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II

(Preparatory Acts)

EUROPEAN ECONOMIC AND SOCIAL COMMITTEE

416TH PLENARY SESSION, HELD ON 6 AND 7 APRIL 2005**Opinion of the European Economic and Social Committee on European industrial districts and the new knowledge networks**

(2005/C 255/01)

On 1 July 2004 the European Economic and Social Committee, acting under Rule 29(2) of its Rules of Procedure, decided to draw up an own-initiative opinion on *European industrial districts and the new knowledge networks*.

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 16 March 2005. The rapporteur was Mr Pezzini.

At its 416th plenary session, held on 6 April 2005, the European Economic and Social Committee adopted the following opinion with 127 votes in favour and 3 abstentions.

1. Introduction

1.1 Districts have been the subject of a great deal of debate at all levels and in all the industrialised countries, particularly over the past 15 years. Developing countries and the Mediterranean partner countries alike have sought to emulate the district system that has become established in many European countries, in order to boost the development of their business sectors.

1.2 Furthermore, analyses had shown the positive impact of districts on employment policy and had given many examples of good practice ⁽¹⁾ in the area of corporate social responsibility years before the Commission presented the related Green Paper ⁽²⁾.

1.3 Meanwhile, new economic and social phenomena and the new knowledge-based networks have altered the districts' traditional links, steering production systems towards metadistricts ⁽³⁾ and the need to create networks between individual economic areas.

⁽¹⁾ See Becchettini on industrial districts and social ramifications, 1995.

⁽²⁾ COM(2001) 366 final of 18.7.2001.

⁽³⁾ From Greek, 'metà' which means 'after', 'beyond' or 'surpassing'. Thus, the metadistrict goes beyond the traditional realm of the district and is built on the traditional district.

1.4 In an attempt to sum up this vast theme, the present own-initiative opinion touches upon the following topics:

- Section 2: Definitions and unresolved issues
- Section 3: From districts to European knowledge-based metadistricts
- Section 4: Districts in the USA and at international level
- Section 5: The current situation and existing instruments in the European Union
- Section 6: Towards a new strategic EU policy approach to the knowledge-based districts
- Section 7: Concluding recommendations.

1.5 The aims of this own-initiative opinion on the new European networks of intelligent districts ⁽⁴⁾ are to:

- carry out a field analysis of existing industrial districts, technology districts and 'metadistricts';

⁽⁴⁾ Intelligent/knowledge-based/technology districts are the 'new' districts, which, contrary to industrial districts, make full use of information and communications technology.

- evaluate the conditions for the successful development of new districts and analyse their potential in the context of the Lisbon Strategy, both in the current Europe of 25 and in the future Europe of 28;
- lay the foundation for an integrated European policy to promote new European networks of knowledge-based districts and metadistricts;
- highlight the instruments needed to implement this policy, to evaluate existing districts and to suggest possible modifications and innovations;
- set out the basis for the emergence of a genuine European platform ⁽⁵⁾ of reference for the new European networks of knowledge-based districts within the Europe of 25;
- contribute to the creation of more and better jobs.

1.6 The European Economic and Social Committee has emphasised on many occasions, the commitment made by the European Council when it defined the central aim of the **Lisbon Strategy** as that of making Europe 'the most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion'.

1.6.1 Now more than ever, growth strategies must be based on the capacity to:

- join up the various development policies as effectively as possible;
- increase the involvement of the social partners, with a view to securing more advanced employment development and giving districts more momentum;
- strengthen exchanges between technological research and local industrial development;
- achieve a high critical mass of industry, training and research institutes, advanced SMEs, skilled human resources, financial and other services, risk capital and public and private decision-makers;
- speed up the development of production and distribution systems into permanent European networks based on knowledge, the ability to share information and expertise, and the capacity to absorb, improve and pass these on.

⁽⁵⁾ COM(2002) 714 final of 11.12.2002 specifies that platforms 'could be considered to foster marketplaces for cooperation ... and work out a long-term strategic plan for R&D for specific technologies ... They would ensure synergy among public authorities, users, regulators, industry, consumers, and poles of excellence ... There is a need for coherence between research, which can create new opportunities, and the downstream regulatory framework in which these technologies can be developed and marketed'.

1.7 More than four years on from the launch of the Lisbon strategy, one cannot help but be disappointed by the modest progress made towards realising its objectives and responding thoroughly to the process it champions. Even the Lisbon strategy report by the High Level Group, chaired by Wim Kok, concludes that '*the disappointing delivery of the strategy has been due primarily to a **lack of determined political action***' adding that '*the agenda has been overloaded, coordination has been poor and there have been conflicting priorities*' ⁽⁶⁾.

1.8 At the European Council meeting in Brussels on 4 and 5 November 2004, the president of the European Commission stressed that the Kok report 'provides a realistic, but worrying, assessment of progress. It shows that we must act now to make up for lost time' ⁽⁷⁾. More specifically, he stressed the need to 'refocus priorities, measure progress and assume greater responsibility for following them through' ⁽⁸⁾. The Committee has also stated its views on this subject in its recently adopted opinion ⁽⁹⁾.

1.9 The resetting of priorities under the Lisbon strategy should, in the opinion of the EESC, treat industrial districts and their development as a key element in the creation of new knowledge and, above all, more and better jobs. This will involve drawing on the considerable opportunities provided by the networks, which can generate repeated cross-fertilisation between the codified knowledge of research and the tacit knowledge ⁽¹⁰⁾ that spreads and takes root in production and distribution systems.

1.10 **The promotion of initiatives at local level and the capacity to network them in furtherance of the Lisbon Strategy** is essential: first, to encourage the setting-up and development of innovative businesses throughout the Union, particularly in the new Member States; and second, to increase the opportunities for these businesses to meet and cooperate, in a spirit of stronger economic and social cohesion.

1.11 The new 'open technological districts' enable the integration and networking of all the players operating in a given area with those of other areas.

⁽⁶⁾ *Facing the challenge*, Wim Kok report on the Lisbon Strategy, submitted to the Commission on 3 November 2004 and to the Brussels European Council on 4 and 5 November 2004.

⁽⁷⁾ Speech by the president designate of the Commission to the Brussels European Council on 4-5 November 2004.

⁽⁸⁾ *Ibidem* cfr. 7.

⁽⁹⁾ Opinion OJ C 120, 20.5.2005, rapporteurs: Vever, Ehnmark and Simpson

⁽¹⁰⁾ Nelson, R and Winter, S.G. (1982), *An evolutionary theory of economic change*. Tacit knowledge, as opposed to information and codified knowledge, is not formalised and can only be generated through social interaction/relationships.

1.12 In practical terms, European networks of open technological districts are essential for achieving the following objectives:

- securing better quality jobs that unlock workers' full potential through greater responsibility, higher involvement and a new cultural maturity;
- disseminating technologies and know-how and speeding up the translation of innovative applications into market success;
- securing better, more skilled employment and providing an impetus for new, more diversified professional profiles;
- promoting greater awareness of conservation and protection of the environment and of the local areas where the districts operate, and pinpointing the most appropriate means of promoting social, economic and environmental sustainability;
- enhancing economic and social cohesion and improving governance in the area: the aim is to codify common rules and language and to achieve the type of community that grows in a permanent cycle of mutual learning;
- consolidating and developing permanent, practical communication and cooperation networks, that link up companies, workers, inventors, communities, public and private institutions, the financial world, universities and other educational establishments, the commercial and marketing systems and many other regional development players;
- reinforcing young people's natural sense of initiative and entrepreneurial spirit;
- developing the industrial and distribution fabric of the new enlarged Europe in a harmonious and competitive manner and accelerating its full integration into a new greater single market.

1.13 In today's increasingly globalised world economy, the **development of a knowledge-based Europe** has major implications for the national, regional and local order and for the international balance. These implications relate to the rapid acquisition and application of new technologies, the international-level recruitment of skilled human resources and, lastly, the opportunity to decentralise the organisation of the production and distribution process, while ensuring it remains cohesive and flexible and retains high standards of quality.

1.14 The phenomena of **globalisation** and the almost simultaneous appearance and development of **network technologies** have brought about short-, medium- and long-term

changes for the production economy and, in particular, for the district economies.

1.15 The current districts have already developed their **openness** towards new markets and supported the more recent political changes, including for instance the increasingly frequent relocation of manufacturing activities, encouraged by the environmental conditions in certain countries and backed up by an increasing level of computerisation.

1.16 In EU-25, on average, 50 % of district output is destined for the foreign market. The districts thus already have an internationalised industrial structure, and their sights regarding sales are set increasingly on the international market.

1.17 There must be a shift from internationalisation to globalisation:

- in addition to product placement on foreign markets, **globalisation** must involve the various **phases of the production process**;
- **the system for finding information** on traditional and new markets, regarding possible foreign partners and the potential of areas beyond current borders must be **bolstered**, in order to back up market penetration policies and possible partnerships;
- the 'foreign' domain must be diversified, in terms both of production locations and of sales points, setting up **networking and co-business strategies** in order to involve the other operative areas and their specific characteristics; this must be done, not only from a business perspective, but also and above all with a view to sources of innovation, research and new projects and ideas, always bearing in mind the industrial, financial, organisational and training-related aspects;
- it is essential to **make the most of the cultural identities** of the individual areas, in order to profit to the full from their integration and inclusion within a European network;
- to rise to the new challenges of competitiveness, it is becoming essential to develop continuing training and new professional skills ⁽¹⁾.

1.18 The widening of geographical borders, driven by economic benefits and made possible by technological support, has loosened the ties of territorial proximity that used to define the industrial districts and were the basis of their strength. This has led to the emergence of leader companies, whose frame of reference in terms of markets for both sales and supplies has shifted from a territorial rationale to a virtual one, based mainly on strategies of economic advantage.

⁽¹⁾ See COM(2004)474 final of 14.7.2004 and Committee opinion CESE 139/2005 of 10.2.2005, rapporteur: Koryfidis.

1.19 Currently, European **industrial districts** are under the spotlight as they are going through a very delicate phase. They have **two types of problem** to deal with:

- the opening-up of and competition from new markets (Asian countries being the most dangerous),
- the need to reorganise and renew relationships between companies, not least by bringing in new technologies and new tacit or codified knowledge.

1.20 The **new configuration of competitive models on the global market** is imposing major changes. The new integrated platforms and networks must address themes relating to research and innovation, the design of new products and production processes, the management of new, more skilled human resources and new materials, promotion and marketing, finance and credit, logistics and market and client service management.

1.21 At **international level**, the region most strongly marked by the industrial district and cluster phenomenon is **North America**, where they have multiplied in number from the Pacific coast to the Atlantic; for instance: Silicon Valley, the San Diego industrial clusters and Route 128. Though they differ in terms of their level of industrial development, there are also districts in **Latin America**: in Mexico (the Guadalajara Cluster), in Brazil (Sinos Valley) and Uruguay (the Meat Cluster). As far as **Asia** is concerned, significant examples can be found in India (the Agra Cluster, the Tiruppur Cluster and the Ludhiana Cluster), in Pakistan (the Sialkot Cluster), in South Korea (the Consumer Microelectronics Assembly Cluster) and Indonesia (the Central Java Cluster). The district phenomenon has also reached **Africa**: there are even a number of them in some countries of Sub-Saharan Africa.

1.22 In **Europe**, apart from the dozens of examples in Italy, the most significant are to be found in France, where, as a result, the French Industrial Districts Club was founded in 1998, and Germany, where there are over 50 'Raumordnungsregionen' and the especially important initiative in Baden-Württemberg. The British examples are also very important (in particular, the Cambridge High-Tech Cluster, the Motor Sport Cluster in Birmingham or those in Scotland or other regions). A number of positive examples have grown up in Scandinavia, where great importance is given to learning as the cornerstone of development, facilitated by proximity. In the new Member States, significant examples are to be found in various regions of countries such as the Czech Republic, Hungary, Poland, Slovenia, Malta and the Baltic States.

2. Definitions and unresolved issues

2.1 It is not easy to provide a **single definition** for a district phenomenon that is so varied, dynamic and diverse at world level.

2.2 In general terms, the industrial districts may be defined as **local, homogeneous productive systems, featuring a strong concentration of industrial companies, mainly of small and medium dimensions, with a high level of production specialisation.**

2.3 The final report of the European Commission's Enterprise DG expert group on Enterprise Clusters and Networks ⁽¹²⁾, defines **districts** as:

'Groups of independent companies and associated institutions that are:

- *collaborating and competing,*
- *geographically concentrated in one or several regions, even though the cluster may have global extensions,*
- *specialised in a particular field, linked by common technologies and skills,*
- *either science-based or traditional,*
- *clusters can be either institutionalised (they have a proper cluster manager) or non-institutionalised,*
- *the cluster has a positive influence on: innovation and competitiveness; skill formation and information; growth and long-term business dynamics.'*

2.3.1 Over recent decades, the districts that began life encouraging the creation and development of production activities in the industrial and services sector, in areas with specific economic characteristics, **have developed in a largely autonomous way**, focusing their activities on specific sectors, in which they acquired and developed very significant competitive advantages. The need to meet ever higher quality and safety standards then led the district companies to focus on increasingly specialist market niches, as attested by the high quality of their products.

2.4 The **districts** are not only groups of companies that may be specialised and located in a given area: they are **groups of companies that play according to team rules**. Each grouping cooperates on projects and competes together, while the local area, far from being just a backdrop against which the companies operate and produce, is a genuine facility promoting integration socially, economically and in terms of the production cycle. In essence, the local area is a storehouse of production traditions and practical knowledge.

⁽¹²⁾ See the final report of the expert group on Enterprise Clusters and Networks, page 9 – European Commission, Enterprise directorate-general, 2002 map project.

2.5 The **acceleration** of information transmission and the opportunity to explore the entire supply panorama within a short timeframe has both made companies' work easier and forced them to adapt. **The balance within districts has changed.** The emergence and consolidation of **new** technological **models** has involved the entire production chain, with an impact on professional profiles, work organisation, the development of workers and areas of growth.

2.6 Increasingly, the districts are linked to and integrated with **specialised service centres, vocational training schools, universities, technology parks and research centres** in the local area. The quality of the product provided, a vital factor in the survival of the district companies, is based mainly on their capacity to marry existing production traditions with the demand for innovation and specialisation expressed or perceived by the market.

2.7 More and more, the **internationalisation of production** demands that companies invest in a transnational network. In cases where the network within which they intend to build their competitive advantage goes beyond the local sphere, SMEs and major multinational companies alike have to be able to count on adequate technological facilities, to enable them to pool and process knowledge, and on a responsible and motivated workforce.

2.8 While tending to penalise companies that are used to operating in restricted markets, **increased market integration** provides others with major opportunities for new market outlets, particularly the more dynamic SMEs. **Major technological changes** do not always work to the advantage of the larger companies. Often, the **net economy** neutralises factors such as geographical distance or the availability of an independent distribution network, thus removing some of the traditional weak points of SMEs. They must however be able to take full advantage of the opportunities that technological development can offer, with support from assistance and service centres.

2.9 The internet has partially overcome geographical limitations. **Essentials such as the rapid exchange of information or monitoring opportunities**, that used to depend on a reduction in journey times, are now secured by IT connections.

2.10 Although there are a lot more opportunities and possible activities than previously, the internet still cannot compete with interpersonal contact. Face-to-face contacts, based on knowledge and experience, are still irreplaceable. Although the internet has partially negated geographical distances and changed district structures, prompting companies to operate increasingly with **players beyond their local (and**

often national) borders, a relationship of trust between players is still essential.

3. From districts to European knowledge-based metadistricts

3.1 Increasingly, traditional industrial districts are being joined by and in some cases transformed into **metadistricts**. In contrast with classic districts, these may be defined as **integrated industrial platforms, within which technology sector players expand to take in new centres of knowledge processing and applied research and look beyond their immediate neighbourhood to develop production and distribution systems that focus on shared values and strategies.**

3.2 **Metadistricts** enable the various phases to take place in geographically distant locations, chosen on the basis of economic factors and local opportunities, while maintaining productivity levels and, especially for manufacturing, guaranteeing quality by means of a **'learning by interaction'** process, that enables a shift from a mainly reactive to a proactive approach.

3.3 As the shift towards the metadistrict takes place, the district must increasingly act as a knowledge laboratory. The policies necessary to support the **repositioning of the district within a global logic** must be conducted by the public institutions (particularly the local and regional authorities) but also, first and foremost, by the companies, and must concern human resources and the level of innovation, in a process which fully involves public and private executives.

3.4 The metadistricts step up the network between small, medium and large companies, which interact together and tighten their cooperation and working links with the most advanced centres of scientific and technological research. The driving forces here are:

- leading players, i.e. those able to steer the development of the sector;
- investments made to obtain high technological standards;
- cooperation between companies, and between companies and the research system;
- motivating and training the workforce at all levels.

3.5 As a rule, there are four elements that help to identify a metadistrict:

- **multisectorality**: there is a chain-based approach, that involves an entire service, area of research or development activity,

- **locality**: the concept of geographical proximity is replaced with one of network links and of making the most of the various cultural identities of the partners,
- **importance**: the sectors represented in the metadistricts are important to the economy and feature a significant number of knowledge production centres,
- **leadership**: there are leader companies able to steer the metadistrict, in an environment that features a strong SME presence.

3.6 The process of understanding the phenomenon with a view to planning **support for metadistricts** is undoubtedly still more complex and multifaceted, not least since, as already mentioned in relation to the definition of the metadistricts, the aim is to select, on an experimental basis, production areas of excellence, with strong existing or potential links with the world of research, production and innovation. Understanding these phenomena is complex however as there has been little empirical study on the subject and little statistical documentation.

3.7 The planning process must include all the elements needed to improve the analysis of the **metadistricts' properties**:

- identifying and quantifying the **traditional players**: companies operating in specialised production sectors, producing raw and semi-processed materials, machine tools or production services; sector components; pinpointing leading specialisations for each sector; models for technological transfer between companies;
- identifying and quantifying **new players in the system**: universities; scientific research centres; technological services to companies; communication and marketing; identifying lead players; relations and interactions with the production chain; models for technological transfer and cooperation;
- **benchmarking analysis at national and international level**, in order to: pinpoint similar production systems; evaluate macrodynamics in the respective contexts; assess development strategies implemented by the public authorities in the specific contexts, and assess systems for public-private relations and university-research-company relations;
- assessing the **competitiveness of metadistrict sectors and the potential of the system**; conducting SWOT analyses of metadistricts, with particular attention to weak points and risks;

- identifying **guidelines for intervention**: policies and activities for research, investment, internationalisation and competitiveness on foreign markets;
- establishing the degree of training and involvement of all levels of workers employed in the districts.

3.8 The shift towards a system governed by knowledge brings major **governance problems**:

- the development of the district into a form of open network, or a local network incorporated within global production, distribution and knowledge-use networks, requires district companies to shift from the old system of **production-based division of labour**, which had worked well for them, to a new **system centred on knowledge that is extended to all operators and public and private executives at all levels**. While the old system centres on the capacity to manage the practical operations of manufacturing, the critical resource of the new system is the **capacity to manage global information flows**, to communicate using scientific or technological language, and to **manage complex organisational models**, all against a backdrop of the in-built need of the district to reinvest in **vocational training and structured knowledge**;
- the central interactive processes are **cooperative and trust-based links between the districts' entrepreneurs, and between entrepreneurs and employees**, the pluralistic organisation of the production process, and the cooperative relationship between companies, and between companies and local/regional authorities. The key element is the value of the concept of **social capital within the district system**⁽¹³⁾, and the way in which policies respond to the gradual dissipation of that social capital and the degeneration of the vibrant and dynamic system of local interaction;
- the district contains a kaleidoscope of ambitions and frustrations, competition, emulation and collaboration, that defines the entire **community**. It is designed in such a way as to penalise disadvantageous practices and reward those that favour district development, by conferring a **seal of approval**.

3.9 **New service structures that act as a cognitive interface between the local context and global networks** seem, lastly, to be gaining in importance. New agencies are emerging, geared to the needs of local companies and to the original mechanisms of competition and cooperation, and designed to facilitate the development of the production context.

⁽¹³⁾ A survey on district workers highlights a strong sense of participation and motivation among workers, even at the lowest levels (Lombardy region, preamble to the Law on Metadistricts, 2004).

4. Districts in the USA and at international level

4.1 According to some estimates, there were already as many as 380 districts/clusters in the USA in the mid-1990s, operating in a broad range of manufacturing and services sectors and representing 67 % of the working population and 61 % of US output⁽¹⁴⁾. Many such sectors were born out of crises in regional production, as was the case for the Californian San Diego Clusters that emerged from the restructuring of the defence sector. They have benefited from the prominent role played by state and local governments in launching a process that has since been taken up by the private sector. In Arizona, for instance, a government commission launched an initiative in local universities to identify local districts, grouping the main private sector players and thus promoting the creation of district organisations to assess and address the difficulties and opportunities for individual districts. Similar initiatives have been launched in other American states, such as New York State, Minnesota, Oklahoma and Oregon.

4.2 In Canada, the federal government has placed the creation and development of knowledge-based, internationally recognised industrial districts at the centre of its 'innovation strategy'. This involved the main federal granting agencies identifying the research investment made in 27 of the country's regions and cities. As part of the Canadian innovation strategy, one of the main objectives of federal innovation policy is to develop at least 10 internationally recognised 'technology clusters' by 2010. In Canada, it is quite common for there to be a major research institute, often a university, at the centre of an industrial district⁽¹⁵⁾.

4.3 In Asia and Latin America, examples are extremely varied. There are districts in India and also in China. In Pakistan, pressure from the new competitive drive sparked by market liberalisation and globalisation has accentuated the tendency to work with industrial associations and with the services they provide in order to meet internationally recognised quality assurance standards. In Brazil and Mexico, the districts have had to face international competition over prices as a result of strong Chinese inroads into the North American market. This competition has led to greater vertical integration on the one hand and to district differentiation on the other.

4.4 In New Zealand, local governments have taken various initiatives to promote industrial districts. In Australia, meanwhile, there have been a number of bottom-up initiatives, such as those taken by the local authorities in Adelaide, Cairns and Hunter Valley, which identified groups of companies, developed a dynamic between them in relation to their respective

⁽¹⁴⁾ See OECD 'Promoting Entrepreneurship and Innovative SMEs in a Global Economy' 2004 - Second OECD Ministerial Conference on SMEs, Istanbul 3-5 June 2004.

⁽¹⁵⁾ See Canada Foundation for innovation - J. Adam, 'Research funding: key to clusters', 2003.

needs, and in some cases secured government grants for studies, consultancy and secretarial services.

5. The current situation and existing instruments in the European Union

5.1 In many parts of Europe, industrial policy, that until present had been generally directed towards sectoral policies and initiatives, has started to look to the local area as well, in order to sustain the conditions that contributed to the success of **'Made in ...' labels around the world**. Frequently, however, local production systems encounter difficulties in finding adequate answers from an organisational and managerial point of view. This has opened the door to new types of support, no longer directed at individual companies, but rather focusing on the local system as a whole.

5.2 **Local government authorities, together with universities, research institutes, business associations and credit institutions**, are committed to supporting measures aimed at disseminating innovation, promoting quality, boosting the marketing of local products, and, lastly, generating system projects, by means of initiatives geared towards business relations.

5.3 Industrial districts are now **legally recognised in various European countries** (in Italy, for instance, by Law 317/1991), and are unanimously considered to be a genuine success for national economies. This is especially true of Italy. Despite this, it is not easy to pinpoint them precisely, and official figures do not add up when it comes to their number or their sectors of specialisation.

5.4 Initiatives to promote districts have been conducted at regional level in Italy (in Piedmont, Lombardy, Veneto, Emilia Romagna and Tuscany), in Spain (Catalonia and Valencia) and in Germany (e.g. the BioRegio, Exist and InnoRegio initiatives). In France, DATAR⁽¹⁶⁾, an interministerial department under the responsibility of the prime minister, has formulated specific policies to support the development of local production systems (SPL), which are part of the French Industrial Districts Club. There are many examples of districts in Scotland, Wales and Northern Ireland.

5.5 The Nordic countries too have developed their own approaches to district policy. In Denmark, the district method has had a major impact on the country's economic policy, and in Finland, the promotion of districts has influenced not only economic policy but also scientific research, technology and education.

⁽¹⁶⁾ DATAR: Délégation à l'aménagement du territoire et à l'action régionale.

5.6 In the new Member States, since 2000-2001, various district development programmes have been launched, including the 'cooperation' programme in the Czech Republic and the NFT GVOOP programme, which covers the development of industrial parks⁽¹⁷⁾ emerging from an NGO⁽¹⁸⁾ called the Association of Industrial Parks, in Hungary. Hungary now has 165 industrial parks, which account for 18 % of industrial employment and 28 % of industrial exports. Between 1997 and 2003, it invested EUR 46,182,000⁽¹⁹⁾ in industrial parks. The PGK⁽²⁰⁾ programme was launched in the western trans-Danube region and the SME Clustering/Networking programme in Poland. In 2000, Slovenia launched a three-year programme for district development involving over 500 companies and 50 institutions. Over 130 pilot projects and trials are under way in the Baltic States. In Malta, the local authorities have implemented a strategy to support key districts in sectors such as health, oceanography, information technology, aviation and services. There are also significant examples in the applicant countries, such as that of the Timisoara district in Romania. In 2001 in Bulgaria, as part of the Phare programme on *Capacity building for accelerated growth of the SME sector in Bulgaria*, five potential districts were identified. With a view to developing them further, the ministry of economic affairs decided to create a national agency with the specific task of managing their development.

5.7 In the Netherlands, the district method has been incorporated directly within government policy and programmes, while in Austria specific policies have been launched to strengthen the links between research institutes and the private sector, reducing regulatory and administrative obstacles to innovation, promoting specific districts and establishing competence centres.

5.8 District-promoting policies call for a systemic and integrated approach taking account of the links between companies, between industrial sectors, and lastly between companies, institutions and local authorities. Following this approach, the **private sector should be the driving force behind initiatives, while the public sector should act as facilitator and catalyst.**

5.9 The 'district system' is at the root of various forms of **horizontal integration between companies**, ranging from links between primary and ancillary companies, and within the sector, to out-sourcing. This integration paves the way for maintaining a **high degree of flexibility**, and also for securing the economies of scale typical of large companies, by means of integrated production. By breaking down the various processing phases, the district is able to provide autonomously for all the phases of the production chain within the sector in which

⁽¹⁷⁾ The parks require a minimum surface area of 25,000 m². A company manages infrastructure and the business venture. The public and private sectors jointly contribute towards the project; unfortunately, the banks and financial institutions do not.

⁽¹⁸⁾ NGO: non-governmental organisation.

⁽¹⁹⁾ Source: Janos Toth, EESC member;

⁽²⁰⁾ PGK: Pannon Gazdasagi Kezdemenyezés.

it operates. Production costs can thus be managed flexibly and market requirements can be adjusted to more easily.

5.10 The success that districts' products have found on international markets is also the fruit of their great **capacity to innovate and of ongoing research to improve products**. This is encouraged by the competition between each district's companies and by **interaction with local universities and/or academic institutions**. As a result of these synergies, even sectors commonly considered to be less developed from a technological point of view, such as the textiles and clothing industries, have become competitive at international level.

5.11 Up to now, the factors taken into consideration to determine **indicators** for the possible presence of a district have included business density, sectoral specialisation, and percentage of employees in the manufacturing sector. It has always, therefore, been a matter of quantitative values, in line with the aim of deciding on an objective basis. Factors such as economic profile, product innovation, companies' overall strategy and, most importantly, the 'network' element must also be taken into account however. That last factor is vital both for determining the origin of the district structure and for pinpointing the future strengths of the metadistrict, with a view to a close link between business and research.

5.12 At **EU level**, various initiatives could contribute to the development of European technological districts. However, a genuinely **integrated policy has yet to evolve** to promote the development of innovative district networks, in line with the relaunch of the Lisbon strategy required by the European Council on 4 and 5 November 2004 and with the commitment to weave the economic fabric of SMEs in the old and new Member States into the enlarged single market as rapidly as possible.

5.13 The EU-15 had a **series of Community instruments** that could be used to promote the development and creation of knowledge-based district networks. These instruments fall largely under regional policy, research and development policy, business and innovation policy, information society policy and training policy.

5.13.1 **Regional policy** — Substantial financial appropriations have enabled the research-innovation policy of the Structural Funds to give a real boost to regional development, through the innovative actions of Article 10 of the ERDF, the RIS programme (Regional Innovation Strategies) and Community initiatives such as Interreg III-C. The European Investment Fund and the European Investment Bank meanwhile offer the 'Growth Initiative' as a means for SMEs to set up innovative networks.

5.13.2 **European RTD policy** — The Sixth research and development framework programme 2002–2006 is an important source of potential support for knowledge-based districts, especially in the realms of:

- new instruments, integrated projects and networks of excellence, set up with a view to meeting the objectives set out in the horizontal thematic priority for SMEs;
- the ‘research and innovation’ strand;
- Marie Curie fellowships for companies under the second specific programme;
- the ERA-NET coordination scheme;
- the science and governance action for technology foresight.

5.13.3 The ‘More Research for Europe: Towards 3 % of GDP’ action plan provides for a series of new actions at national/European level. Furthermore, it will be possible to develop support initiatives for Europe’s knowledge-based districts via the services deriving from the Galileo radio navigation and satellite positioning programme.

However, as has been highlighted in recent reports, including in particular the one on small business involvement in the programme, access for small companies can be fraught with difficulty, particularly in the new Member States ⁽²¹⁾.

5.13.4 **Enterprise policy** — The following should be noted with regard to enterprise and innovation policy:

- the Innovation and SMEs programme;
- the RITTS programme (Regional Innovation and Technology Transfer Strategies);
- the TRIP projects (Trans-regional innovation projects);
- the PAXIS pilot action, for the creation and development of networks of innovative companies, and the other pilot actions under way, supporting the development of sectoral networks of industrial districts;
- the Euro Info Centre Network.

5.13.5 Interesting Enterprise DG initiatives include those for the development of district networks and the work done by the IDABC programme to support companies and company networks. The initiatives for cooperation between industrial districts on EMS-EMAS (Eco-Management and Audit Scheme)

⁽²¹⁾ See Cordis press release, ‘EU project aims to increase SME participation in the 6th FP’ (14.01.2005); see also European Commission, five year assessment of IST research & development (17.01.2005).

certification, financed at regional level, are of particular note in the context of the joint sustainable development measures managed by the Environment DG.

5.13.6 **Information Society policy** — Under the eEurope 2005 programme and, more specifically, within the eGovernment, eBusiness, eCommerce, eProcurement, Broadband networks, eInclusion, and Go digital initiatives, there is great potential for projects to support district networks.

5.13.7 **Education and training policy** — Various measures provided for under the Socrates and Leonardo programmes can be used to promote training for the knowledge-based networks, and initiatives can also be planned under the e-Learning and eEurope 2005 programmes.

6. Towards a new strategic EU policy approach to the knowledge-based districts

6.1 At the Spring 2004 European Council, it was stressed that: ‘measures taken at the European level are only part of the formula for putting the Lisbon strategy on the right track; numerous reforms and investments, which are the responsibility of the Member States, have yet to be achieved’ ⁽²²⁾. This stance was reaffirmed at the European Council on 4 and 5 November 2004, to which Wim Kok submitted his report ⁽²³⁾.

6.2 The most significant challenges relate to three fundamental strategic areas for growth:

6.2.1 The development of intelligent trans-national networks: this is to be achieved using for instance the Community Growth Initiative and giving priority to investment in research, innovation and lifelong training. Another important element is the identification and skilling of new professional profiles, stepping up the use of network cooperation instruments under the sixth framework programme.

6.2.2 Bolstering companies’ competitiveness on the global market and environmental sustainability: in part this will involve the development of broadband communications and high-speed networks, necessary for research and innovation (GEANT), use of the Galileo programme pilot applications, and the development of initiatives under the eEurope 2005 programme.

⁽²²⁾ Report from the Commission to the Spring European Council ‘Delivering Lisbon – Reforms for the enlarged Union’ - COM(2004) 29 final of 20.2.2004.

⁽²³⁾ See footnote 2.

6.2.3 Building up 'neighbourhood policy' ⁽²⁴⁾ in the enlarged Europe: the aim should be to generate better rooted and more consistent synergies with the new Europe's neighbours with a view to establishing an area of prosperity and security, implementing cooperation mechanisms on sensitive issues such as the management of common borders, the control of migratory flows and the fight against organised crime.

6.3 In all the EU countries, and especially in the new Member States, there is a growing awareness of the importance of district networks and industrial clusters as a means of strengthening competitiveness and productivity, reinforcing employment policy, boosting the quality of work and encouraging the development of small and medium-sized enterprises.

6.4 The EESC thinks that there should be a Union-level integrated policy to set up a **European platform** to support the establishment of new European networks of knowledge-based metadistricts.

6.5 The EESC is convinced that these metadistricts are a genuine key to success in a global market, as they can secure SMEs better access to high-level skills, modern shared services and new knowledge-based facilities, while also improving company management and making for a better informed and more mature workforce.

6.6 The EESC would argue that the creation of a **European platform for districts** could provide a much needed, coherent, transparent and easily accessible framework for SMEs and for old and new Member States, the applicant countries and the EU's European neighbours.

6.7 This **European platform for districts** should have the capacity to coordinate the many policies managed by the various DGs, currently available instruments and Community actions.

6.8 The financing allotted to this platform must be sufficient to enable it to support Union action. The measures coordinated through the platform and conducted under the Lisbon strategy could without doubt contribute to the development of SMEs that are especially rich in deep-rooted tacit knowledge. Community initiatives could codify that knowledge and convert it into a common fund, as well as transferring it to European networks.

⁽²⁴⁾ The Barcelona process for the Mediterranean (since 1995); the Association and Stabilisation Process for the Western Balkans; the cooperation and partnership agreements with the countries of the Commonwealth of Independent States (former USSR).

6.9 The European platform for districts should provide a programme framework for:

- new European metadistrict network initiatives for specific industrial sectors, when necessary; for instance the creation of technological platforms in the biochemistry, aerospace, textiles or information and communication technology sectors;
- new initiatives designed to develop a common strategic vision, in order to explore future European options in fields in which product and process innovations are being tested, anticipating potential developments;
- *strategic capacity building* actions for district networks in the old and new Member States, the applicant countries and neighbouring countries;
- ascertaining the relation between metadistricts and employment policy;
- measures to promote the cultural growth of workers in district organisations;
- the exchange of best network practice, on the basis of harmonised criteria for evaluations and procedure; the aim here is to form a solid basis for the enlarged Europe's research and innovation area, with impact assessments and clear and comparable feedback, so as to gather an appropriate amount of codified and transferable knowledge;
- joint training measures for district managers, business leaders and financial and credit system managers, to be implemented in conjunction with political decision-makers and public sector officials, and with local and regional authority executive officers who are also involved in the training process;
- the creation of Jean Monnet Chairs ⁽²⁵⁾ on the new knowledge-based district networks, and of European prizes for the most successful and transferable examples of European districts;
- the establishment of a system of study fellowships for district technology agents, so as to finance the presence within the networks of researchers and experts in technology marketing and auditing;
- the development of a strong communication and information function based on an interactive portal on the knowledge-based districts;

⁽²⁵⁾ Between the beginning of 1990 and October 2003, the DG for Education and Culture approved approximately 2,500 teaching projects on European themes: these include 82 European Poles, 601 Chairs and 1560 permanent courses and modules. The calls offering funding are published annually on the following website: http://europa.eu.int/comm/education/programmes/ajm/index_en.html

- incentives to access expertise and projects, with assistance from the Joint Research Centre institutes, in particular the Institute for Prospective Technological Studies in Seville;
- the inclusion of a specific budget line in the seventh RTD framework programme for the development of knowledge-based district networks;
- the inclusion of a programme of support activities for district development, within the new cohesion policy framework for 2007-2013.

7. Concluding recommendations

7.1 Deindustrialisation is under way in all the more advanced countries. In the EU, value added of the tertiary sector has risen to 70 % of total GDP (22 % for industry, 5 % for construction and 3 % for agriculture) ⁽²⁶⁾. The process should not, however, be encouraged, since a large part of the value added is channelled to, or originates in, businesses ⁽²⁷⁾: trade and transport 21.6 %; financial and business services 27.2 %; public administration 21.6 % ⁽²⁸⁾.

7.1.1 Policies capable of supporting and spreading a culture that heightens district experience can, indubitably, do much to enable districts throughout the enlarged EU to compete with countries where low labour costs go hand in hand with a lack of dialogue between the social partners and a disregard for health and safety standards at the workplace.

7.1.2 In the EESC's view, the new policy should aim to make greater use of the competitive edge which stems from adopting positive socially responsible practices in businesses ⁽²⁹⁾. This would lead all workplace players to invest production with a sense of awareness and responsibility, meet delivery deadlines, establish a 'fair price' ⁽³⁰⁾, and ensure a competent, punctual, thorough after-sales service.

⁽²⁶⁾ Source: Eurostat, structure of gross value added, 2002.

⁽²⁷⁾ According to the Bureau of Economic Analysis, every \$1 of final demand spent on a manufactured good generates \$0.55 of GDP in the manufacturing sector and \$0.45 of GDP in non-manufacturing sectors. *Manufacturing in America: A Comprehensive Strategy to Address the Challenges to U.S. Manufacturers*; Department of Commerce, January 2004 (http://www.commerce.gov/DOC_MFG_Report_Complete.pdf) November 2004-MANUFUTURE . EUROPEAN COMMISSION

⁽²⁸⁾ Source: Eurostat, *ibidem*.

⁽²⁹⁾ See the Green Paper on corporate social responsibility, COM(2001) 366 final of 18.7.2001.

⁽³⁰⁾ The 'fair price' principle was officially approved by the Heads of State or Government at the Cardiff European Council in 1998. 'The environmental cost must be reflected in the product's price and cannot be charged to future generations!'. One of the quickest ways of including environmental concerns is that of fixing prices that reflect the environmental costs of goods and services and using market instruments to pursue positive environmental goals.

7.2 The EESC calls for an approach that steps up new district networks, especially in the new Member States, in order to stimulate informed, market-led demand.

7.3 Degressive aid should be paid out over a period of three or four years to cover feasibility and start-up analyses, network brokerage and sustainable development costs and lab costs for certification purposes.

7.4 Technological environments and social relations change rapidly and call for the speedy creation of new professional profiles. Continuing training instruments ⁽³¹⁾ are therefore needed for:

- network brokers;
- technological marketing experts;
- innovation and technological transfer enablers; and
- metadistrict managers.

7.5 Drawing on its experience, the EESC hopes that courses in the metadistrict field, based on technological innovation, can be organised for public and private stakeholders, the world of industry and work, universities and banks. To these could be added training scholarships that would involve exchanges between the public and private sector, and between businesses and academic institutions.

7.6 The Innovation DG, which does much to support the experiences of Europe in a global context, should increase its support for arrangements relating to the launch, monitoring and assessment of inter-district and trans-national technological foresight management and benchmarking with a view to steadily extending the cultural and information database of current changes and the instruments used to measure them.

7.7 In order to support credit arrangements, which have always been a critical issue in all Member States and the enlargement countries in particular, a contact centre could be set up at the EIF ⁽³²⁾ which, through its guarantee instruments, would be responsible for providing guarantees for the credit lines issued by banks, financial institutions, consortia and cooperatives providing services for metadistrict companies.

⁽³¹⁾ See Footnote 11.

⁽³²⁾ The EIF (European Investment Fund) was set up in 1994 with two main objectives: to support networks and facilitate credit for SMEs. The EIF shareholders are the EIB, the European Commission and many European banks. During the last few years, the EIF has increasingly lent its support to small and micro-enterprises.

7.8 In the EESC's opinion, the new knowledge-based district is also the ideal environment to trial the most advanced forms of corporate social responsibility through eGovernment, eBusiness and the new eBusiness2business relations that are crucial to the transnational development of district networks, with the support of the common IDABC⁽³³⁾ interoperable networks and close attention to the eEurope 2005 programme⁽³⁴⁾.

7.9 The EESC believes that it is also essential that the Commission creates a compendium of common terminology to be used by all districts involved in Community programmes, and a European interactive database covering all districts, according to sector and area of activity.

7.10 A Community centre for coordination and cooperation between the district set-up and the various institutions involved could also be established within DG Enterprise. This centre could, among other things, produce and update guides to good practice, to be distributed at regional level.

7.11 The culture underpinning corporate social responsibility sees business as a resource for the general public, and is antipathetic to red tape and its attendant costs, which make action less attractive. A 'Slid' initiative would provide a useful instrument to extend the experience gained from the SLIM programme⁽³⁵⁾ to districts.

⁽³³⁾ EESC opinion CESE 1610/2003 of 10.12.2003, (OJ C 80 of 30.3.2003, rapporteur: Mr Pezzini). Networking across borders, by making use of information technologies (IT), has become the key instrument for bringing public administrations together and supporting their cooperative efforts towards a modern, enlarged and secure Europe. Furthermore, studies conducted by the Commission consistently show that investments in this area boost the economy (with high rates of return). A Community initiative on the subject, 'Interchange of Data between Administrations' (IDA), was launched by the Commission in 1993-1995 with IDA I (1995-1999). Between 1999 and 2004, €127 million of Community resources have been allocated for IDA II. Of these, around 60% have been used for sectoral projects of common interest (PCIs), and the remainder for horizontal measures aimed at ensuring interoperability and full accessibility of trans-European networks.

⁽³⁴⁾ eEurope 2005: an information society for all. Action plan, Seville European Council, 21 and 22 June 2002. Summary: The Action Plan aims to provide a favourable environment for private investment and for the creation of new jobs, to boost productivity, to modernise public services, and to give everyone the opportunity to participate in the global information society. eEurope 2005 therefore aims to stimulate secure services, applications and content based on a widely available broadband infrastructure.

⁽³⁵⁾ The SLIM programme was launched at the beginning of the 1990s on the initiative of DG XXIII in order to ease the red tape that surrounded small businesses at the time, substantially more than now. The SLIM programme gave rise to BEST.

7.12 In the opinion of the EESC, it would be advisable to set up a helpdesk to provide advice and assistance on intellectual property and other services intended for district set-ups which are rapidly becoming an integral part of European networks and the global market.

7.13 It is also necessary to facilitate the participation of district bodies in pre-normative and co-normative projects carried out under CEN, Cenelec, ETSI and NORMAPME⁽³⁶⁾ which promote technological development.

7.14 In the context of the 5th multiannual programme for entrepreneurship and competitiveness (2007-2013)⁽³⁷⁾, the EESC believes that it is important to draw attention to the situation and needs of industrial districts.

7.15 In the opinion of the EESC, which is based on experience gathered in the past years, particularly in the wake of the European Councils of Lisbon, Barcelona and Seville, it would be useful to set up a European platform for ongoing dialogue, subdivided by sector and area of activity. This platform would bring together district leaders, public authorities, the social partners, financial representatives, research centres and NGOs.

7.15.1 The EESC considers that thought should be given to granting Community recognition to European knowledge-based metadistricts, so as to:

- facilitate exchanges both inside and outside the single market;
- enable companies in different countries to pool their resources;
- give the districts project a truly European stamp, with direct access to European schemes and programmes;
- conduct evaluations, monitoring and benchmarking of European district networks.

7.15.2 In this context, the EESC thinks that it would be useful to hold a public hearing to build on the present opinion, inviting district bodies and other interested organisations from different regions. The aim would be to encourage crossborder cooperation and to highlight its benefits:

- politically: crossborder economic cooperation promotes EU integration and performance on world markets;

⁽³⁶⁾ CEN: European Committee for Standardisation; Cenelec: European Committee for Electrotechnical Standardisation; ETSI: European Telecommunications Standards Institute; NORMAPME: European Office of Crafts, Traders and Small to Medium Sized Enterprises for Standardisation.

⁽³⁷⁾ See COM(2004) 781 final of 7.12.2004 and CESE 245/2005.

- in terms of simplification: it can pinpoint new forms of access to cognitive, financial and production resources;
- economically, for competitiveness: European knowledge-based districts (EKD) could form a European consortium that could adopt an EU quality mark;
- in terms of the wide scope for public/private partnerships: the new district groupings should include both private businesses and local authorities, as the latter can play an important role as catalysts for new proposals;
- for bringing together businesses, universities and research bodies, thereby systematically drawing on new technologies and innovations.

7.15.3 The EKD consortium should foster the spirit of enterprise, social responsibility, the creation of new activities and the development of further training, and should encourage crossborder partnerships. It should be:

- freely and easily accessible, both to individuals and to public/private bodies;
- simple, flexible and adaptable to the differing needs of its members;
- able to adapt to market trends;
- established at EU level, involving a large number of Member States or associated countries ⁽³⁸⁾.

7.15.4 Nature — The EKD should be a private body, and thus not make public calls for funds.

Brussels, 6 April 2005.

7.15.5 Approach — The EKD should be subject to similar criteria as those governing the establishment of consortia in the sixth RTD framework programme. It should run for a five-year (renewable) period ⁽³⁹⁾ and should be entered in a special register within an EKD platform to be set up at the Commission.

7.15.6 Legal status — Dealings with the Community institutions should be handled by a single recognised EKD coordinator, as happens with the integrated projects and networks of excellence in the RTD framework programme.

7.16 In conclusion, the EESC considers that the experience developed in districts and now being focused towards knowledge-based metadistricts, provides an excellent opportunity for:

- increasing employment;
- improving social relations in the labour market;
- broadening the occupational skills of workers, at all levels;
- ensuring safe and healthy workplaces;
- developing and extending ethical and environmental certification (ISO14000 and EMAS);
- better addressing credit problems and the impact of Basle II;
- improving the quality and competitiveness of products made in Europe;
- supporting and widening export possibilities;
- reasserting the power of work, workers and enterprise over red tape.

7.17 Therefore, for all these reasons, the development of metadistricts should be supported and encouraged at all levels, be they local, national or European.

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

⁽³⁸⁾ Cf. the RTD framework programme.

⁽³⁹⁾ The limited accreditation period is needed to ensure that the districts continue to develop, and do not become set in stone.

Opinion of the European Economic and Social Committee on Tourism policy in the enlarged EU

(2005/C 255/02)

On 1 July 2004 the European Economic and Social Committee decided to draw up opinion, under Rule 29(2) of its Rules of Procedure, on *Tourism policy in the enlarged EU*

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 16 March 2005. The rapporteur was Mr Mendoza.

At its 416th plenary session held on 6 and 7 April 2005 (meeting of 6 April 2005), the European Economic and Social Committee adopted the following opinion by 83 votes to four with five abstentions.

1. Background

1.1 As part of the EESC's ongoing efforts to finalise its position and put forward proposals to the tourism sector, it is drawing up an opinion to take account of the new situation in the enlarged EU, both as it is now and as it may develop over the next few years.

1.2 The EESC has already drawn up opinions on a range of tourism-related topics, but this will be its first examination of the impact on the tourism sector and its prospects in this new European context. Most importantly, it will also be the first time that members from the new Member States have been involved in the work.

1.3 Without wishing to cast doubts upon or disregard the work of previous opinions, it is not certain what kinds of threats and opportunities these new prospects open up, be it for the whole of Europe, for individual countries, for pre-enlargement Member States or for the new Member States.

1.4 In drawing up this opinion, we have tried to be completely open to information, considerations and suggestions from the new Member States, whilst noting the views already expressed by the Committee. At the hearing held in Katowice, Poland, the Committee heard numerous important contributions from old and new EU Member States alike, all of which consider tourism a source of economic and cultural benefit, that contributes to the construction of a Citizens' Europe and therefore to European integration. This is all the more important and necessary during an ongoing enlargement process that calls for even greater efforts to bring the Union closer to its citizens and to foster mutual understanding between cultures and peoples. In the near future, the drive to achieve European integration will be speeded up as it is essential for the new EU members. People who travel as tourists are without doubt in the vanguard of European integration.

1.5 This opinion does not attempt to go into great detail on the current situation or on future prospects for the tourism industry in each country but to look at the common elements

of a future European tourism policy and to examine and propose measures that will help to ensure that tourism is a significant driving force for economic and social development for all countries, and which also meets the criteria for sustainability.

1.6 The European Constitution is a new factor that must be taken into account in any analysis of relations between the Member States themselves and between these countries and the European institutions. This opinion attempts to diagnose how enlargement affects tourism as a whole and how the new framework provided by the Treaty establishing a Constitution for Europe might help or hinder this outstanding contributor to development that is tourism in Europe and throughout the world. In short, it sets out to analyse the factors that might shape European tourism policy.

1.7 It is in relations between the various peoples of Europe, between the citizens of this political, economic and social entity that is Europe, that we find one of the best ways in which tourism can contribute to a greater understanding between all peoples and consequently to the construction, cohesion and consolidation of the new Europe.

1.8 We must bear in mind that tourism is currently going through a hard time, due to various factors, including international terrorism and consequently the need to reconcile security with freedom, and also the world economic crisis and its impact on people's desire for travel, at least for long-distance travel. Tourism is an instrument for world peace, and can continue to be so in the future.

1.9 Global, and in particular European, tourism must be based on the development of the real cultural values of both sending and receiving countries and help to shape these values. The exchange of customs and cultures, mutual respect, appreciation for the diverse environmental, heritage and social characteristics of each locality, can and must contribute to a united Europe and a world where countries support and respect each other.

2. Tourism policy in the European Union

2.1 Points for general discussion of future tourism policy in the enlarged EU.

2.1.1 Tourism policy in the European Union and the European Constitution: Although tourism does not as such form part of EU common policy, some European institutions nevertheless put forward measures and actions which, because of their cross-sectoral nature, have an impact on tourism or use it as an instrument to achieve some of the EU's fundamental aims, such as sustainable development, employment and economic and social cohesion; in short, to provide a better quality of life for Europe's citizens.

2.1.2 Section 4 of the Treaty establishing a Constitution for Europe, entitled Tourism (Article III-281) sets out its position on tourism:

'1. The Union shall complement the action of the Member States in the tourism sector, in particular by promoting the competitiveness of Union undertakings in that sector.

To that end, Union action shall be aimed at:

- (a) encouraging the creation of a favourable environment for the development of undertakings in this sector;
- (b) promoting cooperation between the Member States, particularly by the exchange of good practice.

2. European laws or framework laws shall establish specific measures to complement actions within the Member States to achieve the objectives referred to in this Article, excluding any harmonisation of the laws and regulations of the Member States.'

2.1.2.1 Article I-17 includes tourism in its areas of supporting, coordinating or complementary action:

'The Union shall have competence to carry out supporting, coordinating or complementary action. The areas of such action shall, at European level, be:

- (a) protection and improvement of human health;
- (b) industry;
- (c) culture;
- (d) tourism;
- (e) education, youth, sport and vocational training;
- (f) civil protection;
- (g) administrative cooperation.'

2.1.3 These Treaty articles show that, although the economic nature of tourism and its potential to generate

wealth through businesses is recognised, there is no suggestion of a move towards European harmonisation in this area. The intention is simply to acknowledge that it has a role to play in complementing and coordinating national policies. Furthermore, the desire to exclude any regulatory activity that could be used to harmonise these policies is made quite clear. This, in the opinion of the EESC, does not exclude but indeed facilitates agreement on identifying the values that define a European tourism model.

2.1.3.1 The Treaty could possibly have set out more interventionist models for tourism, but a reading and analysis of the proposed text, reveals a generally positive line, in harmony with the rest of the constitutional text. The section on tourism in the Treaty enables us to continue trying to achieve the main objectives as regards the role of tourism and how to improve it. On this basis, the EESC will continue working in the future with other institutions and stakeholders in the sector.

2.1.4 The aim of this Opinion is not to set out and analyse each of the policies developed by the different countries of the Union and compare models: those more or less integrated into a European framework; those more or less 'nationalist'; diversity within European tourism, etc. As already noted in a Committee opinion, tourism starts with the local and regional dimension, and from there, spreads to the national and international stage. The beneficial and fruitful hearing in Katowice, revealed not only the diversity of tourism activity in each Member State, but also the range of strategies that each State, region and local community could use to promote their tourism model both now and in the future.

2.1.5 Nor is the aim of this opinion to make judgements on this range of models for action, although it is clear that some are more open than others to cooperation at whatever level, while others opt exclusively for competition in a free market.

2.2 Enlargement and tourism: The effect of EU enlargement on the industry.

2.2.1 The enlargement of the European Union is a new situation which is certainly going to bring new opportunities to the whole of Europe and clearly also to each old, new and future Member State.

This opportunity can be seen from various standpoints:

2.2.1.1 Supply: It is clear that enlargement is greatly increasing the already large range of European tourism products, not only in terms of the number of tourist locations, but also and possibly more importantly, in terms of cultural, heritage and environmental added value. Here it is necessary to refer once more to the hearing in Katowice, where this expansion of product range brought about by the new Member

States became clear through the various natural, cultural and even industrial tourism initiatives that were presented. Without doubt this expansion will make the European industry more competitive, both internally and with other countries of America, Asia and the rest of the world. The new Member States are also seeking to increase their range of tourist products as a key factor in the development of their tourism industry and, ultimately, their economy. Although this desire for growth is absolutely legitimate and advisable, it should not be forgotten that growth has its limits and that the speed of growth must be sustainable to ensure that social, economic and environmental values are safeguarded in the future. Other Member States' experience of tourism development, with its failures and successes, should serve as an example of prudence and success in choosing a model for the development of new tourist destinations.

2.2.1.2 Demand: The increase in tourism demand associated with enlargement is undoubtedly triggered by three key factors. Firstly, the increased number of EU citizens wanting or needing to travel to other places and other countries of the EU which until now were difficult to get to, either because the individual was not part of the Community and so had difficulty travelling, or because they were an EU citizen and had difficulties travelling to other countries outside of the EU. Secondly, the higher standard of living that will certainly be reached in the new countries will increase peoples' desire to travel. Lastly, it is hoped that the new and improved transport and communication infrastructures will serve as an incentive for travel and tourism, for relocation for professional or personal reasons and in short, that travel and the associated tourism industry will grow.

2.2.1.3 Market: As a consequence of the increase in supply and demand due to EU enlargement, the tourism market will grow bigger and stronger. This will undoubtedly have a positive impact on all economic activity of the EU, where tourism is a very influential industry. It is difficult to predict the impact that enlargement of the market will have on prices of tourism products, the products themselves or companies' profits, but everything seems to indicate that the positive effects will outweigh the negative. The enlarged market will certainly increase competition, but in order that the positive effects have a snowball effect, the increase in competition will have to be based on an improvement in the competitiveness of businesses and of Europe's tourist destinations.

2.2.2 However, in order to create a strong industry from the new and great opportunity provided by enlargement, various principles, conditions and common rules that ensure the general viability of the activity, as well as its socially desirable future, must be adhered to. These criteria were defined at the Lisbon Summit, where a Strategy was mapped out on the basis of the following objectives: sustainability, a knowledge-based society, employment and social cohesion.

2.2.2.1 Sustainability: In a previous opinion on *Socially sustainable tourism for everyone* (¹), the EESC, like other international and European institutions such as: the Commission, the Parliament, etc., described the sustainability of European tourism as invaluable to its balanced and productive long-term economic development. The 100 initiatives set out in this opinion present a specific range of factors that help to achieve sustainability.

The growth in tourism will tempt the new countries to expand their tourism industry. The scale and speed of this expansion must be managed in such a way that it is economically, socially and environmentally acceptable. The demand for sustainability in tourism activities is not easy to meet, since contradictions continually arise and the criteria for applying sustainability differ according to the players involved.

2.2.2.2 A knowledge-based society: Tourism can contribute very constructively to achieving this Lisbon Strategy objective, due to the very nature of the activity, based on cultural exchange, travelling to other places and bringing different social and cultural customs and realities closer together. In particular, the acquisition of knowledge by young people is greatly stimulated when they travel, when they live with other people from other environments, when they become more open, tolerant and caring. The acquisition of knowledge is not only a question of academic study but also of gaining experience; this can be done in any circumstances, at any age and tourism provides a perfect opportunity for this.

Information and communication technologies are key contributors to both the creation and consumption of tourist products, and they will certainly help to make tourism a competitive industry accessible to all.

2.2.2.3 Employment: The Lisbon Strategy stated that Europe should take the lead in creating more and better jobs over the next few years. There can be no doubt that tourism, which accounts for 5 % of European GDP and employment — up to 10 % in some Member States — can be a source of more and better jobs in an enlarged Europe. For this to be socially sustainable, both old and newly created jobs in the tourism sector must fulfil the basic requirements of quality, specific training, stability and, in particular, recognition of the rights of workers employed part-time or on a temporary basis.

2.2.2.4 Social cohesion: Tourism is a powerful force for cohesion, enabling us to get to know other people and places, and therefore helping to give substance to the concept of citizenship in the enlarged Europe. To be able to share common goals with others, it is essential to know about them and tourism facilitates this. Tourism, will further progress in the enlarged Europe by improving cohesion between all the peoples of Europe.

(¹) OJ C 32 of 5.2.2004

3. General analysis of tourism policy in the enlarged Europe

3.1 The key question that we can and should ask is: Can tourism policy be covered by the general development of a comprehensive industrial and economic policy for the European Union? We know that the answer must be and is affirmative, if by tourism policy we understand all the criteria, objectives and instruments capable of steering European tourism towards satisfactory levels of competitiveness, wealth creation and sustainability. The Treaty establishing a Constitution for Europe thus states that actions in this sector shall support, coordinate and be complementary to other European policies.

3.2 Features of industrial policy applicable to the tourism sector. Some of the features of tourism policy that can be drawn from Europe's general industrial and economic policies are:

3.2.1 **Employment and Social Policy:** Aside from the very specific features of jobs in tourism due to its highly seasonal nature, all EU employment policies are perfectly applicable to employment in the tourism sector. That said, all additional initiatives to reduce seasonality should not only be welcomed but also encouraged and fostered by the EU institutions. There is still a lot of work to be done on this issue, since seasonal employment is still considered normal in the main tourism areas. The staggering of holiday dates could make a positive contribution to prolonging the season and therefore enable better use of the capacity of tourism infrastructures.

3.2.2 **Quality:** In the same way, Community policies to promote quality and to introduce quality benchmarks in industry must be applied in the tourism sector and lead to improved quality. Due to its very nature as a service industry and its core tenet of personal service tourism, is very sensitive to this variable. The efforts of all European tourism players in promoting quality should be supported, coordinated and complemented, as stated in the Treaty establishing a Constitution for Europe.

3.2.3 **Research and development:** Tourism in particular is undergoing major structural change in the way in which services are advertised and purchased via the internet, and the positive impact that this will have on tourism should be studied and promoted. R&D work on tourism should be the responsibility of all institutions at all levels and all businesses.

3.2.4 **Consumer protection:** Tourism is an economic activity in which there is a strong interrelationship between service providers and consumers. All general EU consumer

protection policy must be applied directly to the tourism sector and increase business and consumer responsibility. The promotion and distribution of quality labels and eco-labels must be supported and encouraged in the tourism sector.

3.2.5 **Environmental protection:** All European environmental protection policies are applicable to and benefit the tourism industry. If tourism is fundamentally an industry based on the rational use of natural resources, all initiatives, activities and regulations can only encourage tourism today and in the future.

3.2.6 **Other EU policies:** In general, and due to its cross-sectoral nature, the tourism industry is affected by all of the EU's economic and industrial policies. However, the strategic importance of tourism to employment and social cohesion should be recognised in the institutions; policies should be applied appropriately on the basis of studies and pilot projects.

3.2.6.1 In short, the tourism policy of the enlarged EU, as set out in the European Constitution when it comes into force in due course, should be a policy of support and coordination, and complement all other EU tourism-related policies. The competitiveness of businesses, sustainability in its broadest sense, the creation of high quality employment, infrastructure policy, etc. should all focus on tourism as a key activity for the development of the whole Union.

3.2.7 **Relation to other activities:** Tourism acts as a catalyst to boost the effects of other activities, such as sport, as analysed by the EESC in its opinion on *Tourism and sport: the future challenges for Europe* ^(?).

3.3 *The status of tourism policy in the EU.* The question as to whether tourism in Europe and in EU policy is truly accorded the role, importance and strategic position that it merits as a human, economic and social activity, can be answered from various points of view.

3.3.1 The EU, its countries, regions and cities are world tourist destinations: the new situation in Europe, together with the accession of the new Member States, has resulted in a wide-ranging and diverse product range, full of contrasts, enabling Europe to develop into a pre-eminent tourist source and destination. In the future, expectations are for continued, more modest growth, but with higher expectations than other industries. A policy of quality — the linchpin of competitiveness and sustainability — must underpin this product range; the development of a European quality tourism mark or marks should be the means whereby this quality is achieved and expressed.

^(?) OJ C 157 of 28.6.2005

3.3.2 Institutional measures that would have to be adopted in order to develop a tourism policy for Europe as a whole.

3.3.2.1 It is acknowledged that the European institutions, including the Commission and the Parliament, are carrying out ongoing work to coordinate measures impacting on tourism. The *European Tourism Forum* initiative, which has already been implemented, should be noted. This annual meeting brings together all players in the tourism sector and is of great scientific value — as well as of value for planning and cooperation policy — for the improvement of European tourism.

3.3.2.2 This and other work to promote awareness of European tourism with the participation of all the sector's players, is very positive. The conclusions of the Forum held in Budapest in 2004 are to be found in Appendix 1.

3.3.2.3 Here it is worth mentioning again the EESC initiative presented in the opinion on *Tourism policy and public-private cooperation* ⁽³⁾, proposing that the Commission analyse the possibility of creating a European Tourist Board, in either the medium or long term.

3.3.2.4 This Board could comprise a wide range of institutional officials and private players, in particular social partners and civil society organisations, and would analyse tourism information, propose guidelines and follow up agreements reached in the European Tourism Forum. The EESC will cooperate and participate actively in its creation.

3.3.2.5 The EESC wishes to express its determination to continue working on this issue, on its own behalf and in cooperation with the Commission, the European Parliament, the Committee of the Regions and other institutions, to boost the profile and development of European tourism.

3.3.2.6 To aid progress in this area, it is proposed that more use be made of institutional meetings to analyse, coordinate and promote the application of the Resolutions of the European Tourism Forums.

3.4 Features of a tourism policy for the enlarged EU

3.4.1 The current opinion is intended to be consistent with the EESC's previous opinion, *Socially sustainable tourism for everyone* ⁽⁴⁾, adapting the principles that shape tourism policy to the new European situation. In this case tourism policy is not seen as a set of regulatory powers for the Union but as principles and values that must be borne in mind and must imbue tourism measures adopted by all public institutions at all levels,

as well as the business activities of the private sector. Below is a list of those elements which, when taken as a whole, shape this system of guiding values that can contribute to improving tourism and to ensuring its sustainability.

3.4.2 The definition of tourism in the enlarged Europe must be based on values identified in European tradition and culture, and have the tourist him/herself at its heart. The idea of the tourist as a consumer of services that are complex, varied and profoundly personal in nature and composition cannot be abandoned. But the fundamentally economic and commercial nature of tourism, which necessitates the application of the principles of profitability and competitiveness in this economically influential industry and substantial contributor to Europe's GDP, cannot be forgotten either.

3.4.3 The tourism policy of the enlarged Europe should be based on sustainability, both in its wider sense, as an instrument of economic, social and environmental development — but development subject to stricter conditions. One of the most important issues to debate in this area concerns limits to growth. Have objective and quantifiable limits been set for tourism? Have economic limits been set on the pace of developing tourist destinations throughout the world?

3.4.3.1 The answers to these questions are not simple ones, but the idea of limits to growth — but not to development provided it is balanced, sustainable development — seems to be gaining ground. It might be worth quoting the example of the Mediterranean, where the number of tourist locations is increasing, a development that poses a serious threat to the entire tourist industry in the medium term and to its profitability. Tourism investment initiatives, subject to sustainable development conditions and in cooperation with the southern Mediterranean countries, must be welcomed as instruments for the economic and social development of a vast and currently underdeveloped geographical area.

3.4.4 The adaptation of the tourism industry to a changing situation to improve its competitiveness: R+D, new technologies, investment, promotion, design, marketing, networks, business associations, etc. is a requirement for all European businesses, particularly those that want to find a niche in the newly enlarged Europe. The role played by the internet today and the role it will foreseeably play in future must convince all sectors that the way forward is to be involved in its development, in using the internet to improve productivity, for research and ultimately to ensure that the tourism industry's development is more balanced.

⁽³⁾ OJ C 74 of 23.3.2005

⁽⁴⁾ OJ C 32 of 5.2.2004

3.4.5 **Tourism and Employment:** Labour relations, vocational training and promotion, specialisation, social protection, free movement of workers, etc. are key factors in the shaping of a tourism policy of the enlarged Europe. Particular attention must be paid to creating and training the new professions in the tourism sector; the institutions must be involved in this to ensure that the criteria of creating of high-quality jobs are met. Furthermore, the range of tourism qualifications should be expanded and improved.

3.4.6 **Tourism in relation to the promotion of European culture and heritage:** customs, art, architecture, history, folklore, gastronomy, etc. should all play a very important role in an appropriate European tourism policy. The new countries, with a rich heritage to add to the range of tourism products, will have to base their tourism development on these values. Experiences like those of the *paradores* in Spain, the *pousadas* in Portugal and the *ville e castelli* in Italy among others, can serve as good examples of integration between heritage and tourism underpinned by commercial promotion.

3.4.7 **Access to tourism for all** is a challenge that should not be ducked. Tourism is every individual's right, even if they suffer from disability: a campaign to encourage tourism in the enlarged Europe is proposed, aimed particularly at schoolchildren and adolescents and at older or retired people and pensioners.

3.4.8 **The growth of the tourism market in the wake of enlargement** must act as a driving force for internal European tourism and consequently as a basis for a general promotional policy.

3.4.8.1 Given the special significance of internal tourism and its effects on internal demand and consumption in the EU, particularly the current and potential importance of social tourism, the EESC will draft an opinion on a **Social Tourism Policy for Europe**.

3.4.9 **Stakeholders in the tourism sector** must take a leading role in the analysis, design, monitoring and evaluation of tourism policies in various fields. This must be the *modus operandi* at all times, a principle to be adhered to in any tourism policy. Cooperation strategies and methods of participation should be agreed between bodies.

3.4.10 **The seasonality of tourism** is possibly its biggest weakness; the pursuit of stable employment and activity must be at the heart of a new tourism policy for the enlarged Europe. Methods of compensating for the under-use of human resources and capital due to seasonality should be researched

through pilot projects. This research should explore fully the changing tourism models and how to ensure tourism remains a significant instrument of development.

3.4.11 **The diverse situation of European islands** merits special attention. Some of the very characteristics that provide them with the right conditions for tourism development can have huge repercussions. The communication, transport and regional development policies are of strategic importance to these islands and to mountainous areas, due to the effect their specific characteristics can have on tourism.

3.4.12 **Once more, it is important to emphasise that, in today's world, security and prevention** are at the heart of tourism development. In the case of both natural and man-made disasters, prevention through rules that ensure people's freedom to travel and move about should be a key factor in tourism development.

3.4.13 **It should not be forgotten that a tourism policy for the enlarged Europe** must contribute effectively to helping tourism fulfil the role it can play in accelerating the process of social, economic and political cohesion in the EU, through various actions:

- deepening knowledge of countries, people and cultures,
- contributing to the creation of a European model of co-existence, peace and progress,
- promoting a positive image of Europe in the world.

3.5 *The role of public-private partnership in developing tourism*

This opinion is intended to be consistent with the EESC's previous opinion *Tourism policy and public-private cooperation* ⁽⁵⁾ and examine effective ways of achieving cooperation.

3.5.1 **When applied to an analysis of the enlarged Europe and tourism, appropriate coordination and cooperation between the public and private sectors** must be considered not only at local and national level, but can — and probably should — go beyond these barriers; cooperation must also be a vector for transmitting sustainable policies and measures to improve investment and competition from one country to another. Countries and social sectors with longer traditions of tourism can offer the benefit of their experience to the countries that form the enlarged Europe, helping them to avoid mistakes in developing tourism models, providing concrete experience of successes and failures; in short, working together on this new model of economically, socially and environmentally sustainable tourism.

⁽⁵⁾ OJ C 74 of 23.3.2005

3.5.2 Training must be one of the cornerstones of improving the quality of tourism, but it is advisable that its contents meet the real demand of the different tour operators; this should make institutional efforts more effective. Public-private cooperation can and should play a vital role in this area.

3.5.2.1 The EESC wishes to state that it would fully support the initiative creating a European Masters Degree in Tourism; this would help to shape, develop and apply the European tourism model, based on the values of the European Union as an area of co-existence and economic development.

3.5.3 The European tourism policy should ensure the promotion of networks of tour operators, as well as of business associations at all levels: local, regional, national and European.

3.5.4 The role of transport infrastructure in the enlarged Europe is crucial to ensuring that competition remains central to the development of tourism in all countries. The Union must make efforts in this field to guarantee safe, swift and high-quality access and intermodality of transport for all regions, bearing in mind that the use of infrastructures for tourism has a greater economic and social impact. Particular priority must be attached to the accessibility of the islands of EU countries in policies to improve internal and external communications.

3.6 European institutional cooperation

3.6.1 European institutional cooperation can take many forms:

3.6.1.1 *Pilot projects:* For example, the European Social Tourism Project, that could contribute substantially to the growth of internal tourism and to ensuring access to tourism for all, as well as help in overcoming the seasonality of tourism. The project should possibly be promoted by various countries with similar successful experiences, together with the Commission, and should investigate the long-term viability of the global European Social Tourism Project. It is proposed that the European Commission analyse the possible impact of a European Social Tourism Project on the European tourist industry.

3.6.1.2 *Cooperation on research:* For example, into new forms of tourism, in particular tourism compatible with sustainability, which could be given a boost by enlargement. It is proposed that the Commission consider carrying out an investigative study on this subject, to which the EESC would contribute.

3.6.1.3 Cooperation and exchange with other areas of Europe and the world.

The main features and conditions of the European model of tourism are described throughout this opinion and must influence the definition of other tourism products from outside of Europe, above all to prevent these from competing unfairly and disregarding tourism standards. International standards, criteria for correct financial management, human — especially labour and social — rights and environmental sustainability must all be respected. The EESC proposes that the EU develop a European tourism model with different international institutions: the ILO and the International Bureau of Social Tourism (BITS).

3.6.2 The role of the Structural Funds and other forms of support in tourism in an enlarged EU

3.6.2.1 EU economic solidarity is best reflected in its policy of economic and social cohesion, implemented through the Structural Funds. This policy, which has proved an effective tool for progress, will be particularly relevant with enlargement. This is why actions which have a positive effect on the development of cohesion policies should be supported through the development of a tourism policy. These policies can in their turn boost tourism activity in all countries, so that tourism can exercise a multiplier effect on such actions. Cross-border measures can help to create tourism products shared by various countries, through common actions and products.

3.6.2.2 To explore this issue further, the Committee proposes that a study be carried out on the effect of the Structural Funds on the tourism sector.

4. Conclusions

4.1 Tourism is a key economic sector and industry for the effective construction of an enlarged Europe, which should grow with due respect for sustainability in the broadest sense and should contribute effectively to European social cohesion.

4.2 The new Member States see tourism as a great opportunity for economic development that can bridge the gap, in terms of income, between them and the old European Union countries. The great variety that they bring in terms of culture, heritage and nature will mean an expansion both of the product range and of internal and external tourism demand.

4.3 An enlargement taking in other countries will have a very positive impact on the future of the tourism sector, particularly if the European model of tourism is applied with due respect for sustainability.

4.4 One of the proposals that the Committee would like to see approved and forwarded to all Member State institutions is to mount a wide-ranging education and motivation campaign based on the concept of tourism as an industry of strategic importance for Europe. This campaign would essentially target school children, with the aim of teaching them to value tourism as a human activity that involves getting to know people, places and cultures, which can be of vital importance to their own personal growth and enrichment. This campaign should involve European, national, regional and local institutions, as well as business organisations and unions from all sectors, and should invite pupils to learn about their nearest tourist attractions (city, province, region) as a means of motivating them to travel in their own country and discover the delights of the rest of Europe.

4.5 Creating a database of good tourism practice, covering destinations and private operators such as hotel owners, tour operators and additional offers etc., could provide a means for exchanging positive experiences from which the newly integrated countries and those yet to join will certainly benefit greatly.

4.6 By the same token, creating and encouraging various networks of destinations which aim to promote the best values of sustainability and quality will ensure that tourism develops on the basis of criteria geared to a new model of European tourism guaranteeing greater continuity.

4.7 Consumer protection should be at the heart of a European Tourism Model intended to continually generate sustainable economic activity. All general consumer protection policy should be applied to tourism, mainly because of the strong consumer — service provider relationship found in this sector.

4.8 The Committee welcomes the Commission's initiative to carry out a study of the effects of sporting events on tourism, based on the EESC opinion on **Tourism and sport: the future challenges for Europe**.

4.9 In order to find reference points and bases for future actions in support of European tourism, the EESC calls on the Commission to carry out, within a reasonable timespan, studies on tourism and the situation of social tourism, as well as on tourism for people with disabilities, given its social importance and possible positive effects on tourist activity.

4.10 The EESC would like to reiterate two particular proposals already set out in this opinion:

— Firstly, to welcome the creation of the Commission's group on Tourism and Sustainability, within which the EESC will be represented, to continue working towards the possible future setting-up of a European Tourism Board and to encourage meetings between European institutions, social partners and other civil society organisations. The Committee considers that both initiatives will help to achieve the objectives laid down in the Treaty establishing a Constitution for Europe.

— Secondly, to express the EESC's willingness to cooperate with other international institutions concerned with the tourism sector, such as the ILO and the BITS.

5. The EESC has decided to publish and distribute this opinion under the title the 'Katowice Declaration on Tourism Policy in the enlarged EU' and that it should be the Committee's contribution to World Tourism Day 2005, organised by the World Tourism Organisation.

Brussels, 6 April 2005.

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

Opinion of the European Economic and Social Committee on Priorities of the Single Market 2005-2010

(2005/C 255/03)

On 29 June 2004, the European Economic and Social Committee, acting under the second paragraph of Rule 29 of its Rules of Procedure, decided to draw up an opinion on: *Priorities of the Single Market 2005-2010*.

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 16 March 2005. The rapporteur was **Mr Cassidy**.

At its 416th plenary session (meeting of 7 April 2005), the European Economic and Social Committee adopted the following opinion by 97 votes to 58, with 15 abstentions.

1. Introduction

1.1 As per the Single Market Observatory's (SMO ⁽¹⁾) work schedule, the section for the Single Market, Production and Consumption is proposing an additional opinion on *The priorities of the single market for the period 2005 to 2010*. As in the past, the SMO is contributing to a review of objectives and methods to reflect progress towards the single market.

1.2 The achievements of 2004 for the European Union cannot be underestimated. On the heels of an historic enlargement bringing in ten new members, citizens of the now 25 Member States elected a new European Parliament, and in late 2004 the 25 members of the new European Commission began their five-year term of office.

1.3 In the meantime, the Kok report has been published ⁽²⁾ as has the Committee's opinion ⁽³⁾ on the implementation of the Lisbon Strategy, both following the requests expressed in March 2004 by the European Council. Ideally, the Committee's own-initiative opinion on single market priorities for precisely the period of the new Parliament and new Commission would tie in with this work and provide a practical input from civil society.

1.4 It is important, therefore, to prepare the groundwork for the EESC's involvement in the consultations planned by the new Commission.

1.5 This opinion is a follow up to the Committee's opinion on the Communication from the Commission to the Council, the European Parliament, the European Economic and Social Committee and the Committee of the Regions: Internal Market Strategy — Priorities 2003 –2006 COM(2003)238 final. In this opinion ⁽⁴⁾, for which Mr Cassidy was the rapporteur, the Committee focused on a number of priority aspects for the smooth operation of the single market: reducing the impact of tax barriers, improving conditions for business, securing a sound legal system and high and transparent quality standards,

especially for services of general interest, providing more and better public information, etc.

1.5.1 In this opinion, the Committee also stressed that additional welfare benefits cannot be achieved by liberalisation and enhanced competition alone, but that a supporting macro-economic policy geared towards growth and employment will do much to help complete the internal market. In the same way, the discussion about the future shape of the social systems must not focus solely on the internal market and budget requirements but must look at the systems as a whole, and reflect their objectives.

1.6 This opinion also rests on the '25 findings' by the Single Market Observatory published on the occasion of the 10th anniversary of the creation of the Observatory (a brochure issued in October 2004 and entitled *What is the state of the enlarged Single Market? 25 findings by the Single Market Observatory*). With these various findings, the SMO stressed the persistence, despite very significant progress achieved in recent years, of far too many delays as well as malfunctioning of the single market which penalise European users and affect the performance of the EU in terms of competitiveness, of growth, of innovation and of employment vis-a-vis our principal world partners.

1.7 The multiannual strategic programme prepared by the Six Presidencies ⁽⁵⁾ for the period 2004 to 2006 constitutes a basis for studying this matter and for drawing up recommendations on the crucial period of 2005 to 2010 which saw, in addition to the process of integrating the new Member States, the establishment of a new Commission and a new European Parliament. The idea is thus to set the EU's priorities in a broader context, addressing the operational problems that have long been put on the back burner. The Six Presidencies' programme represents welcome policy continuity. Too often in the past, incoming presidencies have sought to impose their own agendas leading to confusion and the belief that the EU has no clear policy objectives.

⁽¹⁾ The Single Market Observatory is a unit within the Section for the Single Market, Production and consumption (INT). It is composed of 30 members, with one chairman and two vice-chairmen (two years' terms).

⁽²⁾ At the 2004 Spring Summit, the Council asked a working group, chaired by Mr Wim Kok, to draw up the mid-term assessment of the Lisbon Strategy and to present a report for 1 November 2004.

⁽³⁾ OJ C 120 of 20.5.2005

⁽⁴⁾ OJ C 234/55 of 30.9.2003

⁽⁵⁾ Ireland, Netherlands, Luxembourg, United Kingdom, Austria and Finland

2. A long overdue simplification of the regulations

2.1 As regards the single market, the priorities of the Six Presidencies are based on the Lisbon Strategy. The aim of the strategy is to make Europe 'the most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion.' The Commission has drawn up an action plan entitled *Simplifying and improving the regulatory environment* ⁽⁶⁾. Since 1 May 2004, this operation has involved a large market composed of 25 States. The Committee again notes that, in connection with the Lisbon Strategy, careful attention must also be paid to the difference between, on the one hand, an unnecessary regulatory and administrative burden and, on the other, the standards and regulations required to ensure that living and working conditions are maintained and developed in accordance with the common goals of the EU.

2.2 Important sources of concern arise from the way in which certain Member States add unnecessary complications at the time of the Community directive transposition in their national legislation. Stakeholders are frustrated by the opaque 'Comitology' procedure whereby the detailed regulations to implement framework directives are discussed behind closed doors without even scrutiny by the European Parliament or national parliaments.

2.3 One of the most serious difficulties is the time lag between a directive receiving Council and Parliament approval and its transposition into national law.

2.4 Member States often fail to transpose Community directives into national legislation, thereby creating a set of barriers, which cause economic disadvantages. The removal of barriers requires a carefully-judged mix of harmonisation, mutual recognition and simplification.

2.5 The complexity of the conditions governing activities in the single market is a handicap that has been singled out by operators. Although simplification is largely a matter of good practice and of implementation, essential simplifying provisions are still lacking, in particular as regards the Community patent, abolition of double taxation, a European law statute open to SMEs, standard European rules on mergers and simplified intra-Community VAT rules.

2.6 The Commission itself is not blameless. Some initiatives for Community legislation are not always sufficiently justified by preliminary impact analyses, which sometimes lack rigour and transparency such as for example the proposal for a second Directive on Port Services ⁽⁷⁾. European directives are often the result of complex political compromises between States or between the Council and the European Parliament, which do not make life easy for the users of such rules.

⁽⁶⁾ COM(2002) 278 final

⁽⁷⁾ COM(2004) 654 final

3. Self-regulation and co-regulation for a participatory Single Market

3.1 It is precisely in order to simplify the regulatory environment that the actors in the single market should be allowed to have their say. Self-regulation and co-regulation within the European single market thus developed initially in two areas: reference to standards, to flesh out the directives on technical barriers, and autonomy of the social dialogue recognised by the Maastricht Treaty.

3.2 Such an approach was gradually extended to other fields through codes of conduct and voluntary agreements: consumers' rights, especially in e-commerce (e.g. information, labelling, labels, security of payments), services, including financial services (e.g. mutual recognition of qualifications), and environmental protection (e.g. compliance with standards).

3.3 An inter-institutional agreement ⁽⁸⁾ concluded on 16 December 2003 between the European Parliament, the Council and the Commission defined and organised self-regulation and co-regulation within the single market for the first time. The Committee is astonished that the social partners, who play a substantial part in framing legal rules, were not consulted in this process.

3.4 Over the past ten to fifteen years the use of self-regulation and co-regulation on a European scale by the parties concerned has experienced strong growth, as the EESC's PRISM ⁽⁹⁾ database has shown. Among such initiatives, the SMO has noted:

- self-regulation in the advertising, restaurant and tourism sectors;
- codes of ethics for engineers, lawyers, consultants, solicitors, asset managers and estate agents;
- inter-professional labour agreements on parental leave, part-time work, temporary work and teleworking;
- labour initiatives and agreements in the building, hotel, hairdressing, farming, sugar and civil aviation industries;
- the management of pension funds in the social economy;
- consumer codes concerning the security of e-commerce, internet service providers, web-based insurance, cross-border mail-order sales and housing loans;
- environmental agreements on reducing emissions and energy consumption;
- alternative methods of settling disputes, especially for consumers.

3.5 The success of self-regulation and co-regulation depends in particular on the following:

- sufficient freedom for business and civil society circles;
- the public authorities having an open attitude, or even one of partnership;
- the representativeness of those involved in self-regulation;

⁽⁸⁾ OJ C 321 of 31.12.2003

⁽⁹⁾ PRISM (Progress Report on Initiatives in the Single Market)

- transparent procedures and effective implementation;
- rigorous checks on impact and follow-up, with sanctions if necessary.

3.6 Self-regulation and co-regulation can only provide case-by-case solutions to complement the work of the legislator, who will still assume essential prerogatives in their public interest mission. To help simplify the regulatory environment in certain spheres it would be desirable if self-regulation were more widespread in European professional organisations.

3.7 An information report on the current state of co-regulation and self-regulation in the Single Market, adopted by the EESC on 10 February 2005, develops these analyses and findings (CESE 1182/2004) ⁽¹⁰⁾.

4. Customs arrangements for an enlarged Europe

4.1 The Commission proposal on amending the Community customs code aims to simplify existing legislation and to achieve greater harmonisation and integration. Enlargement will result in changes in both EU legislation and customs practices. Indeed, from one Member State to another, customs management at the EU's external borders varies greatly, especially as regards manpower and resources, if not thoroughness. This raises the issue, with a relevance that is heightened further by enlargement, of how effective customs checks are at European level, and therefore how safe the single market is from unfair competition, trafficking and counterfeiting. It could be worth exploring the possibility of a Customs equivalent of OLAF to safeguard the revenue from external tariffs and agricultural levies. One risk is that a loss of mutual confidence between the customs authorities of different Member States might lead to intra-Community checks being re-imposed, which would jeopardise the unity and freedoms of the single internal market.

4.2 The EU's customs services must be organised more efficiently and in a more homogeneous manner if the single market is to function properly. The ideal might be to set up an EU Customs Service but the governments of Member States have so far shown little enthusiasm for this step largely because they do not have sufficient confidence in the efficiency of each others' customs services. To this end, the EESC wants to see the progressive establishment of enhanced cooperation between the 25 national authorities. More joint training schemes and exchanges of customs officers are needed to move towards this objective but there is little evidence of the political will on the part of Member States.

5. Barriers to the Single Market

5.1 There should be clearer identification of the barriers that violate the principle of a single market, and should therefore be eliminated (such as the blocking of the Community patent, double taxation, public purchasing contracts drawn up in such a way as to favour 'national champions' or the compartmentalisation of rules applying to intellectual property) as a matter of

priority, and those that will remain because of the peculiarities of the different Member States, and which operators will just have to adapt to (such as cultural diversity, language peculiarities and tax differentials). The Commission SOLVIT network is not yet sufficiently well known but it has begun to show some results and should be developed.

6. Companies and the Single Market

6.1 Small firms are particularly handicapped by red tape and the persistence of trade barriers. Many want to have easier access to the single market, especially in border regions. They have no possibility of access to a simplified legal statute of European scope.

6.2 The EESC has called for a simplified European company statute ⁽¹¹⁾ open to companies of all sizes to facilitate their activities within the single market. At present a feasibility study is being conducted, on the basis of which the Commission will decide whether and what kind of proposal for achieving this would be appropriate. (The Commission expects to have completed the study by June 2005).

6.3 The EESC also awaits the results of the Commission investigation into the wide range of double taxation agreements between Member States and between them and non-member countries ⁽¹²⁾. At present an investigation is being undertaken, the outcome of this investigation together with possible solutions will be presented later this year.

7. Consumers — and workers — the beneficiaries of the Single Market

7.1 In all EU countries, it is recognised that the progress of the single market has enabled consumers to have a much wider choice, especially of goods (range offered, price-quality ratio). As well as the various EU rules to protect consumers' interests, voluntary or contractual self-regulation has developed in recent years, particularly for e-commerce, and covering the security of payments, guarantees, after-sales service and alternative methods of settling disputes. Among the priorities for improvement, particular reference should be made to analyses on the impact of planned regulations, realistic but not onerous implementation of the precautionary principle, effective protection of consumers' rights across borders and effective alternative machinery for helping to settle disputes.

7.2 It should be remembered that the Single Market has another purpose: job creation. This will only be possible if decisive action is taken to remove existing barriers. Now that enlargement has just taken place, the EESC considers it is more important than ever, in order to achieve a genuine multiplier effect, to have a proactive information policy that requires the participation of the Member States' national authorities and to ensure that States are held accountable. The information networks such as EURES and problem solving services such as SOLVIT in particular are in place but remain underused, as a result of a lack of support and information.

⁽¹¹⁾ OJ C 125/100 of 27.5.2002, Opinion on *European Company Statute for SMEs*, rapporteur Mr Henri Malosse

⁽¹²⁾ OJ C 117/10 of 30.4.2004

⁽¹⁰⁾ Rapporteur: Mr Bruno Vever

7.3 Job creation and worker mobility are also objectives of the single market and training and education programmes need to be more orientated to preparing for the 'knowledge based economy'. However, as it made clear in the opinion mentioned in point 1.5 above, the Committee would again point out that, on its own, the setting-up of the internal market will not resolve the problems on the European labour market but that additional pro-active measures will also be required.

7.4 The EESC will fully support the Commission in achieving progress in these important policy areas and hopes that national governments will cooperate by doing all that they should be doing to speed up the adoption and implementation of their pledges. The EESC deplores the restrictions placed by some 'old' Member States on the free movement of workers from 'new' Members States, and urges a review of 'transitional periods'.

8. A services market that is lagging behind

8.1 The removal of barriers requires a dynamic balance between market pressure, mutual recognition and harmonisation. It means a new partnership between EU institutions, States, service providers and users, so as to better assess existing barriers, prevent new ones, coordinate approaches, simplify rules, provide for possible transitions and take account of trade globalisation.

8.2 The market potential of services remains largely untapped due to national requirements that are incompatible with the free provision of services. Completion of the single market in services has become essential because of: a) the internationalisation of trade, with the current WTO negotiations on services, b) the euro, which has increased competition and the need for a single market in services.

8.3 In the particular case of financial services such as insurance and banking, the slow progress in realising the Financial Services Action Plan and the slow implementation of it in pursuit of the Lisbon agenda are due to foot-dragging by some Member States. Too often, some heads of government agree policy pronouncements at a European Council instructing the Commission to take action and then forget all about it when they return to their national capitals.

8.4 With regard to the financial services, the legislative phase of the Financial Services Action Plan is now drawing to a close, crucial is now the consistent implementation at national level of the legislative measures.

8.5 The revival strategy proposed by the Commission is necessary. However, this involves taking into account the diversity of the sectors concerned. One way of coping with this diversity is to make more use of professional co-regulation and self-regulation at European level. The socio-economic interests concerned should take new initiatives so they can play a full part in this opening-up process.

8.6 An opinion adopted on 10 February 2005 sets out the comments of the Committee on the Proposal for a Directive of the European Parliament and of the Council on services in the internal market (CESE 137/2005) ⁽¹³⁾.

9. Conclusions

9.1 The Single Market, and with it the labour market, are under constant development. How to manage change is an important challenge to the European Commission and especially to the social partners.

9.1.1 The Commission should concentrate its work in order to simplify, consolidate and improve the consistency of existing European legislation so that both service providers and consumers can fully exploit the potential of the Single Market.

9.2 The EESC also urges Member State governments to show political will by setting up mechanisms for closer customs cooperation.

9.3 In the view of the EESC the main obstacles to the achievement of the Single Market are the Member States. Some are dilatory in implementation, others implement in an over detailed way, creating antagonism towards the Single Market and to the EU. Others obstruct e.g. by passing national legislation prohibiting cross-border takeovers of financial institutions such as banks. Others allow their nationalised industries to make cross-border takeovers without permitting reciprocity. The availability of unlimited funds to some countries' nationalised industries represents a distortion of competition and is one which the Commission has so far been reluctant to tackle.

Brussels, 7 April 2005.

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

⁽¹³⁾ Rapporteurs: Mr Arno Metzler and Mr Ernst Erik Ehnmark

APPENDIX

to the opinion of the European Economic and Social Committee

A. The following amendments were rejected by the plenary session but received at least one-quarter of the votes cast:

New point 7.4

Add the following new point, and at the same time delete the last sentence of the former point 7.4 (new point 7.5):

‘With regard to the free movement of workers, the Committee would again point out that the agreed transitional arrangements must be backed up by pro-active measures to raise economic and social standards in the new Member States so as to achieve a single labour market that is effective for all Member States. All EU policies must come into play here to eliminate existing differences through progressive action and to quickly put in place the necessary conditions for the free movement of workers.’

Reason

Priority must be given to eliminating economic and social differences so that the single market can develop for the benefit of ordinary citizens — thus including workers — and social dumping can be avoided.

Voting:

For: 67

Against: 68

Abstentions: 9

Point 8.2

Amend as follows:

‘The market potential of services remains largely untapped due to national requirements that are incompatible with the free provision of services. Completion of the single market in services can bring out this potential. In its opinion ⁽¹⁾ on the Services Directive ⁽²⁾, however, the Committee calls for a comprehensive overhaul of the current draft and rejects any blanket introduction of the country-of-origin principle since the resultant competition between different systems would lead to the downward harmonisation of employment, environmental, and consumer protection standards. ~~has become essential because of: a) the internationalisation of trade, with the current WTO negotiations on services, b) the euro, which has increased competition and the need for a single market in services.~~’

Reason

The reasons given here for completing the European single market — internationalisation and more competition as a result of the euro and enlargement — are illogical, and were not even an issue in the discussions surrounding the EESC opinion on the proposal for a directive on services in the single market as described here. In its original form, point 8.2 would give a very misleading picture of the wide-ranging discussions within the EESC on EU services. Downward harmonisation also runs counter to the EU’s objectives as laid down in the treaties and the draft constitution.

Voting:

For: 76

Against: 77

Abstentions: 9

⁽¹⁾ CESE 137/2005

⁽²⁾ Proposal for a Directive of the European Parliament and of the Council on services in the internal market (COM(2004) 2 final)

Point 8.7

Add a further sentence as follows:

'An opinion adopted on 10 February 2005 sets out the comments of the Committee on the Proposal for a Directive of the European Parliament and of the Council on services in the internal market (CESE137/2005) ⁽³⁾. Appendix I of the opinion reproduces the many amendments that were rejected, but had received at least a quarter of the votes cast.'

Reason

An opinion on so complex and controversial a directive could not have been as unanimous as would appear from point 8.7. It would only be right, therefore, to point out that it also has an appendix of amendments which were not adopted, but did receive more than 25 % of the vote.

Voting:

For: 58

Against: 114

Abstentions: 4

Add new paragraph 9.4

'While genuine environmental or consumer protection concerns must be respected and fully supported, the Committee would like to draw attention to the way those considerations can be wrongly advanced by some Member States to resist implementation of community legislation or to persist with national legislation which is contrary to the principles of the Single Market.'

Reason

Member States are entitled to resist proposals, which impact adversely on environmental or consumer protection issues. However, there are examples of the misuse of these issues to resist changes where the real grounds for opposition reflect the protection of national interests.

Voting:

For: 80

Against: 83

Abstentions: 10

- B. 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:

2.1 As regards the single market, the priorities of the Six Presidencies are based on the Lisbon Strategy. In order to make achieving the Lisbon objectives easier, and more generally to boost the European economy, the Commission has drawn up an action plan entitled *Simplifying and improving the regulatory environment* ⁽⁴⁾. Since 1 May 2004, this operation has involved a large market composed of 25 States.

Voting:

For: 53

Against: 72

Abstentions: 3

⁽³⁾ Rapporteurs: Mr Arno Metzler and Mr Ernst Erik Ehnmark

⁽⁴⁾ COM(2002) 278 final

- 3.3 An inter-institutional agreement ⁽⁵⁾ concluded on 16 December 2003 between the European Parliament, the Council and the Commission defined and organised self-regulation and co-regulation within the single market for the first time.

Voting:

For: 50

Against: 83

Abstentions: 3

- 8.6 The completion of the single market remains a primary objective with the welcome addition of a move to open up the EU market to international competition in the context of the Doha WTO round. These will require greater flexibility and improved competitiveness if the EU is to achieve its full potential. The 10 new Member States will be anxious to make sure that this is the result — they have most to gain from liberalisation.

Voting:

For: 68

Against: 85

Abstentions: 10

- 9.1.1 In the EESC's view, the European Commission should take a break from introducing new legislation to give the Member States sufficient time in particular to transpose the measures under the Financial Services Action Plan into national law and to check their effectiveness. The Commission could use this pause for breath to simplify, consolidate and improve the consistency of existing European legislation so that both service providers and consumers can fully exploit the potential of the Single Market. New initiatives, on the other hand, should only be taken in exceptional cases and after a stringent cost-benefit analysis has proved the need for new legislation.

Voting:

For: 76

Against: 94

Abstentions: 5

⁽⁵⁾ OJ C 321 of 31.12.2003

Opinion of the European Economic and Social Committee on the Communication from the Commission to the Council, the European Parliament and the European Economic and Social Committee — Enhancing trust and confidence in business-to-business electronic markets

(COM(2004) 479 final)

(2005/C 255/04)

On 14 July 2004 the Commission decided to consult the European Economic and Social Committee, under Article 262 of the Treaty establishing the European Community, on the abovementioned communication.

The Section for the Single Market, Production and Consumption, which was responsible for preparing the Committee's work on the subject, adopted its opinion on 16 March 2005. The rapporteur was **Mr Lagerholm**.

At its 416th plenary session (meeting of 6 April 2005), the European Economic and Social Committee adopted the following opinion by 131 votes and 4 abstentions.

1. Summary

1.1 The Commission has presented a Communication on enhancing trust and confidence in B2B e-markets. The Committee is of the opinion that:

- By and large, the report covers important questions on the acceptance of e-markets and it does so in a fair way.
- However, the Committee would like to stress that this is not the sole action needed. To a certain extent, it is also understandable that the market has a somewhat reluctant attitude. Especially the more advanced forms of e-markets are different from the traditional business models of SMEs.
- Looking upon cross-border trade, there are other hindrances of much greater importance.

2. The Commission Communication

2.1 The Commission Communication is to a large extent built on the work of an expert group with representatives from industry and the providers of electronic markets ('the expert group')⁽¹⁾. The Communication addresses the need to enhance trust and confidence in B2B e-markets in order to reduce economic risks stemming from unfair or illegal business practices in such markets. B2B e-markets have the potential to enhance efficiency by reducing transaction costs and strengthening competition, but such efficiency gains largely depend on the willingness of enterprises to participate in them. To remove the potential barriers to the use of B2B e-markets resulting from a lack of trust and confidence, the Commission foresees taking the following steps:

⁽¹⁾ Final Report of the Expert Group on B2B Internet trading platforms <http://europa.eu.int/comm/enterprise/ict/policy/b2b/wshop/fin-report.pdf>

- Analysis, in close cooperation with Member States, of existing national legislation which applies to unfair commercial practices in B2B markets.

- Encouragement of the stakeholders to agree on or review codes of conduct, with a view to further promoting fair trade principles in B2B e-markets, as described in this Communication.

- Launch of a study on the economic impacts of B2B e-markets on competitiveness and productivity of EU enterprises, analysing in particular the direct and indirect costs and benefits incurred by the e-market participants. The results of this study will be further discussed with stakeholders.

- Provision of coherent information on the application of existing competition rules on B2B e-markets, in order to provide guidance for pro-competitive behaviour.

2.2 The Communication will encourage a more intense dialogue between stakeholders involved in B2B e-markets with regard to respecting fair trade principles and security requirements. As a consequence, potential barriers to the participation in such electronic trading forms should be removed. The Commission's services will regularly report on the progress made through the European e-marketplaces portal.

3. Business-to-Business Electronic Markets — definition

3.1 B2B e-markets can be defined as internet-based trading platforms where enterprises exchange goods and services. Following this rather broad definition, B2B e-markets can be grouped into the following categories, according to the different transaction functionalities offered:

- Pin-boards or message boards, which are the simplest type of e-markets, offering only limited transaction functionality. The preparation of transactions is possible by giving the opportunity to announce a specific desire to buy or sell something.

- Exchanges, which represent an extension of pin-boards. They typically offer mechanisms to match buyers and sellers, control their interactions and enable them to negotiate via the platform.
- Catalogue-based e-markets, which provide a combined product catalogue composed of the catalogues of various sellers.
- Auction services, which are formal price-finding procedures supported on an internet trading platform where sales auctions are initiated by a seller with the aim of selling products or services at the highest possible price. Reverse auctions (or 'procurement auctions') are initiated by the buyer with the aim of obtaining products and services for the lowest possible price.

The number of active e-markets has varied over time and is not yet stable. It is estimated that currently, about 1,000 e-markets are active worldwide, which is about 20 % less than two years ago [SEC(2004) 930].

4. General comments

4.1 The Commission Communication covers the area of 'Enhancing trust and confidence in Business Electronic Markets'. Electronic markets are an important part of the more general area of e-business. Some general comments can be made on this area of e-business.

4.1.1 Basically, well-functioning electronic markets are contributing to a more efficient business environment. In the longer run, this is beneficial to European business and to employment. Increased competition will stimulate European business to improve their efficiency. The EESC therefore supports actions that are beneficial for the development of electronic commerce. This has also been stated in previous comments.

4.1.2 In its opinion on the proposed directive on certain legal aspects of electronic commerce ⁽²⁾, the Committee noted that an uncertain legal framework is prohibitive for electronic commerce. The current communication aims to reduce this uncertainty and the EESC welcomes this.

4.1.3 The EESC, in its opinions on the Commission's communications 'Helping SMEs to "Go Digital" ⁽³⁾ and 'Adapting e-business policies in a changing environment: The lessons of the Go Digital initiative and the challenge ahead' ⁽⁴⁾, has commented on the Commission's efforts to stimulate e-business. Basically, those comments are still valid.

⁽²⁾ OJ C 169 of 16 June 1999

⁽³⁾ OJ C 80 of 3 April 2002

⁽⁴⁾ OJ C 108 of 30 April 2004

4.1.4 For business and the public sector, electronic business is of great importance. It opens up possibilities for increased competitiveness, for trade across the internal market and for equal opportunities for SMEs. It is important to promote this new technology for usage, specifically among the SMEs. The Committee welcomes and supports the Commission's work in this area.

4.1.5 The Committee also welcomes the findings of the Expert Group on B2B Internet Trading Platforms. The group has done a thorough work on identifying problems. The expert group might however seem a bit unclear on the awareness among SMEs on the benefits. Page 10 says that 'SMEs are, in general, aware and convinced of the advantages of e-business'; page 11 states that 'SMEs still hesitate to fully engage in themselves in electronic trade' and this is due to a 'lack of awareness of the risks and benefits'. However, it is important to note the difference between e-business and electronic trade. It could be concluded that SMEs are aware of the general possibilities of using IT, whereas the more specific electronic trading still is more distant.

4.1.6 Even though there is an awareness of the possibilities of e-business and many SMEs are at the forefront in using e-commerce, there are some problems that still prohibit the full participation of the majority of SMEs in 'the e-business society'. These problems are of a more general nature, and do not specifically limit themselves to electronic trading. Nevertheless, these problems are also relevant for this area.

- SMEs tend to be more focused on the immediate problems. They hesitate to invest in technology and procedures that do not have an immediate pay back.
- A lack of solutions, designed and developed particularly for SMEs. SMEs do not have the same requirements as larger companies and worse, consultants tend often to be too expensive for SMEs, so they cannot easily use existing solutions.
- SMEs often do not have the specialists required for many of the software packages, nor for developing their own interfaces to standard software.
- Many large enterprises demand from their suppliers that they implement specific software as a condition for them to become or stay as suppliers. This creates a lock in situation, as a SME often can't afford, nor handle the complex technical situation created if several of their customers each require specific solutions. This could also be seen as a problem, due to a lack of general standards.
- eBusiness introduces an economy of scale factor for the benefit of larger companies, — or even with a regressional effect as indicated above. The SME cannot set its own rules; the cost for implementing support is more or less regardless of size. So the SME might have to implement several different solutions, whereas the larger company has one.

4.1.6.1 The Commission has several initiatives for supporting SMEs using e-business. The Committee supports these, and would encourage the Commission to add or enhance initiatives that promote the specific need of SMEs for adapted software and standards.

4.1.7 The EESC also would like to make a special note of the need to stimulate an interest, in SMEs, in learning how to participate in electronic business. The area of electronic commerce and electronic business is moving rapidly. Stimulus to SMEs in life long learning could be worth looking into.

4.1.7.1 That is well in keeping with the recommendations in the Committee's recently adopted opinion on lifelong learning⁽³⁾. In that opinion, the EESC recommends strengthening the lifelong learning programmes aimed at citizens currently in the workforce, while also making an immediate link between these programmes and the achievement of a knowledge-based economy. The EESC attaches particular importance to the possibility of SMEs having access to the programme.

5. Specific comments

5.1 B2B Internet trading platforms

5.1.1 The Expert Group, in its final report, has distinguished between different forms of trading platforms. The Committee supports the comment from the experts that 'it would not be appropriate to focus only on e-marketplaces'. There are many different ways to participate in the 'e-business society'. Different companies have different needs and different business principles. As the expert group takes notice of, 'as most problems for SMEs are related to e-marketplaces, and here in particular to reverse auctions, this specific form of B2B Internet trading platform has ... earned most attention'.

5.1.2 However, the Committee would at this moment also want to draw attention to the ongoing implementation at national legislative level of the two Directives on public procurement. The two Directives open up new methods for electronic procurement and, even though we might see some differences in different countries' implementations, it is of course of great value for business that public procurement can stimulate the usage of new electronic means. The Commission has also launched an 'action plan for the implementation of the legal framework for electronic public purchasing', which plays an important part in making SMEs more familiar with electronic business.

5.1.3 The Committee agrees with the notion that e-marketplaces have specific potentials that would be unwise not to support. The Communication is welcomed. It does, however, believe that lack in trust and confidence, although important, is not the only reason for the reluctant attitude from SMEs

towards e-marketplaces, or, for that matter, the more general concept of B2B Internet trading platforms.

5.1.3.1 As the expert group states, 'Enterprise policy can play a useful role in helping SMEs to adapt to the new challenges of Internet trading platforms, by promoting market transparency, interoperability and fairness. ... public authorities should not promote specific forms of e-commerce but remain neutral with respect to different sales channels and different functionalities at Internet trading platforms. ... A need for further actions has been identified in particular in the areas of awareness building, market transparency, standardisation, trust and confidence.'

5.1.3.2 In general, B2B Internet trading platforms have to be fed with information from SMEs. The more advanced, the more there is a need for standards. These standards are still a far way from being completed, and when completed, there must be SME-adapted software using it.

5.1.3.3 The lack of standards is not only technical, but also with regard to man/machine interface. Considering the amount of trading platforms, and adding the issue of multilingual complexities, it can be understandable that SMEs are reluctant. This area is needed to look deeper into from standardisation bodies, as well as from the Commission, especially if it is desired to promote cross border trade. It is also valid for the standardisation of product and service classifications and wordings, where the ongoing efforts in CEN/ISSS are supported by the EESC.

5.1.3.4 To a certain extent, there is a problem for SMEs to participate in electronic auctions and other electronic marketplaces due to the size of the requested tender. SMEs have a limited potential to deliver large volumes. Specifically in public procurement, this is an issue that should be given attention.

5.1.3.5 Other issues that might prohibit the use of Internet trading platforms are different national legislations and implementations of EU directives. It is regrettable that many directives allow for national options from the point of view of harmonising, e-Signatures being a major problem. The Committee welcomes and strongly supports the initiative from the Commission on analysing existing legislation.

5.2 Electronic markets including electronic auctions

5.2.1 Different B2B Internet trading platforms are suitable for different purposes. Electronic markets tend to promote 'lowest price'. This is in many cases not the most important factor. Just in time delivery, service costs and cost for customising are as important — or even more so. These factors are difficult to include in more or less automated e-markets, which might explain part of the relatively slow uptake of the more automated versions of e-markets.

⁽³⁾ OJ C 133 of 6 June 2003

5.2.2 SMEs are often not primarily competing only with 'lowest price', but also with flexibility and customising. For SMEs, the personal relation is important. The use of e-markets represent a new 'business culture', to which SMEs not always are adapted. The anonymity of Internet might scare SMEs. Psychological reasons might well be of importance for the reluctance to use more advanced electronic markets. Codes of Conduct must take these circumstances in consideration.

5.2.3 In the discussion on competition rules for B2B e-markets, it is referred to the concern that the 'so called network effects' may result in a dominant position of a network operator. It is debatable to what extent this should be a matter of concern. The risk for abuse of such a dominating position seems to be limited in most cases. However, the Committee does support that the Commission follows this issue, in order to notice possible abuse arising from a significant power, but it strongly advocates that specific regulations for electronic markets in this respect should not be introduced. The regulation for e-markets shall, as much as possible, be equivalent to the rules for the traditional markets. Rules and directives must be neutral to technology and service delivery mechanisms.

5.3 *Trust and confidence*

5.3.1 The Committee supports the Commission in encouraging stakeholders to agree on or review codes of conduct. It also wants to support the ideas, brought forward by the expert group, on the usage of a check list.

5.3.2 The Commission remarks in the Communication (page 4) that many enterprises may 'perceive it as difficult to distinguish between a shift of market power that has to be accepted for economic reasons, and unfair practices which do not comply with legal provisions of code of conduct'. When new business models are introduced, it often takes some time for the market to adapt. The Commission's remark is certainly valid, and more emphasis should be put into trying to explain the new market mechanisms.

5.3.3 Even though some suppliers might be negative to reverse auctions, this is certainly a tool of great potential for commodities (extremely well defined products with a low degree of service content and a low possibility for branding). The Committee agrees with the Commission that there must be more strict rules to this kind of auctions, be it electronic or by any other means.

5.3.4 The issue of trust and confidence has many dimensions:

- trust in the concept of marketplaces, that it is of benefit to my business;
- the specific marketplace as such, being the 'best' marketplace for my purpose;
- trust in that there is no 'small letter text' (rules that are hidden);
- trust in the rules of the marketplace, and that the rules are followed by all participants;
- trust in the supporting technology, including security;
- trust in the access to relevant information on the buyer or seller;
- trust in that relevant dimensions are the dimensions that define the outcome.

These, and other, dimensions of trust and confidence should be taken into consideration.

5.4 *In summary*, the Committee does not disagree on any major subject with the conclusions in the Communication. However, it does consider it important to realise that this might be an important or even necessary step to promote the usage of B2B Internet Trading platforms, and specifically e-markets, but it is not the only step needed. Standards, suitable software, awareness building, national and EU legislation are other areas.

Brussels, 6 April 2005

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

Opinion of the European Economic and Social Committee on the Proposal for a Directive of the European Parliament and of the Council amending, for the twenty-ninth time, Council Directive 76/769/EEC on the approximation of the laws, regulations and administrative provisions of the Member States relating to restrictions on the marketing and use of certain dangerous substances and preparations (substances classified as carcinogen, mutagen or toxic to reproduction — c/m/r)

(COM(2004) 638 final — 2004/0225 (COD))

(2005/C 255/05)

On 28 October 2004, the Council decided to consult the European Economic and Social Committee, under Article 95 of the Treaty establishing the European Community, on the abovementioned communication.

The Section for the Single Market, Production and Consumption, which was responsible for preparing the Committee's work on this subject, adopted its opinion on 16 March 2005. The rapporteur was Mr Sears.

At its 416th plenary session (meeting of 6 April 2005), the European Economic and Social Committee adopted the following opinion by 126 votes to 2, with 6 abstentions.

1. Introduction

1.1 European Community proposals to protect public health and the environment currently centre around three long-standing legislative instruments on the classification, packaging and labelling of dangerous substances (Council Directive 67/548/EEC of 27 June 1967), on the classification, packaging and labelling of dangerous preparations (Council Directive 88/379/EEC of 7 June 1988 as replaced by Directive of the European Parliament and Council Directive 99/45/EEC of 31 May 1999), and on the marketing and use of certain dangerous substances and preparations (Council Directive 76/769/EEC of 27 July 1976).

1.2 Each of these has been maintained and extended over the intervening years by further EEC and EC Directives amending the legislative content of the instruments and by adapting to technical progress the various annexes which set out, amongst other technical points, the laboratory tests to be followed, the details of the risk and safety phrases to be used, and the chemical identities, CAS, EC and Index Numbers and applications, of the substances affected.

1.3 The directives, as amended, also seek to preserve the Internal Market for the substances and preparations affected and therefore must remain consistent with each other and with other legislative instruments affecting specific sectors (e.g. pesticides or cosmetics) or supporting particular action programmes (e.g. EU action plans to combat cancer).

1.4 The current proposal is the twenty-ninth amendment to Council Directive 76/769/EEC. It implements and is a logical consequence of the (coincidentally) twenty-ninth adaptation to technical progress of Council Directive 67/548/EEC by Commission Directive 2004/73/EC of 29 April 2004.

1.5 The adaptations to technical progress set out in Commission Directive 2004/73/EC include updates to Annex I of Council Directive 67/548/EEC for specific substances relating to their classification, packaging and labelling to reflect the latest scientific data, and to Annex V of the same Directive, to amend the methods for the determination of physicochemical properties, toxicity and ecotoxicity of substances and preparations in order to reduce to a minimum the number of animals used for experimental purposes.

1.6 Commission Directive 2004/73/EC setting out these changes was published in April 2004 (OJ L152 1-311). A number of substances were classified or reclassified as being carcinogenic, mutagenic or teratogenic (CMRs or c/m/r substances). The measures provided for were stated to be in accordance with the opinion of the Committee on the Adaptation to Technical Progress of the Directives for the Elimination of Technical Barriers to Trade with Dangerous Substances and Preparations. In such cases, there is no requirement for an earlier Opinion on the proposal from the Commission from either the European Parliament or the European Economic and Social Committee.

1.7 Under another Council Directive 94/60/EC (an earlier, fourteenth, amendment to Council Directive 76/769/EEC), c/m/r substances may not be used in substances or preparations placed on the market for sale to the general public. It follows that an implementing measure is required, i.e. the current proposal, to add these substances to Annex 1 of Council Directive 76/769/EEC. In compliance with Article 95 of the Treaty, in this case the co-decision procedure has to be followed with the European Parliament and the Economic and Social Committee has to be consulted.

1.8 In the course of 2004, the Commission consulted a number of organisations representing the relevant stakeholders, including CEFIC, CONCAWE, Eurometaux and BLIC (representing the chemical, oil, metal and rubber industries in Europe) and BEUC (representing consumers in Europe), together with experts from the Member States.

2. Summary of the Commission's proposal

2.1 The proposal will insert 346 entries containing substances newly classified or re-classified under Commission Directive 2004/73/EC in the Appendix of Annex I to Council Directive 76/769/EEC. However, of these, 304 are already subject to restrictions on sale to the general public due to their earlier classification as c/m/r substances of category 1 or 2. Thus only 42 substances will be restricted for sale to the general public for the first time.

2.2 Of the 42 substances restricted for the first time, a large number are used as raw materials or intermediates in organic synthesis or for specific professional applications. No evidence was produced during consultation to suggest that they are used in substances or preparations placed on the market for sale to the general public or that any derogations are required.

2.3 Of the 304 substances now reclassified, 145 will move from being classified as carcinogenic category 2 to category 1. This will require two corrections for each substance, adding the substance to its new category and deleting it from its existing category. A number of changes are also required to the 'Notes' accompanying each entry.

2.4 The proposal is intended to preserve the Internal Market and at the same time ensure a high level of protection for health of consumers and for the environment. The costs are estimated to be low, due to the limited use of these substances by the general public. However, as usage of c/m/r substances by the general public cannot be properly controlled by other measures, the proposed restriction on sale is the only available approach.

2.5 Member States will have twelve months from the date of entry into force of this Directive to adopt and publish the laws, regulations and administrative provisions necessary to comply with the Directive.

3. General comments

3.1 As with the previous amendments to Council Directive 76/769/EEC, this proposal deals with a number, in this case a

very large number, of unrelated substances. These include petroleum hydrocarbon streams, pesticides and fungicides, general industrial chemicals and inorganic and organic raw materials and intermediates.

3.2 Unlike other recent amendments, however, this is not the primary legislation affecting these products. This proposal is merely a necessary consequence of changes to their classification and labelling as already proposed and implemented under Council Directive 2004/73/EC. Any concerns over the validity of the classification should therefore have been resolved earlier and cannot be re-opened at this stage.

3.3 The Commission has however verified as far as possible that consequent restrictions on sale to the general public as a result of their classification or reclassification as c/m/r substances will not add significantly to the costs of manufacturers. Direct enquiries to CONCAWE for the oil industry in respect of the petroleum hydrocarbon streams listed and to CEFIC for the chemicals industry in respect of the two phthalates listed (BBP and DIPP) support this conclusion.

3.4 Confirmation of this lack of impact is more difficult for the pesticides and fungicides shown here under their proprietary names (Benomyl, Azafenidin, Dinocap, Linuron) or as inorganic chemicals (cadmium chloride) due to the absence of information on current manufacturers, if any, in Europe. Internet searches suggest that in most cases the hazards are already well known and again it must be assumed that the products can be withdrawn from sale to the general public without negative impacts on users, i.e. suitable replacements are readily available.

3.5 The proposal also highlights some general difficulties in understanding and following existing EU law with respect to so-called 'substances'. Many of the 'substances' listed here and contained within the original EINECS inventory of 'existing substances', are properly classified as 'UVCB substances' i.e. complex mixtures of known or unknown composition as defined in an academic paper published in 1999 and subsequently referred to in a footnote on page 18 of the 'Manual of Decisions for Implementation of the Sixth and Seventh Amendments to Directive 67/548/EEC' published by the European Chemicals Bureau in 2002. Certainly they are not simple substances as generally understood, and in addition, in this particular case, few are currently marketed. This supports the view of the Commission when the EINECS list was first published

that 'EINECS overstated the number of commercially significant substances by a factor of four', i.e. there were then around 25 000 'substances' actually on the market in significant quantities. Presumably some of these have now been replaced by the 5 000 or so 'new substances' listed in ELINCS — with similar problems of definition and identification — to give a round total of 30,000 substances actually on the market in 2005. This is more containable than the 100 000 number often quoted but still raises questions of public and professional access to the data already collected (but not regularly updated) on at least half of these and to the problems for the competent authorities in Member States in defining whether or not a substance is 'existing' or 'new' and if so which regulatory procedure should be followed.

3.6 Given that the proposal known as REACH incorporates, depends upon and interfaces with this existing legislation, these concerns should be addressed as soon as possible. It is likely that additional resources will be required and these should be put in place as soon as possible.

4. Specific comments

4.1 The EESC supports the limitations on marketing and use contained in this proposal. These are necessary and desirable consequences of decisions on classification, packaging and labelling already taken by the Commission services in conjunc-

tion with experts from the Member States and after discussion with suppliers and other stakeholders.

4.2 However, as with previous amendments to Council Directive 76/769/EEC, the EESC regrets the linking of unrelated products in a single text which might, in other circumstances, require specific and continuing amendments to match external realities. This does not support good, timely, effective and, above all, transparent, governance.

4.3 The complex and seemingly random nature of the lists of substances provided in the Annex to this proposal and to Council Directive 2004/73/EC suggest that attention should now be paid to improving the quality and availability of the data currently held, before adding massively to that currently stored. If an improved system can be demonstrated, using the best of modern technology and techniques for data dissemination, then the benefits of REACH in respect of accumulating and sharing data relevant to the protection of human health and the environment will be more evident.

4.4 REACH is also intended to simplify the existing system, and in so doing bring benefits to all the stakeholders involved. Certainly there seems to be some scope for this. Above all, REACH, however formulated, must not add to an already complex and, on this occasion at least, somewhat opaque process.

Brussels, 6 April 2005

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

Opinion of the European Economic and Social Committee on the Proposal for a Directive of the European Parliament and of the Council laying down rules on nominal quantities for pre-packed products, repealing Council Directives 75/106/EEC and 80/232/EEC, and amending Council Directive 76/211/EEC

(COM(2004) 708 final — 2004/0248 (COD))

(2005/C 255/06)

On 20 December 2004, the Council decided to consult the European Economic and Social Committee, under Article 95 of the Treaty establishing the European Community, on the abovementioned communication.

The Section for the Single Market, Production and Consumption, which was responsible for preparing the Committee's work on this subject, adopted its opinion on 16 March 2005. The Rapporteur was Ms Sharma.

At its 416th plenary session (meeting of 6 April 2005), the European Economic and Social Committee adopted the following opinion by 104 votes to 1, with 5 abstentions.

1. Introduction

1.1 The first Community legislation for ranges of sizes for pre-packaged products ⁽¹⁾ dates from 1975. It includes regulation for both metrological requirements ⁽²⁾ and ranges of sizes for liquids. Twenty years later, in the framework of the SLIM-IV exercise (Simpler Legislation for the Internal Market), a team, comprising members designated by Member States and representatives of stakeholders identified by the Commission, advised on pack sizes legislation ⁽³⁾:

'given their complexity (some 40 targeted products, complexity of certain ranges of values, etc.) the evolution of consumer patterns and preferences over the interim period and reservation as to the appropriateness of maintaining this type of legislation. Moreover, successive amendments of the Directives and an enlargement of the scope of the 1975 pre-packaging directive have made the application of this body of legislation problematic..... The application of the Directives has proved to be difficult, notably as a result of the variety of rules and practices applying to ranges: certain ranges were made mandatory (e.g. wine) whilst others remained optional. Moreover, Member States retained the right to fix ranges at national level because of the optional character of Community rules. The variety of rules led to the compartmentalisation into different national markets within the European Community. In addition, the arrival of new packaging formats and new products and their classification in the existing ranges system tended to exacerbate an already confused situation.'

2. Background

2.1 In the 1960s, with the start of the European Community, different national rules on nominal quantities ⁽⁴⁾ of pre-

packaged products (pack/bottle sizes) were seen as a major barrier for the free movement of goods between the Member States. Hence, these sizes were harmonised by means of Community rules.

2.2 At the same time, there was a concern not to impose such new Community rules on companies that worked only on the national market and did not intend to export to other Member States. Harmonising regulation was therefore of an 'optional nature': Member States adopted the Community rules, but were allowed to maintain existing national rules for their national markets. Only products conforming to the Community rules would benefit from free circulation.

2.3 However, for some products (e.g. wine, spirits) total harmonisation was introduced. Community sizes became mandatory for all operators in these product areas and all national sizes were abolished.

2.4 Over the past decades, huge changes have occurred in packaging — demographic changes, households have decreased in numbers, consumption of individual portions has increased and more wealth and consumer sophistication has led to increased demands for an enormous variety of packages and products. Additionally, super- and hypermarkets have grown to be the most important outlets to consumers, and through consumer demands for change, industry is pressurised to become increasingly innovative and competitive in a global market.

⁽¹⁾ Pre-pack: a pack for distribution to the final consumer.

⁽²⁾ Metrological requirements concern the control of the quantity contained in a pre-packed product in order to ensure that consumers indeed get the quantity that is indicated on the package.

⁽³⁾ COM(2000) 56 final, pp 9-11 and 21-22

⁽⁴⁾ The nominal quantity (nominal weight or nominal volume) of the contents of a prepackage is the weight or volume indicated on the prepackage, i.e. the quantity of product which the prepackage is deemed to contain. The actual contents of the prepackage are the quantity (weight or volume) of product which it in fact contains. (Council Directive 76/211/EEC; OJ L 46, 21/02/1976)

2.5 Elements that used to be covered by the prepackaged sizes legislation have now been consolidated in new legal instruments of consumer protection. This consumer protection legislation is designed to prohibit unfair business-to-consumer practices and has developed, in the main, a coherent and sufficient system of information to consumers by means of labelling and price per unit comparisons and hence the current prepackaged sizes legislation is being seen as counter productive.

2.6 Under the framework of the SLIM-IV exercise, members designated by Member States and representatives of stakeholders identified by the Commission were requested to review and advise on pack sizes legislation. This need for review was subsequently reinforced when the European Court ruled in the *Cidrerie-Ruwet* case ⁽⁵⁾ that the 'Cassis de Dijon jurisprudence' applied, stating that Member States must accept on their market products legally produced and marketed in another Member State unless there are overriding requirements of a public nature. The Court suggested that this would hardly be the case for pack sizes.

2.7 Recommendations from the review produced a working document on which between 8 November 2002 and 31 January 2003, the Enterprise DG held a public Internet consultation in 11 languages with consumers, producers and retailers. An impact assessment was subsequently produced and a new directive laying down rules on nominal quantities for pre-packed products, repealing Council Directives 75/106/EEC ⁽⁶⁾ and 80/232/EEC ⁽⁷⁾, and amending Council Directive 76/211/EEC ⁽⁸⁾ has been established.

2.8 The main instruments of consumer protection are:

Directive 2000/13 on labelling and presentation of foodstuffs (Art 2), Directive 84/450/EEC on misleading advertising (amended by Directive 97/55/EC to include provisions on comparative advertising), will be amended by COM(2003) 356 final, of 18.6.2003: Proposal for a Directive of the EP and of the Council concerning unfair business-to-consumer commercial practices on the Internal market, Directive 98/6/EC on consumer protection on the indication of the prices of products offered to consumers (price per kilo/litre): unit prices, which are mandatory for all products in supermarkets.

⁽⁵⁾ Case C-3/99, 12 October 2000, *Cidrerie Ruwet SA v Cidre Stassen SA and HP Bulmer Ltd.*

⁽⁶⁾ Council Directive 75/106/EEC of 19 December 1974 on the approximation of the laws of the Member States relating to the making-up by volume of certain pre-packaged liquids

⁽⁷⁾ Council Directive 80/232/EEC of 15 January 1980 on the approximation of the laws of the Member States relating to the ranges of nominal quantities and nominal capacities permitted for certain prepackaged products

⁽⁸⁾ Council Directive 76/211/EEC of 20 January 1976 on the approximation of the laws of the Member States relating to the making-up by weight or by volume of certain pre-packaged products

3. Objectives

3.1 The new directive removes the regulation of sizes and prevents Member States from imposing their own legislation on their national markets that differs from the Community rules. The only exceptions (excluding very small and bulk quantities) are the Community rules which are now set for Wines and Spirits, White Sugar, and Soluble Coffee. Aerosols are an additional exception and will remain under the current legislation for consumer protection under the health and safety regulations. However, aerosols will be regulated under a new directive currently under review, following which they will be removed from the nominal packaging directive.

3.2 The current document concerns only the legislation of 'ranges of sizes/quantities' and not the metrological requirements, which will be the subject of a later proposal.

3.3 The proposal aims to:

- promote competitiveness in line with enterprise policy by encouraging entrepreneurship, product and process innovation;
- facilitate access to markets by taking away potential obstacles to competitiveness on the Internal Market;
- remove discrimination for national sizes from domestic packers who are facing competition on the home market from different sizes in which they are not allowed to pack;
- benefit small and medium sized enterprises –cost reduction through the creation of economies of scale for production, both for home consumption and for exports;
- continue the high level of consumer protection legislation which prohibits unfair business-to-consumer practices;
- provide better choice for consumers as producers can respond immediately to changes in consumer tastes and demands, together with accommodating the needs of retailers requirements of optimising shelf space;
- ensure a coherent and sufficient system of information to consumers by means of labelling. The indication of prices per kilo or litre allows consumers to quickly compare products packed in different sizes. This approach is in line with the European Court of Justice, which considers the 'average consumer, reasonably well informed and reasonably observant and circumspect' as a reference.

3.4 Current environmental regulation has no impact on sizes, nor do sizes have an impact on environmental regulation. Existing environmental regulation should remain applicable and the proposal should not impede the full and proper implementation of environmental law, notably the prevention of waste requiring the minimisation of packaging.

3.5 To allow industry to adapt to deregulation, and taking into consideration average investment cycles for packaging equipment, a time limitation of 20 years has been allocated for deregulation to take place.

4. Specific comments

4.1 Nominal pre packed quantities, where nominal refers to the declaration of volume specified, and quantity to the actual volume enclosed, are those determined only by the contents quantity sizes of the containers/packaging. The Committee welcomes the imminent review of the metrological quantity (control of contents enclosed) as a major priority for consumer and European industry protection.

4.2 The EESC praises the Commission for its public consultation and dialogue with stakeholders and notes that it has taken account of various sectors, including wines and spirits, sugar, coffee. The need to create greater competitiveness and innovation for European industry is essential for growth and the SLIM- IV exercise aids this priority.

4.2.1 The CEPS (European Spirits Organisation) has made separate comment to the Commission and highlights further, consumer protection issues, unit pricing and the potential abolition in 20 year time of mandatory spirits legislation, rightly pointing out that the legislation concerning the latter should be reviewed prior to the 20 year time frame.

4.3 Reference should be clearly made within the directive to a maximum volume capacity of mineral water of 10 litres. Beyond this volume there is evidence to suggest that the quality of mineral water could begin to deteriorate and may present a health risk to consumers.

4.4 The new directive allows for greater potential for innovation, market research and development opportunities creating wider choice and variety for consumers.

4.5 However, note should be taken that unit pricing does not appear to be universal across Europe and often appears in small print on shelf labelling. The unit pricing font size declaration is set at national level and in many cases is still not clear for consumers. This will not ease the problems for blind, poor sighted, illiterate or non-native speaking citizens, particularly those who are accustomed to buying the same size standard product.

4.6 The consumer organisations have pointed out that some consumers can be confused by excessive variations in packaging sizing and by packaging that may not qualify as deceptive but still gives the impression of greater contents. Clear and legible packaging labelling, including the 'on shelf unit pricing' and pack size, together with continued monitoring of deceptive packaging legislation, will overcome this issue. Greater emphasis should also be placed on immediate action where consumer protection legislation is breached or absent. These issues need to be more clearly emphasised in the directive, and further considered under the metrological review.

4.7 There is a strong fear from consumer organisations that free sizing will allow for price increases to be imposed on products more easily under the guise of new packaging sizes, in a similar way to the introduction of the Euro (Eurozone) and the change to metric sizing (UK). The Committee would therefore request that, as part of the internal monitoring procedures, product size changes are referenced to any unit product price changes when statistical data is collected.

4.8 Whilst the directive is not impacted by current environmental legislation, it is probable that with an increase in smaller sizes the volumes of packaging will increase, resulting in greater amounts of packaging waste.

4.9 It is imperative that the aims of the Packaging/Packaging Waste directive (PPW) are achieved, regardless of whether sizes are regulated or not. This message must be repeated to all Member States and industry, together with a clear communication to consumers to demand less packaging from the retailers.

Brussels, 6 April 2005

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

Opinion of the European Economic and Social Committee on the Proposal for a Decision of the European Parliament and the Council concerning the implementation of a programme of support for the European audiovisual sector (MEDIA 2007)

(COM(2004) 470 final — 2004/0151 (COD))

(2005/C 255/07)

On 9 September 2004, the Council decided to consult the European Economic and Social Committee, under Articles 157(3) and 150(4) of the Treaty establishing the European Community, on the abovementioned communication.

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 21 March 2005. The rapporteur was Mr Pegado Liz.

At its 416th plenary session, held on 6 and 7 April 2005 (meeting of 6 April), the European Economic and Social Committee adopted the following opinion by 133 votes, with seven abstentions.

1. Introduction: Gist of the proposal

1.1 With this proposal (COM(2004) 470 final of 14 July 2004), the Commission intends to follow up the Media Plus ⁽¹⁾ and Media-Training ⁽²⁾ programmes, taking account of the results of their mid-term evaluation in conjunction with the preparatory action *i2i Audiovisual: Growth and Audiovisual*, ⁽³⁾ the results of the broad public consultation held between May and August 2003, and the impact analysis containing an ex-ante evaluation from July 2004 ⁽⁴⁾.

1.2 The Commission considers the audiovisual sector to be a keystone of European citizenship and culture and able to play a unique role in building a European cultural identity. It does however note that this sector is fragmented; although this reflects an important cultural diversity, it has prevented the European audiovisual industry from being genuinely competitive with respect to non-European imports, both on the EU market and worldwide.

1.3 With the Media 2007 Programme, the Commission aims to stimulate private investment in the audiovisual sector to enable companies operating in that sector, especially SMEs, to improve their competitiveness and financial solidity, building on experience gained in previous programmes.

1.4 In order to develop synergies and to avoid bureaucratic duplication and obstacles, the Commission wishes to have a single programme covering the pre-production and post-production phases and focusing in particular on European-scale distribution.

1.5 The specific aims of the programme are, in short:

A) In the pre-production phase

I- Acquisition and improvement of skills in the audiovisual field:

- a) boosting European audiovisual professionals' skills;
- b) improving the European dimension of training activities.

II- As regards development:

- a) supporting projects from independent production companies;
- b) assisting the preparation of financial plans for European production companies and projects.

B) In the post-production phase

I- As regards distribution and dissemination:

- a) consolidating European distribution by encouraging distributors (i) to invest in the co-production, acquisition and promotion of non-national European films and (ii) to devise coordinated marketing strategies;
- b) improving the circulation of non-national European films on the European and international markets;
- c) promoting the transnational broadcasting of European audiovisual works produced by independent production companies;
- d) favouring the digitalisation of European audiovisual works;
- e) encouraging cinemas to exploit the possibilities offered by digital distribution.

⁽¹⁾ Council Decision 2000/821/EC of 20.12.2000, OJ L 13 of 13.1.2001.

⁽²⁾ Decision 163/2001/EC of the European Parliament and of the Council of 19.1.2001, OJ L 26 of 27.1.2001.

⁽³⁾ COM(2003) 725 final of 24.11.2003 and COM(2003) 802 final of 18.12.2003.

⁽⁴⁾ SEC(2004) 955 final of 14.7.2004.

II- As regards promotion:

- a) improving the circulation of European audiovisual works;
- b) improving access to European audiovisual works for the European and international public;
- c) encouraging joint actions between national film and audiovisual programme promotion organisations;
- d) fostering the promotion of Europe's cinematographic and audiovisual heritage.

C) Support for pilot projects in areas likely to be affected by the introduction and use of new information and communication technologies

1.6 In the Annex to the proposal, the Commission examines each operational objective in great detail, subdividing them and setting out, for each of them, the measures to be taken, arrangements for their implementation, the instruments to be used and the financial resources allocated to each one. Of the various forms of implementing measures, to be highlighted is the creation, along new lines, of a network of MEDIA desks and MEDIA antennae, with a long list of responsibilities and tasks.

1.7 The proposal concludes with a detailed budget covering the seven years of the Programme, with a budget for implementing the programme's implementation set at EUR 1055 million, specifying all the financial resources allocated to each action and measure planned.

2. Background

2.1 As stated above, this proposal pursues the approach first adopted by the Media (1991/1995)⁽⁵⁾, Media II- Development and Distribution (1996/2000)⁽⁶⁾, Media Plus⁽⁷⁾, Media Training⁽⁸⁾, and Media Training (2001-2005)⁽⁹⁾ Programmes, which have now been integrated into a single programme.

2.2 It is worth recalling in this connection the main conclusions of the opinions adopted by the EESC on these programmes.

2.2.1 The EESC concluded its Opinion on the Proposals on MEDIA II-Training (1996/2000) and MEDIA II — Development and Distribution (1996/2000)⁽¹⁰⁾ (COM(94) 523 final), by drawing attention to the need to 'reduce the risk of resources being wasted' and to define in advance criteria which 'ensure that the programmes and their funding are as effective as possible', as well as

⁽⁵⁾ Cf Council Decision 90/685/EC of 21.12.1990, OJ L 380 of 31.12.1990.

⁽⁶⁾ Council Decision 95/563/EC of 10.7.1995, OJ L 321 of 30.12.1995.

⁽⁷⁾ Council Decision 2000/821/EC of 20.12.2000, OJ L 13 of 17.1.2001.

⁽⁸⁾ Council Decision 95/564/EC of 22.12.1995, OJ L 321 of 30.12.1995.

⁽⁹⁾ Decision 163/2001/EC of the European Parliament and of the Council of 19.1.2001, OJ L 26 of 27.1.2001.

⁽¹⁰⁾ OJ C 256 of 2.10.1995.

the need to better define 'criteria and instruments which can help to pinpoint eligible parties and ensure maximum transparency'.

2.2.2 In its Opinion on the Proposals on Media Training (2001/2005) and MEDIA PLUS — Development, Distribution and Promotion (2001/2005)⁽¹¹⁾ (COM(1999) 658 final), whilst supporting the Commission proposals, the EESC deplored the fact that these had not taken 'account of the fact that the importance of the European audiovisual industry does not derive exclusively from its entrepreneurial dimension, but also from its role as a vehicle for the promotion of our culture and democratic values'.

2.2.3 It also emphasised the need 'to evaluate the jobs which could be generated by [...] application' (of the measures proposed) and recommended that such measures should actively promote 'greater participation by women, [...] ensuring that women are [...] better represented in the sector'.

2.2.4 The EESC also acknowledged the lack of incentives for 'access to the market for independent [European] firms' and 'public access to the European audiovisual heritage' by means of digitalisation, suggested that it might be useful to set up 'pilot projects [...] in the framework of e-Europe', demonstrating its support for the promotion of subtitling and, regretting the paucity of the resources allocated, reiterated the proposal to create a European Information Society Agency 'which would help coordinate the various initiatives in the field of multimedia convergence'. It also welcomed the creation of a Guarantee Fund as a means of promoting the audiovisual sector⁽¹²⁾.

2.2.5 Lastly, in its Opinion on the Proposals for a Regulation and for a Decision to extend the Media Training and Media Plus programmes until 2006⁽¹³⁾ (COM(2003) 188 final) and COM(2003) 191 final), the EESC, criticising the fact that the Commission had not been able to present its new multi-annual programmes for the audiovisual sector in good time,

- i) highlighted the glaring inadequacy of the funding allocated to the objectives proposed, in particular in light of enlargement,
- ii) recommended that the support provided under the programme be geared more effectively to supporting SMEs, particularly the many micro businesses in the sector, including the private funding mechanisms and funding from the EIB, such as the *Growth and audiovisual: i2i audiovisual* scheme,
- iii) highlighted the importance of Media Desks as the national interface with programme beneficiaries, and
- iv) reaffirmed a number of strategic points made in its Opinion of 27 April 2000.

⁽¹¹⁾ OJ C 168 of 16.06.2000

⁽¹²⁾ OJ C 204 of 15.07.1996

⁽¹³⁾ OJ C 10 of 14.1.2004

2.3 When considering the proposal now under examination, it will look at the substance of the observations and recommendations made, in order to ascertain to what extent they have been taken into account and whether they remain valid.

3. General comments

3.1 The EESC welcomes the Commission initiative, which to a large extent takes on board a variety of the EESC's suggestions and recommendations set out in previous opinions.

3.2 One particular example of this is the fact that the new MEDIA programme is designed to simplify the structure of Community action for the audiovisual sector by setting up a single integrated programme that will come into play in the pre-production and post-production phases (MEDIA 2007), replacing the two current programmes (MEDIA Plus and MEDIA-Training).

3.3 A further example is that the new programme also takes account of horizontal priorities previously highlighted by the EESC, such as:

- i) consideration of the cultural value of Europe's cinematographic and audiovisual heritage in the measures proposed;
- ii) strengthening SMEs' production structures;
- iii) reducing imbalances between countries with a high production capacity and those with a low production capacity or a limited linguistic area;
- iv) taking account of market developments with regard to the use of digital technologies; and lastly
- v) promoting dubbing and subtitling in the distribution and dissemination of European audiovisual works.

3.4 The EESC also notes and welcomes the sensible, well-ordered way that the draft Programme has been designed, in particular the way that the annex on the budget and the financial impact has been drawn up.

3.5 The EESC furthermore notes that, in the explanatory memorandum, the Commission has not been able, as it had intended, to give more detailed consideration to the role that industry can play in the lasting development of the European audiovisual and cinematographic sector as an important mouthpiece for European citizenship and culture. The EESC believes it to be crucial, however, that European cultural values are always safeguarded and that diversity and pluralism are guaranteed in all audiovisual media: this concern should form an integral part of all Commission initiatives under this programme.

3.5.1 In this context, the EESC wishes in particular to draw the Commission's attention to the need to strengthen initiatives to prevent too much concentration in the industry, which could harm pluralism and diversity and which could prove even more damaging where new technologies are being introduced, as this could be detrimental to production and distribution. The EESC also wishes to highlight the need to ensure that copyright is protected and to combat piracy, while consolidating resources for countering certain anti-competitive practices.

3.5.2 By the same token, the EESC can only welcome the Commission Communication on the follow-up to its communication on certain legal aspects relating to cinematographic and other audiovisual works⁽¹⁴⁾ and support the adoption by the European Parliament and the Council of the Proposal for a Recommendation contained therein, as stated in an earlier opinion⁽¹⁵⁾.

3.6 The EESC takes the view that including a definition of the main concepts underlying the programme in the decision itself — especially when these concepts are of particular importance in the context of the programme, such as the concept of the independent producer — would make it easier to understand the MEDIA 2007 programme, although it acknowledges that such concepts appear in other Community documents and that such definitions have traditionally been explained in 'guidelines' for the programme's implementation.

3.7 Having noted some differences in the various language versions of the proposal for a decision presented by the Commission, the EESC strongly recommends that these discrepancies be identified and ironed out in the definitive texts.

3.8 Lastly, whilst acknowledging that the funding earmarked for the proposed measures and the allocation of these funds over the years do not generally give rise to any further comments, the EESC feels that account should be taken of any implications arising from the remarks set out below under 'specific comments' and recommends that, in the mid-term evaluation, due thought be given to whether the resources allocated are adequate for fully achieving the programme's objectives.

4. Specific comments

4.1 The EESC recalls and reaffirms some of the strategic considerations set out in its opinion of 24 September 2003⁽¹⁶⁾ because it believes that the Commission's proposal for a decision still fails to give adequate coverage to some aspects relating to the need for the new programme to:

- ensure complementarity and consistency with other Community measures for producing a common strategy;

⁽¹⁴⁾ COM(2004) 171 final of 16.3.2004, OJ C 123 of 30.4.2004

⁽¹⁵⁾ OJ C 74, 23.3.2005. Rapporteur: Mr Braghin.

⁽¹⁶⁾ Previously referred to in point 2.2.5

- attach particular priority to technological development, innovation and cross-border movement;
- give a decisive boost to setting up and developing a system for providing information and monitoring new needs and developments in the audiovisual market;
- achieve a steady increase in public access to Europe's audiovisual heritage by means of its digitalisation and by setting up European networks, in particular for educational and training purposes;
- guarantee that regular and systematic evaluations are made of the programme's implementation, in order to ensure the best use of the financial resources available and to meet the requirements of the audiovisual industry;
- consistently support the development of pilot projects that address issues of content and not only the technological aspect;
- and effectively promote European films in Europe and throughout the world by systematically providing information on festivals.

4.2 The EESC also reiterates its recommendation, as stated in its opinion of 15 September 2004 ⁽¹⁷⁾, that more emphasis be placed on training in new technologies and on new requirements as regards the collection, cataloguing, conservation and restoration of film and television works, database management and standardised methods for storing work in high-quality digital format.

4.3 The EESC considers that although the programme's objectives include specific incentives for SMEs, these should be better reflected in the funds allocated, so as to allow for more effective and consistent support: equally, support for introducing new digital technologies — in cinemas and online — and for new initiatives in technological innovation would also warrant more substantial funding.

4.4 As regards management of the MEDIA 2007 programme, the EESC notes that the Commission has just set up an executive agency for the management of Community action in the fields of education, audiovisual and culture ⁽¹⁸⁾, for the period from 1 January 2005 to 31 December 2008, with the possibility of a review or extension of the tasks of the Agency in the framework of the new generation of programmes, which would thus include management of the Media 2007 programme.

⁽¹⁷⁾ Previously referred to in point 3.5.2

⁽¹⁸⁾ Commission Decision of 14 January 2005 setting up the Education, Audiovisual and Culture Executive Agency for the management of Community action in the fields of education, audiovisual and culture in application of Council Regulation (EC) No 58/2003 OJ L 24 of 27.1.2005, pp 35 to 38.

4.4.1 Given, however, that under the terms of point 7 of the explanatory memorandum, the Commission 'will delegate the management of the programme to an executive agency', reiterated in point 5.3 of the Annex and in point 6.1.1 — financial intervention — which also sets out the appropriations to be allocated to this executive agency, the EESC, having studied the aims and tasks of this Agency as set out in Article 4 of the aforementioned decision, urges the Commission to give a detailed, clear indication of i) what the agency's specific responsibilities will be for managing the Media 2007 programme in line with provisions 4(2), 4(3) and 4(4) and ii) how it will share competences with other Community bodies responsible for implementing, advising or evaluating the MEDIA 2007 programme and/or take over these competences.

4.4.2 In particular, consideration should be given to the need to provide the executive agency with human resources specialised in this particular area of the audiovisual sector; the Decision makes no mention of this.

4.4.3 Attention should also be drawn to the importance of ensuring that the integrated management of the programme is properly guaranteed by the agency, thereby specifically avoiding conflicts of responsibility — whether positive or negative — between the bodies involved in defining the programme's strategic aims and its management.

4.4.4 It should also be made clear what body or bodies will take over the Agency's responsibilities if, in mid-programme, there is no confirmation that it can continue to ensure the smooth, efficient running of the programme, without any alternative solutions being proposed.

4.5 As regards the financial provisions and because the European audiovisual market remains fragmented and its cultural heterogeneity is reflected in a dichotomy between (a) countries with a low audiovisual production capacity and/or a limited linguistic or geographical area, and (b) countries with a greater production capacity ⁽¹⁹⁾, the EESC considers that, notwithstanding the limitations imposed by competition law, the Commission — when defining the programme guidelines — could take account of the true situation in some Member States and regions that have demonstrably failed to develop their audiovisual industries to their full potential.

⁽¹⁹⁾ As highlighted in the Commission report on The implementation and the mid-term results of the MEDIA Plus and MEDIA Training programmes (2001-2005), backed up in the conclusions of the mid-term evaluation report presented to the European Commission (Report from the Commission to the Council, the European Parliament, the European Economic and Social Committee and the Committee of the Regions: Report on the implementation and the mid-term results of the MEDIA Plus and MEDIA Training programmes (2001-2005) and on the results of the preparatory action 'Growth and audiovisual: i2i audiovisual' COM(2003) 725 final, of 24.11.2003: the report entitled Mid-Term evaluation of the MEDIA Plus and MEDIA Training Programmes, drawn up by the companies APRIL/Media Consulting Group/SECOR. On the issue of positive discrimination, see item 4(7) of the executive summary: The European added value of MEDIA for countries with a low production capacity and a restricted linguistic area).

4.6 As regards communication, the EESC fully supports the Commission's strategic option of strengthening the substantive powers of Media Desks and Antennae as set out in point 2.2 *MEDIA desks and MEDIA antennae* of Chapter 2 in the Annex to this decision. The EESC suggests as a result that the Commission should bring the wording of Article 12 into line with the wider range of tasks listed in the aforementioned point in the Annex ⁽²⁰⁾ and should provide appropriate funding for MEDIA desks to enable them to fulfil their tasks properly.

4.7 The Committee also wishes to highlight the need for Article 13(2) of the proposal to make explicit the Commission's obligation to ensure consistency and complementarity between the Media 2007 programme and the programmes and actions undertaken in the audiovisual sector as part of Community

cooperation with third countries and with the competent international organisations, as provided for in Article 9(2) of the Council Decision of 20 December 2000 on the MEDIA Plus programme ⁽²¹⁾.

4.8 The EESC also considers that, given the estimated duration of the programme (7 years) and the way that markets and technologies naturally develop, it would be advisable to change the evaluation timetable set out in Article 14(3) of the decision, amongst other things bringing forward the first mid-term evaluation report on the results and the qualitative and quantitative aspects of the programme's implementation. This would mean that the conclusions of this evaluation might still be used for a possible revision of the operational objectives and measures to be carried out.

Brussels, 6 April 2005

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

⁽²⁰⁾ The Committee believes that, with this proposal for an amendment, the proposal for a decision under review would gain in transparency and legal certainty.

⁽²¹⁾ OJ L 13 of 17 January 2001, p. 34 et seq.

Opinion of the European Economic and Social Committee on The large retail sector — trends and impacts on farmers and consumers

(2005/C 255/08)

On 1 July 2004, the European Economic and Social Committee, acting under Rule 29(2) of its Rules of Procedure, decided to draw up an opinion on *The large retail sector — trends and impacts on farmers and consumers*.

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 17 March 2005. The rapporteur was **Mr Allen**.

At its 416th plenary session on 6 and 7 April 2005 (meeting of 7 April 2005), the European Economic and Social Committee adopted the following opinion by 115 votes to 71 with 10 abstentions.

1. Introduction

1.1 European retailers reacting to the social and economic changes during the last 20 years, in particular the changes in consumer needs, created the system of Large Multiple Retailers. The basic idea was to make the shopping trip more convenient for the consumer by putting a wide range of food items and other goods for sale under the one roof. In marketing terms, the Large Multiple Retailers aim to attract more and more consumers by means of attractive presentation of merchandise at competitive prices. Food retailing has seen the most profound changes, by its sheer size and importance, these developments have had the greatest impact on consumers. In the UK 80 % of food products are purchased from Large Multiple Retailers. This is among the highest in the EU. Superstores and Hypermarkets can offer consumers as many as 20,000 product lines.

1.2 Over the years, Large Multiple Retailers have brought significant benefits to shoppers in terms of range of products and competitive prices. In particular Large Multiple Retailers have provided consumers with a large range and variety of food products under one roof, combined with free and ample parking facilities. They are both child- and disabled person-friendly. Some are providing banking and refreshment services as well as recycling facilities. Many have online shopping facilities and provide a delivery service in the local area. The ability to do the weekly household shopping in one location at competitive prices makes supermarkets attractive to consumers and explains the growth in the Large Multiples' share of the total grocery market.

1.3 In the majority of new Member States the Large Multiple Retailers have a smaller market share than in the EU 15 but their market share is increasing rapidly.

The Large Multiple Retailers operate under varying business structures:

- hypermarkets: large retail stores up to 10,000 square meters of sales space and selling significant amounts of non-food products and mainly self-service;
- supermarkets: self-service food stores with up to 3,500 square meters of sales space with sales of non-food items making up less than 25 % of sales;
- discounters: basic self-service food stores that concentrate on a limited range of products with a high turnover rate — low prices are the main attraction. There is significant growth in this sector.

1.4 However, the market share of large retailers varies considerably from one Member State to the next. In Hungary, the top three retailers account for 29 % of the grocery market. In the UK; the top three retailers control 60 % of the grocery market while in Ireland the top three retailers control 66 % of the grocery market. The figures for the top three retailers' share of the grocery market in the following Member States is as follows: Poland 14.2 %, Czech Republic 25.4 %, Slovakia 42.6 %, Slovenia 77.3 %. The trend can be observed that over the last ten years, the retail food market is being dominated by a smaller number of very large retailers. On average, food sales account for 70 % of the grocery market. (Source GfK Consumer Scan/Household Panel).

2. Retail food prices and the internal market

2.1 DG Internal Market, using data collected by AC Nielsen, took a basket of Pan-European (⁽¹⁾) branded items available in EU 14 in the period September 2002–October 2003 and compared prices. The following price index shows that prices varied considerably throughout the EU 14. Using the EU median = 100, the following are the lowest and the highest prices across the named Member States:

(⁽¹⁾) Pan-European brands are defined as brands which can be found in four of the big five countries plus in five other countries; Generic brands are brands which do not fulfil this criterion. The analysis presented here refers to VAT free Euro prices only.

Product	Country	Lowest	Country	Highest
Kerrygold Butter	Ireland	90	Germany	150
Red Bull	Austria	79	Finland	134
Fanta	Spain	70	Finland	148
Evian	France	62	Finland	204
Twix	Belgium	74	Denmark	131
Haagen Dazs	Italy	60	Greece	117
Nescafe instant coffee	Greece	64	Austria	137
Kelloggs' Cornflakes	United Kingdom	75	France	144
Uncle Ben's Rice	Finland	81	United Kingdom	161
Barilla Dry Pasta	Italy	55	Ireland	114

2.2 Pan-European branded goods such as those above have a large degree of consumer recognition throughout the EU.

Difference in prices are greater for generic branded and white label products. Here again, there is no obvious pattern to differences in prices between Member States:

Product	Country	Lowest	Country	Highest
Rice	Portugal	45	Sweden	182
Flour	Portugal	45	Sweden	182
Ground Coffee	Finland	71	Ireland	298
Instant Coffee	Belgium	40	Ireland	127
UHT Half Fat	Germany	71	Finland	140
Dry soups	Spain	43	Belgium	256
Frozen Fish	Finland	65	France	118
Ice Cream	Finland	40	United Kingdom	214
Sparkling Mineral Water	Italy	47	Finland	168
Baby Food	Spain	66	Italy	173
Tinned Pineapple	Netherlands	53	Finland	181
Sugar	Portugal	93	Sweden	286

2.3 While these price variations in branded and non-branded goods give us a snapshot of the situation today, the frequent monitoring of prices should also help to determine whether prices for these goods are converging over time, as one would expect a fully functioning Internal Market. DG Internal Market takes the view that in an efficiently functioning internal market the price differences should not be as great as shown. In a similar survey in the USA the price differences were found to be less than in EU 14.

2.4 There are a number of reasons for price variations — different operating costs such as labour costs, transport costs, waste-management costs, size of store and volume of turnover, local taxes and the level of price competition both on the buying side and the selling side. Different preferences and tastes amongst consumers, which are largely determined by cultural habits, can also play an important role. In addition local market conditions, such as population density, the climate and the state of the supply chain, must also be taken into account.

3. Large Multiple Retailers' price policy

3.1 During the last five years, the major food retailers have been advertising along the lines 'every day low prices' — 'more for your money' — 'good food costs less' — 'helping you spend less every day'. It is constantly being claimed that Large Multiple Retailers are the consumers' champion in driving down unjustly high prices. This is clearly because consumers attach a great deal of importance to price. In theory, this should be good news for consumers especially in the short term but the long-term consequences need to be taken into account. Reasonable prices must be paid to farmers to guarantee a constant supply of good quality food which is produced under good environmental conditions. All involved in processing and distribution must also get a reasonable profit.

3.2 The UK supermarket ASDA (owned by US giant Wal-Mart) has made price-cutting a philanthropic mission by declaring 'our purpose is to make goods and services more affordable for everyone'. The new philosophy seems to be to spend as little as possible on food. In many cases the Multiple Retailers in their advertising would like to make us think that the most important thing about food is the price of food. The percentage of household income spent on food continues to decline throughout Europe (see Appendix 1).

3.3 Traditionally, the Multiple Retailers have carried out the most aggressive price promotions on basic products that act as 'Traffic Generators' because they have to be purchased frequently while hiking up margins on other items which consumers are not as aware of. In some Member States these 'Traffic Generators' are frequently sold below cost. Below-cost selling of food is banned in some Member States e.g. Belgium, France, Ireland, Italy, Luxembourg, Portugal, as well as in Spain and Greece under special circumstances.

3.4 Below-cost selling and aggressive pricing ultimately can lead to anti-competitive practices.

4. Supermarket workforce

4.1 The growing Large Multiple Retail sector has created many thousands of jobs, many low-paid (often part-time) throughout the EU. In a recent study published on the website of the European Foundation for the Improvement of Living and Working conditions (*Industrial Relations in the Retail Sector, October 2004, Comparative Study*), it is stated that around 60 % of retail workers are women, and there is also a high proportion of young and poorly qualified workers. Pay is relatively low and there are high levels of part-time work and weekend working. The industry is undergoing major structural change, with processes of concentration and diversification, and pressure for the restructuring, deregulation and reduction of employment. Another characteristic trait is usually the large pay gap between women and men, due to the high proportion

of women in part-time work and their concentration in low-status jobs.

4.2 Large Multiple Retailers employ people in a wide range of jobs but checkout operators and those who stack the shelves often represent the bottom end of the pay-scale and, depending on the employment situation in the Member State, pay-rates can be at the minimum rate or just above.

4.3 Flexible working hours can be beneficial to students and part-time workers, temporary workers and those who have family responsibilities or other employment. It is most important that no discrimination against part-time workers should apply.

4.4 European Multiples need to develop in the direction of quality consumer services produced by competent personnel working under secure and good employment conditions. The continuous concentration of the Large Multiple Retail sector is leading to new competitive strategies (e.g. price wars), severe pressure to control costs including labour costs, deregulation of opening hours and more late hours and weekend work.

4.5 While food prices have been reduced through competitive pricing, increased efficiency in purchasing, administration, storage procedures, marketing and good quality foodstuffs, nevertheless, the reality is that cheap food tends to mean cheap labour and we need to start thinking a lot more about this as we encourage supermarkets to vie with each other over price wars. Prof. Tim Lang, Thames Valley University.

4.6 In addition, when we import from third-world countries we should not ignore the labour conditions applying.

5. Multiple Retailer concentration

5.1 Concentration in food retailing has increased sharply throughout Europe. Between 1993 and 2002, the market share of the top five food retailers has increased on average by 21.7 % reaching an average of 69.2 % in the EU 15. In 2002 it ranged from 37 % in Italy, 52.7 % in Greece to 94.7 % in Sweden (Source-London Economics report 2003 to UK Department of Environment).

5.2 In some Member States both the buying and the selling side of the market tend to be equally concentrated. In other Member States buyer groups representing (technically) independent retailers (e.g. voluntary chains) so therefore at national level the buyer-side of the market is more concentrated than the seller-side.

5.3 Hypermarkets are expanding services and product mixes, while Discounters will continue to expand especially in the food sector and while concentrating on low prices and they may move to offer some higher quality products at the lowest possible prices.

5.4 The recent trend in the Fruit and Vegetable sector has been away from a commodity marketing approach. Multiples want to concentrate their purchases with a small number of large preferred suppliers that can partner them on a year-round basis. The ESC stated in a previous Opinion^(?) that: *The wide selection of fresh fruit and vegetables on offer is seen as a particular advantage of hypermarkets. Weekly markets, on the other hand, are praised for their better quality, fresh goods, wide choice, reliability and human contact.*

5.5 The Multiples have encouraged consolidation in the area of product suppliers and especially food-product suppliers. One of the areas where this has happened is in the case of bread supplies. In Ireland and the UK, especially, price competition in bread sales has resulted in the closure of a vast number of bakeries and the market is now dominated by a few very large bakeries. It has enabled the supermarkets to provide low-cost bread to the consumer with reduced nutritional value. Bread with greater nutritional value is still available, but at a higher price.

5.6 Many supermarkets have also introduced in-store bakeries. Frozen dough products prepared in a factory are bought in and finished in the store.

6. Farm-gate prices and consumer prices

6.1 London Economics in its 2003 report stated that in 2001 no Member State appears to have systematically the highest farm gate-retail price spread. In general the price spread falls in the range of one to five times the farm-gate price. In the case of bread whose main ingredient is wheat the farm-gate retail spread can be as high as 30 times the farm-gate price reflecting the large share of non-farm costs in producing bread.

6.2 In 2001 the farm-gate retail spread for Lamb prices increased in the UK and Ireland and declined in France and Germany. In the case of Fruit and Vegetables the farm-gate retail spread shows either no significant trend or a small decrease. Wholesale fruit and vegetable markets have been in decline for some time, while the spot market remained important for fresh produce sometimes resulting in large price fluctuations due to weather and the supply situation. Large multiple buyers are moving to seasonal or annual contracts from a small number of suppliers to bring stability to the fresh produce sector and reduce costs. This will stabilise the farm gate-retail price spread. When price wars arise it may mean primary producers taking lower margins and being subject to increased costs.

6.3 If the buying power of the Large Multiples leads to reduced prices to their suppliers and if these reduced prices are passed on to the consumer then the % margin going to the farmer may not necessarily fall but the actual farm-gate price will be lower and thus the farmer may have little or no profit.

6.4 In a survey carried out by the National Farmers Union in the UK in 2002 a basket of food which included beef, eggs, milk, bread, tomatoes and apples cost an average of EUR 55 at a supermarket, the farmer received about EUR 16 which is less than 1/3 of its retail value. In the case of individual items farmers got 26 % of the final retail price of beef, 8 % in the case of bread and 14 % in the case of bacon.

6.5 The producer price index (in real terms) for all agricultural products fell in the EU 15 by 27 % over the period 1990-2002. In nominal terms farm output prices remained broadly stable over the same period. The sharp difference in the trend of farm-gate prices and consumer food prices has attracted considerable attention but no general consensus as to the reasons underlying the divergence in price trends. (London Economics report 2003).

6.6 Large retailers are offering a growing number of fair trade products, and this is to be welcomed. In an article in the Wall Street Journal on 8 June 2004 by Steve Steckton and Erin White they write the following in reference to supermarket selling of Fair Trade Products: Sainsburys (British Supermarket) has sold Fair Trade Bananas as more than quadruple the price of conventional bananas — and more than 16 times what growers receive. Tesco recently tacked on \$3.46 per pound for Fair Trade Coffee while the grower gets about 44c above the world market place. 'Supermarkets are taking advantage of the label to make more profit because they know that consumers are willing to pay a bit more because it is fair trade,' says Emily Dardaine, fruit-product manager at Fair-trade labelling organisation international, or FLO, a Germany-based federation of Fair-trade groups.

7. Terms for supermarket suppliers

7.1 The divergent degree and nature of the market concentration in the various EU Member States is a factor that must be taken into account when examining Large Retailers' practices towards suppliers. As indicated above, since consumers attach great importance to price and given that consumers' demand also influences the offer, there is considerable pressure on retailers to lower prices. In their determination to provide low prices to the consumer, the Multiples put pressure on suppliers to reduce prices. This is true in the food sector and primarily in markets where the concentration is very high. They constantly hold a threat of product delisting as a weapon to get even better terms from the supplier. In addition, many of the very big Multiples change their buyers frequently from one section to another so as to prevent the development of personal relationships between buyers and suppliers. The role of the buyer is to keep on trying to get cheaper and cheaper food from the supplier. They can make or break a company by delisting products and switching to another company, especially in the case where the supplier has put in major capital

(?) O.J. C 95 of 30.3.98, p. 36

investment to supply a particular line to one Large Multiple. Frequently suppliers, especially small suppliers, do not have the financial resources to comply the demands of the Multiples. What chance has a farmer to achieve reasonable prices in markets where the Large Multiples have such buying power?

7.2 Apart from the ability to extract discounts on transactions from suppliers, buyer power may manifest itself in the contractual obligations which retailers may place on suppliers, such as listing charges, slotting allowances, retroactive discounts on goods already sold, unjustified high contribution to retailer promotion expenses and an insistence on exclusive supply.

7.3 Food suppliers to large Multiple Retailers are frequently put under severe financial pressure because of long delays in receiving payment — sometimes as long as 120 days (180 days in rare cases) after delivery of food products. In contrast the consumer pays for the product immediately on purchase. Long delays in payment makes a major contribution to the Multiple Retailers' profits as suppliers are providing interest-free loans.

7.4 Sometimes Multiple Retailers force their suppliers to supply food below cost for a period in order to maintain their listing on the supermarket shelf. This can lead to severe financial losses for suppliers and farmers.

7.4.1 The introduction of the on-line auction system has also strengthened the position of the large Multiples in sourcing cheap product for own-label brands. Under this system, the large Multiples look for tenders to supply products (mainly own/private label) via the Internet. Suppliers compete with one another to supply at the lowest price.

7.5 The emergence of own-brand (private) labels is accelerating among all the major Multiples. This latter trend is most obvious in Ireland and Britain and also in developing markets. 'The high growth rate of private labels in the developing markets are directly related to the expansion of Global retailers beyond their traditional geographic borders' says Jane Perrin, ACNielsen. As the quality level of some own-brands has increased, retailers have, at little promotional cost, been able to boost profit levels.

7.6 The own-label system means more power to the Supermarket in its relationship with its suppliers.

7.7 In an environment where winning retail concepts can be quickly copied, the retailers' own label (private label) strategies have taken on an increased importance in helping to differentiate each of them from their competitors.

7.8 This shift in power from supplier to retailer extends way beyond the advantages accruing to the ownership of the shelf-space and the benefits of own-label (Private label). With the help of store loyalty cards, retailers today have greater insight into the consumer's identity, profile and spending patterns than

any supplier. This insight is further enhanced by the access that the retailer has on a weekly basis to the customer.

7.9 While Multiples promote own-label (private label) products, consumer demand means that well-known branded products also have to be on the shelf. However, the Multiples wish to reduce the number of their branded product suppliers and have introduced a system of Category Management. Category management is the means used by the multiples to reduce the number of individual suppliers that they buy from and consequently reduce their costs and improve margins. In each category of product lines one leading supplier is selected by the multiple to source and supply all product lines required in that category. A company with a leading brand is usually selected to supply a range of other related products in order to retain its product listing. For example, a company supplying branded cheddar cheese could be asked to supply all other cheeses required by the Multiple which it would have to source from other suppliers. This system favours the biggest supplier companies, thus restricting entry possibilities for small suppliers and local suppliers. It may also reduce consumer choice.

7.10 Many SME food companies are extremely vulnerable especially if they are largely dependent on one of the Large Multiples. Multiples can demand a cut of 2 % per annum for the following three years. Failure to achieve such targets means the business goes to another supplier. To stay in business the SME must cut costs and margins — reduced prices to farmers, less employees and reduced quality of product for the consumer.

8. Consumer issues

8.1 Consumers will continue to demand from supermarkets competitive prices, a constant supply of good-quality safe food, good-quality service and a pleasant shopping environment.

8.2 Consumers should engage in dialogue with the primary producers and suppliers of food products so that they get a more balanced view of the policies being pursued at retail level.

8.3 Consumers should also be made aware when suppliers are funding special discounts or low price offers.

8.4 Consumers need to be provided with better education on all aspects of the food market and the long term consequences of their demands. Large out-of-town superstores promoting low food prices are often of little value to low income families when they are unable to get suitable transport to the store to purchase low priced food products.

8.5 Issues such as obesity and sustainable consumption are essential matters for consumers. Retailers need to adopt policy positions on these matters.

9. Farmer issues

9.1 Due to the reform of the CAP (decoupling) farmers' decisions on what to produce will be influenced more by the signals coming from the retail sector in terms of price and demand. The support system that was part of the CAP will no longer provide the same floor price for farm produce. This will mean that the Multiples will be much more significant price-makers in the food chain than previously. A greater level of food imports into the Community will also tend to drive farm-gate prices downwards when world prices are low. The end result will probably be a much greater fluctuation of food prices in line with supply and demand.

9.2 If over a period farmers are subject to falling incomes and increasing costs, more farmers will go out of business. Such a development could lead to reduced food production in Europe which would hinder the development of a multi-functional agriculture in the EU. It would also hinder the objective of maintaining and developing a living countryside. In order to prevent this, farmers must also adopt new approaches with regard to growing methods and the products they invest in. An alternative could be to find new niche markets, e.g. investing in more high-quality products, entirely new products, new forms of distribution and cooperation (e.g. cooperative purchasing, farm shops in towns), eco-tourism, etc., in order to shore up their position.

9.3 Comparisons of the difference between farm-gate prices and retail prices are difficult to make in the overall EU market because it is impossible to find out the costs and margins going to the processing sector and the retail sector. However, it is clearly obvious that if the Large Multiples engage in below-cost selling for farm products, then the farmer as the last person on the line will get a reduced price because the processor and the supermarket will continue to take a margin in order to stay in business.

10. Other issues

While prices are a very important element in the retail food sector, other issues need to be taken into account:

- a) Large Multiples are trusted to provide safe food.
- b) Large Multiples are in regular contact with customers as they come to do the weekly shopping.
- c) Loyalty cards provide a detailed profile of the customers' shopping habits, thereby providing the Large Multiples with

an important customer database and a major source of market intelligence.

- d) They establish customer needs through market research.
- e) They influence shopping behaviour through price promotions, discounts, customer service, store layout and design. In this context, the Large Multiples possess the ability to influence the direction of the marketplace.

11. Conclusions

11.1 Greater information and transparency is needed on the pricing structure and profit margins as between retailers, suppliers (food processors) and primary producers.

11.2 Member States need to ensure that adequate competition exists in the regions within Member States, and to foster cooperation between small agricultural producers, processors and retailers, so that they can continue to compete with large producers, processors and retail networks. Furthermore, Member States and the EU institutions must ensure the existence of various forms of commerce and avoid a total liberalisation of the market that would lead to further concentration on the market.

11.3 DG Internal Market needs to continually investigate and evaluate consumer prices throughout the EU to ensure that adequate competition is evident throughout the Community.

11.4 One area of competition law that should be looked at is the definition of Public interest. It should not be confined to prices and market forces only.

11.5 The buying power of the Large Multiples in the food market must continue to be a matter of concern for the competition authorities.

11.6 There is a possibility that in the future food retailing would be in the hands of a very small number of players, which could lead to less consumer choice and higher prices. The Commission and Member State Governments need to be aware of such a possibility.

11.7 The EU must ensure that it maintains the production of sufficient food to feed its own citizens. We must not become dependent on non-EU food supplies.

11.8 Detailed research and analysis into price transmission and the margins applying between the farm gate and the consumer who buys food from the Large Multiple Retailer.

Brussels, 7 April 2005.

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

APPENDIX

to the opinion of the European Economic and Social Committee

The following amendments, which received at least one quarter of the votes cast, were defeated in the course of the plenary session debates:

Point 3.1

Amend as follows:

~~'During the last five years, the major food retailers have been advertising along the lines "every day low prices" — "more for your money" — "good food costs less" — "helping you spend less every day". It is constantly being claimed that Large Multiple Retailers are the consumers' champion in driving down unjustly high prices. This is clearly because consumers attach a great deal of importance to price. In theory, this should be good news for consumers especially in the short term but the long-term consequences need to be taken into account. Reasonable prices must be paid to farmers to guarantee a constant supply of good quality food which is produced under good environmental conditions. All involved in processing and distribution must also get a reasonable profit.'~~

Reason

This statement of a general nature does not say what a reasonable price is. The text does not define the concept, it does not analyse the components of farming profits, it does not study the effects that subsidies for land cultivation have on farmers' incomes or justify the need to protect farmers who are less competitive than others (in other words, should all farmers be guaranteed big profits to the detriment of the consumer?).

Result of voting

For: 38

Against: 75

Abstentions: 17.

Point 4.5

Delete

~~While food prices have been reduced through competitive pricing, increased efficiency in purchasing, administration, storage procedures, marketing and good quality foodstuffs, nevertheless, the reality is that cheap food tends to mean cheap labour and we need to start thinking a lot more about this as we encourage supermarkets to vie with each other over price wars. Prof. Tim Lang, Thames Valley University.~~

Reason

It is not clear to the reader what this means. Does it mean, for example, that we shall not buy Polish apples because they are less expensive than those grown in Latvia or in Finland?

Result of voting

For: 56

Against: 92

Abstentions: 12.

Point 4.6

Delete

~~In addition, when we import from third world countries we should not ignore the labour conditions applying.~~

Reason

It is not clear to the reader what this sentence means. Does it mean we have to take account of the minimum wages that have been set in Third World countries? Who will decide — and how — that a product bought in this or that country has been made by workers earning a 'satisfactory' salary? Is it really thought that European consumers should guarantee the workers of the Third World acceptable incomes?

Result of voting

For: 49

Against: 104

Abstentions: 7.

Point 7.1

Delete the final sentence.

In their determination to provide low prices to the consumer, the Multiples put enormous pressure on suppliers to reduce prices. This is especially true in the food sector. They constantly hold a threat of product delisting as a weapon to get even better terms from the supplier. In addition, many of the very big Multiples change their buyers frequently from one section to another so as to prevent the development of personal relationships between buyers and suppliers. The role of the buyer is to keep on trying to get cheaper and cheaper food from the supplier. They can make or break a company by delisting products and switching to another company, especially in the case where the supplier has put in major capital investment to supply a particular line to one Large Multiple. Frequently suppliers, especially small suppliers, do not have the financial resources to comply with the demands of the Multiples. ~~What chance has a farmer to achieve reasonable prices when the Large Multiples have such buying power?~~

Reason

This statement of a general nature does not say what a 'reasonable price' for a farmer would be, nor how to determine it. One might equally well ask farmers to guarantee reasonable prices to consumers. Farming in the EU operates with a system of subsidies. We cannot in addition introduce fixed selling prices for farm produce (who would set them, and how?) or we shall no longer be able to speak of a free market.

Result of voting

For: 42

Against: 114

Abstentions: 7.

Point 8.2

Amend to read as follows:

~~'Consumers should engage in dialogue with the primary producers and suppliers of food products so that they get a more balanced view of the policies being pursued at retail level. Consumers should be helped to better understand the range of products offered by primary producers of food products and to obtain more objective information on quality differences between them.'~~

Reason

At the moment consumers only have limited means of obtaining information on differences in quality between food products. Their choice is to a large extent determined by advertisements, which limits their desire to purchase quality foods supplied mainly by small and medium-sized producers which are not backed by the same amount of advertising.

Result of voting

For: 43

Against: 112

Abstentions: 14.

Opinion of the European Economic and Social Committee on the Proposal for a Directive of the European Parliament and of the Council concerning the Financial Instrument for the Environment (LIFE +)

(COM(2004) 621 final — 2004/0218 COD)

(2005/C 255/09)

On 16 November 2004, the Council decided to consult the European Economic and Social Committee, under Article 175 of the Treaty establishing the European Community, on the abovementioned communication.

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 17 March 2005. The rapporteur was **Mr Ribbe**.

At its 416th plenary session on 6 and 7 April 2005 (meeting of 7 April), the European Economic and Social Committee adopted the following opinion by 128 votes to one with two abstentions:

1. Preliminary observations

1.1 The EU financial perspective 2007-2013 currently being drawn up also provides for changes in the support for the environment.

1.2 The EU's key environmental finance instrument to date has clearly been the LIFE programme, established in May 1992 by Regulation (EEC) No. 1973/92 — the *Financial Instrument for the Environment (LIFE)*. It was, and is, LIFE's aim to contribute to the implementation and development of Community environmental policy and legislation.

1.3 LIFE I ran from 1992 to 1995 and had a budget of EUR 400 million (EUR 100 million per year). In the wake of its success, Regulation (EC) No. 1404/96 launched a second phase (LIFE II) which ran from 1996 to 1999 with a total budget of EUR 450 million (EUR 112.5 million per year). The present LIFE III was established by Regulation (EC) No. 1655/2000 to run from 2000 to 2004 (EUR 128 million per year). This was extended to the end of 2006 by Regulation (EC) No. 1682/2004.

1.4 LIFE has hitherto been made up of three components: LIFE-Environment, LIFE-Nature and LIFE-Third Countries. It has supported innovative investment projects as well as the development and implementation of EU environmental policy and legislation. LIFE-Nature was instrumental in establishing the Natura 2000 network.

1.5 However, the Commission's environment budget (budget heading B 4-3; title 07 since 2004) was also used in the past to finance other environmental programmes, such as a sustainable urban development programme, an NGO programme, Forest Focus, a general policy development and implementation facility (which has an internal and external dimension) and a budgetary transfer to the European Environment Agency.

1.6 Current aid is to be completely restructured under the proposed new environmental finance instrument LIFE+. The idea is, on the one hand, to merge some parts of existing support programmes included under title 07 (Forest Focus, support for NGOs, URBAN, the development of new policy

initiatives, aspects relating to environmental policy implementation, and elements of LIFE-Environment and LIFE-Nature). On the other hand traditional, tangible environmental investment projects are no longer to be promoted. These are to be covered for LIFE-Environment through heading 1a, and for LIFE-Nature through heading 1b and parts of heading 2. Existing support for international activities is to be funded in future from heading 4, civil protection from headings 3 and 4, and the marine environment from heading 3.

1.7 Thus, LIFE+ will focus on promoting measures that support environmental policy (having a uniquely European dimension) such as exchange of best practice, capacity building of local and regional authorities and support for NGOs having a Europe-wide vocation.

1.8 The Commission therefore envisages that future investment projects will be mainly covered by the new headings 1a, 1b, 2 and 4. It argues that it was decided to incorporate environmental protection into all policy areas, and that accordingly, it is essential to support investment aid from these financially strong headings that is attuned to or consistent with the needs of environmental protection as part of the implementation of the sustainability strategy and the Lisbon strategy, which is designed to relate closely to the environment.

1.9 In future, LIFE + will focus on two key areas:

a) LIFE+ Implementation and Governance will:

- contribute to the development and demonstration of innovative policy approaches and instruments including promotion of successful research results;
- contribute to consolidating the knowledge base for the development, assessment, monitoring and evaluation, including ex-post evaluation of environmental policy and legislation (for example, through studies, modelling and scenario building);
- support the design and implementation of approaches to monitoring and assessment of the state of the environment and the drivers, pressures and responses that impact on it;

- facilitate the implementation of Community environment policy, with a particular emphasis on implementation at local and regional levels, for example through capacity building, exchange of best practice and networking, development of training modules and/or programmes;
- provide support for better environmental governance, broadening stakeholder involvement, including that of environmental non-governmental organisations, in policy consultation and implementation;

and

b) LIFE Information and Communication will:

- disseminate information and raise awareness on environmental issues;
- support accompanying measures (such as publications, events, campaigns, conferences, etc).

1.10 Between 75 and 80 % of planned funding is to be used for the **Implementation and governance** strand, and between 20 and 25 % for the **Information and communication** strand.

2. General comments

2.1 Funding for existing LIFE programmes has certainly not been lavish. The importance of the programme for the environmental situation and the development of environmental policy must be considered in the context of its relatively modest funding; it should not therefore be overstated, but nor should it be underestimated. It has been possible to finance at least some major, high-profile European projects, which have enhanced environmental protection and nature conservation in the EU, from around EUR 150 million per year even though the number of Member States has increased to 25 during the interim period (in 2005, slightly over EUR 71 million each for LIFE-Environment and LIFE-Nature and around EUR 7.5 million for LIFE-Third Countries). In particular, LIFE-Nature has concentrated on establishing the Natura 2000 network, which would have fallen even further behind the schedule set in 1992 but for support from the LIFE programme; hence it is important that partial co-financing for the operation of the Natura 2000 network should still be possible under the LIFE+ programme. Capacity building measures in the fields of both environmental protection and nature conservation should also be mentioned.

2.2 Existing LIFE programmes can clearly be deemed to be very effective steering instruments on the part of the Commission. Such significant success was achieved using such limited resources because Member States were to some extent 'competing' for LIFE funds: Member States (or rather, public and private project promoters from Member States) needed to design and develop innovative projects which fitted in with the objectives of the LIFE programme. A selection procedure was put in place in which projects were subjected to critical analysis before being either approved, or rejected because of poor quality or insufficient funding. This meant that, as far as allocation of funding was concerned, there was a certain degree of European transparency.

2.3 In its draft regulation, the Commission envisages largely moving away from this proven procedure. The Commission is

to be directly responsible for the allocation of only a small part of funding (relating, for instance, to forests, the URBAN programme and support for NGOs). With regard to issues arising out of the sixth environmental action plan in particular (climate, biodiversity, environment and health, and waste), it is envisaged that funding will be divided among Member States, which will then bear most of the responsibility for selecting projects and running the LIFE+ programme. No clear criteria for allocating funds to countries and strands are as yet discernible.

3. Specific comments

3.1 The proposal seems in the first instance to be, in principle, logical and coherent: the integration of environmental policy into all other policy areas would, for instance, mean also making investment in the environment available in the general financing arrangements, in the research budget or under the heading of the *EU as a global partner*. The EESC endorses this approach, as the limited funds available for the LIFE programme would not of themselves be enough to further environmental protection in the EU.

3.2 However, in the EESC's view, both the Commission's proposal and the overall context of current discussions on the financial perspective for 2007-2013 pose a potentially very serious threat to the future success of the LIFE programme.

3.2.1 On the one hand, there is no guarantee whatsoever that, for example, funding will actually be available under heading 1a for measures that have up to now been resourced under LIFE-Environment. The responsibility for decisions on the nature and extent of support will now be in different hands, and it is quite possible that, from a political point of view, the decisions could be prompted by quite different concerns. For example, there have been intermittent claims by very influential people and organisations that action has to be taken to get the economy growing again before we can devote more attention to protecting the environment; these views have been reflected even as far as in discussions about the modest results achieved so far by the Lisbon strategy. None of the well-meaning appeals to other Commission departments to take environmental considerations sufficiently on board has so far made much of an impact. DG Environment, which up to now has been able to bring its technical expertise and a separate budget line to bear in selecting model projects across Europe, will no longer have any say on whether innovative, exemplary environmental projects are chosen.

3.2.2 The same also applies to LIFE-Nature, although the EESC is of course aware that a large part of the funding which is needed for implementation of all relevant EU nature conservation directives have to come from the Member States themselves and from other sources of EU funding, such as the second pillar of the CAP and the Structural Funds. However, the EESC is very concerned about the absence even in the draft outlines of the new Structural Funds of the requisite references to the possibility of supporting Natura 2000. Apparently certain measures which used to be funded through LIFE-Nature, such as measures implemented by non-farmers, will in future no longer be eligible. In the EESC's view, this is unacceptable.

3.2.3 Admittedly, the draft regulation on rural development explicitly refers to Natura 2000, a fact which the EESC notes with approval. However, there is a risk that, against the backdrop of discussions on the financial ceiling of 1.24 %, this policy instrument, which is of such central importance for nature conservation, could be targeted for cuts; without financial backing, even the grandest political references are no use at all⁽¹⁾.

3.2.4 Measures which are to be financed in future via the Member States from rural development funding are expected mainly to involve running costs (such as compensation measures). The EESC feels that such payments are vital not only to rural development in general and farmers' incomes, but also to the success of the NATURA 2000 network⁽²⁾. In addition, LIFE-Nature has supported measures which are highly innovative in terms of nature conservation, for instance specific projects that have brought together farmers and conservationists. There is a risk that these aspects of LIFE-Nature could now be lost.

3.2.5 Another potential issue that may arise in connection with the transfer of project planning and decision-making responsibilities is the interest — or lack of interest — in environmental policy on the part of the Member States concerned. For example, The EU might want to focus EU funding in a particular Member State on specific nature protection projects (e.g. Natura 2000), because of the need to conserve the rich natural resources found there. However, the Member State in question may have quite different (environmental) priorities, and may prefer to focus on other policy areas, or, within the field of environmental protection, to address climate-related or waste-management issues, using LIFE+ funding.

3.2.6 In view of the tight budgetary situation in many Member States, there is a by no means negligible risk that Member States will use the LIFE+ funding over which they have control to replace previously self-financed environmental expenditure.

3.3 Right now, the EU is at a particularly difficult stage from the point of view of environment policy (completed and upcoming enlargement, difficulties in economic policy and with the implementation of the Lisbon strategy, definitive establishment of the NATURA-2000 network): on the one hand, all the environmental standards need to be implemented, especially in the new Member States, while, on the other, economic growth needs to be decoupled from resource use and damage to the environment; in this context, the Commission needs to retain control of a sufficient number of policy-shaping funding instruments of its own.

Brussels, 7 April 2005.

3.4 However, by transferring responsibility to the national level as planned the EU is surrendering a modest, but nonetheless highly effective means of control, and a policy instrument is being downgraded to a budget line for use by the Member States. To the EESC, it is not immediately apparent how the Commission can thereby safeguard the European interests that are a *sine que non* of EU funding. In other words, and European added value and the innovative character that has so far been so clearly recognisable in the LIFE programme must be preserved. Having read the document under review, the EESC is not at all clear about how the Commission intends to go about this. It therefore urges that the innovative aspects of LIFE-Environment and LIFE-Nature should be retained in a fund managed by the Commission itself; in doing so, it lends its support to a corresponding demand which has now been made to the Council by several Member States.

3.5 The support for the coordination, implementation and further development of European environmental and sustainable development policy that is to be promoted by LIFE+ — as an integral part of the EU-wide growth-based, socially sensitive and environmentally oriented cohesion strategy, is extremely important and is welcomed by the EESC. That clearly also includes support for environmental NGOs which have a Europe-wide vocation or which — and this is a point that needs greater emphasis in the Commission document — tackle issues of European relevance. As far as possible, support needs to be related to specific projects.

4. Conclusions

4.1 In principle the EESC welcomes the approach of integrating environmental policy into all other policy areas, as the limited funds available for the LIFE programme would not of themselves be enough to further environmental protection in the EU.

4.2 However, in the EESC's view, both the Commission's proposal and in general the current discussions on the financial perspective for 2007-2013 pose a potentially very serious threat to the future success of the LIFE programme. Firstly, there is no guarantee whatsoever that funding will actually be available for environmental interests under other headings, and secondly, by transferring responsibility to the national level as planned the EU is surrendering a modest, but nonetheless highly effective means of control. The EESC therefore urges that the innovative aspects of LIFE-Environment and LIFE-Nature should be retained in a fund managed by the Commission itself.

The President
of the European Economic and Social Committee

Anne Marie SIGMUND

⁽¹⁾ Cf. EESC opinion on the *Communication from the Commission to the Council and the European Parliament: Financing Natura 2000*.

⁽²⁾ Cf. EESC opinion on *Rural Development/EAFRD*.

Opinion of the European Economic and Social Committee on the Proposal for a Regulation of the European Parliament and of the Council concerning the establishment of a European Pollutant Release and Transfer Register and amending Council Directives 91/689/EEC and 96/61/EC

(COM(2004) 634 final — 2004/0231 (COD))

(2005/C 255/10)

On 4 February 2005, the Council decided to consult the European Economic and Social Committee, under Article 175(1) of the Treaty establishing the European Community, on the abovementioned communication.

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 17 March 2005. The rapporteur was Ms Sánchez Míguel.

At its 416th plenary session, held on 6 and 7 April 2005 (meeting of 6 April), the European Economic and Social Committee adopted the following opinion by 131 votes to none, with 11 abstentions.

1. Introduction

1.1 The Århus Convention ⁽¹⁾, which recognised the right to access to information, public participation in decision-making and access to justice in environmental matters, marks a new phase in the EU, with an attempt to create instruments that provide the public and other environmental stakeholders with the necessary means to obtain reliable information, which will enable preventive measures to be taken and, above all, achieve positive results in reducing environmental pollution.

1.2 Articles 5(9) and 10(2) of the Århus Convention provide for the creation of instruments facilitating public access to information and public participation; registers are amongst the most useful of these instruments, because they contain data that are reliable and comparable with the data provided both by businesses and by the competent authorities. It should be noted that, in other Community policies, the use of data registers has helped to improve access to information and the legal security of the data they contain.

1.3 Specifically as regards pollutant release and transfer, other international instruments exist, in particular the Bahía Intergovernmental Forum on Chemical Safety (2000), which included priority actions to be implemented as of 2000 as a means of achieving the aims that had been set; the 2001 Stockholm Convention on persistent organic pollutants and the control of transboundary movements of hazardous wastes and their disposal; the OECD's work (2002) on analysis of the costs and benefits of pollutant release and transfer registers.

⁽¹⁾ Århus Convention on access to information, public participation in decision-making and access to justice in environmental matters, signed on 25 June 1998 by most EU Member States, and the proposals for directives – (OJ C 117 of 30.4.2004).

1.4 However, the most important international instrument in the field of pollutant waste and transfer registers is the UN/ECE Protocol signed in Kiev in 2003 ⁽²⁾. Its main aim is to promote information in this field by means of national registers that contain data provided by the parties concerned and which also help to prevent and reduce environmental pollution; it recommends that such registers also be established at international level in order to make it easier to compare data held at supra-national level.

1.5 The Kiev Protocol can be considered to be a model for this proposed European PRTR regulation, in particular the content of the annexes, which help to achieve the desired aim: to harmonise the data held in the registers, be they national, European or international. There are two aspects, however, which differ in the proposed regulation: the first concerns the list of priority substances contained in the Water Framework Directive (WFD), with the addition of new ones ⁽³⁾, and the second is the recommendation to bring the entry into force forward to 2007, so that notification in accordance with the new procedure coincides with the final EPER report.

1.6 In addition to these international agreements, there are the European regulations currently in force which already contain the requirement for a European Pollutant Emission Register (EPER) ⁽⁴⁾ as set out in Article 15(3) of Directive 96/61/EC (IPPC — Integrated Pollution Prevention and Control) ⁽⁵⁾, which has been operational since 23 February 2004. To date, the first reports were submitted by Member

⁽²⁾ The Protocol on pollutant release and transfer registers to the Convention on access to information, public participation in the decision-making process and access to justice in environmental matters. (Kiev, 21 May 2003) was signed at the 5th Ministerial conference on 'Environment for Europe'.

⁽³⁾ Annexes IX and X of the Water Framework Directive (WFD) (Directive 2000/60/EC) set down the list of priority substances, whilst the PRTR contained in the UN/ECE Protocol adds three new ones and also requests information on five further substances.

⁽⁴⁾ Commission Decision 2000/479/EC of 17 July 2000, OJ L 192 of 28.7.2000.

⁽⁵⁾ See (OJ C 80 of 30.3.2004).

States for data from 2001, whilst data for the second reporting year, which covers 2004, should be submitted by Member States by June 2006, and the third reporting year is scheduled for 2007, to be published in 2008. It should be pointed out that the EPER, the content of which will be expanded to comply with the Kiev Protocol, forms a good basis for the proposed E-PRTR.

2. Gist of the proposal for a regulation

2.1 The aim of the regulation is to create a Community pollutant release and transfer register, which will enable Europe to comply with the Kiev Protocol. To this end, it sets out an exhaustive list of definitions of terms that may differ in several instances from the IPPC Directive terms and it covers both the pollutants (substances) and activities (facilities) to which the Regulation would apply, whether they be in the public or private sector, and arranges the information that the PRTR (Art. 3) must contain under three headings:

- Pollutant releases, as specified in Article 5(a) from activities listed in Annex I
- Off-site transfers of waste and untreated waste water, as set out in Articles 5(1)(b) and (c) from activities listed in Annex I
- The release of pollutants from diffuse sources.

2.2 The structure of the E-PRTR (Art. 4(1)) is based on the mandatory reporting of data by businesses which, because of their sphere of activity, specifically those set out in Annex I, have their substances and waste monitored in accordance with the European regulations in force. If these substances are measured, calculated or estimated for reporting purposes, the method of analysis or calculation must be stated, with reference to the values set out in Annex II.

2.3 The data reporting will be undertaken in the Member States and conveyed to the Commission electronically, keeping to the timetables set out in Article 7 (the first reporting year will be 2007). Data will be reported in two sections — one dealing with releases to land (Art. 6) and the other dealing with releases from diffuse sources (Art. 8).

2.4 The necessary rules have been drawn up with great care to ensure that the content of the register meets the requirements of all public information systems, in terms of:

- the quality of the data, which will be assured by the operator and assessed by the competent authorities as to

how up-to-date they are and as regards their completeness, reliability, comparability and transparency;

- ease of public access to the information contained in the registers, assured by the Commission, with the European Environment Agency providing assistance with this task;
- the confidentiality that will be applied to data that companies have classified as confidential, taking account, for this purpose, of the provisions of Article 4 of Directive 2003/4/EC.

2.5 Other rules contained in the E-PRTR Regulation refer to public participation (Art. 12) and access to justice (Art. 13), as recognised in the Århus Convention and in Directive 2003/4/EC. The Commission must establish appropriate arrangements for this, and issue periodical reports providing information on the outcome of such public participation (Art. 12(2)).

2.6 Member States will have to provide additional information every three years (Art. 16), once the regulation has entered into force, assessing practices in their countries and compliance with mandatory data reporting by the companies concerned. Furthermore, they will have to set effective, proportionate and dissuasive sanctions that will apply in the event of non-compliance with the requirements (Art. 20).

2.7 Lastly, the Commission will be assisted by a Committee, as set out in Decision 1999/468/EC (Art. 19).

3. General comments

3.1 The EESC can, in principle, accept the aim of a European Pollutant Release and Transfer Register that is in line with the international agreements signed by the European Community and thus replaces the current EPER, especially since this does not entail further obligations for the parties concerned than under current Community legislation. Harmonising data collection and information reporting will ensure the quality and comparability of such information and will thus make it more effective and, above all, more accessible.

3.2 The legal base adopted by the Commission for this proposal for a regulation is Article 174(1) in conjunction with Article 300 of the EC Treaty, which authorises it to propose rules for compliance with international agreements that the EC signs with international organisations. In this case, the agreements in question are not only to protect the environment against pollution, but also to facilitate information, public participation and access to justice.

3.2.1 The Commission looked at various options for implementing the UN-ECE Protocol; firstly, it studied the possibility of reforming the current EPER without proposing a new regulation but, given the need to reform the IPPC Directive anyway, not only this time but each time that changes are made to the Kiev Protocol, which is the basis of this proposal, it deemed it more appropriate to propose a new legislative instrument so as to avoid further legal uncertainty amongst the parties affected by these continuous reforms. For this reason and on the basis of Article 175(1) TEC, this draft regulation was submitted as the legislative instrument best suited to meet the requirements for the harmonised implementation of the international agreements.

3.2.2 The upshot is that all Member States will implement the Kiev Protocol by means of a Community law that will also guarantee that the Protocol's content is consistent with current Community legislation in this field and that it will apply to all Member States immediately, and not have to wait until the Protocol is ratified at a later date, upholding the common position adopted by national representatives when they negotiated and signed the Protocol.

3.3 It must be borne in mind, however, that the current situation in the Member States, including those that have recently joined the EU, varies considerably in the degree to which they comply with the obligations imposed by the EPER, ranging from some countries such as the United Kingdom which have a broader register to others such as Hungary which was asking voluntarily to be part of the scheme even before joining the EU. There are also differences in the degree of compliance by the parties concerned: whereas major corporations and industrial groups and facilities under the IPPC Directive comply fully, (even producing annual environmental reports), SMEs, small operators outside the IPPC and some local authorities — provided they operate municipal waste water treatment plants — lack the means to be able to comply with all the bureaucracy that this obligation entails.

3.4 The EESC considers that the approach, in terms of both access to information and public participation, is correct and fulfils the aims set out in Directive 2003/4/EC. Furthermore, it is satisfied with the obligation to inform the public on the outcome of its participation so that this participation can be assessed. Nevertheless, it must be pointed out that, in order to provide Internet access to the greatest possible number of people, the number of languages used for consultation would have to be increased to cover all the official languages.

3.5 An extremely important issue — the economic impact — appears to have been thoroughly evaluated by the Commission⁽⁶⁾ which concluded that, since the Member States and parties concerned were already obliged to implement the EPER

and thus to report all the data it required, the costs would only apply to new arrangements between the Commission and Member States for the transfer of the stored data; the Commission will have to bear the brunt of the costs, especially for setting up and maintaining the web page, with each Member State thus having to pay only a very small part. Nevertheless, it is also important to mention that, for operators outside of the IPPC Directive, monitoring and reporting of their releases and transfers form a new cost item and administrative burden.

4. Specific comments

4.1 The EESC considers that the PRTR Regulation will result in a marked improvement to the approach initiated by the EPER; firstly, because it ensures that more information is provided on releases to air and water by including releases to land and releases from diffuse sources and also because it adapts EU legislation to international legislation, with particular reference to the Århus Convention and more specifically, to the Kiev UN-ECE Convention.

4.2 Nevertheless, the EESC wishes to state that the current EPER must be consolidated in order to make it as easy as possible for the parties concerned to comply with the reporting obligation, as set out in the new provisions. The PRTR's scheduled entry into force (2007, although it will not be operational until 2009) will allow time to supplement and correct the current register and to gradually incorporate the new reports and the parties newly required to report. Finalising the EPER's content and publishing it on the web page will cut costs and, above all, prevent confusion arising between current information and new information.

4.3 As regards the inclusion of more new pollutants to be reported (a further 36 with the UN-ECE Protocol), two comments should be made: a) many of them are pesticides no longer used or marketed in the EU and b) the obligation to report is tied to compliance with the reporting thresholds set out in Annex I for activities and in Annex II for pollutants.

4.4 The EESC believes it would be advisable to standardise as far as possible the content of the reports to be submitted by the parties concerned (Annex III) and to simplify reporting for SMEs and farmers, so as not to impose further bureaucracy and expense on those concerned. For this reason and in order to ensure that the data contained in the registers are comparable, the best technology available should be used for determining the annual quantities. Consistency between the various national registers and the European register is another requirement for ensuring that these are standardised and comparable with one another.

⁽⁶⁾ See the document: *Analysis of the Cost and Benefits of PRTRs* produced by the Economic Analysis Division in 2002. CÉP/WG.5/AC.2/2002/4.

4.5 The EESC is particularly sensitive to the confidentiality of data that must be included in the reports by the parties concerned. As set out in Article 11, it is the Member States that will decide on keeping any given data confidential, at the request of the parties concerned, and provided that they comply with the exceptions set out in Article 4 of Directive 2003/4/EC, although the last sentence states that *the reasons for the refusal shall be given*, whereas Recital 14 of the proposed regulation states that *Access to information provided by the European PRTR should be unrestricted and exceptions from this rule should only be possible where explicitly granted by existing Community legislation*. This difference between the two provisions must be resolved because, as set out in the last sentence of Article 11, those parties who wish certain data to remain confidential have to justify their request, otherwise it could lead to the false assumption that these data are not covered by Article 4 of Directive 2003/4/EC because, if they are regulated by a legal provision, there is no need to give a reason.

4.6 The EESC appreciates the efforts made in the E-PRTR proposal to put the reported data into their proper context and to gradually reduce potential risks of misinterpretation of such data. Further improvements in this direction would be sincerely appreciated.

Brussels, 6 April 2005

5. Conclusions

In conclusion, transparency in the notification of emissions and the transfer of pollutants, in the form proposed in the E-PRTR, by the parties concerned, i.e., businesses, farmers and public authorities, can be said to perform a two-fold task:

- to publicise, within the internal market, the environmental practices of all those parties and their compliance with the relevant European legislation, so that competitors, consumers and citizens can easily assess these practices and act accordingly;
- to bring added value to the competitiveness of European companies, whatever their activity, in both European and international markets, and provided that data remains standardised and comparable, as set out in 'Specific comments'. The Section considers that the transparent information that the E-PRTR can provide will help to strengthen common positions on voluntary agreements by production sectors, will make it easier to comply with environmental legislation and, through the publicity provided by the registers improve public knowledge on local facilities, enhance the Corporate Social Responsibility concept amongst operators and facilitate trust building amongst civil society actors.

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

Opinion of the European Economic and Social Committee on the Proposal for Directive of the European Parliament and of the Council amending Directive 95/2/EC on food additives other than colours and sweeteners and Directive 94/35/EC on sweeteners for use in foodstuffs

(COM(2004) 650 final — 2004/0237 COD)

(2005/C 255/11)

On 16 November 2004 the Council decided to consult the European Economic and Social Committee, under Article 95 of the Treaty establishing the European Community, on the abovementioned communication.

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 17 March 2005. The rapporteur was Ms Ann Davison.

At its 416th plenary session, held on 6 and 7 April 2005 (meeting of 6 April 2005), the European Economic and Social Committee adopted the following opinion by 136 votes to 2 with 7 abstentions.

1. Background

1.1 This is the sixth amendment on food additives other than colours and sweeteners in ten years, and the third for sweeteners.

1.2 The amendments to Directive 95/2/EC, which operated on the principle of positive lists, concern additives 'other than colours and sweeteners'. This means that the focus is mainly on emulsifiers and stabilisers, and preservatives.

1.3 The amendments set out to withdraw, reduce, re-appraise, authorise, extend, clarify and re-name certain food additives in these relevant categories. These changes take into account the Scientific Committee on Food's and European Food Safety Authority's opinions on new additive proposals and the extension of the uses of certain existing additives. The amendments will also introduce harmonised controls on additives needed for the storage and use of flavourings. (At present different laws apply in individual Member States.)

1.4 The new provisions will make sure that additives will only be permitted where they have been evaluated for safety, where the technological use has been justified, and no intake concerns identified.

2. General comments

2.1 The Committee proposed the establishment of a European Food Safety Authority and is pleased at the resultant separation of risk assessment from risk management, also that the EFSA seems to be taking account of need for any new products. It hopes that the member states are applying sufficient resources for enforcement of the EFSA's new approach. The EESC welcomes this update of legislation and has certain detailed comments.

3. Specific Comments

It would be clearer if the Commission would include e numbers, as stated on the label, against the named additives in its documents.

3.1 Sodium compounds

The text includes a number of sodium compounds. The EESC is concerned that consumers do not realise from the labelling that these are salt and so can contribute to their total maximum suggested average daily intake of 6g. They therefore cannot respond meaningfully to advice to reduce their intake.

3.2 Nitrites and nitrates

The Commission wishes, on the advice of the EFSA to lower the permitted levels as much as possible without compromising food safety. Nitrates and nitrites are useful preservatives but too much consumption carries its own risk. The Commission therefore suggests a strategy which sets a maximum level. In the interest of consumer safety, the EESC would like to see as low a base line as possible, if necessary with different levels for different products to achieve this.

3.3 Weaning foods and food supplements and foods for special medical purposes

The EESC supports the Commission's proposal to align its wording by replacing the term 'weaning foods' in all legislation with 'processed cereal — based foods and baby foods' and to clarify the wording on food supplements and foods for special medical purposes.

3.4 p — Hydroxybenzoates

3.4.1 These were due for review and the EFSA has established a full group acceptable daily intake of 0-10 mg/kg by weight for the sum of methyl and ethyl p-hydroxybenzoic acid esters and their sodium salts. However it is recommended to remove approval for propyl paraben which had effects on sex hormones and organs in juvenile rats. It is also proposed to withdraw the use of p-hydroxybenzoates in liquid dietary food supplements.

3.4.2 The Committee understands that the EFSA calculation of ADI allows a safety margin for children and other vulnerable groups. It agrees that in the absence of a no observable adverse effect level approval should be withdrawn.

3.5 *Gelling agents in jelly mini-cups*

In view of the well-documented risk from choking, it is proposed to withdraw from use a number of gel forming food additives. The EESC agrees with the ban but points out that it is the shape, form and consistency of such sweets which create the risk rather than the additives themselves. A broader ban is needed to prevent them altogether from coming onto the market. As there is no provision under general food law or in the General Product Safety Directive for introducing a ban on the product itself, the product is prohibited via the food additives it contains. The Committee considers that the EU should have the option to ban an unsafe food product.

3.6 *Erythritol*

This is a sweetener that occurs naturally in some fruit, mushrooms, fermented foods and cheese but is also useful for other purposes and is proposed to be permitted for several uses. The EESC agrees with this decision but queries the wording 'masking unwanted off-flavours' which sounds as though food which is less than fresh could be masked. The EESC notes the advantages of a new sweetener to particular groups of frequent users such as diabetics. It not only increases their choice of products containing artificial sweeteners but has fewer laxative effects which need not in this case now be labelled.

3.7 4 — *hexylresorcinol*

3.7.1 This is proposed as an alternative and not as a withdrawal of sulphites which prevent browning of crustaceans. The Scientific Committee on food ruled it acceptable provided residues in crustaceans meat do not exceed 2 mg/kg.

3.7.2 The EESC is concerned about people who consume an unusual amount of crustaceans — people living on the coast, for example. The EFSA should assess whether 4-hexylresorcinol or sulphites, or a mix, is safer for consumers.

3.8 *Soybean hemicellulose*

This is derived from fibre from (traditional) soy and approved by the SCF. All products from soybean including soybean

hemicellulose, have to be labelled because they are potential allergens.

3.8.1 The EESC accepts this change to the use of soybean hemicellulose since the need for these restricted uses has been established

3.9 *Ethyl cellulose*

This is prepared from wood pulp or cotton and is widely used as a filler in pharmaceutical tablets. The EFSA did not consider any ADI to be necessary. The EESC agrees with the proposal to extend its use in the same way as for other cellulose

3.10 *Extending use of already authorised food additives*

The Commission proposes extending the use of three additives, sodium hydrogen carbonate, sorbates and benzoates and silicon dioxide.

— Sodium hydrogen carbonate

The additive was originally defined as a processing aid which does not come within Community competence. It has now been redefined but its use has not been questioned by the Commission because it is already permitted in organic foods.

— Sorbates and benzoates in crustaceans

It is proposed to extend the use of the above on the basis that consumption is unlikely to increase significantly. The EESC considers that the average figure for consumption of such products may hide significant variation and wonders whether high consumers are sufficiently protected. It welcomes the fact that the Commission is collecting more information on benzoates.

— Silicon dioxide

The Commission needs to make clear its view that higher dosage of silicon dioxide would be preferable to maintenance of high consumption of organic dyes.

3.11 *Timing*

The suspension of placing on the market of jelly cup sweets needs to remain until and unless the new legislation takes over and has the same effect.

Brussels, 6 April 2005.

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

Opinion of the European Economic and Social Committee on The role of civil society in helping to prevent undeclared work

(2005/C 255/12)

On 28 January 2004 the European Economic and Social Committee, acting under Rule 29(2) of its Rules of Procedure, decided to draw up an opinion on *The role of civil society in helping to prevent undeclared work*.

The Section for Employment, Social Affairs and Citizenship, which was responsible for preparing the Committee's work on the subject, adopted its opinion on 15 March 2005. The rapporteur was **Mr Hahr**.

At its 416th plenary session, held on 6-7 April 2005 (meeting of 7 April), the European Economic and Social Committee adopted the following opinion by 112 votes to 1, with 2 abstentions.

1. Summary of the Council Resolution

1.1 On 20 October 2003, the Council (employment, social policy, health and consumer affairs) adopted a resolution on undeclared work⁽¹⁾. The Council's objective here is for the Member States to consider adopting a measured strategy to combat undeclared work in the Union. The strategy would be an integral part of the European Employment Strategy. The ninth guideline of the 2003 Employment Guidelines was directed exclusively at undeclared work⁽²⁾.

1.2 The Council calls on the Member States to consider the resolution as a frame of reference for framing and implementing policies as part of the European Employment Strategy, while respecting national circumstances and priorities. The resolution builds largely on the content of the Commission's 1998 communication on the subject⁽³⁾.

1.3 Moreover, the Member States are requested to take account of the actions outlined in the resolution when reporting on the principal measures taken to implement their employment policies in the light of the specific guideline on undeclared work in their future National Action Plans.

1.4 It recommends cooperation in order to examine the common features of undeclared work across the Member States. This might best be addressed by a common approach within the framework of the European Employment Strategy.

1.5 With regard to preventive actions and sanctions, the Council recommends developing a comprehensive approach in keeping with the European employment strategy based on preventive actions, encouraging all employers and employees to operate within the formal economy and in the context of regular employment; these measures should respect the sustainability of public finance and social protection systems, and may include:

- the creation of a legal and administrative environment which is favourable to the declaration of economic activity and employment, through simplifying procedures and by reducing the costs and constraints which limit the creation and development of businesses, in particular start-ups and small undertakings;
- strengthening incentives and removing disincentives to declare work on both the demand and the supply sides;
- reviewing and, where appropriate, reforming tax and benefit systems and their interaction to reduce high marginal effective tax rates and, where appropriate, the tax burden on low-paid workers;
- setting up suitable employment policies vis-à-vis beneficiaries of social-protection measures which will help them to participate in the regular labour market; and
- reducing the risk of unemployment and poverty traps by eliminating undesirable interactions between tax and benefits systems.

1.6 Surveillance of legislative implementation must be stepped up, where appropriate with the active support of the social partners, as should sanctions in the event of violations, in particular in respect of those who organise or benefit from clandestine labour. Social awareness of the negative implications of undeclared work for social security and the consequences of undeclared work for solidarity and justice must be raised. It is also necessary to improve knowledge of the negative consequences of undeclared work.

⁽¹⁾ Council document No. 13538/1/03.

⁽²⁾ Council decision of 22 July 2003 on guidelines for the employment policies of the Member States, ninth guideline: 'Member States should develop and implement broad actions and measures to eliminate undeclared work, which combine simplification of the business environment, removing disincentives and providing appropriate incentives in the tax and benefits system, improved law enforcement and the application of sanctions. They should undertake the necessary efforts at national and EU level to measure the extent of the problem and progress achieved at national level.'

⁽³⁾ Communication from the Commission on undeclared work, COM(98) 219.

1.7 To improve knowledge about the extent of undeclared work, it is necessary to estimate the scope of the informal economy and undeclared work at national level. This can be done on the basis of such data as is available to social security institutions, tax authorities, ministries or national statistical offices. It is also important that the Member States contribute to the development of the measurement of undeclared work at EU level in order to gauge progress in achieving the objective of transforming undeclared work into regular employment. Efforts should be made to seek cooperation between national statistical offices on methodology and foster the exchange of experience and know-how on this issue.

1.8 Finally, the Council calls upon the social partners to consistently address the issue of undeclared work in the context of their jointly agreed multi-annual programme and to further deal with undeclared work at sectoral level in the context of the social dialogue committees. At national level, the social partners should promote the declaration of economic activity and employment and combat the incidence of undeclared work through awareness-raising and other measures, such as collective bargaining undertaken in accordance with national traditions and practices, in ways which contribute to the simplification of the business environment, particularly as far as small and medium-sized enterprises are concerned.

2. Introduction

2.1 Undeclared work means that tax and social contributions are not paid into the public purse. Revenue is not reported in economic activity and thus escapes taxation. VAT is neither reported nor paid. Work is paid for 'under the counter'. Employer contributions are not paid on undeclared wages. Neither do wage earners declare this income, so they pay no income tax.

2.2 Consequently, society is deprived of a considerable amount of the income, running into the billions every year, that goes towards funding, inter alia, welfare systems.

2.3 Efficient, honest businesses are either pushed out or find it hard to stay afloat and expand, whereas black economy businesses are able to stay in the market and even expand. This threatens to undermine the efficiency of the whole economy, and the productivity gains needed to continue to fund the welfare state also fail to materialise.

2.4 Undeclared work occurs throughout society, involving both employers and employees. It can basically be divided up into three groups.

2.5 The first group is made up of businesses that engage systematically in undeclared work — often in combination with regular employment. Employees often get their wages paid 'under the counter'.

2.6 The second is made up of people with two or more jobs, one of which might be undeclared. This group is made up of well-educated employees, for example, who want to top up the salary they get from their usual job in the regular labour market with some extra money on the side.

2.7 Finally, the third group is made up of unemployed workers who, for various reasons, are forced to work in the black economy because they are unable to secure employment in the regular labour market. This group is particularly vulnerable. They are often forced to work in poor conditions and for low pay. They are not generally covered by social security systems.

2.8 In addition to these three distinct main categories, undeclared work also takes place in other ways:

2.9 Unemployment or sickness benefits can be combined with undeclared income.

2.10 For small repairs, homeowners and tenants turn to workers who do not declare these jobs. They also do this for removals, for example. The reason behind this type of undeclared work is often that the relevant firms consider these jobs to be too small, so they suggest an employee who is prepared to do the job in his spare time as long as he is paid 'under the counter'.

2.11 The situation in the new Member States is similar to that in the EU15. However, the May 2004 Report on Undeclared Work in an Enlarged Union does highlight a specific phenomenon: the employer officially declares only part of the wage and the employee gets the remaining undeclared part as 'envelope wages' ⁽⁴⁾.

2.12 It is important to point out that all these types of undeclared work involve a not inconsiderable amount of tax evasion.

2.13 This dishonesty undermines society's moral code and that sense of responsibility that is essential in a society in which a not inconsiderable share of resources is used for redistribution and social benefits. Tax evasion also leads to tensions in society. A large proportion of the population pays tax while others take it upon themselves to decide how much to pay in tax and contributions.

⁽⁴⁾ 'Undeclared work in an enlarged Union', European Commission, Directorate-General for Employment and Social Affairs (2004), available in electronic format in English only: http://europa.eu.int/comm/employment_social/employment_analysis/work/undecl_work_final_en.pdf

2.14 Undeclared work does great damage to society as a whole. However, the damage cannot be measured in monetary terms alone. Trust is undermined at all levels. Many people accept or find excuses to do undeclared work; unemployment benefit is too low; regular — i.e. tax-declared — home services are too expensive, etc.

2.15 The rule of law and welfare systems are called into question when respect for the law and for rules and regulations cannot be maintained. It is therefore necessary to get to grips with these problems, using comprehensive, targeted measures. There is, however, a slowly growing recognition by the social partners, politicians and society at large of the negative consequences of undeclared work and the need to transform undeclared work into regular employment.

3. General comments

3.1 In 1999 the Committee issued an opinion on the Commission Communication on undeclared work⁽⁵⁾. The aim of the Commission communication was to stimulate a wide-ranging debate on this subject, both at EU level and in the Member States. The Communication was followed by a study carried out at the initiative of the Commission⁽⁶⁾.

3.2 The Committee welcomes the Council resolution aimed at taking this issue forward.

3.3 At the same time, the Committee notes that in 2003, the Commission embarked upon an extensive investigation into undeclared work in the enlarged EU. The Committee believes that the results of this enquiry, published in May this year⁽⁷⁾, make a valuable contribution to our understanding of undeclared work and how to combat it. The study thus provides Member State governments and authorities with an important basis for deciding the methods needed to tackle undeclared work.

3.4 Part of the Employment Strategy

3.4.1 According to the Council, combating undeclared work must be an integral part of the European Employment Strategy, which aims to provide more and better job opportunities. The Commission was already focusing on this objective and the EU Employment and Social Affairs ministers expressed their views at their informal meeting in Varese in July 2003. They recalled that transforming undeclared work into regular employment would contribute to achieving full employment, improving quality and productivity at work, strengthening social cohesion and inclusion, eliminating poverty traps and avoiding market distortions.

⁽⁵⁾ COM(1998) 219 final; EESC opinion in OJ C of 12.4.1999, pp. 30-37 (rapporteur: Mr Giron).

⁽⁶⁾ Regioplan Research Advice and Information (Mateman, Sander & Renooy, Piet): 'Undeclared labour in Europe - Towards an integrated approach of combating undeclared labour' (in English with summary in French and German), Amsterdam, 2001.

⁽⁷⁾ See footnote 4

3.4.2 In its 1999 opinion on the Commission communication, the Committee endorsed the employment-based approach to undeclared work. The Committee continues to adhere to this view.

3.4.3 A whole range of measures is needed to achieve the objective of transforming undeclared work into declared work, or bringing black economy work into the legal 'white' economy.

3.4.4 First of all, we need to make a distinction between those who ought to be employed in the regular labour market and those who have chosen not to declare their activity.

3.4.5 It is also essential to understand which activities in the informal black economy can be transferred to the formal, 'white' sector.

3.4.6 There is unlikely to be any demand for some types of black economy activities or services in the legal economy. The Committee therefore believes that this area requires special attention. Support measures could perhaps be used to bring these activities into the legal 'white' sector too.

3.4.7 The implementation of the Lisbon Strategy requires, *inter alia*, new dynamic, competitive companies to be created and developed in the European Union, in order to provide more jobs.

3.4.8 Translating an idea into a functioning productive company with its own payroll is a very long, complicated process.

3.4.9 Consequently, it is important to create the right climate for start-ups, i.e. one that is conducive to growth and development.

3.4.10 Employees must be able to expect the companies they work for to be aware of and to comply with existing labour market and tax legislation.

3.4.11 A balance needs to be struck between these two requirements or there is a risk that a large number of companies will never see the light of day and that many good ideas will never be translated into reality.

3.4.12 The visionary nature of the Employment and Social Affairs Ministers' comments in Varese in July 2003 could easily give the impression that bringing undeclared work into the declared sector is merely an employment issue. Undeclared work — particularly when it is organised systematically — is often linked to other forms of economic crime. This crime calls for specific societal initiatives and must be combated through the usual channels.

3.5 Definition of undeclared work

3.5.1 In order to separate undeclared work from other types of economic activity, the Council uses the definition used by the Commission in its 1998 communication: The Committee took the view that the definition of undeclared work as 'any paid activities that are lawful as regards their nature but not declared to the public authorities' was acceptable in view of the need to establish a common definition for all Member States. The Committee endorses this approach.

3.6 Illegal immigration and undeclared work

3.6.1 The Committee has, on a number of occasions, commented on the incidence and causes of illegal immigration, and also addressed the relationship between illegal immigration and undeclared work. Illegal immigrants do not have access to the regular labour market nor to social security. They are therefore obliged to make a living somewhere else, and, more often than not, they turn to the moonlighting sector. Moonlighting is rife in industries such as the building trade and the agricultural and gardening sectors. This often means illegal immigrants become heavily dependent on the irresponsible employers who exploit them.

3.6.2 The EU Member States therefore need to take action under the common immigration policy to combat illegal immigration⁽⁸⁾. This must be done using different strategies, which could vary from Member State to Member State. One obvious strategy is to make sure that illegal immigrants return to their country of origin. Another is to step up border controls significantly.

3.6.3 However, someone who is ready to give up everything in his homeland in order to start a new life somewhere else is possessed of an energy that is hard to counter.

3.6.4 There are also people whose papers are stolen or confiscated in order to force them to pay back the costs of their clandestine journey. Reduced to slavery, victims are compelled by networks of people smugglers to repay their 'debts'. Not only employees working for individuals (such as servants) but also those working e.g. on building sites, in shipyards, on farms or in the catering industry are affected. It is extremely disturbing to note that criminal activities are being organised with the involvement of several social levels, before our very eyes. In order to deal with the problem and to protect victims by giving them rights and ensuring respect for such rights, we must be aware of the situation and acknowledge that it exists.

⁽⁸⁾ See also Green Paper on An EU approach to managing economic migration, COM(2004) 811 final.

3.6.5 In a large number of cases of illegal immigration, however, the person concerned cannot be sent back to his homeland for humanitarian, legal or practical reasons. Naturally, in these cases the immigrant needs to be integrated into society through various measures.

3.6.6 Future evaluation of transitional measures on the 'free movement of workers' or rather, the lack of such freedom for nationals of Member States which joined the EU on 1 May 2004, should discuss the unnecessary difficulties faced by employers and workers, taking into account changing qualifications, demographic changes, cultural changes and changing needs for mobility.

3.6.7 Otherwise there is a risk that these groups will become part of a moonlighting pool, with all the negative repercussions this has for the regular labour market.

3.6.8 As the Committee pointed out in its own-initiative opinion on Immigration, integration and the role of civil society organisations, an important complement to other measures to combat undeclared work is the use of various integration measures and eventually citizenship to admit the immigrant into civil society⁽⁹⁾.

3.6.9 The authorities have a duty to clearly inform immigrants of their rights and duties, and ensure they have access to the regular labour market and full access to training. Healthcare and other services must be available to immigrants on the same terms as the rest of the population. Housing segregation must be avoided.

3.7 Preventive measures

3.7.1 In its resolution, the Council calls on the Member States to create a legal and administrative environment that is favourable to the declaration of economic activity and employment. More generally, the aim is to make undeclared work a less attractive proposition.

3.7.2 In this connection, the Committee would highlight some potential solutions that, either individually or used together, can help to achieve the objective:

3.7.3 Comparative studies should be carried out in order to ascertain which tax bases are particularly vulnerable to undeclared work and what potential exists to eliminate the problem.

3.7.4 The Member States must have properly functioning legal systems in order to identify, prosecute and punish those who engage in undeclared work. This is particularly important where it takes place systematically and workers are exploited.

⁽⁹⁾ OJ C 125 of 27.5.2002, pp.112-122 (rapporteur: Mr Pariza Castaños, co-rapporteur: Mr Melicias).

3.7.5 Comprehensive information and education initiatives must be implemented in order to show the damaging effect that undeclared work has on society and on individual citizens.

3.8 *Tax issues*

3.8.1 Investigations into the black economy generally assume that undeclared work is a problem because it leads to lower tax receipts.

3.8.2 Research carried out in various countries into the extent of the black economy provides no support for the hypothesis that there is a statistical link between the size of the sector and the overall tax burden.

3.8.3 The link between undeclared work and the tax burden is complex. The Committee does not believe that low taxes automatically lead to less tax evasion. The black economy also exists in countries where tax and contribution rates are low.

3.8.4 The Committee would welcome a comprehensive study to shed light on the link between taxes and contributions and the extent of undeclared work.

3.8.5 Since experience shows that undeclared work often takes place in very small firms with limited administrative resources, one might ask whether the reason for this is unawareness of the rules in force, if the rules are too complicated or if undeclared work is carried out deliberately in order to gain competitive advantages.

3.8.6 We place much store by fairness. This is why our systems of regulation are so detailed. The tax system is an example of this. High expectations of fairness mean that large resources have to be committed, not least for the authorities tasked with ensuring that decisions are complied with.

3.8.7 If a not insignificant proportion of businesses and employees in a certain sector chooses to withhold profits and wages from taxation, the tax system can be perceived as unfair by honest businesses, which can even be forced out by unfair competition.

3.8.8 There is therefore a case for exploring whether greater use can be made of flat-rate schemes in order to provide a simpler system that makes life easier for both individuals and the authorities. This would reduce the scope to manipulate systems and free up resources to pursue more serious lawbreakers.

3.9 *Monitoring and control*

3.9.1 One of the Council resolution's key arguments with regard to transforming undeclared work into regular economic activity is that monitoring and sanctions must be stepped up.

The Committee would add, here, that undeclared work must, of course, be combated by means of more regulation and public scrutiny. Failure to disclose paid employment should not be seen as a minor offence. As stated in the current employment guidelines, law enforcement capacity should be enhanced and linked to effective sanctions, as a disincentive to illegal work. Measures to curb undeclared work should always rest on the twin pillars of sanctions and prevention. These two aspects are mutually complementary, but neither can stand alone. A dual strategy combining control measures and incentives is also set out in the Council resolution and the current employment policy guidelines. The EESC endorses this approach.

3.9.2 Individual business people often feel that regulation and controls are patronising. Merely increasing the amount of regulations issued by the authorities is unlikely to produce an improved moral climate. Several sectors are currently cleaning up their act and ethical considerations are gaining ground in various organisations. Such voluntary action to combat illegal work is to be welcomed, but it cannot take the place of monitoring by the relevant authorities.

3.10 *The need for information and education*

3.10.1 For a worker, a job in the black economy generally involves a looser, more short-term type of employment, with no chance of career progression. Black economy firms cannot grow to any appreciable extent for fear that their fraud will be discovered. Workers who go in for undeclared work will therefore be denied any career development opportunities. Wages will not rise in line with the legitimate labour market, nor will sickness and pension contributions be paid.

3.10.2 People who engage in or organise undeclared work usually do so for a reason: to avoid paying taxes and social contributions. It is extremely important to increase awareness of the link between the payment of social contributions and future social benefits.

3.10.3 The Committee believes that both these examples show the need for comprehensive information and education initiatives. This means illustrating the negative impact undeclared work has on the individual and society in the short- and long-term.

3.10.4 The social partners and industry organisations can play a crucial role here. Undeclared work will be a less attractive proposition if the social partners see to it that wage agreements are properly respected and if they ensure, together with those representing business interests, that no-one is employed to do undeclared work. Employer and industry organisations could require their members to adhere to codes of conduct or risk various forms of sanctions.

3.10.5 However, the price of honesty must not be too high, otherwise the black economy could spread like wildfire. The black economy is more widespread in certain sectors. At the same time, there is, of course, a risk that some sectors could be singled out as a matter of routine because the black economy is easier to detect there than in others.

3.10.6 In the final analysis, it is always the individual that must decide in matters of morality, ethics and justice.

4. Summary and conclusions

4.1 Undeclared work takes place at all levels of society. However, it is very difficult to establish its overall extent. According to some studies, the informal sector accounts for an average 7 % to 16 % of EU GDP. There is therefore much to be gained by eliminating undeclared work and its underlying causes.

4.2 The Committee would like to draw attention here to a number of areas which need to be examined more closely and taken into account in order to find appropriate ways to resolve the problem:

- Incentives to declare work should be improved.
- Women are often in a vulnerable position when it comes to low-paid, undeclared work. Therefore their situation needs to be studied in greater depth so that appropriate measures can be taken.
- Business rules and regulations should be changed so as to cut red tape, especially with regard to start-ups. However, start-up owners must also have basic business administra-

tion skills. It is important that they should be aware of the demands of society regarding the running of a business, including in the area of labour law and social security for employees.

- There is a need for an extensive public information campaign to make producers and consumers aware of the negative impact of undeclared work on government revenue and social security and protection schemes and its negative consequences for solidarity and justice.
- Effective monitoring by the relevant authorities must be stepped up, for example through enhancement of law enforcement capacity, and cooperation between the relevant authorities both at national and cross-border level.
- Illegal work should not be seen as a minor offence. Effective sanctions must therefore be applied, in particular to act as a disincentive for businesses to indulge in the practice.
- Lastly, the Committee points out that some third countries do not adhere to generally accepted social standards and recommends that EU companies operating in such countries take this into account.

4.3 Finally, the Committee would stress the importance of getting the high unemployment rate down to a minimum in the Member States, as this is largely responsible for the existence of undeclared workers and undeclared work. Consequently, it is important to ensure that the European Employment Strategy is actually implemented, with the help of the national action plans. A smoothly operating labour market with full employment and quality jobs is the best antidote to undeclared work.

Brussels, 7 April 2005

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

Opinion of the European Economic and Social Committee on the Proposal for a Decision of the European Parliament and of the Council establishing a Community Programme for Employment and Social Solidarity — PROGRESS

(COM(2004) 488 final)

(2005/C 255/13)

On 9 September 2004 the Council decided to consult the European Economic and Social Committee, under Article 262 of the Treaty establishing the European Community, on the abovementioned communication.

The Section for Employment, Social Affairs and Citizenship, which was responsible for preparing the Committee's work on the subject, adopted its opinion on 15 March 2005. The rapporteur was Mr Greif.

At its 416th plenary session held on 6 and 7 April 2005 (meeting of 6 April), the European Economic and Social Committee adopted the following opinion by 127 votes to 2 with 17 abstentions.

1. Background and key points of the PROGRESS Community Programme

1.1 In its Communication on the 2007-2013 financial perspective ⁽¹⁾, the Commission highlights the crucial importance of the social policy agenda to implementing the Lisbon strategy. In this context, the Commission adopted a package of proposals in July 2004 that were designed to simplify and streamline employment and social policy spending in the EU, especially in respect of the financial rules.

1.2 According to the Commission, the proposed rationalisation should enhance the visibility, clarity and coherence of the instruments concerned and thus benefit above all the end-user. This is to be achieved mainly by simplifying instruments in legal and management terms, and by streamlining the budget structure and avoiding duplication.

— The reduction in red tape, paring of rules and greater decentralisation should thus make the new European Social Fund (ESF, 2007-2013) easier to administer and better equipped to link funding with strategies to promote employment and consolidate economic and social cohesion in the context of the European Employment Strategy (EES) ⁽²⁾.

— The Commission is also endeavouring to improve the distribution of resources by merging existing programmes into coherent programmes with harmonised implementing provisions. One aim of this is to reduce from 28 to two the number of budget lines relating to employment and social policy that are directly managed by the Commission.

⁽¹⁾ Communication from the Commission to the Council and the European Parliament *Building our common future – policy challenges and budgetary means of the enlarged Union 2007-2013* (COM(2004) 101 final)

⁽²⁾ See the EESC opinion on the European Social Fund and related programmes, adopted at the plenary session held on 9 March 2005 (rapporteur: Mrs Engeler-Kefer).

1.3 One of the new instruments in question is the Programme for Employment and Social Solidarity, or PROGRESS ⁽³⁾, which is the subject of Communication COM(2004) 488 final. This programme is intended to streamline funding for a large number of measures that support Commission employment and social policy. The only matter excluded from PROGRESS is the financing of 'social dialogue' and 'free movement of workers' ⁽⁴⁾, Community bodies responsible for employment conditions ⁽⁵⁾, and the planned European Gender Institute ⁽⁶⁾. Thus PROGRESS is a way of bringing together the following specific Community action programmes: combating discrimination, gender equality, cooperation to combat social exclusion and incentive measures in the field of employment, as well as a number of budget lines relating to working conditions.

1.4 Under the programme for 2007-2013, which has a budget of nearly EUR 629 million and is intended to complement ESF measures, with different priorities for the various programme sections, support is to be provided for three broad types of measure:

— analytical activities (e.g. collecting and disseminating data; carrying out studies, analyses and impact assessments; and developing statistical methods and evaluations) that enhance understanding of the issues involved, make for more effective implementation in the various spheres funded, and improve coordination with other EU policy areas and strategies;

⁽³⁾ PROGRESS stands for Programme for Employment and Social Solidarity

⁽⁴⁾ Proposals on providing financial support for social dialogue and free movement of workers (especially the EURES network), and studies and reports on social policy costing EUR 480 million, will be presented at a later date in a separate communication.

⁽⁵⁾ The European Foundation for the Improvement of Living and Working Conditions (Dublin) and the European Agency for Health and Safety at Work (Bilbao).

⁽⁶⁾ The purpose of the European Gender Institute (EGI) is to provide the Union and Member States with comparable information and data on questions of gender equality and to promote the development, analysis and distribution of information on promoting gender equality. The Commission plans to issue a communication on the matter at the beginning of 2005.

- activities involving mutual learning, exchange of information, awareness-raising, and identifying and promoting good practice, as well as measures relating to monitoring and evaluation, e.g. assessment by independent experts (peer review), which should help to establish the state of play in the Member States and thus also to improve the application of EU rules;
- supporting key players in order to promote exchange of good practice, information provision, preventive and awareness-raising measures, as well as discussion processes, e.g. by setting up working parties of national officials, developing networking at EU level or funding networks of experts in the various spheres of activity.

1.5 The programme is to be divided into five sections:

- **employment:** supporting implementation of the European Employment Strategy (EES), in particular by evaluating and monitoring implementation of the European Employment Guidelines and Recommendations, studying the interaction between the EES and other policy areas, and raising awareness of employment-policy challenges faced by regional and local players;
- **social protection and social inclusion:** supporting implementation of the open coordination method in this sphere, as well as improving understanding of all aspects of poverty and analysing the link between this goal and other policy areas;
- **working conditions:** supporting activities aimed at improving the working environment and working conditions, including safety and health at work;
- **antidiscrimination and diversity:** promoting effective application of the non-discrimination principle in Article 13 of the EU Treaty, and incorporating this principle into all EU strategies;

- **gender equality:** effectively applying the principle of gender equality and promoting *gender mainstreaming* in EU strategies.

1.6 The programme is open to public and private bodies and actors. It is aimed in particular at the Member States, local and regional authorities, public employment services and national statistics offices. Specialised bodies, universities and research institutes, as well as the social partners and non-governmental organisations, may also take part.

EU assistance will take the form either of a service contract granted further to a call for tender or of a subsidy amounting to no more than 80 % of costs following a call for project proposals.

PROGRESS is to be managed by a single programme committee, replacing the current four (one for each of the four action programmes).

1.7 A total of EUR 628.8 million has been budgeted for the seven-year programming period. This breaks down as follows over the programme sections:

- Employment: 21 %
- Social protection and inclusion: 28 %
- Working conditions: 8 % ⁽⁷⁾
- Antidiscrimination and diversity: 23 %
- Gender equality: 8 % ⁽⁸⁾.

A maximum of 2 % of the total budget has been earmarked for administrative expenses, notably the programme committee that will oversee PROGRESS. Ten percent of the total budget (EUR 62.9 million, or about EUR 9.2 million per year) is not allocated to a particular programme section, but kept as a 'reserve' to be allocated by the programme committee to the programme sections each year in accordance with future developments arising over the course of the programme.

General objectives of PROGRESS: overview

Improving the knowledge and understanding of the situation prevailing in the Member States through analysis, evaluation and monitoring of measures	Promoting the development of statistical tools, methods and indicators	Supporting and monitoring the implementation of EU law and policy objectives in the Member States and assessing their impact	Promoting networking, mutual learning, and identification and dissemination of good practice at EU level	Raising awareness of stakeholders and the general public about strategies pursued under PROGRESS	Improving the ability of the main EU networks to promote and support Community strategies
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⁽⁷⁾ A further EUR 266.4 million in funding is earmarked under the heading of working conditions for the European Foundation for the Improvement of Living and Working Conditions (Dublin) and the European Agency for Health and Safety at Work (Bilbao).

⁽⁸⁾ In addition, the Commission announces in the explanatory memorandum of the draft decision on PROGRESS that it will shortly put forward a proposal on gender equality with a view to setting up a European Gender Institute (EGI), with a planned budget of EUR 52.7 million for 2007-2013. Establishment of the Gender Institute should be budget-neutral, since this sum has already been deducted from the proposed funding for the PROGRESS programme.

2. General and specific comments on the Commission's proposal

2.1 If enhanced competitiveness in a knowledge-based economy is really to be accompanied by sustainable job-creating economic growth, with better quality of employment and greater social cohesion, as set out in the Lisbon strategy, then it is crucial that adequate financial resources and instruments be provided for in all the policy areas relevant to PROGRESS. The EESC therefore explicitly welcomes the present Commission proposal on *PROGRESS 2007-2013*, and takes great interest in the initiative, especially in the light of current contributions to the Lisbon mid-term review, since this framework programme will be one of the key funding instruments, alongside the ESF, for the 2006-2010 social policy agenda, which is currently also in the process of adoption. Despite its generally positive assessment of PROGRESS, the Committee would like to follow up its general comments on this new Community financial instrument with some reservations about specific points of the Commission document that it feels require further clarification and explanation in the proposal for a decision.

2.2 General objectives of the programme

2.2.1 In the light of the Lisbon strategy, the EESC is pleased that the proposal (without prejudice to ongoing discussions about the priorities and form of the 2007-2013 financial perspective) clearly emphasises the need to maintain existing Community funding in the sphere of employment and social policy.

2.2.2 Bringing all those Community financial instruments for social and employment policy for which the Commission has direct administrative responsibility more closely together within a single framework programme can certainly be seen as a way of ensuring adequate funding for strengthening the social dimension of the Lisbon strategy and especially also as a means of coordinating spheres of social policy under the social policy agenda.

2.2.3 The EESC broadly endorses the general objectives set out in Article 2 of the proposal. However, it would recommend that the promotion of cross-border exchanges of stakeholders active in the sphere of social policy should also be explicitly mentioned as an objective, since for many potential PROGRESS applicants it is a key point of reference for taking part in EU projects.

2.2.4 In this context, the EESC does not fully understand why Article 2 (4) of the proposal refers to promoting networking only 'at EU level'. We think that the list of general PROGRESS objectives should be expanded in order to ensure that the mutual learning to be promoted through PROGRESS is

not limited to actors at EU level but also includes support for cross-border exchanges of relevant stakeholders bilaterally and multilaterally between individual Member States. The EESC also thinks it is necessary to include 'better understanding of all types of discrimination' as an explicit objective in Article 8.

2.3 Coherence and complementarity with other policy areas

2.3.1 The new programme must be seen as part of the 'streamlining' drive pursued by the Commission since 2003 in respect of economic and social policy, and, in this case, of employment policy in particular. In this context, Article 15 of the present proposal for a decision — which refers to mechanisms and activities of the Commission and the Member States for coordinating PROGRESS activities with other Community and EU policies, instruments and actions — seems inadequate, because it covers only a narrow policy area. Research, justice and home affairs, culture, education, training and youth policy are important areas for action, which certainly need to be coordinated with employment, education and training, and social security, but other areas, such as regional and cohesion policy, are completely omitted.

2.3.2 The Committee believes that PROGRESS should also be linked to other policy areas which have just as much impact — at least — on the employment situation and social inclusion, equal opportunities, etc. In particular, as well as prioritising education and training and lifelong learning, coordination with strategies and activities relating to economic, financial and competition policy should also be required here, in order to ensure that these policies at European and national level do not conflict with the general objectives of the programme. The EESC therefore recommends making appropriate additions in Articles 15(1) and 15(2) of the proposal.

2.4 Financial framework

2.4.1 As well as the overall financial framework of EUR 628.8 million for implementing Community activities for the seven-year programming period, in Article 17 of the proposal the Commission also sets out minimum percentage appropriations for each programme section. In the EESC's view, the Commission fails to clearly set out how the projected budget figures for the programme as a whole fit with the current funding situation for the existing Action Programmes. It would be useful to have comparative data on the ongoing Action Programmes here, especially so as to be able to estimate whether adequate allowance has been made for inflation and in what way and to what extent the current and future enlargements (EU-25 plus Bulgaria and Romania) have been taken into consideration in setting the budget. At present only unofficial information is available from the Commission about this.

2.4.2 In the context of the current mid-term review of the Lisbon strategy and given the broad scope of the programme, the EESC seriously questions the Commission's endeavour to maintain the budgetary status quo in the policy areas covered by PROGRESS. The third paragraph of Section 2 of the Commission's explanatory memorandum refers to the provision of 'modest financial means' to support the social policy agenda. The Committee does not understand this reasoning at all; it has more than once noted the need to allow for 'Lisbonisation of the EU budget' in the context of the financial perspective, since it must at any rate be made clear that adequate financial resources will be made available to achieve the objectives of both the European Employment Strategy and the social policy agenda.⁽⁹⁾ The EESC therefore strongly recommends that adequate resources be provided for in the projected budget for PROGRESS.

2.4.3 In addition, Article 17 sets an upper limit of 2 % of the total PROGRESS budget (i.e. EUR 12.6 million) for administrative expenditure and earmarks 10 % (i.e. EUR 62.9 million, or EUR 9.2 million per year) as a reserve for annual allocation by the programme committee between the programme sections. Although the EESC realises that a degree of flexibility is required for a seven-year programming period to accommodate future developments, we still feel it is important to insist on the need for full transparency and European Parliament involvement in such largely autonomous management of 'flexible' funds by the Commission and the Member States.

2.4.4 The Committee also thinks that the proposed division of funding between the different PROGRESS sections should be more specific. For instance, Article 8 establishes 'gender equality' as a section of the PROGRESS programme. However, this section receives a considerably smaller appropriation (Article 17) than the other objectives. What is the justification for this? The explanation that the budget for a gender institute which is to be set up (EUR 52.7 million) has been deducted from the PROGRESS programme is not persuasive, not least since the remit, structure and working methods of the gender institute have not even been established. The Committee feels that is objectively quite indefensible to restrict resources in the sphere of equality and equal opportunities policy in this way, in view, among other things, of the Lisbon objective on female employment, the disadvantaged position of women in the labour market, wage discrimination and gender mainstreaming. We therefore urge that the funding earmarked for the Gender Institute should not be deducted from the total PROGRESS financial framework, as the current proposal evidently intends, but that separate funding be provided for.

2.5 Rationalisation at Commission level

2.5.1 The objectives of simplification and rationalisation represent an extension to support policy of the 'streamlining' the

Commission has been pursuing since 2003 in the spheres of social protection and employment. The Committee in principle endorses simplification and rationalisation, provided they really do result in cost savings, prevent duplication and improve administrative clarity and transparency.

2.5.2 However, the Committee sees certain difficulties here with the shift from clearly defined, specific programmes to a single, much larger programme that may be less easy to manage. Given the extremely wide range of areas covered by this new programme, does it make sense for similar objectives to apply for each programme section? Is the projected budget even sufficient to cover these? Steps must in any case be taken to ensure that, in view of the broad scope of the programme, administrative simplification does not mean forfeiting necessary priority-setting in the various programme sections. It is important to ensure that the declared administrative simplification results not just in better technical programme management but also in an appropriate structure that is favourable for the target groups.

2.6 The programme committee and the role of the Member States

2.6.1 Article 13 of the proposal states that the Commission is to be assisted in implementing the programme by a single committee, replacing the current four committees (one for each action programme). Membership of this committee is to vary, with different national representatives meeting according to the matter in hand.

2.6.2 The question arises of how such a committee should work and what its membership should be in order to ensure that the general and specific objectives are properly and promptly addressed in each of the five programme areas. Will not this require a lot more red tape, and above all a need for considerable interministerial coordination at Member State level? What implications does this have for small, and in this case especially, new Member States? Care should be taken in general that rationalisation at Commission level does not cause administrative problems for the Member States and that appropriate account is taken of the social partners and other civil society organisations in programme management.

2.6.3 The EESC also notes that rationalisation must not result in corner-cutting when implementing the programme, especially as regards the transparency of the committee's work in connection with the programme, and the input of the Member States into decision-making processes and project selection. It is at any rate necessary to ensure proper management, efficacy and participation, as well as adequate monitoring and follow-up by the Commission, in qualitative and quantitative terms.

⁽⁹⁾ See EESC opinion of 9.2.2005: *Employment policy: the role of the EESC following the enlargement of the EU and from the point of view of the Lisbon Process* (rapporteur: Mr Greif), point 6.8.

2.7 Simplification for users and access to the programme

2.7.1 According to the Commission, the proposed rationalisation should enhance the visibility, clarity and coherence of the instruments concerned, benefiting above all the end-user. Potential users should find it easier to apply for funding under the different sections of the new programme thanks to standardised procedures and harmonised implementing provisions. End-users are therefore to have access to a 'one stop shop'; this is important when, for instance, a project is geared towards the objectives of more than one programme sector.

2.7.2 However, without knowing the specific implementing provisions, it is in many cases difficult to establish the extent to which an idea for rationalising and improving resource distribution combines the different types of objectives: (a) a larger, centralised programme structure; (b) lean, efficient management at every level (Commission, Member States, project promoters); (c) reporting and financial security requirements; (d) as direct and open access to the programme as possible for all target groups. This calls for an active strategy with respect to implementing provisions in order to overcome anticipated conflicts between objectives. The Committee believes that the success of the new programme will be strongly determined by whether the heralded simplification also translates into benefits for the user. The Committee therefore thinks that the implementing provisions to be adopted (especially the 'one-stop shop') will largely determine whether the objectives of simplification and rationalisation can really be achieved as an 'added value' for users.

2.7.3 The 'proximity' of Community resource allocation will thus have to be measured above all by how much easier access to the programme and to projects becomes for informed applicants, and whether it is possible to prevent project access becoming restricted. The broader scope of the programme, experience with other action programmes and Community initiatives, and current experience with the Commission's new financial rules, show that measures are needed to ensure that the implementing provisions do not have a prohibitive effect on smaller-scale applicants. The question is therefore what 'compensatory' measures could be taken here to guarantee that, despite growing paperwork requirements (e.g. provision of bank guarantees, credit tests, audit certificates), PROGRESS remains not only useful, but also attractive and accessible, for civil society organisations without project specialists and complex accounting systems.

2.8 Cooperation with civil society organisations

2.8.1 Article 9(2) (*Types of Action*) requires that actions under the heading 'Mutual learning, Awareness and Dissemination activities' should have a 'strong EU dimension', 'an appropriate scale', and 'real EU added-value', and restricts responsibility for such actions, *inter alia* to '(sub)national authorities'. These criteria are vague, leaving considerable room for inter-

pretation. The Committee therefore recommends ensuring that the strict use of these criteria in calls to tender/applications does not result in activities being markedly restricted, for instance to large-scale projects and thus to certain target groups and stakeholders.

2.8.2 In Article 2(5) of the proposal, enhancing awareness of stakeholders and the general public about EU policies is given as a general objective of PROGRESS. This can only succeed if the whole spectrum of relevant stakeholders, at European, national and local level, in the social policy programme areas are able to continue developing their activities. The Committee endorses simplification and rationalisation in this context particularly where they facilitate access for all stakeholders, not least the social partners and other civil society organisations, and do not result in more restricted access to Community funding.

2.8.3 The EESC is therefore concerned that in the list of stakeholders mentioned as having access to PROGRESS, NGOs have been restricted to those operating at EU level. Article 10 (Access to the programme) does not mention NGOs at national level. Although bodies organised at European level play an important role, the Committee feels that the main scope for genuine dialogue, networking, identifying and promoting good practice, as well as mutual learning, is between organisations with experience of a particular field and operating at national, regional and local levels. In the Committee's view, engaging in transnational activity and enabling the sharing of experience in the EU is just as important for such organisations as having official status at European level. The Committee would therefore suggest rewording the Commission's text so that any NGOs engaging in activity of European relevance are eligible.

2.8.4 The Committee therefore calls for appropriate clarifications and alignment of Articles 2, 9 and 10 in the proposal for a decision, in order to safeguard one of overarching goals mentioned by the Commission, namely cooperation with civil society organisations.

3. Summary

3.1 Overall, the EESC welcomes the Commission's proposal on *PROGRESS 2007-2013*, and takes considerable interest in this initiative particularly in the context of the current contributions to the Lisbon mid-term review. This Framework Programme is one of the key funding instruments in the sphere of social policy and employment, extending beyond the time-frame of the recently adopted 2006-2010 Social Policy Agenda. Because of the consequent long-term implications alone, the Committee has reservations about a number of specific points of the Commission document that require further clarification and explanation in the proposal for a decision.

3.2 The problems concern in particular: (a) consistency with other policy areas of the Community, (b) budget allocations and their distribution, (c) broad access and usefulness to users despite rationalisation at Commission level, (d) transparency and participation in the programme committee, and (e) civil society involvement.

3.3 The EESC hopes that, in view of the Lisbon objectives, especially those concerning the financial framework, its comments on these points will be taken into account in further decisions on PROGRESS.

Brussels, 6 April 2005.

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

Opinion of the European Economic and Social Committee on the Proposal for a Recommendation of the Council and of the European Parliament on further European cooperation in quality assurance in higher education

(COM(2004) 642 final — 2004/0239 (COD))

(2005/C 255/14)

On 20 January 2005, the Council decided to consult the European Economic and Social Committee, under Article 262 of the Treaty establishing the European Community, on the abovementioned communication.

The Section for Employment, Social Affairs and Citizenship, which was responsible for preparing the Committee's work on the subject, adopted its opinion on 15 March 2005. The rapporteur was **Mr Soares**.

At its 416th plenary session, held on 6 and 7 April 2005 (meeting of 6 April), the European Economic and Social Committee adopted the following opinion by 144 votes to 2, with 6 abstentions.

1. Introduction

1.1 Article 149(1) of the Treaty establishing the European Community stipulates that 'the Community shall contribute to the development of quality education by encouraging cooperation between Member States and, if necessary, by supporting and supplementing their action, while fully respecting the responsibility of the Member States for the content of teaching and the organisation of education systems and their cultural and linguistic diversity.'

1.2 On 24 September 1998, the Council of Ministers approved a Recommendation on European cooperation in quality assurance in higher education, which 'called on Member States to support or establish quality assurance systems and to encourage higher education institutions and competent authorities to cooperate and exchange experience'. It would be up to the Commission 'to support such cooperation and to report on the implementation of the objectives of the Recommendation at European and Member State level'.

1.3 The report submitted by the Commission⁽¹⁾ demonstrates that major progress has been achieved 'in establishing quality assurance systems and promoting cooperation'; however it emphasises that this is not yet enough, pointing out that 'more far-reaching measures are needed in order to make European higher education perform better and become a more transparent and trustworthy brand for the people of Europe and for students and scholars from other continents'.

1.4 In September 2003, European education ministers met in Berlin as part of the Bologna process, working to bring about the European Higher Education Area, and concluded that quality assurance systems, based on a series of essential features — such as the evaluation of programmes or institutions through internal assessment and external review, student participation, publication of results and international participation — had generally speaking been implemented in all Member States.

⁽¹⁾ Report from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions (COM) 620 final of 30.9.2004).

1.5 At this time, they decided to call upon the European Network for Quality Assurance in Higher Education (ENQA) ⁽²⁾ to draw up 'an agreed set of standards, procedures and guidelines on quality assurances, to explore ways of ensuring an adequate peer review for quality assurance and/or accreditation agencies or bodies, and to report back through the Follow-up Group to Ministers in 2005'.

1.6 The ministers also undertook to support the development of quality assurance at institutional, national and European level, and stressed that there was a need to draw up mutually shared criteria and methodologies for quality assurance. They likewise emphasised that, in keeping with the principle of institutional autonomy, responsibility for quality assurance in higher education lay first and foremost with each institution, providing the basis for genuine accountability of the academic system within the national quality framework.

1.7 Lastly, they therefore agreed that by 2005 national quality assurance systems should include:

- a definition of the responsibilities of the bodies and institutions involved;
- evaluation of programmes or institutions, including internal assessment, external review, participation of students and the publication of results;
- a system of accreditation, certification or comparable procedures; and
- international participation, co-operation and networking.

1.8 In compliance with Article 149(4) of the Treaty, the Commission presented this proposal for a Recommendation ⁽³⁾ to the Council and the Parliament, submitted here to the European Economic and Social Committee for an opinion.

1.9 The EESC understands the reasons put forward by the Commission and agrees with the principles set down for establishing and boosting the quality of higher education by placing good practice on an institutional footing and by developing quality management at European level. The systematic application of quality assurance methodologies as an instrument for continuously improving actual quality is the best way to secure genuine high quality higher education in the educational establishments of the EU, promoting university education in the various Member States and facilitating equality between the various national education systems.

1.10 The EESC reaffirms its view that it is extremely important to tackle this issue from a Community perspective, and endorses the approach adopted by the Commission for achieving the objectives targeted in the Lisbon strategy and, more specifically, in the conclusions of the March 2002 Barcelona European Council meeting, which stated that European

⁽²⁾ This network was set up in 2000 and incorporates 50 quality assurance and accreditation agencies from 30 European countries.

⁽³⁾ In follow-up to the assessment in Recommendation 98/561/EC of 24 September 1998 on European cooperation in quality assurance in higher education.

education and training systems should become 'a world quality reference by 2010'.

2. Proposed recommendation

The proposal submitted by the Commission, based on the 1998 Recommendation, is designed to make a concrete contribution to the aim of mutual recognition of quality assurance systems and assessments across Europe.

2.1 The recommendation contains five steps for achieving mutual recognition:

2.1.1 'Require all higher education institutions active within their territory to introduce or develop rigorous internal quality assurance mechanisms.

2.1.2 Require all quality assurance or accreditation agencies active within their territory to be independent in their assessments, to apply the features of quality assurance laid down in the Council Recommendation of September 1998 and to apply a common set of standards, procedures and guidelines, for assessment purposes.

2.1.3 Encourage quality assurance and accreditation agencies, together with organisations representing higher education, to set up a "European Register of Quality Assurance and Accreditation Agencies" and to define the conditions for registration.

2.1.4 Enable higher education institutions active within their territory to choose among quality assurance or accreditation agencies in the European Register, an agency which meets their needs and profile.

2.1.5 Accept the assessments made by all quality assurance and accreditation agencies listed in the European Register as a basis for decisions on licensing or funding of higher education institutions, including as regards such matters as eligibility for student grants and loans.'

2.2 In the proposal, the Commission is called upon to:

— 'continue, in close cooperation with the Member States, its support for cooperation between higher education institutions, quality assurance and accreditation agencies, competent authorities and other bodies active in the field'; and

— 'present triennial reports to the European Parliament, the Council, the Economic and Social Committee and the Committee of the Regions on progress in the development of quality assurance systems in the various Member States and on cooperation activities at European level, including the progress achieved with respect to the objectives'.

3. The EESC's comments

3.1 General comments

3.1.1 The requirement for high quality education and training is vitally important for achieving the Lisbon Strategy objectives. In this connection, the EESC reiterates how important greater student and worker mobility is for developing the knowledge society in Europe. Such mobility may be a key factor in making a Europe-wide labour market a reality and building a more competitive knowledge-based society.

3.1.2 This is also the tenor of the proposed Recommendation since, in order to fully achieve such mobility, mutual recognition of qualifications and diplomas is necessary, and this in turn requires effective, coherent mechanisms throughout Europe involving all the parties concerned. Here it is particularly important that suitable working methods be devised for assessing the quality of higher education in Europe and for its accreditation.

3.1.3 Nevertheless, the EESC feels that these assessment mechanisms, which are of course important for boosting the quality of higher education and for giving it credibility, must not be overly dependent on the immediate requirements of the market, since long-term objectives and prospects for education have to be taken into account, starting with basic research.

3.1.4 Moreover, the EESC stresses that funding for higher education is still a key factor in achieving the fundamental objectives concerned. It would not be right for higher education establishments to be prevented from gaining access to better quality evaluation and accreditation agencies because of financial constraints.

3.1.5 The current Commission initiative set out in the proposed Council Recommendation is in line with the stance the Committee adopted in 1997⁽⁴⁾, in particular where it stated that:

- it would be necessary 'to move firmly towards the adoption of quality assurance systems which include standardized assessment methods which can be used by all those who voluntarily accept assessment as a system for helping to bring about improvements and do not regard it as an imposition';
- 'the principle of university autonomy is (...) [not] under debate (...). It is however important for citizens to be aware which teaching establishments in Europe have introduced assessment as a systematic quality assurance method in their organizations (...) [and] which institutions use standardized quality assessment methods';
- 'besides allowing each Member State and teaching establishment to use its own criteria, the Commission should at the same time encourage the implementation of common criteria which show the level of teaching quality from a Community perspective'.

⁽⁴⁾ EESC Opinion on the Proposal for a Council Recommendation on European cooperation in quality assurance in higher education (COM(97) 159 final - 97/0121 (SYN) - O J C 19 - 20.1.1998.

3.1.6 The EESC is aware of the need for young Europeans and the public in general to be informed about the quality of the various higher education establishments.

However, the standards and criteria used to assess or accredit European establishments must serve as points of reference to boost transparency and make it easier to draw comparisons across Europe and, at the same time, do more to promote diversity between institutions and help ensure that they are geared to the needs of society today, rather than contribute to the harmonization of Member States' regulations and laws, expressly left out of the Union's Treaty.

3.1.7 In a knowledge society which is to provide the basis for building up the most advanced economic, social, technological and cultural area in the world, quality assurance systems and overall quality processes are indispensable for progress and for improving the service provided to customers and users.

For this reason, Member States should provide educational establishments with adequate resources to develop quality evaluation procedures for improving education as a product. Moreover, links between universities and society in general should be stepped up to enable young people with higher education to enter the labour market more easily; this entails the social partners being more involved in, and providing greater back-up for, higher education quality assurance systems and better knowledge of the future needs of the labour market

3.1.8 The EESC would reassert two key principles for achieving the objectives relating to mutual recognition, which should be expressly mentioned in the text of the Recommendation to Member States:

- quality assurance systems cannot be imposed, but have to be accepted by those involved, in particular lecturers and academic authorities, and must ultimately aim to help improve the higher education provided in the Member States;
- higher education establishments must have access to the resources needed to fund structures for promoting, supporting and implementing quality methods and techniques, in particular for involving of those parties actually providing the education, which is indispensable.

3.2 Specific comments

3.2.1 The EESC shares the view that the criteria and standards applying in each institution for developing internal quality assessment methods must be rooted in the framework in which the institution itself operates.

The key elements for making systematic improvements must be based on these internal quality assurance mechanisms, together with the use of learning outcomes and competences. Such improvements must above all keep pace with the changing needs of society, as identified by stakeholder panels involving university teachers, professionals, graduates, experts in the fields in question, students and the social partners.

3.2.2 The EESC welcomes the proposal to draw up an ENQA Handbook of quality assurance procedures, containing a number of commonly accepted models or protocols, based on good practice in Member States. The handbook should however focus as much as possible on promoting quality assurance in educational establishments not yet applying this practice, and on encouraging greater use in those institutions which already do.

It also agrees with the Commission on the need to define the principles for assuring quality across Europe, to be included in the ENQA Handbook, especially as regards university autonomy, public accountability and the independence of external evaluation and/or accreditation agencies, proportionality and fairness; these are principles to which all the parties should be able to adhere.

3.2.3 The EESC feels it is vital to ensure that the agencies carrying out external assessments of higher education establishments should meet high standards of independence and professionalism.

It is nevertheless important to clarify what is meant by independence here, and whether these agencies should be profit-making or not. It is essential to ensure that these agencies are genuinely independent in relation to the organisations undergoing evaluation, which leads to the second question as to whether or not they should be profit-making. It is clear that the agencies must have the necessary means to do their job (which includes being paid for the work they do), however, if they were to operate more along the lines of a business, with activities clearly geared to profit, this might jeopardise their very independence.

3.2.4 Creating a European Registry of Quality Assurance and Accreditation Agencies is an interesting, consensus-based idea, but the Recommendation is not clear about the administration mechanisms for the Registry; these presuppose that the quality of the agencies actually carrying out the quality evaluation of the higher education establishments will itself be assessed and assured, and will ultimately enable qualifications to be accepted and recognised within and outside Europe.

3.2.4.1 The EESC recommends that the Commission consider the possibility that the Registry distinguish between (a) accreditations that establish basic European references for the main categories of profession and (b) quality and accreditation provisions for specialised or specific categories.

3.2.5 The EESC welcomes the idea of making higher education establishments accountable by allowing them to choose a quality assurance and accreditation agency which meets their needs and profile, provided that this agency figures in the

Register and is recognised by the country concerned as being independent and trustworthy.

The possibility for universities to develop an accreditation strategy which is most suitable for their particular vocation and objectives should not, however, lead to a situation where institutions are classified depending on the quality of the agencies chosen.

The EESC would warn those concerned that if the quality assurance and accreditation agencies are themselves of different levels of quality, then there is a serious risk that this might affect the quality of the evaluation itself, thus leading to different classifications of the higher education institutions.

3.2.6 The EESC deems it important that the current national quality accreditation systems be dovetailed with the European accreditation arrangements.

In fact, Member States are responsible for organising the national quality assurance and accreditation systems they need to make decisions on whether or not to grant licences or provide funding for universities. However, these should be dovetailed with European accreditation arrangements so as to facilitate mutual recognition of qualifications and diplomas.

Accreditation criteria and certification by non-Member States could constitute a tool for promoting the image of these institutions and would not be funded by the state.

Although these alternatives are not the same in terms of what they mean for making Member States responsible for providing quality education, the EESC deems it positive that the Commission 'supports the setting up and testing phase of transnational evaluation and accreditation of single and joint programmes of studies', together with the establishment of 'European accreditation in fields like medicine or engineering', which could represent a key step towards allowing the 'much debated "mutual recognition" [to] become a reality'.

3.2.7 One of the principles on which the Recommendation is basing quality assurance systems is the involvement of all the stakeholders.

The EESC believes that socio-economic operators have an important contribution to make here, with their particular experience which could be most valuable in terms of the methods used. Employers' and workers' organisations, as forums for voicing labour market concerns, together with other directly affected parties, must be able to play a key role in this whole process of making systematic improvements to the quality of higher education in Europe.

Brussels, 6 April 2005.

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

Opinion of the European Economic and Social Committee on the Proposal for a Regulation of the European Parliament and of the Council establishing a European grouping of cross-border cooperation (EGCC)

(COM(2004) 496 final — 2004/0168 (COD))

(2005/C 255/15)

On the 8 November 2004 the Council decided to consult the European Economic and Social Committee, under Article 262 of the Treaty establishing the European Community, on the abovementioned communication.

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 18 March 2005. The rapporteur was **Mr Nollet**.

At its 416th plenary session, held on 6 and 7 April 2005 (meeting of 6 April 2005), the European Economic and Social Committee adopted the following opinion by 118 votes to 2 with 6 abstentions.

1. Introduction

1.1 1 May 2004 marked the opening of a new chapter in European history.

1.2 Following a long preparatory phase, ten new countries have joined the fifteen members of the European Union. This event provides new opportunities and prospects for development. In order to become more efficient, the Union's institutions must be brought closer to the general public and to local, regional and Community life. For this to happen, greater attention must be paid to the quality of Community legislation.

1.3 Creating a new legal instrument for cross-border cooperation therefore becomes a priority for deepening this dialogue and consequently a new challenge to take up.

1.4 On 14 July 2004 the Commission adopted a proposal for five new regulations updating the structural funds and instruments for the 2007-2013 period, including a proposal for a new regulation establishing a European grouping of cross-border cooperation, known as the EGCC.

1.5 The Commission considers the EGCC to be a pragmatic response to a need expressed by the Member States. It has proposed an optional instrument for establishing a cross-border management structure.

1.6 The Commission does not believe that such a measure would conflict with the powers conferred on the Member States, because these would remain responsible for the use of the Structural Funds.

1.7 The Commission has taken an informed decision not to go into the details of the convention. The parties concerned are free to draft **their own** statutes.

1.8 The Commission takes the view that the Member States do have the right to go further. The EGCC is entirely optional.

1.9 At the time of writing, the Commission has not yet sent the EESC an additional memo on the legal aspects of the matter.

1.10 The Commission has deliberately not sought to use this new instrument (the EGCC) to regulate other tax aspects. The EGCC will opt for the tax system in use in a Member State of its choice.

1.11 The Commission is not seeking harmonisation and hence confirms that it has not attempted to draw up a more detailed regulation. *Although the issue of tax harmonisation was not raised in discussions within the EESC working group, this Commission position does not address the concerns that management should be simplified.*

1.12 The Commission has no desire to take on the work of the Member States and thus emphasises that the EGCC is, and will remain, an instrument of subsidiarity.

1.13 On the basis of its experience, the Commission considers that it would be impossible to draw up a detailed model.

1.14 The Commission does not believe that NGOs perform the role of a public authority.

1.15 The Commission has thus set out a minimum framework, under which universities, for example, could be beneficiaries.

1.16 The Commission confirms that opting for an EGCC is not a prerequisite for receiving support from the structural funds.

1.17 The Commission considers that the great advantage of its EGCC proposal is that it will apply as of 2007, without having to wait for changes to legislation that might be needed in the Member States.

1.18 On 18 November 2004, the Committee of the Regions issued a broadly favourable opinion and suggested some amendments, including the following: the Committee of the Regions proposes to change the name of the new legal instrument by replacing the name 'European Grouping of Cross-border Cooperation (EGCC)' with the 'European Grouping of trans-European Cooperation (EGTC)'. The Committee of the Regions considers that this new name would have the advantage of allowing the legal instrument in question to be used for trans-national cooperation, which is inter-regional in the sense of Article 1(3) of the proposal for a regulation.

2. General comments

2.1 The EESC has taken note of the proposal for a regulation establishing a European Grouping of Cross-border Cooperation (EGCC) — or a European Grouping of trans-European Cooperation (EGTC) as proposed by the Committee of the Regions.

2.2 The EESC broadly supports the EGCC proposal and the targets set.

2.3 The EESC takes note of the case made by the Commission, in particular, the fact that establishing an EGCC would not be compulsory.

2.3.1 The EGCC is likely to make cross-border cooperation easier, for example for financial arrangements.

2.3.2 The EGCC can involve a number of partners in several countries. Given in particular the increase in the number of the Community's land and maritime borders following enlargement, closer inter-regional cooperation within the Community must be made easier.

2.3.3 The EGCC is not restrictive and does not constitute a barrier to more detailed cooperation agreements. The EGCC does not replace the Euroregion.

2.4 The EESC supports the Commission initiative for a new legal instrument to facilitate cooperation. These additional regulations are intended to facilitate effective cooperation; but in one respect they are deficient, in that there is no explicit provision for social partner involvement or that of other interested civil society organisations in monitoring arrangements.

2.5 Secondly, the legal base of this provision is unclear. The relationship between the ERDF (Article 18) and the EGCC needs to be clarified, particularly for Member States conferring the responsibilities of the managing authority on the EGCC.

2.6 The Committee also wishes to consider whether the requirements of programming, management, monitoring and operations would enable Member States to cooperate effectively and learn lessons from the Interreg programmes. The planning and documentation procedures that have been drawn up (for the period 2007-2013) should also be used to ensure greater involvement by citizens and the social partners, as well as other interested civil society organisations. The implementing provision on publicising the operational programmes (Article 12(6)(d) must therefore be drawn up on time.

2.7 The EESC considers that the EGCC could certainly be a useful tool for cross-border cooperation and provide a solution to many national problems.

2.8 The EESC does harbour doubts, however, as to recognition of the EGCC in terms of financial procedures and national managing authorities.

2.9 The Structural Funds are considered to be a vehicle for helping those involved in development to produce a strategy for implementation with the broadest possible public participation. Local and regional economic and social actors are acknowledged to be stakeholders in development. It would be useful for these to be explicitly involved in setting up an EGCC.

2.10 The EESC considers cross-border cooperation to be crucial. Even though the EGCC will be optional, the Commission should propose a model to the actors concerned. This model should not constitute a further constraint to be imposed on future EGCCs; instead, it should be a model of best practice and of support for establishing an EGCC.

2.11 The EESC wishes to highlight the proposed regulation's failure to consider an essential point — financial management. The EGCC regulation should clarify those aspects concerning the management of European funds.

2.12 This clarification does not call into question the rules on financial responsibility already in place in Member States. The EGCC is, however, intended to simplify — more flexible procedures for justifying and managing financial accounts should be proposed.

3. Specific comments

3.1 The EESC wishes to propose the following amendments to the Commission, for the purpose of clarification:

3.1.1 Article 1(3)

The objective of the EGCC is to facilitate and promote cross-border cooperation between Member States, regional and local authorities, [ADD:] and economic and social stakeholders, as well as other interested civil society organisations, and with the aim of reinforcing economic, social and territorial cohesion.

3.1.2 Article 2

The EGCC can be made up of Member States and/or regional and local authorities and/or local public bodies, [ADD:] and economic and social stakeholders, as well as other interested civil society organisations, hereafter referred to as 'members'.

3.1.3 Article 4(5)

The convention defines the law applicable to its interpretation and enforcement, [ADD:] in accordance with European regulations and with bilateral tax agreements between Member States,

until European tax arrangements are harmonised. The Commission should make this point clear.

3.1.4 Article 5

[ADD:] Staff management shall act in strict respect for the place (or places) where activities are carried out, for European regulations and for applicable social and tax legislation.

4. Conclusions

4.1 The EESC considers the EGCC to be a necessary instrument and that communication and understanding would be improved if the Commission suggested a technical and legal reference framework. It would be advisable to make a distinction between the two fundamental aspects — the legal and the strategic.

4.2 The EESC is committed to achieving genuine coherence by helping the Member States and local and regional authorities to overcome the major difficulties they experience in carrying out and managing measures for cross-border, trans-national and inter-regional cooperation, against the background of differing national laws and procedures.

Brussels, 6 April 2005.

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

Opinion of the European Economic and Social Committee on the Proposal for a Council Regulation laying down general provisions on the European Regional Development Fund, the European Social Fund and the Cohesion Fund

(COM(2004) 492 final — 2004/0163 (AVC))

(2005/C 255/16)

On 21 December 2004 the Council of the European Union decided to consult the European Economic and Social Committee, under Article 262 of the Treaty establishing the European Community, on the above-mentioned communication.

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 18 March 2005. The rapporteur was Mr Malosse.

At its 416th plenary session on 6 and 7 April 2005 (meeting of 6 April), the European Economic and Social Committee adopted the following opinion by 126 votes to three with seven abstentions:

1. Preamble

1.1 The European Economic and Social Committee has often and emphatically spoken out in favour of a European policy for 'economic, social and territorial cohesion', as the Constitutional Treaty puts it. The EESC reaffirmed its support for cohesion in its opinion on the financial perspective for 2007–2013⁽¹⁾, and advocated more funding for structural policy and the Cohesion Fund, particularly in order to reflect the impact of new and future Member States without exposing the most severely disadvantaged countries and regions in the EU-15 to adverse consequences.

1.2 The proposal under review sets the tone for possible programming activity during the 2007-2013 period and lays down a framework. The proposal comes halfway through the current programming cycle of the Structural Funds, which has not yet been fully evaluated or assessed, particularly with regard to structural measures in new Member States.

1.2.1 Under such circumstances, it represents a general financial and technical framework, in which the ground rules are laid down; however, a considerable amount of negotiation, particularly between Member States, is still needed to work out detailed implementation procedures and budgetary implications. It should also be borne in mind that during the 2007-2013 period, the EU will undergo further enlargement, with the accession in 2007 of two countries in particular, Bulgaria and Romania, which are likely to derive considerable benefit from cohesion policy due to their economic and social situation.

1.3 In its proposal, the Commission announces its intention of maintaining the key principles of cohesion policy — programming, partnership, co-financing and evaluation, while delegating more responsibilities to Member States and local authorities, simplifying procedures and introducing 'clear and more rigorous monitoring mechanisms'.

1.4 On the specific subject of the future of cohesion policy, during the last four years the EESC has made over 70 suggestions in no fewer than 12 opinions⁽²⁾. An exploratory opinion on the implementation of partnership⁽³⁾ was requested by the Commission; in 2003, in the course of preparations for the informal Council of Ministers meeting on 20 October 2003 in Rome of ministers responsible for cohesion policy, an EESC opinion⁽⁴⁾ was also requested by the Council presidency. The EESC's numerous opinions on the subject contain some very innovative proposals for improving implementation of cohesion policy.

1.5 The Commission's overall track record of responding to EESC proposals is generally positive, except with regard to the key issue of partnership: the majority (39 of a total of

⁽¹⁾ OJ C 74, 23.3.2005, p.32.

⁽²⁾ European policy on crossfrontier cooperation and experience with the INTERREG programme, OJ C 155, 29.5.2001, p. 12
Second Report on Economic and Social Cohesion, OJ C 193, 7.8.2001, p. 70

The future of cohesion policy in the context of enlargement and the transition to a learning society, OJ C 241, 7.10.2002, p. 66
Future strategy for the outermost regions of the European Union, OJ C 221, 17.9.2002, p. 37

The future of upland areas in the EU, OJ C 61, 14.3.2003, p. 113
The contribution of other Community policies to economic and social cohesion, OJ C 10, 14.1.2004, p. 92

URBAN 2000-2006, OJ C 133, 6.6.2003, p. 53
Second progress report on economic and social cohesion, OJ C 234, 30.9.2003, p. 45

Partnership for implementing the Structural Funds, OJ C 10, 14.1.2004, p. 21

Economic and social cohesion: regional competitiveness, governance and cooperation, OJ C 10, 14.1.2004, p. 88

European Metropolitan Areas: socio-economic implications for Europe's future, OJ C 302, 7.12.2004, p. 101

Third report on economic and social cohesion – A new partnership for cohesion: convergence, competitiveness, cooperation, OJ C 302, 7.12.2004, p. 60

⁽³⁾ EESC opinion on the *Partnership for implementing the Structural Funds*, OJ C 10, 14.1.2004, p. 21

⁽⁴⁾ Exploratory EESC opinion on *Economic and social cohesion: regional competitiveness, governance and cooperation*, OJ C 10, 14.1.2004, p. 88.

70 specific proposals) were followed up, and in eight cases cohesion policy rules were modified to reflect EESC proposals. Thus, a large majority (47 of a total of 72) of EESC proposals were acted on by the Commission.

2. The challenge to cohesion policy posed by enlargement

2.1 Building a powerful new entity

2.1.1 Following the accession of 10 new countries, the enlarged European Union is the third most populous political entity in the world: with 455 million inhabitants its population is considerably smaller than that of China or India, but larger than that of the United States (300 million) and Russia (140 million). With a GDP of EUR 10 billion, the EU has one-third of the world's wealth and controls one-fifth of world trade, and therefore has the potential to be a major player on the current global stage.

2.1.2 Although they are less developed than older Member States, the new countries can contribute an economic impetus, with average economic growth in 2003 of 3.6 % in the 10 accession countries compared to 0.4 % in the EU-15, a difference which is bound to have a profound and favourable impact on economic trends and growth in the European Union as a whole.

2.2 Facing new challenges

2.2.1 As in the case of any significant change, institutions, policies and budgets will inevitably have to be adapted to reflect the new dimensions of the European Union. After the previous four enlargements of the EU — in 1973 (United Kingdom, Ireland, Denmark), 1981/1986 (Greece, Spain, Portugal), 1989 (German reunification) and 1995 (Sweden, Finland, Austria), major changes were necessary.

2.2.2 Given the exceptionally large number of accession countries and the relative weakness of their economies, the current enlargement poses the EU with a series of specific problems.

2.3 Expanding borders

Now that the geographical, cultural, religious and historical identity of the EU is being questioned, the borders of Europe are no longer set in stone. Further enlargement is already scheduled (for Romania and Bulgaria) or being discussed (Turkey, Croatia), and it is quite possible that other countries will apply to join. There is no doubt that such developments will necessitate greater cohesion, and, at the same time, respect for different identities.

2.4 Economic disparities

2.4.1 The ten accession countries in 2004 have an average per capita income (in terms of purchasing power) that is less than 76 % of the average for the EU-15. The two countries which are expected to join in 2007 (Romania and Bulgaria) are even further behind, with per capita incomes of less than 30 % of the Community average. The European Union must therefore address the budgetary implications of this situation, not least in the debate on adoption of the financial perspective for the 2007-2013 period.

2.4.2 Changes to the funds will need to take these factors into account, so that the Commission has the resources to support a sustainable financial policy for the EU and Member States. In this context, the ceiling of 4 % of GDP which limits total access to Community funds reflects the need for fairness and for economic efficiency. However, disparities in development levels which were already present in the EU-15 will not simply disappear as a result of integration of new Member States. In view of this, policies for economic, social and territorial cohesion need to embrace the whole of the European Union, and to be backed up by the requisite funding.

2.5 A mixed picture

2.5.1 There is no doubt that appropriations by the EU have helped to narrow the gaps between countries. However, the overall positive impact should not be allowed to obscure the fact that there are many shortcomings. The need for radical reforms of cohesion policy is backed up by analysis of implementation:

- Objective 1 has achieved a fair degree of success in narrowing the gaps between Member States and regions; however, the lack of convincing results in terms of narrowing gaps within some large EU countries reflects the difficulty of making an overall success of a policy of territorial cohesion. Besides, progress in narrowing the gaps between Member States has as much to do with macro-economic policies as with structural intervention. At the level of interregional disparities, where structural measures do have a decisive impact, European intervention does not always target key activities where there would be genuine leverage potential. The lack of consultation and effective involvement of civil society actors has often been cited as the main cause of this relative lack of success. Given that these deficiencies are even more pronounced in the new Member States, tackling this issue is especially important;
- thanks to intervention in numerous European regions, Objective 2 has had the advantage of giving the European Union a higher profile and promoting quite close cooperation with economic and social actors, although that does vary from Member State to Member State. However, Objective 2 has come under attack, mainly due to the limited availability of funding;

- Objective 3 has often been used to co-finance national measures which neither generate added value nor enhance the visibility of EU action;
- thanks to effective networking and technical support, and in spite of a disproportionate amount of red tape, Community initiative programmes and innovative measures have made a genuine contribution;
- the Cohesion Fund, which is linked to Objective 1 support, is acknowledged to have made a decisive contribution to the financing of many major investment projects.

2.6 Results which call for radical reform of cohesion policy

2.6.1 An analysis of the overall economic impact of the Structural Funds reveals that there is considerable variation in terms of measures. What is clear, however, is that they do not represent some kind of magic formula for regional economic development. The Structural Funds are not a passport for growth for the countries and regions that qualify for funding. Although they back up the work of actors at regional and national levels in the least developed parts of Europe, the risk is that, unless priorities are set in close collaboration with all the local stakeholders, the funds can only have a limited impact in overcoming natural and structural handicaps. They should therefore be seen as a tool to assist strategies implemented by development players, with the widest possible involvement of the appropriate grassroots stakeholders. Thus, a significant proportion of European funding should be set aside for innovative measures to support the development of local capacity, in order to make underdeveloped regions more attractive and competitive. The EU plays a key role in facilitating the sharing of best practice among the relevant actors.

2.6.2 Reforms of cohesion policy should aim to strike a better balance between investments in the requisite infrastructure and investments in human resources, which are currently under-supported and play a key role in enhancing the potential of underdeveloped regions.

2.6.3 Greater efficiency and higher standards are thus essential if the European public are to accept and support a cohesion policy that is more ambitious and more in tune with regional and local concerns.

2.7 Outline of the new cohesion policy

2.7.1 In this context, the Commission's proposal on cohesion policy should, on the one hand, address the need for territorial cohesion in an enlarged Europe with 25 Member States and, on the other, contribute to achieving the major European

objectives of competitiveness in a knowledge-based economy, full employment and sustainable development.

3. The draft regulation should be brought into line with the objectives of radical reform

3.1 The new objectives of the draft regulation

3.1.1 **The new Objective 1 of Convergence, which combines the Cohesion Fund and the existing Objective 1 of the Structural Funds.** Appropriations relating to phasing out on statistical grounds are also covered by this objective.

3.1.1.1 Eligible areas: regions with per capita GDP < 75 % of the EU average, 'cohesion' countries, i.e. countries with gross national income < 90 % of the EU average, regions which qualify under the current Objective 1 but would lose their eligibility due to the statistical effect of enlargement, and, as an additional benefit outermost regions.

3.1.1.2 Financial aspects: total financial appropriation: 78 % of budget allocated to cohesion policy (as envisaged by the Financial Perspective for 2007-2013); support for programmes under the new Objective 1 by the ERDF, the ESF and the Cohesion Fund.

3.1.1.3 Main areas of funding:

- under the ERDF: R&TD, innovation and entrepreneurship, the information society: development at local levels of content, applications and services, the environment, tourism, energy, direct financing of investment by SMEs contributing to job protection and job creation;
- under the ESF: enhancing the adaptability of companies and employees, stimulating investments in human resources;
- under the Cohesion Fund: trans-European transport networks, environmental protection, activities which are conducive to sustainable development and have an environmental dimension.

3.1.2 **New Objective 2, dedicated to regional competitiveness and employment**, replacing the current Objectives 2 (regions facing structural difficulties) and 3 (employment and training).

3.1.2.1 There are two priorities for intervention:

- **regional competitiveness**, supported through regional programmes, funded solely by the ERDF. The emphasis here is on tackling problems rural and urban areas face because of economic restructuring and the difficulties of regions with natural and structural handicaps especially islands and sparsely populated areas;

— **employment**, supported through national programmes which are solely funded by the ESF; here, the emphasis is on supporting policies aimed at ensuring full employment, quality and productivity, and social inclusion.

This objective is in line with the strategy put forward by the Lisbon European Council of supporting employment, economic reform and social cohesion in the context of a knowledge-based economy and the needs of sustainable development.

3.1.2.2 Eligible areas: generally, all regions which are not covered by the new Objective 1.

3.1.2.3 Financial aspects: total financial appropriation: 18 % of budget allocated to cohesion policy (as envisaged by the Financial Perspective for 2007-2013). This appropriation is split equally between the two priorities for intervention.

3.1.2.4 Main areas of funding:

— under the ERDF: firstly, innovation and the knowledge-based economy, access to transport and telecommunications services of general economic interest, facilitating access by SMEs to ICT; secondly, the environment and risk prevention;

— under the ESF: enhancing the adaptability of businesses and employees.

3.1.3 **New Objective 3, European territorial cooperation**, dedicated to interregional and European cooperation, and replacing the current Interreg Community initiative programme.

3.1.3.1 Eligible areas: Member States and regions are to propose transnational cooperation zones based on 13 existing cooperation zones defined under INTERREG III B; the Commission will then decide on cooperation zones in partnership with Member States and regions. Eligible measures: similar to measures under INTERREG III B, with an emphasis on the Lisbon and Gothenburg priorities. Support for interregional cooperation networks. Applies throughout the European Union.

3.1.3.2 Financial aspects: total financial appropriation: 4 % of budget allocated to cohesion policy (as envisaged by the Financial Perspective for 2007-2013). Relevant fund: the ERDF.

3.1.3.3 Main areas of funding: this objective relates to three types of territorial cooperation:

— **cross-border cooperation**: development of entrepreneurship, SMEs and tourism, overcoming isolation through better access to services and transport, information and communication networks;

— **transnational cooperation**: improving accessibility, supporting technological development and R&D;

— **support for interregional cooperation networks**: innovation and the knowledge-based economy, the environment and risk prevention, the urban dimension.

3.2 *A comprehensive approach to cohesion policy*

3.2.1 Insofar as it is essentially concerned with promoting 'harmonious development of the Community' as a whole, in particular by aiming to reduce 'disparities between the levels of development of the various regions', cohesion policy has particular features which make it a priority for negotiation, particularly in the context of the new budgetary negotiations.

3.2.2 In this connection, the role of cohesion policy will be crucial for new and future Member States. Their lag in development and ageing infrastructure are now familiar issues which fully justify the application of cohesion policy once these countries accede to the EU.

3.2.3 At the same time, it should not be forgotten that cohesion policy is still very important for the current Member States. Firstly, the commitment of Objective 1 regions to cohesion policy is a major political factor. Furthermore, some regions currently benefiting from cohesion policy, which risk being excluded from it in the future, are still facing serious internal problems of territorial cohesion.

3.2.3.1 The Third Cohesion Report has rightly emphasised that, while disparities between countries have been partially overcome, the differences between regions within the same country have persisted or even widened in some countries, thus demonstrating the very real nature of natural and structural handicaps. These disparities would have been even wider without the impact of structural and cohesion policies, given the strong tendency for economic development to be concentrated in the most prosperous regions.

3.2.4 Finally, it seems appropriate to involve the regions of all the Member States, given the aim of securing greater grass-roots support for European integration. The political importance of these appropriations, which help to bridge the communication gap between the EU and ordinary Europeans, should not be forgotten. Many observers have noted that the EU is often perceived as being both remote and restrictive; however, European funding can help to bring Europe closer to its citizens.

3.2.5 Moreover, territorial cohesion has been enshrined by the Treaty establishing a Constitution for Europe as a fundamental principle of EU action. Therefore, structural instruments should underpin this policy by intervening on the behalf of the EU, and hence, must, in one way or another, rally the resources of all the Member States, both financially — to reflect Community solidarity — and in terms of ideas, expertise and projects. Structural Fund measures not only give the EU a

higher profile; they also bring added European value to any project, not so much financially as in terms of EU-facilitated joint strategies, exchanges, cooperation and transfer of expertise.

3.3 *Closer involvement of economic and social players*

3.3.1 Although the EESC, in its exploratory opinion⁽⁵⁾ recommended strengthening the role of economic and social partners by conferring voting rights in bodies involved in preparation and follow-up, providing technical assistance, introducing rigorous selection procedures for partners and working out a detailed role for follow-up committees, these recommendations were not followed by the Commission. The EESC is disappointed that the European Commission is lacking in political courage in this area, given that the effectiveness of cohesion policy is closely dependent on involvement of economic and social actors, and other civil society organisations concerned. In the EESC's view, this failure to include economic and social actors is at odds with the principles of participatory democracy set out in the Constitutional Treaty. In the light of the gap that exists between the institutions and the public, this is a practical opportunity to better respond to civil society's expectations. Experience of genuine consultation with economic and social players (for example, in Northern Ireland) has shown that considerable benefits can be reaped in terms of quality and effectiveness; the Commission should therefore more actively promote effective partnerships.

3.3.1.1 Complaints about inadequate involvement in structural policies and the consequent adverse effects on the visibility, transparency and effectiveness of cohesion policy are becoming increasingly common. The EESC is concerned about the growing criticism of this lack of partnership, much of which originates from civil society organisations in new Member States. In this connection, the EESC recommends setting up national and regional economic and social councils or similar bodies able to serve as autonomous, open and transparent forums for consultation and monitoring.

3.3.1.2 Significantly, the European Commission has not assessed or commented on the fundamental principle of involving economic and social partners. Too few rules and standards are in place at both Community and national levels to secure the involvement of the social partners and other civil society organisations concerned in all stages of implementing the Structural Funds.

3.3.1.3 The European Commission should advocate capacity building of local and regional authorities and players and of civil society stakeholders. It is surprising that regulations on the

ERDF and the EAFRD ignore the contribution of administrative capacity building to good governance, even though the Commission's *White paper on European governance*⁽⁶⁾ has emphasised that civil society has a fundamental role to play in this respect. The EESC specifically proposes that all programmes should include measures to support capacity building for local and regional economic and social players (as is done in the draft ESF regulation which allocates 2 % of resources for that purpose), but backed up by more adequate funding (at least 5 % for each programme); it also asks that the eligibility of economic and social interest groups for technical assistance should explicitly be mentioned (Article 43).

3.3.1.4 For the EESC, the quality of partnership is central to how cohesion policy is implemented and perceived. The EESC therefore requests that the Commission draw up a report on how partnership works in practice, and offers its support in sounding out the views of civil society organisations. The EESC requests that the European Parliament assess the proposals for regulations on the basis of how they address the need for partnership; the weakness of this aspect is a reflection of the lack of interest on the part of EU authorities.

3.4 *Setting new priorities at European level*

3.4.1 The EESC endorses the Commission's proposal to align cohesion policy with the broad strategic objectives of the European Union, such as the Cardiff, Luxembourg, Lisbon and Gothenburg Processes. The commitments of the European Charter for Small Enterprises and issues relating to the quality of public services, which were emphasised again in Barcelona, must also be included in the debate on priorities. The EESC favours mandatory guidelines incorporating the Union's political priorities and drawn up jointly by the Member States, the Committee of the Regions and the European Economic and Social Committee.

3.4.2 The EESC would like the draft regulation to refer to these broad guidelines more specifically. A considered choice should be made to give greater priority to education and training as well as instruments favouring the knowledge-based society and sustainable development.

3.4.3 Basic infrastructure, not only in terms of transport but also educational and research institutions, as well as infrastructure connected with environmental improvement, is vital for the least developed regions in order to compensate for their disadvantages.

3.4.4 As far as regions with natural handicaps are concerned, permanent support should be provided in order to overcome disparities within Europe and ensure equal opportunities.

⁽⁵⁾ EESC opinion on the *Partnership for implementing the Structural Funds*, OJ C 10, 14.1.2004, p. 21

⁽⁶⁾ White Paper on European Governance, COM(2001) 428 final.

3.4.5 With regard to state aid for business, the EESC feels that distortions of competition should be avoided, and notes that such aid rarely has much of an impact due to considerable delays in allocation. In the EESC's view, there should be greater emphasis on creating a favourable environment for business start-up and development (training, infrastructure, joint action). With regard to aid, subject to the reservations expressed above, the EESC is pleased to note that the development of small and medium-sized enterprises has been made a priority, and that the period during which a company which has received such aid must commit to maintaining its investment in the recipient region has been set at seven years.

3.4.6 The EESC draws attention to the importance of building up research and innovation capacities which, like education and training, are catalysts for local development and chime in with the Lisbon objectives. Indeed, the conclusions of the Lisbon Summit envisage building up educational capacity both for basic training and lifelong vocational training.

3.4.7 Cohesion policy should also support development of health infrastructure in the least developed regions, as well as helping to remedy the causes of exclusion. It could make a real contribution here by sharing information about successful efforts across the EU. Particular emphasis should be given in this context to the situation of marginalised groups such as migrants and ethnic minorities, which are deprived of access to employment or education. In preference to subsidies, which rarely have a real impact, experience should be shared on the basis of tried-and-tested methods, combined with the promotion of 'best practice'.

3.4.8 With specific regard to the issue of social inclusion, the EESC feels that it is important that non-discrimination be acknowledged across the board in activities financed under the Structural Funds, and that Structural Funds should not cause the creation of additional barriers to access by disabled persons. Given that the Structural Funds are a vital tool in reducing and mitigating social exclusion and in combating discrimination against disabled people, the Member States and the Commission must act to ensure that these funds are used as an economic instrument to:

- improve access to employment by jobseekers and increase participation in the labour market,
- enhance social inclusion and combat discrimination, and
- undertake reforms in the field of employment that also benefit disabled persons.

3.4.8.1 The Commission's current proposals do not take social aspects sufficiently into account. The Structural Funds, and the European Social Fund in particular, must be a tool for employment, and also for the European strategy on social inclusion, by encouraging the development of labour markets specifically geared to that end.

3.4.9 Priorities should include a strategy for locally generated development based on optimum knowledge of the areas concerned through observation tools that involve a local partnership of all stakeholders. As discussed in a recently adopted EESC own-initiative opinion, particular attention should be paid to the situation in large cities. (7)

3.4.10 It is important that the regulation should provide for procedures to support innovative action in terms of both methods and types of operation. In this connection, the EU must play a key role in supporting and propagating innovation in economic, social and territorial cohesion policy, bringing genuine European added value to measures planned and implemented at local, regional, national and international levels.

3.5 *Bringing procedures into line with European developments*

3.5.1 Over the years, European procedures have tended towards complexity, resulting in very elaborate procedures at the expense of transparency and accessibility. The same problems can already be seen in the implementation of pre-accession aid to applicant countries. It is vital that the presentation, implementation and management arrangement of the Structural Funds should be kept straightforward, with shorter cycles and processing times that match actual programme needs.

3.5.2 Thus radical changes are needed in order to simplify procedures. It often happens that national legislation is superimposed onto European legislation, which can create problems; these can be particularly difficult to overcome in the case of cross-border or transnational cooperation. With this in mind, the EESC views the Commission's proposal to delegate the choice of eligibility criteria to national level — with the exception of Objective 3, and subject to request by the Member State concerned — with considerable concern, and questions the underlying reasons for doing so. In order for structural policy to remain consistent, the EESC calls for a common base for eligibility criteria.

3.5.3 **Selecting eligible regions:** The EESC fundamentally disagrees with the Commission's intention to delegate to Member States selection of the regions to benefit from the Structural Funds. In the EESC's view, regions should be selected jointly by the Commission and the Member State concerned. In this connection, high priority should be given to regions with structural and natural handicaps; for these regions, the Commission should be very closely involved in selection to ensure equitable treatment at European level. For example, it would not be right for one island to be declared eligible in one country while a neighbouring island with similar characteristics

(7) EESC own-initiative opinion on *European metropolitan areas: socio-economic implications for Europe's future* OJ C 302, 7.12.2004, p. 101.

were excluded in another country. In the event of such decisions, the public would be entitled to wonder what had happened to consistency within Europe and to the European dimension.

3.5.4 Defining priorities: It is also important to give the EU a stronger role in this connection in order to enable the Funds to be used as a catalyst for measures which are in keeping with EU priorities, including the Lisbon strategy and the main European networks.

3.5.4.1 At all events, the greatest vigilance will be needed to combat the ever-present risk of 'renationalising' Structural Fund policies. Implementation methods should reinforce the European dimension, never weaken it.

3.5.4.2 In overall terms, the Commission document on general provisions on the three funds is very ambitious. With an approach that lumps together all aspects of research, innovation, educational investment, the information society, transport investments, the environment, etc., without identifying priorities, there is a risk that the programme might prove impossible to implement due to resources that are — potentially — insufficient for the task.

3.5.4.3 In the EESC's view, the text must — in terms of both arguments and content — make more reference to the priorities that are to be set. This recommendation will be taken up and built upon in specific opinions drawn up for each of the funds.

3.5.5 Cooperation between Member States, regions and actors representing civil society: The EESC is disappointed that new arrangements have shifted responsibility for strategies and means of action to the Member States. Not enough emphasis has been given to opportunities for cooperation between Member States, even though this aspect is an essential part of the Lisbon strategy (innovation, education, major networks, dissemination of knowledge). It is thus important to promote — and make more flexible — conditions for access to the resources needed for cooperation across borders and between Member States.

3.5.5.1 Given the pressing need for a uniform European measure on cooperation between regions and Member States, the EESC strongly supports the establishment of European groupings of cross-border cooperation.

3.5.5.2 However, it is worth considering whether this instrument, which is solely intended for cross-border cooperation, should not in practice be more tightly defined, including in terms of project management requirements for each kind of cooperation. This concern is taken up and built upon in the opinion on the specific subject of EGCCs.

3.5.6 Public/private partnership: In its exploratory opinion on the partnership for implementing the Structural Funds, the Committee recommends strengthening the public/private part-

nership in order to help projects to succeed through a range of measures designed to boost legitimacy, coordination, effectiveness and transparency. With this in mind, the Committee is concerned about the impact of the changes introduced by the European Commission, which will only allow co-financing to be supported by public expenditure. Enforcement of this requirement could ultimately reduce or even eliminate the private component of such partnerships, an outcome which contradicts the objective of encouraging private sector involvement. **The EESC calls on the European Commission to conduct an impact analysis of this new measure before implementation. The EESC would also like dispensation from this rule for all technical support measures targeted at economic and social actors, in order to ensure that EU support is not tied to that of national authorities. It should be possible for organisations' own funds to serve as a basis for contributions from European Structural Funds.**

3.5.7 Single fund: In Recital 35, the draft regulation states that 'the programming and management of the Structural Funds should be simplified by providing for operational programmes to be financed by either the ERDF or the ESF'. Although this innovation simplifies the way the programmes operate, it has yet to be seen whether it will actually improve the coordination and comprehensibility of the funds at regional level. The EESC would have preferred a single fund to cover the whole of cohesion policy; however, this was not the option chosen by the Commission.

3.5.8 National strategic framework: The Commission proposes that an overall strategic document for cohesion policy should be adopted by the Council, after an opinion from the EP, in advance of the new programming period. Thus, each Member State would prepare a policy document on its development strategy, which would be negotiated with the Commission. In order to ensure genuine consistency in the approach to issues of shared concern, the EESC would like the European Commission to act as coordinator, so that Member States can confer together on the objectives of these strategic documents. Encouragement should be given to incorporating European considerations and strategies — including those of a cross-border nature — into these national strategic frameworks.

3.5.9 Follow-up committees: With this in mind, the EESC does not look favourably on the proposal to make attendance by the European Commission at follow-up committee meetings optional; rather, it feels that EU action needs to be made more visible for the public, and instead of undermining the role of follow-up committees through an additional procedure, their position needs to be strengthened. The absence of the Commission will leave the economic and social partners and other civil society organisations concerned to their own devices in dealing with government departments, disappointing them in their expectations of the Commission acting as custodian of the partnership principle.

3.5.10 Additionality: The EESC endorses the additionality principle, provided that it is interpreted flexibly — i.e. in the context of the actual objectives and programmes rather than from project to project.

3.5.11 Adjusting the level of participation: The EESC supports proposals which envisage adjusting the level of EU participation to reflect geographical handicaps in the regions concerned. It suggests that such additional support could be cumulative in the case of regions suffering from more than one handicap (e.g. thinly populated islands with rural and/or mountainous zones). The Committee feels that it is important to emphasise that the priority objectives of structural policy always apply to such thinly populated regions, with their permanent natural handicaps: 'Regional policy and rural development policy must reflect this in the way in which they are implemented, not least by proposing a higher level of co-financing to take account of these constraints'.⁽⁸⁾

3.5.12 Making decentralised management more effective: The EESC feels that permanently delegating responsibility to Member States and local authorities is too risky, besides making EU action considerably less comprehensible. It therefore suggests that the setting up of implementing agencies with a temporary remit should be considered, especially for the applicant countries. One of these agencies' tasks could be to encourage benchmarking of best performance and achievements to help promote such practices. In all cases EU action should have a higher profile and greater visibility for the public. As opposed to posters displaying the largely arcane symbols or acronyms of European instruments, the presence on the ground of EU representatives or local authorities acting on their behalf would be the most tangible manifestation of visibility.

3.5.13 Promoting the method of global grants: The EESC is pleased to note that the draft regulation confirms the procedure of awarding global grants to grassroots organisations. This approach is particularly suited to measures promoting micro-businesses. It is gratified that the Commission has heeded its call for more flexible rules on the award of such global grants. However, although this approach has proven to be effective, the Committee is disappointed that its proposal for a minimum threshold of 15 % of interventions in this form has not been followed up. It therefore reiterates its request.

3.5.14 Wherever possible, the EU needs to boost its profile in order to ensure that its intervention has a European dimension. In order to enhance effectiveness, priorities and methods should be worked out through European partnerships. The success of cohesion policy is less dependent on the amount of funding paid out than on the choice of priorities and the standard of working procedures. There is no point in solidarity unless it goes hand in hand with cooperation.

3.5.15 Evaluation: As far as evaluation of programmes is concerned, the EESC reiterates its statement that a qualitative evaluation of the impact of programmes should be conducted, rather than just a financial and administrative evaluation as is largely the case today. In particular, civil society actors must be involved in this procedure.

3.5.16 In the draft regulation, providing 'the human and financial resources necessary for carrying out evaluations' is the responsibility of Member States, but it is also up to them to 'draw up, under the 'Convergence' objective, an evaluation plan to improve the management of operational programmes and their evaluation capacity' (Article 46(1)). It is all very well for the Commission to delegate responsibility for monitoring implementation of programmes to Member States. However, at the same time, the Commission should take a strong line on its right to conduct ongoing supervision of the use of Structural and Cohesion Funds within Member States. Given the frequent problems which have arisen, the EESC feels that withdrawal of the Commission from evaluation procedures will inevitably give rise to situations that are detrimental to the interests of all.

3.5.17 Cancellation of appropriations which have not been committed: The EESC is sceptical of the value of the 'N+2' rule, which stipulates cancellation of appropriations which have not been committed by two years after the planned programming period. Experience shows that, in order to get round this rule, national authorities are inclined to make hasty decisions on projects of dubious value, sometimes with the tacit cooperation of the European Commission. The EESC considers that rigorous evaluation of projects by the EU in relation to the objectives which have been set should be the usual procedure and the only permanent procedure. The EESC thinks that funding which has not been used by the given deadlines should be recycled rather than used up in a hasty and superficial way merely to avert the threat of automatic decommitment.

3.5.18 Moreover, a number of reports by the Court of Auditors have pointed out that the Member States in question do not have the capacity to make use of funding which has been allocated to them. In future, the emphasis will be on the new Member States. That fact should be taken into account, and appropriate corrective measures taken.

3.5.19 A new audit authority: Creation of an audit authority is intended to reinforce monitoring structures, in addition to the existing management and certification authorities (Articles 59 and 60 respectively). The draft regulation introduces a requirement for submission of an audit strategy (Article 61(1)(c)): the audit authority is to present 'to the Commission within six months of the approval of the operational programme an audit strategy covering the bodies which will perform the audits (...), the method to be used, the sampling method (...)'. In addition, the audit authority is required to issue an annual opinion for each operational programme, similar in content to the final statement of validity. As Article 61.1 states, the audit authority should provide 'a declaration at

⁽⁸⁾ EESC opinion on *The CAP second pillar: outlook for change in development policy for rural areas (follow-up to the Salzburg Conference)* OJ C 302, 7.12.2004, p. 53.

the closure of the operational programme assessing the validity of the application for payment of the final balance (...) supported by a final control report.' The EESC reiterates its recommendations that auditing and monitoring procedures for the implementation of programmes should focus not merely on quantitative aspects but also on qualitative issues as well. Also, the EESC is again disappointed that auditing responsibilities have been delegated to national level, yet another indication of the EU's lack of interest in its responsibilities. The EESC is awaiting the European Court of Auditors' opinion on this proposal; whatever the outcome, the Committee would like to be involved in any auditing arrangements that are introduced.

4. The performance and quality reserve and the contingency reserve

4.1 The EESC reiterates the proposals which were put forward in its exploratory opinion on *Economic and social*

Brussels, 6 April 2005.

cohesion: regional competitiveness, governance and cooperation ⁽⁹⁾. However, the EESC feels that these provisions should be redefined and amended in line with the proposals which it has already put forward, i.e.:

- with regard to the performance and quality reserve: the criteria for eligibility should be expanded to include an analysis, not in quantitative or administrative terms, but in terms of the economic and social impact of the results achieved. Another useful criterion which should be applied here is implementation of the *Lisbon strategy*, as set out in Wim Kok's recommendations;
- with regard to the contingency reserve, the EESC supports the Commission's proposal, provided that the regulation offers explicit scope for the involvement of economic and social partners. The EESC reiterates its view that responding to the economic and social implications of major changes such as enlargement, globalisation, and the introduction of new technologies should be a priority of the Structural Funds.

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

⁽⁹⁾ OJ C 10, 14/01/2004, p. 88, point 3.8.

Opinion of the European Economic and Social Committee on the Proposal for a Council Regulation establishing a Cohesion Fund

(COM(2004) 494 final — 2004/0166 (AVC))

(2005/C 255/17)

On 1 December 2004 the Council decided to consult the European Economic and Social Committee, under Article 262 of the Treaty establishing the European Community, on the abovementioned communication.

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 18 March 2005. The rapporteur was Mr Francisco João Silva.

At its 416th plenary session, held on 6-7 April 2005 (meeting of 6 April), the European Economic and Social Committee adopted the following opinion by 121 votes with 10 abstentions.

1. Introduction — the origin and key aims of the Cohesion Fund

1.1 As provided for in the Maastricht Treaty, the Cohesion Fund was set up in 1993 as a 'cohesion financial instrument' and formally given the status of a Community 'Fund' under Regulation 1164/94 of 16 May 1994⁽¹⁾ — amended in the meantime by Regulations 1264/99 and 1265/99, both dated 21 June 1999⁽²⁾.

1.2 The Cohesion Fund was established to assist Member States whose Gross National Product was below 90 % of the Community average — this percentage was assessed on a three-yearly basis after the 1999 amendment — which meant that from the outset only four Member States were eligible for assistance: the three countries arriving with the second wave of EU enlargement — Spain, Greece and Portugal — and Ireland.

1.3 Under Regulation 1164/94, the Cohesion Fund helped consolidate economic and social cohesion in the Community, providing support for projects in the following areas:

- the environment;
- trans-European networks and transport infrastructures; and
- preparatory studies and technical support measures relating to eligible projects.

2. The impact of the Cohesion Fund from its creation to the present time

2.1 The contribution of the Structural Funds, especially the Cohesion Fund, is both visible and quantifiable in terms of progress in achieving the 'convergence' objective in the four Member States benefiting from the Funds to date.

2.2 For example, 'the density of the motorway network in these four countries increased from 20 % below the Community average in 1991 to 10 % above in 2001'⁽³⁾.

2.3 Still with reference to transport infrastructure, there have not been similar improvements in the modernisation of railway transport and the density of railway network coverage in the four cohesion countries, which stands at 55 % of the EU average.

2.4 It has also been noted that investments in transport infrastructure made with Cohesion Fund support are a key factor in making the beneficiary regions attractive, giving a boost to economic activity, with all the benefits that that entails, such as productivity gains and growth in the real income of the local population.

2.5 Recent studies point to the fact that the contribution of the Structural Funds in general, and of the Cohesion Fund more particularly, can also have a positive effect by attracting businesses with a major R & D component to the regions concerned, which cannot fail to provide a stimulus to sustained growth throughout Europe.

2.6 The increase in per capita GDP in these four Member States between 1994 and 2001 — on average 3 % in real terms — was more than 1 % higher than the average annual increase in the rest of the EU⁽⁴⁾.

3. The new proposal for a Council Regulation applying to the Cohesion Fund, submitted by the Commission in 2004 — General comments

3.1 The 1 May 2004 enlargement of the European Union from 15 to 25 Member States (the total number of members being set to rise to 27 in the near future, with Bulgaria and Romania being two countries which will also receive Cohesion Fund support) calls for serious discussion about the importance — in both qualitative terms (priority selection) and quantitative terms (the money allocated to Community funds) — of the methods used to attain the three key objectives of the Structural Funds: 'convergence', 'regional competitiveness and employment' and 'European territorial cooperation'.

⁽¹⁾ OJ L 130 of 25.5.1994, p. 1

⁽²⁾ OJ L 161 of 26.6.1999, p. 57

⁽³⁾ Commission Communication on the 'Third report on economic and social cohesion' COM(2004) 107 final

⁽⁴⁾ Idem

3.2 Such a discussion is all the more urgent given that the simultaneous accession of 10 new Member States, with a GDP lower than the EU 15 average, has given rise to greater challenges for our efforts to achieve the 'convergence' objective, for which purpose the Cohesion Fund is being deployed, together with the ERDF and ESF.

3.3 Hence the Commission is channelling around EUR 264,000 million (78 % of the total budget for European development programmes) into the 'convergence' objective; of this amount, around EUR 63,000 is earmarked for the Cohesion Fund, which constitutes a significant increase over the Fund's budget for 2000 — 2006: EUR 18,000 million.

3.4 With this in mind, the EESC assesses the Commission initiative positively in preparation for new Structural Funds rules and regulations for 2007 — 2013, providing a new legal framework for European cohesion policy.

3.5 In the time frame envisaged for the current revision of the rules on the Structural Funds, the latest statistics would indicate that Greece, Portugal, the 10 new Member States from the recent enlargement and, as soon as they join, Bulgaria and Romania will benefit from the Cohesion Fund.

3.6 As far as the proposed Regulation on the Cohesion Fund is concerned, designed to replace Council Regulation (EC) 1194/94, the EESC endorses the thrust of the proposal which aims to bring together in this Regulation only the key objectives and main lines of application and access; all aspects of making this fund operational — basic principles, definition of tasks and their division between the Member States and the Commission, financial management rules, auditing and monitoring rules — are to be covered by the General Regulation applying to all the Structural Funds.

3.7 Against this background, the Cohesion Fund will clearly provide back-up for steps to **refocus Community cohesion policy on a limited number of selected priorities rooted in the commitments and strategies set out at Lisbon in 2000** — a more competitive economy based on an approach relying on knowledge and social cohesion — **and those drawn up at Gothenburg in 2001** — stressing the need for environmental protection and the establishment of a sustainable development model.

4. The new proposal for a Council Regulation applying to the Cohesion Fund, submitted by the Commission in 2004 — Specific comments

4.1 Whilst accepting that the standardisation of Structural Funds rules and procedures is an appropriate management measure — for example, one positive step is the guideline stipulating that Cohesion Fund measures will be able to be programmed in conjunction with those of the ERDF, which is an exception to the principle that each programme will be financed by only one fund — the EESC feels it should be pointed out that because of this standardisation, certain rules are being applied to the Cohesion Fund which give rise to serious misgivings.

4.2 The EESC thus has reservations as to the value of the first-time application of the 'n + 2' rule to the Cohesion Fund; these concerns are referred to generally in the EESC opinion on the proposal for a Council Regulation laying down the general provisions applying to the Structural Funds ⁽⁵⁾.

4.3 One positive sign is that, as set out in Article 1(1), the Cohesion Fund now aims to strengthen **territorial cohesion** as well as economic and social cohesion, covering regions whose per capita GDP is below 75 % of the Community average (EU 25).

4.4 The importance of this new aspect is easy to see, given that the enlargement of the European Union from 15 to 25 countries has not only led to an approximately 12.5 % fall in average per capita wealth, but has also meant that the percentage of the population living in less developed areas has risen from 20 % to 25 %.

4.5 In the ten Member States joining the EU in 2004, around 92 % of the population live in regions where per capita GDP is lower than 75 % of the Community average (EU 25) ⁽⁶⁾.

4.6 In the proposed regulation, the measures to strengthen Community cohesion are part of comprehensive moves to **promote sustainable development**.

4.6.1 This is illustrated in **Article 2(3)** which sets out possible areas for development:

- energy efficiency and renewable energies, as part of environmental measures;
- rail, river and sea transport, intermodal transport systems and clean urban transport, as part of transport measures.

4.7 Although this concern is not expressly mentioned, the EESC feels that effective deployment of Cohesion Fund money to invest in measures for improving the use of traditional energy sources and increasing the share of renewable energy sources will help reduce cohesion countries' energy dependence; these countries currently import about 80 % of the energy they consume, although the 10 enlargement countries depend much less on the outside for energy supplies.

4.8 However, these examples should not cause us to lose sight of the fact that promoting sustainable development in Europe requires cohesion policies to be implemented in rural areas as a matter of urgency. Hence this sector cannot be kept outside the scope of the Cohesion Fund without there being a detrimental effect on the funding still provided by other Structural Funds for achieving CAP objectives.

⁽⁵⁾ CESE 389/2005

⁽⁶⁾ Commission Communication on the 'Third report on economic and social cohesion' COM(2004) 107 final

4.9 The EESC, bearing in mind that budgetary consolidation is one of the key pillars of convergence and consolidated growth for the European economy, does however have some reservations about possible inflexibility in applying the conditionality provisions on 'excessive government deficit' to the main objectives of the Cohesion Fund, as set out in **Article 4** of the proposal in hand.

4.10 Indeed, **such inflexibility can have a pernicious effect on the effective deployment of Cohesion Fund resources**: allocation of these resources is contingent on whether an excessive deficit has been eliminated; however, one of the causes of excessive deficits may be national governments' efforts to counter economic, social and territorial disparities.

4.11 It should be borne in mind that success in keeping public deficits within acceptable limits does not mean that the Member States concerned have also managed to remove economic, social and territorial disparities.

5. Conclusions and recommendations

5.1 Overall, the EESC welcomes the proposed Council Regulation on the Cohesion Fund, together with the alignment of the procedures applying to the Cohesion Fund on the general rules drawn up for the other Structural Funds.

Brussels, 6 April 2005.

5.2 The decision to enlarge the scope of the Cohesion Fund to include infrastructure development policies which respond to major environmental concerns — such as funding for 'clean' urban transport — is also worth highlighting as positive.

5.3 With a view to achieving the 'convergence' objective more efficiently and more quickly, the EESC recommends that the Commission work together with Member States to ensure that their operational programmes secure efficient, harmonised deployment of ERDF and Cohesion Fund resources so that, in the Member States receiving aid, national convergence goes hand in hand with regional convergence.

5.4 As part of its analysis of the advantages and potential disadvantages of the stability and convergence pact, the EESC urges the Commission to give due thought to the value of the conditionality provision on 'excessive government deficit' in relation to the objectives of the Member States receiving aid from the Cohesion Fund; it should be borne in mind that this provision must not be applied in such a way as to hamper the deployment of Cohesion Fund resources for achieving the 'convergence' objective.

5.5 Lastly, as stated in the opinion on the proposal for a Council Regulation laying down the general provisions applying to the Structural Funds ^(?), the EESC advocates allocating more resources to the Cohesion Fund, bearing in mind that the effect of the scheduled increase in resources will be completely diluted by the increase in the number of Member States which, following the latest wave of enlargement, will benefit from this Fund.

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

^(?) Idem footnote 5

Opinion of the European Economic and Social Committee on the Proposal for a Regulation of the European Parliament and of the Council on a European Regional Development Fund

(COM(2004) 495 final — 2004/0167 (COD))

(2005/C 255/18)

On 21 December 2004 the Council of the European Union decided to consult the European Economic and Social Committee, under Article 262 of the Treaty establishing the European Community, on the above-mentioned communication.

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 18 March 2005. The rapporteur was Mr Matousek.

At its 416th plenary session on 6 and 7 April 2005 (meeting of 6 April), the European Economic and Social Committee adopted the following opinion by 123 votes to 1 with 4 abstentions:

1. Preamble

1.1 This opinion has been developed within the overall context of the discussion on the EESC Opinion on the General Regulations ⁽¹⁾. It also relates to the other opinions of the Committee on the Regulations for Cohesion Fund ⁽²⁾, on the European Grouping of Cross-Border Cooperation (EGCC), on European Social Fund ⁽³⁾ and on the Agricultural Fund for Rural Development (EAFRD) ⁽⁴⁾.

1.2 The opinion reflects the impact of changes in the world economy, of the dramatically increased competition in world markets and the challenges for the European Union. Its starting point is the urgent need to use all means possible to reach the position of the EU in the world which will correspond to the European potential. It recognises the necessity to mobilise all significant resources in the short or medium term required to enhance the capacities of new Member States as an integral part of the EU economy and society including the hidden strength of regional structures. This means increasing the rate of progress towards reaching higher level of real convergence of the economies with the synergy for the overall economy of the Union. Therefore the Cohesion policy and its instruments respecting actively the main goals of EU developments based on sustainable development and quality European social model, are subject to increase of significance.

2. Summary

2.1 This document first provides a brief description of the challenges facing European Cohesion and Structural Policies, and makes some general comments and then presents a summary of the proposed Regulation.

⁽¹⁾ COM(2004) 492 final – 2004/0163 (AVC), CESE 389/2005.

⁽²⁾ COM(2004) 494 final – 2004/0166 (AVC), CESE 390/2005.

⁽³⁾ COM(2004) 493 final – 2004/0165 COD, CESE 250/2005.

⁽⁴⁾ COM(2004) 490 final – 2004/0161 (CNS), CESE 251/2005.

2.2 In the concluding section the Committee comments in more detail on the particular Articles of the proposed Regulation. The Committee generally welcomes the broad approach of the Commission in drafting these regulations. The Committee particularly concludes that:

2.2.1 It welcomes the fact that the actions to be supported by the Fund will be concentrated on the European Union's priorities as defined at the Lisbon and Gothenburg Summits.

2.2.2 Expenditure on housing and refurbishment that is related to regeneration and development should be permitted.

2.2.3 Research and technological development, innovation and entrepreneurship should be given high priority, particularly to support Small and Medium Enterprises (SMEs) development.

2.2.4 Sustainable tourism, public transport and renewable energy are all also important.

2.2.5 Innovation should be broadly viewed with support for the development and take-up of information and communication technology.

2.2.6 The proposals to promote European Territorial Cooperation are welcomed and should be strengthened.

2.2.7 The provisions on Urban areas and conurbations should explicitly facilitate closer cooperation between the cities of the Community.

2.2.8 Rural areas should be supported to encourage greater diversification.

2.2.9 The regulations should explicitly enable full programmes of convergence to be implemented in the areas with natural handicaps and the outermost regions as well as on islands facing particular problems (including small island states).

3. General comments

3.1 In the Third Report on Economic and Social Cohesion⁽⁵⁾ the Commission noted the challenges that faced the Union in reducing disparities and with enlargement. It specifically noted:

- low levels of participation in continuing training in less prosperous regions with significantly lower rates in new Member States;
- major disparities in Research and Development (R & D) expenditure;
- continuing disparities in terms of regional access to Information and Communication Technology (ICT);
- the need for sustained high levels of growth, particularly in new Member States;
- disproportionate amount of foreign direct investment going into the economically stronger regions;
- employment rates well below the Lisbon Objectives.

3.2 The EESC has welcomed the report and the positive contribution of the Structural Funds but has recognised that 'very significant differences remain in terms of prosperity and economic performance'. The Committee also recognised that 'enlargement would significantly expand the Community's internal market, bringing new opportunities', but that enlargement would also bring wider disparities⁽⁶⁾.

3.3 Reform is therefore needed to address the disparities detailed above, to respond to the specific challenges of enlargement and to take forward the objectives of the Lisbon Agenda for increased competitiveness, more and better jobs, social inclusion and environmental sustainability. The Committee wishes to stress that the Regulation should make this concentration clear and that the range of activities described under the various priorities should be seen as a menu or a collection of tools that regions and Members States will use to produce programmes that raise long term growth rates and strengthen competitiveness.

3.4 As noted in the preamble this opinion has been drawn up in the context of the EESC opinion on the General Regulations⁽⁷⁾. That work has commented in detail on the context and on the necessity to strengthen the involvement of the social and economic partners⁽⁸⁾. Social partners and other organisations which represent the specific and/or general interest of citizens should be included in all the stages of developing and implementing programmes and have full rights on Monitoring Committees. That opinion also argues that the Commission should promote effective partnerships. It is the Committee's view that to be most effective, then the decisions

⁽⁵⁾ Third report on economic and social cohesion - A new partnership for cohesion, COM(2004) 107 final.

⁽⁶⁾ EESC opinion on Third Report on economic and social cohesion, OJ C 302 of 7.12.2004, p. 60.

⁽⁷⁾ CESE 389/2005.

⁽⁸⁾ CESE 389/2005, point 3.3.

of those partnerships should be respected. That opinion also set out the view of the Committee in respect of the New Priorities⁽⁹⁾ that are necessary to respond to the challenge posed by enlargement. This opinion reflects those priorities as they relate to the specific regulations of the European Regional Development Fund. The Committee has already expressed its general view that there should be sufficient resources devoted to Cohesion Policy to achieve its objectives. In addition, there are points that concern both 'old' and 'new' Member States.

3.4.1 Firstly the problem of limited resources and their optimal allocation when compared with the absorption capacity (co-financing) of the new members and the regions and areas of great extremes of poverty.

3.4.2 Secondly the problem of statistical effect and 'phasing out' which has challenges for 'old' Members States and also implications for recent new Member States after the next enlargement of the EU after 2007 as they have to adjust to the possible loss of eligibility for some regions.

3.4.3 Related to this point, there are also questions on the methods to be used for computation of performance indicators (Gross Domestic Product — GDP) where new members could also face the threat of losing eligibility especially for the European Regional Development Fund (ERDF) assistance. Although Eurostat has available only full regional data for the three years 2000-2002, this could cause difficulties for those regions whose share of EU Gross National Income (GNI) is in decline.

3.5 There are many other EESC opinions already available or being developed, concerning the EU political and economic strategies, industrial or structural changes, R&D and innovation, development of tourism, the problems of urban agglomerations, infrastructures, handicapped and outermost regions etc. with the regional and cohesion dimension. Some of them should be reviewed as a result of enlargement. Eastern enlargement brings opportunities and challenges of the totally different quality when compared with former enlargements.

4. Summary of the proposal for a regulation

4.1 The proposed Regulation sets out the 'tasks of the European Regional Development Fund'.

4.2 The purpose of the Fund is defined as contributing to the funding of assistance to activities to reduce regional disparities and in so doing to contribute to the objectives of the Community to strengthen competitiveness, create jobs and promote sustainable growth. The scope of the fund is to support productive investment, infrastructure, other development initiatives and technical assistance. The fund will focus its assistance on the thematic priorities of Convergence; Regional Competitiveness and Employment; and European Territorial Cooperation.

⁽⁹⁾ CESE 389/2005, paragraph 3.4.

4.2.1 On Convergence, the proposed regulation focuses ERDF assistance on supporting sustainable development by mobilising and strengthening endogenous capacity and sets out the range of activities that are to be supported. They include Research and technological development, promotion of the information society, sustainable production and environment, promoting tourism, investments in transport, improving the security and efficiency of energy supplies, Education investments that make regions more attractive, improvements to health to contribute to economic development and aid to SMEs to create jobs.

4.2.2 In respect of Regional Competitiveness and Employment, the proposed regulation would focus assistance on first promoting innovation and the knowledge economy. Specifically enhancing Research and Technological Development (R&TD) and innovation capacities directly linked to regional development objectives, strengthening innovation in SMEs, promoting economic exploitation of new ideas and creating new financial instruments and incubation facilities to promote knowledge intensive firms. Secondly, attention is given to environmental risk and prevention, including stimulating investment in reclamation of contaminated sites, energy efficiency, clean public transport and risk prevention. Thirdly under this theme the fund will support investments outside the major urban centres to improve access to transport networks and promote the use of ICT.

4.2.3 Activity under the thematic priority of European Territorial Cooperation focuses first on developing cross-border strategies for sustainable territorial development. Specifically to encourage entrepreneurship and SME development, and the development of tourism, culture and cross-border trade. In addition activities are proposed that seek to improve access to transport and ICT networks, cross-border water and energy networks, collaboration on health and education. ERDF can also fund the promotion of cross-border labour-market initiatives. This theme secondly seeks to support transnational cooperation, including bilateral cooperation between maritime regions to promote approaches to waste and water management, accessibility to trans-European transport networks and advanced ICT systems, environmental risk prevention and scientific and technological networks. Thirdly this theme seeks to reinforce the effectiveness of regional policy by promoting networking and exchanging of experience specifically in innovation, environment and risk prevention and urban regeneration.

4.3 The proposal for a Regulation defines the eligible expenditure and contains specific provisions concerning the following elements:

4.3.1 Urban areas: the ERDF will support the development of participative, integrated strategies to tackle the high concen-

tration of economic, environmental and social problems affecting urban agglomerations. This Article also permits a limited amount of ERDF to be used to support activities that fall within the scope of the European Social Fund.

4.3.2 Rural areas: It is proposed that ERDF intervention in these areas concentrate on economic diversification, whilst ensuring complementarity with measures supported by European Agricultural Fund for Rural Development (EAFRD) and European Fund for Fisheries (EFF).

4.3.3 Areas of natural hardship: For regional programmes that cover areas facing natural handicaps ERDF shall in particular invest in improving accessibility, promoting cultural heritage, sustainable use of natural resources and tourism.

4.3.4 Outermost regions: ERDF shall support goods transport services and additional costs of storage, maintenance and labour supply.

4.3.5 There are also specific provisions on European Territorial Cooperation. These provisions set out the required content of Operational Programmes; these include analysis of the issues and justification of priorities, financial tables and implementation. They also set out possible arrangements for managing the programme, including a specific legal instrument to set up a specific body for cross-border cooperation.

4.3.6 Final provisions: These confirm the transitional provisions under the current regulations (EC) No. 1783/99 and formally record the proposed beginning and review dates of the regulations, as from 1 January 2007 and by 31 December 2013.

5. Opinion of the Committee

5.1 *Introduction, Scope of the regulations and Eligible Expenditure (Articles 1, 2, 3, 7 and 13)*

5.1.1 The Committee welcomes the clear link made in Article 2 between the purpose of the fund and the objectives of the Community and particularly the Lisbon agenda. Similarly the Committee would endorse the focus of assistance on clear thematic priorities. The renewed Lisbon objectives of raising long-term growth rates in the weakest regions and strengthening competitiveness across the European Union must be the objectives of the new programmes. The Regulation then has to set out a menu of activities that can be brought together in specific programmes that will respond to the specific conditions in each region whilst contributing to the overall objectives of raising growth and strengthening competitiveness. The process of drawing up EU-wide Guidelines and National

Strategies must focus on delivering the renewed Lisbon agenda. Social Partners must also be closely involved in drawing up these documents. In its Opinion ⁽¹⁰⁾ the Committee argued that the renewal of housing and the provision of affordable housing for key workers was an integral part of regeneration and had a particular role to play in urban and indeed rural policy, therefore the Committee is disappointed that expenditure on housing is explicitly excluded by Article 7. It is the view of the Committee that expenditure on housing that is related to regeneration and development should be permitted and also that expenditure on housing that is part of programmes of refurbishment of older urban and industrial areas should also be eligible.

5.2 *Activities to promote Convergence (Article 4)*

5.2.1 The Committee has stressed the importance of R & TD and innovation and entrepreneurship. The analysis of the third cohesion report pointed to the significant disparities in R & TD investments and noted that innovation and entrepreneurship are critical to sustaining high levels of economic growth in less prosperous regions of the Community. The Committee reiterates its view of the importance of these activities. It also notes that for some new Member States this ERDF assistance will be particularly significant in developing the necessary networks of R&TD centres linking regional universities and enterprises (with particular challenges in supporting SMEs) to bring up the region closer to the situation in developed Europe.

5.2.2 The Committee has also argued that ensuring access to broadband communication networks and assisting SMEs to take advantage of ICT is also very important in regions that are lagging behind.

5.2.3 The provisions on the Environment contain a range of actions; it would be helpful if the Article clarified that it was the contribution these investments make to sustainable development and promoting renewable energy that is of importance.

5.2.4 The promotion of sustainable tourism with high value added is to be welcomed as it makes a significant contribution to the development of regional economies and has significance in both rural and urban areas. Tourism has an under-estimated role in the trans-European transport framework in that it has a positive effect on the European awareness of citizens. In addition investment in appropriate infrastructures, services and a good environment can raise the attractiveness of regions not currently seen as tourism destinations.

5.2.5 The strength of transport infrastructure is one of the key enablers of growth. Investments that connect regions to the main European networks and markets are to be welcomed. Good, clean integrated public transport systems are important in towns and cities to ease congestion and in both rural and urban areas to help reduce social exclusion.

5.2.6 The development of trans-European energy networks will contribute to security of supply and closer integration of Member States. Energy efficiency and renewable energy also provide opportunities for new business that can also contribute to growth and competitiveness in lagging regions.

5.2.7 The investment in education also has direct benefits for innovation and competitiveness and for the development of human capital. As was noted above lagging regions are also more likely to have fewer opportunities for life-long and continuing education. The regulation as currently drafted refers only to 'increasing the attractiveness and quality of life in regions'. The Committee recognises the need for concentration and also recognises the role of the European Social Fund but, given the importance of Education wishes to see greater scope in this article and for the closer coordination between the ERDF and ESF ⁽¹¹⁾. The Committee also notes the importance of promoting new solutions to the problems of communication in a multilingual Union. Despite the formal commercial offer of language training, the situation, despite improvements, is still unsatisfactory.

5.2.8 The article provides for investments in the health-care system which contribute to regional development and quality of life, and is welcomed by the Committee.

5.2.9 Support for SMEs is important and good regional entrepreneurial policy can attract investment into structurally affected or economically weak regions. Incentives and other significant system measures in economies should be able to be used to attract foreign investors to regions in need, to support sectors of strategic importance to the EU and to support innovative clusters of companies and organisations.

5.3 *Activities to promote Regional Competitiveness (Article 5)*

5.3.1 On innovation the Committee may wish to propose a broad view of the innovation process, often new ways of working and innovations in management and Human Relations can contribute as much to the success and competitiveness of enterprises as totally new technologies, products or processes.

⁽¹⁰⁾ The programming of the Structural Funds 2000-2006: an initial assessment of the Urban Initiative, OJ C 133 of 6.06.2003, p. 53, points 3.3 and 4.7.1.

⁽¹¹⁾ The Committee has strongly argued that it would have preferred a single fund for the whole of cohesion policy, which would have overcome these issues (COM(2004) 492 final – 2004/0163 (AVC), CESE 389/2005).

Moreover modernisation of industrial relations can be a prerequisite for the successful introduction of new technologies and as such is critical to the achievement of the Lisbon objectives. The regulation should reflect these factors and whilst recognising the primary role of the ESF in these areas, support for network to promote best practice in innovation as widely defined should be supported.

5.3.2 The Committee welcomes the commitment to sustainable development, energy efficiency and the promotion of renewable energy sources as desirable goals in themselves. However there are also specific business opportunities for design engineers and manufacturers in environmental technology that can also contribute to regional economic development. The Committee also welcomes the reference to clean public transport and recognises that well supported and integrated public transport systems also make a key economic contribution to easing the burden of congestion in urban areas and in tackling social exclusion in both urban and rural areas.

5.3.3 The strengthening of key transport and other links is recognised as an important component of development. Rural areas can be disadvantaged as the market is not sufficient to provide the range of infrastructure desirable. The interaction between other Community policies will be of significance here and the Committee wishes to ensure that the activities to be promoted in this theme are not unnecessarily constrained. Access to ICT outside the major urban centres is also necessary, but it is not just physical access and connectivity that is important but advice, business support and skill development is also essential to enable SMEs to benefit from ICT. In addition the Committee believes that we need to ensure that access to ICT is available for all citizens to avoid creating a digital divide that reinforces social exclusion. These latter points are also very relevant in major urban centres.

5.4 Activities to promote European Territorial Cooperation (Article 6)

5.4.1 The Committee has welcomed the Commission's proposals for support for cross-border, transnational and inter-regional cooperation building on the experience of Interreg⁽¹³⁾. However the Commission's proposals provide different sets of activities in cross-border or transnational projects and the current regulation appears to exclude a number of important areas of activity supported by the programme from the scope of interregional networks, for example, the activities to promote convergence, specific activities in rural areas, areas with natural handicaps and outermost regions.

5.4.2 The Committee specifically supports measures to enhance cross-border cooperation between the EU-15 and new Member States on the internal borders of these countries. The

⁽¹³⁾ OJ C 302 of 7.12.2004, p. 60, Opinion on Third report on economic and social cohesion.

aim should be to establish in reality new, dynamic and vibrant regions with common or commonly used infrastructure (including health care and education), relations among people, efforts to overcome language problems and enjoying the best of cultures. Structural Funds will help address problems of disparities in income and price levels and promote economic development. The Committee welcomes the new 'European Neighbourhood Policy'⁽¹³⁾, its new instruments and also the possible link to third countries and wishes to see it established in the next programming period and also that the ERDF should also be able to support these activities.

5.4.3 The Committee notes the provisions for cross-border labour-market initiatives and suggests that there is an explicit reference in the regulations that reflect support for the commitments given in accession agreements on labour-market standards and the Lisbon objectives. The Committee also argued⁽¹⁴⁾ that these programmes should also take account of the need to combat the various forms of social discrimination. The Committee wishes to seek clarification on this matter and press to ensure that all ERDF supported activities are eligible subjects for interregional networks. The Committee had specifically called for a special programme for regions that share a border with new Member States, this has not been included and the Committee wants the regulation to support such activities and it would be helpful to include a specific reference in the regulation.

5.4.4 The proposal for a Regulation makes provision for the establishment of a European grouping of cross-border cooperation. The Committee has drawn up a specific Opinion on this matter⁽¹⁵⁾ and the conclusion of that work should also be incorporated into the regulations.

5.4.5 Eligibility of expenditure is to be established at national level with certain exceptions, for which it is necessary to lay down specific provisions. This significant condition should be clarified. In the case of Value Added Tax (VAT), non-recoverable VAT should be eligible as it is a real cost to the projects.

5.5 Specific provisions on territorial features

5.5.1 Urban (Article 8)

5.5.1.1 The EESC proposed a separate urban programme. The activities set out in Article 8.1 should contain all the features of the Urban Community Initiative and the Committee would like to see explicit regulations to enable the cities of the Community to work together.

⁽¹³⁾ COM(2004) 628 final 2004/0219 (COD).

⁽¹⁴⁾ OJ C 302 of 7.12.2004, p. 60, point 7.8, Opinion on Third report on economic and social cohesion.

⁽¹⁵⁾ CESE 388/2005.

5.5.1.2 There is also provision in this particular article to permit the funding of activities within the scope of Regulation (EC) No. 1784/1999 of the European Social Fund ⁽¹⁶⁾. The regulation limits this derogation to activities under the 'Regional Competitiveness and Employment' objective and also to 10 % of the 'priority concerned' ⁽¹⁷⁾. The Committee takes the view, in the context of the intention to have a single fund for a single programme that there should be greater scope to fund labour market and human capital activities in these programmes. This derogation should perhaps be applied throughout ERDF funded programmes, not just the urban dimension and should be applicable across the three thematic priorities. The 10 % level therefore should apply to the programme as a whole to enable sufficient flexibility.

5.6 Rural areas and areas dependent on fisheries (Article 9)

5.6.1 The Committee specifically commented on the need to ensure that these activities were not limited to agricultural projects and welcomes the focus on infrastructure, telecommunications, new economic activities, links between urban and rural areas and promoting tourism. However this list should also include access to services of general interest, innovation, and links to Higher Education Institutions that have all been identified as of significance for rural diversification. The Committee also welcomed the Commission's original guarantee that the new instruments would be 'incorporated into the Common Agricultural Policy' ⁽¹⁸⁾. This proposal for a regulation requires Member States to demonstrate 'clear demarcation criteria' between measures financed by ERDF and the EAFRD and EFF and also to demonstrate and complementarity and coherence between the actions financed by these funds. The Committee welcomes this and refers to the more detailed work also undertaken by the Committee on the EAFRD.

5.7 Areas with natural handicaps and outermost areas (Articles 10 and 11)

5.7.1 The Committee has argued for the continuation of solidarity with these regions with particular difficulties and

broadly welcomes these proposals. In a separate Opinion ⁽¹⁹⁾ the Committee has assessed the needs of regions with permanent natural and structural handicaps and specifically commented on the Commission's broad proposals that were set out in the Third Cohesion Report. The Regulation for the ERDF contains many of the points raised in that opinion and the Committee welcomes the territorial dimension in the criteria for ERDF support. Article 10 contains the phrase 'without prejudice to Article 3 and 4', implying that these regions are also eligible for support under those priorities, it would be useful to explicitly set out in the Regulation that this indeed is the case. Similarly Article 11 indicates that this provision permits the funding of additional costs to activities set out in Article 4, which the Committee welcomes. It would again be helpful to clarify that these regions could also be eligible for support under the other objectives.

5.8 Specific provisions on territorial cooperation objective (Article 12 and Articles 14-22)

5.8.1 The Committee welcomed the proposal for a new legal instrument to facilitate cooperation. These additional regulations seek to facilitate effective cooperation, but in one respect they are deficient in that there is no explicit provision for the involvement in monitoring arrangements of social partners and other organisations which represent the specific and/or general interest of citizens. The relationship between ERDF (Article 18) and the new European Grouping of Cross-border Cooperation (EGCC) needs to be clarified, particularly for conferring by Member States the responsibilities of the managing authority on EGCC.

5.8.2 These matters have been considered in more detail and the Committee has drawn up specific conclusions on establishing a European grouping of Cross-Border cooperation ⁽²⁰⁾.

5.9 Final provisions (Articles 22 — 26)

5.9.1 These confirm the transitional provisions under the current regulations (EC) No. 1783/99 and formally record the proposed beginning and review dates of the regulations.

Brussels, 6 April 2005.

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

⁽¹⁶⁾ COM(2004) 493 final - 2004/0165 (COD).

⁽¹⁷⁾ Article 8.2.

⁽¹⁸⁾ OJ C 302 of 7.12.2004, p. 60, point 7.10, Opinion on the Third report on economic and social cohesion.

⁽¹⁹⁾ EESC opinion on How to achieve better integration of regions suffering from permanent natural and structural handicaps, CESE 140/2005.

⁽²⁰⁾ CESE 388/2005.