

Opinion of the European Economic and Social Committee on The new Member States and the broad economic policy guidelines

(2005/C 234/13)

On 29 January 2004 the European Economic and Social Committee decided to draw up an additional opinion, under Rule 29(2) of its Rules of Procedure, on The new Member States and the broad economic policy guidelines.

The Section for Economic and Monetary Union and Economic and Social Cohesion, which was responsible for preparing the Committee's work on the subject, adopted its opinion on 16 February 2005. The rapporteur was **Mr Koulumies**.

At its 415th plenary session of 9 and 10 March (meeting of 10 March), the European Economic and Social Committee adopted the following opinion by 170 votes to 2 with 5 abstentions:

SUMMARY

The 2003-2005 Broad Economic Policy Guidelines laid down the EU's medium-term economic policy strategy, the three key elements of which are growth and stability oriented economic policy, economic reforms to increase Europe's growth potential and strengthening sustainable development. At the same time the Commission emphasised the scale of the challenges faced by the new Member States. For the EU as a whole, it is to be noted that the effects of enlargement are unevenly distributed.

Most of the new Member States would probably like to join the euro zone as quickly as possible. Meeting the conditions for entry into the euro zone requires that they pursue disciplined and sustainable economic policies. The Stability Pact will have to be reformed if it is to operate effectively in the long term. The reform must be implemented in such a way that it safeguards the long-term conditions for EU economic growth and reinforces the commitment of all Member States to common goals. The requirement to improve competitiveness applies to all Member States. For the new Member States, achieving the current level of productivity in the EU-15 will not be enough in the longer term. Much more needs to be invested in ICT, R&D and education and training throughout the EU. In addition to economic and social sustainability, it is important to ensure sustainable environmental development. It is important for the new Member States to improve, inter alia, efficiency in energy use.

It is self-evident that the gaps in living standards between the EU-15 and the new Member States will not be closed quickly. The gaps will probably take decades to disappear. Demographic trends are one of the major challenges facing the EU as a whole and various measures therefore need to be taken to encourage higher birth-rates. Steps should be taken to mobilise all potential workers in the Union as quickly as possible, in particular to enable women and young people to enter the labour

market and remain there long term. Older workers must be encouraged to stay in work. It is important to complete the internal market and actively promote good economic governance.

1. References to the new Member States in previous broad economic policy guidelines and opinions

1.1 In this opinion the new Member States means the ten countries which joined the European Union on 1 May 2004, namely Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia and Slovenia.

1.2 As its title suggests, the Commission's communication on the broad economic policy guidelines (BEPGs) always provides a very comprehensive analysis of economic policy goals and strategies. The analysis has tended to focus more on the internal workings of the Union than on developments in the surrounding world. This applies particularly to issues relating to the new Member States, which were hardly addressed at all before their accession to the EU.

1.3 In its opinions on the BEPGs, the European Economic and Social Committee first mentioned the future new Member States in the conclusions of an opinion it adopted as long ago as March 2002. On that occasion the Committee noted that the 'impending enlargement of the EU also makes it urgently necessary to reconsider the procedures for coordinating economic policy'.

1.4 Several references were made to the impending enlargement in an opinion the Committee adopted in March 2003. In the summary the Committee emphasised that one of the key requirements in the coming years was 'truly effective support for the new Member States' accession'. The economic indicators in the tables appended to the opinion covered both the then Member States and the acceding countries.

1.5 In an opinion it adopted in December 2003 the Committee stated that 'it seems surprising that though the guidelines cover a period of three years, they mention in only one single sentence the fact that ten new Member States are to accede to the EU in a few months'. The guidelines merely stated that these countries were being asked to conduct their policies along the lines of the guidelines. The EESC felt that this approach lacked foresight.

1.6 The same opinion also referred to the effects of enlargement as follows: 'Above all, economic policy coordination — which is already inadequate — will be made much more difficult by enlargement. This is because as a result of enlargement there will be a new need for coordination in two areas: firstly, within individual policymaking areas (for example, the internal coordination of wage policy) and secondly, between the three main macro-economic policies, where the differences will increase appreciably as a result of enlargement'.

1.7 The opinion also warned about the possible consequences if 'the new Member States attempt to meet the criteria for EMU membership as quickly as possible and in so doing adhere closely to the criteria governing the Stability and Growth Pact'.

1.8 In its most recent (2004) opinion on the BEPGs, *Better economic governance in the EU* ⁽¹⁾, the Committee notes that enlargement marks the start of new phase for the EU. In keeping with the title, it focuses on governance, which is essential to the credibility and effectiveness of the Union: 'There is an urgent need for a confidence-inspiring institutional framework.'

1.9 The opinion also refers to the Commission's judgement in Update 2004 that 'the new Member States have problems comparable to those of the 15 earlier Member States (EU-15) as regards budget situation, debt burdens and employment'. However, this does not mean that the problems in the new Member States are the same as those in the EU-15. Moreover, there are considerable differences between countries in many respects. Comparisons work only to some extent. The opinion goes on to note that the adaptation of legislation and of social and economic practice in the new Member States to the highly developed level in the EU-15 could be accompanied by shocks.

1.10 Thus in its previous opinions on the broad guidelines the EESC has dealt to some extent with the fundamental problems facing the new Member States, albeit in a cursory fashion. Of course, the fact that there has been hardly any assessment or analysis of the impact of enlargement in the

Commission's communications has had a bearing on the content of EESC opinions.

2. The broad economic policy guidelines in the new Member States

2.1 The 2003-2005 BEPGs laid down the key elements of the EU's medium-term economic strategy, viz.:

- growth and stability-oriented macro-economic policies;
- economic reforms to boost Europe's growth potential; and
- strengthening sustainability.

2.2 Economic growth in the EU-15 stagnated in the first half of 2003. Economic reforms have taken place, but not to the extent necessary to achieve the Lisbon goals. Labour productivity has not grown fast enough and implementation of the internal market has advanced slowly. Some progress has been made as regards sustainable development, but not enough. For example, greenhouse gas emissions have hardly been reduced at all, despite the good progress made at the end of the 1990s.

2.3 In April 2004 the Commission updated the BEPGs and noted that the existing strategy was also appropriate for the new Member States. While the challenges faced by the new Member States do not differ fundamentally from those of the EU-15, the challenges are generally far greater, although in some cases they are less severe.

2.4 There are large differences between the new Member States. Therefore the Commission has seen fit to issue country-specific recommendations that take into account differences in these countries' background and performance.

2.5 The focus in the BEPG update is on the integration of the new Member States into the existing economic policy coordination framework. The structural challenges faced by the new Member States are, on average, more demanding because:

- unemployment is nearly twice that of the EU-15;
- the general government deficit in the period 2000-2006 was, on average, just over 4 % of GDP;
- income levels (adjusted for purchasing power) are about half that of the EU-15;
- some of the new Member States have a particularly large agricultural population; and
- many of the new Member States have large current account deficits.

⁽¹⁾ *Better economic governance in the EU*, EESC opinion – OJ C 74 of 23.3.2005, adopted 15 September 2004.

2.6 A prerequisite for the success of growth and stability-oriented macro-economic policies is that the new Member States seek to achieve stability in public finances and reduce the current account deficit, especially if the deficit is due to consumption rather than investment.

2.7 Growth potential must be increased through reforms which are the subject of consultation among the social partners and which support the ongoing restructuring of the labour market (through training for example) and improve productivity by, for instance, increasing competition, reducing regulation, hence making it more effective, and developing capital markets. Social sustainability can be enhanced and poverty reduced by emphasising the vital importance of work. Investment in transport and energy infrastructure — in addition to industry and agriculture — has an important role to play in improving environmental sustainability.

2.8 The Commission highlights the scale of the challenges facing the new Member States and the difficult policy choices that lie ahead. The BEPGs take account of the special circumstances of these countries by, for example, including longer adjustment periods in the country-specific recommendations than those allowed for the EU-15.

3. Economic performance and the effects of enlargement

3.1 *Economic performance and prospects in the new Member States*

3.1.1 The enlargement process is having a positive impact on economic development. Economic activity in the EU-15 countries began to recover in the second half of 2003, supported by the overall growth of the world economy and a recovery in consumer confidence. The pick-up in consumption is partly due to the historically low level of interest rates. Despite the economic turnaround, it will take time before it is translated into higher employment. Consumers' uncertainty about future income is still testing consumer confidence, however, and the risks surrounding the global economic outlook have increased. The pick-up in economic growth in the EU-15 is also important for the new Member States, whose exports go mainly to these markets.

3.1.2 The economies of the new Member States grew by 3½ % on average in 2003. Growth was underpinned by private consumption, especially in the Baltic States, Hungary and the Czech Republic. Exports grew strongly, particularly in Slovakia and in Poland, where exports of highly processed goods have increased strongly.

3.1.3 Investment growth was modest in some of the new Member States. This was in line with international developments but also reflected a slowdown in the reform process in these countries. The convergence of interest rates with those in the rest of the EU and the need to improve infrastructure are factors that should boost investment growth in the future. With a couple of exceptions, the level of investment in the new Member States is at a higher level, in relation to GDP, than in the EU-15 on average. This is a factor supporting economic growth in the new Member States.

3.1.4 Economic growth in the new Member States is expected to average about 4 % in 2004 and 2005. The fastest growth is likely to occur in the new Member States with the lowest per capita GDP. Growth is expected to pick up most in Poland as a consequence of the country's growth-oriented fiscal policy. As regards the new Member States with high income levels, Cyprus, in particular, is likely to record relatively strong economic growth. Higher oil prices could curb economic growth in all EU countries in the future.

3.1.5 With the exception of Hungary, Slovakia and Slovenia, inflation in the new Member States has recently been running at close to the euro zone average. Although inflation will accelerate slightly in 2004, partly because of the rise in oil prices, it is expected to slow to about 3 % in 2005.

3.1.6 The new Member States had an average general government deficit of 4.3 % in the period 2000-2003 and an estimated deficit of 4.9 % in 2004. Budget positions ranged from a surplus of 1 % in Estonia to a deficit of 7 % of GDP in the Czech Republic. Besides the Czech Republic, the deficit also exceeded the 3 % reference value in five more of the new Member States — Cyprus, Hungary, Malta, Poland and Slovakia (see the statistical appendix). The situation is expected to improve in most of the new Member States as the consolidation of public finances gains momentum.

3.1.7 Like the EU-15 countries, each of the new Member States has its own specific characteristics. Therefore treating the new Member States as a single whole is often misleading. However, as a generalisation, it can be said that economic growth in the new Member States has been relatively good compared to the EU-15. EU membership, fairly robust domestic demand growth and lower costs compared to the EU-15 will help to boost output growth in these countries over the next few years, which may also increase demand for investment and consumer goods manufactured in the EU-15.

3.2 *Macro-economic effects of enlargement in the EU*

3.2.1 The effects of enlargement are unevenly distributed between the new Member States and the EU-15. This is mainly because the EU-15 account for a very large part of the foreign trade of the new Member States whereas the new Member States are of minor importance for EU-15 countries. Traditionally, many of the EU-15 countries have tended to trade mainly with other western industrialised countries, such as the USA.

3.2.2 The eastern Central European countries' move towards membership was a step-by-step process involving institution building and the dismantling of trade barriers with the EU-15. The most important restrictions were those relating to foreign trade in food and agricultural products. After accession, the remaining restrictions largely consist of transitional rules relating to land ownership, the movement of labour and environmental protection.

3.2.3 It is estimated that enlargement will have a positive — albeit small — impact on the EU-15. The benefits for the new Member States are expected to be greater. The benefits will come, in particular, from the removal of the remaining trade barriers and freer movement of labour and capital.

3.2.4 It should be noted that the effects of enlargement will be unevenly distributed as far as the EU as a whole is concerned. For the EU-15 the impact will be greatest in regions in Austria, Germany and Finland that border on the new Member States. The changes will vary considerably across sectors.

3.2.5 The effects are likely to be greatest in labour-intensive sectors, such as agriculture, the food industry, construction and many service industries, which are unable to benefit from the geographical dispersion of activities because of distances and/or regulation. However, there are sectors where it is easy to shift production from one country to another.

3.2.6 The lower level of costs in the new Member States also offers the entire EU an opportunity with regard to the China phenomenon. The geographical proximity of low-cost countries means that it is more favourable to produce in Europe than in more distant locations. This applies particularly in the early stages of the life-cycle of R&D-intensive products. Only when the share of R&D in production costs diminishes might production then shift to more distant countries with even lower production costs. Although at present the production

cost differences between the EU-15 and the new Member States are substantial, they will gradually narrow over time.

4. **Specific issues**

4.1 *Joining the euro zone*

4.1.1 Most of the new Member States would probably like to join the euro zone as quickly as possible. Meeting the conditions for entry into the euro zone will require that they pursue disciplined and sustainable economic policies. The first few years of membership will be particularly difficult. The Maastricht criteria relate to sufficiently low inflation and interest rates, the budget deficit and government borrowing, and a stable exchange rate. Naturally, the same requirements apply to all Member States.

4.1.2 A key question here, of course, is: What impact will efforts to meet the Maastricht criteria have on the economic performance of the new Member States? If, when they join ERM 2, they try to keep their currencies within fluctuation margins that are too narrow, they run the risk that their currencies will be vulnerable to speculation. A possible raising of interest rates to protect the stability of the exchange rate would have harmful economic effects, on employment for example. Estonia, Lithuania and Slovenia were the first of the new Member States to join ERM 2 and they maintain their currencies within fairly wide margins, which helps them to ward off the possibility of speculative attacks. The currency board arrangements in Estonia and Lithuania also support the stability of their exchange rates against the euro.

4.1.3 Countries could run into difficulties in trying to meet the low inflation target as their economies rapidly expand. Prior to accession, inflation in the new Member States exceeded that in the EU-15. The adjustment of rapidly growing economies to particularly low inflation could hinder growth, as higher inflation goes hand-in-hand with the phase of faster growth in these countries. Moreover, periods of faster productivity growth tend to be accompanied by higher inflation. On the other hand, excessive inflation inhibits economic growth.

4.1.3.1 Although inflation levels may currently be acceptable, this may not be the case once certain of the transition periods provided for in the Treaty come to an end, as inflation may accelerate following the removal of temporary authorisations to retain zero-level VAT, reduced excise duties, or national measures.

4.1.4 The small economies are linked more closely than the large ones to the global economy. It is more difficult for them than it is for large economies to provide a temporary stimulus to the economy by increasing government borrowing or widening the budget deficit, for example in the run-up to an election. In a small country, the public finances are usually more transparent and easier to manage. Therefore it is logical to expect the smallest of the new Member States to be the first to join the euro zone. In Estonia, there is a statutory requirement to keep the government budget in balance.

4.1.5 Problems could also arise if countries attempt to meet the Maastricht criteria very quickly. Before they enter the euro zone, their currency will have to remain stable vis-à-vis the euro within a fluctuation band of 2.25 % without readjustment of parity for 2 years. Apart from the problems mentioned under point 4.1.2, states that are too eager risk entering this system with an over- or undervalued currency. The dynamism of their economy and potential for growth could be undermined through an overvaluation of their currency, which would reduce their competitiveness in world markets, or through an undervaluation of their currency, which would generate inflationary pressures. In both cases, the result would be pressure on wages, aggravating the problem of relocations and squeezing domestic demand, which in many cases is the driver for growth. Care should therefore be taken in fixing parities for entry into ERM-2. However, Member States in the euro zone will, in any event, have to focus attention on their competitiveness, even if the exchange rate is at the right level at the moment of entry.

4.1.6 With enlargement, the Member States outside the euro zone are, temporarily, in a slight majority, although when weighted by GDP the euro zone embraces by far the major part of the EU. As new countries join the euro zone in the years to come, this will improve the prerequisites for a strengthening in the international position of the euro.

4.2 *Stability and Growth Pact*

4.2.1 As regards the sustainability of public finances, the situation is reasonably good in most of the new Member States. Only in a few of them does the general government debt exceed 60 % of GDP. Admittedly, there is a danger that the debt ratio will rise in some of them because of budget deficits. But equally, it should be remembered that the levels of foreign debt in the new Member States are by no means alarming compared with those in the EU-15. Moreover, all the Member States have, on several occasions, declared their commitment to the Lisbon objectives and sound budget policy.

4.2.2 The Stability and Growth Pact has been under criticism for a long time. The Committee has drawn up a number of opinions on the Pact. ⁽²⁾ Despite its shortcomings, it would seem that it has contributed to the maintenance of budgetary discipline. More effective monitoring and the transparency of the excessive budget procedure have also helped in this regard. The new Member States must have a clear vision of the future form of the Stability and Growth Pact in order to formulate their medium-term economic policy.

4.2.3 Inaccuracies and omissions in Member States' budget figures and forecasts have compounded surveillance problems. The Commission and various committees have been involved in developing common criteria for application in multi-lateral surveillance and policy coordination. However, methods and procedures cannot be fine-tuned if the statistical data are not totally reliable. In some of the new Member States, as indeed in some of the EU-15, there is still much room for improvement as regards compiling statistics, despite the progress made in recent years.

4.2.4 It is widely held that the interpretation of the Stability and Growth Pact, which is based on the Maastricht Treaty, should be amended. Many of the rules and procedures currently applied in the 25 Member States need to be relaxed and made more flexible. The handling of the Commission's and Members States' programmes and opinions has become increasingly formal while informal coordination between Member States has become more and more important. The credibility of the single currency must not be compromised, however.

4.2.5 Managing economic policy and maintaining the stability of public finances will not be easy in the new Member States. Commitment weakens especially if countries do not have adequate political stability. Although the new Member States have carried out fundamental reforms necessary to create a market economy, some of them are facing difficult choices, as the need for structural reforms usually involves increased public expenditure. The allocation of public expenditure is likely to be an even thornier issue for them than it is for the EU-15.

4.2.6 Some degree of reform is essential for the long-term effectiveness of the Stability Pact. Reform must seek to reinforce the commitment of all Member States to common goals, without compromising the credibility of their commitment to the stability of public finances, budgetary discipline, sustainability and economic policy coordination.

⁽²⁾ See the last opinion on the subject: *Budgetary policy and type of investment*, EESC opinion – OJ C 110/19 of 30.4.2004, pp. 111-115.

4.3 Differences in economic well-being and employment ⁽³⁾

4.3.1 With enlargement, EU GDP increased by a mere 5 % at market prices and by only 10 % when adjusted for purchasing power parity, even though the EU's total population grew by nearly 20 %. One thing which the new Member States share in common is the fact they are poorer than the EU-15 countries on average. Per capita GDP (adjusted for purchasing power) in the new Member States is only half that in the EU-15. But as in the EU-15, there are significant differences between the new Member States: Cyprus, Slovenia and Malta are the wealthiest countries whilst Poland and the Baltic States (Estonia, Latvia and Lithuania) are the poorest. In terms of GDP per capita (adjusted for purchasing power), Slovenia and Cyprus are even at the level of Greece, and Malta and the Czech Republic are at the level of Portugal.

4.3.2 According to Eurostat, 13 % of the population of the new Member States live below the relative poverty line. This compares with 15 % in the EU-15. The poverty line is defined in terms of the ratio of personal or household disposable income to the national average income. The poverty threshold is 60 % of national median income. The fact that these percentages are so close must not delude us as to the scale of the social problem since, as stated above, per capita GDP adjusted for purchasing power in the new Member States is only half that in the EU-15.

4.3.3 Income distribution within the new Member States hardly differs at all from the pattern within the EU-15. The Czech Republic, Hungary and Slovenia boast the smallest income differences, which are on a par with those in the Nordic countries. Poverty rates are highest in Estonia, Lithuania and Latvia, where the pattern of income distribution corresponds mainly to the larger income differences typical of Ireland and the United Kingdom. The highest poverty rates in the EU-15 are found in Ireland and the southern Mediterranean countries. A shortcoming of cross-country comparisons is that they do not take into account regional differences within countries, which can be substantial.

4.3.4 The new Member States have an average employment rate of only 56 % compared to about 64 % in the EU-15. It would appear that most of the new Member States prioritise productivity growth, which boosts their competitiveness and hence that of the EU as a whole. The crucial question here is whether they will be able to raise productivity and employment rates at the same time. The Lisbon Strategy offers an answer that remains pertinent even if there is room for improvement.

⁽³⁾ The Committee would nevertheless draw attention to the fact that to deal with the issue of standard of living correctly, it would be preferable to refer to the concept of 'available household income'. Unfortunately, there are gaps in the statistics. The Committee would use this opportunity to call again for a strengthening of the EU's statistical machinery and greater cooperation between the competent national institutions and EUROSTAT.

4.3.5 In the update of the Broad Economic Policy Guidelines (7.4.2004) the Commission notes that special attention needs to be paid to the low employment rates of young and older workers in the new Member States. In addition, further steps need to be taken to improve social protection and the skills of the labour force. The Committee feels that these are important issues. They are also important objectives in the EU-15 countries.

4.3.6 There are considerable differences between the new Member States in terms of employment rates for women and older workers. The employment rate for women is higher than the EU-15 average in the Czech Republic, Estonia, Cyprus, Latvia, Lithuania and Slovenia but substantially lower in Poland and, especially, Malta. The employment rate for older workers is higher than the EU-15 average in the Czech Republic, Estonia, Cyprus, Latvia and Lithuania but noticeably lower in the other new Member States. In 2003 the unemployment rate for women was slightly higher than that for men in all the new Member States except Estonia and Hungary. The difference is particularly large in Malta and the Czech Republic.

4.3.7 Unemployment fell in several of the new Member States in the period 2000-2003. The fall was particularly marked in the Baltic States, where the unemployment rate dropped by about three percentage points. In Slovenia and Hungary the improvement in employment started as long ago as the mid-1990s. Figures on employment and unemployment can be found in the statistical appendix.

4.3.8 The age structure of the population and the condition of social protection systems have a major impact on national income distribution. There is a strong correlation between old age and low income in the new Member States. The over-65s are overrepresented in the lowest income group in Cyprus, the Czech Republic, Slovakia, Slovenia and Lithuania. The risk of poverty is greatest among large and single-parent families, as well as among 16-24 year-olds.

4.3.9 Overall levels of educational attainment are higher in the new Member States than in the EU-15. About 89 % of all 25-64 year olds have completed upper secondary education, as against 65 % in the EU-15, the highest percentages being in the Czech Republic, Estonia and Slovakia. As regards the EU-15, only in Germany, the United Kingdom and Sweden are the corresponding percentages higher than 80 %. It is this high level of education which, together with favourable labour costs, makes the new Member States attractive to investors.

4.3.10 Economic growth in the new Member States is higher, on average, than in the EU-15. However, it does not automatically follow that the income gap between will be closed quickly as a result of European integration. At the present rate it will take decades. According to one very crude calculation, Cyprus and Malta could be the first to achieve the average standard of living of the EU-15; it would take them a good 20 years. There are many factors that may help to close income gaps more quickly; the EU's Structural Funds are a case in point. Economic data on all the EU Member States are presented in the tables appended to this opinion.

4.4 *Competitiveness and productivity*

4.4.1 Total labour costs in the new Member States are, on average, noticeably lower than those in the EU-15. Moreover, labour markets in the new Member States are considered to be very flexible. Reflecting this, many manufacturing operations, and to some extent also service operations, have re-located to new Member States. However, it is often overlooked that productivity levels in these countries are, on average, notably lower than those in the EU-15. In 2003 productivity per employed person (adjusted for purchasing power) in the new Member States was only 54 % of that in the EU-15 countries.

4.4.2 While many of the new Member States inherited large public sectors dating from the pre-1990 period and their legislation has often been cumbersome, they have made good progress in reforming the public sector and at present their public expenditure in relation to GDP is, on average, comparable with the EU-15 countries.

4.4.3 Improving productivity and competitiveness will require investment in education, training, research and organisation of work. In addition, there is a need to promote entrepreneurship and remove administrative burdens on, in particular, the setting up of small businesses and their operations. Competitiveness and productivity also improve when inefficient and unprofitable companies leave the market since the resources freed up in this way are channelled to more productive uses. Restructuring of this type will, however, require re-training for those affected by the measures. ⁽⁴⁾

4.4.4 The new Member States are already enjoying the benefits of flexible markets. It is fairly easy for capital, technology and even labour to move from one country to another. Structural flexibility makes it equally easy for jobs to move elsewhere. In the long term, nations and regions will also have to be able to compete in terms of infrastructure, including ICT

and research capacity. Spending on R&D as a share of GDP averages 2 % in the EU-15 as against only about 1 % in the new Member States.

4.4.5 Achieving the current level of productivity in the EU-15 will not be enough for the new Member States in the longer term. In all the Member States there is a particular need to invest in knowledge. The slowdown in EU productivity growth can be explained by low levels of investment and technology take-up. Much more needs to be invested in ICT, R&D and education and training throughout the EU. For the new Member States, in particular, this is a great challenge but also a great opportunity.

4.4.6 Improving competitiveness often also requires structural change in the various sectors of the economy. In the new Member States, in particular, scope exists for improving economic competitiveness through structural reforms in agriculture and heavy industry.

4.5 *Sustainable environmental development*

4.5.1 A key element of the BEPG strategy is strengthening sustainable development. In addition to economic and social sustainability, it is important for the new Member States to ensure sustainable environmental development. Efficient management of natural resources and maintaining a high level of environmental quality are essential and economically viable in the long term.

4.5.2 It is important for the new Member States to improve efficiency in energy use. Whereas, according to Eurostat calculations, the energy intensity indicator (energy consumption in relation to GDP adjusted for purchasing power) for the EU-15 was, on average, 173 in the period 2000-2002, it was as high as 258 for the new Member States. There is then room for improvement by the new Member States in the area of efficient energy use, which is an important component of sustainable development.

4.5.3 Although some progress has already been made by the new Member States, major investment is still needed, above all to improve efficiency in energy production and efficiency of energy use in the transport sector. In particular, subsidies for energy use should be scaled back in order to reduce environmental damage. The Committee endorses the Commission's recommendation to reduce subsidies that have a negative environmental impact and are harmful for sustainable development.

⁽⁴⁾ *European business competitiveness*, EESC opinion – OJ C 120 of 20.5.2005.

4.5.4 The year 2003 saw the implementation of the directive on electricity from renewable energy sources. In its communication on the BEPGs, the Commission notes that the results in terms of generation of green electricity are far from impressive, except in Germany, Spain and Denmark where good results have been obtained using wind energy.

4.5.5 It will take years before the new Member States achieve the same level of efficiency in energy use and production as the EU-15. However, the scale of the challenge posed by this objective should not be allowed to diminish efforts by these countries to ensure sustainable development. Part of the action taken to this end must be to raise public awareness of the importance of sustainable development.

5. Conclusions

5.1 In recent years, the EU-15 countries have lacked the kind of growth dynamism typical of many of the new Member States. Economic growth will probably continue to be higher in the new Member States, at least in the medium term. Growth may also be boosted by support from the Structural Funds. However, enlargement also has a positive impact on growth in the EU-15 countries.

5.2 It is not self-evident that the gaps in living standards between the EU-15 and the new Member States will be quickly closed. Political integration does not always mean a reduction in differences in levels of income and living standards. German re-unification is an example of where regional economic disparities are slow to disappear. Not even vast sums of money and institutional integration have had a real influence for the better.

5.3 Enlargement will further facilitate trade and investment and, after transition periods, also the movement of labour between the new Member States and the EU-15. This will make the economic environment in the new Member States more transparent and also make it easier for companies contemplating investment to take economic decisions. Important differences will also remain between countries in areas where the EU has no jurisdiction. For example, the EU's competence in tax matters is currently confined mainly to the minimum VAT rate and certain principles governing business taxation.

5.4 The transition period arrangements mainly concern the free movement of labour between countries. They can limit the movement of labour for as long as seven years in some cases. In many EU-15 countries the population is ageing rapidly and these countries need new labour, despite the presence of sizeable structural unemployment. The transition periods could

both hold back necessary structural reforms in the new Member States and curb economic growth in the EU-15 and the new Member States.

5.5 There is a large body of evidence from companies that are considering investing or have already invested in the new Member States that these countries suffer more than the EU-15 from transition economy problems that cannot be eradicated by legislation alone. Often these problems are associated with corruption. Corruption is not unknown in the EU-15 either.

5.6 However, eliminating practices that have become entrenched in society over past decades is a slow process. But here too EU membership has brought increased pressure for improvement. If the potential existing in the new Member States is to be exploited effectively, there will have to be strict compliance with the EU's common rules. This applies particularly to the Internal Market rules, but it is equally important that other rules affecting competition, such as environmental legislation, are implemented uniformly in all EU countries.

5.7 In the new Member States there is a favourable relationship between labour costs and the educational level of the workforce. Taxation is also one of the factors that influences business investment in new Member States. The nature of a company's business determines precisely which factors are crucial for investment.

5.8 A race to the bottom in taxation does, however, also have its dangers. Thus, public authorities may not have the resources to fund the investment in infrastructure and the social system needed for the catching-up process. As a result there is also the danger that the tax burden is shifted to the comparatively immobile factor labour, which would have a negative impact on the employment situation.

5.9 Direct investment or the re-location of a company's entire operations to new Member States is easiest for companies which already have extensive business operations in these countries or whose competitive edge relies heavily on labour costs which are low in relation to the educational level of the workforce. This advantage will continue to attract productive activity to the new Member States from elsewhere, including the EU-15. On the other hand, in many cases the business and manufacturing operations of companies from the EU-15 countries in the new Member States also provide a boost to economic activity in the former. An example of this is the increased level of intra-industry trade between the EU-15 and the new Member States.

5.10 The economic convergence of the new Member States and the EU-15 has made relatively good progress and the trend is set to continue, although uncertainties surround the future. Under the most likely scenario, the relative advantage of the new Member States vis-à-vis the EU-15 in terms of wages and prices will diminish, but this will take time because of a low starting level.

5.11 Demographic trends are one of the EU's major challenges, since withdrawals from the labour market will increase substantially in the future from present levels. Various measures should therefore be taken to actively encourage older workers to stay in work. For the sake of long-term competitiveness it is also most important to increase the birth rate and to mobilise all potential workers in the Union. This can only be done if efforts are made to improve equality between men and women and reconcile work and family life. In addition, action should be taken to reduce exclusion and poverty, which would also improve social cohesion in all Member States.

5.12 In some of the new Member States, the organisation of the social partners is fairly weak and fragmented. There are great differences between organisations in terms of their representativeness. Common to most of them is a lack of adequate

economic resources. The same applies to NGOs. These organisations will have to develop their activities so that there can be a successful dialogue between the various parties and all of them can, at the same time, help to create conditions conducive to economic growth. Social consultation is an indispensable tool for ensuring strong and cohesive European integration.

5.13 In addition, the Commission should carefully examine international uncertainties that threaten economic growth and EU competitiveness, such as the effects of oil price developments and the structural budget and current account deficits in the USA.

5.14 All the Member States must continue to work for the completion of the internal market, more effective implementation of the Lisbon reforms and improved economic governance. Without these reforms, there is a risk of a decline in economic growth and well-being throughout the EU.

5.15 Although, for the most part, the present opinion treats the new Member States and the EU-15 as separate wholes, this can only be done at a very general level. Each country has its own specific problems and needs.

Brussels, 10 March 2005.

The President
of the European Economic and Social Committee
Anne-Marie SIGMUND
