

English edition

## Information and Notices

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## II

*(Preparatory Acts)***ECONOMIC AND SOCIAL COMMITTEE****Opinion of the Economic and Social Committee on the 'Proposal for a Directive of the European Parliament and of the Council amending for the seventh time Council Directive 76/768/EEC on the approximation of the laws of the Member States relating to cosmetic products'**

(2000/C 367/01)

On 26 May 2000 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.

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 1 September 2000. The rapporteur was Mr Braghin.

At its 375th plenary session 2000 (meeting of 20 September), the Economic and Social Committee adopted the following opinion by 87 votes to one with one abstention.

**Foreword**

The main aim of the basic directive (Directive 76/768/EEC) is to protect consumer health. An assessment of the current market situation shows beyond any doubt that the directive has improved the quality of cosmetic products. The subsequent Council Directive 93/35/EC of 14 June 1993 (known as the 'sixth amendment' of Directive 76/768/EEC) set the additional priority aim of reducing the suffering of animals used in tests necessary for consumer safety. This was to be achieved by the use of alternative validated methods. So far, however, only three alternative methods have been validated, despite all endeavours.

It should be pointed out that animals used in cosmetics testing form a very small percentage of the total number of animals used to guarantee product safety. Independent authoritative estimates based on the second Commission report to the Council and the European Parliament on the number of animals used for experiments in the EU suggest that only 0,3 % of experiments concern tests for cosmetic products. It must also be borne in mind that the tests do not involve killing the animal, and that particular suffering is not inflicted on it. The main species used are guinea pigs, rats, rabbits and fish; in no cases are primates used.

**1. Introduction**

1.1. The proposed seventh amendment to Council Directive 76/768/EEC has four key objectives:

- to introduce a permanent and definitive prohibition on the performance of experiments on animals for finished cosmetic products in the territory of the European Union;
- to amend the prohibition on the marketing of cosmetic products containing ingredients or combinations of ingredients tested on animals as soon as validated alternative methods become available (postponing the current deadline to three years after implementation of the directive by the Member States);
- to revise current legislative provisions so as to make them WTO (World Trade Organisation) compliant and legally and practically enforceable;
- to regulate the use of information indicating that neither a product nor its ingredients have been tested on animals, in order to improve consumer information and ensure that consumers are not misled.

1.2. The definition of 'cosmetic products' in Directive 93/35/EEC covers a range of products not restricted to those generally known as beauty products. Article 1 of the directive states that 'a "cosmetic product" shall mean any substance or preparation intended to be placed in contact with the various external parts of the human body (...) or with the teeth and the mucous membranes of the oral cavity with a view exclusively or mainly to cleaning them, perfuming them, changing their appearance and/or correcting body odours and/or protecting them or keeping them in good condition'.

1.2.1. Annex 1 of Directive 76/768/EEC defines the types of products covered. Examples range from toilet soap, bubble bath, shampoo and toothpaste to sun-tan lotion, moisturisers, skin food, perfumes and make-up products.

1.2.2. Since these cosmetic products are for everyday use throughout life, they must not be harmful, either immediately (e.g. allergic reactions) or in the long term (e.g. leading to cancer or birth defects). To protect human health, the safety of the finished product and its ingredients must be assessed, taking into consideration the general toxicological profile of each ingredient, its chemical structure and the level of exposure.

1.3. For reasons of consumer protection, it is not possible to abandon safety testing. The directive contains lists of prohibited substances, substances subject to restrictions and requirements, and authorised substances. These lists are regularly adapted to take account of technical progress, after the Scientific Committee on Cosmetic Products and Non-Food Products (SCCNFP) has delivered its opinion.

1.4. Ethical concerns regarding respect for life have been raised by public opinion and are shared by the scientific community and by many public authorities and institutions, as well as by the parties concerned. These demand a reduction in the number of tests and animals used, and in the duration of tests and the suffering caused and, wherever possible and as soon as possible, the elimination of all animal testing, provided that consumer safety is guaranteed.

1.5. For the measures adopted to be effective and enforceable, account must be taken of the constraints arising from international trade rules, in particular those of the World Trade Organisation (WTO), ensuring that the prohibition of the marketing of cosmetic products containing ingredients tested

on animals after 30 June 2000 does not become a form of discrimination contrary to WTO rules and in particular the provisions of Article III (4) of the GATT.

1.6. For finished cosmetic products, the Commission therefore proposes to ban animal experiments in the Member States from the date of implementation of the directive by the Member States. For ingredients, the ban on animal experiments should be introduced within three years, subject to publication in the Official Journal of alternative methods that have been scientifically validated and officially endorsed by the European Centre for the Validation of Alternative Methods (ECVAM) and deemed applicable to cosmetic products by the SCCNFP, provided those alternative methods offer 'an equivalent level of protection for the consumer' [Article 4a 1(b)]. This ban on experiments does not mean a ban on marketing cosmetic products tested on animals, in order to prevent discrimination between products of different geographical origin, which would infringe current marketing rules and international law.

1.7. To improve the information supplied to the consumer, the proposal also offers the manufacturer or person responsible for placing the cosmetic product on the market the possibility to claim that no animal tests have been carried out (either directly or indirectly) on the product, its prototype or its ingredients. Guidelines will be provided containing specific provisions designed to ensure that common criteria are used, that only one interpretation is possible, and above all, that consumers cannot be misled.

1.8. Finally, the draft directive includes formal measures, adjusting the names of the Scientific Committee on Cosmetic Products and Non-Food Products intended for Consumers (SCCNFP) and the Standing Committee on Cosmetic Products, and establishing decision-making procedures following the adoption of Council Decision 1999/468/EC of 28 June 1999, laying down procedures for the exercise of implementing powers conferred upon the Commission.

## 2. General comments

2.1. The Committee endorses the aims and objectives of the draft directive which, as part of its primary purpose of protecting public health by means of toxicological tests to evaluate the safety of cosmetic products for human health, also aims to progressively abolish animal experiments, insofar as this is possible, and clarifies the practical procedures and timetables for making the prohibition of such experiments effective on the territory of the Member States.

2.2. The draft directive gives a clear outline of the scope of the ban on ingredients and their combinations, an area that had previously been subject to divergent interpretations and applications. It also lays down deadlines for implementing the ban: three years from the date on which the Member States put the directive into effect, possibly extended by two years where alternative methods scientifically validated as offering an equivalent level of consumer protection have not been developed.

2.2.1. The Committee is aware that the development, validation, standardisation and regulatory acceptance of alternative methods is a complex, difficult process, as acknowledged in the Commission's proposal, which notes that only three alternative methods have been validated to date in spite of the efforts made since the adoption of Directive 93/35/EEC (the 'sixth amendment' of Directive 76/768/EEC). The Commission also suggests that the prospects are less promising for research into long-term effects and certain acute effects to the skin and eyes (difficulty in standardising certain types of *in vitro* tests, e.g. for skin sensitivity and eye irritation).

2.2.2. The Committee agrees that clear objectives should be set for the progressive reduction and eventual prohibition of animal testing, and hopes that every effort will be made to comply with the dates indicated, provided that consumer safety is not compromised. The Committee however proposes that the deadline be extended if it proves impossible to secure the expected results.

2.3. The moral objective of applying the 'three "R"s rule' (replacing the use of animals, reducing their number, and refining techniques) will require an additional research effort on the part of the Joint Research Centres, private and university research establishments and national research bodies. The Committee calls on the Commission to do all it can to locate appropriate resources, especially under the fifth framework programme and for the ECVAM.

2.4. The Committee fully endorses the Commission's commitment to publish details of alternative methods that have been validated at Community level immediately (approved by the ECVAM and given a positive assessment by the SCCNFP as to their applicability in the cosmetics industry) with a view to guaranteeing the safety of the ingredients and combinations of ingredients used, providing those methods offer an equivalent level of consumer protection to animal experiments. Such methods should be disseminated using all available means, and the industry should apply them as speedily as possible.

2.5. The Committee approves of the innovative approach of using regulatory acceptance at European level as a means of opening the door to the legal acceptance of alternative experimentation methods. The Union is thus leading the way in the legal acceptance of harmonised alternative methods, removing the need for acceptance by all OECD members, which can take several years.

2.6. The Committee also welcomes the Commission's undertaking to step up negotiations within the OECD to ensure genuine acceptance of alternatives to animal testing on a global scale, and to secure mutual recognition of data demonstrating the safety of products and ingredients by means of alternative validated and standardised methods (thus preventing the repetition of studies using animal models).

2.7. The Committee is concerned about the additional cost to industry — SMEs in particular — that the ban on animal tests will entail, especially in terms of global competitiveness if third countries do not promptly apply the methods that are validated and accepted in the EU.

2.7.1. The Committee urges the Commission to ensure that the new European legislation does not create distortions in the single market and in trade flows with other regions to the detriment of European products.

2.8. Commission intervention, in conjunction with the Member States, is needed to draw up guidelines for better and more comprehensive consumer information, with a view to preventing confusion, abuse, and the risk of consumers being misled. Experience shows that finished cosmetic products often claim not to have been tested on animals but give no information on ingredients, and that there is a tendency to present 'natural' ingredients as if they were exempt from testing requirements. The Committee recognises the validity of the relevant work being carried out by the Commission, and suggests that precise rules and guidelines for labelling in this area be applied as soon as they become available, irrespective of the stage reached by the present draft directive in the legislative process, which could be very lengthy.

2.9. Article 4a(3) states that until the entry into force of the prohibition referred to under paragraph 1(b) of Article 4(a), the Commission is to present an annual report to the European Parliament and the Council on progress in the development, validation and legal acceptance of alternative methods to those involving animal experiments. This report should contain not only accurate data on the number and type of animal experiments relating to cosmetic products, but also information on the adverse reactions encountered (as laid down by Directive 93/35/EEC, which has not been fully implemented by the Member States) and the risks to human health demonstrated.

2.10. The information which the Member States must forward to the Commission regarding the sector covered by Directive 76/768/EEC and subsequent amendments, particularly the sixth amendment under Directive 93/35/EEC, is sometimes late or inaccurate. The Committee calls upon the Commission to be more vigilant in this respect and to prepare a general framework on the national legal provisions adopted in the meantime by the Member States, and on how they are applied.

### 3. Specific comments

3.1. Consumer safety must be the primary focus, especially for certain sections of the population, such as children under the age of three. An assessment should therefore be made as to whether broader restrictions (e.g. regarding fragrances) should apply to the lists of ingredients allowed in products destined for infants.

3.2. The continued growth of allergic diseases and the massive rise in allergies, linked to air pollution and foodstuffs, would suggest that the range of methods used should be widened beyond toxicological tests to include the study of possible side-effects, and that these should be mentioned on the label.

3.3. Aromatic and perfumed substances of a highly complex nature — sometimes unknown or concealed by industrial secrets — are widely used through the entire range of cosmetic

products: this structural complexity makes it impossible to specify each individual ingredient on product labels. However, such substances should be indicated by an appropriate term on the label, at least when they have a proven capacity to produce allergic reactions.

3.4. The use of substances which are carcinogenic, mutagenic or toxic to reproductive organs, under the list of dangerous substances referred to in Directive 67/548/EEC, should be prohibited, as should more generally, the use of substances which have been shown to produce significant allergic reactions, given the length of time that consumers use cosmetic products.

3.5. The producers and suppliers of ingredients and intermediates for cosmetic products should provide the Member States and the Commission with information on toxicity studies already included in the Safety Dossier and Material Safety Data Sheet, so that they can, if necessary, act more effectively and swiftly to protect public health.

3.6. Clear and comprehensive labelling should include the use-by date, subject to the verification of data on the stability of the finished product, which the producer should provide in the dossier.

3.7. The alternative methods mentioned in point 2.2 of the explanatory memorandum do not specifically include tests based on human or animal cell culture. These should be considered for possible use in toxicological tests as regards both short- and long-term effects.

Brussels, 20 September 2000.

*The President*  
*of the Economic and Social Committee*  
Beatrice RANGONI MACHIAVELLI

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**Opinion of the Economic and Social Committee on the 'Proposal for a Directive of the European Parliament and of the Council on the promotion of electricity from renewable energy sources in the internal electricity market'**

(2000/C 367/02)

On 26 June 2000 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 Transport, Energy, Infrastructure and the Information Society, which was responsible for preparing the Committee's work on the subject, adopted its opinion on 8 September 2000. The rapporteur was Mrs Sirkeinen.

At its 375th plenary session 2000 (meeting of 20 September) the Economic and Social Committee adopted the following opinion with 105 votes to 1 and 4 abstentions.

## 1. Introduction

1.1. The Economic and Social Committee follows with great concern the developments in the EU and Member States towards meeting the obligations of the Kyoto Protocol, in order to combat global climate change. As energy production and use is a major source of carbon dioxide emissions in the EU and increased use of renewable energy sources is one of the possibilities to curb these emissions, the Committee appreciates that the Commission has finally, as one key action in this area, presented its draft Directive concerning renewable energy sources in the internal electricity market.

1.2. The White Paper 'Energy for the future: renewable sources of energy'<sup>(1)</sup> set an indicative objective of doubling the share of renewable energy from 6 % to 12 % of the gross inland energy consumption by 2010. This share was further translated into a specific share for the consumption of electricity from renewable energy sources, RES-E, now updated to 22,1 %. The White Paper also established a comprehensive Action Plan, including as one of many measures a Directive on RES-E in the internal electricity market. In its Opinion the Committee supported in general the thrust and the goals of the White Paper, even if it found the objective of 12 % very ambitious, and underlined the need for substantial measures in order to meet the goal.

1.3. The European Council at Lisbon in March 2000 decided to speed up the development of the internal market for electricity, established by the Directive of 1996. A well

functioning internal market partly supports the goal of increasing RES-E while enhancing efficient use of resources<sup>(2)</sup>, economies of scale and better ground for R&D and innovation. The internal electricity market can work well only if all actors have a level playing field in different Member States, i.e. competition and intra-EU-trade must not be distorted by national actions like restrictions, support schemes, etc.

1.4. Several Member States have established systems to increase the share of RES-E in their national electricity consumption. Public financial support in different forms is often substantial. This is justified by the need to compensate for the public support given to traditional energy sources, in some cases directly as subsidy and in any case by not internalising all external costs in the prices.

1.5. The problem to be solved in a balanced way is in brief the following. How to speed up development and market share of RES-E and at the same time ensure the proper functioning of the internal electricity market and not unduly increase the cost burden on state and consumers.

## 2. The Commission proposal

2.1. The basic aim of the proposed Directive is to create a framework which will facilitate the medium-term significant increase in renewable generated electricity ('RES-E') within the EU. The promotion of renewable sources of energy is a high Community priority, for reasons of security and diversification of energy supply, for reasons of environmental protection, economic and social cohesion.

<sup>(1)</sup> Communication from the Commission: Energy for the future: Renewable Energy Sources-White Paper for a Community Strategy and Action Plan. COM (97) 599 final, 26.11.1997. ESC opinion — OJ C 214, 10.7.1998, p. 56.

<sup>(2)</sup> 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.

2.2. In order to achieve the Directive's objectives, Member States will therefore have to set and meet national targets for the domestic future consumption of RES-E which are consistent with the White Paper on renewables and national commitments to reduce greenhouse gas emissions in the light of the Kyoto obligations. The Commission presents indicative national targets in Annex I of the Draft Directive.

2.3. The Directive puts an obligation on the Commission to monitor the application of support schemes in favour of generators of electricity from renewable as well as conventional energy sources in Member States and, no later than 5 years after the entry into force of this Directive, to present a report on the experience gained with the application and the co-existence of different support schemes in Member States.

2.4. Besides, the proposed Directive foresees a number of accompanying measures intended to create a level playing field and facilitate the penetration of RES-E in the internal electricity market, notably regarding administrative procedures and grid system issues.

2.5. The Directive proposes that all Member States take the necessary measures to ensure that the consumption of RES-E develops in line with the above energy and environmental objectives. Member States will therefore be obliged:

- to set and meet on a yearly basis national targets for domestic future consumption of RES-E in terms of kWh consumed or as a percentage of electricity consumption for the next 10 years. These targets shall be compatible with the objectives outlined in the White Paper on RES;
- to publish, on an annual basis, their domestic objectives and the measures taken and to be taken at national level in order to meet these objectives.

2.6. Therefore, the Directive contains a provision whereby Member States shall take the necessary measures to ensure that transmission system operators and distribution system operators in their territory grant priority access to the transmission and distribution of electricity from renewable energy sources.

### 3. General comments

3.1. The legal base of the draft Directive is Article 95 of the EC Treaty, dealing with the internal market. The Committee agrees with this as the objective of this Directive is to ensure possibilities of increasing the share of RES-E in a well functioning internal electricity market. However, the Committee considers that the Article 95 is not enough to impose binding targets on Member States.

3.2. RES has a significant role to play in combating climate change. This role is, however, only partial and rather small in the overall challenge of achieving the goals set at Kyoto. RES is a high Community priority also for reasons of security and diversification of energy supply as well as economic and social cohesion. Furthermore, RES have their applications in heat generation and CHP, which may be economically more efficient and viable than electricity generation under some circumstances. To set a realistic framework for these proposed actions the Commission should develop an overall, very long term energy vision.

3.3. It should be borne in mind that the proposed Directive under consideration constitutes only one part of the EU actions towards enhancing RES, that of the relation between RES-E and the internal electricity market. There are numerous other actions ongoing or under preparation as listed in the White Paper.

3.4. The Commission should consider the fact that sensitising consumers (industry, businesses and citizens) to the use of alternative sources of energy is also a means to promote renewable electricity. A natural demand for renewable electricity should even be a primary objective, constituting a healthy market situation.

### 4. Objectives on the consumption of electricity from renewable energy sources

4.1. The Committee again emphasises the need for strong action in order to make optimal use of the potential of RES-E. Member States have, however, at present different shares of RES in their energy mix and the use of each form of RES varies considerably due to differences in geography, climate and the economy. The same variable picture is true for the potential to increase the use of RES.

4.2. Each Member State has committed itself to national targets within the EU burden sharing concerning the Kyoto Protocol. Governments are to plan and implement their individual programmes in order to meet their Kyoto targets. The role of different sectors of the economy, different measures within each sector and instruments used will vary between States. Binding sectoral targets at EU level as well as their transposition into national targets are difficult to incorporate in this approach. One could even argue that they are in clear conflict with subsidiarity vis-à-vis meeting the targets of the Kyoto protocol burden sharing as well as the Member States right to decide upon its own energy mix.



4.3. Situations may arise where a Member State attains its Kyoto targets, but does not meet the RES-E levels imposed in the Directive. In this light, the Committee feels that the Commission should spell out more clearly how the wider targets of the Kyoto protocol on the one hand and the sector-specific RES-E targets on the other hand interact with each other. Two parallel sets of targets may reduce the clarity of the objectives that will have to be met by Member States.

4.4. The Commission refers to the use of highly sophisticated modelling as a base for setting the indicative national targets for each Member State. However, it remains unclear which country-specific criteria have been used, not least in the light of close study of the national figures. Consequently it is difficult to discuss the 'fairness' of this burden sharing as such.

4.5. The Commission does not directly propose binding national targets for RES-E, but in effect the proposed approach seems to lead to that. The Committee sees a need to re-evaluate the proposal on this point. Also the legal character of an 'indicative target' is unclear and should be clarified, including the question of possible sanctions in cases of non-compliance.

4.6. The Committee agrees with the proposal to put obligations on Member States to publish objectives and measures as well as to report on progress and on the Commission to make an annual assessment report. However, in the Committee's view the national reports should be based on their Kyoto obligations and measures to meet them as a whole, not cover RES-E in isolation. The Commissions' assessment should have the same approach — is the Member State acting towards meeting its overall obligation, and is the role of RES-E viably dealt with in that context.

## 5. Support mechanisms

5.1. RES can and should contribute to sustainable development. All energy production and use has, however, impacts on the environment. Different types of RES have substantially different kinds and levels of environmental impacts. In order to achieve the best effects for sustainability it is, therefore, necessary to establish a specific environmental or ecobalance for each RES technology. This environmental evaluation should also take into account especially indirect impacts on climate change. On the basis of these balances priority support can then be given to RES technologies with a particularly positive ecobalance and a corresponding potential to replace fossil energy.

5.2. In enhancing the use of RES-E, account must also be taken of the limits to the potential use of many forms of RES-E. Biomass has its limitations due to land use and alternative end use. Hydropower is dependent on rainfall. Wind and solar energy have to be balanced by other generation, suitable for regulation. In particular, in the case of biomass serious natural and economic equilibria must not be disrupted artificially.

5.3. The argument that all external costs must be internalised in energy prices and thus level out the playing field for RES, is important and pertinent. The problem is, however, that so far there is no scientifically founded and generally accepted method to do this. Efforts in this area are vital and must continue. Meanwhile, and probably for a long time, support to renewable energy sources is needed. This should be generally acceptable as long as the absolute amount of such kinds of support is not disproportionate to the scale of overall cost of energy.

5.4. The ESC took in its Opinion on the Commission Working Document the view that a proactive creation of a single market through Community action would be needed. This entails that the direct support schemes comply with a number of basic requirements in such a way as to ensure the different schemes are sufficiently compatible with one another, permitting effective trade and, thus, competition. To postpone the definition of a harmonised framework for support to RES-E until 2005 as mooted by the Commission is accordingly a matter of some concern to the Committee.

5.5. Without incentives, the RES share may remain static or even decline. Member States already have various schemes to enhance RES-E but to act in line with the targets in the White Paper and the draft Directive they have to strengthen their efforts considerably. When by 2005 the share of RES-E is due to rise considerably, there is a clear risk of a distorting impact on the market.

5.5.1. Investments in the power field are made for decades. It is therefore essential to give actors in the electricity market certainty on operating conditions for at least the medium term.

5.5.2. Also, after establishing and operating their schemes for years, Member States will certainly be reluctant to change. In particular, when changing a support and thus operating framework, the problem of stranded investments usually rises.

5.5.3. The ESC naturally supports the Commission when it points out that State aid rules apply in this area also. But, as the Commission itself notes, even under these rules national systems can offer different conditions. This could lead distortion of the market when RES producers will try to benefit from the national system offering the best conditions and thus possibly to aid competition.

5.6. The Commission rightly points out that there is not yet enough experience to decide on one common EU-wide support system. In absence of a common approach and system, the Committee however sees that some principles should be established as soon as possible. In the Committee's view a possibility could be to set a cap on national support. For each technology a maximum support amount, for instance as a relative amount in relation to market prices or as euros per kWh, could be set at EU level, taking into account the true environmental quality, efficiency and availability of power produced by each technology. In the end, it is the absolute support given, or equivalent assistance in other ways, that has impact on competition.

5.7. The Committee agrees with the principles set out in Article 4 of the draft Directive, which should in any case apply to support schemes. It is in particular pleased, that the Commission has taken on board its proposal, presented in the opinion on the Working Document, to take into account the characteristics of the different renewable technologies.

5.8. In addition, the Committee proposes the following principles to be taken into consideration:

- the financial burden on public funds and, in particular, the cost burden on the energy user must, be affordable, proportional and fairly distributed;
- compensation should decrease over time to take into account techno-economic development, no technology can be supported continually in the long term;
- schemes should as far as possible be designed so as to leave the final decision to the market;
- all support schemes must be fully transparent
- no support scheme should offer income to a generator without normal market risk, which all generators have to bear.

5.9. To the Committee's knowledge new Community guidelines on State aid for environmental protection are presently under preparation in the Commission, but there has been no transparency regarding either the preparation process or the contents. It is of crucial importance that these guidelines are drafted in a manner to comply with the draft Directive.

## 6. Guarantee of origin

6.1. The Committee agrees in general with the Commission's proposal that Member States set up systems for certification of the origin of RES-E. The measures to ensure accuracy and reliability of such systems are of vital importance. In addition, the Committee would like to stress two points.

6.1.1. In a functioning internal electricity market there will be limitations to the extent to which a certain unit of electricity sold can be traced from generator to end user. Some classification, i.e. different brands of electricity, will probably be marketed by the exchanges but there has for practical reasons to be a limited amount of brands. This means that certification of every single source or form of generation will have no practical meaning in the market and should therefore not be required.

6.1.2. In order to facilitate mutual recognition of certificates as well as possible future trade in the internal market, it seems essential that the certification systems in Member States are, from the start, fully compatible with one another. The Commission must ensure the compatibility of national certification systems.

## 7. Administration and planning

7.1. The Committee agrees with the proposal on this point.

## 8. Grid connection

8.1. Given the special features of RES-E and its most usual generators, this part of the proposal is of vital importance. Also, the roles of grid and system operators in different Member States are different both legally and operationally. It seems that this part of the draft Directive needs further clarification, taking particular account of the role and of operators. The Committee sees need for clarification on at least three points.

8.1.1. Different dispatching systems (central dispatching vs. market based) should be considered in the proposal. Some may in practice render priority access impossible or unnecessary.

8.1.2. Unlimited priority access can cause serious problems, in particular in isolated systems, if the share of RES-E of total electricity generation is high and back-up generation capacity is not sufficient.

8.1.3. Article 7.2 does not give clear guidance on how costs and benefits generated by renewable energy installations should be divided and borne. It is important that the costs of grid connection are equitably distributed between parties involved.

8.1.4. In Article 7.5, the concept of two-way metering is unclear and should have been explained by the Commission.

## 9. Definitions

9.1. The Committee finds it correct, as it stated in its Opinion on the working document, that the Directive does not give a definition on renewable energy sources as such but gives in Article 2 definitions only for the purpose of this Directive.

9.2. The Committee wonders, however, why biomass in particular has here been defined differently than in the White Paper, without any explanation. This needs clarification. In particular, organic residues from forest industries and separated recycled fuels should be included in the definition. Naturally, avoiding and reducing waste as well as recycling are primary objectives, but when this is not possible, energy generation should be provided for instead of landfill or equivalent use. The potential harmfulness of incineration of certain kinds of waste has been mitigated by the recent Directive on waste incineration, so there should be no environmental or health arguments against broadening the definition of the draft Directive as proposed here.

9.3. In Article 2.2 the treatment of hybrid plants is ambiguous. The expression 'in particular for back-up purposes' should not mean any sort of restriction.

9.4. The Committee agrees with the treatment of large hydropower in the draft Directive as a whole. As large hydro is in principle competitive there is no reason why it should benefit from support systems. Still the question remains, how to deal with large hydro if exceptionally it would be in need of support measures. This could for instance sometimes be the case when renewing and at the same time upgrading existing plants.

## 10. Final provisions

10.1. Considering the approach of the draft Directive, which identifies needs for Community action, but leaves key issues to be decided upon only after some years, the extensive system of reporting, review and assessment is needed. It is naturally of vital importance, in this as in all other cases, that Member States comply fully with the Directive. As the goals of this Directive are to be seen as a part of a broader priority of the Union, the follow-up should also be set into that context. The Committee here refers to paragraph 4.6. above.

## 11. Socio-economic impacts

11.1. Inevitably, the increased use of RES-E will have positive impact on the business sector in question. In particular, it is important to maintain and develop the leading position EU business has in this area. This creates new jobs. The impact on remote areas and in particular islands can be considerable.

11.2. Liberalisation of the energy sector has caused some job losses. Creation and durability of jobs in the renewables sector is, for natural reasons, hard to predict. Because the new jobs will have new skill demands, serious attention should be paid to sufficient retraining and education. Concerning the overall impact on employment, the Commission refers to one report that is very positive about these consequences. In the Committee's view this important question should, however, have been dealt with more profoundly on the basis of verified, reliable data.

11.3. The Commission states that its proposal will have very limited financial repercussions on EU funds. But it is surprising that the Commission has not in any way referred to the costs for Member States and/or consumers. It is clear that even rather high costs may be outweighed by benefits in the long term. But as the draft Directive in its present form sets very ambitious objectives while leaving free choice to Member States in supporting the development, the costs may be both very high and unevenly distributed. This should have been properly dealt with by the Commission.

## 12. Summary

The Committee

- agrees with the legal base of the draft Directive but considers that Article 95 does not provide for imposing binding targets on Member States;

- 
- sees a significant but still only partial role for RES-E in the overall challenge to achieve goals set at Kyoto, and urges the Commission to develop a long term energy vision;
  - emphasises the need for strong action to make optimal use of RES-E potential and agrees with obligations on Member States to publish objectives and measures to this end, but sees the imposing of practically binding targets might be in conflict with subsidiarity applied to actions in order to meet Kyoto targets;
  - sees a clear need for incentives to increase the use of RES-E but, in order to avoid market distortions and unacceptably high costs, proposes that some principles for support should be established as soon as possible, for instance in the form of a cap on national (effective) support, taking into account the true environmental quality, efficiency and availability of power produced by each RES technology;
  - agrees with the proposal on systems for certification of origin of RES-E and points out that they should be designed to fit an open electricity market while the Commission must ensure the compatibility of national systems;
  - sees the part on grid connection to be central to the proposed Directive and points out a need for clarification on several points;
  - agrees with the treatment of hydropower in the proposal but does not agree with the changes made in the definitions of the Directive relative to those in the previous White Paper, in particular concerning biomass residuals from forest industries;
  - is supportive to the positive economic impacts of the proposal on the business sector in question but finds the analysis concerning impacts on employment and economic impacts on States and consumers very unsatisfactory.

Brussels, 20 September 2000.

*The President*  
*of the Economic and Social Committee*  
Beatrice RANGONI MACHIAVELLI

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**Opinion of the Economic and Social Committee on the 'Proposal for a European Parliament and Council Directive amending Council Directive 95/53/EC fixing the principles governing the organisation of official inspections in the field of animal nutrition and Council Directive 1999/29/EC on undesirable substances and products in animal nutrition'**

(2000/C 367/03)

On 27 April 2000 the Council, acting under Article 152 of the EC Treaty, decided to consult the Economic and Social Committee on the above-mentioned proposal.

The Section for Agriculture, Rural Development and the Environment, which was instructed to prepare the Committee's work on this subject, adopted its opinion on 26 July 2000. The rapporteur was Mr Leif E. Nielsen.

At its 375th plenary session, held on 20 and 21 September 2000 (meeting of 20 September) the Committee adopted the following opinion by 101 votes with 3 abstentions.

## 1. Background

1.1. The purpose of Directive 95/53/EC on the principles to govern official inspections in the field of animal nutrition<sup>(1)</sup> is to harmonise the official inspections carried out by the Member States. The Directive has been in force since 1 May 1998 and contains a number of provisions regarding the carrying out of checks, cooperation between Member States, introduction of safeguard measures in the event of infringements, annual inspection programmes and communication of the relevant reports to the Commission (commencing in April 2000), besides requiring the Commission to present an overall report each year (as from October 2000) and a proposal for a recommendation concerning a coordinated Community control programme.

1.2. In 1998, following the detection of dioxin in citrus pulp imported into the EU, the Commission presented a proposal amending the Directive<sup>(2)</sup> so as to allow the Commission to conduct on-the-spot inspections both in the Member States and in third countries and, when confronted by a serious risk, to adopt a safeguard measure for products originating in third countries. In addition, the proposal makes it possible for the Commission to require the Member States to conduct specific targeted inspection programmes as back-up to the annual, general control programme.

1.3. The current proposal forms part of the follow-up programme after the May 1999 dioxin crisis and further tightens up the legislation, making it possible to monitor contamination and implement specific inspection programmes. In the light of past experience, special conditions are laid down for the approval or registration of establishments or operators handling products constituting a hazard.

## 1.4. More specifically, the proposal provides that:

- Member States shall set up national contingency operational plans to deal with emergencies relating to the detection of serious risks for public health, animal health or the environment from products for animal nutrition. The Commission approves these plans and their efficiency is verified by blind simulations on a regular basis;
- where a problem is likely to pose a risk to human or animal health or to the environment, the Commission shall immediately suspend — or lay down special conditions for — the putting into circulation of the relevant products in the EU or third countries. Any Member State may, within thirty days, refer the Commission's decision to the Council which, acting by a qualified majority, may take a different decision within thirty days. A Member State may adopt corresponding interim protective measures where it has called on the Commission to act without any result. In that case the matter is submitted to the Standing Committee for Feedingstuffs within ten working days for its opinion with a view to the extension, amendment or repeal of the decision;
- decontamination, reprocessing or destruction must not have harmful effects on public or animal health or on the environment. Where contamination has spread to the food chain, the relevant batches shall be traced and the necessary steps taken to prevent damage of any kind. In addition, the Commission must be notified so that it can provide the other Member States with the relevant information;
- exchange of information shall be governed by the same procedure as applies for risks connected with foodstuffs, which is based on the rapid alert system for general product safety<sup>(3)</sup>. Pending revision and possible measures

<sup>(1)</sup> OJ L 265, 8.11.1995, p. 17.

<sup>(2)</sup> COM(1998) 602 final, OJ C 346, 14.11.1998.

<sup>(3)</sup> Directive 92/59/EEC on product safety, OJ L 228, 11.8.1992.

resulting from the White Paper on food safety, the current rapid alert system is applicable;

- further, actions taken are to be recorded in the annual report to the Commission;
- when the frequency of a certain contamination or hazard increases, the Member State is to draw up an interim report, to be sent to the Commission, and the matter will be discussed in the Standing Committee for Feedingstuffs in order to take the appropriate measures.

## 2. General comments

2.1. The proposal must be viewed in relation to the Commission's White Paper on food safety<sup>(1)</sup>. The White Paper sets out the broad principles for food safety and gives an overview of the set of proposals which the Commission plans to present in the near future with a view to coordinated action at all stages of the food chain, from 'farm to table'. The overview encompasses various proposals on feedingstuffs, including the one which is the subject of this opinion.

2.2. As stated in earlier ESC opinions<sup>(2)</sup>, the ESC supports the White Paper's strategy on future inspection measures, including the interrelationship between the EU and national inspection authorities, which is given tangible form in the current proposal.

2.3. As the ESC has pointed out, future control should consist first and foremost of pressing ahead with compulsory, recognised self-regulation within establishments, which can detect sources of pollution faster and more effectively than national authorities are able to do. Far greater emphasis should therefore be placed on the HACCP principle in connection with approval or certification of self-regulation by establishments as well as quality guarantees and registration of data for individual batches so that it is possible to detect sources of pollution at an earlier stage and more effectively than has so far been the case.

2.4. It can be observed that the combination of self-regulation and official inspections has not operated properly in the case of dioxin pollution and the subsequent case of sludge in animal feed. Further measures are therefore needed.

2.5. It is also a fact that the dioxin crisis was handled badly and that there was insufficient coordination between the relevant authorities. The Commission could merely take

emergency measures regarding contamination likely to stem from products of animal origin. The Commission only learnt of such contamination at a very late stage, and national measures were inadequate. In connection with the detection of sludge in animal feed, no requirement or possibility existed of including such information in a Commission warning to the other Member States concerned.

2.6. Experience has therefore proved the need to improve procedures regarding safeguard measures and exchange of information between the Member States and the Commission when products do not comply with set requirements or when human and animal health or the environment are at risk. The Commission must be able to suspend trade and exports from the Member State concerned (or certain regions) and/or fix special conditions for the relevant products or substances. In the above cases, the other Member States mainly learned of the situation from the media. It is essential that such information should come through the Community system for rapid exchange of information (Rapex)<sup>(3)</sup> or a corresponding system.

2.7. The proposal illustrates the problem of matching national and EU areas of responsibility. In the ESC's view, the EU's authority in this field needs to be expanded in view of the operation of the internal market and to protect human and animal health and the environment. The proposal provides for the Commission or another Member State to act outright in emergency situations. Subsequently, the Standing Committee for Feedingstuffs can consider the matter and the decision may then be altered.

2.8. The recommended model would seem to correspond to the procedure for action in connection with the outbreak of contagious livestock diseases. Procedures should therefore preferably be the same for all forms of intervention: feedingstuffs, foodstuffs, plant health problems, environmental situations, including the marketing of dangerous substances and materials, etc. The system should also be restricted to circumstances where there is a serious risk to human and animal health or the environment, and procedures should involve as little red tape as possible. In addition, care must also be taken to ensure that inspection is sufficiently effective and to harmonise organisation of such checks in the Member States.

2.9. In the light of the above, the ESC supports the thrust of the Commission's proposal but nonetheless feels that the legal situation should be clarified. Currently there are 62 EU legislative texts relating to animal feed, with related amendments. This proliferation of rules should be codified in a more accessible form at the first opportunity, especially in the case

<sup>(1)</sup> COM(1999) 719, 12.1.2000.

<sup>(2)</sup> CES 361/2000, OJ C 140, 18.5.2000, CES 362/2000, OJ C 140, 18.5.2000 and CES 585/2000 OJ C 204, 18.7.2000.

<sup>(3)</sup> Article 8, Council Directive 92/59/EEC, OJ L 228, 11.8.1992.

of new legislation. The constant 'offshoots' and numerous 'interlocking' provisions make it difficult for national authorities and establishments to have a complete overview of the legal situation.

2.10. In connection with the case involving sludge in animal feed and the Commission proposal concerning sludge<sup>(1)</sup>, the Commission should clarify the definition given of different kinds of sludge so as to avoid uncertainty regarding the term.

2.11. Under the proposal, Member States are required to draw up an interim report immediately when the frequency of a certain contamination or hazard increases; the information is then discussed in the Standing Committee for Feedingstuffs so that the appropriate measures can be taken. As mentioned above, the ESC is prepared to endorse this 'alert system', provided that it does not call the underlying scientific principles into question or have an unreasonable impact on the establishments concerned in terms of bad publicity and possible misunderstandings.

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(1) COM(1999) 654 final, OJ C 89, 28.3.1999, p. 70.

Brussels, 20 September 2000.

2.12. In addition, in the interests of transparency, the ESC would reiterate that consolidated texts should always at least be accessible on Celex.

### 3. Conclusions

The ESC supports the Commission proposal, subject to the following comments:

- the procedures for Commission intervention in various fields should be harmonised as far as possible;
- legislation on feedingstuffs should be consolidated in a more transparent form;
- the definition given of different types of 'sludge' should be clarified;
- important information should be exchanged through a system corresponding to the 'Rapex' system;
- the 'alert system' must not generate uncertainty as to the scientific or legal basis for notification of contamination or risk.

*The President*  
*of the Economic and Social Committee*  
Beatrice RANGONI MACHIAVELLI

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## **Opinion of the Economic and Social Committee on 'The role of the European Investment Bank (EIB) in European regional policy'**

(2000/C 367/04)

On 2 March 2000, the Economic and Social Committee, acting under the third paragraph of Rule 23(3) of its Rules of Procedure, decided to draw up an opinion on 'The role of the European Investment Bank (EIB) in European regional policy' (1).

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 5 September 2000. The rapporteur was Mr Roy Donovan.

At its 375th plenary session of 20 and 21 September 2000, (meeting of 20 September), the Economic and Social Committee adopted the following opinion by 101 votes in favour to two votes against, with two abstentions.

### **1. Introduction**

1.1. This opinion falls into three parts. The first part examines briefly the notion of regional policy or, in the European Investment Bank's terminology, 'convergence and regional development'. The second part looks at the priority which the EIB gives to regional policy and raises some questions about the implementation of that policy through the various lending operations. The final section presents some conclusions and recommendations.

### **2. What does Regional Policy Mean and why is it desirable?**

2.1. The reduction of income disparities between geographical areas, countries or regions and also in rural areas within countries is generally regarded as desirable. The main arguments advanced in support of this view can be grouped under the following headings:

1. Equity in the distribution of income, living standards and life choices;
2. Maintenance of cultural diversity;
3. Preservation of quality of life;
4. Protection of the environment by avoiding congestion, pollution etc., in the most economically advanced countries or regions;
5. Avoidance of adverse demonstration effects e.g., excessive wage demands in a relatively poor region triggered by higher living standards in a more productive region;

6. Exploitation of the comparative advantage of individual countries and regions;

7. In a monetary union, there is a need to avoid shocks which damage one country more than others. This is because the country so affected cannot use the exchange-rate (or interest-rate) instrument(s) to solve its particular problems. Such 'asymmetric' shocks would be less likely to occur where there is a significant degree of economic convergence. (This is part of the rationale behind the strategy for structural and cohesion funds and other EU initiatives in which the EIB plays a major role).

2.2. These arguments are compelling but it should be noted that there can be costs involved in regional policy. For example, if for cultural or environmental reasons, a government provides incentives for people to stay in relatively undeveloped regions rather than migrate to conurbations, then such a policy clearly has to be financed out of the public purse. Even if a government or agency sets up manufacturing or other enterprises in the less developed regions there may still have to be an element of subsidy involved. Nevertheless, many governments and agencies, seem to take the view that such costs are worth incurring. It is possible that the IT revolution by lessening the dependency on cities and the need for 'clustering', will give regional policy a major boost with little, if any, cost to central exchequers.

2.3. For an economic union to work (and particularly a monetary union) it is often argued that automatic fiscal transfers are needed. This model of 'fiscal federalism' is the one which applies in the US and some European countries. If a particular State suffers a loss of income in one year it will receive transfers from the Federal Budget in the form of unemployment payments, subsidies etc. Despite this, however, the evidence suggests that some States have remained in 'relative poverty' for many years.

(1) Cf. Opinion ESC 225/94 'The role of the EIB in regional development' by Mr E. Muller — OJ C 133, 16.5.1994.



2.4. The EMU does not follow this model. Indeed, structural and cohesion funds are seen as a substitute for fiscal federalism — but many would contend that these funds are a rather poor substitute; and they are not, of course, automatic. Hence, it may prove difficult for some members of EMU to catch-up on the average EMU per capita income level.

2.5. There is, however, a contrary view in the literature which suggests that there may be an automatic tendency for countries with reasonable infrastructures, legal frameworks and enterprise cultures to converge on their more advanced partners.

2.6. While, historically, there have been some exceptions to this process of convergence there is still an important question to be asked: To the extent that convergence may be automatic is there any need for special measures and institutions to bring it about or accelerate the process? The answer is probably 'yes', especially in a monetary union which does not have fiscal federalism.

### 3. How the EIB implements regional policy

3.1. The European Investment Bank, founded in 1958, is first and foremost a bank. Its goals are described in the 1998 Annual Report, page 11 as follows<sup>(1)</sup>:

'The main tasks of the EIB, the EU's financing institution, is to contribute, through its long-term loans, towards the integration, balanced development and economic and social cohesion of the Member States of the Union. In performing its mission, **the Bank places the emphasis, first and foremost, on promoting convergence and regional development**, while at the same time supporting the other economic priorities defined by its Board of Governors, particularly in the field of trans-European networks (TENS), energy and small and medium enterprises (SMEs), or through encouraging growth and employment with financing for projects in the health and education sectors.

Loans granted by the EIB in favour of economically sound projects therefore encompass a wide range of activities: communications networks; energy; protection of the natural and urban environment; industry and services; health and education. (Emphasis added)'.  
  
 3.1.1. The Bank thus has a very close link with EU regional policy. Accordingly, in January 1999, its Board of Directors

adopted a first operational plan based on the strategic framework approved by the Board of Governors in June 1998.

3.1.2. The operational plan states that within the Union, top priority is given to objectives which include 'fostering regional development and the Union's cohesion, especially by means of close cooperation with the Commission in implementing Agenda 2000'.

3.1.3. However, the EIB must reconcile its institutional nature with respect for the principles of efficiency required of a bank which operates on the capital markets.

3.2. While the principal aim of the EIB is to promote convergence and regional development it is quite clear that there are several other objectives as well. Some of these are referred to in the above passage but there are other aims and objectives mentioned elsewhere in the Annual Report. These are:

- supporting the successful launch, and consolidation of Monetary Union and the single currency;
- developing the euro-denominated capital markets;
- implementing the programme in support of growth and employment in Europe<sup>(2)</sup>;
- lending for labour-intensive investment;
- urban renewal;
- preserving the environment;
- sustaining the competitiveness of European industry;
- supporting countries applying for membership of the Union<sup>(3)</sup>;
- strengthening the economic and social fabric of the Union;
- supporting the Union's external aid and co-operation policies in over 120 countries throughout the world.

3.3. On the face of it, this list of objectives would seem to be unwieldy and lacking in focus. In practice, however, it may be less so because a fairly high proportion of total lending is allocated to the less favoured regions.

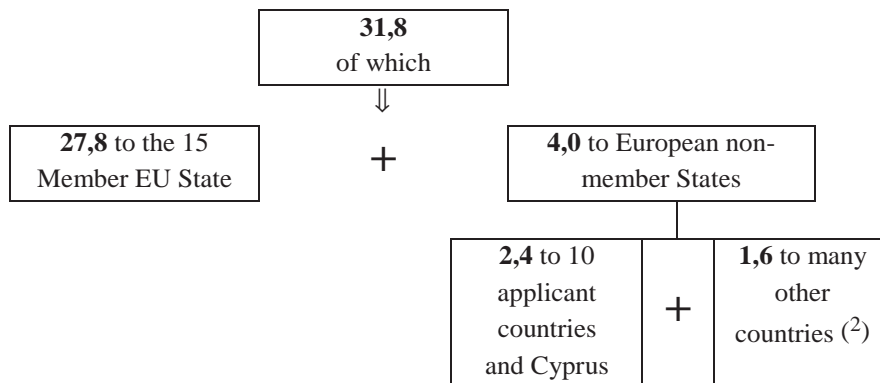
<sup>(1)</sup> Annual Report 1998, p. 11.

<sup>(2)</sup> In response to the Amsterdam Special Action Programme.

<sup>(3)</sup> Through the pre-Accession Lending Facility.

3.4. The overall lending profile of the EIB in 1999 was as follows:

**Total Lending 1999 in EUR billion <sup>(1)</sup>**



<sup>(1)</sup> Defined as 'Finance Contracts Signed'. Figures for actual disbursements are slightly lower.

<sup>(2)</sup> Euro-Med partnership, African, Caribbean, Pacific, South Africa, Latin America, CEEC.

3.5. The EUR 1,6 billion allocated to the 'Other' country category is very thinly spread across almost 100 countries and would have little, if any, effect on the growth rates or convergence tendencies in those countries. The burden of administration involved in this area of the EIB's lending programme must be very high relative to the benefits accruing to the countries concerned.

3.6. The EUR 2,4 billion allocated to the 10 applicant countries and Cyprus could probably be deemed to be on the low side since these countries, almost by definition, need to converge quite rapidly to be ready for EU membership.

3.7. The other side of this coin is that the EUR 27,8 billion going to the existing 15 EU Member countries is probably too high. Most of these countries are already well developed and their own firms and parastatals would have fairly ready access to development finance. While firm data is hard to come by, there is some evidence that these countries are already converging. The contribution of the EIB to this process will be touched on later.

3.8. The 15 EU Member countries are divided into about 150 sub regions (e.g., 23 in France, 21 in Italy, 4 in Belgium, etc.) while Ireland and Luxembourg are defined as individual regions in themselves. The GDP per capita data used to establish which sub-regions are above or below the EU average refer to 1995 and so are out of date, but they do imply quite large disparities. For example, the Hamburg region has a GDP per capita almost twice the EU average while the figure for

Andalucia is about a half. Hence, the wealthiest region in Europe is about 4 times better off than the poorest. Again, because of paucity of data, it is not clear whether these disparities are becoming less over time or whether the sub-regional focus of the EIB is making a significant difference to convergence.

3.9. One rather surprising feature is that the EIB does lend on quite a large scale to the most advanced EU countries. The tables in the appendix set out the payments on a country and regional basis. It is also notable that many of the sub-regions which exceeded the EU average GDP per capita figure received considerable financing. This is because support for the (TENs) and energy are included in the Bank's remit as is evidenced by the following projects:

- construction of motorway section in Upper Bavaria (Germany);
- tramline in Orléans (France);
- power station near Turin (Italy);
- development of gas fields in the North Sea (UK);
- extension of mobile telephony network (UK).

3.10. It is unlikely that these (and other similar) projects could not have gone ahead without the help of the EIB. It might also be borne in mind that when productive projects are located in already developed regions there are likely to be synergy effects, economies of scale and so on. These of course help growth and employment in the country in question but, ceteris paribus, they would tend to widen, rather than reduce, regional disparities.

3.10.1. The question arises as to whether the poorer regions are capable of bringing forward bankable projects on their own or not. It would appear that in many of these areas finance without the support of all the other Community initiatives will not be sufficient therefore the maximum degree of cooperation and coordination of the activities of the EIB, EU and the social partners is essential.

3.11. Formulated in response to the Amsterdam European Council Resolution on Growth and Employment (June 1997), the Amsterdam Special Action Programme enabled the Bank to undertake new tasks with regard to mobilising additional resources designed to contribute to economic growth and stimulate employment

3.11.1. This programme, initially spanning three years (September 1997 — 2000), has three components<sup>(1)</sup>:

- a 'SME Window' intended to provide new venture capital instruments offering equity finance for high-technology and growth-oriented SMEs. The risks associated with such operations are offset by a 1 billion reserve set aside from the Bank's operating surpluses<sup>(2)</sup>;
- expansion of Bank financing into the areas of health and education; as these have become fully-fledged objectives in their own right (in July 1999)<sup>(3)</sup>;
- intensification of the Bank's already substantial support for investments in TENs and other large-scale infrastructure networks, as well as for investment in urban and rural renewal and environmental protection<sup>(4)</sup>. This support can also take the form of financing for preliminary or feasibility studies for TEN projects in the fields of transport and the environment.

#### 4. Conclusions and Recommendations

4.1. It would seem that regional policy (leading to convergence) is a desirable goal, especially in EMU where fiscal federalism does not exist and where asymmetric shocks should be minimised. While there may be some automatic tendency for countries to converge and while the IT revolution and the New Economy paradigm may strengthen this process, there is still a major role for an agency such as the EIB.

(1) For a detailed description see pages 16 and 17 of the 1998 Annual Report.

(2) The results are analysed in the section on 'Promoting SMEs' on pages 28 and 29 of the 1999 Annual Report.

(3) A separate sub-chapter has been devoted to them on page 16 of the 1999 Annual Report.

(4) Operations corresponding to these various objectives are described on pages 19 to 24 of the 1999 Annual Report.

4.2. It does appear, however, that many additional (non-core) tasks have been added on to the EIB's mandate over the years with the result that the Mission Statement is now rather too diffuse and its lending thinly spread, especially across non-European countries.

4.3. Consideration might be given to re-balancing the Mission Statement so as to increase the focus on regional policy and convergence. In practical terms this could mean less lending to the developed EU countries (and some of their sub-regions) and more to the applicant countries. There may be a role for the EIB in developing EU entry criteria for the accession countries. This could be viewed as a quid pro quo for increased financing.

4.4. It is doubtful if access to long-term development finance is problematic in developed EU countries — and certainly not as problematic as it was in 1958 when the EIB was founded. The Governments of many EU countries have their own schemes for financing (and indeed, subsidising) small and medium enterprises (SMEs).

4.5. There are also alternatives to bank finance e.g. equities, bonds, retained earnings, etc. The constraint in most developed countries is not so much finance as well-conceived project ideas. Might it be possible for the EIB to do more in terms of project advice, especially in the area of new technology where Europe as a whole is significantly behind the US? Should there be EIB advisors resident on a permanent basis in the poorest sub-regions to ensure optimal project development and convergence?

4.6. Consideration might also be given to overlap and duplication among different lending agencies (EIB, EBRD, National development banks etc.) so that each institution would play to its strengths.

4.7. One of the major economic problems in the EU is lack of structural reform. Is there anything the EIB could do to accelerate this process? It is probable that many well-conceived project loans and global loans are not as productive as they might be because of distorting rigidities in the market. Clearly the EIB could not impose conditionality on national governments but is there anything it could do to free up markets at sub-regional level? The process of economic convergence involves 'creative destruction' which can be painful in the short term and which is often resisted by Governments unless they are committed to structural reform. In many instances the latter is more important to the convergence process than development finance per se.

4.8. Is there a danger that the EIB's activities in respect of the environment might be counter-productive? It is argued in some quarters that taxation and other sanctions against the pollution are far more effective than financing environmental projects as such. Both approaches can presumably go hand in hand but there may be occasions where prevention (by sanction) is better than cure (by project finance).

4.9. The precise methods of project evaluation are not readily apparent though presumably pay-back periods and cost/benefit ratios are analysed. There may, however, be a need to put a system in place to evaluate whether, and to what extent the finance provided does actually lead to greater convergence? Follow-up studies of this kind are important to see if an institution's core mission is actually being realised.

4.10. The Banks recent launch of 'Innovation 2000 Initiative' is a quick and welcome response to the March 2000 Lisbon Council guidelines for developing a 'knowledge based society driven by innovation'. This initiative is designed to channel EIB financing into five areas:

1. human capital formation;

2. research and development;
3. information and communications;
4. diffusion of technology networks innovation;
5. development of SMEs and entrepreneurship.

There is provision for EUR 12 to 15 billion over the next three years for this initiative but the Committee feels that the amount should be increased and its application speeded up.

4.11. Finally, in evaluating convergence the EIB should not confine itself solely to economic indicators but should broaden the parameters to include social indicators along the lines already established by the United Nations.

Brussels, 20 September 2000.

*The President*

*of the Economic and Social Committee*

Beatrice RANGONI MACHIAVELLI

**Opinion of the Economic and Social Committee on the 'Proposal for a Regulation of the European Parliament and of the Council amending Council Regulation (EEC) No 1408/71 on the application of social security schemes to employed persons, to self-employed persons and to members of their families moving within the Community and Council Regulation (EEC) No 574/72 laying down the procedure for implementing Regulation (EEC) No 1408/71'**

(2000/C 367/05)

On 5 July 2000 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 12 September 2000. The rapporteur was Mr Rodríguez García Caro.

At its 375th plenary session 2000 (meeting of 20 September and 21 September), the Economic and Social Committee unanimously adopted the following opinion.

**1. Introduction**

1.1. Regulation (EEC) No 1408/71 is amended periodically to keep in step with developments in national social security systems (regulatory changes, bilateral agreements) and at EU level (rulings by the Court of Justice of the European Community). Proposed amendments, such as the ones

now submitted to the Committee, are thus tabled quite frequently.

1.2. Regulation (EEC) No 574/72 laying down procedures for implementing Regulation (EEC) No 1408/71 undergoes similar amendments, either as a consequence of the amendments to the basic regulation or because of changes to national and EU legislation.

1.3. All these amendments make social security legislation for workers and their families moving within the EU increasingly complex. Hence a regulation designed to facilitate workers' mobility without impinging on their social security rights gets more and more complex, as new provisions are regularly added without simplifying or cutting the text.

1.4. As well as adapting the text of Regulation (EEC) No 1408/71 to new circumstances, it is thus also necessary to reform and simplify it by expediting the adoption of the proposed EP and Council regulation on coordination of social security systems which was broadly endorsed by the Committee at its January 2000 plenary session<sup>(1)</sup>.

## 2. General comments on the proposal

2.1. As mentioned above, the proposal amends both Regulation (EEC) No 1408/71 and its implementing Regulation (EEC) No 574/72. The Committee broadly endorses the proposal as the changes are prompted by the express wish of the Member States, by Community case law and by changes which have occurred within the Union.

2.2. However, the Committee considers that the Council and Parliament must be prevailed on to simplify and improve the present regulations as quickly and effectively as possible. The draft regulation on the coordination of social security schemes<sup>(2)</sup> must continue its procedural course through the two institutions, so that within a reasonable timeframe the regulation now being amended is simpler and more suited to current circumstances.

2.3. This is the first time that the two regulations are to be amended using the co-decision procedure. The proposal could undergo modifications in the course of this procedure, with the risk that the Committee might issue an opinion on a proposal which the co-decision procedure substantially modifies. The Committee must participate and give its opinion in real time, so its advisory role in this procedure needs clarifying.

## 3. Specific comments on the proposal

3.1. Regulation (EEC) No 1408/71 on the application of social security schemes to employed persons, to self-employed persons and to members of their families moving within the Community

3.1.1. Article 1 of the proposal amends Annexes IV and VI of the regulation. The amendments are set out in the Annex to the proposed new regulation.

3.1.2. Annex IV, Part C [waiving of calculation of benefits under Article 46(2)], Section E (France) is amended so as to free the relevant institutions from the obligation to carry out a dual calculation of pension benefits or survivor's benefits under the system set out in Article 46(2).

The Committee thinks that the amendment cuts red tape by getting rid of unnecessary procedures.

3.1.3. Section E (France) of Annex VI (special procedures for applying the legislation of certain Member States) is also amended. Point 3 is amended to make it easier for French and EU nationals to voluntarily join an old-age insurance scheme. Point 5 is amended so that it not only includes basic old-age insurance schemes but also supplementary pension schemes for employed workers. A point 9 is added, whereby the French legislation applicable to employed workers is deemed to apply both to the basic old-age insurance scheme(s) and to the supplementary pension scheme(s) to which the person concerned has been subject.

The Committee considers that the proposed amendments help to remove barriers to worker mobility and make the text more in keeping with the French social security system.

The Committee points out that there is a mistake in the Spanish version of the new point 9, which should read 'a los efectos del capítulo 3 del Título III' (for the purposes of applying Chapter 3 of Title III) and not '.... del Título III del capítulo 3' (Title III of Chapter 3).

3.1.4. A new point 7 is added to Section K (Austria) of Annex VI, stating that special assistance under the Special Assistance Act (SUG) of 30 November 1973 is considered as an old-age pension for the purposes of applying Chapter 3 of Title III of Regulation (EEC) No 1408/71.

The Committee points out that the numbering of the Spanish version of Point III.2 of the explanatory memorandum mentions entries (d) and (e), while the actual proposal calls these entries (b) and (c). This needs to be corrected.

3.1.5. Point 1 of Section N (Sweden) of Annex VI is amended so that Swedish parental benefit is treated as a family benefit (Article 72) rather than under the category of sickness or maternity benefit (Article 18(1)).

The amendment is prompted by the Court of Justice ruling of June 1998 (Kuusijärvi case) which established that the Swedish parental benefit must be treated as a family benefit.

<sup>(1)</sup> OJ C 75, 15.3.2000.

<sup>(2)</sup> OJ C 38, 12.2.1999, p. 10.

3.2. Council Regulation (EEC) No 574/72 laying down the procedures for implementing Regulation (EEC) No 1408/71

3.2.1. Article 2 of the proposal amends three articles of Regulation (EEC) No 574/72.

3.2.2. Article 34(5) is amended as regards reimbursement, by the competent authority of a Member State, of expenses incurred during a stay in another Member State. The aim is to distinguish between cases where there is provision for rates of reimbursement [Article 34(4)] and cases where there is no such provision [Article 34(5)].

The amendment also corrects linguistic errors in the English and Swedish versions of the regulation.

3.2.3. Article 93(1) is amended following the inclusion of students in Regulation (EEC) No 1408/71 (Regulation (EC) No 307/99 of 8 February 1999 extending the personal and material scope of Regulations (EEC) No 1408/71 and (EEC) No 574/72). Regulation (EEC) No 307/99 introduced an

Article 34a on special provisions and an Article 34b on common provisions, and deleted Article 22c.

The Commission now proposes to correct the references in Regulation (EEC) No 574/72 to the abovementioned articles as regards reimbursement of sickness and maternity benefits in kind.

3.2.4. The provisions in Article 107(1) regarding currency conversion are amended following the end of the EMS, as euro reference rates are calculated by the European Central Bank.

#### 4. Conclusions

4.1. The Committee welcomes the proposed amendments to the two regulations.

4.2. In cases such as the present, involving co-decision, the advisory role of the Committee needs to be set in a scenario which enables it to issue opinions on any modifications which the proposal undergoes in the course of the approval procedure.

Brussels, 20 September 2000.

*The President*  
*of the Economic and Social Committee*  
Beatrice RANGONI MACHIAVELLI

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**Opinion of the Economic and Social Committee on the 'Proposal for a Council Directive on the approximation of the laws of the Member States relating to the safeguarding of employees' rights in the event of transfers of undertakings, businesses or parts of undertakings or businesses (codified version)'**

(2000/C 367/06)

On 23 June 2000 the Council decided to consult the Economic and Social Committee, under Article 94 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 12 September 2000. The rapporteur was Mr Liverani.

At its 375th plenary session (meeting of 20 September 2000), the Economic and Social Committee adopted the following opinion by 104 votes to 0 with 6 abstentions.

## 1. Introduction

1.1. Legislative codification is one of the objectives that the Commission has set itself in the context of a people's Europe, with a view to making Community law clearer and more accessible to the ordinary citizen.

1.2. The Presidency Conclusions of the Edinburgh European Council confirmed this objective, stressing the importance of legislative codification as it offers certainty as to the law applicable to a given matter at a given time.

1.3. The purpose of the proposal is to undertake official codification of this type.

1.4. The new directive will supersede the various directives incorporated in it, on which the Committee issued opinions at the appropriate time<sup>(1)</sup>; their content is fully preserved, and they are brought together with only such formal amendments as are required by the codification exercise itself.

<sup>(1)</sup> Council Directive 77/187/EEC (OJ L 61, 5.3.1977, p. 26); ESC Opinion of 23.4.1975 (OJ C 255, 7.11.1975, p.25); Council Directive 98/50/EC (OJ L 201, 17.7.1998, p. 88); ESC Opinion of 29.3.1995 (OJ C 133, 31.5.1995, p. 13).

Brussels, 20 September 2000.

## 2. General comments

2.1. The Economic and Social Committee welcomes the proposal by the Commission.

2.2. It agrees that Community law must be made more accessible and clearer to citizens.

2.3. Greater clarity and transparency of Community law will make it easier to interpret properly, and will help ensure the necessary legal certainty.

2.4. The ESC therefore takes a positive view of the proposal for the codification of Council Directive 77/187/EEC.

2.5. The codification concerns a number of formal aspects of the texts only, with no implications for their content which remains unchanged.

The Committee hopes that in the event of subsequent and repeated proceedings before the Court of Justice of the European Communities, the Commission will make any necessary amendments to the directive.

*The President*  
*of the Economic and Social Committee*  
Beatrice RANGONI MACHIAVELLI

## Opinion of the Economic and Social Committee on the 'Green Paper on greenhouse gas emissions trading within the European Union'

(2000/C 367/07)

On 13 March 2000 the Commission decided to consult the Economic and Social Committee, under Article 262 of the Treaty establishing the European Community, on the Green Paper on greenhouse gas emissions trading within the European Union.

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 26 July 2000. The rapporteur was Mr Gafo Fernández.

At its 375th plenary session 2000 (meeting of 20 September), the Economic and Social Committee adopted the following opinion by 90 votes with three abstentions.

### 1. Introduction

1.1. Under the Kyoto Protocol, adopted in December 1998, the European Union undertook to cut its emissions of greenhouse gases collectively by 8 % between 2008 and 2012 compared to the 1990 figures.

1.2. In June 1998, the Council took steps to share out the effort to be made, on a non-symmetrical basis, between the various Member States in the form of the 'burden sharing agreement', taking account of criteria such as per capita emissions or the individual income levels for each country.

1.3. Initial estimates, based on the actual figures for 1998 greenhouse gas emissions, suggested that, if present trends continued, the European Union would experience difficulty in meeting its Kyoto commitment.

1.4. The Kyoto Protocol made a clear distinction between Annex 1 countries (developed countries, which were required to set reduction targets for their greenhouse gas emissions, either individually or jointly under a regional integration agreement) and the less developed countries which, on account of their historically low level of per capita emissions, were exempted from such reductions so as not to prejudice their development potential.

1.5. The Protocol introduced three mechanisms, referred to as the 'flexible mechanisms'. They are: joint implementation, the Clean Development Mechanism, and the one under discussion here, emissions trading.

1.6. The first two mechanisms, joint implementation and clean development, aim to encourage developed countries or companies from such countries to take steps in other countries, either Annex 1 developed countries (joint implementation), or less developed countries (clean development), to achieve reductions in greenhouse gas emissions, transferring reduction credits to the first country. In contrast, emissions trading seeks

to regulate the sale of surplus emission rights built up by a company or other body — either by cutting back its activity or by more efficient use of energy or processes — to another company, whether of the same country or another developed country, thereby enabling the second company to fulfil its commitments in this regard.

1.7. The underlying aim of these 'flexible mechanisms' is of course to bring about overall achievement of emission reduction targets, by allowing efforts to be concentrated on areas where the cost-efficiency ratio is the highest possible in the short term. It therefore involves implementing an economic approach based on the allocation of resources by free market forces. This should not, however, obscure the fact that this optimisation will have the effect, in the medium term, of increasing the marginal cost of future measures — unless technological advances succeed in containing these rising costs.

1.8. The Kyoto Protocol allows the 'flexible mechanisms' to be applied to the 'Parties' (the Member States which have signed the agreement) in 2008, which is when the greenhouse gas emission commitments become binding. Nothing in the present proposal, however, prevents parties to the protocol from implementing flexible mechanisms earlier, on an internal basis.

1.9. Naturally, the establishment of individual emission rights requires the introduction of individual emission 'permits' for companies in a number of sectors. It would seem logical, within the European Union, to tie these individual emission limits to the 'best available technology' (BAT) criteria laid down by Directive 96/61/EC on integrated pollution prevention and control (IPPC Directive). However, this poses two problems: firstly, the directive does not cover all greenhouse gas emitting sectors or even all production sectors. Secondly, BAT criteria will not be available for a number of sectors until 2003-2004.

1.10. The second implication of the establishment of an emission rights system within the European Union is the possible distorting effect on competition which can result from non-uniform application to sectors and companies within a single country, or between countries.



1.11. Two possible alternatives should be presented at this stage. The first is to create a harmonised framework within the Community, defining sectors and implementing measures, with a possible distortion arising from the differing weight assigned to emissions in each Member State. The second is to carry out a case-by-case analysis of each national system (in those countries which decide to implement one) in order to verify their compatibility with the competition regime (system of indirect state aid) or with the internal market (emissions rights are goods subject to free movement, at least between those countries having such a national system).

1.12. Implementing a system of this type, of course, reflects an allocation approach based on observing a number of historical emission rights ('grandfathering'), although tempered by BAT energy efficiency criteria. This raises a further, connected issue: the allocation of emission rights to new activities and how they relate to national emission limits.

1.13. For new companies carrying out activities similar to those of other companies already covered by the IPPC Directive, the system involves applying BAT energy efficiency criteria as applied to other companies in a similar position. However, for new activities involving high energy consumption (although this is an unlikely scenario) the problem may arise that such activities do not exist in any other Community country, and that there are therefore no BAT criteria. A further problem could be the different views in each Member State on authorising new, energy-hungry or emission-intensive activities, subject as they are to the need to comply with national emission commitments.

## 2. General comments

2.1. The Committee fully supports the European Commission's initiative to promote the reduction of greenhouse gas emissions and, to that end, facilitate the establishment of a Community emissions trading system, fully compatible with the thinking behind the similar system provided for in the Kyoto Protocol. It should be borne in mind, however, that the trading of emissions certificates is not in itself an instrument for reducing emissions. The Committee calls upon the Commission to prepare a detailed communication establishing exactly how such reductions are to be achieved.

2.2. The Commission document offers no specific guidelines concerning three crucial elements in setting up this mechanism — firstly, allocation of emission levels to individual companies (and, consequently, possible emission rights); secondly, the relationship between these individual company emission ceilings and the national reduction effort; and thirdly, the levels assigned to new companies commencing activities from now on.

The Committee believes that the system should be organised along the following lines, as part of an all-embracing approach to these questions:

- allocation of emission levels to individual companies can only be conducted on a scientific basis, with solid evidence, and applying criteria defined at Community level. For this reason, the Committee favours the use of BAT criteria in those sectors where application is subject to Community law or, alternatively, amongst other things, a worldwide comparable benchmarking system;

- Member State greenhouse gas emissions are the sum of emissions of six gases and all emission sources, including 'point sources' (e.g. some of those mentioned above) and 'diffuse sources' (such as those generated by traffic). Therefore, although applying BAT criteria does of itself imply a reduction in CO<sub>2</sub> emissions, the national reduction commitment cannot be precisely and exclusively matched with a reduction of the point emissions of a given number of industrial sectors;

- allocation of emission rights to new activities (covered by BAT criteria) can consequently be conducted on an automatic, measured and non-discriminatory basis by comparison with existing similar activities. This larger volume of greenhouse gas emissions must, of course, be offset within each Member States by simultaneous and at least equivalent reductions in other sectors or activities in order to meet the national emissions commitment.

2.3. In the Committee's view, therefore, the emission rights trading mechanism must be based on the following underlying principles:

- the system must be firmly based on the 'polluter pays' principle;

- the Community system must be entirely compatible with the mechanism set out in Article 17 of the Kyoto Protocol, so that, if implemented, it can later be integrated;

- the system must possess Community dimension and intersectoral scope;

- the system must be progressive, initially being applied to a small number of sectors which make a major contribution to CO<sub>2</sub> emissions;

- the system must be based on an EC regulation, i.e. a fully binding legislative act proposed by the Commission and adopted by the Council and European Parliament;

- this regulation must establish a common and harmonised regulatory framework, specifying relevant sectors and practical arrangements, based on Decision 1999/296/EC on a monitoring mechanism of greenhouse gas emissions, and the large combustion plant (LCP) Directive;
- the negative effects in terms of distorting competition must be minimised, and sufficient flexibility built in to avoid permanent appropriation of the initial benefits of the system;
- the system must be voluntary, so that companies in the sectors defined at Community level can join the scheme and benefit from it;
- to this end, a provisional but reasonable date for entry into force should be set: this might be 1 January 2005;
- a further condition should be attached to entry into force: a minimum percentage to be determined of a Member State's total emissions should be in theory covered by the system;
- the system should allow optional application to the applicant countries listed in Annex 1 to the Kyoto Protocol and to the countries of the European Economic Area.

2.4. Lastly, the system must supplement, and not replace, planned action at Member State level aimed at complying with national emission quotas in accordance with burden sharing.

### 3. Specific comments

The Committee intends to restrict itself to the questions raised by the Commission in its green paper, and in their original order.

#### 3.1. Question 1

3.1.1. The need to create a harmonised basis for determining the emission quotas for each company coming under the system means that these quotas can only be set in accordance with the energy efficiency figures laid down in the BAT criteria and applied, at least in an initial phase, to installations covered by the LCP Directive.

3.1.2. The sectors included in the system will therefore be those indicated in the IPPC Directive, provided that by 2005 the efficiency standards for the sector under the BAT criteria have been established and, furthermore, that the installations are covered by the LCP Directive or, in the event that these efficiency standards are not available, that the industry has provisionally defined emission standards on the basis of voluntary agreements on a European scale, approved by the European Commission, and based on, amongst other things, a worldwide comparable benchmarking system.

#### 3.2. Question 2

3.2.1. The sectors whose coverage is agreed at Community level must be provided with a harmonised common framework, requiring all the companies in the relevant sectors to be subject to the system. However, this<sup>(1)</sup> must not under any circumstances be interpreted in terms of compulsory sale of potential emission credits, especially if they are considered to be undervalued on the market, although in any case companies will naturally be obliged to reduce their emissions to levels to be established.

3.2.2. Guarantees of legal certainty must be provided by setting certain minimum conditions for the regulation of this trading: this might firstly entail setting an initial period of reasonable length for emission credit sale agreements between companies. The aim would be for the market to consolidate progressively, meaning that the laws of supply and demand could operate satisfactorily without being affected by a very low level of transactions.

#### 3.3. Question 3

3.3.1. Although in theory the opting-in/opting-out scheme would be compatible with the internal market (reverse national discrimination mechanism), it would entail two disadvantages. The first would be to compromise the competitiveness of companies of Member States not joining the scheme, which would sooner or later create a need for compensatory arrangements, and the second would be to deprive such Member States and their companies of the practical experience of implementing a system of this kind, prior to its becoming compulsory under the terms of the Kyoto Protocol.

#### 3.4. Question 4

3.4.1. Member States would be able to include more sectors than those covered on a compulsory basis within the Community, subject to two conditions:

- compliance with the implementation arrangements (calculation and verification methods) for emission rights, as set for the sectors coming under the Community scheme;
- no restrictions on trading the emission rights of those sectors included at Member State level but not harmonised for the Community as a whole, as regards the possibility of acquisition by companies from other Member States.

#### 3.5. Question 5

3.5.1. The nature of the BAT criteria, which should be used in setting emission allowances for each company/sector, is such that there is no need to set overall quotas per sector — these, whether within the Community or the Member States, would generate insoluble problems.

<sup>(1)</sup> Translator's note: the Spanish text of the working document says: 'However, the word 'obligatory' must not under any circumstances be interpreted ...'. The Spanish version of Question 2 in the green paper (point 6.3) mentions an 'obligatory emissions trading system', whereas the English version, and all other versions except Greek, refer to 'a common emissions trading scheme'.

### 3.6. Question 6

3.6.1. The same would apply to the allocation of emission rights to individual companies. Using BAT criteria enables a historical emission figure (based on past levels of production multiplied by efficiency of greenhouse gas use) to be allocated. For subsequent years, this historical figure will be set in accordance with BAT levels weighted by real output figures.

### 3.7. Question 7

3.7.1. The Community system, as defined to date, is based on the 'downstream' system, or emission 'point sources'. It would appear both appropriate and necessary for each Member State, as part of its national programme to meet its burden-sharing commitments under the Kyoto Protocol, to concentrate efforts simultaneously on these sectors and on the greenhouse gas-emitting 'diffuse sectors'.

3.7.2. Identical levels cannot however be set for all the Member States. This would be unrealistic in view of their differing economic structures.

### 3.8. Question 8

3.8.1. The three systems mentioned (energy taxes, voluntary environmental agreements and emissions trading) are, in this order, complementary measures. Voluntary agreements, as initiatives going further than established standards, serve to consolidate progress at sectoral level. Energy taxes, particularly the CO<sub>2</sub> emission tax (proposal for an energy/CO<sub>2</sub> tax), have the effect of penalising diffuse emissions and simultaneously, through the planned repayment system, of penalising companies not meeting certain BAT criteria for emissions. Lastly, emissions trading helps to make efforts to reduce emissions beyond the BAT criteria economically worthwhile. It should be made absolutely clear, however, that these intensified efforts to reduce emissions must under no circumstances lead to a reduction in energy CO<sub>2</sub> ecotax repayments, as envisaged in the present draft proposal under discussion at the Council.

### 3.9. Question 9

3.9.1. The monitoring and infringement mechanisms are sufficient from a theoretical point of view. These systems do however need to be fine-tuned, in particular by improving monitoring and verification systems at Community level. Similarly, it must be ensured that the mechanisms are fully compatible with those implemented subsequently in accordance with the Kyoto Protocol.

3.9.2. The same applies to the infringement procedures, although in general the system for submitting complaints to the European Court of Justice in Luxembourg has a sufficiently powerful impact on public opinion in the Member State in question. In contrast, however, the economic penalties borne by Member States rather than individual companies could have the effect claimed for them in the green paper only by being set at excessively high levels.

### 3.10. Question 10

3.10.1. Although section 2 of the present document expressed a preference for an EC regulation — a legally binding instrument which does not need to be transposed into national law — it is clear that many aspects of the system should be shaped by the national and local authorities. Responsibilities might then be distributed as follows:

#### 3.10.2. At Community level

Definition of general implementing measures: sectors to be included, verification system, harmonised operating methods for the emission rights market, criteria for allocation of individual quotas based on BAT criteria, verification of accuracy of data communicated by the Member States.

#### 3.10.3. At national and local level

Allocation of emission quotas to individual companies, emissions monitoring, identification of sectors subject to emission permits in addition to those determined on a harmonised basis at Community level.

Brussels, 20 September 2000.

*The President*  
*of the Economic and Social Committee*  
Beatrice RANGONI MACHIAVELLI

## Opinion of the Economic and Social Committee on 'Towards an EU Charter of Fundamental Rights'

(2000/C 367/08)

On 25 February 1999 the Economic and Social Committee, acting under Rule 23(3) of its Rules of Procedure, decided to draw up an opinion on 'Towards an EU Charter of Fundamental Rights'.

The Section for Employment, Social Affairs and Citizenship, which was responsible for preparing the Committee's work on the subject, adopted its opinion on 25 July 2000. The rapporteur was Mrs Sigmund and the co-rapporteur was Mr Briesch.

At its 375th plenary session held on 20 and 21 September 2000 (meeting of 20 September), the Economic and Social Committee adopted the following opinion by 122 votes to 19, with nine abstentions.

### 1. Introduction

1.1. At the European Council held in Cologne on 3 and 4 June 1999, it was decided to draw up an EU Charter of Fundamental Rights. In its conclusions, the Council justified this by the need 'to make their overriding importance and relevance more visible to the Union's citizens'.

The European Council of Cologne felt that

'this Charter should

1. contain the fundamental rights and freedoms, as well as the basic procedural rights guaranteed by the European Convention for the Protection of Human Rights and Fundamental Freedoms and
2. "... also include the fundamental rights that pertain only to the Union's citizens"
3. and finally that "account should ... be taken of economic and social rights as contained in the European Social Charter and the Community Charter of the Fundamental Social Rights of Workers ..., insofar as they do not merely establish objectives for action by the Union".

The European Council also decided that this Charter should be drawn up by 'a body composed of representatives of the Heads of State and Government and of the President of the Commission as well as of members of the European Parliament and national parliaments'.

1.2. The European Council in Tampere held on 15 and 16 October 1999 laid down the definitive composition of the body and its working methods. The European Council called for the working methods to be based on the principle of consensus, authorising the chairman to forward the draft to the European Council only on condition that the 'draft Charter ... can eventually be subscribed to by all the parties'.

1.3. Both the German and the Finnish presidencies emphasised repeatedly that this Charter of Fundamental Rights should also be an instrument that enables Europe's citizens to be more clearly involved in Europe and makes them more aware of their rights. The Committee naturally welcomes the practice of civil society organisations being consulted by the drafting body, which has now been named a Convention. As the European institution whose members are called upon in the Treaty to represent the interests of Europe's citizens, the Committee thinks it should have been involved to a greater extent<sup>(1)</sup>.

1.4. The tasks of the Convention are defined by the mandates of Cologne and Tampere, four points being of particular importance:

- The Convention is not an intergovernmental conference within the meaning of the EU Treaty.
- This means that it is not authorised to change the remit of the European Union.
- Its task is to draw up a draft Charter of Fundamental Rights within the terms of reference of the Union. When drawing up the Charter it must therefore bear in mind that it will be applied both in the framework of the European Union Treaty and in the framework of the Treaties establishing the European Communities. In other words, the Charter must also apply to Title V (CFSP) and Title VI (JHA) of the European Union Treaty. The ESC sees this comprehensive application of the Charter as very important because not only the EC Treaty affects citizens' interests with regard to their freedom and equality.

<sup>(1)</sup> Cf. Article 257 of the EC Treaty: 'The Committee shall consist of representatives of the various categories of economic and social activity, in particular, representatives of producers, farmers, carriers, workers, dealers, craftsmen, professional occupations and representatives of the general public.'

- The Charter of Fundamental Rights is thus addressed to the institutions of the EU and not to the Member States in the context of their own powers. But the Member States are of course bound by the Charter when they apply, implement or transpose Community law.

1.5. Whether or not the Charter should be legally binding was not made clear by the European Council in Cologne. The conclusions state only that it 'will propose to the European Parliament and the Commission that, together with the Council, they should solemnly proclaim on the basis of the draft document a European Charter of Fundamental Rights. It will then have to be considered whether and, if so, how the Charter should be integrated into the treaties.'

1.5.1. The chairman of the Convention, Roman Herzog, made it clear that the Convention would draw up the Charter on the assumption that it will be legally binding. Since the Spinelli draft, the European Parliament advocated such a binding document and it was even more explicit on this point in its resolution of 16 March where it said that its endorsement of the Charter would be dependent on such a charter being legally binding.

1.6. As far as the content of the Charter of Fundamental Rights is concerned, the European Council in Cologne set only minimum standards, though it went explicitly beyond the European Convention on Human Rights (ECHR) in its mandate. In his introductory address to the Convention, Roman Herzog said that it was time to stipulate that the obligations of the European Union towards its citizens must not be any less rigorous than those recognised by the Member States under their own constitutional law.

1.6.1. The 'breakdown' of the list of fundamental rights to be drawn up by the Convention is based on the consensus on three key individual rights Europe-wide (human dignity, self-determination and equality) on the one hand and on the principle of indivisibility of fundamental rights on the other. The draft Charter is divided into:

- dignity
- freedoms
- equality
- solidarity
- citizenship
- justice
- general provisions<sup>(1)</sup>.

(1) Convent 47, CHARTE 4470/00 of 14.9.2000.

## 2. General comments

2.1. The process of European integration was launched by Robert Schuman 50 years ago as a peace initiative; at first this naturally spawned mainly economic measures, but later a social dimension developed. The European Union is also described today as 'an area of freedom, security and justice', centred on people or citizens. In this connection, the drawing-up of an EU Charter of Fundamental Rights is a milestone in the European integration process. It formalises the pact founding an original and new political entity, and is also an expression of an identity based on free will, cooperation, democracy and non-violence. Individuals with the same rights and duties will develop a feeling of belonging, a common identity. If, moreover, civil society is also involved as much as possible in drafting such a catalogue of rights, this contact with grassroots opinion will also help to ensure that individuals do not perceive such legal provisions as being imposed from above, with penalties applied for non-compliance, but that they accept the need to respect them as a personal duty.

2.2. A Charter of Fundamental Rights based on ethics, moral standards and solidarity does not merely codify rights and duties, it also represents a common set of values. It thus supports the European Union as it moves from being a 'Community of law' to a 'Community of values' within which a European identity also has a chance to develop. In this way, the Charter can help ensure that Union citizenship is no longer perceived only in an abstract sense as the sum of all national citizenships, but is felt to provide practical 'added value'. The Charter also implies that every citizen should exercise his or her rights in a spirit of responsibility within the framework of organised civil society based on dialogue and mutual respect for rights and freedoms.

## 3. Specific comments

### 3.1. Content of the Charter

3.1.1. As a matter of principle, the Committee considers that civil and political rights, on the one hand, and fundamental social, economic and cultural rights, on the other hand, cannot be dealt with in isolation from each other. The common understanding in Europe is that fundamental rights are indivisible, related and interdependent; they may be the right to be defended, the right to be protected or entitlements. The Committee believes at all events that in a modern charter of fundamental rights it would be inconceivable to omit social, economic and cultural rights and that this would contradict the Cologne mandate.

3.1.2. However, the brief of the Convention for drawing up the Charter precludes any altering of the current division of responsibilities between the European Communities or the Union and the Member States.

3.1.3. For another thing, the affirmation of fundamental social rights in the EU Charter of Fundamental Rights does not prejudice the identity of the issuer of the act — whether European Union institution or State authority — against which claims for enjoyment of a right or respect of a principle may be lodged. The inclusion of social rights and principles in the European Union Charter of Fundamental Rights — in accordance with the Cologne mandate — does not in any way invest the European Community or the European Union with responsibilities which it did not already hold. It simply signifies that acts issued by the EU institutions or State acts adopted within the scope of Community law must:

- respect the social rights set out in the Charter;
- not constitute measures which would lessen the degree to which principles have already been put into effect;
- and in particular respect the requirement for non-discrimination, particularly with regard to the implementation of social rights.

3.1.4. The Committee warns that people's expectations will be disappointed if they are given a Charter of Fundamental Rights that cannot be enforced and which they would therefore have to see as pure rhetoric. However, the declaration that a right is justiciable, under the conditions suggested above, does not in any way presuppose at which level — Community or State — the right to benefit from that right may be invoked by the persons who enjoy it. In particular, where the Community and the Member States have rival powers, these powers must be exercised with due regard for the principle of subsidiarity (Article 5 TEC), without the adoption of the EU Charter of Fundamental Rights creating an exception to this principle.

3.2. Legal nature of the Charter of Fundamental Rights: such a charter can only be fully effective if it is clearly formulated and if procedures exist for applying it. The Committee believes that for political and legal reasons the Charter should be incorporated into the EU Treaty subject to the following conditions:

- in accordance with the Cologne mandate, the Charter may not change the Community's remit;
- the distinction must be maintained between directly applicable rights and rights that can be invoked by individuals, on the one hand, and programmatic rights on the other, in order to preserve the legal nature of existing competences<sup>(1)</sup>;

(<sup>1</sup>) The Committee refers here to its opinion of 22.2.1989, in which it notes: 'In the Committee's view, the instruments and procedures specified in the Treaty are the ones to be deployed to ensure that basic social rights are protected under the Member States' legal systems ...'.

- it must therefore be made clear that certain principles require the adoption of implementing measures.

It will depend very much on the final content of the Charter, which must be consistent with the Cologne mandate, the Charter or parts of it, and if so which parts, are to be incorporated into the Treaty. The Charter must be more than a solemn declaration; it must constitute a genuine political, social and civic commitment.

3.2.1. The announcement of an EU Charter of Fundamental Rights raised expectations and hopes; these must not be disappointed. People in Europe will better understand and accept a 'Citizens' Europe' if they know that, within that Europe, they have enforceable rights, and that duties also exist with which they have to comply. Apart from its legal significance, therefore, the Charter is also highly relevant in political and cultural terms.

3.2.2. A binding Charter of Fundamental Rights adds a further dimension to the European Union as 'an area of freedom, security and justice' in that the Union is formally committed to a clear 'Community of values'. Such a formal commitment is all the more significant against the backdrop of forthcoming enlargement and in the context of globalisation.

### 3.3. *Application of the Charter*

3.3.1. The Committee sees another possibility as far as applying the Charter is concerned, namely that those fundamental rights which the Convention agrees can be integrated become legally binding as part of the EU Treaty (cf. Article 6). The Council could then take measures under Article 7 against a Member State that seriously violates the principles listed in Article 6 (1). A ruling by the European Court of Justice would not be required in such cases. A binding procedural provision in the form of a monitoring system could be established to integrate the remaining rights. Such an approach is not incompatible with the principle of indivisibility of fundamental rights, since the Committee believes that the process of defining and revising fundamental rights at European level must anyway remain open-ended in order to allow for relevant developments. This applies for example to 'new' fundamental rights (in gene technology, bioethics, data protection, etc.), which in some cases are already covered in the EU Treaties (e.g. right to the protection of personal data).

3.3.2. The Committee therefore feels it would be vital to provide for an open-ended revision procedure for the future processing of the catalogue of fundamental rights. This procedure would exist alongside the integration procedure ('monitoring' system), as described in point 3.3.1. It would make sense to give the Convention the task of mapping out such an integration and revision procedure for submission to the Council. The revision procedure could also provide for evaluation programmes to be carried out at specific intervals.

3.3.3. Since it has not yet been finally decided how the Charter of Fundamental Rights is to be applied, the Committee cannot at the moment give its views on the issue of effective legal protection. This would involve discussion of any need for additional legal redress options (e.g. legal redress in respect of fundamental rights, action in the general interest, class action, and the right to express an opinion). The Committee reserves the right to present an additional opinion on this matter at the appropriate point.

#### 3.4. *The Charter and civil society organisations*

3.4.1. The development of fundamental rights reflects changing social, economic and scientific trends. Hence, the Committee also expressly welcomes the fact that the Convention proposal includes so-called 'new' fundamental rights and goes beyond the wording of the ECHR, which would not have been the case had the Union simply signed the ECHR, as has been proposed on many occasions. The European Court of Justice has also pointed out that ratifying the ECHR would require revision of the EU Treaty.

3.4.2. In this context and with reference to the Cologne mandate, the Committee particularly welcomes the fact that the Convention has included in the Charter the concept of human dignity, which is not yet in the ECHR. In so doing it is not just following the complex approach adopted in the UN Universal Declaration of Human Rights, but is also giving a signal that the Committee considers to be imperative, i.e. that as well as having a legal function the Charter should be provide a shared scale of values for the EU.

3.4.3. For the emergence of civil society structures in particular it is fundamentally important that as well as establishing joint objectives, basic existing values are recognised as worthy of protection and adoption in a spirit of dialogue and responsibility by civil society players.

3.4.4. The Committee believes that the existing Charter concept therefore presents a highly appropriate framework, in terms of its legal philosophy and legal order, for the development of civil society organisations.

3.4.5. In 1996, the Comité des Sages report entitled *For a Europe of civic and social rights*<sup>(1)</sup> stressed that a Europe close to its citizens required that a 'wide spectrum' of expertise (political, economic and social) to be involved in the European Union project.

The fact that the fifth paragraph of the preamble of Convent 47 refers to the Social Charters adopted by the Community and the Council of Europe as well as the ECHR is to be welcomed in this context.

3.4.6. Representatives of civil society organisations were involved on a very informal, ad hoc basis in drawing up the Charter of Fundamental Rights. Their opinions — some of which were extremely constructive — lacked any coordination, with the result that both clarity and potential synergy suffered. In the interests of developing a European 'model of democracy', civil society organisations must be included in this process — both formally and at an institutional level. It must be emphasised that the basic democratic challenge is to reconcile unity and diversity. Among the institutions, the ESC represents civil society organisations at European level. Its members are in direct and constant touch with civil society organisations<sup>(2)</sup>, and are thus able to provide added value by bringing their expertise to bear in a way that is wholly consistent with participatory democracy. The Committee comprises representatives of the various economic and social interest groups in civil society and should therefore be formally accorded advisory status in line with its remit — in such an integration and revision procedure.

(1) European Commission, DG V, ISBN 92-827-7697-2.

(2) See the ESC Opinion of 22 September 1999, OJ C 239, 17.11.1999, p. 30.

Brussels, 20 September 2000.

*The President*  
*of the Economic and Social Committee*  
Beatrice RANGONI MACHIAVELLI

## APPENDIX

**to the Opinion of the Economic and Social Committee**

The paper currently under discussion in the Convention has the following titles<sup>(1)</sup>:

- Article 1: Human dignity
- Article 2: Right to life
- Article 3: Right to the integrity of the person
- Article 4: Prohibition of torture and inhuman or degrading treatment and punishment
- Article 5: Prohibition of slavery and forced labour
- Article 6: Right to liberty and security
- Article 7: Respect for private and family life
- Article 8: Protection of personal data
- Article 9: Right to marry and right to found a family
- Article 10: Freedom of thought, conscience and religion
- Article 11: Freedom of expression and information
- Article 12: Freedom of assembly and association
- Article 13: Freedom of the arts and sciences
- Article 14: Right to education
- Article 15: Freedom to choose an occupation
- Article 16: Freedom to conduct a business
- Article 17: Right to property
- Article 18: Right to asylum
- Article 19: Protection in the event of removal, expulsion, or extradition
- Article 20: Equality before the law
- Article 21: Non-discrimination
- Article 22: Cultural, religious and linguistic diversity
- Article 23: Equality between men and women
- Article 24: The rights of the child
- Article 25: Integration of persons with disabilities
- Article 26: Workers' right to information and consultation within the undertaking
- Article 27: Rights of collective bargaining and action
- Article 28: Right of access to placement services
- Article 29: Protection in the event of unjustified dismissal
- Article 30: Fair and just working conditions

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<sup>(1)</sup> Convent 47 op.cit.



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- Article 31: Prohibition of child labour and protection of young people at work
- Article 32: Family and professional life
- Article 33: Social security and social assistance
- Article 34: Health care
- Article 35: Access to services of general economic interest
- Article 36: Environmental protection
- Article 37: Consumer protection
- Article 38: Right to vote and to stand as a candidate in elections to the European Parliament
- Article 39: Right to vote and to stand as a candidate at municipal elections
- Article 40: Right to good administration
- Article 41: Right of access to documents
- Article 42: Ombudsman
- Article 43: Right to petition
- Article 44: Freedom of movement and of residence
- Article 45: Diplomatic and consular protection
- Article 46: Right to effective remedy and to a fair trial
- Article 47: Presumption of innocence and right of defence
- Article 48: Principles of legality and proportionality of criminal offences and penalties
- Article 49: Right not to be tried or punished twice in criminal proceedings for the same criminal offence
- Article 50: Scope
- Article 51: Scope of guaranteed rights
- Article 52: Level of protection
- Article 53: Prohibition of abuse of rights
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**Opinion of the Economic and Social Committee on the 'Proposal for a Regulation of the European Parliament and of the Council amending Regulation on substances that deplete the ozone layer as regards the base year for the allocation of quotas of hydrochlorofluorocarbons'**

(2000/C 367/09)

On 28 July 2000 the Council decided to consult the Economic and Social Committee, under Article 175 of the Treaty establishing the European Community, on the above-mentioned proposal.

The Economic and Social Committee decided to appoint Mr Sergio Colombo as rapporteur-general with the task of preparing the Committee's work on the subject.

At its 375th plenary session held on 20 and 21 September 2000 (meeting of 20 September), the Economic and Social Committee adopted the following opinion by 64 votes with 3 abstentions.

**1. The Commission proposal**

1.1. This proposal seeks to amend the recently adopted Regulation on substances that deplete the ozone layer<sup>(1)</sup> on one specific point. It aims at modifying the date currently contained in the new Regulation for determining the allocation of quotas of hydrochlorofluorocarbons (HCFCs): it is proposed to base this on the most recent and representative (i.e. 1999)

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<sup>(1)</sup> This Regulation, the publication of which in the OJ is still awaited, will replace Regulation (EC) No 3093/94.

data rather than on 1996 figures. This modification will not lead to an increase in the total amount of HCFCs that can be imported and will therefore not entail any negative consequences for the environment. According to the Commission, maintenance of the 1996 base year could be considered arbitrary and might result in a breach of the principles of non-discrimination.

**2. General comments**

2.1. The Committee approves the Commission proposal.

Brussels, 20 September 2000.

*The President*  
*of the Economic and Social Committee*  
Beatrice RANGONI MACHIAVELLI

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**Opinion of the Economic and Social Committee on the 'Proposal for a Regulation of the European Parliament and of the Council amending Regulation on substances that deplete the ozone layer as regards metered dose inhalers and medical drug pumps'**

(2000/C 367/10)

On 28 July 2000 the Council decided to consult the Economic and Social Committee, under Article 175 of the Treaty establishing the European Community, on the above-mentioned proposal.

The Economic and Social Committee decided to appoint Mr Sergio Colombo as rapporteur-general with the task of preparing the Committee's work on the subject.

At its 375th plenary session held on 20 and 21 September 2000 (meeting of 20 September), the Economic and Social Committee adopted the following opinion by 63 votes with two abstentions.

**1. The Commission proposal**

1.1. This proposal seeks to amend the recently adopted Regulation on substances that deplete the ozone layer<sup>(1)</sup> on two specific points. It arises from two inaccuracies that crept into the text of the new Regulation in the final stages of its adoption. The first refers to the export of metered dose inhalers

containing chlorofluorocarbons (CFCs) to developing countries and the second to the export of medical drug pumps containing CFCs. According to the Commission it was not the intention of the Regulation to ban the export of such products that are still needed for health reasons in such countries. Therefore, the Regulation should be amended accordingly.

**2. General comments**

2.1. The Committee approves the Commission proposal.

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<sup>(1)</sup> This Regulation, the publication of which in the OJ is still awaited, will replace Regulation (EC) No 3093/94.

Brussels, 20 September 2000.

*The President*  
*of the Economic and Social Committee*  
Beatrice RANGONI MACHIAVELLI

**Opinion of the Economic and Social Committee on the 'Proposal for a directive of the European Parliament and of the Council on General Product Safety'**

(2000/C 367/11)

On 24 July 2000, 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.

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 19 July 2000. The rapporteur was Mrs Williams.

At its 375th plenary session (meeting of 20 September 2000), the Economic and Social Committee adopted the following opinion by 78 votes to none and 4 abstentions.

## 1. Introduction

1.1. The original General Product Safety Directive (GPSD) came into force in June 1994. It followed a sequence of single-subject (or sectoral) Directives such as the Toy Safety Directive and took as its base the need to achieve 'a high level of protection'. Consumer health and safety have since become one of the new political priorities in the European Union.

1.2. Article 16 of the 1994 GPSD states that 'the Council shall decide whether to adjust this Directive, in particular with a view to extending its scope', as well as emergency provisions. This Decision of the Council was to be guided by the Commission's report, expected in 1998, on the experience acquired, together with appropriate proposals for improvement.

1.3. Unfortunately, this report did not appear at the specified time, so the Committee reacted forcefully: in December 1999 it produced in a spirit of constructive criticism its Own-initiative Opinion<sup>(1)</sup>. It pointed out that, in addition to the establishment of the Internal Market, there have been major changes, developments and significant crises since the Directive first came into force. These need urgently to be taken into account. The Committee nevertheless concedes that the delays had a basis in the exceptional amount of wide-ranging consultations, reviews and assessments which the Commission undertook, particularly the report produced by the Centre du Droit de la Consommation at the University of Louvain-la-Neuve.

1.4. In general, the Committee welcomes the Commission's attempts to prevent unsafe products reaching the markets, but has some reservations about its new proposal. It notes that the method of approach is not to produce a completely new text but rather to recast the original GPSD, using the former structure but introducing amendments which are clearly

indicated by underlining in the Commission's document. This practical format is likely to be more familiar to all involved in the application or enforcement of product safety legislation, including the 'candidate' countries.

1.5. Though the Commission's original overall approach appears fundamentally sound, some of the proposed changes are far-reaching and will need to be clarified as they are transformed into workable proposals.

## 2. General Comments

### 2.1. *What the new GPSD sets out to do*

2.1.1. The GPSD deals with products intended for use by consumers or likely to be used by consumers. It includes services only when these are directly associated with the supply of the product itself. It is the product which remains dominant (as in the case of hired goods).

In particular, such services are those provided for assembly, installation and maintenance of a product. As for services in general, the Commission intends to approach safety in this diverse sector separately, either by means of a general regulatory framework or by legislation in specific sectors and not through the GPSD.

2.1.2. There is no alteration to the basic aim of the GPSD, which quite clearly remains 'to ensure that products placed on the market are safe.' The duty of producers and distributors is to supply products which under normal or reasonably foreseeable conditions of use present no risks or only minimal risks compatible with the type of product concerned.

<sup>(1)</sup> ESC Opinion OJ C 51, 23.2.2000, p. 67.

2.1.3. The Directive continues to apply to all consumer products except second-hand products which are sold either as antiques or to be reconditioned before use. All other second-hand goods are covered. Food, except where it is already subject to more specific provisions, is also included.

2.1.4. The major amendments to the original Directive concern the following subjects: definitions, scope, the increased role of standards and standardisation bodies, withdrawal, recall and banning of exports of dangerous products, rapid exchange of information in emergency situations, co-ordination and collaboration of enforcement authorities and the setting up of an appropriate regulatory committee and product safety network.

2.1.5. The Commission attempts to reinforce the present regime; in other words, to provide greater legal certainty by clarifying and simplifying its text and removing contradictions and ambiguities. The Committee agrees that such clarification is vital: the Louvain-la-Neuve report, whose analysis of practical applications reveals widespread shortcomings in the implementation of the existing Directive, pointed out that one would need a degree in European law to understand much of the original Directive.

2.1.5.1. The Committee questions whether the Commission's new proposal on the Precautionary Principle (which is not mentioned in the new GPSD text) conflicts with the concept of legal certainty. Where scientific evidence is lacking or inconclusive, the Precautionary Principle may be invoked. Accordingly, bans may be introduced where there is a potential risk of serious damage to human beings. The intention is to ensure that suspected risks are satisfactorily controlled regardless of legal uncertainty. The presumption must be that there is always an element of risk present.

2.1.6. The Committee agrees with the Commission's emphasis on the need for transparency and fairness whereby those who attempt to produce and sell dangerous goods no longer have an unfair advantage over competitors who accept the costs incurred with building safety into their goods.

### 3. Specific Comments

3.1. The Commission usefully groups its 22 Articles, followed by several explanatory annexes, under the following seven slightly amended chapters:

- Objective, scope and definitions
- General safety requirement, conformity assessment criteria and European standards
- Other obligations of producers and obligations of distributors
- Specific obligations and powers of the Member States
- Exchanges of information and rapid intervention situations
- Committee procedures
- Miscellaneous and final provisions

3.1.1. The Committee notes the exceptional length (twenty pages) of the explanatory introduction and also notes the special significance of the preamble (39 recitals). These recitals are generally substantive and less legal in tone than the Articles which follow them. Some include points which are not mentioned under any of the Chapters: for example, the new proposal applies to products irrespective of the selling technique, including distance and electronic selling (7).

3.1.1.1. This introduction is an essential reference document but is not easy to consult: it is difficult to follow the text of the actual proposal and at the same time to consult the introduction. Indeed, the introduction could well have used the Chapters as major headings, and certainly should make clear at a glance whether the reference is to the original GPSD or to the new version.

#### 3.2. Chapter I: Objective, Scope and definitions (Articles 1 and 2)

3.2.1. Article 16 of the original GPSD pointed to the possibility of extending the scope of Article 1. The Committee welcomes progress towards the clarification of a text which previously caused uncertainty, disagreement and a lack of awareness of its practical applications. The relationship between the sectoral Directives and the GPSD, which offers consumers a safety net, is now much clearer. The Committee considers, however, that the wording chosen concerning the inclusion of services ('insofar as consumer product safety aspects under reasonably foreseeable conditions of use of those products are concerned' — Article 2.a) needs to be much clearer to be of any practical use to manufacturers. The revised proposal aims to protect people despite any gaps in specific product safety rules drawn up to remove technical barriers to trade. In short, it is essential that all products likely to be used by consumers must be covered, with the GPSD filling any gaps that need to be resolved in the context of those sectoral directives which provide the necessary comprehensive cover.

3.2.1.1. The Committee also seeks clarification of the position of the essential supply utilities, such as electricity, regarding their inclusion as products. It suggests a reference to the Consumer Guarantees Directive and the Liability for Defective Products Directive.

3.2.2. The Committee notes that products originally intended and supplied solely for professional use may in some cases migrate to the domestic market which can be either consumer-led or the result of direct promotion by suppliers. In either case, there is a foreseeable possibility that a product may eventually be used by a person who is likely to lack professional knowledge and experience. Such products currently include laser pens, chain saws and other specialist do-it-yourself equipment, as well as paints and pesticides. The Committee therefore points to the need for producers and suppliers to take all reasonable and necessary steps when packing and labelling their goods to provide clear instructions and safety warnings in case of use by non-professionals.

3.2.3. The Committee endorses the inclusion of the elderly among consumers most at risk, but regrets the omission of its other suggestion that the needs of disabled consumers should be taken into account wherever reasonably possible.

3.2.4. The Commission adds a new definition relating to competent authorities, designated by Member States, who will carry out the tasks outlined in the proposal. Previously neither European nor national legislation have included obligations on producers and distributors to inform these authorities about product recalls.

3.2.5. The Commission now defines 'recall' but does not also define 'withdrawal', presumably because of linguistic problems in different languages. A clear distinction should be made between the two possible stages of dealing with dangerous products: the first stage ('withdrawal') is the regulated removal of affected goods from shops, warehouses and factories, whereas the second stage ('recall') is the retrieval, as a last resort, by suppliers and producers of goods already bought and used by consumers. In cases of unacceptably high risks to safety, it is also important to provide adequate warning to consumers so that they also can take any necessary action.

3.2.6. The Committee underlines the new significance now given to the word 'risk', increasingly used in the context of risk assessment and management. Whilst it is acknowledged that there is no such thing as zero risk, consumers nevertheless accept risks because of potential benefits that products may

offer. It must be made clear that such depends on the changing attitudes of society i.e. the amount of risk people are prepared to tolerate. Expectations of safety continually rise.

3.2.7. The Committee suggests that Article 2 should also require safe and environmentally-satisfactory disposal of products (e.g. fluorescent lighting tubes, aerosol cans, insulating materials and electronic waste). The Committee acknowledges, nevertheless, that environmental aspects are not covered by the GPSD, because they are already covered by national and EU legislation.

### 3.3. *Chapter II: General safety requirement, conformity assessment and standards*

3.3.1. Standards are an essential part of consumer protection, provided that safeguard clauses exist in case a standard does not provide an adequate level of protection. The Committee therefore endorses the proposal to strengthen the role of European standards — and standards organisations — by establishing the conformity of products to the general safety requirement of the GPSD. The priority must be on those products which are most relevant to consumer safety.

3.3.2. The Committee stresses the need for clarification of the status of European standards. There must be a coherent integration of national standards' regimes and a clear understanding of the role of non-formal standards such as technical specifications. The Committee notes that the onus is on suppliers to justify the basis on which the claim of safety is made wherever a product does not meet all relevant standards but is deemed to be safe. Suppliers can also use alternative approaches to complying with existing standards, provided that these approaches enable them to reach higher levels of safety than are offered by these standards. Suppliers would however be liable if their claims could not be substantiated, as they are already covered by EU-product liability and misleading advertising legislation. The Committee stresses that the present lack of status of European standards affects their ability to promote harmonisation in the Internal Market.

3.3.3. The Committee suggests that in a global market there is an increasing need for collaboration with the International Standards Organisation.

3.3.4. European standardisation bodies must be given the necessary resources to increase their rate of production and to ensure high quality. Moreover, there is a need for effective consumer representation. It is important also to take into account that within the existing general framework conditions,

it is already foreseen that all interests — including those of consumers — can participate in standardisation. If this is to be a real possibility, participation costs for poorer organisations must be abolished so that they can afford to take part.

3.3.5. The language in which standards are written is inevitably technical, so particular attention must be paid to writing simple and understandable texts.

#### 3.4. *Chapter III: Other obligations of producers and obligations of distributors*

3.4.1. Article 5 retains obligations on producers and distributors to provide consumers with information and warnings enabling them to assess the risk factors of a product in normal use. The Committee remains concerned, however, that such information, whether in words, diagrams or pictograms, is still not always easy to understand and apply.

3.4.1.1. The Committee points to the need for relevant safety information to be included in any form of electronic commerce or distance selling.

3.4.1.2. The Committee welcomes the new, clearer and more consistent requirement to withdraw dangerous products from the market and as a last resort to recall those already supplied to consumers. Successful operations in both cases depend on the ability to trace the origin of products. Suppliers will rely on effective management systems, backed up by appropriate records and information, to achieve such traceability.

3.4.1.3. In view of existing disparities among the Member States in effective control and enforcement, the Committee approves the new obligation for collaboration between competent authorities and manufacturers and suppliers. Both manufacturers and suppliers will inform the authorities of the action they have taken to prevent unacceptable risks to consumers. The Committee acknowledges that this is already done on a voluntary basis. The Committee stresses that it is essential to keep any new bureaucratic demands to the minimum in the interests both of producers and competent authorities.

#### 3.5. *Chapter IV: Specific obligations and powers of the Member States*

3.5.1. The Committee endorses the need for comprehensive market surveillance and enforcement of regulations. Such work is carried out by the competent authorities, appointed by each Member State, whose enlarged role is detailed in Article 7. Success depends on co-operation and co-ordination.

Both from the Internal Market and the consumer perspectives, enforcement on an even basis in the Member States should be reached as soon as possible.

3.5.1.1. The Committee questions the logic of defining the function of competent authorities in Article 6 when their special significance has already been mentioned under Article 5 of Chapter III. More detail is needed about their terms of reference and how they relate to one another.

3.5.1.2. The Committee suggests that Member States should ensure that the resources of their competent authorities are adequately expanded to match their increased obligations.

3.5.1.3. The Committee notes that it is the intention of the Commission to set up a European Product Safety Network. It accordingly asks whether this network will take the place of the existing Product Safety Enforcement Forum of Europe (Prosafe), which produces a database of agencies responsible for product safety. The Committee considers that it is essential not to lose the experience of Prosafe; on the contrary, it maintains that Prosafe could form the basis of the new network, subject to adequate funding to allow for extended activity and wider membership.

3.5.2. In view of the fact that rules without penalties make little impact, the Committee welcomes the need for effective, proportional and dissuasive sanctions to be imposed by Member States, who will inform the Commission of their actions.

#### 3.6. *Chapter V: Exchanges of information and Rapex (Procedures for the application of Rapex are given in Annex 2)*

3.6.1. The Committee notes that food notifications are currently made using the Rapid Exchange of Information System (Rapex). In future these will come under the Food Safety Authority. Until the Authority is formally set up, they will continue to be made in accordance with the GPSD procedure.

3.6.2. The Committee recognises that serious and immediate risks require rapid intervention, and that procedures have not always been adequately implemented, largely because the conditions they have imposed have been restrictive. Speedy access to accurate information is essential in an emergency situation. The Committee therefore welcomes the Commission's suggested improvements to Rapex, particularly the provision of clear and detailed data about a notified product, and the mechanisms for following up notifications made by the Member States.

3.6.2.1. The Committee would welcome the taking into account by Rapex of additional statistical information from the European Home and Leisure Accident Surveillance System (EHLASS): EHLASS provides details of injuries in which products are involved.

3.6.2.2. The Committee also recommends the expansion of Rapex (and indeed of EHLASS), establishing world-wide exchange of information, thus ensuring greater consumer protection.

3.6.3. The Committee welcomes the Commission's proposal to prohibit the export to non-EU countries of products for which withdrawal and recall are mandatory, subject to derogations justified and endorsed by the Commission.

### 3.7. *Chapter VI: Committee procedures*

3.7.1. The Committee notes the transformation of the former Emergencies Committee into the new Regulatory Consumer Product Safety Committee. However, the Commission is also proposing an Advisory Consumer Product Safety Committee in addition to the European Product Safety Network outlined in Article 9. The Committee is confused about the role and function of these three bodies and asks whether a single Product Safety Commission would not have been more effective in view of the need for co-ordinated action.

### 3.8. *Chapter VII: Miscellaneous and Final Provisions*

3.8.1. The Committee welcomes the fact that information relating to risks to human health and safety will be open to the public in the form of information on product identification,

the nature of the risk and measures taken to deal with the emergency situation. This measure will help to increase consumer confidence on which the success of the Internal Market depends.

3.8.1.1. This openness must nevertheless be balanced against the need to respect professional secrecy in justifiable cases.

3.8.2. The Committee approves the Commission's intention to provide a report on the implementation of the new GPSD every three years, in a continuous monitoring process in an era of rapid change.

3.8.3. In view of its ongoing work on consumer safety, the Committee believes that it should receive a copy of this report as well as the Council and Parliament.

## 4. **Conclusion**

4.1. An effective, newly-revised General Product Safety Directive is essential, but it must be carefully clarified and simplified so that it provides greater certainty for all those who are responsible for putting it into practice as well as for those who benefit from the security it offers. It is a vital protective measure for consumers, reducing their exposure to injury and death, and restoring confidence diminished by a series of recent crises. It is equally vital for producers and suppliers, for whom it provides a clear legal framework for all marketing activities relating to the principles of fair trade and fair competition in an Internal Market.

Brussels, 20 September 2000.

*The President*  
*of the Economic and Social Committee*  
Beatrice RANGONI MACHIAVELLI



## APPENDIX

**to the Opinion of the Economic and Social Committee**

The following Section Opinion texts were rejected in favour of amendments adopted by the assembly but obtained at least one-quarter of the votes cast:

**Point 3.2.1**

5th phrase:

'The Toy Safety Directive, for example, does not cover all aspects of safety: acoustical and chemical dangers are omitted, because they are covered by the existing GPSD.'

*Outcome*

29 votes for deleting the phrase, 20 against and 16 abstentions.

**Point 3.6.3**

2nd phrase:

'Such prohibitions must only be imposed when procedures initiated by the Commission have been properly complied with.'

*Outcome*

35 votes for deleting the phrase, 26 against and 16 abstentions.

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**Opinion of the Economic and Social Committee on the 'Proposal for a Council Regulation amending Regulation (EEC) No 2759/75 on the common organisation of the market in pigmeat'**

(2000/C 367/12)

On 27 April 2000 the Council decided to consult the Economic and Social Committee, under Articles 43 and 198 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 6 September 2000. The rapporteur was Mr Bastian.

At its 375th plenary session held on 20 and 21 September 2000 (meeting of 20 September) the Economic and Social Committee adopted the following opinion by 64 votes to seven, with four abstentions.

## 1. Introduction

1.1. The European Union market in pigmeat is cyclical, alternating between periods in which pig prices are satisfactory and the market is in balance, and periods of very low prices and surplus supply. However, the Committee recognises that this cycle has changed, with the emergence of longer, more intense recession periods. The reason for this shift is the growing specialisation among pigmeat producers in a bid to become more efficient and more competitive. Such specialisation makes it impossible for producers to adapt to market requirements as they did during past recessions, since their income is derived solely from pig-related activities. It is thus much more difficult for Community pigmeat production to adjust to the needs of the market, even when prices are very low. Moreover, the scale of the recession may be exacerbated by unforeseen circumstances such as health-related incidents or the sudden closure of export markets.

1.2. The recent unprecedented recession that has hit EU pig farmers is a good illustration of this intensification of the cycle. Production prices in the Community dropped by an average 27 % in 1998, and by a further 6 % the following year, touching new depths and falling well short of production costs. The recession was so exceptionally long and sharp because of the following factors, which compounded the known implications of the 'natural' pigmeat cycle:

- the impact of the 1997 swine fever epidemics, which, although now over, still remain a threat;
- overproduction in Europe and across the world as a result of increased specialisation and production capacities in the European Union and the United States;

- the Russian crisis of August 1998 in which the temporary non-convertibility of the rouble led to the suspension for a time of European exports of pigmeat and processed products to that country.

1.3. Recessions such as these endanger the cash flow of many producers, particularly the most vulnerable such as recent investors and young people starting out. Clear structural changes are thus discernible in the pigmeat sector, and these have been accelerated by the latest recession. They involve a concentration of production, ever dwindling numbers of pig farmers and the disappearance of the smallest pig farms. The most vulnerable pig farms are also being absorbed by large 'industrial' groups in which producers become 'employees' of agro-industry and lose both their identity and their autonomy.

## 2. The European Commission proposal

2.1. The Commission proposal amending Regulation (EEC) No 2759/75 on the common organisation of the market in pigmeat provides for the establishment of a regulatory fund to stabilise the incomes of pigmeat producers. The proposal comes in response to the severe recession which hit the pigmeat sector in 1998/1999. The Commission has thus recognised that, over the past few years, periods of recession have been lengthening, endangering pig farmers' cash flow situation.

2.2. The main components of the proposal are the following:

- Member States will be authorised to establish regulatory funds in their territory. Participation by pig farmers, producer groups or collective bodies will be on a voluntary basis and for a period of not less than five years;

- the regulatory funds will be financed by the pig farmers themselves, on the basis of a levy paid in respect of each fattening pig. Member States may grant degressive launching aid. In order to obtain the resources needed to operate their regulatory fund, the funds may seek loans from banks and public or private institutions on market terms;
- the regulatory mechanism will have two components: a levy threshold, triggering the collection by the funds of an amount in respect of each fattening pig, and a payment threshold, triggering the grant of an amount in respect of each pig farmer. The thresholds will be set taking into account the market price for standard quality slaughtered pigs in the Member State concerned, the production costs in that country, the financial situation of the fund and the position of pigmeat within the Community;
- the regulatory funds may adjust the amounts granted in respect of each fattening pig and the number of eligible pigs per farmer in the light, in particular, of the size and structure of the pig farms in the Member State concerned. The levy may also be adjusted;
- where a fund must start a payment period without the necessary financial resources being available, the Member State concerned may grant it an interest-free loan. The loan must be reimbursed by the fund in full. Where a regulatory fund has sufficient financial resources, it may suspend collection of the levy temporarily;
- upon becoming a member of a fund, the pig farmers must give an undertaking not to increase the number of their fattening places during their period of membership. However, where market prospects permit, Member States may be authorised by the Commission to derogate from that requirement.

### 3. General comments

3.1. The Committee takes note of the Commission's proposed regulation, the purpose of which is to authorise Member States to establish regulatory funds in the pigmeat sector. The Committee feels that this proposal is a first step towards putting additional instruments in place for use in market management and to support producers' income in times of recession. The proposal also opens up the debate in a sector which has seen no real development in the common organisation of the market since it was set up.

3.2. The Committee understands that the Commission's aim is to help producers cope with ever sharper recessions in the pigmeat sector through a scheme to stabilise their income

which complements current market management arrangements in the pigmeat CMO. However, the Committee considers that the proposed regulation does not go far enough to meet that target and that it is desirable to broaden its scope to include other crisis management measures and to draw, among other things, on established practice in some non-EU countries (USA, Canada) such as the income insurance schemes currently under discussion in the WTO negotiations.

3.3. Action cannot be restricted to pig farmers alone. The European Union must act to boost the draft regulation's effectiveness. Moreover, the arrangements for setting up regulatory funds must involve no risk of renationalising the CAP and distorting competition among Member States (depending on whether or not a Member State is party to the regulatory fund). The Committee therefore proposes greater EU involvement via co-financing of the regulatory funds with producers.

### 4. Specific comments

4.1. The Committee welcomes the proposed regulation insofar as it fosters solidarity among pigmeat producers by helping the weakest and authorising adjustments in the amounts granted to take account of pig-farm size and structure, for instance by assisting young people starting out. However, the Committee wonders what producers really stand to gain from taking part in such a fund as opposed to using the options already at their disposal, i.e. personal savings, equalisation funds set up by some producer associations, bridging loans from banks to safeguard liquidity etc. It is difficult to see the advantages to be gained by pig farmers under the current proposals, particularly since they alone are responsible for financing the regulatory funds and, moreover, must commit themselves not to increase production for five years.

4.2. The Committee recognises that one of the Commission's objectives in bringing forward this proposal is to control the Community's pigmeat production in order to mitigate the scale of recessions in the pigmeat sector. However, as the Committee would stress, there is a risk that competition among producers may be distorted by the requirement for pig farmers taking part in a regulatory fund not to increase their production for five years. It may be that the most vulnerable farms will be the first to express an interest in taking part in a regulatory fund. This would mean that only the largest and most competitive pig farms would be able to increase their production capacities. The Committee feels that effective supply management is impossible unless a large number of (or even all) producers take part in a regulatory fund in the main European production areas. Hence, when setting up the regulatory funds, incentives — such as a Community contribution — must be devised to encourage producers to take part.

4.3. Even an improved version of the Commission proposal, while providing for stability in producers' income, would offer no quicker way out of a recession. The Committee therefore asks the Commission to bring forward an additional proposal for tools to cut production in the case of serious recession in the pigmeat sector, as defined in the context of the Management Committee for Pigmeat. It would be up to each Member State to select the appropriate tools which would be applied within a Community framework. Each country would be required to produce results and some pig farmers could be asked to make a more substantial effort (e.g. those who have increased production most since a particular reference date and whose farm holding exceeds a certain size).

4.4. Livestock breeders are generally the first to be hit by recessions. Hence, they should not be excluded from the regulatory funds. Levy and payment thresholds can also be set in line with piglet prices.

## 5. Towards a more coherent Community policy for the pigmeat sector

5.1. Community policy on pigmeat must develop so that it is better able to respond to sector-specific challenges. The Committee would like to set out these three challenges in greater detail.

### *A key economic sector*

5.1.1. The European Union pigmeat sector is dynamic and competitive. In 1999, the EU exported almost 1,5 million tonnes of pigmeat to non-member countries, making it the world's largest exporter. At the same time, import levels remain very low, at less than 65 000 tonnes in 1999.

5.1.2. The Community's pigmeat sector also constitutes a sizeable industry, comprising 11 % of the EU's final agricultural production.

5.1.3. One of the main challenges for Community policy on pigmeat therefore is to safeguard this key economic sector in the face of tough international competition.

5.1.4. The Committee would emphasise that pigmeat production is also a key economic sector in the CEEC which have applied to join the EU, particularly Poland, Hungary and the Czech Republic (1).

(1) In 1999, these three countries' combined pigmeat production was 3,3 million tonnes, or 18 % of that of the EU 15.

### *Jobs and spatial planning*

5.1.5. The Committee notes that pigmeat production is a key source of employment at every stage (animal feed, production, services, slaughtering/cutting, meat preparation and salting). A study conducted in France has shown that for every one job on the production side, 2,5 jobs are generated across the sector (2).

5.1.6. As with all agricultural production, pig farming plays an important role in spatial planning and rural land use. The Committee asks that the wide range of rearing methods be recognised and fostered, taking due account of specific local conditions.

5.1.7. For this reason, Community policy in the pigmeat sector must, in the Committee's view, work not only to keep production high, but also to maintain a large pool of producers and help renew the generations.

### *What citizens and consumers expect*

5.1.8. Community pigmeat production must meet citizen and consumer expectations. Many of these are environment-related, including the management of livestock effluents, animal welfare, animal nutrition, food safety, health protection and product quality.

5.1.9. Community policy in the pigmeat sector must enable producers to meet these expectations by striking a proper balance with economic issues. For it is important to take account of constraints arising from international competition in order not to undermine the EU pigmeat sector.

5.2. The management tools available under the pigmeat CMO (refunds, private storage) help maintain a competitive Community pigmeat sector which is able to export. These tools should therefore be retained and defended in the WTO negotiations. It must be said, however, that deploying these tools to the full during the last recession in 1998/99 was not enough to prevent the collapse of pig prices across all EU production areas to levels unprecedented in any earlier crisis. This shows just how difficult it is to maintain profitable prices using only traditional market management tools.

(2) This is the estimated number of pigmeat-sector jobs in 1997, calculated in September 1999 by the Pork Technical Institute (*Institut technique du porc*). It covers jobs in animal feed, production, producer groups, other services, slaughtering/cutting, meat preparation and salting. It excludes other farm suppliers and the entire distribution side.

5.3. For this reason, current Community policy is not consistent with the challenges facing the Community pigmeat sector outlined above. To better meet these challenges, the Committee would ask the European institutions (i) to continue to consider both the changes required to Community pigmeat policy and the need for appropriate funding to this end and (ii) to encourage and promote debate with the relevant occupational groups. Furthermore, the Committee recommends that participation in any Community scheme should be tied to greater respect for animal welfare, while at the same time avoiding distortions of competition.

5.4. In the pigmeat sector, the Committee would also ask the Commission to explore the possibility of using bodies such as producer associations to set in place operational programmes which already exist in other sectors. These operational programmes — co-financed by the EU — would bring in a raft of new measures to manage the pigmeat market and support producers (promotion of pigmeat products, income insurance etc.), as well as programmes to boost quality

and improve traceability in order to meet the demands of the European consumer.

5.5. The Committee does not feel that Community policy in the pigmeat sector can be based solely on competitiveness, which inevitably carries with it a downward spiral of production costs and prices. Such a policy would run counter to the European model of multifunctional agriculture which meets European consumer requirements. In this regard, the Committee would refer to its 1999 opinion on a policy to consolidate the European agricultural model<sup>(1)</sup>.

5.6. The Committee hopes that the Commission will press ahead with its work in the pigmeat sector by broadening the debate on certain issues raised in this opinion, including income insurance, the environment, the role of production associations and the establishment of a pigmeat market observatory.

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<sup>(1)</sup> OJ C 368, 20.12.1999.

Brussels, 20 September 2000.

*The President*  
*of the Economic and Social Committee*  
Beatrice RANGONI MACHIAVELLI

## Opinion of the Economic and Social Committee on 'Renewable resources: a contribution by rural areas to active protection of the climate and sustainable development'

(2000/C 367/13)

On 20 and 21 October 1999 the Economic and Social Committee, acting under Rule 23(3) of its Rules of Procedure, decided to draw up an opinion on 'Renewable resources: a contribution by rural areas to active protection of the climate and sustainable development'.

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 26 July 2000. The rapporteur was Mr Wilms.

At its 375th plenary session held on 20 and 21 September 2000 (meeting of 20 September), the Economic and Social Committee unanimously adopted the following opinion.

### 1. Introduction

#### 1.1. Point of departure

The Treaty of Amsterdam attached particular importance to the integration of environmental protection and sustainability requirements into all Community policies and activities (see Article 6 of the Treaty). The drive to protect the environment is focused on active protection of the climate. Climate change is caused mainly by increased CO<sub>2</sub> emissions. These in turn depend largely on the type, handling and scale of energy use. The principles of sustainable development must underpin both energy supply and, in particular, energy use.

The White Paper for a Community strategy and action plan entitled *Energy for the future: renewable sources of energy* sets an objective of 12 % by 2010 for the contribution by renewable sources of energy to the European Union's gross inland energy consumption. The paper also sets out the means by which this objective is to be achieved, including arrangements establishing conditions conducive to renewable energies and increased financial resources for renewable energy schemes at both national and Community level.

Using renewable energies is not, however, the only way to protect the climate. There are various points of departure, including schemes for efficient energy use, more careful farming practices and the deployment of renewable raw materials.

#### 1.2. Overall political objectives

The political task is to take practical action to reconcile three sets of objectives: (i) economic objectives (maintaining low-cost raw materials for private and public users, securing long-term resource availability, guaranteeing energy supply on a lasting basis, ensuring that everyone has a share in overall

rising income and prosperity), (ii) ecological objectives (conserving natural resources and protecting the climate, preserving and developing the natural environment, safeguarding natural resources in the long term through the use of renewable resources, maintaining biodiversity) and (iii) social objectives (preserving and developing recreational areas, creating jobs, protecting social and cultural resources, ensuring equity [a 'fair' distribution of income]).

### 2. Urgency of the opinion

The Economic and Social Committee considers that rural areas — often deemed to provide an ecological counterbalance — offer major potential for developing renewable resources. The Committee does not feel that all the avenues for regenerating the natural environment have been fully explored or that enough attention is paid to sustainable development in the Commission's support programmes. This view is underscored by the draft papers and publications for the new support period 2000-2006. The ESC fears that sustainability is a mere adjunct used to satisfy specified political requirements without setting out clear criteria and benchmarks. Thus, to take an example, broad-based social dialogue is essential at every level of these programmes and in the allocation of funding, which must have proven long-term effects. This opinion reflects the ESC's resolve to influence (i) upcoming programme planning by the Commission and the Member States and (ii) the management of funding. It is essential to examine and set out the role of rural areas in this process.

The ESC calls for enhanced linkage between policy areas such as agriculture and forestry, energy, structural policy, research and education. This opinion is intended to launch a political initiative, not to work out a detailed plan. It aims to show which resources could be used as renewable energies. Of course, individual energy sources must in future be subject to economic and ecological cost-benefit analyses.

### 3. General comments

The discussion on rural areas' contribution to renewable resources and sustainable development should assess possible developments on four fronts in particular (points 3.1 to 3.4 below):

### 3.1. *Use of renewable energies*

Hydropower generates the largest share of renewable energies, produced mainly in large installations. The growth potential of such installations is likely to be relatively low compared with other renewable energy sources. There is, however, a more interesting option — renewable energy generation in smaller hydropower plants (e.g. in mountainous regions).

There is still considerable capacity for boosting solar power generation without further use of land by deploying photovoltaics on existing surfaces such as roofs, building fronts and noise barriers. More wind power plants can be built where appropriate and in designated priority areas (such as coastal regions). There are considerable regional variations in the use of biomass to produce energy. In rural areas in particular, however, farms and forest holdings can contribute considerably more to providing biomass-generated energy. Wood is currently the most important source of energy from renewable raw materials. Increasing the use of wood-generated energy not only boosts the contribution of renewables, but can also open up new markets for the forestry sector and safeguard jobs. The forestry sector must be more closely involved in integrated renewable energy schemes.

Here the state-managed forestry sector should lead by example and work together with private forestry operators in order to use forest resources more effectively. The increased use of vegetable oils provides market openings for farm products (oil plants). The production of renewable raw materials must respect the principles of sustainable economic management, particularly with regard to fertilisation and irrigation.

### 3.2. *Use of renewable raw materials*

There should be scope for non-food production on set-aside farmland without any cut in set-aside premiums and without production being restricted to a small number of crops. Special attention must thereby be paid to whether environmental improvements — i.e. net benefits — can really be secured. Even today, European farmers can generate additional income by cultivating renewable raw materials — a practice set to become even more economically attractive in the future. There is still major untapped potential for development in the fuels and lubricants sector (oils), and further research should be promoted in this field. There are also potential market openings for oil plants since imports into Europe outstrip exports in that area (e.g. linseed oil). The use of natural construction materials for buildings and housing is becoming increasingly important. For example, alternatives to chemically manufactured paints and insulating materials have been available for some time. Further examples of innovation in the deployment of renewable raw materials include (i) the motor-vehicle industry where natural fibres are increasingly being used in interior fittings, and (ii) textile manufacture and

processing, where the use of natural raw materials such as hemp and flax is also again on the increase. Sustainably produced wood and cork have a wide spectrum of uses, for example, in building or around the home. The sustainable use of the forest ecosystem also ensures its survival. Thus, in Mediterranean regions, the use of the cork oak creates local jobs and protects environmentally significant cork-oak stocks from deforestation. Demand for bioproducts is also increasing in the fields of cosmetics, toiletries and health care, and for medicinal purposes. The commercial exploitation of these products is certain to rise further.

### 3.3. *Efficient energy use*

The potential for efficient energy use and energy conservation is far from exhausted. Savings can be made not only in rural households but also in businesses, including farms and forest holdings. The use of combined heat and power (CHP) generators, for example, would be desirable for both environmental and energy reasons. In rural areas in particular, however, such plants are not yet widespread or are not yet able to operate in an economically efficient way. Further research is needed into potential uses for such plants and into the development of technologies. Greater attention should be paid than in the past to the lasting impact of Structural Fund support provided under the common agricultural policy. Resources which can be mobilised for village renovation schemes offer excellent opportunities on this front<sup>(1)</sup>. In terms of support, priority must be given to thermal insulation and the use of renewable raw materials as building materials, produced, where possible, in the region concerned. In order to deploy support funding as effectively as possible in the drive for efficient energy use, improvements must be made to (environmental) advisory services, and new scope is needed for technology transfers to rural areas using the latest technical developments.

### 3.4. *Strengthening substance cycles at local and regional level*

The establishment of more effective substance cycles at regional and local level can generate substantial savings in raw materials and energies and do much to foster sustainable development (reorganisation and appropriate structuring of decentralised services — policy tool: rural development plans). Possible ways of achieving this include: 1) the separation and recycling of commercial and household waste and its use to generate energy insofar as this is environmentally safe; 2) the installation of small sewage treatment plants especially in more isolated rural communities; 3) the direct marketing of farm produce, wherever economically viable, which not only can secure additional income for farms, but also helps avoid long transport routes.

<sup>(1)</sup> For example, the measures provided for under Article 33 of Regulation (EC) No 1257/1999. On this issue, see also the ESC Opinion of 29.4.1998 (OJ C 214, 10.7.1998, p. 56) on the Communication from the Commission on *Energy for the future: renewable sources of energy* (White Paper).

Labour requirements rise as regional and local levels are encouraged to expand in areas such as supply and disposal, direct marketing and the processing of renewable raw materials. Targeting these areas creates new jobs. This also contributes to the added value of rural areas. As well as primary production in farming and forestry, support must also increasingly focus on the processing and service sectors.

#### 4. Overall objectives

##### 4.1. *Joint schemes to promote the use of energy from renewable sources*

Almost all major political players involved broadly back wider use of renewable energies. A main concern is also to make provision for future generations, i.e. to ensure that they too continue to enjoy the basic ingredients for a reasonable level of prosperity. The ambitious objective set for 2010 cannot be achieved without financial support. Apart from the key area of research and development, support has to be given to possible broad-based applications. In doing so, it is important in the first place to promote market access for renewable energies. Support schemes must take account of appropriate profit-making opportunities for operators after the initial support phase. This includes giving operators the security to plan ahead; it also means that they are able to market their energies and have secure outlets. After all, the ecological benefits of renewable energies also require economic recompense.

In order to boost renewable energy use, energy taxation must be harmonised at European level. This also includes provision for Member States to exempt renewable energies from energy tax. Care must also be taken to ensure that energy market liberalisation does not have a detrimental effect on renewable energy use.

At national level, countries should set their own targets for achieving the overall objective by 2010 and establish how these targets are to be met. National schemes should emphasise the special significance of rural areas.

##### 4.2. *Policy initiative for rural development*

Sustainable development must become the key indicator in rural areas. The ESC would ask the appropriate authorities to launch a joint policy initiative for sustainable rural development. Such an initiative should include the development, implementation, assessment and dissemination of schemes designed to enable rural areas to operate within efficient

substance cycles and make the best possible use of renewable energies. The initiative is underpinned by key principles of sustainable economic management; these include, for example, involving as many local people as possible in the development process and attaching equal importance to ecological, social and economic factors. Key features of sustainable development are set out below.

#### 5. Features of sustainable development

##### 5.1. *Developing models*

In the sustainability debate, it is generally acknowledged that, in addition to the overall yardstick of sustainable development, other models also have to be defined — for example at regional level. Models are designed to be benchmarks for the respective targets, strategies and measures. As guides for action, they are thus a point of reference for common, mandatory, forward-looking ideals. All regional players must have the opportunity to take part in the debate on these models. In addition, binding agreement must be reached on how such models are to be applied in practice.

##### 5.2. *Multi-functional agriculture*

As agriculture takes on an increasingly multi-functional role, it is necessary to formalise its remit and objectives — and translate them into practice — with regard to the use of renewable resources as a contribution to climate protection and sustainable development. All the available options are far from exhausted. The scope for support under the CAP in particular provides a range of different approaches to be tested and applied. For instance, farms can use Structural Fund assistance to adapt their energy base in a sustainable way. The equalisation funds offer, among other things, support options for investments in the cultivation, processing and marketing of crops used for renewable raw materials, including afforestation measures.

##### 5.3. *Developing closed substance cycles at local and regional level and compiling energy audits*

In the past, too little attention was paid to drawing up substance and energy audits at regional and local level. These are, however, the only way to identify and tap renewable energy potential. In this context, top priority must be to secure the most effective use of renewable resources. Local SMEs and farms must increasingly be enlisted to help in the development of substance cycles, given their capacity in terms of land, technical equipment and highly skilled staff.



#### 5.4. Tax and support policy<sup>(1)</sup>

In many cases today, it is not yet cost-effective to use renewable resources. These sources will become more viable as more effective production techniques are developed, and with the expected rise in the cost of fossil fuels. At the same time, the production and processing of renewable raw materials and the use of renewable energies are more labour-intensive and can create jobs. Thus, promoting renewable resources means investing in the future.

Models must be framed and tested to show how companies and private households which use renewable energies can be given financial support. The models must also reflect external effects, such as the benefits generated for the environment or the environmental damage averted by the use of renewables. Existing support schemes and directives must be subjected to a sustainability test. The aim is to boost support for renewable energies and renewable raw materials and to secure their use in the long term. The discussions must include the subsidies themselves. Investment support must also be subject to sustainability criteria<sup>(2)</sup>. Following start-up and transitional funding, the individual installations must be self-supporting. Appropriate yardsticks must be worked out as part of the trial schemes.

#### 5.5. Establishing cooperative structures

Given natural conditions and current levels of technology, it is hardly possible to generate renewable energies in large units, and they are frequently subject to seasonal fluctuations. These fluctuations in the generation of renewables and the production of renewable raw materials — as well as a desire to share the risk — force manufacturers to explore new avenues of cooperation. In rural areas in particular, companies, private households and public administration must find new ways of working together, since joint production and marketing arrangements are the only way to guarantee uninterrupted supply to consumers.

<sup>(1)</sup> On this issue, see also the ESC Opinion on the Proposal for a Directive of the European Parliament and of the Council on the promotion of electricity from renewable energy sources in the internal electricity market (CES 999/2000), especially points 5 and 11.

<sup>(2)</sup> In its opinion on the global assessment of the 5th environmental action programme of 24 May 2000 (OJ C 204, 18.7.2000, p. 14), the ESC emphasised 'the need for financial incentives to redirect investment and promote technological innovations'. It considered further that 'incentives should be developed — or expanded in cases where they already exist — to find substitutes for unsustainable activities.' The ultimate aim should be that 'subsidies should only be granted if they promote sustainable development, and that aid for non-sustainable activities should be stopped.'

#### 5.6. Viable forms of work

As a rule, companies established in rural areas employ only a small staff. At the same time, however, there are increasing social demands for communication and cooperation. In the light of ever more complex production processes and social intermeshing, there is increasingly no alternative but to step up cooperation. Smaller companies too must adapt to this environment. Cooperative forms of work are needed in future production, marketing and selling. These have to be learnt, and include in particular working more closely with other companies to find new, innovative solutions to operational and regional difficulties. Nor must cooperation be confined to in-house matters; on the contrary, new types of communication are needed with both consumers and buyers of products and services.

#### 5.7. Modern education and training in rural areas

Sustainable economic management has to be learnt. Any attempt to coerce people by law or directive to adopt sustainable economic practices is doomed to failure. On the other hand, people across society have to appreciate the need for sustainable development and act accordingly. Key educational aims include providing the motivation to act independently, to develop individual initiative and to establish incentives for active involvement. Everyone should be able to have a share in education. That, however, is often difficult to achieve, particularly in rural areas, since educational establishments are frequently further away and provision is poorer. These are just two of the location-based disadvantages faced by rural areas. We should therefore welcome and support the wide range of moves being made to explore new avenues in education. Education is thus the most important tool in fostering 'sustainable thinking'. New cognitive patterns can only be established by introducing new ingredients, methods and tools into education. That requires special effort by all concerned.

#### 5.8. Infrastructure development

Rural areas must not be allowed to become museums, preserved purely for nostalgic reasons. Development is essential, including the best possible provision of infrastructure facilities such as postal services and road networks. This is vital. In the long-term, lack of development also has its price.

### 6. Summary of recommendations

#### 6.1. Rural area initiative

The ESC calls on the Commission to undertake a joint policy initiative for sustainable development in rural areas (see point 4.2 above). As part of this initiative, a competition may be staged for local authorities or groups of local authorities working together, aimed, among other things, at identifying

those regions which have successfully established a wide network of facilities for regional substance cycles and renewable energies, or which are working on effective schemes to achieve the same objective.

#### 6.2. *Rural observatory*

The ESC welcomes the continued support for a rural observatory provided for in the guidelines for the Community initiative for rural development (Leader+) (COM(1999) 475 final). This observatory must not confine its work to the Leader+ initiative, but must have an extensive role, based on data about the Community's regional development activities. The observatory can work on a number of fronts to secure an environment conducive to sustainable development, including, for example, promoting and networking sustainable projects and highlighting examples of good practice in sustainable economic management. It should also develop blueprints for coordinating the work of the various ministries and authorities concerned<sup>(1)</sup>. Furthermore, the ESC calls on the Commission to ensure the full involvement of labour and management in the observatory's work.

#### 6.3. *Reviewing the objectives and scope for action of existing programmes*

The ESC calls on the Commission to review its programmes with a view to fully incorporating sustainable development and climate protection as a matter of principle into Community objectives and activities. Particular consideration must thereby be given to moves to enhance human resource development. Education should focus on promoting the ingredients and skills needed for sustainable thinking and action.

In the regional plans required, for example, under the EU Regulation on support for rural development, particular attention must be paid to the use of renewable energies and renewable raw materials. The ESC would ask the Commission to use its influence with those responsible in rural areas to ensure that their plans also analyse local and regional substance and energy audits. The outcome of these audits and their impact on planning must also be reflected in the allocation of European funding.

When laying down rules for state aid under the 'environmental protection' heading for renewable energies and renewable raw materials, the European Commission should allow this aid to be granted over a suitable period, as is absolutely necessary in this sector.

<sup>(1)</sup> See also point 2.6.3 of the opinion mentioned in footnote 1 page 47.

#### 6.4. *Development of new programmes and regulations*

Apart from reviewing existing programmes, the Commission is asked to develop new schemes for sustainable development and climate protection. The ESC identifies two key strategic approaches: 1) improving research and development and 2) promoting the use of innovative techniques and procedures.

##### 6.4.1. *Improving research and development*

The Commission's research programmes and projects must focus on fostering practical research into renewable raw materials and renewable energies. Research is also needed into their storage and effective deployment, for instance, in SMEs. Particular attention must be paid to their suitability for transfer to rural areas. Research must be better promoted, not least research into the processing of renewable raw materials.

##### 6.4.2. *Promoting innovation*

Expanding the production of renewable raw materials and the use of renewable energies also generates additional need for product innovation, thereby creating jobs. The Commission should back this process using targeted support programmes for electricity production and heat. Particular attention must be paid to regional value added; in other words, support must also be given to processors operating in rural areas in particular. The ESC asks the Commission to promote dedicated schemes for funding efficient energy use and the use of renewable energies, particularly in the agriculture and forestry sectors. It is important that these dovetail with the investment and environmental measures eligible for support under the Structural Funds. In the final analysis, innovative products and technologies also boost export opportunities for the European economy, in this case particularly for SMEs.

#### 6.5. *Improving legal provisions*

The Commission is asked to make enquiries in the Member States to identify those legal provisions which hinder the use of renewable energies and renewable raw materials. The Commission should draw up a summary report setting out proposals for a uniform legal framework. In addition, strategies and blueprints must be developed for the possible introduction of a Europe-wide tax on CO<sub>2</sub>, and tax exemptions or reductions for biofuels.

#### 6.6. *Accession countries*

The accession countries must be involved in the drive to use renewable resources and renewable raw materials and improve

local and regional substance cycles. There must be an exchange of experience on co-operative projects so that the parties involved can learn from each other. The Commission is asked to draw up a summary outlining the availability and/or use of

renewable energies in the accession countries. Building on this summary, consideration must be given to the development opportunities of rural areas in these countries if they apply the principles of sustainable development.

Brussels, 20 September 2000.

*The President*  
*of the Economic and Social Committee*  
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### **Opinion of the Economic and Social Committee on 'Challenges posed by EMU to financial markets'**

(2000/C 367/14)

On 2 March 2000 the Economic and Social Committee decided, under Rule 23(3) of its Rules of Procedure, to draw up an opinion on the Challenges posed by EMU to financial markets.

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 5 September 2000. The rapporteur was Mr Pelletier.

At its 375th plenary session of 20 and 21 September 2000 (meeting of 21 September) the Economic and Social Committee adopted the following opinion by 73 votes to 13 with ten abstentions.

#### **1. Introduction**

1.1. Monetary union has presented financial market operators with a dual challenge: at a technical level, it has been necessary to draw up common operational rules for the various national markets which have operated up to now on the basis of procedures and principles which have evolved over time to suit national needs.

1.2. The second challenge concerns the short deadlines for carrying out essential work, such as denominating all the securities traded on the various markets (shares — bonds — sovereign debt) in a single currency, the euro, and the rapid adoption of common rules for markets which presents various problems, one being that public holidays within the euro area vary from country to country.

1.3. The European Commission had the good sense to entrust the task of studying the impact of the introduction of the euro on capital markets and market conventions during

the third phase of EMU to the groups of experts chaired by Mr Giovannini and Mr Brouhns<sup>(1)</sup>.

1.4. The reports of these study groups have been very valuable in drawing up of this draft opinion.

1.5. It became apparent very quickly that it did not make sense for the Committee to employ the same approach as the one adopted by the eminent experts called upon by the Commission.

1.6. It was felt that undertaking another analysis of the problems which would hardly differ from those of the Giovannini and Brouhns reports, would not constitute a valuable use of the ESC, the role of which is to provide added value to those who read its opinions.

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<sup>(1)</sup> The impact of the introduction of the euro on capital markets was the subject of a Commission Communication dated 2 July 1997 (COM(97)338 final), which included the main recommendations of the Giovannini report on measures to be taken with regard to bond, equity and derivatives markets. The Committee drew up an opinion on this communication, for which the rapporteur was Mr R. Pelletier (OJ C 73, 9.3.1998, p. 141).

1.6.1. The ESC has issued no fewer than ten opinions<sup>(1)</sup> on EMU and the euro, covering the various aspects of its steady development towards greater EU integration. In these various opinions, the ESC has clearly expressed its support for the introduction of the euro and monetary union. This opinion does not wish to call into question the positions adopted by the ESC, or to launch a new discussion on the advantages and disadvantages of the euro as this debate has run its course. The aim of this opinion, which is clearly reflected in its title, is to try to take stock of the challenges, namely the problems which EMU poses to financial markets.

1.7. Accordingly, it has been considered best to refer only briefly to the various technical challenges, while stressing the commendable efforts made by the various financial centres in adopting common solutions, as well as the spontaneous, decisive role played by the markets in bringing about these adjustments.

1.8. However, it seems useful to raise the problems which have been only partly solved or not at all, in particular with reference to the January 2002 deadline when national currencies will disappear.

1.9. Moreover, it is manifest that although the technical problems relating to the operation of the financial markets have been well studied, the economic impact of the creation

of a large, unified euro market has been examined much less exhaustively.

1.10. It is essential to place the analysis in the broader context of globalisation, the near-complete liberalisation of capital movements, and the development of new technologies.

1.11. With regard to both the players and methods used, in particular the striking trend towards mergers between banks, financial institutions and stock markets, and the rise of electronic trading methods (Internet), etc., it is impossible not to be struck by the fact that the euro area — however important it may be to its Member States — constitutes but a fraction of a global market which is dominated by the United States, which brings all its influences to bear on the methods and operating procedures of the global financial market.

1.12. Although Europe's largest financial market — London — remains outside the euro area, in practice it plays a fundamental role in the different sectors of the financial market.

1.13. The question needs to be asked as to whether one of the key arguments put forward by the experts can be accepted without further consideration, namely that market consolidation, greater liquidity and stronger transnational competition will undoubtedly be beneficial to the financing of companies in general, irrespective of the size of company or sphere of activity.

1.14. Lastly, it should be stressed that a financial market will only function well if those who operate in it have fully assimilated the introduction of the euro, a development which is akin to a revolution. Even though no reliable statistics are available for the whole euro area, it would appear that, unlike the major groups and powerful companies — which are already highly internationalised — and of course the banking and financial sector, small and medium-sized companies still need to make considerable progress by 2002 to prepare themselves for the market changes which will take place<sup>(2)</sup>.

1.15. With regard to private individuals — whose involvement in the operation of the markets is essential — everything points to the fact that in spite of the information initiatives and training measures undertaken by the European Commission and various professional and public bodies, there is still a long way to go before procedures and attitudes have fully adapted to the final deadline throughout the euro area, although it should be noted that differences exist between Member States in this respect<sup>(3)</sup>.

<sup>(1)</sup> Opinion of 26 October 1995 on the Green Paper on the Practical Arrangements for the Introduction of the Single Currency, OJ C 18, 22.1.1996, p. 112, Opinion of 26 September 1996 on the Impact of Economic and Monetary Union: Economic and social aspects of convergence and measures to increase awareness of the single currency, OJ C 30, 30.1.1997, p. 73, Opinion of 31 October 1996 on Market implications of the legislation and regulations required for the transition to the single currency, OJ C 56, 24.2.1997, p. 65, Opinion of 29 May 1997 on Arrangements for stage three of economic and monetary union: stability and growth pact for ensuring budgetary discipline, reinforced convergence procedures, and a new exchange rate mechanism, OJ C 287, 22.9.1997, p. 74, Opinion of 11 December 1997 on Practical aspects of the introduction of the euro, OJ C 73, 9.3.1998, p. 130, Opinion of 26 March 1998 on the External aspects of economic and monetary union, OJ C 157, 25.5.1998, p. 65, Opinion of 9 September 1998 on Employment and the euro, OJ C 407, 28.12.1998, p.282, Opinion of 2 December 1998 on Employment policy and the role of socio-economic organisations in the third phase of economic and monetary union, OJ C 40, 15.2.1999, p. 37, Opinion of 21 October 1999 on the Impact of implementing EMU on economic and social cohesion, OJ C 368, 20.12.1999, p. 87, and Opinion of 2 March 2000 on An assessment of the introduction of the single currency, OJ C 117, 26.4.2000, p. 23.

<sup>(2)</sup> According to a survey published by the European Commission in December 1999, on average the euro accounts for 1,9 % of domestic payments by companies and 0,8 % of the value of payments by private individuals.

<sup>(3)</sup> Commission Communication on Communications strategy in the last phases of the completion of EMU (COM(2000) 0057 final).

1.16. The European Commission has reminded Member States of their communication obligations with regard to the euro, stating that its first concern is that SMEs will get the impression that transition to the euro does not pose any problems, while many of them have failed to incorporate the strategic dimension, and that efforts must be made to ensure that companies do not find themselves once again in a big bang situation. The Commission's second concern relates to raising awareness among vulnerable individuals<sup>(1)</sup>.

## 2. The challenges facing the banking industry

2.1. Against a background of internationalisation of markets, continental European banks appear relatively poorly placed in relation to increased competition with British and US banks, as in recent years they have been operating in a less favourable economic environment. This inferiority is reflected in their return on assets employed<sup>(2)</sup> and their resulting stock market rating. These weaknesses are much less pronounced, however, if the whole of the EU banking system is considered, including third-country banks operating from London.

2.2. Although there are clear signs of an improvement, operating margins continue to decline and risk provisions have risen considerably in the course of recent crises, including the property market recession, the financing of Russia, and the Asian crisis. At the same time, the very favourable economic cycle in the United States has allowed US banks to make lower provisions against loans to small businesses and private customers compared with banks in the euro area.

2.3. The upturn in economic activity in Europe which has been underway since 1999 is making it possible gradually to repair the damage done by these crises to balance sheets. The most recent data from the banking analysis and rating agency, Fitch, points to a sharp recovery in profits over the final quarter of 1999 and the first quarter of 2000.

2.4. In 1999 the managed assets, shareholders' funds and after-tax profits of the EU banking sector as a whole exceeded the corresponding figures for the US banking sector.

2.5. Another reason for investors' lack of enthusiasm is the feeling that, despite the technological developments of recent

years, European banks still very clearly belong to the 'old economy', in contrast to the high-technology sectors and the new forms of electronic access to markets of the 'non-banks'.

2.6. New start-ups and 'non-banks' are trying to undercut the banks' cumbersome and outdated methods of winning new customers. This aggressive competition is creating an awareness throughout the financial sector of the need for radical change both in the internal management and in the structures of the industry<sup>(3)</sup>.

2.7. The most visible forms of this new awareness of the challenge are cooperation arrangements between banks, mergers, and particularly specialisation agreements.

2.8. These changes of strategy include — particularly in Germany — a tendency to redeploy financial assets, and to withdraw from the traditional business of providing capital to industrial and other firms. This trend has been given a strong impetus by the recent reform of German law on the taxation of portfolio gains.

## 3. To what extent is this massive restructuring attributable to the advent of monetary union and the euro?

3.1. Most observers agree that the real triggers have been:

- the large scale liberalisation of capital movements, the main milestones in which were the Single Act of February 1988 and the Treaty of Maastricht, which established a frontier-free area in the European Union, which was extended to cover capital on 1 July 1990;
- the almost complete liberalisation of the right of establishment as of 1 January 1993, with the mutual recognition of authorisations granted by the Member States of the European Union (European passport). De facto and de jure opening of the markets of the Union to branches of credit institutions based in the USA, Japan etc.

3.2. These processes gave free rein to unfettered competition and a world capital market on a scale extending beyond the euro area.

(1) The European Commissioner, Pedro Solbes, rang the alarm bell once again on 13 July 2000 with regard to the delay among companies and private individuals in adapting to the euro. The Ecofin Council of 17 July 2000 drew attention to the lack of sufficient awareness of the imminent changes in euro area countries.

(2) For the period 1995 to 1998 European banks made a 0,68 % pre-tax return on assets, compared with 1,58 % for US banks. Net operating profit on lending was 1,83 % in the EU and 2,96 % in the United States. See Commission staff working paper SEC(2000) 190.

(3) A DG Bank study covering the period 1985 to November 1999 suggests that the number of banks in the euro area has fallen from 18 851 to 8 312 units. The German bank estimates that the total number of banks in the Eleven will fall to 7 700 units by the end of 2000.

3.3. The creation of the euro area — soon to consist of twelve out of the fifteen Member States — accelerated the awareness that 'nothing would ever be the same again'.

3.4. With or without a monetary union of eleven Member States, however, the trend towards globalisation of capital movements and banking activity would probably in any case have produced the same result.

#### **4. The challenge of harmonising supervisory procedures in the banking sector**

4.1. The monitoring and surveillance of compliance with prudential regulations is one of the most important tasks of states, which delegate this responsibility, usually to central banks or bodies close to the central banks, or more rarely, as in Germany for example, to an authority enjoying a high level of autonomy.

4.2. At all events, these are powerful supervisory bodies, employing a large number of highly qualified staff with a detailed understanding of the management methods employed by banks, their specific features, their strengths and weaknesses, especially with regard to risk-taking.

4.3. Large banks have such an influence on national markets, as a result of the number of their depositors, the size of the assets they manage and the economic and financial inter-relationships involved that any difficulties they may experience can impact on the whole national (or even international) economy, not to mention employment.

4.4. Given the level of risk involved, the problems of leading banks directly concern governments and this is an area where the concept 'too big to fail' really applies.

4.5. Banking supervisory committees, intended to be independent, are nonetheless required, in the event of major problems, to inform their governments and to take account of their recommendations.

4.6. Intervention by the political authorities in banking supervision is not peculiar to Europe. During the crisis in the Japanese banking system the government, relying on the Bank of Japan, intervened massively to rescue Japanese banks which were in some cases on the verge of collapse.

4.6.1. The US government and the Fed also intervened on a large scale during the crisis affecting certain hedge funds like LTCM, which could have started a domino effect in view of the scale of the reciprocal commitments entered into by banks and non-regulated institutions.

4.7. The serious difficulties of *Crédit Lyonnais* were detected in time by the French banking supervisory committee and Treasury directorate. There was a real risk of the crisis affecting the country's whole financial sector.

4.8. In view of the scale of the systemic risks involved, it is neither reasonable nor appropriate to accuse the supervisory authorities, which in these cases are subject to political control, of not keeping the public fully informed of the seriousness of these situations.

4.9. In the event of serious difficulties being experienced by a leading bank, the duty of the supervisory authorities is to underpin public confidence in the solidity of the country's banking system.

#### **5. Towards the establishment of a European banking supervisory body?**

5.1. The creation of the euro, the spectacular rise in cross-border mergers and joint ventures and the intensification of links between financial markets make banking supervision a Community problem.

5.2. The principle of increased collaboration between supervisory bodies appears in the financial services action plan adopted by the European Commission on 11 May 1999.

5.3. The fact that the basic prudential regulations, including those relating to solvency ratios, are now laid down at world level by the Basle Committee on Banking Supervision considerably strengthens the argument that common rules should be the subject of common supervision.

5.4. On the initiative of the ECB, the representatives of the banking committees of the EU Member States have agreed to establish a banking supervision forum, which would enable information to be exchanged on supervisory methods and which would constitute a first step towards harmonisation.

5.5. In view of the extreme complexity of banking supervision, the multitude of national peculiarities and the importance which national authorities attach to their independence, the time is not yet ripe for the establishment of a true European supervisory body, and yet a large number of bankers believe that the path is already marked out and that the outcome is not in doubt, provided that this does not result in a pyramid of national, European and international (BIS) supervisory activities, which would only result in paralysis.

5.6. One of the problems to be resolved is how to make new Internet businesses and 'non-banks', whose presence in

the various markets is growing, subject to the same prudential rules as banks. This concern has been expressed forcefully in previous ESC opinions<sup>(1)</sup>.

## 6. Improving the institutional framework of European stock-market regulation

6.1. The arguments put forward for the creation of a European banking supervisory authority are just as relevant and probably even more pressing in relation to the regulation and surveillance of financial markets and stock markets.

6.2. Stock market alliances and the development of ECNs<sup>(2)</sup> on the European market raise the problem of regulating European stock markets.

6.3. The basis for European stock-market regulation is set out in the directives which lay down a minimum definition of a regulated market and rules for the proper operation of markets and for the protection of investors. Each national stock-market authority lays down rules for its own domestic market. The various national authorities may cooperate with each other.

6.4. Since the establishment of the Forum of European Securities Commissions (FESCO) two and a half years ago, European regulators have stepped up their cooperation within the common institutional framework, for example laying down rules of conduct to which providers of investment services are subject when offering cross-border services to investors.

6.5. FESCO thus proposed a harmonised definition of a professional investor, to whom certain rules of good conduct would apply. The purpose of this initiative is to move beyond the debate centring on home or host country rules.

6.6. Similarly, in order to facilitate mutual recognition of flotation prospectuses, a harmonised model document has been studied; once the document had been approved in the

country of listing, the issuer would be able to expand the offer on the basis of a simple memorandum and a summary in the national language.

6.7. In the light of this initiative it would be logical to envisage supranational regulation, which would not be a stage additional to the national level but which would progressively take on certain powers which the Member States decided to transfer to it from the national authorities.

6.8. The network of national regulators would deal with divergences in the application of the directives rapidly and with greater flexibility. It would probably be necessary to give the standards drawn up by the regulators legal force to set up a mechanism identifying divergences in the application of the directives with a view to a rapid response. This body of law would not be a substitute for the directives but would rather complement them.

## 7. Monetary union is changing the methods used for the financing of companies

7.1. Although there is a general trend towards market-based financing, particularly for large European companies, the model still differs perceptibly between continental Europe on one hand and the United Kingdom and United States (Anglo-Saxon model) on the other.

7.2. In continental Europe the most common form of financing for companies — apart from (generally minority) holdings by banks — is still bank lending.

7.3. Recourse by SMEs to financial markets and syndicated loans as a source of direct finance is still less developed than in the United States and Great Britain for example. Issuing costs (compliance, accounting adjustments, public relations) are still a deterrent for the smallest old-economy companies.

7.4. The internationalisation of markets and the creation of the euro area enable securities markets to take on a role formerly played by the banking system. In its 1999 annual report the ECB notes that 'generally speaking, the role of financial markets in the allocation of financial resources is growing relative to the role of financial intermediaries'<sup>(3)</sup>. Banks nonetheless play a decisive role in helping companies to gain access to the market.

7.5. Stock-market flotations, issues of shares by means of capital increases and bond issues are changing financing methods.

(1) Opinion of 28 January 1998 on the Communication from the Commission to the European Parliament, the Council, the European Monetary Institute and the Economic and Social Committee: Boosting customers' confidence in electronic means of payment in the single market, OJ C 95, 30.3.1998, p. 15.

Opinion of 27 January 1999 on the Proposal for a European Parliament and Council Directive on the taking up, the pursuit and the prudential supervision of the business of electronic money institutions, and the Proposal for a European Parliament and Council Directive amending Directive 77/780/EEC on the coordination of laws, regulations and administrative provisions relating to the taking up and pursuit of the business of credit institutions, OJ C 101, 12.4.1999, p. 64.

(2) Electronic Communication Networks.

(3) European Central Bank 1999 Annual Report, p. 4.

7.6. Institutional investors, managers of collective investment funds and pension funds — very often American — have become ubiquitous players in the financial markets. This justifies the Commission's initiatives to promote the development of pension funds in the economic union.

7.7. Investors specialising in high-risk investments — the small number of which was until very recently one of Europe's acknowledged weaknesses vis-à-vis the United States — are undergoing a spectacular development.

7.8. The establishment of the NASDAQ in the United States in 1971 is finding imitators, and new markets have been established in Europe, the main function of which is to finance new-economy and high-technology start-up companies, which are particularly popular with Internet-based speculators.

7.9. The creation of the euro area, breaking down the compartmentalisation of national currencies, has brought to the market a depth and a liquidity without parallel in recent times.

## 8. **Vigilance is still required with regard to the conditions for the financing of small and medium-sized enterprises**

8.1. Greater reliance of companies on the market for financing has important consequences for creditor-debtor relations.

8.2. The European Central Bank's 1999 Annual Report<sup>(1)</sup> states that 'in the past, banks in the euro area have been the main providers of financial services in rather fragmented and sheltered domestic markets. However, as barriers between various domestic or local markets have been reduced, banks are facing more competition from one another as well as from other providers of financial services'.

8.3. The progress of information technologies is changing traditional forms of bank-customer relations. The information needed for financing decisions can now be obtained easily and at little cost.

8.4. Computerised credit-risk management techniques, applying to companies but based on the credit scoring used for consumer credit or mortgage lending, are changing traditional banking practices. This standard method of risk assessment is relatively unfavourable to SMEs.

8.5. The strengthening of prudential rules arising from work of the Basle Committee on Banking Supervision is causing banks to exercise greater prudence in the management of their outstanding exposure. They are looking for SMEs which are a good risk.

8.6. The failure of large numbers of debtors during the recent crisis has made a deep impression on senior managers who are increasingly placing reliance on computerised risk-calculation models.

8.7. The development of cross-border financial relations is still limited — outside border regions — to large and medium-sized firms which did not wait for monetary union before entering into trans-national links.

8.8. On the other hand, an increasing number of banks and insurance companies are entering into cooperation agreements for the exchange of cross-border services.

8.9. Among the reasons quoted for the delay in stepping up intra-Community and cross-border competition, linked to monetary union, are the slowness of the process and the high cost of penetrating the relatively mature markets of the economic union.

8.10. Less and less mention is made of institutional obstacles, but experts stress the weight of cultural factors and the persistence of specific national features<sup>(2)</sup>. Differences related to language, tax, accounting conventions and the absence of a harmonised law on bankruptcy etc. are helping to slow cross-border establishment and financing.

## 9. **The monetary union is changing the sales channels for financial services**

9.1. The use of the Internet for the sale of the financial services raises the problem of investor protection.

9.2. It is highly desirable that a maximum level of protection should be provided. The Proposal for a Directive on the Distance Selling of Financial Services takes this concern on board, whilst retaining the principle of maximum harmonisation.

9.3. Maximum harmonisation means establishing a legal basis common to all the Member States. The Member States may neither add to nor take anything away from this core legislation.

<sup>(1)</sup> European Central Bank 1999 Annual Report, p. 15.

<sup>(2)</sup> Cf. W.R. White — The euro and the European financial markets — IMF, 1997.



9.4. This initiative gives the European Community the essential level of investor protection, whilst leaving open the option of subjecting professional investors to different rules appropriate to their level of skill and information.

## 10. The influence of the monetary union on the bond market

10.1. It was generally accepted that the euro would create a market with uniform interest rates throughout the area, with greater competition between issuers and consequently lower costs for borrowers. The saver was to benefit from a major reduction in transaction costs — and the traditional banks would see a corresponding reduction in the volume of their commissions.

10.2. According to the European Commission<sup>(1)</sup> [...] the volume of new euro-denominated bond issues has exceeded all expectations [...]. In fact, international euro-denominated bonds have amounted to about 40 per cent of the total for all currencies in the first half of 1999, against 30 and 20 per cent in 1998 and 1997 in the component currencies and in ECU. If we add to this domestic issuance in euros, the amount of euro issues is comparable to the value of those denominated in US dollars, evidence of the growing depth and liquidity of European bond markets. These conditions will favour cross-border transactions by European investors'. In 1999 the value of euro issues overtook that of dollar-denominated issues. It should be borne in mind, however, that euro-denominated issues are usually the subject of dollar swaps, which affect the dollar exchange rate. According to statistics compiled by Capital Data Bondware, the dollar has recovered its dominant position in the bond market (43,87 % of the market with \$342,9 billion, as against 40,68 % and 317,9 billion respectively for euro issues).

10.3. One reassuring statistic is the market's preference for low-risk issues, and the massive preponderance of securities equivalent to government bonds, with AAA-rated issues accounting for 43 % and AA issues for 44 % of the market in the second half of 1999. As an encouraging footnote to the enlargement of the market, the Commission states that issues rated A by the international agencies have gone from less than 2 % of the market in January 1999 to 10 % in the course of the second half of 1999.

## 11. EMU is changing the configuration of the European government bond market

11.1. A pan-European government bond market now occupies the number-one slot in the world, ahead of the United States.

11.2. 'By removing foreign currency risk as well as interest rate differentials, the euro has made the liquidity of individual

bonds the overriding factor in government bond yield evaluation, while the importance of credit risk itself has receded<sup>(2)</sup>.'

11.3. The conditions for government financing will in future depend on liquidity, i.e. the volume of government bond issues on the euro market. Analysis of the state's finances will thus lose its importance. This trend is unfavourable to bond issues by small countries.

11.4. At the same time, an increase in private-sector issues is noted, with rating differences reflecting the standing of the issuer<sup>(3)</sup>.

## 12. The impact of economic and monetary union on the operation of the financial market

12.1. It is still too early to carry out a serious analysis of the impact of the revolution ushered in on 1 January 1999 by the redenomination in euros of all securities, shares, bonds and other public and private-sector paper.

12.2. The euro market has thus reached a volume close to that of the United States, with a credible critical mass, and even if the changes in the markets are still far from complete, a relatively accurate picture of the major trends can still be formed.

12.3. There is a consensus among the majority of experts as to the favourable effects of monetary union:

- increase in cross-border transactions in securities;
- acceleration in the integration of national markets and increase in market liquidity;
- development of a corporate debt market with issuers being subject to risk evaluation methods in the United States;
- level playing field in rules governing the operation of markets (rules on delivery, compensation etc.).

12.4. Competition between financial centres and particularly securities markets has begun aggressively, with two major focal points:

- a segmented alliance between the London and Frankfurt stock exchanges (incorporating cooperation with the NASDAQ); this project now seems to be cast into doubt as a result of the negative reaction of a significant proportion of LSE members;

<sup>(1)</sup> Commission staff working paper, SEC(2000) 190, 8.2.2000, p. 67.

<sup>(2)</sup> Commission staff working paper, SEC(2000) 190, 8.2.2000, p. 68.

<sup>(3)</sup> ESC Opinion on The role of the European Investment Bank (EIB) in European regional policy, with regard to the role of the EIB in supporting the euro bond market, CES 1001/2000.

— a highly integrated form of alliance between the Paris, Brussels and Amsterdam bourses (Euronext), with interconnection of settlement systems, and bringing together, in addition to Euronext, seven international stock exchanges, including New York, Tokyo and Hong Kong, in a Global Equity Market operating 24 hours a day throughout the world. This vast market will total \$20 trillion, i.e. 60 % of world stock-market capitalisation (agreement in principle announced in Tokyo on 7 June 2000)<sup>(1)</sup>.

12.5. Experts generally think that there are too many stock markets in the single currency area and that, under the unifying influence of the euro, they should be combined. This necessary merger should however respect the rules of competition.

12.6. These groupings are being carried out on the basis of specialisation, with London, for example, having a dominant position in the market for large-capitalisation stocks and Frankfurt in derivatives and high-technology stocks.

12.7. Pan-European groupings would also take place on the basis of specialisation by each member exchange with a single electronic transaction system.

12.8. The process of consolidation is being driven by technological innovation. The introduction of electronic real-time stock quotations on the Internet means that the location of a stock market is losing some of its importance.

12.9. Mechanisms for order routing, compensation, settlement and delivery of certificates are of decisive importance in a competition which, in the final analysis, is not so much European as global.

12.10. The risk inherent in a significant proportion of transactions being conducted on unregulated markets, either directly or via the growing number of ECNs, which have still not been properly evaluated, cannot be dismissed.

12.11. Europe's OTC<sup>(2)</sup> derivative markets are very dynamic. European rules are needed governing the standard contracts used for transactions in financial instruments. The European Banking Federation (EBF) has drawn up a standard European contract, the Euromaster, which has been approved by all the European banking associations. This contract incorporates standard clauses applicable throughout the Union. The use of this standard contract should be promoted throughout the Community.

(1) According to the International Federation of Stock Exchanges, at the end of 1999 the total stock market capitalisation of the euro area amounted to \$4 274 430 million, as against \$13 935 045 million for the New York Stock Exchange and the NASDAQ together.

(2) Over-the-counter.

### 13. The euro-dollar exchange rate poses a challenge to the markets

13.1. The internationalisation of the European securities market — going beyond the traditional blue chips — has been considerably reinforced by the introduction of uniform euro quotations.

13.2. The share of US pension funds in total European stock market capitalisation remains a positive aspect of monetary union.

13.3. The extreme volatility of these investments is a source of concern, however.

13.4. The euro's margin of fluctuation against the dollar has been as much as 25 %. This has led to the large-scale withdrawal of international investors from European securities. Securities transactions are a negative item in the balance of payments. European investment in US securities exceeds US investment in Europe.

13.5. Although there are large number of reasons for this deficit — including the different degree of dynamism of the economies on either side of the Atlantic — the euro has clearly led to greater market volatility compared with the previous situation of the larger national stock markets which, whilst being open to the world, enjoyed the support of local investors and their confidence in the exchange rate of the national currency (franc and German mark).

13.6. The goal — which appears, at least for the time being, to be out of reach — is a euro-dollar exchange rate which is more representative of economic fundamentals. The paradoxical divergence has wrong-footed most experts in their forecasts.

13.7. The conduct of monetary policy by the European Central Bank (ECB), faced with this unforeseen situation, has caused what the markets dislike most, uncertainty.

13.8. The main economic players consider the ECB's practice of reacting solely by means of interest rate increases, aimed at bolstering the euro exchange rate or at least stopping its slide, to be inappropriate. The ECB has taken account of this concern by taking a very measured approach to increases in its refinancing rate (+0,25 % at the end of August 2000).

13.9. Inflation is low and the long-awaited upturn in economic activity has been confirmed. The markets might therefore react badly to a situation where the ECB, faced with the inflationary pressure of rising oil prices which has little to do with the fundamentals of the euro area, were to act as if a global inflationary risk existed. It is therefore essential that the ECB keep the public fully informed on its policy.

13.10. Some politicians have made little secret of their doubts as to whether the ECB is capable of steering a coherent political course between the necessary upturn in activity and reduction of unemployment on the one hand and support of the euro on the other. Whilst respecting the independence of the ECB, it will be up to the Council and the Presidency to draw up a coherent, complementary statement of policy.

#### 14. The challenge of the foreign exchange markets

14.1. The operation of a free market, which is subject to recurrent shocks related to the activities and sentiment of a large number of players, is perhaps not a challenge in the strict sense of the word, to the extent that it is part and parcel of the normal operation of a market economy, which is, in principle, driven by rational behaviour.

14.2. There has been no shortage of explanations for the weakness of the euro against the dollar from economists and in the press. Whilst it is not possible to reproduce these commentaries exhaustively, the following arguments can be briefly summarised:

- a persistent disparity between the performance of the economies of the euro area and that of the United States over the last four years. Europe's average volume GDP growth is estimated at 3,4 % for 2000, that of the United States at 5,3 % (second quarter 2000);
- the gap between US and European market interest rates which attracts the mass of mobile capital on the world market to the dollar, to the detriment of the euro<sup>(1)</sup>;
- the confidence of the financial markets in the policy of the Federal Reserve which takes care not to break the expansionary cycle, whilst curbing the inflationary tensions inherent in full employment;
- the spectacular recovery of US public finances which, thanks to economic expansion, has seen the traditional deficit disappear and even the appearance of a budget surplus;

(1) This gap appears to be on a strongly narrowing trend: in mid-May 2000 10-year T-Bunds yielded 5,4 %, French Treasury bonds 5,5 % and 10-year Fed funds 6,4 %. Subsequently, the increase in Fed interest rates and the stabilisation of ECB rates widened the gap to some extent. On 8 June 2000 the ECB increased the refinancing rate to 4,25 % (+0,5 %). In June 2000 3-month deposits yielded 6,52 % in the United States compared with 4,3 % in the EU. If account is taken of the respective inflation rates, the real interest rates are comparable.

- the extreme ease with which the United States finances a substantial deficit on the balance of payments on current account (\$339 billion in 1999) thanks to the inflow of global savings and the enormous stock of dollars held throughout the world, which is tantamount to a zero-interest loan to the government of United States. This gives the Americans, freed from concerns as to the balance on their external accounts, unequalled leeway in the conduct of their economic policy.

14.2.1. To sum up, the fundamentals of the US economy — with the exception of the external deficit — point to the continuation of strong pressures for the appreciation of the dollar against the euro in the medium term.

14.3. The backdrop to management of the euro is far less favourable. Under the Treaties, the European Central Bank (ECB) is not responsible for the euro exchange rate. It does have the means to intervene in the foreign exchange markets by selling dollars through the European central banks and other 'friendly' intermediaries. But this kind of intervention is generally costly and of limited effectiveness. In its most recent monthly report (August 2000) the ECB seems to acknowledge a degree of powerlessness to control the euro-dollar exchange rate.

14.4. The depreciation of the euro encourages exports from the euro area and is playing a not insignificant role in the current resumption of economic expansion. Governments and public authorities well remember the efforts made by the European monetary authorities to maintain stable exchange rates between the euro area countries in the period following Maastricht, at the cost of a sometimes dramatic fall in economic activity. On the other hand, the depreciation of the euro offers US pension funds and companies considerable opportunities for taking control of European companies cheaply. About 50 % of the capitalisation of the French stock market is held by US and British pension funds. And this phenomenon is not exclusive to France.

14.5. The idea that the behaviour of the foreign exchange markets is a result of failings on the part of the governments of the euro area countries is wide of the mark. The 'deafening silence' of policy is a response to the evident concern not to increase the anxiety of market players. The golden rule in these circumstances is to keep quiet, which does not mean that the European Union's finance ministers are indifferent to the weakening euro, witness the ongoing close consultation within the Euro Eleven Council.

14.6. Statements by the monetary authorities on the solidity of the euro and its chances of short-term recovery have been without effect, or even counter-productive. In a nervous market this kind of statement simply increases players' anxiety and scepticism.

14.7. In its May monthly report the German Bundesbank expressed the widely held view that such a loss of value was not good for the reputation of a young currency. The efforts made to minimise the psychological effect of the euro's loss of external value is testimony to the growing politicisation of the problem.

14.8. Accepting the globalisation of capital movements means accepting a loss of control over a market prices, i.e. exchange rates. At all events, neither the monetary authorities nor governments are nowadays able to influence the markets, except by pursuing policies designed to restore confidence in the dynamism of the Eleven.

14.9. The only weapon at the ECB's disposal is the ability to raise interest rates to offer returns competitive with the dollar, but there is little room for manoeuvre if the danger of stopping economic growth in its tracks is to be avoided, which means that the ECB carries a heavy responsibility.

14.10. In the final analysis, it is clear that no action to stabilise world foreign exchange markets will be credible unless the United States and the ECB are supporting the efforts of the national central banks. It is equally clear that the United States is fundamentally opposed to any intervention aimed at derailing the free play of market forces, the dollar exchange rate being the subject of 'benign neglect'.

## 15. Institutionalised solidarity

15.1. Solidarity between financial centres has taken on an institutional form. A standing Eurocurrency Committee was set up under the auspices of the BIS in order to establish a range of crisis-prevention instruments based on greater transparency of fundamental data relating to the positions of the central banks, and the public and private sectors in the euro area.

15.2. The Eurocurrency Committee became aware of the impossibility of isolating the euro market from monetary and financial activity in the rest of the world. At the beginning of 1999 it was decided to convert the standing Eurocurrency Committee into the Committee on the Global Financial System.

15.3. This can be seen as recognition that a euro area with autonomy of action and its own powers is illusory.

## 16. A major challenge: the establishment of a tax system consistent with EMU

16.1. The awareness of the importance of the tax system for the establishment of a genuine, unified EU market goes back to the very origins of the Union.

16.2. It is impossible to quote here all the communications and reports drawn up by the Commission or expert groups on the subject. Several ESC opinions should also be mentioned here in connection with what is undoubtedly the most difficult aspect of European construction.

16.3. In a document dated 22 October 1996 entitled Taxation in the European Union — Report on the development of tax systems<sup>(1)</sup> the Commission noted: 'As regulatory restrictions are disappearing, those tax hindrances or distortions that do remain are becoming increasingly visible, and taxation is widely seen as one of the most important areas in which the Single Market has not been fully achieved'.

16.4. EMU reinforces the effect of tax distortions by abolishing exchange risk and by the convergence of interest rates and the diminution of transaction costs. A completely fluid market makes the taxation of investments a decisive influence on investor behaviour.

16.5. But the taxation system applicable to income from investments is only one consideration — if perhaps the most important one — in allocating resources and deciding where to invest.

16.6. The burden of tax and social levies, the definition of the tax base, the rules governing the calculation of corporation tax — which are just as important as interest rates — are not without their effect on competition and the operation of EMU. Competition between tax areas, far from diminishing, is actually increasing.

## 17. A pragmatic approach by the Commission respecting national sovereignty

17.1. The tax question goes to the very heart of national sovereignty. Deep disparities exist both in terms of tax as a proportion of GDP and as regards its distribution between direct and indirect taxation and social levies.

17.2. Unification, or even far-reaching harmonisation of the laws relating to the tax base and the rates of taxation and levies, is, as things stand, a pipe dream.

17.3. The Commission, which is aware of these constraints, including the rule that decisions on tax require unanimity in the Council, has adopted a pragmatic approach<sup>(2)</sup>:

<sup>(1)</sup> COM(96) 546 final, 22.10.1996, p. 5

<sup>(2)</sup> Communication from the Commission to the Council — Towards tax co-ordination in the European Union — A package to tackle harmful tax competition, COM(97) 495 final, 1.10.1997.

- 1) putting an end to unfair competition by defining, in the framework of a code of good conduct, acceptable and unacceptable practices of a fiscal nature, including the area of state aid (resolution of the Council of 1 December 1997);
- 2) consideration of EU competitiveness at world level (major problem with tax havens outside the EU which are the subject of consultation in the OECD);
- 3) measures aimed at eliminating distortions relating to the level of taxation of income from capital:
  - the measure should cover only interest paid in a Member State to physical persons who are not resident in the state for tax purposes, but rather in another Member State;
  - the co-existence of two systems; either establish a minimum withholding tax or require the exchange of information on income from savings between Member States.

## 18. Towards a minimalist solution

18.1. The solution proposed by the Commission, which commanded a fairly broad consensus, failed at the Helsinki European Council in December 1999 and at the Lisbon Ecofin Council on 7 and 8 April 2000.

18.2. Agreement was reached at the Feira Council in June 2000 on the co-existence of two systems for a 10-year period:

- withholding tax, respecting banking secrecy, for a transitional period of seven years;
- lifting of banking secrecy with exchange of information between tax administrations — system to be generally introduced towards 2010.

18.3. The Feira agreement should also make it possible to develop the code of good conduct which it is intended should introduce a minimum level of discipline to the taxation of companies.

18.4. The approval of a code of good conduct on damaging competition in the field of corporation tax would seem to require a reform of the decision-making process in tax matters, with decision-making by qualified majority, in the course of the major institutional reform to be discussed at the Nice Summit in December 2000.

18.5. The Feira agreement incorporates binding conditions, including an alignment of Switzerland, Liechtenstein and other financial centres on the solutions adopted by the EU. Negotiations are to be entered into to encourage the adoption of equivalent measures in non-Community countries and territories associated with the EU Member States (Isle of Man, Channel Islands, Monaco etc.).

18.6. A directive based on the Feira agreement will be submitted to the Council at the end of 2002. Before then important decisions will need to be taken, e.g. with regard to the rates of withholding tax to be applied by countries which have chosen this option.

18.7. Reactions to the outcome of the Feira Council have been diverse. At all events, the ultimate objective of tax harmonisation in the EU remains a distant goal.

## 19. Conclusions

19.1. The main hurdle which EMU has had to overcome is making a success of monetary union in the absence of political union, which is without historical parallel.

19.2. The majority of economists and internationally renowned economic research institutions, including most holders of the Nobel Prize for economics<sup>(1)</sup>, held out little chance of success for the euro.

19.3. It is still too soon to assess the success of monetary union. It is, however, worth noting that the immense technical challenge of the establishment of the euro has been overcome. The same is true of the control of inflation and the alignment, without major problems, of the Eleven on the Maastricht criteria and disciplines<sup>(2)</sup>.

19.4. Eighteen months after the financial markets' transition to the euro European stock markets have reached record levels under the combined influence of renewed growth, the developing dynamism of the 'new economy' in Europe and the technological revolution in electronic access to markets. It is generally thought that stock markets anticipate the future of economies. If this is so, it appears that the euro area has entered upon a long cycle of strong growth.

19.5. EMU stood up well to the Asian crisis of August 1997, which was followed by the Russian crisis and then the Brazilian crisis in 1998.

<sup>(1)</sup> The sole notable exception is Robert Mundell who is in favour of the euro.

<sup>(2)</sup> The President of the German Bundesbank considers that the success of the ECB should be measured more in terms of price stability than of exchange rates.

19.6. Barring any unforeseen reversal of the current trend, concerns about the effect of a possible overvaluation of the euro against the dollar and the yen have so far proved groundless.

19.7. It would be premature, however, to consider that the challenges facing emu have been finally surmounted. These challenges are closely bound up with the rest of the world economy, to the extent that any distinction between the problems posed by the globalisation of foreign exchange markets and the liberalisation of capital movements on the one hand, and those which are peculiar to the monetary union on the other is purely artificial.

19.8. The fact remains that the economic and monetary union is benefiting from a very favourable economic situation and that it has not yet proved its ability to withstand a systemic shock or a crisis in the international monetary system. The same challenge exists with regard to its competitiveness vis-à-vis the dynamism of the US economy and the growing strength of the emerging countries. The ESC has however on several occasions expressed its confidence in the ability of emu to overcome these problems. The role played by the ECB and the markets' perception of the soundness of its monetary policy are vital for the credibility of the euro and thus the economic attractiveness of the euro area. The bank must therefore practise great transparency in the presentation of its decisions to make them easily understood by the markets. And whilst its main objective is the maintenance of price stability, it is also required to support general economic policies in the Community. Its monetary policy statements should therefore take account of this concern in order to prevent any debate damaging to the stability of the euro.

19.9. It is essential for Europe to profit from this economic situation to achieve the rapid establishment of a harmonised European framework for the financial markets which takes account of the methods of financing used in the Community and thus contributes to the creation of a European development model.

19.9.1. Eighteen months after the financial markets of the eleven Member States' transition to the euro and the mergers resulting from this, it should be noted that the most recent directive adopted in this area (the 1993 Investment Services Directive) is already seven years old.

19.9.1.1. The procedure for adapting the European regulatory framework needs to be changed as a matter of urgency with the establishment of a procedure at the level of the national regulators which will be more flexible and faster than the directives in dealing with points not specifically mentioned or insufficiently developed in the directives. European conditions for the supply of capital and intermediation thus need to be improved:

- by spelling out the status of the electronic alternative trade systems in relation to regulated markets;

- by establishing a European issue prospectus;
- by defining the status of informed investors in a pragmatic way;
- by adopting European accounting standards tailored to quoted companies.

19.9.1.2. In parallel, the demand for capital in Europe needs to be promoted. Two proposals for directives should be rapidly adopted, concerning:

- the rapid establishment of pension funds which in the medium to long term will become a source of capital for European companies;
- the adoption of a revised European passport for the management of UCITS which takes account of modern asset management tools (derivatives, feeder funds etc.); this would enable European asset management to rival its US counterparts.

19.9.2. Bank loans remain a major source of finance for European SMEs. For companies of a certain size this is often a cheaper source of finance than recourse to the markets.

19.9.2.1. It is therefore essential that the prudential ratios laid down in connection with the solvency ratio do not penalise loans in relation to stock-market funding. In this connection, it would be a good idea for the Commission to launch a study of ex ante credit-risk provision in order to smooth out economic cycles and thus the conditions for the granting of loans to SMEs.

19.9.2.2. The prudential ratios applicable to banks' portfolios of loans to very small companies, which are a major source of job creation in Europe, should be reduced to take account of the division of risk inherent in the diversity of the sectors involved and the small amounts lent to individual firms.

19.9.2.3. The European banks, via the European Banking Federation, put forward specific proposals on the subject during the consultation on the European solvency ratio launched by the European Commission. The Commission should take account of their concerns.

19.9.3. The European development model cannot be a purely wholesale market model. The protection of consumers makes it necessary to lay down maximum rules for the least well-informed. The maximum harmonisation approach adopted by the Commission for the Directive on the Distance Selling of Financial Services is therefore the right approach. It is consistent with, and should be coordinated with, the harmonised definition of informed investors advocated above.

19.10. In more general terms and with a view to the medium-term outlook, the effect of the enlargement of the EU and the danger of its fragmentation, with the euro area becoming an exclusive club with rules and aspirations different from those of the rest of the Union, have not been evaluated. This is undoubtedly a new challenge which goes well beyond its impact on financial markets.

Brussels, 21 September 2000.

19.11. The ESC can only endorse the view of ECB President Wim Duisenberg, who stated in the ECB's most recent annual report<sup>(1)</sup>: 'The euro got off to a good start, but making the euro and the Economic and Monetary Union a success is clearly a long-term process'.

<sup>(1)</sup> European Central Bank — 1999 Annual Report, p. 4.

*The President*

*of the Economic and Social Committee*

Beatrice RANGONI MACHIAVELLI

**Opinion of the Economic and Social Committee on the 'Follow-up, evaluation and optimisation of the economic and social impact of RTD: from the Fifth Framework Programme towards the Sixth Framework Programme'**

(2000/C 367/15)

On 2 March 2000, the Economic and Social Committee, acting under Rule 23(3) of its Rules of Procedure, decided to draw up an opinion on the: 'Follow-up, evaluation and optimisation of the economic and social impact of RTD: from the Fifth Framework Programme towards the Sixth Framework Programme'.

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 1 September 2000. The rapporteur was Mr Bernabei.

At its 375th plenary session (meeting of 21 September 2000) the Economic and Social Committee adopted the following opinion by 46 votes to one.

**1. Recommendations**

WHEREAS

1.1. the new strategy and innovative integrated approach of the Fifth Framework Programme, aiming to solve the problems of individuals, companies and society, have gained the confidence of the Community institutions and their national partners;

1.2. there is still a need to raise the profile and boost the impact of Community research, and for it to take account of the new challenges posed by globalisation, an increasingly knowledge-based economy, and enlargement of the European Union in the near future;

1.3. there is a need to carry out a preliminary critical analysis of the inherent management, organisational and architectural shortcomings which keep the Fifth Framework Programme from achieving its ambitious objectives;

1.4. there is an urgent need to switch from a project funding approach to one based on quality and excellence, achievement of results and follow-up, which should underpin the legitimacy, assessment and correction of integrated research efforts;

the Economic and Social Committee

1.5. calls on the Commission, the European Parliament and the Council, during the forthcoming review of the Fifth Framework Programme, and with a view to optimising its social and economic impact, to:

1.5.1. boost and enhance the mechanism for key actions, whose lifecycle must be justified by evaluation, monitoring, assessment and planning mechanisms;

1.5.2. apply an approach that favours a few clusters of projects of sufficient critical mass, involving all players and in particular end-users and SMEs, with targeted action to involve smaller firms and craft industries which have considerable potential for development, innovation and technology transfers;

1.5.3. fine-tune those aspects of the horizontal programmes which prevent them from linking up with vertical actions, thus making the 'announced' matrix approach meaningless and ineffective, in terms of coordination, innovation units and mid-term scrutiny of technological implementation plans;

1.5.4. implement internal and external coordination responsibilities for programmes and key actions, and for innovation units which are currently powerless, unfunded and unserved. The mechanism for technological implementation plans should also be reviewed, with a view to strengthening mid-term controls;

1.5.5. simplify procedures and cut their costs;

1.5.6. clarify and harmonise selection and evaluation criteria, with particular regard to socio-economic factors and European value added, and avoiding over-evaluation.

1.6. Regarding the preparations for the Sixth Framework Programme, the Committee calls on the Commission, the European Parliament and the Council to:

1.6.1. prepare a Community strategy based on a core of shared priorities and focusing on a much more limited number of key actions;

1.6.2. launch — as part of this strategy — a technological offensive capable of harnessing all the strengths of the European system (e.g. business, universities and research centres, Community, national and local authorities) and maintaining a high degree of EU governance;

1.6.3. establish and consolidate an open Distributed Strategic Intelligence system for science and technology policy makers, to spark a continuous cycle of information, monitoring, evaluation, assessment and forecasting. This will require the support of the JRC, in its new inter-institutional role, with particular help from the Institute for Prospective Technological Studies (IPTS);

1.6.4. extend the subsidiarity principle to Community research, in order to recognise and define areas of competence, skills and responsibilities at the various levels;

1.6.5. establish a Community-wide policy of focusing research on a limited number of priorities, with a few major medium/long-term projects, a high level of critical mass, and under the direct control of the Commission, in order to guarantee excellence, European value added and follow-up;

1.6.6. provide for the decentralised management at national and local level of small-scale projects, with simplified procedures and managed by accredited decentralised bodies, sometimes using global subsidies. Here SMEs and new firms will require financial engineering mechanisms such as the Joint European Venture, fully exploiting the 'euro effect' from 2002 on;

1.6.7. also provide for decentralised management of grants, training and mobility, safeguarding the trans-national criterion and that of the link with the Community's strategic priorities;

1.6.8. launch a new Community RTD action at regional level to boost technological innovation and research infrastructure for the needs of industry and academia, with inter-regional networks working closely with EU regional and information society policies;

1.6.9. implement the relevant Treaty instruments, particularly variable geometry, Community co-funding and joint undertakings as specified in the Treaty. In particular, variable geometry must be applied to the centres of excellence and expertise network;

1.6.10. streamline and simplify all management procedures, with differentiated arrangements for the major priority projects and smaller scale projects, which must have user-friendly, simple, rapid decentralised procedures;

1.6.11. entrust the Commission with the task of coordinating and guaranteeing the cost-effective operation of the strategic intelligence cycle, controls on quality, excellence and transparency, launching inter-programme and inter-key action links, and ensuring operational accessibility with other relevant Community policy programmes and initiatives.



## 2. Objectives, aims and limitations of this opinion

2.1. While welcoming the new multi-annual planning approach to research, technological development and demonstration introduced by the Fifth Framework Programme, the Committee listed a number of areas that would demand attention if the programme was to be assured of success.

2.2. The aim of the present own-initiative opinion is chiefly to examine whether and to what extent the new approach has responded or is responding to its declared objectives and to the expectations of research operators and users, policy makers and, more generally, Europe's society and public.

2.3. This is not an end in itself, designed only to help justify past actions, but it is intended:

- to improve understanding of current performance,
- to pinpoint necessary adjustments to Community policy in terms of flexibility, efficiency and transparency,
- and to map a future joint strategy, as required for the gradual preparation of the Sixth Framework Programme 2002-2006, together with the other instruments provided for under Title XVIII of the EC Treaty, in particular Articles 165, 168, 169 and 171.

2.4. The Committee is aware of the shortcomings inherent in this exercise, owing to the limited time available between the actual launch of the Fifth Framework Programme and the specific programmes and the implementation to date of the associated work programmes, calls for tender, selection and conclusion of contracts, and the inadequacy of existing structures for information, monitoring, evaluation, assessment and forecasting.

2.5. To these should be added technical difficulties and epistemological shortcomings in the current systems for assessing social and economic impact, and the need to strike a proper balance between short-term needs and medium/long-term research, and to avoid convoluted and unmanageable assessment systems.

2.6. The Committee believes that the new integrated approach to research and technological innovation, which the

Union intended to be more flexible and more focused on solving problems for the public, business and society, is a step in the right direction, as long as implementation is simple, efficient, transparent and user-friendly and that it complies with the stated objectives. The Committee believes there is a need for an on-going, systematic evaluation process which must be interactive with the various operators and the various stages of activity and must form an integral part of the social process of research and innovation. It must spawn a common language to stimulate a universally accepted dynamic of knowledge production, circulation and dissemination and encourage acceptance of science, inter alia through the use of satisfactory wide-ranging risk assessment.

## 3. The current background to Community RTD

3.1. The Community's Fifth RTDD Multiannual Programme came into force in March 1999 and will expire in 2002; this programme applies in full the Decisions of the Council and the European Parliament of 22 December 1998<sup>(1)</sup> on the Community and Euratom Framework Programmes and the Council Decisions of 25 January 1999 on the Specific Programmes<sup>(2)</sup>, thereby concluding the adoption procedure provided for in Articles 166 et seq. of the EU Treaty and in Articles 7 et seq. of the Euratom Treaty, further to which the Economic and Social Committee has delivered opinions both on referral and on its own initiative<sup>(3)</sup>, at the various stages of the Programme's implementation.

<sup>(1)</sup> OJ L 26, 1.2.1999.

<sup>(2)</sup> OJ L 64, 12.3.1999.

<sup>(3)</sup> OJ C 407, 28.12.1998, ESC opinion on The Fifth RTDD Framework Programme — Specific programmes. OJ C 284, 14.9.1998, ESC own-initiative opinion on Ways and means of strengthening the networks for the provision of information on and exploitation of applied RTD programmes in Europe. OJ C 235, 27.7.1998, ESC opinion on Implementation of the first action plan for innovation in Europe. OJ C 214, 10.7.1998, ESC opinion on The rules for the participation of undertakings, research centres and universities and for the dissemination of research results for the implementation of the Fifth Framework Programme of the European Community (1998-2002). OJ C 73, 9.3.1998, ESC opinion on the Amended proposal for a European Parliament and Council Decision concerning the Fifth Framework Programme of the European Community for Research, Technological Development and Demonstration Activities (1998-2002), and the Amended proposal for a Council Decision concerning the Fifth Framework Programme of the European Atomic Energy Community (Euratom) for Research and Training Activities (1998-2002). OJ C 355, 21.11.1997, ESC opinion on Towards the Fifth Framework Programme: Scientific and technological objectives. OJ C 355, 21.11.1997, ESC opinion on Impact on SMEs of the steady, widespread reduction in funds allocated to research and technological development in the EU. OJ C 133, 28.4.1997, ESC opinion on Inventing tomorrow — Europe's research at the service of its people.

3.2. The new strategy and integrated innovation approach focusing on solutions to the problems of individuals, companies and society, have secured the consensus of the institutions and their European and national partners and triggered a radical revolution in Community RTDD activities. This has led to the incorporation of new factors of socio-economic relevance into research action, greater consistency of outlook with other Community policies and an increasingly widespread commitment to rectify the European innovation paradox.

3.3. This strategy, which has placed problem-solving at the centre of research activities by enlisting the cooperation of the various research players and users, has produced a number of consequences, some of which are difficult and complex:

3.3.1. the need for 'simultaneous engineering' was to bring several different disciplines and categories of research, ranging from basic core research to applied research and technological innovation and demonstration projects, together with a variety of players (academics, SMEs, public and private research centres, industrial firms, end users) in a forward-looking development drive mobilising from the very start the ingredients for a dynamic transformation of results into industrial and commercial success;

3.3.2. research efforts were to be inserted within a global strategic framework for a competitive Community RTD policy; this was to provide a common point of reference at European, Community, national and regional level so as to promote consistency and enhance the competitiveness of the European system;

3.3.3. the creation of new procedural, management and consultative frameworks tailored to the framework programme's new integrated approach was to be reflected in information packages and annual work programmes as well as in procurement tenders focusing more closely on the problems involved. This was intended to encourage the spontaneous building of ex-ante clusters, with corresponding administrative structures and managers' professional profiles, defining precise criteria and arrangements for selection and feedback to the initiators;

3.3.4. setting in motion arrangements for the technological and industrial monitoring, evaluation and assessment of RTDD projects was meant to ascertain their efficiency and effectiveness in attaining the set objectives while at the same time guaranteeing that they were flexible and suited to meet the dictates of the new challenges. In this way the foundations were to be laid for preparing the scenarios required by the political decision-makers if the new strategic options were to work properly within a flexible framework;

3.3.5. the need to mobilise a critical mass of resources on a scale sufficient to catalyse efforts on a limited number of key actions required an innovatory instrument comprising clusters of large and small research (applied, general, basic and demonstration) projects, focusing on a common European challenge or problem with quantifiable objectives, at the right juncture and determined by the results actually achieved;

3.3.6. the establishment of internal and external coordination procedures for each programme and key action was intended to define specific functions and launch ad hoc innovation units, within the key actions and the programmes;

3.3.7. the creation of permanent platforms for dialogue and exchanges of ideas between experts, industrial firms, decision-makers and users, and economic and social players, was considered essential to make sure that the new technological challenges and the new RTD findings and their applications were fully understood, tried and tested and accepted. In this way scientific development was to be harnessed to boost prosperity and improve quality of life in a positive climate of competitive growth.

3.4. Over a period of less than four years, the Community's Fifth RTDD Framework Programme directly manages the equivalent of EUR 15 billion in Community funding and activates roughly double that amount. The programme involves 30 countries<sup>(1)</sup>, with 11 official languages, and was and is thus intended to generate a European added value which meets expectations in terms of socio-economic and competition objectives on the global market, to provide concentration and critical mass, to boost cooperation in and outside Europe, including via a wider research community which is attractive in terms of scientific and technological excellence and harmonious and coordinated EU-wide development.

3.5. The Committee believes that the development of targeted integrated actions has made the implementation and monitoring of the framework programme even more complicated, increasing the need for synergies between specific projects within the clusters and obviously necessitating precise and clear-cut objectives. It has emphasised the need for viable research results and their assessment, exploitation and practical application (including the checking and testing of intermediate results).

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(<sup>1</sup>) 31, once the Association Agreement with Switzerland comes into force.

3.6. The Committee therefore feels there is a need to boost the impact of Community research. Mechanisms must be launched for coordination with all players and — looking ahead to enlargement of the EU to include the applicant countries — harnessing all Treaty instruments relating to research, development and technological innovation policy, with particular reference to Article 165 as regards the coordination of Community and national activities, Article 168 on the supplementary programmes, Article 169 on Community participation in programmes undertaken by several Member States, Article 171 on the 'joint undertaking' instrument and Article 170 providing for cooperation with other European and international research bodies.

3.7. It is also obvious, as stressed in the Commission's Communication 'Towards a European Research Area', on which the Committee issued a detailed opinion<sup>(1)</sup>, that the development of Community research depends on a more favourable research climate in Europe, and on a common effort to create synergies between European, national, regional and Community programmes and enhance scientific and technological excellence throughout the EU, thus making it an attractive area for the European and international scientific community.

3.8. The Presidency conclusions of the extraordinary Summit held in Lisbon on 23 and 24 March 2000 stressed that 'Research activities at national and Union level must be better integrated and coordinated to make them as efficient as possible, and to ensure that Europe offers attractive prospects to its best brains. The instruments under the Treaty and all other means, including voluntary arrangements, must be fully exploited to achieve this objective in a flexible, decentralised and non-bureaucratic manner'.

3.9. The Feira European Council of 19-20 June 2000 welcomed the commitment to: develop mechanisms for networking national and joint research programmes; map, by 2001, research and development centres of excellence in all Member States; encourage the development of an open method of coordination for benchmarking national R&D policies; identify, by June 2000, appropriate indicators; facilitate the creation by the end of 2001 of a very high-speed transeuropean network for electronic scientific communications to link research institutions, universities and schools; remove obstacles to the mobility of researchers by 2002 and create a more attractive European environment; make a simple and inexpensive Community patent and utility model available by the end of 2001; set in motion a specific action to promote key interfaces in innovation networks, i.e. interfaces between

companies and financial markets, R&D and training institutions, advisory services and technological markets; improve synergies with Cost and Eureka; encourage science as a career, flows and exchanges of researchers with third countries, and greater involvement of women in science.

3.9.1. Moreover, the Feira European Council welcomed the adoption of the European Charter for small enterprises whose eighth action line calls for the technological capacity of small firms to be strengthened, in particular by strengthening existing programmes to promote innovation, dissemination of technology, and the capacity of small firms to adapt new technologies.

3.10. It is also clear that the rapidly growing potential of the knowledge-based society and a dynamic climate where full use is being made of the new electronic technologies are factors which, as such, exercise a decisive influence on the impact of the Community's RTDD multiannual action programme, and on its specific implementing arrangements and the future action strategies.

#### 4. Impact assessment instruments: towards a continuous systematic cycle

4.1. The Committee would like to see better coordination between information, data collection and the establishment of indicators on the one hand and monitoring, evaluation, assessment, and forecasting on the other. There should also be regular and systematic supply of user-friendly and accessible synoptic tables (or trend charts) on the measures being conducted in each Member State and at European level.

4.2. With regard to information, Article 173 of the Treaty lays down a direct legal obligation to present an Annual Report to the European Parliament and the Council on RTD activities, the dissemination of results and the current year's work programme. In addition, Eurostat is required to publish annual R&D statistics and a European Report on science and technology indicators. Lastly, an important role is played by the Cordis database.

4.3. In the area of control and monitoring, Article 5 of the European Parliament and Council decisions on the Fifth Framework Programme provides for compulsory, continual and systematic monitoring of the framework programme and the specific programmes on an annual basis. In addition, effective financial and spending control is assured by the Court of Auditors in its reports on internal Community policies.

<sup>(1)</sup> OJ C 204, 18.7.2000, p. 70.

4.4. With regard to assessment mechanisms, independent five-year retrospective evaluation reports will be published on the framework programme and the specific programmes before proposals are submitted for the sixth programme. The conclusions of these reports, along with comments from the Commission, will be passed on to the European Parliament, the Council, the Committee of the Regions and the Economic and Social Committee. At the same time, the Commission is to present a mid-term Review of the ongoing framework programme, to analyse and assess the case for new flexible guidelines and direction.

4.5. Lastly, the consultation system implemented under the framework programme with the creation of the permanent external advisory groups (EAGs) accompanying the specific programmes and key actions, and the panel system set up by the Commission to guide research activities, provide a monitoring, evaluation and assessment structure that is undeniably complicated. In the Committee's view, this requires not only large-scale coordination, but also work to achieve internal compatibility and to streamline surveying mechanisms that otherwise are in danger of 'suffocating' the actual RTDD projects and activities with red tape.

4.6. The picture is completed by assessments conducted under certain of the specific programmes and in particular the 'human resource' programme of the 'socio-economic knowledge base' key action. The Joint Research Centre (JRC) has a brief to produce technical and economic analyses to support European decision-makers by monitoring and analysing developments linked to science and technology, their horizontal impact on industries, their socio-economic ramifications and future political implications. The IPTS can play a key role here.

4.7. Furthermore, the system for evaluating proposals must meet common criteria. This is particularly important for the consistent operation of the general monitoring-evaluation-assessment mechanism.

4.8. The criteria for scientific excellence and the socio-economic criteria must be clear and precise. The intersectoral and interdisciplinary nature of the framework programme's new problem-solving approach is also crucial.

4.9. In short, to evaluate the socio-economic impact of the Community's prime instrument for multiannual research planning, the monitoring-evaluation-assessment cycle must be continual and systematic, as well as streamlined and unbureaucratic. Rather than a self-referential system which

simply rubber stamps internal procedures, it must provide flexible, efficient and effective responses to the challenges of industrial competition in Europe, as part of a pro-active, flexible and shared medium-to-long-term strategic vision.

4.10. This strategic reference framework must also set out evaluations and prospects for research conducted under other European initiatives, such as Eureka, Cost, Embo or ESA, as well as those of national and regional RTD policies, by providing comparative analyses and trend charts.

## 5. Towards a Community strategy based on a core of shared priorities

5.1. As political decision-making is based on such a large number of players and variety of levels (European, Community, national and regional) where choices can be made and action taken, the Committee believes it is essential to provide a joint strategic framework to choose the priorities for technological and scientific objectives centred on society's economic, social and industrial problems. The Committee feels such a strategy is vital in order to focus research efforts on the various levels, and answer — from a European research area viewpoint — the question 'who does what?' in a coherent, complementary framework.

5.2. Here, the Committee would stress the importance of:

5.2.1. establishing and consolidating an open distributed strategic intelligence system<sup>(1)</sup> for science and technology policy makers, by setting up an infrastructure network combining experience, skill, institutions and a foundation of technology and knowledge at the various levels (regional, national, sectoral, European), enabling direct links between the actors concerned and spurring cooperation;

5.2.2. ensuring that this strategic intelligence framework sparks a continuous cycle of information, monitoring, evaluation, assessment and forecasting, designed to accompany the development of research and technological innovation. Interfaces must be developed between the operators and the general public, for instance by greater exploitation of the media, to help make the selection of future technologies more widely accepted and democratic;

<sup>(1)</sup> See 'Improving Distributed Intelligence in Complex Innovation Systems', various authors, Karlsruhe, Fraunhofer Institute for Systems and Innovation Research (ISI), 1999.

5.2.3. harmonising methods and techniques for collecting data at the various levels (European, Community, national, regional) with a view to making the networks and databases fully compatible and interconnectable and ensuring that the operators at the various levels are speaking the same language;

5.2.4. fully integrating strategic intelligence system programmes into existing Community RTD instruments and into those that may be set up under Treaty Title XVII;

5.2.5. fully involving research and innovation operators and users, political decision-makers and economic and social players in the development of these programmes, not least through the Economic and Social Committee, establishing platforms to discuss and compare data and scenarios, using an accessible and direct language to engender a community learning process and the bottom-up identification of political priorities while assessing public perception of scientific choices and their associated risks;

5.2.6. limiting the costs and the direct and indirect administrative impact of surveying activities, by applying the principle that data can and must be entered into the 'system' only once, although they may subsequently be used many times by a variety of operators;

5.2.7. making full use of the new electronic network systems, especially the Internet and Intranet and any development thereof, such as the computing grid tried out by CERN, as a means of applying the integrated strategic intelligence system to ever more complex, interdependent and multidisciplinary problems, in a flexible and cost-effective way.

5.3. Lastly, the Committee thinks that the joint strategic framework should provide a nucleus of shared priorities, in order to:

- ensure that the various levels and operators are interconnectable and coherent, and
- recognise the manifold objectives of RTD at company, regional, national, Community and European levels, the need for mutual respect of their areas of action, and the importance of synergy and complementarity.

5.4. The European joint strategic framework should highlight:

- the optimum level of overall financial resources to strengthen EU competitiveness and cooperation mechanisms with regard to its main partners, taking account of the cumulative effect of investment in R&D and intelligence;

- a small number of priority areas on which to focus those resources at European, Community and national level and rules to ensure that they dovetail neatly, with no overlaps;

- priorities at the various levels, giving more room at national level for basic academic research, also providing for networks of centres of excellence and expertise which could be financed on a 'variable geometry' basis; at regional level, focusing more on promoting the development of RTD and innovation in companies, SMEs in particular, and on enhancing the mobility of human resources between the academic world and industry, while providing Community support for interregional and transnational networks; at Community level, focusing on large-scale technological, scientific and industrial aggregation projects that are possible only by pooling a critical mass of financial and human resources, targeted at a limited number of goals that respond to the major global challenges.

## 6. The new framework for Community RTD five-year planning

6.1. The new economy has given a big boost to industrial, scientific and technological cooperation and given a whole new lease of life to operational instruments for making cooperation effective.

6.2. Globalisation has raised the competition stakes regarding technological innovation. As a result, translating research results into successful commercial and industrial technological products is now a key element for competitiveness. The speed at which knowledge is incorporated into products to serve society has made the time-to-market factor crucial.

6.3. The advent of the knowledge-based economy has highlighted a number of specifically European shortcomings compared to the rest of the world when it comes to combining scientific knowledge and enterprise culture in an interactive process of innovation backed by an economic and regulatory climate which encourages intangible investment — particularly in the private sector — and networking between the academic world, industry and research centres.

6.4. With EU enlargement on the horizon, the technological cohesion of the enlarged Union poses problems of worsening marginalisation caused by the structural and infrastructural shortcomings and holes in the economic and industrial fabric of the economies in transition, supplementing the existing social and economic disparities with even wider technological divergences. The EU must be able to maintain and enhance the considerable scientific potential of these countries, helping to incorporate it in the Community research system and focusing it on solving the economic, social and industrial problems of their economies.

6.5. In this context, reducing the Union's RTD activity to merely a back-up service providing resources as an alternative to or replacement for those of 15, 21 or 30 Member States would mean weakening the potential value added of Community research, and robbing it of its validity.

6.6. The volatility and level of obsolescence of current technological processes in the world context demand considerable ability to anticipate as well as flexible and fast decision-making, so as to ensure that scientific, technological and industrial management can face up to the new challenges and the new risks they bring.

6.7. The cost of research has rocketed, requiring a major concentration of efforts to achieve significant and profitable results, multiplying strategic RTD alliances, and underlining the need for interaction with the academic world and basic research.

6.8. The scientific dynamism which relies essentially on the universities and public and private laboratories, must find an open, favourable climate which encourages research worker careers and mobility and provides a satisfactory interface between science and industry.

## 7. General framework of the socio-economic impact of the Fifth Framework Programme

7.1. Despite the absence of an agreed strategic framework and the presence of complementary and parallel procedures, and although none of the other envisaged RTD instruments have been put into action, the European cooperation framework has begun to move towards the new approach, favouring

key actions, strategic cooperation, the design-stage incorporation of mechanisms to facilitate the implementation of results and their transfer into marketable innovations, and a focus on larger-scale projects than in the past.

7.2. It is not easy for monitoring and evaluation to pinpoint new factors, whether good or bad, since the current situation is determined by the impact of the Third Framework Programme projects and ongoing Fourth Framework Programme projects. The negotiation of implementing contracts for the new Fifth Framework Programme projects, which will normally run for three-year periods, was only completed a few months ago.

7.3. Nevertheless, general observations have emerged that can — given due caution — be useful for honing and repositioning current Fifth Framework Programme activities, and for targeting the Sixth Framework Programme more effectively, with a view to the European research area, the implementation of all the Treaty provisions for RTD policies and, above all, rationalising, streamlining and fine-tuning Community action from a competition perspective, in the run-up to EU enlargement.

7.4. A number of problems have already been highlighted in the area of procedures, evaluation systems, criteria, and follow-up for the various proposals, for which rates of failure and fragmentation sometimes seem excessive. There is a growing tendency to systematically reduce the budget for proposed projects, so resources are scattered over too high a number of microprojects.

7.5. Of the 16 000 proposals presented in 1999, 3 500 were selected. The failure rate is thus a decidedly unencouraging one in six/seven, although participation rates for SMEs, industry and the academic world were positive: between 20 % and 30 % for SMEs, with the rest equally divided between industry and the academic world. The number of participants per project rose to an average eight partners, and the average global figure for the projects rose to EUR 3,5 million, with a peak of some EUR 4,5 million for the sustainable growth programme, which, moreover, achieved a success rate fully in line with the expected one in three. This contrasts with the quality of life programme, where the success rate was less than one in ten.

7.6. A first positive note, in the Committee's view, is the increase in the scale of the projects. This is more than double the figure for the Fourth Framework Programme, with SME participation maintained or even increased.

7.7. The integrated cluster approach implied a proactive matrix-based stance, combining thematic elements with horizontal factors such as innovation, technological implementation, training and human resources and international cooperation. It is here that downstream clusters have proved to be too complex, with over-lengthy and complex negotiations, whilst neither the innovation units, the technological implementation plans nor the matrix coordination seem to have the intrinsic accountability needed to trigger a virtuous circle.

7.8. Assessors, managers and project leaders should have been given common training to familiarise them with the Fifth Framework Programme's new technical and 'cultural' approach.

7.9. Criticisms have included:

- the absence of a generally accepted working definition of European value added;
- the differing weight given to economic and social criteria, and the way they are applied among research operators;
- ongoing uncertainty regarding intellectual property rules for the participants;
- excessive red tape surrounding the preparation of proposals, and, at times, cost disincentives, and the excessive amount of information and statistics which RTDD project participants are asked to provide;
- complexity and confusion regarding work programmes and calls for tender, which have not all focused sufficiently on clear, comprehensible thematic priorities, thus impacting visibly on success/failure rates;
- occasional under-representation of industry as opposed to the academic and research worlds, although this is not true of all programmes;
- inappropriately qualified assessors, particularly given the multidisciplinary and intersectoral nature of projects, and their excessive number in relation to the projects selected.

7.10. In the light of the declared objectives, the Committee nevertheless believes that the new approach is a step in the

right direction. Further strenuous efforts will, however, be required regarding points already mentioned by the Committee such as training and information, transparency, simplification of procedures, cost containment and effective management, clear and uniform criteria and guidelines, and the implementation of matrix-based mechanisms to help speed up the transformation of results into marketable innovations.

7.11. The Committee would nonetheless stress that to reap the benefits of the new approach, practical steps towards fuller implementation are needed immediately, providing for greater concentration, flexibility, transparency, clarity and uniformity.

7.12. To that end, work should now begin on:

- boosting and enhancing the key action mechanism, whose various stages must be justified by evaluation, monitoring, assessment and planning mechanisms,
- applying an approach that favours a few clusters of projects of a critical mass, involving all players and in particular end-users and SMEs,
- fine-tuning those aspects of the horizontal programmes which prevent them from linking up with vertical actions, thus making the 'theoretic' matrix approach meaningless and ineffective, in terms of coordination, innovation units and mid-term scrutiny of technological implementation plans,
- activating internal and external coordination responsibilities for programmes and key actions, and for innovation units which are currently powerless, unfunded and unserved. The mechanism for technological implementation plans should also be reviewed, with a view to strengthening mid-term controls,
- simplifying procedures and cutting their costs,
- clarifying and harmonising selection and evaluation criteria, with particular regard to socio-economic factors and European value added,
- creating a Community patent, as part of an industrial and intellectual property policy which better reflects the need to enhance Community research.

## 8. The Fifth Framework Programme's specific programmes and key actions

8.1. The Committee has always supported the framework programme's bid to restructure by concentrating on fewer thematic programmes and horizontal programmes, along with JRC and Euratom programmes. However, a similar effort should have been made to restrict the choice of scientific and technological priorities (of which there are hundreds), and the distinction between key actions, generic technologies and accompanying measures should be made clearer and more precise, by improving information packages, work programmes and calls for tender.

8.2. The Committee believes that that the reduction and streamlining of the programme committees was a positive move, as was the establishment of directors' groups to play a more active role in the integration of the thematic vertical programmes and the horizontal programmes, the establishment — still at the drawing-board stage — of innovation units in each thematic programme, and the creation of external advisory groups (EAG) to accompany the key actions, steering them towards problem solving, the use of technical inventions and potential commercial investments.

8.3. The key actions are designed to support EU convergence of Member States' research policies. The Committee feels that they are being implemented too slowly and are too low-profile. This is true both within the specific programmes and the other Community programmes and policies, and with regard to national programmes and policies. To allow for comparison and with a view to future developments, the Committee believes that it is essential to benchmark Community developments and national situations with regard to the issues and difficulties raised by the key actions.

8.4. Measures to speed up the impact of Community research, within programmes, key actions and individual projects have still to be implemented in many cases. The Committee is extremely concerned about difficulties in implementing the planned mechanisms for interaction, dissemination and promotion, such as the innovation units, the coordination role of project leaders, and the instruments planned under the Innovation and SMEs programme. A review of the mechanisms which prevent the thematic programmes from activating the Inco, Inno-SME and Human Capital horizontal strands is essential.

8.5. The use of TIPs (technology implementation plans) should be better defined, organised and promoted for participants, assessors and Commission managers. A close synergy should be developed between SME innovation activity and the thematic programmes, the key actions and the new 2000-2006 programming period for the Structural and Cohesion Funds, in order to give a stronger regional dimension to RTD and innovation activities.

8.6. Greater emphasis should be placed on clustering by examining the relationship between clustering itself, the need to increase the profile of European value added and the trend towards larger-scale projects, with project leaders who manage, select and evaluate the contributions of the various participants to the projects concerned.

8.7. Not enough attention has been given to coordinating the projects, specific programmes and key actions with other European and international RTD activities, such as Eureka, Embo, ESA or CERN. In the Committee's view, this is an especially important aspect of Community action under the framework programme, not least with a view to the European research area.

8.8. The international role of Community research seems to respond more to formal than substantive requirements which are completely independent of the thematic actions, whilst its content is seemingly in danger of being crushed by red tape. In the Committee's opinion, the RTD component of the Union's external dimension is vital, particularly when usefully combined with the work of the pre-accession fund, the Phare, Tacis and MEDA programmes and cooperation programmes involving the countries of Latin America and Asia.

8.8.1. The international dimension of Community research must reach, in priority sectors, a level of excellence second to no other region or country. The final evaluation of the results of the strategic framework for Community research will thus have to take stock of the level of excellence reached, measured in a global context.

8.8.2. Another important international function is to support cooperation arrangements with other countries, both those close to the Community and other countries and regions as well as to create a climate and an environment attractive to researchers and industries in other regions and countries.



8.9. The Committee believes that maximum priority must be given to improving human research potential in order to equip the European research area adequately. The specific programme is vital to the establishment of a strong pan-European scientific community, with a strong European identity to attract the best researchers from the rest of the world. However, there should be a stronger link with the strategic priorities of Community RTD and the future needs of society, industry and the centres of excellence and expertise, to secure greater visibility for newly-acquired European value added.

## 9. **The Sixth Framework Programme and the implementation of Articles 168 to 171 of the EU Treaty: an active European common research and innovation policy**

9.1. The Committee believes that the momentum resulting from globalisation, the knowledge-based economy, and the widening gap between European technological progress and innovation and that of our global partners, calls for a technological offensive capable of mustering all the European system's existing strengths. Pressure must be brought to bear on: a) business, to persuade it to get involved in RTD, with particular emphasis on small firms and craft businesses, in accordance with the priorities of the European Charter for small enterprises, in order to develop their innovation potential and encourage the spread of new technologies; b) universities and research centres, to put their creativity and applied science at the service of scientific and technological excellence; c) the world of finance, to provide venture capital for project follow-up both in the short and medium/long term, and exploiting the 'euro effect' from 2002; d) Community, national and regional authorities, to provide an encouraging climate in which the various research players can network. But what is needed most is for all these public and private players to fully understand the need for a common action area, and to learn to work together on shared strategic priorities.

9.2. The Committee believes that the current Community RTDD system should avoid dispersion, malfunction, waste, perfunctory funding mechanisms, top-heavy management, and a proliferation of excessive objectives which are often totally unrealistic in view of the financial and human resources involved.

9.3. Subsidiarity has become a cornerstone of the system designed to recognise various levels of expertise, responsibilities and abilities. It is no longer conceivable that Brussels

should continue to be responsible for assessing tens of thousands of project proposals, selecting little more than some 5 000 truly RTD projects, with more than 40 projects per scientific administrator, thus hindering careful, accurate follow-up in terms of impact assessment.

9.4. The current procedure for assessing all project types means initiators and assessors have to make an effort which is out of all proportion to the framework programme's objectives of scientific excellence and technological competitiveness.

9.5. The risk is that the strategic approach of excellence, competitiveness and problem-solving — i.e. the *raison d'être* of Community-level RTD action — will get bogged down in technical procedures, red tape and formalities. This does not mean the European research system must close its door on as many major, minor, public and private players as possible.

9.6. On the contrary, it means that project participation machinery must closely reflect the needs of the various participants, and optimum synergies must be triggered to deal with the major global problems and challenges in terms of technology and innovation, and dovetailing national research and innovation systems. All local potential must be harnessed, and the public persuaded that science, technology and innovation have a local contribution to make in terms of solving the problems facing them and society. The public must take scientific and technological progress on board.

9.7. The Committee believes that the preparatory discussions leading up to the Sixth Framework Programme must focus on harnessing successful instruments at the most appropriate level to cut costs, lengthy procedures, red tape, rigidity and compartmentalisation.

9.8. With this in mind, the Committee believes a consensus must first be reached on a common top-priority strategy for the various levels, and for the instruments which can be applied at each level. This strategy must be given the key support of the assessment-evaluation-monitoring-forecasting excellence cycle to guarantee quality and flexibility. Here, the JRC and the IPTS in Seville must play an important inter-institutional role.

9.9. In particular, there is a need:

9.9.1. at Community level, to focus research efforts on a limited number of priorities for a few major medium/long-term projects targeting the problems and their solution, with high critical mass, an enhanced internal management role for the project leader, but with the Commission retaining responsibility for the monitoring of excellence;

9.9.2. on a decentralised level, for small-scale projects, with simplified procedures and managed by accredited financial intermediaries (sometimes using global subsidies) but with a trans-national slant, and simplified and connected both to local mechanisms and to major Community networks, in order to create a 'system'. This level should also be responsible for managing grants, training and mobility, safeguarding the trans-national criterion and that of the link with the Community's strategic priorities;

9.9.3. on a national level, for Community participation in national projects which are open to other Member States via harmonised procedures, triggering Community intervention at 5/10 % of overall cost, providing the projects tie in with the Community's major priorities; at this level, basic and applied research should continue to play an important role, both in the short and medium/long term;

9.9.4. on a regional level, for a new independent initiative to be developed in connection with the Community Structural Funds Initiative, to boost technological innovation and SME back-up research infrastructure, with networks between the Community's regions and appropriate measures to provide an operative interface of assistance and advice for business, and to provide 'distributed excellence' to firms, research centres and universities, working either singly or together;

9.9.5. on an instrumental level, for full use to be made of the relevant Treaty instruments, particularly 'variable geometry', Community co-funding and joint undertakings, which, however, must come under the framework programme, as specified in the Treaty. In particular, variable geometry must be applied to the centres of excellence and expertise network;

9.9.6. on a procedural level, for procedures to be streamlined and simplified, but also differentiated for the major priority projects, where the project leader will in any case take over many of the responsibilities currently performed in Brussels, whereas small-scale projects below a certain ceiling must have user-friendly, simple, rapid decentralised procedures;

9.9.7. on a coordination level, for the Commission to guarantee the cost-effective operation of the strategic intelligence cycle, and controls on quality, excellence and transparency. The Commission should also launch inter-programme and inter-key action links, and ensure operational accessibility with other relevant Community policy programmes and initiatives. These synergies are particularly necessary for regional, industrial and information society policy instruments, and also for external policies regarding the Mediterranean, central and eastern Europe, Latin America and Asia, and industrialised and emerging countries;

9.9.8. on a European and non-Community level, for the European Commission to step up cooperation with Cost, Eureka, ESA, EMBO, etc. (13 % of all European research efforts), and look into the options for specific joint actions on strategic problems.

9.9.9. The Committee believes that while the new framework programme approach should provide fine-tuning, simplification and transparency, and implement the new instruments provided for in the Treaty, it should also provide sufficient continuity with the positive results of previous framework programmes, particularly the current one.

Brussels, 21 September 2000.

*The President*  
*of the Economic and Social Committee*  
Beatrice RANGONI MACHIAVELLI

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