

ECOS-010

Brussels, 6 March 2003

OPINION

of the Committee of the Regions

of 12 February 2003

on the

Communication of the European Commission on

Productivity: the Key to Competitiveness of European Economies and Enterprises

(COM(2002) 262 final)

THE COMMITTEE OF THE REGIONS,

HAVING REGARD TO the Communication of the European Commission "*Productivity: the Key to Competitiveness of European Economies and Enterprises*", COM (2002) 262 final;

HAVING REGARD TO the Decision of the European Commission of 4 March 2002 to consult it on this matter, under the first paragraph of Article 265 of the Treaty establishing the European Community;

HAVING REGARD TO the Decision of its Bureau of 12 March 2002 to instruct the Commission for "Economic and Social Policy" to prepare the Committee's work on this subject;

HAVING REGARD TO the Presidency Conclusions of the Lisbon European Council of 23/24 March 2000;

HAVING REGARD TO the Presidency Conclusions of the Barcelona European Council 15/16 March 2002;

WHEREAS In March 2000 the Lisbon Council decided that the European Union should set the new strategic goal for the next decade: to become 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;

WHEREAS only two years later the trends in productivity growth are not sufficient to attain the goals of the Lisbon Strategy in the remaining years until 2010;

WHEREAS the causes and remedies of the underperformance of the EU productivity growth are known; insufficient willingness and ability to change are the real obstacle to reforms and attaining the Lisbon goals;

WHEREAS the need for reform is becoming even more urgent in view of the forthcoming enlargement of the Union;

WHEREAS Local and regional authorities are not only directly affected by the Lisbon Strategy, they are also key to achieving the goals of the Lisbon Strategy;

HAVING REGARD TO its draft opinion (CdR 224/2002 rev. 1) adopted on 25 September 2002 by the Commission for Economic and Social Policy (rapporteur: **Mr Peter Moore**, Liberal Democrat Member of Sheffield Metropolitan Borough Council, UK/ELDR);

adopted the following opinion at its 48th plenary session, held on 12 and 13 February 2003 (meeting of 12 February):

The Committee of the Regions' views and recommendations

1. General comments

The Committee of the Regions

1. **believes** that the underperformance of the EU in labour-productivity growth and the failure to implement the reforms necessary to attain the goals of the Lisbon Strategy are reason for concern. The EU and its Member States must step up considerably the implementation of the Lisbon Strategy, and show ambition and courage to introduce the necessary and long overdue reforms;
2. **stresses** that local and regional authorities are key to achieving the goals of the Lisbon strategy. Equally, these measures determine to a certain extent the room for manoeuvre of local and regional authorities. It is therefore regrettable that the report does not mention the role of local and regional authorities, notably in the areas of ICT, education and training, R&D. The Lisbon Strategy should be implemented in a way that best matches the needs and specificities of local and regional authorities. A study into the role that local and regional authorities play in augmenting productivity and competitiveness is therefore needed;
3. **maintains** that the forthcoming accession of new Member States will have an important impact on the productivity of the EU as a whole. Given the relative differences between current and future Member States in the structure and strength of their economies, the composition of their labour forces, their ability to change and innovate, it would be appropriate for the applicant countries to be included in the communication.

2. Productivity and standards of living in the EU

The Committee of the Regions

1. **endorses** the priority area recognised by the Barcelona Council: further development of employment policies with a particular focus on labour market reforms;
2. **underlines** the importance of labour market flexibility across the EU, and calls for a better analysis of each dimension of flexibility, such as working patterns, wage, numerical, functional, skill and geographical, identifying its relevance to economic performance and job creation. Although the variety of national weaknesses and strengths will necessitate customised solutions in Member States, there must be an integrated and mutually reinforcing approach to meet the Lisbon targets of high growth and full employment, while remaining on the path of sustainable development. Job creation and the promotion of "employability" will be the core of any successful employment strategy. Subsidising ailing businesses to preserve existing jobs must not threaten structural change;
3. believes that special attention must be given to strategies to be implemented in the applicant countries with a view to bringing employability levels into line with those in the other European countries as quickly as possible; here too, local and regional authorities will have a crucial part to play.

3. The role of ICT and Innovation in Productivity growth

The Committee of the Regions

1. **believes** that diffusion of ICT plays a key role, and depends on the right framework conditions, whereas the existence of a large ICT producing industry is neither a necessary nor a sufficient condition to successfully experience the growth effects of ICT. With regard to the diffusion of ICT, as well as education and training, local and regional authorities play a key role. The CoR therefore suggests therefore that the European Commission includes local and regional authorities in its proposals and encourages them to prioritise the diffusion of ICT in remote and less favoured areas;
2. **wishes to stress** that efforts behind the *e*Europe initiative must be stepped up. In this respect the CoR welcomes the comprehensive *e*Europe 2005 Action Plan, presented at the Seville European Council and, given its role in the development of ICT and its impact on productivity, draws particular attention to the importance of ensuring widespread availability of broadband access at competitive prices for all EU regions, including the most disadvantaged and outermost regions, thereby helping at least partially to alleviate the physical isolation of the latter;
3. **calls on** the European Commission, on the basis of the second paragraph of Article 299, to make the necessary adjustments to allow the outermost regions to harness the opportunities offered by ICT and R&D and put forward concrete projects using existing instruments such as the innovative actions, Interreg III, the sixth framework programme and ERA-NET. On a number of occasions, these instruments have proved insufficiently adapted to the special position of the outermost regions;

4. **believes** that the shortage of skilled labour at crucial stages of technological modernisation must be urgently addressed. It is imperative that all initiatives listed in the Presidency Conclusions of the Barcelona Council in this regard to be taken forward by the Member States;
5. **urges** that the issue of a Community Patent must finally be resolved in order to boost innovation. In addition, the CoR would like to underline the importance of harmonising Member States' legislation on the patentability of inventions related to computer programs;
6. **maintains** that more investment in Research and Development is needed. The CoR endorses the target of Research and Development spending of 3% of GDP by the end of the decade – two-thirds of which should be private, with special emphasis on encouraging the involvement of SLEs in RD activities (Barcelona Council). Furthermore, the CoR advocates a stronger link between industry and science both nationally and internationally across Member States, both within and outside the EU. Local and regional authorities play a vital role in this area. It is particularly important that all regions should be involved in the European Research Area (ERA), with special attention for the outermost regions, as stipulated in the European Commission's communication on the regional dimension of the European Research Area (COM(2001) 549 final);
7. **calls** for an action plan on the Commission's communication "Life Sciences and Biotechnology – a Strategy for Europe" [COM(2002) 27 final], taking account of social/ethical concerns and the precautionary principle. Therefore we recommend that the barriers and the way forward identified for biotechnology in the following be considered and implemented: *European Competitiveness Report 2001*¹, *Innovation and Competitiveness in European Biotechnology*²;
8. **calls** for a progress report from the Commission on its intention to better integrate innovation into a European Knowledge Area, with the aim of improving intellectual property rights across Europe.

4. Productivity growth in manufacturing in recent years

The Committee of the Regions

1. **recommends** more research on the relation between labour costs and productivity in this sector; and recognises the need to increase the share of technology driven industries in the EU.
2. **recommends** that incentives and programmes to modernise production processes and non human capital be more widely deployed in the member states.
3. **recommends** increasing venture capital, seed capital and participating loans to set up new companies, in particular those in technology and ITC, in their start-up and development phases; providing incentives to train managers who are specialised in these financial instruments; and supporting private and public local operators so that they can be involved in financing these measures.

5. Productivity growth in the European service sector in recent years

The Committee of the Regions

1. **calls** for better collection, collation and analysis of comparable data on productivity across the Member States;
2. **stresses** that a more favourable climate must be created for entrepreneurship. The rules that govern the setting up of new firms in the distribution and retail sectors must be eased. The CoR also supports the call for incentives for innovation in the service sector, as well as the reduction/removal of bureaucratic/systemic impediments to entrepreneurship. However the CoR does not support the de-regulation of hiring and firing, believing it would be counterproductive in both economic and social terms, inimical to the European Social Model and detrimental to the efforts of local and regional authorities to secure the well-being of their localities and regions;
3. **supports** the vigorous pursuit of market liberalisation towards a single market for financial services and the Financial Services Action Plan;
4. **strongly believes** that barriers in the internal market for services must be eliminated. European, national, regional and local authorities must all increase efforts to remove legal and other obstacles.

6. Human Capital and Productivity Growth

The Committee of the Regions

1. **recognises** that the quality and composition of the labour force is a determining factor in productivity. Therefore elements such as equal opportunities, immigration, lifelong learning and mobility should have a prominent place in the debate on productivity. New paradigms and methods of training and education must be explored. In particular, e-learning will become a core component of vocational training, at both shopfloor and managerial level, and in particular during specialisation, ongoing training and re-training. More software will also be designed incorporating the most up-to-date educational and user-friendly techniques for students;
2. **believes** that the importance of increasing labour market participation must be emphasized more strongly. The CoR feels that Lisbon, the Barcelona Council and the Commission should all have also recognised the importance of increasing labour force participation for women. This also applies to other disadvantaged groups such as older, disabled, ethnic minority, and lesbian/gay/bisexual workers. There is a huge need for increasing labour force participation as a whole. Productivity can be boosted by mobilising the unused potential of all groups who are currently excluded from the labour market. There are substantial benefits in productivity and competitiveness to be gained through increasing skills at managing diversity;
3. **maintains** that further measures are needed to remove obstacles to mobility. Member States must eliminate barriers to recognition of professional qualifications. ICT and language skills are essential tools for mobility. As local and regional authorities are often responsible for these areas, they should be included in any Commission proposals. The CoR also supports the Commission Action Plan to remove barriers by 2005.

7. Enterprise policy, Competition Policy and Productivity Growth

The Committee of the Regions

1. **supports** the Commission's recognition of the need to decrease centralisation and state aid, while ensuring that measures to support economic growth are put in place and built upon. CoR welcomes less and better targeted state aid, targeted towards more horizontal shared objectives and at clearly identified market failures. Priorities should be established for state aid policies, with the main criteria being the extent to which they foster innovation and risk-taking and encourage SMEs;
2. **feels** that the Commission's communication should better address venture capital provisions and entrepreneurship, and in particular the role of local and regional authorities in this area. Policy, the removal of structural impediments, facilitation of access to finance, incentives to promote innovation and R&D, are some of the ways to encourage private investment and a vibrant start-up culture in the EU;
3. **believes** that there is a need to improve corporate governance by taking steps to guarantee transparency of management and accounting, and to protect shareholders as well as other stakeholders such as employees from the consequences of mismanagement;
4. **endorses** that the Merger Review should assess whether the existing tools could be improved under the Merger Regulation, to permit verifiable merger-specific efficiency gains and offset negative effects such as price increases caused by the creation/strengthening of a dominant market position.

8. Enterprise policy and Sustainable Development in Manufacturing

The Committee of the Regions

1. **supports** the implementation of structural economic reforms and environmental policies that avoid the trade-off between growth and environmental progress in manufacturing. The CoR recognises that environmental policies can contribute to competitiveness and growth by introducing greater production efficiency and creating new markets, despite imposing some costs on industry;
2. **endorses** the call of the Barcelona Council for a report on the sustainability impact assessment for all major policy proposals and initiatives, analysing their economic, social and environmental consequences, so that the process of adapting EU policy and practice can be continued.
3. **recommends** that a comparative study be carried out of the differences in costs to businesses of using essential infrastructure. Such differences must be analysed, with a view to boosting the competitiveness of companies which may suffer discrimination due to higher infrastructure costs.

Brussels, 12 February 2003.

The President

of the

Committee of the Regions

The Secretary-General

of the

Committee of the Regions

Albert Bore

Vincenzo Falcone

¹ op. cit., chapter V and in A. Allansdottir et. al. (2002)

² Enterprise Papers No 7, Enterprise DG, European Commission

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