PROGRESS WITHIN EU BUT GLOBAL COMPARISONS UNDERLINE NEED FOR VIGILANCE

EUROCHAMBRES message to the 2007 Spring Summit

The EU is experiencing a period of sustained economic growth, which is expected to continue in 2007. This positive development, partly boosted by cyclical conditions, is very welcome, as well as improvements made by several Member States with regard to a number of economic indicators, such as GDP growth, employment and productivity. The EU has not experienced such a strong and prolonged economic upswing in years.

But, we must beware complacency

Despite this positive outlook, the EU is progressing at an insufficient pace to really compete on the world stage. While the initial Lisbon 1 targets, set to make the EU the world's most competitive economy by 2010, proved to be hubristic, the Lisbon 2 national targets seem to lack ambition.

This Spring Summit must build on the recent positive economic trend. The Heads of State and Government have an opportunity to lead, to reinforce the focus on growth and jobs, to direct their Ministries and administrations to follow through on Spring Summit decisions through the rest of the year…

EUROCHAMBRES

EUROCHAMBRES' proposals to the 2007 Spring Summit…

INTERNAL MARKET

- More effective **infringement procedures** are necessary to ensure that the rules are applied consistently and fairly across the EU. The process must be speeded up, simplified and made more transparent.

- Cost/benefit analyses and specific **impact assessments** made prior to legislative proposals are not sufficiently rigorous and no attempt is made to assess the impact of Parliament or Council amendments which can alter the nature of a proposal significantly. The Council should rectify this deficiency.

- Existing **public procurement** rules have not always been put into practice by the Member States and there is insufficiant protection against national discrimination in the procurement process. Problems also arise from differing legislative regimes and authorisation processes in each Member State including an unwillingness to recognize foreign certification or qualifications. Further, time limits in procurement procedures are frequently too short for the tenderers to get the certificates required, especially as such certificates often do not exist or exist in a very different form in their own Member States. In addition, national authorities are making little use of the advantages of e-procurement and this makes it more difficult for companies to inform themselves about current calls for tender.

INNOVATION, RESEARCH AND EDUCATION

- The Council should support the setting up of a largely autonomous **European Institute of Technology** (EIT). Early support, encouragement and direction are needed now. SMEs must be included in all steps of this European symbol of excellence in innovation.

- European competitiveness requires an effective **patent system** at reasonable costs. EUROCHAMBRES urges the Council to find a compromise on the ratification of the European Patent Litigation Agreement and the London Protocol.

- The European Parliament adopted a resolution encouraging the European Commission to draft a European statute for SMEs, the **European private company statute**. The Council should support the European Parliament initiative and request the European Commission to present such a proposal.

- There should be concrete measures offered for young SME owners/managers to participate in **cross-border** mobility initiatives. The Council should urge the Commission to present such proposals.

BOOSTING EMPLOYMENT & MODERNISING THE EUROPEAN SOCIAL MODEL

- We strongly urge the Spring Council to thoroughly modernise European thinking on what constitutes the 'European Social Model' – including the **Tripartite Social Summits** that precede such summits.

  EUROCHAMBRES fully supports the view that a very limited number of representative bodies should be involved on each side of the negotiating table concerning EU framework social agreements negotiated between management and union representatives (for instance concerning parental leave, part-time work, fixed-term contract, etc). We see no justification to add to, or change, the composition of the bodies involved in such negotiations at the present time. However,

  - Management and labour alone do not comprise a balanced, inclusive social and economic partnership.
  - Negotiation of social agreements is not the same as consultation on general economic issues.

- We fundamentally object, therefore, to the closed nature of the existing Tripartite Social Summits. It is not correct that general economic issues – as included within the Lisbon process – should be discussed by a very limited group of European 'social partners'. While such a description might have been valid at the time of the industrial revolution, or at some time in the past when management and the unions represented all that was of concern in an enterprise, it is no longer the case today. European enterprises urge the Council to instruct the Commission to devise a more inclusive consultation process – covering both social **and economic** actors.

BETTER REGULATION

- The Commission has announced ambitious targets for better regulation over the next three years. EUROCHAMBRES welcomes this effort. At the same time, it is important to avoid a "re-nationalisation" of regulation. There appears to be **a tendency towards protectionism** among many European politicians in Europe today and this is stifling European business and the economy. The Council must give clear leadership on this issue.

- Better regulation can only be achieved through a genuine commitment from all Member States. Yet, to date, only a handful of Member States have set clear **targets** and designated structures for improving regulation. National governments should also set targets for reviews of national legislation in order to find redundant rules and to make the administrative requirements less burdensome.

ENERGY & CLIMATE CHANGE

- Heads of Government should commit to ensuring **a functioning internal energy** market first and foremost through timely and correct implementation of existing community legislation in all Member States, harmonising technical specifications, and establishing strong, independent energy regulators that are also tasked with pan-European cooperation. The Commission should receive a mandate to report the results of these actions and – if still needed - examine additional options for more effective separation of supply and production activities from network operation.

- The Council should endorse the Commission's proposals for developing a common approach to the **external energy policy** of the EU, and it should mandate European negotiators to make every effort to encourage other countries to join climate protection efforts. Otherwise, Europe will continue to suffer from the negative effects of climate change despite having incurred high mitigation costs, as we alone cannot halt climate change.

- Instead of losing time in the discussion about percentages of binding targets for **renewable energy** sources, the Council should concentrate on including practical measures in the Action Plan it is about to endorse, which remove obstacles to the deployment of climate-friendly technologies and aim at optimizing promotion schemes in a cost-effective way. This will contribute to innovation and help to harness the export potential of these technologies.

- When deciding about the different measures comprised in the Action Plan for an Energy Policy for Europe, the Council should have as its guideline that **the competitiveness of European businesses** – and especially SMEs – must be enhanced, not endangered.

INTERNATIONAL TRADE

- The suspension of the Doha Development Agenda (DDA) talks in July 2006 has brought serious concerns for the future of the negotiations and has even opened a debate about the WTO itself, threatening the credibility of the multilateral trade system. EUROCHAMBRES supports the European Commission in its **continued commitment to the WTO** and in its wish to resume negotiations. We urge the Council to instruct all Member States to put aside their differences, work hard to revive the DDA and conclude it successfully and quickly.

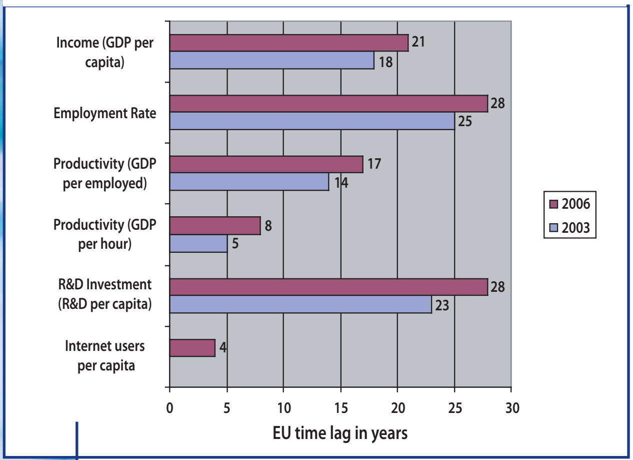
We make these proposals because, compared to the US…

…we lag many years behind…

The graph below shows that the EU, in 2006, lags[1] behind the US for a range of indicators[2].

- the US reached the current EU level of **GDP per capita** in 1985.
- the EU25 current **employment** rate as well as the level of investment in **R&D** were reached by the US in 1978.
- the EU25 current level of **productivity** (expressed in GDP per employed) was reached by the US in 1989.

S-time-distance in years between the EU25 and the USA for 2006 [3]



The chart shows that the EU time lag actually widened for the whole list of economic indicators compared to EUROCHAMBRES' first comparative study, presented in 2005 and based on 2003 data for EU15. Notably, for 'R&D investment' the gap between EU and US widened very substantially during the past 3 years.

We wish to highlight that the first study included EU15 countries only, while this second analysis includes EU25. As such, they are not directly comparable. With the inclusion of Bulgaria and Romania, these time distances may deteriorate even further.

However, the central point remains valid: as a bloc, the EU27 lags the US in key areas. The European Council must take the size of this lag into account when making its decisions.

…it would necessitate exceptional growth for Europe to rapidly catch up with the US…

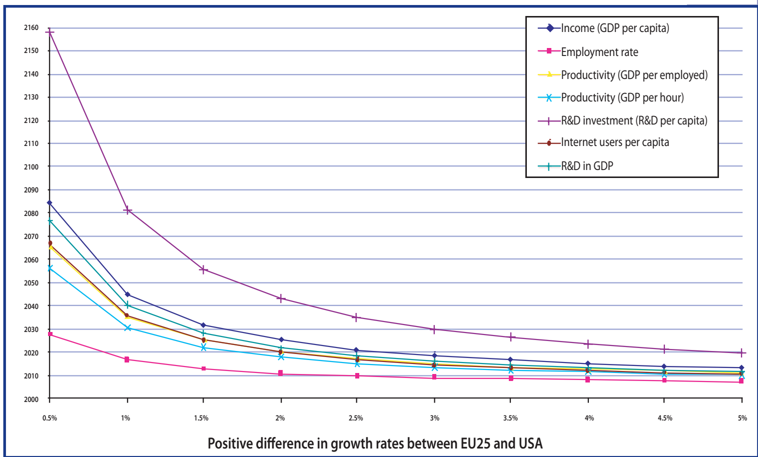
The graph below shows the time that the EU would need to converge with the US, with respect to a series of economic indicators, for a range of higher growth what-if scenarios ('higher' meaning the EU actually outpaces the US).

In 2006, the US registered an average GDP growth of 3.3%. For the same year, the EU25 registered an average GDP growth rate of about 2.9%, the highest since 2000.

The EU will have to at least perform better than the US in order to start catching up to US levels for the selected indicators. For instance, if income (GDP per capita) would grow in the US at 2% per year and in the EU at 3% per year, meaning a 1% higher growth of the EU, the EU would catch up with the US around 2045.

Even for the least optimistic scenario to materialise (i.e. EU higher yearly growth of 0.5%), a reversion of the current trend and a remarkable EU improvement will be needed.

Year in which the EU25 would equalize with the US for various 'higher grow' scenarios



[1] Using the "time distance methodology" elaborated by Professor Pavle Sicherl (www.sicenter.si) this study shows the backward looking time gaps with the US and also it shows for what-if scenarios how many years the EU will need to catch up with the US, and under what conditions of growth.

[2] Figures refer to 2006. 'R&D Investment' and 'Internet users per capita' figures refer to 2005 and 2004 respectively. The 'internet users per capita' indicator was not included in the first EUROCHAMBRES comparative study of 2005.

[3] The data used originate in a wide range of reliable sources, amongst others: Eurostat, OECD, Groningen Growth and Development Centre and the Conference Board, US National Science Foundation, International Telecommunication Union, DG Employment and Social Affairs and DG Research.

…Europe would need to register monstrous yearly performances to reach the current US levels by 2010…

The results in the table below show that, for a range of economic indicators, the EU would be required to have extremely high and sustained growth rates in the second half of the decade if it is to reach the levels enjoyed in the US in 2005.

Indicator	Required annual rate of growth
Income (GDP per capita)	8.2%
Employment rate	2.3%
Productivity (GDP per employed)	6.2%
Productivity (GDP per hour)	5.2%
R&D Investment (GDP per capita)	13.7%
Internet users per capita	5.4%
R&D in GDP	6.2%

The required annual growth rates contained in the above table show striking divergence with the actual growth rates:

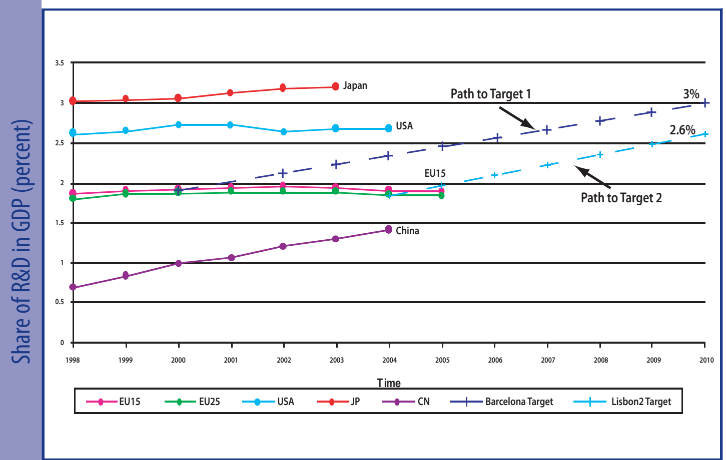
- the growth rate of GDP per capita was, in 2006, less than half of that needed;
- the employment rate increased by 0.8%, a positive development, but still well below what would be required to close the gap with the US;
- annual productivity growth per employed and per hour worked in 2005 were 0.9% and 1% respectively;
- for investment in R&D there was no EU growth at all in 2005.

We make these proposals because, with regard to the attainment of the Lisbon targets…

…China may soon be spending a higher share of GDP on R&D than Europe…

The graph below shows that the performance of investment in R&D as a percentage of GDP was, in 2005, below the timetable needed to reach the targets of Lisbon 1 (3% of GDP) and Lisbon 2 (2.6% of GDP - the average of national targets).

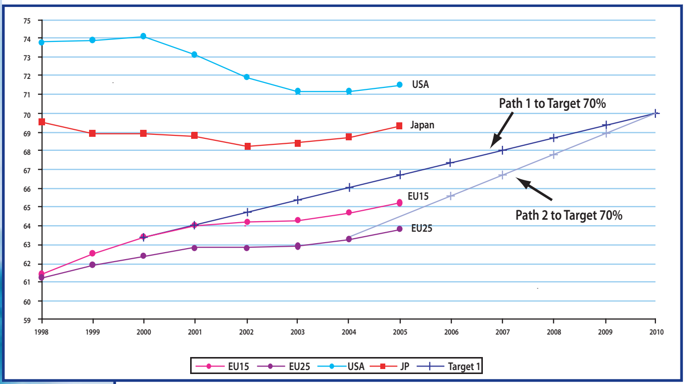
Monitoring attainment of the target of Gross Domestic Expenditure on Research and Development (GERD) as % of GDP



Since 1998, both the EU15 and the EU25 showed a substantially 'flat' trend, whereas China has followed a constant catch-up trend. While showing a stable trend in recent years, both Japan and the US are enjoying substantially higher rates of expenditure in R&D.

[4] *EU-27 seasonally adjusted unemployment rate stood at 7.5% in January 2007, compared to 7.6% in December 2006 and 8.3% in January 2006 [Source: Eurostat, 28 February].*

Monitoring attainment of the Lisbon target of employment rate
(to reach 70% employment rate by 2010)



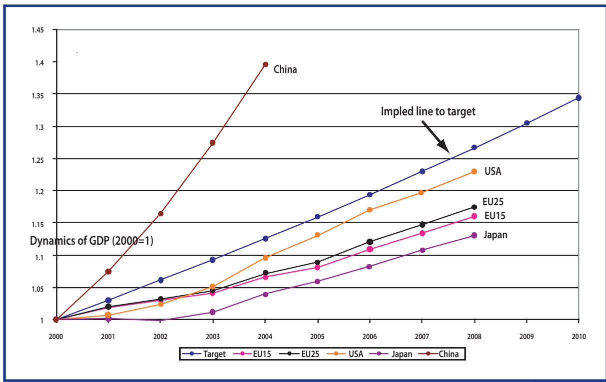
…Europe is well below its target employment rate of 70%...

The graph below shows that, with regard to the Lisbon target to reach an employment rate of 70% by 2010, and despite a positive trend, the EU is nonetheless progressing at a slower pace than required to meet the target . The rates of the US and Japan are also included as further references.

…in recent years, China and the US are consistently outpacing the EU in terms of GDP growth…

The graph below shows the performance of a number of world economic players with respect to the Lisbon 1 growth target of 3% GDP per year. While outpacing Japan, both the EU15 and the EU25 lag far behind the US. China showed a huge growth rate in recent years. The EU25 performs better than the EU15, demonstrating a potential positive impact of the economic catch up process that the new EU Member States are witnessing[5].

Lisbon 1 target of 3% annual growth rate of GDP compared with the actual dynamics



…only one year after the Lisbon Agenda was launched, Europe was already months behind in its implementation. By 2006, Europe is years in arrears…

As a confirmation of the previous graphs, the table below shows the time-distance deviation of actual data from Lisbon 1 targets for a range of indicators:

- for the EU25, in 2006, the employment rate presents worse results than the EU15, being 3.4 years delayed 6 years after the launch of the Lisbon programme while GDP growth registers a 2.1 years delay. For the latest data available (2005), R&D share in GDP shows a 5 year delay after 5 years.

Monitoring deviations of actual from path to target in time distance for EU25 and EU15 for Lisbon 1 targets for 3 indicators

	S-time-distance deviation of actual from path to target (in years) EU25			S-time-distance deviation of actual from path to target (in years) EU15		
	Share of R&D in GDP %	Employment Rate %	GDP level	Share of R&D in GDP %	Employment Rate %	GDP level
2000	0 years	0 years	0 years	0 years	0 years	0 years
2001	0.7 years	0.5 years	0.3 years	0.7 years	0.1 years	0.4 years
2002	1.7 years	1.5 years	1.9 years	1.6 years	0.8 years	1.0 years
2003	2.7 years	2.3 years	1.5 years	2.6 years	1.6 years	1.6 years
2004	4 years	2.8 years	1.7 years	3.9 years	2.0 years	1.9 years
2005	5 years	3.2 years	2.1 years	5 years	3.2 years	2.4 years
2006		3.4 years	2.1 years		2.3 years	2.5 years

s-time-distance in years: - actual ahead of parh to target, + actual behind the path to target

- for the EU15, in 2006, the employment rate registers a delay of 2.3 years and GDP growth of 2.5 years. For the latest data available (2005), the share of R&D in GDP shows a 5 year delay in 5 years.

[5] *The graph includes forecasts for the GDP growth rates of 2007 and 2008 from Eurostat Structural indicators web page.*

About the time distance methodology

All findings presented in this publication are based on the use of a methodology called the "time distance measure". This methodology was developed by Professor Pavle Sicherl, Professor of Economics at the Ljubljana University and Founder of SICENTER (Socio-economic Indicators Center), Ljubljana. All research for this publication was undertaken by him, on behalf of EUROCHAMBRES.

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 indicator level and calculates the difference in time when the two compared units attain the same level of the indicator. In our case, it expresses the development gap between the EU and the US by looking how many years earlier a given level of an indicator for the EU was attained in the indicator time series for the US. In simple terms, two long-term time series e.g. for GDP per capita for the EU25 and US 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 in the US and subtracts the two times involved (level for EU25 in 2005 equals level of the US in 1984, S-time-distance being 21 years as time lag for the EU or time lead for the US for that level of the indicator).

It is a very useful complementary tool for analysis and presentation of key indicators. It allows making statements about a novel perspective in addition to other measures of the gap(s). A similar perspective in terms of time is used to describe outcomes of alternative policy scenarios for the future. The years when under various assumption EU would catch up with the US are the results of multiplying the respective 2005 values of an indicator by the assumed growth rates for the EU and USA and look for the year when the assumed values for the EU at an assumed higher rate of growth than the US would become equal.

This generic approach can be usefully applied as an important analytical and presentation tool to a wide variety of substantive fields at macro and micro levels (see www.sicenter.si). E.g. Nobel Prize winner Professor Granger extended the S-time-distance measure to econometric forecasting for leading and lagging indicators as a criterion for evaluating forecasting models. The simultaneous two-dimensional comparisons of time series data, vertically (standard measures of static difference) as well as horizontally (Sicherl time distance), can be also a very practical application tool for monitoring Lisbon and Growth and Jobs Strategy targets in the EU, both at the EU and at the national levels. It is very much like comparing actual arrivals with the train or bus time table; the difference being that the geographical space is here replaced with the indicator space. The time distance information complements the conventional percentage difference in providing a realistic perception of the progress in implementation or the lack of it. Since S-time-distance is expressed in time units, it is intuitively understood by policymakers, professionals, managers, media and the general public. This makes it an excellent transparent presentation and communication tool.

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