The case for open markets: how increased competition can equip Europe for global change

April 2006

HM TREASURY

HMSO
Licensing Division
St Clements House
2-16 Colegate
Norwich
NR3 1BQ

Fax: 01603 723000

E-mail: hmsolicensing@cabinet-office.x.gsi.gov.uk

HM Treasury contacts

This report can be found on the Treasury website at:

hm-treasury.gov.uk

For general enquiries about HM Treasury and its work, contact:

Correspondence and Enquiry Unit
HM Treasury
1 Horse Guards Road
London
SW1A 2HQ

Tel: 020 7270 4558
Fax: 020 7270 4861
E-mail: public.enquiries@hm-treasury.gov.uk

ISBN-10: 1-84532-180-4
ISBN-13: 978-1-84532-180-2

Introduction and summary

Europe cannot compete in a global market if it is unable – or unwilling - to complete the Single Market, drive up levels of competition and become more open to the rest of the world. Effective competition will drive up performance and create new opportunities for European businesses, workers and consumers. Openness to trade and investment is key to Europe's future prosperity. With the world developing at unprecedented speed, and with the pace and scale of change pervasive and relentless, it is only through becoming more open that we can seize the opportunities of the new global economy.

This paper considers how Europe can move from the older inward-looking model to a flexible, reforming, open and globally-oriented Europe - able to master the economic challenge from Asia, America and beyond. Turning inwards cannot work in a global economy, where production processes are increasingly spread across continents, and where businesses, consumers, jobs and prosperity depend on international trade and investment.

This paper argues that to be globally competitive, Europe must make the long-term choices to achieve stability and growth through flexibility and openness. The way to deliver more and better jobs and opportunity for all is for Europe is to take advantage of the realities of the new global economy. This requires a real commitment to reform and a dynamic, competitive Single Market, matched with external openness .

The openness and reform agenda was at the heart of the UK presidency of the European Union in 2005. This paper therefore builds on previous Treasury work by firstly examining the reality of globalisation today including how the rapid growth of emerging economies is transforming global economic activity. Both economic theory and evidence show that open and flexible economies are best able to reap the rewards and manage the risks.

The paper then looks in more detail at the implications of globalisation for Europe. EU countries are already benefiting from trade and investment with each other and with the new emerging economies. These international linkages are increasing productivity and competitiveness, boosting employment prospects for European workers and reducing prices for European consumers. But if it wants to continue to benefit from the opportunities of global change, Europe should not now turn its back on open markets and the need for further reform. Competition is getting ever more intense and Europe has a substantial legacy of unemployment and economic underperformance to address.

Finally, in order to achieve the goal of an outward looking, full-employment 'Global Europe', the paper discusses the main policy challenges for EU governments. It argues that the EU must now complete the Single Market, particularly in key network industries and those sectors currently shielded from competition. Instead of simply reaching political agreements on timetables for liberalisation and market-opening legislation, all energy and other sectors that fail to liberalise and open up to competition should be subject to independent investigation and enforcement.

In parallel with openness inside the EU – a founding principle of the Union - the EU needs to remain open and engaged with the wider world. This is vital not only for European business and consumers, but also to ensure an ambitious outcome from the Doha WTO negotiations which is essential to promote global trade and deliver benefits to developing countries. This flexibility should be matched with fairness and we need to ensure that all our citizens can thrive in the new global economy. The EU must therefore deliver on its programme of structural reform to provide them with the skills and opportunities they rightly expect.

Section 1: Global Economic Challenges

1. Globalisation offers immense opportunities, particularly for those economies that are outward-oriented and embrace change. In fact, both theory and empirical evidence show that openness to both trade and investment delivers significant economic gains and helps countries to boost productivity, raise consumer welfare and support economic growth. However to understand how the process works in practice, we should begin by identifying how the world is changing – and will continue to change in the years ahead.

2. There is a clear shift in the *location* of global economic activity, with an increasing proportion of world output produced in the rising Asian economies and other rapidly developing markets. China's economy has already far outgrown Japan to be the world's second largest economy in purchasing power parity terms. Similarly, India is now the fourth largest economy and is rapidly catching up with Japan.

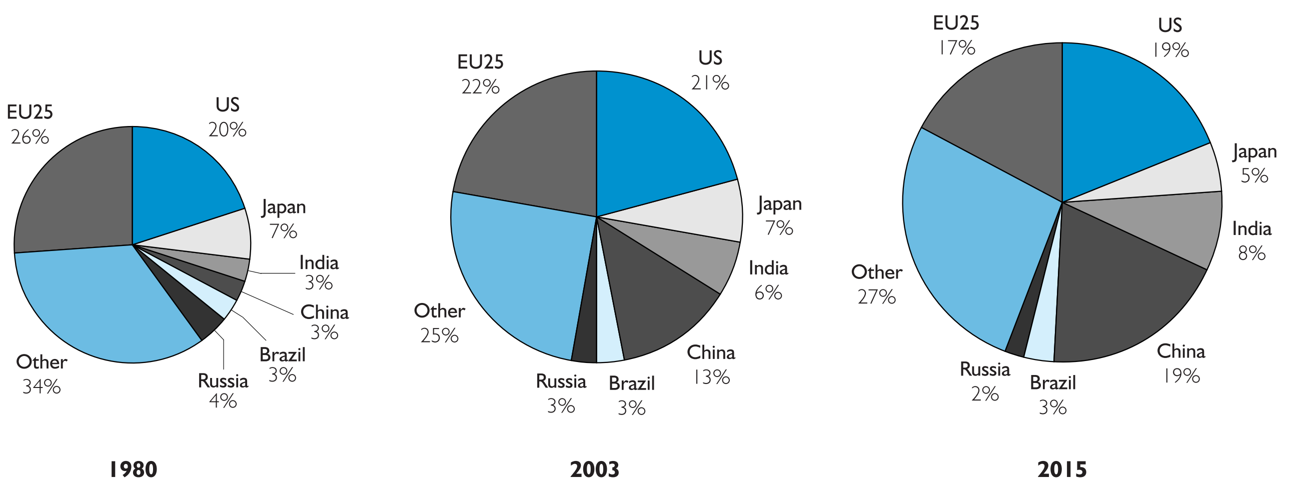
3. This growth is having a big impact on global *trade flows*. Twenty years ago just 10 per cent of manufactured goods came from developing and emerging countries. By 2020 the figure will be 50 per cent. Developing economies are also increasingly trading in services: nine out of the 25 leading importers and exporters of commercial services are developing countries.

4. Rising global *capital flows* mean that economic activity is increasingly integrated across borders, intensifying competition amongst producers and offering increasingly diverse sources and destinations of foreign direct investment (FDI). As well as China and India, other emerging economies such as Brazil and Russia, are themselves becoming huge markets for inward investment, attracting well over half a trillion dollars from 2000-2004.

5. These trends, underpinned by advances in technology, are increasing the tradability of goods and services, leading to the *global reorganisation of economic activity*. Business is becoming ever more integrated across national borders, with changing patterns of trade, investment, and location of production. Global sourcing of goods and services has replaced national sourcing.

Chart 1: Shifting shares in global output: 1980 to 2015

in purchasing power parity terms



Source: IMF, Consensus Forecast, HM Treasury

Note: Areas indicate size of global economy

6. With these dramatic changes taking place in the global economy, no country or continent, however successful today, can take its long-term prosperity for granted. History shows how once prosperous countries can experience rapid decline, and the risks are all the greater with today's unprecedented pace of change. Yet despite these challenges, globalisation offers substantial gains for those who can reform and adapt. About one fifth of the increase in living standards over the past fifty years is estimated to be a result of Europe's integration into the world economy.[1]

7. In a closed economy, economic development is constrained by the domestic availability of labour, capital, technology and natural resources. Competition is limited by market size and potential returns. All the evidence shows that protectionist policies are costly and inefficient, damaging taxpayers and consumers alike. Existing barriers to trade and investment, such as tariffs, quotas and restrictive standards could cost European consumers up to 7 per cent of EU GDP or around €600-700 billion a year.[2]

8. In a more open economy, economic growth can proceed more rapidly as long as there is sufficient flexibility. This is because increased competition promotes greater efficiency and drives down prices. Domestic resources are shifted away from goods and services which can be produced more efficiently abroad, into those which can be produced more efficiently at home. Access to larger markets increases potential economies of scale, with greater prospective returns to investment, innovation, enterprise and skills development. Furthermore openness to trade is likely to be matched by increased access to foreign investment.

Section 2: the implications for Europe

9. So more growth in China, India and the other emerging economies does not imply less growth in Europe - quite the opposite. Europe can benefit significantly from changes in the world economy by increasing employment, boosting productivity and raising long-term prosperity.

10. This section sets out the areas where Europe has been able to successfully take advantage of the new global trends and the benefits this has brought for EU citizens and businesses. But it is clear that global competition is getting ever more intense and the EU is not immune from this. Earlier Treasury research identified six long term challenges facing the EU and its Member States.[3] If Europe is to meet these challenges and ensure the benefits of globalisation are felt by all, it needs to become more outward looking and embrace greater flexibility in labour, product and capital markets. This should be matched with policies to equip people to adapt to change and secure new opportunities.

Increasing trade integration with emerging economies has brought real benefits to the EU…

11. Over the coming decades, international trade and foreign direct investment (FDI) is likely to grow further with the integration of emerging markets into the global economy. Rising trade with India and China has been a key development over the past decade and brought significant benefits to European businesses and consumers. China has become the second largest trading partner to the EU after the US. At the same time, the EU has become China's most important trading partner, ahead of the US and Japan. Total EU15 exports to India and China increased from €24 billion in 1995 to €71 billion in 2005. Likewise, imports from India and China increased by 388 per cent, amounting to €166 billion in 2005.

12. Looking ahead, the potential remains enormous. Future growth in India and China in particular is likely to lead to further growth in trade. Together they already account for almost

[1] EC (2005) The EU Economy 2005 Review: 'Rising international economic integration: opportunities and challenges.'

[2] Patrick Messerlin (2001): 'The real cost of European protectionism', Institut d'Etudes Politiques de Paris and Group d'Economie Mondiale de Sciences Po.

[3] HM Treasury (2005): Long-term global economic challenges and opportunities for Europe

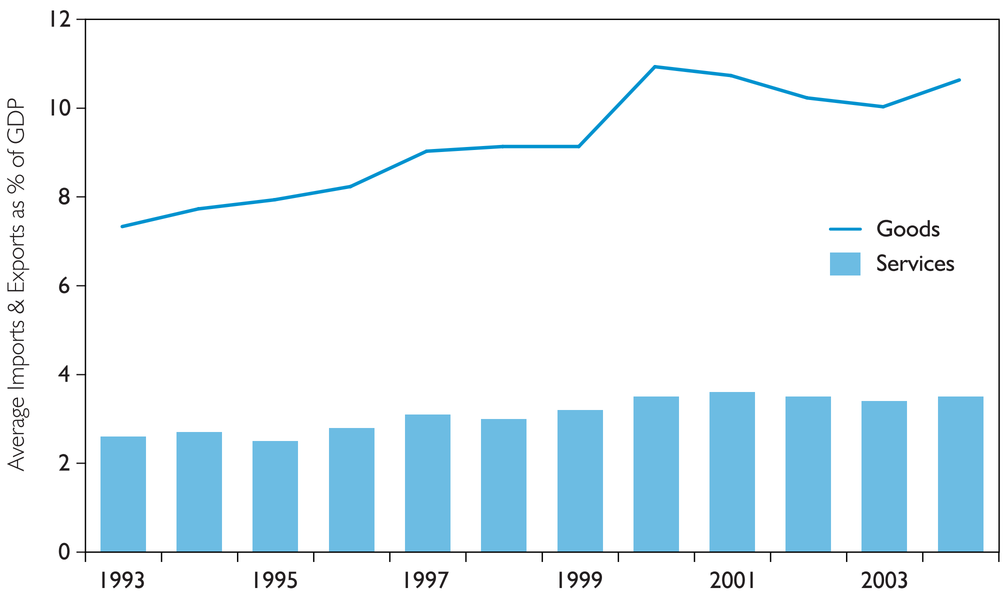
half of the world's population and one fifth of world income in purchasing power terms.[4] Rising incomes in these emerging economies will present unprecedented market opportunities for European business but only if they remain globally competitive.

13. Yet although the global economy has grown faster than Europe, extra-EU trade has not grown at a markedly faster rate than intra-EU trade, even adjusting for the impact of enlargement. Estimates suggest that existing barriers, such as quotas, tariffs and restrictive standards could cost Europe's consumers up to 7 per cent of EU GDP, or around 600-700 billion euros a year[5]. So there is significant scope for the EU to be more outward looking, to increase productivity-enhancing trade with the fast growing emerging economies, as well with other developed regions.

…and while the opportunities are great, competition is increasing and many barriers remain

14. Global markets have the potential to become significantly more integrated as a result of technological advances and further trade liberalisation. World trade in goods is doubling every decade, and last year rose more than twice as fast as world output. Trade in services has also intensified and there has been a shift in the composition of global FDI, with the services proportion growing from just a quarter in 1960, to over two-thirds by 2004.[6] Yet the services sector accounts for over 70 per cent of GDP in advanced economies but only 20 per cent of global exports. Given technological advances, there is clear potential for continued rapid expansion of services trade. Chart 2 shows the limited rise in services openness compared with goods trade and highlights the potential gains from further trade liberalisation.

Chart 2: Trade openness – goods and services



15. The evidence is that those European countries that can respond quickly and flexibly to the changing patterns of global trade will thrive. For example, service exports in the UK have almost tripled between 1992 and 2003, with the UK trading more than €130 billion per annum. With a 70 per cent increase in volumes of exports between 1997 and 2005, Germany has

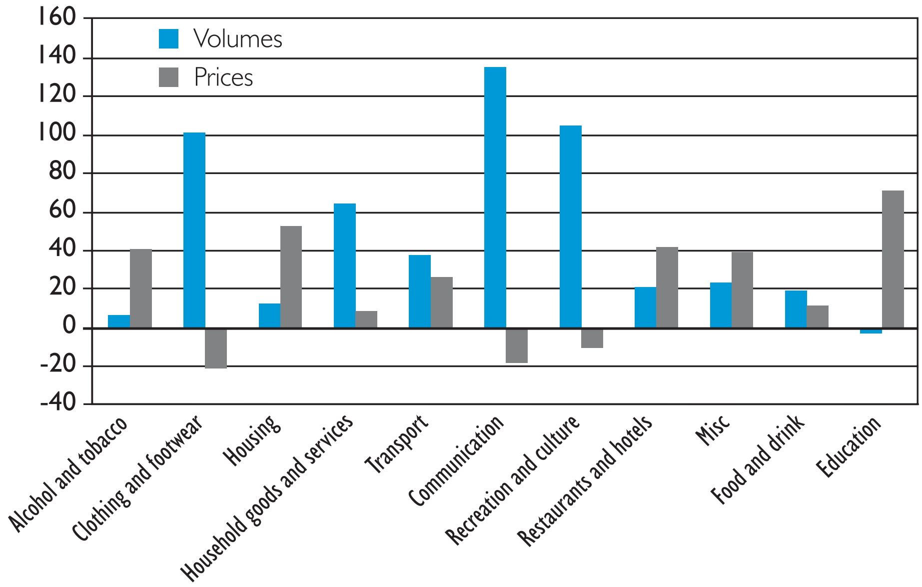
[4] UNCTAD (2005): Trade and Development Report 2005, United Nations, New York and Geneva 2005.
[5] Messerlin (2001) 'The real cost of European Protectionism', Institut d'Etudes Politiques
[6] UNCTAD (2005): 'World Investment Report 2005', United Nations, New York and Geneva 2005.

particularly benefited from the growth of emerging economies. German exports to China and Russia have almost tripled since 2000, while exports to India have more than doubled.

16. Imports are an important part of the gains from trade openness too. European consumers benefit directly from greater competition, which reduces prices and sharpens incentives for innovation. As an economy experiences an increase in the level of competition, mark-ups are squeezed, and costs are lowered as productivity increases. Nowhere is this clearer than in the agricultural sector. On the basis of the most conservative estimate cited by a recent European Commission paper, the CAP will leave the EU over $120 billion poorer over the seven years of the next financial perspectives than it would otherwise be.[7]

17. It is precisely those sectors that have been most exposed to foreign competition that have seen the most pronounced declines in their relative prices. For example, average euro area consumer prices of goods excluding fuels have not risen since 1991. Indeed, a number of countries including Austria, Germany and Spain have enjoyed a fall in the nominal prices of clothing and footwear since 1995. In the UK, the prices of non-energy industrial goods have fallen by 17 per cent since 1997 and the sharpest declines in prices have come in the tradeable sectors of the economy.

Chart 3: Trade openness – benefits for UK consumers



18. There is much scope for further consumer benefits. In particular, the pro-competitive effects of openness are likely to be greater in sectors with lower initial levels of competition. The IMF recently estimated that if trade integration in business services sectors were to reach the levels currently seen in manufacturing, relative producer prices for these services would, on average, decline by almost 20 percent. But only in competitive markets will these reductions in prices be passed through to consumers. So ensuring effective competition in the Single Market remains vital to realising the potential benefits for consumers of further trade integration.

[7] European Commission (2004): 'Economics of the common agricultural policy', Economic Papers Number 211

Global investment flows are also rising into and out of Europe…

19. The European Union, as one of the world's largest markets, has been a consistent beneficiary of inward and outward investment, with both averaging over €300 billion per year in the last decade and accounting for over 45 per cent of global FDI flows. This has delivered significant benefits in terms of creating jobs and boosting productivity, and bolstered European competitiveness.

20. Many member states have benefited from international investment. For example, inward stocks of FDI in France, have increased by over 50 per cent since 2000 and currently stand at €600 billion, or 26 per cent of GDP. Germany has more than doubled its inward FDI stocks over the last decade, while Italy had an increase of 182 per cent, now representing 14.8 per cent of GDP. Spain's inward FDI stocks increased exponentially from just €23.8 billion in 1994 to almost €270 billion a decade later.

21. The UK and the Netherlands are particularly open to inward investment. In fact, the UK's inward flows of foreign investment are the highest in the world at €180 billion in 2005. Similarly, the Netherlands has attracted large investment flows and Dutch inward FDI stocks increased by 262 per cent between 1994 and 2004 to around €445bn, or 91 per cent of GDP.

22. And at the same time investment out of Europe has been increasing – and the overall stock now amounts to **almost €1.6 trillion in 2004**, equivalent to 16 per cent of GDP. In France, the outward stock of FDI has also increased by over 40 per cent since 2000 to €620 billion, over 50 per cent of GDP. German and Italian FDI has also been buoyant over the last decade, and increased by almost 300 and 200 per cent, respectively, reaching 31 per cent and 17 per cent of GDP in 2004. For most Member States, Central and Eastern European economies and destinations in East Asia, most notably China, account for the bulk of outward investment in recent years, highlighting firms' search for new market opportunities and lower cost locations.

23. Both the UK and the Netherlands, in particular, have seized on the opportunities in India and are among the top five investing countries in terms of cumulative flows between 1991 and 2005. During this period, the UK invested over €1.7 billion and accounted for almost 7 per cent of total inward FDI in India. Similarly the Netherlands invested almost €1.6 billion, a share of 6.5 per cent of total inward FDI in the subcontinent. Both countries benefit substantially from these overseas investments.

24. But while some outward looking EU member-states have become increasingly integrated into global investment flows, others display very low levels of integration into global FDI flows, with both inflows and outflows amounting to less than 1 per cent of GDP. Indeed, in 2003 two-thirds of FDI flows into the EU 15 remained between EU Member States.[8] This means that European firms are potentially missing out on opportunities in the fastest growing markets.

25. For example, US firms appear to be investing more than the EU in fast-growing Asian economies. 12.3 per cent of US FDI between 1999-2002 went to these markets, but for the EU-15 the corresponding share was only 5.2 per cent. The EU also appears to have fallen behind the US in terms of its ability to attract inward investment. Between 1995 and 2002, the US received a cumulative inflow of inward investment of US$1.2 trillion – over the same period on a per capita basis Europe attracted just half that amount. While China and India were the 7th and 8th largest investors in the world in 2004, they were 47th and 43rd in Europe.[9]

---

[8] Source: Eurostat

[9] Eurostat (2006)

Box 1: Global companies - not national champions

The old assumption was that we would move from economic integration at a national level to economic integration at a European level. In fact it is global - not European - flows of trade and capital that now dominate. As a result, companies increasingly have to compete at the global and not the European level.

Indeed, European firms have become global leaders in a wide range of markets competing, sourcing and selling across the globe. At the same time, a multitude of non-European firms are firmly integrated into the EU economy, providing jobs and servicing European markets and firms. Europe's successful global brands extend across a wide range of sectors, including automobiles, telecommunications, pharmaceuticals, banks, insurance and other business services, retailers, electrical & electronic equipment, and luxury goods.

For example, Vodafone Group is the largest mobile phone operator in the world and ranked by foreign assets the second largest non-financial firm. Similarly France Telecom and Deutsche Telecom are among the top fifteen non-financial corporations. In the automobile industry, Volkswagen, BMW, Fiat Spa and Renault rank among the top ten global car producers, with the first three ranking among the top 30 internationally oriented non-financial firms, holding over $133 billion in foreign assets.

In retail sales Carrefour has become the second largest retailer worldwide, and in terms of assets held abroad is in fact more internationally oriented than Wal-Mart. In electronics, Siemens and Phillips are within the largest ten global electronics companies, and are among the top 50 of all non-financial firms. In the financial sector, Europe boasts at least ten global players that rank among the top twenty of the world's top 50 financial corporations and in 2003 together held assets in excess of US$10 trillion.

…and this investment can boost jobs and growth

26. Inward investment into the EU has the potential to benefit Europe immensely both in terms of delivering jobs and increasing efficiency. In France, for example, foreign affiliates of international companies directly employ over 1 million workers and in 2001 suppliers of foreign companies employed 2.3 million people – accounting for 21 per cent of France's total value added. In both Spain and Ireland almost 50 per cent of manufacturing jobs are linked to international companies.[10] In the UK, Austria and the Netherlands almost 10 per cent of the total service sector workforce is employed by foreign firms, compared with around 6 per cent in France and 3 per cent in Germany.[11]

27. In addition to employment gains, inward investment can encourage technology diffusion, productivity and wage growth. Studies in the UK, for example, have found evidence of positive technological spillover effects from foreign firm activity in the domestic economy. Moreover, value-added and investment per employee in the UK is approximately 25 per cent higher for foreign owned firms than for domestic companies, demonstrating the advantages of increased inward investment[12]. The Nissan plant in Sunderland illustrates this, and is generally regarded as the most productive plant in Europe.

[10] Lluis Torrens and Jordi Gual (2005): 'El Riesgo de Deslocalizacion Industrial en Espana Ante la Ampliacion de la Union Euorpea', IESE Business School, Universidad de Navarra. And OECD, AFA and FATS databases, March 2005.

[11] OECD FATS database, April 2005

[12] For another example, see Barba Navaretti and Castellani (2004) '*Does Investing Abroad Affect Performance at Home? Comparing Italian Multinational and National Enterprises*', CEPR Discussion Paper No. 4284, March 2004. Analysis of the Italian firms studied found that domestic factories of firms with foreign activities were on average 17 per cent more productive than those of Italian firms with no foreign activities.

So globalisation offers real opportunities – but there are challenges ahead and Europe is still not sufficiently integrated with the wider world economy

28. So Europe can be flexible, competitive and outward-looking but significant challenges remain. The new wave of globalisation will require an intensification of the pace of reform and a commitment to genuinely open and competitive markets in order to help Europe's almost 20 million unemployed back into work. The challenges are clear. Global flows of capital and global sourcing of products will keep Europe under intense and sustained competitive pressure. Europe needs to undertake comprehensive economic reforms with greater determination and greater urgency – and there is much more to do to ensure Europe is properly integrated into the world economy.

…and openness must start with a dynamic and competitive Single Market

29. If Europe is to become more open to global trade and investment flows it must start with a genuine Single Market. This will not only boost jobs and growth at home, but will also drive up the global competitiveness of European business and increase the attractiveness of the EU as an international destination for trade and investment. The European Commission has estimated that the Single Market, over its first 10 years, has produced over 2.5 million jobs and delivered around £600 billion of extra prosperity for the EU. But there remains huge untapped potential in a fully competitive Single Market. So while completing the European Single Market is a shared ambition, it is not yet - because the political will has been lacking - a shared achievement.

30. It is essential therefore to increase the levels of competition in the EU in order to enable our firms to compete successfully in the global marketplace. On many indicators the EU remains behind the US, for example in levels of business creation, innovation and venture capital. Estimates suggest that increasing competition within the Euro area to US levels could boost output by over 12 per cent[13]. The OECD has estimated that restricted competition could be reducing productivity by double-digit percentages in some EU markets[14].

…matched with structural reform to promote fairness with flexibility

31. While promoting openness and strengthening competition, Europe should also recognise that rapid changes of markets and technology will inevitably require workers to move from sectors in decline to those in new and growing markets. Unless addressed through appropriate policies, low- and medium-skilled workers may face rising competition from lower cost locations, particularly in the tradeable sector. This underlines the need for structural reform to strengthen labour market flexibility and equip people with the right skills, supported by an appropriate welfare system that mitigates adjustment costs. Rather than reverting to protectionism and support for declining industries, Europe must boost education and skills and create an innovative enterprise culture.

Section 3: Policy priorities for Europe

32. The evidence presented in this paper shows that openness to trade and investment - within Europe and to the wider world - has delivered more jobs and extra prosperity. But it is also apparent that Europe has much further to go. The economic opportunities of globalisation are now clear. And yet there are still calls for Europe to turn inwards and put up barriers to the wider world. With multinational trade and investment now the key to future prosperity, we

[13] ECB, (2004) Benefits and Spillovers of Greater Competition in Europe
[14] OECD, (2002) Product market competition and economic performance

need to be vigilant and avoid protectionism gaining ground within the EU. Europe's policy priorities should be focused on equipping Europe with the capacity to adapt, respond and benefit from the challenges of globalisation.

i) Driving up competition in the Single Market

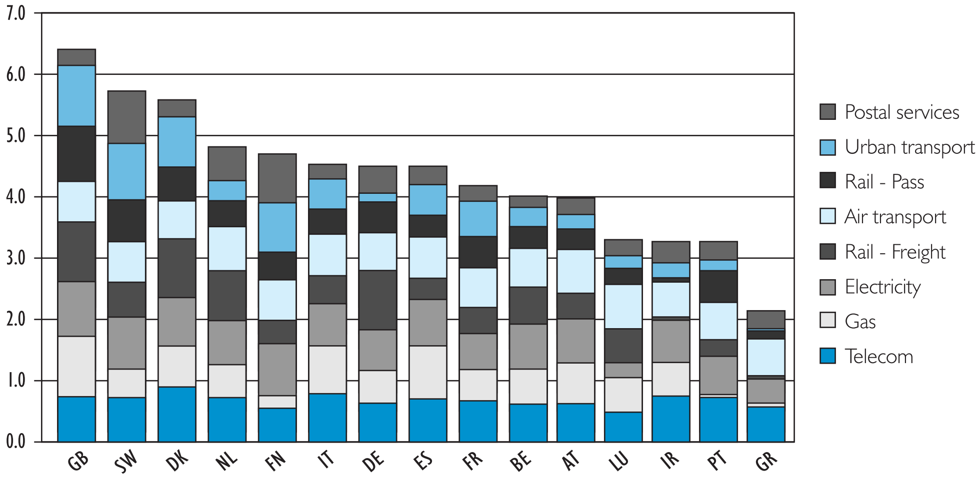
33. The creation of the Single Market was one of the defining economic achievements of the EU. By removing cross-border barriers to trade, it has helped to strengthen competitive pressure in Europe, putting downward pressure on prices, promoting enterprise and growth, and ensuring that resources are moved quickly towards the most productive areas. The recent resurgence of protectionist sentiment in the EU is a reminder of the resistance which the Single Market programme overcame when it was first launched.

34. We cannot allow these achievements to be reversed and there is still ample evidence of enduring barriers to the free movement of capital, goods, services and people in many sectors. The OECD has estimated that restricted competition could be reducing productivity by double-digit percentages in some EU markets[15]. Estimates have suggested that increasing competition within the Euro area to US levels could boost output by over 12 per cent[16].

35. Too many sectors in the European economy continue to shelter behind barriers that reward inefficiency. Having agreed each nation would legislate to open up telecommunications by July 2003, in 2005 over a third of Europe's pre-enlargement 15 have not done so. The EU has pledged to open up electricity and gas markets to competition for business by 2004 and for all customers by 2007, but this year Europe's energy consumers will be paying an estimated £40 billion of extra costs because of insufficient liberalisation of EU gas markets[17].

36. However a lack of competition is a problem across EU utilities markets. Research from the ECB suggests that further reforms to encourage competition in the telecommunications, gas and electricity markets would result in substantial price falls in EU network industries of up to 36 per cent.[18] As as the chart below demonstrates, the degree of market opening varies considerably between Member States and sectors.[19]

Chart 4: Total market opening in network sectors in EU 15, 2003



Source: European Commission, Evaluation of the Performance of Network Industries Providing Services of General Economic Interest 2005 Report

[15] OECD, (2002) Product market competition and economic performance
[16] ECB, (2004) Benefits and Spillovers of Greater Competition in Europe
[17] See box 2 for more information.
[18] ECB, (2005) Regulatory Reforms in Selected Network industies
[19] European Commission, Evaluation of the Performance of Network industries Providing Services of General Economic Interest, 2005.

37. The opening of services markets is also crucial to Europe's future prosperity. Services constitute some 70 per cent of EU output but only 20 per cent of EU trade. Estimates suggest that the removal of national regulatory barriers in this area could increase trade in commercial services by up to 30 per cent, delivering substantial economic rewards. Swift agreement to the revised Services Directive will help to remove these barriers, but as in other areas these commitments need to be delivered on the ground.

38. There is also significant potential for further competition in areas such as public procurement. The total EU procurement market was worth over €1.5 trillion in 2002. But despite EU legislation, only 16 per cent of the total value of tenders are published in the Official Journal and thus open to intra-EU competition.

39. Instead of simply reaching political agreements on timetables for liberalisation and market-opening legislation, Europe needs a process in which all sectors which fail to liberalise and open up to competition are subject to independent investigation and enforcement, undertaken free from national political interference. Where national practices are found to provide barriers to the Single Market, the necessary regulatory, structural and competition-law based remedies must be applied to drive up the levels of competition. This is how we can reverse the trend towards national protectionism that is emerging in the EU and open up trade across the Single Market.

Box 2 – Strengthening the European market – levelling the playing field in the Energy Sector

The Government strongly believes that Europe must continue to strengthen and deepen the Single Market, enabling Europe's firms to compete successfully in the global marketplace.

The European Council reaffirmed again this month the commitment to complete the opening of the internal market for electricity and gas by mid-2007. Yet significant barriers remain to full and open competition in the European energy market. A lack of effective competition is keeping prices high and European businesses and citizens are paying the costs. Research has suggested that the estimated costs of a lack of liberalisation in European Gas markets will be £40 billion in 2006. In the UK, the cost for consumers and businesses is estimated at £10bn.

The European Commission's sector inquiries into competition in the EU's gas and electricity markets, launched in July 2005, aimed at providing a comprehensive analysis of the energy sector and identifying restrictions on competition. The interim results of the inquiry have identified five key barriers to competition:

- gas and electricity markets in many Member States continue to be concentrated, creating scope for incumbent operators to influence prices;
- the inadequate separation between production, distribution and supply businesses which limits the developments of wholesale markets;
- low levels of cross-border trade, limiting market integration;
- poor transparency of capacity available in gas pipelines and of wholesale electricity markets
- a lack of clear price formation mechanisms and little confidence by consumers and industry in the market

The European Commission's pledge to examine any undue interference by national governments in the process of cross-border corporate restructuring in Europe is also welcome.

Rapid and satisfactory action in all these areas is essential to drive up competition in the Single Market, in particular the energy sector. Instead of simply reaching political agreements on timetables for liberalisation and market-opening legislation, all energy and other sectors that fail to liberalise and open up to competition should be subject to independent investigation and enforcement.

We are today proposing that where restricted competition is harming the Single Market the European Commissioner for Competition should set up an independent panel of experts to investigate sectors which fail to liberalise and where competition is not functioning effectively. The panel should report back publicly to the Commission with proposals to drive-up competition setting out:

- clear evidence on where the market is not functioning and remaining barriers to competition.
- proposals for the pro-active use of competition law to confront anti-competitive behaviour and promote necessary structural and behavioural change.
- consistent with the better regulation agenda, proposals for regulatory reform where burdensome legislation and ineffective regulations are stifling competition.

The Commission should then be required to respond within a defined timeframe, setting out where action will be taken.

ii) External openness

40. As we work to ensure open and competitive markets within Europe, we should see the rest of the world as partners not rivals, working together in trade and in other policy areas to reduce insecurities and enable global change to benefit all. Globalisation is not a zero-sum game. So we need to strengthen our relationships with our major trade and investment partners, both with existing developed economies and with the emerging markets.

41. Asia is now a major and growing driver for the global economy. The meeting of European and Asian finance ministers in the ASEM forum is an opportunity to strengthen our economic and financial dialogue, focusing on the most important priorities, including financial services regulation and accounting standards, IPR enforcement, energy and meeting the challenges of ageing societies.

42. The EU-US economic relationship is the largest bilateral trade and investment in the world, accounting for up to $2.5 trillion of commercial transactions each year and supporting 14 million jobs on both sides of the Atlantic. The OECD have found that removing the remaining transatlantic barriers could generate one million more jobs and bring permanent increases in per capita GDP of up to 3 per cent. This means that workers in the OECD could earn an extra full year's wage or more over their lifetime.

43. In the run up to the 2006 EU-US summit we should ensure implementation of the joint EU-US economic cooperation work programme arising from the first ever economic ministerial meeting in December 2005. We need a particular focus on making real progress on priority areas for economic cooperation, including intellectual property rights, regulatory dialogues in large markets such as telecommunications, and cooperation on financial services and the shared challenge of increasing innovation.

44. Agreeing an ambitious trade deal is also essential if we are to deliver benefits to developed and developing countries alike. There is an urgent need for progress in the Doha WTO negotiations and time is tight. All key players need to demonstrate commitment and political will in order to achieve a successful outcome by the end of 2006. We recognise that not all developing countries will be able to benefit immediately from ambitious trade reform. Some may lose out in the short term due to adjustment costs. Others currently lack the economic capacity and infrastructure to produce and export goods competitively. So reform should be accompanied by financial assistance for developing countries to ensure they benefit from increased opportunities to trade.

iii) Structural reform to enable Europe to seize the benefits of globalisation

45. Alongside openness within Europe and to the wider world, we also need to put in place policies that will provide all our citizens with the skills and opportunities they need to thrive in this new era. The EU needs to deliver real structural reform that will improve Europe's competitiveness and attractiveness as a destination for investment. And increased flexibility in labour, product and capital markets does not have to come at the expense of fairness.

46. For example, risk-based regulation can reduce the burdens of red tape on the great majority of responsible businesses in Europe while at the same time ensuring EU standards. Exemptions from specific EU rules should also be considered for SMEs, who find regulations five times more burdensome than larger firms. All draft new rules must be subject to a full competitiveness test. And we need to reduce the cost of existing regulations by setting – and meeting – clear targets for cutting administrative burdens.

47. We also need to invest more and more effectively in research and development. In the context of the Lisbon Strategy, we call for a stronger debate in order to define a political strategy for promoting R&D and urgent action to achieve an effective, European intellectual property rights regime. We also need to eliminate inefficient state subsidies that prevent full and fair competition in Europe.

48. Alongside this, we need social policies that expand opportunity and choice, provide security for the vulnerable, and help people to adapt to change. We need investment in skills and education by Member States, equipping people to adapt to change and to new areas of comparative advantage. And we also need to put in place active and responsive labour market policies. This is how we can deliver a Europe of full employment and opportunity for all, making our social values a reality for all in a global economy.[20]

Conclusion

49. This paper has shown how the EU needs to do more to complete the single market, drive up levels of competition and open up to the rest of the world. At the same time, we need to put in place the conditions that will enable European companies and brands to thrive in a global market, and make Europe an attractive location for global companies to invest. Alongside this, we will need investment in skills and active labour market policies to ensure that Europe can provide opportunity for all. That is how we can meet and master global change, and seize the opportunities of globalisation.

[20] For a detailed analysis of this issue, see the joint paper by the Swedish Ministry of Finance and HM Treasury, "Social Bridges – Meeting the challenges of globalisation", April 2006.

ISBN 1-84532-180-4

9 781845 321802