



European Commission

Enterprise and Industry
Directorate General

EU's economic reform challenges - European Competitiveness Report 2006

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and Economic Reforms**

Brussels, 1 December 2006



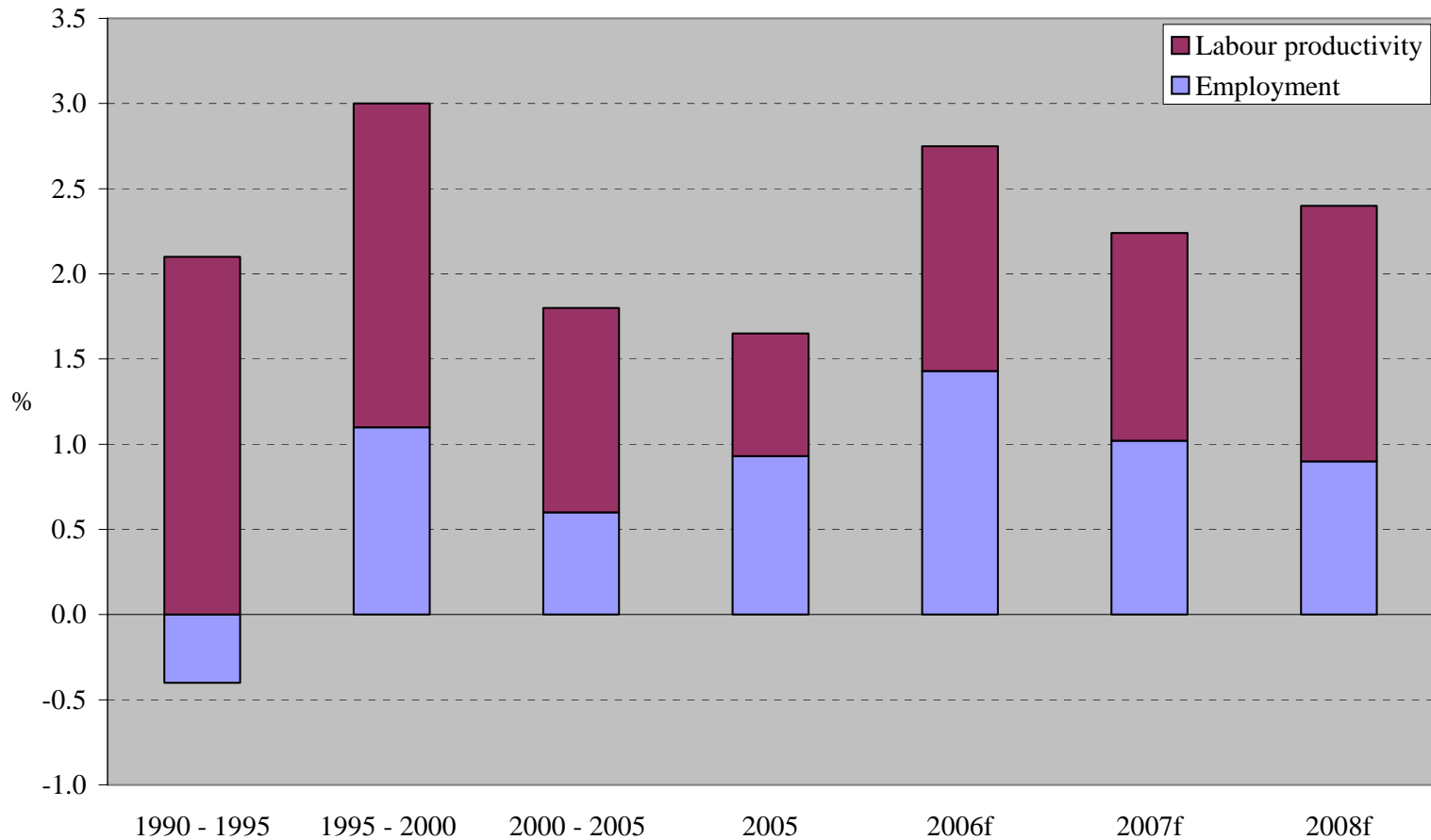
Structure of presentation

- I. Facts on EU growth and productivity performance
- II. Key policy challenges: innovation, energy, business environment
- III. Competitiveness of EU manufacturing sectors



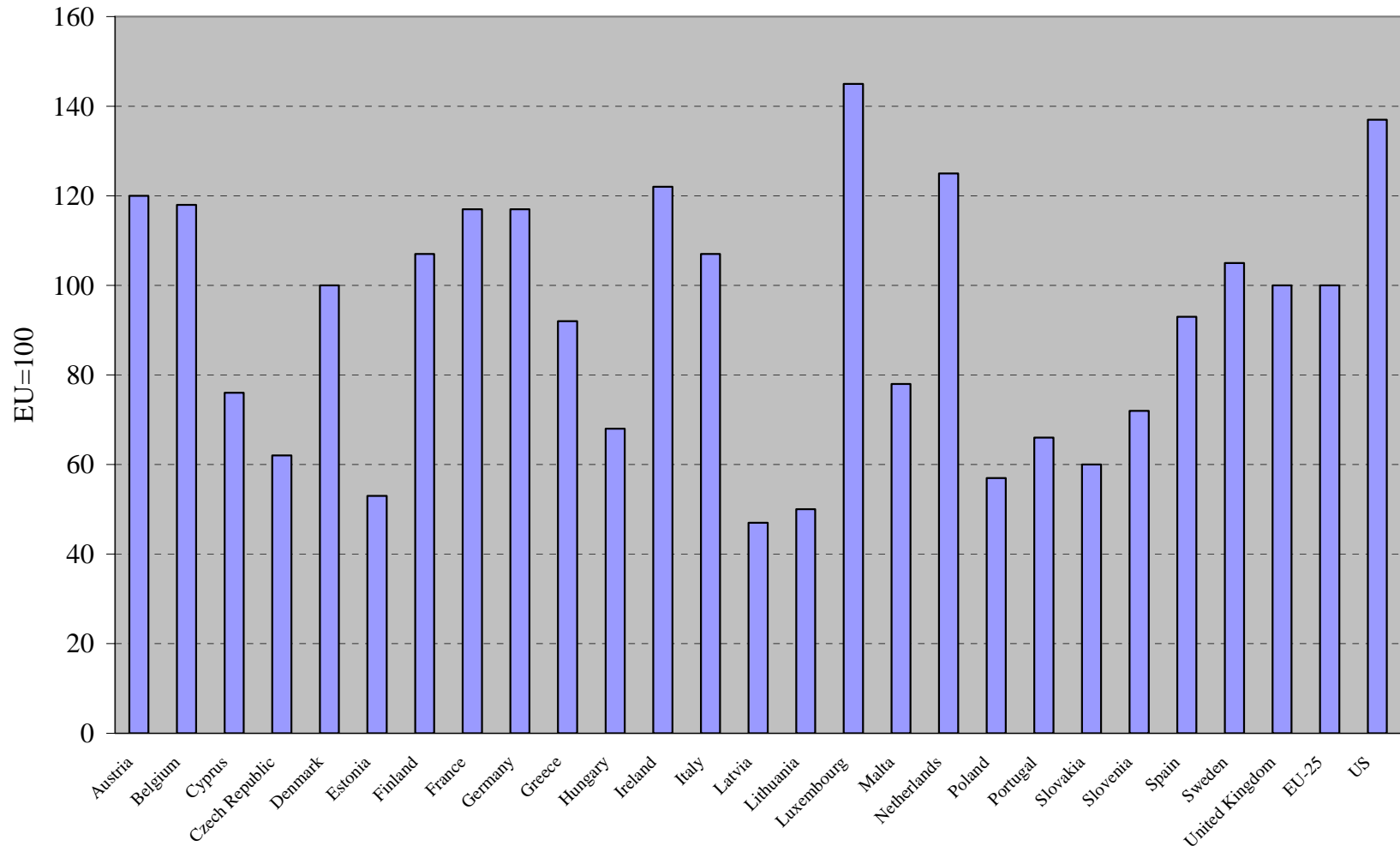
I. Recent economic performance: GDP and productivity growth

EU-25 growth: contributions of employment and labour productivity

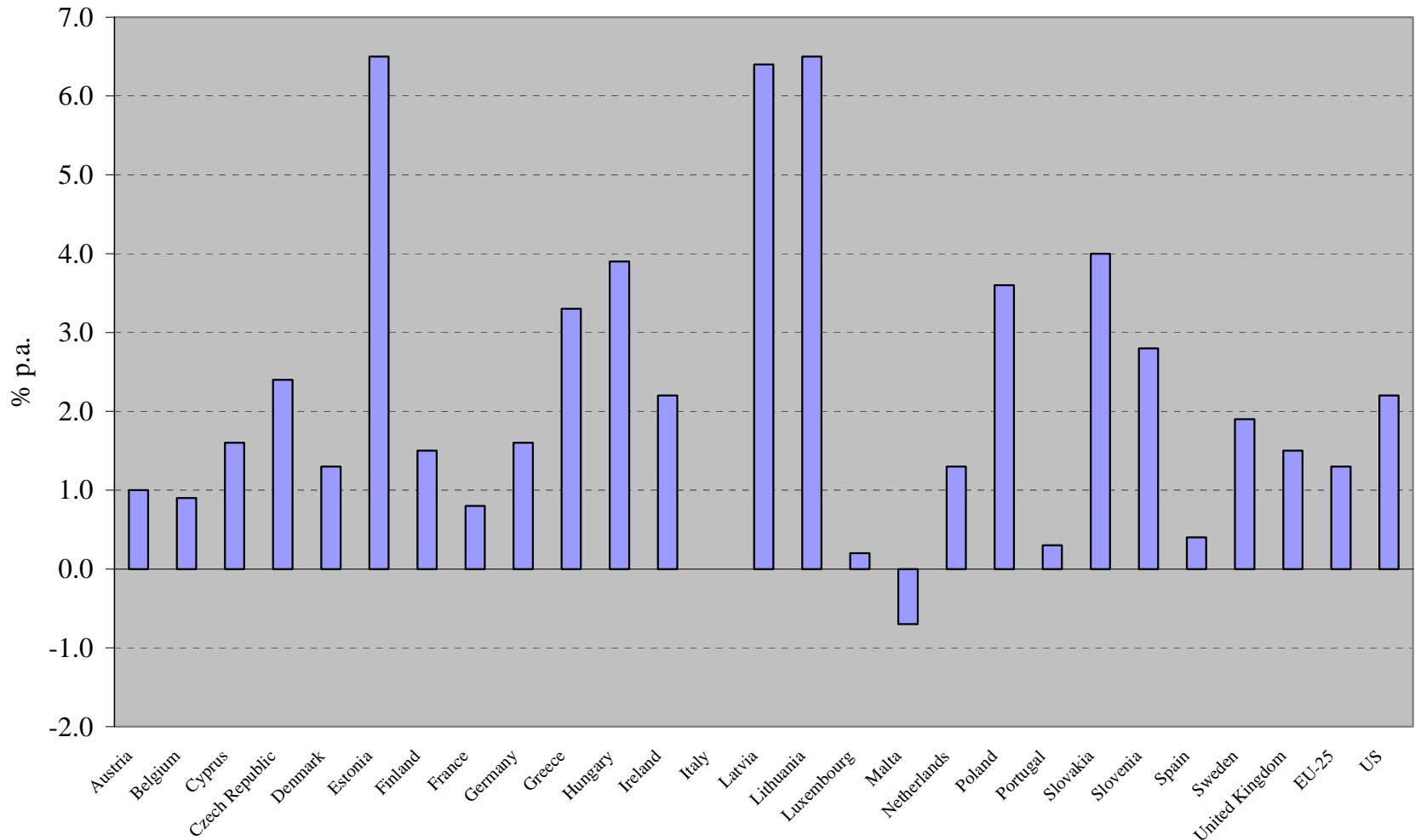


Note: The two components sum up to the average annual GDP growth rate in the respective periods.
Data source: European Commission (AMECO).

Productivity levels by Member State



Average growth of labour productivity by country, 2000-2005





II. Key policy challenges: energy

Electricity markets in the Member States

	Quantity of active generators and suppliers	Industrial price level	Degree of interconnection
Austria	Medium	medium	high
Belgium	Low	medium	high
Denmark	High	medium	high
Finland	High	low	medium
France	Low	low	medium
Germany	Medium	high	medium
Greece	Low	medium	medium
Ireland	Low	high	low
Italy	Medium	high	low
Luxembourg	Low	low	high
Netherlands	Medium	medium	medium
Portugal	Low	medium	low
Spain	Medium	medium	low
Sweden	High	low	high
UK	High	medium	low
Estonia	Low	low	high
Latvia	Low	low	high
Lithuania	Low	low	high
Poland	Medium	low	low
Czech R	Medium	medium	high
Slovakia	Medium	medium	high
Hungary	Medium	medium	high
Slovenia	Low	medium	high
Cyprus	Low	high	
Malta	Low	medium	

Liberalisation and efficiency

- Liberalisation of energy markets will generate efficiency gains if competition is increased.
- As competition in energy markets is still limited, we have not yet reaped the full benefits from liberalisation.
- Competition in energy markets will entice firms to shift their R&D efforts towards efficiency-enhancing technologies.

Liberalisation and security of supply

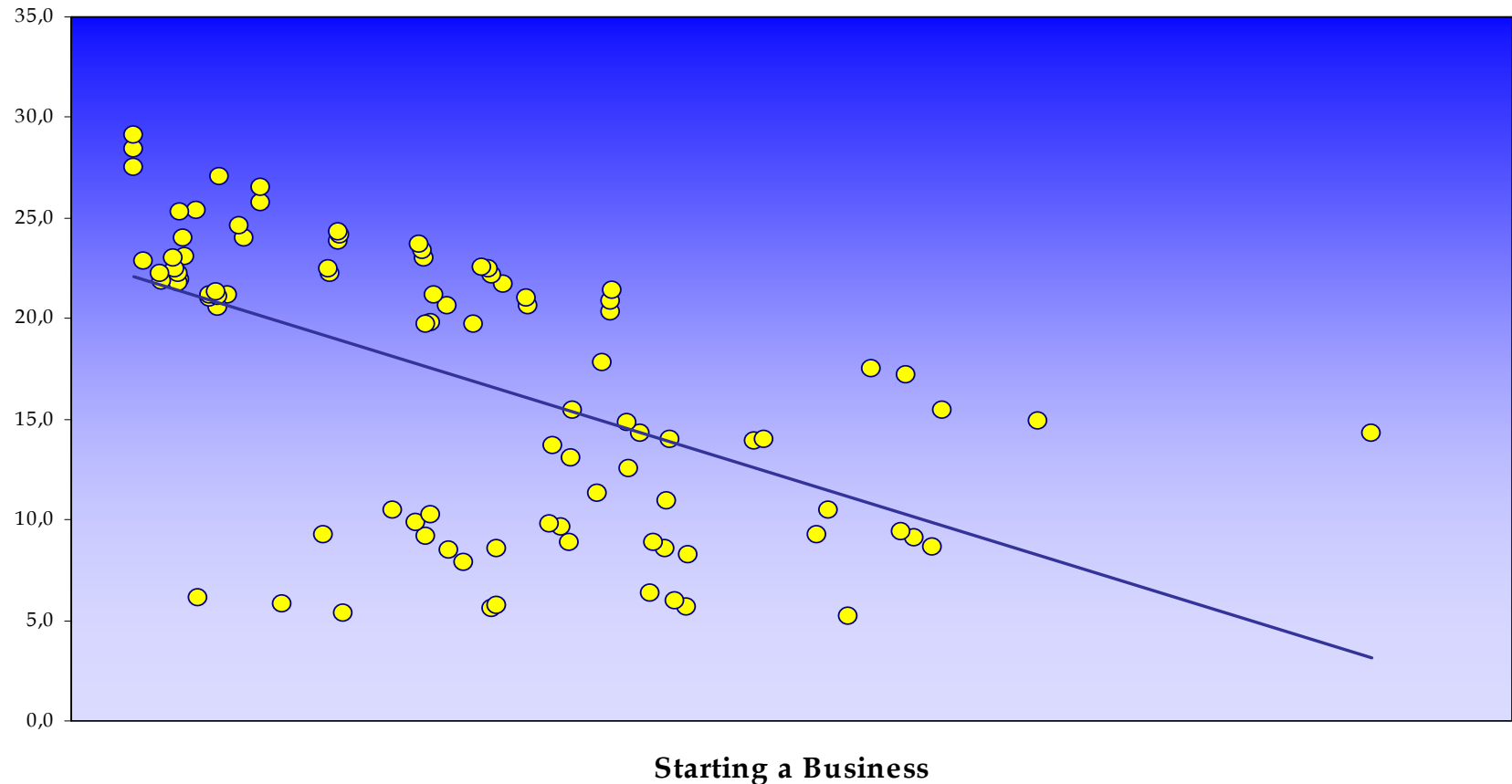
- Before liberalisation, security of supply was achieved by high level of overcapacity for which consumers paid the price.
- Less overcapacity will lower energy prices but could also lead to larger price volatility.
- Consumers can protect themselves through long-term fixed price contracts.
- The internal energy market will promote reliability of networks, provided that interconnections are sufficient.



II. Key policy challenges: business environment

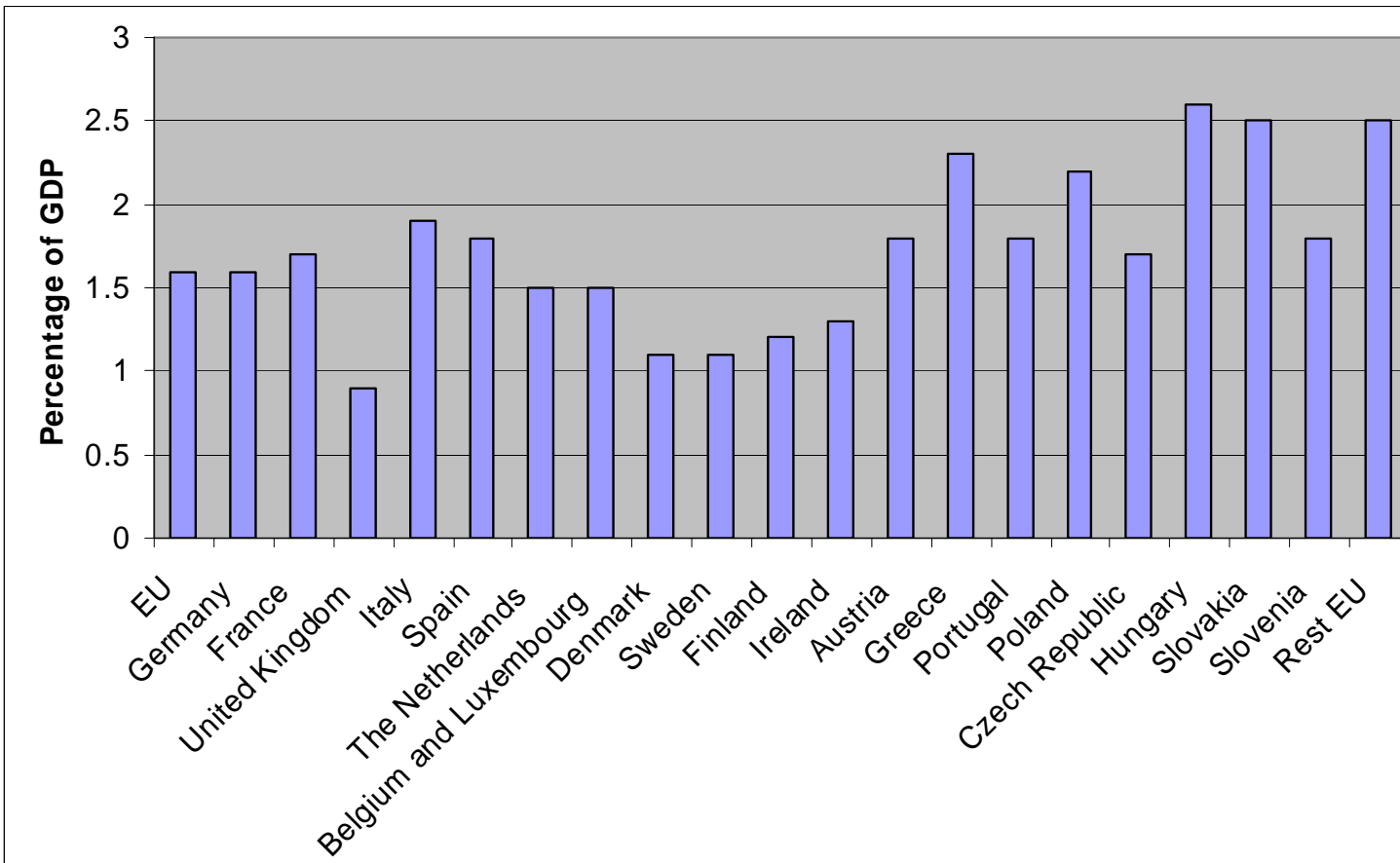
The Regulatory Environment in the context of the strategy for Growth and Jobs: findings from empirical research –an example

The Ease of Starting a Business and Per Capita GDP



The Regulatory Environment in the context of the strategy for Growth and Jobs: findings from empirical research –an example

Cumulative GDP effects by 2025 of a 25% reduction in administrative costs (DG ENTR and CPB, 2006)



The Regulatory Environment in the context of the strategy for Growth and Jobs

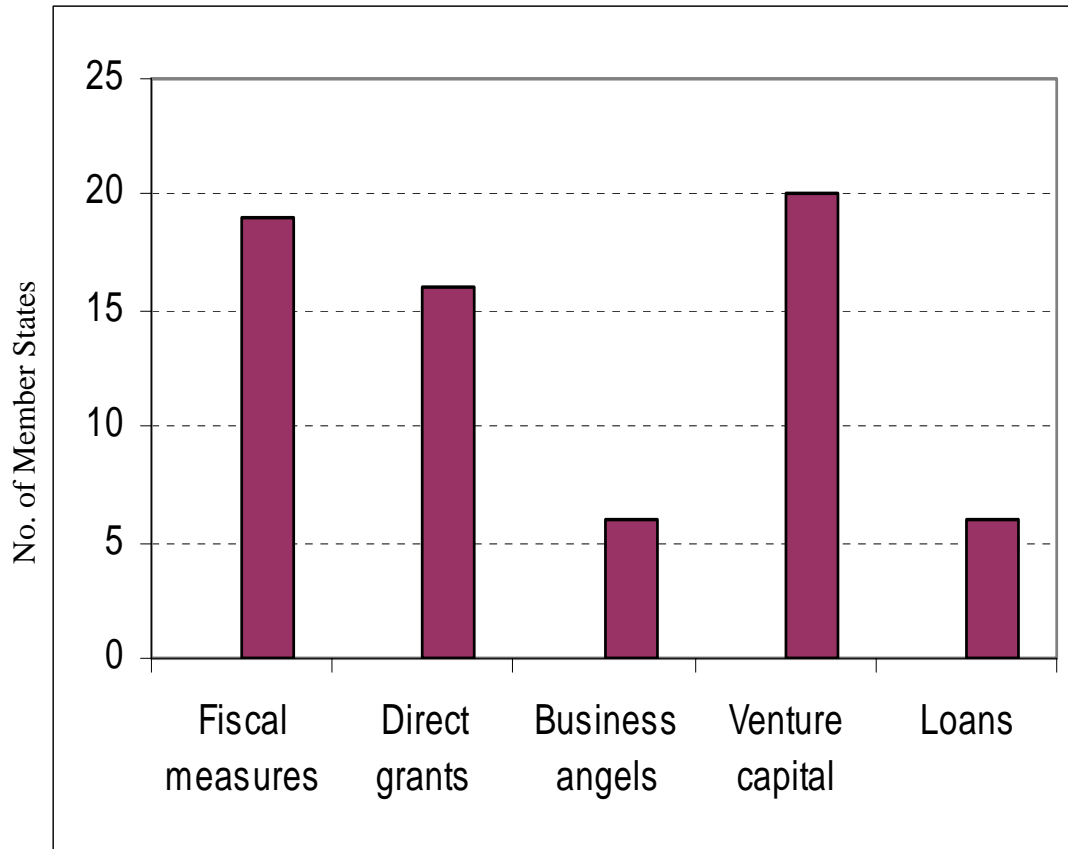
Situation in Member States:

- Different sets of indicators: OECD, WB, ID, Fraser Institute/World Economic Forum;
- The group of countries with less restrictive regulatory environments: Cyprus, Denmark, Estonia, Finland, Ireland, Luxemburg, the Netherlands and the UK;
- The group of countries with a more restrictive regulatory environment comprises the Czech Republic, Greece, Italy, Lithuania, Poland, Portugal and Spain.



II. Key policy challenges: innovation

The Financing of Innovation – the findings



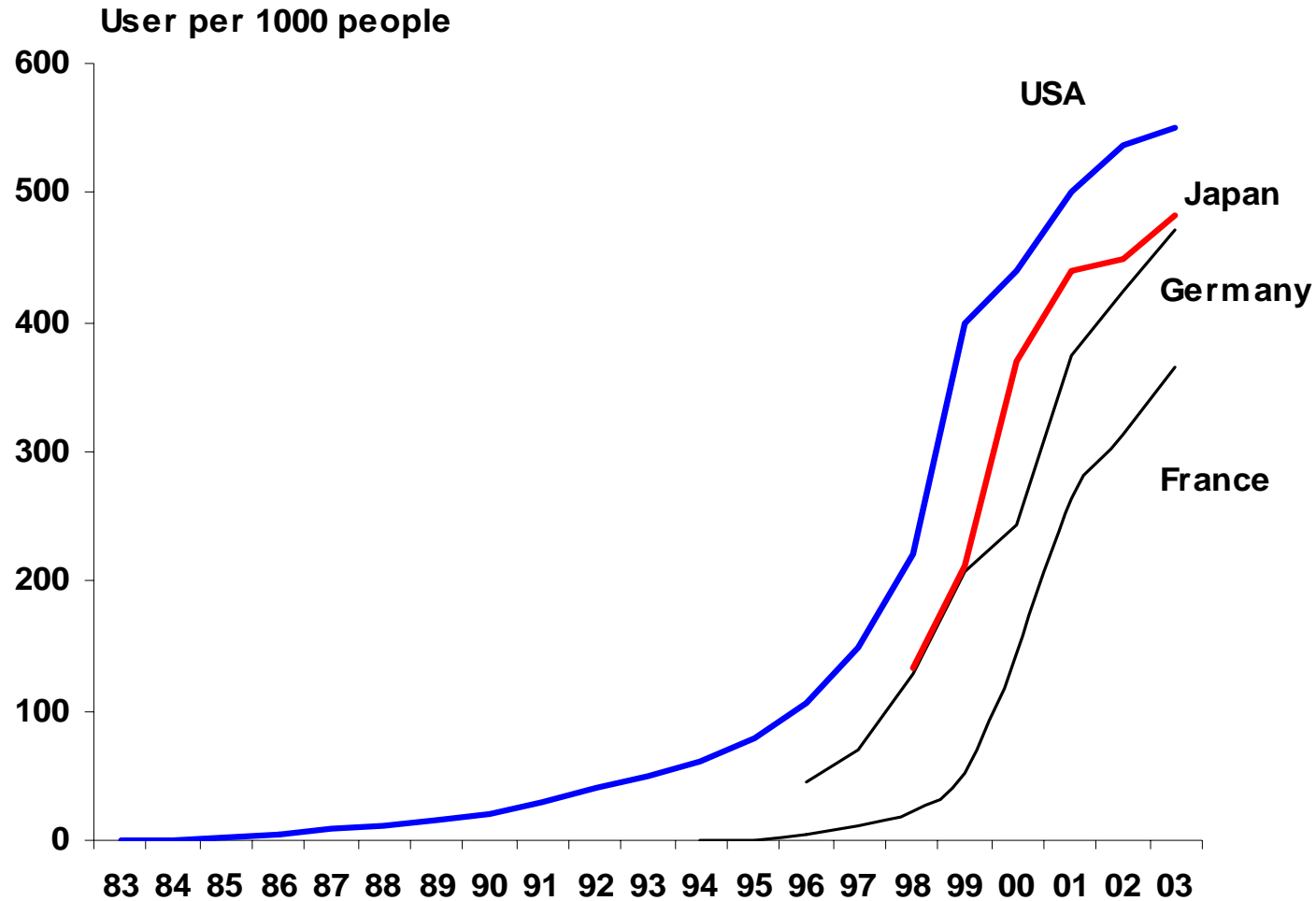
- Wide variation on delivery mechanisms for grants and tax incentives;
- New measures favour tax incentives more;
- Particular attention to seed and early stage venture capital;
- Schemes change frequently and often are complex.

The Financing of Innovation

Policy gaps:


- Need to facilitate venture capital mobility;
 - More consideration should be given to facilitate debt finance of innovation;
 - There is scope for mutual learning and exchange of best practice;
 - Need for more systematic evaluation of existing measures.
- **Not to forget: finance is an important but small part of the innovation process.**

Lead Markets: diffusion of Internet in selected countries (source: ITU)



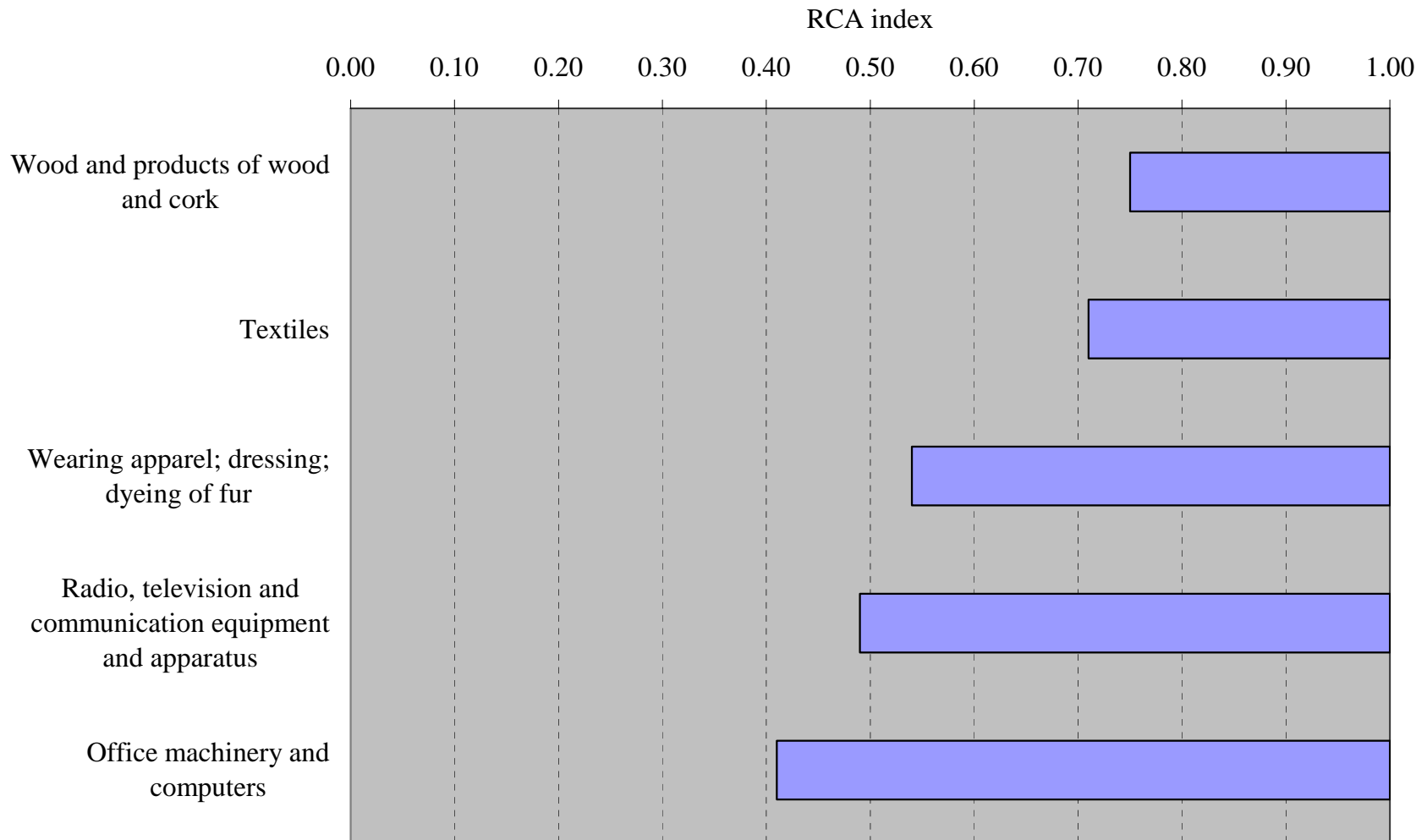
The Lead Markets approach in Innovation policy: conclusions

- The conclusion of the Report is that innovation and technology policies should incorporate those factors that contribute to a successful lead market strategy:
 - incorporation of foreign market needs, preferences of global customers, global trends;
 - emphasis on lowering costs of production;
 - allowing competition among different innovation designs.
- There is little empirical evidence in support of policies to administratively create lead markets for specific “champion” products and technologies.

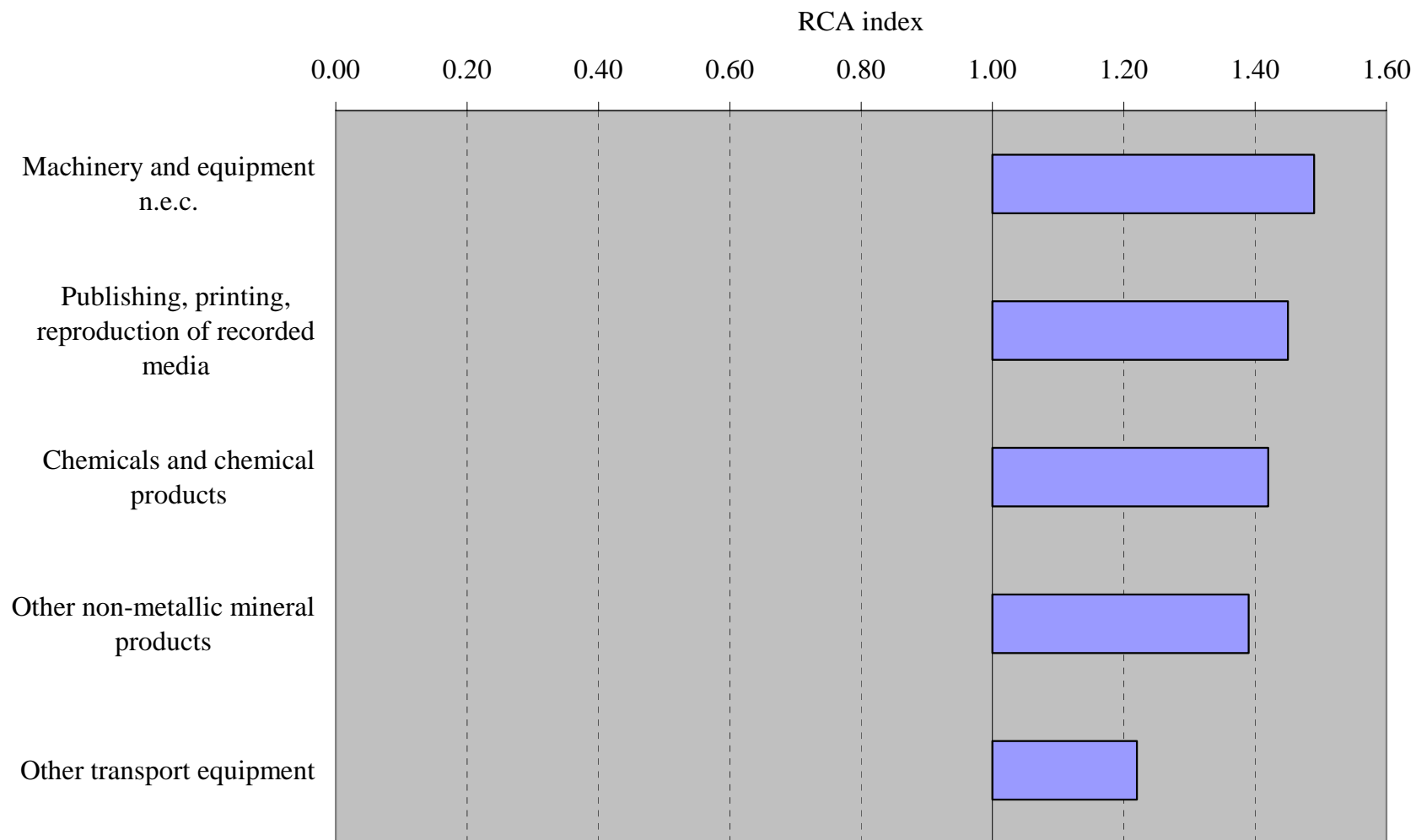


III. Competitiveness of manufacturing sectors

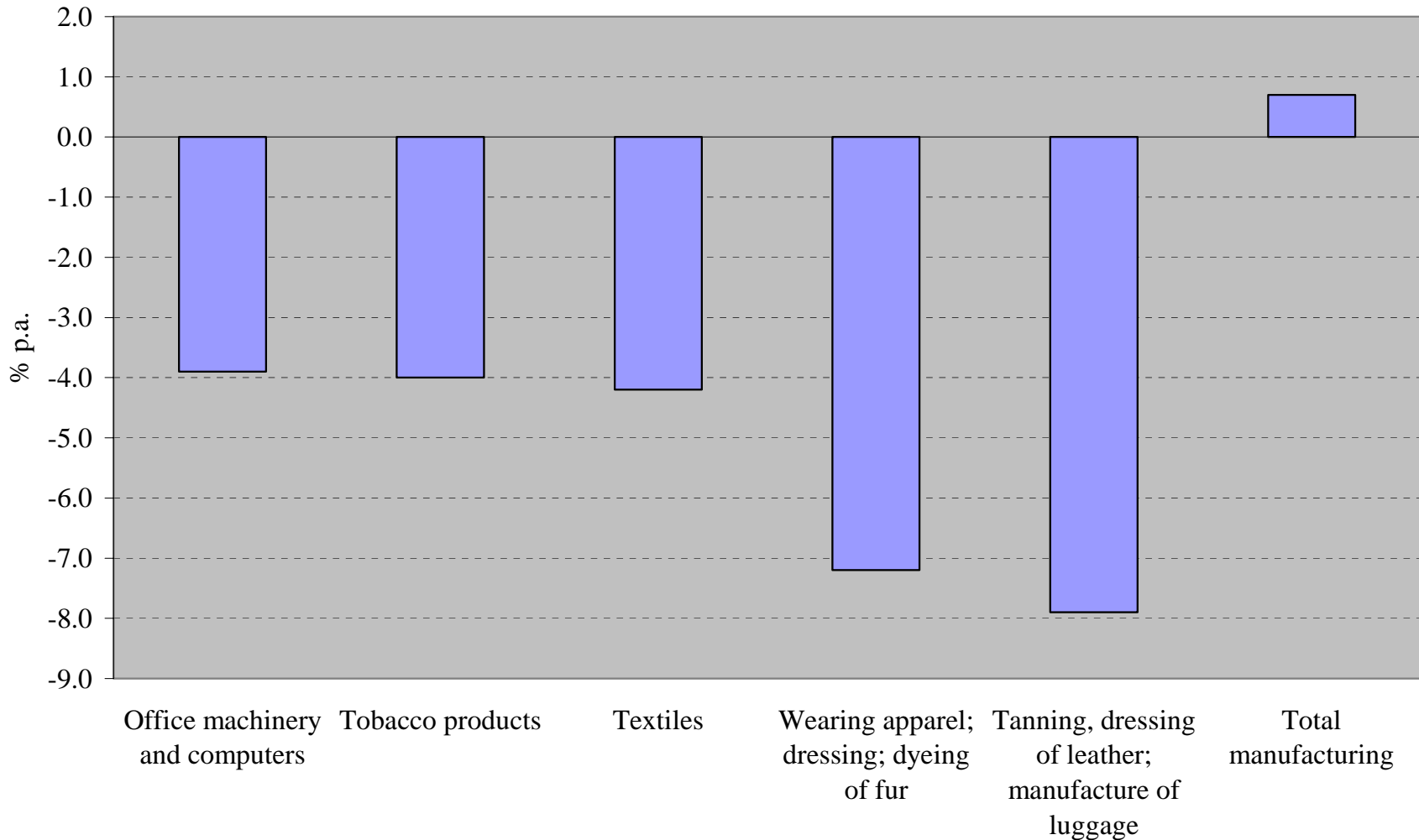
Sectors in EU-25 with weakest Revealed Comparative Advantage in 2004



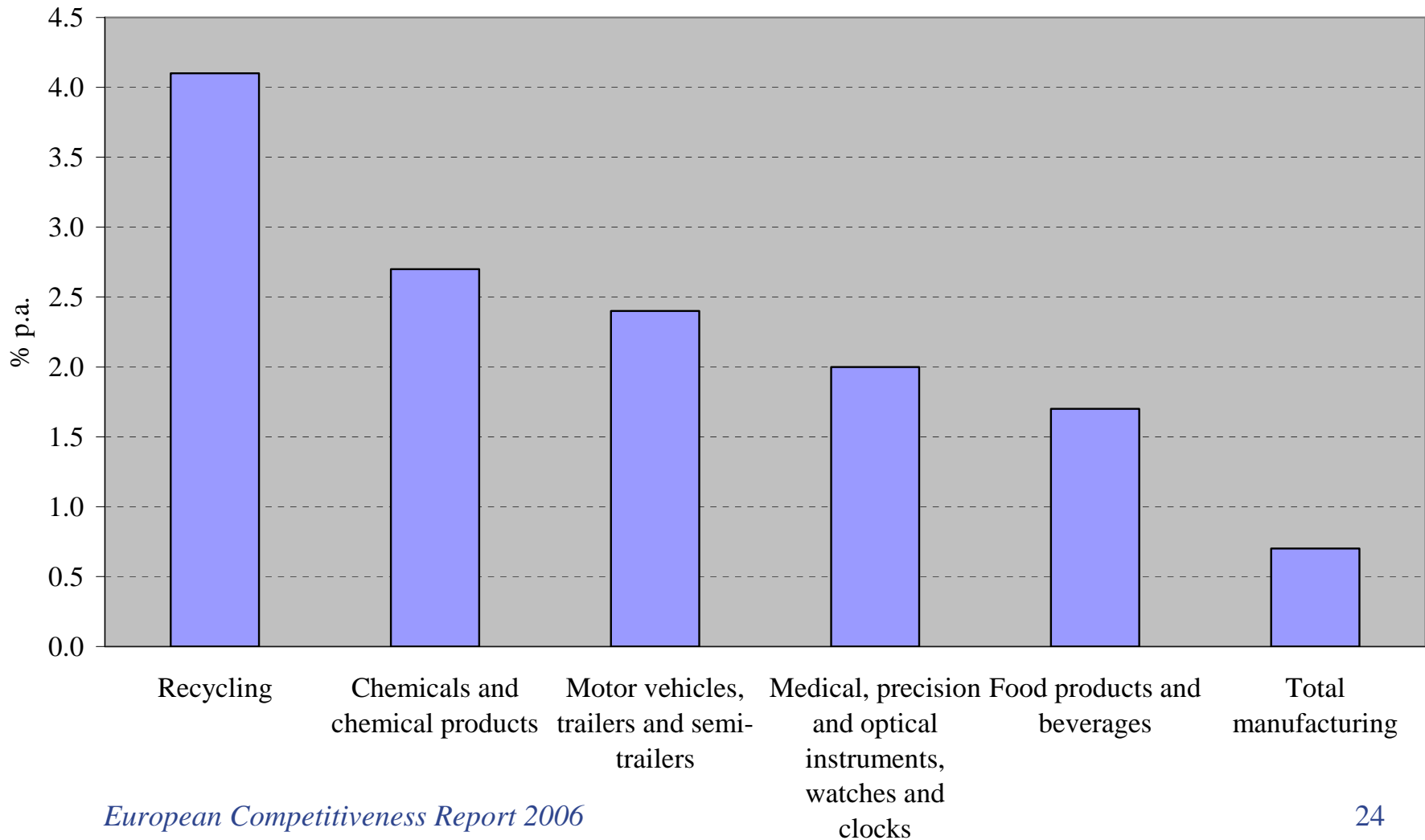
Sectors in EU-25 with strongest Revealed Comparative Advantage in 2004



VERSENYHELYZET: Manufacturing sectors in EU-25 with steepest decline in production in 2001-2005

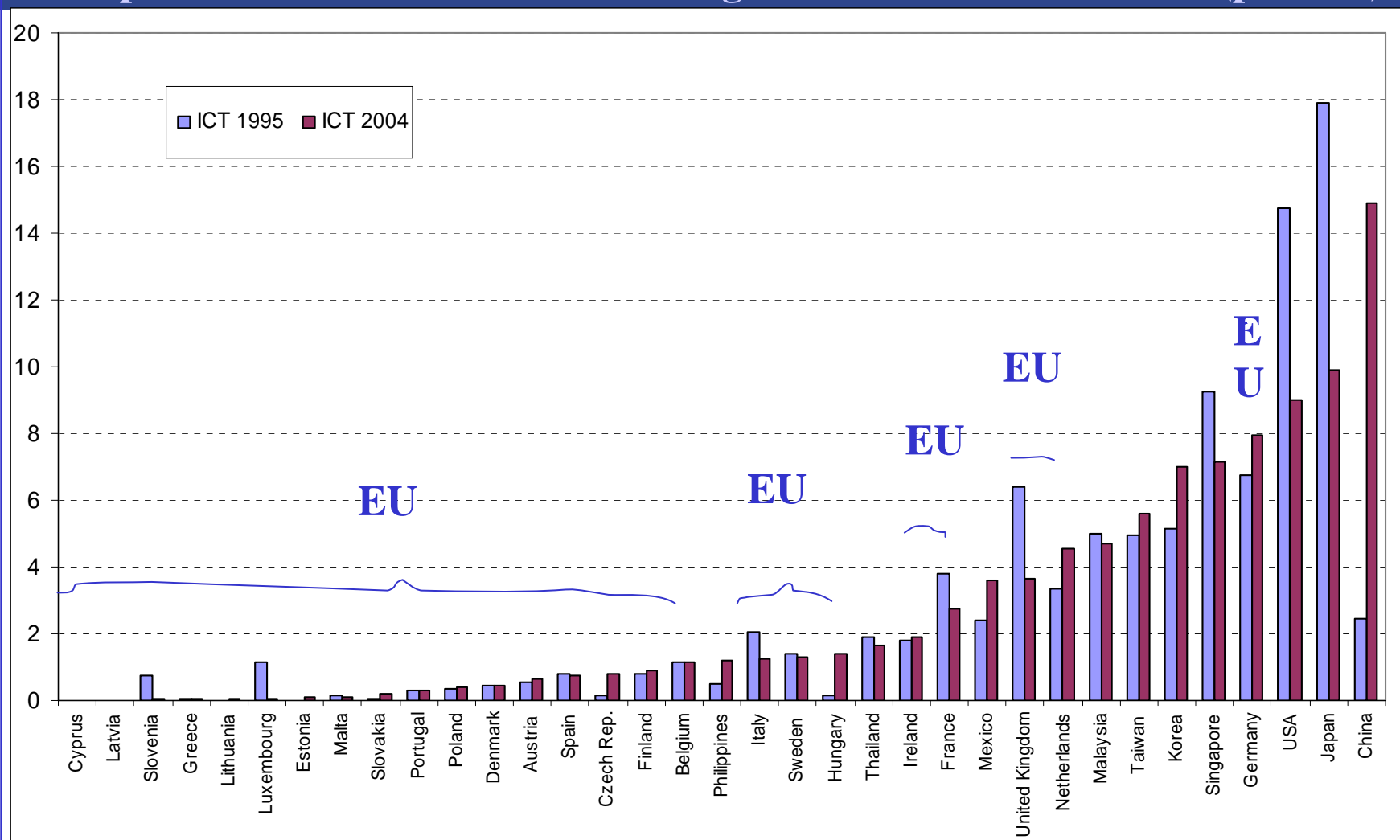


VERSENYHELYZET Manufacturing sectors in EU-25 with highest production growth in 2001-2005



VERSENYHELYZET: The competitiveness of the EU ICT sector:

export shares of ICT manufacturing industries 1995 and 2004 (percent)



The competitiveness of the EU ICT sector

Strengths...

- The EU ICT sector is successful in producing sophisticated and high-quality ICT products (scientific instruments, electronic components and telecommunication equipment).
- It is particularly strong in chip design, software development and ICT services.
- One of the key strengths of the EU ICT sector is its human capital.
- Strategic R&D is performed in the EU while less knowledge-intensive market oriented R&D is located in South-East Asia.

...and weaknesses

- The ICT manufacturing trade deficit was 55 billion euros in 2004.
- Large parts of ICT hardware production software coding have been relocated to South-East Asia.
- The ICT uptake in other parts of the economy is slower than in USA and Japan.
- Lower investment growth than in emerging economies threatens lower value added activities in the EU.
- Lower R&D intensity than US or Japan, R&D concentrated in larger companies.

Conclusions

- The answer to the challenge from low-cost producers lies in further climbing up the quality ladder.
- Raising R&D investments of the EU ICT sector and ensuring the availability of skilled labour will be crucial for the EU ICT sector's future competitiveness.
- Policies that matter most for the EU ICT sector's competitiveness include those fostering R&D and innovation, entrepreneurship, IPR, e-skills, ICT uptake and completing the Single Market (i.e. Growth and Jobs strategy).