

English edition

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II

(Preparatory Acts)

ECONOMIC AND SOCIAL COMMITTEE

Opinion of the Economic and Social Committee on the 'Proposal for a European Parliament and Council Directive amending Council Directive 92/61/EEC relating to the type-approval of two or three-wheel motor vehicles'

(1999/C 368/01)

On 8 October 1999, the Council decided to consult the Economic and Social Committee, under Article 95 of the Treaty establishing the European Community, on the above-mentioned proposal.

Section for the Single Market, Production and Consumption, which was responsible for preparing the Committee's work on the subject, adopted its opinion on 7 October 1999. The rapporteur was Mr Barros Vale.

At its 367th plenary session (meeting of 21 October 1999), the Economic and Social Committee adopted the following opinion by 93 votes to three with seven abstentions.

1. Introduction

1.1. The main aim of the proposal is to update and clarify Directive 92/61/EEC.

1.2. The proposal is justified by the nature of the amendments, which involve more than the simple adaptation of Directive 92/61/EEC to technical progress.

2. General comments

2.1. The proposal stems from the need to clarify some existing requirements, such as the length of validity of national approvals, and to add new requirements, such as the numbering of type-approval certificates and exemptions for end-of-series vehicles and 'new technologies'. This is in keeping with what has already been done for the rest of the motor vehicles sector.

2.2. A series of amendments to the existing directive and to the documentation for the whole type-approval procedure are therefore proposed.

2.3. The Committee considers that although it is necessary to move towards type-approval systems which make it possible to apply uniform criteria, not all Member States are equipped with the technical and administrative infrastructure needed to implement type-approval procedures that are as detailed and wide-ranging as the ones in the proposal. This means that many producers are obliged to turn to type-approval bodies in third countries, an exercise which is more time-consuming and more costly and involves more work and which also amounts to a distortion of competition. The Commission must therefore urge all Member States to create their own type-approval machinery.

3. Specific comments

3.1. The Committee welcomes the proposal to improve the framework directive governing the type-approval of two or three-wheel motor vehicles. The aim is greater harmonisation of the whole system, which is to be achieved by aligning the requirements that have to be met.

3.2. The Committee also welcomes the Commission's decision to consult various relevant bodies and representatives of the sector when drawing up its proposal.

3.3. Bearing in mind the environmental and other advantages associated with a new category of pedal-operated vehicles equipped with auxiliary electric motors, the Committee thinks that the last indent of Article 1(1)(a) of the proposal should be replaced by the following:

— cycles with pedal assistance which are equipped with an auxiliary electric motor, the output of which is progressively reduced as the vehicle speed increases, being cut off altogether at a speed of 35 km/h, and which cannot be propelled solely by means of such motor.

3.4. Bearing in mind the specific nature and limitations of the sector referred to below, the Committee proposes that the number of vehicles constituting a small series be increased from 200 to 300 so that the sector can develop and adapt to the constant changes on the market. This increase will enable producers to be more active on the market thanks to the greater and more reliable feedback they receive, and will also make the sector more dynamic.

3.5. The Committee thinks that point (a) in Annex VIII regarding end-of-series vehicles should be reworded so that it is clearer and not open to differing interpretations.

3.6. Given the specific nature of the sector and the differences, for example, between this sector and the automobile

sector (in terms of resources and size), the Committee thinks that notwithstanding the need for harmonisation and clarification, the directive does not perhaps need to lay down such detailed and stringent requirements and be so inflexible with regard to the substitution of some components.

3.6.1. The Committee therefore proposes that a mechanism be studied for assigning responsibility to the producer and/or the person empowered to sign certificates of conformity so that minor alterations to type-approved vehicles may be acceptable without the need to go through a new type-approval procedure. However, these alterations should not affect the safety of the vehicles or its structural parts.

4. Conclusion

4.1. The Committee once again welcomes the Commission initiative and work on harmonising and standardising Member States' methods and procedures for the benefit of a true European Union.

4.2. The Committee also agrees with all the changes and additions made by the Commission proposal. However, the Commission should take account of the suggestions made above and make the necessary adjustments/additions to its document.

Brussels, 21 October 1999.

The President
of the Economic and Social Committee
Beatrice RANGONI MACHIAVELLI

Opinion of the Economic and Social Committee on the 'Proposal for a European Parliament and Council Directive on the Community code relating to medicinal products for human use (codified version)'

(1999/C 368/02)

On 4 October 1999 the Council decided to consult the Economic and Social Committee, under Article 262 of the Treaty establishing the European Community, on the above-mentioned proposal.

The Section for the Single Market, Production and Consumption, which was responsible for preparing the Committee's work on the subject, adopted its opinion on 7 October 1999. The rapporteur was Mr Braghin.

At its 367th plenary session (meeting of 20 October 1999) the Economic and Social Committee adopted the following opinion by 105 votes to one with three abstentions.

1. Introduction

1.1. The proposed directive under consideration is designed to codify and thus to supersede the various directives on the approximation of provisions laid down by law, regulation or administrative action relating to medicinal products, from Council Directive 65/65/EEC of 26 January 1965 onwards. The purpose of codification is to simplify and clarify Community law so as to ensure transparency and correct interpretation, in accordance with the Commission's decision of 1 April 1987 and the Conclusions of the Presidency of the Edinburgh European Council (December 1992).

1.2. The new directive, which is intended to codify the rules expressly mentioned in Annex II, Part A, containing the list of repealed directives, with their successive amendments, must be adopted in full compliance with the normal Community legislative procedure as laid down in Article 251 of the Treaty, and must respect the substance of the codified texts, confining itself to collating them with only such formal amendments as are required by codification itself.

1.3. The Commission has also taken account of the fact that the European Agency for the Evaluation of Medicinal Products has been set up by Council Regulation (EEC) No 2309/93 (OJ L 214 of 24.8.1993) and that in parallel Directive 93/39/EEC (*ibidem*) has laid down the framework for European regulatory procedures.

1.4. The codification proposal concerning medicinal products for human use was drawn up in parallel with the codification proposal for directives relating to veterinary medicinal products, which are not covered by the text under consideration.

2. General comments

2.1. The Committee warmly welcomes this codification effort, which constitutes an essential reference point for the relevant authorities of the Member States. The proposed codification, reflecting a need felt for years, was finally included in the Commission's 1998 work programme and has now reached the proposal stage. The Committee hopes that the accelerated procedure, endorsed by the interinstitutional agreement of 20 December 1994, will make possible the rapid

adoption of the codified legislation, so that the Directive can enter into force on 1 January 2000 as laid down in Article 131.

2.2. The codification in question is complete insofar as it also covers the directives and specific provisions relating to immunological medicinal products, radiopharmaceuticals, medicinal products derived from human blood or human plasma, and homeopathic medicinal products, as well as the directives on wholesale distribution, classification, labelling and package leaflets, and advertising. The final part of the text is Annex I entitled 'Analytical, Pharmacotoxicological and Clinical Standards and Protocols in respect of the Testing of Medicinal Products'.

2.3. The codified text mostly retains the terminology used in the original directives and does not reflect developments which have occurred in the meantime, particularly as a result of the work of the International Conference on Harmonisation (ICH), which seeks to define standards applicable in the EU and the rest of the world. The Committee suggests the addition of another annex in which the technical terms which should be replaced by those finally adopted by the ICH are indicated.

2.3.1. The development of international terminology should in particular be reflected in the updating of the definitions in Article 1 in those languages where traditional terms no longer current internationally have remained in use (e.g. in Italian: 'effetto collaterale negativo' rather than 'reazione avversa'). The Committee feels that the incorporation of changes approved by the appropriate international organisations should be facilitated when transposing directives into national law.

2.3.2. The Committee also hopes that, for those few terms which in certain languages can be expressed in slightly different forms without changing the meaning, a single term could always be used (e.g. in English: 'marketing authorisation holder' instead of 'applicant', 'holder' or 'authorisation holder'), unless it is necessary in a specific context to bring out shades of meaning.

2.3.3. The text of Annex I includes a series of amendments as to the terms used, with some discrepancies between the different languages. It would be desirable to point out and justify these amendments in notes or in a specific annex, given the technical nature of the points and their importance for correct preparation of the registration dossier.

2.4. The various language versions do not always match, probably because of imperfect translation from the original stages of the document. The Committee suggests that the Commission could make use of the present codification exercise to amend the articles and take appropriate steps where they are inaccurately translated from the reference language.

2.5. Title IX tackles the subject of pharmacovigilance, a field in which debate is under way with a view to drawing up proposed amendments to Directive 75/319/EEC. The Committee hopes that these proposals will be put forward and discussed soon, in the interests of increasingly effective public health protection.

2.6. The Committee, aware of the importance of this codification to harmonisation of the rules governing the pharmaceutical sector, and of early transposition of the directive into national legislation, recommends that the Commission set up a panel of experts, if possible representing all the official languages of the EU, in order to standardise the use of technical terms, verify that they reflect official ICH findings and, where compatible, current usage, and compare the language versions to ensure that changes are standard.

2.6.1. The Committee would draw special attention to the need for consistent and uniform use of concepts such as:

- adverse reactions / negative collateral effects
- medicine / medicinal product / medicinal speciality
- holder of marketing authorisation / holder / authorisation holder / applicant
- active substance / active ingredients / components
- method of preparation / method of manufacture
- competent authorities / Member States
- Agency (EMA) / Committee (CPMP).

2.7. As shown in the final part of the Commission communication on the Community marketing authorisation procedures for medicinal products (OJ C 229 of 22 July 1998), there are still diverging interpretations by national administrations, a certain reluctance to trust scientific assessments from other Member States, and lengthy national administrative procedures - all factors which have prevented full use of the advantages of the new authorisation procedures. The Committee hopes that the Commission will take advantage of the overall reassessment of the registration system due in 2001 to introduce the necessary adjustments to the present texts, assisted in this by the considerable and welcome effort of codification currently in progress.

3. Specific comments

3.1. The Committee would draw the Commission's attention to a number of specific points in which it has identified discrepancies, so that the excellent work of codification presented can be further improved.

3.2. The adaptation in whereas clause (14) would appear to alter the meaning of the second sentence slightly compared to the original version.

3.3. In the Italian language version of whereas clause (45), the verb 'può' is missing before 'incidere' (i.e. 'could' before 'affect').

3.4. Article 1 is of particular importance, since it defines the terms used. The various versions differ at several points, those of particular relevance being 11 (effet indésirable; adverse reaction; effetto collaterale negativo), 12, 13, 14 (specifications of point 11), 17 (professionnel habilité à cet effet; professional person qualified to make such a prescription; professionista autorizzato a prescrivere medicinali) and 26 (tout risque; all risks; un rischio: the Italian version is closest to the original texts).

3.4.1. A discrepancy running throughout the text is that in the English version the terms 'side effects' and 'undesirable effects' have been replaced with the now universally used 'adverse reactions', while this has not been done for the other language versions.

3.5. Article 11(2) does not contain specific reference to the international common term recommended by the World Health Organisation, which provided technical clarification for the original text.

3.6. The English language version of Article 19(2) is the sole language version which does not contain the phrase 'the basic ingredients and, if need be, its intermediate products or other constituent materials'.

3.7. The English language version of Article 36(1) incorrectly refers to 'products' instead of 'procedures'.

3.8. The term 'agent' used in a number of articles [42(1); 46(d); fifth line of 51(3)], and the expression 'persons responsible for inspecting them' [80(a)], should be replaced by the technically correct term 'inspector'.

3.9. The phrase 'person authorised or entitled' to supply medicinal products to the public (Article 82) is truncated in a number of language versions, which refer solely to a 'person authorised'.

3.10. The English term 'guidelines' is not translated by the usual 'linee guida', but in some languages the phrase 'linee direttrici' is employed, which may give the wrong impression that they can be imposed from above.

3.11. The English version of Article 85 wrongly talks of distribution of medicinal products to the public 'for promotional purposes'. The meaning must be 'for non-promotional purposes'.

3.12. The English version of Article 96(b) employs the term 'prescribing agent': it would be more appropriate to use the term 'prescriber', which reflects both the reference text and current usage.

3.13. In Article 103(a), some language versions fail to provide an accurate description of the function of 'medical representatives'. The Commission is asked to check that the

term employed is that currently used in the different Member States to describe this professional function.

3.14. The English language version of Article 112 uses the term 'person responsible for marketing a medicinal product' instead of 'marketing authorisation holder' as employed in the reference text.

3.15. There is a typing error in the English version of Annex I, Part 2.D.1, third paragraph, giving 'method or preparation' instead of the correct 'method of preparation'.

3.16. The Italian version of Annex I, Part 4.B.1.2, second paragraph, still uses the term 'procedura di attuazione' ('implementation procedures') instead of 'tecniche adottate' ('technical application') as in the other updated language versions.

3.17. Annex I (Part 4.F.1) talks of 'treatment of the control groups'. The Italian version wrongly uses the phrase 'controllo delle prove' ('control of the samples'). It should be ensured that the correct phrase is used in all language versions.

3.18. In some language versions, other articles contain incorrect references. For instance, the English version of Article 33 refers to 34 instead of 32, and the Italian version of Article 55 refers to 55 instead of 54. The entire directive should be formally checked.

3.19. Some language versions only give 'or' instead of 'and/or', for instance Articles 41(a), 59(a), the third indent of 71(1), and 115 in the Italian version. This may change the meaning and the subsequent transposition to national law. The entire directive should be formally checked for this aspect.

3.20. Lastly, reference to Article 12(3) of Directive 92/28 is missing.

Brussels, 20 October 1999.

The President
of the Economic and Social Committee
Beatrice RANGONI MACHIAVELLI

**Opinion of the Economic and Social Committee on the 'Commission working document
"Electricity from renewable energy sources and the internal electricity market"'**

(1999/C 368/03)

On 16 April 1999 the Commission decided to consult the Economic and Social Committee, under Article 262 of the Treaty establishing the European Community, on the above-mentioned document.

The Section for Transport, Energy, Infrastructure and the Information Society, which was responsible for preparing the Committee's work on the subject, adopted its opinion on 5 October 1999. The rapporteur was Mr Morgan.

At its 367th plenary session on 20 and 21 October 1999 (meeting of 20 October) the Economic and Social Committee adopted the following opinion by 107 votes to one with four abstentions.

1. Introduction

1.1. The Economic and Social Committee welcomes the Commission's Working Document as the first substantive initiative following the publication of the White Paper 'Energy for the future: renewable sources of energy' ⁽¹⁾. (It is also glad to see that the Commission Staff Working Paper 'Energy for the future: renewable sources of energy (Community Strategy and Action Plan) — Campaign for Take-Off', SEC(1999) 504, has been published.)

1.2. The thrust of the Working Document is towards harmonisation for the internal electricity market ⁽²⁾. Concern is expressed that the contemporaneous existence of different support schemes appears likely to result in distortion of trade and competition. The role of renewables in the EU will clearly increase in the coming years, given the Kyoto commitments. Thus, potential market distortions will accordingly increase. Whilst the trade and competition distorting effects of different renewable support schemes is rather limited at present, given the limited EU market share of electricity from renewable sources, this negative effect appears likely to significantly increase in the coming years.

1.3. It is the opinion of the ESC that this concern with harmonisation is valid within the context of a liberalised energy market. Progress can best be made towards the EU's goals if each technology is subject to a separate support regime.

2. The Commission's approach: fundamental options

2.1. The objectives of the Community and Member States, as stated in the document are listed below:

- The establishment of regulatory framework that is (i) rational and efficiency enhancing (and thus cost reducing and innovation promoting), (ii) long term (i.e. not subject to frequent regulatory change), and (iii) effective in producing significant growth in renewable sourced electricity.
- A gradual and progressive movement towards any such regulatory framework to ensure that progress made to date in increasing renewable levels is not jeopardised and those key environmental objectives are met.
- A significant push, across the Community, by all Member States to increase renewable penetration in all EU markets, thus increasing economies of scale particularly in manufacturing costs, and thus driving down costs.
- A number of measures to facilitate access of RES-E to the internal electricity market. Such measures, which should be taken by all Member States, should, for example, aim at ensuring that planning, administrative and grid connection rules reduce to the minimum constraints in these areas on the growth of renewable sourced electricity in the EU.

2.2. In large measure the ESC agrees with these objectives. It is essential to have a stable framework. The document presents two options for the development of regulation:

2.2.1. Option 1: Gradual achievement of an internal market through continued application of the EU Treaty rules

Under this option, each Member State would continue to freely choose the support system that it views as most appropriate in the light of its particular circumstances; subject, however, to

⁽¹⁾ Energy for the future: renewable sources of energy. White Paper for a Community strategy and action plan, COM(1997) 599 final; ESC opinion, OJ C 214, 10.7.1998.

⁽²⁾ Directive 96/92/EC concerning rules for the internal market in electricity, OJ L 27, 30.1.1997; see ESC opinion, OJ C 73, 15.3.1993.

the continued application of the EU Treaty rules, notably those with respect to state aid. The arguments in favour of such an option include the following:

- The physical conditions relevant to the development of renewable generated electricity differ significantly across the EU. It might be considered appropriate to limit the pro-active development of a single market in this area to ensure that each Member State takes the measures most appropriate to its particular situation.
- As mentioned above, one argument in favour of a fixed-price feed-in tariff system, is its possible appropriateness to ensure the rapid take-off of renewables generation from very low levels, which is the existing situation for most EU Member States.

2.2.2. Option 2: Proactive creation of a single market through Community action

Under this approach one might envisage the adoption of a basic Community framework, probably in the form of a Directive. Member States would have to ensure that, after an appropriate transitional period, their direct support schemes for renewable generated electricity would comply with a number of basic requirements, in such a manner that would ensure that the different schemes were sufficiently compatible with one another, permitting effective trade and, thus, competition.

2.3. The ESC inclines towards option 2. Its opinion is outlined in section 5.

3. The ESC's approach: technology focus

3.1. We are profoundly influenced by the vast differences between the various technologies. The ESC believes that there is a case for a separate regulatory regime for each renewable technology.

3.2. There are fundamental differences between Member States in the scope and opportunity for exploiting the different technologies. As a matter of priority, the Committee feels that it is important for Member States to scope and scale the potential they each have for each of these technologies.

3.3. The Working Document focuses on the various regulatory mechanisms which Member States can employ to

promote electricity generation from renewable energy sources in the future. However these do not address the massive legal, cultural and technological changes needed to bring the programme to fruition. Ultimately the development of renewables will depend on acceptance by society as a whole — both the community and planners. In this respect, the Member States and EU institutions could play an important role in co-ordinating educational schemes, thus helping the public to make an informed choice between environmental impacts at the local level and at other levels e.g. the threat of global warming.

3.4. So, while the Committee agrees with the goal of effective trade and competition, in the framework of a Community-wide electricity market, any proposals for harmonisation should be dealt with on a technology-by-technology basis.

3.5. In the first instance the development of the necessary renewable generation capacity needs to be promoted in order to achieve sustainability. In parallel, the regulation of each technology should be harmonised so that the benefits of internal market scale can be achieved.

3.6. A further vital factor specific to each technology is R&D. There is support available in the Fifth Framework Programme⁽¹⁾ but this must be targeted, directed, led and disseminated in an effective way appropriate to each technology.

3.7. For maximum impact, the development of many technologies needs to go hand-in-hand with related energy saving schemes. Regulatory regimes need to take this consideration into account.

3.8. The main technologies

An examination of the main technologies shows the different and specific challenges that each has to face and also demonstrates the need for some harmonisation of the way in which these challenges are addressed.

3.8.1. Wind

Local planning permission is vital for the development of wind farms. State, regional and local governments must streamline the processes needed to allow the generation of electricity from wind. It is also necessary to secure support from the environmental. Grid connection contracts need to be harmonised as do the provisions related to supply interruption.

⁽¹⁾ 'Fifth Framework Programme for RTD (1998-2002) — Specific programmes'; ESC opinion, OJ C 407, 28.12.1998, p. 123.

3.8.2. Biomass

The need for Member States and the EU to adapt the CAP for electrical generation from biomass has been well rehearsed. In view of the timescales involved in the production of certain crops, coherent contractual relationships need to be established between farmers, generators and the electricity grids. As far as forest products are concerned, the management and organisation of the processes needs to be considered. Overall it would be important to maintain the health and fertility of the land.

3.8.2.1. In order to stimulate the establishment of CHP (combined heat and power or co-generation)⁽¹⁾ at facilities based on heat and power generation using renewable energy sources, consideration needs to be given to facilitating planning approvals for industrial, urban and suburban development.

3.8.3. Solar power

Solar power is constantly evolving technically and its exploitation is dependent on planning, building regulations and linkages to energy efficiency programmes.

3.8.4. Small hydro

The Commission's exclusion of hydro projects exceeding 10 MW may have the unwelcome effect of deterring new hydro schemes over 10 MW. It seems arbitrary and is likely to introduce unnecessary distortions into the market. For instance, developers could be encouraged to divide larger projects into units of less than 10 MW in order to qualify for support. Further hydro-electric power projects may be needed if the EU's target of a 12 per cent penetration of energy generated from renewable sources is to be met. Larger projects will certainly raise planning and environmental issues. However, funding should not extend beyond recovery of extra costs over conventional schemes.

3.9. *For each technology therefore a number of specific issues need to be addressed*

3.9.1. Planning permission

Each technology involves different concerns and issues. The EU should encourage Member States to adopt clear and authoritative frameworks with guidance for all involved, whether developers, planning authorities or inspectors. One option could be to foster a national planning system which acts in a sympathetic fashion to renewable energy by zoning areas where renewable technologies would be appropriate and grid access less costly.

⁽¹⁾ see also: A Community strategy to promote combined heat and power (CHP) and to dismantle barriers to its development (COM(97) 514 final); ESC opinion, OJ C 157, 25.5.1998.

3.9.2. Pricing

Each technology generates electricity (and/or heat) at different costs and involves different considerations as far as subsidies are concerned. This is particularly so since the rate at which the price of RES electricity comes down will be different for the different RE technologies.

3.9.3. State aids

The development of each technology has been heavily subsidised so far. There will need to be a lot more public investment and direction before RES electricity is fully competitive. In order to encourage the development of the internal electricity market it is likely that a co-ordinated state aids regime will be needed for each technology.

3.9.4. Grid connection

The issues will differ by technology. The two principle issues relate to the distances over which connection must be made (wind is often remotely located) and the possibility that supply (e.g. of wind) may be interrupted. The scale of input may be hugely different e.g. as between hydroelectricity and small-scale embedded solar energy. The ESC supports an open and transparent methodology for connection to the network and standard connection rules for renewables.

3.9.5. Timescales

Before a project comes to fruition and before an economic return is achieved a variety of contract issues specific to each technology can arise.

4. Future issues

4.1. Pricing options

4.1.1. Definitions

The Commission's Document seeks to define RES electricity so that only those renewables producers which need support actually receive it. The ESC is concerned to promote the concept of renewables as part of a general drive towards sustainability. Accordingly the definition of renewables should include all sources of renewable heat and power, while any financial support regime, as it applies to renewable electricity only, should by design only give support where it is needed. This is achieved when each technology has its own regime.

4.1.2. Subsidies/fixed pricing

The use of guaranteed price subsidies and purchase obligations at fixed prices, in some countries, has delivered large numbers of renewable projects and supported product suppliers, but at a relatively high cost. In particular the aim of degressive costs is not always promoted in an optimum way because of price subsidies. The Commission has shown that this approach does not inherently encourage efficiency and long-term sustainability. There is a tendency for a fall-off in project starts following removal of subsidies.

4.1.3. Green tariffs

Offering green tariff options is compatible with a competitive market; it avoids distortion through subsidies; it increases customer awareness of their indirect environmental impacts; competing tariffs ensure efficiency gains are made. However, it may be difficult to secure consumer acceptance of green tariffs.

4.1.4. Renewable energy certificates

If there are to be subsidies, or exemptions from any energy taxes, some form of policing system, including certification, will be essential. This will also allow Member States and the EU to monitor more accurately the amount of electricity produced from renewables, while at the same time putting in place a mechanism that could in future lead to trading.

4.1.4.1. A certification system linked to a renewable energy quota would enhance international trade in renewables and create a level playing field; it gives incentives for the building of projects in the most advantageous locations and it allows greater flexibility in meeting any targets. Such a system would require some regulation and central registration; investment risks for project developers may be higher.

4.1.5. Bidding schemes e.g. the UK 'Non Fossil Fuel Obligation' (NFFO)

These schemes encourage efficiency, exert downward pressure on prices, and lead to market convergence. Banded bidding allows support for a variety of technologies, (see 3.9.2, above). Long-term (but defined) contracts allow developers to negotiate loan rates with financial institutions still as yet unfamiliar with such new (and perceived as financially risky) technologies. However, bid success does not guarantee projects receive planning consent (see 3.9.1, above); and network/grid decisions are complicated by this uncertainty (see 3.9.3, above).

4.2. Implementation criteria

From the above analysis, the ESC proposes the following criteria as a basis for any ultimate EU regime, to be phased in over time:

4.2.1. Internal competition

In order to achieve cost effectiveness, there should be some form of internal competition among renewable producers.

4.2.2. Cost competitiveness

Any support for a technology should reduce over time, to lead to cost competitiveness for the technology. A bidding system would do this inherently or appropriate rules could be used in other systems.

4.2.2.1. The cost of any subsidy for renewables should be compared with the cost of support to other schemes for the reduction of CO₂ emissions. Clearly support for renewables should not be allowed to get seriously out of line.

4.2.3. Time limits for project funding

This contributes to continued improvement of technologies and to the concentration of resources on promising technologies. Also on individual projects, funding should not extend beyond recovery of extra costs over conventional plant.

4.2.4. Focus on most promising technologies

The scheme should focus on those renewable technologies most likely to reach competitiveness with conventional sources in the short or medium term. Longer-term options should be addressed through Fifth Framework Programme research.

4.2.5. Open access

To maximise penetration, no potential investors and/or operators should be excluded from support schemes. Commercial and industrial energy users and, particularly, intensive energy users, should be encouraged to invest in renewable energy systems to meet their own power, heat, cooling and air conditioning needs.

4.2.6. Minimum bureaucracy

To avoid waste of available funding, support schemes should be non-bureaucratic and transparent.

4.2.7. Grid connection and reinforcement issues

There is an obvious need for harmonised, open and transparent methodology for connection to the network and standard connection rules for renewables. As a general principle, the rules for network access applying to renewables should be the same as those applying to any other generator. Renewable generators should not be exempted from paying for those network services which they receive. For instance, connection should not be subsidised either by other network users or by the network businesses themselves. Instead, true costs should be included in the total project costs to be supported by subsidy. Network operators should be able to recover the additional costs incurred e.g. administration costs, network studies and reinforcement.

5. Conclusion

5.1. The Commission's Working Document asks two questions in its conclusions:

- First, is Community action in the form of a Directive or other initiative necessary to meet the EU's objectives in this area?
- Second, if so, what approach would be appropriate?

5.2. The ESC's response to the general question of the appropriate regime is framed in the context of the two options described in section 2.

- As far as option 1 is concerned, the Committee would favour a gradual achievement of an internal market. However, this is unlikely to be achieved unless a market-wide regime is developed for each technology.
- Accordingly a version of option 2 is needed. There is a

case for the proactive creation of a number of separate technology support regimes. This would advance the internal market for each technology as far as their relative maturities had already been proven. (see section 4.2.4)

5.3. Whatever instrument is chosen by the Commission to achieve the goals of option 2, this by itself will not be enough to meet the EU's objectives for 12 per cent penetration of renewables by 2010. For this the actions detailed in 5.4, 5.5 and 5.6 are also needed.

5.4. A fundamental assessment of how the 12 per cent target by year 2010 is going to be met in terms of each technology across the EU as a whole is still needed.

5.5. The EU, Member States and supply industries need to make a commitment to this target and to the scale of this undertaking e.g.:

- Member States and the Commission need to address the CAP issue;
- Member States need to put in place planning regulations and processes appropriate to the scale of the technological penetration which is desired;
- the EU and the supply industry need to direct Fifth Framework Programme funding to development priorities, identified by Member State and by technology commitment;
- Member States with the Commission need to develop contract and pricing frameworks to promote an internal market in each technology;
- the EU and the supply industry need to establish technical standards for each technology so that the internal market can be developed;
- essential drivers of demand and acceptance of RES heat and power will be Member State publicity and information dissemination.

5.6. In parallel with all of the above, the EU and Member States need to reformulate building regulations to meet energy efficiency targets and encourage CHP, solar power and photovoltaic technologies.

Brussels, 20 October 1999.

The President
of the Economic and Social Committee
Beatrice RANGONI MACHIAVELLI

Opinion of the Economic and Social Committee on the 'Proposal for a European Parliament and Council Directive on energy efficiency requirements for ballasts for fluorescent lighting'

(1999/C 368/04)

On 8 October 1999, the Council decided to consult the Economic and Social Committee, under Articles 175 and 262 of the Treaty establishing the European Community, on the above-mentioned proposal.

The Section for Transport, Energy, Infrastructure and the Information Society, which was responsible for preparing the Committee's work on the subject, adopted its opinion on 5 October 1999. The rapporteur was Mr Bernabei.

At its 367th plenary session of 20 and 21 October 1999 (meeting of 20 October) the Economic and Social Committee adopted the following opinion, with 103 votes in favour and one abstention.

1. Introduction

1.1. The Commission proposal is part of the strategy to improve the efficiency of end-use electrical equipment, with a view to meeting the energy policy objectives of security of supply, competitiveness and protection of the environment.

1.2. The initiative follows the approach already used to establish minimum energy efficiency requirements using directives, for instance the directives on domestic boilers and refrigerators in 1992 and 1996 respectively, and negotiated agreements, such as those reached on television sets, video recorders and washing machines. The Committee published opinions⁽¹⁾ on these issues.

1.3. The Commission states that minimum requirements are essential to improve the efficiency of ballasts for fluorescent lighting, and it has explored every possible way of reaching a negotiated agreement with the industry to gradually eliminate low-efficiency ballasts. However, European manufacturers are fearful that the place they vacate on the market will be filled immediately by imported goods. For that reason, standard minimum requirements for all products on the European market would be a preferable option and would also prevent barriers to trade.

1.4. There is general agreement on the need to abide by the targets set by the Kyoto conference for reducing greenhouse gas emissions. For the EU this implies cutting emissions by 8 % between 1990 and 2010. The Commission has stated that applying the minimum efficiency requirements proposed for fluorescent lighting could have a significant impact, in spite of the fact that the 'impact of standards on electricity consumption will be relatively slow' (less than 5 % of the approximate 111 TWh/y total sector consumption forecast for 2010).

1.5. According to the Commission, low-loss ballasts, which correspond to categories A and B in the seven-class and four-category scheme devised by CELMA (the Committee of EEC Luminaires Manufacturers Associations), must be promoted, while category D ballasts should gradually be eliminated from the European market over an initial one-year period, with category C ballasts following during a second four-year transitional phase.

2. General comments

2.1. The Committee has underlined the importance of voluntary negotiated agreements and the need to 'adopt a positive approach and reward those manufacturers who promote low-consumption appliances with recyclable components' on several occasions⁽²⁾, most recently in its opinion on the Communication on 'Energy Efficiency in the European Community: Towards a Strategy for the Rational Use of Energy'. Furthermore, in its opinion on the refrigerators directive, the Committee called on the Commission to encourage industry and consumers to take an active part in the process of assessing results and if necessary establishing a second set energy efficiency standards.

2.2. The Committee welcomes the spirit and aims of the draft directive, although in view of the complexity of the subject, it would have preferred the matter to have been addressed by voluntary agreements within the industry.

2.3. In view of the massive volume of imports, pointed out by the Commission, the fact that ballasts for export as individual parts or as parts of luminaires are to be excluded from the directive, and the possible use of the CE marking as

⁽¹⁾ OJ C 155, 21.6.1995, p. 18; OJ C 102, 18.4.1991, p. 46.

⁽²⁾ COM(1998) 246 final. Opinion of the Economic and Social Committee on the 'Communication from the Commission: Energy efficiency in the European Community — Towards a strategy for the rational use of energy' OJ C 407, 28.12.1998. See also the own-initiative opinion of the Economic and Social Committee on 'Policies for the rational use of energy (RUE) in the European Union and in countries which are candidates for early membership' OJ C 407, 28.12.1998.

under other directives, the Committee strongly underscores the need for effective market controls and appropriate monitoring and quality guarantee systems in all Member States, with immediate effect and firm deadlines, in order to ensure that European manufacturers are not thwarted in their efforts by unfair competition and the presence on the market of ballasts that do not conform to standards.

2.4. It is the Committee's opinion that these transitional periods must provide the basic minimum time required to adapt and reorganise production lines and spread the burden of the new technologies, research and staff training that will prove necessary. In the absence of appropriate Community support for finance, training and information, this and all other sectors involved in minimum energy efficiency requirement improvement schemes may find their competitive capacity eroded.

2.5. The Committee totally agrees that the energy efficiency requirements must be sufficiently precise to become legally binding obligations that can be enforced in national legislation, in accordance with the 'new approach' to standardisation policy. It also supports the use of a conformity assessment procedure based on self-assessment, avoiding compulsory type-conformity tests by external 'notified bodies'.

2.6. The Committee takes the view that the major effort required of the industries concerned to guarantee high safety and quality standards and apply increasingly sophisticated technology, without eliminating specific technological processes, should be mirrored by more substantive and high-profile measures — along the lines of the US Green Lights Programme — to increase awareness, disseminate information, back the demonstration of innovative technologies (BAT), run information and training campaigns, and step up practical measures, for instance under the key actions of the Community's fifth RTDD framework programme. The principal objectives of this standardisation measure should be incorporated into other demand-related policies for instance regarding construction standards, public contracts, and authorisations that are subject to compliance with environmental impact regulations. This must also apply to actions to enhance the EU's position on the world market and should include a bold policy to promote the adoption of EU standards internationally.

3. The issue as it affects third countries and applicant countries

3.1. In the United States, the rules for minimum energy efficiency requirements for fluorescent lighting are laid down in the national Energy Policy Act of 24 October 1992. This act provided for the elimination within a three-year period of three types of lighting (F40, F96 and F96/HO) that did not comply with federal standards for LPW (Lumens per Watt) and CRI (Colour Rendering Index) levels.

3.1.1. Since November 1995, US manufacturers have been banned from producing, importing or selling fluorescent lamps that do not conform to federal standards. They are also encouraged to promote the adoption of such standards on foreign markets, particularly in Latin America and Asia.

3.1.2. At the end of 1990, meanwhile, the federal Environmental Protection Agency (EPA) launched the Green Lights Programme, whereby major electricity consumers, electricity companies, electricity management companies, and lighting producers and distributors are encouraged on a voluntary basis to commit themselves to a timetable for improving lighting energy efficiency. The programme also offers them support in awareness-raising and promotion. As the market mushroomed, the cost of the various parts fell sharply and the price of electronic ballasts more than halved within five years.

3.1.3. Lastly, on 28 June 1999, the EPA launched a new scheme to protect public health and the environment more effectively from mercury contamination, encouraging consumers to recycle fluorescent lights and other common products containing toxic substances voluntarily, so as to ensure that they do not end up in landfill or incinerators.

3.1.4. In the Committee's view, the European version of the EPA Green Lights Programme, which is still on the drawing board at the JRC, must be adopted as swiftly as possible. There is a need to look at the wider picture, and thus support measures to improve environmental safety in the recycling of toxic substances in fluorescent lighting, especially mercury, while also promoting energy efficiency and environmental protection, and shoring up the competitiveness of the European industry.

3.2. The Committee would argue that the directive's external dimension merits equal consideration, especially regarding the applicant countries, which are preparing to apply the technical standards of the internal market, and whose lighting industry is well-developed, though to rather lower standards of efficiency. This will involve promoting standardisation by using technology transfer, the pre-accession funds and Phare, and extending the SAVE II programme, in order to build up management skills and raise awareness of the proposed energy efficiency measures.

3.3. Similar support measures should be implemented under the aid and cooperation programmes involving the Euro-Mediterranean area, Mercosur and Latin America, and also through cooperation with the ACP and initiatives in Asia.

4. Specific comments

4.1. Scope

4.1.1. As ballasts do not operate separately but in conjunction with light fittings, it is essential to clarify whether, and if so to what extent, the restrictions and obligations imposed on the ballast and its producer will be transferred to the luminaire to which it is attached. This will be necessary in order to ensure proper market supervision, for luminaires imported from outside the EU for instance.

4.1.2. There are certain divergences between the various language versions of the proposed text. The translations of the second paragraph of Article 1 must be brought into line with the English version: the term 'to be exported' corresponds exactly to the requirements of the luminaire production chain. For the sake of consistency, the same term should also be used in Article 3(3)(c).

4.1.3. The Committee believes that the directive should exclude both ballasts for direct export and those sold to luminaire producers with a view to being exported.

4.1.4. The exclusion from the scope of application provided for under the second paragraph of Article 1 must be without prejudice to the Article 3(3)(c) provision (indication of goods for export).

4.2. CE marking and conformity assessments

4.2.1. The procedures for applying the CE marking mentioned under Articles 3, 5 and 6 must be clarified with regard to:

- compliance with the 'new approach' directives applicable to ballasts or lighting containing ballasts;
- alignment of declaration of conformity procedures already applied under the other directives regarding ballasts (electromagnetic compatibility directives 89/336/EEC and 93/68/EEC) and luminaires (low voltage directives 73/23/EEC and 93/68/EEC and electromagnetic compatibility directives 89/336/EEC and 93/68/EEC).

4.3. Implementation deadlines

4.3.1. In the light of market experience of applying the previous 'new approach' directives, it is of the utmost importance to ensure that the transition from the old to the new

regime is conducted as harmoniously as possible, throughout the EU, and in manageable stages.

4.3.2. In particular, the Committee would recommend:

- extending the deadline for transposition by the Member States from 12 to 18 months [Article 8(1)];
- adjusting the deadline for banning the placing on the market of ballasts accordingly [Article 8(1) second para.];
- introducing a further 12-month deadline for the ban on putting into service [Article 2(1)], so that distributors and producers can sell off stocks of luminaires incorporating the ballasts covered by the directive;
- introducing a similar 12-month deadline to give time to sell off stocks prior to the entry into force of the second phase of the directive [Article 9(1)].

4.4. Monitoring and adjustment

4.4.1. The Committee would highlight the concerns of consumers and producers, who need proper guarantees that EU-wide market supervision will be set up swiftly and effectively when the directive is transposed into national legislation.

4.4.2. In the absence of sufficient market control mechanisms, the industry could be heavily penalised in terms of production and jobs within a matter of months.

4.5. Support measures

4.5.1. The Committee thinks that the directive's recitals should include a 20th point to state specifically the need for support and incentive schemes, in addition to assistance from the Structural Funds, the EIB, and the relevant RTD and energy-related programmes, to help all sectors involved in innovation and technological restructuring to adapt to the new Community energy-efficiency requirements.

5. Concluding remarks

5.1. To conclude, the Committee would make the following recommendations to the Commission, the Parliament and the Council:

- while agreeing with the purpose and spirit of the proposed directive, the Committee considers that the voluntary agreement approach would have been preferable, in view of the complex interplay between the various measures proposed and the 'new approach' directives applicable to the industry;

- in view of the massive volume of ballasts exported as individual parts or as part of luminaires, the right balance must be struck between the objectives of energy efficiency, employment, international competitiveness and environmental protection;
- it is essential to establish a coherent framework for the development of an integrated product policy (IPP: energy efficiency, 'end of life' management, use of potentially hazardous substances, consumer protection), especially with a view to a possible third stage in the drive for greater energy efficiency;
- it is vital that the definitions contained in the articles clarify the scope of application by stating which of the obligations regarding ballasts also apply to the luminaires they are attached to; furthermore, the relevant directives mentioning use of the CE marking must be coordinated and the transposition and implementation deadlines redefined to ensure consistency and a manageable time frame;
- the major efforts demanded of the industries concerned must be mirrored by coherent and clear measures to increase awareness, disseminate information and incorporate the relevant energy efficiency objectives into various internal (procurement, construction, etc.) and external (enlargement negotiations, cooperation and aid to the Mediterranean, Mercosur, Latin America, ACP and Asia) policies.

Brussels, 20 October 1999.

The President
of the Economic and Social Committee
Beatrice RANGONI MACHIAVELLI

Opinion of the Economic and Social Committee on the 'Proposal for a Council Decision amending Decision 91/666/CEE establishing Community reserves of foot-and-mouth disease vaccines'

(1999/C 368/05)

On 8 September 1999 the Council decided to consult the Economic and Social Committee, under Article 37 of the Treaty establishing the European Community, on the above-mentioned proposal.

The Section for Agriculture, Rural Development and the Environment, which was responsible for preparing the Committee's work on the subject, adopted its opinion on 28 September 1999. The rapporteur was Mr Donnelly.

At its 367th plenary session (meeting of 20 October 1999), the Economic and Social Committee adopted the following opinion by 105 votes to one with two abstentions.

1. Gist of the Commission document

1.1. Community measures for the control of foot-and-mouth diseases provide for emergency vaccination in cases the disease become extensive.

1.2. By Decision 91/666/EEC⁽¹⁾ the Council established the Community reserves of foot-and-mouth disease vaccines, and designated four antigen banks in different Member States. Meanwhile, two of those four antigen banks have relinquished their commitments to provide these services to the Community.⁽²⁾

1.3. Furthermore, the need may arise to relocate perhaps on short notice and in any case without undue delay, the antigen reserves to appropriate establishments within the Community. In order to allow immediate reaction to the needs to distribute or relocate the Community reserves of foot-and-mouth disease antigen for storage at different sites, an amendment of above mentioned Decision is proposed. In

⁽¹⁾ OJ L 368, 31.12.1991, p. 21-25.

⁽²⁾ The Institute for Animal Health (Pirbright-UK) and Bayer AG (Cologne-Germany).

particular the designation of the two institutions is eliminated and the designation of any other establishment is carried out in future by the Commission in accordance with the Standing Veterinary Committee (with the procedures laid down in Article 10 of the decision).

2. Assessment of the proposal

2.1. The protection of the health status of the EU livestock herd is of the utmost importance. The need for a new legal base, as proposed by the Commission, which allows more efficient and immediate action in order to combat foot-and-mouth diseases is convincing.

2.2. The severity of foot-and-mouth disease, which is also widespread in neighbouring regions such as Turkey or some countries in North Africa may require the need for immediate reaction and the facility to distribute or relocate the Community reserves of foot-and-mouth disease antigen vaccines. The Committee therefore supports the proposal of the Commission that provides for the application of the Standing Veterinary Committee procedures as regards the designation of the Community antigen reserves.

Brussels, 20 October 1999.

The President
of the Economic and Social Committee
Beatrice RANGONI MACHIAVELLI

Opinion of the Economic and Social Committee on the 'Proposal for a Council Decision on the system of the European Union's own resources'

(1999/C 368/06)

On 3 August 1999 the Council decided to consult the Economic and Social Committee, under Article 262 of the Treaty establishing the European Community, on the above-mentioned proposal.

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 29 September 1999. The rapporteur was Mr Cal.

At its 367th plenary session of 20 and 21 October 1999 (meeting of 20 October), the Economic and Social Committee adopted the following opinion by 109 votes to one, with two abstentions.

1. The Commission proposal, which was issued in July 1999, is pursuant to the decisions taken at the Berlin European Council on 24 and 25 March 1999 regarding the financing of the European Union for the period 2000-2006.

1.1. The Council's main decisions regarding own resources were as follows:

- reduction of the maximum rate of call of the VAT resource from the current 1 % to 0,75 % in 2002 and 2003, and to 0,5 % from 2004 onwards;
- increase in the percentage of 'traditional own resources' retained by the Member States as collection costs (from 10 % to 25 %);
- technical adjustments to the correction of budgetary imbalances in favour of the United Kingdom (to take account of the results of the Berlin European Council decisions and the future costs of enlargement);
- change in the financing of the UK abatement to reduce the financing share of Austria, Germany, the Netherlands and Sweden to 25 % of the normal share;
- invitation to the Commission to review the operation of the own resources system by 1 January 2006. The review is to cover the effects of enlargement, the rebate granted to the UK and the rebate granted to the four Member States mentioned above in the financing of the UK rebate, and the question of creating new autonomous own resources for the EU.

2. The Committee considered these issues in an own-initiative opinion of 24 March 1999 on Financing the European Union⁽¹⁾, which it drew up for the European Council of the same date. The opinion acknowledged the difficulty of adopting some of the proposals under discussion, such as the creation of new own resources, and endorsed some of the

other measures which were duly adopted by the European Council and which now feature in the proposed Council decision. These latter measures include wider use of the GNP resource, a reduction in the maximum rate of call of the VAT resource, an increase in the percentage of revenue retained as collection costs, and consideration of the costs of enlargement in the rebate granted to the UK.

2.1. As it is not yet possible realistically to determine the costs and timescales of enlargement, the Opinion on Financing the European Union took the view that the whole issue of own resources, including the budgetary imbalances affecting some Member States, would have to be reviewed before 2006. The Committee therefore welcomes the European Council's request to the Commission to review the operation of the own resources system.

2.2. The need for such a review is clear from an analysis of the current budgetary imbalances and from the projected costs of enlargement as they emerge from the various budget headings. The costs for the EU budget have been 'seriously underestimated'.

2.3. However, the basic issue raised in the earlier opinion is more far-reaching. Ad hoc positive measures are not enough to guarantee an 'equitable, transparent, cost-effective and simple' own resources system. From 2005/2006 — the date of the first accessions — the new situation will require the introduction of a 'general regulating mechanism for establishing a framework which takes account of the future system of own resources. Such a mechanism would establish a direct link between national prosperity (expressed in terms of per capita GNP) and the budgetary balances of each Member State. The purpose should be to safeguard the overall level of own resources for enabling the European Union to maintain and extend its role.'

2.3.1. 'The curve which represents the graphical expression of this mechanism could not exceed the limits on budgetary balances'.

⁽¹⁾ OJ C 138, 18.5.1999

'The direct relationship between the two variables should not be expressed by a line but by a shaded area around that line so that the correction mechanism comes into play when the net situation in a Member State falls outside the shaded area and deviates considerably from the net situation in the other Member States with the same level of prosperity. The relationship between budget imbalance, measured in relation to per capita GNP and operational budgetary balances requires a formula which allows for year to year variations in budget contributions. Conceptually, the agreed mechanisms should envisage a margin of variation which would be acceptable when averaged over a period longer than one year. The scale of this margin should be sufficient to enable a better balance to be struck between the stability and reliability of the level of revenue and the corrections to be made to budgetary balances when they fall outside the

accepted degree of variation. It will thus be possible to avoid generalised corrections every year'.

2.4. The Committee considers that the report reviewing the operation of the own resources system and, in particular, the effects of enlargement on the financing of the budget (Article 9 of the proposed Council Decision), which the Commission has to submit by 1 January 2006, has to be preceded by a wide-ranging debate in all the institutions and in the Member States about the financial autonomy of the European Union, the declining share of traditional own resources, and the availability of ample own resources to maintain and extend the role of the European Union. This wide-ranging debate will make it possible to obtain a broad consensus, which in turn will make it easier for the European Commission to present concrete proposals.

Brussels, 20 October 1999.

The President
of the Economic and Social Committee
Beatrice RANGONI MACHIAVELLI

Opinion of the Economic and Social Committee on the 'Proposal for a Council Directive on the Protection of workers from the risks related to exposure of carcinogens at work (Sixth individual Directive within the meaning of Article 16 (1) of Directive 89/391/EEC)'

(1999/C 368/07)

On 17 May 1999 the Council decided to consult the Economic and Social Committee, under Article 198 of the Treaty establishing the European Community, on the above-mentioned proposal.

The Section for Employment, Social Affairs and Citizenship, which was responsible for preparing the Committee's work on the subject, adopted its opinion on 30 September 1999. The rapporteur was Mr Thomas Etty.

At its 367th plenary session (meeting of 20 October 1999), the Economic and Social Committee adopted the following opinion by 97 votes in favour and one vote against, with two abstentions.

1. The Committee agrees in general terms with the Commission that it is important to simplify and clarify Community law, without affecting the level of protection. This is certainly desirable in the area of occupational safety and health legislation where the architecture of existing instruments has become, in some cases, very complicated.

2. It notes that the purpose of the consolidation operation will not involve changes of substance to the present legislation.

3. The Committee also notes that the Commission's decision of 1 April 1987 states that all legislation measures should be consolidated after no more than ten amendments (as a minimum requirement). The Carcinogens Directive of 1990⁽¹⁾ had been amended just once when the Commission presented its proposal of 8 April 1999. Meanwhile, the Council Directive has been amended for a second time on 29 April 1999.

The Committee thinks that codification efforts should start where the need for creating transparency is most urgent. The Commission should try to avoid a situation where a proposal for codification will almost immediately be followed by a new proposal for an amendment.

In this case, the reason for the early Commission proposal was because of questions relating to the field of application: initially, the Directive limited protection of workers to substances classified at Community level; after the first amendment, the field of application was widened to substances recognized as carcinogenic by other authoritative bodies.

The Committee understands that the preparations for including a second amendment in the codification process are well advanced. It therefore expects the new proposal to be adopted shortly.

4. The Committee fully agrees with the present proposal.

5. As this is the first proposal of this sort in the policy area concerned, brought to the attention of the Committee, it wishes to express itself on the more general aspects of the codification process as regards occupational safety and health legislation:

— taking into account point 2 above, if there are differences of nuance of protection among instruments selected for codification, the provisions most favourable to safety and health at work must apply;

— if such instruments contain exemptions, e.g. excluded sectors, the codification should trigger immediately a discussion in the relevant EU services and bodies whether and which exemptions are still justified, and conclusions should be drawn and implemented expediently;

— codification is not only important in order to make legislation clearer and more accessible to the ordinary citizen of the EU, but also with a view to the governments, parliaments and socio-economic interest groups in the candidate Member States of the EU, in particular those in Central and Eastern Europe. In this connection, the Committee once again pleads for stronger cooperation with the relevant parties in these countries in the field of occupational safety and health;

— the Committee realises that codification is not only a matter of concern of DG V but to a large degree of the legal services of the Commission. Nevertheless, it wishes to reiterate its earlier proposals to the Commission to ensure that all relevant resources of DG V will be kept at a level enabling them to fulfill their tasks adequately.

⁽¹⁾ Directive 90/394/EEC, OJ L 196, 26.7.1990.

— If, as is hoped, the codification process makes Community law clearer and more accessible, DG V could explore the

possibility of supplementary instruments and measures to promote better implementation of existing legislation.

Brussels, 20 October 1999.

The President
of the Economic and Social Committee
Beatrice RANGONI MACHIAVELLI

Opinion of the Economic and Social Committee on the 'Proposal for a Council Decision establishing a Community action programme to promote the integration of refugees'

(1999/C 368/08)

On 5 July 1999, the Council decided to consult the Economic and Social Committee, under Article 262 of the Treaty on European Union, on the above-mentioned proposal.

The Section for Employment, Social Affairs and Citizenship, which was responsible for preparing the Committee's work on the subject, adopted its opinion on 30 September 1999. The rapporteur was Mrs zu Eulenberg.

At its 367th plenary session of 20/21 October 1999 (meeting of 20 October) the Economic and Social Committee adopted the following opinion by 107 votes to one with two abstentions.

1. General comments

This opinion examines a Community action programme promoting the integration of people who have been recognised as refugees 'or, depending on the Member State concerned, granted some other form of protection enabling them to remain, and are therefore suitable candidates for full assimilation into the society of the Member States' (page 3 of the proposal). At the request of the European Parliament, in December 1998 the European Commission submitted a corresponding proposal for a Council Decision.

The ESC is extremely glad that, at the request of the European Parliament, the Commission has submitted the Proposal for a Council Decision establishing a Community action programme to promote the integration of refugees. The ESC endorses both the explanatory memorandum and the body of the proposal and sees in the action programme an important instrument for underpinning and continuing the positive results of the pilot actions, and for reacting in a coherent way to the challenges facing the European Union and its Member States in connection with the integration of refugees. Against this background the ESC stresses the importance of modelling the action programme closely on the pilot actions, e.g. in terms of timing, and ensuring that it is implemented as rapidly as possible. The ESC also considers the 18-month term of the programme to be essential.

Against the background of this generally favourable opinion, the ESC would, however, make a few proposals for changes to the current document, which are set out and explained below:

1.1. Funding policy background to the proposed action programme

1.1.1. The integration of refugees who have found shelter and protection in the EU Member States has become a matter of increasing concern in recent years. At the request of the European Parliament, in 1997 and 1998 a number of pilot actions promoting the integration of refugees were funded under budget heading B3-4113. The action programme under review here, which was adopted by the Commission in December 1998, reflects the performance of the pilot actions.

1.1.2. On 13 January 1999 the Commission also submitted a complementary proposal for a joint action establishing measures to provide practical support in relation to the reception and the voluntary repatriation of refugees, displaced persons and asylum applicants (COM(1998) 733 final). The proposal is based on work carried out under budget headings B5-803 and B7-6008 during the same period.

1.1.3. For 1999 the European Union's budget authority has set aside 5 million euros under budget heading B3-4113 for preparatory measures to promote the integration of refugees. The purpose of these measures is to prepare the proposals contained in the action programme and test their feasibility.

1.1.4. If the proposed action programme is approved by the Council during 1999, the programme will be up and running in the year 2000.

1.1.5. The action programme aims to provide a legal basis for continuing the work and guarantee a smooth transition to the Community action to promote social inclusion, as in the medium term it is intended that the measures in respect of refugees will be taken forward as part of Community action to promote social inclusion (under Article 137 of the EC Treaty as amended by the Treaty of Amsterdam). (See page 4 of the proposal.)

1.1.6. The proposed action programme thus has two functions. Firstly, to provide a smooth transition between the preparatory measures of the 1999 financial year and the proposed Community action to promote social inclusion. Secondly, to maintain the added value created by the multiyear projects already in place.

1.1.7. Although adoption of the decision was scheduled for the first half of 1999, this could not be achieved under the German presidency.

1.2. *Assessing the funding policy background to the proposed action programme*

1.2.1. In terms of its funding policy background, the adoption of the draft decision by the Council of the European Union is desirable in several respects:

- the pilot actions completed or under way in 1998 and 1999 under budget heading B3-4113 have in all Member States developed and improved the structures for assimilating refugees;
- Europe-wide public awareness campaigns have been carried out, integration networks have been established, non-governmental organisations have been able to enhance their cooperation on refugees in a systematic and targeted fashion⁽¹⁾;

⁽¹⁾ Report on action taken and on the selection of projects in 1998, budget heading B3-4113 — Integration of refugees, European Commission, DG V [see also enclosed information brochures on the project 'Joint Force for Integration' issued by the Platform of the European Red Cross Cooperation for Refugees, Asylum Seekers and Migrants and the 'Task Force on Integration' issued by the European Council on Refugees and Exiles (ECRE)].

- the continuity of funding should be guaranteed in order to sustain these projects and their results.

1.2.2. A lack of continuity in this important area of work could mean that the good start made by the EU-assisted projects would go to waste and that in many Member States inadequate national funding programmes would neither provide nor envisage resources to pursue these activities.

1.2.3. That is why we consider it necessary to continue EU assistance. The action programme needs to be adopted as quickly as possible in order to achieve a seamless transition between the preparatory measures and the action programme.

1.3. *Integration background to the proposed action programme*

1.3.1. The proposal for a Council Decision establishing a Community action programme to promote the integration of refugees refers to 'a global approach for refugees, displaced persons and asylum applicants' (page 2). The European Parliament called upon the Commission to draft such an approach based on existing measures. This is now set out in the following two complementary proposals:

- the proposal for a joint action establishing measures to provide practical support in relation to the reception and the voluntary repatriation of refugees, displaced persons and asylum applicants (on the basis of Article K.3 of the EU Treaty) (COM(1998) 733);
- and the proposal currently under discussion for a Council decision establishing a Community action programme to promote the integration of refugees (on the basis of Article 235 of the EC Treaty) (COM(1998) 731).

1.3.2. The measures proposed in the action programme focus on 'people who have been recognised as refugees or, depending on the Member State concerned, granted some other form of protection enabling them to remain, and are therefore suitable candidates for full assimilation into the society of the Member States' (page 3).

1.3.3. By way of justifying the action programme to promote the integration of refugees the Commission proposal cites the need 'to act at European level as a consequence of growing public awareness that xenophobia, lack of integration, and social exclusion are fundamental challenges to democratic society' (page 3). Emphasis is also placed on the refugee phenomenon, and its increasing scale and impact in the Member States (*idem*).

1.3.4. With regard to refugees as a particularly vulnerable population group, the Commission proposal mentions specific integration measures taking into account the circumstances of their exile and particularly the initial phase of their integration into a host society.

1.3.5. In addition to transferability and innovation, emphasis is placed on the principles of partnership and participation. The principle of partnership is to be implemented using a multidimensional approach involving cooperation between two or more partners. To implement the principle of participation, the cooperation partners need to ensure the direct participation of the refugees.

1.3.6. The European nature of the programme is designed to establish synergistic effects and transfers of good practice and experience which are not feasible at national level and which are not covered by existing EU programmes. 'Such measures, which can act as a bridge into mainstream actions designed to promote integration, do not at present fall directly within other Community interventions, be it action against racism, social exclusion, or Structural Funds intervention' (page 4).

1.3.7. Since the proposal was submitted by the European Commission on 16 December 1998 it has been discussed by various European and national bodies and institutions. On 18 March 1999, the Committee on Civil Liberties and Internal Affairs of the European Parliament held a discussion on the various EU measures in the field of asylum and migration. Looking towards the forthcoming ratification of the Treaty of Amsterdam the Committee's members stressed that it was a genuine European area of action, as immigration and asylum policy now fall within the Community remit. On the basis of a report drafted by Mrs Zimmerman, MEP, it was proposed that a comparative analysis of the situation of refugees in the EU Member States be carried out. The European Parliament also proposes the introduction in the medium term of a 'European Refugee Fund' which groups together all of the budget headings contained in the EU budget into a single budget heading. The aim is to improve the EU's action and resource distribution in respect of refugees⁽¹⁾.

1.3.8. In the revised Guidelines for a European migration and asylum strategy (in the earliest version dated 23 June 1999) during the German Council presidency, attention was drawn to the importance of integrating third-country nationals, including recognised refugees. 'Integration of third-country nationals lawfully resident in the Member States on a long-term basis, including those with refugee status, is a matter of utmost importance. (...) The European Council is aware of Europe's position as a continent marked by migratory movements (...). It points out that the integration of third-country nationals living in Europe on a long term basis will be a constant task for the European Union and its Member States'⁽²⁾. The document also emphasises the need for a global, integrated strategy for European migration and asylum.

⁽¹⁾ See News Report of 18.3.99, European Parliament.

⁽²⁾ Note from presidency to the Strategic Committee on Immigration, Frontiers and Asylum, doc. No 8815/99 ASIM 23, Brussels, 23.6.1999.

1.4. *Assessing the integration background to the proposed action programme*

1.4.1. The proposed action programme establishes an important pillar of the common European asylum and migration policy. There is no doubt that it is not only non-governmental organisations involved in assisting refugees who welcome the treatment of refugees as a particularly vulnerable population group with specific integration needs. Neither is there any doubt that in the European Union there is a political resolve to promote the integration of refugees. This is all the more true since migratory and refugee movements are certainly not passing phenomena, but increasingly constitute a long-term challenge for Member States and others. Against such a backdrop, the European Parliament's proposal to introduce a European Refugee Fund under which all refugee-related budget headings are brought together merits particular attention.

1.4.2. It is the intention of the Commission proposal, *inter alia*, to promote the receptiveness of the European public. In view of this the reference to the 'rise of the refugee phenomenon' (p. 4) is out of place.

1.4.3. The challenges arising now and in the future from the EU and its Member States granting asylum to refugees, possibly to an increasing extent, provide justification for the continuation of Community support.

2. **Proposals for amending and supplementing the proposal for a Council decision**

2.1. *Principles of partnership and participation*

2.1.1. As explained in the foreword, the Commission's proposal is to directly involve refugees in the implementation of the action programme. In our view, refugee organisations and self-help groups active in project development and implementation should participate in the action programme.

2.1.2. Proposal: Point 3.2 should be expanded by adding on the following sentence. In their capacity as players in project development, implementation and evaluation, refugee self-help groups and other migrant organisations working for the integration of refugees should be actively included. In this respect, the cooperation of all organisations representing civil society is to be encouraged.

2.2. *Second recital*

2.2.1. As explained in the foreword, there has been an increase in the number of refugees in Europe as a whole, but not in all Member States, hence our proposal to qualify this statement.

2.2.2. Proposal: ' (...) whereas the number of refugees in some Member States has substantially increased in recent years;'

2.3. Article 1

2.3.1. The delay in the adoption of the action programme and the introduction of the preparatory measures for the period from 1 July 1999 to 1 July 2000 mean a change in the timeframe for the action programme: from 1 July 2000 to 31 December 2001.

2.3.2. The question of the participation in society of refugees in the Member States is a key matter of concern for many of those involved in the field of refugee integration. That should be more strongly emphasised at this point in the text: 'The purpose of the programme is to contribute to the effective integration into and the enhanced participation in society of refugees in the Member States, inter alia through participation in networks (...)'.

2.4. Articles 3 and 4 and point 4 of the explanatory memorandum

2.4. Articles 3 and 4 and point 4 of the explanatory memorandum

2.4.1. All of the actions proposed under point 4 are at European level. Applicants are expected to cooperate at European level (Actions II and III) or at national level carry out a large multidimensional project with a clear European added-value (Action I). This is basically to be supported. However, possible disadvantages for smaller organisations assisting refugees, particularly self-help organisations and their national associations, should be countered — as just explained above — by including them in the planning, development and implementation of multidimensional projects and projects with Europe-wide features.

2.4.2. Proposal: Action I: In this respect, equal opportunities must be promoted for applications from smaller organisations through involvement in networks.

2.5. Article 6

2.5.1. As the integration of refugees is in many Member States achieved via programmes and initiatives of non-governmental organisations, these should where possible be explicitly mentioned here.

2.5.2. In accordance with the Commission's principles of partnership and participation, refugee self-help organisations should also be mentioned here as relevant cooperation partners.

2.5.3. Proposal: '2. The Commission shall cooperate with institutions and organisations active in the field of integration of refugees, particularly non-governmental organisations. Enhanced participation of refugee self-help organisations shall be sought'.

2.6. Article 7

2.6.1. In line with Article 6, the membership of the committee proposed here should comprise one representative of NGOs and one ESC member representing the social partners. The ESC is aware that the decision on the Committee procedure currently rules out the enlargement of the proposed committee to include ESC members.

2.6.2. Proposal: Add the following to the first indent: 'The membership of the Committee shall be such as to ensure the involvement of representatives of NGOs and/or the social partners'.

2.7. Article 8

2.7.1. For the sake of clarity, it should be added here that the support is for measures promoting the integration of refugees.

2.7.2. Proposal: a) should be expanded as follows: general guidelines for the support to be provided by the Community for measures promoting the integration of refugees.

3. Conclusion

3.1. The Proposal for a Council Decision establishing a Community action programme to promote the integration of refugees broadly earns our support. It is particularly important to work towards a speedy adoption of the decision so that there are no breaks in assistance and to ensure that the relevant projects are pursued. This is also the only way of guaranteeing continued use of the structures already in place and the knowledge acquired. Since the issues of migration and integration will remain of considerable importance for the EU and its Member States in the future, the ESC will continue to follow this programme closely and will work for adequate funding for European assistance instruments.

Brussels, 20 October 1999.

The President
of the Economic and Social Committee
Beatrice RANGONI MACHIAVELLI

Opinion of the Economic and Social Committee on the 'Proposal for a Council Regulation (EC) on jurisdiction and the recognition and enforcement of judgments in matrimonial matters and in matters of parental responsibility for joint children'

(1999/C 368/09)

On 12 July, the Council decided to consult the Economic and Social Committee, under Article 262 of the Treaty establishing the European Community, on the above-mentioned proposal.

The Section for Employment, Social Affairs and Citizenship, which was responsible for preparing the Committee's work on the subject, adopted its opinion on 30 September 1999. The rapporteur was Mr Braghin.

At its 367th plenary session (meeting of 20 October 1999), the Economic and Social Committee adopted the following opinion by 53 votes to four, with one abstention.

1. Content and background of the proposal for a Council Regulation

1.1. The proposal arises from the need to replace the Convention adopted by the Council and signed by all the Member States on 28 May 1998, with Community legislation, as required by the Amsterdam Treaty.

1.2. The Commission has taken the substance of the Convention and its explanatory report and amended any provisions that were incompatible with the proposed instrument and the guidelines for judicial cooperation subsequent to the Amsterdam Treaty.

1.3. The form chosen for the instrument — a Regulation — is warranted by the need to apply strictly defined, harmonised rules for the direct, uniform and mandatory implementation of precise, unconditional provisions in specific areas such as jurisdiction, recognition and enforcement of orders on the dissolution of the marriage link and custody of children, and by the need for a common, early implementation date to be set for the 12 countries to which the new Chapter IV of the TEC applies.

1.4. As the subject matter now falls within the ambit of judicial cooperation in civil matters (Art. 65) and the new Chapter IV of the Treaty establishing the European Community, the instrument must be adopted using the procedure provided for under Treaty Article 67, whereby during a transitional period of five years following the entry into force of the Treaty of Amsterdam, the Council is to act unanimously.

1.5. The purpose of the proposal is to harmonise the rules of international private law in the Member States for jurisdiction on annulment, divorce, separation and parental responsibility for the children of both spouses, and to provide a simplified procedure to facilitate the rapid and automatic recognition and enforcement of relevant judgments⁽¹⁾.

⁽¹⁾ The term 'judgment' is used to cover a range of other, more technical and legally-correct terms, such as decree, order or decision, as explained in Article 13. The array of national systems in this area currently makes it difficult to use more specific terminology, such as 'provision'.

1.6. The proposal fills a gap in the application of the 1968 Brussels Convention (Article 1 of which explicitly excludes matters relating to the law of persons) while restricting itself to the aspects mentioned in the paragraph 1.5 above.

1.7. With the aim of introducing uniform standards on conflicts of jurisdiction and simplifying formalities governing the rapid and straightforward recognition and enforcement of the relevant judgments, Chapter II defines the objective criteria adopted for forums of jurisdiction, authority to make judgments on parental responsibility over children of both spouses, provided this is connected with matrimonial proceedings, examination as to jurisdiction and admissibility, *lis pendens* and provisional and protective measures.

1.8. With the objective of speeding up the recognition and enforcement of judgments on divorce, legal separation or marriage annulment and parental responsibility, reducing to a minimum grounds for non-recognition, Chapter III establishes the principle of automatic recognition, grounds of non-recognition, prohibition of review of jurisdiction of the court of origin and non-review as to substance, as well as the procedure for enforcement, notice of the decision and appeal against the enforcement decision (court of appeal and means of contest).

1.9. The common, transitional and general provisions are designed to protect the rights of appellants, guarantee genuine applicability of the date of entry into force of the Regulation, regulate relations with international conventions and implementation agreements between Member States, while ensuring respect for international treaties (Concordats) concluded by Portugal, Italy and Spain with the Holy See.

1.10. The final provisions state that the Commission shall monitor application of the Regulation and shall submit proposals for amendments if need be, at the end of a five-year period.

2. General comments

2.1. The act incorporating the convention adopted by the Council on 28 May 1998 builds on proposals and projects launched in 1994. Progress made by the European Union in the meantime ought to have warranted more ambitious proposals, both as regards the scope of application and a content better suited to achieving genuine harmonisation of the legal framework, at least as far as procedure is concerned. While recognising the value of safeguarding social, cultural, religious and traditional diversity across the Member States, attention should be paid to the European public's growing demand for equivalent guarantees to those they hold before the courts in their own country in all other Member States.

2.2. The decision to opt for a Regulation is wholly justified by the content of the proposal and the need for a rapid approval process with guarantees regarding deadlines and content. The Committee notes, however, that the Regulation covers a very limited field, and consequently hopes that the action plan approved in Vienna in November 1998 will be implemented⁽¹⁾.

2.3. The scope of the Regulation is limited to procedural aspects regarding the jurisdiction, recognition and implementation of orders on marriage annulment, divorce and separation, and parental responsibility for children of both spouses.

2.3.1. On such sensitive matters, and to ensure the European public is provided with a consistent degree of freedom, security and justice (Article 2 of the Treaty establishing the European Community), enforcement procedures should be harmonised as soon as possible, particularly as regards time-frames (final deadlines for requests, appeals against judgments, etc.).

2.3.2. The need to harmonise the law, with a view to speeding up legal proceedings, should be a key priority in European Union action, and should be applied to all other procedural aspects and built into a specific Commission action plan.

2.3.3. The principle of protecting the weaker party should be heavily underlined, and it is thus hoped that the Regulation's provisions on parental responsibility will be extended to

include children of previous marriages and adopted children, who risk further suffering in view of the fact that they are specifically excluded from the Regulation. The Committee hopes, however, that both national and Community legislation will increasingly take on board the need to include better protection of the weaker party.

2.3.4. With regard to the implementation of the Regulation, the Committee would reiterate the need to design measures to protect the best interests of minors and uphold their fundamental rights, in accordance with international law. Here the Committee would refer back to the principles already expressed in its opinion CES 976/98, of 2 July 1998.

2.4. The term 'courts' refers both to Member State judicial authorities with jurisdiction in these matters, and to administrative authorities whose jurisdiction is officially recognised in some Member States. This situation, though compatible with the national legal systems, is however, worrying. The Committee would prefer uniformity for the legal bodies authorised and designed to deal with these sensitive matters, to ensure they are appropriately specialised and professional.

2.5. The concept of parental authority and responsibility varies from one Member State legislation to another. Since protecting the legal rights of children is the top priority, and in order to avoid differing levels of protection for EU citizens in this sensitive area, the Committee calls for common parameters to be defined for all the Member States, while respecting their social, cultural and religious diversity and national traditions. In particular, this would seem to be a pre-requisite for implementation of Article 3 of the Regulation.

2.6. To the detriment of legal certainty and the length of proceedings, the Regulation disregards the need to establish a definite, regulatory time-frame for all stages of the proceedings regarding the debarment or prescription of instruments. In view of the sensitivity of the subject matter, the Committee hopes such a time-frame will be written into the Regulation wherever possible, and that all the responsible bodies will be made accountable.

2.7. The need to bring provisional and protective fall-back provisions (Article 12) into the equation for the purposes of personal protection is understandable. However, this appears to give too much leeway for the application of national law, as it surreptitiously raises related issues that are not covered by the Regulation. The Committee would recommend a more precise, restrictive wording, so as to prevent the Regulation from being abused or called into question. At all events, it is necessary to safeguard the minor's right to be heard in cases where urgent provisions are required regarding parental responsibility.

2.8. Nor will it have escaped the Commission that in the Member States partnerships are not always formalised by marriage.

⁽¹⁾ The plan commits the Commission to drafting proposals to complete the legislative framework for marriage and child custody, and more generally, for the civil private law provisions governing matrimonial property rights.

The Committee would ask the Commission to consider seriously what measures are needed to ensure that, in the event that these partnerships end and decisions are taken as to responsibility for the children of such families, these decisions are automatically recognised and can be enforced. The difference in treatment which will now arise because this proposal applies only to marriages requires attention in the interests of all our children.

3. Specific comments

3.1. The Committee feels that, in order to make for ease of comprehension and implementation, some changes are needed to the text of the proposal. In view of the technical nature of the Regulation, these should also be made in the form of amendments.

3.2. Article 10(1)

For a more precise wording, this Article should include more accurate legal terminology, as follows:

‘Where a respondent does not enter an appearance, the court with jurisdiction shall stay the proceedings so long as it can be shown that the respondent has not received the document instituting the proceedings or an equivalent document, or that notice to appear was not served within the time-frame established by law to allow him to arrange his defence.’

3.3. Article 12

The expression ‘in that State’ is vague. Consequently, a more precise wording should be found in order to identify exactly who is covered by this provision.

3.4. Article 15(1)(b)

Replace ‘unequivocally’ with ‘in its entirety’.

3.5. Article 23

In order to speed up the proceedings and provide legal certainty, a definite, reasonable time-frame should replace the phrase ‘without delay’.

3.6. Article 24

In order to provide a final deadline for contesting the decision, the Article should be reworded as follows:

‘The appropriate officer of the court shall notify the applicant of the decision given on application within a period of..., in accordance with the procedure laid down by the Member State in which enforcement is sought, and the person against whom enforcement is sought shall be notified within a period of...’

3.7. Article 25(2)

In order to avoid any implication that there may — theoretically — be other reasons why the appeal deadline may be extended, either the last sentence should be deleted, or the previous sentence reworded as follows:

‘If that person is habitually resident in a Member State other than that in which the decision authorising enforcement was given, the time for appealing shall be two months, regardless of distance, and shall run...’

Brussels, 20 October 1999.

The President
of the Economic and Social Committee
Beatrice RANGONI MACHIAVELLI

Opinion of the Economic and Social Committee on the 'Ninth annual report of the Structural Funds (1997)'

(1999/C 368/10)

On 29 April 1999 the Economic and Social Committee, acting under Rule 23(3) of its Rules of Procedure, decided to draw up an opinion on the 'Ninth annual report of the Structural Funds (1997)'.

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 29 September 1999. The rapporteur was Mr Vasco Cal.

At its 367th plenary session of 20 and 21 October 1999 (meeting of 20 October), the Economic and Social Committee adopted the following opinion by 80 votes to one, with one abstention.

1. Introduction

1.1. The annual report is issued pursuant to Council Regulation (EEC) No 2052/88 as amended by Council Regulation (EEC) No 2081/93 concerning the reform of the Structural Funds. Article 16 of the regulation requires the Commission, before 1 November of each year, to submit a detailed report indicating the progress made in achieving the objectives of the Funds and the use made of the aid granted during the preceding year. Article 31 of the coordinating Regulation (EEC) 2082/93 lists the items to be included in the annual report and adds that 'each year, the Commission shall consult the social partners organised at European level on the structural policy of the Community'.

1.2. Under the abovementioned Article 16, the report has to be submitted to the Council, the European Parliament and the Economic and Social Committee. On receiving the report each year, the Committee draws up an opinion setting out the comments which it deems appropriate. Although the Committee cannot influence the measures described in the report as these refer to the past, its opinions have nevertheless led to a dynamic exchange of views with the Commission on specific aspects of the use of the Structural Funds. The final part of the report contains a chapter on relations with the other institutions, in which the Commission mentions and comments on the opinions of the ESC, the European Parliament and, more recently, the Committee of the Regions.

1.3. A significant example of the influence of this dynamic consultation process is the involvement of the socio-economic partners in the Structural Funds, enshrined in Article 4 of the Framework Regulation as revised in 1993. During the first years of the application of the 1988 Structural Fund reform, the Committee — notably in its opinions on the annual reports — repeatedly stressed the need to provide for involvement of the socio-economic partners at all levels and in all stages of the process. Although Article 4 does not fully embrace this position, it has meant that since 1994 the social partners can be involved both in the Member States and at Community level, albeit in differing forms.

1.4. For all these reasons, the Committee cannot understand why this year, for the first time since 1989, it appears from the ESC secretariat that the Commission is not to consult it on the annual report, obliging it to draw up its opinion using the own-initiative procedure. This has seriously delayed the start of the work, owing to the procedural, budgetary and operational problems which the launch of own-initiative work entails⁽¹⁾.

1.5. The situation is all the more surprising in view of the fact that the ninth report focuses on assistance to small and medium-sized firms. This sector is widely represented within the Committee, and the Committee has undertaken extremely useful steps to ensure that the various Commission departments take greater account of specific SME interests.

2. The annual report of the Structural Funds (1997)⁽²⁾

2.1. 1997 marked the start of the second stage of the programming period and the third year since the 1993 revision of the regulations. Virtually all the programmes had been approved by then, including the Community initiatives. At the end of 1997 a total of 1 026 programmes were under way (580 for the various objectives and 446 for the Community initiatives).

2.2. As programmes reached 'cruising speed', it was possible to make up some of the financial backlog of the previous years. Implementation is thus in keeping with the financial perspectives laid down in Edinburgh. Only in the case of the Community initiatives did commitments and payments remain insufficient.

⁽¹⁾ In order to prevent the recurrence of such problems of interpretation, it is necessary to make it clear that when a Council Regulation requires that the Committee be sent annual reports on Community policies on which it is consulted by right, the Committee can begin work on an opinion without this being considered an 'own-initiative' opinion, as the European Parliament and the Committee of the Regions do.

⁽²⁾ Drawn up on the basis of the general summary which precedes the report.

2.3. The new Objective 2 programmes were designed to give priority to employment, and 89 territorial employment pacts were also launched.

2.4. On the management side, 22 datasheets were drawn up setting out the categories of expenditure eligible for Community part-financing from the Funds.

2.5. The thematic priorities included the information society, urban development, and interaction between regional policy and competition policy.

2.6. 1997 was also the first year of preparations for the new regional policy, as part of the package which came to form Agenda 2000.

2.7. Each annual report focuses on a particular horizontal topic. The previous two annual reports focused on the environmental aspect of assistance (1995) and the technological development of the regions (1996). The topic for 1997 is assistance to small firms.

2.8. The report states that SMEs employ around two thirds of the private labour force and account for 60 % of total turnover in the EU. According to reports cited by the Commission, SMEs have the greatest potential for job-creating growth.

2.9. In the 1994-1999 programming period as a whole, between 15 % and 20 % of total Fund resources will be specifically earmarked for measures to stimulate small firms and improve their productive facilities and economic environment. The percentage will vary between Member States, reaching 40 % in some of them.

2.10. This funding covers a wide range of measures: aid for investment through direct grants or financial engineering measures, funding for business start-up areas, training (including management training), advisory and information services, measures to promote R&D, measures relating to the information society, and aid for internationalisation.

2.11. The Commission's guidelines for the mid-term adjustment of the programmes for Objective 1 regions, presented on 30 May 1997, stated that the available resources should be used to support SMEs and local development and employment initiatives.

2.12. In response to some comments by the Court of Auditors, the Commission launched a series of actions to assess the Structural Funds' impact on SMEs. However, its findings were not expected to be available until the end of 1998.

3. General comments

3.1. The second chapter of the report presents the results for each objective. It details the support for SMEs, Community

initiatives, innovative measures and pilot projects, and technical assistance measures. The second part of the chapter summarises the main achievements in each Member State, discussing the objectives and the Community initiatives separately and highlighting measures to assist SMEs. The picture is completed by the financial tables annexed to the report. The Commission should have explained the definitions of SME used in the various chapters, particularly as discussions on this subject at Community level have led to changes in the concepts and parameters used for defining SMEs. Several ESC opinions⁽¹⁾ have discussed the problems arising from the existence of differing definitions at both EU and national level, and the consequences for the allocation of financial support to the sector.

3.2. The third chapter assesses the impact of the Funds, setting out the results of the interim evaluations for each objective, the thematic and horizontal evaluations, and the employment impact. In the case of Objective 2, for instance, the Commission states that ex post estimates for 1989-1993 suggest that of the 850 000 gross jobs created, some 450 000 were net additional jobs. The average cost per net job created or maintained was almost ECU 42 000 (22 000 per gross job). The ex ante evaluation estimates that 650 000 jobs were created or maintained in the period 1994-1996 and 880 000 in 1997-1999. This would give a cost of around ECU 11 000 per job. These figures are not comparable with those of the previous programming period.

3.3. The fourth chapter looks at budget implementation, financial checks and the verification of additionality.

3.4. The fifth chapter discusses coordination with the other financial instruments, namely the Cohesion Fund, European Investment Bank, European Investment Fund, ECSC, financial mechanism of the European Economic Area, education and training programmes, and Community funding of trans-European networks.

3.5. The sixth chapter considers compatibility and complementarity with other Community policies: employment and social policy, environment, promotion of equal opportunities for men and women, R&D, trans-European networks, tourism, culture, competition policy, transparency of public procurement, the common agricultural policy, and fisheries policy.

⁽¹⁾ See for example the Opinion on the third annual report of the European observatory for SMEs (OJ C 82, 19.3.1996, p. 5).

3.6. Article 31 of the coordinating Regulation states that the reports are to include 'the list of major productive investment projects which benefited from assistance granted under Article 16(2)' and that 'these projects should be the subject of a concise evaluation'. The present report contains an annex listing the commitments and payments for these 'major projects', but provides no further information. This problem can be resolved in future by the new wording of Article 26 of the general regulation. This article, which refers to major projects, requires the Member States to 'inform the Commission in advance'. This is not a requirement of the current regulation.

3.7. The final chapter of the report discusses inter-institutional dialogue with the socio-economic partners at European level. The section concerning the ESC appears to overlook some key aspects of the Committee's work in this area during the reference period, such as its active involvement in the Cohesion Forum and its opinions on the first cohesion report and on Agenda 2000 (adopted in October 1997). This oversight is surprising for several reasons. The Committee was the only institution to have issued an opinion on the first cohesion report, and its opinion was widely circulated at the Cohesion Forum. The Committee was also the first body to adopt an opinion on Agenda 2000.

4. Specific comments

4.1. Shortly after the ninth annual report on the Structural Funds was published, the Commission issued its mid-term review of structural interventions for Objectives 1 and 6. As this review gives further details regarding important aspects of the annual report, its findings will also be considered in the present opinion.

4.1.1. The Commission recognises that 'the main aim of CSFs and SPDs is to reduce disparities between Member States in terms of their respective per capita income'. At the same time, 'the acknowledgement of employment as an overriding EU priority has also led to a number of programme adjustments such as the formal introduction of territorial employment pacts, [and to] the refocusing of some training actions'. This confusion about the objectives against which the effectiveness of the use of the Funds is to be measured has unfortunately increased in the last few years, and is not conducive to a proper evaluation. Effectiveness is measured in terms of the objectives set and to what extent they have been achieved (while efficiency is measured in terms of the resources used), and it is not possible to evaluate correctly the results for objectives which did not exist.

4.1.2. The evaluation also made the managers and monitoring committees more familiar with the operational programmes, facilitating the mid-term review of them and improving their management. The review states that the social

partners 'were also associated with this process to the extent of their participation in Monitoring Committees'. Since in many cases such participation still does not occur, they were not involved in the evaluation either. This is particularly regrettable because the social partners' practical knowledge of projects on the ground would have been extremely useful for the mid-term review.

4.1.3. Human resource development was one of the topics which was subject to particular changes in the context of the mid-term review, as can also be seen from the ninth annual report. The situation is changing rapidly, so adjustments are necessary. Also, many programmes are designed on a horizontal basis and take a 'top-down' approach; they cover differing economic and geographical situations, and thus are not really tailored to local priorities. The territorial employment pacts were a positive step which sought to use a 'bottom-up' approach, but their practical effects seem to have been very limited, partly because insufficient additional resources were allocated to them.

4.1.4. The report on the mid-term review does not devote sufficient attention to the fisheries sector. This is one of the sectors facing particular delays, inadequacies and difficulties, but the report is unable to offer a response.

4.1.5. Project selection criteria are a problem for many operational programmes and Community initiatives. The report addresses this question but simply notes that relatively sophisticated scoring systems are not a sufficient condition for ensuring that the best projects are selected; there is still the question of the credibility of the information and forecasts provided by the applicants. The Committee points out that in many cases, projects submitted by the social partners do not receive sufficient support, and are passed over for others which fizzle out when Community support ceases.

4.2. Turning to the annual report, the Committee stresses the importance of the topic chosen for this year, namely Structural Fund assistance for SMEs. The report highlights the many initiatives in this field. The role of SMEs in providing employment is widely recognised. However, the same cannot be said of the aid systems, which often grant aid on the pretext of safeguarding jobs. Indeed, some evaluations in the Member States conclude that the aid systems are intrinsically ineffective in creating jobs, and that the results are not on a par with the financial outlay.

4.3. The Committee proposes that the next annual report (1999) should take as its general topic the participation of the socio-economic partners. Article 4 of the current framework regulation mentions the importance of this participation, and

the new regulations adopted on 21 June 1999 reinforce it. During the preparatory stage for the next programming period, information should be gathered and examples of involvement of the socio-economic partners should be noted; mention should also be made of projects run by the social partners at local, regional, national, cross-border and Community level.

4.4. As regards the lessons which the annual report provides for the next programming period, the Committee stresses the importance of the current Objective 4 (anticipation of industrial change), and the need to retain this perspective. The annual report says little about Objectives 3 and 4, and the experience gained by the social partners and the public authorities should be better publicised so that it can be used in the next programming period. In particular, measures to cushion the impact of the changes brought about by the information society and by the knowledge-based society in general are important not only for young people, but also for existing workers.

4.5. The next programming period should not mark a step backwards as regards coordination of Structural Funds

activities with the other financial instruments. Efforts to pool the operation of the various funds and the other financial instruments should be stepped up. It may be easier for fund managers to draw up a small number of national programmes, to which the various projects should be adapted. However, simplification remains the most important goal for activities on the ground. There should be more of a 'bottom-up' approach, and the funds should be coordinated when coordination is most necessary (i.e. in the field) rather than when it is easiest (i.e. in the documents).

4.6. All too often in the past, projects financed by another fund have not been accompanied by appropriate vocational training measures for men and women in the region concerned. This must not continue. Coordination of the European Social Fund with the other funds is particularly important because, at the end of the twentieth century, human skills are the key to the challenges of tomorrow's society. It is regrettable that the timid steps made towards coordination in the past in Objective 1 regions are not to be followed in the new Objective 2 regions, or by the EAGGF (guarantee section) or the ESF, in the next programming period.

Brussels, 20 October 1999.

The President
of the Economic and Social Committee
Beatrice RANGONI MACHIAVELLI

Opinion of the Economic and Social Committee on the 'Proposal for a Council Regulation (EC) amending Regulation (EC) No 2201/96 on the common organisation of the markets in processed fruit and vegetable products'

(1999/C 368/11)

On 13 September 1999 the Council decided to consult the Economic and Social Committee, under Article 37 of the Treaty establishing the European Community, on the above-mentioned proposal.

The Economic and Social Committee decided to appoint Mr Fakas as rapporteur-general for its opinion.

At its 367th plenary session of 20 and 21 October 1999 (meeting of 20 October), the Economic and Social Committee adopted the following opinion by 69 votes for, 2 against and 8 abstentions.

1. Introduction

The present draft regulation is a procedural formality, since the Luxembourg Agriculture Council of 14-15 June 1999 accepted Portugal's request and effectively decided to offset the loss of the Portuguese quota for the production of tomato concentrates compared to the planned apportionment of quotas for 1999/2000 and 2000/2001. This loss reflected the sharp fall in Portuguese production of industrial tomatoes in 1997/1998, caused by the unusually unfavourable weather conditions.

The conclusions of the Council of Ministers concerning the amendment of Regulation (EC) No. 2201/96 explained that a new third paragraph was proposed for Article 6, providing that an additional quantity of fresh tomatoes would be allocated to Portugal for the production of tomato concentrates in 1999/2000 and 2000/2001. The additional quantity for 1999/2000 would be 83 468 tonnes. For 2000/2001, it would be equivalent to the difference between the quota for Portugal calculated in accordance with the arrangements for the previous paragraphs and the quota calculated by replacing the quantity used in 1997/1998 with 884592 tonnes. The

additional quantity granted to Portugal would be added to the overall quota of fresh tomatoes, referred to in paragraph 1, and the quota for tomato concentrate referred to in the first indent of the second subparagraph of paragraph 2, for the two periods.

2. Comments

2.1. Farming is a difficult activity which is frequently affected by weather conditions. The ESC considers that unusually unfavourable weather conditions, such as those prevailing in Portugal in 1997/1998, should be prevented, as far as possible, from having a cumulative negative effect on farmers' incomes.

2.2. The ESC believes that the proposed regulation reflects the spirit and the letter of the conclusions of the Council of Agriculture Ministers of 14-15 June 1999. Notwithstanding the financial implications (EUR 3,2 million for 2000 and a provisional EUR 0,4 million for 2001), the ESC favours granting Portugal an additional quota of industrial tomatoes for 1999/2000 and 2000/2001 at the level proposed.

Brussels, 20 October 1999.

The President
of the Economic and Social Committee
Beatrice RANGONI MACHIAVELLI

Opinion of the Economic and Social Committee on the 'Proposal for guidelines for Member States' employment policies 2000'

(1999/C 368/12)

On 6 October 1999, the Council decided to consult the Economic and Social Committee, under Article 128 of the Treaty establishing the European Community, on the above-mentioned proposal.

The Section for Employment, Social Affairs and Citizenship, which was responsible for preparing the Committee's work on the subject, adopted its opinion on 30 September 1999. The rapporteur was Mr Lustenhouwer.

At its 367th plenary session (meeting of 20 October) the Economic and Social Committee adopted the following opinion by 78 votes to one, with one abstention.

1. Introduction

1.1. The Economic and Social Committee has noted with great interest the Commission's draft employment policy guidelines for 2000. The Committee is pleased that it can now state its views on this issue via a formal referral from the Council, as is now required following the entry into force of the Amsterdam Treaty. The Committee considers this as key recognition of its role in formulating a European employment policy.

The Commission proposals are in response to the call made by the Cologne European Council of 3 and 4 June 1999. They reflect the Commission's intention to press ahead with the strategy established under the Luxembourg process.

1.2. The Committee recognises that these draft guidelines must, for the first time, be considered against the backdrop of the European employment pact adopted by the Cologne European Council. This pact directly links employment policy (Luxembourg) with the coordination of economic policy (Cologne process) and the strategy designed to boost capacity for innovation and to enhance the markets in goods, services and capital (Cardiff process).

1.3. In adopting this overall approach — the ultimate aim of which is a lasting cut in unemployment in the EU — the Council had broadly met the Committee's wishes in this field.

In point of fact, the Committee Opinion on the implementation of the employment policy guidelines for 1999⁽¹⁾ highlighted the need for a comprehensive, overall strategy of this kind. The Committee felt — and still feels — that such an overall approach must forge links between macroeconomic policy and other policy areas with an impact on employment.

The Committee notes, for example, the desirability of linking employment policy with industrial health and safety policy. Indeed, an effective strategy on health and safety at work boosts employability and improves the quality of work.

The Committee is therefore pleased that this coherent approach has already been reflected in the Council Recommendation of 12 July 1999 on the broad guidelines of the economic policies of the Member States and of the Community (under Article 99(2) of the EC Treaty)⁽²⁾. This paper focuses economic policy entirely on the twin priority of strong, sustainable growth and employment.

1.4. Now that Council has translated this approach into a European pact, the Committee too will consider these draft guidelines as one component of a more extensive whole. Accordingly, the Committee will also address developments within the Cologne and Cardiff processes and work out a coherent stance for submission to the special European Council in Portugal in spring 2000, where the progress made in the three processes mentioned above will be discussed.

In the meantime, however, data supplied by the Member States may be used to carry out an initial assessment of the efficiency and quality of action taken. The Committee is aware that, with upcoming EU enlargement, it will be particularly difficult, but all the more essential to involve the applicant countries as quickly as possible in (the discussion of) this employment strategy and to set up exchanges of experience wherever 'best practices' might be emulated.

2. Overall assessment

2.1. The Committee notes that the Commission proposals retain the main features of the current employment policy guidelines. The ESC endorses this continuity. The employment strategy does, after all, require Member States to adapt in ways

⁽¹⁾ OJ C 209, 22.7.1999.

⁽²⁾ OJ L 217, 17.8.1999.

that take time and are not particularly amenable to radical annual adjustments. The Committee nevertheless feels that an effort should be made to incorporate into the employment guidelines more targets which are verifiable in terms of time and/or quantity. The Committee is also aware that the experience gained still gives only a limited picture of the measurable effects of the current approach. Adjustments should therefore only be possible where there is a more quantifiable impact on the objectives in mind. The special European Council in Portugal may possibly conduct an initial midterm review. As the Commission Recommendation for Council Recommendations on the implementation of Member States' employment policies also indicates, improvements in statistics will be needed in the short term, particularly at national level.

2.2. The Committee also feels that it is important to maintain the four pillars set out in the guidelines and to press ahead with them in a coherent and balanced way, particularly with regard to those Member States which, according to the draft joint employment report published at the same time as the draft guidelines, are still trailing behind on a number of fronts with regard to actual implementation. In that sense, the current proposals also act as a reminder to drive the point home.

3. The four pillars

3.1. *Improving employability*

3.1.1. Clearly, the Committee supports pressing ahead with work done under this pillar. Every Member State will have to continue working on a precautionary, pro-active approach designed to prevent people becoming unemployed. Although economic prospects appear brighter than they did a year ago, there must be no question of complacency in regard to the situation on the jobs front, particularly for young people and the long-term unemployed. This is all the more important since reports from various Member States indicate that efforts to reach the quantifiable targets have as yet met with only limited success. The adjustments involved in this section of the guidelines in particular are a long-haul undertaking requiring more time. This requires the expansion of job-centre services and more general labour-market education and training services, as well as sufficient funding to achieve the targets. Indeed, a pro-active labour market policy is often possible only as part of an adapted tax and social security system. Unfortunately, the lack of adequate convergence among the Member States in these key areas still makes it difficult for any European labour market policy to have maximum impact. It takes time to make adjustments of this kind, and these take several years to work through. Although at EU level and in certain Member States, good progress has been made on some fronts, such as life-long learning/training, where each Member State can accommodate its own specific circumstances, action

still has to be stepped up in a whole range of other areas. At this point, the Committee would reiterate the importance of promoting vocational training, for example, through apprenticeship schemes (sandwich courses). For some groups of young people in particular, learning through work may be an attractive way to acquire training and boost their employability. In order to gauge the impact of action taken in this field, Member States will have to do more — as the Commission now proposes — to provide data on how many jobless young people have actually found work. Explicit indicators must be used to determine whether training, assistance with job search and other pro-active policy measures genuinely deliver on employment. Ultimately, it is results — not a Member State's assurances — which count when it comes to framing future action. It must also be remembered in this regard that, in addition to training activities provided, those involved also have a certain degree of individual responsibility to help maintain and expand their own employability through a broad readiness to get actively involved in the retraining and further training opportunities on offer.

3.1.2. The Committee feels that it is wrong to take any satisfaction from a marginal drop in unemployment. Unemployment is not the only issue involved in this approach. In the long run, labour force participation will be a much greater cause for concern as demographic changes raise potentially serious questions about the funding of old age pensions by a shrinking work force. As the Council notes in its above-mentioned recommendation on broad economic policy guidelines (see footnote 2): 'At about 61 % in 1998, the employment rate in the European Union as a whole is low, both in historical and international comparative terms. Achieving a significantly higher employment rate and lower unemployment rate over the medium term would be beneficial for improving living standards significantly, facilitating the sustainability of public finances and ensuring a cohesive society.'

3.1.3. If we fail to increase labour force participation, the social and economic unacceptability of unemployment today could well undermine the very foundations of society in the future. In addition, the emphasis which the Commission guidelines (particularly guideline 4) currently put on the need to keep older people in the labour market for as long as possible would seem in the short term to be at odds with efforts to get more long-term unemployed young people into work. In policy terms, a balance will have to be struck which does not trigger an artificial conflict between younger and older people. A detailed discussion is thus needed on all issues surrounding work and working time in the course of a person's professional career (including questions of voluntary demotion, voluntary part-time retirement and mentoring arrangements) in conjunction with a more modern approach to work organisation.

The Committee is pleased that the Commission takes the evolving information society into account under this pillar. As part of the transition from school to work, schemes will have to be developed to dovetail school leavers' IT skills with corporate requirements and practices. A high level of training can help achieve this objective, provided that schools and other educational establishments have the same facilities (computers, internet connections and databases) as those used in business. Member States' education systems will have to adapt accordingly and the requisite investments will have to be made to ensure that first-time job seekers are not already at a disadvantage when it comes to working with information and communication technologies of this kind.

3.1.4. The Committee would reiterate the importance it attaches to combatting and preventing social exclusion; this is also reflected in guideline 9. The Committee has the strong impression that, in the Member States, specific action to translate this aspect of the guidelines into practice has remained very limited. It is extremely important to provide equal opportunities for disadvantaged sections of society (people with disabilities, ethnic minorities and other groups) and to integrate promotion of equal opportunities into all policy areas; this is also the case as regards mainstreaming of equal opportunities policy for women (see point 3.4).

3.2. *Developing entrepreneurship*

In practically all Member States and within the EU and its institutions⁽¹⁾, independent entrepreneurship is seen by public authorities as a key economic driving force which not only contributes to GNP, but is also a genuine locomotive for job creation. Indeed, small companies are often labour-intensive and create proportionally more jobs than large, more capital-intensive enterprises. Once again, this bears out the importance of the recommendation to reduce the fiscal pressure on labour — something which has still been achieved in only a few Member States. As the majority of Member States' national action plans (NAPs) show, business training schemes primarily involve providing guidance and information, and fostering an entrepreneurial spirit among young people and in schools; only a limited amount of attention is given to specific adjustment of laws and regulations. Much remains to be done, however, to eliminate unnecessary red tape and formalities, not least in arrangements for starting up and expanding businesses; this will be of particular benefit to microenterprises. That said, the Committee endorses the findings of a recent study carried out by the European Trade Union Institute⁽²⁾ that a straightforward rise in the number of SMEs in the EU is

not, in itself, a reliable indicator of policy success. The aim is to increase the number of innovative small businesses and to prevent people being forced into self-employment because the normal labour market is unable to offer them the opportunity or prospect of paid work. Entrepreneurship must be fostered from this angle and must not be confined to traditional market-based (and thus profit-driven) corporate activities. Entrepreneurship remains underdeveloped in the social economy. Some caring tasks (for children, the elderly and the disabled) which are under pressure from curbs on public expenditure — could thrive on new types of operation. Thus, the Committee feels that the Commission is right to stress the importance of this type of company for local development. In business management terms, professional entrepreneurship often remains underdeveloped in companies such as these and requires very specific support. The Committee also believes that it is essential to ensure the equal treatment of more conventional companies in this respect so as to prevent any distortion in competition.⁽³⁾ In this context, a cut in VAT on these services would also be a potentially good way to make them more affordable for the target group. The Committee would ask the Member States to bear this in mind when compiling the lists of services they would like to benefit from reduced VAT rates⁽⁴⁾.

3.3. *Encouraging adaptability of businesses and their employees*

3.3.1. In conjunction with innovation, discussed in point 4.1 below, this pillar is essential to European companies. It involves — as far as possible — lining up a diverse range of issues (attitudes and assumptions, cultural acceptance, statutory framework and worker and company interests) so that each dovetails with the others. A delicate balance between security and dynamism is the key feature of these complex issues. It is thus right that the social partners should be given a key role in operations under this pillar⁽¹⁾.

3.3.2. As the Committee pointed out in its Opinion on the Commission Green Paper: partnership for a new organisation of work⁽²⁾: 'In a global economy, Europe's competitiveness will depend on the extent to which it manages to boost its ability to innovate, and find more "intelligent" solutions to the organisation of work and technology. The aim must be to optimise the relationship between technology and work organisation, and the use of human resources. Hierarchical

⁽¹⁾ OJ C 219, 30.7.1999.

⁽²⁾ Entrepreneurship in the European employment strategy, European Trade Union Institute (ETUI), Brussels, 1999.

⁽³⁾ OJ C 209, 22.7.1999.

⁽⁴⁾ See also Ecofin Council conclusions, 12 July 1999.

⁽⁵⁾ OJ C 73, 9.3.1998.

forms of corporate organisation and traditional Tayloristic methods of organising work do not always meet the demands of a flexible organisation of production and services which can immediately adapt to changed market requirements. They must be replaced by new formulas for production and work organisation, in which human potential can fully develop as the prerequisite for the ability to innovate.'

3.3.3. These new forms of work organisation are hallmarked by cooperative labour structures geared to participation and highly-skilled, varied jobs. A survey of companies in ten European countries carried out by the Dublin-based European Foundation for the Improvement of Living and Working Conditions showed that direct employee participation had boosted production in 72 % of the companies polled and led to quality improvements in 96 % of cases. Job satisfaction also improved, with about one third of companies recording a reduction in sick leave and absenteeism⁽¹⁾.

3.3.4. These results show that new approaches to work organisation based on cooperation and employee participation can help boost productivity and competitiveness and improve working conditions. This is why, the ESC Opinion on the Commission Green Paper also expressed the view that the social partners could be encouraged 'to engage in in-depth talks'. These talks must be held at company level with the aim of initiating specific projects to modernise work organisation. The experience and outcome of company projects such as these may be incorporated into the debate on new forms of work organisation at sectoral level, in order to consider whether — in line with the call made to the social partners in the employment policy guidelines sectoral level — agreement is possible on the issue. The ESC feels that the clarifications put forward by the Commission in this guideline adequately define the range of issues to be discussed and where possible agreed upon. Particularly important among these are basic and further training, which must take account of the new demands created by the evolution of information technology and new forms of work organisation.

3.3.5. In this context the EU Commission could play a supporting role by promoting the exchange of experience about good examples of new forms of work organisation, e.g. by staging conferences.

3.4. *Strengthening the policies for equal opportunities*

3.4.1. In a range of opinions, the Committee has pointed to the fact that women still have a disadvantaged position in society. The inclusion of equal opportunities as a priority issue was thus endorsed in the Committee opinion on the

Commission's first draft regulations for 1998⁽²⁾. The Committee is pleased that, at EU level, the Commission has taken steps to implement the task set out in the Amsterdam Treaty, i.e. to eliminate inequalities between men and women and to foster equal opportunities in all spheres of EU activity.

3.4.2. The Commission's extremely readable 1998 annual report on equal opportunities for women and men⁽³⁾ notes that mainstreaming (i.e. the inclusion of equal opportunities in all EU policy areas), backed up by specific measures, is now being applied in practice at EU level. The Committee considers that Member States should take much more forceful action so that genuine progress can at last be made on equal employment opportunities for women. The Committee would stress that it is still absolutely essential to press ahead with these measures⁽⁴⁾. We also welcome the pledge given by the commissioner-designate for this policy at the European Parliament hearing on 31 August to pave the way for an adequately funded fifth equal opportunities action programme. Moreover, without tangible results, Member States' credibility is seriously challenged, particularly since some of them have not even met their treaty obligations to transpose the Directive on parental leave into national law⁽⁵⁾. The Committee feels that the social partners must also play their part at every level in areas such as getting women into or back into work or fostering access to (continuing) training which is compatible with family and work responsibilities; regrettably, despite demonstrable efforts by a number of Member States, inadequate childcare provision remains an issue.

4. **New factors spanning several guidelines**

4.1. *Innovation*

4.1.1. One of the key features of these draft guidelines is the emphasis on innovation. The Committee stresses that innovation must not be understood only in the strictly technical sense of the word. Innovation must also come into play in the context of social processes, wherever labour markets are not operating as well as they should. This may mean a new division of responsibilities between the competent public authorities and the social partners, designed to involve the latter more closely in all measures taken, for instance, to combat unemployment. At local level in particular, 'best practices' may be used to ensure the success of an innovative, modern, pro-active labour market policy.

⁽²⁾ OJ C, 21.1.1998, point 2.8.

⁽³⁾ European Commission, Equal opportunities for women and men in the European Union, 1998 annual report, Brussels, March 1999.

⁽⁴⁾ For instance, in the fifteen EU Member States, the labour force participation rate for women is only a mere 50 %, with six Member States even falling below this EU average.

⁽⁵⁾ 1998 equal opportunities annual report, page 25.

⁽¹⁾ Cf. The EPOC research group: new forms of work organisation. Can Europe realise its potential? Dublin 1998.

4.1.2. Innovation in the technical sense (involving both products and production processes) will have to be the point of departure for both EU and national employment policies in order to boost know-how in the European manufacturing and service industries. This is the only way to secure more added value which will enable European businesses to confront global competition on a level playing field. The special European Council in Portugal in March 2000 — which will focus on the issue 'Towards a Europe of innovation and knowledge' — will have to give particular impetus to this process.

In this context attention will also have to be paid above all to the disadvantaged position of women, in terms both of access to training and involvement in scientific research.

4.1.3. The Committee welcomes the decisions taken by the Cologne European Council to channel more resources via the European Investment Bank into the European Technology Facility and risk capital funding of state-of-the-art technologies in SMEs. The Committee also expects greater willingness on the part of the EIB itself to adopt a more adventurous attitude so that these resources go precisely to those companies which, because of the high risks involved, are unable to access the requisite funding for their investments elsewhere. A forthcoming EIB annual report should consider this issue more fully.

4.1.4. In addition to the equal opportunities pillar mentioned above, the Committee also expects Member States to incorporate innovation in broad terms into their NAPs in respect of the pillars 'developing entrepreneurship' and 'encouraging adaptability'.

4.2. *Emphasising the importance of the service sector*

A recent study carried out on the Commission's behalf indicated that Europe has considerable untapped potential for job creation in the service sector. Developments in the USA and Japan show that a high proportion of jobs lost in the traditional manufacturing industry have been offset by a sharp increase in service sector employment. The Committee feels

that, across all pillars of employment policy, Member States should take every opportunity to develop the service sector in promising, knowledge-intensive markets. Furthermore, the service sector is marked by a great diversity of enterprises, including many that are extremely labour-intensive. Such enterprises are generally small and are found above all in the consumer sector (including retail and consumer craft industries). From an employment angle, therefore, it is essential to retain these companies and promote their continued prospects. This will be essential, not only from an economic angle, but also to improve the labour market position of women who are traditionally well represented in the service sector.

5. Conclusions

5.1. The Committee considers that for too long, inadequate attention has been paid to involving local players (particularly local-level social partners). The guidelines undoubtedly lean towards a certain top-down approach.

5.2. As the representative of civil society organisations and associations, the Committee speaks for many players within our society. As in the case in point, however, policy implementation takes place at local level. This is indeed where it has to happen — close to the people and working together with them. This is the only way to highlight the process of European integration and cooperation and to allow people to learn from each other's experiences. Only then can the top-down approach be supplemented by input from the bottom up which combines requirements, demands and also successes to make for better, more effective policy adjustments in the future.

5.3. The Committee would therefore issue a broad appeal to the Commission, the Member States, local authorities and the social partners to make the package of employment policy guidelines a reality at local level. The Committee provides a platform for exchanging local experiences of this kind.

5.4. The ESC undoubtedly adds value to the debate. The desired outcome can only be achieved by the interplay of all those involved (organisations and institutions).

Brussels, 20 October 1999.

The President
of the Economic and Social Committee
Beatrice RANGONI MACHIAVELLI

Opinion of the Economic and Social Committee on 'The macroeconomic dimension of employment policy'

(1999/C 368/13)

On 27 May 1999, the Economic and Social Committee decided, under Rule 23(2) of its Rules of Procedure, to draw up an own-initiative opinion on 'The macroeconomic dimension of employment policy.'

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 29 September 1999. The rapporteur was Mr Vasco Cal.

At its 367th plenary session of 20 and 21 October 1999 (meeting of 20 October), the Economic and Social Committee adopted the following opinion by 76 votes to two with four abstentions.

1. The Economic and Social Committee notes with satisfaction that the recommendation it made in its last opinion on the preparation of the Broad guidelines of the economic policies of the Member States and of the Community⁽¹⁾, namely: the launching of a macroeconomic dialogue involving the Council, the Commission, the European Central Bank and the social partners at European level, to improve coordination between wage trends, fiscal policy and monetary policy, in order to encourage growth and job creation, is to be acted on this autumn. The Committee is prepared to assist the main players in this macroeconomic dialogue by providing back-up, in accordance with the institutional role assigned to it by the Treaties.

2. This macroeconomic dialogue will pave the way for an approach integrating all policies affecting employment. The fight against unemployment must involve coordinating macroeconomic policies as well as implementing labour market policies. Economic policies, research policy, social policy and fiscal policy must all be geared towards the demands of employment.

3. The Committee's concerns and observations on Community economic growth (which is not yet strong enough) and employment (which is still too high overall) remain as expressed in the opinion mentioned in paragraph 1. The present opinion will focus on the key points.

4. The Committee is increasingly convinced that the stability and growth policy (reducing budget deficits, aiming for price stability and raising real salaries in line with productivity, while providing a sufficiently high return on investment to secure higher growth) is the only viable one for the Community; 90 % of the EU's wealth is generated by its internal market. This stability and growth policy must, therefore, be continued over the coming years. At this point in the current

business cycle and in view of the overriding considerations of economic and social cohesion, the EU's medium- and long-term objectives must remain those of balancing budgets and reducing public debt.

5. The Member States must, of course, ensure that budgetary streamlining is not secured at the expense of productive investment — as has been the case in certain Member States over recent years — as this could put paid to the economic recovery that the European Union is undoubtedly experiencing owing to its largely sound economic foundations. Prudence is required but also action. The economic climate has proved more clement than the spring forecasts suggested, and positive openings are emerging; the current situation no longer justifies pessimism, but rather the opposite.

5.1. The Committee is convinced that the European Union can draw on the economic, technological and skills-related resources necessary to equip it to combat external threats. Now that the main decisions on implementing the euro have been taken, the Community should learn to rely on a largely internal demand structure. 'As an economic entity, Europe has great growth potential, and the Broad Economic Policy Guidelines should propose the measures necessary to realise this potential'⁽¹⁾.

5.2. The Committee feels that the European Union must have a medium-term growth target of at least 3,5 % in order to create enough jobs to reduce the current level of unemployment to 3 or 4 %, over the next 10 years or so, and to raise the employment level to around 70 %, as proposed by the Commission in the autumn of 1997 in its first draft employment policy guidelines. The challenges facing each country vary, however, as some of the objectives have already been achieved by certain countries; this highlights the need to conduct macroeconomic dialogue at national level as well.

⁽¹⁾ Committee opinion of 27 May 1999 on the '1999 Annual Economic Report — The EU economy at the arrival of the euro: promoting growth, employment and stability', OJ C 209, 22.7.1999, paragraph 4.6.

5.2.1. Medium-term growth must be underpinned by a sustained increase in real investment (by about 7 % per annum so as to move from the current 19 % to 22-23 % of GDP) in order to generate the jobs needed and to prevent the emergence of inflationary pressures as a result of a lack of productive capacity. Long-term interest rates and the profitability of enterprises are currently favourable conditions. Still to be developed is a macroeconomic policy which would permit sustainable growth and appropriate expansion of demand. This policy must be buttressed by economic reforms in accordance with the processes initiated by the Luxembourg and Cardiff Summits — reforms which seek to improve the competitiveness and operation of the labour market and of markets in goods, services and capital.

5.2.2. In a number of Member States, public investment has suffered as a result of those countries' efforts to meet the convergence criteria for entry to the third stage of EMU. The Committee would therefore urge that public spending be reorganised in order to provide more incentives for investment. In particular, governments should encourage a partnership between the public and private sectors as regards investment. Moreover, Community level initiatives, such as those relating to the trans-European networks, could usefully be put into practice.

6. The recovery, still hesitant, should be encouraged by measures to stimulate investment and boost private consumer confidence. Increased investment boosts employment prospects and the confidence of the public, producers and consumers alike. An injection of around 0,5 % of GNP could help to consolidate recovery. It takes more than a year for the effects of investment to work through to production.

7. In view of the challenges the information and learning society poses for Europe, companies' efforts to defend their competitive edge on increasingly globalised markets should be backed by more vigorous investment policies, especially in technology and skills. Meanwhile, in sectors that are not directly concerned by globalisation, investment can be usefully channelled towards boosting capacity to meet domestic demand and, more generally, creating jobs. The new Objective 3, in combination with the other development measures financed by the Structural Funds, may provide an important stimulus for the skills development policies of the Member States. The importance of basic and continuing training must also be stressed. Employment services must enhance employability by supporting and advising young people and the unemployed with regard to their training, to enable them to demonstrate their aptitude for a given job to full effect. Both sides of industry could help by drafting blueprints on this area and thus revitalising employment services.

8. The Committee feels that everything possible should be done to support domestic demand and improve the general climate for productive investment and new businesses. Bearing in mind financial constraints and the redistributive role of the budget, a reduction of the tax burden on companies and also households could stimulate investment and boost the confidence of entrepreneurs and consumers. The Committee has for several years been calling for the authorisation, under certain conditions, in the Member States which so wish, of a reduction in VAT rates on products and services with a high labour content. The Committee is pleased that the Commission has presented a draft directive to this end, on which the Committee has issued a largely favourable opinion⁽¹⁾.

9. A common monetary policy within the euro area, which also obliges the other four countries to conduct almost exactly the same policy, places a large burden on budgetary policy (taxes and spending) in order to support the monetary policy while taking account of the differing business cycle situations in the Member States. This is perhaps the largest challenge after the creation of the common monetary policy. It must be emphasised that the necessary coordination of budgetary policy does not mean that the same policy must be performed in all the Member States.

10. The Committee would stress that the main driving force behind job creation is growth. The employment policy measures advocated in Luxembourg, as supplemented by the structural programme (services and capital markets) launched in Cardiff, should accompany the appropriate macroeconomic policy mix, embracing budgetary, monetary and incomes policy, in order to create a climate of confidence to stimulate consumption and investment and thus to boost employment in a durable way.

11. The Committee reiterates its call for wage rises to reflect not only inflation (which is still very low) but also productivity gains and the need to secure company profitability (generally very good in the Community), while increasing purchasing power. The rise in consumer demand and in public and private investment must give the economy fresh impetus.

12. Member States' structural policies and research and development programmes must support efforts to create jobs, while placing them within a long-term, sustainable perspective.

⁽¹⁾ Opinion of 26 May 1999 on the Proposal for a Council Directive amending Directive 77/388/EEC as regards the possibility of applying on an experimental basis a reduced VAT rate on labour-intensive services, OJ C 209, 22.7.1999.

13. The Committee notes that, in recent months, banks in certain countries have reacted to rumours of rising inflation by raising mortgage costs disproportionately (from 4,6 % to near 6 %). However, these increases have not been matched by higher interest rates on savings accounts, which are vitally important to household budgets throughout the European Union.

14. The Committee would once more draw attention to the systemic risks arising in part from suppliers' credit (interest rate risk), the advent of increasingly sophisticated financial products and the speed with which purchase orders, orders to sell and other financial transactions are carried out. It welcomes the recent measures taken by the Bank for International Settlements, designed to establish more stringent and, in particular, more effective prudential rules for the financial structure of banks (importance of equity capital), for the internal and external audit of the capital flows of financial institutions, and for market rules (transparency) to be observed by parties to financial transactions. In the Committee's view, the rules eventually agreed on should apply to all financial operators. As the EU provides over 60 % of the funds allocated to developing countries, the Commission should take the necessary action before March 2000 to ensure that the European Union's specific interests are taken into account in the decisions of the Basle Committee.

15. The new waves of economic concentration (cooperation, mergers and joint-ventures between major companies)

may be necessary to sharpen the competitive edge of our industrial infrastructure. However, the ensuing company restructuring must never be conducted at the expense of the workers. Mass redundancies do have an impact on public confidence, demand and thus the operation and growth of the economy as a whole, which in turn affects major financial and industrial conglomerates.

Conclusion

16. The Committee calls for the continuation of the stability and growth policy for employment. The main players in the October macroeconomic dialogue, namely the governments and the Commission (budget and structural policies), the European Central Bank (monetary policy) and the social partners (wage and labour market policy), should continue to coordinate their efforts to build up consumer and investor confidence, and so stimulate demand, which, along with structural reforms designed to sharpen the competitive edge of European companies, remains the main locomotive for growth and job creation.

17. The Committee welcomes the stability policy of the European Central Bank. The ECB's decision of 8 April 1999 to cut interest rates lent definite support to a stability policy geared to growth and job creation. The ECB has shouldered the responsibilities assigned to it by the Treaty.

Brussels, 20 October 1999.

The President
of the Economic and Social Committee
Beatrice RANGONI MACHIAVELLI

Opinion of the Economic and Social Committee on 'The EU's Northern dimension including relations with Russia'

(1999/C 368/14)

In accordance with Rule 23 of its Rules of Procedure, the Economic and Social Committee decided at its plenary session of 25 February 1999 to adopt an opinion on 'The EU's Northern dimension including relations with Russia.'

The Section for External Relations, which was responsible for preparing the Committee's work on the subject, adopted its opinion on 6 October 1999. The rapporteur was Mr Hamro-Drotz.

At its 367th plenary session of 20 and 21 October 1999 (meeting of 20 October) the Economic and Social Committee adopted the following opinion by 104 votes to two with three abstentions.

Introduction

The significance of northern Europe for the European Union has grown since the enlargement of the EU in 1995. Over the last few years the development of relations between the EU and the Russian Federation has also become more important. Effective relations between the EU and its Member States and other northern European states and Russia are fundamental for strengthening security and stability.

Economic improvements and greater prosperity in northern Europe will be of benefit to the EU as a whole, as well as its European neighbours.

With this in mind, proactive cooperation at every level, based on common interests and including interaction between different civil society organisations (for example, the social partners, economic organisations and other non-governmental organisations), is very important.

The Economic and Social Committee is presenting this opinion because both the EU's northern dimension and its relations with Russia are among the EU's priorities and are being actively developed. In both areas efforts are currently being made to flesh out and give concrete form to the follow-up measures. In addition to the spread of organised crime and corruption, political, economic and social instability — particularly in Russia — pose considerable challenges. Measures also need to be taken to address the large gulf in living standards between countries in northern Europe. Labour market mechanisms, the social dialogue and the status of various civil society organisations in the Baltic states, Poland and Russia in particular, are very underdeveloped when compared to the EU's Member States.

Appendix 1 contains an overview of the EU's northern dimension, the development of the EU's relations with Russia, as well as other related activities. Chief among these are Baltic Sea cooperation and the preparations by the northern European associated countries for EU membership.

The Economic and Social Committee wishes to support the work begun by the EU through the objectives, recommendations and proposals presented in this opinion.

In the course of work, the Economic and Social Committee held a meeting in Moscow with representatives of Russian socio-economic organisations. The Committee has also sent out a questionnaire to obtain the views of organisations in Russia and the countries in this region which have applied for EU membership. Appendix 2 contains a summary of their views and responses. These have been taken into account in this opinion.

The Economic and Social Committee has previously adopted several opinions and information reports relating to this subject, the most relevant of which are listed at the end of Appendix 1. The opinion draws on these documents without, however, referring explicitly to them nor reiterating the views presented in them.

The Economic and Social Committee will monitor the measures taken to develop the EU's northern dimension and strengthen the EU's relations with Russia. The Committee will present its views (opinions) on necessary follow-up measures, with the intention of helping the EU to make solid progress on these issues.

Objectives

1. The northern dimension is an essential initiative, as the EU should develop an integrated policy on northern Europe.
2. For hundreds of years, relations between Russia and other countries have had a decisive influence on the development of the whole of Europe. They are also very important for its future development. Since Russia is viewed as a strategic partner, this partnership should also be endowed with appropriate instruments. This highlights the importance of the EU's Russia strategy, which is being used to coordinate the relations between Russia, the EU and its Member States.

The events in the Balkans demonstrate the need and opportunities for EU-Russian cooperation. Stabilisation and reconstruction work in the Balkans must strengthen the EU's cooperation efforts in eastern and northern Europe. Crisis prevention is particularly important for enhancing stability.

3. The ESC considers that the point of departure for the northern dimension — namely that efforts must be made within this context to emphasise the beneficial mutual dependence between Russia, the Baltic Sea region, and the EU — is the right one. Developing cooperation in the Baltic Sea region is essential, mainly because it is in this region that the EU and Russia come into direct contact. The northern dimension should be used to strengthen cooperation between the EU, its Member States, association and non-EU EEA countries in the Baltic Sea region, and Russia, particularly its northwestern and northern regions. The objective of the northern dimension must be to reduce the political, economic and social divergences between these societies. At the same time, efforts must be made to help the associated countries prepare for EU membership and to step up partnership between the EU and Russia. The northern dimension must act as a cohesive force in helping these efforts to converge.

Another prerequisite for success is the full commitment and involvement of Russia and the other non-EU countries in this region in the northern dimension.

4. The need to develop good neighbourly relations between countries in northern Europe is becoming more pressing because of the EU's future enlargement towards Central Europe, as well as the fact that the Baltic Sea is in practice becoming an internal sea within the EU, and that, as the EU expands, Kaliningrad will become a Russian enclave within the Union. An economically prosperous and politically and socially stable Russia which has good relations with its neighbours is the best kind of partnership country for the EU to have in the east. The northern dimension should become a key instrument for promoting neighbourly relations between these countries.

5. The promotion of economic growth and prosperity also depends on the effective rule of law and an operational civil society. This consideration is, therefore, of central importance at all stages of developing the northern dimension and relations with Russia.

6. The Commission's November 1998 communication on the northern dimension, the recommendation adopted by the Council in May 1999, the Russia strategy adopted at the Cologne European Council in June 1999 and the first work programme relating to it provide appropriate guidelines for developing cooperation.

Recommendations

1. Economic growth and more stable markets, as well as the prosperity and increased employment which stem from them, should be the priorities in developing the EU's northern dimension. In Russia and the associated countries in the region, this can be achieved by considerably increasing both domestic and foreign investment. The greatest obstacle to investment is the unpredictability of how the operating environment will develop. The situation is not yet ideal in all associated countries in the region and is poor in Russia. To

ensure the recovery of the economy it is important, particularly in Russia, to restore the confidence of investors. The scale of Russian investment is critical.

Investment can be increased in particular by reforming legislation on company taxation, by bringing the rules on company accountancy and auditing into line with those of the EU's Member States, and by improving the legislation on investment. Improving financial and security arrangements to gain the confidence of financial institutions and opening up the banking sector to foreign banks would also increase the propensity to invest in the target countries. Partners in investment projects should consolidate their relations with international funding sources (the World Bank (the IBRD and IFC), the EBRD, EIB, NIB). Funding sources should, for their part, tighten up their monitoring of investments in order to prevent abuse.

It is also important for credible rules to be drawn up which serve to safeguard inward investment. In line with the EU-Russia PCA agreement, standards and technical regulations — including those on product safety — should be brought into line with EU rules. In addition, the development of labour-related factors, such as vocational training, working conditions, health and safety, and labour market stability, influences investment decisions.

2. In order to promote economic growth and prosperity, the main shared economic interests and cooperation objectives need to be identified. These include:

- promoting trade and production cooperation, for example in the field of subcontracting;
- improving the operating conditions for small- and medium-sized enterprises
- equitable privatisation of state-owned companies undergoing structural reform and measures to adapt them to the market economy;
- developing production methods and transport for exploiting the energy (natural gas, oil and electricity) and considerable forest and mineral resources;
- developing diversified transport routes and networks based on the specific conditions of the region, taking into account the needs of combined and transit transport;
- improving the food supply, including primary production and processing, transport, logistics, and the functioning of the wholesale and retail trade;
- developing integrated communications and IT communication for the entire region;
- developing environmental protection, including Baltic Sea conservation, reducing dangerous emissions, improving nuclear safety and public health, including the provision of high-quality drinking water and improving sewage processing;

- attaining a high level of competence among the relevant public authorities (competition authorities, tax authorities, the product certification body, customs authorities, etc.) responsible for monitoring compliance;
- strengthening measures to combat organised crime and corruption;
- developing vocational training for young people.

When defining cooperation objectives, the various service needs relevant to these objectives and social development needs arising from structural changes in the business world (including employment, training, and living conditions) should be taken into account.

In identifying the cooperation objectives, the views and proposals of socio-economic organisations in the EU should be taken into account. Cooperation makes sense as the objectives require joint planning, funding and implementation. The EU must take the initiative in drawing up and launching practical projects.

In addition to current EU documents, there are also some other reports on development needs which are worth drawing upon in the future⁽¹⁾.

3. The countries in the region, with the exception of Russia, belong to the WTO or are in the process of joining. Equally, they are EU members or in the process of preparing for EU membership. It is important that Russia also brings its laws and regulations into line with the WTO agreement. This is the best way of ensuring that businesses in all these countries benefit from sustainable operating conditions which promote cooperation between companies. This will also help Russian companies to establish themselves successfully in markets outside Russia.

The EU and its Member States must continue to support Russia in preparing for WTO membership even though conditions in Russia do not hold out much hope that it will be able to join in the near future. This adjustment to WTO rules will form the basis for starting negotiations on free trade between Russia and the EU.

4. Improvement of cross-border and border regional co-operation among all the countries in the region must be

considered a priority. In addition to trade in goods and services and other economic cooperation, cooperation must also extend to cooperation between citizens, cultural exchange, crime prevention, and promoting local entrepreneurship. In particular, those regions in direct contact with the common borders between the EU, the associated countries and Russia — the Murmansk region, the Karelian republic, the Leningrad region, St Petersburg, the Pskov region and Kaliningrad — require special attention from the EU.

5. Attention should focus on the task of local and regional authorities in the associated countries in the region, and especially in Russia. They are responsible for implementing legislation as well as monitoring compliance with it. Local authorities have a key role to play in promoting responsible entrepreneurship and favourable investment conditions, as well as crime prevention. The EU must improve the effectiveness of its support for measures which provide local authorities with sufficient information, know-how and other resources to achieve these objectives.

6. A successful market economy also needs efficient labour markets and effective dialogue between individuals and representative socio-economic organisations, as well as between these and the public authorities. The survey carried out when the opinion was being drafted and other contacts with organisations in non-EU countries in the region (see Appendix 2), have demonstrated that in most countries the national government has laid down a framework for the labour market, tripartism and social dialogue. However, in many cases the institutional structures and legislation are clearly inadequate and the arrangements do not function well. Organisations state that they can exert at least some influence, for example in the legislative process, but there is a feeling in quite a few cases that they are not sufficiently prepared to act as a credible guardian of interests and to participate in a civil society dialogue. In many cases the organisations are weak, and their representativeness and resources inadequate.

The ESC information report on 'Stocktaking of the Employment Situation and the Social Situation in the Applicant states in the context of the application of the existing body of EU law covering the internal market' has also outlined the prevailing situation.

The association countries and Russia should consolidate the labour market action, social dialogue and the related institutional structure which have been initiated by them. The different operators must be helped to organise themselves better and to improve their capabilities and their operating conditions, and they must be consulted regularly, for example in the legislative process. The EU should provide much more focused support than at present to these development efforts and the ESC is in a good position to help with this. The Committee is pleased to note that Part 2 of Annex II of the EU's Russia strategy (areas of action) states that the EU is,

⁽¹⁾ A few examples: Suomen Keskuskauppakamari: 'Suomalaisten, luoteis-venäläisten ja virolaisten yritysten näkemyksiä pohjoisesta ulottuvuudesta' [The Central Chamber of Commerce of Finland: The views of Finnish, northwest Russian and Estonian companies on the northern dimension], June 1999, ISBN 951-8967-48-2; Prof. Simon Clarke: 'New Forms of Employment and Household Survival Strategies in Russia', Moscow 1999, ISBN 0-9535519-0-3; Baltic Business Advisory Council: 'Survey on Conditions for Growth and Development in the Baltic Sea Region', May 1999.

among other things, seeking to integrate Russia into a European economic and social cooperation area. This is to be achieved (point 2.c) by promoting social dialogue, setting up modern trade unions and employers' organisations and encouraging compliance with the most important ILO conventions.

Proposals

1. On the basis of the conclusions of the Cologne Summit, the EU should draw up an action plan for northern Europe on the basis of the northern dimension. The action plan should take account of the recommendations presented in this opinion. Both short- and long-term measures should be devised and agreement should be reached as soon as possible, preferably as early as the presidency conclusions of the Helsinki Summit of the European Council in December 1999.

The action plan must include an effective follow-up mechanism, in which implementation and responsibility are carefully defined. Administrative arrangements are necessary: the EU's relevant administrative units should coordinate their work and focus on the priorities of the action plan.

2. The action plan should concentrate on the priorities presented in the ESC's recommendations. Feasibility studies need to be undertaken and care taken to ensure that investment is targeted at the main priorities. For example, food aid from the EU and other Western countries may have a detrimental impact on agricultural production in Russia and its neighbours. Indeed, the priority of Western support should be to modernise Russian agriculture and its system of food supply in order to ensure that they meet the basic needs of the population.

3. The resources of the EU's support programmes (Tacis, Phare, Interreg, etc.) should be concentrated on implementing this action plan. Impartial and targeted coordination between these programmes is necessary in order to maximise benefits from the limited resources. According to the information received, there are still serious shortcomings in the implementation and management of the programmes, namely that the projects are not targeted at essential needs, the programmes and projects are inadequate and too slow, etc.

The EU should take determined action to improve the support programmes and the way in which they are managed. The new Tacis regulation must be implemented by early 2000. The needs of target countries must be taken into account more effectively, but greater emphasis must also be placed on the operational and financial responsibility of these countries themselves.

With regard to Russia in particular, monitoring of the use of funds needs to be improved. It is essential to solve the problem that part of the support is swallowed up by intermediate administration, which does little to help the development of the economy. The EU must be firm and lose no time in

introducing effective monitoring in order to improve the effectiveness of support programmes and to retain their credibility. Laying down strict conditions for support is crucial to achieving the desired objectives. The diversion of support to unintended beneficiaries should also be prevented.

Adequate arrangements must be targeted at preventing corruption, money laundering and the establishment of front companies.

4. The EU should continue to develop its action plan on northern Europe through bilateral links with the association and EEA countries in the region as well as with Russia.

In addition, the EU should initiate regular multilateral dialogue between the EU and the other states in the region in order to identify common interests and priorities. Efforts should be made to link the work of the regional cooperation councils (CBSS, BEAC) to the dialogue. The EU should support this regional cooperation and participate fully in the implementation of projects.

5. Efforts should be made to coordinate the work and objectives of the EU and other organisations providing support for northern Europe and Russia. The EU should, therefore, initiate a multilateral dialogue between all parties, including one between countries receiving support. The EU should also promote cooperation on these issues within the framework of the transatlantic dialogue, on the basis of the action plan on northern Europe.

6. Within the context of the action programme, it must be ensured that civil society organisations can participate in development work, including the following:

- The involvement of socio-economic organisations in implementing the action plan on northern Europe through the consultation mechanisms — such as the consultative group — established for this purpose.
- Regular cooperation between EU and Russian socio-economic organisations should be developed as part of the implementation of the PCA agreement. Consideration should also be given here to the possibility of setting up an advisory panel, of which the ESC would be a member. The EU presidency work-programmes on the Russia strategy should take this into account.
- The Europe Agreement articles on the establishment of a consultative committee for these organisations must be implemented without delay in those association countries which have not yet done so.
- Support should be given to developing multilateral cooperation between socio-economic organisations in the countries of the region as well as forging closer links between these organisations in Russia and the associated countries and the various relevant European cooperation bodies.

With regard to Russia, improving the effectiveness of labour markets and tripartite relations, requires strengthening the special Tacis programme, 'Support to Social Reform Implementation and Labour Relations (social partnership and labour disputes)'. With regard to the associated countries, the Commission should meet its commitment, as expressed in the communication on the adaptation and development of the social dialogue to also support these countries. In addition, the

Commission's direct technical assistance and information (TAIEX unit) should be reinforced.

The Economic and Social Committee should be consulted when the above-mentioned arrangements are being made. It is also in a good position to participate in their implementation and in making any necessary contacts.

Brussels, 20 October 1999.

The President

of the Economic and Social Committee

Beatrice RANGONI MACHIAVELLI

Opinion of the Economic and Social Committee on 'Transparency and the participation of civil society organisations in the WTO Millennium Round'

(1999/C 368/15)

On 27 May 1999 the Economic and Social Committee, acting under the third paragraph of rule 23 of its rules of procedure, decided to draw up an opinion on 'Transparency and the participation of civil society organisations in the WTO Millennium Round.'

The Section for External Relations, which was responsible for preparing the Committee's work on the subject, adopted its opinion on 6 October 1999. The rapporteur was Mr van Dijk.

At its 367th plenary session (meeting of 20 October 1999), the Economic and Social Committee adopted the following opinion by 103 votes to one with five abstentions.

1. Involvement of socio-economic organisations

1.1. The interest of NGOs and social partners in international trade has increased considerably in recent years⁽¹⁾. This interest was already expressed in negotiations for the GATT Uruguay Round. The involvement reached a peak in the discussions on the Multilateral Agreement on Investment. Above all, many NGOs complained of a lack of transparency on the part of the negotiators with regard to the subjects under discussion and the consequences of the forthcoming agreement for the various countries and groupings. The feeling of mistrust was increased in the course of the negotiations by the discouraging reaction of the government representatives. There was also a feeling that only the industrialised countries benefited from the agreements.

1.2. The NGOs' interest in international trade is now largely tinged with suspicion. Many organisations have a sceptical attitude towards the negotiations, and are afraid that the

governments of the participating countries do not take sufficient account of the interests represented by the socio-economic organisations and groupings and those of the under-developed countries. This found its clearest expression in the OECD negotiations on the MAI. Lack of information and of possibilities to exercise influence appeared to be the main causes for the NGOs' suspicious attitude. In order to avoid such a reaction in the coming WTO negotiations, the ESC takes the view that the involvement of socio-economic organisations must be organised as far as possible in an optimum way. This opinion will deal mainly with the involvement of socio-economic organisations in the process leading to new agreements. The ESC will not express a view in this opinion on the possibility for socio-economic organisations to be involved also in the implementation of the agreements reached.

1.3. The ESC has a long tradition of taking an interest in international trade. It has issued many opinions, including own-initiative opinions, on the subject. In these it has always endeavoured to stress the importance of this subject for social and economic interest groups. The most recent ESC opinions in this area are:

⁽¹⁾ A distinction is made in this opinion between economic and social interest groups and NGOs.

- the global challenge of international trade⁽¹⁾;
- Proposal for a Council Regulation (EC) applying a multiannual scheme of generalised tariff preferences for the period 1 January 1999 to 31 December 2001⁽²⁾;
- Proposal for a Council Decision concerning the conclusion on behalf of the European Community, as regards matters within its competence, of the results of the World Trade Organisation negotiations on financial services⁽³⁾;
- the World Trade Organisation⁽⁴⁾.

1.4. At the same time the ESC values the interest shown by many NGOs in international trade. Many organisations are now realising that international agreements in this field can have far-reaching consequences.

1.4.1. The ESC has issued opinions on a number of these subjects, e.g. those listed in point 1.3.

1.5. The ESC regards the involvement of socio-economic organisations in WTO activities as very important. Any agreements reached can have far-reaching effects for certain sectors (e.g. the services sector), for the continuation of the CAP, Community development policy (ACP), contacts with non-Community countries and compliance with international standards (labour, animal welfare and environment standards). They also affect employment, consumer interests and incomes.

1.6. In all these areas many socio-economic organisations are active. Their involvement in the negotiations can help to broaden the social bases for the agreements. In addition, negotiators can make use of the expertise available in the various organisations. Finally, governments can be made aware of interest groups' views on international trade.⁽⁵⁾

1.7. The ESC intends in this opinion to indicate how the involvement of socio-economic organisations in the WTO negotiations can best be achieved. A distinction is made between different levels. Chapter two deals with the world level. How should the WTO secretariat ensure that socio-economic organisations are sufficiently informed and consulted? Chapter 3 deals with the national level. Decision-making within the WTO must be on the basis of consensus. Therefore it is important for economic and social interest groups and NGOs that their lobbying of national governments should be well organised. The EU, which has exclusive competence in relation to international trade, is in a special situation. An important task has, therefore, been assigned to the European level. Chapter 4 deals with this in more detail.

⁽¹⁾ OJ C 56, 24.2.1997.

⁽²⁾ OJ C 40, 15.2.1999

⁽³⁾ OJ C 407, 28.12.1998

⁽⁴⁾ OJ C 101, 12.4.1999.

⁽⁵⁾ B. Reinalda, 'NGO's en andere particuliere actoren in de leer der internationale betrekkingen', in *Internationale Spectator*, 53, July/August 1999, 414-118.

2. Involvement of socio-economic organisations with the WTO

2.1. As stated in point 1.6, the WTO secretariat will have to be concerned mainly with the proper provision of information to those economic and social interest groups and NGOs operating at international level. The WTO must give them adequate information. Transparency can eliminate and prevent mistrust and suspicion.

2.2. Information can be provided in two ways. The most accessible way is to disseminate it through the Internet. The WTO could place the information on its website. In addition, interested organisations can be kept informed of latest developments through e-mail subscriptions. This is a rapid and effective means of keeping every interested organisation up to date on the latest development.

2.3. The second way of providing information is the organisation of meetings, in the course of which the secretariat could give information on the latest stage reached in the negotiations to interested organisations. The organisations taking part can then give their initial reaction to the information provided and possibly ask more detailed questions on that information. There are advantages and disadvantages to this approach. One advantage is the possibility for interaction: through discussion a compromise can be reached or standpoints can be brought closer together. One disadvantage is financial: organisations must send people to Geneva to receive information and express their views. In many cases these organisations are not based in Geneva, so that travel costs may constitute an obstacle to participation in meetings.

2.4. In order to ensure good relations between the WTO and the socio-economic organisations it is important for mutual trust to develop. To that end there should be a permanent flow of information between the two sides. In addition, this can contribute to a dialogue between the various socio-economic organisations. In order to promote this ongoing liaison, the WTO could consider setting up a permanent platform for socio-economic organisations. This should meet regularly, at least annually, and could provide the secretariat with advice on the various subjects on the (forthcoming) negotiating agenda and perhaps make practical recommendations with regard to implementation.

2.5. The most difficult questions in setting up such a platform concern the costs (who will pay for it) and the selection of participant organisations. It should not be too difficult to find a solution to the first question. Participating organisations must pay their own travel and subsistence costs. The Committee realises that this approach will pose problems for some organisations. It will for example make it more difficult for organisations from less developed countries to participate in meetings. In order to avoid a situation where meetings are attended only by western organisations, space should be reserved for organisations from less developed countries in the process of accrediting participants.

2.5.1. The WTO secretariat must have sufficient capacity available to prepare properly for meetings with socio-economic organisations. This new approach will therefore have a financial impact.

2.6. The second question, namely which organisations will take part in the platform, is much more difficult to answer. It must be made clear that it is mainly international organisations represented in all continents which can be members of such a platform. Secondly, it must be ascertained for which organisations it can be relevant. They must be organisations representing a specific interest group, which can reasonably be expected to be affected by agreements reached in a WTO context. The secretariat will need, in the first place, to draw up a list of organisations which meet these two criteria. If there is a large number of organisations, they will have to agree among themselves on speaking rights to ensure that there is sufficient time for discussion.

3. Involvement of socio-economic organisations at national level

3.1. Decisions in the WTO are taken by the government representatives. There has to be a high degree of consensus on these decisions. It can therefore be assumed that an effective way for socio-economic organisations to set up a lobby is to approach the governments of the participating countries.

3.2. National socio-economic organisations must therefore direct their lobbying mainly towards national governments. Governments must give these organisations sufficient opportunity to express their opinions. Like the WTO they can set up a platform to include various socio-economic organisations. Their most important task could then be to give the governments advice on the various subjects on the agenda of the WTO. It is important for governments to inform and consult socio-economic organisations in good time.

3.2.1. The national socio-economic consultative bodies have a specific responsibility. In many cases they represent the most important socio-economic interest groups. They can make submissions to governments in preparation for WTO meetings. The governments should be able to ask them for an opinion. If no opinion is requested, they could always issue an unsolicited opinion.

3.3. Governments must approach the international negotiations in a spirit of openness. They should therefore provide as much information as possible via the Internet on progress within the WTO.

3.4. Given that the EU has exclusive competence for international trade, the European level is of great importance to EU countries. This also applies to socio-economic organi-

sations within the EU. Thus they will of course have to operate at both national and European level. The following section covers the latter level.

4. Socio-economic organisations at European level and the role of the ESC

4.1. Much of what has been stated above about the national level also applies to the European level. The European Commission must provide a great deal of information through its website on current developments within the WTO. In addition regular information meetings must be held to which economic and social interest groups and NGOs are invited. The Committee could help organise these meetings.

4.2. A special role is set aside for the Economic and Social Committee. It is the European-level representative of economic and social interest groups within the EU. It follows that the European Commission will involve the ESC and consult it on WTO matters, although the Treaty does not require it to do this⁽¹⁾. The Commission is, however, required to consult the ESC on international meetings concerning the services sector⁽²⁾.

4.3. In recent years the ESC has issued many opinions on this important subject. These showed that the ESC takes great interest in the subject, and it has also stressed the importance of WTO agreements for socio-economic policy within the EU.

4.4. As stated in point 1.4, international trade agreements have more consequences today for employment, incomes, consumers and the environment than ever before. Accordingly, our societies' sensitivities in this regard have grown considerably.

4.5. The Committee therefore considers it vital to monitor negotiations on further liberalisation extremely closely, to take note of the views of the relevant associations and NGOs on the subject and, by submitting opinions at an early stage to the Council, Parliament and Commission, to help in the preparatory work for the EU's negotiating position.

4.6. The Committee therefore proposes setting up a unit within the organisational structure of the ESC which would enable it to make the most of its rich knowledge and experience during the negotiation period.

This unit should comprise a nucleus of foreign trade experts who would draw on experts from other sections depending on the topic under negotiation.

It would be the task of this unit to cultivate close contacts not only with the WTO and the appropriate Commission departments, but also with the relevant European associations and NGOs.

⁽¹⁾ See Article 133 of the EC Treaty.

⁽²⁾ See Article 52 of the EC Treaty.

4.7. Building on the additional information acquired in this way, this unit will, in good time prior to the negotiations, submit opinions on individual negotiating issues deemed to be of particular importance from a social policy angle. In so doing, it will also draw on earlier ESC opinions.

4.8. In individual cases, it will be appropriate to hold prior hearings with interested parties.

4.9. In this connection, it is desirable that the relevant Committee members be given the opportunity to attend the critical stages of particularly important negotiations.

4.10. The Committee proposes that the WTO unit monitor in particular the following issues in the light of the Seattle plans:

1. the role of socio-economic organisations in the settlement of disputes;

2. unilateral sanction methods and compensation rights;
3. electronic trade;
4. the WTO and employment;
5. public purchasing contracts;
6. the strengthening of the WTO;
7. agriculture;
8. services;
9. trade and development;
10. trade and environment;
11. trade and international labour standards;
12. competition;
13. investment;
14. intellectual property;
15. tariffs.

Brussels, 20 October 1999.

The President
of the Economic and Social Committee
Beatrice RANGONI MACHIAVELLI

Opinion of the Economic and Social Committee on the 'Proposal for a Council Directive on the service in the Member States of judicial and extrajudicial documents in civil or commercial matters'

(1999/C 368/16)

On 12 July 1999 the Council decided to consult the Economic and Social Committee, under Article 262 of the Treaty establishing the European Community, on the above-mentioned proposal.

The Economic and Social Committee decided to instruct the Section for the Single Market, Production and Consumption, to prepare its work on this matter and appointed Mr Hernández Bataller as rapporteur-general.

At its 367th plenary session of 20 and 21 October 1999 (meeting of 21 October), the Economic and Social Committee adopted the following opinion by 85 votes in favour with two abstentions.

1. Introduction

1.1. Any state governed by the rule of law must have general legislation which strikes a balance between the rights and obligations of all parties. In the event that rights acknowledged by the legal system are prejudiced by an infringement of such laws, a legal procedure must be available for litigants to seek redress and, at the same time, to re-establish the balance of interests desired by the legislator. Access to justice is consequently a human right.

1.2. According to Article 2 of the Treaty on European Union, the objectives of the Union include:

- to maintain and develop the Union as an area of freedom, security and justice, in which the free movement of persons is assured;
- to maintain in full the *acquis communautaire* and build on it with a view to considering to what extent the policies and forms of cooperation introduced by the Treaty may need to be revised with the aim of ensuring the effectiveness of the mechanisms and the institutions of the Community.

1.3. The sound operation of the internal market — especially in view of the gradual growth of new forms of concluding contracts, such as cross-border e-commerce — creates a need to improve and expedite the transmission of judicial and extrajudicial documents in civil or commercial matters for service between the Member States.

1.4. It is important that litigants be able to understand and assert their rights, enjoying facilities equivalent to those they enjoy in the courts of their own country, by means of procedures which combine rapidity and legal certainty in a balanced way.

1.5. Most Member States are parties not only to the Hague Convention of 15 November 1965 on the Service Abroad of Judicial and Extrajudicial Documents in Civil or Commercial

Matters but also to a number of bilateral or regional instruments, which together constitute a system characterised by its complexity, heterogeneity and lack of efficacy.

1.5.1. Before the Amsterdam Treaty entered into force, the Member States, acting on the basis of Article K.3(2) of the Union Treaty, concluded a Convention on the service in the Member States of the European Union of judicial and extrajudicial documents in civil or commercial matters, drawn up by Act of the Council of the European Union on 26 May 1997⁽¹⁾. But the Convention has not been ratified by the majority of them.

2. The Commission's proposal

2.1. As the Council Convention of 26 May 1997 was not ratified, its provisions are not applicable. Transposing it into a Community instrument will have the effect, among others, of ensuring that it enters into operation on the same early date, well known to all.

2.1.1. The purpose of the proposal is to improve and expedite the transmission of judicial and extrajudicial documents in civil or commercial matters for service between the Member States.

2.1.2. The subject-matter covered by the Convention is now within the ambit of Article 65 of the Treaty; the legal basis for this proposal is Article 61(c) of that Treaty.

2.1.3. The new Title IV is not applicable in the United Kingdom and Ireland, unless they 'opt in' in the manner provided by the Protocol annexed to the Treaties. These countries have, however, indicated their intention of becoming fully involved in the Community's activities in the field of judicial cooperation in civil matters. Title IV is likewise not applicable in Denmark, by virtue of the relevant Protocol.

⁽¹⁾ OJ C 261, 27.8.1997.

2.2. The objectives of the proposal are to improve and expedite the transmission of judicial and extrajudicial documents in civil or commercial matters for service between the Member States. It further develops the Union's objective of establishing an area of freedom, security and justice within which the free movement of persons is assured and litigants can assert their rights, enjoying facilities equivalent to those they enjoy in the courts of their own country.

2.2.1. The cross-border impact of the proposal's objectives provide sufficient grounds for action at Community level. In addition, in accordance with the principle of proportionality, the proposed instrument is confined to the minimum needed for the attainment of these objectives and does not exceed what is necessary for that purpose.

2.2.2. The proposal is consistent with the 1965 Hague Convention, while introducing the following innovations:

- it makes provision for establishing more direct channels between the persons or authorities responsible for transmitting a document and those serving it or ensuring it is served;
- it provides for certain practical means to be used to ease the practitioners' tasks, including modern means of document transmission, a complete, user-friendly form and directories of Member States' designated receiving agencies;
- in order to safeguard the rights of the parties, it introduces innovative rules on the translation of documents;
- it establishes an advisory committee to assist the Commission with the implementing provisions;
- it replaces the system for service of documents for the purposes of relations between the Member States that are parties thereto.

2.2.3. The following differences, however, occur in the draft directive's adaptation of the Convention of 26 May 1997:

- jurisdiction of the Court of Justice: unlike Article 17 of the Convention, the directive does not need to confer jurisdiction on the Court of Justice;
- implementing provisions: it confers on the Commission powers of implementation to adopt provisions to give effect to it;
- relationship with other agreements and arrangements: the Member States, individually or acting in concert, are empowered to expedite the transmission of documents. The exercise of this power will be monitored by the Commission; it must be notified of draft provisions;
- reservations: the proposal makes no provision for reservations, but only for transitional or specific arrangements,

which must be notified to the Commission and published in the Official Journal;

- formal provisions: as soon as the directive comes into force, the Commission will fully assume the role of monitoring its application, proposing amendments if need be, and informing the Member States and the general public of communications and notifications required by the directive.

3. General comments

3.1. The Committee agrees with the Commission's proposal for a directive, as it supports the development of an area of freedom, security and justice in the European Union. This objective entails, among other things, the adoption of measures relating to judicial cooperation in civil matters needed for the sound operation of the internal market and the better administration of justice.

3.1.1. The Committee believes that, as a result of the entry into force of the Amsterdam Treaty, these measures will give a new impetus to citizens to strengthen their democratic traditions.

3.1.2. The Committee is aware of the mutual enrichment as well as the difficulties which may result from bringing together countries whose cultures, social systems, political organisation and legal systems are markedly different, albeit with a common basis and principles. They must, however, face up to civil society's growing demand for greater equity and justice, and for comparable conditions of legal certainty and protection.

3.1.3. The Committee is therefore convinced that:

- mutual confidence must be built up between European and national institutions, as well as between these institutions and the citizens of Europe;
- since the establishment of the single market, a single currency and the foundations of a social Europe, the creation of an area of freedom, security and justice is becoming one of the Union's primary objectives.

3.2. The Committee considers that adopting the proposal in the form of a directive is sufficiently warranted, but in the future this type of legal act should be adopted in the form of a regulation.

3.3. The Committee is in favour of abolishing the transitional period, in the interests of the progressive establishment of the 'area of freedom, security and justice' referred to in the Treaty of Amsterdam, given the non-implementation or non-uniform implementation of the acts adopted by the representatives of the Member State governments in this field prior to this Treaty being concluded.

4. Specific comments

4.1.1. The proposal's objectives will be of benefit to 'litigants', natural or legal persons, irrespective of whether or not they are Union citizens. The right to rapid and fair justice transcends citizenship, and is a fundamental human right which cannot under any circumstances depend upon nationality. Moreover, from the viewpoint of the impact on the functioning of the internal market, the benefits flowing from the entry into force of the proposal will be enjoyed by both natural and legal persons, including those from non-union countries.

4.1.2. Insufficient explanation is given concerning the geographical areas in which the proposal is to apply, and this could cause confusion when application occurs. The specific circumstances of certain territories, referred to in Article 299 of the EC Treaty, together with the responsibilities certain Member States have assumed for them, must be taken into account. It should be pointed out, in this regard, that independently of how service or transmission is actually accomplished, the competent bodies must be designated by the national authority assuming the state's external responsibility, thereby guaranteeing the authenticity of the acts of these bodies. The Member States must establish the appropriate legal and administrative channels for this purpose.

4.2. The proposal should explicitly provide that, in the event of unknown domicile, the State addressed should comply with the obligation to 'take all reasonable steps, with maximum dispatch, to seek to ascertain the address of the person on whom the document is to be served'.

4.3. The Committee believes that the sound operation of the internal market creates a need to improve and expedite the transmission of judicial and extrajudicial documents in civil or commercial matters for service between the Member States.

4.3.1. The Committee would again emphasize the importance of redress procedures that are rapid and easily accessible, and calls upon the Commission to flesh out its proposals in this direction⁽¹⁾. The creation of effective means of redress is a clear obligation upon the Member States: there must be efficiency and speed in judicial procedures in civil matters, which means that the transmission of judicial and extrajudicial documents should be done in line with the 'principle of direct transmission' and by rapid means between bodies designated by the Member States.

4.3.2. The ESC considers the removal of the requirement for documents to be legalised, and of the intervening stages between a document's dispatch from the Member State of transmission and its service in the State addressed, to be helpful for the development of the internal market.

4.4. Since civil actions heard in the context of criminal and tax cases do not fall outside the scope of the draft directive, and it is also possible that documents which cannot easily be defined in legal terms by the appropriate legal body may be requested, an indent along the following lines should be inserted in order to protect the rights of the parties involved:

'the receiving agency shall define as flexibly as possible those documents whose legal character cannot be clearly assigned to either the civil or the commercial field, but which nevertheless have points in common with them.'

4.5. Speed in transmission warrants the use of all appropriate means, provided that certain conditions as to the readability and reliability of the document received are observed. State liability in the event of failure to carry out the necessary steps within a reasonable period of time must be clearly established.

4.5.1. The ESC supports the proposal in taking account of technical innovations and new means of transmission accepted by receiving agencies, such as e-mail or Internet, without prejudice to the balance between rapidity and legal certainty. In this connection, Article 4(5) appears to cover only transmission of documents by post: this should be amended.

4.6. Maintaining the principle of no payment of costs for services rendered by a Member State in serving judicial documents strengthens the principle of equality of arms before the courts, since it facilitates access to justice, and is necessary for an efficient legal system. The Committee considers that free legal aid should be guaranteed at all stages of judicial proceedings where own resources are insufficient.

4.6.1. In the event that costs are to be borne by the applicant, the ESC would repeat⁽²⁾ that the amount involved should be affordable and reflect the costs actually incurred.

4.7. The manual, to be produced and updated by the Commission, should be made available to all economic operators and litigants in general, for example via Internet, so that they are aware of the conditions set by the transmitting and receiving agencies.

4.8. Article 15(1) employs the concept of a 'person interested in a judicial procedure'. This is, however, vague in legal terms, particularly given that this clause confers an alternative right upon litigants: that of bypassing service by the official agencies on account of allegedly greater rapidity in securing the document.

⁽¹⁾ OJ C 407, 28.12.1998, p. 50.

⁽²⁾ See the ESC Opinion on the Green Paper on public sector information. OJ C 169, 16.6.1999, p. 30.

4.8.1. It would therefore be better to equate the concept of 'interested person' with that of a person who is a party to a judicial procedure in accordance with the procedural law of the applicant Member State, or any person who, while not having taken part in administrative or judicial proceedings, is entitled under the terms of the law applicable to such proceedings, to institute legal proceedings, including for the purposes of lodging an appeal.

4.9. Articles 15(2) and 19(2) contain an unusual statement which is practically worthless in terms of Community law. The ESC believes that these clauses should be deleted in order to be consistent with the uniformising effect sought by the draft directive and for the sake of legal certainty for both litigants and the legal operators involved.

4.10. The claim in Article 20(1) of prevalence, in matters to which the directive applies, over other provisions contained in conventions concluded by the Member States, appears clearly inconsistent with the case-law of the Court of Justice. In the Committee's view, this wording should be corrected in order to ensure the directive's primacy over such conventions

in relations between Member States, while complying with agreements between the Member States and third countries⁽¹⁾.

4.11. The Committee advocates the establishment of a coordinated and consistent legal system throughout the Union and consequently calls upon the Commission, Council and European Parliament to:

- take full advantage of the new powers under Article 65 of the EC Treaty to draw up a body of its own civil law rules and to foster compatibility of civil procedures;
- devise appropriate means of ensuring that European and national level institutional actors, as well as civil society representatives, are involved in defining and implementing future measures;
- guarantee that European citizens are kept as well-informed as possible, and ensure that legal advice and aid services are established in all the institutions of the Union, particularly at local and regional level.

⁽¹⁾ It is under these latter circumstances that this 'presumed' primacy of the directive arises, since Article 307 of the Treaty establishing the European Community is based on the rule contained in Article 30.4.b) of the 1969 Vienna Convention, as amended in 1986; and similarly the case-law of the European Court of Justice in its Levy judgement of 2 August 1993, Case C-158/91, ECR 1993 I-4278 (grounds, paragraph 10 *et seq.*, pp. 4304 *et seq.*) and confirmed by the Evans Medical judgement of 28 March 1995, Case C-324/93, ECR I-563 (grounds, paragraph 25 *et seq.*, pp. 605 *et seq.*).

Brussels, 21 October 1999.

The President
of the Economic and Social Committee
Beatrice RANGONI MACHIAVELLI

Opinion of the Economic and Social Committee on 'Services of general interest'

(1999/C 368/17)

On 29 April 1999 the Economic and Social Committee decided, under the third paragraph of Rule 23 of its Rules of Procedure, to draw up an opinion on 'Services of general interest'.

The Section for Transport, Energy, Infrastructure and the Information Society, which was responsible for preparing the Committee's work on the subject, adopted its opinion on 5 October 1999. The rapporteur was Mr Hernández Bataller.

At its 369th plenary session on 20 and 21 October 1999 (meeting of 21 October), the Economic and Social Committee adopted the following opinion by 78 votes for, one against, with three abstentions.

1. Introduction

1.1. Clearly the concept of services of general interest is understood differently across the European Union, with perceptions varying between German-speaking, Nordic, Latin and Anglo-Saxon countries. In fact, in some EU Member States the very concept of the public service does not exist. There are, however, some quite similar ideas and closely corresponding situations. (Examples include, 'beheer van diensten' in the Netherlands, 'gestione di pubblica utilità' in Italy, 'public utilities' in the United Kingdom, 'Daseinvorsorge' in Germany, and the 'service public' in France.)

1.2. A distinction is drawn between 'services of general interest' which cover both commercial and non-commercial or 'extracomercium' activities, and 'services of general economic interest' which cover commercial activities alone, in other words, activities performed or likely to be performed in the marketplace and which constitute a company's main pursuit. This second category of services is subject to competition rules and Article 86 of the Treaty may be applied⁽¹⁾. This is the case for network services in the transport, energy and communications sectors.

1.3. Services of general interest are defined essentially by the purpose of the activity performed. The activity should satisfy a 'generalised' ⁽²⁾ and 'basic' need among members of the community, for a group of people linked by ties of equality and solidarity. Member States are given considerable freedom to assess the needs of the community so that they may define for themselves the objectives of national policy. European Court of Justice case law has recognised security, defence, the protection and/or the social cohesion of the community as examples of such needs.

1.4. Services of general interest should satisfy needs such as education, health, communications, information, the supply of drinking water and transport, which are crucial to safeguarding the basic freedoms of individuals and improving quality of life for everyone. These are economic and social activities which are not usually left entirely open to market forces as there is generally some form of regulation and monitoring input from public authorities.

1.4.1. 'Market failings' are one of the main reasons for the existence of public enterprises or the adoption of regulations by the state. These failings, where the market does not allocate services and goods efficiently, mean that many people on very low incomes depend on such services if they are to consume products which are not accessible for them solely through commercial channels. Indeed it is one of the basic postulates of the European social model that social cohesion is threatened in the medium or longer term if the needs of a sizeable section of the population are not properly satisfied.

1.4.2. This opinion is designed to provide — after a short summary of the Commission Communication on services of general interest — an account of the rules currently governing the various types of service, followed by the situation in the wake of the Amsterdam Treaty. A key section of the opinion asserts certain principles which the Committee believes should underpin services of general interest, and discusses some general and specific aspects of these services.

2. Commission Communication of 11 September 1996 on services of general interest in Europe⁽³⁾

2.1. The Commission clarifies the existing terminology in the field and provides the following definitions:

— Services of general interest, this term covers market and non-market services which the public authorities class as being of general interest and subject to specific public service obligations.

⁽¹⁾ Judgments of the European Court of Justice: of 15.2.1993, Poucet et Pistre (C-159 and 160/91, European Court Reports, p. 1-637); of 27.10.1993, Lagauche e.a. (C-46/90 and 93/91, European Court Reports, p. 1-5267); of 19.1.1994, SAT-Fluggesellschaft (C-364/92, European Court Reports, p. 1-143); of 18.3.1997, Diego Cali & Figli (C-343/95, European Court Reports, p. 1-1547)

⁽²⁾ Conclusions of Advocate-General Tesauro of 9 February 1993 in relation to the Corbeau case, judgment of 19 May 1993, C-320/91, European Court Reports, p. 1-2533, point 19.

⁽³⁾ OJ C 281, 26.9.1996, p. 3.

- Services of general economic interest, this term refers to market services which the Member States subject to specific public service obligations by virtue of a general interest criterion.
- Public service, this is an ambiguous term since it may refer either to the actual body providing the service or to the general interest activity or role assigned to the body concerned. Specific public service obligations may be imposed by the public authorities on the body rendering the service in order to facilitate or enable provision of the service.
- Universal service⁽¹⁾, this concept refers to a set of general interest requirements which should be satisfied by specific activities throughout the Community. The object of the resulting obligations is to make sure that everyone has access to certain essential services of high quality at prices they can afford.

2.2. The communication takes the view that services of general interest contribute to European competitiveness and social solidarity, as well as to quality of life in the EU. In many cases, such services even constitute genuine social rights.

2.3. It is acknowledged that the aim of the Community is to boost the competitiveness of the European economy in an increasingly competitive world and to offer consumers wider options, with better quality and lower prices, contributing at the same time, through its policies, to strengthening the economic and social cohesion of the Member States and to reducing certain inequalities.

3. Regulations in the transport, energy, infrastructure and information society sectors

3.1. With regard to transport by rail, road and inland waterway, Council Regulation (EEC) No 1191/69 of 26 June 1969 stipulates that in order to guarantee the provision of adequate transport services, taking into account social, environmental and spatial planning considerations in particular, or to offer special pricing arrangements for specific categories of passengers, Member States may enter into public service contracts with transport undertakings. This should ensure guaranteed regularity, capacity, routes, prices, timetables and continuity of service.

There are also other practical considerations which argue for the continued existence of public service contracts. For instance, an efficient and passenger-friendly public bus and

coach service can solve the problem of congestion on some of the EU's roads — problems created by the increase in the number of private cars in circulation.

3.1.1. Previous ESC opinions on transport⁽²⁾ consider that in accordance with the subsidiarity principle, it should continue to be possible for the competent local authorities to take decisions on matters such as the type of organisation or qualitative and quantitative requirements to be met by operators, acting in the light of local requirements.

3.1.2. Applying the subsidiarity principle means preserving the Community *acquis* and the institutional balance, without prejudice to the principles developed by the Court of Justice with regard to the relationship between Community and national law. In all cases, the measures adopted need to be consistent with the satisfactory attainment of the objective in mind and the need for effective implementation, leaving it up to national or local authorities to decide on the ways and means, since it is the responsibility of these authorities to develop the strategic planning of services of general interest.

3.1.3. In air transport, Council Regulation (EEC) No 2408/92 of 23 July 1992 regulates access for Community air carriers to intra-Community routes and the public service obligations imposed on scheduled air services, as regards minimum frequency, timetables, types of aircraft used and capacity⁽³⁾.

3.1.4. In maritime transport, Article 4 of Council Regulation (EEC) No 3577/92 of 7 December 1992 applying the principle of freedom to provide services to maritime transport within Member States (maritime cabotage) allows a Member State to conclude public service contracts or impose public service obligations limited to requirements concerning ports to be served, regularity, continuity, frequency, capacity to provide the service, rates to be charged and manning of the vessel⁽⁴⁾.

3.1.5. Safety is an important aspect of Community transport policy. Transparency, quality and worker protection are interlinked, and it is in the public interest to strike a balance between rural and urban areas, for which public resources must be used.

In the case of services of general interest, any limitation imposed with respect to competition must be necessary and proportionate to the objectives pursued. The public authorities should assess the restriction on competition necessary to enable enterprises to offer public services, taking into account the economic conditions under which these enterprises operate, the costs they must bear and the legislation with which they must comply.

⁽¹⁾ The universal service in the telecommunications sector is defined by Article 2(1) (g) of Directive 97/33 as 'a defined minimum set of services of specified quality which is available to all users independent of their geographical location and, in the light of specific national conditions, at an affordable price'.

⁽²⁾ OJ C 138, 18.5.1999, p. 7.

⁽³⁾ OJ L 240, 24.8.1992, p. 8.

⁽⁴⁾ OJ L 364, 12.12.1992, p. 7.

3.2. With regard to the energy markets, liberalised in Directive 96/92/EC on electricity and Directive 98/30/EC on gas, the markets are opening up, and rules have been introduced for access to the network, separate accounting, the calculation of tariffs, the supply obligation and the possibility of imposing public service obligations.

3.2.1. The electricity directive establishes a mechanism enabling Member States to take into account public policy considerations without, in the normal course of events, restricting the liberalisation process. Member States may establish five categories of public service obligations, namely environmental protection, safety, regularity, quality of supply and pricing policy, and adopt the measures necessary to comply with these obligations.

3.2.2. The gas directive stipulates that Member States may impose public service obligations on natural gas undertakings, provided that such obligations are justified by the general economic interest. The obligations must fall into five specific categories, namely security of supply, regularity, quality, price of supply and environmental protection.

3.3. In the field of telecommunications, Directive 97/33/EC of 30 June 1997⁽¹⁾, imposes the obligation to provide a universal service, and the licensing directives adopted in 1997⁽²⁾, and Directive 98/10/EC on voice telephony make it possible to impose public service obligations on operators in order to meet a clearly-defined series of 'essential requirements'⁽³⁾.

3.4. Common rules have also been introduced for developing the postal sector and improving the quality of its service, with the gradual and measures opening of markets to competition. The basis of the measure proposed is to safeguard the universal postal service in the long term. The universal postal service means providing high-quality service country-wide, with regular guaranteed deliveries at prices everyone can afford. This involves the collection, transport, sorting and delivery of letters, as well as printed matter, catalogues and parcels within certain weight and price limits.

3.5. Exclusive or special rights must be awarded to undertakings through tendering procedures based on objective, non-discriminatory and transparent criteria and the awarding of tenders should mostly be limited in time.

⁽¹⁾ OJ L 199, 26.7.1997, p. 32

⁽²⁾ OJ L 117, 7.5.1997, p. 15

⁽³⁾ Essential requirements: economic or non-economic reasons which may cause a Member State to impose conditions on the provision of services.

4. The situation following the Amsterdam Treaty

4.1. The Community's objectives include promoting harmonious and balanced economic development throughout the Community, sustainable and non-inflationary growth that is respectful of the environment, a high degree of convergence of economic performance, enhancing the standard of living and the quality of life, competitiveness, and achieving economic and social cohesion and solidarity among Member States.

4.1.1. These aims will be served by the establishment of a common market and of an economic and monetary union and by the implementation of the policies and joint actions provided for in the Treaty, including arrangements for ensuring that competition within the internal market will not be distorted.

4.2. Article 86(1) of the Treaty establishing the European Community (ex Article 90) states that in the case of public undertakings and undertakings to which Member States grant special or exclusive rights⁽⁴⁾, Member States will neither enact nor maintain in force any measure contrary to the rules contained in the Treaty, in particular to those rules provided for in Article 12 (discrimination) and Articles 81 to 89 (practices restricting competition and state aids). Other Treaty provisions are generally invoked in conjunction with Article 86, such as Article 28 (free movement of goods), Article 49 (freedom to provide services) and Article 43 (right of establishment).

4.2.1. Article 86(2) states that undertakings entrusted with the operation of services of general economic interest or having the character of a revenue-producing monopoly will be subject to the rules contained in the Treaty, in particular to the rules on competition, insofar as the application of such rules does not obstruct the performance, in law or in fact, of the particular tasks assigned to them. The development of trade must not be affected to such an extent as would be contrary to the interests of the Community. Moreover, Article 86(3) states that the Commission will ensure the application of the provisions of the article and will, where appropriate, address appropriate directives or decisions to Member States.

⁽⁴⁾ These terms are to be understood as follows:

- exclusive rights: rights guaranteed by a Member State restricting the provision of certain services to a single undertaking through legal, regulatory or administrative provisions, granting the undertaking the exclusive right to provide a service or perform an activity in a specific geographical area.
- special rights: rights awarded by a Member State to a limited number of undertakings through legal, regulatory or administrative provisions which, in a specific geographical area:
 - grant exclusive authorisation — without using objective, proportional or non-discriminatory criteria — to two or more undertakings, to provide a service or perform an activity,
 - designate (without using the above criteria) several competing undertakings to provide a service or perform an activity,
 - award the undertaking(s) (without using the above criteria) legal or regulatory advantages which substantially affect other undertakings' ability to provide the same service or perform the same activity in the same geographical area under practically identical conditions.

4.3. Article 16 of the EC Treaty — added by the Treaty of Amsterdam — incorporates a specific reference to services of general economic interest. The article highlights their importance as a 'shared value' of the EU and their role in promoting social and territorial cohesion. This precept should be judged as an effort to strike a balance between competition rules and the need to provide public services while complying with the provisions of Article 86.

4.4. Furthermore, a protocol on the system of public broadcasting has been incorporated, emphasising the specific nature of the system in relation to social and cultural requirements. Specifically, it enables Member States to finance television channels 'insofar as such funding is granted to broadcasting organisations for the fulfilment of the public service remit as conferred, defined and organised by each Member State, and insofar as such funding does not affect trading conditions and competition in the Community to an extent which would be contrary to the common interest'. The protocol aims to strike a balance between the enforcement of competition rules and the need to guarantee a public television broadcasting service.

4.5. There has also been a declaration on German public credit institutions acknowledging that Community competition rules may take into account services of general economic interest provided by public credit institutions in Germany and the facilities granted to them to compensate for the costs connected with such services.

4.6. The Cologne European Council held on 3 and 4 June 1999⁽¹⁾ takes the view that, at the present stage of development of the European Union, the fundamental rights applicable at Union level should be consolidated and highlighted in a charter which would contain: the fundamental rights and freedoms as well as basic procedural rights guaranteed by the European Convention for the Protection of Human Rights and Fundamental Freedoms and derived from the constitutional traditions common to the Member States, as general principles of Community law. The Charter should also include the fundamental rights that pertain only to the Union's citizens. In drawing up such a Charter account should furthermore be taken of economic and social rights.

5. Guidelines which services of general economic interest should adhere to

5.1. Drawing on various publications and communications concerning resolutions issued by the Council, Commission and European Parliament and on other sources, as well as some ideas of its own, the Committee has prepared a list of guidelines which general interest services should respect.

5.2. The Committee considers that these guidelines will be very useful for the provision of these services and presents this preliminary list for public debate.

5.3. As a citizens' right, services of general economic interest should operate according to the following guidelines:

5.3.1. Equality: all citizens are entitled to equal access to services of general interest. The term equality is to be understood not as an obligation of uniformity, rather as prevention of any unjustified discrimination based on social or personal status in relation to service provision.

5.3.2. Universality: for services supplied, basic services should be universally provided.

5.3.3. Reliability: the provision of services of general interest should be continuous, regular and uninterrupted. Irregular operation or suspension of services will be restricted to specific cases laid down in the regulation governing the sector.

5.3.4. Participation: users should participate actively in the development of services of general interest. The purpose of such participation is to protect citizens' rights with regard to the adequate provision of services and to promote the cooperation of the service-providers.

5.3.5. Transparency: service-providers will ensure that users receive full information on the service provision, especially on the public service obligations and tariffs.

5.3.5.1. To this end, service-providers will inform the users of the financial and technical arrangements for the provision of services and of any changes affecting the service, publishing the texts containing the relevant regulation.

5.3.6. Simplification of procedures: as far as possible service-providers will simplify the procedures to be followed by users and will supply the appropriate explanations.

5.3.6.1. Moreover, where possible they will use standard forms, striving to simplify and explain the methods of subscribing to and paying for the services.

5.3.6.2. In all cases, service-providers will introduce internal procedures for addressing complaints made by users. These procedures will be accessible, easy to understand and implement, ultimately ensuring that the service-providers take account of the complaints made by users and consumers' associations, and will facilitate the right to bring a complaint before the regulator and, generally speaking, access to the legal system⁽²⁾.

⁽²⁾ These procedures should be based on the principles laid down in the Commission recommendation on the principles applicable to the bodies responsible for out-of-court settlement of consumer disputes (COM(1998) 198 final of 30 March 1998), and, as far as possible, will encourage the use of the European claims form for consumers.

⁽¹⁾ Conclusions: points 44 and 45 and Annex IV.

5.3.7. Profitability and efficiency: services of general economic interest will be supplied efficiently and profitably. Providers will adopt the measures necessary to achieve these objectives.

5.3.8. Quality of services: service-providers will identify the factors influencing the quality of services and, on this basis, publish quality and quantity standards which they will pledge to observe.

5.3.8.1. Compliance with these standards will not be negotiable. Exceptions to these standards will only be granted if it is advantageous to users and will be monitored by users in periodic meetings.

5.3.9. Adequate provision of services: services of general economic interest will be adapted to changes in the needs of the community and to technical and economic progress.

5.3.10. Evaluation of results: the arrangements for providing public services will be periodically reviewed by the service-provider. To do so, service-providers will collect information on, inter alia, user-satisfaction.

5.3.11. Cooperation between service-providers: even if the service is provided in a competitive environment, service-providers will strive to cooperate to ensure compliance with these principles.

5.3.12. Affordable price: the conditions for access to these services should be at a price citizens can afford. The guiding principle should be 'reasonable cost'.

5.3.13. Environmental protection: the definition and operation of services of general economic interest should take account of environmental protection requirements as a key component of social and territorial cohesion.

6. General comments

6.1. The Committee takes the view that a balance should be struck between competition law and services of general interest in the transport, energy and telecommunications sectors, especially as Article 86 (ex Article 90) is worded 'negatively', in that it allows non-application of Treaty rules when their application would obstruct the provision of the services of general interest assigned to these sectors.

6.2. However, the new Article 16 imposes a 'positive' obligation on the Community and the Member States, each within their respective powers, to take care that such services

operate on the basis of principles and conditions which enable them to fulfil their missions. To this end the Committee considers that a balance should be struck between the profitability of operators in the marketplace and the obligations ensuing from social, labour, market economy, safety and environmental criteria and from the basic objectives of sustainable development.

6.2.1. On the other hand — in the road transport sector for instance — when operators provide a service of general interest certain aspects should be guaranteed by the authorities, including a description of the objective pursued by the service, financial compensation, incentives, a description of exclusivity rights, duration and geographical scope, and the facilities made available by the various parties.

6.3. The Committee takes the view that services of general economic interest occupy a place in the shared values of the Union. They encourage a balanced European integration policy by facilitating a better political and legal framework for people and businesses.

6.4. It also places importance on their role in promoting the EU's economic and territorial cohesion. In particular, land management and spatial planning will have to be taken into account in future; moreover, the 'networks' should not only follow economic dictates, but also take other social considerations into account.

6.5. The Committee would like these services defined and delivered according to the principles of subsidiarity and proportionality.

6.6. With regard to the public broadcasting system, the Committee takes the view that:

6.6.1. cultural considerations should be taken into account when defining the public broadcasting service;

6.6.2. the public service role of the broadcasting sector involves specific requirements in terms of programming and other obligations which the operators, irrespective of their public or private ownership, should not have to bear alone;

6.6.3. the public service role of broadcasting is linked to promoting the democratic, social and cultural needs of each society and minority groups, and the need to preserve pluralism in the media, guarantee high-quality content, safeguard linguistic and cultural diversity, and protect minors;

6.6.4. the funding of public service broadcasting should take into account the principles of proportionality and transparency, and should not affect market conditions or free competition in the Community to the detriment of the common interest;

6.6.5. when an operator also engages in purely commercial activities, i.e. over and above its public service duties, there should be separate accounting to ensure that public funds are not channelled into commercial activities.

6.7. *Information society*

6.7.1. All aspects of the so-called 'information society' are capable of revolutionising the relationship between businesses and consumers, as well as the very nature of consumption.

6.7.2. The Committee considers that services of general economic interest should be made to play a crucial role in the information society, and since the establishment of the information society should not generate further social exclusion, the concept of universal service and its adaptability to technological innovations should play a prime role.

6.7.3. The Committee considers that the information society⁽¹⁾:

- may serve as an instrument of regional policy;
- should encourage the development of a network of IT centres;
- facilitates the integration into the mainstream of European society of people at risk of exclusion (the disabled, inhabitants of isolated or particularly remote regions);
- means that the European Union must develop a cultural identity which, while respecting the wealth of national and regional variations, will serve to underpin the information society in philosophical and ideological terms;
- by seizing the opportunities offered by the licensing system, and while maintaining balanced tariffs, encourages lower charges for accessing and using the Internet, at the same time ensuring security and privacy for users.

6.8. *Transport and energy networks*

6.8.1. While it is a fact that universal service in the transport and energy sectors need not necessarily be on the same scale as other economic services of general interest, the Committee considers that liberalisation so far has not taken adequate account of the crucial components of economic, social and territorial cohesion, as up to now the criteria of economic efficiency have taken precedence.

6.8.2. The Committee takes the view that measures adopted in the future should consider not only economic criteria but

also those based on the need to maintain employment, quality of service and the level of satisfaction among users, given that the ultimate aim should be to attain and strengthen social well-being. Thus, for instance, environmentally-friendly energy production, from combined power plants, should be taken into account so as to avoid what is happening in Germany where this form of energy is at a disadvantage because it is not competitive compared with energy obtained under less safe conditions.

7. **Conclusions**

7.1. Services of general economic interest will play a crucial role in promoting economic and social cohesion and territorial solidarity, establishing 'shared values' which the EU should preserve and encourage.

7.2. The Committee takes the view that promoting economic and social cohesion in the provision of services of general economic interest means that people should always have access to such services or benefits irrespective of their social situation or place of residence, since the objective of these services is to attain and preserve social and territorial cohesion.

7.3. With regard to the service-users, the aim should be to guarantee the right balance between liberalisation — which requires more competition — and appropriate measures based on the guidelines already described (affordability, quality of service, transparency of information, etc.).

7.4. At all events, there is a need to ensure that the economic and legal interests of consumers, who through their associations form part of 'civil society', are taken into account in a more consistent and sustained fashion across the spectrum of EU policies.

Account must also be taken of the situation of the operators who help to provide these general interest services, specifically the economic conditions under which they operate, the costs that enterprises must bear and the legislation with which they must comply.

7.4.1. The Committee considers that in a competitive system all the participants should contribute proportionally to the cost of the universal service.

7.5. The Committee considers that every citizen has the right to equal access to the provision of services of general economic interest, the purpose of which is to boost the general well-being. At all events, to maintain the European social model a balance should be found between services of general interest and the rules of the single market, free competition especially.

⁽¹⁾ 'Oulu declaration' of 7.9.1999.

7.6. The Committee therefore urges the Council, the European Parliament and Commission to include the citizens' right to equal access to the provision of these services in the Charter of Fundamental Rights which the Cologne European Council agreed to draw up.

7.7. The Committee urges the Council, the European Parliament and the Commission to ensure, as far as possible, that these services continue to be provided after the conclusion of the next round of WTO negotiations.

Brussels, 21 October 1999.

The President
of the Economic and Social Committee
Beatrice RANGONI MACHIAVELLI

Opinion of the Economic and Social Committee on the 'Communication from the Commission — Towards a Single Market for Supplementary Pensions — Results of the consultations on the Green Paper on supplementary pensions in the Single Market'

(1999/C 368/18)

On 18 May 1999 the Commission decided to consult the Economic and Social Committee, under Article 262 of the Treaty establishing the European Community, on the above-mentioned communication.

The Section for the Single Market, Production and Consumption, which was responsible for preparing the Committee's work on the subject, adopted its opinion on 7 October 1999. The rapporteur was Mr Byrne.

At its 367th plenary session (meeting of 21 October 1999) the Economic and Social Committee adopted the following opinion by 89 votes to five, with five abstentions.

1. Introduction

1.1. Pension benefits are a key component of Member States' welfare protection systems. Expenditure by state pension schemes account for nearly half of all welfare spending, currently ranging between 9 % and 15 % of GDP and likely to rise quite steeply due to demographic factors.

1.2. Retirement schemes are based on a combination of 3 pillars:

- the first pillar consisting of state social security schemes
- the second pillar consisting of occupational schemes, and
- the third pillar consisting of personal pension plans.

The second and third pillars are generally known as supplementary pension schemes.

1.2.1. While the extent of the reliance on each pillar is entirely a matter for Member States, the Commission wishes to

ensure that the barriers to the development of supplementary schemes are removed in line with Single Market requirements.

1.3. At present, the value of assets held by pillar 2 schemes amount to 23 % of EU GDP and those of pillar 3 to 35 %.

1.4. The Commission's Communication is a follow up to the consultations which took place on the Green Paper on Supplementary Pensions in the Single Market⁽¹⁾ issued in June 1997 on which the Committee's opinion was dated 10 December 1997⁽²⁾.

2. The Commission Communication

2.1. The Commission restates briefly the main points of the Green Paper and in particular the demographic pressures which suggest that the ratio of the number of persons of working age to pensioners will reduce from the present 4:1 to 2:1 by 2040 in an overall EU context⁽³⁾.

⁽¹⁾ COM(97) 283 of 10.6.1997.

⁽²⁾ OJ C 73, 9.3.1998, p. 114.

⁽³⁾ The Committee is currently preparing an opinion on the 'Demographic Situation and Trends in the EU'.

2.2. The Communication concentrates on supplementary schemes, i.e. pillars 2 & 3, in relation to three specific areas on which there was broad agreement during the consultation process:

2.2.1. Chapter 2: Prudential rules for pension funds — such funds are the only major financial institutions not covered by EU legislation guaranteeing the application to them of Single Market freedoms. This is in part because such schemes have developed under national regulation, but the need for an EU initiative is particularly relevant in the context of the completion of the Single Market. Any proposal would aim to guarantee the best possible protection of fund members' rights — requiring development of an appropriate prudential framework as was done for the banking and insurance sectors. It should also allow for the mutual recognition of existing supervisory systems (which is a *sine qua non* for cross-border membership) and prevent the adoption of investment rules that are over-restrictive and incompatible with the use of the Euro.

2.2.2. Chapter 3: The removal of obstacles to labour mobility in the Union — while there are EU rules on social security pensions for migrant workers, those covering supplementary pension schemes are extremely limited. Hence the Communication foresees consultations on the acquisition of rights favourable to freedom of movement, convergence of national rules on the transfer of rights, and conditions to be met if funds are to manage plans in various Member States. The Communication proposes the establishment of a 'Pensions Forum' to identify a consensus on these issues.

2.2.3. Chapter 4: Co-ordination of Member States' tax systems — The Communication proposes abolition of tax discrimination against products offered by pension funds and insurance companies established in Member States other than that in which the fund member or potential customer resides. It suggests a first move in the form of legislation covering the tax treatment of cross-border contributions paid by migrant workers to occupational pension schemes.

3. General Comments

3.1. Although the Commission Communication covers supplementary pensions only the Committee believes it is important to repeat its earlier comments on state pensions (Pillar 1)⁽¹⁾.

3.1.1. The Green Paper pointed out that state pensions currently account for 88 % of pension payments across the EU and will continue to provide the bulk of pension payments.

3.1.2. The Committee has already recommended that, given the importance of Pillar 1 schemes as outlined above, Member States should seek ways to improve the sustainability of these schemes.

3.1.3. The Committee has noted that any switch, however gradual from pay-as-you-go schemes will involve more resources being devoted to pension provision. Care should be exercised therefore to ensure that any initiatives under Pillar 2 and 3 can be sustained without undermining acquired pension rights under Pillar 1 commitments.

3.2. The Committee welcomes the Commission's action in bringing forward this communication to deal with three important areas in relation to supplementary pensions highlighted in two recent Committee opinions⁽²⁾.

3.3. The Committee has also expressed its support for a 'level playing field' between pension schemes and pension arrangements secured under a life insurance contract although it pointed out the fundamental difference between the two. The lack of a Community regulatory framework for pension funds may actually impede the proper development of such schemes, in addition to the potential risks to beneficiaries. The Committee has therefore previously stressed the need to provide a legally secure framework for all supplementary pension schemes⁽²⁾.

3.4. The Committee welcomes the comments of the Commission on the possible ways in which equality of treatment in investment rules between pension funds and life assurance arrangements might be achieved. Because of the specific characteristics and the different forms of occupational pension provision in Member States the Committee has already recommended that separate prudential rules should apply subject to the nature of the underlying pension product. In order to ensure that insurance companies do not suffer any distortion of competition in relation to their pension investment, Member States that rely on high and strict quantitative restrictions for certain categories of assets covering technical provisions (e.g. shares) could contemplate reducing these thresholds for the occupational pension business of insurance companies without necessarily increasing risk.

3.5. The Committee supports the concept of mutual recognition of existing supervisory systems as the best way forward, and one which it hopes will enable speedy progress to be made. This approach should also ensure that well established systems of national control, which recognise the nature and particular requirements of different national pension systems, will not be subject to unnecessary change.

3.6. The Committee notes in particular the significant administrative and other costs to multinational employers operating through the EU, of operating many and diverse

⁽¹⁾ OJ C 73, 9.3.1998, p. 114.

⁽²⁾ OJ C 73, 9.3.1998, p. 114 and OJ C 157, 25.5.1998, p. 26.

pension systems subject to equally diverse regulations. The Committee hopes that as soon as possible, the Commission will bring forward proposals to facilitate EU-wide occupational pension schemes (under pillar 2) as a logical extension of the Single Market, particularly with the introduction of the Single Currency. In the interim, the Committee would especially support some early moves to a system of mutual recognition to facilitate such employers provided the result would not lead to any diminution of the quality of pension rights or regulatory protection.

3.7. The Committee agrees that the potential economic benefits for the EU from pension fund investments are considerable, as it mentioned in its earlier opinions⁽¹⁾. It agrees, however, that this has to be viewed as a secondary effect and not the prime purpose of such investment.

4. Detailed comments

4.1. Chapter 2: Prudential rules for pension funds compatible with the single market and the Euro

4.1.1. The approach in this chapter is in line with the Green Paper, for which there was broad support from most commentators including the Committee⁽²⁾.

4.1.2. The Committee is pleased to note that its support for a broad directive is being followed. This should include a minimum of common rules for supplementary pension schemes to guarantee the best possible protection of fund members' rights while also facilitating fair competition for the provision of services by financial operators.

4.1.3. The Committee agrees with the basic prudential requirements listed by the Commission subject to the addition of an additional inset point: 'the appointment of an independent actuary by each pension scheme'. In addition, the Committee would emphasise that not only must the assets of pension funds be kept entirely separate from those of the sponsoring employer, but they should be outside the employer's control. Instead they should be vested in an independent body such as a board of trustees and as an additional safeguard, members of the supplementary scheme should have the right to nominate up to 50 % of the board members.

4.1.4. The Committee believes that a flexible approach to investment rules is the one most likely to maximise the benefits for members, and recommends there should be no requirements to invest a minimum percentage in defined categories of assets nor should currency matching requirements go beyond what is prudently justified. There should be an obligation not to invest more than 5 % of the fund in the sponsoring company and to maintain a well balanced and diversified investment portfolio. The Committee would stress,

however, that the prudence principle must be maintained and that investment freedom must not be at the expense of adequate risk control.

4.1.5. The Committee agrees that a last resort 'guarantee' which would operate in the event of a pension fund not being able to meet its liabilities would be an important safeguard provided that it did not result in the dilution of the prudential investment obligation. Several possibilities exist such as the UK compensation scheme and the German mandatory insolvency insurance scheme for pension fund reserves created by employers. The Committee believes that the critical issue here is to have effective arrangements in place if a genuine Single Market with cross-border membership is to be achieved. Therefore it may be necessary to develop some common minimum standards.

4.2. Chapter 3: Facilitating the free movement of workers

4.2.1. The Commission points out that the EU already has effective rules for pillar 1 schemes for migrant workers. The limited scope of such rules for supplementary schemes constitutes a real barrier to free movement within the EU for those citizens covered by such schemes.

4.2.2. The Committee welcomes the Commission's proposal to eliminate national obstacles which impede workers from exercising the fundamental freedoms guaranteed by the Treaty.

4.2.3. The Committee accepts that the most practical way forward is to follow the precedent for statutory schemes under regulation (EEC) No 1408/71⁽³⁾ — an approach based on co-ordination rather than harmonisation of national schemes.

4.2.4. The Commission envisages that elimination of the barriers will be progressive and points to the step already taken in Directive 98/49/EC⁽⁴⁾ concerning posted workers. The Committee expressed its support for the proposal for this Directive in its opinion dated 25 March 1998⁽⁵⁾, while urging the Commission to continue its work in this field.

4.2.5. If the category of worker covered by Directive 98/49/EC is extended, the Committee considers it would be appropriate to maintain the requirement that such a worker could not at the same time be covered by the host country social security system and remain a member of the home country supplementary scheme, or vice versa.

⁽¹⁾ OJ C 73, 9.3.1998, p. 114 and OJ C 157, 25.5.1998, p. 26.

⁽²⁾ OJ C 73, 9.3.1998, p. 114.

⁽³⁾ Regulation (EEC) No 1408/71 of 14.6.1971 on the application of social security schemes to employed persons and their families moving within the Community, OJ L 149, 5.7.1971, p. 2 (English special edition: Series 171(II) p. 416).

⁽⁴⁾ Council Directive 98/49/EC of 29.6.1998 on safeguarding the supplementary pension rights of employed and self-employed persons moving within the Community, OJ L 209, 25.7.1998, p. 46.

⁽⁵⁾ OJ C 157/26 of 25.5.1998.

4.2.6. While the proposed arrangements are likely to deal with the vast bulk of mobile workers, there is a small but possibly growing body of such workers who are highly mobile and who have in practice no country of domicile to which eventual return can be presumed. Consideration should be given as to whether some special pan-European arrangements could be made for such people.

4.2.7. In its previous opinions, the Committee highlighted three areas in particular where progress needed to be made:

- a) qualifying conditions for acquiring rights — in particular the long period of years necessary in some Member States;
- b) difficulties with transferability of vested pension rights from one Member State to another;
- c) the position of a worker temporarily employed in another Member State other than on a posted basis,

and it therefore welcomes the proposals outlined in the Communication for dealing with these. In addition the Committee would like to remind the Commission of two further points from its earlier opinions on the subject:

- the inequality of treatment between members of occupational schemes and individuals with personal schemes;
- the possibility of devising a model pan-European company occupational pension scheme.

4.2.8. The Committee particularly welcomes the recognition that long vesting periods are a potential source of indirect discrimination affecting female workers, since they are less likely to be able to achieve the same length of continuous service than men.

4.2.9. The Committee accepts as a practical reality the difficulties outlined by the Commission in relation to the transferability of pension rights to or from book reserve schemes. It believes, however, that care should be taken to ensure that employing companies opting for this approach do not secure any unfair advantage over their competitors. In particular, a mandatory system of preservation and revaluation of pension rights between leaving the employment and the pension coming into payment may be an effective alternative safeguard.

4.2.10. The High Level Panel on Free Movement has suggested the idea of a Pensions Forum to consider how cross-border labour mobility relating to supplementary pensions can be addressed. In its opinion on the Green Paper⁽¹⁾ the Committee expressed some hesitancy about the creation of yet another body, but the Committee notes the support for this proposal coming from the social partners. While it appears that the Forum will primarily address issues related to

Supplementary Pensions, the Committee suggests that any recommendations should be co-ordinated with the rules for Pillar 1 schemes. The Committee would be happy to participate in the Forum.

4.3. *Chapter 4: Towards a better co-ordination of national tax systems*

4.3.1. Because of the diversity and complexity of national tax systems, the Commission believes that the Taxation Policy Group is the most suitable forum in which to formulate an appropriate legislative initiative. To this end it has been decided to create a technical sub-group to assist the Taxation Policy Group.

4.3.2. The Committee recognises the complexity of the issues to be faced and the difficulty of reconciling Member States' conflicting approaches to this issue. Nevertheless, the problems faced by migrant workers are real and urgent; without some form of tax co-ordination the existing barriers to mobility will in practice remain, notwithstanding Directive 98/49/CE and any subsequent amendments to that instrument. The Committee hopes, therefore, that the ambition to have a legislative initiative on the first aspects formulated by 1999 or 2000 is not over optimistic.

4.3.3. The Committee notes that the underlying approach to be adopted is founded on three principles:

- no harmonisation i.e. co-ordination is planned instead;
- no discrimination i.e. free movement of workers cannot be unduly hampered by overly restrictive tax treatment of cross-border transactions;
- no revenue shortfall i.e. Member States' tax revenues should be safeguarded.

4.3.4. The Committee understands the pragmatism which underlies this approach, but is concerned that a 'nobody loses anything' basis may fatally impede progress.

4.3.5. The Committee notes the influential role of the European Court of Justice in upholding Treaty rights of citizens in relation to both pensions and life assurance. It hopes the political system will prove similarly responsive.

4.3.6. With specific reference to the arguments set out in the Communication regarding the alternative options of taxing pension contributions (the TEE system) or taxing pensions as they are paid (the EET system), the Committee supports the option of taxing pensions as they are paid.

(1) OJ C 73, 9.3.1998, p. 114.

5. Conclusions

5.1. The Committee welcomes the fact that the Commission has followed up quite quickly on the Green Paper discussions, and is generally supportive of the Communication's content.

5.2. The Committee believes that because of its representational role it is well placed to assist the Commission on this issue. It therefore expresses its readiness to participate fully in any further consultation on this topic.

5.3. The Committee hopes that the incoming Commission will pick up rapidly the framework now set out in the Communication and that there will be no loss of momentum.

5.4. The Committee believes that the aim of pensions co-ordination and freedoms is fully in line with the expectations of European citizens in relation to the Single Market.

5.5. The Committee supports the view that a flexible approach should be taken to investment rules provided that these are counterbalanced by effective prudential rules so as to

control risk, and that regular and independent actuarial assessments of liabilities are carried out.

5.6. The Committee also acknowledges the additional confidence that a guarantee system would provide for pension scheme members, and urges the Commission and the Member States to explore how this may be achieved.

5.7. The Committee supports the proposals to set up the Pensions Forum to examine barriers to the free movement of workers and the technical sub-group to assist the Taxation Policy Group. This seems the most practical way forward for dealing with the complex issues involved.

5.8. The Committee suggests that if supplementary pensions increase as a percentage of retirement income at Member State level, it will be increasingly important to provide a secure environment for efficient operation of supplementary funded schemes.

5.9. Finally, while fully supportive of the initiatives in relation to Supplementary Pensions the Committee requests that attention continues to be focused on the need to improve the sustainability of Pillar 1 schemes.

Brussels, 21 October 1999.

The President
of the Economic and Social Committee
Beatrice RANGONI MACHIAVELLI

Opinion of the Economic and Social Committee on 'Sustainable urban development in the European Union: a framework for action'

(1999/C 368/19)

On 25 March 1999, the Economic and Social Committee decided, under Rule 23(3) of its Rules of Procedure, to draw up an opinion on 'Sustainable urban development in the European Union: a framework for action.'

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 29 September 1999. The rapporteur was Mr Vinay.

At its 367th plenary session (meeting of 21 October 1999), the Economic and Social Committee adopted the following opinion by 87 votes in favour with 1 abstention.

1. Introduction

1.1. The Communication from the Commission on Sustainable urban development in the European Union: a framework for action comes in the wake of an intensive debate over recent years on the increasingly complex and important urban issues arising within the EU. The debate has been triggered by the many initiatives launched by various official bodies and further stimulated by the appearance of a number of key points closely tied in with the subject.

1.2. An initial and significant line of thought on the question of a European urban policy emerged in the Commission's 1990 Green Paper on the urban environment, while the expert group on the urban environment issued its Report on European sustainable cities in 1996. For its part, the Economic and Social Committee tackled the issue both under its opinion on *Europa 2000 +* in 1995⁽¹⁾, and with a dedicated opinion in 1996⁽²⁾.

1.2.1. In the same year the Commission brought the urban issue to the direct attention of all the institutions with its Communication 'Towards an urban agenda in the European Union', which was received with great interest. The European Parliament⁽³⁾, the Economic and Social Committee⁽⁴⁾ and the Committee of the Regions welcomed the communication, calling on the Commission to develop its initiative further.

1.3. The arguments of those advocating a European dimension for urban policy were from the outset underpinned by

their views on the economic, social, political and cultural role which cities — historically, the basic building-blocks of the most urbanised continent in the world — continue to play.

1.3.1. Further developments, both socio-economic and institutional, have added to these reasons. Firstly, all the aspects and effects of economic and social trends, from economic growth to the growth of unemployment, the increase in the quality of life to the increase in social exclusion, are concentrated — to the highest degree and all at the same time — in cities. Secondly, all EU policy initiatives have the greatest impact, in terms of either their direct effects or the way they are perceived and judged by the European public, in these same urban areas.

1.4. Lastly, the challenge of sustainable development arises and must be taken up in cities, and must be tackled from both the environmental and social points of view. This means that as a result of both the inclusion of these matters in the Amsterdam Treaty and the EU's environmental commitments towards the United Nations under the Kyoto Convention, consistent lines of action should be devised, necessarily linked to a European urban policy framework.

2. The key elements of the Commission proposals

2.1. The Commission emphasises that the development of integrated urban management strategies is essential in order to cope with clearly complex and inevitably interconnected problems and to maximise urban potential. These aims could be jeopardised by the continuation of traditional sectoral strategies and by excessive dispersal of powers and responsibilities among the various decision-making and administrative levels.

2.1.1. The essential precondition for integrated action is to identify priority objectives. The Commission's proposal outlines four distinct but interdependent areas, and argues that each of the 24 proposed actions, divided into groups according

(1) Opinion on *Europa 2000+* — Cooperation for European territorial development (additional opinion), OJ C 133, 31.5.1995, p. 2, point 2.6.

(2) Opinion on the role of the European Union in urban matters, OJ C 30, 30.1.1997.

(3) Resolution on the Commission communication 'Towards an urban agenda in the European Union' (COM(97) 197 — C4-235/97) A4-172/98.

(4) Opinion on the Commission communication 'Towards an urban agenda in the European Union', OJ C 95, 30.3.1998.

to objective, may — and indeed, as part of an overall consistent approach, must — have a more or less immediate impact on the others. In one sense, listing the objectives under headings does also put the problems — all of them of considerable importance — covered by the framework for action into a kind of order.

2.2. The first heading is strengthening economic prosperity and employment in towns and cities. As is pointed out above, the majority of EU citizens live in urban areas. It follows that many of the initiatives under the employment guidelines focus primarily on economic development in towns and cities.

2.2.1. Particular emphasis is placed on the option of introducing explicit reference to the urban dimension into Structural Fund programming. This is, in part, on account of the successful results with the Community initiative Urban. It is considered that the positive effects of this decision will include a quantitatively and qualitatively important impact on preparing and implementing integrated urban development actions, as well as improved coordination with Community action in the context of the trans-European networks. The development potential of many urban areas is prejudiced by their marginal position vis-à-vis the road and transport infrastructure system.

2.3. The second objective, promoting equality, social inclusion and regeneration in urban areas, is explicitly tied in with efforts to strengthen Community policies to combat exclusion and discrimination, as well as security aspects, on the basis of the Amsterdam Treaty. These issues, which could be defined as relating to 'social sustainability' are brought into sharpest focus in urban areas. This means that the effectiveness of initiatives to counter them can be monitored all the faster and more clearly. Citing the new Objective 2, the Commission also mentions criteria to identify 'urban areas in difficulty'.

2.4. The third objective is the most concerned with questions which have now come to the forefront worldwide: environmental and ecosystem protection. Protecting and improving the urban environment: towards local and global sustainability is crucial, not so much to the economic future as to the actual survival of towns and of the entire planet. Activities, patterns of behaviour and situations having a powerful impact on air and water quality and on natural ecological balances are clearly concentrated in urban areas. It is therefore also obvious that it is here that all possible initiatives to minimise such effects — which will have enormous implications for future generations — must be put into action.

2.4.1. The actions proposed range from enhanced urban-oriented environmental legislation, through specific measures concerning waste disposal, changes in transport patterns and

in the environmental impact of the means used, to introducing an eco-label and eco-management label for cities and towns.

2.5. The last objective sets out to contribute to good urban governance and local empowerment. Better vertical integration of different levels of government and better horizontal integration within and between various organisations, in addition to involvement of citizens and stakeholders in urban policies is seen as crucial. EU action is not intended in any way to infringe upon the principle of subsidiarity, but aims to help improve the links between the different levels and encourage the use of partnerships to deal with urban problems.

2.5.1. One action is directed towards awareness-raising, exchange of experience and capacity building for sustainable urban development, to be achieved by using and developing linked networks. Further actions aim to support innovative strategies, security and crime prevention and improved comparative information on EU urban conditions.

3. General comments

3.1. The Committee welcomes the Commission's communication, particularly the way the framework for action revolves around four objectives which crystallise responses to the challenges immediately facing all urban structures in the EU, albeit to different degrees. They include employment, integration and social cohesion, the environment and sustainable development, and efficient and participatory management.

3.1.1. An especially positive aspect is that determined steps are taken to define urban policy guidelines, demonstrated by the clear awareness that Union policy initiatives must involve a considered and careful assessment of the situation which will be created by these guidelines in the urban territorial setting, which represents the basic fabric of European socio-economic organisation.

3.1.2. The most prominent feature of the framework for action is that it casts an integrated urban policy approach in practical terms, underpinned by identifying priority objectives and pursued by means of a range of interventions and instruments. These include the Structural Funds and can, if coordinated, be more broadly effective.

3.2. The Committee does however feel it should contribute to the Commission proposal with some comments on the document's general approach.

3.2.1. The first and most immediate comment is that in drawing up the proposal, the Commission has had to remain within the bounds of what is politically and legally realistic. The document therefore focuses exclusively on the present aspects and issues of the operational field represented by urban centres. Although the appended document on 'Challenges for European towns and cities' seeks to make future projections, it labours under the same restriction.

3.2.2. Towns and cities, however, are in some ways comparable to living organisms, made up of all those who live and work in them and subject to substantial — sometimes radical — change. What effects will the marked, and increasing, ageing of their populations have on the future of many major European cities? What influence will the increasing number of singles and lone parent families have on the demand for all kinds of services? Has the process of deindustrialisation run its course, or is it set to continue, and if so how far? Will teleworking, with all its implications for demand for mobility, become commonplace or will it remain at a minimal level? The document gives little or no room to these questions, which are far from exhaustive.

3.2.3. The actions proposed by the Commission refer more than once to the importance of promoting and maintaining a balanced and polycentric urban system. This view, however commendable, cannot be pursued through urban policies alone. The vertical and horizontal integration the Commission aims to encourage must be accompanied by 'spatial' integration between urban centres, smaller towns and rural areas within the same urban or geographical region. However, the EU does not have the machinery to pursue this line of thought. The European Spatial Development Perspective (ESDP), while remaining within the limits of intergovernmental cooperation, currently represents the only framework within which the desired outcome can be sought.

3.3. It is emphasised at several points that one of the essential elements in successfully tackling the employment problem is coordination of Member State investment policies. From this point of view, integrated action as proposed by the document is positive, but the jobs potential of the various initiatives should be made clearer.

3.3.1. Policies for social integration are becoming increasingly necessary on account of the growth of pockets of exclusion. In the overall urban context, however, social polarisation is occurring at an earlier stage, with the intermediate layers of society shrinking in size and having an ever more precarious status. These factors should also be taken into account when tackling urban employment and economic issues.

3.3.2. It should be remembered that long-term unemployment is a powerful factor perpetuating the problems of very

run-down urban areas with high levels of social marginalisation. One action to combat social exclusion focuses on 'second-chance schools', but focus on this kind of continuous training, which can play an important part in allowing people to return to employment — or even better, not to lose it — is lacking.

3.3.3. The Commission dedicates a specific initiative to urban crime prevention. It is important to recognise that security has become a major concern in the minds of people living in large and small towns. Pilot projects are doubtless useful, but the ever-closer link between petty and organised crime demands that local initiatives be tied in with coordinated strategies. With the entry into force of the police and judicial cooperation title of the Treaty of Amsterdam, those strategies should from now on be coordinated to much greater effect.

3.4. Special attention should be paid to the question of immigration, which is an issue of prime importance in European urban centres. Firstly, it augments population growth and often levels of unemployment and exclusion. Secondly, it raises the question of setting up appropriate infrastructures, such as places of worship, and how to devise spatial planning policies which prevent the creation or consolidation of ethnic enclaves in the urban fabric.

3.4.1. This provides an immediate and practical opportunity to check the reality of the Amsterdam Treaty's vigorous condemnation of any form of discrimination.

3.4.2. Action directed towards 'urban areas in difficulty' in terms of socio-economic marginalisation or serious environmental decline should clearly be granted priority status in urban renewal policies, but schemes for areas suffering urban exclusion, such as an outdated buildings stock of little architectural merit or infrastructure which is no longer efficient or adequate, should also be taken into consideration. The Committee⁽¹⁾ has already expressed the view that the restoration and modernisation of old buildings is very much in line with the concept of a sustainable building sector; it stems urban sprawl, stimulates employment and also enhances a town's sense of identity.

3.4.3. Conservation of the cultural heritage should seek to do more than make urban centres more attractive, as indicated in the Commission document. As well as making a major contribution to historical and cultural identity, this heritage, whatever its size, offers considerable potential for generating wealth and jobs. What is lacking is a specific indication of actions designed to bring this about.

⁽¹⁾ Opinion on 'Sustainable development in building and housing in Europe', OJ C 355, 21.11.1997.

3.5. Economic and environmental sustainability is now an urgent problem of global proportions, and the most telling evidence is to be found in towns and cities. Sustainability is tightly bound up both with urban planning: mobility, transport and waste management, and with quality of life: noise and atmospheric pollution. The Committee therefore attaches particular importance to sustainable urban development, particularly in its environmental aspect, and has discussed the subject on several occasions⁽¹⁾. The Commission proposal is to be welcomed, but more must be done to examine and highlight the potential benefits to employment of proactive environment policies⁽²⁾.

3.5.1. Nevertheless, it remains important, particularly with regard to the environment, that economic sectors be made aware of their responsibility⁽³⁾, and that citizens be well informed and supportive. This can be accelerated and supplemented by their participation when decisions are taken.

3.6. There are essentially two sides to participation in the context of urban policies. Understood in terms of a partnership, it is a means of harnessing the contributions of a range of institutions, management and labour, and public, private and other economic operators to projects or actions. It is therefore valuable from either a narrowly organisational point of view, or in economic and social terms: it boosts the available resources and stimulates the flow of suggestions.

3.6.1. Participation by the general public as such is highly important for society and also offers the extra benefit of strengthening the feeling of 'community', which is increasingly fragmented in present day urban areas.

3.6.2. The Committee notes that the proposal ought to place greater emphasis on participation and partnership, which are more evident in declarations of intent than in the specific action in this area. The role of services and SMEs in the partnership is not adequately highlighted. Furthermore, no attention is given to the way in which a lack of administrative transparency distances the public and fans mistrust.

3.7. Issues specifically relating to urban policy should be discussed in greater depth with the countries applying for EU membership, as most of them are experiencing serious social,

economic, infrastructural and environmental problems. The CEEC and the developing countries of the Mediterranean region must be brought into the debate on sustainability and urban development.

4. The Structural Funds and Urban

4.1. The Commission proposal mentions the Structural Funds reform (2000-2006), which specifies urban zones in difficulty as an area for intervention. The Committee has long expressed the view that use of the Funds in urban policy is crucial to dealing with social and economic crises. It therefore fully agrees that this need exists in the context of a properly integrated policy of urban intervention, geared towards sustainable development. However, in the same opinion, the Committee also called for a greater awareness of the weight and political role of cities — something which does not yet appear to have come about⁽⁴⁾.

4.1.1. In its opinion on the new Structural Funds regulation, and more specifically on how it tied in with the problems of urban areas, the Committee welcomed the draft regulation's strengthening of partnership but drew attention to the need for the principle of partnership to be properly observed at all levels of Structural Fund actions, seeing this as a key element in ensuring that the 'bottom-up' approach central to the success of the actions undertaken is retained⁽⁵⁾. The European Parliament has also spoken out in favour of greater emphasis on partnership in connection with reform of the Structural Funds⁽⁶⁾.

4.1.2. These observations also remain highly pertinent to the present proposal, with the added comment that while it is important for urban issues to form an integral part of the Funds' reform, it is essential for actions for towns and cities to be built into other programmes and, most of all, integrated into the employment question and related policies.

4.2. The Committee⁽⁴⁾ is particularly pleased that the Urban project was not be shelved, given both its political value and the integrated view it took of the problems of urban areas in difficulty, and therefore supports the decision of the EU Council to continue the Urban initiative in parallel with Interreg, Equal and Leader.

(1) Opinion on the 'Proposal for a Council Directive relating to limit values for sulphur dioxide, oxides of nitrogen, particulate matter and lead in ambient air' OJ C 214, 10.7.1998; Opinion on the 'Proposal for a Council Directive relating to limit values for benzene and carbon monoxide in ambient air' OJ C 235, 27.7.1998.

(2) Cf. Opinion on the 'Communication from the Commission on environment and employment' (building a sustainable Europe), OJ C 235, 27.7.1998.

(3) Cf. Opinion on the 'Proposal for a Council Regulation (EC) allowing voluntary participation by organisations in a Community eco-management and audit scheme', OJ C 209, 22.7.1999.

(4) Opinion on the Commission communication 'Towards an urban agenda in the European Union', OJ C 95, 30.3.1998.

(5) Opinion on the Proposal for a Council Regulation (EC) laying down general provisions on the Structural Funds, OJ C 407, 28.12.1998.

(6) Resolution on the proposal for a Council Regulation laying down general provisions on the Structural Funds [COM(1998) 131 — C4-0285/98 — 98/0090 (AVC)].

4.2.1. While awaiting the new regulation, it is hoped that the potential which Urban has succeeded in developing will not be weakened, either operationally or financially.

4.2.2. It is precisely because of this wealth of experience with Urban that the importance of partnership in the use of the Structural Funds must be underlined: Urban has involved not only local authorities but also the social partners, associations and individual citizens in the way each of the initiatives is organised and their aims.

4.3. In connection with the identification of areas for Structural Funds intervention, boosting Eurostat seems increasingly advisable. Reliable figures are currently available for unemployment and specific industrial situations in the various national territories, but not broken down by service. Neither are there proper statistics for urban areas: at most, some incomplete figures have been compiled on a regional basis. Eurostat data should be supplemented with more detailed territorial breakdowns and definitions, partly in order to assess the possibility of broadening the range of statistics available for judging the admissibility of interventions.

5. Urban policy and territorial integration

5.1. The Committee has in the past strongly argued that EU-level urban policy should be firmly based on an overall vision of the European urban system, a wider scheme to bring development and balance, a strategy for combining objectives of economic excellence with objectives of social equity, a continuing focus on social cohesion in cities and regions, an ability to combine competition and cooperation, and a particular awareness of the need to link the outlook for development — in which cities and towns are key players — with the quality and style of life of European citizens⁽¹⁾.

5.2. Putting aside the positive actions it identifies, the Commission proposal nevertheless lacks a forward view beyond the immediate future. However, this derives from an obvious problem: no long-term urban policy can be devised without the framework of an overall territorial policy, which in turn must be more than just the sum of the policies of all the individual EU countries.

5.2.1. The ESDP was created with the specific aim of drawing up such an overall policy. It is significant that it has held two seminars (Lille and Salamanca) and a concluding discussion, at the Brussels Forum of 2 and 3 February 1999, on the European urban system, with special attention focusing on polycentric urban development and renewed partnership

between town and country. The final ESDP text, to which these discussions contributed, was adopted at the informal Council of Ministers meeting in Potsdam in May 1999 and the related action plan was approved by the following Council meeting recently held in Tampere.

5.2.2. In an earlier opinion⁽²⁾, the Committee welcomed the initiative, but drew attention to a number of limitations upon the organisation and efficacy of the ESDP, which remains an initiative at intergovernmental level and as such, is not easy to tie in effectively with the Community level.

5.2.3. An awareness of this need is however apparent in the ESDP action plan approved in Tampere, the overall structure of which is geared to stimulating and promoting closer links between land-use policies as a whole and approaches to the development of urban, regional and rural systems.

5.3. It is clear that many of the problems involved in urban sustainability arise — and must be resolved — within a broader scope than that of the narrow urban area. It is equally clear that in terms of immediate functions and spatial context, towns and cities are bound up with territorial units much larger than themselves.

5.3.1. In terms of strategic functionality, from the socio-economic and, in particular, the ecologically-friendly development and global competition points of view, European towns and cities are and must be seen as a network which needs an overall political vision, cooperation, information and balanced, harmonious development.

6. Comments, suggestions and thoughts on the future

6.1. The Commission's proposal brings together a number of hopes, proposals and initiatives of past years; but, first and foremost, it marks the start of a new process requiring resources and regular checks to ensure it achieves its full potential.

6.1.1. One of the top priorities is the establishment of uniform, inter-comparable indicators. This objective is among the specific initiatives written into the 5th framework programme for RTD. The aim is to arrive at common assessment criteria, based on a wide range of definite, agreed, indicators, to enable both comprehensive monitoring of individual urban conditions and a detailed evaluation of the results of action taken. The urban audit, a pilot project to compile and compare indicators, which currently covers 58 European cities, represents a valuable experiment in this area.

⁽¹⁾ Opinion on the role of the European Union in urban matters, OJ C 30, 30.1.1997.

⁽²⁾ Opinion on the European Spatial Development Perspective (ESDP), in OJ C 407, 28.12.1998.

6.1.2. The Committee welcomes the Commission's bid to create a positive information network for good practice and current innovations in the area of urban policies in the EU. It would also be useful, however, to have access to analytical information on aspects that under certain circumstances can reduce the effectiveness or positive impact of the action engendered by the action plan.

6.1.3. This a matter for consideration by the expert group, in its periodical evaluation of the implementation of the framework for action. The Committee ought to be represented on this group, which is to be set up by the Commission. The group's analyses and proposals could provide starting points for debate at the Urban Forum to be convened regularly by the Commission.

6.1.4. The decision to set up an interdepartmental group to conduct on-going assessments of the progress of the action plan and the impact of Community policies on urban life is extremely timely and in line with previous Committee recommendations. A specific effort must be made to monitor the results of the incorporation of urban policies into the Structural Funds.

6.1.5. The information network, the expert group's findings, the interdepartmental group's results and, lastly, the study to be included by the Commission in the three-yearly report on economic and social cohesion, must all pay particular attention to the coherent development of all four of the objectives set out in the framework for action.

6.2. It may well be that the implementation phase of the framework for action will unearth clear shortcomings or delays within the various institutional structures involved. The Commission openly recognises this risk. If this turns out to be the case, the Member States should be asked to adopt appropriate legislation to enable the strategy to be carried through with optimum results.

6.2.1. The Committee backs the decision to use taxation to support strategies for environmental sustainability and the reorganisation of demand for transport. It would however recall its earlier uncertainty⁽¹⁾ regarding the idea of pricing the use of town and city roads. A move of this kind, unless based on specific environmental quality-related criteria, would inevitably accentuate the very social and economic polarisation the framework for action is attempting to address.

6.2.1.1. In this regard, the Committee would emphasise the importance of advanced public transport policies as both a decisive element in environmental protection and a means of backing up social integration policies.

6.2.2. The EU, which was represented by the Commission and the Member States at 'Habitat II', has plainly demonstrated its awareness and concern for the global vision of sustainability. In the light of the framework for action, the exchange of information on research and innovation in an urban context and support for cooperation projects with third countries — especially developing countries — should therefore be stepped up, as part of the common drive to contain and reduce environmental damage and promote sustainable development.

6.3. The Commission's first evaluation of progress under the framework for action is scheduled for 2002. That could be the right time to set up a genuine action programme, based on the objectives already laid down.

6.3.1. A commonly quoted statistic in the field of urban policy is that 80 % of Europeans live in built-up areas, however, it is useful to contrast that figure with the fact that four-fifths of the area of the European Union is rural. Development, competitiveness, quality of life, service provision and a compatible balance in urban and rural areas can only be managed from within the context of global land-use management. The new Commission will inevitably have to look further into this issue.

6.3.2. It is to be hoped that by combining the intergovernmental meetings on ESDP, the experience gained from the framework for action, the findings arising from the establishment of indicators and the experience that can be drawn from Life, Interreg and Urban, it will be possible to produce a white paper to set out urban and land-use strategies tailored to the EU's future demographic, economic and social requirements.

6.3.3. World renowned urban planners and architects are predicting that the cities of the third millennium will sprawl and lack real centres. The theory is also that the world's future will be dictated by 30-40 bloated metropolises. To the European mind and culture, this scenario speaks more of a nightmare than something to look forward to, and it represents a further challenge to the European Union to come up with

⁽¹⁾ Opinion on the Communication from the Commission — Developing the Citizens' Network: Why good local and regional passenger transport is important, and how the European Commission is helping to bring it about, OJ C 138, 18.5.1999, p. 7.

an alternative, competitive form of government, which is compatible with urban and regional development, while

constantly concerned with the quality of life of all the Union's inhabitants. This sums up the challenges that lie ahead.

Brussels, 21 October 1999.

The President
of the Economic and Social Committee
Beatrice RANGONI MACHIAVELLI

Opinion of the Economic and Social Committee on 'Agri-environmental priorities for the multi-function agriculture of Agenda 2000'

(1999/C 368/20)

On 28 January 1999, the Economic and Social Committee, acting in accordance with Rule 23(3) of its Rules of Procedure, decided to draw up an opinion on 'Agri-environmental priorities for the multi-function agriculture of Agenda 2000'.

The Section for Agriculture, Rural Development and the Environment, which was responsible for preparing the Committee's work on the subject, adopted its opinion on 28 September 1999. The rapporteur was Mr Colombo.

At its 367th plenary session (meeting of 20 and 21 October 1999), the Economic and Social Committee adopted the following opinion by 93 votes to one, with four abstentions.

1. Introduction

1.1. On 24 and 25 March 1999, at its Berlin summit, the European Council launched what it described as an 'equitable and worthwhile reform of the Common Agriculture Policy. The content of this reform will ensure that agriculture is multifunctional, sustainable, competitive and spread throughout Europe, including regions with specific problems, that it is capable for maintaining the countryside, conserving nature and making a key contribution to the vitality of rural life, and that it responds to consumer concerns and demands as regards food quality and safety, environmental protection and the safeguarding of animal welfare'.⁽¹⁾

1.2. The reform is based, first and foremost, on Council regulation (EEC) No 2078/92⁽²⁾, which was adopted as an accompanying measure to promote the dissemination of environmentally compatible farming practices and to compensate farmers for environmental conservation work.

The regulation provides for the voluntary involvement of farmers by means of individual agreements offering financial incentives to meet specific technical and production-related requirements or develop certain natural resources within the farm. It has been the most important instrument to date in terms of integrating the environmental dimension into farming policies.

1.2.1. The most ground-breaking innovation introduced by the Agenda 2000 package and the new recently-adopted regulations concerns the establishment of a number of common rules for direct payments to farmers under CAP support schemes. The Member States are to adopt the environmental measures they deem to be appropriate, in accordance with specific farmland and production conditions. These measures may include aid in exchange for agri-environmental commitments or direct payments subject to fulfilment of compulsory general and specific environmental requirements. The Member States will have to decide on appropriate penalties reflecting the ecological consequences of failure to meet official uniform standards for good farming practice, defined nationally following consultation with professional farming organisations. They can reduce or even cancel support scheme payments if specific requirements are not met.

⁽¹⁾ Berlin European Council 24/25 March 1999, Presidency conclusions. DN: DOC/99/1 of 26.3.1999.

⁽²⁾ This subsequently became Regulation No. 1257/1999, in OJ L 160, 26.6.1999.

1.2.2. On this issue, the Committee refers to its opinion of 10 September 1998⁽¹⁾, and takes note of the series of decisions adopted on the subject, as well as the Commission Communication on 'Directions towards sustainable agriculture'⁽²⁾.

1.3. The Committee notes that in this respect, the reform is in line with its previous opinions, in particular its own-initiative opinion on the Contract between agriculture and society⁽³⁾, adopted by an overwhelming majority on 14 September 1994.

1.4. Inspired by the Granada document⁽⁴⁾ of November 1992, the Committee opinion highlighted the multiple functions performed by the Community's agriculture sector and named the key ingredients for a 'contract' between farmers, the rural world and society in the European Union.

1.5. The opinion reiterated the position taken by the Committee in September 1988 in its two opinions on the Commission communications The future of rural society and Environment and agriculture⁽⁵⁾; namely, that in the face of radical agricultural and social change in the EU's age-old rural settlements, farming must keep up its key role as the heartbeat of rural society, by satisfying basic public needs in terms of quantity and quality, and also by safeguarding nature and the environment.

1.6. The Committee was already arguing at that stage that farming/environment compatibility required effective guidelines for farm production and action to promote rural life, within a context of mutual understanding between farmers and the other sections of society, especially consumers.

1.7. This understanding between agriculture and society was to be grounded in a coherent rural development initiative, based on the multiple functions performed by the agriculture sector, and thus, in particular, its capacity to meet the public's productive, social and environmental requirements.

1.7.1. In essence, farmers have been asked to manage their land in a manner which as well as being efficient in production terms is also compatible with the conservation of rural and environmental values. New 'services' will be provided by a competitive and economically viable farming sector which is also ecologically sound, using and protecting natural resources and safeguarding the capacity for renewal and ecological stability.

1.7.1.1. This is the meaning of 'multi-function agriculture': an activity that goes far beyond food production pure and simple.

1.7.1.2. The concept of 'multi-function agriculture' is based on the statement made by the Luxembourg European Council on 12-13 December 1997, according to which:

'The Union is determined to continue developing the present European model of agriculture while seeking greater internal and external competitiveness. European agriculture must, as an economic sector, be versatile, sustainable, competitive and spread throughout European territory, including regions with specific problems. The process of reform begun in 1992 should be continued, deepened, adapted and completed, extending it to Mediterranean production. The reform should lead to economically sound, viable solutions which are socially acceptable and make it possible to ensure fair income, to strike a fair balance between production sectors, producers and regions and to avoid distortion of competition.'⁽⁶⁾

1.7.1.3. A distinction must, however, be drawn between multi-function farming and multiple jobbing. The second covers diversification to non-farm activities (crafts, business or employed work). In this case, arable and livestock farming are just part of the occupational definition. This takes account of the view that rural development should be underpinned by an increase in non-farm activities and services, which generates additional or alternative sources of income, and is capable of reversing the trend towards rural depopulation, revitalising the economy and making country life more attractive.

1.7.1.4. Therefore, multi-function farming⁽⁷⁾ requires new duties of farmers, in both traditional and innovative work, the all-round rationale being to develop the business, with due respect for any special tax, social security and pension arrangements laid down in national legislation.

⁽¹⁾ OJ C 407, 28.12.1998. Opinion on direct support schemes/Agenda 2000.

⁽²⁾ COM(1999) 22 final.

⁽³⁾ OJ C 393, 31.12.1994, p. 86.

⁽⁴⁾ The Granada Document contained the conclusions of the *Vith Camerino Symposium on Community Rural Law* held in Granada on 27/28.11.1992, led by specialists in rural and Community law and aimed at the European scientific community and the Community institutions. The full text is appended to the Committee Opinion on the contract between agriculture and society.

⁽⁵⁾ COM(88) 501 final of 28.7.1988 and COM(88) 338 final of 8.6.1988. Opinions: OJ C 298, 27.11.1989, pp. 32 and 40. (future of rural society) (environment and agriculture).

⁽⁶⁾ Luxembourg European Council — 12/13 December 1997 — Presidency Conclusions — DN: PRES 97/400 15.12.1997.

⁽⁷⁾ For a more detailed definition of the concept of multifunction farming see the opinion on 'A policy to consolidate the European agricultural model', Point 3.

1.8. In the Committee's opinion, for agri-environmental initiatives to succeed, a bond of solidarity must be forged between all sections of civil society in relation to agriculture, in contrast to traditional measures aimed solely at improving production structures and often seen as one more way of subsidising the primary sector at the tax payer's expense.

1.9. The Committee was therefore pleased to note that many of its views were shared; first, in the conclusions to the European conference on rural development held in Cork in November 1996, which identified sustainable rural development as an EU priority and cornerstone of all regional policy, in particular to stem the rural exodus and boost employment; and second, in the agriculture chapter of Agenda 2000⁽¹⁾, where, in setting out the European model for agriculture, the Commission recognised the major environmental role played by farming, by virtue of its having always been the most widespread form of land use.

1.9.1. While approving the approach taken by Agenda 2000, the Committee does not in any way wish to invalidate the general and sectoral critical assessment made in its various opinions on the agriculture chapter of Agenda 2000 and the individual proposals for COM reform contained in them⁽²⁾.

1.10. Under Agenda 2000, income support policies will be increasingly dependent on the services farmers can offer the community, and the sector's competitiveness will be yoked to production techniques that protect natural resources, reduce and where possible prevent pollution, and generate quality produce.

1.10.1. In other words, while the once predominant demand for increased food production is receding, new farm activity openings are emerging for the general purpose of serving the common good, by means of environmentally-sound methods and improvements in product quality and individuality.

1.10.2. More importantly, provision has been made for aid to be allocated in exchange for agri-environmental commit-

ments, marking a departure from the simple set-aside compensation system, towards incentives proportionate to the provision of practical land-conservation services.

1.10.3. The Committee would stress the need to prevent unfair distortions to competition rules, resulting from environmental obligations or draconian protection schemes, and limiting opportunities for normal profitable land-use. A series of good farming practice standards should be drawn up, listing the general and specific environmental conditions for direct payments required of farmers by the CAP reform.

1.10.4. In short, the CAP is evolving into a more refined policy aimed at the rural world as a whole — a world no longer to be considered as backward or less important, but in terms of the opportunities it provides to improve quality of life and use natural resources more sensibly and rationally.

1.11. In the light of the European Union's intention to use this approach more consistently and effectively than in the past to add value to farm work and activities that protect and steward the land, and to promote the wider dissemination of ecologically-sound production techniques, the present opinion is designed to pinpoint:

- the most pressing objectives for protecting rural areas, preventing harm to the environment and conserving natural resources, the upshot of which should be to secure economic activity and jobs, particularly in upland and other naturally disadvantaged areas, and thus give present and future generations a reason to stay on the land;
- priority measures for promoting high quality, traditional foods more effectively, to meet the standards which society demands of agriculture in terms of quality, safety, and environmental compatibility;
- the necessary incentives to sustain activities which protect the land and enhance the quality of European agriculture, coupling environmental protection with the need to bolster the efficiency of the Union's production system in the face of fiercer competition on the international markets.

⁽¹⁾ COM(97) 2000 final of 15.7.1997.

⁽²⁾ OJ C 73, 9.3.1998, p. 71. Opinion on the agricultural aspects of the Commission's Communication — Agenda 2000; OJ C 284, 14.9.1998, p. 55. Opinion on the reform of the COM — cereals/Agenda 2000; OJ C 407, 28.12.1998, p. 196. Opinion on the reform of the COM — beef/Agenda 2000; *Ibidem*, p. 203. Opinion on the reform of the COM — milk/Agenda 2000; *Ibidem*, p. 208. Opinion on direct support schemes/Agenda 2000; *Ibidem*, p. 210. Opinion on the reform of the EAGGF/Agenda 2000; *Ibidem*, p. 221. Opinion on the financing of the CAP/Agenda 2000.

2. The most pressing objectives for protecting rural areas, preventing harm to the environment and conserving natural resources

2.1. Preserving the land for farming

2.1.1. Against a backdrop of constant attacks on the countryside and regional identity, rural habitats are being invaded and compromised, with the danger that traditional river management and soil conservation systems will deteriorate.

2.1.2. The ongoing urban sprawl and siting of various types of development and their accompanying infrastructure in flourishing farming areas has contributed to the unravelling of the land-holding system and the urban conquest of the countryside, forcing the landscape through major change.

2.1.2.1. In the Committee's view, rural areas can no longer be treated as property reserves, but must become integral parts of a single land-use programme and influence the planning process at all levels. This means that the urban and construction planning permission authorities must remain faithful to the usual use and purpose of a given area.

2.1.3. The land degradation triggered by the closing down of numerous farms and the ensuing rural exodus from entire regions is just as grave a problem as pollution. The Committee, therefore, feels that it would be worthwhile promoting and providing appropriate support for a move towards 'sustainable agriculture' in predominantly family-run farms, as a means of actively managing rural areas. Such farms should secure a satisfactory level and quality of output, while keeping the right ecological balance, and would help to preserve natural resources as unique and irreplaceable public assets.

2.1.3.1. Young people must be encouraged in entrepreneurial endeavours, focusing especially on the establishment and expansion of production units, applying special tax and credit provisions. At national level, special incentives should be granted for the establishment of cooperatives to meet demand for environmental services and improve conditions for processing and marketing products.

2.2. Specific measures for disadvantaged and upland areas

2.2.1. In view of the structural and environmental disparities between farming regions and the need to link environmental protection with the revitalisation of rural economies, the Committee is particularly concerned about areas which are disadvantaged or where farming is barely productive as a result

of difficult physical conditions, and where there is very low population density or a trend towards depopulation (all common features of upland areas). In disadvantaged areas that are economically depressed in spite of having attractive scenery, state intervention to change social structures and redistribute income must focus on providing basic public services (schools, hospitals, transport) even when they are not strictly speaking economically viable, and on targeting investments and promoting the development of production initiatives that help to safeguard the environment, as the gradual changes it is undergoing are causing disastrous landslides, floods and other natural disturbances.

2.2.2. The Committee believes that, within the broader context of social solidarity, public action should be stepped up to encourage development in disadvantaged areas which are losing population, starting by recognising the central role played by farming in optimising these areas simply by virtue of its interaction with natural resources. The aim should be to set up viable farm businesses, using productive capacity to the full and supporting farming families by giving proper recognition to traditional values, in order to serve the common interest by nurturing a truly people-friendly and people-centred environment.

2.2.3. With regard to upland farming, schemes for certifying and adding value to typical agri-forestry products should be encouraged.

2.3. Making nature parks and reserves into multi-purpose assets

2.3.1. There is a trend towards protecting areas of regional importance for the purposes of nature conservation and the preservation of rural cultural values.

2.3.2. Having examined the complex relationships that hold the balance between natural resources, the Committee maintains that conserving areas does not necessarily mean never using them, but rather that the right conditions must be found for sustainable coexistence.

2.3.2.1. On these lines, the Committee takes the view that nature reserves and parks should be multi-purpose. They should not be seen as out of bounds or no-go areas for development programmes, but as special places for conducting research and, wherever possible, piloting methods that bring human life into harmony with the environment.

2.3.3. The Committee highlights the particular way in which these areas can serve other interests besides nature conservation, such as the economic development of local communities, through the promotion of appropriate forms of tourism and traditional farming, forestry and pastoral activities using sustainable methods.

2.4. *Protecting biodiversity*

2.4.1. In the face of the gradual erosion of genetic resources, species and the ecosystem, caused by a reduction in natural capacity for genetic improvement and by environmental damage, the Committee feels that the key to safeguarding biodiversity is to protect ecosystems and natural habitats and to keep species in their natural environments.

2.4.2. However, apart from defending ecosystems and animal and plant species, protecting biodiversity means achieving the critical goal of sustainable development, in accordance with models and processes that, in particular, allow time for resources to regenerate.

2.4.3. The Committee would stress that farming occupies an especially important position in this context and can make a vital contribution on two fronts. Firstly, it can help restore order in land-use, by combating the various forms of environmental decay. Secondly, it can help to maintain habitats and the interaction between ecosystems, with a view to the sustainable use of resources and a form of development which does not threaten animal or plant life.

2.4.4. A support strategy which respects biodiversity could bring the farming sector additional investments, generated by greater economic opportunities which provide increased value added, a wider range of products and a broader supply of services designed to maximise the natural environment and increase public access for leisure activities.

2.5. *Recommended measures for rehabilitation and delivery of the full potential of development systems and regional services*

2.5.1. In the Committee's view, the top priority is to stem the rural exodus and improve quality of life by promoting jobs, particularly in regions with high unemployment (upland and other naturally disadvantaged areas). This should be done by:

- establishing or upgrading administrative service networks to the standard required to provide information on farming, tourism and the hospitality business;
- conducting land conservation work, paying special attention to forests and applying specific measures for preventing and fighting forest fires and for river management;
- launching credit policies and simplifying red tape for setting up agricultural businesses specialising in traditional, high-quality products that are linked to the local culture and customs and are based on local plant systems and the natural diversity of the area;

- developing renewable energy sources, by investing in wind, solar and biomass energy production technology;

- investing in transport services, using multi-modal systems;

- promoting arable and livestock farming methods that maintain biodiversity.

2.5.2. At all events, the Committee takes the view that rural development policy should uphold the principle of subsidiarity, promoting the cultural heritage and traditions of rural communities as well as regional diversity.

2.5.3. Rural development is governed by specific local socio-economic and physical conditions and can thus require widely differing approaches. The model used must therefore fit in with normal production in the area concerned, placing an emphasis on enhancing the quality and individuality of local products, and using techniques that do not threaten the environment or animal welfare.

3. **Priority measures for promoting high quality, speciality foods more effectively**

3.1. Growing demand for natural products, leading to market competition based on product diversification rather than reduced production costs, should certainly create a favourable climate for local speciality products.

3.1.1. These products are opening up new opportunities for farmers to restore a more direct relationship with consumers, responding to their preferences and needs and playing a greater role in guaranteeing product authenticity.

3.1.2. Protecting the health and safety of operators and the public should be one of the prime objectives of suppliers of technology to farms.

3.1.2.1. Health and hygiene standards must be applied to protect public health, while bearing in mind that farming practice does not have to be exactly the same as that of industry.

3.2. High-quality products can generate a number of knock-on effects:

- output maximisation ceases to be the sole objective as value added for the final consumer and improved product quality come into play;

- support is given to the development of local systems, optimising the human and natural resources available in a given area, as well as local communities' deep-rooted traditions and customs;
- the agri-foods sector becomes more balanced as a whole, through the development of local activities centring on market niches that attract more sophisticated consumers;
- regional skills and know-how are preserved, by integrating local craft activities into multi-function farming;
- the foods produced are often tastier than mass-produced products.

3.3. High-quality farm products must, therefore, be a priority, in view of their positive impact as regards:

- consumer health and safety, and application of environmental health standards;
- product description matching product on the shelf;
- guaranteed constancy in basic characteristics;
- production techniques;
- protection of the environment via a reduction in the use of fertilisers and pesticides and the introduction of integrated farming systems;
- complementary activities (tourism, craft, commerce, etc.) generated at local level;
- reference to the local area.

As tax payers and consumers, the general public will appreciate the tangible benefits which these efforts will bring in the form of a better and healthier life style and diet.

3.3.1. By guaranteeing a product's geographical origin for the purposes of consumer information, speciality products can be marketed as being unique in terms of production cycle and local conditions, and as providing the consumer with better value.

3.3.1.1. It must be made clear that when there is a strong link with an area, product labels can refer to geographical origin and to special cultivation and production methods without carrying Community certification (PDO, PGI⁽¹⁾).

⁽¹⁾ PDO: protected designation of origin; PGI: protected geographical indication.

3.3.1.2. The aim here is to develop the full potential of products from areas that outstretch the local or regional parameters generally used for the PDO or PGI, and that go beyond the concept of local specialities, by acknowledging their designation of origin or national trademark.

3.3.1.3. These products, destined for mass consumption via the major marketing channels, must however measure up to the quality implicit in their special characteristics, their geographical identity and the assurances given by the local agri-food sector.

3.3.1.4. The Committee believes that, in addition to keeping a major share of the value added within local communities, giving high-quality products a strong regional link also necessarily stimulates the development of associated economic sectors (tourism, arts and crafts), boosting local development through innovative and varied forms of investment (for quality, safety, and the environment).

3.4. *The Committee's recommendations for developing natural resource conservation and management opportunities in tandem with complementary production initiatives*

3.4.1. Against that background, producer organisations too are called upon to play a key role in promoting products, applying appropriate practices and techniques, establishing controls and maintaining standards, and raising awareness of the unique nature of the local product.

3.5. The Committee also maintains that local authorities can work with producer organisations to develop production activities that fit in with the objectives of protecting and managing natural resources; for instance:

- launching education (from primary school age) and training initiatives to revitalise local employment prospects;
- setting up support schemes tailored to local business and providing businesses with financial support;
- restoring local economic activity (traditional crafts and production techniques);
- tapping the potential for tourism by developing high quality local products linked to specific regional contexts;
- establishing marketing networks, outside the local production area, for speciality products, also using new technologies;

— pioneering employment policies to harness business services provided by farmers, for instance land rehabilitation and conservation.

4. Incentives needed to maintain land conservation work and boost production system efficiency

4.1. Redefining the technical objectives of the farm, switching the focus from quantity to quality, will involve acknowledging the range of goods and services that are linked to the specific features of arable and livestock farming, and forestry, especially where traditional forms of land use come into play.

4.2. The fact that farms are regionally widespread makes it essential to assess the vital contribution they make to safeguarding natural resources, and also to protecting and strengthening the social and commercial fabric of local economies.

4.3. Currently, the practical measures and financial backing directed at this aspect of farming are insufficient and ineffective.

4.3.1. An assessment has still to be made of the point at which environmental protection should cease to be a voluntary duty and become a paid service.

4.4. Only by recognising the multiple functions of agriculture will the relationship between the production process and the environment be definitively reversed. Meanwhile, natural resources must be treated as both environmental production factors and as public assets on which local well-being depends.

4.4.1. The result should be to promote a more balanced understanding of the boundaries governing the use of resources in production, while enhancing their productive capacity.

4.5. Effective state intervention is linked to the continuity of accompanying measures. Negative factors which have affected local application must be eliminated with a view to introducing environmentally sustainable practices and behaviour patterns. The new agricultural policy instruments must be implemented in their entirety, in order to develop new employment opportunities in rural areas.

4.5.1. Judging by experience so far, even if the current accompanying measures are continued with extra financial backing, they will have to counter the risk that:

— unless enough is done to correct the ecologically unbalanced use of natural resources in intensive farming, the resulting deterioration will be costly;

— the type and scale of incentives provided for marginal farming will not be enough to dissuade people from leaving the land.

4.5.2. On this issue, by recognising the decisive role played by farmers in protecting the environment and managing rural areas, the new system set up under Agenda 2000, which has now been adopted and transformed into a regulation, tops up the direct Community aid system and the moves to modernise farms and improve their economic viability.

4.6. The need to assess the external effects and make provisions to discourage the negative ones and promote the positive ones is also a central issue.

4.6.1. Among other measures, an integrated approach to rural development should help to boost income and employment. This presupposes a less rigid and sector-based approach to employment policy.

4.7. Possible initiatives include:

a) premiums for:

- protecting and developing stocks of wildlife species in danger of extinction
- restoring the countryside and the environment and improving public access
- reforestation and upkeep of the land for the purposes of fire prevention
- adapting livestock farming with a view to reducing its environmental impact while giving due consideration to animal welfare.

These premiums should be allocated on the basis of objective criteria and quantifiable results.

b) agreements with farmers to provide services for:

- environmental rehabilitation
- conservation of biodiversity
- land conservation and management
- water management and runoff control measures

c) support for regional and environmental protection

d) aid to encourage farmers to settle in farming areas and in upland and other naturally disadvantaged areas.

4.8. Support for negotiated policies could be particularly useful for the preservation of sites of high biological value, as the management of nature parks and reserves is largely determined by the farming policies that steer spatial development.

4.8.1. For multifunctional agriculture to come into its own, economic policy must, at the very least, take the following aspects into account:

- a) protecting the social fabric and quality of life of the rural population;
- b) differentiating management methods, on the basis of the real potential of each area;
- c) striking a new balance between public and private interests in the management of natural resources;
- d) evaluating external costs in company balance sheets.

5. A contract between agriculture and the public authorities to safeguard the environment

5.1. In the Committee's opinion, revamping the role of the farmer involves building up environment-related services and encouraging greater practical accountability, as part of an environmental management programme.

5.1.1. To this end, the Committee hopes that the authorities will draw up appropriate voluntary conventions with individual farmers or farming associations, for work or services relating to agricultural, forestry and rural environment conservation and management, water management, and environmental and countryside protection and development.

5.1.2. These conventions, entered into voluntarily, should specify the nature and purpose of the general regional conservation and management services to be provided, the length of the agreement, and the compensation to be paid by the authorities. To simplify and speed up the process, au-

thorities should also be free to make direct payment arrangements for the provision of services, providing the work is on a reasonable scale and the compensation owed does not exceed a given threshold.

5.1.3. Furthermore, special attention should be paid to building up the know-how and skills of farmers, by raising professional standards. Rapid changes in market conditions and technology, and the development of new product types, require a real commitment to training, research and support in the interest of enabling green farming and effective stewardship of the land.

6. Conclusions

6.1. The Committee believes it can play a major role in assessing the sustainability of the results of the CAP reform in terms of optimising the competitiveness of farms and production. In any event, in practical terms the future of the sector must centre on steering through the current changes in market policy, with a view to achieving an integrated and sustainable European model for farming. The implementation of the new rural development measures should therefore be supported, with the adoption of new criteria for the allocation of public resources to respond to problems such as unemployment and rural decline. The aim should be to encourage a policy of providing infrastructural support for rural areas and farms, recovering the competitive edge of local products by playing the quality and local speciality cards, and boosting income levels by diversifying farm activities, with multifunctionality as the all-embracing goal.

6.2. The Committee offers this opinion as a set of guidelines, for examination in the light of the rural development programmes which Member States are to submit under the new Regulation (EEC) No 1257/1999. The agri-environmental indicators, requested by the Cardiff and Vienna European Councils with a view to mainstreaming environmental protection into all policies, will provide further important elements for evaluation. The 'agriculture and environment' study carried out jointly by Eurostat and the Commission's Agriculture and Environment Directorates-General, was a useful preliminary exercise. The Committee hopes that there will be concrete results by the end of the year, in time for the Helsinki European Council.

Brussels, 20 October 1999.

The President
of the Economic and Social Committee
Beatrice RANGONI MACHIAVELLI

Opinion of the Economic and Social Committee on 'A policy to consolidate the European agricultural model'

(1999/C 368/21)

On 25 February 1999 the Economic and Social Committee decided, in accordance with Rule 23(3) of its Rules of Procedure, to draw up an opinion on 'A policy to consolidate the European agricultural model'.

The Section for Agriculture, Rural Development and the Environment, which was instructed to prepare the Committee's work on the matter, adopted its opinion on 28 September 1999. The rapporteur was Mr Strasser.

The Committee adopted the opinion set out below at its 367th plenary session (meeting of 21 October 1999) by 76 votes to 5, with 15 abstentions.

1. Introduction

1.1. Europe has developed its own forms of community life and ways of balancing various interests and settling disputes; these patterns have been moulded by history and cultural mindsets. A number of European states have managed over many years to reconcile political and personal freedom, economic dynamism and social cohesion. The social market economy — increasingly been fleshed out by environmental aspects in recent years — has played a fundamental role in achieving this success. The term 'European model' has rightly been coined.

1.2. The European agricultural model — like the European social model — also forms part of Europe's approach to social and economic policy. The European agricultural model reflects a policy which touches on fundamental questions that are important to society as a whole. On the basis of this policy, the EU should continue to ensure that farmers are in a position to fulfil a sustained multi-functional role, even in a changing economic environment. This will involve a considerable challenge to both farmers and those responsible for establishing agricultural policy.

1.3. Because of natural and structural factors, agricultural production conditions in the EU vary tremendously. There are nonetheless a number of common features, brought about by the shortage of space, the needs of the people and the historical and cultural background. The European agricultural model is based on these features and has the following fundamental functions and characteristics:

- an agriculture that is basically characterised by family farms and by co-operation, for instance in the form of co-operatives;
- an agriculture that is strongly marked by the initiative and entrepreneurship of the producers, i.e. it is also competitive;
- an agriculture that is geared to the principle of sustainability, i.e. the conservation of natural resources which are vital to life, biological diversity and the avoidance of practices that involve costs for future generations;

- an agriculture that is multi-functional, i.e. that is concerned with other things in addition to production, such as conservation of the countryside, settlement areas, jobs and the environment.

The European agricultural paradigm is thus based on several fundamental, carefully balanced functions that are to be carried out by farmers. These functions are economic, spatial, environmental and social.

1.4. At its meeting on 18 November 1997, the Council of EU agricultural ministers expressed the firm will 'to continue developing the existing model of European agriculture and to act to assert its identity both inside and outside the European Union'. It was also stated in the Council's conclusions that:

'In the Council's view, European agriculture as an economic sector must be versatile, sustainable, competitive and spread throughout Europe (including the less-favoured and mountainous regions). It must be capable of maintaining the countryside, conserving nature and making a key contribution to the vitality of rural life, and must be able to respond to consumer concerns and demands regarding food quality and safety, environmental protection and the safeguarding of animal welfare.'

1.5. The Heads of State or Government also expressed support for the European agricultural model at the European Council in Luxembourg in December 1997, at which they underlined their desire 'to continue developing the present European model of agriculture while seeking greater internal and external competitiveness'. They pointed out that: 'European agriculture must, as an economic sector be versatile, sustainable, competitive and spread through European territory, including regions with specific problems'.⁽¹⁾

1.6. The concept of a 'European model for agriculture' was the leading theme at the Congress of European Agriculture

⁽¹⁾ Presidency conclusions; SN 400/97, p. 14, 13 December 1997.

in Ljubljana in October 1998. At this congress the big organisations representing European farmers and the representatives of EU agriculture ministers and the EU Commission not only expressly supported the European agricultural model but also stated that they were firmly determined to promote and defend this model⁽¹⁾.

2. Major differences in the structure of enterprises and production conditions

2.1. Huge differences exist within the 15 EU Member States between production and economic conditions, the type and structure of production, but above all in the structures of holdings. Large parts of the EU (a total of 56 %) fall into economically disadvantaged areas with sometimes enormous disadvantages in terms of location, as in upland regions, Arctic regions or particular coastal regions.

2.2. The ESC points out that over the last 50 years EU agriculture has undergone a process of adjustment of unparalleled scope. Technical progress and increased labour costs have brought about an unprecedented level of substitution of capital for labour⁽²⁾. This has gone together with an increase in agricultural yields and productivity which is without equal. Because of these increases, the prices of agricultural products in the last 40 years have not even risen half as fast as the retail price index. Today's EU consumers must now spend, on average, barely 14 % of their incomes on food, instead of a third⁽³⁾.

2.3. Adjustments and structural change are bound to accompany economic change and economic growth. This fundamental principle applies equally to agriculture and downstream activities. There are however also a number of constraints on structural change in EU agriculture which have to be borne in mind when making comparisons with, for example, north and south America or Australia. These constraints include:

- much denser population levels overall in Europe, which means that agriculture, the countryside, nature and the environment have to meet other claims;
- the fact that, in many cases, the structure of the agricultural industry has evolved over a period of many centuries;
- in many cases, agriculture in upland areas does not permit large-scale farming operations;
- society generally does not endorse agriculture unless sufficient attention is paid to protecting nature, the environment and the countryside;
- other ethical values place tighter constraints on animal husbandry;

(1) Report on the 1998 Congress of European Agriculture published by the ECA (European Confederation of Agriculture), Brussels.

(2) In the 1960s more than 30 % of the total number of persons in gainful employment in some EU Member States were working in agriculture. The average figure for the EU is now barely %. Source: Eurostat.

(3) Source: Eurostat.

- strict rules on production;
- sometimes strict regulations on the transfer of landed property and/or limitations arising from spatial planning measures.

2.4. Support for the European agricultural model implies recognition of the fact that an agricultural structure undergoing continuing change still has to ensure that agriculture fulfils its multi-functional role. Any short-term benefits generated by savings in production costs must not be paid for in the form of sectoral disadvantages, disadvantages to national economies and disadvantages for society in the longer term.

2.5. As is the case with the other sectors of industry and commerce, EU agriculture also has to contend with higher costs for a number of reasons, including the following factors:

- higher wages and salaries overall;
- higher prices for some inputs;
- higher energy prices;
- the possibilities offered by new production techniques and processes (e.g. genetic engineering) and the processing of inputs (e.g. the addition of hormones to animal feed) cannot all be exploited;
- additional costs incurred as a result of higher environmental, health, animal and nature conservation standards.

The ESC points out that although the problem of higher costs affects all industrial and commercial activities, a number of points have to be borne in mind. In the case of agriculture, producer prices are determined by the lowest price on the respective markets to a greater extent than is the case with high-value industrial products. Furthermore, the fact that society wishes agriculture to be multi-functional is bound up with the fact that agricultural production is tied to the land; any relocation of all or part of production to low-wage countries or countries having low environmental or labour-law standards would therefore have far-reaching consequences for the EU.

3. Multi-functional role of European agriculture

3.1. This section of the present opinion, addresses the issue of the multi-functional role of European agriculture only insofar as is strictly necessary, since the ESC is focusing on this issue in a separate opinion on 'environmental priorities for the multi-function agriculture of Agenda 2000'. The multi-functional approach and the European agricultural model are inter-dependent. The Committee would also refer here to its opinion on support for rural development⁽⁴⁾.

3.2. The role of agriculture in society has, in the ESC's view, changed radically in Europe in recent decades. Protection of the natural foundations of life, the wish for an attractive

(4) OJ C 407, 28.12.1998.

man-made landscape and safe food have gained in importance compared with agriculture's role in respect of production and quantitative security of supply.

3.3. In contrast to the situation in the large agricultural exporters overseas, farming in the EU Member States combines several functions at the same time on the same stretch of land, and is expected to do so by society. In the recital to the reform of the CAP⁽¹⁾ the European Commission points out, among other things, that the fundamental difference between the European model and the model adopted by the EU's principal competitors lies in the multi-functional role of European agriculture and the role which it plays vis-à-vis the economy, the environment, society and the conservation of the countryside; it is therefore essential to maintain agriculture in Europe and to safeguard agricultural incomes.

3.4. Meeting at ministerial level on 6 March 1998, the OECD's Committee for Agriculture reached agreement, after lengthy discussion, on the goal of promoting a multi-functional agriculture. The ESC sees this outcome as a positive step forward⁽²⁾. At the meeting 'there was a broad consensus that OECD Member governments should provide the appropriate framework to ensure that the agro-food sectors' fulfils, inter alia, the following objectives:

- provides consumers with access to adequate and reliable supplies of food;
- contributes to the sustainable management of natural resources and the quality of the environment;
- contributes to the socio-economic development of rural areas;
- contributes to food security at the national and global levels.

3.5. The costs of the services that a multi-functional agriculture is expected to provide today used to be offset more or less adequately through the price of products. With the deregulation of agricultural markets and falling prices for agricultural products, this is becoming less and less possible. The ESC therefore calls for the costs of services undertaken for the public good, but not remunerated by the market, to be offset — as a matter of principle — by direct payments geared to particular tasks. And for these in future to be an integral part of the CAP. In addition, solutions should be sought in which direct beneficiaries — such as the tourism industry — make a contribution.

4. What consumers and society expect from agriculture and the CAP

4.1. With growing environmental consciousness, more calls for healthy food and changing leisure patterns, farmers have to deal with a widening spectrum of claims, wishes and

expectations. This entails an increasing demand for services which can only be met if the necessary remuneration is provided.

4.2. But European agriculture is also expected to be more competitive on domestic and world markets. Greater linkage of producer prices to world market prices is expected by the processing industry, the food trade and consumers. However, such expectations are increasingly in conflict with stricter demands regarding land management, stockfarming and food production methods.

4.3. The ESC calls for farms to be given a fair opportunity to meet the growing demands of society and the tougher production requirements. This call is addressed to the leading figures in the fields of agricultural policy, the processing industry and the food industry, who cannot expect to receive the highest quality at the lowest market price. The call is also addressed, above all, to consumers, who are in a position to promote particular forms of production through their purchasing patterns.

4.4. An intact countryside, an environment worth living in and the maintenance of rural populations are increasingly being looked upon as important resources of rural areas. Conflicts sometimes arise when farmers are called upon to provide the requisite services, particularly when they involve restrictions on agricultural production.

4.5. The ESC recognises that there is a conflict between some of the expectations which agriculture or the CAP are expected to meet; such contradictions are difficult to resolve. On the one hand — quite understandably — requirements are constantly being stepped up with respect to environmental protection, animal welfare, quality standards and public health. On the other hand, agriculture has to contend with equally strong pressure for increased competition on the markets for agricultural products and for a reduction of expenditure on the CAP. The ESC thinks there is a vital need for a systematic information campaign to make the public realise that higher costs cannot always be offset by greater efficiency but have to be reflected in producer prices or compensated for in other ways. It also needs to be pointed out that services provided for the public good do not come without a price-tag.

5. European agriculture faces increasing pressure of competition

5.1. The ESC recognises the essential role played by the international trade in goods and services and the free market in improving the level of prosperity; industrialised states cannot exist without participating in these activities. This general principle also applies to agriculture. The critical consideration is that competition between individual states and between continents has to be fair. It is essential to lay down binding rules for ensuring fair conditions of competition

⁽¹⁾ COM(1998) 158 final — OJ C 170, 4.6.1998, p. 93.

⁽²⁾ Communiqué issued after the meeting of the OECD's Committee for Agriculture on 6.3.1998.

in trade in agricultural products if markets are to be opened up further with a view to stepping up trade; such rules must cover aspects such as standards in respect of the environment, animal welfare and labour law.

5.1.1. The EU is by far the world's leading importer of agricultural products and is the second largest exporter of agricultural products. In 1996 the EU accounted for 14,6 % of worldwide exports of agricultural products (excluding intra-Community trade)⁽¹⁾ and 19,8 % of worldwide imports. Expressed in absolute figures, the total value of EU imports of agricultural products in 1996 was \$ 83,9 billion and EU exports of agricultural products to third countries totalled \$ 62,2 billion. The ESC interprets these figures as implying that (a) EU agriculture is taking on international competition in a much more resolute way than has been widely perceived to have been the case up to now and that (b) there can be no question of sealing off the EU markets. In its opinion on agricultural aspects of the Commission's Communication on Agenda 2000⁽²⁾ the ESC pointed out that the EU 'already has the most open market in the world'.

5.1.2. The markets for agricultural products clearly number amongst those in which competition has already been more or less unrestricted for many years, especially since the completion of the single market. As a result, farm-gate prices are in many cases under constant pressure but producers have become more market-orientated and therefore more competitive at international level.

5.2. The Uruguay Round brought about a quantum leap in the liberalisation of international trade in agricultural products. It did, however, also sharply reduce room for manoeuvre in shaping agricultural policy. These restrictions affect not just external protection but also conventional export incentives and internal measures. The ESC is aware that EU agriculture will face even stiffer competition as a result of eastward enlargement and the forthcoming round of WTO trade talks.

6. New challenges facing EU agriculture

6.1. Under Article 20⁽³⁾ of the agriculture agreement concluded under the GATT Uruguay Round, Member States agreed to continue the phased reduction of aid and protection measures one year before the expiration of the implementation period (the commitment entered into under the Uruguay Round). Article 20 of the WTO agriculture agreement does not, however, make it absolutely clear what steps should be taken to bring about further liberalisation in the forthcoming round of WTO trade negotiations and the scope of such steps.

(1) Source: 1997 report on the situation of agriculture in the EU.

(2) OJ C 73, 9.3.1998, p. 71.

(3) WTO 1994 agriculture agreement; article 20 of this agreement provides, inter alia, for a review of the impact of the Uruguay Round and sets out the objective of introducing a fair, market-orientated system in respect of trade in agricultural products.

6.1.1. The EU is one of the champions of a new comprehensive round of trade negotiations at the WTO. It takes the view that the Millennium Round should cover, inter alia, the following areas, in addition to agriculture: trade in services; investment rules; a multilateral framework agreement on the application of competition rules; trade and the environment; and technical barriers. The situation as regards the interests of the different states varies considerably. It is likely that this fact, too, will make the negotiations over trade in agricultural products particularly difficult. The differences of opinion between the states belonging to the Cairns Group and the USA, on the one hand, and the European states, Japan and Korea, on the other hand, over fundamental aspects of agricultural policy have intensified, thereby further aggravating the situation. Two different approaches lie at the heart of the conflict. The first group of states calls for a rigorous dismantling of aid and across-the-board liberalisation of trade in agricultural products. The second group of states advocates action to ensure that agriculture remains both sustainable and multi-functional and therefore champions retention of a necessary degree of external protection or specific agricultural measures. Given this initial situation, the Commission and the governments of the Member States will have to make considerable efforts (a) to defend legitimate interests of EU agriculture and (b) to safeguard the general conditions in respect of agriculture which will enable the industry to continue to play its multi-functional role.

6.1.2. After taking a decision on CAP reform the European Council in Berlin issued the following declaration:

'The efforts made, notably in terms of reducing support prices, represent an essential contribution by the European Community in stabilising the world's agricultural markets. The European Council considers that the decision adopted regarding the reform of the CAP within the framework of Agenda 2000 will constitute essential elements in defining the Commission's negotiating mandate for the future multi-lateral trade negotiations at the WTO.'

The ESC would draw attention to its opinions on CAP reform which also addressed issues of the forthcoming round of WTO trade negotiations. In its opinion on the agricultural aspects of the Commission's communication on Agenda 2000⁽⁴⁾, the ESC urged the EU 'not to jettison external protection where it is necessary' at the forthcoming WTO trade negotiations and stressed the need 'to introduce world-wide environmental and social standards'.

6.2. The ESC has closely followed the work of the EU on concluding bilateral or regional free-trade agreements. The Community is under tremendous pressure to include agriculture in such free trade provisions. In this context, however, a critical stance should be adopted over the issue of the extent to which free-trade provisions which include agriculture can be reconciled with the goal of safeguarding the European agricultural model. Attention is also drawn to the fact that farmers in a number of developing countries, too, will be placed under enormous pressure as a result of a further liberalisation of international trade in agricultural products agreed at the WTO or free-trade agreements.

(4) OJ C 73, 9.3.1998, p. 71.

6.3. Enlargement of the EU to include the CEEC poses enormous political and institutional challenges for the EU. Eastward enlargement of the EU is also a particular challenge for EU agriculture. The ESC has expressed its views in detail on this matter in several opinions, in particular its opinion on the impact on CAP of the accession of the CEEC⁽¹⁾.

6.3.1. Together with the issues of the environment, freedom of movement for individuals, services and nuclear safety, agriculture is one of the problem areas in the context of EU enlargement to include the CEEC. The impact on both sides will be far-reaching. The actual effect on the EU markets for agricultural products, WTO commitments and the EU budget will depend to a substantial extent on a number of factors, including the following:

- the date when the first of the CEEC join the EU;
- the form and period of validity of transitional arrangements (e.g. for the granting of market organisation premiums);
- in what form and to what extent the quantitative regulations (quotas, reference quantities, etc.) will apply;
- whether, and to what extent, alternative products in the field of renewable sources of energy or renewable raw materials for industrial purposes can be developed.

6.4. According to UN estimates, world population will increase from the current figure of some 6 billion to approximately 8 billion over the next 20 years. This is bound to lead to a sharp increase in the demand for food. The fact that a series of states lack the wherewithal to pay is a problem which has to be borne in mind here.

EU agriculture should also take advantage of the opportunities provided by a world-wide increase in demand; increased demand should not, however, be exploited at any price.

7. A policy to consolidate the European agricultural model

7.1. The ESC sees no contradiction between maintaining the European agricultural model and the need to bring European agriculture into line with the changing economic situations. Farmers will, however, have to meet major challenges and particular demands will also be placed upon the CAP. The ESC sees a policy to consolidate the European agricultural model as fulfilling a need to strengthen a generally desired paradigm for agricultural policy and to develop it further by means of concrete political measures. This will however only be possible if the EU and the Member States are able to retain the necessary agricultural policy leeway after the coming round of trade negotiations at the WTO.

7.2. If we are to draw the correct conclusions for the future, we must first answer the question as to the extent to which the CAP has promoted the goal of safeguarding the European agricultural model and the extent to which the recently reformed CAP can fulfil this task. In particular, the question arises of how, against the background of increasing competition, a multi-functional agricultural sector can continue to provide the various services.

7.3. 1992 CAP Reform

7.3.1. Throughout its history, the CAP has constantly been adjusted to bring it into line with changing situations. The first comprehensive reform was carried out in 1992 with the following objectives, among others:

- to keep on the land a sufficiently large number of farmers to safeguard the environment and the 'family-farm' model;
- to curb production sufficiently to re-establish balance on the markets;
- to introduce extensification;
- to promote competitiveness and efficiency in the EU agricultural sector in order to enable EU agriculture to play its role on the world markets.

7.3.2. The ESC addressed the impact of the 1992 CAP reform in an earlier own-initiative opinion⁽²⁾. In this opinion, the ESC noted, among other things, that some of the objectives, such as reducing surpluses, better targeting of environmental requirements and the stabilisation of incomes to a certain extent had been achieved. The ESC was, however, critical of the failure to halt the trend towards further concentration of agricultural production which was leading to an on-going loss of jobs in agriculture. The observations made by the ESC in its own-initiative opinion at the beginning of 1997 have been borne out by subsequent developments. The decline in the number of both agricultural holdings and jobs has continued at approximately the same rate (an average of 3,7 % per year) as was the case before the CAP reform.

7.3.3. One clear benefit has been that the post-reform trend in farm incomes has turned upwards. It must, however, be borne in mind that, in spite of the sharp increase in direct payments in the wake of agricultural reform, the improvement in the net product per worker⁽³⁾ has largely been brought about as a consequence of the exodus from the land. Attention is also drawn to the fact that the discrepancy between agricultural and non-agricultural incomes remains high on average.

⁽²⁾ Opinion on the Stocktaking of CAP reform, OJ C 89, 19.3.1997, p. 39.

⁽³⁾ Net product at factor costs = gross product at market prices less depreciation, taxes and subsidies.

⁽¹⁾ OJ C 75, 10.3.1997, p. 4.

7.3.4. The European agricultural model involves a variety of functions. In the light of the current problems which sometimes affect the multi-functional role of agriculture, such as the disproportionate percentage of older farmers, the wholesale abandonment of farming in individual regions and damage to the environment brought about by agricultural production, it is clear that the current general background does not sufficiently meet the need to safeguard the European agricultural model. The ESC would, however, point out that this is not just the fault of the CAP; the policies pursued by the individual Member States when implementing EU market-organisation measures and aid programmes must also bear a share of the blame.

7.4. 1999 CAP Reform

7.4.1. The reform measures agreed upon in Berlin will start to come in effect next year. Despite the fact that the reforms were not as extensive as had been proposed by the Commission, their impact will be clearly felt, even in the medium term.

7.4.2. The price reductions agreed upon will, make EU agriculture more competitive vis-à-vis rival producers in third countries; these reductions will, however, herald yet a further drop in farm income from the sale of agricultural products. The role played by direct payments as an element in farmers' incomes will therefore increase still further in significance. In many cases, however, direct payments are failing fully to carry out their role of providing compensation. It is, though, vital for farms to cover their costs if they are to have an economic future.

7.4.3. The granting of direct payments is — or may be — tied to the fulfilling of additional conditions. This will engender more red tape and may lead to a situation in which only part of the available direct payments can be taken up.

7.4.4. The decision taken in Berlin to freeze expenditure on the CAP, in real terms, at 1999 levels until the year 2006 means that there is very little financial leeway for fulfilling the various tasks. This will, in the ESC's view, have an impact in particular on the second pillar of the CAP, namely the policy for the development of rural areas. The ESC fears that ultimately it will be impossible to achieve the praiseworthy objective of sustainable development in rural areas — as has already been pointed out in the ESC opinion on reform/funding of the CAP (Agenda 2000) ⁽¹⁾.

7.4.5. The Council of Agriculture Ministers and also the Heads of State or Government wanted the reforms to meet the new challenges facing EU agriculture and to enact the principles laid down at the Luxembourg summit. The ESC does, however, fear that the squeezing of agricultural incomes will increase significantly and there will be more pressure to achieve further concentration.

7.5. The CAP must support individual initiative and encourage competitiveness

7.5.1. The agreement of the Heads of State or Government on CAP reform fixes the conditions governing agricultural production for at least the next few years. In the light of the forthcoming round of trade negotiations at the WTO, the expected pressure for further liberalisation and the eastward enlargement of the EU, there will be an ongoing debate on the CAP or its key elements.

It is, however, vitally important to arrive at a basic consensus on the need to take a number of specific agriculture measures to safeguard the European Agricultural Model and/or a multi-functional agriculture.

7.5.2. As pointed out in the introduction, the European Agricultural Model involves the provision of particular services by the farming community. As there is no doubt that the public in the EU Member States want to maintain a multi-functional agricultural sector, it is clearly essential to ensure that those working in agriculture enjoy an adequate standard of living, in accordance with Article 33 of the EC Treaty.

7.5.3. The ESC believes that farmers will in future be called upon, even more than has been the case in the preceding decades, to:

- react in good time to changes in market conditions and to exploit new marketing opportunities;
- make use of the opportunities provided by technical progress to the extent that it is required for achieving optimal production levels, observing the principle of sustainability and meeting environmental requirement;
- bring down production costs and improve their market position by engaging in industry-wide co-operation, perhaps in the form of co-operatives;
- increase added value through product diversification, the provision of quality products and the targeted exploitation of market opportunities;
- take on extra jobs outside the farm if reasonable opportunities arise.

A further objective for agricultural measures at EU or national level must be to support individual initiative.

7.5.4. If EU agriculture is to provide the multi-functional services expected of it, it is essential (a) to apply new CAP instruments, such as insurance against crop failure and loss of income and (b) to continue to pursue a price and market policy based on the three key components of the CAP, namely the single market, Community preference and financial solidarity.

⁽¹⁾ OJ C 407, 28.12.1998, p. 1156.

7.5.5. It has already been stated repeatedly that promotion of competitiveness and efficiency is a key component of the European agricultural model. Farmers must exploit existing scope for becoming more competitive. Competitiveness is not, however, merely a matter of price. The quality, image and origin of agricultural products also play a role.

Consumers expect more information about the type of production, origin and quality. The labelling and traceability of food is becoming more and more important. Anyone who measures up to these expectations has a chance of sidestepping the growing price competition (also caused, in particular, by concentration in the food industry) and getting more for their products. The possibilities in respect of product designation provided by the EU provisions on the protection of geographical indications and designations of origin⁽¹⁾ and certificates of specific character⁽²⁾ should also be exploited; it is vital to remove any administrative barriers and reduce any financial burdens which may be placed upon applicants for such product designations.

7.5.6. Major scientific progress and progress in agricultural technology have opened the way to tremendous gains in efficiency which would not have been credible some decades ago. It is not just farmers who have benefited from this development. Consumers and society in general have also benefited as such progress was a key prerequisite for increased general prosperity. In the ESC's view EU agriculture should continue to be able to exploit new technological developments, in particular in the field of biotechnology. We must, however, ensure that environmental requirements and the expectations of society with regard to agriculture are not disregarded; at the same time it is essential to make sure that competitive disadvantages caused by restrictions are avoided or offset. Whatever happens, it is necessary for Europe to make greater efforts in agricultural research for the development of future-oriented technologies. Such efforts are also necessary in the interests of greater self-reliance.

7.5.7. Appropriate provisions will have to be introduced to meet requirements in respect of nature conservation, the environment, animal welfare, product-quality and public health. When necessary, these will have to be constantly updated, for example in the light of new findings. As is explained in point 2.5, most of the stricter EU rules on production may generate considerable competitive disadvantages for farmers in the EU. With the increasing globalisation of agricultural trade, this should be taken into special consideration. In addition, in order to ensure fair terms of competition within the EU's internal market, all Member States must apply comparable quality, environment and animal-welfare standards.

(1) Regulation (EEC) No. 2081/92 of the Council of 14.7.1992 on the protection of geographical indications and designations of origin in respect of agricultural products and foodstuffs (OJ L 208, 24.7.1992, p. 1).

(2) Regulation (EEC) No. 2082/92 of the Council of 14.7.1992 on certificates of specific character for agricultural products and foodstuffs (OJ L 208, 24.7.1992, p. 9).

The ESC therefore takes the view — as it has already done repeatedly in its opinions — that, key standards for agriculture should be safeguarded by internationally-binding rules, in order to rule out otherwise insuperable distortions of competition. When introducing new rules governing agricultural production or adjustments to bring it into line with new knowledge and conditions, it is essential to follow the principle of only doing what is objectively necessary.

7.6. Basic market regulation objectives must remain in place

7.6.1. The ESC believes that the production of agricultural goods for the market must continue to represent the essential source of income for farmers and is therefore a vital element of the European model. Markets in agricultural products are particularly susceptible to price fluctuations. Large price fluctuations often send misleading signals to the market, lead in stages to major losses and — in the longer term — are not advantageous to consumers⁽³⁾. Regulation of the market therefore provides a safety net. But it should not be allowed to distort markets. In the long term agricultural production must be geared to market conditions.

7.6.2. It has to be recognised however, that, just as has been the case in the past, market regulations will periodically have to be adjusted to accommodate changes in marketing conditions and terms of competition. This must not however, result in key components of the organisation of the markets, such as import or intervention regulations and proven instruments for managing supply, being dropped.

7.6.3. It is likely that, apart from some exceptions and cases of particularly favourable market situations, EU farms will continue to be unable to match world market prices for agricultural products on a sustained basis (see the observations made in sections 2 and 4 above). The multi-functional role of European agriculture will, on the other hand, acquire increased overall social importance in the future. Since existing differences in production conditions will also basically remain the

(3) In the European Commission's study entitled 'Towards a common agricultural and rural policy for Europe' (European Economy No. 5/97), compiled by expert agricultural economists, the following factors are cited as justification for public measures to stabilise markets for agricultural products:

- a high degree of risk given its dependence on weather and exposure to pests and diseases (which strike locally);
- exposure to interest rate and exchange rate risk (which affect the whole sector — but which may diminish post-EMU);
- a spatially-diffused, atomistic structure of many small businesses, which have a high proportion of immobile assets, which restricts freedom of manoeuvre;
- a moderately long gestation period involved in the production cycle;
- producers who have, individually, insufficient resources and information easily to manage the risk;
- the responsibility to supply products consumed by every citizen every day.

same in the future, and other or stricter requirements will be laid down for EU agriculture, the ESC feels that adequate external protection will continue to be necessary.

If and when external protection is reduced, it is vital to safeguard the multi-functional role of agriculture, by ensuring adequate payment — through a corresponding increase in direct payments — for, in particular, public welfare services provided by farms and thus ensure their continued existence. These facts must be borne in mind not only at the WTO trade talks but also in EU negotiations with third countries and groups of states on free trade agreements.

7.6.4. The ESC calls upon the Commission to do everything possible to ensure that the forthcoming WTO trade negotiations address not only a further reduction in external protection but also — with a view to establishing fair terms of competition — the obligation upon all WTO member states to observe minimum environmental and labour-law standards, as urged for instance in the ESC own-initiative opinion on the World Trade Organisation (WTO).⁽¹⁾ To the extent to which progress can be made in establishing binding rules for fair trade in agricultural products, a case can also be made for further liberalisation of international trade.

7.6.5. The EU public demands food which is both safe and of high quality, and urges action to safeguard the public, animal and plant health and animal welfare. EU agriculture has to take increasing account of these demands which are increasingly being enshrined in EU law. The Committee welcomes the Commission's intention to include these matters in the negotiations, as key issues. The aim must be to take steps (a) to prevent strict EU provisions from being rendered meaningless by imports from outside the EU which distort competition as they do not have to comply with similarly strict requirements and (b) to prevent whole areas of production being jeopardised. All states must be authorised to act on major matters of concern to consumers in the respective states. The Committee takes the view that one way to achieve this aim would be through the application of the 'precautionary principle' (Article 5.7 of the SPS (sanitary and phytosanitary measures) Agreement, on the basis of a uniform risk assessment procedure used by all WTO member states, as suggested by the Commission.

7.6.6. The ESC thinks that further moves towards liberalisation should be differentiated according to the situations and requirements of the different production sectors. In addition, provision should be made for currency fluctuations. In the ESC's view it is absolutely essential to extend the peace clause beyond the year 2003. The same applies to the special protection clause in Article 5 of the WTO Agreement on Agriculture.

7.6.7. In a world market characterised by division of labour, exports play a vital role. For the reasons set out in several paragraphs above, export refunds will continue to play a

certain role as an instrument of market regulation. The aim, however, is to conclude international agreements which reduce all kinds of export supporting measures as much as possible in order to establish fair conditions of competition on the international markets. The ESC does however urge that:

- EU agriculture make every effort to exploit the advantage of being able to provide home-grown products for its own markets which meet all the expectations of the consumer (thereby reducing the dependence on exports);
- export opportunities be exploited, particularly in the case of products in respect of which (a) EU agriculture or the EU processing industry enjoy comparative advantages, (b) there is strong worldwide effective demand and (c) exports are in part possible without export refunds;
- supply-management instruments be used not only to ensure that existing WTO commitments are adhered to but also to rule out exports at rock-bottom prices;
- in EU export policy for agricultural products, attention should also be paid to the different situations of agriculture in the target countries, especially the developing countries.

7.6.8. There are likely to be especially significant disagreements over the question of export support measures in the forthcoming round of trade negotiations at the WTO. Although Article 10(2) of the WTO Agreement on Agriculture unambiguously refers to export credits and export credit guarantees as export subsidies, it fails to lay down any rules for these instruments. It was planned to reach an agreement on those rules in the course of the implementation phase of the Uruguay Round but no agreement was reached. In the course of the forthcoming round of trade negotiations no new restrictions must be placed on export support measures unless agreement is reached on rules for export credits and export credit guarantees. In view of the fact that internal EU prices will normally continue to be higher than world market prices, no agreements must be entered into on the phasing out of export support measures.

7.7. *Linkage of direct payments*

7.7.1. The multi-functional role of European agriculture includes services which in earlier times were reimbursed — to a more or less satisfactory extent — through income from sales of products. This is now becoming less and less the case and, as a result, direct payments are forming an ever more important part of agricultural income. Although direct payments are important, they can play only a supporting role in view of the fact that farmers are businessmen, producing goods for the market, who should derive a substantial part of their income from the sale of products.

7.7.2. The 1992 CAP reform represented a major step towards extending direct payments; this approach is now being continued and stepped up. It is vitally important for farmers — not least in respect of the roles which they perceive themselves to have — that these payments should not constantly be the subject of political debate, that the purpose of the direct payments be clearly spelled out and that their survival be guaranteed in the relatively long term.

⁽¹⁾ OJ C 101, 12.4.1999, p. 43.

7.7.3. The ESC expressly supports the principle of linkage with regard to direct payments and the provision of lasting assurances as to the continued application of this increasingly important CAP instrument. A distinction must therefore be drawn between:

- direct payments in compensation for public-interest services on which no market price can be placed;
- direct payments in compensation for price reductions, to the extent that this can be established;
- direct payments in compensation for ongoing natural difficulties which cannot be altered.

In view of the fact that the above principle has not been fully adhered to in Agenda 2000 reform, the ESC believes that there are likely to be damaging consequences, at least in the longer term.

7.7.4. In the interests of securing widespread acceptance of the scheme, the ESC would draw attention to the need to provide adequate justification for direct payments. However, in view of the fact that the conditions for claiming direct payments are constantly being tightened, and bearing in mind that the number of farmers fulfilling these conditions is decreasing, the question arises as to whether the direct-payment scheme is still in the position to meet the original objectives.

It would clearly not be conducive to fulfilling these objectives if excessively strict eligibility conditions were imposed which (a) made it harder to overcome problems of adjustment and (b) stood in the way of improved international competitiveness. It is also essential to ensure that — as is the case with other aid measures — direct payments are administered as efficiently as possible and that excessive red-tape is avoided.

7.7.5. The acid test for the EU will be the extent to which it will manage to defend the CAP reforms at the forthcoming round of WTO trade negotiations. The Commission has given repeated assurances that the amended or new premiums payable under market regulations are in accordance with the 'blue box' requirements and will be vigorously defended to ensure their survival in the longer term. In the ESC's view, it is absolutely vital to safeguard these payments as the 'blue box' approach to supply-management has proved successful. Equally, the 'green box' needs to survive, as 'green measures' have become more important, have little impact on trade and are essential as a tool for reimbursing the discharge of certain obligations by agriculture.

7.7.6. Since 1992 there has been a growing trend in the CAP towards cutting expenditure on price-support measure and extending direct payments by way of compensation; this trend makes farm incomes increasingly dependent upon budgets. The ESC would stress the need to guarantee the financial backing for direct payments in the longer term in order to provide farmers with the necessary security.

7.8. Rural development policy

7.8.1. Integrated rural development measures, the second pillar of the CAP, are of considerable importance. These measures essentially involve bringing together the earlier supporting measures (environmental programme and forestry measures), structural measures covering agriculture (former objective 5a), and the earlier aid programmes restricted to particular target areas.

7.8.2. Combining the measures in this way is, in the ESC's view, a good idea as it makes it possible to pay greater attention to the planned objective of strengthening integrated rural development policy, with particular attention being paid to agriculture. Rural development policy fulfils a vital role but it cannot take the place of conventional CAP instruments. The ESC deplores the fact that the proposed funding merely keeps pace with the previous level of expenditure. It is essential to provide a higher level of funding in order to meet the real requirements, particularly as regards ensuring the multi-functional nature of agriculture throughout the EU.

7.8.3. The market position of EU farmers will have to be strengthened and, above all, marketing and processing enterprises, in which co-operatives have a decisive role to play, will have to be competitive if they are to cope with the growing pressure of competition. The support measures in this field set out in the Regulation on rural development have an important role to play here. The ESC trusts that this regulation will be implemented in a purposeful and effective way and also takes the view that targeted marketing is a key way to strengthen position on both the internal market and on the markets of third countries. One essential objective must be to enable farmers to add more value and increase the use of local resources in the regions — thus bringing about a lasting improvement in the economic viability of rural areas.

7.8.4. The CAP reform expands the compensatory payment scheme which is important to farmers in less favoured areas. This is the one instrument that makes a fundamental contribution towards safeguarding farming in these areas. This proven, virtually undisputed direct payment is designed to provide compensation for ongoing natural disadvantages. The ESC calls for this principle to be maintained and to be kept separate from other CAP objectives.

7.8.5. In the ESC's view, agriculture's role as a food producer is also of vital importance with a view to maintaining a widespread agricultural industry in less favoured regions and ensuring that farms in these regions fulfil a multi-functional role. The ESC therefore calls for appropriate specific measures to be taken to maintain production, even under difficult conditions. Such measures are required in particular in the case of products to which there are scarcely any alternatives, such as milk production and cattle and sheep-farming in specific regions.

7.9. *Supplementary and alternative sources of income and employment for farmers*

7.9.1. It is not a new phenomenon for farmers to diversify in order to secure an income from a variety of sources. Such diversification is particularly pronounced in a number of individual Member States as a result of existing structures and local conditions. The decline in income from farming affecting a large number of agricultural enterprises, and also personal expectations as regards income, are frequent reasons why farmers look for additional sources of income.

7.9.2. Additional sources of income can help agricultural enterprises to become economically secure. A key focal point of rural development programmes must be the promotion of employment in general and the creation of additional opportunities for earning a living and supplementing income for farmers and their family members. The ESC supports this strategy but, with an eye to its effective implementation, it calls for the removal of legal restrictions and obstacles. Financial aid alone will not be sufficient to achieve the planned objectives.

7.10. *The challenge of providing renewable raw materials*

7.10.1. One important role of agriculture and forestry since time immemorial has been to supply energy products and raw materials, in addition to food and animal feed. Biomass is becoming more and more important as a renewable raw material. Farmers are able to step up the production of biomass as a raw material to a considerable extent. Such an undertaking should not be regarded solely as part of the multi-functional role of EU agriculture; it would also do much to protect the environment, promote employment and, above all, strengthen the European agricultural model.

7.10.2. Biomass is being used to an increasing extent as an alternative raw material in a number of industries. A variety of plant-based raw materials are, for example, used in the chemical industry (as alternative ingredients in detergents and printing ink) or in vehicle construction (vegetable fibre). Given the existing problems of waste disposal, increased use of vegetable starch as a raw material in the packaging industry is particularly important. The Committee regards this as a very positive development and therefore calls for it to be purposefully promoted, bearing in mind the ecological aspects.

7.10.3. Under the Kyoto Protocol⁽¹⁾ the EU undertook to cut greenhouse gas emissions by 8 % of the 1999 level in the course of the period from 2008 to 2012. In line with this commitment, the European Commission's White Paper on Energy for the Future — Renewable Sources of Energy⁽²⁾ foresees that the use of renewable sources of energy will be doubled, from 6 to 12 % of overall energy production, by the year 2010. Biomass has a key role to play here.

(1) Kyoto Protocol to the UN Convention of 11 December 1997 on Climate Change.

(2) COM(97) 599 final of 26.11.1997, Energy for the Future — renewable sources of energy: White Paper for a Community strategy and action plan.

7.10.4. In addition to its important environmental role, the increased use of biomass in energy production also has a considerable impact on employment. The above-mentioned Commission White Paper (and the TERES II Study⁽³⁾) foresees the possible creation of 500 000 jobs (net figure) by 2010.

7.10.5. The ESC calls for appropriate regulatory measures to be introduced, in addition to adequate financial support for the production of biomass as a renewable raw material. The aim is to facilitate the use of biomass in, for example, energy production and as a material. Such measures could include:

- improving the competitive position of renewable energy sources vis-à-vis fossil fuels; a number of Member States have already introduced tax measures for this purpose;
- EU-wide rules on the use of bio-fuels, bearing in mind the ecological and economic aspects;
- promoting greater use of electricity and heat generated from the renewable source biomass;
- abolition of the limitations on oil seeds under the Blair House agreement;
- abolition of administrative barriers against field crops for non-food purposes.

The ESC also urges that research be stepped up into ways of making biomass more competitive vis-à-vis fossil fuels and into developing new ways of using biomass, perhaps in the chemical or vehicle manufacturing industries.

8. Conclusions

8.1. The European agricultural model should be seen as part of an autonomous social and economic policy that for some decades now has been characteristic of European countries. It should be understood as a policy model for an agriculture which is characteristically based on family farming, is geared to economic, social and ecological sustainability and is in a position to provide the various services desired by society, i.e. which is multi-functional.

8.2. The ESC is aware of the importance that the European Commission, the member governments and European farmers' organisations explicitly attach to the European agricultural model. But however positive such recognition may be, what counts at the end of the day is the extent to which this recognition is actually reflected in policy.

8.3. Attachment to the European agricultural model must not be seen as incompatible with the need for farmers to adapt to constantly changing economic conditions, for farms to be competitive and for production to be geared to market needs.

(3) TERESS II, European Commission, 1997.

8.4. But one fact should be beyond dispute: the European agricultural model is the decisive precondition for continuation of the multi-functional role that society expects from agriculture. An agriculture that is geared solely to international competitiveness cannot fulfil these demands.

8.5. The ESC sees a 'policy to consolidate the European agricultural model' as a vehicle for the concrete measures needed to buttress the generally accepted model for agricultural policy. The aim is to provide the various services of a multi-functional agricultural sector, even in the teeth of ever-increasing competition.

8.6. Competitive, efficient farming is a key component of the European agricultural model. The ESC assumes that in the future farmers will be asked — even more so than in the past — to exploit existing opportunities to improve competitiveness and avail themselves of marketing openings and additional scope for gainful employment or income; individual initiative must be given adequate support in this context. Technical progress is however also a vital prerequisite for efficiency gains. There is, however, in the Committee's view, a case for awarding an appropriate form of compensation only a) when competitive disadvantages are incurred by farms as a result of the imposition of restrictions on environmental or ethical grounds or in the wake of demands made by society and (b) when the competitive disadvantages cannot be offset by higher prices.

8.7. Given the production situation in the EU Member States, it is not possible for agriculture to meet its multi-functional remit under world market conditions. Market organisations, targeted direct payments, agriculture-related structural measures and aid programmes for rural areas have an indispensable role to play. Appropriate compensation must be offered for services rendered.

8.8. European agriculture must remain geared towards production. It must be able to provide good, unblemished foodstuffs. It is again securing an increasingly important role as a source of non-food raw materials. It must operate in an environmentally sound and sustainable way and must also be in a position to deliver the desired services undertaken for the public good. It must meet different requirements from, say, American agriculture, and it has to hold its own under relatively expensive conditions. This implies a continued need, for appropriate external protection, and retention of other important elements of market organisation.

Hence, endorsement of the European agricultural model makes it essential not to call into question the major features of the CAP at the forthcoming round of WTO trade negotiations. A key principle should be that further international trade liberalisation is justifiable only insofar as progress is made on establishing binding rules for fair terms of competition in international agricultural trade.

Brussels, 21 October 1999.

The President
of the Economic and Social Committee
Beatrice RANGONI MACHIAVELLI

Opinion of the Economic and Social Committee on 'The Impact of implementing EMU on economic and social cohesion'

(1999/C 368/22)

On 25 February 1999, the Economic and Social Committee, acting under the third paragraph of Rule 23 of its Rules of Procedure, decided to draw up an opinion on 'The impact of implementing EMU on economic and social cohesion.'

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 29 September 1999. The rapporteur was Mr Dock.

At its 367th plenary session of 20 and 21 October 1999 (meeting of 21 October) the Economic and Social Committee adopted the following opinion by 101 votes to 7 with 5 abstentions.

1. Introduction

1.1. A monetary union comprising eleven Member States came into being on 1 January 1999. Such an outcome was highly positive, and represented the fruition of a convergence process launched several years before. Most countries undertook considerable efforts to be ready in time, particularly in terms of balancing their public finances.

1.2. The euro is not an end in itself, but rather a valuable tool enabling the Member States to develop the single market further and conduct a coordinated monetary policy. The single currency must now be used to stimulate a dynamic process strengthening Europe and boosting solidarity.

1.3. The single currency is not only of interest to specialists. It is destined progressively to affect all EU citizens. Citizens will measure the euro's success by very down-to-earth criteria.

1.3.1. The euro will gain in appreciation if the EU shows that it can use this tool to encourage job creation and bring greater prosperity to all the EU's countries and regions.

1.4. Article 2 of the EU Treaty declares that 'The Union shall set itself the following objectives: — to promote economic and social progress and a high level of employment and to achieve balanced and sustainable development, in particular (...) through the strengthening of economic and social cohesion and through the establishment of economic and monetary union ...'.

1.4.1. Union policies as a whole must enable progress to be made towards the goal of strengthening economic and social cohesion.

1.5. Just a few months after the launch of the third phase of Economic and Monetary Union, it is in many ways hazardous to attempt an analysis of the impact of EMU on cohesion. However, despite the short period elapsed, it is possible to make some comment, given that — for most Member States — the impact of EMU could be felt before 1 January 1999.

2. Cohesion in the European Union

2.1. Article 158 of the EC Treaty defines economic and social cohesion as a means of reducing 'disparities between the levels of development of the various regions and the backwardness of the least favoured regions or islands, including rural areas'.

2.2. In order to analyse the progress made in achieving economic and social cohesion, in November 1996 the Commission presented its First cohesion report, on which the Committee issued an opinion⁽¹⁾. More recent data, shedding further light on progress towards cohesion, are set out in the Sixth Period Report on the social and economic situation and development of the regions of the European Union⁽²⁾.

2.3. The advantage of approaching cohesion from the standpoint of regional trends is that more detailed analyses can be made. Trends in national averages can conceal widely varying circumstances between smaller territorial units.

2.4. Is cohesion being strengthened? The statistics set out in the Commission reports do not permit a definite 'yes'.

2.4.1. Two ways of looking at this merit particular consideration: per capita GDP and unemployment.

2.5. The Commission notes a process of catching up in terms of per capita GDP. Between 1986 and 1996 the per capita GDP of the 25 poorest regions rose from 52 to 59 % of the Union average.

2.5.1. Although this is encouraging, it represents only a relative success. Catching up is, for example, far more pronounced in certain regions, such as the capitals of the cohesion countries. Progress is much slower in the rural regions of these same countries.

⁽¹⁾ OJ C 206, 7.7.1997.

⁽²⁾ OJ C 329, 17.11.1999.

2.5.2. Another cause for concern is that regional disparities within national borders, measured by per capita GDP, are growing in most Member States.

2.6. Turning to unemployment, the picture is bleak. A high average unemployment level remains a depressing feature of the Union, at roughly 10 % (according to the ILO definition).

2.6.1. Divergence from the average is enormous. Some regions have almost no employment problem. The 25 regions with the lowest unemployment rates have experienced virtually no increases in under-employment for the last 10 years. Their unemployment rate remains at around 4 %.

2.6.2. In contrast, the level of unemployment in other regions is unacceptably high. The rate has even increased significantly over a 10-year period (1987-1997) in the 25 worst-affected regions, rising from 20,1 to 23,7 %.

2.7. The relative closing of the gap in terms of the wealth produced has little impact on unemployment. Under these conditions, cohesion between regions cannot be said to have advanced substantially.

3. Why the European Employment Pact must succeed

3.1. Any progress on greater economic and social cohesion is closely linked to the dynamism of the economy. Similarly, success in convincing the public of the merits of EMU will depend largely on the EU's ability to pursue a growth and employment strategy. In this respect, the Cologne Summit's adoption of a European Employment Pact is of great importance.

3.2. The Pact aims to enhance cooperation between the various economic and social players, and to provide for more effective coordination of economic policy, both at macroeconomic and structural level. As a recent ESC opinion⁽¹⁾ emphasized, 'The labour market policy measures advocated in Luxembourg, as supplemented by the structural programme launched in Cardiff, should accompany the appropriate macroeconomic policy mix, embracing fiscal, monetary and wages policy, in order to create a climate of confidence to stimulate consumption and investment and thus to boost employment in a durable way.'

3.3. The plan adopted in Cologne is still a blueprint. It now has to be put into practice. The Committee believes that all stakeholders, including, of course, governments, but also the

social partners and the European Central Bank, must be fully committed to ensure that, within the confines of their own area of competence, they each help to bring about the successful implementation of the three key strands of the European Employment Pact: labour-market policy measures (Luxembourg process); measures for reform of the market in goods, services and capital (Cardiff process); and macro-economic measures (Cologne process).

3.4. The Committee would stress once again that all three strategies are interdependent. There is no point trying to improve the labour market if growth is too weak to allow jobs to be created. The reverse also holds true. The same can be said of reform of the market in goods, services and capital.

3.5. The Committee would reiterate the call made in previous opinions for all Member States — in view of the ageing population — to modernise their social protection systems (pensions, healthcare, etc.), both in terms of funding and benefits, in order to safeguard their crucial role in the European social model.

4. The potential impact of EMU on the Member States

4.1. The third stage of EMU was launched just a few months ago. Consequently, many of the effects of monetary union remain largely invisible. A number of changes are expected, and some can already be seen.

4.2. Monetary union is part of the drive to establish a large single market in Europe. The disappearance of national currencies takes us one step further towards removing the borders between the Member States. In this respect, monetary union — thanks in particular to the greatest possible price transparency — will increase competition throughout the European Union. Corporate activity (cross-border link-ups, mergers, etc.), which is already encouraged by the single market, will receive a further boost.

4.2.1. The increase in competition is potentially beneficial since it is likely to yield quality and productivity gains. What must be avoided, however, is a situation in which each Member State engages in unbridled competition against its neighbours. This could happen in areas such as the environment, taxation or working conditions. Monetary union makes an even more pressing case for harmonisation or coordination in a number of areas. This applies particularly to the projects currently under discussion concerning taxation on savings and corporation tax.

(1) OJ C 209, 22.7.1999.

4.2.2. Stronger competition will certainly enable productivity gains to be made, gains which in theory constitute one of the pillars of growth and improved well-being. At the same time, there could be concern in some quarters as to whether these productivity gains might lead to job losses in Europe. Such a risk does exist. However, if EU players manage to coordinate their economic policies, demand could be sufficiently healthy. Should this be the case, the net impact on employment could be positive. Productivity gains in some sectors are likely to lead to lower prices, and the knock-on effect could be increased demand for a large number of products and services. Once again, the key to success would seem to lie in the successful implementation of the European Employment Pact mentioned in the previous section.

4.3. With monetary union there can no longer — by definition — be any exchange rate upheaval caused by currency speculation, for example. Some countries were exposed to this during the early nineties. The whole continent then suffered from distortions of competition which, at the end of the day, led to weaker results in terms of employment and growth.

4.3.1. Moreover, the Committee welcomes the fact that the eurozone countries were protected from the exchange rate shocks of 1998. This is a fundamental achievement, and one which can already be added to the euro's credit.

4.3.2. As Wim Duisenberg, governor of the ECB, again stressed in his latest meeting with ESC representatives, one of the euro's basic aims is to be a factor for internal stability.

4.4. It is risky to venture any precise forecast of interest rate trends in the euro area. One achievement should, however, be highlighted: the elimination of exchange rate risk in the euro area impacts positively on public finances. Before the advent of the single currency, the financial markets — worried about a possible devaluation — imposed a public borrowing risk premium on certain countries. With the removal of the exchange rate risk, those countries are now able to borrow at a more favourable rate. All things being equal, interest charges will be lower, and if the policy continues unchanged, the balance sheet will automatically improve. Countries which are heavily indebted stand to gain considerably from the removal of the risk premium imposed to compensate for exchange rate fluctuation.

4.5. As 1 January 2002 approaches (and even more so afterwards) the euro will play an increasingly important role in commercial transactions. Exchange from one currency to another will thus be less frequent in the euro area. This should allow economic players (companies, consumers) to make considerable savings on their transaction costs. Commission estimates put the savings at 0,5 % of GDP for the larger countries. For the smaller countries, the savings could be as much as 1 %.

4.5.1. These savings on transaction fees can sometimes provide a considerable boost to European corporate competitiveness.

4.5.2. A further valuable aspect of the euro is that it is increasingly set to become a reference currency at world level, alongside the yen and the dollar. An initial pointer is the proportion of bonds issued in euros. Having a currency of world importance offers numerous advantages. Clear, one of these is enhanced protection against the impact of fluctuations of other currencies.

4.6. In addition to the accepted obligations and the promises made since the launch of the euro, the single currency imposes a number of behavioural changes on the participating countries. Now that the EU has a single currency, it is vital that it should move towards economic and political union. Analysing this shift raises a number of questions, dealt with in other Committee opinions⁽¹⁾: economic policy coordination, taxation, etc.

4.6.1. In this opinion, the Committee would like to dwell on two particular aspects: budget policy and incomes policy.

4.7. It is essential that the participating countries respect the budget aspects of the provisions of the Stability and Growth Pact. Several Member States need to push ahead with an overhaul of their public finances. The aim is for all EU countries to have sufficient room for budget manoeuvre in order to deal with any deterioration in the economic climate.

4.8. Incomes policy also changes with monetary union. It is no longer possible to use devaluation to bridge a competitive gap. The social partners involved in negotiating wage settlements therefore have increased responsibility.

4.8.1. In a previous opinion⁽²⁾, the Committee felt it was important that the socio-occupational organisations should manage to achieve better coordination of the different wage bargaining levels and fora. This is necessary if the social partners are to be able to contribute to a growth and employment momentum without feeding inflation.

5. EMU and choice of investment location

5.1. Monetary union will undoubtedly impact on the choice of location for investment in Europe. One aspect can already be highlighted: direct foreign investment in the euro area is now completely protected from any participating country exchange rate fluctuations, and is consequently safer.

⁽¹⁾ See, in particular, the opinions on the 1999 *Annual Economic Report*, in OJ C 209, 22.7.1999, and on *Fiscal policy*, (in progress).

⁽²⁾ OJ C 40, 15.2.1999.

5.2. Numerous scientific studies have attempted to pinpoint the reasons for choosing an investment location. While it is clearly not the aim of this opinion to debunk these studies, the Committee would reiterate that it is not in Europe's interest to try to compete with low-wage economies and undercut their comparative advantage. Scientific studies have shown that there are other decisive factors in attracting investment which yields high value-added: dynamic research, expertise, a skilled workforce, and the social climate are all important elements.

5.2.1. If we are to safeguard prosperity throughout the European Union, Europe will have to pursue strategies which are underpinned by quality goods and high productivity.

5.3. In addition to private investment, public investment is also an important factor in ensuring all EU regions are able to develop in harmony.

5.3.1. A recent Commission report⁽¹⁾ indicates that government investment has fallen from 3 % of GDP in the early 1990s to little more than 2 % today. One of the main reasons for the reduction has been compliance with government deficit criteria. Privatisation of a swathe of services and the transfer to the private sector of the relevant investments is another.

5.3.2. This situation could have a negative impact on regional development, particularly investment in new technology, which is of crucial importance. It is essential that care be taken to ensure that privatisation does not lead to disinvestment in the less developed regions, in keeping with the economic profitability imperative. This must be tracked carefully in the future.

5.3.3. The financial perspective, as endorsed by the Berlin European summit of March 1999, will entail a scaled-down Union intervention in regional terms. Future investments by the public authorities in their less developed regions are therefore assuming even greater importance. The Committee would argue strongly that assessment of compliance with the Stability and Growth Pact must be able to take this into account.

5.3.4. It is imperative to avoid repeating the experiences of the past. Economic and social cohesion would be damaged if, in the event of a crisis or shock, government investment were to be the first area to suffer cuts, as was the case in the transition to the third phase of economic and monetary union and is generally the case with significant budgetary adjustments.

6. Asymmetric shocks — a threat to cohesion

6.1. A classic problem in any monetary union is the capacity to react to an asymmetric shock: in other words, an unexpected event impacting directly or indirectly on the socio-economic parameters of employment, production and inflation.

6.1.1. 'Asymmetric' means that the shock does not affect the entire territory of the monetary union equally.

6.2. The risk of asymmetric shock can be measured using multiple parameters.

6.3. One of these is the degree of openness to trade. Trade outside the euro area accounts for only approximately 13 % of the GDP of the euro area countries. This is, of course, an average: the figure for some countries is considerably higher. This does, however, illustrate that the health of the short-term economic situation inside the euro area depends primarily, and to a large extent, on internal factors.

6.4. A second approach is to observe the progress of short-term economic cycles.

Table 1

Correlation of GDP growth with the euro area⁽¹⁾

	1977-1986	1987-1992	1992 (2nd half)- 1996
Germany (*)	0,89	0,28	0,93
France	0,72	0,85	0,99
Italy	0,93	0,65	0,92
Austria	0,65	0,71	0,85
Belgium	0,51	0,92	0,97
Finland	0,17	0,68	0,88
Ireland	0,30	0,65	0,76
Netherlands	0,76	0,60	0,89
Portugal	0,48	0,43	0,41
Spain	0,21	0,62	0,94
United Kingdom	0,48	0,53	0,57
Denmark	0,33	- 0,07	0,54
Greece	0,65	0,36	0,83
Sweden	0,27	0,61	0,90

⁽¹⁾ The correlation coefficient of GDP growth in each country with that of the eleven countries which joined the EMU in 1999. The correlations are based on six-monthly figures.

(*) Figures for the 1987-1992 period are affected by German unification.
Source: OECD

⁽¹⁾ Government investment in the framework of economic strategy, COM(1998) 682 final of 2.12.1998.

6.4.1. These figures show that economic cycles in the countries of the euro zone are drawing closer to each other. In other words, periods of short-term growth and slow-downs are tending to coincide more closely. Economic cycles in the euro-11 are moving towards greater symmetry. It is to be hoped that this closer alignment of economic cycles will be confirmed in the future — a realistic hope provided that progress can be made in coordinating economic policies.

6.4.2. These results must, of course, be interpreted with due caution. They certainly do not bear out the conclusion that there is no danger of asymmetric shock, but they do put the risks into perspective.

6.5. Recent economic studies suggest that asymmetric shocks can often be of a regional, or multi-regional, rather than national character. A brief analysis of the productive structures of various Member States reveals regional differences in the production and/or services fabric.

6.6. Some see interregional migration as a possible solution in the event of a specific shock or continuing unemployment. Studies reveal that a mix of factors restrict such mobility, prominent among them housing opportunities. It is worth stressing that in the event of a temporary shock, emigration of a part of a region's qualified potential will, in the medium term, do more to jeopardise economic recovery than to encourage it.

6.7. The Committee would reiterate the need for the Member States to comply with the provisions of the Stability and Growth Pact. It is vital that Member State public finances should be healthy enough to respond to unexpected shocks. In such a scenario, a country should be able to rely on its own resources.

6.8. At the same time, recourse to European solidarity — as provided for in Article 100(2) of the Treaty, which states that 'where a Member State is in difficulties or is seriously threatened with severe difficulties caused by exceptional occurrences beyond its control, the Council may, acting unanimously on a proposal from the Commission, grant, under certain conditions, Community financial assistance to the Member State concerned' — must also be an option.

6.8.1. The Committee believes that the EU should now begin discussing plans for machinery to counteract asymmetric shocks. Several important European leaders — including the Commission President, Romani Prodi, have broached this subject. The European Parliament has, for its part, adopted a report along these lines⁽¹⁾. The Committee regrets that the issue has not yet been discussed at an Ecofin Council meeting. The aim would be to prepare responses anticipating an event which cannot be assumed to be impossible.

6.8.2. As the European Parliament points out, a legal framework is needed now: otherwise time will be lost in

developing one if such an event occurred. The Committee agrees with the proposal to set up an early-warning system through which the risk of asymmetric shock could be evaluated twice a year.

6.8.3. Temporary financial transfers could help regions to recover their growth potential. The goal of such a mechanism would not be redistribution but to help the Member State in question to withstand the shock (at national or regional level). It would work as a sort of insurance.

6.8.4. Among ways of building up a fund to counterbalance asymmetric shocks, some observers suggest considering use of the surplus reserves held in the national central banks. This is an approach which remains to be explored.

7. Conclusions

7.1. The arrival of the euro is a milestone in the European venture. Europe now has a valuable tool at its disposal. It is crucial that the dynamic generated by the single currency project be maintained, as the euro is not an end in itself. It must serve as a lever for further progress towards a stronger Europe, capable of responding to its citizens' fundamental aspirations.

7.2. Just a few months after the launch of the third phase of EMU, economic and social cohesion between the regions of the EU is still largely incomplete. While some progress has been made between rich and poor regions as far as wealth-creation is concerned, little success has been achieved on the employment front.

7.3. The Committee places much faith in the European Employment Pact, which was instigated by the German presidency. EMU will work for growth and employment if there is real coordination of the Luxembourg strategy (labour market policy measures), the Cardiff strategy (reform of the market in goods, services and capital) and the Cologne strategy (macroeconomic measures). Across-the-board participation — involving the social partners in particular — is vital to the success of this process.

7.4. The establishment of Economic and Monetary Union involves a number of upheavals, some of which have yet to surface. Monetary union offers new potential: increased competition, security for foreign investment, lower transaction costs and greater internal stability.

7.5. It also forces the participating countries to be more disciplined. This is particularly true of budget policy. The social partners have the onerous task of coordinating wage bargaining in such a way as to bolster demand without any risk of causing the economy to overheat and feeding inflation.

⁽¹⁾ OJ C 98, 9.4.1999.

7.6. The Committee feels that one of the threats to cohesion in EMU is the appearance of an asymmetric shock in some regions of the EU. Both the individual Member States and the European institutions should prepare to deal with such a risk.

The ways and means exist. The Committee insists that no time be wasted in preparing instruments to enable the EU to react as soon as such a shock occurs.

Brussels, 21 October 1999.

The President
of the Economic and Social Committee
Beatrice RANGONI MACHIAVELLI
