simultaneous concerts, have also committed themselves to a doubling of aid to Africa and, in total, a US$ 50 billion increase of the annual aid to developing countries before 2010.

What are we to expect from this new wave of aid spending? Will it, once and for all, lift people out of poverty or will it most likely achieve very little - perhaps even be counterproductive? These are the core issues. Hardly anyone opposes the idea that first-world countries should assist developing countries, if that assistance can actually provide the necessary help. The question is: does it?

The prospects for this kind of aid achieving its targeted goal - to reduce poverty by promoting economic growth - are, alas, poor. Rather, there is a clear danger that this new wave of increased aid will produce even further roadblocks to increased wealth for poorer countries. Why should this be?

there is a clear danger that this new wave of increased aid will produce even further roadblocks to increased wealth for poorer countries.

The basic idea of aid is to assist those countries that lack the resources to fund the type of investments that are necessary to achieve economic growth. According to economist Jeffrey Sachs, the intellectual guru behind the new drive for aid, developing countries - particularly countries in Sub-Saharan Africa - are stuck in poverty because of a savings trap. Despite having good governance and macroeconomic policies conducive to economic growth, the domestic savings in those countries are too low and cannot sufficiently finance all needed investments. Therefore, Sachs' and others involved in the UN Millennium Project, argue for a big push in public investments in developing countries, to be funded by an additional US$75 billion of aid.

This has been tried many times before in the last few decades; the idea of a big push has time and again attracted many politicians and economists, but always with dismal results. The call for redoubling aid to eradicate poverty has been responded many times over, but it has never delivered what it promised. In spite of more than US$1 trillion in aid to Africa over the last 50 years, the big push in development has yet to occur.

Between 1970 and 1995, aid to Africa increased rapidly and aid dependency (measured as the aid-to-GDP ratio) stood at nearly 20% in early 1990s. Measured differently, the mean value of aid as a share of government expenditures in African countries was well above 50% between 1975 and 1995. During the same period, GDP per capita growth in Africa decreased and was for many years even in negative figures. The unfortunate fact is that many African countries are poorer today then they were at the time of their independence from colonial powers. If the idea of aid had been true - in particular the alleged link between aid, investment, and growth - many of those countries would today have eradicated extreme poverty and had a GDP per capita similar to that of New Zealand, Spain or Portugal. If nothing else, aid to Africa seems to have lowered rather than increased economic growth.

Why has aid failed to deliver higher economic growth for developing countries? Partly because aid has not been spent in the way it was intended. Recipient countries may very well have used aid for gearing up investments, but if they did, they simultaneously lowered their domestic investments so the net result of aid was not an overall increase in investment. Money could instead be transferred to current spending and public consumption - which, in turn, led to a rapidly growing public sector in the economy. Needles to say, this strengthened other socialist tendencies in the economy and investment became, in many developing countries, mainly a government activity.

In addition, aid boosted fiscal budgets and led to a rapidly growing number of parastatals and state-owned enterprises. Largely supported by the donor community at the time, these soon became arenas of corruption. Research and evaluations from the World Bank have also concluded that aid often underpins corruption and that higher aid levels tend to erode the governance structure of poor countries.

However, the major reason for the low effect of aid has been policies detrimental to economic growth in the recipient countries. Instead of trying to open up for trade and foreign investments, many countries, particularly in Africa, headed for a model of economic autarky, closed the borders, and regulated the domestic economy to absurd degrees. To no-ones surprise, this strategy of development has failed bitterly.

Comprehensive economic reforms are instrumental to economic growth, but the current drive for aid is not taking this into account. Instead of focusing on the quality of aid and how to raise the output through a more productive use of aid, G8 countries and others are solely occupied by increasing the quantity of aid. Regrettably, caution is therefore warranted. Aid to countries that are not performing well tends to strengthen the factors of underdevelopment, and increased aid to countries that have entered the economic reform route runs the risk of derailing the reform process.

The question then is not if rich countries can afford to give more aid to developing countries. It is obvious that they can. The question is whether this aid can reduce poverty by promoting economic growth. Sadly, the history of aid does not show that it can. Nor does it seem that the G8 leaders, not to mention Bob Geldof, have any real idea how the aid given can be made more effective.

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The EU's sugar regime:
A sweetener for some?

By Andreas Schneider

The present Common Market Organization (CMO) for European Union (EU) sugar is often subject to fierce criticism. As one of the last bastions of the EU's heavily protected commodity regimes, sugar is still highly subsidised within the EU. Adding to the complex domestic situation, sugar has long been a special case in international trade agreements. This has meant a lack of competition, limits on trade and consequently higher prices for consumers and adverse effects on world markets, with particularly serious impacts on developing countries. Yet, despite all calls for reform, the sugar regime has remained essentially unchanged for four decades.

The dominant role of the EU in the world sugar market, as the second major producer after Brazil, is the result of the high level of domestic support provided to its sugar sector. Through its CMO for sugar, the EU has established a minimum sugar support price, guaranteed by an interventionist purchase system. To limit the amount of production eligible for price support, a quota system was introduced. This is based on three quota types: an A quota to cover domestic consumption; a B quota determining the amount of sugar that could benefit from export subsidies; and finally a C quota which represents the excess over A and B that can be sold on the world market without export subsidies.

In practical terms, the aims and principles underlying the EU sugar policy are achieved by means of:

- A common market intervention price for bulk white sugar, ex-factory, of €631.9 per tonne;
- Protection from the world market by means of fixed import duties bound in GATT and additional duties under the special safeguard clause (Article 5 of the WTO Agricultural Agreement);
- A system of export refunds on sugar and sugar-containing products designed to bridge the gap between internal and external prices;
- A system of production quotas, which limits price support to a maximum quantity of sugar production and which is also used to administer the self-financing of the policy (the costs of export subsidies are passed directly back to farmers and processors by means of production levies). The policy ensures that African, Caribbean and Pacific (ACP) and EU sugar producers can benefit from European Community support in terms of the amount they produce within the quotas;
- A raw sugar policy covering cane sugar production in the French overseas departments (Reunion and French Antilles), and providing for reduced duty and duty-free imports from ACP countries (under tariff quotas), to meet the supply needs of EU cane sugar refiners.

Faced with that criticism, a challenge at the World Trade Organization (WTO) appellate body by some sugar producing countries and an ongoing WTO Round of negotiations, the EU presented on July 14 2004, a reform package to encounter these market failures and to overhaul its sugar regime. The main features of the proposal are:

- Public intervention on the market to be abolished and replaced by a private storage scheme

- Reduction of the minimum price for processed sugar (down from €632 per tonne (/t) to €421 in two steps over three years)
- Reduction of the minimum price of sugar beet (down from €43.60/t to €27.40 in two steps over three years). Farmers will benefit from a new fully de-coupled payment system to compensate for a forecasted 60% drop in income
- EU production quotas will be reduced by 2.8 million tonnes (from 17.4 million tonnes to 14.6 million tonnes) over four years. The quotas will be transferable between operators of different Member States.
- Subsidised exports are reduced by 2 million tonnes (from 2.4 million tonnes to 0.4 million tonnes)
- A conversion scheme of €250/t is to be set up for sugar factories leaving the sector. A dialogue with developing countries affected by the reform will be initiated and individual programmes drawn up to "help them adapt to the new market conditions", through an action plan for ACP countries.The replacement of the Commissioner responsible for agriculture meant that the July 2004 proposals were not taken further and at a round table discussion on the reform of the EU sugar regime held by the Council, the new Commissioner, Mariann Fischer Boel, observed that there was now a consensus that the status quo was unsustainable. Seeing the Commission's Communication from July 2004 as a good basis for further discussions, it was stressed that formal reform proposals must take account of international developments, not least the final result of the WTO panel brought by Brazil, Australia and Thailand. To that end, the Commission announced that it would put forward proposals on the June 22 2005, in time to allow agreement to be reached for the WTO ministerial meeting in Hong Kong in December 2005. Therefore the current debate of the EU sugar reform is widely seen as being crucial for a successful Doha Development Agenda of the WTO conclusion.

The new proposals for the sugar regime are likely to seek a 39% reduction in domestic support price. Also, contrary to the previous proposals, it is expected that there will be no reduction in quotas. It has been argued that a subsequent

Countries such as Mauritius, which holds about a third of quotas to sell into the EU, would lose from a cut in support price.

reduction in quotas, in addition to the price reduction, would force the most competitive producers out of the market, because of their inability to expand.

The effects of such a reform would be that at face value the EU would save money on export subsidies and domestic price support, although these so-called savings would have to be distributed in order to compensate countries, which enjoyed a special trade agreement with the EU, notably the ACP countries.

Interestingly enough, the new proposals would treat many ACP producing countries as domestic producers, because so far these producers were paid EU domestic prices along with their guaranteed import quotas. Countries such as Mauritius, which holds about a third of quotas to sell into the EU, would lose from a cut in support price. The Commission argues that Mauritius is producing sugar only because of the guaranteed high price and would otherwise not be competitive. This is in contrast to Mozambique, an Least Developed Countries with duty free access from 2009 and hence indifferent to a price cut, and would therefore be competitive and also in receipt of a compensation package to strengthen their sugar production.

The implementation period for the forthcoming proposals is not clear as yet, but it is understood that the EU favours a short period with a stark reduction, whereas the member states would be in favour of a longer transition period.

It is therefore widely believed that a successful EU sugar reform may prove pivotal for this round of multilateral trade negotiations.

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We are living in the 1970s...

Did European leaders get the message?

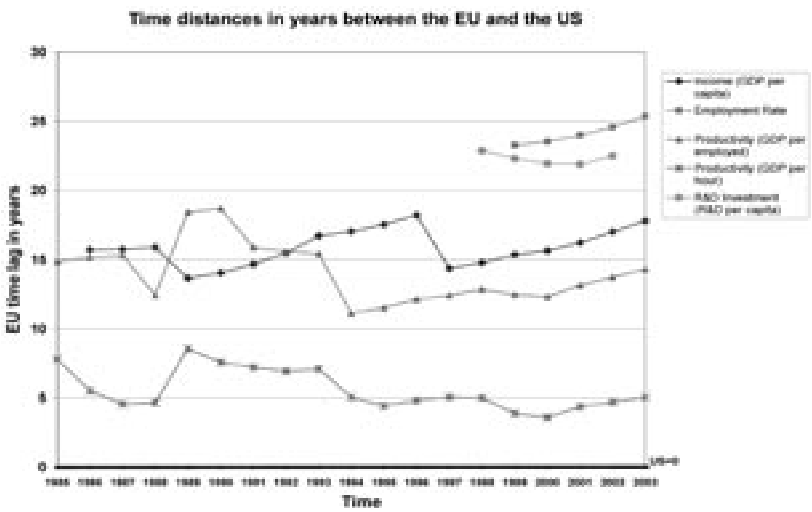
by Christoph Leitl

Europe is facing significant problems. We find ourselves confronted with tougher economic competition in an increasingly globalized world. Next to the challenge from the U.S. and Japan, emerging economies, notably China and India, are progressing rapidly. Meanwhile, in Europe, ageing populations, inflexible regulations and increasing costs are accompanied by low levels of growth, productivity and employment creation. As a result, we are steadily losing our competitiveness, jobs and economic satisfaction. This analysis seems to be generally accepted and shared, but is it really? Do Europe's leaders genuinely grasp the gravity of the situation?

A recently published study1 by EUROCHAMBRES compared the European Union (EU) to the United States of America (U.S.) in terms of Gross Domestic Product (GDP), Research and Development (R&D), productivity and employment and in terms of time distances[2] between the two regions. The study provides serious food for thought. It shows that the U.S. is approximately twenty years ahead of the EU in terms of these four key indicators.

By expressing the backlog in time, the seriousness of the situation becomes apparent to its full extent.

- Our level of income[3] for 2003 (measured in GDP per capita) was already reached by the US in 1985
- Our employment level[4] for 2003 was already reached by the US in 1978



- Our productivity[5] for 2003 (measured in GDP per employed) was already reached by the US in 1989
- Our investment levels in R&D[6] for 2002 (R&D per capita) was already reached by the US in 1979

Calculating the catch up scenarios for the EU underlines the seriousness of the situation even more:

- It will take the EU until 2072 to reach US levels of income per capita, and then *only if* EU income growth will exceed that of the US by 0.5% p.a. *(Note: Since 1997, the average US growth has been higher.)*
- It will take the EU until 2023 to reach US levels of employment, and then *only if* EU employment growth will exceed that of the US by 0.5% p.a.
- It will take the EU until 2056 to reach US productivity rates per employed, and then *only if* EU productivity growth will exceed that of the US by 0.5% p.a. *(Note: Since 1994, the average US growth has been higher.)*
- It will take the EU until 2123 to reach US levels of R&D investment, and then *only if* EU investment will exceed that of the US by 0.5% p.a. *(Note: Since 1995 the average growth for the U.S. has exceeded the EU rate.)*

Although insufficiently reliable or comparable data is available for the ten new Member States of the EU, the data we do have clearly suggests that including these ten countries would further deteriorate Europe's position compared to the USA.

Unpublished data also shows that the same assumption is more or less true when we compare the EU with Japan[7]. Like the U.S., Japan is steadily increasing its lead on income, employment and R&D investment. Only the productivity indicator shows a lead for the EU.

The EU's level of income for 2003 (measured in GDP per capita) was already reached by Japan in 1996 and our employment level for 2003 was already attained by Japan in 1978. Similarly, our investment levels in R&D for 2002 (R&D per capita) was already reached by Japan in 1988. Only EU productivity for 2003 (measured in GDP per employed) was higher than in Japan; Japan's 2003 level was achieved by the EU in 1994.

These revealing figures were published shortly before this year's Spring Summit (22-23 March 2005) and came on top of an already impressive, but alarming, body of publications and studies on the state of the European economy and our businesses' competitiveness. It was intended as a wake up call and a powerful motivating force for our European leaders to truly focus on the economy and engage in a real recommitment to the objectives of the Lisbon strategy.

The signs were looking good. The mid-term review provided an officially pre-defined opportunity to re-launch and strengthen the strategy. It was preceded by an excellent report by the Kok Group and an accurate, well focused communication by the Commission. Both documents provided valid analysis, set the right tone and made the right recommendations. In these circumstances hope amongst business leaders was high.

Unfortunately, once again European leaders let the chance slip by. Instead of a focused approach, the Summit conclusions were as broad as ever. Rather than clearly agreeing that the economic pillar is in need of restoration, they have undermined the pillar's foundation. Instead of promoting a strong, stable currency, the Euro has been put at risk and, instead of nourishing the economy, the Summit has championed protectionism.

Let's remember, however, that the battle is not lost, nor over. There is still a lot to gain. Let the disappointing results be an impetus for the business community to push its agenda with reinforced vigour. Among the essential issues are the financial perspectives and the further development of Services Directive. Moreover, we should both use and build on the improvements made to the Lisbon strategy during the Spring Summit. In particular, the introduction of the national action plans can give business, its representatives and the national parliaments, a tool for change. We must urge our governments, and primarily the Prime Ministers, to take the lead and to act. Europe's prosperity, environment and social model demand it. Our businesses need and deserve it.

**Christoph Leitl is President of EUROCHAMBRES*

1. *"A comparison of European and US Economies based on Time Distances", EUROCHAMBRES, March 2005. The study was undertaken by professor Pavle Sicherl from the University of Ljubljana and founder of the "Socio-Economic Indicators Center (SICENTER) on behalf of EUROCHAMBRES.*

2 . *The special concept of time distance, S-time distance, is a generic concept like static difference at a given point in time and the growth rate over time. It compares two time series in horizontal dimension for a given level of an indicator and calculates the difference in time when the two compared units attain the same level of the indicator. In simple terms, two long term time series are compared in such a way that for any level of the EU one searches in the time series for the US in which year the same level was achieved and subtracts the two times involved.*

3. *GDP per capita (PPP): data for the period 1995-2003 from Eurostat Structural Indicators, (accessed 25.1.2005), all earlier years for US, Japan and EU15 are acquired from OECD web page.*

4. *Employment rate: data for all countries from 1991 to 2003 are acquired from Eurostat Structural Indicators; approximations for US and Japan in 1975 and 1977 are from EC Employment in Europe 2003, Recent Trends and Prospects, DG Employment and Social Affairs, Luxemburg 2003, p. 16.*

5. *GDP per employed (PPP): is calculated from real GDP in constant 2000 PPP dollars and total employment; real GDP is acquired from the OECD and total employment from Groningen Growth and Development Centre and The Conference Board, Total Economy Database, August 2004, http://www.ggdc.net. The level for US and Japan for the period 1991-2003 is adjusted according to Eurostat Structural Indicators.*

6. *R&D per capita: is calculated from real GDP in constant 2000 PPP dollars and gross domestic expenditure on R&D (as percentage of GDP) - GERD; real GDP is acquired from the OECD web page database, GERD for EU15 1991-2002, US 1981-2003 and Japan 1981-2002 from Eurostat Structural Indicators, US 1970-1980 NSF, Division of Science Resources Statistics, National Patterns of R&D Resources, annual series.*

7. *For sources of data on Japan, please refer to end-notes 3, 4, 5 and 6.*

Who's afraid of Social Europe?

By Gunnar Hökmark

In the discussion surrounding the Service Directive the buzz argument have been about "social dumping". The term has been used as a main argument against the directive, which aims to remove barriers to trade in services amongst member states. The opponents of this proposed piece of legislation have played out on the common fear of enlargement that- supposedly- threatens ordinary people's job and puts pressure on excessive social benefits. But what does the concept of social dumping exactly imply and what is it that we are supposed to fear?

The opponents of liberalising the services market argue that countries with lower wage and tax levels shouldn't be allowed to compete freely with high countries with high wage a tax levels. But the populist fear of "social dumpers" disregards the great benefits of having a competitive market. It is precisely competition that has been the driving force behind trade amongst countries (If we all produced the same products with the same quality and price there would be no need for trade) and while some might argue against liberalising services they hardly can deny the role of the fundamental role of trade in history of European integration. Translated into yesterday's language, preventing trade in services would equal to a no to the EU common currency or to Cassis de Dijon in Germany. This argument becomes even more awkward when looking upon the realities of how the EU is constructed. All the members of the European Union enjoy a common market and they are obliged to follow common rules. It is a market that all members have been qualified to take part in.

Translated into yesterday's language, preventing trade in services would equal to a no to the EU common currency or to Cassis de Dijon in Germany.

Those who claim that the new members' states are ditching salaries unfairly forget that in order to do so you have to have a level to begin with. But the new member countries have no social levels to get rid off. They are simply not rich enough, so that they could afford higher wages and better social benefits. You can't dump something you don't have. Selling their products and services at lower wages and social benefits is therefore not social dumping but a matter of competition. The wages and social benefits they compete with are lower relative some other countries, but not relative their own countries.

So, why this difference between the old and new members?

For over 50 years the old members have gad the privilege to live in freedom and in a market system in which they were able to develop prosper. The new members from Central- and Eastern Europe did not enjoy such a situation and were forced to develop out of dictatorship and the stagnation of socialism. To them the wage and taxation levels seen in EU-15 is just not an unrealistic alternative but a direct threat to their competitiveness. Paradoxically, preventing lesser developed nations to make use of their low cost advantages would be like saying that those countries that tax their citizens into large public sectors should not be able to compete with added value and higher quality services, an argument, which few opponents of the services directive would admit to.

The opponents of a liberal Europe should recognize the enormous potential of further economic integration. Europe has enjoys a huge economic potential and we should not fear the enlargement of 10 new countries. Countries that have enjoyed freedom and economic prosperity should instead support the development of those that are looking to gain new levels of wealth. Making use of one competitive advantage has to work both ways. Those who produce quality should not fear the low cost alternative. Europeans integration is not a zero sum game where one wins over the other. European citizens have all to gain from opening up boarders to service providers and embracing true competition. But then again, hasn't liberalisation always been the most solidaric way to reduce differences between people and countries?

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The World Trade Organisation in the Last Chance Saloon

By Anne Jensen

With the sixth Ministerial Meeting coming up in Hong Kong pressure is on the World Trade Organisation (WTO) to prove that the multilateral approach is still the best way to negotiate and organise international trade relations.

The breakdown of the talks in Cancun in 2003 dealt a serious blow to the WTO and multilateralism. The result has been a proliferation in the number of Regional (preferential) Trading Agreements (RTAs), which in many ways are in direct opposition to the rule of non-discrimination, the most basic principle of the General Agreement on Tariffs and Trade (GATT) and WTO.

The European Union (EU) and the Group of 20+ lead by India and Brazil were blamed for the collapse of the Cancun Ministerial meeting. The latter group were surprised to discover how much power they actually had when they cooperated and decided to put their collective foot down to everything and everyone without even entertaining the possibility of discussion. The EU on the other hand, pretending not to know that the Cancun meeting was part of the Doha Development Round, decided to ignore the whole development aspect and focus on the so-called Singapore Issues. From a trade perspective development translates into market access and Special & Differential Treatment (SDT) for developing countries. Still the EU insisted that the Singapore Issues, which relate to trade facilitation, government procurement, investment and competition, be included on the agenda. The EU even mentioned the need for a harmonisation of rules governing labour and environmental standards.

There are two main reasons why the EU should not have pushed for these new issues to be included. Firstly, on a political level, the WTO was created to deal with trade-related issues only, not to harmonise its member countries' regulatory regimes. Secondly, on a practical level, the introduction of additional issues overloads an already excessive agenda and takes the focus away from what is important and what the GATT and the WTO were created to do, namely to reduce barriers to trade.

One wonders if the EU pursued such an uncompromising bargaining strategy in Cancun in order to avoid the uncomfortable issue of agriculture, or more precisely the issue of a much needed reform of the Common Agricultural Policy (CAP), a policy that continues to consume nearly 50% of the total EU budget. Surely, to introduce a whole array of new issues when the members are still struggling to reduce their tariffs would slow down and sabotage the whole process. This is exactly what happened: the EU insisted on the introduction of not just one or two of the Singapore Issues, but all four of them. Unsurprisingly, the Group of 20+ refused even to talk about it. The rest is history: After a few days the EU finally decided to compromise and offered to drop the most controversial of the new issues, but it was too little and too late. The developing countries had already packed their bags and left Cancun, after only four days of negotiations. The result, or rather lack of result, was later hailed as a victory for developing countries by their self-proclaimed defenders: the anti-globalisation movement. Sadly, the truth is that the breakdown of the Cancun Ministerial was a failure for all parties involved and especially for the developing countries, which have the most to gain from more liberalised trade.

In order to achieve results in Hong Kong and for the Doha Development Round to reach a conclusion, all parties must be willing to make concessions. The July Package negotiated last summer gave the multilateral process a much-needed lift and proved to sceptics that the parties are indeed capable of compromising. The negotiation had mainly two positive outcomes: Firstly the EU decided to give up on the most controversial Singapore Issues and secondly, the developed countries committed themselves to eliminate export subsidies.

On the flip-side, no end date was agreed upon as to when all export subsidies have to be abolished and it is likely that many farmers and governments will try to offset the consequences of eliminated export subsidies simply by increasing domestic support.

In other words, there is still a lot of work left to be done, especially when it comes to increased market access and agriculture. The responsibility of making progress in these areas rests mainly on the developed countries and the EU in particular. Bearing in mind that increased market access has been on the agenda since the 1950s and that the EU has promised to deal with the CAP since before the Uruguay Round (concluded in 1995), there is a need for serious advancement on these matters in Hong Kong in order for the multilateral process to remain credible. If the parties fail to achieve significant results even more reliance will be put on regional and preferential trade agreements. Economic theory states that regional and preferential trading agreements are inferior in dealing with international trade issues and will inevitably lead to suboptimal outcomes. It is therefore essential that all parties, and especially the developed countries, put the multilateral process back on track.

The G8 meeting in July this year in Gleneagles, Scotland gave a good indication of rich countries' degree of commitment to multilateralism and trade-related growth for developing countries. Considerable debt relief has already been agreed upon for the most indebted countries, but this is only one part of a bigger plan to halt the marginalisation of Africa in the globalisation process. A much more ambitious task is British Prime Minister Tony Blair's goal of removing all agricultural export subsidies in developed countries in order to increase market access for developing countries. Overshadowed by the tragic events of the London bombings, the G8 members agreed on substantial debt relief and aid, but unfortunately a clear timeline for the phasing out of export subsidies and domestic support in developed countries was not agreed upon. Interestingly, market access for developing countries has been a "priority" for the last 20 years without many changes being made.

The French government is one of the most vocal supporters of agricultural subsidies in the EU and the French people made it quite clear this spring how strongly they feel about the CAP. The advantages and disadvantages of the Constitution put aside, the French "non" vote was largely due to a fear of what they see as the Anglo-Saxon model of liberalism and increased competition form abroad. Being one of the countries that benefits the most from EU handouts, France would definitely feel the effects of a sharp reduction in subsidies. By rejecting the Constitution, the French told the world that they are not interested in compromising on this issue.

The latest efforts by international trade diplomats to pave the way for a successful conclusion of the Doha Round have sparked off both trans-Atlantic and intra-EU controversies. President Bush's recent pledge to scrap all of USA's domestic agricultural subsidies and tariffs on foreign import by 2010 if other countries followed suit, was initially brushed a side as "easy words" by European Trade Commissioner Peter Mandelson. His comments were, however quickly replaced by a statement saying that the EU would match, if not go beyond, the American initiative. Unfortunately, Mandelson's attempts to outbid the Americans didn't go down well with the French diplomats, who claimed the trade commissioner had gone beyond his mandate. Jacques Chirac even went as fair as threatening to bloc any prospect deal on agriculture at the Hong Hong Ministerial, and this only a few weeks before the meeting kicks off.

From the looks of it, it would be safe to say that all parties, but especially Mr Mandelson and Mr Lamy, have monumental tasks ahead of them in Hong Kong. As this might be the last opportunity to prove the virtues of multilateral trade negotiations, let's hope the meeting doesn't turn into another Cancun.

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Pierre, Piotr and Bolkestein

By Claus Kastberg Nielsen

In recent years, French retail companies such as Auchan, Carrefour, Geant and Intermarche have opened a long line of hypermarkets in Poland with a total turnover of several billion Euros and are still growing. This has created a series of well-paid and interesting jobs in France in the international sections of the retail companies. For this reason Pierre, the marketing specialist, now has a well paid job in Carrefour and he can now afford to have his old bathroom in his summer cottage renovated by Piotr, the Polish plumber.

Piotr, the Polish plumber, and not Pierre, the French marketing specialist, were central in the French debate up to the referendum on the EU. The Polish plumber functioned as a tangible symbol of the consequences of more open borders and he was used as a symbol of millions of East European workers presumably willing and able to work at far lower wages than the French and thereby threatening to undermine the French labour market where one in ten already is unemployed.

But the Polish plumber is only a limited part of the full story, and Piotr was certainly given a far too large role in the debate. A fair picture of the Single Market in a larger EU will certainly push Pierre, the French marketing specialist, closer to the centre of the stage. The number of jobs created due the Internal Market already far exceeds the number of jobs lost in the same process - including those in France. In 2002, the Commission estimated that opening of borders has provided a net gain of about 2.5 million new jobs within the entire EU[1].

By not implementing the Services Directive, Europe lose the possibility of creating 600.000 new jobs, about 30.000 in France alone.

The net gain seems very likely to increase further if the much disputed Services Directive is implemented. The directive proposed by the former EU Internal Market Commissioner Fritz Bolkestein would make it easier for enterprises within the EU to provide services across borders. This is certainly no revolution; it is just the completion of the original goal of the Single Market to provide free movements of goods and services, people, and capital.

If the heated discussion in France and other countries puts the directive on hold or limits the scope and impact, will this help save workplaces in France? We doubt! By not implementing the Services Directive, Europe lose the possibility of creating 600.000 new jobs, about 30.000 in France alone. Indeed, Pierre would not have been able to have his well paid job if member states had not reduced their barriers and allowed the great expansion of foreign supermarkets, including the four French ones. We emphasise that a sober view of the Services Directive requires a broader view of the whole economy rather than a narrow view of possible and not so possible consequences in specific sectors.

The Copenhagen Economics Study: The economic impact of the Services Directive

What then are the broader consequences of the Services Directive? Our recent study[2] shows that European consumers, businesses and governments will benefit from enhanced productivity, higher employment, increased wages and lower prices. In total, we estimate that there will be a net gain of 600,000 new jobs as a consequence of the Services Directive and that overall welfare (consumption) in the EU will increase by 0.6 % or €37 billion in total. Most importantly, the study shows that all member states are to gain, including France, and that the likelihood of significant job losses across borders is limited.

We say this on the basis on a meticulous survey of all barriers affecting enterprises before and after the Services Directive; a solid econometric analysis of the impact of barriers based on the actual performance of almost 300.000 European firms of all sizes; and simulations in a sophisticated economic simulation model.

The logic behind the rise in welfare and jobs is that lower barriers on providing services across borders will bring down operational costs and stimulate competition within and between member states. This leads to lower prices, higher production and wages, all of which will stimulate demand and give rise to a net gain of new jobs, value added and consumption.

The study traces the effect of the Services Directive by following how the directive directly affects the performance of actual firms in service sectors and calculates the direct and indirect effects showing the full impact of the services directive on sectoral and macroeconomic performance.

The study proceeds in three steps: The first step measures the barriers to establishment and trade in service sectors for both domestic and foreign firms before and after the implementation of the Services Directive. The second step measures how these barriers affect prices and productivity in service sectors based on a data from more than 275,000 firms. The third and final step calculates the indirect economic consequences on the whole economy as other sectors take advantage of lower prices and higher productivity in selected service sectors covering two thirds of the all services affected by the directive.

First step: Measuring of barriers to establishment and trade

The first step translates information about qualitative legislation into quantitative measures that can be used in the quantitative analysis. The result of this step is a line of indices representing the levels of actual barriers to establishment and trade in each sector and in each country before and after the implementation of the services directive.

Domestic and foreign companies do not face the same level of barriers. Residence requirements, for example, affect only foreign firms and restrictions on the use of temporary foreign workers may be stricter for foreign than domestic firms. Furthermore, even in the case when all discriminatory legal barriers have been eliminated, foreign firms may still face higher barriers. Not because of outright discrimination, but simply because the rules and regulations in the foreign Member State are different from the rules and regulations in the home country. Barriers for foreign enterprises are therefore by definition higher than for domestic.

To give an example, figure 1 shows the level of barriers to trade and establishment in the regulated professions in Belgium before and after the Services Directive.

All in all, two hundred questions are asked about legal and non-legal barriers to service provision in each sector in each Member State. The questions cover all steps from establishment and promotion to distribution, sale and after sale

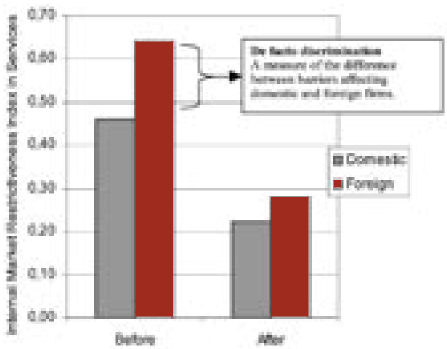

Figure 1: A quantitative measure of barriers to trade and establishment in regulated professions in Belgium before and after the Services Directive

Note: The figure shows the scores for the Internal Market Restrictiveness Index in Services for barriers to establishment in the regulated professions sector in Belgium. The differences between the indices of domestic and foreign firms equal the de facto discrimination for foreign firms.

Source: Copenhagen Economics 2005

aspects. Also non-legal barriers such as legislation in national language only or opaque public procedures are considered. The qualitative answers are transformed into quantitative measures using index methodology with scores and weights according to their relative importance.

A general tendency is that barriers are the largest in the accountancy sector, while barriers are lower in retail distribution, wholesale distribution, and IT-services. Furthermore, barriers are lower in new member states compared to old member states, and barriers tend to be either high or low in all sectors within a member state.

The study estimates that the services directive, on average, reduces barriers to service provision by more than 50 percent. The reductions are the largest for regulated professions such as accountancy and the smallest for other business services such as IT-services.

Second step: Calculating the impact of barriers to establishment and trade on firm performance

The second step calculates how the price-cost margins in enterprises are influenced by the change in barriers induced by the Services Directive. This is done econometrically on the basis of a very comprehensive dataset containing more than 275,000 firms from 19 countries. The price and cost impacts are expressed in tariff equivalents, i.e. as percentage impacts on prices. The tariff equivalents can be thought of as hypothetical taxes that are computed to create economic effects that are equivalent to the economic effects of the actual barriers as measured in step one.

The study uses a specification of firm profitability that takes into account barriers as well as firm specific differences. Each firm's profitability is affected by several factors specific to that firm. The econometric model needs to control for these factors, for example profits earned on other activities, operational efficiency, size of firms, capital and labour intensity in production, and solvency of the company. Finally, at the economy-wide level, each country's barriers as well as other aggregate economic variables are included to measure the direct impact on firms' performance.

There are two types of barriers: rent-creating and cost-creating. Rent-creating barriers as e.g. requirements that firms must be owned or controlled by local professionals provide protection for incumbent providers. They reduce competition, inflate prices above costs and generate rents to the incumbent firms. This type of barrier is represented through an exogenous mark-up over costs.

Cost-creating barriers increase the use of real resources. For example, it may require extra labour to overcome a given barrier. This type of barrier is represented through an exogenous productivity factor. That is, removal of this type of barrier improves productivity in the sense that more output can be produced with the same amount of inputs (or the same output can be produced with smaller amounts of inputs).

The elimination of barriers reduces prices and increases productivity. This is so because fewer rent-creating barriers imply a smaller price wedge between producer prices and producer costs resulting in lower prices of services and creating an allocative efficiency gain. Lower cost-creating barriers imply productivity gains because the same output can be produced with fewer resources. Productivity increases, in turn, leading to higher wages and return to capital. Output will therefore increase most in those sectors where barriers are reduced the most. Similarly, welfare gains will be largest in those Member States where barriers are reduced the most.

Productivity gains enable creation of higher value added and lower costs thus creating a surplus for the sectors involved. This surplus is distributed as lower prices to consumers, higher wages and increased return to capital. Because the surplus more than outweighs lower profits for incumbents from rent-creating barriers, the net effect is a rise in income. The combination of lower prices and higher spending stimulate demand in all sectors of the economy. Increased demand calls for higher output which compensates for jobs lost through improvements in labour productivity.

Third step: Estimating the economy wide consequences of removing barriers to establishment and trade

In the final step, we calculate the economy-wide effects of reducing barriers to service provision. This is done in a sophisticated computable general equilibrium model that captures all linkages between the different sectors of the economy and therefore allows for an economy-wide assessment of the economic impact of removing barriers. All in all, the study estimates that the implementation of the directive will increase total consumption in the EU by 0.6 % followed by the creation of up to 600,000 new jobs across Europe.

The directive directly affects business services, services provided to both businesses and consumers, and consumer services. In addition, it also has important knock-on effects on other sectors. The knock-on effects arise partly because the affected services are important inputs to the rest of the economy and partly through the markets for labour and capital. Production and employment changes in industrial sectors also generate feedback effects on the services sectors. The model captures both the *direct* effects on the service providers and the *indirect* effects on their suppliers and customers. The model, therefore, captures the important backward and forward linkages both among firms and among firms and final consumers, i.e. ordinary households and government.

The model focuses particularly on the individual countries in the EU and on the sectors where barriers have a significant economy-wide impact. The model also incorporates the rest of the world and a goods-producing sector, but does so in a more stylised manner to ensure both transparency and tractability of the model.

The economic impact of the Services Directive

It is evident that removal of barriers has a direct effect on the overall economy. The Internal Market programme implemented through the last 10 years has increased the overall EU value added by 1.8 percentage points or € 164.5 billion and helped create 2.5 million jobs within the EU[3].

The services directive will add to these gains of the Internal Market, increasing consumption by 0.6 % and jobs by 600,000. These gains are significant, albeit not extraordinary, especially taking into consideration that they are the consequences of a single directive - and not a whole package of legal reforms.

However, the real impact is likely to be even higher as the above calculations are based on rather conservative assumptions. The study includes only three service sectors: Regulated professions, distributive trade and business services. These three

Services Directive is not a zero sum game with winners and losers. As the study indicates, all countries within the EU will benefit and all will receive a net gain of new jobs.

service sectors account for roughly two thirds of the scope of the Services Directive. The economic impact of the Services Directive may therefore be higher as sectors excluded from this study, e.g. construction services and leisure services also are affected by the services directive. On the other hand, we cannot rule out the possibility that the impact of the services directive is less positive for the sectors excluded from the analysis.

The bottom line is that implementing the Services Directive is not a zero sum game with winners and losers. As the study indicates, all countries within the EU will benefit and all will receive a net gain of new jobs. This does not mean that all will benefit equally or that all sectors within all countries will experience positive effects at any time, but in order to give a sound basis for discussions of the directive we emphasize the need to put the overall gains at the centre stage. In short, we look forward to a wider public debate that not only focuses on Piotr and other Polish plumbers but also remembers Pierre and the jobs to be gained from the Services Directive in France and elsewhere.

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1. *"The Internal Market - ten years without frontiers", SEC(2002) 1417 of 7.1.2003*

2. *"Economic Assessment of the Barriers to the Internal Market for Services", Copenhagen Economics 1.1.2005 - The full report is available at www.copenhageneconomics.com*

3. *"The Internal Market - ten years without frontiers", SEC(2002) 1417 of 7.1.2003*

Creating New Opportunities

in the Services Economy - A Key Reform in the EU's Quest for Growth and Jobs

By Malcolm Harbour

An unacceptably high level of unemployment and low economic growth are the central problems holding back the European economy. The services sector generates more than 60% of the EU's wealth. Small and medium-sized businesses employ 70% of the workforce, many of them in the services sector. Jobs will be created by encouraging a new dynamic for the services industry. A recent OECD study shows that services market liberalisation creates more jobs and growth then liberalising the market for goods. Europe needs more businesses inside the EU to expand from their successful home markets and deliver services across the EU. Cross-border trade in services is currently far lower than it is for goods.

In 2002, the European Commission published a detailed study on services in the Internal Market. It made very gloomy reading for market liberalisation enthusiasts. The study revealed that services businesses face multiple barriers if they want to trade across EU borders. Typical examples include the requirements for establishing companies, the necessity to obtain prior authorisation before they post workers and getting permission to trade from local agencies. Over 90 barriers were identified in the Commission's study.

The Proposed Solution

In response, the Commission rightly decided that a major problem needs an ambitious solution. A piecemeal approach is not good enough. The proposed 'Directive on Services in the Internal Market' is their response. At its heart, the Directive is based on nothing more than the rights of businesses and individuals to establish operations and carry on their activities in any fellow European Union (EU) country. These rights have been confirmed by many European Court judgements, but, as the Commission's study has shown, there are far too many obstacles erected by Member States preventing these rights from being exercised.

Under its provisions, Member States will have to dismantle a long list of anti-competitive practices. They will not be able to force companies to register new companies or subsidiaries, if they are already legitimately established in another EU country. They will not be able to discriminate against companies on grounds of nationality, particularly through enforcing cumbersome approval procedures. They will also have to abolish bureaucratic requirements for pre-authorisation before a company can start to trade.

The logic of the Directive requires legally established businesses to be free to trade in other countries with only a minimum of additional formalities. Therefore the Directive states that service providers are only to be subject to the national provisions of their Member State of operation. This is, effectively, mutual recognition by default or automatic recognition of services company regulations.

Clearly, there must be safeguards. Competition must be on a fair basis, protecting citizens and maintaining high employment standards. Member States must retain their ability to protect the health and safety of their citizens at local level. Professional qualifications will be verified under the Recognition of Professional Qualifications Directive. The Posted Workers Directive states that staff posted outside their own country must be employed under conditions that respect local minimum wages, holiday entitlements and other standards. These provisions compliment the Services Directive's position.

There has been much loose talk about the so-called social dumping attached to this Directive, especially in the recent French referendum. New Member States, many of whom already have high labour standards, have rightly been critical of the suggestion that social dumping is possible within an Internal Market. In practice, any employees permanently based in an EU country as a result of an expanding services business, would be subject to local labour requirements. However, the provisions of the Posted Workers Directive have led many countries to insist on bureaucratic procedures such as prior notification and authorisation that are such a major frustration for SMEs.

The Need for Member State Co-operation

To raise activity in the services market while safeguarding consumer and citizens' interests, Member States must step up their level of collaboration. They must trust each other to monitor business activity and freely share information. The Directive requires Member States to establish well-functioning, internet-based information exchanges. It also requires them to provide a one-stop-shop for business information, so that companies who want to take advantage of their rights can quickly find local employment conditions, and other crucial information, in their own language.

Consumer rights must be safeguarded - an Internal Market cannot work unless consumers have confidence in making use of services from new providers from other countries. Requirements for information, for professional indemnity insurance and for the encouragement of quality standards are included in this proposal. Access to justice where contractual conditions are not fulfilled must be easily available in the consumer's own language.

Does the presently tabled proposal achieve all this? Not quite - it needs amendments to clarify the roles and responsibilities of Member States, both where companies are registered and where they operate. But the structure is sound - automatic recognition, when combined with mutual co-operation is a crucial element and can work well. The Commission has quite clearly stated that it will not withdraw the proposal, even though it shares Parliament's view that changes are necessary to make this Directive workable.

The Impact of the Directive

To set the Directive in context, we must look at what its impact should be. A successful business, established and trading in any EU Member State, wants to offer its services in another. It gets all the information it needs from an easily accessible web site. It plans its market entry, maybe offering services over the internet or deciding to set up establishments locally. It sends its employees to provide a service directly to consumers, or to help start up a local entity. It does not need to fill in any special forms or seek prior authorisation, but it does need to check its consumer information and adopt recognised quality standards that will encourage customers to take up their new offering.

This increase in competitive businesses will create jobs, raise economic activity, quality and choice and lower prices. A recent study by the Danish Economics Institute forecasts that 600,000 new jobs will be created, with significant gains in welfare (consumption of goods and services, and changes in the value of leisure for citizens) when the Directive comes into force. Added value is also forecast to increase, and significant extra investment will be attracted into the services sector. The Copenhagen economists identified regulated professions, business services and distributive trades as being the key beneficiaries of the proposed freedoms. The value added benefits would be widely spread across the EU.

A Major Step for the Internal Market

In the 1980s, a series of high-level reforms opened up the single market for goods, including mutual recognition of technical standards. It was realised that waiting for harmonisation was not good enough. This major political project stepped up competition and generated tangible economic benefits.

In 2005, the same radical transformation is needed for services. A new approach involving automatic recognition and administrative co-operation is crucial. We cannot wait for more harmonisation. There is a strong framework of regulation already in place to protect consumers and the public interest. The next phase of the Internal Market must be based on trust and co-operation between Member State administrations.

We already have regulation on co-operation in consumer protection. The Directive on services is the next step forward in developing trust between Member States and the sharing of information. We cannot accept, as some critics of this proposal are suggesting, that co-operation will not work and we should hold back the opening of the services market. EU Member governments have been and are actively working on these very ideas.

The completion of the European Internal Market is vital for economic growth, competitiveness and job creation. Creating an Internal Market for Services is an indispensable political and economic objective.

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The Lisbon-Agenda:

ways to make it work. How the Express Services industry can deliver growth and employment.

By Thomas Mirow

Success in the knowledge economy was seen as the key to Europe remaining both open and socially cohesive. The more Europe could sustain itself as a high productivity, high value-added, high employment economy, the better able it would be to create the wealth and jobs that would allow it both to sustain its vital commitment to open markets, and to social and environmental Europe.

External events since 2000 have not helped achieve the so-called Lisbon Objectives, but a key issue has been the lack of determined political action. This disappointing delivery, as concluded by the High-Level Group, is due to an overloaded agenda, poor co-ordination and conflicting priorities within Europe.

The Lisbon strategy is even more urgent today as the growth gap with North America and Asia widens, and Europe must meet the combined challenges of low population growth and an ageing population. Enlargement has made inequality and the problems of European Union (EU) cohesion even more pronounced. The EU population has increased by 20%, while the addition to European Gross Domestic Product (GDP) is just 5%, resulting in a drop of output-per-head of 12.5% in the EU-25.

Sustainable economic growth has always been associated with market openings and strong growth in trade.

Sustainable economic growth has always been associated with market openings and strong growth in trade. Europe's internal market has worked to support these twin interactions. However, the effects are weakening, as attempts to complete the internal market in goods and create one in services have stalled. Intra-EU trade in manufactured goods has been shrinking since 2001, and it is the same story in the services sector.

Continuing to open Europe's markets in goods and services, and conversely resisting protectionist pressures, is thus fundamental to Europe's growth prospects. There is enormous scope for further market integration and greater economic gains for both consumers and enterprises.

Europe's services sector accounts for 70% of economic activity in the EU. Most of the new jobs generated between 1997 and 2002 were in the services sector, yet services only account for 20% of Europe's trade. Largely because of a wide range of legal and administrative barriers, Europe remains fragmented into separate national markets. Many of these markets are effectively closed to business with potential competitors who are based elsewhere in, what should be, a single market. As a result, prices are too high, productivity growth is too low and levels of intra-EU trade in services are lower than a decade ago. This situation has to change and it has to change now. Clearly, special attention should be paid to social concerns, as it would be inconsistent with the Lisbon model to achieve competitiveness gains at the price of social dumping. It must be ensured that removing obstacles for the free movement of services serves the interest of consumers.

So, time is running out and better implementation is needed now to make up for lost time. Apparently, European Commission President Barroso shares this view and intends to make the implementation of the Lisbon strategy the cornerstone of his presidency, taking up a number of the recommendations formulated by the High Level Group.

However, there is no single magic formula that will deliver the higher growth and jobs that Europe so urgently needs. There is enormous scope for further market integration and greater economic gains for both consumers and enterprises.

Express delivery is one industry that has clearly benefited from a gradual reduction in trade barriers and it is an industry that could certainly contribute to increased European competitiveness. A recent report by Oxford Economic Forecasting, *The Economic Impact of Express Carriers in Europe*, clearly demonstrates that the Express industry is one of the fastest growing sectors in the European economy, now employing 250,000 people directly and supporting over 530,000 jobs in total. It generated total sales revenue of over €35 billion across the EU and made a direct contribution to the GDP of over €10.5 billion in 2003, enabling European companies to compete effectively in an increasingly global market.

As improving productivity growth rates will be a key answer to Europe's specific situation, increasingly characterized by an aging society and a decrease of it's population, the Express Services industry could certainly contribute to a higher competitiveness of our economy. Express Services help to improve the competitiveness of almost all aspects of European companies' operations, including sales, logistics and storage, production and customer support functions.

The Express delivery industry fosters foreign direct investment by offering multinational investors high-quality transport links, both for bringing in materials, components and spare parts to their production facilities and for transporting finished products to markets. By investing in new delivery routes and services, Express carriers are likely to become even more important in the future as the accession countries become increasingly integrated with the rest of the EU and as trade grows rapidly with Asia and the US.

Express Services are also important for many companies based in the geographical periphery of Europe, which can be seen as one of the most important achievements in order to deliver Lisbon as they enable small and medium-sized companies to utilise high quality, rapid delivery services facilitating their active participation in export markets.

Express service companies should not only steadily refer to these clear facts, but also underline with their whole business-strategy that - corresponding to the needs of a true trans-Atlantic partnership for growth - contributing to a competitive European economy belongs to their core corporate aspirations.

** **Thomas Mirow** is Member of the High-Level Group on Lisbon, Chaired by former Dutch Prime Minister, Wim Kok*

Europe's competitiveness challenge:
the next steps

By Claudio Murri

There is little more topical - or more urgent - on the businesses agenda than Europe's ambitions for competitiveness. This is particularly true for US businesses in Europe, represented by the American Chamber of Commerce to the European Union (AmCham EU). AmCham EU is the voice of companies of American parentage committed to Europe. Committed, in this context, is not just a slogan: total US investment in Europe amounts to $850 billion. Businesses of American parentage currently generate over 3.5 million jobs, and support many more indirectly.

As some of the largest foreign investors in the European Union, AmCham EU member companies were among the earliest and most ardent supporters of the single market. The single market - in its achievement as well as its pursuit - is Europe's biggest asset in attaining sustainable economic competitiveness. Therefore, AmCham EU has supported the EU Institutions in their efforts to facilitate the free movement of people, goods, capital and services across borders throughout Europe. But the question remains: what's next? How do we support the goal of sustainable economic competitiveness?

What we should not do is engage in endless discussions on principles. What is competitiveness? Should we start with job creation or innovation? What comes first, investments in technology or creating the regulatory environment so technology leads to increased productivity? Given today's economic situation, it's time to move from talk to action and focus on what matters:

- Reviewing and simplifying legislation;
- Implementing EU law consistently throughout the Union;
- Making sensible investments for our long-term future.

Of course, dialogue and planning are part of the process. Even as we act, we need to continue to talk, to ensure that we're all moving toward the same objectives Business decisions occur every day, and many cannot wait. The way individual business people make decisions - or, at times, choose not to make them - determines growth or stagnation, job creation or job loss, throughout Europe.

Europe needs the right conditions for economic growth and while growth is a Europe-wide challenge, the solution resides predominantly with the Member States. Only Member States, working individually, but in concert, can remove national regulatory barriers that plague business efficiency. Many are trying to take important steps in this regard. Two notable examples are Germany's reforms of employment support programs and France's action to tackle working hours and pensions. But most, if not all, Member States have had difficulty garnering public support to make the necessary changes. Why have public hearts and minds been so elusive on this subject? In part because politicians have been telling the public that Brussels is the problem (or the source of any unpopular legislation) for years and now that strategy is backfiring. As the Prime Minister of Luxembourg, Jean-Claude Juncker famously said, "We know what we have to do, we just don't know how to get re-elected after we do it." Perhaps business might help?

The Services Directive

The Services Directive is a definite boon for cross-border business growth. It is not simply an intellectual exercise on national jurisdictions. In fact, the Services Directive is an important precondition for European competitiveness. It has real, quantifiable benefits for both businesses and consumers. AmCham EU estimates that our member companies alone would save hundreds of millions of euros a year in administrative costs alone. These benefits accrue to companies, not just providers of services, but also - and perhaps more importantly - as consumers of services from many of the millions of small and medium enterprises that constitute the backbone of the European economy. There are also unquantifiable benefits in assurances that companies may trade in services with customers residing in other Member States on a fair and non-discriminatory basis.

The Services Directive, to deliver these benefits, must contain the primary elements that its drafters provided. It must be built upon the Country of Origin principle and it must be free of exemptions and exceptions that would render it useless in breaking down the existing barriers to the services trade.

Better Regulation

While Member States must shoulder a large burden of the responsibility for the Lisbon process, Brussels has its share as well - particularly, the Commission. The Commission retains the Better Regulation portfolio: a composite charged with simplifying the thousands of existing laws with which businesses must comply every day; streamlining and taking the red tape out of future laws; and ensuring all final legislation is implemented and enforced consistently. This is a highly important task.

Two items in the Better Regulation portfolio could have a substantial impact on multinational business: impact assessments and implementation.

there are myriad examples of directives that created increased costs without necessarily achieving their intended objectives.

Impact assessments are a critical requirement for a successful European economy. Unfortunately, there are myriad examples of directives that created increased costs without necessarily achieving their intended objectives. Commissioner Verheugen has been particularly vocal in his resolve to begin cutting red tape. He has our sincere support. But we would also offer some advice: impact assessments must be done early, managed centrally, and resourced well. In this light, we would like to see the additional funding for impact assessments, promised in the Commission's recent progress report, being given to the Secretariat General. Money invested wisely at this stage will save money later, as only sound proposals will be pursued.

In addition, all stakeholders - governmental and non-governmental, Brussels-based or Member State-based - should be consulted early enough to be able to contribute constructively. Competitiveness testing should also be an integral part of the process, to ensure the economic factors are well considered. Finally, the process should be transparent, yield a level playing field, and avoid creating unnecessary burdens on international trade.

This is not just a question of preventing costly and unintended regulatory consequences in Europe. The EU is increasingly seen as a model for other societies. Stakeholders here need to ensure that European business standards are worthy of being adopted worldwide - in effect, jump-starting international harmonization.

Implementation is another key to unlocking the single market's potential. The market will only be truly unified when Community law is applied consistently throughout all the Member States. Unfortunately, 8.5% of all Internal Market directives have not yet been implemented into national law. Of those that are implemented, there are no reliable means of estimating how many are applied consistently - but AmCham EU has noted dozens of examples of where they are not. The result is nothing less than fragmentation of the internal market - the single most pernicious barrier to achieving our competitiveness goals.

Again, this is not just an academic issue. There is real money tied up in its implementation. Every euro that businesses spend on unnecessary, duplicative legal requirements is a euro that does not go into creating new employment, developing new goods and services for consumers and innovating new products and services.

Shedding needless bureaucracy, introducing smarter regulation and achieving the single market are in the interests of every European citizen. Competitiveness matters. The EU and the Member States have distinct and critical roles to play. Business will stay active, consulting as a full partner and participating in the design of the new European economy of the future. We have no greater priority.

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