COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, xxx
COM(2007) yyy

COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT, THE COUNCIL, THE EUROPEAN ECONOMIC AND SOCIAL COMMITTEE AND THE COMMITTEE OF THE REGIONS

The European Interest: Succeeding in the age of globalisation

Contribution of the Commission to the October Meeting of Heads of State and Government

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Introduction

In recent years our response to globalisation has moved to the heart of the EU policy agenda. The relaunch of the Lisbon Strategy in Spring 2005 put Europe back on track to face up to competition as the touchstone for creating growth and jobs in the modern global economy. In their informal meeting at Hampton Court in October 2005, the Heads of State and Government set out the key challenges posed by globalisation in areas like innovation, energy, migration, education and demography.[1] At the Spring European Council in 2006, it was agreed to move up a gear in the work of the renewed Lisbon strategy for growth and jobs to spearhead the response of the European economy. 2007 has seen agreement to put Europe in the forefront of global efforts to tackle climate change and to put in place a European policy for secure, sustainable and competitive energy – to put Europe on the threshold of a third industrial revolution.

At the same time, public awareness of globalisation has intensified. Globalisation is seen to touch every walk of life - opening doors, creating opportunities, raising apprehensions. It has called in question some of the basic assumptions about the world economy and the calculation of domestic economic interest. It has generated new expectations about how public authorities should help citizens to acclimatise to change. The European Union needs to draw together the threads of this debate and offer a coordinated response to this most demanding of challenges: to show citizens how the EU is the best tool to enable Europeans to shape globalisation.

Fifty years of European integration has seen the economic prospects of Member States entwined as never before, bringing unprecedented social progress. This makes it essential for Europe to react effectively to shifting trends in the global economy. It can only do this by actively promoting the European interest as a specific objective, offering a coherence which national action alone cannot match. The European interest needs to be specifically defined, strongly articulated, stoutly defended, and vigorously promoted, if Europe is to offer the right platform for the future.[2]

The purpose of this paper is to provide the basis for a strategic policy discussion between the Heads of State and Government at their informal meeting on 18/19 October. It sets out the next steps on the path mapped out two years ago, and specifically describes how the Lisbon

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[1] Commission contribution: "European values in a globalised world" (20.10.2005, COM(2005) 525)
[2] Commission communication "Global Europe: competing in the world) (04.10.2006, COM (2006) 567)

strategy for growth and jobs can continue to provide the backbone for a European approach to globalisation.

I Shaping up to globalisation

At Hampton Court, the European Union outlined the range of issues demanding a policy response from the European Union. In doing so, it recognised that the EU of 27 Member States offers a route for Europe to act on a continental scale, with a critical mass and a reach which should be used to the greatest advantage. The European Union and its Member States could offer its citizens a distinctive European response to a series of complex global challenges.

This awareness of the unique potential offered by the European Union has come together with a renewed confidence of the ability of the Union to deliver the policy agenda in practice. Concerns about the EU's ability to deliver have been confounded by the boldness of the decisions taken at the Spring Council of 2007, and by the progress towards the Reform Treaty.

At the same time, the EU economy is performing well. The Lisbon strategy for growth and jobs has moved to the centre of the process of economic reform. Enlargement has given an added dynamism to European growth. Thanks to the extension of the internal market to twelve new Member States, the EU has achieved a smarter division of labour and economies of scale. Europe enjoyed strong growth and impressive job creation in 2006, with 3.5 million new jobs. And, for the first time in a decade, job creation has gone hand in hand with productivity improvements. Growth is expected to remain around 2 ¾% this year on the back of a strong performance in the global economy. However, the recent financial turmoil and the likely slowdown in the US economy have substantially increased the risks for 2008. Against this background, the EU needs a consistent and assured policy response. Sound macroeconomic policies are essential to reduce uncertainty. The euro has proved an anchor of stability that has protected the EU economy as a whole, not only the euro area. Reforms carried out during the last years have made our economies more resilient and will help us weather the storm.

The European Union has to build on these strong foundations. Inside the EU, this means increasing its adaptability in order to provide for the sustainable well being of its citizens, young and old, in town or countryside, in all Member States. The freedoms which lie behind the Internal Market and the effectiveness of its dynamic competition policy have been married with an active cohesion policy now driven by the growth and jobs agenda, spreading and boosting prosperity across all Member States and all regions, in recognition of the need for European principles of solidarity to be nurtured.

Externally, the EU is prospering from its openness to the rest of the world – in economic terms, but also in terms of cultural and knowledge exchange, and in terms of the recognition given to European values worldwide. As the world's largest exporter of goods and services and its largest importer of goods, the largest importer of energy, the second largest source and the second largest destination of foreign direct investment, the EU is a major beneficiary of an open world economic system. It is increasing its exports of high-quality, high-value agricultural products, encouraging farmers to respond to market demands, with benefits for our environment and food security. It has an obvious stake in defining the rules of global

governance in a way that reflects its interests and values. At the same time, it has a particular responsibility as one of the few players with an ability to tackle global issues: security, climate change, poverty, international migration. The EU, as the world's largest donor of development assistance and main partner for a large number of third countries, takes these responsibilities seriously, supporting human rights, and promoting effective multilateralism and sustainable development worldwide. The EU must use the available tools to the full if it is to strengthen its position in a globalised world.

The EU is already working on many of the policy elements needed to equip it to take on the challenge of globalisation with confidence. As globalisation continues to accelerate the pace of change, these areas of work need to be stepped up to boost the capacity of the EU to shape the globalisation agenda. In the coming months, the Commission will be putting new ideas on the table to address these key challenges: fresh ideas built on the EU's commitment to open markets and fair competition. The EU remains committed to further breaking down barriers to trade and investment, while it will stand firm against unfair practises in trade, investment and distorted competition.

Review of internal policies is already under way, aiming to reshape Europe to face globalisation and give it the right platform to look beyond its borders:

- ***Getting the most from the Internal Market*** The EU single market gives Europeans a solid foundation on which to adapt to globalisation and structural change. The Commission is finalising its work on the ambitious and comprehensive review welcomed by the 2007 Spring European Council[3] which must ensure that the Internal Market continues to drive European growth and jobs in the globalised world. The single market makes Europe more attractive for investors and companies from across the world and more influential in setting rules and standards worldwide. The goal is a Europe which can rely on a strong, innovative and competitive industrial base, which realises the full potential of services, where consumers and entrepreneurs gain maximum benefits from the Internal Market, and where European standards can help build standards at the international level.

- ***Responding to Europe's new social realities*** The ongoing stocktaking of Europe's social realities is looking at the big changes under way in employment patterns, family structures, lifestyles and in traditional support structures, reflecting increasing pressures from demography in an ageing society. This will require a new approach to the social agenda with implications for both national and European level: we will need more effective means of ensuring citizens' existing rights of access to employment, education, social services, health care and other forms of social protection across Europe. Globalisation is central to these new realities: in areas where the EU has a direct role, it must better adapt its existing instruments and policies, but also build on new policy responses such as the Globalisation Adjustment Fund and continue to respond to the legitimate concerns of people adversely affected by changes in trade patterns and by economic and social change. It must also be alive to the need to respond to new forms of poverty in our Member States.

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[3] Presidency conclusions, European Council, 9 March 2007, paragraph 7

- ***Migration in a globalising Europe*** In a Europe with no internal borders, the changing demands of an ageing society and a labour market in constant evolution have challenged established assumptions about migration from outside the EU. A new global approach is needed so that migration strikes the right balance between the risk of labour market shortages, economic impacts, negative social consequences, integration policies and external policy objectives.

- ***Sustainable energy policies for a low carbon future*** The conclusions of the 2007 Spring European Council set out an ambitious EU approach to energy and climate change. The goal is a radical new frontier for the European economy and European society. By the end of 2007 the Commission will have put forward the main legislative proposals to deliver on these objectives by 2020. Putting the EU on the path to a low carbon future demands a huge commitment, but brings real opportunities: already, the eco-industry[4] employs more than key sectors like car manufacturing or pharmaceuticals, and the EU's determination to act will give it a head start in developing new technologies and creating new jobs.

- ***Ensuring financial stability*** Recent developments have brought home to us that the stability of the increasingly globalised financial markets is vital for our economies and can by no means be taken for granted. Financial market transparency, effective competition rules and appropriate regulation and supervision will continue to be crucial to both confidence and performance. The need for the euro to realise its potential as an important pole of stability and growth in the global economy points to further reflection on its representation in international financial institutions.

At the same time, the European Union needs to look directly at the external dimension, to consider how the impact of the collective European effort can be maximised and how different internal and external policies can be harnessed to best effect.

- ***Mobilising the external dimension*** An open global trading system is in the interest of the EU. Whilst the EU needs to protect its citizens, its interests and its values, protectionism cannot be the solution. As the world's leading trader and investor, our openness allows lower cost inputs for industry, lower prices for consumers, a competitive stimulus for business, and new investment. At the same time, it is important for the EU to use its influence in international negotiations to seek openness from others: the political case for openness can only be sustained if others reciprocate in a positive manner. The EU needs to ensure that third countries offer proportionate levels of openness to EU exporters and investors and to have ground rules which do not impinge on our capacity to protect our interests and to safeguard our high product standards relating to health, safety, the environment and consumer protection. Third country companies wishing to do business in the EU will not be allowed to by-pass the rules applied in the Internal Market. The same rules must apply to all – as shown in the recent Commission proposals on the internal energy market. The confidence of consumers and market operators alike requires that third country investment respects accepted market principles. The way in which the EU applies its rules also needs to reflect the changes brought by globalisation in the patterns of ownership and interest in all sectors. We should build on the comprehensive

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[4] OECD and Eurostat define as economic activities that produce goods and services to measure, prevent, limit, minimise or correct environmental damage to water, air and soil, as well as problems related to waste, noise and eco-systems

agenda for external competitiveness proposed by the Commission in November 2006[5], looking at opening markets around the world and tackling the new barriers to trade and investment.

- ***Shaping global regulation*** The global marketplace can work most effectively when there are common ground rules. The EU has a well developed regulatory regime based on years of experience in helping its Member States to reconcile their different approaches and find the right mix to allow trade to flourish while respecting a minimum set of standards for its goods in areas like health and safety. A new international approach focusing on regulatory cooperation, convergence of standards and equivalence of rules is emerging as a result of sectoral bilateral discussions with third countries. This approach should be further developed in the mutual interests of the EU and its partners.

Key to the realisation and implementation of all these measures is the ***Lisbon Strategy for growth and jobs***. The goal of making the EU a dynamic, competitive, knowledge based society remains essential. The Lisbon toolbox is already bringing the different strands of policy together to offer a more comprehensive vision of how the EU and Member States can work in harness to tackle the complex issues facing Europe today. The next section of this paper sets out a vision of how the Lisbon Strategy should be developed in its next cycle, to take account of the challenges and opportunities of globalisation and to offer the foundations for the European response

II Deepening the reforms in the Lisbon Strategy for growth and jobs

The Commission considers that the re-launch of the Lisbon Growth and Jobs Strategy in 2005 has been a success. Viewed as a whole, it has helped to speed up the pace of reform, helping Member States to implement difficult but necessary change. Commission assessments indicate that it has contributed to the recent improvement in the EU's economic performance.

(i) More growth and jobs through improved co-ordination

The new governance of the Lisbon Strategy for growth and jobs, with its emphasis on partnership between the European and the Member States level, has proved its worth. The integrated guidelines are fulfilling their role; they do not require major revision. However, the pace of implementation is uneven. Member States obviously have very different starting points. But, even taking this into account, some Member States have proved more willing than others to take up the challenge to "move up a gear". The "implementation gap" cannot be ignored.

Member States' economies have become highly interdependent. There are significant spill-over effects between them. Prosperity in one creates prosperity in the others; sluggishness in one holds the others back. In this context, sound fiscal policies and high-quality public finances are of crucial importance: they pave the way for higher and sustainable growth, not only because they free up resources for essential investment, but because they improve the stability of the European economy and society as a whole.

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[5] Global Europe: Competing in the world (04.10.2006, COM(2006) 567)

It is essential to press on with reform. The adoption of country-specific recommendations this year represents a major step forward; Member States have agreed collectively what individual Member States should be doing to reform their economies. This is a first step towards the kind of stronger economic policy co-ordination needed to reap the full benefits.

Strong policy co-ordination must fully respect the role and mandate of the Member States and the institutions, and it could be particularly beneficial to build on the Lisbon approach in the euro area, where spill-over effects are most powerful and where the need for a common agenda is strongest. Sharing a common currency and a common monetary policy offers an extra dimension to coordination which could strengthen the role of the euro area in delivering growth and jobs for the whole EU. The Commission will present a comprehensive review of the functioning of EMU to mark its tenth anniversary, with ideas on how policies, coordination and governance can help the euro area to work to best effect.

(ii) The policy orientations

The four priority areas agreed by the 2006 Spring European Council provide the right frame for the Strategy at both EU and national level: R&D and innovation, the right business environment, investment in people, and energy and climate change. But in all four areas, there is a need to deepen the reform agenda if the real potential for growth and jobs is to be met.

- More R&D and innovation

Globalisation has stepped up the pace of change – for technology, for ideas, for the way we work and live our lives. If Europe can unlock its potential for innovation and creativity, it can shape the direction of change with the distinctive European values and cultural diversity so central to European society[6]. The emphasis in this area has been on increasing R&D expenditure and Member States are making progress towards the 3% GDP target. All Member States have set national targets; the challenge for public and in particular the private sector is to meet them.

But investment alone will not guarantee an improved R&D performance. We need a market which cuts the lead time to transform innovation into new products and services. Europe needs the right conditions for research and innovation to flourish – such as attractive careers for researchers, a modern IPR system and interoperable standards. A knowledge economy needs free movement for ideas and researchers, adding a "fifth freedom" to the four freedoms of the Internal Market and creating a genuine European Research Area.

Work needs to be driven forward to tackle the problems of fragmented resources and insufficient scale, and to develop the "knowledge triangle" of research, education and innovation. This means helping Member States to pool resources in strategic research areas, modernising higher education, and creating innovative new infrastructures, to complement the European Institute of Technology. This will attract the best researchers and promote breakthrough technologies.

- A more dynamic business environment

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[6] An innovation-friendly, modern Europe - COM(2006)589

SME and entrepreneurship has been put high on the reform agenda. The task now is to fully unlock the growth and jobs potential of SMEs and make full use of their innovative capacities. The Commission will seek the views of SMEs and their representatives to help design a "Small Business Act" for Europe with a view to making a wide range of proposals to support SMEs by the end of 2008.

The better regulation "culture" has begun to take root across the EU: the institutions need to lead the way. The Commission has made major changes in the way it develops new proposals and monitors implementation of the existing *acquis*. The European Parliament has also begun to use impact assessments but the Council has yet to begin to use it as a working tool.

But the benefits of better regulation need to be felt at all levels. All Member States have agreed to set targets to reduce administrative burdens by 25% by 2012. As well as cutting existing burdens, special consideration should be given to whether all the administrative requirements of EU legislation need to be applied in full to SMEs. The next stage is to modernise public administrations so that they provide a transparent, predictable service and an effective means of redress.

- Greater employability and investment in people

Both globalisation and technological change risk increased inequality, opening up the gap between the skilled and the unskilled. The best solution is to help each individual to adapt, by improving the quality and availability of education and training for all ages. As recent studies have underlined[7], this is not only a matter of increasing investment: the key to increased performance lies in modernising education and training policies. One in six young people leave school with no qualifications – without targeted support, they could be excluded from the knowledge economy, and vulnerable to the changes sparked by globalisation.

There is a growing interest in "flexicurity." This can help people to manage employment transitions more successfully in times of accelerating economic change. By upgrading their skills, and protecting people rather than particular jobs, it helps people to move into better paid, more satisfying jobs, or even start their own businesses.

The Commission has proposed common principles for consideration at the December European Council. These would offer Member States a basis to draw on as they work with the national social partners to adapt flexicurity to national circumstances and mainstream this approach into their National Reform Programmes.

More attention will also be given to active inclusion and equal opportunities. Adequate social protection should be promoted and the fight against poverty reinforced.

- Energy and climate change

The ambitious targets set by the European Union to cut greenhouse gas emissions and drive low-carbon energy are based on two key foundations: a conviction that, with mechanisms like trading to let the market lead the process, fundamental change is within our economic reach; and confidence that there has been a real sea change in citizens' commitment to reform. The

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[7] "Education at a glance", OECD, 2007

two legislative packages coming forward this autumn – on the internal energy market and on meeting the agreed targets – seek to provide an ambitious and effective framework to achieve secure, sustainable and competitive energy and to usher in a new generation of EU measures to cut emissions in areas from power generation to transport. At the same time, this ambitious approach provides the best possible platform for international negotiations to tackle climate change worldwide.

The Lisbon strategy offers a framework to develop national measures to stimulate the low-carbon economy, such as fiscal measures and incentives, and to see how effective measures in one Member State could be taken up by others. At the same time, the Strategy can promote a new ecological approach to industrial and innovation policy – to stimulate and mainstream sustainable and environmentally-friendly technologies,

III Setting the pace for global Europe

The EU must be in a position to present to citizens with a compelling vision of how a global Europe is adapting to new needs while protecting their interests, reforming its economic and social governance to ensure continuing prosperity, solidarity and security for the next generation as well as today's citizens. Meeting challenges of this scale can only be done effectively by making the most of the partnership between Member States and the EU level. Active involvement and a sense of stronger ownership by all actors are prerequisites for a successful Lisbon strategy. It will require a concerted commitment to engage in a capable and responsive communication strategy with EU citizens.

The EU is in the process of deciding many different EU policy initiatives, each of which has its own logic and supporters. The particular challenge for the European Council, both in October 2007 and in Spring 2008, is to bring these different initiatives together to respond coherently to the internal and external challenges faced by the EU in this era of globalisation. It is clearer than ever that the EU can only achieve its objectives at home by being active and united on the global stage: and that its internal policies must be harnessed and sometimes adjusted to achieve external goals. EU and national measures need to work together to gear up European action.

This puts the onus on each Member State to take up the challenge of economic and social reform and to help Europe – at both the EU and the national level – to prepare to benefit from globalisation. At the same time, the Commission will bring forward detailed initiatives as set out in this paper, bringing out how the European dimension can offer a long term vision and a reach beyond the capacity of individual Member States.

The Informal European Council provides an opportunity to bring a comprehensive perspective, and to confirm that the areas of work described in this paper represent the right range of measures. European leaders need to have a clear vision of the key building blocks for European action:

- On the key messages to communicate to citizens about Europe's response to globalisation

- On how the different elements of internal and external EU action should be drawn together

- On how national and EU efforts can be coordinated to offer the greatest benefits to citizens and consumers

This should be the platform for the 2008 Spring European Council as the key annual rendezvous for the Lisbon strategy for growth and jobs, to draw the threads together: to show how our new policy agenda, matched by a renewed political impetus, will make Europe a confident and successful player in the age of globalisation.