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### Information and Notices

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#### Notice No

#### Contents

Page

#### I Information

.....

#### II Preparatory Acts

#### European Economic and Social Committee

#### 415th plenary session, held on 9 and 10 March 2005

2005/C 234/01	Opinion of the European Economic and Social Committee on the Communication from the Commission to the Council and the European Parliament, the European Economic and Social Committee and the Committee of the Regions on the promotion of cooperative societies in Europe (COM(2004) 18 final) .....	1
2005/C 234/02	Opinion of the European Economic and Social Committee on the Proposal for Directives of the European Parliament and Council re-casting Directive 2000/12/EC of the European Parliament and Council of 20 March 2000 relating to the take up and pursuit of the business of credit institutions and Council Directive 93/6/EEC of 15 March 1993 on the capital adequacy of investment firms and credit institutions (COM(2004) 486 final — 2004/0155 and 2004/0159 (COD)) .....	8
2005/C 234/03	Opinion of the European Economic and Social Committee on the Proposal for a Decision of the European Parliament and of the Council amending Council Decision 2000/819/EC on a multiannual programme for enterprise and entrepreneurship, and in particular for small and medium-sized enterprises (SMEs) (2001-2005) (COM(2004) 781 final — 2004/0272 (COD)) .....	14
2005/C 234/04	Opinion of the European Economic and Social Committee on the Proposal for a Directive of the European Parliament and of the Council on a Community Air-Traffic Controller Licence (COM(2004) 473 final — 2004/0146 (COD)) .....	17

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(Continued overleaf)

<u>Notice No</u>	Contents (continued)	Page
2005/C 234/05	Opinion of the European Economic and Social Committee on the Proposal for a regulation of the European Parliament and of the Council establishing the second 'Marco Polo' programme for the granting of Community financial assistance to improve the environmental performance of the freight transport system ('Marco Polo II') (COM(2004) 478 <i>final</i> — 2004/0157 (COD)) .....	19
2005/C 234/06	Opinion of the European Economic and Social Committee on the Proposal for a Council Regulation amending Regulation (EC) No 1868/94 establishing a quota system in relation to the production of potato starch (COM(2004) 772 <i>final</i> — 2004/0269 (CNS)) .....	25
2005/C 234/07	Opinion of the European Economic and Social Committee on the Proposal for a Regulation of the European Parliament and of the Council amending Regulation (EC) No 999/2001 laying down rules for the prevention, control and eradication of certain transmissible spongiform encephalopathies (COM(2004) 775 <i>final</i> — 2004/0270 (COD)) .....	26
2005/C 234/08	Opinion of the European Economic and Social Committee on the Proposal for a European Parliament and Council Regulation on the European Social Fund (COM(2004) 493 <i>final</i> ) .....	27
2005/C 234/09	Opinion of the European Economic and Social Committee on the Proposal for a Council Regulation on support for rural development by the European Agricultural Fund for Rural Development (EAFRD) (COM(2004) 490 <i>final</i> — 2004/0161 CNS) .....	32
2005/C 234/10	Opinion of the European Economic and Social Committee on The Social Dimension of Globalisation — the EU's policy contribution on extending the benefits to all (COM(2004) 383 <i>final</i> ) .....	41
2005/C 234/11	Opinion of the European Economic and Social Committee on the Proposal for a Decision of the European Parliament and of the Council creating the Youth in Action programme for the period 2007-2013 (COM (2004) 471 <i>final</i> — 2004/0152 (COD)) .....	46
2005/C 234/12	Opinion of the European Economic and Social Committee on The role of the EIB in public-private partnerships (PPPs) and their impact on growth .....	52
2005/C 234/13	Opinion of the European Economic and Social Committee on The new Member States and the broad economic policy guidelines .....	60
2005/C 234/14	Opinion of the European Economic and Social Committee on the Proposal for a Regulation of the European Parliament and of the Council determining the general rules for the granting of Community financial aid in the field of trans-European transport networks and energy and amending Council Regulation (EC) No 2236/95 (COM(2004) 475 <i>final</i> — 2004/0154 (COD)) .....	69

## II

*(Preparatory Acts)*

## EUROPEAN ECONOMIC AND SOCIAL COMMITTEE

## 415th PLENARY SESSION, HELD ON 9 AND 10 MARCH 2005

**Opinion of the European Economic and Social Committee on the Communication from the Commission to the Council and the European Parliament, the European Economic and Social Committee and the Committee of the Regions on the promotion of cooperative societies in Europe***(COM(2004) 18 final)**(2005/C 234/01)*

On 23 February 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 this subject, adopted its opinion on 14 February 2005. The Rapporteur was Mr Hoffelt.

At its 415th plenary session, held on 9 and 10 March 2005 (meeting of 9 March 2005), the European Economic and Social Committee adopted the following opinion by 120 votes to one, with three abstentions.

**1. Introduction**

1.1 'A cooperative is an autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise' <sup>(1)</sup>. Despite the fact that the legal definition of 'cooperative society' may embrace different situations in different Member States, legal practitioners recognise that cooperatives are organised under the 'intuitu personal' principle.

1.2 The cooperative identity is enhanced by cooperative values, such as democracy, equality, equity, solidarity, transparency and social responsibility and also bolstered by principles such as voluntary membership, the exercise of democratic power by the members of cooperatives, economic participation by members and a commitment to the community <sup>(2)</sup>.

1.3 Cooperative societies can also be distinguished from capitalised companies by the facts that they have variable capital and their shares are registered and, in principle, are not transferable to persons who are not members of the cooperative society in question.

1.4 Almost 140 million people in the EU are members of cooperative societies. There are some 300,000 cooperative

societies in the European Union and they provide employment for 2.3 million people.

1.5 Examples of cooperative entrepreneurship may be found in most sectors of activity. This type of entrepreneurship is characterised by a form of organisation based essentially on the pooling of purchasing capacity, sales capacity and labour forces in order to meet the economic needs of the members of cooperatives. This type of entrepreneurship is also well-suited to the pursuit of social, environmental and cultural objectives.

1.6 Cooperatives are also particularly well-qualified to make a contribution towards achieving the objectives of the Lisbon Strategy as they seek to reconcile the goals of economic performance, participation and enabling their staff to achieve their full potential.

1.7 Although the size and degree of development of cooperatives may vary considerably, they generally have strong local roots, thereby enabling them to play their part in the inter-linking and consolidation of the socio-economic fabric of regions, whilst at the same time helping to maintain social cohesion in areas lagging behind in development or having to contend with major redevelopment requirements <sup>(3)</sup>. The fact

<sup>(1)</sup> The Cooperative Charter was adopted by the International Cooperative Alliance at its congress in Manchester in 1995.

<sup>(2)</sup> *Idem*.

<sup>(3)</sup> Opinion of the Committee of the Regions of 16 June 2004 (CdR 97/2004 fin), rapporteur: Mrs Pellinen (OJ C 318 of 22 December 2004)

that cooperatives have local roots does not, however, in any way prevent them from expanding their activities beyond the frontiers of the EU. Cooperatives therefore have a significant impact on the volume of trade and global economic dynamism <sup>(4)</sup>.

1.8 In this context, the role and the impact of cooperatives have also been recognised at both the national and worldwide level. In June 2002, the International Labour Organisation (ILO) adopted a Recommendation on the Promotion of Cooperatives <sup>(5)</sup> in which it drew attention to the fact that '*cooperatives, in their various forms, promote the fullest participation in the economic and social development of all people*'. This Recommendation was adopted by all 25 Member States of the EU and is currently the subject of a ratification process.

1.9 At EU level, cooperative societies are recognised under Article 48 of the Treaty establishing the European Community (TEC) <sup>(6)</sup>. The European Commission has a unit responsible for 'crafts, small businesses, cooperatives and mutuals', which pays particular attention to this type of society. The Council has recently adopted the Statute for a European Cooperative Society and the Directive supplementing the Statute with regard to the involvement of employees <sup>(7)</sup>. The adoption of the Communication under review demonstrates the Commission's continued interest in this type of society.

1.10 This interest also meets an expectation on the part of cooperative societies since they are now obliged to rise to a number of major challenges, as failure to do so would mean that their development would be curbed or their existence placed in jeopardy. In several of the new EU Member States, the use of cooperatives by the former communist governments discredited this form of society. Very many cooperatives operating on markets which are becoming increasingly competitive also have to mobilise considerable resources in order to remain competitive whilst, at the same time, retaining their characteristic features and identity.

## 2. Gist of the Commission's Communication

2.1 One of the key points in the Commission's Communication of 23 February 2004 is the fact that the Commission draws attention to '*the increasingly important and positive role of cooperatives as vehicles for the implementation of many Community objectives*'.

<sup>(4)</sup> Resolution 56/114 adopted at the 88<sup>th</sup> plenary meeting of the UN General Assembly, held on 19 December 2001

<sup>(5)</sup> R193: Recommendation on the Promotion of Cooperatives, adopted at the 90<sup>th</sup> session of the International Labour Conference on 20 June 2002

<sup>(6)</sup> Article III – 142 of the European Convention currently in the process of ratification

<sup>(7)</sup> Council Regulation No. 1435/2003, OJ L 207 of 18 August 2003 and Council Directive No. 2003/72/EC, OJ L 207 of 18 August 2003

See also the EESC opinion of 26 May 1992 on the Proposal for a Council Regulation on the Statute for a European Cooperative Society and the Proposal for a Council Directive supplementing the statute with regard to the involvement of employees (OJ C 223 of 31 August 1992)

2.2 The Commission also points out that the potential of cooperative societies has not been adequately exploited. In order to remedy this shortcoming, the Commission proposes the setting of three main objectives, translated into a series of twelve actions.

### 2.2.1 *Promoting the establishment of more cooperatives in Europe by improving the visibility and characteristics of this sector*

The objective, inter alia, is to organise structured exchanges of information and experiences and to promote actions aimed at raising awareness amongst public authorities and private economic operators.

### 2.2.2 *Improving national legislation governing cooperatives*

This objective has been formulated in connection with the adoption by the Council in July 2003 of the Regulation on the Statute for a European Cooperative Society (SCE). The aim is to bring about implementation of the Regulation as regards the measures to be taken under the national laws of the Member States to improve national law in this field and to promote the establishment of 'model laws'. Attention is drawn to the fact that the Commission also pays special attention to the situation in the new EU Member States.

### 2.2.3 *The maintenance and improvement of cooperatives' place [in] and contribution to Community objectives*

This goal covers, inter alia, agricultural policy in the context of EU enlargement, rural and regional development and the creation of jobs.

## 3. General comments

3.1 The EESC has always paid close attention to the issue of partnerships and the social economy in general <sup>(8)</sup>. It shares the view expressed by the Committee of the Regions that all forms of enterprise should be promoted and supported on an equal basis <sup>(9)</sup>. The EESC organised a public hearing, based on a questionnaire, on 11 October in order to ascertain the reactions of cooperative organisations and enterprises to the Commission's Communication. At the hearing a comparison was made between the proposals put forward by the Commission and the aspirations and priorities of the cooperative sector.

<sup>(8)</sup> EESC's opinion on the Social economy and the single market, rapporteur: J. Olsson, OJ C 117 of 26 April 2000

<sup>(9)</sup> Cf. footnote 3

3.2 The EESC welcomes the Commission's Communication on the promotion of cooperative societies in Europe. Implementation of this Communication should facilitate the establishment of a larger number of enterprises of this type, inter alia by highlighting more effectively and making more widely known the contribution which cooperatives can make to the achievement of the objectives of the Lisbon Strategy.

3.3 The EESC does, however, note that quite a large number of the actions envisaged by the Commission in its Communication with a view to bringing about more effective promotion of cooperatives are couched in particularly cautious terms as the Commission points out in several cases, for example, that it will 'examine or study the possibility of ...' or 'pay particular attention to'. The objectives should therefore be defined in a more concrete way and an appropriate timetable should be established.

3.4 The EESC welcomes the attention paid by the Commission to the new EU Member States and the candidate states. In the case of some of these states the fact that the former regimes made use of cooperatives has led to their being seen as one of the tools of these regimes.

3.4.1 For this reason, the EESC believes that it is particularly necessary to make entrepreneurs in these states aware of the potential of cooperative societies, which make it possible, inter alia, to develop activities by evenly sharing resources, responsibilities and entrepreneurial risks, thereby providing grounds to expect that projects will be more viable and more sustainable<sup>(10)</sup>.

3.4.2 The EESC takes the view that support should be given to the fresh impetus also being generated by forms of cooperatives in the new Member States both to the drive to combat social exclusion and in the environmental field. Steps should also be taken to ensure that the fabric of associations, created by a number of cooperatives, does not collapse as a result of the changes affecting this form of entrepreneurship.

3.5 Whilst understanding the approach adopted by the European Commission, namely to underline the SME dimension of cooperative societies, the EESC would point out that many cooperative societies and cooperative groups exceed the EU limits set out in the definition of SMEs. For this reason, the EESC urges that the Commission's proposals should not be limited to the SME dimension. This concerns particularly the references to certain Community actions, for example, in respect of business support services and access to finance.

<sup>(10)</sup> EESC opinion entitled *Economic diversification in the accession countries – role of SMEs and social economy enterprises*, rapporteurs: L. Fusco and J. Glorieux, OJ C 112 of 30 April 2004

#### 4. Fields involving cooperatives which need to be fleshed out in a more in-depth manner

##### 4.1 Regulatory environment

4.1.1 The Communication demonstrates the particular importance attached by the Commission to the issue of the law governing cooperatives and, in particular, the various national statutes in this field. The EESC supports this approach as it is vital that cooperatives are provided, at both national and EU level, with the best possible legal framework in order to enable them to expand their activities.

4.1.2 Cooperatives are likewise subject to an array of company law provisions (accountancy law, labour law, competition law, tax law, etc). If the laws in these fields fail to take account of a number of specific features of cooperatives, there is good reason to believe that, even if the law governing cooperatives is made as effective as possible, the development of cooperatives is likely to be hindered.

4.1.2.1 By way of example, under the initial draft of accounting standard IAS 32, shares in cooperatives would be regarded as falling into the category of liabilities rather than own funds since they are subject to a potential demand for reimbursement. In view of the consequences which this provision would have for cooperatives, the principle in question has been interpreted in such a way as to enable exceptions to be made to this rule, subject to the fulfilment of two additional conditions<sup>(11)</sup>. The fact that this rule has not been revised and that, instead, an interpretation in respect of cooperative societies has been added to it tends to give weight to the argument that this form of company is generally regarded as constituting an exception vis-à-vis capitalised companies. As has already been mentioned in point 3.1 above, the EESC takes the view that cooperative societies should not be regarded as 'exceptions'; the legislative framework should rather be adapted, where necessary, to take account of the specific features of cooperatives.

4.1.2.2 The EESC therefore calls upon the Commission to take account of the synergies which should be established between the law governing cooperatives, on the one hand, and the other components of the legal environment, on the other hand, and to translate these synergies into concrete measures.

4.1.2.3 In this same context, the EESC proposes that the groups of experts set up by the Commission to issue opinions on future draft legislation in this field should systematically take account of the intrinsic features of cooperative societies and avail itself of the expertise of representative cooperative organisations<sup>(12)</sup>.

<sup>(11)</sup> Shares in cooperatives could be regarded as capital a) in cases where the issuer retains an unconditional right to refuse to reimburse the shares or b) in cases where, either under national legislation or under the statutes of the organisation concerned, a threshold is established below which the level of capital may not fall.

<sup>(12)</sup> In this context, it is a striking fact that the High Level Group of European Company Law Experts, referred to on a number of occasions in the Communication, fails to include any expert in cooperative law

## 4.2 Competition rules, freedom of establishment and tax treatment

4.2.1 As regards competition law, the EESC firmly supports the standpoint that cooperatives, like other forms of enterprises, should be subject to Articles 81, 82 and 86 to 88 of the TEC. The EESC nonetheless considers that the wording of the point in the Commission's Communication referring to Article 81 of the TEC covering agreements is not explicit, since the Commission underlines the fact that *'whereas organisation as a cooperative may not necessarily conflict with Article 81 of the TEC, [the] subsequent behaviour or rules [of cooperatives] might be considered restrictive of competition'* <sup>(13)</sup>. The Commission therefore advocates improving the dissemination of the competition rules amongst the various cooperative sectors.

4.2.1.1 On the basis of the information provided at the hearing which it organised on 11 October 2004 with representatives of the cooperative sectors, the EESC believes that this problem is linked more to the fact that the competition rules do not always take account of the specific features of cooperatives, than to an ignorance of the competition rules themselves. The EESC therefore calls upon the Commission to gear its action also towards the services responsible for competition policy in order to ensure that they are better informed of the different forms of organisation of cooperatives.

4.2.1.2 Whilst stressing that having a multiplicity of forms of entrepreneurship on the market is a key element in ensuring healthy competition, the EESC takes the view that such a step could well avoid any discrimination against cooperatives on the grounds of the way in which they are organised.

4.2.2 The EESC also draws attention to the fact that some states outlaw the establishment of cooperatives in particular sectors <sup>(14)</sup>. This represents a clear barrier to **freedom of establishment**. This situation is all the more regrettable in view of the fact that the Regulation on the Statute for a European Cooperative Society confirms this ban <sup>(15)</sup>. The EESC therefore calls upon the Commission to carry out a study on the scope and impact of these bans.

4.2.3 Turning to the issue of the **tax treatment** of cooperative societies, the EESC subscribes to the principle that the benefits granted to a type of company should be proportionate to any legal constraints or social added value inherent in that form of enterprise <sup>(16)</sup>. In this context, the EESC encourages the Commission to call upon the Member States to consider the possibility of granting tax incentives to cooperatives on the basis of their social value or in the light of the contribution which they make to regional development, subject to strict monitoring conditions relating to compliance with cooperative principles and values <sup>(17)</sup>.

<sup>(13)</sup> See the final paragraph of point 3.2.7 of the Commission's Communication

<sup>(14)</sup> In Germany, for example, it is not possible to establish cooperatives in the field of the dispensing of prescription drugs

<sup>(15)</sup> Article 8(2) of this Council Regulation stipulates that: 'if national law provides specific rules and/or restrictions related to the nature of businesses carried out by an SCE, or for forms of control by a supervisory authority, that law shall apply in full to the SCE'

<sup>(16)</sup> See point 3.2.6 of the Commission's Communication

<sup>(17)</sup> Opinion of the Committee of the Regions referred to in footnote 3 above

## 4.3 Social responsibility and governance of enterprises

### 4.3.1 Corporate social responsibility (CSR)

4.3.1.1 Economic globalisation is tending to accentuate the demands placed upon enterprises to be profitable, sometimes to the detriment of social considerations. Corporate social responsibility (CSR), which has been defined as 'a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis' <sup>(18)</sup>, is not a new concept for cooperatives. By virtue of the fact that they pursue both economic and social objectives and the fact that their operating procedures are based on the individual and principles of internal democracy, cooperatives by their very nature accept CSR and put a lot of effort into promoting it <sup>(19)</sup>.

4.3.1.2 The EESC regrets that this dimension has not been incorporated into the Commission's Communication and therefore urges the Commission to draw up an action which addresses this issue in order, *inter alia*, to promote the practices of cooperative societies in this field <sup>(20)</sup>.

### 4.3.2 Corporate governance

4.3.2.1 For a number of years the EESC has been studying, with considerable interest, matters relating to corporate governance <sup>(21)</sup>. The views which continue to hold sway in this field rarely refer to cooperatives. This is, to some extent, a paradox as quite a large number of the provisions relating to the intrinsic organisation of cooperatives have led them to introduce specific models of governance <sup>(22)</sup>. The services of cooperative auditing associations can also substantially contribute to the success of cooperatives' activities; these associations operate in many Member States, some of which have had an unbroken tradition of cooperatives for over 100 years. It is, therefore, important that the European Community Directive on Statutory Audits recognises and includes this institution of cooperative law.

<sup>(18)</sup> Green Paper on Promoting a European framework for corporate social responsibility (COM(2001) 366 final)

<sup>(19)</sup> Through the organisation of fair trade networks, the implementation of social impact assessment systems, the establishment of the European grouping of social impact assessment systems, etc.

<sup>(20)</sup> Cf. the EESC opinion on the Green Paper entitled 'Promoting a European framework for Corporate Social Responsibility', CESE 355/2002, rapporteurs: Hornung-Draus, Engelen-Kiefer, Hoffelt, OJ C 125 of 27 May 2002

<sup>(21)</sup> Cf. the EESC opinion on the Communication from the Commission to the Council and the European Parliament on modernising company law and enhancing corporate governance in the European Union – a plan to move forward, rapporteur: G. Ravoet, CESE 1592/2003, OJ C 80 of 30 March 2004

<sup>(22)</sup> The structure and organisation of auditing cooperatives in a number of EU Member States, such as Germany, illustrate this point

4.3.2.2 The EESC therefore takes the view that these experiences should be incorporated in the debate on corporate governance in order to enable it to embrace progress and recommendations which could lend themselves to different forms of enterprise.

#### 4.4 Groupings of cooperative enterprises

4.4.1 The EESC also draws the Commission's attention to the existence of groupings of cooperative enterprises. These entrepreneurship models clearly favour cooperation and partnership strategies between cooperatives rather than mergers or acquisitions. This approach enables such enterprises to face the challenges posed by globalisation and the attendant need to be more competitive, whilst at the same time retaining and highlighting cooperative identity.

4.4.2 The EESC takes the view that, subject to compliance with the competition rules, support should be given to the promotion and development of such groupings, which may enable cooperatives to develop a common brand name or a range of goods and services, thereby making it possible to further strengthen the presence of cooperatives at both transnational and worldwide levels. The EESC also proposes that greater account be taken of groupings of cooperative enterprises in the Commission's Communication.

### 5. Comments and recommendations concerning the proposed actions

#### 5.1 Perception and promotion of cooperative practices (Actions 1-2)

5.1.1 The EESC encourages the Commission to carry out all measures to promote improvements in the understanding of the characteristics of cooperative societies and improvements in the way in which these characteristics are taken into account. Ignorance of these characteristics is indeed the main reason for the inadequate exploitation of the potential offered by cooperatives. In this context, the EESC believes that it is essential to provide further support and encouragement for the identification, benchmarking, and dissemination of examples of good practice in respect of cooperatives.

5.1.2 The EESC proposes, in particular, that the Commission give greater official recognition to ILO Recommendation 193 in view of the fact that this recommendation has been adopted by the 25 EU Member States, the first time there has been such European consensus with regard to standards for cooperatives and the promotion of cooperatives. The EESC also advocates the drawing-up and implementation of specific actions, such as an information campaign to publicise the characteristic features and entrepreneurial dimension of cooperatives; this campaign could be backed up by various video presentations and could make use of the website of DG Enterprise, etc. The target group would be the economic and social players and public authorities at national level.

5.1.3 The EESC also urges that the action of promoting cooperative societies should also be pursued in all Commission DGs. Special attention should be paid, in this context, to the Commission DGs responsible for initiatives having a direct bearing on the entrepreneurial and social dimension of cooperative societies (such as the following DGs: Internal Market; Employment and Social Affairs; Competition and Health and Consumer Protection).

#### 5.2 Statistical data (Action 3)

5.2.1 The EESC supports the Commission's desire to improve statistical data relating to cooperatives. In most EU Member States, where such data is available it is rarely updated on a regular basis. Furthermore, the methods used for drawing up aggregate figures are rarely homogeneous. This constitutes a fundamental obstacle to the promotion and improvement of knowledge about cooperatives.

5.2.2 In order to find a solution to this problem, the Commission plans to make use of satellite accounting techniques. The field of application of this technique — which has not yet been defined in the case of cooperatives — has, up to now, been tested in connection with organisations which are either not principally market-sector organisations or are non-profit organisations<sup>(23)</sup>. The EESC therefore highlights the need to ensure that the ways and means adopted in respect of cooperatives do not mask their economic and commercial dimension. Both the public hearing organised by the EESC and the attendant questionnaire pointed to the fact that this concern was also shared by cooperative organisations.

5.2.3 With a view to meeting, as swiftly as possible, the need for data on cooperatives, the EESC recommends, that in the very near future, Eurostat and the national bodies charged with collecting statistics on enterprises work together, wherever this is feasible, in order, inter alia, to enable such data to be classified on the basis of the various legal statutes under which enterprises operate.

#### 5.3 Training and entrepreneurship (Action 4)

5.3.1 In the EESC's view, there is an important need for education and training programmes and programmes for promoting entrepreneurship and life-long learning<sup>(24)</sup> to take account of the cooperative dimension. The EESC points out that this issue is also taken up in ILO Recommendation 193 and it welcomes the fact that the Committee of the Regions likewise mentioned this matter in its opinion<sup>(25)</sup>. The EESC therefore gives its backing to the Commission in its desire to introduce networking in respect of existing experience and to disseminate this experience.

<sup>(23)</sup> Cf. the Commission's seminar, held on 23 October 2004, on Satellite Accounts for the Social Economy

<sup>(24)</sup> Such as the Leonardo, Socrates and Erasmus programmes

<sup>(25)</sup> Cf. footnote 3

5.3.2 The EESC also recommends that a survey be undertaken of teaching on the subject of cooperatives offered by schools and universities. By taking such action and also by providing assistance for the creation and dissemination of specific teaching material, the Commission could achieve two aims, namely the networking of existing experience, on the one hand, and the inclusion of the cooperative dimension in teaching programmes, on the other hand.

#### 5.4 Business support services (Action 5)

5.4.1 The EESC endorses the Commission's desire to call upon traditional business support services to take greater account of the cooperative dimension, whilst pointing out that specialised bodies offering this type of service do already exist. These bodies should be able to further expand their supply of services and make them available over a broader area by virtue of the actions to be implemented by the Commission.

5.4.2 In this context, the EESC points out that the new multiannual programme for enterprises and entrepreneurship covering the period 2006-2011<sup>(26)</sup> contains no guidelines or specific headings in respect of cooperatives. It also points out that the action plan for promoting entrepreneurship<sup>(27)</sup> also fails to make any reference to cooperatives; reference is made only to a 'social economy' approach but the way in which the passage in the document is worded lacks clarity.

#### 5.5 Access to finance (Action 6)

5.5.1 The EESC urges the Commission to carry out, without delay, its planned appraisal of the advisability of including a specific reference to cooperative societies in the European Investment Fund instruments. In this connection, the EESC has however been informed that the inclusion of this reference has recently been rejected on the grounds of the need to ensure equal treatment of the various legal forms in question. The EESC therefore calls upon the Commission to spell out the new concrete actions which it could pursue with regard to financing, bearing in mind that the other line of action, namely to ensure that cooperatives continue to be eligible under the other EU programmes, does not involve making any changes whatsoever to the current situation. Furthermore, the EESC would like to see the European Investment Fund earmark a larger proportion of its aid for SMEs and cooperatives, which lack major guarantees as regards funding.

5.5.2 In this same general context, the EESC draws the Commission's attention to the fact that, under the new agreement on capital resources, the 'Basel II Agreement', banks will

be obliged to take greater account of the risk profile of enterprises, particularly with regard to their solvency and form of management, in their policy towards providing finance for enterprises. This could make it a more onerous task for some cooperatives to gain access to credit<sup>(28)</sup>.

5.5.3 In view of the special nature of the capital held by cooperatives (for example, their shares are not quoted on the stock exchange and are reimbursed at their nominal value), cooperatives sometimes find it difficult to obtain finance for their development. In this context, the EESC supports the Commission in its call to those Member States which have specific legislation governing cooperatives to include the provision whereby these enterprises may issue non-user investor shares which are tradable and interest bearing on the condition that the participation of such non-user shareholders does not jeopardise the cooperative nature of enterprises nor the exercise of control over the cooperative society by its members<sup>(29)</sup>.

#### 5.6 Contribution made by cooperatives in a number of particular areas of enterprise policy (Action 7)

5.6.1 The EESC shares the Commission's view that, by virtue of the ways in which they are governed, cooperative societies are an eminently appropriate model for employee buy-outs. The EESC proposes that the cooperative model be highlighted to a greater extent in the programmes and actions which the Commission intends to promote in this field.

5.6.2 The Commission proposes to carry out a study of social cooperative enterprises, whose main concerns are to take account of social needs. The proposed study could thus highlight the contribution made by social cooperatives towards the achievement of such objectives. The EESC does, however, recommend that the study properly underlines the distinctive features of social cooperatives vis-à-vis those of 'social enterprises'<sup>(30)</sup>.

#### 5.7 Coherence between national laws, improvement of national laws, drafting of model laws and the European Cooperative Society (Actions 8, 9, 10 and 11)

5.7.1 The EESC supports the priority attached by the Commission to the question of the legal status of cooperatives at both EU and national levels. It draws attention to the fact that the regulatory environment in which cooperatives are developing is a factor which is just as important as the forms of organisation adopted by cooperatives in order to achieve their objectives.

<sup>(26)</sup> Community support programme for entrepreneurship and enterprise competitiveness (2006-2011)

<sup>(27)</sup> Communication from the Commission entitled Action Plan: the European agenda for Entrepreneurship (COM(2004) 70 final). See the EESC opinion on this subject: CESE 1198/2004 of 15 September 2004 – Rapporteur: Mr B. Butters

<sup>(28)</sup> Cf. the EESC opinion on the Ability of SMEs and social economy enterprises to adapt to changes imposed by economic growth (OJ C 120 of 20.5.2005, rapporteur: L. Fusco)

<sup>(29)</sup> See point 3.2.4 of the Commission's Communication

<sup>(30)</sup> Under the heading 'social enterprises', the Commission points out that in some EU Member States legal forms have been adopted to designate enterprises whose main purpose is to achieve social objectives

5.7.2 The EESC supports the organisation of meetings between Commission representatives and representatives of national administrations on the subject of the implementation of the Regulation on the Statute for a European Cooperative Society and the associated Directive. The EESC also calls for regular monitoring of the preparatory work. By way of comparison, the Statute for a European Company, which recently came into force has, for example, been incorporated into national legislation in only six Member States.

5.7.3 Turning to the drafting of model laws, the EESC draws attention to the ambiguous way in which this point has been formulated. On the one hand, the Commission does not advocate the harmonisation of national cooperative legislation, but, on the other hand, it highlights the conclusions of the High Level Group of European Company Law Experts which tend to support that very objective.

5.7.4 The EESC recognises that many of the articles in the Regulation on the Statute for a European Cooperative Society (SLE) refer to national laws. Bearing in mind that a report is to be drawn up five years after the entry into force of the SCE Regulation, the EESC takes the view that model laws should be established in order to align the laws governing cooperatives and/or the adoption of common rules at EU level should be proposed. It is vital that professional organisations representing cooperatives be involved in the appraisals and work in this context from the outset.

5.7.5 In this context the EESC does, however, wish to draw attention to the fact that the public hearing which it organised revealed that a fair number of cooperative organisations was more interested in securing a strengthening of current national laws governing cooperatives than in having the laws revised with a view to achieving harmonisation<sup>(31)</sup>. The cooperative movements and organisations took the view that such an approach would also be likely to provide more satisfactory answers to the problem of 'demutualisation'<sup>(32)</sup> with which some cooperatives had to contend.

5.7.6 In this context, the EESC also suggests to the Commission that it carry out a comparative study of the impact and scope of the incorporation into national legislation on cooperatives in some EU Member States of provisions hitherto specific to capitalised companies<sup>(33)</sup>.

## 5.8 Community objectives (Action 12)

5.8.1 The EESC backs the Commission's intention to enhance, by means of Community programmes, the contribu-

tions made by cooperative societies to achieving the objectives of the EU. The EESC does, however, wonder how this objective is to be achieved bearing in mind that, as things stand at present, the requisite budgetary headings do not exist.

5.8.2 In its Communication, the Commission highlights, in particular, the field of 'agricultural policy in the context of EU enlargement' by making it the subject of one of the proposed actions. The EESC gives its support to this dimension but takes the view that the references to other fields, namely rural and regional development and job-creation, should also be translated into actions.

5.8.3 From a general standpoint, the EESC believes that it would be more advisable to adopt the concept of 'cooperative development centres' when defining support and promotion actions. Using this concept, it would be possible to capitalise on the existence of cooperatives in a given field by creating spin-off cooperatives in other sectors.

## 6. Conclusions

6.1 The EESC welcomes the publication of this Commission Communication on the promotion of cooperative societies in Europe. Following on from the adoption of the Regulation on the Statute for a European Cooperative Society (SCE), the Communication thus demonstrates the Commission's interest in the subject of cooperatives by highlighting the economic and social dimension of this type of enterprise, in addition to its potential to bring about the achievement of the objectives of the Lisbon strategy.

6.2 The EESC supports, in particular, the priority attached to the promotion of cooperative entrepreneurship. Lack of knowledge of this form of entrepreneurship is one of the key impediments to the development of cooperatives in Europe.

6.3 Whilst expressing its support for the thrust of the Commission's Communication, the EESC takes the view that some of the actions should have been defined in more concrete terms and have been based on a predefined timetable. The EESC thus recommends the introduction, as soon as possible, of a monitoring process in respect of the proposed actions, rather than awaiting publication after 2008, of the assessments of these actions, as proposed by the Commission. The relevant professional organisations representing cooperatives, at both national and EU levels, should be closely involved in such a process.

Brussels, 9 March 2005.

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

<sup>(31)</sup> Some national cooperative organisations were even opposed to such a measure

<sup>(32)</sup> The term 'demutualisation' is generally applied in cases where a cooperative ceases to be an enterprise owned jointly by an association of individuals and passes into the hands of external investors. This happens, for example, in cases where cooperatives are converted into capitalised companies

<sup>(33)</sup> For example, under a law recently introduced in Italy cooperatives may issue bonds

**Opinion of the European Economic and Social Committee on the Proposal for Directives of the European Parliament and Council re-casting Directive 2000/12/EC of the European Parliament and Council of 20 March 2000 relating to the take up and pursuit of the business of credit institutions and Council Directive 93/6/EEC of 15 March 1993 on the capital adequacy of investment firms and credit institutions**

(COM(2004) 486 final — 2004/0155 and 2004/0159 (COD))

(2005/C 234/02)

On 13 September 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 proposal.

The Section for the Single Market, Production and Consumption, which was responsible for preparing the Committee's work on the subject, adopted its opinion on 14 February 2005. The rapporteur was Mr Ravoet.

At its 415th plenary session of 9 and 10 March 2005 (meeting of 9 March), the European Economic and Social Committee adopted the present opinion by 124 votes to 1.

## **1. Content and scope of the proposal**

1.1 On 14 July 2004 the European Commission published the proposal for a Directive<sup>(1)</sup> recasting the second Capital Adequacy Directive (93/6/EEC) and the Consolidated Banking Directive (2000/12/EC). This Directive will implement the new Basel Framework (International Convergence of Capital Measures and Capital Standards) in the European Union. The Recasting Directive will be referred to as the Capital Requirements Directive (CRD) in this paper.

1.2 The CRD will apply to all credit institutions and investment firms active in the European Union. The objective of the CRD is to deliver a highly risk sensitive banking framework in Europe. It will encourage the banking sector to converge over time towards highly sensitive risk-measurement techniques through advances in technology and investment in staff training. It will enhance consumer protection, reinforce financial stability and promote the global competitiveness of the European industry by providing a sound platform for business to expand and innovate through re-allocation of capital.

1.3 The CRD is the legislative instrument used to implement the new Basel Framework in the EU developed by the Basel Committee for Banking Supervision. The Basel Committee was established in 1974 by the central-bank Governors of the G10 countries. Agreements published by the Basel Committee are not legally binding, but are intended to provide a common supervisory framework to encourage convergence towards common approaches and to facilitate a level playing field for internationally active banks.

1.4 The Basel Capital Accord (Basel I) was published in 1988 and work began in 1999 to update the Accord in line with rapid development of risk management strategies in the 1990s. The result of this work was the International Convergence of Capital Measures and Capital Standards<sup>(2)</sup> published in June 2004 (referred to as the new Basel framework).

1.5 The new Basel Framework is divided into three parts commonly referred to as the three Pillars. Pillar 1 sets the minimum regulatory capital requirements for credit, market and operational risk. There is a menu of options of varying degrees of sophistication available to institutions. Pillar 2 is the Supervisory Review Process which is carried out through an active dialogue between the institution and its supervisor to ensure that sound internal processes are in place to assess the capital requirements relating to the risk profile of the group. Pillar 3 requires institutions to disclose their capital charges to the market. Pillar 3 is often referred to as market discipline as disclosure will incentivise best practices and will raise investor confidence.

1.6 A menu of options for the measurement of both credit and operational risk, and for the mitigation of credit risk, is available to banks and investment firms. This is to ensure that the framework is proportionate and that there are incentives for smaller institutions to move to the more advanced approaches. The advanced approaches are more costly to implement as they are based on internal models designed by the institutions. However, they are more risk sensitive and therefore result in lower capital charges.

<sup>(1)</sup> [http://europa.eu.int/comm/internal\\_market/regcapital/index\\_en.htm](http://europa.eu.int/comm/internal_market/regcapital/index_en.htm)

<sup>(2)</sup> <http://www.bis.org/publ/bcbs107.pdf>

Pillar 1		Credit Risk		Operational Risk	Pillar 2	Pillar 3
	Internal models	Advanced Internal Ratings Based Approach (AIRBA)	Advanced Credit risk mitigation	Advanced measurement approach (AMA)		
	Standard Approaches	Foundation Internal Ratings Based Approach (FIRBA)	Standardised Credit risk mitigation	Standardised Approach (STA)		
		Standardised Approach (STA)		Basic Indicator Approach (BIA)		

## 2. General Observations

2.1 The CRD is the legislative tool which implements the new Basel framework in the EU. The Commission has drafted a Directive which is broadly in line with the Basel rules taking account of EU specificities. It is vitally important to deliver a high level of parallelism between the Basel framework and the EU rules to ensure that European banks enjoy a level playing field with their competitors in other jurisdictions implementing the framework.

2.2 A key difference between the CRD and the Basel framework is that the rules will be applied to all credit institutions and investment firms within the EU. The Basel framework is designed for application to internationally active banks. The Commission's widened scope of application is in the interests of both depositors and borrowers in the EU. A well managed and well-capitalised banking system will allow banks to continue to lend through the economic cycle. This will deliver greater stability in the banking sector.

2.3 The benefits for the European banking industry, European business and consumers will only be sustainable if the Directive is sufficiently flexible to keep pace with developments in industry practice, markets and supervisory need. This is necessary to protect the interests of depositors and borrowers and to ensure that the EU maintains its reputation as a best practices market.

2.4 The Commission's approach of defining the enduring principles and objectives in the Articles of the recasting Directive and technical measures in the annexes, which are open to

amendments using the comitology procedure, is an effective way to deliver the necessary flexibility.

## 3. Specific observations

The Committee congratulates the Commission for the high quality of the proposal for a Directive. There are a limited number of issues which the Committee feels must be addressed. The quality of the draft legislation reflects the unprecedented level of consultation, including participation in the Basel Committee's impact studies, carried out by the Commission during the process of converting the Basel rules into the EU law. As the representative body for organised civil society in the EU, ECOSOC commends this development and urges the co-legislators to continue to incorporate the views of market participants in the EU legislative process.

### 3.1 Impact on smaller credit institutions within the EU

3.1.1 The Committee believes that, in the context of benefiting all consumers and businesses in the EU, the scope of the Commission's proposal for a Directive is correct. Furthermore, the Committee believes that credit institutions of all sizes stand to benefit from the revised regulatory capital regime. The Commission's text strikes a sensible balance between providing incentives for smaller institutions to move to the more advanced approaches over time and delivering a proportionate framework which takes account of the resource limitations of smaller credit institutions.

3.1.2 The Commission's text also incorporates steps taken by the Basel Committee to reduce the regulatory burden on lending to Small and Medium-sized Enterprises (SMEs). These changes (which are detailed below under the 'Impact on Small and Medium Enterprises') are reassuring to the Committee which would otherwise have been concerned that the new framework would have resulted in growing consolidation within the European banking industry and reduced choice for consumers. In this regard the Committee is also reassured to note that the PWC impact study of April 2004 <sup>(3)</sup> concludes that, if the Directive is implemented consistently across the EU, it is unlikely to have any significant effect on competition in the industry.

### 3.2 Impact on consumers

The financial stability and greater risk sensitivity provided by the new rules will benefit consumers through increased confidence in the financial system and significantly reduced systemic risk. According to the PWC impact study, the move to a more risk-sensitive regime will reduce overall bank capital held which will in turn precipitate a slight improvement in GDP in the EU. The better targeting of capital in the economy will contribute to the delivery of the EU's wider economic and social objectives.

### 3.3 Impact on Small and Medium-sized Enterprises (SMEs)

3.3.1 The Committee welcomes the changes that have been made to the framework to address the impact on lending to SMEs and the Commission's incorporation of those changes in the European framework. In particular the Committee notes that:

- there has been a reduction in the capital charges for loans to small businesses achieved through a flattening of the retail curve;
- some banks treat their exposures to SMEs as retail exposures and can now administer these exposures on a pooled basis as part of their retail portfolio;
- the Basel Committee has eliminated the granularity requirements for loans to small business allowing more banks to enjoy the preferential treatment; and
- there has been a wider recognition of collateral and guarantees in the new framework.

3.3.2 The Committee welcomes the results of the Third Quantitative Impact Study (QIS3) in this regard. The results of QIS3 demonstrated that banks' capital charges on loans to SMEs included in the corporate portfolio will largely remain

stable for banks using the standardised approach to credit risk and will decline by an average of between 3 % and 11 % for banks on the internal ratings based approaches (IRB). The capital charge for exposures to SMEs qualifying for the retail treatment will decline by an average of 12 to 13 % under the standardised approach (STA) and up to 31 % under the advanced internal ratings based approach (AIRBA).

### 3.4 Removing national discretions in the European Union

The consistent application of proportionate supervisory rules by the Member States would deliver both sound prudential supervision and Single Market objectives. The number and scope of national discretions in the proposed Capital Requirements Directive would undermine consistent application. The Committee firmly believes that national discretions should generally be removed in a defined time frame and welcomes the work that the Committee of European Banking Supervisors (CEBS) is doing in this regard. There are a number of national discretions which could significantly distort the Single Market for cross-border banking groups and which will result in instability in the financial system. This would therefore reduce the benefits of the overall framework for depositors and borrowers in the EU by increasing the cost of credit and by limiting choice in financial products.

#### 3.4.1 Level of application of capital requirements

3.4.1.1 Article 68 of the Directive requires credit institutions to comply with own funds requirements at individual level within the group. Article 69(1) continues to give Member States discretion to waive this requirement and apply the rules on a consolidated basis to the credit institution and its subsidiaries in the same Member State subject to the group meeting stringent conditions. This discretionary waiver could lock in an unlevel playing field between Member States for internationally active banking groups. The Committee does not feel that this is consistent with the Single Market.

3.4.1.2 Furthermore, where a Member State opted to apply requirements at the level of individual credit institutions, the supervisor's ability to understand the risk profile of a banking group would be undermined. Limiting consolidated supervision to subsidiaries within the same Member State as the parent institution would have the same effect. Therefore, supervision should be applied at the consolidated level as a rule in the EU subject to credit institutions meeting conditions to ensure that own funds are distributed adequately between the parent undertaking and its subsidiaries.

<sup>(3)</sup> PriceWaterhouseCoopers was commissioned to carry out the study on Financial and Macroeconomic Consequences of the Proposal Directive by the European Commission.

### 3.4.2 Intra-group Exposures

3.4.2.1 Member States have the discretion to set the risk weight for intra-group exposures. This option allows Member States to apply a 0 % risk weight to exposures between a credit institution and its parent undertaking and between a credit institution and its subsidiary or a subsidiary of its parent undertaking. To be eligible for the 0 % risk weighting the counterparty must be established in the same Member State as the credit institution. The Committee believes that a 0 % risk weight is the correct reflection of the risk associated with intra-group exposures. The discretionary approach could lead to credit institutions in some Member States being required to hold capital against intra-group exposures, without a prudential justification for doing so.

3.4.2.2 Limiting the 0 % risk weighting to counterparties within the same Member State would be inconsistent with the Single Market. Intra-group exposures to counterparties in another Member State have the same risk profile as exposures to counterparties within the same Member State. A 0 % risk weighting should be applied for intra-group exposures to counterparties within the EU as a rule.

### 3.4.3 Advanced Measurement Approach for Operational Risk (AMA)

3.4.3.1 The Basel Committee for Banking Supervision defines operational risk as 'the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events.' The operational risk charge in the new Basel framework is being introduced for the first time and consequently financial institutions must develop entirely new operational risk measurement systems. As detailed above, there is a menu of options available for the measurement of operational risk. The Advanced Measurement Approach (AMA) requires banks to develop internal measurement models which must be validated by the competent authorities. European financial institutions have invested heavily in developing these systems on a group-wide basis, aligning the measurement of operational risk with the business lines in which they are active.

3.4.3.2 In Article 105(4) Member States have discretion to allow credit institutions to meet the qualifying criteria for the Advanced Measurement Approach for operational risk at the top level within the EU group. Application of the AMA at the consolidated group level within the EU is in line with the business lines approach to operational risk management put in place by the European banking industry. If banks could not meet the requirements at the level of the EU group it would be

impossible to provide an accurate reflection of the operational risk profile of the group. The requirements should be met by the parent institution and its subsidiaries considered together if the group can demonstrate that there is adequate distribution of operational risk capital throughout the group.

### 3.4.4 Exposures to institutions under the Standardised Approach to credit risk

Parallel to the new Basel framework, Member States have the discretion to apply one of two methods for determining the risk weight for exposures to institutions (Annex VI, paragraphs 26-27 and 28-31). The approach applied to a credit institution would be determined by its nationality rather than by prudential reasons. Credit institutions operating across borders could be subject to materially different treatment to competitors operating in the same market. This would be inconsistent with Single Market objectives. Therefore, a single approach should be applied in the EU.

### 3.4.5 Maturity adjustment

Parallel to the new Basel framework, Member States have discretion to apply the effective maturity formula (paragraph 12, part 2, Annex VII) for credit institutions on the Advanced Internal Ratings Based Approach also to institutions on the Foundation Approach. The effective maturity formula aligns the measurement of the capital charge for short-term products more closely with their actual risk profile. Credit institutions operating across borders could be subject to materially different treatment to competitors operating in the same market. Again the Committee believes this to be inconsistent with the Single Market objectives. The national discretion should be removed to ensure that all credit institutions on the Foundation IRB Approach are subject to the same treatment.

## 3.5 Supervisory cooperation, Pillar 2 and Pillar 3

3.5.1 The Committee agrees with the European Commission that the increasing degree of EU cross-border business and the centralisation of risk management within cross-border groups reinforces the need for improved coordination and cooperation amongst national supervisory authorities in the EU. The development of an established role for the consolidating supervisor in the proposal for a Directive respects the role of national competent authorities whilst providing a single point of application (e.g. for approval of the Internal Ratings Based Approach for credit risk and the Advanced Measurement Approach for operational risk) for institutions.

3.5.2 The Committee believes that the consolidating supervisor model should be extended to both the Supervisory Review Process under Pillar 2 and the disclosure requirements under Pillar 3. Both Pillars should be applied at the top consolidated level in each group in the EU. If Pillars 2 and 3 are applied at the individual level they will not reflect the risk profile of the group as a whole. In the case of the Supervisory Review Process under Pillar 2 this would lead to subsidiaries of a group being subject to inconsistent supervisory treatment across the EU and the objective of enhancing the understanding of the group's risk profile would be jeopardised. This would not be in the interests of depositors and borrowers. If Pillar 3 is not applied at the level of the group, investors will not benefit from the disclosures in the context of understanding the financial health of the group as a whole.

### 3.6 *Treatment of Investment Firms*

The Committee welcomes the inclusion of investment firms in the European framework. It is important for the stability of the European financial system, which is increasingly dependent on the performance of financial markets. The Committee believes that where credit institutions and investment firms are exposed to the same risks they should be subject to the same rule as far as possible.

### 3.7 *Supervisory Disclosure*

The Committee fully supports the introduction of a supervisory disclosure regime in the proposal for a Directive. Supervisory disclosure will encourage convergence in the Single Market and inform debate on any necessary changes to the EU capital requirements framework. It will also help to identify material divergences in implementation of the Directive. Delivering a level playing field across the EU is in the interest of both banks and consumers.

### 3.8 *The Trading Book Review*

The Basel Committee is undertaking jointly with the International Organisation of Securities Commissions (IOSCO), the international body which cooperates on financial market regulation, a review of counterparty risk and Trading Book issues<sup>(4)</sup>. The Committee broadly welcomes the commitment by the Commission to ensure that the results of the Trading Book Review are reflected in the Directive before its implementation. The Committee agrees that the work on double default

<sup>(4)</sup> Financial Institutions have two primary categories for their assets, the 'banking book' and the 'trading book.' Most long to medium-term transactions are booked through the banking book (loans, deposits, etc.), while the trading book is a proprietary portfolio for short-term financial instruments held by an institution in its capacity as a dealer. Investment banks place virtually all their financial instruments into the trading book. The boundary between the Banking Book and the Trading Book has never formally been defined.

and counterparty risk should be completed rapidly and incorporated in the Directive using the legislative tools at the disposal of the Commission. However, the matter of the boundary between the Trading Book and the Banking Book is extremely technical and should not be subject to hasty treatment. Incomplete work on this vitally important matter could have a negative impact on European investors in the future. The Committee would welcome a more thorough review of this issue and incorporation into EU legislation at a later date.

### 3.9 *Implementation dates*

The Committee believes that the implementation dates of the Directive should be 1 January 2007, rather than 31 December 2006, for the standardised approach and 1 January 2008, rather than 31 December 2007, for the advanced approaches. The requirement to implement the Directive on 31 December would result in burdensome reporting requirements.

### 3.10 *Cyclicality*

There are serious concerns that the new framework could have a pro-cyclical effect. This would result in banks limiting lending in times of economic downturn due to the greater levels of capital required in an increasingly risky environment. Although limitations on the availability of credit in periods of stress are inevitable, an increase in these limitations could aggravate recessionary tendencies in the economy. The Committee firmly welcomes the requirement under the Capital Requirements Directive to stress-test throughout the economic cycle. The intention to keep the pro-cyclical impact of the framework under review through biennial reports drawn up by the European Commission and submitted to the European Parliament and Council is the minimum action which should be taken regarding pro-cyclicality.

### 3.11 *Impact of IFRS on Regulatory Capital*

3.11.1 IFRS accounts provide high-quality data which are, in general, reliable. They should, therefore, be taken as a starting point for the definition of regulatory capital. Using IFRS as the basis for capital adequacy treatment also contributes to establishing a level playing field among institutions and increases comparability. Furthermore, a high level of consistency between IFRS and capital adequacy rules is likely to avoid confusion among market participants and makes internal procedures easier and more cost effective.

3.11.2 The Committee believes that the convergence between both sets of rules should, ideally, enable banks to maintain one single set of figures and base for all financial and regulatory reporting requirements. However, regulators may take different views in specific circumstances, particularly where Accounting Standards do not reflect risk exposures in an adequate way. Therefore, regulators will need to make some adjustments to the accounting results. If one or several of the objectives of the new capital adequacy framework were compromised by the treatment provided by the accounting standard setters, prudential filters will be needed in order to assess regulatory capital. For operational reasons these adjustments, the so-called Regulatory Accepted Accounting Principles, should be limited to significant items only.

3.11.3 Against this background the Committee welcomes the filter which has been included by the Commission in Article 64(4) of the proposal for a Directive in line with the position of the Basel Committee. The Committee also welcomes the ongoing work of CEBS in developing prudential filters.

Brussels, 9 March 2005.

#### 4. Conclusion

4.1 The proposal for a Directive is currently in its First Reading in the Council of Ministers and the European Parliament. The Committee feels that the emphasis now should be on agreement of a flexible Directive that is consistent with the Basel framework and encourages convergent application across the EU.

4.2 It is important that the Directive is agreed relatively quickly to ensure that the benefits of the industry's €20 billion to maximum €30 billion investment in improved risk management systems is realised. Delayed implementation would put the European banking industry at a competitive disadvantage in the global market. This would not be in the interests of Europe's depositors and borrowers. However, the quality of the legislation must take precedent and the views of all interested parties must be taken into account by the co-legislators.

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 amending Council Decision 2000/819/EC on a multiannual programme for enterprise and entrepreneurship, and in particular for small and medium-sized enterprises (SMEs) (2001-2005)**

(COM(2004) 781 final — 2004/0272 (COD))

(2005/C 234/03)

On 11 January 2005, the Council decided to consult the European Economic and Social Committee, under Article 95 of the Treaty establishing the European Community, on the abovementioned proposal.

The Section for the Single Market, Production and Consumption, which was responsible for preparing the Committee's work on the subject, adopted its opinion on 14 February 2005. The rapporteur was **Mr Pezzini**.

At its 415th plenary session, held on 9 and 10 March 2005 (meeting of 9 March), the European Economic and Social Committee adopted the following opinion unanimously.

## 1. Preface

1.1 Many EESC members from the Member States which joined the EU in 2004 have not had the opportunity to follow closely Community enterprise policy, particularly policy relating to SMEs, as it has developed over the past decades. This albeit very simple opinion is important because of the significance of the Commission's proposals, and it gives a brief overview of some of the different stages of the policy's development.

## 2. Historical overview

2.1 Within the Commission, from the second half of the eighties onwards, enterprise policy was addressed essentially by two directorates-general, DG Industry and DG XXIII, which was concerned, in particular, with the craft sector and SMEs. Throughout the nineties, DG XXIII, liaising closely with Member States' trade associations, held dozens of meetings every year to identify the specific needs of micro- and small enterprises.

2.2 In 1994, encouraged by DG XXIII, the Commission created the EIF (European Investment Fund), giving it two main tasks:

- 1) to finance networks, which were essential to enterprises' development;
- 2) to promote access to credit, particularly where SMEs were concerned, by underwriting loans.

At present, the EIF operates solely in the second area of activity.

2.3 The points raised by the many meetings with the above DGs were discussed at three European conferences, held in Avignon (1990), Berlin (1994) and Milan (1997) respectively. Thousands of entrepreneurs from the Member States were present at each of these events.

2.4 During that period, therefore, enterprise programmes were proposed either by DG Enterprise or by DG XXIII: programmes put forward by DG XXIII were concerned particularly with the craft sector and small and medium-sized businesses.

2.5 In 1997, the third multiannual programme for SMEs (1997-2000) was approved; it had been discussed initially with the trade associations and was then launched by DG XXIII.

2.6 On 20-21 November 1997, the Luxembourg Extraordinary European Council, whose agenda contained a single item — employment — launched three practical initiatives to help businesses stay competitive in the markets and called upon the Commission to put forward proposals that would boost the business sector and promote job creation in that field. The three initiatives were the ETF-Start Up Facility, the JEV (Joint European Venture) and the SME Guarantee Facility.

2.7 In 1998, with the direct involvement of the EIB and the EIF, the Commission launched the Growth and Employment Initiative (1998-2000), which was based on the measures decided on in Luxembourg.

2.8 In 1999, taking into account the decisions taken at the Cardiff European Council in 1998, the Council issued a report calling for the concept of sustainable development to be incorporated into enterprise policy.

2.9 In 2000, when the discussions on the fourth multiannual programme had reached an advanced stage, two fundamental texts for SMEs were adopted:

- 1) The European Charter for Small Enterprises, adopted by the Feira European Council,
- 2) The Charter on SME policies, promoted and adopted by OECD Industry Ministers.

2.10 Also in 2000, the Lisbon European Council launched the renowned Lisbon process, based on a knowledge-based society and economy, which would engage the Commission and the Member States for a long period of time.

2.11 The fourth multiannual programme for enterprise and entrepreneurship (2001-2005), which was adopted in 2000, built both on previous programmes and on the cultural development which had taken place during the nineties.

### 3. Introduction

3.1 The fourth multiannual programme (MAP) for enterprise and entrepreneurship, and in particular for small and medium-sized enterprises (SMEs) (2001-2005), was adopted on 20 December 2000, to run from 1 January 2001 to 31 December 2005, with a budget of EUR 450 million.

3.2 The MAP is designed to improve the overall business environment in Europe. It is coordinated by DG Enterprise and its activities are grouped within three pillars:

- business development policies, where the Commission and Member States study and disseminate policy recommendations designed to enhance the overall business environment;
- the Euro-Info-Centre (EIC) network, which supports and assists local information centres all over Europe, giving businesses access to Community assistance and support programmes and networks;
- financial instruments, which are targeted towards improving the financial environment for businesses, especially SMEs.

3.3 The MAP aims to achieve the following objectives:

- to enhance the growth and competitiveness of enterprises in a knowledge-based and internationalised economy;
- to promote entrepreneurship;
- to simplify and improve the administrative and regulatory framework for businesses;
- to improve the financial environment for businesses, especially SMEs;
- to give business easier access to Community support services, programmes and networks and to improve the coordination of these facilities;
- to support the implementation of the European Charter for Small Enterprises at Community level.

3.4 The delivery instruments are as follows:

- the exchange of experience and the identification of good practices among the Member States;
- the operation of a network of Euro-Info-Centres offering services and advice about European matters to enterprises throughout European regions;
- the provision, via the European Investment Fund (EIF), of Community financial instruments for SMEs.

3.5 In preparation for the new 2006-2010 programme, the Commission has had regular evaluations carried out, both internally and by independent experts. In order to take into account as many suggestions as possible, it has produced a document highlighting the points which should underpin the new programme.

### 4. Gist of the Commission proposal

4.1 In a single article, it is proposed to amend Council Decision 2000/819/EC<sup>(1)</sup>, extending the multiannual programme until 31 December 2006 and thus increasing the financial reference amount by EUR 81.5 million, from EUR 450 million to EUR 531.5 million.

### 5. Reasons for the Commission's proposal

5.1 The public consultation and the proposals made in the independent experts' report indicated strong support for a wider basis for policy analyses, development and coordination as well as for specific measures to help enterprises to be competitive and innovative.

5.2 The current multiannual programme (MAP) did not incorporate the lines for action provided for by the European Charter for Small Enterprises clearly into its annual work programmes until 2003 and 2004, and much remains to be done to put the Charter's recommendations into practice.

5.3 The multiannual programme includes various activities to support enterprise policy, but it fails to stimulate innovation and business cooperation.

5.4 The measures provided for in the MAP were a response to the needs and requirements of the 15-Member State Europe, and are not sufficiently flexible to meet the needs of businesses from the new Member States.

<sup>(1)</sup> OJ L 333, 29.12.2000. Decision as last amended by Decision No 593/2004/EC of the European Parliament and of the Council (OJ L 268, 16.8.2004, p. 3).

## 6. The EESC's views

6.1 The EESC fully endorses the proposal and deems it appropriate that the Commission, taking into consideration any suggestions from the European Economic and Social Committee or other stakeholders from organised civil society, should draw up a proposal for a framework programme which takes into account:

- the progress made in recent years towards a knowledge-based economy;
- the new innovation drives businesses need in order to remain competitive;
- the provisions of the new Financial Perspective 2007-2013;
- the genuine needs expressed by businesses (in particular, micro-, small and medium-sized enterprises) from the new EU Member States;
- valuable, necessary synergies with the priorities of the new Structural Funds and the Cohesion Fund;
- expectations, particularly the expectations of the new Member States, regarding the role of the EICs.

6.2 An in-depth debate is currently in progress on the content of the Sixth Framework Programme for research and innovation, which expires at the end of 2006. The current MAP devotes a great deal of attention to research — which is undoubtedly extremely important for large businesses — but little attention to innovation or competitiveness, which are crucial for SMEs. A longer reflection period would enable new, dynamic synergies to be planned between the next framework programme for research and innovation and the next framework programme for enterprise and entrepreneurship.

6.3 A number of instruments provided for in the current MAP have not yielded the results hoped for<sup>(2)</sup>: this may well be because, although the post-Lisbon initiatives were taken into account when these instruments were set up, the needs of micro-, small and medium-sized businesses were not specifically taken into consideration.

## 7. Conclusions and proposals

7.1 Unlike the old Member States, the Member States which joined the European Union in 2004 have not had a chance to discuss this subject in depth or to contribute to the drawing-up of an enterprise and entrepreneurship policy with a solid, widely-supported base.

7.2 The EESC believes that it would be extremely appropriate, during the year in progress and the year-long pause provided by the extension (i.e. 2005-2006), for DG Enterprise to hold a series of meetings in the new Member States with representatives of SME organisations from all Member States, with the aim of discussing best practice and focusing on the specific difficulties of the new Member States. This would make it possible to highlight many of the issues that need to be taken forward under the new framework programme.

7.3 Using the information yielded by these preparatory meetings, the EESC believes that a fourth European conference on micro-, small and medium-sized enterprises could be held during 2006 in one of the countries which have recently joined the EU, with the aim of exploring, in a wider context, solutions to the most pressing issues raised by the new Member States in the field of enterprise policy.

7.4 The Commission should discuss with the EESC the results of the external valuation it commissioned as soon as possible and analyse the results yielded by the current MAP. Moreover, many of the EESC's members come from the world of enterprise and the EESC is already in a position to make a valuable contribution, with its usual pragmatism and commitment.

7.5 After these many years of discussion, and thanks, not least, to the internal debate which takes place while opinions are being drawn up, the EESC has come to the following conclusion: in order to achieve high-quality, practical development policies, it is necessary both to step up the debate among and with those whose lives are directly affected by enterprise issues (employers and workers), and to acknowledge that the problems of micro- and small enterprises are different from those of large enterprises, or, where this is not so, that they have different characteristics, because the resources, instruments and support systems used to address them cannot be compared with those at the disposal of large enterprises. It is therefore essential that these considerations be taken increasingly into account in the quest for new resources and development instruments.

7.6 The EESC is therefore in favour of the proposed extension but calls upon the Commission to implement the measures proposed in this opinion and to submit a report on the action it has taken to the European Parliament and the EESC.

Brussels, 9 March 2005.

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

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<sup>(2)</sup> See also the negative outcome of the JEV Programme and the conclusions of SEC(2004) 1460 of 15.11.2004

**Opinion of the European Economic and Social Committee on the Proposal for a Directive of the European Parliament and of the Council on a Community Air-Traffic Controller Licence**

(COM(2004) 473 final — 2004/0146 (COD))

(2005/C 234/04)

On 22 September 2004 the Council of the European Union decided to consult the European Economic and Social Committee, under Article 80 (2) of the Treaty establishing the European Community, on the abovementioned proposal.

The Section for Transport, Energy, Infrastructure and the Information Society, which was responsible for preparing the Committee's work on the subject, adopted its opinion on 21 February 2005. The rapporteur was **Mr McDonogh**.

At its 415th plenary session of 9 and 10 March 2005 (meeting of 9 March) the European Economic and Social Committee adopted the following opinion by 126 votes in favour and one abstention.

## 1. Introduction

1.1 European airspace remains one of the world's most congested traffic environments. Fragmentation of the air-management system into national isles of rules, procedures, markets and performance levels was identified by the High Level Group on the Single European Sky as the main impediment to making substantial progress in this industry. The Single European Sky package tackles these different forms of fragmentation through a number of initiatives.

## 2. Background

2.1 Adoption of the four regulations composing the Single European Sky package will fundamentally change the air-traffic management landscape. This complementary proposal for a Community air-traffic controller licence is important for several reasons.

The licence contributes to the *balance* between the different elements of the Single European Sky package, to ensure that not only institutional, economic or technical aspects are dealt with, but also social aspects.

2.2 In order to prepare this legislative initiative the Commission had launched a study to present the state of licensing in the different Member States. The study revealed that, despite many international regulations, issued by ICAO or by Eurocontrol, licensing remains highly fragmented in the EU Member States. The study recommended that Community legislation should cover the following areas:

a) age limitations, validity of rating endorsements and unit endorsements should be provided in relation to the conditions for obtaining and maintaining a licence;

b) competency checking of controllers, the training process and the requirements for examinations, including linguistic qualifications and assessments, should be described in relation to candidate training and competence standards;

c) all facilities should be accredited, and instructor qualification requirements should be specified in relation to recognition of Training Institutes and Training Units.

2.3 The preparatory study revealed that, despite the existing international regulation, national traditions are strong, yielding a variable level of quality and producing competencies which are difficult to compare. This fragmentation is no longer acceptable in a Community context, as it may lead to an increased safety hazard in Europe's congested airspace. The harmonisation of air-traffic controllers' licences will add to safety as competence levels will be harmonised inside and between service providers, contributing to a more efficient and safer interface between them. This will lead to more efficient organisation of the labour market for air-traffic controllers, increasing their availability and facilitating the establishment of functional airspace blocks. The licence will make the freedom of movement more effective by eradicating the current discretion which some Member States take with regard to the mutual recognition of each others' licences.

2.4 Given the fact that most of the Member States already have legislation in place based on ICAO principles and that they are currently implementing Single European Sky legislation and ESARR5, it is of the utmost importance to ensure full consistency with this directive.

2.5 Only certified training providers would be enabled to submit courses and training plans for approval to the national supervisory authorities.

2.6 The directive goes beyond the existing licences in civil aviation for pilots (91/670/EEC). It is more comparable to licences in the maritime and railway sectors (proposal contained in COM(2004)142) whereby rules on competencies are set at European level and not left to Member States' discretion. It is clear that this Directive for air-traffic controllers will also have authority beyond Community borders.

2.7 The costs will depend on the current level of quality of the training system. The Directive brings the quality of the output of the training system up to the level required to cope with the safety requirements stemming from Europe's dense and complex traffic system.

2.8 By setting high standards for initial training and by enforcing more guarantees for neutral and objective examiners during unit training, the success rate of unit training should increase.

2.9 The cost for the follow-up of the different elements of the licensing chain may slightly increase, due in part to keeping records for auditing.

2.10 All in all, the possible increase of costs in the short term should be offset by cost saving through more rational use of the workforce in the longer term. Last but not least, the Directive will increase the safety of the flying public.

2.11 This proposal does not include a financial statement.

2.12 Implementation of the Single European Sky legislation requires the establishment of more detailed legislation, in particular on arrangements concerning the licensing of air-traffic controllers, in order to improve their availability and to promote the mutual recognition of licences, as foreseen in Article 5 of Regulation (EC) No. 550/2004 of the European Parliament and of the Council of 10 March 2004 on the provision of air-navigation services in the single European sky (the service provision Regulation) <sup>(1)</sup>.

2.13 The introduction of such a Community licence is a means of recognising the specific role which air-traffic controllers play in the safe provision of air-traffic control. The establishment of Community competence standards will also reduce fragmentation in this field, making for more efficient organisation of work in the framework of growing regional collaboration between air-navigation service providers. This Directive is therefore an essential part of the Single European Sky legislation.

<sup>(1)</sup> Regulation (EC) No. 550/2004 of the European Parliament and of the Council of 10 March 2004 on the provision of air navigation services in the single European sky (the service provision Regulation) (OJ L 96, 31.3.2004, p. 10.) - EESC Opinion: OJ C 241, 7.10.2002, p. 24.

2.14 The objective of this Directive is to increase safety standards and to improve the operations of the Community air-traffic control system through the issuance of a Community air-traffic controller licence.

2.15 The holder of a rating who has not been providing air-traffic control services under any endorsement associated with that rating throughout any period of five years may not exercise the privileges of that rating without satisfying assessment and training requirements.

2.16 In order to ensure the levels of competence indispensable for air-traffic controllers to perform their work to high safety standards, the Member States shall ensure that national supervisory authorities supervise and monitor their training.

2.17 Each Member State shall recognise the licence and its associated ratings and endorsements issued by the national supervisory authority of another Member State in accordance with the provisions of this Directive.

### 3. Comments

3.1 The European Economic and Social Committee welcomes this proposal by the Commission to introduce new regulations governing Air-Traffic Controllers. These are necessary and timely because of the large increase projected in air-traffic movements over the next 10 years. There is also a need to have the same standard and qualifications throughout the EU, to ensure the safety of the travelling public. With the increase in air travel, there will be an increase in the demand for Air-Traffic Controllers worldwide. Freedom of movement is therefore essential.

3.2 The EESC wonders whether 4 years is a realistic estimate for the implementation of these regulations.

3.3 The Commission must ensure that the Directive does not permit the monopolisation of training at National level.

3.4 The licence endorsements should include language competency e.g. **ENGLISH Level 4**.

3.5 All initial ATC courses should be required to satisfy, as a minimum, the ECAC guidelines for Common Core Content training.

3.6 The introduction of random alcohol and drug testing for all operational ATCOs is welcomed and is in line with ESARR5 as well as the psychological testing of all student ATCOs.

3.7 The issue of age is still a real concern. Statistics indicate a greater risk of serious illness or sudden death with age. National boundaries do not appear to have effected the requirement for an age limit on pilots.

3.8 Concerning in particular Article 4, the EESC suggests that:

- paragraph 5 should indicate that an effective appeals process must be in place to allow for redress for licensees;
- paragraph 7 should indicate that an effective appeals process be in place to allow for inappropriate medical findings leading to suspension of the licence.

Brussels, 9 March 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 the second ‘Marco Polo’ programme for the granting of Community financial assistance to improve the environmental performance of the freight transport system (‘Marco Polo II’)**

(COM(2004) 478 *final* — 2004/0157 (COD))

(2005/C 234/05)

On 15 February 2005 the Council decided to consult the European Economic and Social Committee, under Article 71 of the Treaty establishing the European Community, on the abovementioned proposal.

The Section for Transport, Energy, Infrastructure and the Information Society, which was responsible for preparing the Committee’s work on the subject, adopted its opinion on 21 February 2005. The rapporteur was Mr Levaux.

At its 415th plenary session of 9 and 10 March 2005 (meeting of 9 March), the European Economic and Social Committee adopted the following opinion by 129 votes, with three abstentions.

**1. Introduction: Outline of the Commission’s explanatory memorandum**

1.1 The Commission presents its proposal for a regulation for the **‘Marco Polo II’** programme, setting out the reasons why freight transport infrastructures must be developed:

- freight transport is set to double by 2020 and existing networks are inadequate, resulting in road congestion, environmental degradation, accidents, and a loss of competitiveness; and
- sustainable development requirements are to be taken into account, which requires a more energy-efficient transport system.

1.2 The Commission reasserts that ‘a stronger reliance on intermodality is necessary’, because intermodality makes better use of existing infrastructures by incorporating short sea shipping, rail and inland waterways into the logistics chain. Intermodal policy is already covered by the Marco Polo I programme (2003/2006), which aimed to shift the average yearly increase of international road freight towards the three other modes of transport mentioned above.

1.3 The Commission proposes that the Marco Polo II programme continue this policy over the 2007-2013 period, extending the programme’s scope to cover all of the European Union’s neighbours and adding two new types of action:

- motorways of the sea; and
- traffic avoidance action.

1.4 The Commission proposes an overall budgetary envelope of EUR 740 million for the 2007-2013 period, which should:

- shift more than 140 billion tonne-kilometres of freight off the road (equivalent to 7 million truck journeys of 1,000 kilometres) towards other modes of transport;
- reduce CO<sub>2</sub> emissions by 8,400 million kg; and
- produce social and environmental benefits estimated at around EUR 5 billion. (This estimate was reached by a group of independent experts and appended to the Commission proposal, with an evaluation of the harmful effects of pollution on health).

## 2. General comments

### 2.1 *Gist of the Committee's conclusions in its Opinion on Marco Polo I*

2.1.1 Whilst sometimes highlighting the lack of ambition or the inadequacy of the resources provided, the Committee has on numerous occasions confirmed its support for the policy launched by the Commission to make it easier to transfer part of the inevitable and foreseeable growth in road freight transport to other modes of transport.

2.1.2 In particular, in its Opinion CES 842/2002 of 17 and 18 July 2002 on the proposal for a Regulation on Marco Polo I, the Committee did not believe that this programme would, by itself, make it possible to achieve the modal shift targets set by the Commission, and suggested complementing it with ten specific incentive measures, set out again here:

- tighter inspections and more severe penalties in the event of labour law infringements;
- public financing of modal transport infrastructure, such as terminals and access facilities;
- requiring operators to pledge to provide new ongoing services of general interest in order to secure modal shifts; failure to do this will mean that customers will not change their habits;
- procedures should be set out forthwith for extending the Marco Polo programme by two or three years in order to ensure that it continues to operate up to 2010 (there is a need to avoid the hiatus which occurred between the PACT and the Marco Polo programmes);
- the greatest possible benefit should be drawn from the experience gained from the PACT programme by concluding the external evaluation of the programme; the positive effects of the PACT programme have not so far been fully evaluated;
- a timetable should be established for the measures implementing the actions set out in the Marco Polo programme;

- a management committee should be given the task of monitoring actions on an on-going basis with a view to making the necessary mid-term adjustments to the Marco Polo programme;

- provision should be made for including in the projects eligible for support under the Marco Polo programme actions involving air and pipeline transport in a secondary capacity, provided that other modes are also involved;

- financial aid should be approved for projects involving actions taking place in just one Member State, provided that the impact of such projects will benefit all users of international shipments passing through the Member State in question; and

- a 'European Guide', covering all multimodal platforms in the EU, describing their respective characteristics and laying down minimum standards, should be drawn up for the benefit of all users.

2.1.3 In the same opinion, the Committee added that the only way to achieve these aims was to adopt a global policy which would change certain practices and include firm commitments for building new or complementary transport infrastructures.

2.1.4 In particular, where large volumes of freight on long journeys are concerned and where the delivery is not urgent but must take place on a certain date, the Committee proposed that the Commission consider changing over gradually from the practice of **zero stockholding** to the concept of **stock in circulation**. This would help to reduce the number of urgent deliveries and to enable non-road transport to compete properly on cost and delivery times, whilst guaranteeing delivery dates. Everyone understands the economic rationale that has encouraged the growth of **zero stockholding**, which greatly reduces delivery times by making urgency the overriding commercial consideration. If the concept of sustainable development is taken into account, it is clear today that this practice and its consequences are very costly in terms of pollution and excessive energy consumption. These issues must therefore be discussed and the Committee reiterates its request to the Commission to be involved in these discussions. It considers that, although road transport remains irreplaceable for short distances, particularly for the final stage of deliveries, it is *zero stockholding* taken to the extreme and urgency as an absolute principle that have made it so difficult to shift some road freight transport to other modes of transport, which are more consistent with the desire for sustainable development.

2.1.5 Without prejudice to the outcome of a discussion on this matter, the Committee considers that, in order to bring about a change in the behaviour of the economic players involved, restrictions might have to be placed on some practices, which might have been efficient in years gone by but which are no longer in tune with today's objectives.

2.1.6 The Committee notes that only a few of the incentives it suggested have been taken on board. Taking the view that the situation in 2004 is not greatly different to that of 2002, the Committee is submitting the same proposals again in this opinion, expanding on some aspects of the proposals.

## 2.2 Evaluation of the initial results of the Marco Polo I programme: 2003-2006

2.2.1 The Commission considers the initial results of the Marco Polo I programme, which had a budget of EUR 100 million, to be encouraging. The Committee notes that the first selection of programmes was launched in October 2003 — in other words, barely one year ago — and that, to date, there has not been sufficient time to evaluate the real effectiveness of the intermodal actions that have been undertaken. The Committee also notes that:

- in the White Paper of 12 September 2001 on *European transport policy for 2010: time to decide*, EUR 120 million was earmarked for the Marco Polo I programme for four years, i.e. EUR 30 million per year;
- in its proposal for a regulation on the Marco Polo I programme, in early 2002, the Commission forecast a budget of EUR 115 million over five years, i.e. EUR 23 million per year;
- in the end, however, the Marco Polo I programme was given a budget of EUR 100 million for only five years, i.e. EUR 20 million per year;
- for the first operating year of the Marco Polo I programme, the Community budget provided only EUR 15 million.

2.2.2 The Committee is astonished at these successive reductions and questions the reliability of the forecasts, because demand is predicted to be constantly increasing, whilst resources are constantly decreasing.

2.2.3 In these circumstances and because no real information has been provided on the matter, the Committee fails to understand the Commission's assertion that: *'one can [also] conclude that the budgetary means of the programme are largely insufficient to fund all good proposals ...'*, nor can the Committee understand why, in the budgetary programming, the EUR 20 million have not been fully used.

## 2.3 Ex-Ante Evaluation and Stakeholders' Consultation

2.3.1 Section III(12) of the explanatory memorandum refers to a financial document that is important because it attests to the fact that the proposal for a regulation 'takes full account of the evaluation and recommendation of the independent experts' following their ex-ante evaluation of the renewal of the Marco Polo II programme for the period 2007 — 2013. This

19-page document, written in English, has not been translated into other languages and is merely briefly summarised in section III(13) of the explanatory memorandum of the draft regulation, presenting the conclusions drawn by the Commission from the experts' evaluation.

2.3.2 The Committee wishes to point out that, for the sake of accessibility, documents must be translated and that, if a complete translation of the experts' report is not available, the experts should be asked to produce a summary of the report which, once translated, would give all those concerned instant access to the gist of their conclusions, accompanied by the relevant arguments.

2.3.3 Moreover, the Committee recalls that, in its Opinion (842/2002) on the Marco Polo I regulation, it welcomed the fact that the Commission heard *'the views of the parties concerned before presenting its proposals'*. It does, however, *'regret the fact that it was involved in this consultation process only at a late stage'* (point 2.5).

2.3.4 The Committee is, therefore, unable to comment on the conclusions of this evaluation except to note that the Commission expects an appropriate increase in the budget being presented and makes this a fundamental prerequisite for the programme's effectiveness.

2.3.5 The Committee notes that the Commission has provided it with assessments of three projects that have been undertaken:

- the creation of an Intermodal Rail service between Germany and Italy via Austria, operated by a private company;
- the IKEA-RAIL project, launched in 2002, consisting of a platform in Duisburg (Germany), which receives products sent by rail (1,044 km) from Almhut (Sweden) for distribution to the rest of Europe. In 2002 and 2003, around 400 trains undertook this journey carrying IKEA freight alone;
- the establishment of regular sea crossings, for heavy goods vehicles, between several ports in Italy and Spain.

2.3.6 These three projects illustrate the possibilities offered by the monitoring mechanism put in place by the EU. The Committee notes, however, that these projects have been undertaken as part of the Pilot Actions for Combined Transport (PACT) programme, which preceded Marco Polo I.

2.3.7 The idea behind these projects is particularly interesting; they reinforce the measures currently being undertaken and the Committee is extremely keen to be informed in due course of the precise results of the current Marco Polo I programme and how these results are being used.

## 2.4 The Marco Polo II programme (2007/2013)

2.4.1 The Marco Polo II programme does not change the 3 current types of action:

- modal shift (start-up aid);
- catalyst;
- common learning.

2.4.2 It provides broader geographical scope by covering not only the Europe of 25 and the other applicant countries, but also the EFTA and EEA countries. The Committee agrees with this approach and accepts the Commission's statement that: '*Production and supply chain patterns do not stop at the border of EU 25*'. It also expresses its hope that the Commission adds the word 'trade' after 'production' at the beginning of this phrase.

2.4.3 The Committee suggests that the Commission quote the example of the Danube-Corridor VII, which typifies this *wider Europe*, because it has the exceptional characteristics of an intermodal transport infrastructure that links all modes of transport, and these are:

- **river transport**, by means of a continuous link between the North Sea and the Black Sea, with the mid-point located in Austria, at approximately 1500 km from each end;
- **road and rail transport** which, through trade platforms, will make it easier to irrigate large areas surrounding the river; and
- **maritime and sea-river transport** which, in the West extend this river by means of the Rhine-Main-Danube link to the Channel Islands and the North Sea and, in the East, towards Russia (the Volga), Ukraine and Turkey by means of the Black Sea.

2.4.4 The Marco Polo II proposal provides for two new types of action:

- **Motorways of the sea**, a concept for which the Committee has expressed strong support on several occasions. *Wider Europe* of course has thousands of kilometres of maritime coastline, hundreds of ports and river estuaries, which are all potential points of access to hinterland regions and to the entire mainland. It is therefore important to encourage and assist transport and freight distribution projects everywhere, by increasing the number of multi-modal trade platforms located on coasts or on estuaries.
- **Traffic avoidance action**, a concept designed to improve production, distribution and supply patterns and eliminate unnecessary journeys. Examples include:

- transporting goods in dehydrated form obviates the need to transport water, which is added once the goods arrive;
- locating component-manufacturing sites near to assembly sites obviates the need for long-distance journeys.

The Committee is in favour of experiments and projects along these lines.

2.4.5 The Commission wishes to 'create rail synergies' and recommends, for example, the use of dedicated tracks, with high-speed trains for freight and express mail. The Committee supports projects of this nature even though — where 'express mail' is concerned — it considers that developments in the transmission of information electronically means that most mail can be sent this way now and increasingly so in the future.

2.4.6 Nevertheless, whilst there is a need to create dedicated high-speed freight lines, the interoperability of material, equipment and rail regulations must first be guaranteed. Furthermore, before new lines are built, optimum use must be made of existing networks and the possibility of using abandoned or underused lines studied, in seeking to shift passenger traffic to other modes of transport, in particular to high-speed lines.

2.4.7 The Committee therefore calls on the Commission to ask Member States once again to list all ways of revitalising disused or reduced-volume networks for freight transport. This mainly concerns the rail network, but also inland waterways, the aim being, wherever possible, to implement faster solutions than roads and which also provide greater benefits in terms of sustainable development.

2.4.8 Lastly, in order to give credibility to freight rail transport and indeed to other non-road modes of transport, the Committee again points out that it is time to translate intentions into action by reserving or allocating a larger share of appropriations for rail, sea and river infrastructures than they receive today, in particular in TEN-T project funding, and in funding granted to the new Member States, as well as the Balkans region.

2.4.9 The Committee is pleased to note that the Commission underscores the 'considerable' demand in industry for funding infrastructures which are necessary and adequate for achieving the service targets under the Marco Polo programme. As for funding **ancillary infrastructures**, the Committee recalls that this was a recommendation made in its Opinion (842/2002) on Marco Polo I.

### 3. Specific comments on the proposed Regulation on the Marco Polo II programme

#### 3.1 Article 1: Subject matter

3.1.1 The Committee notes that the Commission is presenting its proposal in 2004 for a regulation for the 2007-2013 period. This should make it easier to ensure the continuity of the Marco Polo programme and to avoid the delay seen in 2001/2002 when Marco Polo I was launched. Today, therefore, the Commission is not presenting an approach that is significantly different to the implementation of Marco Polo I. Acting in advance in this way will mean that it is possible to give a management committee [that should be given] the task of monitoring actions on an on-going basis with a view to making the necessary mid-term adjustments to the Marco Polo programme', as the Committee called for in its Opinion 842/2002.

#### 3.2 Article 2: Definitions

3.2.1 The Committee notes, in its definition of a 'consortium' that at least two undertakings are required. The Committee reiterates its earlier call for a consortium to be any 'arrangement by which at least two undertakings, which do not form part of the same group and one of which is not a subsidiary of the other, execute together ...'...

#### 3.3 Article 3: Scope

3.3.1 The Committee reiterates the call made in Opinion 842/2002, considering that the rules stipulated in this Article are, in its view, too restrictive, insofar as they require the actions to involve at least two States, or one State and the territory of a close third country. The Committee also considers that there are localised actions which affect one single state but whose impact would benefit all users of the relevant modes of transport passing through that state. One example of this would be actions on the use or development of multimodal platforms situated in an infrastructure hub within a single territory.

3.3.2 The Committee welcomes the move to open up the scope to cover third countries (whether or not they are applicants for accession) and notes that the costs of actions still being taken in those territories are not covered by the programme except in the circumstances provided for in paragraphs 3 and 4 of this article.

3.3.3 To ensure consistency, however, it would like the regulation to state that, as regards funding for actions in third countries, this should be dedicated, insofar as possible, to measures for developing non-road modes of transport or those which encourage intermodality.

#### 3.4 Article 4: Eligible applicants and beneficiaries

3.4.1 The EESC endorses Article 4, subject to account being taken of its comments above on the composition of a 'consor-

tium'. The Committee would, however, point out, as it did in Opinion 842/2002, that in the exceptional cases where actions are being carried out in a single country, the requirement for undertakings to be established in at least two Member States or in one Member State and a third country, does not apply.

#### 3.5 Article 5: Eligible actions and funding conditions

3.5.1 In points 3.5, 3.6 and 3.7 of its Opinion 842/2002 on Marco Polo I, the EESC stated that the minimum subsidy thresholds per action were too high. It called for the minimum subsidy thresholds proposed by the Commission to be reduced:

- from EUR 1 million to EUR 500,000 for modal shift actions;
- from EUR 3 million to EUR 1.5 million for catalyst actions;
- from EUR 500,000 to EUR 250,000 for common learning actions.

3.5.2 The Committee notes that, where Marco Polo II is concerned, the indicative minimum subsidy thresholds for actions set by the Commission in the annex detailing the funding conditions referred to in Article 5 of the proposal are still too high, (except for common learning actions, for which the threshold has been reduced to EUR 250,000 as the Committee had wanted). The Committee considers it crucial to set lower and thus more attractive thresholds, to encourage the start-up of projects that might be on a smaller scale but which are often more effective at local level.

#### 3.5.3 The Committee consequently calls for

- the minimum subsidy thresholds to be halved, or reduced:
  - from EUR 1 million to EUR 500,000 for modal shift actions;
  - from EUR 3 million to EUR 1.5 million for catalyst actions;
  - from EUR 4 million to EUR 2 million for motorways of the sea actions;
  - from EUR 1 million to EUR 500,000 for traffic avoidance actions;
- the minimal subsidy threshold for common learning actions, to remain at EUR 250,000, as set out in the proposal;
- a specific category to be created for sea-river transport and river transport with a minimum threshold of EUR 500,000. Although the minimum threshold of EUR four million (reduced to EUR two million as the Committee proposes) for motorways of the sea is acceptable for maritime transport, given the size of vessels and the volumes transported, it is not appropriate for inland waterways.

3.5.4 Lastly, the Committee agrees that maximum time periods should be set for carrying out the various actions, with completion by the deadline ensuring that an action is eligible. The Committee considers, however, that the 36 month deadline for modal shift actions is too short and that it should, as for the other actions, be set at 60 months.

### 3.6 Article 11: Budget

3.6.1 The EESC pointed out earlier that it does not have the necessary information to assess the sum of EUR 740 million that the Commission wishes to earmark for the Marco Polo II programme. It simply notes that the Commission considers that this budgetary envelope of EUR 740 million must help to achieve the savings totalling EUR 5 billion in social and environmental benefits referred to above in point 1.4.

3.6.2 The Committee hopes that the Commission will, in the course of 2005, halfway through the Marco Polo I programme, publish an assessment of the projects that have been completed and of the savings actually made.

3.6.3 As the Committee suggested in Opinion 842/2002, the Commission should, in the course of the programme, propose an increase in the budget to provide additional funding should there be a larger number of projects put forward.

### 3.7 Article 14: Evaluation

3.7.1 The Committee is pleased to note, because this is one of the requests it made in Opinion 842/2002, that the Commission is to present to the EESC as well as to the European Parliament and the Committee of the Regions, an assessment report on the results of the Marco Polo I programme for the period 2003/2006, by 30 June 2007 at the latest.

3.7.2 It hopes to have sufficient information to be able to deliver an opinion and possibly submit proposals with a view, if necessary, to adjusting the Marco Polo II programme, which will have begun on 1 January 2007 and will therefore be in the initial stages of its implementation.

## 4. Conclusions

4.1 The Committee supports Marco Polo II, as it previously supported the PACT and the Marco Polo I programme. These

three programmes have been useful in implementing initiatives that help to adapt freight transport systems to improve their environmental performance. Increasing the planned financial contribution from EUR 100 million for Marco Polo I to EUR 740 million for Marco Polo II demonstrates the EU's desire rapidly to achieve a more sustainable form of freight transport management.

4.2 In order to achieve the targets for freight transfer set by the Commission, the Committee wishes to recall some of the measures put forward in its Opinion CES 842/2002 of 17 and 18 July 2002 concerning Marco Polo I:

- in order to establish fair competition between the various transport modes, inspections should be strengthened and penalties in the event of infringements of labour laws should be increased;
- operators benefiting from the Marco Polo programmes must, on an ongoing basis, commit themselves to providing services of general interest to secure transfers;
- the Marco Polo programme must provide for the possibility of financing projects involving actions taking place in just one Member State, provided that the impact of such projects will benefit all users of international shipments passing through the Member State in question;
- a **European Guide**, covering all multimodal platforms in the EU, describing their respective characteristics, should be drawn up for the benefit of all users;
- provision should be made for including in the projects eligible for support under the Marco Polo programme actions involving air and pipeline transport with a break-off terminal located on a multimodal platform.

4.3 To ensure that river and river-sea transport benefit from the Marco Polo programme, the Committee calls for a specific category to be established with a minimum subsidy threshold lowered to EUR 500,000. River transport cannot be compared to maritime transport, for which the investment needed is proportionate to vessel size.

4.4 The Committee wishes to hold discussions with the Commission to achieve a switch from the practice of *zero stock-holding* to *stock in circulation* for deliveries that are not urgent (for certain heavy goods, only the delivery date needs to be respected).

Brussels, 9 March 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 amending Regulation (EC) No 1868/94 establishing a quota system in relation to the production of potato starch**

(COM(2004) 772 final — 2004/0269 (CNS))

(2005/C 234/06)

On 20 January 2005 the Council decided to consult the European Economic and Social Committee, under Article 37 of the Treaty establishing the European Community, on the abovementioned proposal.

The Section for Agriculture, Rural Development and the Environment, which was responsible for preparing the Committee's work on the subject, adopted its opinion on 17 February 2005. The rapporteur was Mr Konstantinidis.

At its 415th plenary session, held on 9 and 10 March 2005 (meeting of 9 March 2005), the European Economic and Social Committee adopted the following opinion by 127 votes with 7 abstentions.

### **1. Gist of the Commission proposal**

1.1 The aim of this proposal is to allocate the quota for the 2005/2006 and 2006/2007 marketing years between potato-starch producing Member States on the basis of the report from the Commission to the Council on the quota system for the production of potato starch, thus amending Regulation (EC) No. 1868/94.

1.2 It is proposed that the present quotas be maintained for the next two years.

1.3 The reason why the Commission is proposing unchanged potato starch quotas for the next two years is that it is too early to assess the effects of the reform of the CAP (i.e. of decoupling) and of enlargement of the EU on the potato starch sector. In fact, in a number of potato starch producing Member States, the CAP reform will only be implemented by 2006 (i.e. marketing year 2006-2007).

1.4 The Commission will therefore present a new report accompanied by a new proposal by 30 September 2006.

### **2. General comments**

2.1 According to the Commission's report, EU production of potato starch remained close to the quota fixed, and total

exports of cereal starch and potato starch remained relatively stable. The share of potato starch in starch production as a whole is declining, at around 20 %. As stated before, the Commission proposes a rollover of the quotas fixed for 2004/2005. Polish, Lithuanian and Czech farmers apart, most European potato starch producers support the Commission's proposal, although they would have preferred the normal prolongation period for the quota system (three years).

2.2 Whilst backing the Commission's proposal, the EESC shares the potato starch producers' concern that the timetable for the discussion and adoption of the Commission's proposal has become quite tight, especially considering that farmers will start planting seed potatoes in March 2005. The Committee therefore invites the European Parliament and the Council to take into consideration these time constraints when dealing with this proposal.

### **3. Conclusions**

3.1 The EESC supports the Commission's proposal of extending the current quotas to the marketing years 2005/2006 and 2006/2007 and it recommends that the deadline for the assessment in view of the future proposal be strictly respected.

Brussels, 9 March 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 amending Regulation (EC) No 999/2001 laying down rules for the prevention, control and eradication of certain transmissible spongiform encephalopathies**

(COM(2004) 775 final — 2004/0270 (COD))

(2005/C 234/07)

On 16 December 2004 the Council decided to consult the European Economic and Social Committee, under Article 152 of the Treaty establishing the European Community, on the abovementioned proposal.

The Section for Agriculture, Rural Development and the Environment, which was responsible for preparing the Committee's work on the subject, adopted its opinion on 17 February 2005. The rapporteur was **Mr Chiriaco**.

At its 415th plenary session, held on 9 and 10 March 2005 (meeting of 9 March), the European Economic and Social Committee adopted the following opinion by 130 votes to none with three abstentions.

## 1. Summary of the Commission's proposal

1.1 The main amendments proposed to the regulation on the prevention, control and eradication of certain TSEs are:

- an **extension** for a further two years of the transitional measures, first extended in 2003 <sup>(1)</sup>;
- the reinforcement of some **preventive measures** (to include cervids, encourage the selection of TSE resistant ovine animals through a harmonised breeding programme, bring the regulation into line with Regulation 1774/2002 on the health rules concerning animal by-products, and prohibit the injection of gas into the cranial cavity as a slaughter method);
- an extension of the restrictions on the movement of animals to ovine and caprine animals;
- on the one hand, a restriction on the placing on the market of raw materials for the manufacture of di-calcium phosphate; on the other, the inclusion among the derogations of milk not intended for human consumption, in the same way as for milk for human consumption;
- consolidation of the legal basis for inspections in third countries.

## 2. General comments

2.1 Although it has previously expressed its reservations about repeated extensions <sup>(2)</sup>, the EESC notes the need to harmonise the rules at international level in the OIE, in accordance with the risk-assessment criteria defined by the Commission itself.

2.2 Practical experience at European level has clearly shown that the present five-category classification, based on recorded cases rather than risk, rewards those countries with the least controls and penalises those who carry out effective controls which detect cases of disease. Under the impact of recent cases in Japan, Canada and the United States, progress towards the conclusion of an agreement to adopt an improved methodology at the OIE is apparently accelerating; this will probably occur in May 2005.

2.3 The Committee must nevertheless repeat its earlier recommendation: should joint rules for risk management prove impossible, the EU must accept the consequences and introduce the requisite sets of rules itself regardless of the resultant complications in the WTO for trade with third countries. Lack of international acceptance and time-consuming negotiations must not delay the implementation of those provisions deemed necessary for EU cooperation.

2.4 The Committee welcomes the fact that the Commission has made use of the opportunity provided by the extension of the time period to introduce amendments designed to strengthen preventive measures, encourage selection programmes and broaden restrictions on both movement and controls, especially with regard to third countries.

## 3. Specific comments

3.1 The inclusion of 'cervids' is entirely appropriate.

3.2 Consolidating the legal basis for the harmonised breeding programme, which is already operating with encouraging results, will allow the selection of resistant ovines to be expanded.

3.3 Compliance with Regulation 1774/2002 is essential in the interests of legislative consistency.

<sup>(1)</sup> EESC Opinion, rapporteur: Mr Nielsen, OJ C 208 of 3.9.2003.

<sup>(2)</sup> Ibid.

3.4 The injection of gas into the cranial cavity, which is already prohibited for imported animals, is explicitly forbidden in slaughter activities within the EU, and this is clearly advantageous in preventing contamination.

3.5 The rules restricting the movement of bovines are quite rightly extended to animals affected by scrapie.

3.6 The Committee welcomes the extension to other species of the scope of the provisions concerning the placing on the market and export of bovine, ovine and caprine animals and

their semen, embryos and ova, together with the restriction on raw materials for the manufacture of di-calcium phosphate, in accordance with the recommendations of the Scientific Steering Committee.

3.7 In the Committee's view, it is essential to consolidate the legal basis for possible inspections in third countries, so that full use can be made of the experience acquired at European level in this field, but also recommends that the financial and human resources needed for this purpose be made available.

Brussels, 9 March 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 European Parliament and Council Regulation on the European Social Fund**

(COM(2004) 493 final)

(2005/C 234/08)

On 18 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 proposal.

The Section for Employment, Social Affairs and Citizenship, which was responsible for preparing the Committee's work on the subject, adopted its opinion on 18 February 2005. The rapporteur was **Ms Engelen-Kefer**.

At its 415<sup>th</sup> plenary session, held on 9 and 10 March 2005 (meeting of 9 March), the European Economic and Social Committee adopted the following opinion unanimously.

#### **1. Introduction**

1.1 On 14 July 2004 the European Commission adopted its proposals for reform of cohesion policy for the period 2007-2013. These proposals are intended to supersede the Structural Fund regulations that will remain in force until 31 December 2006. In its explanatory memorandum the Commission mentions the considerable widening of disparities in the enlarged Europe, as well as the challenges posed for the Union by globalisation, economic structural change and demographic developments.

1.2 In this context, the European Commission proposes increasing the budget for the Structural Funds while focusing

on priority objectives. With a budget of EUR 336.1 billion, which is about one third of the total Community budget, future structural support is to be:

- more targeted towards EU strategic priorities (the Lisbon and Gothenburg objectives, and EU employment strategy);
- concentrated on the economically weakest regions;
- more decentralised and implemented more simply, transparently and efficiently.

1.3 This is to be achieved by redefining objectives, i.e. convergence, regional competitiveness and employment, as well as inter-regional cooperation.

The legislative package comprises:

- a general regulation with common provisions for all three financial instruments (ERDF, ESF and the Cohesion Fund);
- separate regulations on the European Regional Development Fund (ERDF), the European Social Fund (ESF) and the Cohesion Fund;
- a new regulation setting up a European grouping of cross-border cooperation (EGCC).

1.4 Although this opinion focuses mainly on the role of the ESF in European structural support, it also evaluates key factors for the functioning and organisation of support measures under the ESF, since these are set out in the general regulation.

## 2. New objectives of the EU Structural Funds

2.1 It is proposed that from 2007 EU structural support should focus on three objectives — convergence, competitiveness and employment, and European inter-regional cooperation.

### 2.2 Convergence

2.2.1 This objective is similar to the current Objective 1 and concerns promoting economic convergence of regions that are lagging most in development terms, through investment in capital and human resources, encouraging innovation and development of the knowledge-based society, supporting structural change, protecting and enhancing the environment, and improving administrative capacity. With a budget of EUR 264 billion (about 78.5 % of total resources), the re-formulated regional aid policy will be the linchpin of EU structural support. The ERDF, ESF and Cohesion Fund should help achieve this objective.

### 2.3 Regional competitiveness and employment

2.3.1 This objective combines current Objectives 2 and 3. Its purpose is to underpin regional competitiveness and employment outside the most needy regions and Member States. A dual approach is adopted: (1) regional development plans (ERDF) will be used to support adjustment of industrial, urban and rural areas that are particularly affected by structural change, through promoting innovation, the knowledge-based society, entrepreneurship and environmental protection; (2) national and regional programmes funded through the ESF will be used to promote integration into the labour market of employees affected by structural change and to enhance employability in general on the basis of training and employment policy measures to support integration. The aim is to achieve full employment and improve the quality of work and labour productivity, as well as social inclusion and the implementation of the European employment strategy more generally. The proposed budget is EUR 57.9 billion (around 17.2 % of total resources), split equally between the ERDF and the ESF.

### 2.4 European inter-regional cooperation

2.4.1 This objective draws on experience with the current Community initiative INTERREG; the aim is to support cooperation in border regions, including internal maritime borders and certain external borders of the European Union, through joint programmes, network-building and pooling of information (ERDF). The proposed budget is EUR 13.2 billion (about 3.9 % of total resources).

## 3. Special role of the European Social Fund

3.1 Under the Commission's proposal the European Social Fund is to be used to further the goals of 'convergence' and 'regional competitiveness and employment', although the recommended budget allocation would put far more emphasis on aid to underdeveloped regions. The political framework for ESF measures is provided by the European Employment Strategy guidelines and recommendations, while ESF support focuses on four key areas:

- increasing the adaptability of workers and enterprises;
- enhancing access to employment, preventing unemployment, prolonging working lives and increasing participation in the labour market;
- social inclusion of disadvantaged groups in the labour market and combating discrimination;
- promoting partnership for reform in the fields of employment and social inclusion.

3.2 In very needy regions especially, which fall under the 'convergence' objective, the ESF is also intended to provide support for improving education and training systems as well as for developing institutional capacity and enhancing the efficiency of public administrations at national, regional and local levels, in order to establish the Community *acquis*. Innovative measures and transnational cooperation, which until now have been supported under the EQUAL Community initiative, are to be incorporated into ESF mainstream programmes. Particular attention is to be paid to promoting equal opportunities based on gender mainstreaming, with specific measures to increase participation of women in employment and improvement of their professional development opportunities.

3.3 The ESF is the financial instrument used to implement the EU employment guidelines, i.e. for supporting the employment and social inclusion policies of the Member States, above all through more targeted labour market inclusion, improving the quality of work and work organisation, and training measures to maintain employability.

3.3.1 Under the priority 'increasing adaptability of workers and enterprises', the ESF supports measures to:

- promote investment in human resources by developing and implementing lifelong learning systems and strategies, especially for low-skilled workers;
- manage economic structural change through innovative forms of work organisation and identification of future skills requirements.

3.3.2 Under the priority 'enhancing access to employment' and 'preventing unemployment', the ESF supports:

- measures to modernise and strengthen labour market institutions;
- active and preventive measures to enhance integration, and support tailored to individual needs;
- specific measures to increase sustainable participation of women in employment, to reduce gender-based segregation in the labour market, and to improve the compatibility of work and private life;
- specific measures to promote social inclusion of migrants.

3.3.3 Under the priority 'inclusion of people at a disadvantage and combating discrimination', the employability of disadvantaged and socially excluded people is to be promoted through appropriate inclusion measures, in particular social support and care services, and by raising awareness of discrimination in access to the labour market.

3.3.4 Within the framework of the convergence objective, the ESF also supports:

- reform of education and training with a view to the needs of a knowledge-based society and improvement of their labour market relevance;
- promotion of lifelong learning, especially in order to reduce the number of early school leavers and to improve access to vocational and tertiary education;
- development of human potential in research and innovation; and
- strengthening of the institutional capacity and efficiency of public administrations and public services in the economic, employment, social, environmental and judicial fields.

3.4 With respect to programming, the European Commission proposes some changes that are in line with the general provisions for the European Structural Funds. The new programming system, which includes ESF measures, will essentially consist of:

- adoption by the Council of strategic guidelines for cohesion policy with strategic goals for each fund, taking into account the Broad Economic Policy Guidelines and the EU Employment Guidelines;
- a national strategic frame of reference, to be negotiated with the European Commission, as the basis for setting up operational programmes for each fund, with separate parts for the 'convergence' objective and 'regional competitiveness and employment' objective;
- submission of annual implementation reports, both on the national strategic frame of reference and on each operational programme, which must be approved by the European Commission.

#### 4. Evaluation

4.1 As a result of enlargement, the EU is facing major economic and social challenges; the EU's structural policy is not sufficient to overcome these on its own, but it can contribute to doing so. The EESC supports the European Commission's proposal to concentrate funding in regions with the weakest economies, which should benefit new Member States in particular, where the concentration of least developed regions is greatest. The EESC feels that the proposed increase in the budget for the Structural Funds from about EUR 276 billion to EUR 336.1 billion for 2007-2013, equivalent to 0.41 % of the EU's gross domestic product (GDP) is appropriate, given that these resources will now have to be shared by 25 Member States. However, in the view of the EESC, structural measures should continue, albeit on a smaller scale, in the old Member States, at least in those regions which are most affected by structural industrial change and are suffering from high unemployment. At the same time, it is important to ensure that fair transitional arrangements are in place for former Objective 1 regions which have lost their eligibility for support due to the so-called statistical effect. The EESC welcomes the Commission's intention to ensure that the EQUAL Community initiative is indeed fully mainstreamed into the ESF and its hitherto indisputable benefits exploited to the full, including the innovative nature of the projects supported, support for the transfer of experience and examples of good practice within the EU and support for the partnership principle in its implementation. After the EQUAL initiative has been mainstreamed, the European Commission could call on the Member States to incorporate measures similar to EQUAL into national operational programmes.

4.2 The EESC feels that the redefined objectives are appropriate, particularly the new objective of 'competitiveness and employment', which combines employment and structural policy objectives, both to be treated with equal weight. Coordinated measures to stimulate investment and innovation (the ERDF) and to mitigate the social consequences of structural change (ESF) are particularly urgent, above all in areas whose economies have been affected by structural change. Restructuring of objectives should be beneficial if programming activities are similarly integrated. However, although measures are to be integrated at the level of national strategic frames of reference, further programming will then take place separately for each individual fund. To ensure the complementarity of operational programmes, the EESC considers it essential that programmes under the 'convergence' and 'regional competitiveness and employment' objectives take account of each other. In addition, regional priorities should be set for ESF employment policy measures, depending on the structure of unemployment, and with precedence being given to regions suffering from particularly high unemployment, providing support in particular for local employment initiatives and territorial employment pacts.

4.3 The priorities which have been set for ESF intervention basically match those of EU employment strategy and current employment guidelines. The EESC feels that the emphasis of employment policy should be on taking active and preventive measures to curb unemployment and facilitate inclusion of disadvantaged groups in the labour market. In line with the proposals of the expert group on the future of European social policy, particular attention needs to be paid to early and active inclusion of young people, raising employment rates for women, and inclusion of older workers in the labour market. In the latter area, it is especially important to boost participation in training and to enhance the quality of employment through appropriate measures concerning the work organisation. Emphasis should be placed here on the innovative nature of measures taken under the national employment action plans, as noted in the opinion of the ESF Committee. <sup>(1)</sup>

4.4 In coordination with the other EU structural funds, the ESF should also be seen as an instrument for furthering the horizontal objective of combating discrimination, a goal pursued through various measures at European level. Particularly disadvantaged groups on the labour market include not just young people, women and older workers, but also the disabled, migrants and ethnic minorities. People may also be subject to discrimination on the basis of their sexual orientation. Integrating these disadvantaged groups should therefore be a priority, using measures to support social assistance, training and work organisation, e.g. by creating jobs suitable for disabled people. Appropriate information measures should

also be taken, particularly targeted at immigrants, to raise awareness of rights, including labour rights. ESF measures should therefore also be consistent with the national action plans for social inclusion, and provide for ways of improving the job opportunities of these groups. The EESC also concurs with the ESF Committee on this point. Member States and managing authorities must also ensure that structural fund support measures do not inadvertently contribute to the creation of access barriers for these disadvantaged groups.

4.5 Under the 'convergence' objective, the ESF should also support measures to help reform education and training systems, particularly with a view to the needs of a knowledge-based society and improvement of their labour market relevance. Good governance which develops institutional capacity and enhances the efficiency of public administration and services at national, regional and local levels should also be eligible for support. As the 'convergence' objective applies to regions with a development lag, measures under this objective are particularly relevant to the new Member States. The EESC notes that putting modern education and training systems in place and ensuring administrative efficiency is the responsibility of Member States. Although EU employment guidelines include objectives for the reform of education and training, implementation is generally the responsibility of Member States, or even, for example in Germany and several other countries, of regions. In the EESC's opinion, the ESF should be focused mainly on its intended role of complementing national employment policies through innovative measures, e.g. on training.

4.6 The changes to programming which have been proposed by the European Commission reflect the intention to adopt a more strategic approach. Strategic guidelines for cohesion policy as a whole and accompanying frames of reference at national level are intended to reinforce the links between the general political objectives of Lisbon and Gothenburg, the Broad Economic Policy Guidelines and the EU Employment Guidelines. EU employment policy and ESF intervention are already interconnected through national action plans, which include ESF measures supporting implementation of EU employment strategy. In addition, a national action plan for social inclusion, which also covers employment policy measures, is prepared at two-yearly intervals. Therefore, although the European Commission's concern with monitoring the use of funds is a legitimate one, the EESC doubts whether annual implementation reports, both on the national strategic frame of reference and on each operational programme, are helpful, except insofar as they provide a record of expenditure. Instead, in connection with the ESF, the EESC recommends considering the possibility of linking national action plans on implementation of the EU employment guidelines with

<sup>(1)</sup> See European Commission homepage (Employment and Social Affairs).

programming requirements for ESF measures, thus helping to achieve the objective of simplified programming. The ESF Committee also expresses concern that red tape may increase rather than decrease. The EESC therefore calls for this concern to be seriously addressed so that ESF measures are effective.

4.7 The EESC is pleased to note that structural support will continue to be based on the principles of concentration, programme planning, additionality and partnership. However, the EESC would like there to be greater emphasis on the special role of the social partners in ESF employment measures, and on the need for their involvement at both central and regional levels. The social partners share responsibility within institutional structures and for the practical implementation of employment policies in the Member States. Planning and implementation of additional ESF measures should be coordinated with national employment policy strategies. For this to happen, the social partners need to be involved in programming and implementation of programmes at central and regional levels. The EESC agrees with the ESF Committee's proposal to earmark a given portion of funding in the conver-

gence regions for helping the social partners to implement the EU employment strategy.

4.8 The EESC welcomes the requirement that the Member States and managing authorities for each operational programme should consult non-governmental organisations as appropriate when planning, implementing and monitoring ESF aid. It should therefore be made clear in Article 5 (2) of the proposal for a Regulation that these consultations take place at central and regional level. The Committee is also pleased to see that not just the social partners, but also non-governmental organisations, are given access to the financial support. In the context of the proposed partnership, the role in the labour market of not-for-profit social service providers must also be taken into consideration. The EESC therefore recommends that these players be more involved in the planning, implementation and monitoring of ESF aid.

4.9 The EESC recommends making more use of ESF technical assistance to finance the education, training and information activities of all the non-governmental actors involved in implementing ESF objectives.

Brussels, 9 March 2005

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

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**Opinion of the European Economic and Social Committee on the Proposal for a Council Regulation on support for rural development by the European Agricultural Fund for Rural Development (EAFRD)**

(COM(2004) 490 final — 2004/0161 CNS)

(2005/C 234/09)

On 10 November 2004, the Council decided to consult the European Economic and Social Committee, under Article 37 of the Treaty establishing the European Community, on the abovementioned proposal.

In a letter of 21 December 2004, the European Parliament also stated that on 14 December it had decided to consult the Committee on the proposal.

The Section for Agriculture, Rural Development and the Environment, which was responsible for preparing the Committee's work on the subject, adopted its opinion on 17 February 2005. The rapporteur was Mr Bros.

At its 415th plenary session, held on 9 and 10 March 2005 (meeting of 9 March), the European Economic and Social Committee adopted the following opinion by 125 votes to six with eight abstentions.

## 1. Introduction

1.1 Agenda 2000, adopted by the Berlin European Council in March 1999, established rural development policy as the second pillar of the Common Agricultural Policy to accompany and complement the reform of market policy throughout the EU. The reform of the CAP in June 2003 consequently confirmed the importance of the second pillar by introducing new measures related to the promotion of products, food safety and animal welfare. This approach should lead to an increase in the financial resources available for rural development.

1.2 Reflecting the conclusions of the Salzburg conference (November 2003), the Commission has set three major objectives for future rural development policy in its Communication on the Financial Perspectives and in the proposed Regulation which is the subject of the present opinion, viz.:

- increasing the competitiveness of the agricultural sector through support for restructuring;
- improving the environment and the countryside through support for land management;
- enhancing the quality of life in rural areas and promoting diversification of economic activities through measures targeting the farm sector and other rural players.

1.3 The European Economic and Social Committee attaches particular importance to these proposals. Its own-initiative opinion on *The CAP second pillar: outlook for change in development policy for rural areas* <sup>(1)</sup> pointed out that rural development links in with wider issues relating to:

- the success of EU enlargement (more than half of the EU-25's population lives in rural areas);
  - maintaining a high level of food safety, which is part of a sustainable development approach;
  - preserving a European agricultural model that is geared to multi-functionality and permits a harmonious distribution of agricultural activity throughout the European Union.
- 1.4 To better understand and appreciate the issues involved, the Committee specified in the above opinion the principles that must guide future rural development policy:
- the development of rural areas is important for the territorial cohesion of the EU. Rural development must therefore be one of the top priorities of regional policy;
  - the primary purpose of the second pillar of the CAP must be to support agriculture as it adapts to structural changes, and to address public expectations;
  - the financial resources made available for this policy must be sufficient for the Community to maintain its commitment to rural areas;
  - only a multi-functional approach to agricultural production can help to maintain a living countryside;
  - agricultural and rural development issues should be addressed by the same Commissioner.

As a natural continuation of its work in this area, the Committee intends, through the present opinion, to offer the other institutions its views on the Commission proposal on support for rural development.

<sup>(1)</sup> OJ C 302, 7.12.2004, pp. 53-59

1.5 The European Commission has widely consulted the players concerned and the Committee was able to put forward its various proposals on a number of occasions, particularly in the context of the advisory committees. This extensive consultation demonstrates the Commission's spirit of openness and the Committee hopes that it will be able to act on the proposals made within the framework of the legislative process now being launched.

1.6 The Committee will draw up a separate opinion on the new legal basis for financing the various EAFRD and EAGF measures (COM(2004) 489 final — 2004/0164 (CNS))<sup>(2)</sup>. Accordingly, the administrative aspects of the implementation of rural development programmes will be examined in that opinion.

## 2. The Commission proposal

2.1 The Commission proposal is part of the efforts to increase the transparency of Community rural development policy and make it easier to understand. With this in mind, the Commission proposes the setting-up of a specific fund (European Agricultural Fund for Rural Development — EAFRD) contributing to the promotion of sustainable rural development throughout the Community as a complement to the market and income support policies of the CAP, cohesion policy and the common fisheries policy.

2.2 To ensure greater consistency between the objectives fixed at European level and the implementation of rural development programmes, the Commission proposes the setting of Community strategic guidelines for rural development strategy, which would be adopted by the Council. Member States would then draw up national strategy plans taking into account the Community guidelines. These plans and rural development programmes should be drawn up in close collaboration between the Commission, the Member State concerned and the authorities and bodies designated by the Member State (local and regional authorities, the economic and social partners and any other appropriate body representing civil society).

2.3 To complement programme monitoring, the Commission proposes that each Member State draw up an annual summary report describing the progress made in implementing rural development programmes relative to the indicators set out in the national strategy plan and the results of the ongoing annual evaluations made for each programme. The Commission would submit an annual report to the Council, the European Parliament, the EESC and the Committee of the Regions.

2.4 The Commission proposes to incorporate the 26 existing measures and the proposed new measures — such as the funding of NATURA 2000, forest-environment measures or the training of locally elected representatives in devising regional projects — under three priority axes with their own specific goals, with minimum funding for each axis as follows:

- 15 % for axis 1 (Improving the Competitiveness of the Agricultural and Forestry Sector) and 15 % for axis 3 (Diversification of the Rural Economy and the Quality of Life in Rural Areas);

- 25 % for axis 2 (Land Management).

2.4.1 Axis 1 is targeted at improving the competitiveness of the agricultural and forestry sector. Four groups of measures are envisaged:

- improving human potential;
- restructuring physical potential;
- improving the quality of agricultural production and products;
- two transitional measures for the new Member States involving support for semi-subsistence farms undergoing restructuring and support for the setting-up of producer groups.

2.4.2 Axis 2, *Environment and land management*, focuses on the sustainable use of agricultural and forestry land. The existing 'less-favoured areas' measure is redefined in so far as the delimitation of the intermediate zones is concerned (only taking natural criteria into account). In addition, the beneficiaries of the aid must comply with the general condition of respect of EU and national mandatory requirements for agriculture and forestry (cross-compliance requirement for direct aid under the CAP first pillar).

2.4.3 Axis 3, *Diversification of the rural economy and the quality of life in rural areas*, is concerned with measures for diversifying the rural economy through support for the creation of non-agricultural activities by farmers or non-farmers, improving the quality of life in rural areas (basic services for the population, infrastructure) and measures relating to skills acquisition and the capacity-building of locally elected representatives with a view to the preparation and implementation of local development strategies.

2.5 The LEADER approach is to be applied to all three axes and a minimum of 7 % of the total rural development funding available for programming must be reserved for the LEADER element. The Commission proposes that a criteria-based reserve (3 % of EAFRD) be earmarked for this programme.

2.6 As regards funding, the Commission proposes that resources totalling EUR 88.75 billion be made available for this policy for the period 2007-2013. To this amount must be added the amounts generated each year from modulation, which will be available for all the axes (approximately EUR 8 billion over the same period).

## 3. General comments

3.1 The Committee welcomes the Commission's proposal to set up a special fund for rural development (EAFRD) alongside a fund for policy on agricultural product markets and direct payments (EAGF). The Committee also notes that this legislative proposal is consistent with the conclusions of the Salzburg conference, which discussed rural development in the enlarged Union. However, it would draw the attention of the European Parliament and the Council to the changes that need to be made in order to respect the underlying principles of rural development policy which the Committee referred to in its own-initiative opinion.

<sup>(2)</sup> Opinion CESE 126/2005 Rapporteur: Mr Kienle

3.2 To begin with, the proposal to set up a single fund for promoting rural development cannot be made without reference to an existing EU policy. The conclusions of the Salzburg conference, the declarations of the Luxembourg Council of June 2003 and the Committee's recommendations <sup>(3)</sup> emphasise that policy to promote rural development (second pillar of the CAP) must accompany adaptation of agriculture (first pillar of the CAP). The Committee would therefore like Article 3 of the proposal to contain a reference to Treaty Article 33, which defines the general objectives of the Common Agricultural Policy.

3.2.1 *Text amendment proposed by the Committee: 'Article 3: Missions*

1. The Fund contributes to the promotion of sustainable rural development throughout the Community ~~in a complementary manner to~~ and complements the other instruments of the Common Agricultural Policy (the market and income support policies of the Common Agricultural Policy), to Cohesion policy and to the Common Fisheries Policy, thus promoting realisation of the objectives set out in Article 33 of the Treaty.

2. The Fund also complements cohesion policy and the Common Fisheries Policy.'

3.3 The Committee believes that the economic development of rural areas depends inter alia on complementarity between agricultural and non-agricultural players. It welcomes the proposed new measures promoting non-agricultural activity and supporting small and micro-enterprises, in line with the European Charter for SMEs; their important role in job creation in rural areas deserves support.

3.4 The processes of evaluating and adapting the objectives of the EAFRD do not take into account the deadlines for the development of the Common Agricultural Policy. The Commission has, in fact, emphasised that the CAP reform decided on in June 2003 will have different effects in different regions, and that in the period 2008-2009 the new Member States will be abandoning the simplified arrangements and the Commission will be evaluating the implementation of the various decoupling systems. It therefore seems necessary for the strategic follow-up of rural development policy at European level to take the deadlines for the first pillar of the CAP into consideration.

3.4.1 *Text amendment proposed by the Committee: 'Article 13: Annual Commission report*

1. For the first time in 2009 and at the start of each year, the Commission shall present an annual report summarising the main developments, trends and challenges relating to the

implementation of the national strategy plans and the Community strategic guidelines, as well as to the impact of the CAP on rural areas and how these areas are affected by major trends on the international agricultural produce markets.'

3.5 In its own-initiative opinion of 1 July 2004 <sup>(4)</sup>, the Committee considered the Commission's budget proposal to be modest in relation to the stated objectives. The total budget for rural development should be nearly EUR 96 bn for an EU of 25 for the period 2007-2013, compared with EUR 65 bn for the current period (EU-15). While the Commission recognises in the explanatory memorandum to document COM(2004) 490 final that over half the EU population lives in rural areas, the budget allocated to the EAFRD will be equivalent to 28 % of expenditure earmarked for regional policy and 32.5 % of spending on the first pillar of the CAP (allowing for modulation). It is therefore important to prevent the EAFRD from becoming the sole financial instrument for supporting rural areas. This would amount to ghettoising the countryside.

3.5.1 This policy must thus be coordinated more closely with regional policy and human resources development policy (European Social Fund). The Committee therefore questions the need for small-scale rural infrastructure to be supported solely by rural development policy, and for a section on skills acquisition of local staff to be introduced, when this is the responsibility of the ESF.

3.5.2 The Committee unreservedly welcomes the creation of a minimum budget specifically for regions suffering structural underdevelopment (EUR 31 bn). This sum is higher than that granted for the current period (EUR 21 bn).

3.5.3 The budget allocated to LEADER would go up from EUR 2.2 bn to EUR 8.8 bn (7 % of EAFRD and 3 % of the criteria-based reserve); this is the largest percentage funding increase. The Committee welcomes the integration of LEADER as a fully-fledged axis of rural development policy, which will help secure the permanent involvement of civil society in the development of rural areas. Although the method is as important as the objectives, the Committee notes with regret that the objective to implement innovative or pilot actions is no longer given prominence. Finally, the Committee draws the Commission's attention to the real risk that could be posed by too high a financial obligation. It would be regrettable if, given the restricted budget, the LEADER axis were to be under-utilised for administrative reasons or due to the non-availability of local public finances. For this reason, the Committee proposes that the minimum level imposed be lower for all Member States (a minimum level of 4 % would tie in better with current planning). This minimum level does not in any way affect the right of every Member State to push the LEADER approach to the fore.

<sup>(3)</sup> OJ C 302, 7.12.2004, pp. 53-59

<sup>(4)</sup> OJ C 302, 7.12.2004, pp. 53-59

3.5.4 Thus about EUR 50 bn would be left for financing classical rural development measures. This sum will increase by only EUR 8 bn through funds being transferred from the first to the second pillar of the CAP. The Committee therefore asks that funds provided by modulation be allocated only to axes 1 and 2, in order to meet the objective of concomitant adaptation of agriculture. This allocation would in no way prejudice the amounts which each Member State may assign to the various axes when the rural development programmes are adopted. Moreover, the funds provided by modulation should logically meet the principle of cross-compliance defined in Article 10 of Regulation 1782/2003, and cross-compliance can only be applied for activities falling under axes 1 and 2.

*Text amendment proposed by the Committee: 'Article 70: Resources and their distribution*

[...]

6. In addition to the amounts indicated in paragraph 5, the Member States shall take into account for the purpose of programming the amounts resulting from modulation as provided for in Article 12(2) of Regulation (EC) No. .../... [financing of the CAP]. These amounts will be transferred to axes 1 and 2 of Regulation (EC) No. .../... [EAFRD].

3.5.5 The Commission proposes applying a system of penalties for farmers based on the cross-compliance of funds from the first pillar of the CAP as regards Axis 2 measures. As this cross-compliance requirement applies only to farmers, the Committee cannot endorse the Commission's proposal, which aims to make a distinction that is based solely on profession. The Committee reiterates that it is in favour of the principle of equality in the treatment of beneficiaries of public aid.

3.5.6 Financial calculations presented by the Commission estimate that implementation of the NATURA 2000 network will cost EUR 6.1 bn per annum, a large proportion of which will be provided by the EU in the form of co-financing. The Community contribution could be financed by the rural development fund, e.g. expenditure on the compensation to be paid to land owners and land users. The Committee has issued a separate opinion on the Commission's proposal for financing NATURA 2000 <sup>(9)</sup>. The opinion notes that funding NATURA 2000 is a new, additional task that is being assigned to a financing instrument which (contrary to political promises) is being increased very little. It makes it quite clear that the Commission proposal in its present form is only acceptable if:

— the resources needed to implement NATURA 2000 are additional to the sum earmarked for rural development

under the financial perspective (and are not at the expense of existing programmes); and

— these resources are then ringfenced for NATURA 2000 measures (so that they can only be used for this important policy).

3.5.6.1 For this reason, the Committee proposes retaining the measures set out in Articles 36 and 43 regarding compensation for the income forgone as a result of the restrictions imposed by NATURA 2000 status, but deleting the part of Article 53 that concerns support for the operation of the NATURA 2000 network, as this should be covered by a specific programme.

*Text amendment proposed by the Committee: 'Article 53: Protection, upgrading and management of the natural heritage*

The support referred to in Article 49(a)(iv) covers environmental awareness actions; and tourism improvements ~~and the drawing up of protection and management plans relating to NATURA 2000 sites and other places of high natural value.~~

3.6 While welcoming the Commission's acknowledgement of the need to offset the natural handicaps of mountainous regions, the Committee is not convinced by the Commission's proposed solution for areas affected by significant natural handicaps. This entails reducing both the number of eligible areas and the level of Community aid. The Committee points out that natural factors (agriculture, climate, water) must be aggregated when defining areas with a significant natural handicap, as the accumulation of minor natural handicaps really hampers the development of rural areas. For regions that would not be classified as having a significant natural handicap, the Committee also proposes that Community aid be tapered, as provided for with regional policy. This phasing-out programme would make it possible to mitigate the economic disruption for agricultural holdings.

3.6.1 *Text amendment proposed by the Committee (addition of new point 5) of 'Article 37: Agri-environment and animal welfare payments*

[...]

5. A five-year phasing-out period is provided for, with decreasing payments to farmers from any areas that are no longer classified as areas affected by significant natural handicaps as defined in Article 47(3)(a) owing to a change in statistical categories.

<sup>(9)</sup> Opinion CESE 136/2005, rapporteur: Mr Ribbe.

3.7 The Commission's intention (1) not to fix the implementing provisions in the rural development regulation and (2) to apply more flexible financial programming rules should ensure a real improvement in implementing the new regulation. While the Committee supports the principle of setting minimum rates for each axis, it believes that the Commission's proposal is not consistent with its position on this issue. A study has shown current take-up of funds under the rural development regulation to be closely related to the specific features of farming and rural areas of EU countries and regions. The Commission has emphasised that the CAP reform of June 2003 would have varying effects in rural areas. The combined total of the minimum rates for each axis should therefore be less than 50 %, to be consistent with the subsidiarity principle and tie in with the various rural situations in Europe.

3.7.1 *Text amendment proposed by the Committee: 'Article 16: Balance between priorities'*

The Community financial contribution to each of the three objectives referred to in Article 4 shall cover at least ~~15~~10 % of the Fund's total contribution to the programme for priority axis I and III referred to in Sections I and III respectively under Chapter I of Title IV and ~~25~~20 % of the Fund's total contribution to the programme for the priority axis II referred to in Section II of Chapter I.'

3.8 The process of evaluating rural development programmes ensures effective utilisation and more efficient deployment of Community funds. The Committee points out that the objectives of a public policy are set on the basis of future needs and not just according to the results of the various rural development programmes. The administrative simplification proposed by the Commission is thus undermined by imposing a surfeit of evaluation processes and will only have a few direct repercussions for the final beneficiary.

3.9 Moreover, the Committee emphasises that the Commission's proposal does not deal with the issue of simplifying administrative procedures for the final beneficiary. Although this matter is largely discussed in the opinion on *Financing the CAP* <sup>(6)</sup>, the Committee will here summarise its concerns regarding the limited steps to simplify procedures for the final beneficiary. For example, Article 25 of the proposal simplifies conditions for the modernisation of farms by ceasing to make aid for investments in farms conditional on the existence of normal market outlets (type of product, type of investment and expected capacity). However, Article 73 sets a repayment deadline of seven years in cases where the investment undergoes a significant modification. This new rule strengthens monitoring

procedures and thus imposes new economic viability criteria on projects that are in the planning stage. Lastly, the planned deadline would appear to be excessively long given the nature and scope of the financed projects.

3.10 The Committee is pleased that the preparation, management and evaluation of rural development programmes are to be based on the principle of partnership (Article 6), including consultation with the socio-economic partners. The Committee asks that this provision be made mandatory and that all representatives of economic and social groups in rural areas be fully involved in the rural development network at European, national and regional level. By the same token, the Committee would like to take part, as an observer, in the Rural Development Committee provided for in Article 95, and as permitted under Article 7 of Council Decision 1999/468/EC; this would enable organised civil society to be involved at every stage of implementing Community policies.

3.10.1 *Text amendment proposed by the Committee: 'Article 68: European rural development network'*

A European Network for Rural Development for the networking of national networks, representative economic and social organisations, and administrations active in the field of rural development at Community level and the European Economic and Social Committee shall be put in place in accordance with Article 67(1).'

3.10.2 *Text amendment proposed by the Committee: 'Article 69: National rural network'*

Each Member State shall establish a national rural network, which gathers together all the representative economic and social organisations and administrations involved in rural development as well as the institution representing organised civil society.

#### 4. Specific comments

4.1 The Committee stresses the clarification achieved by grouping the 26 measures for rural development into three distinct axes. Nonetheless, some of the Axis 1 and 2 measures could more appropriately be included in Axis 3, as their application will increasingly cover all aspects of the management of rural areas. The Committee therefore proposes that the measures set out in Article 28 (Infrastructure related to the development and adaptation of agriculture and forestry), Article 38 (Non-productive agriculture investments) and Article 46 (Non-productive forestry investments) be placed under Axis 3.

<sup>(6)</sup> Opinion CESE 126/2005, Rapporteur: Mr Kienle

4.2 In its 2001 opinion on young farmers <sup>(7)</sup>, the Committee already stressed the importance of aid to help young farmers to set up and stay in farming. This theme should therefore be one of the priorities of the future strategic plan for rural development, and start-up aid should not be restricted to the single premium proposed by the Commission in Article 21 of the draft regulation. Above all, it is important to ensure that the amounts in question are not reduced.

4.2.1 *Text amendment proposed by the Committee: 'Article 21: Setting-up of young farmers*

(...)

2. The support shall be granted in the form of:

- a single premium up to the maximum amount laid down in Annex I;
- an interest rebate on loans taken out in order to cover the expenses arising from installation. The capitalised value of this rebate may not exceed the amount of the single premium.'

4.2.2 *Text amendment proposed by the Committee: 'Article 23: Use of advisory services*

(...)

c) to help future farmers and potential forest holders to cover the costs arising from the preparation of a business plan for the development of their agricultural and forestry activity.'

4.3 The Committee draws attention to the fact that a difficult agricultural transformation is underway in several new Member States, a process which is far from being completed. For this reason, the condition requiring 10 years' farming activity for support to be granted for early retirement is, in these cases, unreasonably stringent. The Committee proposes a transitional period in which a shorter period of farming activity would be sufficient, with an additional condition requiring work in agriculture for the majority of the applicant's working life.

4.3.1 *Text amendment proposed by the Committee: Article 22: Early Retirement, Section 2, The Transferor — addition of new point d):*

- 'd) In the case of farmers from Member States who joined the European Union on 1 May 2004, a transitional period of ten years applies: carrying out farming activity for the five years preceding transfer along with the applicant having devoted at least half of his working life to farm work as a farm worker during the preceding fifteen years.'

<sup>(7)</sup> EESC opinion on *New economy, knowledge society and rural development: what prospects for young farmers?* Rapporteur: Ms Sanchez Miguel, 17.10.2001; OJ C 36 of 8.2.2002

4.4 The Commission proposes that support given to investments enable improvements in the competitiveness of agricultural activity, or encourage diversification. The Committee wishes to make it clear that support given to an investment should not only be understood in terms of a physical investment. Intangible investments promoting technological progress or involving the transfer of knowledge in the field of product quality, environmental protection and/or improvements should be included in each of the measures concerned (Articles 25, 27, 31 and 50).

4.4.1 The agricultural sector is notable for the low profile of its female workforce, as Commission figures show. Consequently, men remain the chief beneficiaries of direct aid and structural assistance. There is thus a clear need to raise women's profile in the decision-making process. The EU should therefore adopt measures to remedy the situation and facilitate the setting-up of farms managed by women. The Committee asks that this aspect form a specific point of the Community's strategic plan.

4.5 Article 27 deals with investments adding value to primary agricultural and forestry production. It limits eligibility to aid according to the size of the enterprise concerned. The Committee contends that, given the consolidation of economic activity in rural areas, the proposed limitation is too restrictive to offer a real opportunity for the development of economic activity in rural areas. In reality, enterprises such as agricultural cooperatives or agro-food businesses with a turnover of over EUR 10 million and which number more than 50 employees do not necessarily have easier access to loans than small businesses, yet represent an important source of employment.

4.5.1 Nonetheless, the aid allocated under the EAFRD to give added value to primary agricultural production must be restricted to processing activities that bring real added value to primary local and regional agricultural production and which harness local know-how, conditions and traditions, and innovations. In this spirit, the EAFRD must also have a mission to encourage cooperation and dialogue between the different players of the local agro-food and forestry industry.

4.5.2 *Text amendment proposed by the Committee: 'Article 27: Adding value to primary agricultural and forestry production*

(...)

2. Support under paragraph 1 shall be limited to micro-~~and~~ small and medium enterprises within the meaning of Commission recommendation 2003/361/EC, and to associative enterprises set up by producers. In the case of forestry production, support shall be limited to micro-enterprises.'

4.6 The wording of Article 28 does not appear to encompass all operations allowed under the current rural development regulation. The Committee therefore proposes that this article clearly stipulate land consolidation. The practice of land consolidation must take into account respect for the countryside and not only concern agricultural aspects.

4.6.1 *Text amendment proposed by the Committee: 'Article 28: Infrastructure related to the development and adaptation of agriculture and forestry'*

Support provided for in Article 19 (b)(iv), may cover notably land consolidation or operations related to access to farm and forest land, energy supply and water management.'

4.7 The Committee emphasises that the wording, particularly in the French version, does not make it clear whether the measures contained in the proposed legislation are mandatory or not. The Committee therefore proposes modifying the wording of Article 37 on Agri-environment and animal welfare measures, to state that these measures remain mandatory, as is the case under the existing regulation.

4.7.1 *Text amendment proposed by the Committee: 'Article 37: Agri-environment and animal welfare payments'*

1. Member States must make available support provided for in Article 34 (a)(iv) throughout their territories, in accordance with their specific needs.'

4.8 As mentioned in point 3.5, the EAFRD should not represent a default form of financing if other financial instruments are not adapted to rural areas. For this reason, the Committee proposes that points c) and d) be removed from Article 57 on Skills acquisition and animation. The European Social Fund must be able to assist with the training of coordinators and locally elected representatives in charge of local development projects. Furthermore, if the project follows in line with the LEADER procedure, it will be possible to finance part of the local promotional activity.

4.9 The Committee is not in favour of the proposal to implement a criteria-based reserve, as is the case for regional policy, or of allocating it to the LEADER axis. In reality, the implementation of a criteria-based reserve in regional policy has shown that this measure is often considered to be a source of frustration by the Member States rather than a boost. Although the evaluation criteria, as defined in Article 92, remain deliberately wide, the Commission has not explained how this reserve is related to the strategic objectives set out at Community level. Finally, no decision will be reached regarding the allocation of this reserve at Local Group Action level before 2011. This will only leave two years of planning in which to

investigate new projects with not inconsiderable budgets (EUR 2.6 billion) and new national contributions that are not guaranteed at the time of planning. The Committee therefore recommends deleting Article 92, and asks the Commission to pay closer attention to the LEADER approach as part of the Community's strategic plan and the approval phase of the rural development programmes.

4.10 The Committee welcomes the Commission's proposal to set up farm relief services. This measure has proven in the past that it can help to make rural regions more attractive and create jobs. Nonetheless, the maximum period of five years seems to be too short a time for guaranteeing the lasting effect of these services.

4.10.1 *Text amendment proposed by the Committee: 'Article 24: Setting-up of management, replacement and advisory services'*

Support provided for in Article 19 (a) (v) shall be granted in order to cover costs arising from the setting-up and development of management, relief and advisory services. It shall be degressive over a maximum period of five-seven years from setting-up.'

4.11 The promotion of entrepreneurship and the strengthening of the economic fabric outlined in Article 49 must not only concern the creation and development of micro-enterprises but also the take-over of existing enterprises and support with the transfer process. In line with the stances it has taken on enterprise policy, the Committee requests that Article 49 (a)(ii) be amended to read 'support for the creation, take-over and development of micro-enterprises ...'.

4.12 The agri-environment programme helps to generate positive externalities in environmental terms (e.g. reduction of erosion and desertification, improvement in water quality and water saving, improvement of biodiversity by providing shelter for different species). An incentive payment should therefore be provided, based on recognition of externalities.

4.12.1 *Text amendment proposed by the Committee: Article 37(4):*

'4. The payments shall be granted annually and shall cover additional costs and income forgone resulting from the commitment given, together with an incentive payment to provide compensation for the environmental services rendered through the practice of agri-environment measures; where necessary, they may cover also transaction cost.

Where appropriate, the beneficiaries are selected on the basis of calls for tender, applying criteria of economic, environmental and animal welfare efficiency.

Support shall be limited to the maxima laid down in Annex I.'

4.13 In order to support and encourage the creation and take-over of small and micro-enterprises in rural areas and in line with the recitals of the Decision of the Council and of the European Parliament of 12 July 2004 on the MAP, the Committee requests that the Commission and the European Investment Fund implement new measures to promote and develop the use of financial instruments, in particular the SME guarantee facility, by enterprises in rural areas. Furthermore, it requests that the EIF and the Commission examine the possibility of complementarity or additionality between the EAFRD, ESF, ERDF and the EIF instruments with a view to providing increased and simplified support for investments made for the setting-up and take-over of enterprises in rural areas.

4.14 In its proposal, the Commission stresses that measures in the *Land management* axis must encourage farmers and forest holders in particular to employ land-use methods that are compatible with the need to preserve the landscape. The Committee notes that the Commission has not proposed a reassessment of the aid ceilings for agri-environmental measures, which remain the same as for the 1999 proposal.

4.15 The Committee would expect the regulation to state that measures by the Member States and regions to conserve and utilise genetic resources, especially on farm conservation, may also be supported under the EAFRD programme.

## 5. Conclusions

5.1 The Commission's legislative proposal regarding support for rural development is largely in line with the Salzburg conclusions. The Committee has given much attention to this subject and would like to thank the Commission for the level of dialogue that it maintained with the Committee members. Above all, the Committee wishes to emphasise that the EAFRD cannot, by itself, provide a solution to all the problems of rural development. Tie-in with the ERDF and the ESF should be examined further.

5.2 The development of rural areas clearly involves the principle of territorial cohesion. All the same, the Committee emphasises that to ensure the economic and social sustainability of these areas, it is necessary to take into account the contribution of the Common Agricultural Policy's two pillars to the maintenance and creation of employment in all the EU's regions, particularly through the development of competitive agricultural or non-agricultural activity, based on innovation. It is for this reason that the Committee asks the Commission and the Council to include the new directions of the Common Agri-

cultural Policy in the mid-term assessment of the Lisbon strategy.

5.3 The budgetary issue remains at the heart of the questions raised. The Committee believes the Commission's budgetary proposals to be modest and stable (1.24 % of GNI). It is this that has led the Committee to take a critical view of the complete integration of NATURA 2000 into the EAFRD, as this would account for almost one half of the EAFRD budget envelope. At the same time, the tripling of the budget envelope for the LEADER approach is rather surprising given the developments in national contributions. The Committee also points out that the Commission's financial proposal represents a minimum basis for discussion, without which the future rural development policy could not form an effective part of the sustainable development strategy or of the Lisbon strategy for a competitive EU economy with full employment.

5.4 The Committee is also concerned about the repercussions that budgetary discussions may have on the implementation of future rural development policy. In its schedule, the Commission had planned for the rural development programmes to be adopted before the end of 2006 but it could prove difficult in the short term for the Member States to reach an inter-institutional agreement on the financial perspectives. The Committee would therefore like the Commission to present the main points of the Community's strategic plan as soon as possible, even if the regulations are in fact adopted at a much later date.

5.5 The Committee would also like to propose several changes to the Commission, the European Parliament and the Council as regards the policy guidelines arising from the Salzburg conference, such as the maintenance of the link between the 1<sup>st</sup> and 2<sup>nd</sup> pillars of the CAP, the principle of subsidiarity in planning measures, and greater simplification of procedures for the final beneficiary. The Committee therefore asks the Commission to pay particular attention to this, especially during the approval phase of the rural development programmes, by asking Member States what they have done to simplify procedures for the final beneficiary.

5.6 The Committee hopes that it will be closely involved in the decision-making process in the future and during the implementation of this policy in order to give its opinion on the Community's strategic plan and ensure that organised civil society is properly consulted on the development of rural development programmes.

Brussels, 9 March 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 amendment was defeated but obtained at least one quarter of the votes cast:

**Amendment 3**

Delete points 3.5.3 and 3.5.4.

**Result of vote:**

For: 31

Against: 69

Abstentions: 10

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**Opinion of the European Economic and Social Committee on The Social Dimension of Globalisation — the EU's policy contribution on extending the benefits to all**

*(COM(2004) 383 final)*

*(2005/C 234/10)*

On 26 May 2004 the Commission decided to consult the European Economic and Social Committee, under Article 262 of the Treaty establishing the European Community, on The Social Dimension of Globalisation — the EU's policy contribution on extending the benefits to all.

The Section for External Relations, which was responsible for preparing the Committee's work on the subject, adopted its opinion on 15 February 2005. The rapporteurs were Mr Tom Etty and Ms Renate Hornung-Draus.

At its 415th plenary session of 9 and 10 March 2005 (meeting of 9 March), the European Economic and Social Committee adopted the following opinion by 59 votes to 15, with 2 abstentions.

## 1. General comments

The European Economic and Social Committee

1.1 welcomes the Commission's Communication on Social Dimension of Globalisation COM (2004) 383 final — the EU's policy contribution on extending the benefits to all — elaborating on the specific role that the European Union can play in making globalisation a fair process for all;

1.2 believes that the European Union can make a significant contribution to shape the social dimension of globalisation due to its own history and experience of substantial and successful regional integration, while not suggesting that the latter provides for a model which can be followed worldwide in all details;

1.3 takes into account the outcomes of a special hearing organised on 17 December 2004. Experts from the ILO, the World Bank and the IMF were present, to give their perspectives on the role of their respective organisations with regard to the social dimension of globalisation<sup>(1)</sup>. A report from this special sitting as well as the presentations from the speakers will be published by the EESC;

1.4 underlines the importance of a values-based approach to globalisation in terms of those concepts that constitute the essence of a social market economy. Such aspects are individual responsibility, respect for the rule of law, respect for the individual and property, transparency, integrity, human dignity, equality and freedom, fundamental trade union and workers rights, sound industrial relations, general access to education and training, irrespective of gender and a high level of social protection. These underpin the key elements of the EU approach to globalisation:

<sup>(1)</sup> The following experts participated in the hearing :

- Mr Gerry Rodgers, Director Integration, ILO
- Mr Dominique Peccoud, Special Adviser , External relations and Partnerships, ILO
- Ms Haleh Bridi, Special representative to the European Institutions, World Bank Office
- Mr Pierre D'haeseleer, Special representative to the EU, IMF

— solid institutional structures,

— effective public services and services of general interest,

— strong social and civil dialogue,

— investment in human capital, and

— quality of employment;

1.5 agrees with the European Commission that the global market economy has generated many significant benefits and has great productive potential in terms of economic, political and social development and has created more and better jobs; accepting also the findings of the World Commission on the Social Dimension of Globalisation (WCSDG) that market-opening measures and financial and economic considerations have predominated, neglecting their social consequences so far and that these rules and policies are the outcome of a system of global governance insufficiently responsive to the interests and needs of the less powerful players;

1.6 refers to the recent study of the World Bank<sup>(2)</sup> which shows that the opening of markets and economic integration have contributed to substantial economic progress for developing countries that have managed to enter global manufacture and service markets. In combination with another World Bank study of February 2003, which relates the reduction of income inequalities and wage discrimination as well as improved economic performance to high unionisation rates and sound industrial relations<sup>(3)</sup>, this study underlines the case for a balance between economic and social values which the WCSDG is making when addressing the issue of poverty in a globalising world;

<sup>(2)</sup> Globalisation, Growth and Poverty: Building an Inclusive World Economy, World Bank, Washington, 2002

<sup>(3)</sup> Unions and Collective Bargaining. Economic effects in a global environment, World Bank, Washington, 2003

1.7 states that although globalisation has generated many positive effects, poverty which can be directly linked with the increase of the informal economy both as a cause and a result of it, remains one of the most serious challenges in the world;

1.8 states that problems in regard to poverty remain particularly present where countries are excluded from globalisation: the two billion people below the poverty line worldwide live mainly in countries that do not participate actively in globalisation and risk remaining marginalised from the world economy;

1.9 affirms that also developing countries which can be classified as emerging market economies with high economic growth have problems and that poverty can only be combated, when inequalities are reduced and a competitive formal economy and effective social policies are put in place;

1.10 endorses one of the key messages of the WCDG report, that the starting point for change is the national level: social development must be a bottom-up approach and all institutions — national and local — have an extremely important function in facilitating integration and ensuring that more people can share the benefits of globalisation and will be protected from its negative effects. It is of crucial importance for a fair sharing of the fruits of globalisation that social and civil dialogue based on strong, representative, independent and responsible actors is developed in all countries and regions;

1.11 good local, national, regional, and global governance, based on the Universal Declaration of Human Rights, and the ILO Core labour standards as well as the Declaration on fundamental principles and rights at work is an important basis for trade liberalisation, global growth and development. The EESC supports the EU in encouraging a discussion at the international level on establishing a basis for world wide environmental standards.

## 2. Specific comments: the EU-policy contribution

2.1 The EESC believes that the EU can play a key role in supporting and promoting the social dimension of globalisation. It can actively engage in and pursue a policy which can convince governments of the necessity of an equitable legal and judicial framework, of respect for property rights, of cost-effective dispute resolution and contract enforcement, of access to education and training, of appropriately regulated financial institutions and access to them, of an equitable tax system and of the recognition of the central role of human development. The pursuit of these goals should, however, not lead to growth of trade with no impact (or even a negative impact) on sustainable development, to liberalisation of financial markets not accompanied by balanced fiscal and social regulation, to unfair conditions governing structural adjustments and restructuring

in employment, education and health, and to growing inequalities in all countries, including the industrialised. If the EU wants to play that role effectively, however, the Commission as well as the Member States will have to look carefully at their own policy coherence in relevant areas.

2.2 The European Commission has developed a number of tools which are in the view of the EESC suitable to achieve progress in the social dimension of globalisation. Such tools are the bilateral and regional agreements, development and external cooperation, trade policy, market access for developing countries, promotion of private initiatives for social development, and the promotion of governance at the global level. The Committee refers to the latest Opinions it has delivered on all of these instruments (see appendix 2). While the Committee shares the views of the Commission on the potential of these instruments, it wishes to put on record its preference for multilateral agreements. The EESC stresses that the EU should continue to put incentives in place to further promote south-south trade.

2.3 Bilateral and regional agreements can help to drive development in the field of good governance, the rule of law, human rights and democratisation. The EESC supports the negotiation of bilateral/regional agreements between the EU and its trading partners provided they are based on political and economic, social and environmental considerations and that they build on and/or complement the multilateral trading system. Priority should be given to achievable agreements, which promise a large volume of trade and significant market access benefits (goods, services and investment). All such agreements should comply fully with WTO provisions. The EESC underlines the importance of discussing and monitoring these agreements with regard to their impact on the social dimension and welcomes the idea of inviting international organisations such as the ILO to participate in such a process.

2.3.1 In this connection the Committee notes with interest the Commission's intention to set up new joint mechanisms in bilateral agreements to discuss and monitor relevant aspects for the social dimension of globalisation in which other international organisations could be invited to participate ('Joint bilateral observatories'). Instruments like these can effectively demonstrate the responsible role of free and independent social partners as well as other relevant civil society organisations, like farmers' organisations, consumers and environmental associations etc. and the EESC which is incorporating them sees a role for itself in them, drawing on its experience in organising civil society partnerships across borders including in developing countries, particularly in the context of Mercosur, ACP and Euromed<sup>(4)</sup>.

<sup>(4)</sup> The EESC has a structure of follow-up groups, Joint consultative committees, a Round Table and contact groups with different geographical regions of the world.

2.4 The EESC is of the opinion that special emphasis should be given to the 'European Neighbourhood Policy' — it believes that this approach to enhance the relations with the eastern and southern neighbouring countries of the EU can contribute significantly to social development in these countries, if regional development, employment and social policy are part of such cooperation. Experience from cooperation with candidate Member States in pre-enlargement periods of the EU have shown certain positive effects in accession countries.

2.5 The promotion of human rights (including employers' as well as workers' and trade union rights as established in ILO Conventions 87 and 98) and democratisation in third countries are fundamental issues in order to bring forward development and democracy. There exists a strong linkage between good governance, including the fight against corruption, the rule of law, the protection of human rights and fundamental freedoms and the quality of justice. In this context the EESC recalls that human rights' treaties are agreements between states. The obligations they create lie with states in the first instance. The European Commission should encourage Member States to fully respect these obligations and engage within the international dialogue to increase awareness of the duties of the states and remind them of their respective responsibilities for social development. Once implemented in national legislation or other relevant national regulations, international norms become binding on private legal entities, i.e. on citizens and companies.

2.6 These priorities should also apply for external cooperation and development assistance: that change starts at the national level is one of the key messages of the WCSDG. The EESC believes that it is important to focus on single issues within a coherent overall development policy.

2.6.1 Such a priority issue could be decent work<sup>(3)</sup>, which should include the development of an integrated employment policy to generate productive, sustainable employment, to match the skills of people to current and emerging job requirements and to improve working conditions, and raise living standards. Such policies should lead to more productive and better jobs in the economy, move the unemployed into employment, and focus public and private investment as well as international assistance in the most productive areas.

2.6.2 Education should be another field of priority: matching education to labour market needs and providing people with the requisite basic knowledge and skills. Business has a crucial role to play in helping to shape, in a setting that involves social partners and governments, policies and to provide insight into what are the probable skills requirements of the economy in the short, medium and long term.

2.6.3 Finally, the protection of social economy organisations like e.g. cooperatives, which combine the market approach and social considerations and which act as generators of both economic and social wealth, should be a priority in cooperation with and assistance to developing countries.

2.7 Migration policies which respond to changing patterns and current realities in the labour market need to be devised, in a rights-based multilateral framework, taking into consideration the International Convention of the United Nations on the Protection of the rights of all migrant workers and members of their families, as well as the linkages between economic, social, political, trade, labour, health, cultural, security and foreign policies and development aspects. The EESC shares the opinion of the United Nations secretary-general, who stated at a meeting with the European Parliament in January 2004 that 'only through cooperation — bilateral, regional and global — can we build the partnerships between receiver and sender countries that are in the interests of both; explore innovations to make migration a driver of development; fight smugglers and traffickers effectively; and agree on common standards for the treatment of immigrants and the management of migration'.

2.8 International trade is increasingly important to all economies and can be key to alleviating poverty. The lesson from some of those developing countries that have developed competitiveness in manufacturing is that a pro-active export-led strategy through developing comparative advantages on the basis of quality and not of low wages is vital for building up new export capabilities. However, in order to succeed there has to be a parallel process of strategic integration into the world economy geared to supporting national development priorities, including local development initiatives which are particularly important and which therefore should be promoted. This process must have a social dimension. In this context, special attention should be paid to cases of exploitation of (women) workers in a majority of Export Processing Zones (EPZ). The EESC thinks that a coordinated effort should be made by relevant international organisations to put an end to the abuses of workers' rights in these EPZ. The European Commission as well as the EU member states should actively support such efforts.

2.9 EU trade/investment and development policies should be fully supportive of and integrated into EU global policy objectives. The EESC is in favour of the objectives of the EU Generalised System of Preferences (GSP) but raises the question whether the incentive arrangements (environmental, social and anti-drug regime) included in it impose too much bureaucracy on the importer and thus are not extensively used by those poor countries and small companies which are supposed to be the main beneficiaries. The EESC encourages the European Commission to focus on the promotion of ratification as well as implementation in law and practice of the ILO core labour standards by the beneficiary countries and to include in the

<sup>(3)</sup> Cf.: 'Decent work', ILO

2005 review measures of how to maximise the benefits of this to recipients. The review should be done with the full involvement of the social partners and other relevant civil society organisations.

2.10 With regard to the OECD Guidelines for Multinational Enterprises the EESC recommends that the European Commission initiate an awareness-raising campaign in order to make this important and useful instrument better known to companies and their European Works Councils. Its non-binding character should be maintained, but governments which are party to it should continue to promote the Guidelines and the adherence of multinational companies to them. Efforts should be made to prevent that a linkage to trade agreements with third states might be interpreted as a new form of protectionism. The Commission should support OECD efforts to promote the respect by non-OECD members of the Guidelines. The same considerations apply to the ILO Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy.

2.11 With regard to the promotion of private and voluntary initiatives for social development, the EESC believes that business can play a supporting role in bringing social development forward. Corporate Social Responsibility (CSR) as a concept describes how national and multinational companies transpose the concept of sustainability into their business practices. The EESC in this context refers to its opinion on the Green Paper Promoting a European framework for Corporate Social Responsibility (CES 355/2002). Corporate Social Responsibility is not just about creating and safeguarding employment; it is about developing better jobs with adequate health and safety at work, taking needs of people with disabilities into account and promoting a culture of lifelong learning. Socially responsible behaviour means companies applying existing social rules in a committed way and endeavouring to build up a spirit of partnership with relevant stakeholders.

2.12 The improvement of governance at the national and at global level is another key message of the WCDG-report. As regards the global level, the EESC agrees that it is of crucial importance to strengthen the multilateral system of international organisations. The key to governance at global level is greater and more policy coordination between the organisations. It needs to be more effective, better resourced, more reactive and responsive, avoiding duplication and mismanagement. Within the decision-making bodies of the international organisations the Member States of the EU should urgently insist on bringing this process forward. It should be observed that, if it comes to coordination and coherence, the role of the Member States is at least as important as the Commission's. More recommendations in this respect in the Communication would have been welcome. The interplay between Commission and Member States should receive adequate attention in the development of policies in the relevant international fora. It is crucial that the EU pulls its full weight in international governance. The member states must strengthen cooperation, improve the preparation of their proposals and activities in international institutions, and coordinate their positions.

### 3. Conclusions and recommendations: The way forward

3.1 The EESC believes that there is an internal and an external dimension for the EU in bringing forward the social dimension of globalisation.

3.2 The **internal dimension** lies in the ability of the EU to deal with structural reforms: the EESC believes that the success of the Lisbon Strategy is key for the success of a specific EU-policy contribution to the social dimension of globalisation. Only when the Member States succeed in implementing the necessary structural reforms by mutually reinforcing economic development, employment and social policy, as well as in realising economic and social cohesion, can the European Union serve as a benchmark for the global level. The EU must continue its efforts to overcome protectionist tendencies in today's EU trade policy in particular, but non-exclusively, as regards agriculture, especially processed products, and should generally pave the way for a trade policy without export subsidies. Furthermore the European Union and its Member States must take an active stance with decisive reforms on the challenges of demographic ageing and persistent high unemployment. In order to stimulate a sustainable increase in the level of employment, reforms in social protection and insurance systems are essential to increase the incentive to work and reduce non-wage labour costs. Flexible working arrangements are just as important as adequate protection for people working under those arrangements and as investments in human capital. Furthermore, new active economic migration policies should be drawn up, as called for at the Thessaloniki European Council and proposed by the Commission and the EESC. All these reforms have to be worked out carefully in cooperation with employers and trade unions.

3.3 The EESC refers to the recent Global Competitiveness Report 2003–2004 of the World Economic Forum, which states a notable good performance by the Scandinavian countries. These are countries which on the one hand have a strong tradition in social market economy but which at the same time have succeeded in implementing the structural reforms, which are vital for maintaining the basic principles of social market economy. This proves that the European social model can provide a basis for successful structural reforms.

3.4 The **external dimension** is that the EU should play a leading role in underlining the importance of multilateralism and global governance. The key issues are to strengthen the system of international organisations within the UN-system and to push for a more coherent policy between these organisations and with the Bretton Woods' institutions and the WTO. The EU should especially engage in strengthening the existing standards for social development, such as the ILO core labour standards, decent work as a global goal, and the UN human rights' Covenants. It should work towards the implementation of these standards in the UN-member states, in law as well as in practice. It should secure better integration of the social dimension and decent work in its programmes for external cooperation. EU Member States should increase their development assistance.

3.5 In this context the EU has a role to play in promoting forms of formal representation and consultation of employers' organisations, trade unions, and other relevant civil society organisations in international financial and trade organisations such as the IMF, the World Bank and the WTO. The OECD can provide these institutions with an example, which has proven its usefulness for many years.

3.6 The Commission and the Member States should, in close cooperation, give serious consideration to the proposal of the WCDG of establishing an Economic and Social Security Council. This is one of its major suggestions for providing real leadership at the global level because it sees a need for balancing economic and social policies in a coherent way in order to achieve agreed objectives. They should also pay appropriate attention to any serious efforts to reform and strengthen the UN ECOSOC's potential, and yet not materialised, role in global policy coordination in the economic and social field. If ECOSOC's position would indeed be upgraded, the EESC will explore ways and means to make the voice of Europe's organised civil society better heard through ECOSOC within the UN-system.

3.7 The European Commission and the Council of Ministers should take the message of the WCDG that decent work is an essential instrument to eradicate poverty. They should promote decent work as a global goal to be considered by the United Nations in its review of the Millennium Declaration and the Millennium Development Goals.

3.8 One of the strongest messages of the WCDG is the urgent appeal to Governments to coordinate and formulate coherent policies in and between the international financial institutions (IFIs), the WTO and the ILO. A pre-condition for such cooperation and coherence is that the same exercise is undertaken by governments at the national level. They should put an end to the current practice that the representatives in the IMF receive their instructions predominately from Finance ministries, in the WTO from Trade or Economic Affairs ministries, and in the ILO from the ministries of Labour, Social affairs and Employment. The EESC strongly suggests that the Commission, as well as the Council of Ministers, consider the idea that governments of Member States which have an Economic and Social Council, request an opinion of their respective Councils on ways and means to realise this cooperation and coherence at the national level. Governments of Member States, which do not have an Economic and Social Council, could solicit the views of the most representative employers' organisations and trade unions

in their countries, or use existing consultation machinery in which civil society participated in the preparation of the UN Social Summit and the Social Summit +5 exercise.

3.9 The Commission, in close cooperation with the Member States, might go a step further in the promotion of more effective dialogue between the ILO and the WTO (and, for that matter, the ILO and the IMF, and the ILO and the World Bank) than it proposes in sections 5.5 of the Communication. The WTO (which has so far been very resistant to the idea to pay attention to the social dimension of the policies within their mandate), the IMF and the World Bank might, on the basis of a mandate given by their Member States, establish coordination bodies with the ILO in which the inclusion of a social dimension in their work, as well as the monitoring of the development, could be secured. For instance with the expiration of the WTO's Agreement on Textiles and Clothing (ATC) at the end of 2004, many textiles exporting countries face acute adjustment problems and major job losses. Given the cross-cutting nature of the issue, it provides an evident area for a Policy Coherence Initiative to be undertaken, which should involve all the agencies concerned — the WTO, World Bank, IMF, ILO and other relevant UN agencies — in anticipating the social and economic impact and recommending measures to be taken by the governments that stand to be affected, backed by international assistance.

3.10 The EU should continue to encourage the inclusion of core labour standards as a point of reference in the periodic trade policy reviews of WTO Member States, based on its own example of October 2004. The EESC thinks that it would be appropriate to be represented on the Commission's delegation to such a future trade policy review. The Commission could also stimulate its main trading partners to engage in this sort of trade policy reviews.

3.11 The EESC thinks that, while the idea of the WCDG of establishing a UN Globalisation Policy Forum comprising the agencies of the multilateral system and other organisations, groups and individuals concerned with the social dimension of globalisation is interesting, it might be too ambitious a project under the prevailing conditions. When Governments have seriously started to coordinate and increase the coherence of their policies in the IFIs, the WTO and the ILO and when on the basis of that a start has been made with better cooperation between these international institutions, the time will be ripe to consider this proposal seriously.

Brussels, 9 March 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 creating the Youth in Action programme for the period 2007-2013**

(COM (2004) 471 final — 2004/0152 (COD))

(2005/C 234/11)

**Procedure**

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 proposal.

The Section for Employment, Social Affairs and Citizenship, which was responsible for preparing the Committee's work on the subject, adopted its opinion on 18 February 2005. The rapporteur was **Mr Rodríguez García-Caro**.

At its 415<sup>th</sup> plenary session, held on 9 and 10 March 2005 (meeting of 10 March), the European Economic and Social Committee adopted the following opinion by 196 votes to none, with three abstentions:

**1. Introduction**

1.1 Since 1988, through the successive phases of the Youth for Europe programme, the European Voluntary Service for Young People programme and the current YOUTH programme (which includes the actions of its predecessors), the European Union has initiated a series of measures to implement Article 149(2) TEC, which states that 'Community action shall be aimed ... at encouraging the development of youth exchanges and of exchanges of socio-educational instructors'.

1.2 The various specific youth-oriented programmes adopted have been — and continue to be — much appreciated, and their actions have seen a high level of participation from target populations. These programmes have enabled Member States to focus their efforts on those initiatives that enable their young citizens to strengthen links and acquire experience and knowledge through exchanges between the different participating countries. These exchanges are not connected to labour or educational issues.

1.3 The importance assigned to EU citizenship in Articles 17 to 22 TEC underpins the role that the programme must play in the near future. This focuses on promoting the active citizenship of young people and strengthening their sense of belonging to Europe.

1.4 The first two phases of the Youth for Europe programme dealt essentially with two main types of action: direct support for youth projects involving exchanges and mobility of young people between participating countries, and study and in-service training visits for youth workers.

The third phase, from 1995 to 1999, extended the exchange and mobility measures to third countries and continued the actions geared towards youth workers. It also introduced actions to promote youth-oriented activities, boost cooperation between Member States in terms of youth policies and information campaigns targeting young people, and encourage research into youth-related issues.

1.5 The European Voluntary Service for Young People programme (which ran from 1998 to 2002) opened up youth initiatives to include specific volunteer and solidarity activities, as part of the policy for cooperation in the youth field. The aim was to boost young people's involvement, encourage enterprise and initiative and promote the European ideal.

1.6 Lastly, the YOUTH programme, in force until 2006, encompasses the previous programmes in the youth field, revitalising and modernising them in the light of the new challenges. As well as maintaining the cooperation and mobility initiatives, it includes other concrete actions to support innovative, creative projects set up by young people.

1.7 In recent times, the Council of Ministers and European Councils have, on several occasions, clearly emphasised the need to ensure the continuity of the current programme. The European Parliament has also been actively involved, calling on the Commission to draw up a programme to replace the current one, in order to cater for the growing needs in the field of youth policy.

Likewise, the Treaty establishing a Constitution for Europe builds on the provisions of Article 149 TEC, stating that Community action should aim to encourage the participation of young people in democratic life in Europe.

1.8 In addition to the above reasons (which themselves justify the extension of measures aimed at young people), both the interim evaluation of the current programme and the public consultation launched by the Commission have revealed the need to maintain a specific programme that will sustain actions and promote young people's European identity and active citizenship.

1.9 Together, these aspects have led to the presentation of the Youth in Action programme for 2007-2013; under Article 149(4) TEC, the Committee's opinion is sought on the programme.

## 2. Content of the proposal

### 2.1 Broadly, the programme aims to:

- promote the active participation of young people in civil society;
- foster the values of tolerance, solidarity and intercultural dialogue among young people;
- encourage European citizenship.

### 2.2 The programme's general objectives, which correspond to the actions it comprises, are as follows:

- to promote young people's active citizenship in general and their European citizenship in particular;
- to develop solidarity among young people, in particular in order to reinforce social cohesion in the European Union;
- to foster mutual understanding between peoples through young people;
- to contribute to developing the quality of support systems for youth activities and the capabilities of civil society organisations in the youth field;
- to promote European cooperation in youth policies.

### 2.3 The actions of the programme (which refer clearly to each of the general objectives mentioned above) and the measures that these comprise are as follows:

- Youth for Europe
  - youth exchanges;
  - support for young people's initiatives;
  - participative democracy projects.
- European Voluntary Service.
  - European Voluntary Service (individual);
  - European Voluntary Service (groups);
  - cooperation between civil or volunteer services.
- Youth of the World
  - cooperation with the neighbouring countries of the enlarged Europe;
  - cooperation with other countries.
- Youth workers and support systems
  - support for bodies active at European level in the field of youth;
  - support for the European Youth Forum;
  - training and networking of youth workers;
  - projects encouraging innovation and quality;
  - information activities for young people and youth workers;
  - associations;
  - support for the structures of the programme;
  - adding to the value of the programme.

### — Support for policy cooperation

- meetings of young people and those responsible for youth policy;
- support for activities to improve knowledge of youth;
- cooperation with international organisations.

2.4 The programme, scheduled for 2007-2013 and with a budget of EUR 915 million, is aimed at young people aged between 13 and 30.

## 3. Comments on the Proposal

3.1 The Committee has consistently supported previous youth-oriented programmes. It therefore welcomes the current proposal for a decision on the whole, and is pleased that Community action in this area is to be continued.

Since 1986, the Committee has supported this type of action, putting forward views and observations aimed at improving the content of the actions. The following opinions have been issued by the Committee:

- Opinion on the Proposal for a Council Decision creating the Youth for Europe programme. <sup>(1)</sup>
- Opinion on the Proposal for a Council Decision adopting the Youth for Europe programme (2<sup>nd</sup> phase). <sup>(2)</sup>
- Opinion on the Proposal for a European Parliament and Council Decision adopting the Youth for Europe programme (3<sup>rd</sup> phase). <sup>(3)</sup>
- Opinion on the Proposal for a European Parliament and Council Decision establishing the European Voluntary Service for Young People programme <sup>(4)</sup>.
- Opinion on the Proposal for a European Parliament and Council Decision establishing the programme for Youth <sup>(5)</sup>.
- Opinion on the Proposal for a European Parliament and Council Decision establishing a programme to promote bodies active at European level in the field of youth <sup>(6)</sup>.

3.2 The Committee is encouraged to note that the text of the proposal includes recommendations expressed in its own-initiative Opinion on the *White paper: youth policy* <sup>(7)</sup>. As an integral part of European civil society, the Committee acts as a channel of communication between civil society and the European institutions, bringing its experience and knowledge to bear on all actions benefiting EU citizens.

<sup>(1)</sup> CES 769/1986

<sup>(2)</sup> OJ C 159 of 17.06.1991

<sup>(3)</sup> OJ C 148 of 30.05.1994

<sup>(4)</sup> OJ C 158 of 26.05.1997

<sup>(5)</sup> OJ C 410 of 30.12.1998

<sup>(6)</sup> OJ C 10 of 14.01.2004

<sup>(7)</sup> OJ C 116 of 20.04.2001

3.3 The fact that the actions established by the previous youth programmes are being continued makes it clear that, independently of the objectives set out in these programmes, the actions are still useful and worth continuing.

However, while the need for the proposal and all its positive points are acknowledged, the Committee considers that, overall, it is more of an extension of the current programme's actions than an initiative comprising innovative measures to further the programme's main objective, i.e. to promote young people's active citizenship and their sense of belonging to Europe. The Committee considers that support should be given to new measures in some of the Programme's actions, such as promoting projects for participatory democracy (contained in Action 1) and specifically to measures for organising dialogue between decision-makers and young people, setting up youth parliaments or projects for raising awareness about active citizenship.

Although the main aim stated above still applies, it is important that the programme be consistent with the concept of life-long and life-wide learning, including learning acquired through experience. The non-formal education received by young people through the programme will be complementary to other forms of education and learning, as supported through other EU programmes.

3.4 The Committee would like the following to be added as a new measure under the Action entitled 'Support for Policy Cooperation':

Thematic seminars, conferences, study visits, feasibility visits organised by youth organisations targeting young people on various subject matters of European interest.

3.5 The budget for the actions set out in the programme is EUR 915 m. over seven years. This sum comes close to the EUR 1 bn. that the Committee deemed necessary for the YOUTH programme for the period 2000-2006. In effect, the budget is being increased from the EUR 657 m. or so earmarked for the YOUTH programme to EUR 915 m. for the Youth in Action programme.

This positive fact warrants two comments. Firstly, the YOUTH budget covers a period of five years, while the Youth in Action programme will cover seven years. Secondly, the population group targeted by the current programme comprises 50 million young people, while the future programme will be aimed at 75 million.

This means that EUR 12 continue to be allocated per young person, which falls short of the EUR 20 recommended by this Committee in its opinion on the YOUTH programme<sup>(8)</sup>. Clearly, therefore, the budget allocation is still insufficient.

3.6 The Committee wishes to highlight one of the recommendations made in the proposal resulting from the interim evaluation of the YOUTH programme. Specifically, the Committee strongly agrees that the new programme, aimed at all youth sectors, should focus particularly on young people with fewer opportunities, in the widest sense of the word. In this context it is also very important to ensure that resources are distributed equally between young women and young men. The Committee reiterates the support that it has shown for these groups of young people ever since its first opinions were issued in the field of youth. It also wishes to have precise information on the actual level of participation in this programme for young people who have the fewest opportunities.

3.7 Also as a result of the recommendations made in the wake of the interim evaluation of the YOUTH Programme, the Committee believes that the profile of the new Youth in Action programme should be raised to ensure that effective information about the programme and its actions reaches as many young people and associations as possible. The Committee believes that this information should be readily available in all educational establishments, employment agencies, sports clubs and federations, and in any other institution or organisation where large numbers of young people are to be found.

3.8 Fostering the concept of European citizenship and encouraging a sense of belonging to a European Union that is steadily gaining in substance are objectives which we all support. Community action is geared towards this goal, and one of its specific areas of activity is covered in the proposal under consideration.

In the communication entitled *Making citizenship Work: fostering European culture and diversity through programmes for Youth, Culture, Audiovisual and Civic Participation*<sup>(9)</sup>, the Commission highlights the need for European citizens to have the opportunity to feel that they belong to the EU, but it also states that, in fact, many citizens experience the Union as a distant and remote political and economic entity.

The Committee believes that actions of this kind are needed to encourage a sense of citizenship and belonging to the EU. However, it also believes that the institutions and Member States must assess their own responsibility for not meeting these objectives fully, and for the fact that the EU is seen by many as a collection of governmental economic interests that occasionally come up for discussion.

3.9 Fostering values based on tolerance, solidarity, mutual understanding and dialogue with other cultures and between generations is an objective that must be supported strongly and unreservedly. These values are explicitly included in the proposal and the Committee is in favour of seeking to achieve them.

<sup>(8)</sup> OJ C 410 of 30.12.1998

<sup>(9)</sup> COM (2004) 154 final.

Given that the programme is specifically aimed at young people and certain age groups in particular (adolescents) and young adults who have the fewest opportunities, the Committee considers that the proposal should place specific emphasis on certain equally important values that are not covered by the current text. These values, which are essential in order for young people to play an integral and active part in society, are to do with responsibility, the satisfaction of a job well done, compliance with social norms, and so on. In an advanced society where citizens are clearly informed of their rights, it is also important to seize every opportunity to communicate these values to citizens, particularly young people. The Youth in Action programme could be an instrument for fostering these values.

3.10 The significant linguistic diversity of the EU is further evidence of its cultural wealth. The Committee regularly stresses the importance of language learning in order to enhance knowledge and understanding among the citizens of the EU.

The Committee believes that the Youth in Action programme should also help to promote language learning, as a reference to this is included in its general and specific objectives.

The Committee proposes that linguistic diversity be mentioned in Article 2(3) of the proposal, together with Europe's cultural and multicultural diversity.

Objective 1 d) of Article 3 should therefore be worded as follows: 'fostering intercultural and language learning among young people.'

3.11 One of the more important aspects of the programme, as regards the transmission of values to young people, is the European Voluntary Service initiative. Since it was set up as a specific programme in 1998, it has been a valuable tool for promoting solidarity among young people and enriching personal development. The Committee therefore supports the wide variety of fields of action covered by this initiative, and is again pleased to note the Commission's sensitivity to the Committee's previous recommendations on the subject.

3.12 To the Committee, the funding earmarked for this action (the amount allocated in the financial statement appended to the proposal) seems extremely high, given that only a relatively small number of young people participate in it. On the other hand, feedback from some Member States suggests that the interest of young people in voluntary work exceeds the capacity of organisations. This may have to do with the application requirements for this action and its effectiveness. In this context, the Committee therefore believes that Action 1, Youth for Europe, is more likely to generate participation and thus have a greater effect on young people with fewer opportunities, and therefore feels it is necessary to assess the extent to which the budget distribution between the individual actions reflects demand. At the same time, options for boosting the effectiveness of each action should be considered.

3.13 'Youth policy should seek to involve young people at all stages in the decision-making process in order both to benefit from their first-hand experience and to motivate them as active and responsible citizens'. This sentence, which forms part of the recommendations of the own-initiative Opinion on the *White Paper: youth policy*,<sup>(10)</sup> defines the aims that could serve as the frame of reference for the programme. Insofar as the programme follows this guideline, it will bring together the two basic principles set out in its objectives: citizenship and participation.

3.14 Outsourcing a high proportion of the programme's activities means that additional efforts will be required to ensure consistency and transparency. The Committee appreciates the need to keep management close to ordinary people, but it believes that the Commission should remain involved in the decision-making process when it comes to selecting the organisations eligible for funding from the programme.

3.15 Large-scale devolved implementation of the programme at national, regional and local level, with the extensive participation of organisations and individuals, will require maximum stringency, transparency and visibility to ensure that public funds are properly used.

3.16 In this process of selecting organisations and allocating funds to the projects they propose, vigilance is required of the Community institutions and competent institutions in participating countries to make sure that funds from the Youth in Action programme are not used to finance any association or organisation which tolerates or harbours — whether by design or omission — any intolerant, violent, racist or xenophobic attitudes. To this end, the organisations responsible for selecting and approving projects, both at Community level and within Member States, should identify organisations with such a history and exclude them from any selection process.

In selecting organisations eligible for Community funding, it must also be ensured that such organisations are genuinely representative and have a certain number of members.

3.17 The Committee agrees with the statement in the text of the proposal that its European added value is directly linked to the nature of the actions, i.e. promoting collaboration between States in order to allow young people to move between different countries. Countries could not achieve this by themselves. It is therefore paramount that all the participating countries take into consideration the provisions of Article 6(5) of the proposal, and take every possible step to eliminate any remaining obstacles to mobility.

The Committee has commented on this aspect on a number of occasions, in opinions on other phases of this programme and on problems related to mobility<sup>(11)</sup>.

<sup>(10)</sup> OJ C 116 of 20.04.2001

<sup>(11)</sup> OJ C 133 of 28.4.1997 - Opinion on the *Green Paper on education, training and research: obstacles to cross-frontier mobility*  
OJ C 149 of 21.6.2002 - Opinion on the proposal for a European Parliament and Council directive on the right of citizens of the Union and their family members to move and reside freely within the territory of the Member States.

In these opinions, the Committee has strongly emphasised the need to accelerate initiatives to make it possible for citizens, particularly young people, to participate in the programme, without being hampered by bureaucratic problems that restrict its accessibility and which should have been ironed out by the Member States.

3.18 The extension of the age range of participants, by reducing the lower age limit to 13 and increasing the upper limit to 30, is a noteworthy achievement that is in line with previous recommendations of this Committee. This means opening up the programme to a large section of the population, with 75 million potential participants. The Committee considers that a study should be drawn up to give a clearer picture of this age group (unprecedented in history not only in its diversity, but also in its unity) and thereby underpin the youth programme in the European Union, especially if the latter wishes to follow the recommendations of the High-Level Group on 'the future of social policy', which seek to change the generational pact.

However, the Committee reiterates its suggestion to extend the age for participating in exchange initiatives to 11: although this age group can be considered as pre-adolescent, there is no doubt that learning and the transmission of values are absorbed in specific ways when they take place at an earlier age. This participation should always take place as part of a properly organised scheme and never on an individual basis.

3.19 Article 15 of the proposal for a decision calls for the mandatory interim and *ex post* evaluation of the programme. As regards the interim evaluation, the Committee believes that one of the important aspects to be evaluated is the programme's impact in the various participating countries. Having assessed its impact, we could then concentrate on raising awareness of the programme in those countries where participation in the Youth in Action initiatives is low. Thus we could try to weight the distribution of funds, so that they are not concentrated in structurally strong areas with extensive experience of developing this type of action, at the same time helping to transfer this experience to regions with lower levels of participation in the programme's actions.

3.20 As already noted in this opinion, the Youth in Action programme builds on the actions of previous programmes in

the youth field. Therefore, the social partners must participate in the initial preparation and subsequent assessment work, and youth organisations must be involved in implementing some of the programme's actions, particularly those which involve unpaid work. This will help avoid potential distortions of the labour market and prevent voluntary work from being used as a substitute for paid work, especially skilled work.

3.21 Moreover, the Committee stresses the need for increased collaboration between the social partners and youth or youth-oriented organisations, as regards the measures to support youth initiatives under the Youth for Europe programme. The experience of our organisations can serve as a strong stimulus for initiative, enterprise and creativity among young Europeans.

3.22 The Committee welcomes the inclusion of measures to support youth associations as a means of encouraging young people's involvement in civil society. It therefore feels that particular emphasis should be placed on promoting such associations in places and among groups of young people poorly served by existing organisations.

In relation to the financial provisions included in the statement accompanying the proposal, the Committee is dissatisfied with the reduction in the budget earmarked for organisations active at European level in the field of youth. The Committee believes that to remain consistent with the objectives of the new programme, the proportion allocated to this action must not drop below the levels in the YOUTH programme.

3.23 The Committee welcomes the new initiative launched by the Heads of State and Government of France, Germany, Spain and Sweden to sign a Pact for European Youth as part of the Lisbon Strategy, in order to develop new ways of involving young people in politics.

The Committee believes that the pact should be seen as a means of obtaining results in fields such as employment, social inclusion and education, in the European Union's youth policy and the Youth in Action programme, and as a new issue on the European Youth Policy agenda.

Brussels, 10 March 2005.

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

## APPENDIX

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

The following amendment, though rejected, received at least one-quarter of the votes cast:

**New point 3.14**

The Commission should make sure that the work of National Agencies administrating the Youth programme is coordinated in such a way that the decentralisation of its implementation in Member States does not create new barriers for the access to this programme.

The work and practices of National Agencies should be monitored and evaluated by a Committee composed of European Commission officials and relevant social partners in the course of implementation of the new Youth in Action programme.

**Reason**

The Youth in Action programme proposal is much more decentralised than the current Youth programme. In the course of implementation national youth agencies of the countries participating in the programme play the major role and render the important decisions, they set national priorities and decide upon many details of the programme implementation. Decentralisation is a big problem for many European youth organisations and networks, due to different national priorities of National Agencies and their different approach to partnership, European youth organisations and their branches from different countries cannot cooperate in a desired manner.

**Result of the vote**

Votes for: 51

Votes against: 72

Abstentions: 30

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## Opinion of the European Economic and Social Committee on The role of the EIB in public-private partnerships (PPPs) and their impact on growth

(2005/C 234/12)

On 27 April 2004, the European Economic and Social Committee decided to draw up an opinion under Rule 29(2) of the Rules of Procedure, on The role of the EIB in public-private partnerships (PPPs) and their impact on growth.

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

At its 415th plenary session of 9 and 10 March 2005 (meeting of 10 March 2005), the European Economic and Social Committee adopted the following opinion with 153 votes in favour and 5 abstentions.

### 1. Introduction

1.1 This opinion draws heavily on a background paper prepared by the EIB for the EESC in July 2004 <sup>(1)</sup>.

1.2 European countries currently use the public-private partnership model (PPP) (concessions and other types of contracts) in very different ways. The term PPP covers a wide range of situations; according to the European Investment Bank (EIB) 'the key feature of a PPP is that it involves a risk sharing relationship between public and private promoters, based on a shared commitment to achieve a desired public policy outcome'.

### 2. Issues surrounding PPPs and the EIB's role

#### 2.1 A European history

2.1.1 2000 years ago, the physical transport of mail throughout the Roman Empire, the 'vehiculatio' was the responsibility of the emperor, while the local authorities were responsible for the 'stationes', i.e. postal stations.

The contract drawn up after calls for tenders by the local authorities and managers of these huge 'post houses' conferred responsibility upon the latter for their construction, upkeep and operation for five years — a 'lustrum' — a fairly typical duration for contracts in Roman law, frequently occurring in the area of land ownership (including 'precaria' contracts). It would take twelve centuries for this type of contract to emerge.

Not only Emperor Augustus's postal service was based on a concession contract, the system was used for the building of ports, thermal baths, marketplaces and even roads.

2.1.2 In the 19th century, the European railway network was built entirely through concession contracts, and not only for railway building and construction works but also for various other public services such as the supply of water, gas and electricity, household refuse collection, telephones, etc.

2.1.3 Moreover, in most Member States, public procurement law stems from the law of concessions.

2.1.4 In the 20th century, the concession contract has enabled not only the building of motorways and car parks but also water supply systems, museums, airports, tramways, underground railway systems transport, facilities for urban areas, the refurbishing of schools and hospitals, etc.

2.1.5 Many countries have begun to use PPPs and the EESC has prepared a brief summary in its opinion <sup>(2)</sup> on the *Green Paper on public-private partnerships and community law on public contracts and concessions* which was adopted on 27 October 2004.

#### 2.2 Description of the EIB's action plan

2.2.1 The European Council in October 2003, invited the Commission and the EIB to explore how best to mobilise public and private sector financing support of the Growth Initiative, and how to give further consideration to a number of initiatives which should assist in the development of PPPs.

2.2.2 The Commission, with the support of the Bank, thereafter prepared a series of measures that were incorporated into the Growth Initiative that was endorsed by the European Council in Brussels in December 2003. The proposals focused on the creation of the right regulatory, financial and administrative conditions to boost private investment as well as the mobilisation of Community funding, allied with an invitation to Member States to continue refocusing public expenditure towards growth-enhancing areas without increasing public budgets.

<sup>(1)</sup> *The EIB's role in Public-Private Partnerships (PPPs)*, European Investment Bank, July 2004. This document was prepared for the EESC study group and can be requested by e-mail from the EESC Secretariat: [eco@esc.eu.int](mailto:eco@esc.eu.int).

<sup>(2)</sup> EESC opinion - *Public/private concessions and partnerships* OJ C 120 of 20.5.2005 - on the *Green Paper on public-private partnerships and community law on public contracts and concessions* – COM(2004) 327 final.

2.2.3 The EIB's proposals to the Council focused on the provision of substantial additional resources both for TENs and i2i <sup>(3)</sup>, the two key sectors covered by the Growth Initiative <sup>(4)</sup>. The EIB undertook to (...):

- use its best endeavours to expand the range of financial instruments used including particularly financing for PPPs (...);
- develop its institutional links with the Commission; with Member States; with specialist financial institutions (including National PPP Task Forces), as well as with the banking and capital markets in support of increased public and private-sector financing of these high-priority sectors.

2.2.4 The EIB's commitments made under the Growth Initiative were a natural evolution and step up of measures already taken by the Bank over the previous ten years, to encourage greater private-sector financing of public infrastructure. (...).

2.2.5 In its opinion on the *Green Paper on public-private partnerships and Community law on public contracts and concessions* <sup>(5)</sup> the EESC highlighted significant discrepancies between the Member States in terms of recourse to PPPs. It also notes that local and decentralised public authorities often take a more pragmatic approach to developing PPP programmes than central government.

### 3. The EIB's review of the development of PPPs in Europe

#### 3.1 The characteristics of PPPs

3.1.1 The term "public-private partnership (PPP)" has been in general use since the 1990s; there is, however, no single European model of a PPP (...).

3.1.2 Provision of new investment in infrastructure in Europe is increasingly being carried out under a range of PPP structures based on the principle of private sector risk taking participation in the provision of public infrastructure through payment by the users or by raising a charge on public funds commensurate with the service provided or with the risk transferred to the private sector. Typical examples of such public infrastructure are airports, railways, roads, bridges, tunnels, environmental facilities (such as waste incinerators and water

treatment plants) and public buildings including government offices, schools, hospitals and prisons. (...).

Appendix 1 illustrates the extent to which 'PPP programmes, legal systems and government organisations [had] developed within EU-25 (...)' at the end of 2003.

3.1.3 'The core objective for the public sector of a PPP programme is to harness private sector skills in support of improved public sector services'. (...) 'PPPs are therefore often characterised by the public sector:

- entering into contracts to acquire services, rather than procuring an asset;
- specifying the service requirement on the basis of outputs, not inputs;
- linking payments to the private sector to the level and quality of services actually delivered;
- often requiring a "whole life" approach to the design, building and operation of project assets where it is clear that these components cannot be delivered more cheaply by making separate provision for them;
- seeking optimal risk transfer to the private sector, based on the principle that risks should be managed by the party to a transaction best able to manage the relevant risk;
- requiring the private partner to be responsible for raising some or all of the investment finance required for the project when it is clear that the higher financing costs are offset by the reduction of other costs and the rapid delivery of services;
- utilising diverse payment mechanisms, such as market revenue, shadow tolls, capacity availability payments and so on.'

#### 3.2 Drivers for PPP developments in Europe

3.2.1 PPP structures (...) can be means of delivering infrastructure developments across Europe. (...) Provided that the public and private sectors fully exploit their advantages and the potential synergies to be gained from cooperation, PPPs can contribute to improved quantity and quality of public services.

<sup>(3)</sup> The i2i programme is designed by the EIB Group to provide mid- to long-term loans, equity participations and counter-guarantee structures, and reflects the objectives of the Lisbon Strategy. Further information is available on the EIB website at [www.eib.org](http://www.eib.org).

<sup>(4)</sup> See the note submitted to the ECOFIN Council of 25 November 2003 – Document CA 03/515.

<sup>(5)</sup> EESC opinion - *Public/private concessions and partnerships* OJ C 120 of 20.5.2005 - on the *Green Paper on public-private partnerships and Community law on public contracts and concessions* – COM(2004) 327 final.

3.2.2 PPPs offer the opportunity to capture private sector efficiencies and introduce appropriate risk-sharing mechanisms between the public and private sector. Unfortunately this has not always proved to be the case, especially for large IT projects. The ability to transfer and ultimately align risks and rewards within project structures has proved critical to the ability of PPPs to deliver improved Value For Money to the public sector (...).

3.2.3 Alongside reforms to public procurement rules, this had enabled the private sector to respond positively to these new opportunities to become involved in the delivery and operation of public infrastructure across many EU countries (...).

3.2.4 This also gives smaller private companies (including SMEs) the ability to participate in large scale projects (and to access long term finance) in a way that would have been problematic in conventional private sector 'balance sheet financed' procurements (...).

3.2.5 In response to the financial problems suffered by the public sector as a result of a political approach that favours the private rather than the public sector and which, in certain countries, has for years neglected the necessary investment in public services, the key to improving public services is a higher level of investment and the ability to push forward projects that might not have been possible to finance under classical procurement procedures. However an innovative approach to financing capital projects for the public sector can provide better value for money than PPPs.

3.2.6 The EIB emphasises that 'Given that many such projects are classified as "on balance sheet" for government deficit accounting purposes under ESA 95 guidelines <sup>(6)</sup> the question of government accounting treatment is but one of the many factors that may be taken into account by governments in their decisions to authorise an overall PPP programme and it is certainly not the most important'. The EESC points out that Eurostat <sup>(7)</sup> has established rules for recording PPP projects in the national accounts of Member States. These rules take account of:

- arrangements for transferring construction risks from the public to the private partner;
- criteria for project delivery;
- and, occasionally, user demand.

<sup>(6)</sup> For example, in the UK, approximately 60 % of all PPP transactions are accounted for "on balance sheet".

<sup>(7)</sup> Eurostat decision on deficit and debt - treatment of public-private partnerships, news release STAT/04/18 of 11 February 2004.

3.2.7 The EESC acknowledges that PPPs have developed considerably; however, many obstacles need to be overcome before public authorities in the Member States can use such partnerships on a regular basis.

### 3.3 PPPs and Value For Money

3.3.1 'The key consideration for governments in launching a PPP programme should be ensuring Value For Money (VFM). (...) The "no service/no pay" principle should ensure that the private partner is incentivised for timely delivery and operation of project assets. (...). In certain countries, traditional public procurements sometimes suffer from significant construction delays and cost overruns but the same problems have also beset some PPPs. Related to this, where life-cycle maintenance obligations fall to the private sector, operators are incentivised to optimise capital and maintenance spends over the project duration (...)', but there have also been examples of operators exploiting their contracts when there have been unexpected changes in circumstances or where forecasts of costs have proved to be inaccurate.

3.3.2 The value to the public sector of risk transfer needs to be demonstrated on a 'case-by-case' basis in each project in accordance with an agreed methodology generally referred to as a Public Sector Comparator (PSC). (...) Mechanisms for the diffusion of best practice such as the creation of PPP Task Forces and specialised units and the use of widely agreed benchmarking tools to measure Value For Money can also be extremely helpful (...). The EESC points out that several Member States have set up teams of experts to set up PPP contracts and identify best practices. Furthermore, it recommends wider use of systematic comparisons between projects that are managed by public authorities and ones that are managed by private undertakings (cost, performance, etc.). It also recommends that a body of high-level experts be responsible for coordination at European level.

## 4. EIB involvement in PPPs

### 4.1 Financing principles

4.1.1 'First and foremost, the Bank requires that all PPP projects supported by it are financially robust, economically and technically viable, meet the Bank's environmental requirements and are competitively tendered in accordance with EU procurement rules (...).

4.1.2 Wherever possible, EIB becomes involved in projects at an early stage, prior to commencement of procurement with the Bank working on a non-exclusive basis with all bidders (...) during the bidding phase. This ensures that bidders compete *inter alia* on the extent to which they pass the financial benefits of EIB participation on to the public sector.

4.1.3 The Bank's principle of providing complementarity with other funders (...) is maintained in (...) structures (...).

4.1.4 Therefore, 'many EIB loans to PPP projects are either bank guaranteed or monoline insured, whether to maturity, or with release once the project has a proven operating record (...)'.

4.1.5 'The credit quality of the Bank's PPP portfolio is underpinned by the public sector support for the payment streams to many PPP projects. Indeed, in many projects (such as the UK PPP hospitals and schools), payment obligations lie solely with the public sector and concessionaires are not subject to any form of "demand risk". PPPs also typically benefit from strong regulatory and contractual frameworks. (...) Finally, although the volume of PPP activity has increased (see Appendix 2), the loan amounts involved remain relatively limited compared to overall lending volumes (...)'.

4.1.6 The EESC notes that the EIB funds between one sixth and one half of the total investment in PPP projects.

## 4.2 *The Bank's exposure to PPPs*

### 4.2.1 EIB exposure by sector

'In 2003, the Bank provided debt financing of a total of EUR 2.7 billion to 17 new PPP projects. On a portfolio basis, this took EIB's overall nominal and risk weighted exposure to PPPs to EUR 14.7 billion and EUR 5.9 billion respectively. The largest exposure in the PPP portfolio (...) is set out in Appendix 3, Table A.

### 4.2.2 EIB exposure by country

Country exposure is shown in Appendix 3, Table B. 'Risk-weighted exposure is currently concentrated in the UK, Portugal and Spain'.

## 4.3 *Loan maturities*

'Loans to PPPs are characterised by long amortising maturities'. (Appendix 3, Table C).

### 4.3.1 Breakdown of EIB exposure by loan maturity

'As of 31 December 2003, 83 % (nominal) and 87 % (risk-weighted) of PPP exposures related to loans with maturities of 20 years and above. The longest loan maturities are found in social infrastructure (principally hospitals which are characterised by long economic lives and strong public sector covenants) and the urban development and local transport sectors where loan tenors typically range between 25 and 30 years (...). The EESC emphasises that because of the long maturities it will be some time before the early PPPs are concluded. It is not therefore possible at this stage to come to a definitive judgment on their value. Furthermore, circumstances inevitably change over such a long timescale. The rigidity of PPPs can therefore restrict the flexibility of the public sector to respond to new developments which are in the public interest. <sup>(8)</sup>

### 4.3.2 Future EIB exposure

This displays 'a trend towards an increase in loan maturities for PPP projects <sup>(9)</sup>. (...) It is also to be noted that such extended terms are becoming the norm required by the public sector, reflecting the need for loans to match, even if conservatively, PPP projects' revenue profiles.'

## 5. **Lessons learned from the EIB's experience of PPPs**

### 5.1 *The selection, appraisal and monitoring of PPP projects*

'Experience has shown the benefits of early dialogue between the Bank and the relevant public authorities to identify the most suitable projects: (...)', enabling it 'to focus much of its PPP activity on priority sectors (TENs, education and i2i, health) and in regional development areas. PPPs have made additional demands on the Bank's appraisal, structuring and negotiating capacity (...)'.

<sup>(8)</sup> In its opinion on *Public/private concessions and partnerships*, OJ C 120 of 20.5.2005, the EESC decided to conduct a long-term analysis, based on the results gained from experience.

<sup>(9)</sup> Nearly 30 % of such future exposures have amortising maturities in excess of 30 years.

## 5.2 Procurement and state aid issues

5.2.1 'Appropriate, competitive procurement is one of the key conditions for success of a PPP. The tendering process can be a complex exercise, requiring highly-skilled people on both public and private sides. In some cases, the development of a PPP can involve long and costly negotiations; in other cases (often in countries with experience of concessions) it may be possible to simplify procurement whilst retaining competitive pressures. Review of the procurement procedure is an essential part of EIB due diligence on PPP projects (...)'.

5.2.2 The EESC considers it necessary that, in order to contribute to a climate of healthy competition, projects supported by the EIB should respect European competition law, particularly legislation on public aid. The EESC recalls its stand on the subject in its opinion on the above-mentioned Green Paper <sup>(10)</sup>.

## 5.3 The performance of PPP projects

5.3.1 'National audit authorities have given particular attention to the performance of, as well as the Value For Money from many PPP projects financed in their respective areas of responsibility (...)'.

To assess the performance of PPP projects, the Committee suggests using all the available studies carried out in all the countries with PPP projects. Although the United Kingdom has used this instrument most to finance public services, other countries also have experience. Moreover, studies from all available sources should be used for a comprehensive assessment, particularly as regards the experience of the social partners, particularly the trade unions, of trends in working conditions, and that of consumers with regard to the quality of services.

5.3.2 'Appendix 4 presents extracts from reports from the UK National Audit Office <sup>(11)</sup>. These indicate that the performance of UK PPP projects has been generally good, particularly in respect of cost and time performances on major infrastructure, albeit with some weaknesses in the early schools projects; they have also been most helpful in pointing out difficulties or errors made, notably in the IT sector which has generally proven an unsatisfactory sector to date for PPPs. Similar reports <sup>(12)</sup> are also available from other national audit bodies;

<sup>(10)</sup> EESC opinion - *Public/private concessions and partnerships* OJ C 120 of 20.5.2005 - on the *Green Paper on public-private partnerships and Community law on public contracts and concessions* - COM(2004) 327 final.

<sup>(11)</sup> Available at [www.nao.org.uk](http://www.nao.org.uk).

<sup>(12)</sup> [www.tcontas.pt/pt/actos/rel\\_anual/2003/ra-2003-res.pdf](http://www.tcontas.pt/pt/actos/rel_anual/2003/ra-2003-res.pdf).

the recent — and critical — report of the Portuguese Tribunal de Contas on the SCUT programme <sup>(13)</sup> is a relevant example.

5.3.3 The EIB's overall experience is that the performance of the projects it has financed has been good. In terms of construction, projects have generally been completed by the target completion dates set out in the project contracts. Within the portfolio, just one project has fallen significantly behind schedule (...).

5.3.4 In general, projects have achieved anticipated levels of operational performance within six to twelve months of the commencement of operations (...). Release and refinancing tests applicable to EIB projects have normally been met at the appropriate time'.

## 5.4 Sectoral priorities

5.4.1 'As indicated above, it is a consistent observation that the initial focus of PPP procurement in most countries is on the transport sector. Thereafter, countries often make a progressive migration towards other sectors (such as education, health, energy, water and waste treatment) where the techniques of PPP procurement are being seen to be equally valuable (...).

5.4.2 For example, the UK has placed considerable emphasis on the importance of PPP structures in the social sectors of education and health — the largest in the history of the National Health Service. Since 1997, 64 PPP hospital projects with a capital value of GBP 11.1 billion (EUR 15.7 billion) have been approved by the Department of Health in the UK to commence procurement. Of these, 27 schemes with a value of GBP 3 billion (EUR 4.3 billion) have been completed and are operational, or are in construction (...).

5.4.3 At least three other countries in Europe (Portugal, Spain and Italy) are now bringing forward substantial PPP programmes in the health sector.

5.4.4 It is also notable that national PPP programmes often commence with relatively large, central government promoted projects, with subsequent development of smaller (sometimes repetitive) projects at local or regional government level'.

<sup>(13)</sup> The report is available at [www.tcontas.pt](http://www.tcontas.pt).

5.4.5 The Committee points to the need to take a comprehensive approach to research, development and innovation in the European Union's economic policy. The Committee takes the view that the potential of the European Investment Bank is not exploited to the full in this area. It therefore wishes to encourage it to direct a sizeable amount of its resources into this sphere, especially to applied research and innovation. This requires a creative use of all of the EIB's instruments — including PPP — in the area of research, which in most cases could well be considered a public service.

## 6. Comments on payment in PPP structures

6.1 'There is considerable diversity in the structuring of payment mechanisms for PPP projects in the EIB's portfolio, reflecting the diversity of PPP structures in Europe (...)'.

6.2 Government payments play a vital role. 'In some cases, concessionaires have been directly incentivised to improve safety (through effective maintenance, improved lighting and so on) by payments-related to accident rates.

6.3 In practice, the Bank has noted a general tendency for the public sector to move from toll-based to availability-based payments in transport PPPs, however, the ability to use the different payment mechanisms inherent in PPP structures to achieve differing policy objectives and optimise risk-sharing is a key characteristic and strength of the PPP (...).

6.4 Given the willingness of the Commission to use Structural/Cohesion Funds to part-finance the public sector contribution in appropriate cases in the new Member States, collaboration of the work of National Task Forces with DG Regio and other Commission services is also highly desirable (...)'.

## 7. Value added of EIB expertise in PPPs

7.1 'EIB has brought significant added value to the PPPs it has financed. From a financial perspective, the long loan maturities and capital grace periods offered by the Bank are particularly appropriate for major infrastructure given the long economic lives of the assets being financed and the typical evolution of cash flows over the project life (...).

7.2 Furthermore, the cost of EIB funds enhances public sector Value For Money from these deals. By strengthening the economics of projects, these features also benefit other participating financiers (...).

7.3 In this context, the EIB's high standard of due diligence, as well as its commitment to holding project debt until maturity (i.e. no selling down or syndication of debt which is

common amongst other senior lenders), offers considerable stability, robustness, experience and added value to the public sector.

7.4 The Bank's ability to undertake upstream advisory work with public sector bodies on the development of PPP programmes or on individual priority flagship projects, either directly or indirectly (for example, through sharing or experience or secondments), has also been highly valued by the public sector where this has been done to date (...).

7.5 Related to this, the Bank's participation in a project, given its unique status as an "impartial" not-for-profit financier with a public policy mission and considerable technical expertise, can have an important effect in building confidence between the public and private parties to a transaction. One example of the Bank's catalytic influence is the Tagus Bridge project, the flagship project of the Portuguese PPP programme, where this role has been particularly recognised.

7.6 Finally, the EIB has also been able to develop innovative and flexible financing structures for PPP projects. (...). As set out in the Growth Initiative, the Bank is also working on the further development of an extended range of financial instruments such as Guarantees; Junior and Mezzanine Debt; Infrastructure Funds and extending its use of Securitisation as appropriate to facilitate the increased participation of the private sector in the provision of public infrastructure. These innovations, along with the value attached by other lenders to the Bank's due diligence, are contributing to the Bank's role as a catalyst for other sources of funding (...)'.

7.7 The EESC notes that the EIB can lend its support to public authorities by reducing costs and applying a strict policy of project evaluation and risk transfer in the implementation of PPP projects in Member States.

## 8. Conclusions

8.1 The EESC welcomes the EIB's significant contribution to PPP development and to supporting growth and the improvement of public services in the Member States by providing the funds necessary to carry out work in the following areas:

- 'trans-European networks and the modernisation of transport infrastructure;
- school and university education;
- primary and secondary healthcare; and
- environmental improvement (...)'.

However, the EESC recommends that the EIB should also include funding for applied research and innovation, including patents, which give the EU world-wide primacy.

8.2 In its opinion on the Green Paper on public-private partnerships and community law on public contracts and concessions <sup>(14)</sup> the EESC stressed the need to:

- maintain labour, health and accessibility standards for facilities which were set up through PPPs. The EIB should ensure that these standards are maintained during the various stages of design, development and management of the projects that it co-finances;
- maintain healthy competition between public and private bodies. The EIB should therefore rigorously ensure equal competition (legal and fiscal) between public and private bodies. State aid in particular should not hamper contract award procedures;

- systematically evaluate PPP projects by using a set of criteria that reflect the financing costs of the various options available to deliver public services and the experience gained by all the players involved, including employees and consumers.

8.3 The EESC considers that all bodies of public experts in the various Member States should cooperate amongst themselves and with the EIB so that they can forward to the Commission accumulated experience of best practices and launch a debate on how to improve the European legal framework.

8.4 Given the scale of the EIB's exposure and its experience of PPPs, the EESC suggests that once a year the Ecofin and Competitiveness Councils discuss a report on PPPs, jointly presented by the EIB and the Commission.

Brussels, 10 March 2005.

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

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<sup>(14)</sup> EESC opinion - *Public/private concessions and partnerships* OJ C 120 of 20.5.2005 - on the *Green Paper on public-private partnerships and community law on public contracts and concessions* – COM(2004) 327 final.

## APPENDIX 1

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

The following amendments, though rejected, were supported by at least one-quarter of the votes cast.

**Point 4.1.5: After the second sentence, insert the following:**

Indeed, in a number of projects it is difficult to identify what risk has been transferred to the private sector.

**Reason**

To be given orally.

**Result of vote:**

Against: 69

For: 47

Abstentions: 17

**Point 5.3.2: After the second sentence, insert the following:**

However, the Treasury Task Force is not regarded by some social partners as an impartial body, given its remit to promote PPPs. Consequently its optimistic assessment is disputed, particularly since most PPPs have not reached maturity and one of the earliest, the Skye Road Bridge, has had to be bought out by the public sector.

**Reason**

To be given orally.

**Result of vote:**

Against: 74

For: 48

Abstentions: 13

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

(2005/C 234/13)

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

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

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

### SUMMARY

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

### 3. Economic performance and the effects of enlargement

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## 4. *Specific issues*

### 4.1 *Joining the euro zone*

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

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

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

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

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

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

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

## 4.2 Stability and Growth Pact

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

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

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

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

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

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

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

### 4.3 Differences in economic well-being and employment <sup>(3)</sup>

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

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

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

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

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

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

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

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

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

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

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

#### 4.4 Competitiveness and productivity

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

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

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

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

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

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

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

#### 4.5 Sustainable environmental development

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

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

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

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

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

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

## 5. Conclusions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Brussels, 10 March 2005.

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

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**Opinion of the European Economic and Social Committee on the Proposal for a Regulation of the European Parliament and of the Council determining the general rules for the granting of Community financial aid in the field of trans-European transport networks and energy and amending Council Regulation (EC) No 2236/95**

(COM(2004) 475 final — 2004/0154 (COD))

(2005/C 234/14)

On 9 March 2005 the Council of the European Union decided to consult the European Economic and Social Committee, under Article 156 of the Treaty establishing the European Community, on the above-mentioned proposal.

The Section for Transport, Energy, Infrastructure and the Information Society, which was responsible for preparing the Committee's work on the subject, adopted its opinion on 21 February 2005. The rapporteur was Mr Ranocchiari.

At its 415<sup>th</sup> plenary session of 10 March 2005, the European Economic and Social Committee adopted the following opinion by 112 votes to 8, with 6 abstentions.

## 1. Introduction

1.1 **In 2000, the European Union accounted for a 15 % share of global energy consumption**, making it the world's leading importer, with the second highest consumption in the world after the USA. Its demand for primary energy rose by 10 % between 1990 and 2000. Political and economic systems in many of the ten new Member States were revised and restructured during the same period, resulting in a 17 % fall in their demand for primary energy. Demand for primary energy in the EU-25 consequently grew by an average of 6 % over the decade.

1.2 The scenario for primary energy demand for the 2000-2030 period assumes average EU-25 growth of 19.3 %, with a higher rate of 26 % for the ten new countries and 18.4 % for the older fifteen.

1.3 The improvement in systems in the ten new countries is borne out by energy intensity <sup>(1)</sup> trends, which is expected to rise by 1.7 % per annum between 2000 and 2030 for the 25 countries, i.e. the same as for the last decade (1990-2000). However, this figure corresponds to an increase of 2.6 % per annum for the ten new countries (3.5 % in the previous decade) and a 1.7 % drop in the fifteen older countries.

1.4 Lastly, it should be pointed out that this scenario also predicts continuing dependence on fossil fuels for the next 25 years, remaining at nearly 90 % in 2020.

1.5 **When considering transport**, the main subject of the draft regulation under consideration, it should be remembered that this represents approximately 32 % of energy consumption, and also that it makes up over 10 % of European GDP,

with passenger and freight transport doubling in the last 30 years. In fact, the sector now provides employment for 10 million workers. Overall traffic is expected to double by 2020, with freight rising by 70 % in Europe-15 and by approximately 100 % in the ten new Member States. This follows a 185 % and 145 % increase for freight and passengers respectively, over the last 30 years. Such huge growth has had a negative impact in several respects, particularly road congestion, which currently places a 0.5 % annual burden on GDP. This burden is expected to double by 2010 to approximately EUR 80 billion. Road congestion or obstruction affects 7,500 km of roads on a daily basis. This is equivalent to 15 % of the EU-15 trans-European network and approximately 20 % of the railway network <sup>(2)</sup>.

1.6 The development of a Trans-European Transport Network (TEN-T) and Trans-European Energy network (TEN-E) that have sufficient infrastructure to cope with the European Union's growing needs has been included in EU strategies for over ten years. It is rightly considered to be of paramount importance firstly, for the completion of the internal market and secondly, for achieving the targets of the Lisbon Strategy. The Barcelona European Council of 2002 reiterated the importance of completing existing electricity networks and established the specific objective of achieving a cross-border interconnection level of at least 10 % of installed national generation capacity. In December 2003, the European Council again placed TEN-T and TEN-E networks at the centre of its action for growth plan.

## 2. Current situation

2.1 Despite clearly identified present problems and further new needs, the relevant parties, principally the Member States, have so far failed to take appropriate action. Suffice it to say that of the 14 major transport projects that Member States undertook to complete by 2010 at the 1994 European Council

<sup>(1)</sup> Primary energy demand per unit of GDP at market exchange rate.

<sup>(2)</sup> European Union Energy and Transport Outlook 2000/2004.

in Essen, only three were completed by 2003. Furthermore, less than a quarter of the investment required for trans-European had been found. At the current rate of investment, it might take another 20 years to complete the programme.

2.2 The energy problem is no less serious even though the needs for EU financial support are far more limited, as shall be seen below. In fact, the networks' physical capacity does not correspond to the legislative provisions. The liberalisation process that should culminate in a genuine internal electricity market by 2007 might be of limited impact unless steps are taken to complete currently inadequate and overburdened networks. It is essential to eliminate physical obstacles to competition in areas of high market concentration in order to avoid negative repercussions for all consumers, including domestic ones. Nor should it be forgotten that the development of renewable energy forms could entail ad hoc investment in existing energy systems and their networks.

2.3 The reasons for TEN-T's disappointing results were identified and summarised in a Communication from the European Commission <sup>(3)</sup> in 2003 as follows:

- lack of political will on the part of the decision-makers in the Member States;
- inadequacy of the financial resources dedicated to the trans-European network; and
- fragmentation of the entities responsible for the projects.

2.4 Awareness of the severity of the situation was confirmed in a report by the High Level Working Group, chaired by Karel Van Miert (former Commissioner for competition) in June 2003. However the report also put forward some interesting suggestions for overcoming the crisis. The report was not restricted to the financial aspects of the problem but also took into consideration the organisational and coordination requirements that EU enlargement would entail.

2.5 Mr Van Miert's report provided the basis for a European Commission proposal in October 2003 for amending TEN-T guidelines and bringing the list of priority projects up to thirty, including the 14 Essen projects. The proposal was then discussed and adopted by the European Parliament and the Council on 29 April 2004. At this stage, the new guidelines and priorities were approved, as were the project characteristics in terms of anticipated costs.

### 3. The Commission's proposal

3.1 The proposal for a Regulation under consideration was needed to provide the Commission with a legal instrument that would enable it to apply the general rules for the granting of financial aid, revised in the light of the foregoing, to ensure secure and reliable funding for the period 2007-2013.

<sup>(3)</sup> Communication of 23 April 2003: Developing the trans-European transport network: Innovative funding solutions Interoperability of electronic toll collection systems.

3.2 A clear need emerged to optimise the quantitative impact of Community financing, by increasing the current rate of funding, and the qualitative impact, by adopting new financial instruments. The overall goal was to encourage private investment as part of an intensified drive for public private partnership (PPP).

3.3 The fundamental requirements for achieving Community action are connected with the fact that the projects are of common interest, secure cross-border interconnections, and contribute to market integration in an enlarged Europe. In the field of transport, particular attention must be paid to environmental impact and the need for high-speed railway lines to free capacity for freight to bring about a modal shift. For these reasons, approximately 80 % of funding will be allocated to non-road modes of transport. Priority aspects of the energy sector include network continuity and optimising the capacity and integration of the internal market, the incorporation of the new Member States into this market, as well as connections with renewable energy sources.

3.4 In order to fulfil these objectives, criteria for allocation and co-financing are to be clear and objective. The criteria to be applied are: **conditionality** means that aid will be targeted according to **selection and concentration** criteria that prioritise the interconnections that will result in the highest Community added value and the **proportionality** of the co-financing rate, which will be increased to 30 % for cross-border links (or 50 % in exceptional cases). In exchange, Member States will have to provide appropriate guarantees on the basis of a financial plan and a firm commitment to implement the project within the specified deadline.

3.5 The co-financing rate could amount to a maximum of 50 % for TEN-T and TEN-E studies. On the other hand, the maximum rate for TEN-T construction is 30 % for certain sections of the priority projects (in exceptional cases, 50 % for cross-border sections) and 15 % for projects of common interest. The maximum co-financing rate will remain 10 % for energy, as stipulated in the present Regulation, but could be raised to 20 % in cases of exceptional financial difficulty or difficult interconnections with neighbouring countries. The fact that the co-financing rate for energy is much lower than for transport, as well as the substantial differences between the two budgets, may be justified by the fact that energy benefits from other Community instruments (Structural Funds, EIB loans) and higher levels of competition amongst operators in a clearly market-driven sector. In fact, only Member States may submit requests concerning transport networks, whereas private operators in the energy sector are also entitled to submit requests.

3.6 Under the present Regulation, available resources for 2000-2006 amount to little more than EUR 4.6 billion, with 4.2 billion allocated to transport and increased by EUR 225 million as of 2004, as a result of enlargement. In practice, this corresponds to approximately EUR 600 million per annum for the period.

3.7 The proposal under consideration would increase TEN-T appropriations for 2007-2013 to EUR 20.35 billion, i.e. EUR 2.9 billion per annum as opposed to EUR 600 million for the previous period. The specific TEN-E appropriations will be EUR 340 million, bringing the total Community TEN budget to EUR 20.69 billion.

3.8 Another new element, over and above the increased rate of Community support, is the possibility of Community financing to cover post-construction risks that could result in a lower than expected return on investment. This guarantee is intended to encourage private investment in the projects but is nevertheless restricted to the initial phase, and entails substantial support from the Member States involved.

3.9 Other novelties concern project management. The Commission proposes to give Member States the lead role in technical support and the certification of costs. Furthermore, the Commission reserves the right to delegate the management of the present programme for the trans-European transport network to an executive agency whilst retaining its own responsibilities in the area of planning.

#### 4. General comments

4.1 The EESC welcomes the proposal, which incorporates, though not in their entirety, comments and recommendations that the EESC has consistently reiterated in its previous opinions <sup>(4)</sup>.

4.2 The proposal in fact formalises the recommended increase in Community financing, which offers Member States and private investors greater security in a public private partnership. In this regard, the EESC would point out that the projected increase, although substantially higher than previous increases, should be assessed in the light of the growing needs mentioned above. It should be borne in mind that financial needs for the thirty priority transport projects have been estimated at EUR 225 billion, EUR 140 billion of which for the 2007-2014 period.

4.3 Furthermore, the EESC approves the definition of the abovementioned principles governing the allocation of Community financial aid, and welcomes the idea that the procedures

for applying these principles will be decided on the basis of comitology, with a view to simplifying the process.

4.4 The EESC also welcomes the concept of providing support, not only during the preliminary study and construction phase but also, in exceptional cases, for the first years of the operational phase of the project. It is impossible to underestimate the sensitivity of the transport sector's situation, with all its well-known implications (congestion, pollution, safety etc.), which have repeatedly been the subject of EESC opinions. Equally, it is impossible to underestimate the risks relating to energy supplies and the need to ensure the interoperability of energy networks.

#### 5. Specific comments and conclusions

5.1 The EESC believes that a rigorous policy should be adopted to ensure that Member States do not fall behind in setting up the infrastructure specified by the European Union. The fulfilment of commitments should take precedence over the national political or economic contingencies which can always arise. If need be, should requests for clarification remain unanswered, provision should also be made for penalties, or even for the funds disbursed by the Commission to be recalled and re-allocated to infrastructural projects that are on schedule.

5.2 Nevertheless, the EESC fears that despite the proposed increases the resources available will not always be sufficient to stimulate investment and render the commitments undertaken irreversible. For this reason, the EESC believes that a suggestion put forward in one of its previous opinions <sup>(5)</sup> to create a European fund for transport infrastructure remains worthy of consideration. It would be funded by a reasonable levy on European fuel consumption in EU-25 without incurring a corresponding increase in excise tax. A second possibility would be to restrict this proposal to those Member States involved in the TEN-T projects.

5.3 Since the proposal for a Regulation under consideration concerns the period 2007-2013, the current Regulation will remain in force until that date, including the above-cited appropriations. This entails the risk of further delays and reconsiderations while awaiting the new conditions. It would be preferable to bring forward the new Regulation's entry into force to the earliest possible date so that work can begin immediately. It is important to emphasise that due to the lead times involved in setting up the projects the road transport sector will undoubtedly experience a further increase in traffic, before new infrastructure, including that for other forms of transport, becomes available. This is not conducive to smooth and balanced operations.

<sup>(4)</sup> Exploratory opinion on the Revision of the list of trans-European network (TEN) projects up to 2004 (OJ C 10 of 14.1.2004) and the opinion on the General rules for granting Community financial aid/TEN (OJ C 125 of 27.5.2002).

<sup>(5)</sup> Exploratory opinion on the Revision of the list of trans-European network (TEN) projects up to 2004 (OJ C 10 of 14.1.2004). In its opinion, the EESC envisaged a levy of 1 cent per litre on all fuel consumed in EU-25 for all transport of passengers or goods. At current consumption rates (approximately 300 million tonnes), the fund would receive some EUR 3 billion per annum.

5.4 The EESC welcomes the Commission's proposal to adopt comitology rather than co-decision procedures, to define the application of the rules that will govern the allocation of aid. These choices tend towards more streamlined and simplified procedures, which is much to be desired. However, the EESC is concerned that the proposed executive agency for the trans-European transport network may be unable to fulfil its role and that it may be more likely to duplicate the work of other participating institutions. Ex ante clarification by the Commission of the agency's future tasks would help to dissipate doubts.

5.5 The EESC is in full agreement with the lines suggested by the Commission proposals and reaffirms the need for an increase in available funds. The establishment of the proposed infrastructure will contribute to sustainable development since 80 % of the projects target alternatives to road transport and

will therefore result in lower emissions and congestion. Nor should it be forgotten that the projects will have a positive impact on employment in the medium term, and will result in a no less important improvement to the European citizen's quality of life in the long term, especially those living in major transit areas.

5.6 In the final analysis, the Committee cannot but reassert its wholehearted conviction that a trans-European energy and transport network is a strategic necessity that plays an essential role in creating conditions that guarantee the free circulation of passengers, freight, and services. This is an indispensable objective that cannot be circumvented if, in compliance with the Lisbon Strategy, we are to build an integrated, competitive European Union that respects the principles of eco-compatible development.

Brussels, 10 March 2005.

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

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#### APPENDIX

#### to the opinion of the european economic and social committee

The following proposal for amendment was rejected, but received at least a quarter of the votes cast.

#### Point 5.2

Amend as follows:

'5.2 Nevertheless, the EESC fears that despite the proposed increases the resources available will not always be sufficient to stimulate investment and render the commitments undertaken irreversible. ~~For this reason, the EESC believes that a suggestion put forward in one of its previous opinions to create a European fund for transport infrastructure remains worthy of consideration. It would be funded by a reasonable levy on European fuel consumption in EU-25 without incurring a corresponding increase in excise tax. A second possibility would be to restrict this proposal to those Member States involved in the TEN-T projects.~~

#### Reason

As the rapporteur very rightly states, the Member States retain the right of decision on tax questions. The Committee cannot and will not propose tax changes in the Member States.

#### Outcome of the vote:

For: 43

Against: 65

Abstentions: 9

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