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# CONSULTATION ON THE FUTURE “EU 2020” STRATEGY

*Commission Working Document COM (2009)647 final*



*January 2010*

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## INTRODUCTION

In general, the Commission paper takes good stock of the shortcomings of the current Lisbon process that have hindered to a significant extent the achievement of both the several quantitative targets (set to be attained by 2010) as well as the transformation of the macroeconomic climate in Europe, into a framework conducive for entrepreneurship.

The focus of the Commission working document lies in its discernment of a three-pronged thematic drive for revamping the Lisbon Strategy into the new “EU 2020” strategy. The thematic approach selected by the Commission services is a recommendable novelty that should contribute towards increasing the focal attention of the key priorities for economic reform across the EU-27 member-states. Clear prioritisation across the flagship macroeconomic issues to be addressed by the “EU2020” strategy is an imperative must in order to ensure that the new strategy does not fall victim to the same faltering often recorded at national implementation stage.

Maltese business feels that the new “EU2020” strategy should not be a repeat of the current Lisbon process. The “EU2020” strategy should not be a chronicle of missed opportunities at reforms across a wide-ranging spectrum of policy activities ranging from environmental issues to education, from sustainability of public finances to infrastructural development, from competition policy to human resources development. The current Lisbon process suffers from a debilitating lack of thematic coherence induced in part from the inherent disparity evident in the wide scope of the above-mentioned policy remits.

The national reform process unleashed by the Lisbon Strategy at national level has achieved some satisfactory results however more could have been achieved if the Lisbon process at community-level was more focused, thematic-driven and better linked to the unfolding economic realities of member-states – each characterised by its own national peculiarities and specificities.

## RESULTS SO FAR...PROSPECTS FOR THE FUTURE

From a Maltese business perspective, the progress obtained through the implementation of the National Reform Programme (NRP), has led to a degree of greater labour market flexibility. In particular, this is attributable to the proper public policy choices in earmarking the successful retention of the employment rate despite the adverse international economic situation and the marginal yet important increases in female employment and to a lesser degree in active ageing by senior citizens.

Conversely, the national reform process in Malta has yet to deliver on key elements crucial for the local economy's full and smooth integration into the European single market, five years after EU accession. The impetus of structural reform seems to stall in relation to the much-needed delivery of **fully-functioning competition policy instruments** to ensure proper market surveillance in both the goods and services sectors, whilst yielding the desired inflationary containment for the benefit of local consumers.

This is of particular importance at a time when inflationary pressures can deter consumers from making use of their disposable income thus directly contributing to the economic upturn at least in the retail sector. Moreover, the implementation of the Services Directive also puts the need for proper and fair market surveillance increasingly under the spotlight due to the potential shift towards stiffening price-based competition that can be far easier absorbed by non-Maltese 'foreign' economic operators as a result of their wider economies of scale.

The National Reform Programme adopted by the Maltese Government in 2008, covering the final two-year cycle of the Lisbon process, clearly recognises the strategic importance of an effective competition policy addressing market imperfections that inevitably tend to develop in a micro-market such as the local one. Effective market surveillance remains to-date thin on the ground with the result that locally-operating businesses often find themselves in the unenviable situation of unfair competition from imports of products not going through the full customs and excise compliance procedures. This results in products being made available on the local market with unwarranted pricing tags not fully reflective of the due taxes with consequent loss of tax revenue for the local authorities. The net result is distortion of competition and the inability of law-abiding Maltese entrepreneurs to fully exploit through a fair level-playing field the commercial benefits of the internal market.

The persistence of such a market predicament is a clear instance of how the Lisbon reform process has often proven to be ill-equipped at translating its policy objectives into tangible reality for businesses due to the inadequately-structured implementation monitoring system. The "EU2020" strategy can enjoy better prospects of success if the methods of delivery associated with the current Lisbon process are appropriately adapted and reinforced to ensure as much as possible a better delivery of earmarked reform targets at member-state level.

In this regard, the Commission working paper correctly highlights the exit from the economic crisis as the starting point to ensure the overall success of the new “EU2020” strategy. The working paper draws attention of national policy-makers to the need of “harnessing **existing instruments** in a **new approach**”. The **existing instruments** are well-known, these being the **European single market**, as the framework for increasing competition, lowering prices and creating jobs across a whole array of industries for which EU sectoral policies are already in place. On the other hand, the **Stability and Growth Pact** if properly respected by all member-states’ administrations should facilitate fiscal consolidation following important rescue and stimulus programmes financed from state budgets, consequently allowing for rapid re-orientation of budgetary resources towards the new “EU2020” targets.

The completion of the internal market for both goods and services sustained with the redress of national deficits is a highly-recommendable prescription for returning to a healthy state of productive economic growth coupled with the creation of employment posts in the private sector. This doubled-tracked use of “existing instruments” should in turn be supported not just by a “new approach” as suggested in the Commission working paper but also by a notably re-strengthened framework for delivering the objectives of the strategy.

The core Commission suggestions of the **new approach** deal with the proposed extension of the scope of the internal market to **digital and e-services**, the **external setting** of the new Lisbon agenda and in establishing **clearer governance** to make the delivery of the new strategy more effective.

#### ASSESSING THE PROPOSED MEANS...

The novel thematic approach proposed by the Commission is fuelled by a trifocal emphasis on **knowledge**, **inclusive societies** and an **inter-connected ‘greener’ EU economy**.

##### (1) *CREATING VALUE BY BASING GROWTH ON KNOWLEDGE*

Sustainable growth based on knowledge requires an integrated approach to education, research and the translation of R&D efforts into concrete market-based applications that can procure added value to products, services and processes at industry, sector and firm-level all alike.

From a Maltese business perspective, the use of the term knowledge-based growth does not convey to the full extent possible the conceptual complexity underpinning the meaning of innovation. Knowledge is the driver for research conducive to the development of new products, services and/or the improvement of current processes and applications however it is innovation which is the course of action that brings to market the results of R&D. In this regard, Maltese business recommends that the first thematic pillar of the new “EU2020” strategy should be re-named into ‘*Creating value by basing growth on innovation*’.

The Commission working paper highlights a series of gaps across varied aspects linked to innovation preventing the realisation of an integrated approach to education research and creativity capable of sustaining competitive economic growth invigorated by non-cost factors unlike labour overheads – outlay factors on which the EU economy can no longer compete with the emerging economies. Maltese business fully concurs with the Commission’s opening consideration on the need of strengthening education.

Indeed, an integrated approach to education and research requires the development of a skilled well-educated workforce as the best antidote to social inequality and marginalisation, often leading to labour-market segmentation. In this regard, it is of the utmost importance that the current Lisbon target addressing the prevention of early-school leaving should be not only retained but also reinforced within the new “EU2020” strategy.

It is the Maltese business viewpoint that the guiding principle for the attainment of innovation-oriented education systems in the EU should be **better inter-linkages between academia and industry**. The new “EU2020” strategy should encourage as much as possible the creation of on-campus business incubation centres in order to redress the existing structural gaps between formal tertiary education and the world of work particularly in the private sector.

Channelling the right quantitative and qualitative investments to sustain such ambitious efforts towards the inculcation of research as the ethos of the EU-27 member-states’ education systems necessitates a re-thinking of public-private partnership policies at community-level. The development of an **EU framework policy on public-private partnerships** is a must in order to facilitate a roll-out of public policy enticements towards this model of mixed public and private investments at national member-state level.

Investments implicitly entail the mobilisation of considerable financial resources at a time when access to finance is undoubtedly a considerable challenge for public authorities and private enterprise alike. With this view in mind, Maltese business recommends that the national implementation programmes to be adopted within the ambit of the new “EU2020” strategy, should mandate the creation of permanent structured set-ups preferably in the form of roundtables bringing together all the stakeholders with an interest in resolving the bottlenecks hindering easier accessibility to credit, private equity and venture funds.

The institutional stakeholders to be represented in these **“Business-Finance Roundtables”** range from private banks, to entrepreneurs, venture capital fund managers and business-support intermediary/representative organisations such as Chambers of Commerce, and public investment promotion agencies. Such roundtables would serve to analyse and better discern the kind and quality of finance product(s) required by small and micro-businesses, early-growth firms and mature enterprises alike to sustain their business endeavours over the medium-to-long term.

A workforce endowed with the right e-skills coupled with the deployment of the necessary investments along with the unleashing of new finance resources for private enterprise to flourish are the key elements for the EU to set itself in pole position to fully tap the potential of the digital economy. The Commission paper correctly presupposes considerable economic gains for businesses irrespective of their size, business model and sector of commercial operation, whether in goods, services or procurement markets.

The achievement of a European digital economy depends to a great extent on a renewed impetus for the e-skilling of the labour supply, often entailing either comprehensive re-skilling of workers or else the up-skilling of already well-attuned employees to the use of electronic applications and software. Re-skilling and e-skilling in the private sector comes at a cost and in this regard it is crucial that the new “EU2020” strategy devotes specific attention to the e-skilling requirements of both today’s and tomorrow’s labour supply to be best positioned to take advantage of the new, evolving employment and career opportunities available on the digital market place. Digital skills forecasting exercises across key industrial and services sectors should be incorporated within the headline goals of the new “EU2020” strategy.

Moreover, from a policy perspective, the new Lisbon strategy should take into account the need to update European single market policy through the creation of an **internal digital market for both goods and services**. This is a priority need given the increasing trend for all sorts of economic services to be delivered electronically whilst new online commercial services are also fast emerging for which there is no commensurate regulation to ensure a level playing-field across the internal market. Therefore, the deployment of ICT-based commercial services should be earmarked as an ‘umbrella’ priority target within the new “EU2020” strategy carrying a set of practical targets addressing distinct sub-sectors such as e-learning, e-health, e-public services etc. In this way, the EU’s Digital Agenda will be irreversibly embedded within the new “EU2020” strategy.

## *(2) EMPOWERING PEOPLE IN INCLUSIVE SOCIETIES*

The Commission working paper identifies the empowerment of human capital as the key element for achieving more inclusive societies in the EU member-states. The social aims of the “EU2020” strategy are set to be more job opportunities, equitable opportunities for lifelong learning opportunities and greater employment rates across the entire working age population coupled with a sustainable social security safety net for the unemployed and people in job-to-job or study-to-work transitions.

This is a tall order – a set of ambitious labour-market objectives based on the twin premise that **flexicurity measures** and **sustained lifelong learning** inculcating a culture of continuously updated re-skilling of the workforce can effectively meet the social aspirations of the new “EU2020” strategy. The success of this social approach depends to a considerable extent on the full adoption of flexicurity measures within the formulation of national social policies. The Commission working paper only partially acknowledges the merits of flexicurity as both a policy and prescriptive means for ensuring the empowerment of people to secure more inclusive societies.

The intrinsic worth of flexicurity is recognised in relation to the well-accepted need to ease the transition between career switches and in-between formal training and the subsequent return onto the labour market. Nonetheless, the value of flexicurity measures is not properly upheld within the Commission working paper in so far that its proven worth amply demonstrates within the context of the need of flexible working arrangements and new business models developing mostly as a direct result of the deployment of new e-technologies.

Some novel flexicurity measures have unintentionally been developed as a bye-product of the international economic crisis. Reduced working weeks combined with training programmes are a clear instance of an *ad hoc* flexicurity measure that has been successfully applied locally to contain the spill-over of the financial crisis onto the labour market. Such flexi-time arrangements helped considerably the retention of employment levels and consequently the protection of invaluable human capital particularly within the export-oriented manufacturing industry – one of the most exposed sectors, along with tourism, to the vagaries of the international economic crisis.

Inevitably, such measures were conceived as a temporary solution to remedy the negative employment-related implications of the crisis. The new “EU2020” strategy should strive to make the best of lessons learnt at member-state level through the conception and implementation of the various national rescue and stimulus plans in response to the social impact of the crisis. The social pillar of the “EU2020” strategy should be structured on the basis of the added value that temporary and often *ad hoc* flexicurity measures have contributed to the fight against the crisis as well as to the exit from the economic slowdown on the employment front.

With this view in mind, Maltese business recommends that the **social headlines** of the new “EU2020” strategy should be based on a parallel double-track of **flexicurity measures** and **lifelong-learning skills enhancement** efforts supported in turn by a major public policy drive towards the **promotion of entrepreneurship and self-employment** in the general context of the disparate and divergent timeframes characterising the national exits from the economic crisis.

In particular, Maltese business would like to see the new “EU2020” strategy carry a compilation of guidelines on select, proven and successful **best practices in flexicurity** measures that can be **piloted within priority sectors** identified to be most in need due to competitiveness-related considerations of flexible working-time arrangements and labour contractual engagements. Furthermore, Maltese business advocates that flexicurity measures should always be solidly grounded on a sustainable footing, meaning that any temporary employment support measures should always earmark the maintenance or the improvement of productivity levels at the least possible cost.

Flexicurity policies inherently imply a strong focus on the **employability** of the people. Within such an approach, the continuous re-skilling of the labour force is a crucial prerequisite for ensuring inclusive societies. The Commission working paper correctly evaluates skills as the key element for the EU's economic and productivity growth capable of sustaining employment creation. Much is said about the merits of lifelong learning but no attention is given to the increasing need for both **intra-industry and inter-industry re-skilling needs** in the context of shifting and evolving business models and the increasingly rapid restructuring affecting some traditionally labour-intensive industries more than others. Job shedding as a result of internal structural restructuring necessities is all the time more evident in certain sectors of the manufacturing industries as well as in tourism and the hospitality-related businesses.

The new "EU2020" strategy should consequently address both intra-industry and inter-industry re-skilling aspects related to lifelong learning strategies at both community and member-state level. An EU framework policy viewpoint on how intra-industry re-skilling can bolster the competitiveness of industries increasingly affected by global competition should be urgently developed. This applies mostly to economic sectors with high-growth potential. From a business perspective, inter-industry re-skilling is most appropriately adequate in instances of industries and economic activities demonstrating a high-level of comparable internal labour organisation and utilisation of human capital. A clear example of the value of inter-industry re-skilling is the re-training of low-skilled human resources employed doing mostly menial tasks within hotels to be re-deployed within the work floor operations of manufacturing industries.

It is needless to stress, that within the ambit of intra-industry and inter-industry re-skilling strategies, efficient labour **skills-forecasting** exercises play a decisive role in attaining the end objectives of greater employability and consequently enhanced labour productivity at the work place. Skills forecasting is an increasingly important tool for national policy-makers in order to better anticipate typically-required future job descriptions along with the corresponding desired career profiles. Undoubtedly, this is the best policy measure available to avoid labour market segmentation over the medium to long-term.

**Self-employment** is an equally important alternative route to integrated labour markets. Indeed, it is also the least costly path from a national budgetary perspective in creating and maintaining social solidarity across the labour market. This is a significant consideration during times of economic crisis leading to tight fiscal margins on national budgetary resources that can potentially be deployed for employment creation purposes. Public-policy support for bolstering self-employment always makes considerable economic sense but even more so during times of economic recession. In short, the EU economy needs more employers in order to create more jobs. Entrepreneurs are not born overnight but are the result of an entrepreneurship culture that often needs to be well-ingrained at an early age. Maltese business takes positive note of the Commission's working paper call for a more entrepreneurial culture to take hold in Europe in turn supported by a more understanding attitude towards risk-taking and genuine first-time business failures.

Working towards the achievement of the right **framework conditions supportive of self-employment** across all the EU-27 member states should be an imperative priority objective of the new "EU2020" strategy. The

portability of social and pension rights are mentioned as concrete examples of disincentives maintaining a hostile environment for community mobility of entrepreneurs consequently preventing a better spread of self-employment levels across the European single market. Though important considerations such regulatory issues are in truth secondary issues of concerns. **Priority concerns** for establishing a genuine European entrepreneurship culture remain the **long-standing challenges related to access to finance and the general support mechanisms** available for young entrepreneurs at the early-stage development of their business as well as for the provision of mentoring in conducting business ownership/management transfer.

Self-employment targets should be adopted within the new “EU2020” strategy. Maltese business understands the challenging nature of such targets since entrepreneurship depends to a large extent on a number of other ‘external’ factors to national public-policy and any other support measures that can be conceived in favour of self-employment. Nevertheless, the numbers of self-employed can be considerably increased if the full potential of youth and female entrepreneurship are properly harnessed to the benefit of growth and job creation across the internal market.

Public authorities in all EU member-states maintain business registries however very little monitoring is conducted on how new enterprises develop over the initial years of business expansion, conditional on the premise that the business venture would have overcome failure in the first place! Consequently, Maltese business calls for better monitoring of new business registrations and their lifecycle development – a task that should be mandatorily required from member-states’ statistics-collecting bodies in coordination with Eurostat.

### *(3) CREATING A COMPETITIVE, CONNECTED AND GREENER ECONOMY*

The third pillar of the proposed “EU2020” strategy consists in the EU’s long-term strategy of rolling-out so-called ‘greener’ approaches to industrial production and the provision of commercial services, supported by new environmentally-sustainable infrastructural developments linking different modes of transport in order to enhance accessibility across the EU territory.

Maltese business strongly supports the accent in the Commission working document on the need for the EU to maintain a strong manufacturing base precisely to be able to meet the ambitious environmental and climate goals that the EU member-states are bound to pursue through the triple-20 targets by 2020. The recognition of the strategic economic importance of manufacturing industry within the ambit of the new Lisbon strategy is a confirmation that despite the growth of the services sectors – a common trend across most of the EU-economies, not least Malta – the manufacturing industry remains at the core of the industrial capital required for sustainable economic development in turn capable of generating commercial opportunities for services businesses to thrive on. Malta’s own post-independence economic development history demonstrates the extent to which no progressive expansion into other economic sectors (such as the services business) would have been possible without a solid industrial capital base in terms of both infrastructure and knowledge capital required to run manufacturing endeavours across various fields.

In this regard, Maltese business strongly advocates the creation of an **integrated industrial policy** that responds at an EU-level to the evolving challenges and the novel market trends confronting EU-based manufacturing due to stronger competition from emerging economies not only on the basis of cost-factors but also as a result of the progressive harnessing of higher-end technology being utilised in manufacturing processes. The Commission working document invokes the need of a “fresh approach” to an archetype industrial policy that factors in sustainability issues, innovation and continuous skills upgrading of the workforce engaged in industrial enterprises. This constitutes the right policy framework approach, for ensuring a future to European manufacturing through not least the creation of the best possible conditions for facilitating the set up of new business ventures in the manufacturing sector.

From an EU policy perspective, Maltese business deems that the Competitiveness Council conclusions of the 28<sup>th</sup> – 29<sup>th</sup> May 2009, on an integrated approach to a competitive and sustainable industrial policy in the EU constitute a solid and practical basis on which a new vigorous integrated EU industrial policy could be formulated and subsequently promoted across the EU-27 member-states.

Strengthening the European industrial base inevitably entails greater focus on **efficiency in production processes** implying better and more targeted utilisation of energy efficiency to contain utility-related costs whilst also maximising on tighter profit margins as a direct result of lower orders, less sales and the general slowdown in business transactions as the European economies slowly exit from the international crisis. The full potential of energy-efficient business practices needs to be untapped in order to obtain the best savings ratios possible for European industry particularly for those businesses experiencing low operational margins due to the crisis as well as for those businesses planning expansion despite the adverse macroeconomic conditions.

Maltese business is appreciative of the cost-saving opportunities emanating from a widespread take-up of energy-efficient applications at the work-place that can only be made possible through greater fiscal support schemes aiding investments in small-scale RES solutions and equipment. Energy efficiency is the most cost-effective way of reducing energy consumption within industry while maintaining an equivalent level of economic activity. Improving energy efficiency also addresses the key inter-related energy challenges of climate change, energy security and competitiveness. In this regard, Maltese business considers a sensible opportunity for the new “EU2020” strategy to explore the potential benefits of incepting **EU-wide common incentive schemes** supported by a corollary drive towards standardisation of energy-efficient equipment in order to enhance the take-up of such applications whilst increasing consumer confidence in their cost-worthiness over the initial – often hefty – capital outlay.

#### REDRESSING SHORTCOMINGS TO IMPROVE ON DELIVERY AND NATIONAL IMPLEMENTATION...

Maltese business is supportive of this proposed tri-focal thematic new approach in so far that it correctly identifies the crucial challenges that need to be overcome in order to make a success out of the new “EU2020” strategy. The Commission working paper recommends that the “EU2020” strategy is set in the

**context of globalisation.** From a business perspective, this makes considerable sense not least because of the substantial commercial potential for the EU to become the leading global exporter of the green technologies which the integrated climate and energy policies are bound to incentivise production in the near future, but also due to the need of EU-based industry to move up the value chain in order to beat off competition from emerging economies enjoying lower labour and cost-structures.

Maltese business appreciates the commercial opportunities that lie yet unexploited from potential transfer of knowledge, procurement and service-maintenance of RES-based equipment in the Euromed region. In this regard, Maltese business would like to see a decoupling of political considerations in deepening the economic ties with Euromed partner countries. The **external dimension** of the new “EU2020” strategy should be consequently developed to focus on **prioritising market access** for EU-based operators into third-country markets. The bilateral approach seeking the conclusion of free trade agreements (FTAs) with third-countries should be pursued vigorously as long as real market advantage for EU-based operators is obtained.

On delivering the expected results, the Commission working paper suggests a total **overhaul of the governance process** of the current Lisbon Agenda. Reinforced partnership through multi-level governance engaging with all interested political and socio-economic stakeholders is put forward as one way of enhancing governance of the new “EU2020” strategy. In parallel, the Commission is proposing the European Council to become the institutional focal body responsible for the political ownership and general coordination of the new “EU2020” strategy. A clear institutional hierarchy is consequently being proposed with the ECOFIN Council of Ministers, assigned to a significant extent the ‘senior’ role within the pecking order of the various Council formations tasked with the implementation of the “EU2020”-related decisions in an integrated manner.

It is a matter of some concern for Maltese business to note a downgrading of the role of the Competitiveness Council in the proposed overall governance process of the “EU2020” strategy. The guiding principle of the Lisbon Agenda for growth and jobs was over the whole past ten-year cycle the improvement of the macroeconomic conditions and the general competitiveness of European business in an increasingly globalised economy. In this regard, a query as to what role will the Competitiveness Council will exercise in the proposed governance structure of the “EU2020” strategy is justified. An equitably-balanced involvement of both the ECOFIN and Competitiveness Councils is required in order to avoid the scenario that the new “EU2020” strategy would be too much skewed towards financial sustainability of public budgets thus derailing the needed investment-related decisions for upgrading existing infrastructures and deploying new investments for productive growth.

Beyond the governance issues, the Commission working paper regrettably fails to properly address how the EU intends to adequately enhance the otherwise weak means of delivery that were at the very root of the several shortcomings typifying the preceding Lisbon Strategy. Maltese business strongly encourages the relevant authorities at both community and national level to **adopt a truly verifiable and comparable**

**benchmarking system** that keeps a better and more critical oversight of both achieved progress as well as partially-attained and/or failed targets throughout the lifecycle of the “EU2020” strategy.

The benchmarking methodology needs to be complemented by a **better system of consultation** with all social partners not least with business representation organisations who have a direct stake in the process of macroeconomic reform conducive to the inception and maintenance of a better and consequently more productive business environment. Maltese business regrets that often consultation on the various updates and annual reporting requirements linked to the National Reform Programme (NRP) were often conducted more in the spirit of an information obligation to keep the local social partners ‘informed’ of the process rather than construed as a properly well-structured opportunity – also in terms of timeframes, to provide real policy input and substantive suggestions to improve the reform drive.

**Proper consultation** on the key contents of the new national reform programmes to be formulated within the ambit of the new “EU2020” strategy needs to be carried out on a **regular basis** involving all the relevant stakeholders in an open and transparent process. Consultation implies a two-flow process of information exchanges and advisory feed-in to the reform agendas to be adopted within the context of the new “EU2020” strategy at national level. Maltese business advocates the initiation of a consultation process preferably at an early-stage of the reform policy formulation in conjunction at both political and technical level.

## CONCLUSION

In short, Maltese business agrees that the “EU2020” strategy is not about reinventing the Lisbon process from scratch. **The ‘new’ exercise is about re-engineering the reform focus on clearer, fewer but more strategically-oriented targets, whilst reinforcing the method of delivery of the reform drive at national level.** Only in this way can the benefits of the Lisbon Strategy be better understood, owned and ultimately reaped into market opportunities for growth and jobs by businesses operating within the internal market.

The Malta Business Bureau is willing and ready to lead the national debate on behalf of the entire Maltese private sector with regard the identification of the reform priorities and the policy formulation of the new national reform programme within the context of the “EU2020” strategy. In this regard, the Malta Business Bureau will be monitoring over the coming months the development of the new “EU2020” strategy at an EU-level whilst explaining and communicating its practical meaning and implications at industry and sector level.

08.01.2010  
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