

The Lisbon Strategy and Business Priorities in EU-25

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THE LISBON STRATEGY AND BUSINESS PRIORITIES IN EU-25 BENCHMARKING REPORT 2004

The yearly follow up of the Lisbon Strategy – to make Europe 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 by 2010 - could become an eagerly awaited event whereby success after success could be ticked off reaping the fruits of the strategy for competitiveness and growth in Europe.

The purpose with this report is to contribute from a business perspective to the debate on competitiveness and growth based on the Lisbon Strategy.

Admittedly, the Lisbon concept is difficult to sell to any stakeholder be it to politicians, business or citizens, due to lack of concrete evidence of the benefits of the Lisbon Strategy. As long as Member States neglect commonly agreed rules and measures, and the European Parliament and Council block EU-proposals, the credibility for the Lisbon Strategy will be lost. To no one's surprise the confidence gap between people and politicians/government continues to increase. From a business point of view it is difficult to understand the snail's pace of the Lisbon process. There is a quite simple "precooked Lisbon recipe" to follow to make Europe 2010 a reality, in terms of attaining competitiveness and growth, creating jobs, welfare and higher living standards. Synergies between economic, social and environmental responsibilities are already foreseen in the Lisbon Strategy, however there must always be room for improvements in order to adapt to realities in a fast changing world

2004 will be a challenging year in Europe. Ten new Member States will enlarge the European Union to 25 Member States making it the world's largest internal market with more than 450 million people, with 300 million using the euro. Others are knocking at the door determined to enter as soon as possible. The Confederation of Swedish Enterprise sees the enlarged Europe as a great opportunity for business' investments and trade, thus stimulating the European economy as well as the global economy. To successfully manage the enlargement of Europe it is important to tie up loose ends - such as implementing and enforcing the Lisbon Strategy.

This 2004 report gives a picture of the current state of the Lisbon process including the ten acceding countries and pointing out a number of business priorities that the Confederation of Swedish Enterprise believes will be crucial for growth and a competitive enlarged Europe. The economic outlook shows that the new EU-10 has a very long way to go before catching up with the present EU-15. The catching-up process could take 20 – 25 years according to macroeconomic figures. However, the reform process has in general been quite speedy since the start of the accession negotiations. By that time no one really believed that they would be playing in the same league as the present EU-15. Note also that the new Member States are taking the Lisbon Strategy seriously. Who knows, they might be ahead of many EU-15 Member States by 2010?

The Confederation of Swedish Enterprise - representing 48 member associations and 57 000 members with more than 1,5 millions employees - sees the Lisbon Strategy as the utmost priority for business. If duly and rapidly implemented it will be The success story for Europe.

Our primary tasks are to ensure that the value of enterprise enjoys widespread support and to improve business climate in Sweden, within the enlarged EU and on a global scale. The Lisbon agenda very much converges with or own priorities, designed to bring Sweden back to the top of the prosperity league. The most important factor in creating economic growth, bringing prosperity and wealth to people, is to promote the value of enterprise. Liberalized economies and lower taxes on work and wealth improve growth and entrepreneurship. Free competition and a level playing field is the best basis for growth. Creating growing and flexible labour markets will achieve more and better jobs, better productivity and improved conditions for entrepreneurship.

The Confederation of Swedish Enterprise works together with other European business organizations and Unice preparing yearly messages to the EU presidencies before every Spring summit. This shows that the Lisbon Strategy is of greatest importance to European business. Our main message to Heads of Government 2004: Commit yourselves to start delivering economic reform. Full speed is needed to tie up loose ends and catch up lost time.

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The Lisbon Strategy and Business Priorities in EU-25 Benchmarking Report 2004

1. Introduction

European companies are faced with a heavy burden of regulations and excessive costs that gives them a disadvantage in global competition. There is a risk of de-industrialisation in Europe, which needs to be taken seriously, as industrial production is on the move to Central Europe and Asia and industrial R&D to the West (USA).

How to attract companies to invest and stay in Europe? How to create an equal or at least similar level playing field for European companies' to compete on, with each other and/or with global players? One key to these questions is in the Lisbon Strategy – crammed full with recipes how to make Europe competitive with strong growth. Competitive companies are the engines for growth, creating jobs, wealth and prosperity for Europe and its citizens. However, some executive help is urgently needed from Member States i.e. implementation and enforcement of the recipe they commonly agreed upon some years ago in Lisbon.

The follow-up of the Lisbon Strategy shows that in general the EU is lagging behind the US in almost all areas vital for strong growth. USA GDP growth has clearly exceeded growth in the EU during the last two years. The EU GDP per capita is still only around 70 % of the USA level.

Sweden along with Finland, Denmark, UK and Ireland are among the best overall performers of the Lisbon Strategy in the “EU-15 division” before the Spring summit meeting in March 2004. In some areas these countries are even doing better than the USA. Even if Sweden in some areas is on the right track, there are however some crucial shortcomings such as a declining level of business investments, a lack of competition in public sector services, low flexibility in labour market and very high taxes on enterprise and labour.

In many countries, not least in Germany and France, there is urgent need of implementation of EU legislation and macroeconomic structural reforms (e.g. in the labour market). Such reforms are often costly in a short term, but unavoidable if progress in long-term growth is to be made.

2004 will provide the test case for an enlarged Europe. 25 Member States creating the world's largest market with more than 450 million people, where 300 million use the Euro, means enormous potential. At present, the economic outlook shows that the new Member States have a long way to go before catching up with the present EU-15. The process could take 20 to 25 years when comparing i.a. the income gap between EU-10 and EU-15 on the presumption that EU-15 growth is 2 % per year and EU-10 growth is 5 % per year. However, the reform process so far has been quite speedy in most of the new Member States since the start of the accession negotiations some seven years ago. At that time no one really believed that they would be playing in the same league as the present EU-15 by May 2004. In addition, the new Member States are taking the Lisbon agenda seriously; they are young market economies and hungry - being sufficient incentives to succeed in the Union. Who knows, they might be ahead of many of the present EU-15 Member States by 2010.

2. Major conclusions from the report

2.1 Main result

This report gives a rather gloomy picture of the current state of the Lisbon process, even though there has been some progress during the last year, such as the spread of new technology in the society and the liberalisation of several markets, e.g. the energy market. However, in many areas action is still missing. This is especially true in areas that are critical for the long-term growth and where the Lisbon agenda is vague. Thus, reforms of the labour market and in the taxation area are most urgently needed in many EU countries.

The credibility of the whole process is at stake. If Member States and their governments are serious about the Lisbon Strategy - Action Is Needed Now! In order to trigger necessary structural changes decided upon in EU institutions and by Member States, there must be incentives for effective implementation on national levels. The slow growth in many EU countries in recent years is clearly a result of the inability to launch necessary reforms on national level. In many countries the reform process has in fact almost come to a standstill. This is especially true for the labour market and for major countries like Germany, Italy and France.

This report also gives an illustration of the new competitive situation in the wider EU that will be created in May 2004. The demand for structural renewal will be even stronger than before, which will put further pressure on the Lisbon agenda and make it more important than ever to start delivering.

The report shows that there are hardly any areas, where the EU-15 on average is ahead of USA. However, some countries achieve very high ratings in certain areas, scoring in parity with USA and in some rare cases also outshining USA. It is primarily Ireland, UK and the Nordic countries, which in some areas can match the US performance. A way to summarize the results of this report is to indicate the strengths and weaknesses in the EU economy in broad terms.

+ <i>Continued liberalisation of markets</i>	- <i>Too little entrepreneurial activity</i>
+ <i>A generally well developed and competitive high-tech sector</i>	- <i>High tax burden on enterprise and labour</i>
	- <i>Too rigid and out-moded labour market</i>

In some areas Sweden's performance differs significantly from the EU average and a special plus/minus list for Sweden would look slightly different.

+ <i>Highly competitive high-tech sector</i>	- <i>Non-utilized potential for entrepreneurship</i>
+ <i>Stable macroeconomic fundamentals</i>	- <i>Damaging taxes on labour and enterprise</i>
+ <i>Relatively high employment rate</i>	- <i>Insufficient incentives for education</i>

This report clearly envisages that even if countries in the EU have many challenges and problems in common, there are also significant differences in performance in critical areas of the Lisbon agenda. Therefore, there is also a lesson to be learned from countries that clearly outperform other countries in different fields. This is not the place to develop a success recipe for different areas, but it is interesting to see which countries perform best in crucial areas in

the Lisbon process. Such a list derived from this report and also showing the worst performer is summarized in table 1.

Table 1. Best and worst performing countries in EU-15 in different areas critical for the Lisbon process.

<i>Area</i>	<i>Best performer</i>	<i>Worst performer</i>
Entrepreneurship	Ireland	Belgium, Sweden, Netherlands
Fulfilment of Internal Market	Denmark, Spain	Belgium, France, Germany Portugal,
Taxes on enterprise and labour	Ireland, UK	Sweden, Belgium, Denmark
Macroeconomic stability	Finland	Germany, France
R&D, technological renewal	Sweden, Finland, Ireland	Greece, Spain, Portugal
Innovation	Finland, Sweden	Portugal, Greece, Spain
Labour market modernisation	Denmark, Ireland	France, Germany, Italy
Incentives to higher education	Portugal, UK, (Hungary)	Denmark, Sweden, Belgium

2.2 Crucial challenges

What is needed today in a world economy, characterised by economic globalisation and strong worldwide competition, is quite different from the system that was efficient in the latter part of the 20th century. A competitive economy today needs more investment in R&D and higher education. Also needed is a change in the way companies are organised towards less vertically integrated firms and greater mobility within and between firms, as well as on labour markets generally. These changes imply a fundamental change in economic institutions and organisations, which has not yet taken place to a sufficient degree in the EU.

An important element in a more growth oriented economy is that the economic framework – taxes and other regulations - must be more adjusted to better suit start ups and SMEs, which is now clearly the engine of growth and employment. The EU must get rid of the complex structure with high tax rates and narrow tax bases that tend to favour large, capital-intensive firms and which are still prevailing in many countries in the EU.

The convergence process that is now gaining momentum as a result of the enlargement, implies that the necessary structural reforms on the labour market in current Member States are now even more urgently needed than before. The tougher competition in many areas both on production and consumption level will probably - at least in the short term - be strongest in the EU countries and regions that are geographically closest to the new Member States.

As for the new Member States, the challenges are numerous. A generally positive factor is the relatively high educational level in most of the new Member States, while the legacy of old industrial investments, environmental damage and poor public administration are major obstacles to growth and must be remedied.

3. Confederation of Swedish Enterprise - business priorities

The Confederation of Swedish Enterprise strongly supports the high priority given in the Lisbon Strategy to growth and the adjustment of the economy to the new conditions of a more knowledge-driven economy. The Lisbon Strategy converges very much with our five main priorities, listed below, and designed to bring Sweden back to the top of the prosperity league. These priorities will ensure widespread support of the value of enterprise and will improve the business climate in an enlarged Europe. In chapter 5, relevant Lisbon objectives are benchmarked with EU-15, USA and the ten new Member States. In chapter 6, objectives in the Lisbon Strategy crucial for our five priority areas and for business have been listed. Our five main priorities:

- **Strengthen the value of enterprise** - The most important factor in creating economic growth and thus promoting prosperity is to promote the value of enterprise. Entrepreneurial people create business in order to satisfy consumer demand. Enterprises create the growth that pays for consumption, welfare services and infrastructure improvements. The economic environment must reward risk-takers and boost entrepreneurship. The regulatory burden on business must be reduced substantially. SMEs must be given special attention. Compulsory impact analysis both at EU-level as well as at national should be made of all legislation that affects business.
- **Achieve an efficient and open Internal Market** - A well functioning Internal Market with the free movement of persons, goods, services and capital is the cornerstone of European integration. There are still too many areas, which need to be harmonized, unnecessary barriers must be removed and inefficient and burdensome regulation, both on EU and national level needs to be dealt with. Member States must speed up further deregulation and opening up markets for electricity, gas, postal services, telecom and transport. European companies are part of the global market and need to export and to import freely to be competitive. An open and multilateral trade system based on the WTO is therefore essential for our global competitiveness.
- **Endorse competition on equal terms and lower taxes** - A liberalized economy and lower taxes on work and wealth will improve growth and entrepreneurship. Free and equal competition and a level playing field is the best basis for growth. Lower taxes on work and wealth improve growth and entrepreneurship. Remake the VAT system in order to make it possible for companies working on the internal market to utilize the full potential of the market.
- **Promote long-term growth and a dynamic economy through stimulating structural and technological renewal** - Higher growth is urgently needed to meet the demand for consumption, welfare services and infrastructure investments in the EU. Macro-economic stability, especially low and stable inflation in combination with balanced public sector finance, is a key condition for high long-term growth. Investments in R&D and innovations are crucial for growth.
- **Create a growing, competitive and flexible labour market** – A more flexible and competitive labour market will facilitate more and better jobs, better productivity and improved conditions for entrepreneurship.

4. The new Member States as a challenge for the Lisbon process

The new enlarged EU, which will be a reality in a couple of months, implies new conditions for business in the EU in many ways. Even though the new Member States have a production that corresponds to only around 9 % of total EU-15 production, the population will increase by approximately 20 % as a result of the enlargement. Thus, the new EU market amounts to more than *450 million people* whereby 300 million will use the €uro. The enlarged EU will be the world's largest market and have a total export corresponding to roughly 20 % of world export.

Today 60-70 % of the new Member States exports go to the EU and the importance of this intra-trade will increase further as markets become gradually more integrated. As an example of this ongoing integration process, we have seen a strong increase in investments in the new Member States from EU companies during the last decade.

The new enlarged EU-market has already created more competition and new business opportunities across Europe due to the high degree of economic integration between EU-15 and the new Member States. The accession itself can provide a further boost to economic growth and lead to a wider choice of better and cheaper goods and services.

A key to success is that the convergence process will get underway and gradually reduce the large differences between the new Member States and EU-15 that currently exist as regards e.g. income and price levels as well as employment. In spite of the new Member States having experienced higher growth rates than the EU countries in recent years, the progress in the catching-up process has so far been limited in most countries.

This, of course, reflects that the convergence is a long-term process, making it an even more important challenge to facilitate a speeding up of the integration process. Only in that way it is possible to fully utilise the potential for a more dynamic and more rapidly growing EU and to reduce potential tensions within the EU.

It is of course true that most of the new Member States in some areas still are far below different targets set up in the Lisbon Strategy, such as those for employment, resources on R&D, etc. However, the lower average in the wider EU in these respects must not be taken as an excuse by some current Members to hide their own shortcomings and thereby water down the Lisbon agenda. Quite the opposite, in this new economic environment it will be even more important for the EU to speed up the Lisbon process and live up to the spirit of the Lisbon agenda.

From the companies' point of view, the enlargement in many ways means new challenges that make the adjustment to the new competitive and market situation more urgent than ever in order for the companies to be winners in the years ahead.

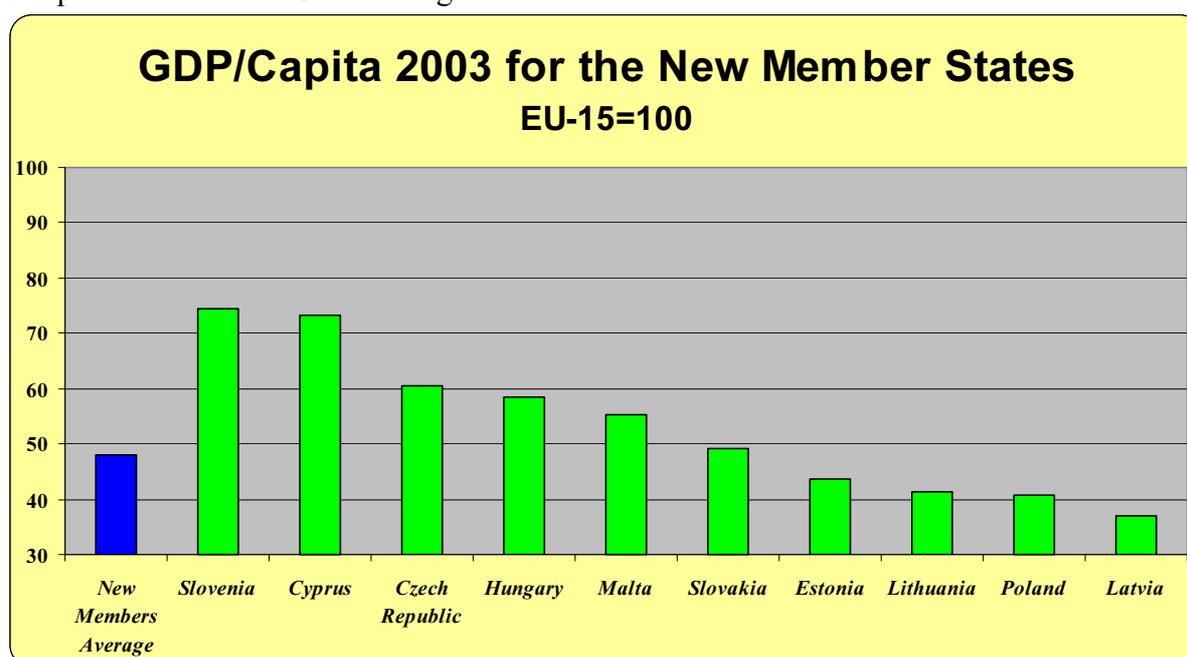
4.1 The current economic situation

The new Member States in comparison with EU-15

- A comparison of GDP level, growth, inflation, public finance and current account

As can be seen from figure 1, the average GDP level per capita in the new Member States is still less than 50 % of EU-15 average. Cyprus and Slovenia are the only new Member States that have a GDP per capita of more than 70 % of EU-15 average, while the Baltic States and Poland are at the bottom of the wealth league at around or below 40 % of the EU-15 average.

Figure 1. GDP/capita (adjusted for purchasing power) 2003 for the new Members States in comparison with the EU-15 average.



Source: Eurostat, Structural indicators, December 2003.

The large income gap between EU-15 and the new Member States implies that the catching up will be a long-term process. However, the catching-up is clearly on track and the growth perspective for the next coming years are rather robust in spite of the continuously rather weak international growth. It is generally the domestic demand that is the driving force in the economies and both private consumption and investment are growing rather strongly. Table 2 gives a general picture of some crucial economic indicators in the new Member States in comparison with EU-15 for 2003 and 2004.

Table 2. Economic performance 2003-2004 for EU-15 and the new Member States.

	EU-15		New Member States	
	2003	2004	2003	2004
GDP, annual percentage change	0,8	2,0	3,1	3,8
Inflation annual percentage change	2,0	1,9	2,4	3,5
Government Budget per cent of GDP	-2,7	-2,6	-5,0	-5,0
Unemployment, per cent	8,9	9,1	15,1	15,2
Current Account, per cent of GDP	0,5	0,7	-4,6	-4,9

Source: European Commission, Economic Forecast, November 2003.

The significantly higher GDP-growth in the new Member States illustrates that the convergence process continues. The stronger growth in the new Member States is also reflected in the slightly higher inflation rate than in EU-15. The large current account deficit is what can be expected in the current situation, characterised by relatively strong growth and a fundamental restructuring and renewal of the economies, a process that is heavily dependant on imports. So far there have not been any problems with the financing of the deficits and the strong involvement of foreign companies in the restructuring of many of these economies will ensure the financing also in the years ahead.

The most evident challenge for the new Member States in the years to come is to reduce the still very high unemployment rate. Progress in this area will also diminish the pressure on the government finance and gradually get the public sector finance in line with the stability pact.

In the labour market, special attention must be given to the very high rates of long-term and youth unemployment, which in both cases are more than doubled the rate in EU-15. Labour market reforms must include a more flexible employment protection legislation and a tax benefit system more compatible with "making work pay." The most promising reforms in the labour markets in the new Member States so far, are taking place in the wage bargaining systems. In most countries there has been a shift towards a more decentralised system, with wage negotiations increasingly taking place at firm level and thereby also more reflecting productivity and other fundamentals.

4.2 The convergence process

To raise the living standards in the new Member States is a prerequisite to make the enlargement a success and the experience from earlier enlargements indicates that the catching-up process will start very quickly. Wages and incomes will increase and it will necessarily spill over into prices, especially non-traded goods and services. Thus the prices of non-traded goods will gradually adjust upwards as GDP rises and the gap to EU-15 will be reduced.

The convergence process has also already started in the new Member States and both income and price gaps have been reduced somewhat in recent years. A more dynamic Internal Market, in line with the Lisbon Strategy, will also clearly help the integration of the new Member States and thereby help to speed up the convergence process in different aspects.

Special focus must be given to measures that increase employment. Unemployment in the new Member States has remained unacceptably high and stronger incentives to reduce "the unemployment trap" are crucial. Competition and efficiency in product and service markets are also, clearly, areas where the new Member States are lagging in relation to EU-15 and where action is urgently needed.

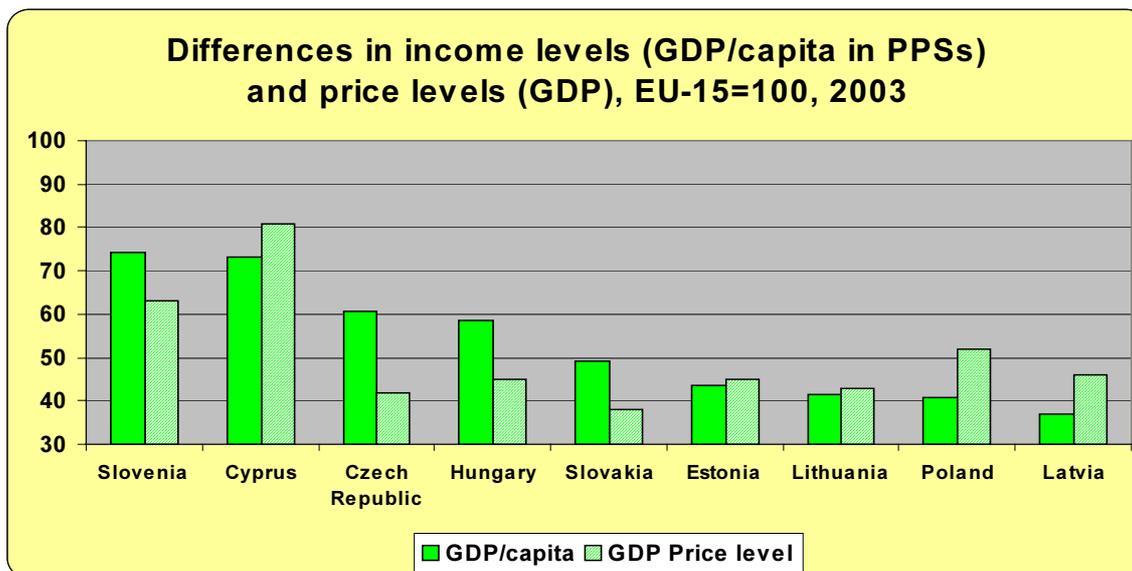
In the short-term low wages and rents are important elements in the economic structure of the new Member States. It will lay the foundation for a strong competitive position in certain areas and contribute to strong capital inflows (direct investments). It will also certainly contribute to lower prices in the world market on some traded goods.

4.2.1 Income and price levels

Currently, the new Member States have a significantly lower price and income level than most EU countries. The average price level is 54 % lower than the EU-15 average, but there are of course also differences between the new Member States. Malta and Cyprus are at the top and have a price level at about the same level as in Portugal Greece and Italy and around 20 % lower than the EU-15 average. On the other side, six of the new Member States have a price level below 50 % of the EU-15 average.

Lower prices are partly a result of lower income levels in the new Member States, but the relation between income levels and price levels also differs somewhat between countries. Hungary, the Czech Republic, Slovenia and the Slovak Republic all seem to have a rather low price level compared to their income level. For the Baltic States, Poland and Cyprus, the opposite seems to be the case, i.e. they all exhibit relatively high price levels compared to income levels (Figure 2). These differences in the relation between price and income levels depend of several factors, such as degree of competition, market structure, consumer preferences etc.

Figure 2. Price and income levels for the new Member States in comparison with the EU-15 average, EU-15=100.



Sources: European Commission, Internal Market Scoreboard, May 2003 and Structural indicators, December 2003.

It is interesting to notice that some of the new Member States showing the lowest price levels are geographically located close to some of the countries with the highest price levels in the EU-15. Thus, the Baltic countries have very low price levels and are geographically close to the Nordic Countries, which still have some of the highest prices in the EU. Another example is Germany located close to some of the former Communist Eastern European countries that still have very low price and income levels. This of course will give rise to special challenges for business and will certainly speed up the adjustment process in these areas.

4.2.2 Wage levels and competitiveness

Wage levels and labour costs in industry are generally considerably lower in the new Member States. As can be seen from figure 3, most countries have an average cost level in the industry and service sector of around only 20 % of the EU-15 level. Only Cyprus and Slovenia exhibit labour costs coming close to 50 % of the EU-15 level.

Figure 3. Average hourly labour costs in the industry and service sectors in new the Member States in comparison with the EU-15 average.

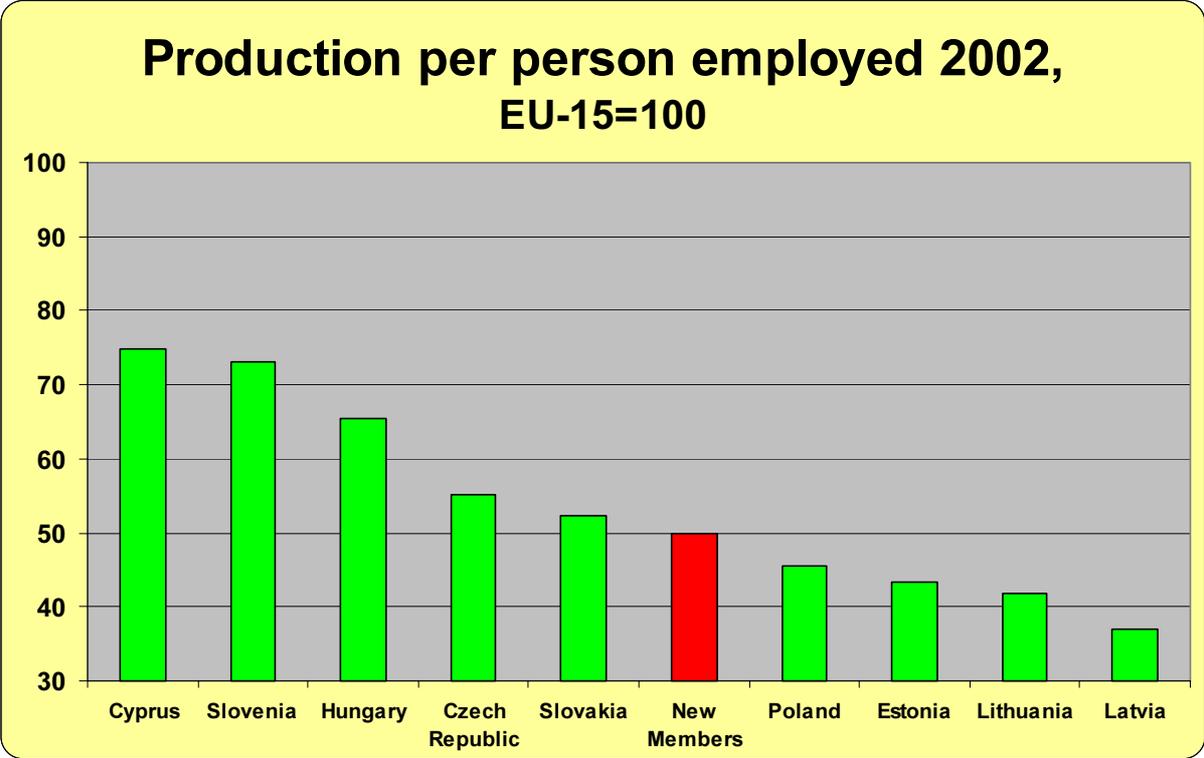


Source: Eurostat, Statistics in focus, 23/2003.

The business structure in the new Member States is still strongly biased towards agriculture which on average still accounts for as much as 10-15 % of employment in the new Member States, more than three times corresponding figures for the EU. As the productivity in the agricultural sector is also generally very low, it contributes strongly negative to the average productivity level among the employed in the economy, which is shown in figure 4.

Total labour costs in combination med average productivity shown in figure 4 give an idea of the competitive situation in the new Member States. Of course it varies a lot between sectors, but generally at the initial stage if transition relatively low unit labour cost will be a key comparative advantage and will strongly contribute to growth and catching-up. Sustained wage moderation (in line with productivity gains) will remain an important precondition for keeping inflation low and attract foreign capital and thereby boost growth and employment.

Figure 4. Production (PPS adjusted) per person employed 2002 in the new Member States compared to the EU-15 average.



Source: Eurostat, Structural Indicators, December 2003.

5. Business Key Priorities

- How are EU-15 and the new Member States performing?

In the following chapters our five priorities areas and relevant Lisbon objective are benchmarked with EU-15, the USA and when possible for the New Member States.

5.1 Strengthen the Value of Enterprise

The Lisbon declaration as well as the European Commissions Employment guidelines, the Broad Economic Policy Guidelines and the Internal Market Strategy Report explicitly recognise the value of enterprise as crucial in order to stimulate growth and create new and better jobs. The Green Paper on Entrepreneurship has also formed a constructive tool to create a better entrepreneurial climate. In order to reach the necessary results, Member States now have to make genuine commitments to strengthen the value of enterprise.

Strengthening the value of enterprise is crucial in order to *promote entrepreneurship* and increase growth and prosperity. This can be done in many ways. Generally it is all about getting support for and ensuring the value of enterprise throughout the society. Only if the business climate is improved in a way that stimulates entrepreneurial activities, we are able to create the necessary conditions for higher growth.

The creation of a better business climate through *administrative simplification and regulatory reform* is a must to secure the necessary growth. Public authorities – in Member States or by EU-institutions must actively strive to reduce the regulatory burden on companies. Independent bodies could evaluate cost-efficiency of legislation. New legislative proposals must be assessed on their potential cost for business. Laws that already exist must be systematically scrutinised, whether they really are need. Impact assessment and the strive for administrative simplification must apply both on the European and on national levels.

5.1.1 Promote entrepreneurship

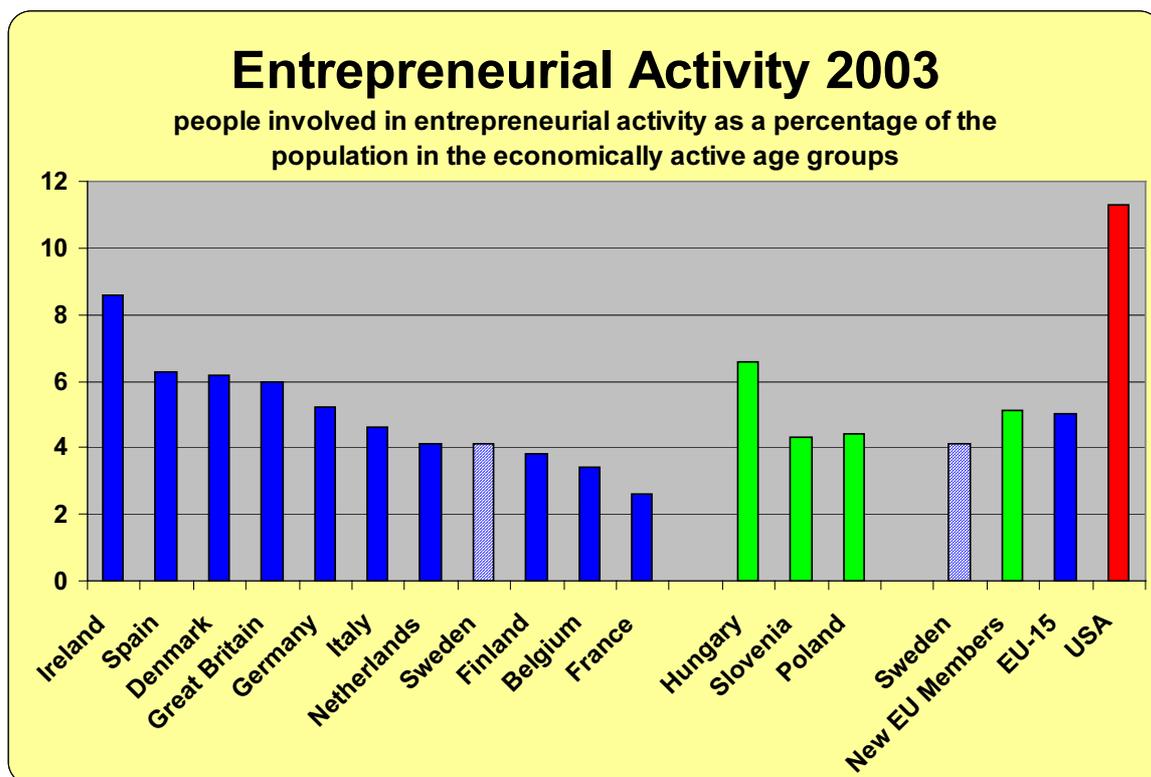
Entrepreneurship is a main force behind growth and more jobs. Europe needs more new and thriving firms willing to reap the benefits of market opening.

In the business context, entrepreneurship can be defined as a process to create and develop economic activity by blending risk-taking, creativity and innovation with management, within a new or an existing organisation. Entrepreneurial activity in this way is clearly a key to the dynamism and innovations, which is vital for long-term growth.

Indicator 1 captures an important part of entrepreneurship as it measures the share of population involved in entrepreneurial activity, either in the process of starting a new firm or as the owner/manager of an active business less than 42 months old.

The indicator clearly shows that measured in this way new enterprise in EU-15 lags behind the USA and so do also the new EU-members, for which statistics are available. Ireland is the only EU country coming close to the USA in this context. Sweden is at the lower end of the league, which clearly indicates the urgent need for measures to stimulate new enterprise.

Indicator 1. Entrepreneurial activity measured as number of people involved in entrepreneurial activity as a percentage of total population in the economically active age groups, 2003.

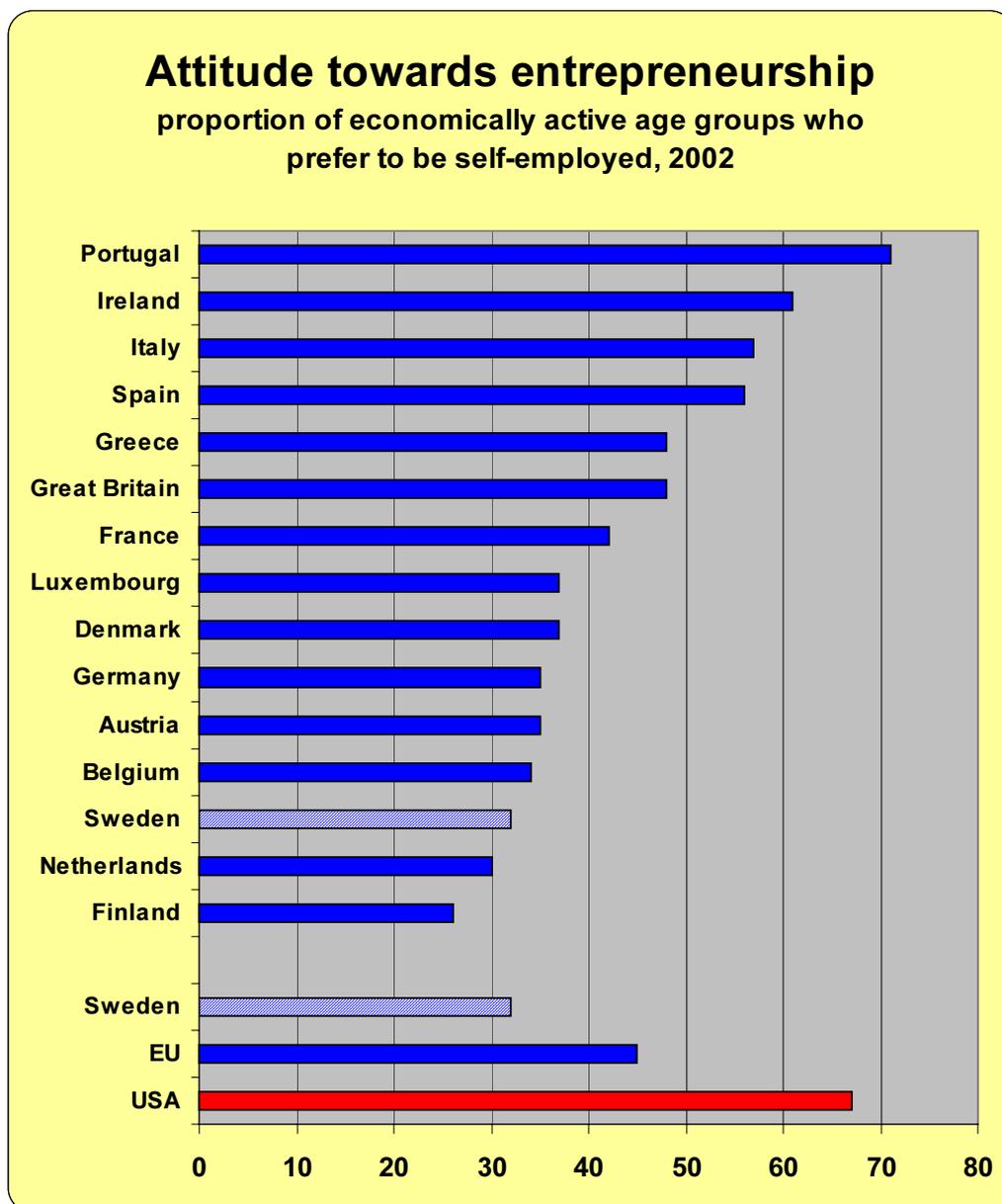


Source: Global Entrepreneurship Monitor, Kauffman Centre for Entrepreneurial Leadership, 2003.

Attitudes and willingness to start your own company is a crucial factor in this context. It is only in an environment where people want to start a business and develop new ideas in the market, that you can expect a thriving entrepreneurial activity. To create rules and attitudes that make it attractive to start new business is thus an important prerequisite for stronger growth.

As indicator 2 shows the willingness to be self-employed rather than employee varies a lot between countries within the EU. Sweden, Finland and the Netherlands are the countries where people are least interested in starting up a business on their own, while the Mediterranean countries and Ireland are at the top. On average the percentage in EU who would prefer to be self-employed is 45 %, significantly lower than in the USA, where 67 % of the citizens would prefer to be self-employed.

Indicator 2. Attitudes towards entrepreneurship, percentage of population that prefer to be self-employed rather than employees.



Source: European Commission Flash Eurobarometer 134, 2003

The figures show that a more balanced and attractive relation between risk and reward associated with entrepreneurship must be recognized. E.g. Europe must get rid of the stigma of failure and promote lower taxes on enterprise.

The administrative burden on firms also must be further reduced. Some improvements have been made in recent years, but much is still to be done. As was stressed in the 2002 Regulatory Report¹ the new Member States still exhibit large deficiencies in this context. It concerns the regulatory burden on business, the implementation and in some countries the

¹ Strategy Paper and report by the European commission on progress towards accession by each of the candidate countries (COM(2002)700), October 2002.

design of judicial reforms. Furthermore, corruption still remains a matter of serious concern in several of the new Member States.

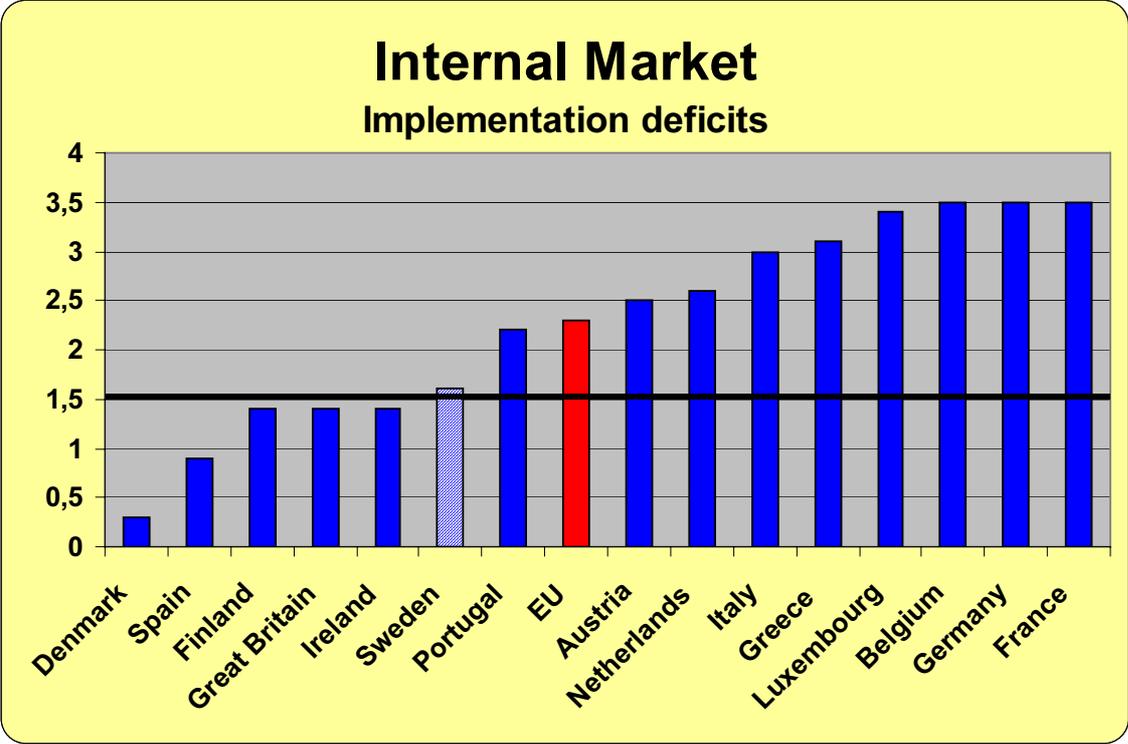
5.2 Achieve an efficient and open Internal market

A *well functioning Internal market* characterised by free movement of persons, goods, services and capital is the cornerstone of European integration. The enlargement, making the Internal Market growing to more than 450 million people whereby 300 million people can use the same currency - Euro, is of course creating numerous entrepreneurial opportunities, not least in the area of services. To successfully utilise these opportunities is crucial for the ability to reach the goals of the Lisbon Strategy.

Despite the more than 10 years existence of the Internal Market a great number of Member States are lagging behind in implementation of relevant EU legislation. This unbalance hampers companies and citizens from fully reaping the fruits of the Internal market.

Indicator 3 shows the implementation deficit for the Internal Market, i.e. the percentage of Community directives that have not been turned into laws in Member States. As can be seen only five Members (Denmark, Spain, Finland, UK and Ireland) had done their work and met the target of a 1,5 % deficit or less in November last year, while Sweden for the first time in five years missed the 1,5 % target. Many countries, e.g. France, Germany and Belgium are lagging far behind, which is clearly not acceptable and creates a void in the regulatory framework in some areas and thereby obstructs business activities.

Indicator 3. The implementation deficit (the percentage of Internal Market directives not yet turned into laws in Member States by the deadline set by the Commission), November 2003.



Source: European Commission, DG Internal Market, November 2003

It is also clear that different tax systems across the Member States still is a considerable obstacle for trade and impose costs both for companies and customers. E.g. a common corporate tax base would reduce these costs significantly.

A well functioning internal market also requires deregulation. All sectors have to be open for competition, but this is clearly yet not the case and in important areas speeding up the deregulation process is of urgent importance.

5.2.1 The Service Sector

The service sector growth potential has to be taken into account. The service sector alone makes up a growing share of the economy as a whole. In some countries it accounts for more than 70 % of GDP. However, cross border and foreign trade in services is still relatively small. As a proportion of European exports, services amount to only 22 % and some 50 % of EU GDP. In almost every country, 60-70 % of the gainfully employed work in the service sector. The recent Commission proposal for a Service Directive aims at facilitate cross-border trade and to increase competition on the service market. Therefore it is of utmost importance that the Council and the European Parliament adopted the proposal in its present form followed by rapid and correct implementation by the Member States.

5.3 Endorse competition on equal terms and lower taxes

Free competition is the best basis for growth and most sectors including energy, telecommunication, transport and post are deregulated or in the final process of deregulation. However, competition in other areas, such as health and education, must be improved by increasingly opening up the public sector to competition. The public sector has to face sound commercial practice to meet the demand for better service and keep the public spending under control. Monopolies, subsidies and excessive bureaucracy harm efficiency and to ensure a level playing field, subsidies to business should be abolished. The overall government aid has also been reduced in recent years and there has been a tendency towards more horizontal support (e.g. for SMEs), which gives less distortable effects on competition. Fewer subsidies would also generally make it easier to lower taxes.

The Modernisation of EU Competition Policy - is a good step. In **the field of anti-trust**, the long call by business for a fundamentally different and improved procedural order and a much more economics oriented assessment has to a large extent been heeded. However, the new principles have to be pursued with regard to remaining issues, and, in particular, in the implementation phase. The network of competition authorities must provide efficient case handling coupled with unified application and legal certainty. **The new Merger Regulation and Horizontal Guidelines** provide for a better and more future-proof decision-making. A sufficiently dynamic approach is of decisive importance to the assessment of proposed mergers including the definition of the relevant market. Also, efficiencies flowing from a merger must be duly taken account of in practice when reasonably substantiated, allowing for the inherent uncertainty and business risk. Only if the merger control is operated with a high degree of predictability and legal certainty, but yet in a clearly dynamic perspective will it be able to contribute to increased and sustainable competitiveness of EU companies; only then will it avoid creating harmful deterrent side-effects and impeding smaller Member States from hosting multinational corporations and centres of excellence.

Lower taxes on work and enterprise clearly have a positive effect on entrepreneurship and growth. Prevailing high taxes in many EU countries are especially harmful for smaller firms. As was stressed in a recent Report from European Commission² too little have been done to simplify the corporate tax system and move in the direction of low tax rates and broad tax bases, which are more appropriate for start-ups and SMEs, which during the last decade clearly have become increasingly important for growth and employment.

Sound tax competition should be encouraged. Unfair tax competition and the use of state aid must be critically assessed in the light of its impact on trade patterns and other distortions. A common energy tax system must also be introduced. The governments also have to encourage the Commission's work on erasing a number of tax obstacles to cross-border economic activities in the internal market. E.g. there is a need to remake the VAT system in order to make it possible for companies in the internal market to utilize the full potential of the market.

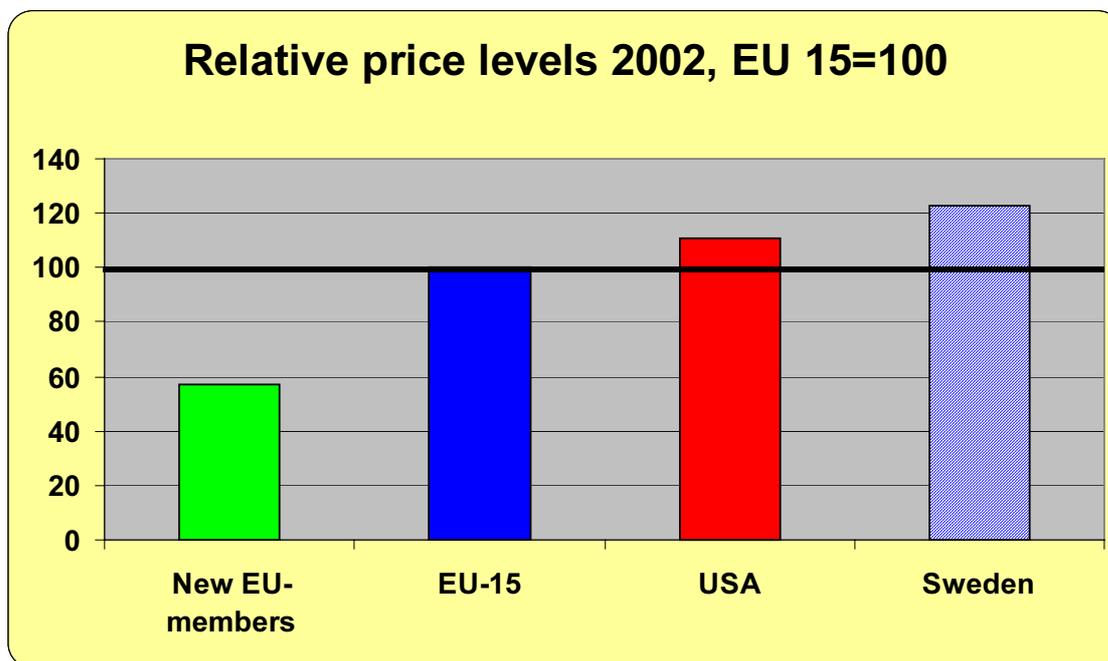
5.3.1 Promote free competition

Free competition is characterised by high transparency and small unjustifiable price differences. The tendency for price differences to narrow within EU in recent years is a sign of more integrated and efficient markets. But still there are unjustifiable differentials in some areas. This indicates that the convergence process will continue and the ongoing deregulation process in certain areas in combination with the introduction of the euro will clearly speed up this process.

The enlargement will at the same time increase competitiveness further and over the next couple of years, we will also see a gradual reduction of price differences between EU-15 and the new EU-members. The differences today are quite considerable (indicator 4a and b) and the convergence process will mainly take place through gradual increases in incomes and prices in the new Member States. Indicator 4a shows that on average the price level at consumption level in the new Member States is just around 60 % of the EU-15 average.

² "An agenda for a growing Europe", Making the EU Economic System Deliver, Report of an Independent High-level Study Group on the initiative of the President of the European Commission, July 2003.

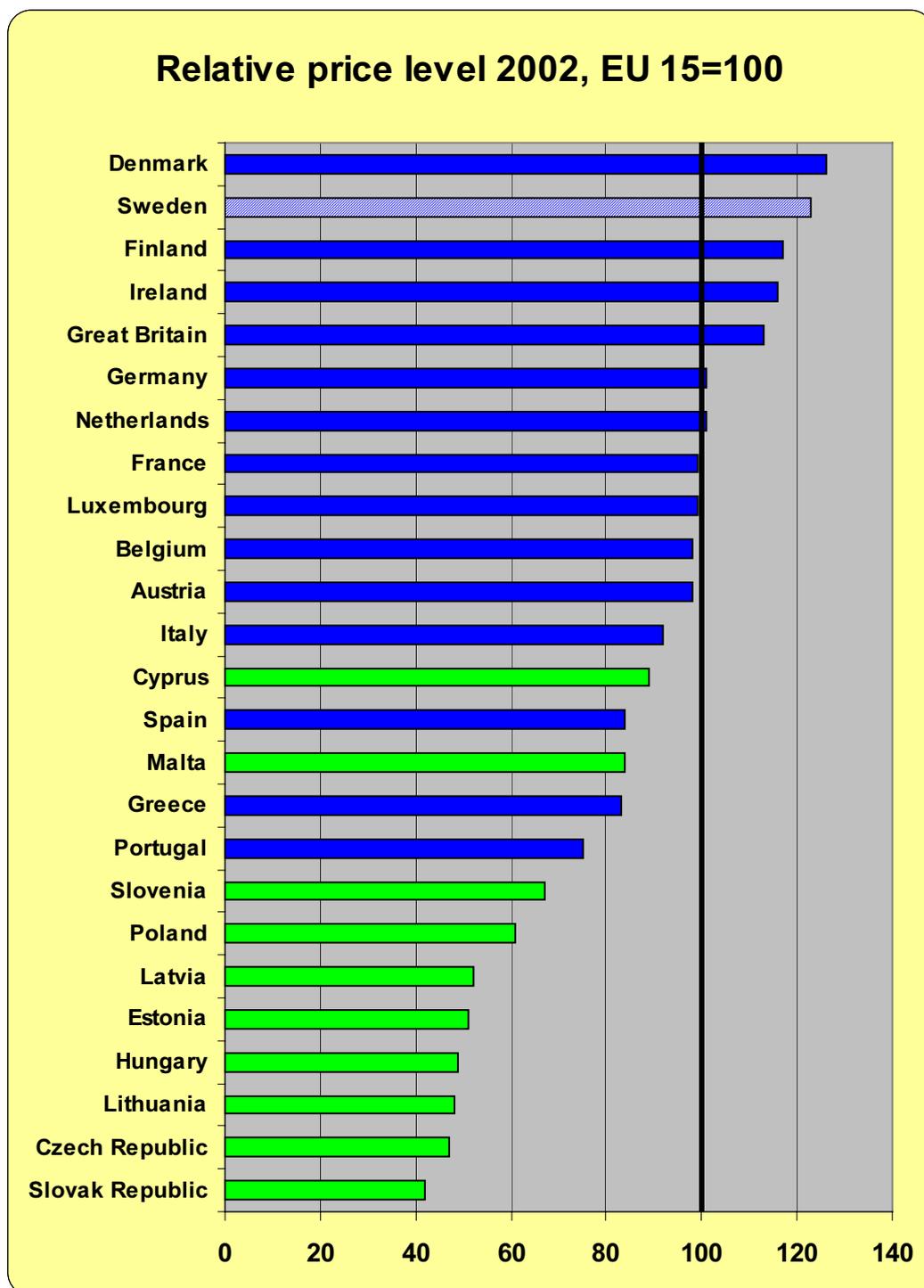
Indicator 4a. Relative prices at the consumption level, in the USA, EU-15, Sweden and average for the new Member States.



Source: Internal Market Scoreboard, May, 2003.

Indicator 4b shows that the Nordic Countries still have the highest average price level in the EU, while the Mediterranean countries are at the bottom. Among the new Member States, Cyprus and Malta have the highest average price level, approximately 20 % lower than the EU-average and at the same level as Spain, Greece and Portugal. Most of the other new Members have a price level around 40-60 % of EU-15 average.

Indicator 4b. Relative prices at the consumption level in EU-15 countries and the new EU members.

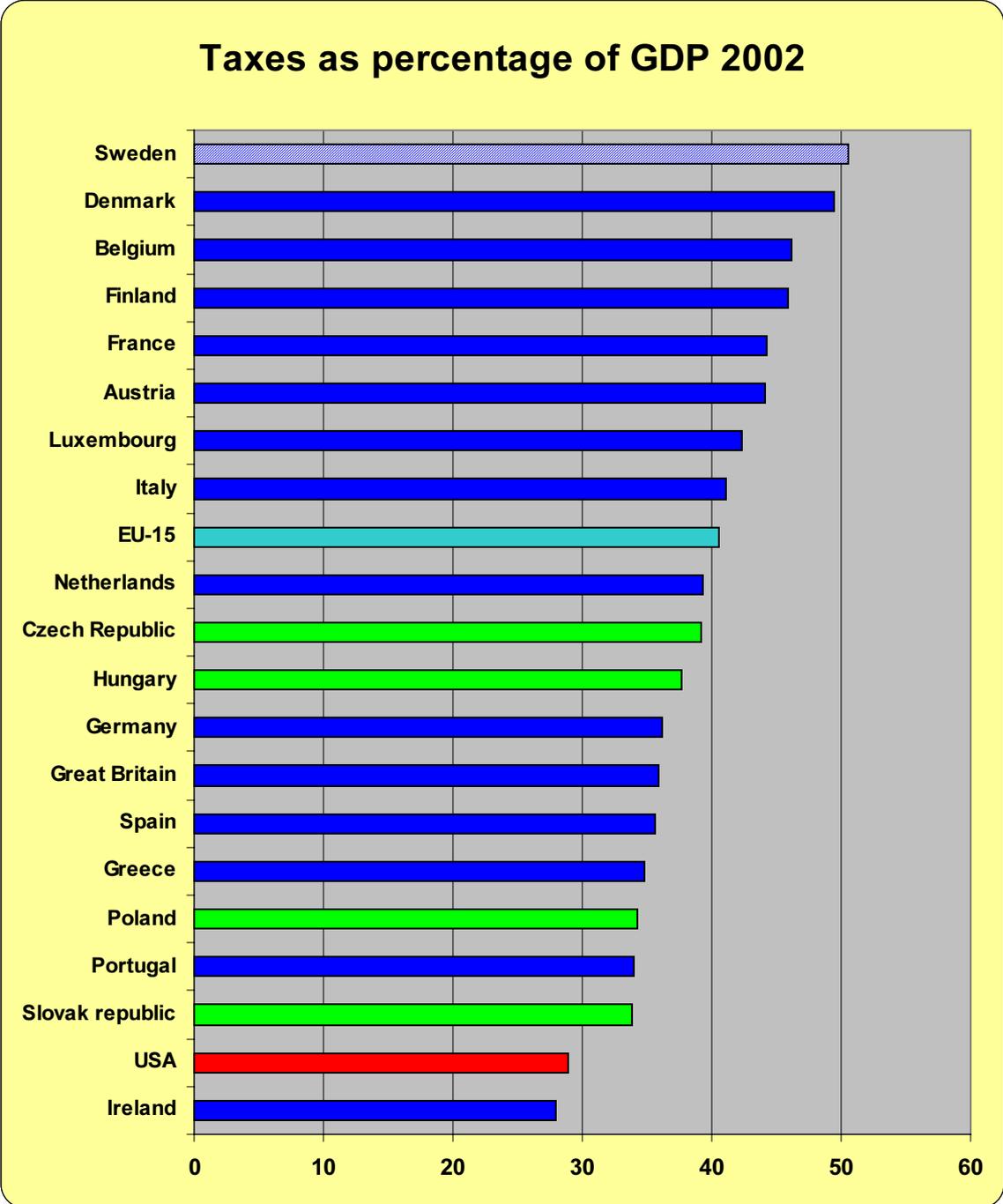


Sources: The Internal Market, May 2003 and Österberg/Rydeman, “Higher or Lower? How the euro affected the prices,” March 2003.

5.3.2 Reduce taxes on enterprise and labour

The European tax level is generally considerably higher than in the USA and Swedish taxes are well above the European average (indicator 5). The high tax burden is of course is one important reason behind the higher average price level in e.g. Sweden and Denmark shown in indicator 4b. The total tax burden is generally slightly lower in the New Member States than in EU-15, although some of the new Member States have tax rates close to the EU-15 average.

Indicator 5. Total taxes as percentage of GDP for all EU countries, the new Member States and the USA.



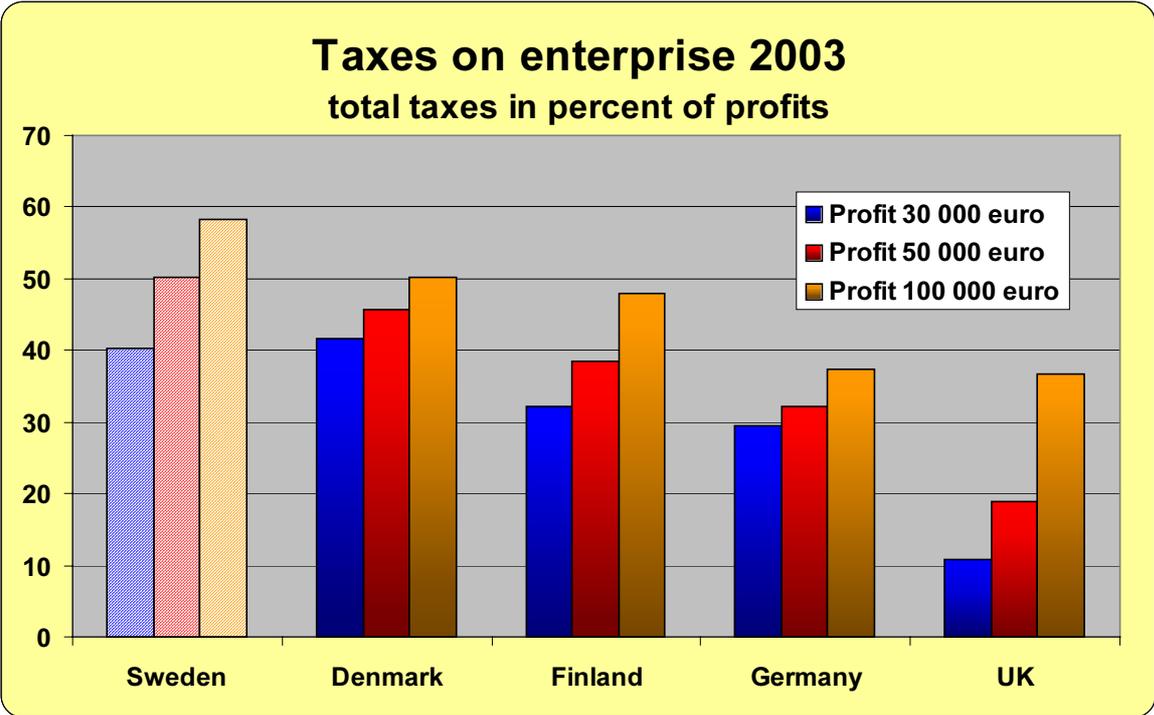
Source: Eurostat and OECD, November 2003.

High taxes on enterprise generally hit the SMEs very hard. Thus taxes must be more adjusted to suit start-ups and SMEs better than today. That means a more simple corporate tax structure with low tax rates and broad bases in contrast to the complex structures with high tax rates and narrow tax bases, which is still prevailing in many countries in the EU.

Besides the generally high taxes on small firms in many countries, it is also worth stressing the importance of sound tax competition and common rules in the taxation area. The slow convergence process in this field imposes a special cost for small firms and makes business across the border for them more difficult.

Indicator 6 illustrates the total tax burden on a self-employed entrepreneur. The tax burden is measured as total taxes (income tax, social charges, corporate tax and tax on dividend) as percentage of profit. The ratio is calculated for three profit levels. Sweden and Denmark have the highest taxes on enterprise, between 40 % and 60 %, while Great Britain clearly has the lowest level among the countries included in this study.

Indicator 6. Taxes on enterprise. Income tax, social charges, corporate tax and tax on dividend as percentage of profit for a self-employed, 2003.

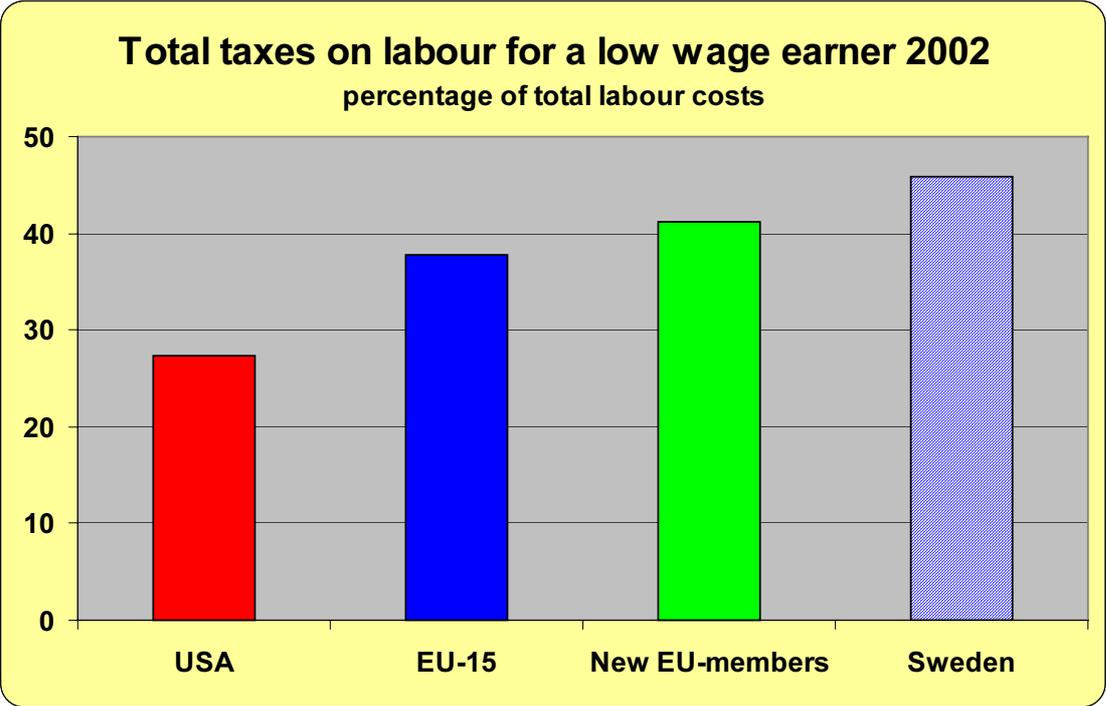


Source: Confederation of Swedish Enterprise, 2003.

High taxation of labour increases the cost of employing people and thus clearly has a negative effect on employment. This is of course especially troublesome for the low-income earners, who often are kept out of the labour market due to prohibitive high taxes on low incomes.

In the EU, in general, the total taxes on labour are significantly higher than in the USA in all income brackets. For low-income earners³ the average tax burden is close to 40 % of labour cost compared to less than 30 % in the USA. The new EU-Members have a tax burden on low-income earners (measured as per cent of total labour costs) that is about the same as for EU-15 (Indicator 7a).

Indicator 7a. Total income tax on gross wage earnings, plus employee and employer social security contribution, as a percentage of labour costs for a low-wage earner 2002. Figures for the USA, EU-15, Sweden and average for the new Member States.

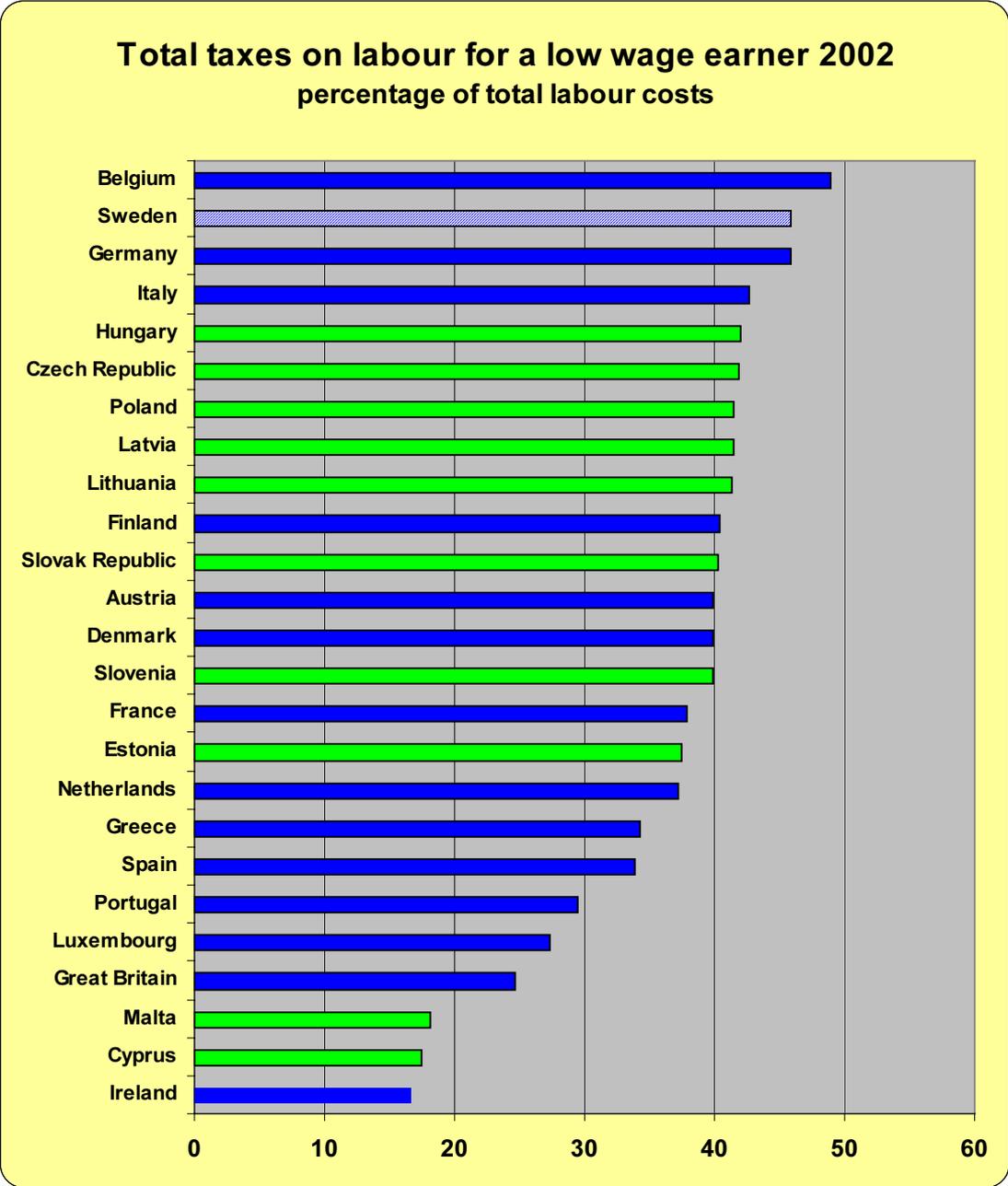


Source: Eurostat, Structural Indicators, December 2003.

³ A low-income earner is here defined as having an income corresponding to 67 % of an industrial production worker.

Indicator 7b shows that Belgium has the highest taxes on labour for lower income levels followed by Sweden and Germany. Not surprisingly Ireland and Great Britain stand out as the low tax countries in the EU-15. Among the new Member States, Cyprus and Malta clearly have the lowest taxes, while most of the other countries have a tax level on low-income earners in line with or even slightly above the EU-15 average.

Indicator 7b. Total income tax on gross wage earnings, plus employee and employer social security contribution, as a percentage of labour costs for a low-wage earner 2002. Figures for the USA and all EU-25 countries.



Source: Eurostat, Structural Indicators, December 2003.

5.4 Promote long-term growth and a dynamic economy through stimulating structural and technological renewal

Higher growth is urgently needed to meet the demand for consumption, welfare services and infrastructure investments in the EU. Furthermore, the need for higher growth is strongly underlined by the demographic changes and the demands associated with it. The relationship between EU institutions and the Member States is also crucial in the growth context, and the unsatisfactory growth performance in many EU countries in recent years is clearly a result of the inability to launch necessary reforms on national level.

Macro-economic stability, especially low and stable inflation in combination with balanced public sector finance, is a key condition for high long-term growth. In the EU, the stability pact is an important part in a framework aimed to set up stable economic conditions. Therefore, the recent rapid deterioration of public sector finance and actual violation of the limits are worrying. To live up to the requirements outlined in the stability pact is crucial, in order to improve the long-term growth prospects.

R&D is a main force behind growth and crucial to ensure a necessary dynamism in the economy. There is also an explicit target decided upon in Barcelona in March 2002 to increase total expenditures on R&D to 3 % of GDP to 2010. Today, however, the investments in most EU countries are substantially lower, Sweden and Finland being the only exceptions. The new Member States are also far below the target and in most cases below 1 % of GDP as well. This highlights the need for more resources directed to R&D in the new Member States in order to gradually reduce the technology gap between EU-15 and the new Member States.

Infrastructures – roads, railways, air, sea, energy, telecom network - need common regulatory frameworks to allow competition throughout the enlarged Europe. Present Member States and Accessing Member States have to work hard to implementing all EU legislation to ensure a level playing field. Investment in **Information and Communication Technology** has been the most apparent part in the development towards a structural and technological shift in the society, a development with great implications for productivity and wealth in society. The Growth Initiative and the Quick start programs aimed to boosting projects to complete is important to boosting projects to complete **Trans-European network infrastructure** is a good initiative.

Biotechnology is another area, with great potential wealth effects for the society. A strong development in these key areas is crucial for growth and technological renewal.

A well-developed and functional **intellectual property rights** system is an increasingly important part of the infrastructure in an innovative and knowledge-based economy. The inability to reach an agreement about a community patent is still a concern for the EU. Business and in particular SMEs need a uniform community patent which is affordable, provides legal certainty and can coexist with the present European Patent System. Member States that due to national reasons are blocking the adoption of a community patent that can meet users' needs, and that is competitive in a global context, have to reconsider their positions.

Access to risk capital and equity financing at low cost is of the highest importance to develop new ideas, technologies and new markets. Business and in particular innovative SMEs, need

efficient financial markets. The Lamfalussy fast track procedure has facilitated the adoption of legislation and to bring it into line with the evolution of markets. Now applied in the securities market, it should be extended to banks, insurance companies and conglomerate as well.

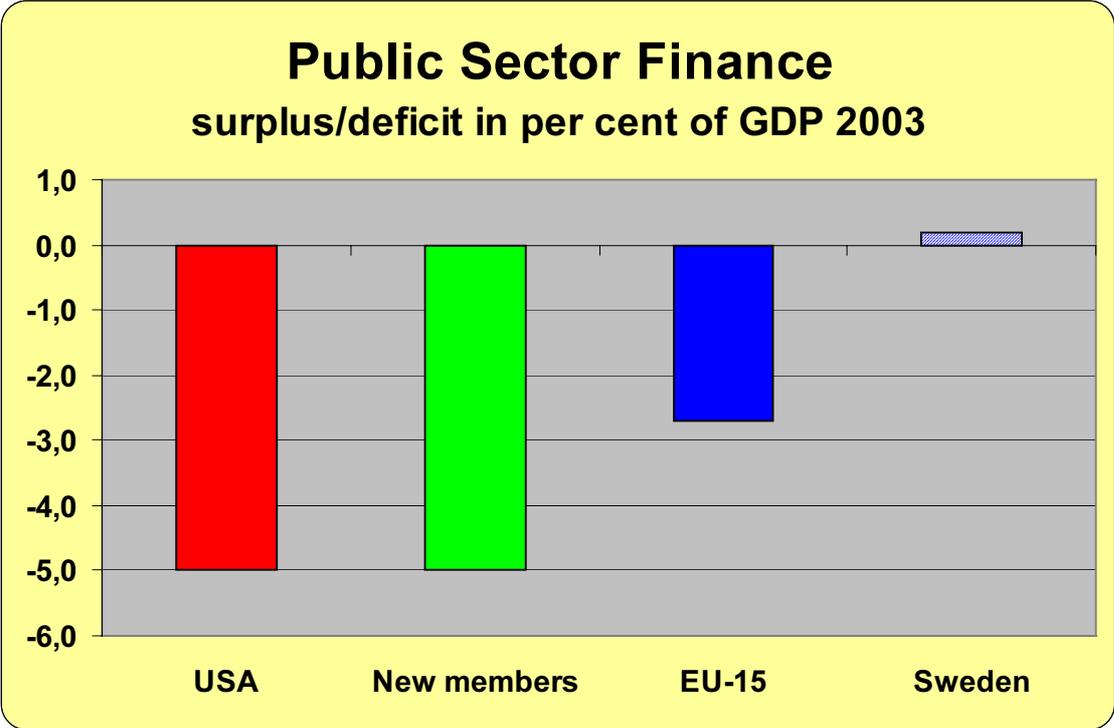
Business considers the strategy for *sustainable development* in Europe to be an important process. In fact, economic growth is a prerequisite for sound development at the environmental and social level. We believe that market-driven solutions can achieve tangible results far faster than the use of regulation and control.

The EU has taken a leadership role in implementing the Kyoto Protocol and a directive for an emission-trading scheme aimed at reducing greenhouse gas emissions within the EU is pending a final decision. Business believes that such system constitutes a forceful tool to meet environmental targets cost-efficiently. However, we are concerned that some measures in the proposed directive would run contradictory to the key principles of growth and sustainable development formulated in the Lisbon strategy.

5.4.1 Strengthen Public Finance

Sound public finances are necessary for long-term macroeconomic stability contributing to favourable conditions for long-term growth. The recent development in some Member States is therefore very troublesome. Although the EU on average is in a better position than the USA (indicator 8a), there are some countries that have violated the limits allowed in the Stability and Growth Pact during the last couple of years. In this context is also worth stressing the long-term threat imposed on public finance by growing pension debts and demographic changes in many countries.

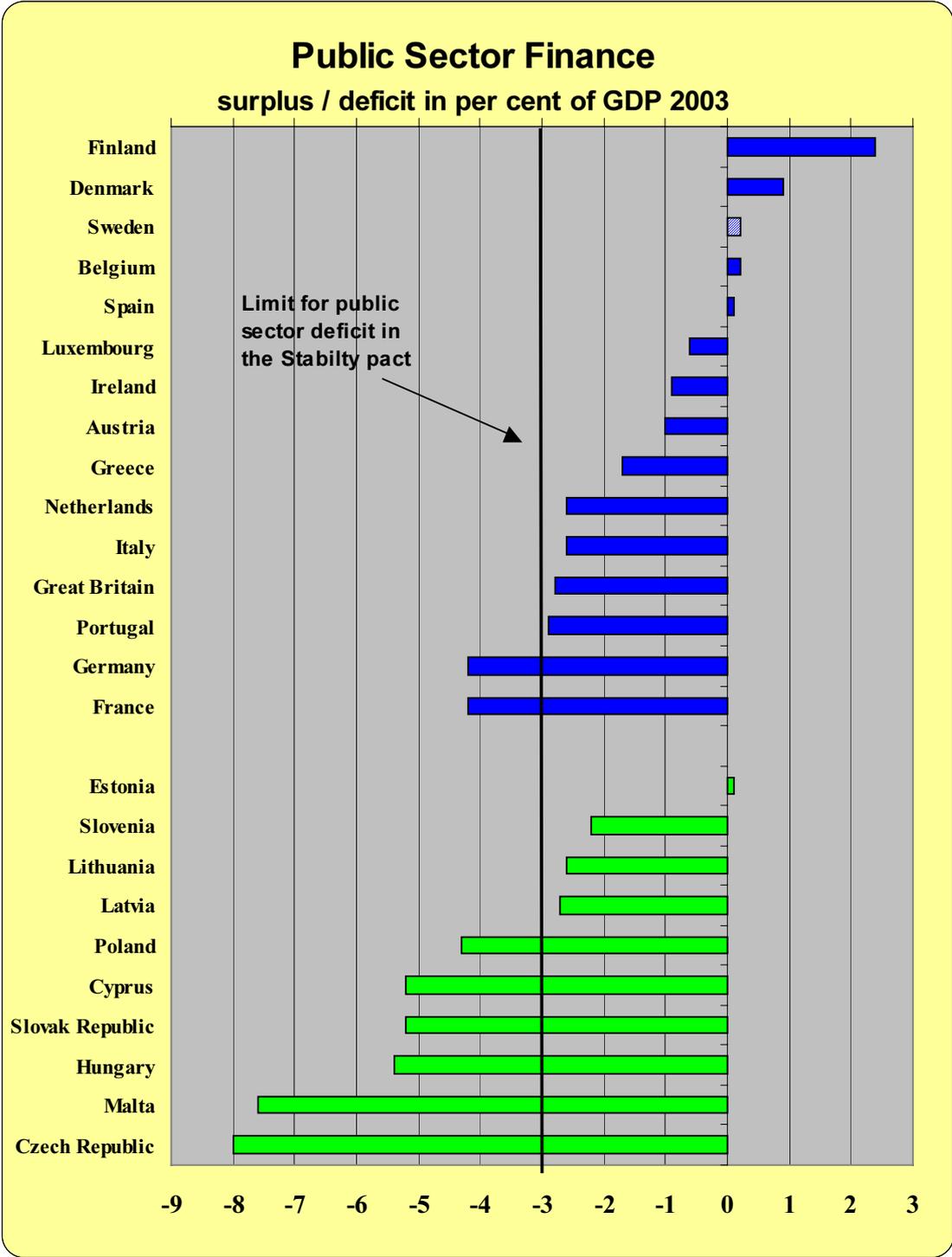
Indicator 8a. Public sector surplus/deficit in per cent of GDP in USA, EU-15, Sweden and average for the new Member States, 2003.



Source: European Commission, November 2003.

As can be seen from indicator 8b there is urgent need to improve public finance and live up to the Stability and Growth pact, especially in Germany and France. There are also some of the New Members, where the need for measures to strengthen public sector finance is pressing, e.g. the Czech Republic, Malta, the Slovak Republic, Hungary and Cyprus.

Indicator 8b. Public sector surplus/deficit in per cent of GDP, in all EU-25 countries, 2003.



Source: European Commission, November 2003.

5.4.2 Stimulate research and technological renewal

Increased expenditures on R&D in line with the 3 % target are important prerequisites for a long-term competitive industry. In this area, there is obviously much to be done in most EU-countries, not least in the new Member States.

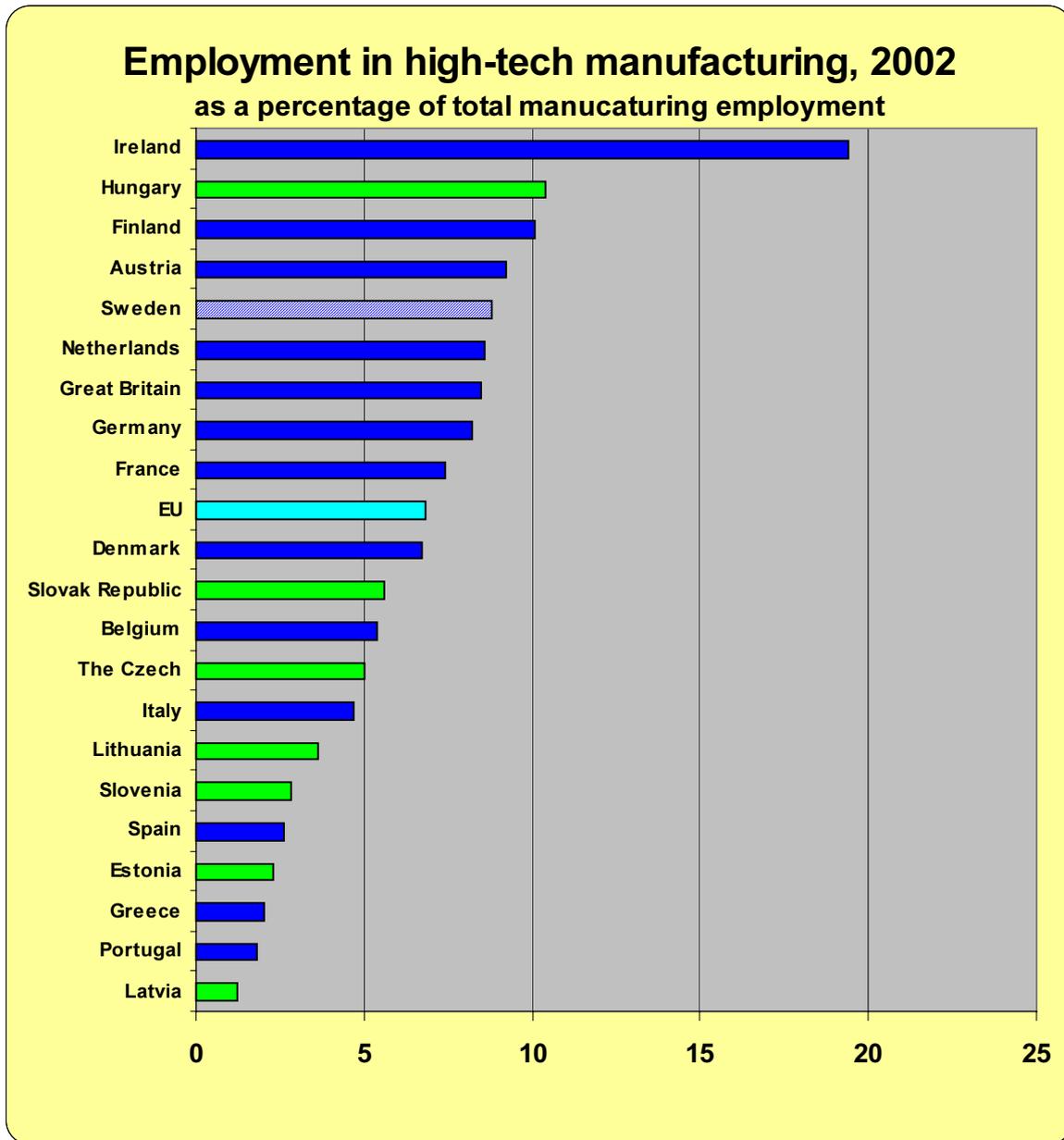
Increased employment in high-tech sectors as well as more high-tech exports are indicating that the importance of high-tech sectors is growing and that a country is successful in launching new and knowledge intensive products in international markets.

Thus, employment in high-tech manufacturing⁴ as a share of total employment in manufacturing can be seen as one indicator of the importance of the high-tech economy.

As shown by indicator 9, Ireland is here clearly at the top with close to 20 % of manufacturing employment in high-tech industries. Sweden performs better than EU on average in this respect, but still lies behind Hungary, which is clearly best among the new Member States. Estonia, Greece, Portugal and Latvia are showing the smallest high-tech manufacturing sector with just 2 % or less of employment in manufacturing being in high-tech sectors.

⁴ High-tech sectors include aerospace, computers and office machinery, radio ,TV & communication equipment, and pharmaceuticals.

Indicator 9. Employment in high-tech manufacturing as percentage of total employment in manufacturing, 2002.



Source: Eurostat, Statistics in Focus 10/2003.

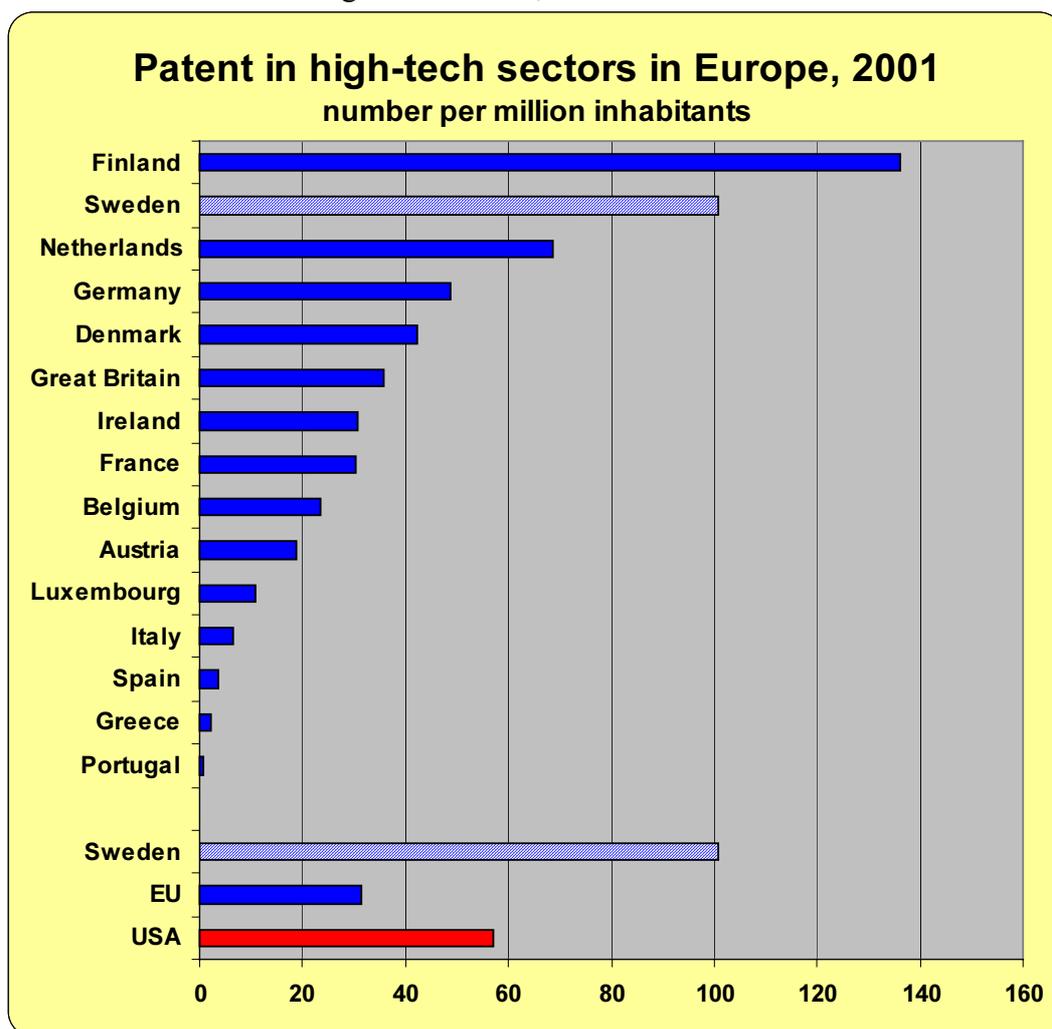
5.4.3 Support innovation

An efficient patent system is an important part of the incentive structure in a knowledge-based economy and a necessary requirement for the implementation of new thinking and innovations into the market.

If looking at the high-tech patent⁵, Finland and Sweden have the largest number of patents per inhabitant in Europe and also higher than the USA (indicator 10a).

⁵ Patent application rates in the high technology sectors include pharmaceuticals, aerospace, biotechnology and information technology.

Indicator 10a. Patent in high-tech sectors, 2001.

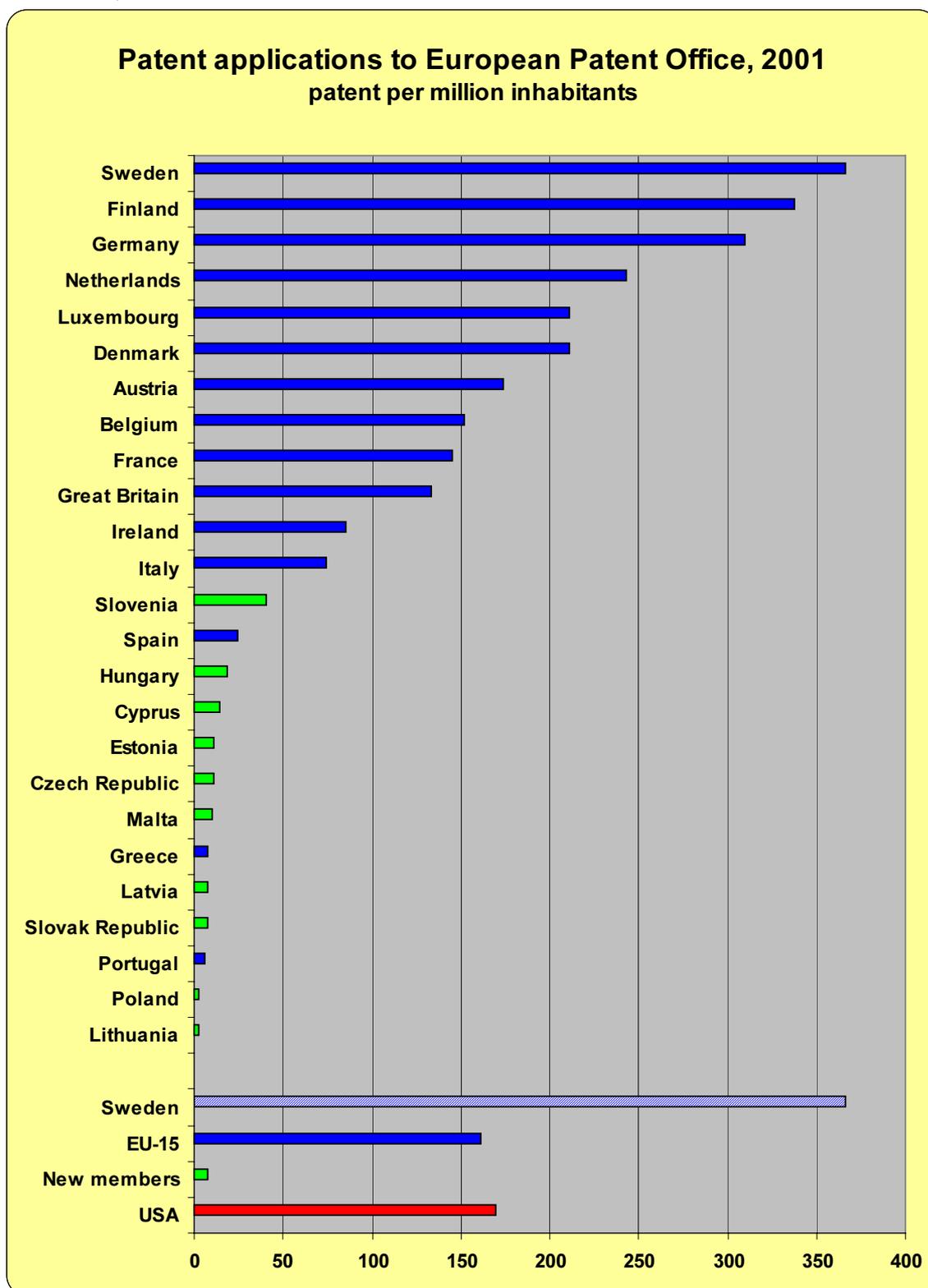


Source: Statistics in Focus, 4/2003.

It should however be taken into consideration that this only displays patent applications in Europe that have been processed through the European Patent Office (EPO). Since patents applied through the US Patent and Trademark Office (USPTO) have not been taken into account, the figures underestimate the performance of high-tech companies in the USA.

Indicator 10b shows all patent applications to EPO and clearly illustrates the huge gap in the level of patent applications between EU-15 and the new Member States. It is another illustration of the major structural changes in the economy that lies ahead in the new Member States as part of the transition process to a knowledge-based economy.

Indicator 10b. All patent applications to European Patent Office, number per million inhabitants, 2001.



Source: Eurostat. Structural Indicators, December 2003.

5.5 Create a competitive labour market

The labour market in the EU has generally developed poorly during the last decade. Too few new jobs have been created and it has proved very difficult to achieve permanently lower unemployment. The weak overall economic performance in recent years has further accentuated the problems in the labour market.

The *creation of more and better* jobs depends not least on more flexible labour markets and improved conditions for entrepreneurship. Special attention must also be given to the growing threat of “brain drain” in many EU-countries. General conditions (wages, taxes etc.) for the most qualified labour must be good enough to make it possible to attract this increasingly global part of the labour force, which clearly is a key factor behind structural renewal and higher growth.

Labour market laws must be modernised to better meet the requirements from employers as well as employees. More room for individual solutions must be promoted. The long-term unemployment has been markedly higher in EU than in the USA, which is a serious cause for concern for the EU and very distinctly shows the urgent need of structural reforms in the labour market in many EU-countries. It is primarily the responsibility of the individual Member States to improve this situation.

Labour immigration will be an important part in a policy aimed to increase the labour supply in many countries. Free movement of labour between Member States must be encouraged, e.g. through cross-border transferability of pension rights and social benefits. This should also be the case for workers from new Member States as well as from countries outside the EU.

The educational system must be improved and better suited to meet the demands from the labour market. A closer cooperation between the educational system and companies will help to raise the quality and relevance of education. Furthermore, incentive for higher education must be stronger than today, putting relative wages and taxes in focus.

5.5.1 Promote more and better jobs

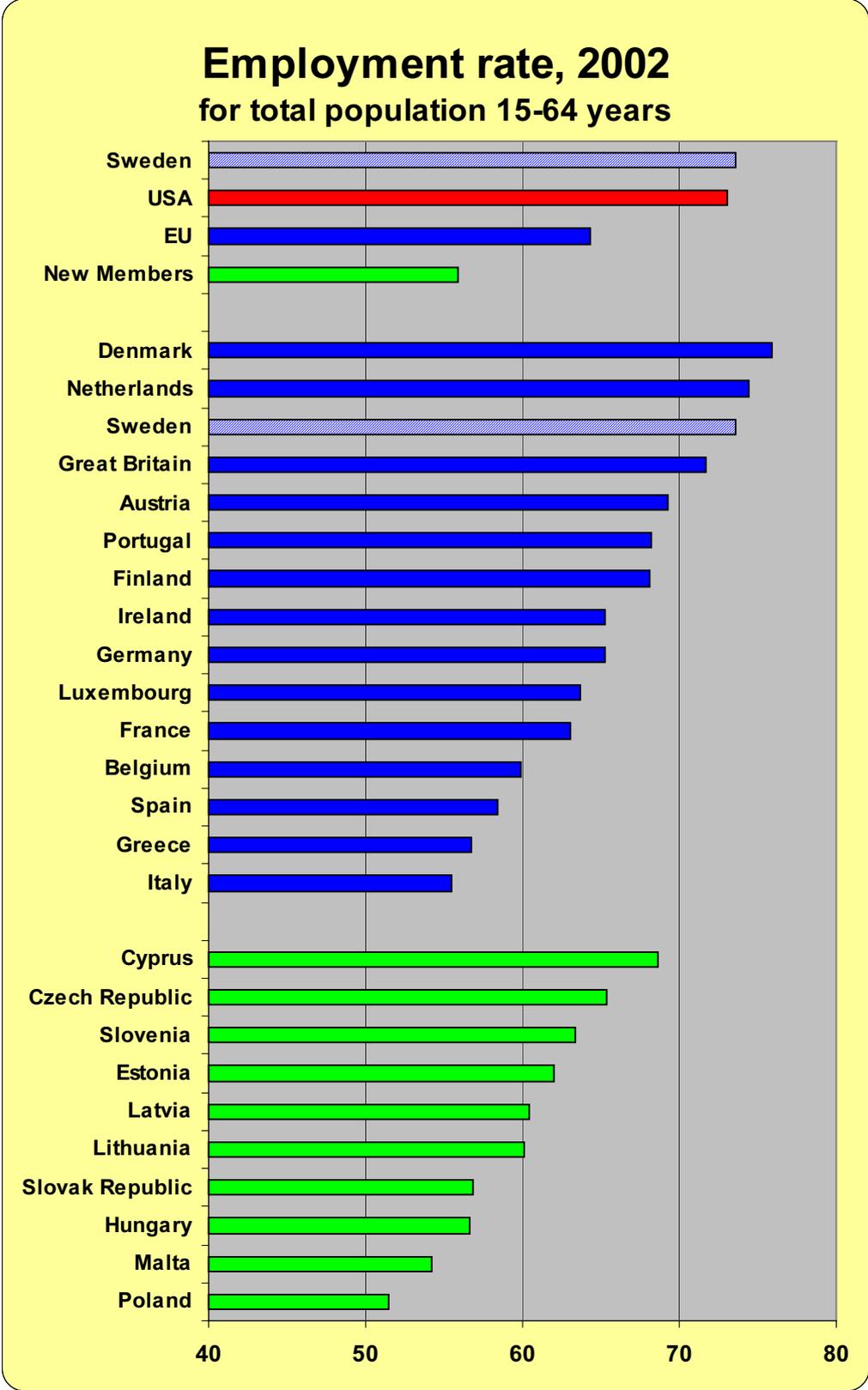
A higher level of participation on the labour market is clearly a prerequisite for the EU to reach the 3 % long-term growth target set up in Barcelona 2002. In the Lisbon agenda there are also explicit targets as regards *the employment rate* in total (67 % in 2005 and 70 % in 2010) and for women (57 % in 2005 and 60 % in 2010). An explicit target for the employment rate is also set up for workers aged 55-64 (50 % in 2010). Furthermore the efficient retirement age is targeted to increase by 5 years to 2010.

However, the development in recent years has been mixed at best. There are also large differences between countries, and while the Nordic Countries generally have a rather high employment rate, (Denmark, Netherlands, Sweden and Great Britain already have attained the target), the Mediterranean countries still are lagging far behind in spite of some progress in recent years.

The new Members on average have significantly lower employment rates than EU-15 countries, but here as well, there are important differences. Thus, Cyprus, the Czech Republic and Slovenia have employment rates slightly above the EU-15 average. Generally, however,

there are a great potential for higher growth through increased labour market participation in the new Member States.

Indicator 11. Employment rate for total population aged 15-64 years, 2002.

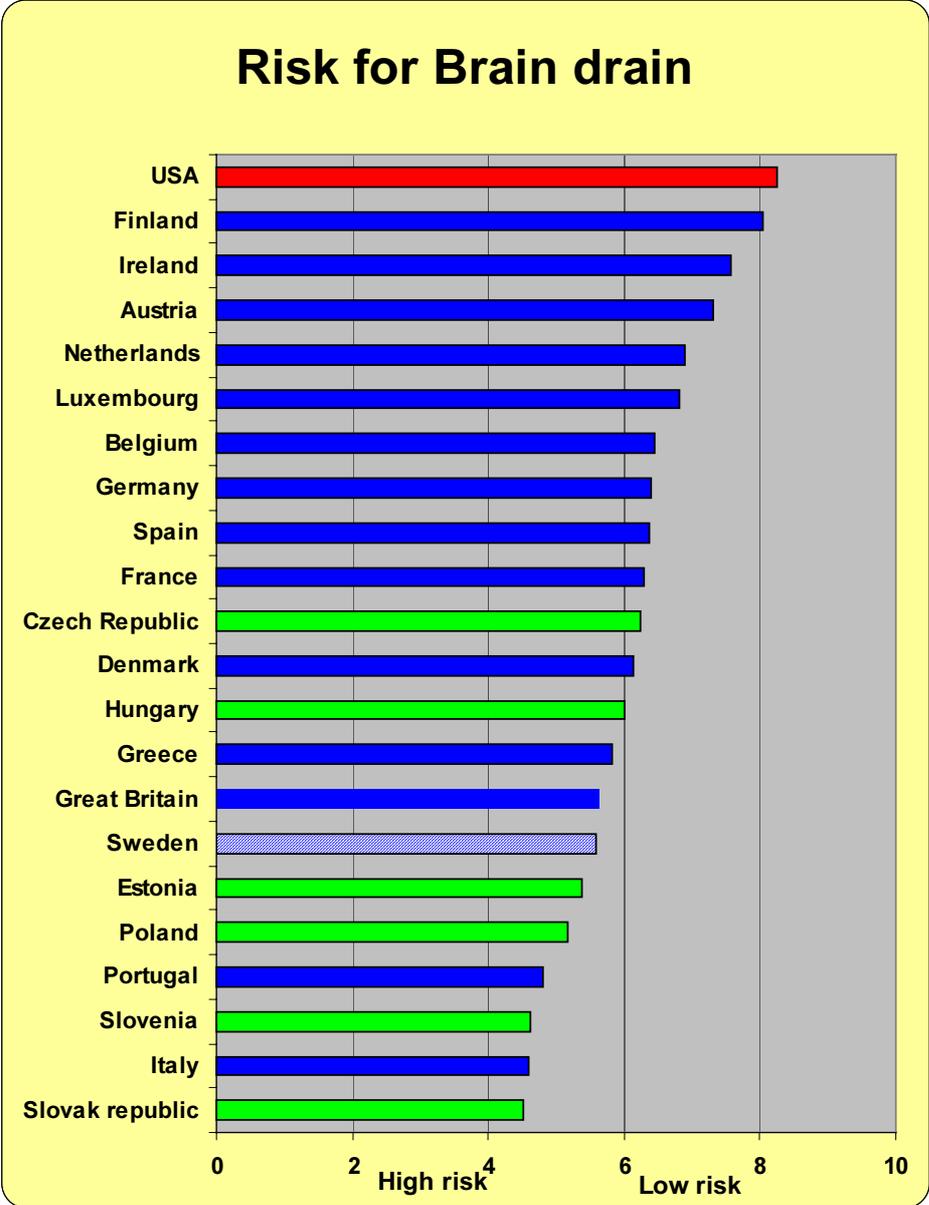


Source: Eurostat, Structural Indicators, December 2003.

To create highly qualified jobs in a world economy, characterised by an increasingly international labour market for highly qualified labour, *attractiveness* is the key word for companies as well as for countries or regions. This is of course very explicitly the case in the new enlarged EU-market. If a company or a country cannot offer attractive conditions to the most qualified labour force, there is an increasing risk of brain drain, which will have a strongly negative effect on growth and job creation.

IMD (Institute for Management Development) annually makes a survey showing the extent of the “brain drain” problem in different countries. As can be seen from indicator 12 the problem is much more pronounced in the EU than in the USA and within the EU-15 it is Sweden, Portugal and Italy that comes out worst. The problem is also highly relevant for most of the new Member States. On average they come out even worse than the EU-15 with Slovenia, the Slovak Republic and Poland at the bottom.

Indicator 12. Risk for brain drain, 2003.



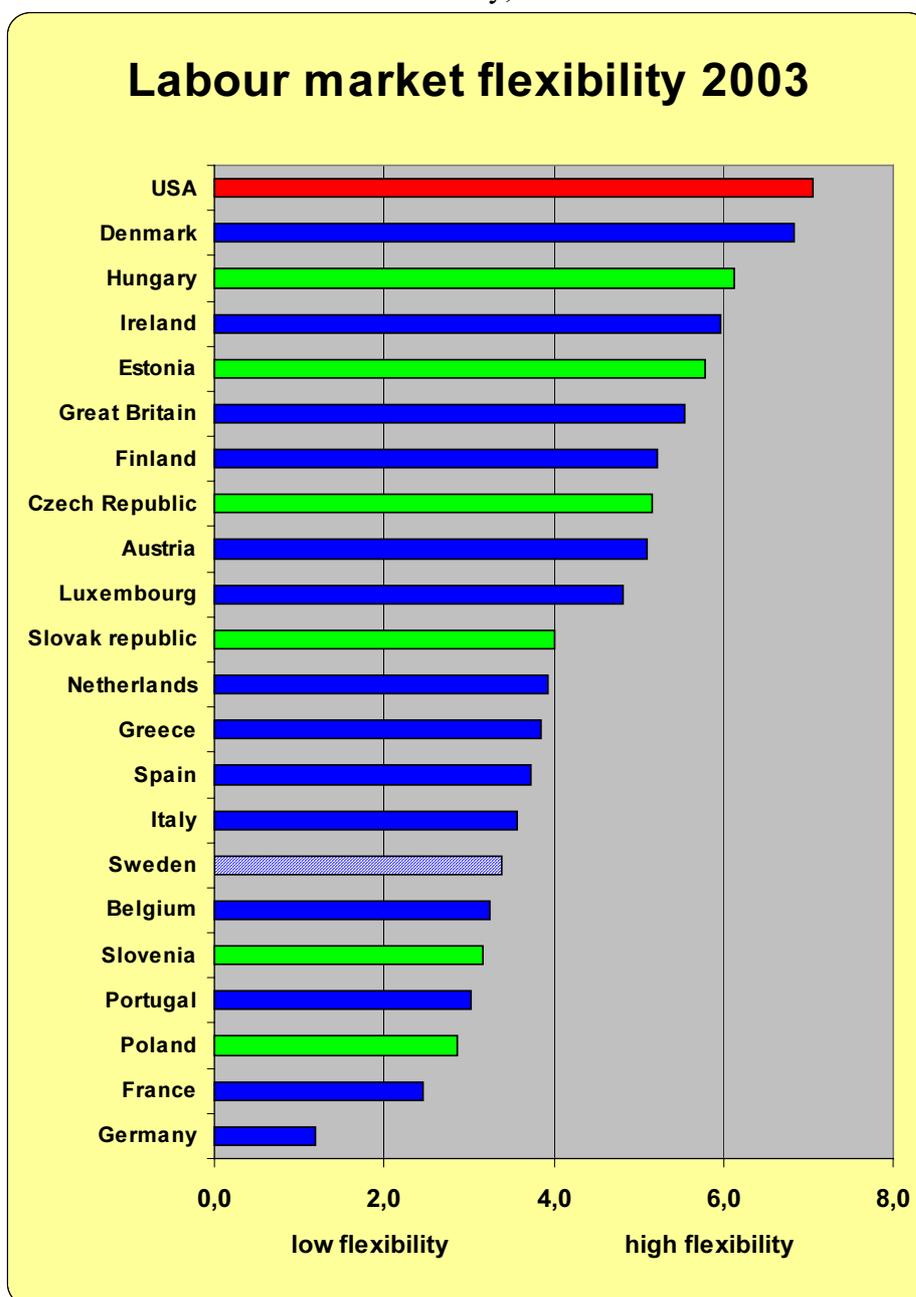
Source: Institute for Management Development, 2003.

5.5.2 Modernise labour market laws

A well functioning labour market is a crucial prerequisite for higher long-term growth. However, it is obvious that the labour market in most EU-countries is not flexible enough to tackle the problems of today and the result has been too few new jobs and permanently high structural unemployment in many EU-countries.

In the EU there are, however, also large differences between countries. Indicator 13 shows that Germany and France is considered to have the poorest functioning labour market, while Denmark and Ireland are the only countries in the EU that come close to the USA as regards the labour market flexibility.

Indicator 13. Labour market flexibility, 2003.



Source: Institute for Management Development, 2003.

Among the new Member States there is also a wide dispersion and it is interesting to notice the high score as regards labour market flexibility for Hungary and also to lesser extent for the Czech Republic and Estonia. At the bottom are Poland and Slovenia, who are regarded as having a very rigid labour market.

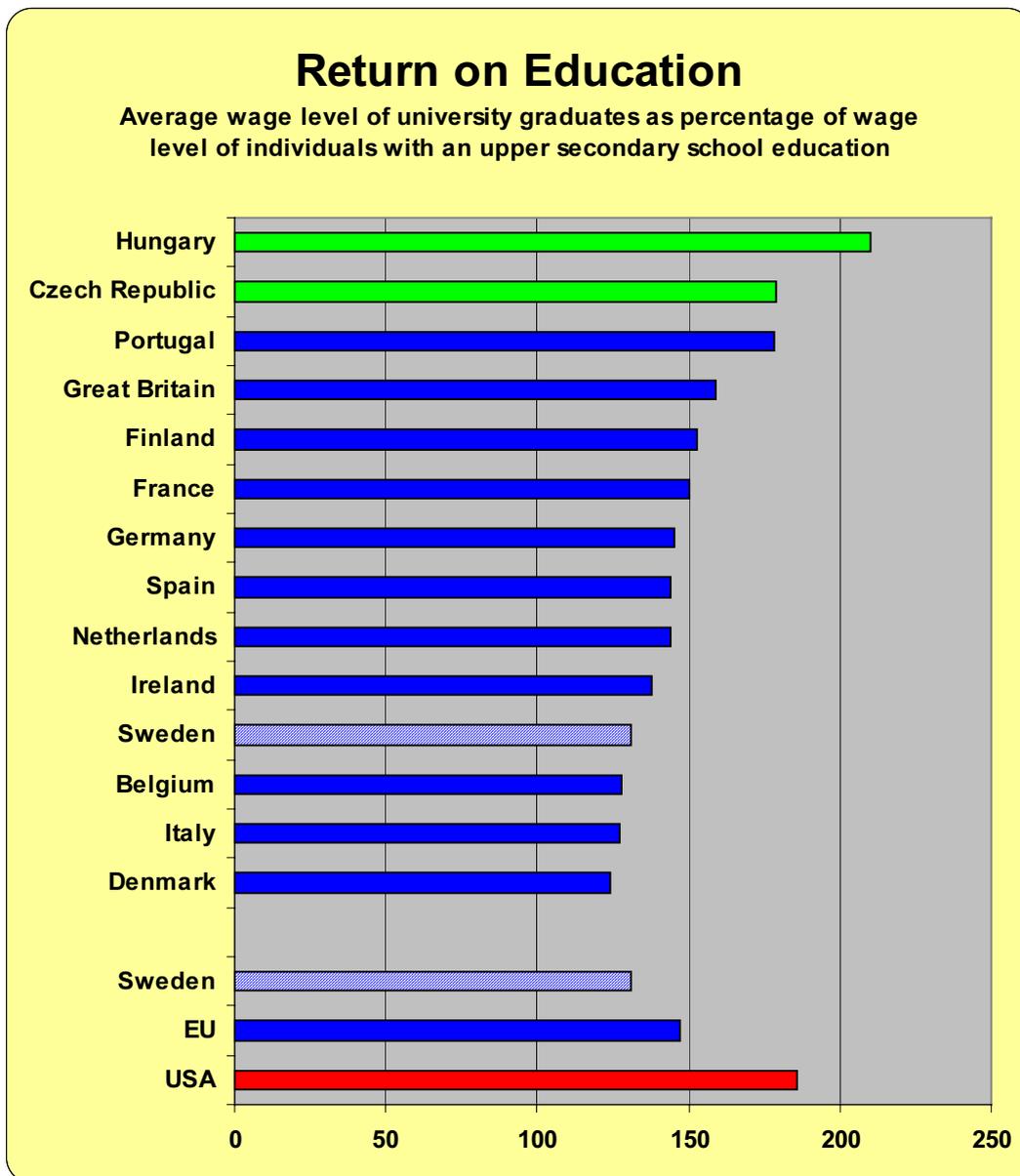
5.5.3 Improve the conditions for higher education

There has been a gradual increase in the proportion of graduates during the last years in many EU-countries, but still the EU has a significantly lower proportion of university graduates (at least three years university education) than the USA. One reason for this is the generally low return on education in many EU-countries. In a gradually more knowledge-based economy, the incentive to higher education is a key question. There must be a reasonable return on the time, money and effort invested in higher education. We must make education pay, not only at the society level, but also on the individual level. Otherwise, we will not be able to close the knowledge gap, which today is an important part of the permanently high unemployment rates in many countries.

The relative wage level for the most well educated group gives an indication of the return on higher education. Indicator 14 illustrates that in the USA the return on education is markedly higher than in the EU. The only new Member States for which figures are available, Hungary and the Czech Republic, both lies at the top showing about the same relation as the USA. In the EU-15 Portugal and Great Britain are at the top, while Denmark, Belgium, Italy and Sweden have the lowest return on education.

It is worth noticing that this comparison is made before taxes and it is clear that since taxes on labour are especially high in countries like Sweden, Belgium and Denmark, these countries would come out even worse if the comparison was based on the education return after tax.

Indicator 14. Return on education. Wage dispersion between university graduates and individuals with an upper secondary school education.



Source: OECD, Education at a Glance, 2003.

6. Lisbon objectives are crucial for our business priorities

Business objectives are going hand in hand with a large part of the Lisbon objectives crucial to Swedish and European companies. Implementation of Lisbon objectives mean reality for our five business priorities for competitiveness and growth: strengthen the value of enterprise, achieve an efficient and open Internal Market, endorse competition on equal terms and lower taxes, promote long-term growth and a dynamic economy through stimulating structural and technological renewal, create a growing, competitive and flexible labour. These five priorities are headings below followed by a number of business objectives to be found in the Lisbon Strategy that could make Europe the most competitive economy in the world by 2010.

STRENGTHEN THE VALUE OF ENTERPRISE

➤ **PROMOTE ENTREPRENEURSHIP**

It is time to recognize the importance entrepreneurship as a main driver for growth, more jobs and better conditions for all. The positive development of new enterprises and how companies are able to grow are key factors for our ability to reach the objectives of Lisbon. The Green Paper on Entrepreneurship is a very good tool to create a better entrepreneurial climate, favourable to the society as a whole. It is vital that, in order to reach the necessary results, Member States must pair any creation of new action plans at EU with new, concrete commitments.

➤ **SMEs**

Europe has 20 million SMEs. They account for two-thirds of European jobs and half of European turnover. SMEs are more important to Europe than they are to its major competitor nations. While they generate 66 % of private sector employment in Europe, it is only 46 % in the United States and 33 % in Japan. At the same time SMEs do not grow as much as they do in other regions of the world. According to the OECD, US start-ups have more than 6 times as much employment gains in their first two years of existence than start-ups in European countries. SMEs need better access to finance, for example by supporting start-ups with venture capital. There are examples where private funds supports start-ups through regional venture capital funds. But government takes a bigger share of the risk on its shoulders than private investors participating in these funds. Furthermore, more SMEs must be encouraged to make better usage of ICT.

➤ **SIMPLIFICATION AND BETTER REGULATION**

The creation of a better business climate through ***administrative simplification and regulatory reform*** is a must to secure the necessary growth. Public authorities in Member States and the EU-institutions must actively strive to reduce the regulatory burden on companies. An independent body on EU level with efficient methodology should analyse and evaluate need for legislation, level of administrative burden and cost-efficiency of legislation. New legislative proposals must be assessed on their potential cost for business. Laws that already exist must be systematically scrutinised, whether they really are needed. Impact assessment and the strive for administrative simplification must apply both on the European and on national levels. A realistic target has to be set on deregulation and to decrease the regulatory burden until 2010. The Commission Better Lawmaking action plan and good workable national models (i.a. NL, Irl, Uk, Lux) should be used on a national level and to

create a European model. National models and a European model have to be supported and implemented with a follow up mechanism measuring and quantifying the burden for companies. The OECD/Puma model contains experience worth looking at as well. Burdensome regulation is a hinder for companies to benefit from the Internal Market.

AN EFFICIENT AND OPEN INTERNAL MARKET

➤ ACHIEVE A WELL FUNCTIONING INTERNAL MARKET

A well functioning internal market with free movement of persons, goods, services and capital is the cornerstone of European integration. The internal market is the essential tool for realizing the Lisbon Strategy and the transition to a knowledge-based economy and society contributing to growth, job creation and wealth. It is estimated that the Internal Market over a decade has created 164.5 billion Euros more growth and 2,358 million more jobs since 1992. Enlargement will further contribute to realizing the potential of the European Union, but it will also challenge all Member States to make a greater effort taking responsibility for the effective functioning of the Internal Market, implementing and applying commonly agreed rules.

The Member States have to increase their effort to fulfil the internal market in all areas i.e. by implementing and correctly implement EU directives. Concerning directives linked to the Lisbon Strategy only an average of 58 % have been transposed into national law. It is quite appalling that a majority of Member States just do not care to apply commonly agreed rules while some of the Member States are doing their work as agreed even timely and correct. This unbalance harms the competitiveness of the whole EU and has negative effect on the economy and hampering companies and citizens from the benefits of the Internal Market and the potential of cross border trade.

It shows that there are many more critical issues, which need political focus and benchmarking in order to ensure an efficient Internal Market. Formally, Member States have implemented the majority of Internal Market directives needed for harmonisation and free movement in the area of goods. In practice however, there are serious problems with the implementation and enforcement of these directives, e.g. incorrect application and interpretation, weak enforcement and increasing parallel national legislation. On top of this we have new areas for EU harmonisation like environment, which risk fragmenting the Internal Market and could cause trade barriers. This creates burdensome regulation for companies and means that many of the trade barriers in the regulatory area still remain. In other words, it stops business from reaping the full benefit of the Internal Market or even believing of the purpose of the Internal Market. In a study made by the Confederation of Swedish Enterprise and several sister federations, over a quarter of the companies interviewed complain about burdensome regulation and over 60% of the companies are forced to modify products/packaging or make extra testing or certification due to national mandatory requirements. This is unacceptable if we want to have a competitive EU market. Priority is needed on implementation and enforcement, removing burdensome legislation by encouraging the EU and the Member States to become better and more efficient when regulating taking seriously business impact assessments into account. From a business perspective, one set of harmonised rules is better than 25!

The service sector growth potential has to be taken into account. The service sector alone makes up a growing share of the economy as a whole. In some countries it accounts for more

than 70 % of GDP. However, cross border and foreign trade in services is still relatively small. As a proportion of European exports, services amount to only 22 % and some 50 % of EU GDP. In almost every country, 60-70 % of the gainfully employed work in the service sector.

Furthermore, companies are affected by the manner in which the national market allows expansion and service development, and this applies to both exporting and currently non-exporting companies. The trade in services was growing very fast between 1990 and 2000. Within the EU growth was just under 60 % during that time. However, recent development shows that EU is losing shares in service exports of the world economy to USA and Asia (China).

The Commission proposal for a Service Directive aims at facilitate cross-border trade and to increase competition on the service market. Therefore it is of utmost importance that the Council and the European Parliament adopt the proposal in its present form followed by rapid and correct implementation by the Member States.

➤ **OPENING OF UTILITY MARKETS**

A well functioning internal market requires also deregulation. All sectors have to be open for competition. A smooth functioning infrastructure reduces companies' costs and relieves what could be obstacles for an efficient flow of goods, people and information – both domestically and internationally. Infrastructures such as roads, railways, energy or telecom networks only provide the means for people, goods, data, energy to move across Europe. Whether they will actually do it depends on the harmonized regulatory framework of these network industries. The energy sector, the telecom sector, transport, the postal services and many more need common regulatory frameworks correctly implemented that allow for fair and equal competition throughout an enlarged Europe.

Liberalisation in energy market – Member State need to start work to fully implement the Energy package. Incumbent Member States must give the highest priority to pursue real market opening. A complete liberalisation for the energy market will lead to better competition between companies and lower energy prices for both business and households.

Telecommunication - The full, effective and timely implementation of the new regulatory framework for electronic communications (the 1999 review of the telecom package) will ensure and maintain a competitive environment that offers incentives to innovate, invest and improve the quality of the services offered.

Transport market - Our main transport priorities - those most relevant to us – are: concluding agreements (Quick Start) on the revised guidelines for the TENS Network, including the Nordic triangle, the Fehmarn - Belt bridge connection, Motorways of the Seas program. In addition, the *Single European Sky* and the *Galileo satellite navigation system* have to become operational as soon as possible. *Infrastructure Charging* has to take the differences in consideration between periphery countries of the Union and those at the centre. Improved performance of European *long haulage* transport outside Sweden and Finland, to allow euro-module combinations of 25.25m (for less congestion, better environmental performance and improved conditions for inter modal transport). The Commission has to continue efforts for liberalisation on market access to *port services* within EU (revised Port Directive).

ENDORSE COMPETITION ON EQUAL TERMS AND LOWER TAXES

➤ FREE COMPETITION

Free competition and a level playing field is the best basis for growth. Monopolies, subsidies and excessive bureaucracy harm efficiency. Public monopolies should be exposed to competition from private alternatives in order to give citizens more value for money. Private initiatives should be encouraged at all levels of national government. Promote more competition in all parts of the economy by, for instance, increasingly opening up the public sector more to competition. The public sector has to face sound commercial practice, the demand for better service and keep the public spending under control. Most sectors such as energy, telecommunication, transport and post are almost fully open to the private sector. Other areas, such as health and education, are developing but not satisfactorily.

The newly adopted (revised) rules on Public Procurement send a positive signal to business, namely that difficult EU-legislation vitally important to growth and competitiveness can be adopted with reasonably balanced solutions. Public procurement accounts for 16% of the EU's Gross Domestic Product or about Euro 1,500 billion annually. Now it is up to the Member States to implement them correctly before 2006 in order to improve the functioning of the Internal Market. However, this will be the case only if contracting authorities are able to resist the temptation of turning public procurement into a general vehicle for other social and societal goals than those immediately connected with the procurement at hand. A troubling development in this context is the discussion on *services of general interest - SGI*. Those interests that are generally averse to public procurement would almost certainly use the construction of a new framework directive for such services. New national barriers to trade as a result of such a directive could thus threaten to undermine some of the principles of the Internal Market.

The Modernisation of EU Competition Policy. In ***the field of anti-trust***, the necessary legislative measures have been taken to thoroughly reform the application of the substantive rules contained in Articles 81 and 82 EC. The long call by business for a fundamentally different and improved procedural order and a much more economics oriented assessment has to a large extent been heeded. However, the new principles have to be pursued with regard to remaining issues, and, in particular, in the implementation phase. Within the framework of the rules and guidelines laid down, the network of competition authorities must provide efficient case handling coupled with unified application and legal certainty.

The new Merger Regulation and Horizontal Guidelines, as well as the amended internal procedures of the Commission, provide the basis for a better and more future-proof decision-making. A sufficiently dynamic approach is of decisive importance to the assessment of proposed mergers, and as an integral part of that, when defining the relevant market. Also, efficiencies flowing from a merger must be duly taken account of in practice when reasonably substantiated, allowing for the inherent uncertainty and business risk. Only if the merger control is operated with a high degree of predictability and legal certainty, but yet in a clearly dynamic perspective will it be able to contribute to increased and sustainable competitiveness of EU companies; only then will it avoid creating harmful deterrent side-effects and impeding smaller Member States from hosting multinational corporations and centres of excellence.

State subsidies to business should be abolished. Fewer subsidies would improve company performance and make it possible to lower taxes.

➤ **REDUCE TAXES AND PUBLIC DEFICITS**

Fulfil the target of achieving a public surplus of 2% over the business cycle. In Sweden both taxes and public expenditures as a share of GDP have to be decreased without damaging the public surplus. Priority has to be given to abolishing both wealth and inheritance taxes as well as lowering taxes on entrepreneurship.

Lower taxes on work and investment would improve growth prospects and entrepreneurship. Taxes in Sweden are well above the European average, which in its turn is higher than the OECD average. This is a competitive disadvantage. Reviews of the Swedish economy undertaken by the European Commission have rightly urged Sweden to reduce taxes, in particular on unskilled labour. Sound tax competition should be encouraged between Member States or third countries. In light of the increased number of Member States, there may be a need to consider qualified majority voting (QMV) in tax matters related to cross-border activities, but the right to set tax rates should be reserved for individual Member States. Unfair tax competition and the use of state aid must be critically assessed in the light of its impact on trade patterns and other distortions. The governments also have to encourage the Commission's work on erasing a number of tax obstacles to cross-border economic activity in the internal market, amongst them to introduce a consolidated corporate tax base for companies with EU-wide activities. There is clearly a need to reform the VAT system in order to make it possible for companies in the internal market to utilize the full potential of the internal market. With the present system, it is sometimes more difficult to sell to another member state than to a third country. Taxation of enterprises must generally be such that it fosters growth and the creation of more jobs, in particular in SMEs. Furthermore, as regards Sweden, the wealth tax must be abolished to stop tax induced capital flight. There is also a need to lower capital income taxes, on dividends and interest income.

In order to achieve sustainable public finance it is a need to reduce structural budget deficits. This is indispensable for the well being of future generations, but also for our current macro-economic stability. The framework of fiscal rules such, as the *Stability and Growth Pact* is a good one. However, it is disappointing to see that the main advocates to create such a pact is now is among the Member States not respecting the rules only because their economic situation deteriorated due to lack of reforms in good economic times. The more public debt and deficits deteriorate, the more important that the rules of the Pact are followed.

CREATE A GROWING, COMPETITIVE AND FLEXIBLE LABOUR MARKET

➤ **FLEXIBLE AND IMPROVED LABOUR MARKET**

In Sweden the labour market needs to be more flexible to allow structural changes. Taxes and benefits must be changed to make work pay. A more decentralized bargaining system should allow wages to better reflect productivity differences. Free movement of labour in EU 25 must be encouraged, not least through cross-border transferability of pension rights and social benefits.

Achieving **more and better jobs** depends not least on more flexible labour markets, better productivity and improved conditions for entrepreneurship. Companies have to adapt their work continuously in order to meet new demands. Regulations, however, tend to remain rigid and do not support enterprise as well as they should. Member States, in particular, should improve this situation. Free movement of labour between Member States must be encouraged, not least through cross-border transferability of pension rights and social benefits. This should also be the case for workers from the ten new EU Member States from the first day of their accession, as well as for third-country nationals. A more flexible labour market in general must be promoted, including making it easier for companies to find people with the right skills.

A positive sign is the progress has been achieved in raising the employment rate in Europe since the launch of the Lisbon Strategy 2000. However, the number of people that cannot be employed in Europe is still too large. In a Europe of 25, the current employment rate would be 62,8 %, which is way too low compared with the US (72 %) and with the Lisbon goal of 70 % employment rate by 2010; to achieve that goal EU-15 must create 15 million jobs!

The European labour markets could fail with the excessively high unemployment rate in EU-15. In the ten New Member States unemployment is also a major problem. The average unemployment rate in the EU-25 is in 2003, 8,9%. More than every third of these was long-term unemployed.

It is a deficiency that the labour market is given so little explicit attention in the Lisbon Agenda, as the poor functioning labour market in many EU countries clearly is a main factor behind the lacklustre growth performance. This is especially true for major countries as Germany, France and Italy.

The situation calls for national labour market reforms including a more decentralised and individualised wage formation, rules making it less burdensome to hire and fire employees and facilitating an increasingly important labour immigration.

PROMOTE LONG-TERM GROWTH AND A DYNAMIC ECONOMY THROUGH STIMULATING STRUCTURAL AND TECHNOLOGICAL RENEWAL

➤ STIMULATE R&D AND INNOVATION

The “3 % Action Plan” will be supported by “European Technology Platforms”, i.e. clusters for promising future technology areas. Support for these platforms must be put into action quickly, as they can strongly contribute to innovation, provided that industry is sitting in the driving seat to guide those platforms towards real, marketable innovation. Strive for at real European research area; reform university systems in Europe for more innovation-oriented research, in particular, university-business research partnerships must become easier. To boost the usage of ICT and ICT-related R&D in Europe, public authorities must quickly make all public services available online. E-government is another domain in which many European States lag behind the US, Canada or Australia.

The latest compromise proposals for a *Community Patent* are alarming. European industry has for a long time raised its concern that the community patent system in the end will not fulfil the original objectives; to strengthen European Industry’s competitiveness with

affordable patent protection that creates legal certainty. Since innovation and the competitiveness of the EU is at stake, it is time that there is a response to users' needs on this subject and appropriate measures taken

If the Member States cannot agree on a Community Patent System that would meet the interest of industry and EU competitiveness, Europe and its industry is better off without it. The further improvement of the existing European Patent System could then serve the interest of innovative European companies. However, the best would be if the project were to be re-initiated, including a more thorough discussion with the users of the future instrument.

Computer implemented inventions cover a very broad area of inventions and a well-balanced patent protection regime that is vital to all innovative sectors. Patents for computer-implemented inventions are already being granted by the European Patent Office as well as by national patent offices. Due to some legal uncertainties in relation to these patents, the Commissions proposal for a directive was generally welcomed by industry since the purpose with the proposal was only to clarify and harmonise the conditions for patentability of such inventions - all in consistence with the current praxis of the European Patent Office.

As the work with the proposal has gone on, the initial aim seems to have been forgotten. It is therefore important to highlight the drastically consequences that restrictions for patentability in this field would have for European industry. According to the Parliaments suggestions, large parts of what can today be patented would no longer be patentable. Examples include car motor management systems, digital telecom systems, computer controlled chemical process technology, image processing in diagnostic equipment etc. The proposed amendments go against fundamental principles of established European patent law and are not in consistence with international agreements on intellectual property.

The directive must not create further uncertainty by introducing special rules for this field of technology and that harmonisation must not lead to more narrow possibilities to protect software related inventions. If these conditions are not fulfilled, then industry is better off without a directive.

Biotechnology is another area, with great potential wealth effects for the society. A strong development in these key areas is crucial for growth and technological renewal.

➤ ACCESS TO FINANCE

Access to risk capital and equity financing at low cost is of the highest importance to develop new ideas, technologies and new markets. Business and in particular innovative SMEs, need efficient financial markets.

Financial Services - Member States have to increase their effort to meet the Lisbon target to create efficient and integrated financial markets (FSAP by 2005 and securities markets by 2003). 42 measures are needed to complete the Financial Service Action Plan (FSAP) with 38 signed off so far i.e. 86 % of measures have been achieved, rather successful in comparison with other areas. The Council and the European Parliament should adopt the Investment Services and Transparency Directives by April 2004 at the latest. The Lamfalussy fast track procedure has facilitated the adoption of legislation and to bring it into line with the evolution of markets. Now applied in the securities market, it should be extended to banks, insurance and conglomerate.

➤ SUSTAINABLE DEVELOPMENT AND COMPETITIVENESS

In the last 10 years, over 500 laws on environmental policy have been adopted in the EU, and it is becoming more and more. Their implementation has become extremely costly, especially because those rules often lack coherence between each other. Moreover, more efficient solutions of self- or co-regulation could be found.

Sustainable development - Business considers the strategy for sustainable development in Europe to be an important process. It is important to bear in mind that the three legs of sustainable development are not equal dimensions. In fact, economic growth is a prerequisite for sound development at the environmental and social level. We believe that market-driven solutions can achieve tangible results far faster than the use of regulation and control.

Climate Change – The EU has taken a leadership role in implementing the Kyoto Protocol. The directive for an emission-trading scheme aimed at reducing greenhouse gas emissions within the EU is being implemented and the trading is intended to start year 2005. Business believes that such system is theoretically a cost-efficient way to meet environmental targets. We are, however, concerned that measures in allocating allowances and indirect effect of power price would run contradictory to the key principles of growth and sustainable development formulated in the Lisbon strategy. It is vital from a competition point of view that a EU-wide trading system does not penalise growing industries and energy-efficient industries that have already undertaken measure. If the cost of the emission allowances could be added on the production cost of for example coal-fired generated power, all the amount of electricity, which is offered on the power market, will increase in price. The price on the electricity power exchange, NordPool, is today the reference price to nearly all the commercial contracts. This will affect the price of electricity to the whole society but especially jeopardises the competition of the electricity-intensive industry in Europe. We believe it would be possible to find an unbundling of the emission trading allowances and the power prices on separate markets.

➤ EDUCATION AND TRAINING

Attractiveness is the key for the regions and firms that want to be winners in a continuously more global economy. To attract the most skilful individuals on a steadily more international labour market, it is necessary to be competitive. It is all about brain gain or brain drain, something crucial for the long-term growth prospects. The Confederation of Swedish Enterprise believes that education/training and a skilled labour force are key areas for Swedish and European companies. The goal is to improve collaboration between enterprise and education and research facilities. Four areas should be prioritized to reach this goal:

- Increase the competence supply in the labour market
- Improve quality in the field of education and research
- Increase public awareness about the competence requirements of companies
- Create a growth related R&D policy.

Many countries, not least Sweden, must adjust tax structure allowing wage dispersion more compatible with stronger incentives for education and creating attractive conditions for the most high-skilled labour.

In comparison with other OECD countries, the Swedish educational system has during the last ten years improved in several aspects. Sweden is today placed fifth among the OECD countries with regard to the costs of higher education and research as part of GDP. Moreover, the number of people with a university degree in the field of science and technology has increased. Nevertheless, much work remains in order to improve the Swedish educational system. Sweden is one of the countries with the lowest proportion of 20-year-olds enrolled in university, with only 30 % starting higher-level education within three years after secondary education. It is also important that University educations answer to the demand of the labour market. A closer cooperation between the education and companies will help raise the quality and relevance of the education. Vocational training has a crucial role to play in order to provide the labour market with qualifications and competences. Unfortunately, the quality and the attractiveness of vocational education and training do not meet the needs of companies and several business sectors face a shortage of qualified people.

Education in Europe must provide for a world-class labour force. This is first and foremost a challenge for public education systems, some of which have been losing in quality, according to the OECD "PISA"-study. Additionally, a culture of lifelong learning must evolve among the European workforce. Our workforce must intensify skills in Information and Communication Technology.

ANNEX

PENDING LISBON PROPOSALS – ADOPTION NEEDED BY EUROPEAN PARLIAMENT AND COUNCIL

This legislative roadmap gives a clear picture of the state of pending EU-legislation. It is not an insurmountable amount and should be possible to realize by the two legislative partners the Council and EP. However, one would need a road map or a scoreboard of work to be done by Member States. The majority of areas to achieve the Lisbon objectives are not only pending proposals in the EU machinery – it is Member States executive work to make Lisbon happen that is lacking. Examples are non- implementation and not enforcing adopted EU-legislation or in area where national competences prevail such as taxes, labour market, administrative simplification, entrepreneurship and SME, R&D, education etc.

LISBON STRATEGY - LEGISLATIVE ROADMAP		
(* = Common position before June 2004)		
COUNCIL responsible:	Before end of present Parliament (in April 2004)	Before mid-term review (in March 2005)
COMPETITIVENESS	<ul style="list-style-type: none"> ▪ Community patent 	<ul style="list-style-type: none"> ▪ Recognition of professional qualifications* ▪ Enforcement of intellectual property rights* ▪ Consumer protection enforcement co-operation* ▪ Unfair commercial practices* ▪ Community patent (jurisdiction proposal and Munich Convention) ▪ Patentability of software ▪ Framework directive on services ▪ REACH
ECOFIN	<ul style="list-style-type: none"> ▪ Transparency directive ▪ Directive on investment services 	
TRANSPORT, TELECOMMUNICATION, ENERGY	<ul style="list-style-type: none"> ▪ 2nd railway package ▪ Maritime security ▪ TENs – transport 	<ul style="list-style-type: none"> ▪ Framework directive on eco-design of energy using products* ▪ Energy supply and efficiency ▪ 3rd railway package ▪ Road pricing for heavy goods vehicles (Eurovignette) ▪ e-Content ▪ Internet safety action plan ▪ TENs – energy
EMPLOYMENT, SOCIAL POLICY, HEALTH, CONSUMER	<ul style="list-style-type: none"> ▪ Regulation 1408/71 ▪ European health insurance card ▪ Temporary work 	<ul style="list-style-type: none"> ▪ Directive article 13 (not including professional circles)
EDUCATION & CULTURE		<ul style="list-style-type: none"> ▪ Life-long learning framework programme ▪ New generation of programmes for post-2006
ENVIRONMENT	<ul style="list-style-type: none"> ▪ Environmental liability ▪ Kyoto flexibility mechanism 	<ul style="list-style-type: none"> ▪ Aarhus convention

Source: European Commission "Reforms for the enlarged Union", COM(2004)29, 21.1.2004

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