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Lisbon Strategy Implementation
in 2009:
An Analysis

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Country Codes

Code		Country
AT	–	Austria
BE	–	Belgium
BG	–	Bulgaria
CY	–	Cyprus
CZ	–	Czech Republic
DE	–	Germany
DK	–	Denmark
EE	–	Estonia
EL	–	Greece
ES	–	Spain
FI	–	Finland
FR	–	France
HU	–	Hungary
IE	–	Ireland
IT	–	Italy
LT	–	Lithuania
LU	–	Luxembourg
LV	–	Latvia
MT	–	Malta
NL	–	Netherlands
PL	–	Poland
PT	–	Portugal
RO	–	Romania
SE	–	Sweden
SI	–	Slovenia
SK	–	Slovakia
UK	–	United Kingdom

Executive Summary

1. The second report on Lisbon Strategy (LS) implementation prepared by the Polish Institute of International Affairs (Polski Instytut Spraw Międzynarodowych—PISM) is published at a time when the Strategy's implementation cycle is coming to an end and work is in progress on a new economic agenda for the period after 2010. This publication does not aim at summarizing or analyzing the past 10 years and hence cannot be treated as the final Strategy report. Yet looking at the most up-to-date state of the Strategy's implementation in all its segments, the reader may find it easier to answer the question whether or not the original Strategy goals revised in 2005 have been attained.
2. This year's report contains two mutually complementary parts. The first part—as in the Report's earlier edition—presents the stage of LS implementation in its seven segments. The methodology adopted in the first part of last year's report has basically remained unchanged,¹ as has the scope of the report.² Direct references to anti-crisis measures made in most segments of the Report reflect the fact that the global economic crisis was the main context of LS implementation in 2009. These measures, which are directly linked with the Strategy through the European Economic Recovery Plan (EERP), have no doubt been crucial to the EU's economic policy in 2009. As it is often difficult to make a clear distinction between actions rooted in the Lisbon Strategy and those pursued within the EERP, the Report does not attempt to make such a distinction, merely focusing on an examination of the steps launched.
3. The second part of the Report presents actions undertaken by the EU in consequence of the global financial and economic crisis. Their scope goes beyond the themes of the Strategy. An examination of these instruments is necessary to understand many mechanisms of EU functioning and can be useful in the context of preparation of a new economic strategy for the EU ("EU2020"). However, given the space limit, the Report does not explore the topic fully.
4. Whilst it is true that the European economy managed to exit recession in the third quarter of 2009, a disappointing level of GDP growth in the final quarter suggests that growth in the coming months could still be very modest indeed and stimulating measures will be needed in many countries to sustain this growth.

The costs of the crisis in the form of the huge increase in public debt resulting from the need to cover the growing public sector deficit are very high. The

¹ See: M. Koczor, *Lisbon Strategy Implementation in 2008: An Analysis*, PISM, Warsaw, 2009, pp. 7–11, www.pism.pl/zalaczniki/raportSL_ang.pdf, accessed in January 2010. It should be borne in mind that any analysis of the Strategy's implementation is difficult in the absence of updated and complete statistical data, especially in social and environmental research. Hence it has not been possible to present 2009 statistics in all the segments, and the Report is based on figures last updated on 22 February 2010.

² The Report does not examine the implementation of National Reform Programmes or EU policies relevant for the Strategy (e.g. Cohesion Policy); neither does it make comparisons to non-member states (e.g. USA), focusing on the intra-EU dimension. This is a result of an absence of reliable and fully comparable data for third countries in some segments of the Report (internal market, education or information society).

restoration of fiscal stability in a manner which will not threaten economic growth will constitute the most important challenge for the EU in the coming period.

5. The basic conclusions drawn from the examination of Lisbon Strategy implementation in 2009 are as follows:
 - a. In the microeconomic dimension of LS, the progress made by individual states remains widely differentiated. The development of the key elements of information society should be appreciated (e.g. the increase in the percentage of Internet users) as well as the sustained positive tendency in directives transposition levels. Yet many Member States have not managed to implement the Services Directive on time, though they had three years to do so. Whilst it is true that the conditions of conducting business activity have been more difficult because of the crisis, actions supporting enterprises have been developed within the framework of anti-crisis measures, and some of them should bring positive results in the longer perspective.
 - b. The results of steps launched by states to create the knowledge triangle (education, innovation, research) remain highly unsatisfactory. Amongst five basic indicators in education, only one has reached a satisfactory level. The global position of European universities is visible mainly thanks to British universities; in their absence, the EU would have found itself in the second league. Progress in elaborating the Union patent (work has been going on for a number of years now) should be appreciated, though there is still a long way to go before a relevant regulation is adopted.
 - c. If enforcement of actions in the area of energy and climate were to be proportional to the political importance given to those issues in the EU, it is likely that by now the Union would have reported such achievements as fulfillment by the EU-15 of the Kyoto obligations or attainment of goals to enhance the role of renewable sources of electrical energy. Yet no such information has been released. In the analyzed period (2009) there was little progress in this segment, though a chance emerged for the attainment of the Kyoto target.
 - d. In employment and social policy it is especially easy to see the negative effects of the global crisis. The positive trend in the number of new employment opportunities observed in the years 2005–2008 was reversed. The current state of affairs makes it impossible for the EU to attain the basic goal with reference to the general employment level.
6. The EU has undertaken anti-crisis measures to ease the consequences of the recession and financial market break-down. At the same time, they constitute a longer-term strategy designed to shield the EU in the future from disturbances on a scale such as in 2008–2009. The year 2010 will mark a cautious launch of a strategy for overcoming the crisis.

CHAPTER I

Lisbon STRATEGY Implementation in 2009

1.1. General Economic Situation

In 2009 the global financial and economic crisis reached its peak, intensified in September 2008 by the fall of Lehman Brothers Bank. The most important goals of anti-crisis activities undertaken both by the EU and the MS were to restore the stability of the financial system and stimulate economic growth. Progress in the attainment of the latter goal was directly dependent upon the effective accomplishment of the former.³

1.1.1. The Financial Sector

Despite the fact that none of the big banks in Europe collapsed, European financial institutions were deeply affected by the crisis, although their losses were much smaller than those of American banks. According to estimates prepared by the European Central Bank in June 2009, write-downs suffered by banks since the beginning of perturbations on the financial market amounted to \$1,042 billion, including around 20% by banks of the euro area and another 20% by British banks and institutions from other European states outside of euro area.⁴ According to data supplied by the ECB in December 2009, total potential write-downs in banks of the euro area may reach €553 billion in 2007–2010.⁵ This amount includes the write-downs on loans—€355 billion, and on securities—€198 billion. These estimates are higher than those published by the ECB in June 2009 (€488 billion). According to data supplied by the IMF, estimated aggregated write-downs in euro area banks may amount to \$814 billion, and in the British banks to €604 billion in 2007–2010.⁶ For American banks the estimate amounts to \$1,025 billion. It needs to be emphasized, however, that banks in the USA have given recognition in their balances to as much as 60% of those losses, and the European banks to 40%, which is partly a consequences of different loan cycles and accounting rules.⁷ This is a serious problem and it may negatively affect the pace of normalization in the banking sector.⁸ An analysis of the condition of banks in the EU (stress-test) conducted on a sample of 22 biggest financial institutions by the Committee of European Banking Supervisors (CEBS) indicates their overall good safeguarding against risk (measured as the ratio of the core capital to assets, which in all cases fulfills the standards adopted by the Basel Committee).⁹ Many European banks—similarly to American institutions—increased their capital in 2009.¹⁰ It may be concluded from the

³ Actions undertaken by the EU in connection with the financial and economic crisis can be found in the second part of this report.

⁴ European Central Bank, *Financial Stability Review*, June 2009, p. 85, www.ecb.int/pub/pdf/other/financialstabilityreview200906en.pdf?bbd9b1464bae33b8681e6a77fa9c24c0, accessed on 5.11.2009.

⁵ European Central Bank, *Financial Stability Review*, December 2009, p. 90, www.ecb.eu/pub/pdf/other/financialstabilityreview200912en.pdf?0a322143c6f8469e794cdacb70bac30e, accessed on 28.12.2009.

⁶ International Monetary Fund, *Global Financial Stability Report*, October 2009, p. 10, www.imf.org/external/pubs/ft/gfsr/2009/02/pdf/text.pdf, accessed on 5.11.2009.

⁷ International Monetary Fund, *Global Financial Stability Report...*, *op. cit.*, p. 9.

⁸ W. Munchau, "EuroArea banking needs a co-ordinated strategy," *Financial Times* of 27 April 2009.

⁹ *Statement by Ministers and Governors on the EU-wide stress test*, Informal Ecofin Council, 1–2 October 2009.

¹⁰ Bank of International Settlements, "Banking and financial market developments," *BIS Quarterly Review*, December 2009, p. 12, www.bis.org/publ/qtrpdf/r_qt0912.pdf, accessed on 28.12.2009.

information provided by the ECB that the quality of capital of the biggest euro area banks has improved—the indicator of core capital of the highest quality (core tier 1) increased by 7% in the period between the end of 2008 and mid-2009.¹¹ The increase to a large extent resulted from the pressure of the market and governments of many Member States, which were aiming at increasing the capital constituting a safety buffer protecting institutions from risk.

The CEBS has admitted that potential write-downs of European banks may amount to around €400 billion in 2009–2010, yet it has based its estimates on pessimistic forecasts for the state of economy.¹² Detailed results of this research—unlike those of a similar analysis for the American financial sector—have not been disclosed. Making this information public could have motivated the governments of Member States and the EU to undertake a more active stance towards restoring stability in the sector.¹³

It needs to be observed that rescue programs addressed by the Member States and the ECB to banks have led to a certain improvement in the situation on the financial market, making prospects for overcoming the crisis more realistic. Progress has also been noted in the liquidity of the market, though the situation in this respect has not normalized yet.

The profitability of European banks measured by the Return on Equity (ROE) indicator has improved. The average ROE indicator of the biggest euro area financial institutions (large and complex banking groups—LCBG) amounted in the second and the third quarters of 2009 to 7.21% and 6.41% respectively (for the whole quarter), whilst in the first quarter of 2009 it stood at 2.2% and in the fourth quarter of 2008 it fell to –18.7%.¹⁴

The banks have also loosened their restrictive crediting rules for entrepreneurs and individuals as a direct consequence of improved access to capital on the inter-bank market. The strictest tightening of credit standards (especially in the euro area) took place in the third and fourth quarters of 2008. In 2009, especially in the second quarter, the scale of restrictive credit policy diminished in euro area states (although the pace of credit policy loosening slowed down in the fourth quarter compared to the third), which reflects rising market optimism and consequently less problems in obtaining capital by banks.¹⁵

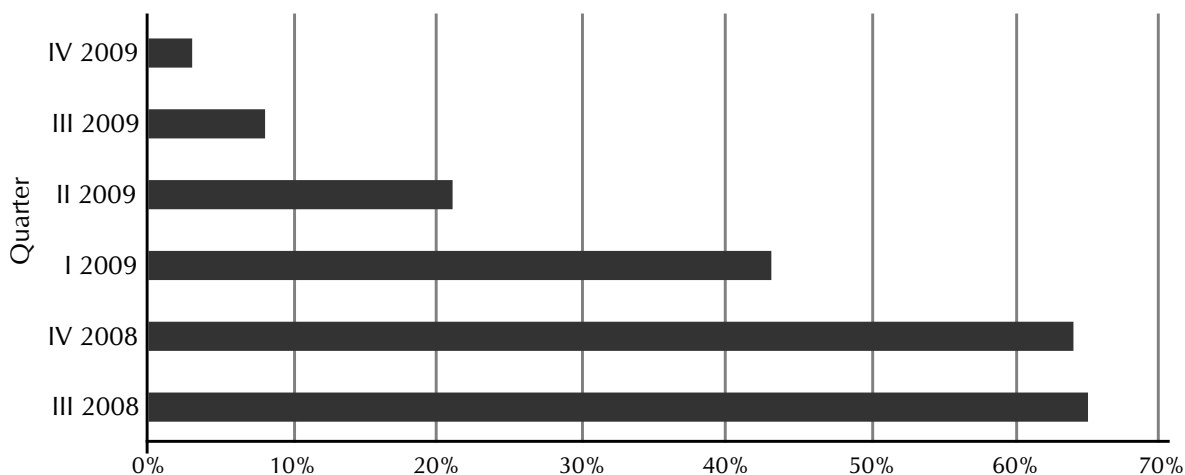
¹¹ European Central Bank, *Financial Stability Review*, December 2009..., *op. cit.*, p. 82.

¹² The CEBS survey was based on the assumption that GDP in 2009 will fall by 5,2% and by 2,7% in 2010.

¹³ J. Pisani-Ferry, B. Weder di Mauro, "Europe Must Take Control of Banking Stress Tests," *Financial Times* of 1 June 2009.

¹⁴ European Central Bank, *Financial Stability Review*, December 2009..., *op. cit.*, p. 77, *Financial Stability Review*, June 2009, p. 83.

¹⁵ European Central Bank, *Euro area banking lending survey*, October 2009, p. 4, www.ecb.int/stats/pdf/blssurvey_200910.pdf?7eacd9476f0c91f493b6bc7b95865fbc, accessed on 15.11.2009.

Diagram 1. Share of Euro Area Banks Reporting Tightening of Credit Standards Applied to Loans

Source: *Euro area banking lending survey*, European Central Bank, October 2009 (More than 100 banks from all of euro area states participate in ECB survey).

Improving situation on the stock exchange was another symptom of positive tendencies, with most indexes rising by 15% between May and October 2009.¹⁶

Despite the improving situation on the financial market, the stability of the bank system of the EU is still at risk. This is a consequence of such factors as:

- uncertainty over the pace of normalization on the American market;
- persisting financial and economic instability in some of Central and Eastern European states (the risk affects also those states that are active in the region, e.g. Austria, Sweden);
- uncertainty over the situation in the non-financial sector, especially of small and medium-sized enterprises, influencing their capacity to fulfill their credit obligations;
- rising number of households unable to repay their credits (especially in such countries as Spain);
- potentially negative consequences of the premature withdrawal of rescue aid.

1.1.2. Influence of the Crisis on GDP

The economic crisis had its peak in the first quarter of 2009, when the GDP fell by 2.5% in the euro area and by 2.4% in the EU-27 (quarter on quarter), and by 5% and 4.9% respectively year-to-year. The year-to-year GDP drop was most notable in Latvia (18.7%), Estonia (15%) and Lithuania (13.1%). Latvia and Lithuania as well as Slovakia reported the biggest quarterly fall in GDP. The only country recording economic growth in the first quarter, both in the quarterly and annual perspectives, was Poland (by 0.1% and 1.5% respectively).

¹⁶ European Commission, *European Economic Forecast Autumn 2009*, p. 10, http://ec.europa.eu/economy_finance/publications/publication16055_en.pdf, accessed on 15.11.2009.

Table 1. Quarterly GDP Growth

Area	1 st quarter	2 nd quarter	3 rd quarter	4 th quarter
Euro area	-2.5%	-0.1%	0.4%	0.1%
EU-27	-2.4%	-0.3%	0.3%	0.1%
USA	-1.6%	-0.2%	0.6%	1.4%

Source: Eurostat, http://epp.eurostat.ec.europa.eu/cache/ITY_PUBLIC/2-12022010-BP/EN/2-12022010-BP-EN.PDF.

The improvement in the economic situation became visible in the second quarter, when the two biggest European economies—France and Germany—registered a GDP growth by 0.3% and 0.4% respectively. Growth in the third quarter amounted to 0.3% in the whole Union and 0.4% in the euro area. In the fourth quarter, however, economic growth was lower (0.1% in EU-27 and in the eurozone); this confirms that economic recovery in the EU is slow.

The above improvement on the financial market visibly boosted optimism in the economy, and this was reflected in GDP indicators. After a few months of decreases, in April 2009 the Economic Sentiment Indicator (ESI), which reflects the sentiments of the industry, services, construction, trade and consumers, started rising, as did the Business Climate Indicator (BCI). Those indicators, however, still remain on a much lower level than before the crisis.

Stimulating packages launched by most Member States constituted another factor contributing to the improvement of the economic situation.¹⁷ Their effects cannot be precisely defined, differing from one Member State to another depending on the scale and nature of the package and the model of the economy. According to estimates, as the result of those stimulating actions the GDP should increase by 0.75 pp in 2009 and by 0.3 pp in 2010.¹⁸ Overall gross fiscal stimulus measures in the EU may reach 2.7% of the EU's GDP in the period 2009–2010.¹⁹ Higher industrial production in the second quarter of 2009 was among the factors behind the improvements, but unfortunately this was not a permanent trend, because in October 2009 this indicator fell against the previous month (by 0.8%); after a slight growth in November (by 0.9%), it dropped again in December (1.9%), exerting a negative impact on GDP in the fourth quarter.²⁰ Despite positive symptoms of overcoming the recession, in 2009 the GDP drop was to reach 4.1% in the EU-27 and 4% in the euro area. The Commission's autumn 2009 estimates remain practically unaltered in comparison to its forecasts in the

¹⁷ The analysis of stimulating actions undertaken within a framework of the European Economic Recovery Plan is to be found in the second part of this Report.

¹⁸ European Commission, *Economic Crisis in Europe: Causes, Consequences and Responses*, European Economy 7, p. 67, http://ec.europa.eu/economy_finance/publications/publication15887_en.pdf, accessed on 15.11.2009.

¹⁹ European Commission, *Progress Report on the Implementation of the European Economic Recovery Plan*, December 2009, p. 3, http://ec.europa.eu/growthandjobs/pdf/european-economic-recovery-plan/eeperp_update_december_2009_en.pdf, accessed on 15.02.2010.

²⁰ "Industrial Production Down by 1.7% in Euro Area," *Eurostat news release*, no. 21/2010, 12 February 2010, http://epp.eurostat.ec.europa.eu/cache/ITY_PUBLIC/4-12022010-AP/EN/4-12022010-AP-EN.PDF, accessed on 15.02.2010.

first half of the year, when conditions were even less favorable. The year 2010 is to bring economic growth at 0.7% both in the euro and EU-27 areas.²¹

The 2009 GDP fall in the EU was steeper than in the USA, where it was to amount to 2.5%, and slightly lower than in Japan (5.9%). Economic growth in 2010, as estimated by the European Commission, is to be lower than in the USA (where it is to amount to 2.2%) or Japan (1.1%). A similar tendency is reflected in IMF forecasts, which indicate that in 2009 the GDP fell by 3.9% in the euro area and is to rise by 1% in 2010, while in the USA it is to amount to -2.5% and 2.7% and in Japan to -5.3% and 1.7%.²²

One of the reasons behind the EU's steeper drop in economic growth in comparison to the USA may be the fact that, contrary to what is commonly believed, enterprises in the euro area were more inclined to use financial leverage than those in the USA. This means that the launch of new financial and non-financial investments is more dependent on obtaining external capital.²³ In 2008 the ratio of private debt to the GDB (which illustrates this phenomenon from the macroeconomic point of view) amounted to 4.73% in the euro area and to 3.46% in the USA.²⁴ Between 1999 and 2007 this mechanism was used in euro area more often than in the USA. In consequence, the collapse of the credit market as the result of the crisis led to serious perturbations for both European financial institutions and non-financial corporations.

According to the Commission's estimates, the Member States with the highest GDP decline in 2009 included: Lithuania (estimated decrease by 18.1%), Latvia (18%) and Estonia (13.7%). A substantial fall was recorded by most of the remaining Central European states: Romania (8%), Slovenia (7.4%), Hungary (6.5%), Bulgaria (5.9%), Slovakia (5.8%). In ten Member States of the region, the GDP decreased by 4.2% on average in 2009 and is to rise in 2010 by 0.9%.²⁵ In the EU-15, a sharp GDP fall was recorded in Ireland (7.5%), Finland (6.9%) and Germany (5%). In the United Kingdom the decrease amounted to 4.6%, whilst in France to 2.2%. Poland was a sole country in Europe recording economic growth, which reached 1.2%.

The collapse of international trade was a factor adversely affecting many European economies. Exports from the EU-27 fell by 13.8% and from the euro area by 14.2%.²⁶ This was a painful experience for export-oriented economies, such as Finland, the Netherlands, Germany, and amongst the "new" Member States—Slovakia. A sharp fall was recorded in the world trade flows in the fourth quarter of 2008 (6.75% in the quarterly perspective) and in the first quarter of 2009 (11%), but in the second quarter trade began to stabilize, with the decrease at a mere 0.7%.²⁷

²¹ European Commission, *European Economic Forecast, Autumn 2009...*, *op. cit.*, p. 20.

²² International Monetary Fund, *World Economic Outlook, October 2009*, p. 2, www.imf.org/external/pubs/ft/weo/2009/02/pdf/text.pdf, accessed on 5.11.2009.

²³ D. Gros, *Why Europe will suffer more*, CEPS Policy Brief, July 2009, p. 2, www.cepp.be/book/why-europe-will-suffer-more, accessed on 5.11.2009.

²⁴ *Ibidem*.

²⁵ World Bank, *EU10 Regular Economic Report, October 2009*, p. 3, http://siteresourcecp.worldbank.org/ECAEXT/Resources/258598-1256755672295/RER27Oct09_ALL.pdf, accessed on 7.11.2009.

²⁶ European Commission, *European Economic Forecast, Autumn 2009...*, *op. cit.*, p. 210.

²⁷ *Ibidem*, p. 16.

Table 2. GDP Forecast

Country	2008	2009	2010
AT	2.0	-3.7	1.1
BE	1.0	-2.9	0.6
BG	6.0	-5.9	-1.1
CY	3.7	-0.7	0.1
CZ	2.5	-4.8	0.8
DE	1.3	-5.0	1.2
DK	-1.2	-4.5	1.5
EE	-3.6	-13.7	-0.1
EL	2.0	-1.1	-0.3
ES	0.9	-3.7	-0.8
FI	1.0	-6.9	0.9
FR	0.4	-2.2	1.2
HU	0.6	-6.5	-0.5
IE	-3.0	-7.5	-1.4
IT	-1.0	-4.7	0.7
LT	2.8	-18.1	-3.9
LU	0.0	-3.6	1.1
LV	-4.6	-18.0	-4.0
MT	2.1	-2.2	0.7
NL	2.0	-4.5	0.3
PL	5.0	1.2	1.8
PT	0.0	-2.9	0.3
RO	6.2	-8.0	0.5
SE	-0.2	-4.6	1.4
SI	3.5	-7.4	1.3
SK	6.4	-5.8	1.9
UK	0.6	-4.6	0.9
EU-27	0.8	-4.1	0.7
Euro area	0.6	-4.0	0.7
USA	0.4	-2.5	2.2
Japan	-0.7	-5.9	1.1
China	9.7	8.7	9.6

Source: European Commission, *European Economic Forecast*, Autumn 2009.

1.1.3. Deficit and Public Debt

As a side-effect of stimulating packages, a radical rise was recorded in public deficit and public debt. The deterioration of fiscal parameters is also a consequence of lower budgetary revenues resulting from the overall weakening of economic activity. According to the European Commission's estimates, revenues to state budgets fell in the EU from 44.6% of GDP in 2008 to 43.4% in 2009.²⁸ In the euro area the deficit of the public finance sector reached 6.4% of GDP in 2009 (an increase from 2% in 2008) and is projected at 6.9% in 2010. In the whole EU the indicator amounted to 6.9% in 2009 (up from 2.3%), with 7.5% expected in 2010.

The scale of budgetary problems is illustrated by the fact that the excessive deficit procedure has been opened against 20 Member States (so only Bulgaria, Cyprus, Estonia, Denmark, Finland, Luxembourg and Sweden have acceptable deficit levels). Apart from Bulgaria (expected to report 0.8% deficit level in 2009 and 1.2% in 2010), the remaining states may exceed the level set by the Maastricht Treaty and the Growth and Stability Pact in 2010. According to estimates, Greece recorded the highest deficit level (12.7%). The case of Greece is serious, as its government initially presented much lower forecasts concerning the deficit, generating confusion and criticism on the part of other Member States. More importantly, problems with the quality and credibility of Greek statistics appeared already at the time it applied for accession to the Economic and Monetary Union.²⁹ A high deficit was recorded in Ireland (12.5%), the United Kingdom (12.1%) and Spain (11.2%). As these countries undertook actions aimed at reducing the deficit in extraordinary economic circumstances, they were granted—as was France (8.3%)—another year to cut their deficit.³⁰ Amongst the “new” Member States, the highest deficit was recorded in Lithuania (9.8%) and Latvia (9.0%). Lithuania, Malta and Romania were also granted an extra year to reduce their deficit. In Poland the deficit stood at 6.4% of GDP in 2009 and 7.5% is projected for 2010.

Table 3. Overview of Excessive Deficit Procedures and Deadlines for Correction³¹

AT	BE	CZ	DE	EL	ES	FR	HU	IE	IT
2013	2012	2013	2013	2010	2013	2013	2011	2014	2012
LT	LV	MT	NL	PL	PT	RO	SI	SK	UK
2012	2012	2011	2013	2012	2013	2012	2013	2013	2014/15

Source: European Commission, DG ECFIN, http://ec.europa.eu/economy_finance/sg_pact_fiscal_policy/excessive_deficit9109_en.htm.

²⁸ *Ibidem*, p. 205.

²⁹ ECOFIN Council, 2972nd Council meeting, 10 November 2009, 15572/09 (Presse 319), www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ecofin/111025.pdf, accessed on 5.12.2009.

³⁰ 2981st Council meeting, Economic and Financial Affairs, 2 December 2009, p. 10, www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ecofin/111706.pdf, accessed on 5.12.2009.

³¹ For ES, FR, IE, LT, MT, RO, UK, the ECOFIN Council prolonged the deficit correction deadline by one year.

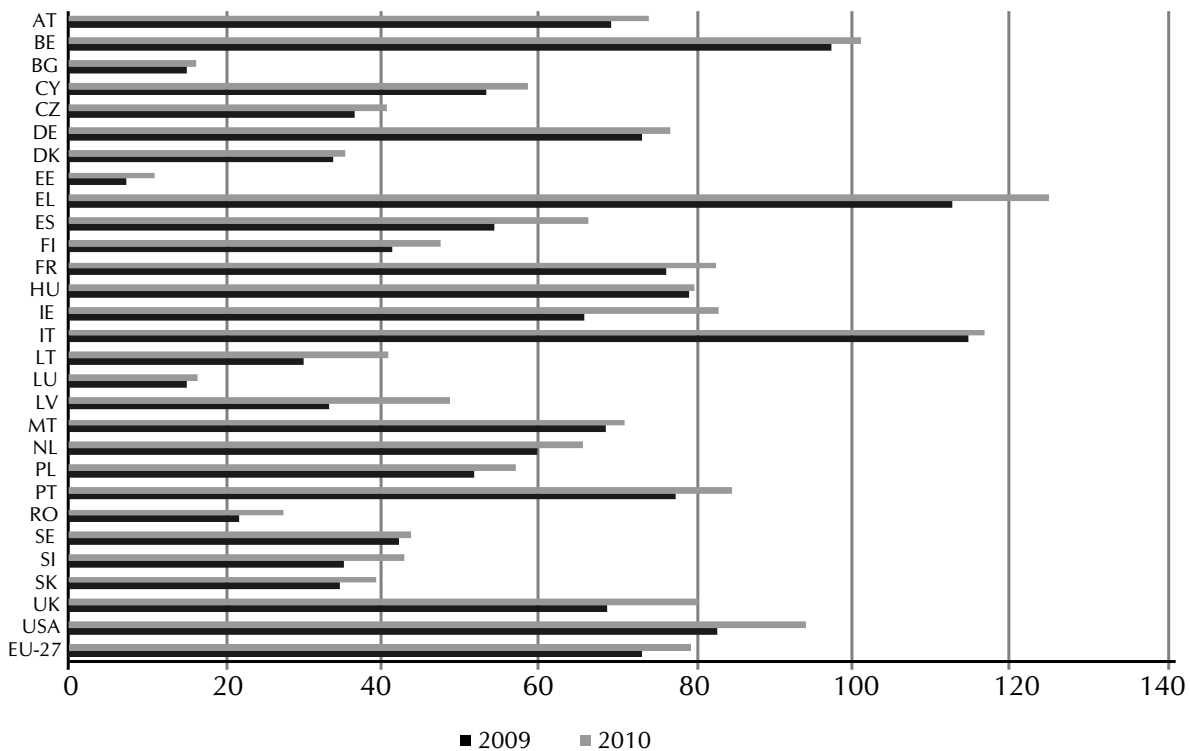
Table 4. Fiscal Indicators in the EU

Member State	Public deficit/surplus (general government) in % GDP		2009:2008	Public debt (general government) in % of GDP		Growth in pp
	2008	2009		2008	2009	
AT	-0.4	-4.3	-3.9	62.6	69.1	6.5
BE	-1.2	-5.9	-4.7	89.8	97.2	7.4
BG	1.8	-0.8	-2.6	14.1	15.1	1.0
CY	0.9	-3.5	-4.4	48.4	53.2	4.8
CZ	-2.1	-6.6	-4.5	30.0	36.5	6.5
DE	0.0	-3.4	-3.4	65.9	73.1	7.2
DK	3.4	-2.0	-5.4	33.5	33.7	0.2
EE	-2.7	-3.0	-0.3	4.6	7.4	2.8
EL	-7.7	-12.7	-5.0	99.2	112.6	13.4
ES	-4.1	-11.2	-7.1	39.7	54.3	14.6
FI	4.5	-2.8	-7.3	34.1	41.3	7.2
FR	-3.4	-8.3	-4.9	67.4	76.1	8.7
HU	-3.8	-4.1	-0.3	72.9	79.1	6.2
IE	-7.2	-12.5	-5.3	44.1	65.8	21.7
IT	-2.7	-5.3	-2.6	105.8	114.6	8.8
LT	-3.2	-9.8	-6.6	15.6	29.9	14.3
LU	2.5	-2.2	-4.7	13.5	15.0	1.5
LV	-4.1	-9.0	-4.9	19.5	33.2	13.7
MT	-4.7	-4.5	0.2	63.8	68.5	4.7
NL	0.7	-4.7	-5.4	58.2	59.8	1.6
PL	-3.6	-6.4	-2.8	47.2	51.7	4.5
PT	-2.7	-8.0	-5.3	66.3	77.4	11.1
RO	-5.5	-7.8	-2.3	13.6	21.8	8.2
SE	2.5	-2.1	-4.6	38.0	42.1	4.1
SI	-1.8	-6.3	-4.5	22.5	35.1	12.6
SK	-2.3	-6.3	-4.0	27.7	34.6	6.9
UK	-5.0	-12.1	-7.1	52.0	68.6	16.6
Euro area	-2.0	-6.4	-4.4	69.3	78.2	8.9
EU-27	-2.3	-6.9	-4.6	61.5	73.0	11.5

Source: European Commission, *European Economic Forecast*, Autumn 2009.

The level of public debt rose to 73% in the EU, and to 78.2% in the euro area in 2009, which means an increase in relation to the previous year by 11.5 pp and 8.9 pp respectively. The scale of the yearly increase in public debt in the EU is unprecedented. The highest level of public debt can still be observed in Italy (114.6% of GDP), Greece (112.6%) and Belgium (97.2%). There was a significant increase in the level of debt in states seriously affected by the crisis: the United Kingdom (from 52% to 68.6% GDP), Ireland (from 44.1% in 2008 to 65.8%), Spain (from 39.7% to 54.3%), Latvia (from 19.5% to 33.2%) or Lithuania (from 15.6% to 29.9% GDP). Higher public debt is above all the result of financing the mounting deficit and launching rescue packages for the financial sector. In 2010 the debt will increase further and may amount to 79.3% in the EU and 84% in the eurozone. Budgetary problems, however, have not arisen solely because of the crisis. In some cases (e.g. Poland) they result from inadequate measures to reform public finances.

Diagram 2. Projections of Gross Debt-to-GDP Ratio in the EU (in %)



Source: European Commission, *European Economic Forecast*, Autumn 2009.

Due to the need to restore fiscal stability, it is a key challenge for the EU to undertake actions aimed at reducing the deficit and gross debt within the framework of the fiscal exit strategy.³² The Member States were divided over when these measures should be launched, ultimately agreeing that this should happen in 2011 at the latest, once the European economy stabilizes.

³² For more on fiscal exit strategy, see the second part of the Report.

1.1.4. Impact of Demography on Public Finance

It needs to be emphasized that whilst the economic and financial crisis will have mostly short- and medium-term consequences for the budget, the biggest long-term challenge for EU public finances is posed by the costs of aging of its population. These are, predominantly, expenses allocated for pensions, health care, elderly care or social assistance. According to Commission estimates between 2010 and 2060 aggregate expenses in this category will rise by 4.6 pp in the EU and by 5.1 pp in the euro area.³³ It should be noted that the future costs of the pension system are not included in current public debt statistics (the so-called covered debt), and a methodology change to take these costs into consideration in preparing public debt statistics could significantly alter the picture in this regard.

The budgets of Member States will be affected to a different extent by the above expenses. This is a consequence of both objective factors (such as differences in demographic structure) and subjective ones (effectiveness of pension and social systems and the reforms launched). With respect to the scale of the expected budgetary costs stemming from the need to increase demographic expenses, three groups of states can be distinguished:

- increase in expenses by at least 7 pp of GDP by 2060: CY, EL, ES, IE, LU, SI, MT, NL, RO;
- increase in expenses by 4–7 pp of GDP by 2060: BE, DE, CZ, FI, HU, LT, SK, UK;
- increase in expenses by less than 4 pp of GDP by 2060: AT, BG, DK, EE, FR, IT, LV, PL, PT, SE.³⁴

States that have completed pension system reforms belong predominantly to the third group of states, even they need to undertake further actions to boost the effectiveness of the whole system.

So far no specific EU strategy has been developed to deal with demographic challenges. The ECOFIN Council in November 2009 confirmed solely the significance of the approach adopted by the Stockholm European Council in 2001 based on three elements:³⁵

- deficit and public debt reduction;
- increase in employment rate;
- pension system reform.

1.1.5. Inflation

Because of the reduction of economic activity resulting in significant weakening of pay pressures and also because of a further decrease in energy (8% in the yearly perspective in September 2009) and food prices, declining inflation continued to be visible in the second half of 2008. Furthermore, in the euro area deflation was recorded in mid-2009, persisting until November. In 2009 inflation in the EU amounted to 1%

³³ European Commission, *Sustainability Report 2009*, DG ECFIN 2009, p. 29, http://ec.europa.eu/economy_finance/publications/publication15998_en.pdf, accessed on 20.11.2009.

³⁴ *Ibidem*.

³⁵ *Economic and Financial Affairs*, 2972nd Council meeting, p. 10.

and in the euro area to 0.3%. Deflation was recorded in Ireland (−1.5%), Portugal (−1.0%) and Spain (−0.4%). In 2010 inflation in the euro area and the EU is to go up to 1.1% and 1.3% respectively.

Table 5. Forecasted Inflation Indicator (HICP) in 2009 (in %)

AT	BE	BG	CY	CZ	DE	DK	EE	EL	ES
0.5	0.0	2.4	0.8	0.6	0.3	1.1	0.2	1.2	−0.4
FI	FR	HU	IE	IT	LT	LU	LV	MT	NL
1.8	0.1	4.3	−1.5	0.8	3.9	0.0	3.5	2.0	1.1
PL	PT	RO	SE	SI	SK	UK	EU-27	Euro area	
3.9	−1.0	5.7	1.9	0.9	1.1	2.0	1.0	0.3	

Source: European Commission, *European Economic Forecast*, Autumn 2009.

1.1.6. Conclusions

The EU has managed to exit the worst phase of the financial and economic crisis, yet the crisis has not been fully overcome. Above all, full return to stability on the financial market has not been attained yet, and a restoration of stability in 2010 is doubtful. This is a consequence of uncertainty over the true condition of European banks enhanced by the fact that the banks have not recognized the majority of potential write-downs of losses as well as a lack of sufficient coordination of actions amongst the Member States in dealing with problems of the so-called problematic assets. To a large extent, the pace of overcoming the financial crisis and resulting improvements in the entire economy will depend on resolving this issue.

The crisis was felt most in states with big current account deficits, such as Lithuania, Latvia, Spain and, to a lesser degree, Ireland. This was a consequence of high domestic demand to a large extent satisfied externally. On the other hand, states with a surplus generated by strong exports also experienced significant problems as the result of the collapse of international trade, so the crisis has revealed the cost of maintaining current account imbalances. It is worth noting that in the longer perspective this can affect the coherence of the euro area. Unfortunately, this problem has not won much attention of the Eurogroup or the ECOFIN.

Many Central and Eastern European states have turned out to be extremely vulnerable to the crisis. As most of them remain outside the euro area, they suffer from relatively higher costs of debt obtaining and servicing in comparison to states belonging to the common currency area. This confirms the thesis that whilst participation in the euro area does not safeguard against serious disturbances in the economy, it offers a bonus in the form of easier access to funds from the issue of the government bonds.³⁶ During the crisis, the weakest euro area states seized this opportunity, including Greece, Spain, Ireland, Portugal and Italy, although for many of them obtaining funds

³⁶ Z. Darvas, *EU Support to CEE Countries During the Crisis*, Bruegel Policy Contribution, December 2009, p. 10, www.bruegel.org/uploads/tx_btbbreugel/pc_cee_dec09_311209.pdf, accessed on 5.01.2010.

from bonds has become more difficult (especially Greece and Portugal) due to their deteriorating credit ratings.

The worsening state of public finance in many EU states undoubtedly constitutes a threat not only to the common currency, but also to the whole EU. Budgetary problems in EU states are not only a consequence of the crisis. In some cases (e.g. Poland) they result from insufficient actions for the improvement of public finance.

Because of the unusually high level of deficit and public debt registered in 2009 and projected for 2010, it is doubtful whether the Pact for Stability and Growth will be an effective instrument disciplining Member States to reduce their deficits. So far, however, it has been the sole “hard” instrument at the Union’s disposal in this respect, and the year 2010 will be an important test for the credibility of both the European Commission and the Council in this area.

The EU’s cautious approach to the date for launching the exit strategy is a consequence of determination to avoid a premature withdrawal of rescue aid and stimulatory measures, as this could have a negative influence on restoring growth in individual economies and consequently adversely affect the economic situation in other states (through the spill-over effect).³⁷

1.1.7. Evaluation

1.1.7.1. Positive

Poland, the sole EU state maintaining the positive growth, deserves credit here. The factors which allowed the biggest “new” Member States to avoid recession include: the structure of the economy (lower dependence on exports, strong internal market), stable banking system, efficient use of cohesion policy means, and positive influence of some of stimuli employed in Germany. The overall positive appraisal is disturbed by the disquieting state of public finance and slim political chances for conducting the necessary reforms in the near future.

Bulgaria is also given a merit for maintaining the deficit below the 3% GDP level and low indebtedness.

1.1.7.2. Negative

Greece is a natural candidate for criticism in the macroeconomic segment. In December 2009 the ECOFIN Council concluded that Greece had not undertaken sufficient actions to reduce the deficit. Shortly afterwards the FITCH rating agency lowered the credit rating of this country to the lowest in the euro area (BBB+), causing an immediate rise in loan acquisition and service costs. The spread between Greek and German bonds rose as a result by dozens of points to 250 base points. The cost of insuring debt has also risen (Credit Default Swap—CDS).³⁸ The problems encountered by Greece stem from a permanent weaknesses of its economy (low level of

³⁷ P. De Grauwe, *Coordinate or Not-Coordinate?*, CEPS commentary, 7 October 2009, www.cepp.be/book/coordinate-or-not-coordinate, accessed on 6.11.2009.

³⁸ *Eurointelligence Daily briefing*, 9 December 2009.

competitiveness, high current account deficit, inefficient public sector).³⁹ Despite the adoption by the new government in Athens of a plan of budget cuts and increases in some taxes, an improvement of the fiscal situation in Greece requires comprehensive reforms.

1.1.8. Recommendations

1. Because of the importance of macroeconomic issues, they should remain priority areas of the Lisbon Strategy after 2010. Otherwise, exclusion of economic policy from the scope of the future strategy would make it incomplete, especially given the context of challenges posed to the EU by the financial and economic crisis.
2. The relationship between exit strategies and the new strategy should be defined. This is important from the point of view of coherence and efficiency of actions for the improvement of public finances as a prerequisite for enhancing the EU's competitiveness. In 2010, when adopting a new economic strategy for the EU, the European Council should take relevant decisions in this respect.
3. Minimizing pressure exerted by demographic changes on national budgets should become the single most important challenge within the scope of improving public finance in the EU. In the framework of the new LS, steps for pension and health care systems' reform should be intensified. It would be desirable if respective provisions set in 2001 by the European Council were to be updated and rooted more strongly in the EU's new economic strategy.
4. More attention should be paid to internal imbalances, especially in the euro area. This problem should be discussed during Eurogroup and ECOFIN meetings. When adopting integrated guidelines for the period after 2010, the EU should give more attention to this issue. Individual recommendations addressed at particular Member States should also refer to this problem. Declarations formulated by Jean-Claude Juncker, the chairman of Eurogroup, suggest that more attention would be paid to this problem during meeting of finance ministers from the euro area.
5. Since the significance of the Eurogroup has increased with the entry into force of the Treaty of Lisbon, it is essential to ensure tight coherence between its actions and those of the ECOFIN Council. Yet the Eurogroup should accept responsibility for decisions given the capacity it has. This should, in particular, concern the following issues:
 - ensuring that economic policies are coherent with the Integrated Guidelines;
 - reacting to situations which pose a threat to the macroeconomic stability of the euro area;
 - ensuring that the Pact for Stability and Growth is observed in single currency states.

³⁹ K. Hope, R. Atkins, "Hellian burden," *Financial Times* of 3 December 2009.

1.2. Entrepreneurship

The global crisis has to a substantial degree affected the functioning of enterprises in Europe. Limited access to credits through stricter crediting criteria introduced by banks has become their basic problem. This forced the Member States to implement a number of instruments aimed at supporting enterprises, including some measures launched in the framework of National Reform Programmes. By mid-December 2009 the European Commission issued over 60 decisions approving various forms of state aid for businesses.⁴⁰

According to the Commission, about 31% of the 500 anti-crisis measures adopted or planned by Member States involves various forms of business assistance.⁴¹ The majority of Member States adopted assistance measures, with most of them (60%) designed to alleviate the negative consequences of limited access to capital. The examples here include quarantees, bails, payments to interest rates, export credit insurances or direct subsidies (up to €500,000 for a business, in the view of the increased *de minimis* aid threshold). Other measures focus on stimulating demand for particular products, including subsidies to scrapped cars introduced by Austria, Spain, France, Germany, Romania or Italy. Direct subsidies for businesses have been or are about to be introduced in Austria, France, Spain and Sweden. Interestingly, a relatively insignificant percentage of measures in stimulating packages has been designated for the development of “green business,” with such instruments introduced in France, Spain, Germany, the United Kingdom and Italy. It needs to be remembered that a large share of measures qualified as supporting the labor market or investments may directly or indirectly constitute aid for businesses. Amongst the anti-crisis measures facilitating business operation there are also deregulatory initiatives diminishing administrative burdens.

1.2.1. Establishing Business Activity⁴²

In the course of the last 12 months, i.e. since the last PISM Report was published, no significant improvement has been noted in enterprise establishment conditions. The overwhelming majority of Member States have recorded little progress in facilitating business creation. As before, the group of states characterized by the most favorable conditions for business activity establishment includes Belgium (the shortest registration

⁴⁰ European Commission, *State Aid: Overview of National Measures Adopted as Response to the Financial Economic Crisis*, MEMO/09/499, 17 December 2009, <http://europa.eu/rapid/pressReleasesAction.do?reference=MEMO/09/564&format=HTML&aged=0&language=EN&guiLanguage=en>, accessed on 20.11.2009.

⁴¹ European Commission, *Driving European recovery*, Volume 2 annexes, COM(2009) 114 final, p. 7, http://ec.europa.eu/commission_barroso/president/pdf/press_20090304_annx_en.pdf, accessed on 20.11.2009.

⁴² Data used to analyze a framework for running a business in the EU comes from the “Doing Business,” a survey prepared by the World Bank. This report is the most comprehensive publication on the issue, making possible a comparison between all EU Member States except Malta. The World Bank report has a few shortcomings. Firstly, data is often collected for one specific type of business (limited liability company). Secondly, data comes from only one city with the strongest business activity in each country. Thirdly, the report is based on the assumption that entrepreneurs follow procedures correctly, so all potential delays result from inefficient functioning of public administration. As a result of the above flaws, the emerging picture is not fully representative in some cases.

period—4 days, as in Hungary; as in Finland, Slovenia and Sweden—the fewest formalities—3), Denmark (as in Slovenia—zero costs), Estonia and France. In this respect Hungary also stands out positively. Undoubtedly the greatest progress was achieved by Slovenia, which managed to reduce significantly the time needed to complete all the formalities (from 19 to 6 days) and the number of procedures (from 5 to 3). Improvement has been recorded by Bulgaria, where both the registration time and costs were cut. Against the background of the remaining states, Poland is still among states with the least favorable climate for business establishment in spite of the drop in the number of procedures necessary to set up a business. The time needed to complete all procedures remains—as in Spain—the longest in the Union (32 days), while the costs of the process are the highest in the EU (17.9% GNI), just as in Italy. The highest number of procedures is still recorded in Greece (15) and Spain (10).

Table 6. Registration of Business Activity

Country	Time (days)		Number of procedures		Costs % GNI	
	2008	2009	2008	2009	2008	2009
AT	28	28	8	8	5.1	5.1
BE	4	4	3	3	5.2	5.3
BG	49	18	4	4	2.0	1.7
CY	-	8	-	6	-	13.3
CZ	15	15	8	8	9.6	9.2
DE	18	18	9	9	5.6	4.7
DK	6	6	4	4	0.0	0.0
EE	7	7	5	5	1.7	1.7
EL	19	19	15	15	10.2	10.9
ES	47	47	10	10	14.9	15.0
FI	14	14	3	3	1.0	0.9
FR	7	7	5	5	1.0	0.9
HU	5	4	4	4	8.4	8.0
IE	13	13	4	4	0.3	0.3
IT	10	10	6	6	18.5	17.9
LT	26	26	7	7	2.7	2.4
LU	26	24	6	6	6.5	1.8
LV	16	16	5	5	2.3	2.1
NL	10	10	6	6	5.9	5.6
PL	31	32	10	6	18.8	17.9
PT	6	6	6	6	2.9	6.4
RO	10	10	6	6	3.6	2.9

Country	Time (days)		Number of procedures		Costs % GNI	
	2008	2009	2008	2009	2008	2009
SE	15	15	3	3	0.6	0.6
SI	19	6	5	3	0.1	0.0
SK	16	16	6	6	3.3	2.0
UK	13	13	6	6	0.8	0.7
EU average	17	15.1	6.16	5.9	5.24	5.3
USA	6	6	6	6	0.7	0.7

Source: World Bank, Doing Business 2010: European Union – www.doingbusiness.org/Documents/RegionalReports/DB10_European_Union.pdf; Doing Business 2009: European Union – www.doingbusiness.org/Documents/RegionalReports/DB09_European_Union.pdf, accessed on 20.11.2009.

1.2.2. Credit System

So far, the crisis has not brought about formal changes in the level of creditors' and debtors' protection or in access to credit information. Both those indicators have remained unchanged since 2008. The protection indicator is the highest in Cyprus, Denmark, Latvia, Poland, Slovakia and the United Kingdom.⁴³ Greece, Portugal and Italy are the states with the worst situation in this respect. Access to credit information is still easiest in Austria, Bulgaria, Latvia, Germany and the United Kingdom, and most difficult in Cyprus and in Luxembourg.

Table 7. Credit System

Country	Indicator of the scope of entitlement (0—the lowest; 10—the highest)		Access to credit information (0–6)	
	2008	2009	2008	2009
AT	7	7	6	6
BE	7	7	4	4
BG	8	8	6	6
CY	–	9	–	0
CZ	6	6	5	5
DE	7	7	6	6
DK	9	9	4	4
EE	6	6	5	5
EL	3	3	4	5
ES	6	6	5	5
FI	7	7	5	5

⁴³ The protection indicator illustrates the level of debtors' and creditors' protection and credit accessibility.

Country	Indicator of the scope of entitlement (0—the lowest; 10—the highest)		Access to credit information (0–6)	
	2008	2009	2008	2009
FR	7	7	4	4
HU	7	7	5	5
IE	8	8	5	5
IT	3	3	5	5
LT	5	5	6	6
LU	7	7	0	0
LV	9	9	4	5
NL	6	6	5	5
PL	8	9	4	4
PT	3	3	4	5
RO	8	8	5	5
SE	5	5	4	4
SI	6	6	2	2
SK	9	9	4	4
UK	9	9	6	6
EU average	6.6	6.8	4.5	4.5
USA	8	8	6	6

Source: World Bank, Doing Business 2010: European Union – www.doingbusiness.org/Documents/RegionalReports/DB10_European_Union.pdf; Doing Business 2009: European Union – www.doingbusiness.org/Documents/RegionalReports/DB09_European_Union.pdf, accessed on 20.11.2009.

1.2.3. Registration of Property

In the period examined little improvement was noted in the real estate property rights registration system. The average time needed for registration decreased, especially in Belgium, the Czech Republic, Estonia, France, Romania and the United Kingdom, although the time reduction was not accompanied by a lower number of procedures in those countries (with the exception of France) in comparison to 2008. This may indicate that the administration is functioning more effectively. Registration is the quickest in Lithuania and in the Netherlands (3 and 5 days respectively). The number of necessary formalities remained unchanged in most countries. In addition to France, the number of procedures was reduced in Latvia. In Sweden, on the other hand, the number of procedures rose from one to two, which may have contributed to an increase in the time needed for registration of real estate property rights (from 2 to 15 days). In the following countries the number of procedures remains the lowest (2): Lithuania, the Netherlands and United Kingdom. The costs of registration remained unchanged in most states, with exception of Ireland, France and Romania—where they fell, and Estonia, Finland, Greece, the Netherlands and Italy—where they increased (except in Italy, the rise was not substantial). The costs remain the lowest in Slovakia

(0.1% of property value), and Poland is looking well in the costs aspect, although it has not succeeded in cutting the time involved, which remains the second longest in Europe after Slovenia.

Table 8. Registration of Property. Real Estate Property Rights Registration System

Country	Time (days)		Number of procedures		Costs (% property value)	
	2008	2009	2008	2009	2008	2009
AT	32	32	3	3	4.5	4.5
BE	132	79	7	7	12.7	12.7
BG	19	15	8	8	2.3	2.3
CY	–	34	–	3	–	10.0
CZ	123	78	4	4	3.0	3.0
DE	40	40	4	4	5.2	5.2
DK	42	42	6	6	0.6	0.6
EE	51	18	3	3	0.4	0.5
EL	22	22	11	11	3.8	4.0
ES	18	18	4	4	7.2	7.2
FI	14	14	3	3	4.0	4.1
FR	113	98	9	8	6.3	6.1
HU	17	17	4	4	11.0	11.0
IE	38	38	5	5	9.6	6.7
IT	27	27	8	8	0.6	4.6
LT	3	3	2	2	0.5	0.5
LU	29	29	8	8	10.3	10.3
LV	50	45	7	6	2.0	2.0
NL	5	5	2	2	6.1	6.2
PL	197	197	6	6	0.5	0.5
PT	42	12	5	5	7.4	7.4
RO	83	48	8	8	2.4	1.3
SE	2	15	1	2	3.0	3.0
SI	391	391	6	6	2.0	2.0
SK	17	17	3	3	0.1	0.1
UK	21	8	2	2	4.1	4.1
EU average	61	51.6	5.16	5.0	4.38	4.6
USA	12	12	4	4	0.5	0.5

Source: World Bank, Doing Business 2010: European Union – www.doingbusiness.org/Documents/RegionalReports/DB10_European_Union.pdf; Doing Business 2009: European Union – www.doingbusiness.org/Documents/RegionalReports/DB09_European_Union.pdf, accessed on 20.11.2009.

1.2.4. Taxation System

In comparison to 2008, a certain improvement was recorded in the functioning of taxation systems. It is most visible in the time needed to complete the tax formalities. The overall tax rate—the aggregate of all taxes and payments due on the part of entrepreneurs—was also reduced. Finland achieved the biggest progress here, as not only the overall time needed for tax settlement fell (from 269 hours in 2008 to 243), but also the overall number of payments. A drop in the number of payments was also noted in France and Lithuania, remaining unchanged in other countries. Sweden is characterized by the lowest number of tax payments (2). The most spectacular reduction of the time necessary for tax settlement took place in the Czech Republic (by more than 300 hours), although it remains the longest in the Union (as in Bulgaria). Time reduction was also recorded in Finland, Spain, the Netherlands, Poland and Slovakia, while tax settlement became more time consuming in the United Kingdom. After Romania (113), Poland remains the country with the highest number of payments (40). In Poland, the indicator of the total tax rate increased (from 40.2% to 42.5%), with a similar tendency also observed in Austria, Estonia and Slovakia. The total tax rate was reduced in Bulgaria, Spain, Lithuania, Germany, Romania and Italy (though there it still remains the highest in the EU—68.4%). Luxembourg, because of the shortest period necessary for tax settlement (59 hours) and the lowest total tax rate level (20.9%), remains a state with the most favorable taxation conditions.

Table 9. Taxation System

Country	Number of payments		Time (hours)		The total tax rate	
	2008	2009	2008	2009	2008	2009
AT	22	22	170	170	54.5	55.5
BE	11	11	156	156	58.1	57.3
BG	17	17	616	616	34.9	31.4
CY	–	27	–	149	–	28.8
CZ	12	12	930	613	48.6	47.2
DE	16	16	196	196	50.5	44.9
DK	9	9	135	135	29.9	29.2
EE	10	10	81	81	48.6	49.1
EL	10	10	224	224	47.4	47.4
ES	8	8	234	213	60.2	56.9
FI	20	8	269	243	47.8	47.7
FR	11	7	132	132	65.4	65.8
HU	14	14	330	330	57.5	57.5
IE	9	9	76	76	28.8	26.5
IT	15	15	334	334	73.3	68.4
LT	15	12	166	166	46.4	42.7

Country	Number of payments		Time (hours)		The total tax rate	
	2008	2009	2008	2009	2008	2009
LU	22	22	59	59	21.0	20.9
LV	7	7	279	279	33.0	33.0
NL	9	9	180	164	39.1	39.3
PL	40	40	418	395	40.2	42.5
PT	8	8	328	328	43.6	42.9
RO	113	113	202	202	48.0	44.6
SE	2	2	122	122	54.5	54.6
SI	22	22	260	260	36.7	37.5
SK	31	31	325	257	47.4	48.6
UK	8	8	105	110	35.3	35.9
EU average	18.4	18.0	253	231.1	46.0	44.5
USA	10	10	187	187	42.3	46.3

Source: World Bank, Doing Business 2010: European Union – www.doingbusiness.org/Documents/RegionalReports/DB10_European_Union.pdf; Doing Business 2009: European Union – www.doingbusiness.org/Documents/RegionalReports/DB09_European_Union.pdf, accessed on 20.11.2009.

The financial and economic crisis has not resulted so far in substantial changes in taxation policy addressed to businesses in Europe. The average CIT rate in the EU remains at the level of 23.22%. In the Czech Republic, Germany, Luxembourg, Slovenia and Sweden the CIT was slightly reduced. It was raised only in Lithuania (from 15% to 20%).

Table 10. Corporate Income Tax (CIT) in the EU (as of 1 January 2009)

AT	BE	BG	CY	CZ	DE	DK	EE	EL	ES
25	33.99	10	10	20	29.44	25	21	25	30
FI	FR	HU	IE	IT	LT	LU	LV	MT	NL
26	33.33	16	12.5	31.4	20	28.59	15	35	25.5
PL	PT	RO	SE	SI	SK	UK	UE		
19	25	16	26.3	21	19	28	23.22		

Source: KPMG, *KPMG's Corporate and Indirect Tax Rate Survey 2009*.

More changes were observed with reference to the VAT. Its average rate increased from 19.5% in 2008 to 19.8% in 2009,⁴⁴ with a rise recorded in states strongly affected by the crisis: Estonia (from 18% to 20%), Hungary (from 20% to 25%), Ireland (from 21% to 21.5%), Latvia (from 18 to 21%) and Lithuania (from 18% to 19%). Higher

⁴⁴ KPMG's *Corporate and Indirect Tax Rate Survey 2009*, pp. 34–36, www.kpmg.ch/docs/KPMG_CorporateIndirectTaxRateSurvey_FINAL.pdf, accessed on 20.11.2009.

VAT in those states stemmed from the need to boost budget revenue to compensate at least partly for the mounting public sector deficit. The United Kingdom (from 17.5% to 15%) and Portugal (from 21% to 20%) are the countries where the base rate was reduced in order to generate a stimulating effect.

1.2.5. Commercial Judicature

The efficiency of the commercial judicature in the EU states deteriorated in the period examined. This is confirmed by the increase in the cost and time needed for the execution of due payments. The improvement of commercial judicature efficiency was recorded in the Czech Republic, where time was reduced (by more than 200 days—to 611 days), in Slovenia (by 60 days—to 1,290, still the longest in the EU), in Portugal (by 30 days—to 547) and in the United Kingdom (by 5 days—to 399 days). In Portugal and Slovenia the costs of filing a claim were reduced as well. The duration of the whole process was extended in countries where it remains the shortest—in Latvia (from 279 to 309 days) and Lithuania (from 210 to 275 days). A radical increase was also noted in Finland (from 235 to 375 days) and in Hungary (from 335 to 395 days). The cost of filing the claim rose in Estonia, Latvia, Luxembourg, Slovakia and Romania. In Luxembourg, despite the increase, the cost remains the lowest in the EU (9.7% of the value of the object of claim). Poland made no progress in this area (830 days for claim execution and costs amounting to 12% of the value). The highest costs are recorded in the Czech Republic (33%) and in Sweden (31.2%).

Table 11. Commercial Judicature System

Country	Duration of contract enforcement (days)		Costs (% claim value)	
	2008	2009	2008	2009
AT	397	397	18.0	18.0
BE	505	505	16.6	16.6
BG	564	564	23.8	23.8
CY	–	735	–	16.4
CZ	820	611	33.0	33.0
DE	394	394	14.4	14.4
DK	380	380	23.3	23.3
EE	425	425	18.9	26.3
EL	819	819	14.4	14.4
ES	515	515	17.2	17.2
FI	235	375	10.4	10.4
FR	331	331	17.4	17.4
HU	335	395	13.0	13.0
IE	515	515	26.9	26.9
IT	1,210	1,210	29.9	29.9

Country	Duration of contract enforcement (days)		Costs (% claim value)	
	2008	2009	2008	2009
LT	210	275	23.6	23.6
LU	321	321	8.8	9.7
LV	279	309	16.0	23.1
NL	514	514	24.4	24.4
PL	830	830	12.0	12.0
PT	577	547	14.2	13.0
RO	512	512	19.9	28.9
SE	508	508	31.3	31.2
SI	1,350	1,290	18.6	12.7
SK	565	565	25.7	30.0
UK	404	399	23.4	23.4
EU average	540	547.7	19.8	20.5
USA	300	300	9.4	14.4

Source: World Bank, *Doing Business 2010: European Union* – www.doingbusiness.org/Documents/RegionalReports/DB10_European_Union.pdf; *Doing Business 2009: European Union* – www.doingbusiness.org/Documents/RegionalReports/DB09_European_Union.pdf, accessed on 20.11.2009.

1.2.6. Bankruptcy Proceedings

The situation with reference to bankruptcy proceedings in the EU states did not improve. Some progress was observed in Lithuania, where the duration of bankruptcy proceeding was cut (from 1.7 to 1.5 years). In Romania, on the other hand, the costs of the process rose (from 9% to 11% of the value of estate).

Bankruptcy proceedings remain most efficient in Belgium, Denmark, Finland, Ireland and the Netherlands. The improvement of bankruptcy proceedings remains a challenge especially for the “new” Member States, especially the Czech Republic, Poland and Slovakia.

It needs to be emphasized that as consequence of the crisis there is an increase in the number of bankruptcy proceedings in Europe. The proceedings may concern both big and small and medium (SME) enterprises. Enterprises from financial, construction, chemical, automotive or telecommunications and tourism sectors are at higher bankruptcy risk. According to estimates, the biggest increase in bankruptcies in 2009 in comparison to the previous year was to take place in the Netherlands—by 75%, Spain—58%, the United Kingdom—56%, Ireland and Slovakia—55%⁴⁵. In Germany the number of bankruptcies was to increase by 19%, in France by 30% and in Poland by 26%.

⁴⁵ A. Woźniak, “Wielkie cmentarzysko firm w Unii Europejskiej,” *Rzeczpospolita* of 7 August 2009.

Table 12. Bankruptcy Proceeding

Country	Duration of bankruptcy proceeding (years)		Proceedings' costs (% of estate)	
	2008	2009	2008	2009
AT	1.1	1.1	1.0	18.0
BE	0.9	0.9	4.0	4.0
BG	3.3	3.3	9.0	9.0
CY	–	1.5	–	15.0
CZ	6.5	6.5	15.0	15.0
DE	1.2	1.2	8.0	8.0
DK	1.1	1.1	4.0	4.0
EE	3.0	3.0	9.0	9.0
EL	2.0	2.0	9.0	9.0
ES	1.0	1.0	15.0	15.0
FI	0.9	0.9	4.0	4.0
FR	1.9	1.9	9.0	9.0
HU	2.0	2.0	15.0	15.0
IE	0.4	0.4	9.0	9.0
IT	1.8	1.8	22.0	22.0
LT	1.7	1.5	7.0	7.0
LU	2.0	2.0	15.0	15.0
LV	3.0	3.0	13.0	13.0
NL	1.1	1.1	4.0	4.0
PL	3.0	3.0	20.0	20.0
PT	2.0	2.0	9.0	9.0
RO	3.3	3.3	9.0	11.0
SE	2.0	2.0	9.0	9.0
SI	2.0	2.0	8.0	8.0
SK	4.0	4.0	18.0	18.0
UK	1.0	1.0	6.0	6.0
EU average	2.1	2.1	10.72	10.8
USA	1.5	1.5	7.0	7.0

Source: World Bank, Doing Business 2010: European Union – www.doingbusiness.org/Documents/RegionalReports/DB10_European_Union.pdf; Doing Business 2009: European Union – www.doingbusiness.org/Documents/RegionalReports/DB09_European_Union.pdf, accessed on 20.11.2009.

1.2.7. Small and Medium Enterprises

Small and medium enterprises are particularly vulnerable to the financial and economic crisis. These enterprises may be affected by the crisis through limited access to credits and difficulties with payment for goods and services delivered. Shortly before the crisis the EU adopted the Small Business Act (SBA), which embraces measures most helpful in alleviating the consequences of the crisis for SMEs, which means that the programme was launched at the best moment possible. Many measures foreseen in the SBA refer to regulations concerning the functioning of small companies and are enforced in the wider framework of the Better Regulation initiative. In this context legislative proposals of importance to SMEs should be singled out, such as amendments to the directive on combating late payments in commercial transactions (2000/35/EC) and the directive on the common system of value added tax (2006/112/EC). The first one proposed by the Commission in April 2009 stipulates:

- should public authorities fail to pay within 30 days, they will have to pay interest as of the first day of delay, 5% flat-rate compensation or compensation for recovery costs;
- facilitations with reference to claims in case of late payments.⁴⁶

The proposed solutions could help to reduce the practice of delaying payments, which is popular especially in crisis conditions. It is estimated that the average payment delay was extended from 17 days in 2008 to 19 days in 2009.⁴⁷ For almost 60% of smaller companies, late payments constitute about 30% of their turnover.⁴⁸ It is worth emphasizing that public authorities are responsible for the delays more often than enterprises, as their average effective payment period amounted to 67 days in 2009 (an increase by 1.7 from 2008), which meant that it was 10 days longer than the time of payment by enterprises (an increase by 1.5 days in 2009).⁴⁹ The best situation was recorded in Finland, Sweden and Denmark, with Portugal, Greece and Cyprus at the opposite end of the spectrum. Poland's performance is average in this respect (payment delays above the European average). Some Member States (France, Greece, Spain, Germany, the United Kingdom, Italy) have recently initiated steps aimed at reducing delays.

The changes suggested in 2009 with reference to VAT and invoicing are aiming at ensuring the equivalence of paper and electronic invoices; if all companies were to use electronic invoices, this could mean burden reductions by more than €18 billion.

It is worth mentioning the Commission's proposal of February 2009 to exempt microenterprises from financial reporting duties on accounting issues defined in

⁴⁶ European Commission, *Commission Fights Late Payments*, Press Release IP/09/552, 8 April 2009, <http://europa.eu/rapid/pressReleasesAction.do?reference=IP/09/552&format=HTML&aged=0&language=EN&guiLanguage=en>, accessed on 20.11.2009.

⁴⁷ The source of the information is the survey of a couple of hundred of companies conducted in 25 European states. 22 EU Member States (apart from BG, LU, MT, RO, SI), Island, Norway and Switzerland, source: Inturium Justitia, *European Payment Index 2009*, p. 4, www.intrum.is/files/2009_9_21_EPI_UK2009.pdf, accessed on 8 January 2010.

⁴⁸ European Commission, *Proposal for Directive of the European Parliament and of the Council on Combating Late Payment in Commercial Transactions (recast), Impact assessment*, SEC(2009) 315, p. 8, <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=SEC:2009:0315:FIN:en:PDF>, accessed on 8.01.2010.

⁴⁹ Inturium Justitia, *European Payment Index...*, *op. cit.*, p. 4.

Directive 78/660/EEC and to enable each Member State to set its own rules in this respect; this could ease the administrative burdens of small businesses.⁵⁰

On the EU as well as national levels additional assistance measures were launched for the SME. The EIB increased the amount of loans for small companies from €8.1 billion to €11.5 billion in 2008–2009.⁵¹ The whole assistance package for SMEs adopted by the EIB in the framework of anti-crisis actions in 2008 amounts to €30 billion. A number of states (Austria, Belgium, the Czech Republic, Estonia, Latvia, the Netherlands, Germany, Great Britain) undertook steps to facilitate access to financing for SMEs (through guarantees or subsidized credits),⁵² with some states also striving to facilitate access to public procurement for the SMEs.

1.2.8. Better Regulation

Actions for a reduction of administrative burdens have become the most important priority for the European Commission in the framework of the Better Regulation Initiative. Its effects are much more visible than the changes introduced unilaterally by the Member States. Most advanced in reducing administrative burdens are the following countries: Austria, Denmark, Germany, the Netherlands, Sweden and the United Kingdom.⁵³ On the other hand, a number of Member States (Belgium, Bulgaria, Estonia, Finland, Lithuania, Luxembourg) set their national reduction goals only in 2009, despite the fact that they should have done so by the end of 2007.

In the meantime, the European Commission managed to conduct a detailed evaluation of administrative burdens and the potential reduction scale in 13 sectors. The overall level of burdens, according to the Commission, amounts to more than €123 billion, with burdens dominant in particular in two sectors: taxation/customs—€87 billion, annual accounts/company law—more than €14.5 billion. Those burdens affect to SMEs more strongly, as some tasks have to be outsourced due to inadequate human resources, ultimately boosting operational costs.

As the Commission emphasizes, more than 30% of administrative burdens stem from the tendency on the part of Member States to introduce their own, additional provisions that are not indispensable for correct transposition of European law (“gold-plating”).⁵⁴

⁵⁰ European Commission, *Financial Reporting: Commission Gets Rid of Accounting Requirements for Micro Enterprises in Major Burden Reduction for the EU's Smallest Companies*, Press Release, IP/09/328, 26 February 2009, <http://europa.eu/rapid/pressReleasesAction.do?reference=IP/09/328>, accessed on 8.01.2010.

⁵¹ European Commission, *Report on the Implementation of the SBA*, Commission Working Document, COM(2009) 680, p. 4, http://ec.europa.eu/enterprise/policies/sme/small-business-act/implementation/files/sba_imp_en.pdf, accessed on 10.01.2010.

⁵² *Ibidem*, p. 5.

⁵³ European Commission, *Action Programme for reducing administrative burdens in the EU, Sectoral reduction plans and 2009 action*, COM(2009) 544 final, p. 11.

⁵⁴ *Ibidem*, p. 6.

Table 13. Level of Administrative Burdens Stemming from EU Legislation in Particular Sectors

Priority area	Administrative burden (in euro)
Agriculture/agricultural subsidies	5 289 700 000
Annual Accounts/Company law	14 589 100 000
Cohesion policy	929 100 000
Environment	1 180 600 000
Financial services	939 600 000
Fisheries	73 900 000
Pharmaceutical legislation	943 500 000
Public procurement	216 300 000
Statistics	779 500 000
Taxation/Customs	87 005 300 000
Transport	3 861 700 000
Food safety	4 073 300 000
Working environment	3 879 200 000
Aggregate	123 760 800 000

Source: European Commission, *Action Programme for Reducing Administrative Burdens in the EU Sectoral Reduction Plans and 2009 Actions*.

An effective implementation of all measures suggested by the Commission could cut administrative burdens by one-third—i.e. by €40 billion. Until autumn 2009, 48 legislative and non-legislative measures were adopted, and those could cut administrative burdens by €7.6 billion (6% of total burdens).⁵⁵ Proportionally, the biggest reductions apply to statistics (by 42%), agriculture (36%) and fisheries (26%).

Hopefully, the political importance of the Initiative for Better Regulation will increase, because it will be controlled by the president of the Commission (so far by the commissioner for enterprise and industry). As a result, organizational changes will be introduced, with the relevant unit of DG ENTR (Unit ENTR B.5) to be included in the General Secretariat of the Commission.

One of the main challenges in this context is to improve the quality of impact assessment reports that identify economic, social and environmental consequences of the Commission's legislative and non-legislative proposals. The Impact Assessment Board (IAB), a body that controls the quality of these reports in the Commission, has been pointing in particular to complications involving problem definition, effectiveness of consultation processes and progress indicators.⁵⁶ These flaws mean that a relatively

⁵⁵ *Ibidem*, p. 6.

⁵⁶ European Commission, *Impact Assessment Board Report 2009*, SEC(2009) 1728 final, pp. 8–9, http://ec.europa.eu/governance/impact/iab/docs/sec_2009_1728_en.pdf, accessed on 18.02.2010.

large number of these reports (over 37%) need to be corrected after their first submission to the IAB.⁵⁷

Table 14. Hitherto Results of Administrative Burdens Reduction at the EU level

Priority area	Measures adopted	
	%	In euro
Statistics	42	328 100 000
Agriculture	36	1 891 400 000
Fisheries	26	19 000 000
Financial services	15	142 500 000
Cohesion policy	13	117 600 000
Transport	10	403 800 000
Annual accounts/Company law	9	1 362 900 000
Public procurement	6	12 500 000
Taxation/Customs	4	3 133 100 000
Pharmaceutical legislation	4	40 100 000
Working environment	2	92 600 000
Food safety	0.6	24 600 000
Environment	0.3	3 600 000
Aggregate	6	7 571 800 000

Source: European Commission, *Action Programme for Reducing Administrative Burdens in the EU Sectoral Reduction Plans and 2009 Actions*.

1.2.9. Conclusions

The segment of entrepreneurship remains the leading area with respect to Lisbon Strategy implementation, although last year did not bring significant progress here, which may partly be attributed to the emphasis placed by many countries on immediate assistance to enterprises during a crisis rather than on improvement of regulatory conditions for businesses. No progress was noted where it would be most desirable, e.g. in commercial judicature or bankruptcy proceedings. These are the most neglected areas of this LS segment. Without improvement in these areas, it will be difficult to declare that conditions for conducting business activity in the EU have improved. Ineffective courts and protracted bankruptcy procedures may constitute a problem especially during the financial crisis in view of the rising number of enterprises forced to terminate their business activity. From their perspective, smooth and relatively inexpensive proceeding are extremely important. Because of the crisis, the number of cases initiated before commercial courts (payment delays) may increase, posing

⁵⁷ *Ibidem*, p. 6.

a delays challenge to already overloaded courts in many countries. This could generate additional costs for enterprises filing claims and additionally undermine their situation.

In comparison with the period presented in the previous PISM Report, no substantial changes were observed on the list of the best and poorly performing countries in this segment. This generally parallels the situation in other segments, as it is difficult to bridge differences between states in a short term. The economic and financial crisis did not influence the ranking of states with reference to this segment, although the presented data does not take into account the full implications the crisis may have.

Member States are taking too long to reduce the level of administrative burdens. At the same time, it should be borne in mind that such instruments may improve the efficiency of expenditure from the EU budget, as indicated by the European Court of Auditors (ECA). This applies in particular to provisions on policy cohesion, where the highest share of incorrectly spent means is recorded. The ECA questioned the correctness of spending for 11% of the funds within this policy in 2008.⁵⁸

Despite the fact that the implementation of the Better Regulation Initiative will now be coordinated by the president of the Commission, it is not certain if he will be able to perform this task well in view of his numerous responsibilities. A lot will no doubt depend on effective cooperation between the president of the EC and the commissioner for enterprise and industry, whose responsibilities have been curbed.

1.2.10. Evaluation

1.2.10.1. Positive

In view of progress made at different levels of the described segment, the following can be given credit: **the Czech Republic, France and Slovenia**. In terms of general conditions for conducting business activity, Ireland, the United Kingdom and the Scandinavian states remain the leaders.

1.2.10.2. Negative

In view of an absence of any progress and persisting unfavorable conditions for conducting business activity **Greece** is evaluated negatively.

1.2.11. Recommendations

1. The implementation of LS after 2010 in the area of entrepreneurship should focus on the improvement of the quality and effectiveness of the administration and commercial courts. In the framework of new national reform programmes, states should determine concrete goals in this respect (e.g. cutting the number of days during which a judgment or an administrative decision should be issued).

⁵⁸ Court of Auditors of the European Communities, *Annual Report of the Court of Auditors on the implementation of the budget concerning the financial year 2008, together with the institutions' replies*, OJ 2009 C 269/1, p. 126, accessed on 10.11.2009.

2. All states should intensify actions for reducing administrative burdens, developing a comprehensive assessment of the burdens in specific areas, similarly to steps undertaken by the Commission.
3. In view of his direct responsibility for the implementation of the Better Regulation Initiative, the president of the European Commission should set up a special group of commissioners responsible for important areas in this respect.
4. The Commission should initiate an exchange of good practices among the states and intensify cooperation with the OECD, which is experienced in supporting regulatory reforms.
5. Initiatives for entrepreneurship should pay more attention to the social component, i.e. they should focus on supporting the launch of small companies set up by the unemployed or immigrants. This is especially significant in view of growing unemployment among young persons.
6. The governments of Member States should aim at reducing payment delays, especially if public authorities are the end recipients of the goods and services supplied. The fact that these delays are significantly longer than in the case of settlements between enterprises not only has negative financial consequences, but additionally undermines the confidence of businesses in the state.

1.3. Internal Market

The development of the single market constituted an important part within the framework of LS actions. In the past years a shift in the EU's attention has been observed towards those aspects of the single market that concern benefits for smaller businesses and citizens and rationalize its functioning as a whole. Those aspects are the key elements of the approach that was initiated in 2006, when the single market review was launched.⁵⁹ Monitoring of individual sectors of the market began in order to identify all potential weaknesses in their functioning; in 2009, for example, the Commission ended the monitoring of the food supply chain. The financial and economic crisis meant that the focus was shifted to the protection of the internal market against competition disturbances resulting from the introduction of stimulatory and assistance packages and the ensuing risk of national protectionism, which is usually stronger in crisis situations. As the guardian of the Treaties, the European Commission plays a key role in this respect.⁶⁰ In this segment of the LS, the EU has at its disposal the most powerful instrument of influencing the Member States (regulations).

1.3.1. Services Directive

The EU states were to transpose the Services Directive until 28 December 2009. The crisis was another argument for its timely implementation, as the Directive may facilitate setting up businesses activity and create new employment opportunities. It must be added, however, that economic effects of services liberalization will be more visible in a long-term perspective. The closer to the transposition deadline, the greater

⁵⁹ More information about these actions in: M. Koczor, *Lisbon Strategy Implementation in 2008...*, p. 44.

⁶⁰ For more on this topic see the second part of the Report.

doubts emerged as to whether the Member States will succeed in adjusting their administrative and legal systems to the requirements of the Directive and whether the single points of contact will be ready as scheduled.⁶¹ In December 2009, 57% of the chambers associated in Eurochambres believed that the Services Directive would be implemented in their country as declared, against 62% in July 2009.⁶² According to a Eurochambres survey, only nine countries completed the transposition process at the formal as well as operational level prior to the deadline. These are: the Czech Republic, Denmark, Estonia, Finland, Germany, Hungary, the Netherlands, Sweden and the United Kingdom. The laggards in this respect are: Bulgaria, Greece, Ireland, Italy, Latvia, Poland, Slovakia and Slovenia.

The effectiveness and quality of single contact points is the number one question mark in the whole transposition process. The overwhelming majority of states determined the scope of competences of those institutions, which, apart from providing information, are to be places where a number of formalities can be completed. They are to be decentralized in most cases, usually as a consequence of the national administrative structure. Some states, such as France, Spain or Portugal, have implemented pilot projects for single contact point. According to Eurochambres, in most cases information offered in single contact points will be available also in foreign language (mostly in English). Servicing in other languages is not required by the Directive, but it could constitute a considerable facilitation for entities from abroad wishing to provide services in a given state.

According to information provided by the European Commission in September 2009, the majority of Member States had completed the screening of legal regulations.⁶³ Most states (including Poland) decided to transpose the Directive by adopting a horizontal legal act for all types of services under the Directive. France and Germany did not adopt this approach. In addition, in many EU Member States such an act was to be of a comprehensive nature, introducing amendments in a number of legal acts. Denmark, the Czech Republic, Hungary and Sweden adopted such acts.⁶⁴ Poland is one of those states which have not managed to transpose the Services Directive on time—only in December 2009 a draft bill was adopted by the Council of Ministers.⁶⁵

Member States collaborated with each other to a varying degree on implementing the Directive. Austria, Denmark, France, the Netherlands, Germany, Sweden and the United Kingdom were particularly active. They were the organizers of informal encounters of civil servants (the so-called “Jamboree meetings”), where experience was shared on single contact points. The first of such meetings—initiated by

⁶¹ BusinessEurope, *The Service Directive: the Moment of Truth*, 3 September 2009, p. 2.

⁶² Eurochambres, “Mapping the Implementation of the Services Directive in EU Member States,” *Eurochambres Policy Survey*, February 2010, p. 6, http://ec.europa.eu/internal_market/services/docs/services-dir/studies/eurochambres-report_en.pdf, accessed on 3.02.2010.

⁶³ European Commission, *Implementation of the services directive: making the internal market for services work better*, Information note for the Commission, Meeting of the Competitiveness Council, 24–25 September 2009, p. 3, http://ec.europa.eu/internal_market/services/docs/services-dir/explanatory/20090914_memo_to_council_en.pdf, accessed on 3.12.2009.

⁶⁴ European Commission, *The EU Internal Market—Services Directive—News*, http://ec.europa.eu/internal_market/services/services-dir/news_en.htm, accessed on 2.12.2009.

⁶⁵ Ministry of Economy of the Republic of Poland, *Informacje Ministerstwa Gospodarki – Usługi w Unii Europejskiej bez barier*, www.mg.gov.pl/Wiadomosci/Strona+glowna/Uslugi+w+Unii+Europejskiej+bez+barier.htm, accessed on 9.12.2009.

the Netherlands and supported by Denmark, France, Germany and the United Kingdom—took place in November 2008. As the result of this meeting, an informal network of persons responsible for the creation of single contact points was created. The second meeting was organized by Austria, Sweden and the United Kingdom in June 2009.⁶⁶

1.3.2. Implementation of Internal Market Directives

As of May 2009, 18 Member States reached the goal of 1% maximum level of internal market directives transposition deficit.⁶⁷ This means that in their case merely 1% of directives remained unimplemented; this reflects little progress in comparison to the end of 2008, when 17 states had acceptable deficits. The performance of Cyprus needs to be appreciated, as it managed to attain the goal (it registered the exact level of 1% deficit against 1.7% at the end of 2008). Denmark and Malta strengthened their position as leaders of low deficit. They managed to improve their performance slightly in comparison to 2008; they both registered a deficit level amounting to 0.2%, whilst in November 2008 it amounted to 0.3%. The group of underperforming in this respect remained unchanged and includes Greece (increase in deficit level from 1.7% in November 2008 to 2.1% in May 2009), Portugal (from 1.9% to 2% respectively) and Poland (from 2% to 2.1%). It should be emphasized that between November 2008 and May 2009 six out of nine countries which did not manage to attain the 2007 goal of 1% performed worse. In case of the majority of those states, transposition problems are of permanent nature and result from administrative weakness or insufficient political determination. The same group of states encounters problems with attainment of the no-deficit goal with reference to directives whose date of transposition elapsed two or more years earlier. In this respect, Luxembourg remains the leader (eight directives whose transposition is lagging behind according to May 2009 data, i.e. two less than in November 2008) followed by Greece (five directives and an increase by three in the respective period). Poland, similarly to the Czech Republic, Belgium and Portugal, has three directives which are lagging behind so long, while 15 EU states have no directives to transpose that should have been implemented two or more years ago.

Table 15. Categorization of States in Respect to EU Directives Transposition Levels (as of May 2009)

Threshold	Country
The attained level of 1% deficit	AT, BG, CY, DE, DK, ES, FI, FR, HU, IE, LT, LV, MT, NL, RO, SI, SK, SE
The attained level of 1.5% deficit	BE, EE, UK
Above 1.5%	CZ, EL, IT, LU, PL, PT

Source: European Commission, *Internal Market Scoreboard 19*, July 2009, http://ec.europa.eu/internal_market/score/docs/score19_en.pdf.

⁶⁶ European Commission, *Single Market News*, no. 55, 2009, p. 9, http://ec.europa.eu/internal_market/smn/smn55/docs/smn55final_en.pdf, accessed on 3.12.2009.

⁶⁷ European Commission, *Internal Market Scoreboard 19*, July 2009, http://ec.europa.eu/internal_market/score/docs/score19_en.pdf, accessed on 3.12.2009.

Table 16. Internal Market Directives Transposition in Member States (as of May 2009)

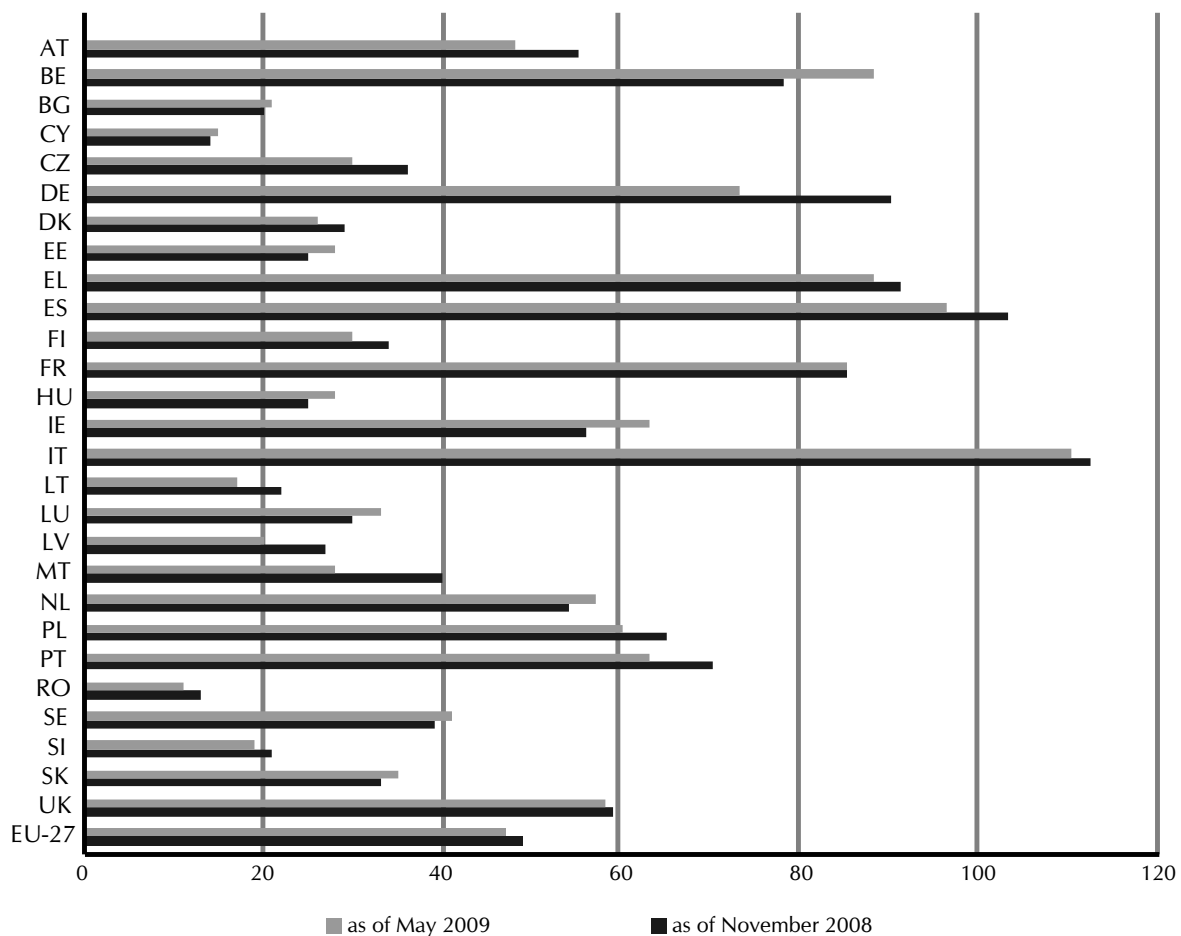
Country	Number of unnotified directives ⁶⁸	Directives transposition deficit	Number of untransposed directives whose implementation deadline elapsed more than 2 years ago
AT	15	0.9	1
BE	20	1.2	3
BG	5	0.3	0
CY	16	1.0	0
CZ	30	1.9	3
DE	13	0.8	0
DK	3	0.2	0
EE	23	1.4	0
EL	34	2.1	5
ES	13	0.8	0
FI	6	0.4	1
FR	13	0.8	1
HU	10	0.6	0
IE	13	0.8	0
IT	28	1.7	2
LT	7	0.4	0
LU	27	1.7	8
LV	12	0.7	0
MT	3	0.2	0
NL	9	0.6	0
PL	33	2.1	3
PT	32	2.0	3
RO	5	0.3	0
SE	10	0.6	0
SI	7	0.4	1
SK	7	0.4	0
UK	18	1.1	2

Source: European Commission, *Internal Market Scoreboard 19*, July 2009....

⁶⁸ Number of directives about which the European Commission received no information regarding transposition.

Some progress has been achieved in reducing the number of cases initiated by the Commission due to incorrect implementation or application of Community law (infringement procedure). Between May 2006 and May 2009 there was a fall in the number of such cases by 11% in the EU-15. Italy (116 cases), Spain (96) and Greece (88) remain infamous leaders in this area. But for all those states the number of cases fell in this period by 34%, 16% and 10% respectively, while a radical increase in the number of cases was noted against Belgium (by 49%) and the Netherlands (by 21%). In “new” Member States a slight increase in the number of cases in 2007–2009 was registered (by 2%). In this group of states the highest number of proceedings was launched against Poland (60), up 2% in 2007–2009. There is an increase in a number of proceedings against Slovakia (by as much as 75%) and Estonia (by 56%). The highest share of proceedings concern the implementation or application of directives in the field of taxation, environment, public procurement and recognition of professional qualifications. The average number of cases in the EU fell from 49 in November 2008 to 47 in May 2009, with their number decreasing against Austria, the Czech Republic, Germany, Poland, Portugal and Spain, but on the rise against Ireland and all the Benelux countries.

Diagram 3. Number of Infringement Procedures against Member States



Source: European Commission, *Internal Market Scoreboard 19*, July 2009.

1.3.3. State Aid

State aid launched by the governments of Member States became—apart from operations undertaken by the ECB and national banks from outside the euro area—the main instrument for restoring the stability of the EU’s banking system.⁶⁹ Hence in 2008 its overall value with reference to all sectors and in its horizontal dimension increased multifold in comparison to 2007, reaching €279.6 billion, i.e. 2.2% of EU-27 GDP (in 2007 total state aid amounted to €66.5 billion—0.52% GDP).⁷⁰ Without support offered to banks, however, total state aid is comparable to that in 2007 (€67.4 billion—0.54% GDP). Hungary (2.38%), Malta (2%) and Bulgaria (1.3%) are the biggest spenders on state aid. In absolute figures, the biggest sums on public aid were spent in Germany (€15.7 billion), France (€10.3 billion) and Italy (€5.5 billion).

Table 17. State Aid in 2008⁷¹

Country	As percentage of GDP	The amount (in billion euro)	Share of horizontal aid in total aid granted for industry and service sector
AT	0.46	1.3	99
BE	0.46	1.6	99
BG	1.3	0.4	91
CY	0.65	0.1	95
CZ	0.97	1.4	94
DE	0.63	15.7	87
DK	0.80	1.9	94
EE	0.29	0.05	100
EL	0.42	1.0	98
ES	0.48	5.2	79
FI	1.13	2.1	98
FR	0.53	10.3	96
HU	2.38	2.5	81
IE	1.05	1.9	84
IT	0.35	5.5	85
LT	0.82	0.3	100

⁶⁹ The data presented in this subchapter does not take into account rescue aid for the financial sector. This is a consequence of a particular character of those means and the context in which they were employed. Detailed data concerning aid for the financial sector can be found in the second part of the Report.

⁷⁰ European Commission, *State Aid Scoreboard, Report on State Aid Granted by the EU Member States, Autumn 2009 Update*, COM(2009)661, p. 4, http://ec.europa.eu/competition/state_aid/studies_reports/2009_autumn_en.pdf, accessed on 9.12.2009.

⁷¹ Without aid for financial and rail sectors.

Country	As percentage of GDP	The amount (in billion euro)	Share of horizontal aid in total aid granted for industry and service sector
LU	0.20	0.1	100
LV	0.88	0.2	100
MT	2.0	0.1	2
NL	0.36	2.2	98
PL	1.02	3.7	93
PT	0.93	1.6	16
RO	0.64	0.9	53
SE	0.92	3.0	100
SI	0.66	0.2	89
SK	0.53	0.4	84
UK	0.21	3.8	91
EU-27	0.54	67.4	88

Source: European Commission, DG Competition, http://ec.europa.eu/competition/state_aid/studies_reports/expenditure.html.

The highest share of aid was granted to the industry and services sector (€52.9%—78% of total aid) and agriculture (€11.8 billion—17.5%).

Table 18. State Aid in Individual Sectors in 2008 (excluding rescue aid for banks and railway sector)

Sector	Amount (in billion euro)	Percentage
Industry and Services	52.9	78
Agriculture	11.8	17.5
Transport	2.4	3.6
Fisheries	0.2	0.4

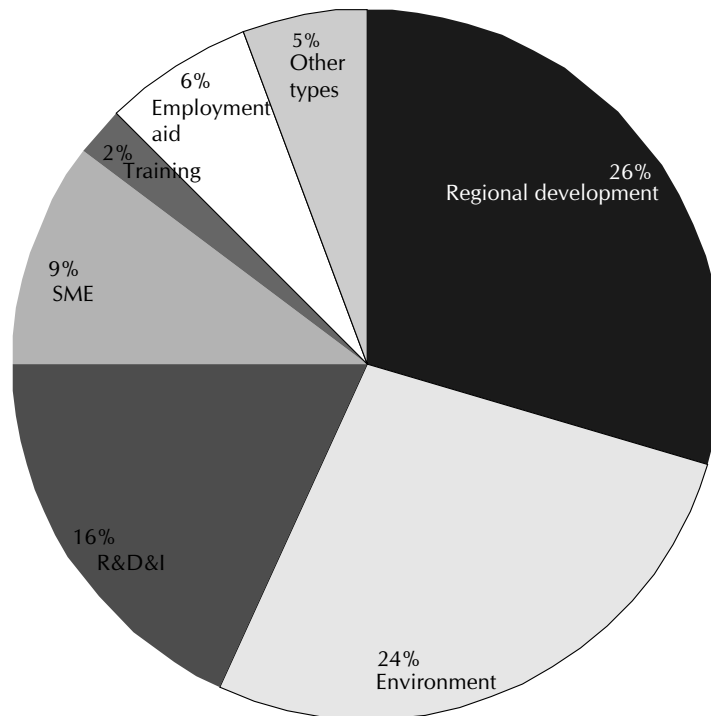
Source: European Commission, *State aid scoreboard, Report on state aid granted by the EU member states*, COM (2009) 661.

In comparison to 2007, the percentage of state aid in industry and services sector directed at horizontal goals serving LS implementation increased. In 2008, this share stood at 88% (80% in 2007), i.e. €46.3 billion (a rise by €7 billion against 2007).⁷² The following states devoted this aid (excluding state aid for banks) in full to horizontal aims: Estonia, Lithuania, Latvia, Luxembourg, Sweden, while 17 EU states devoted at least 90% of aid to horizontal goals. The lowest percentage of horizontal aid in 2008 was granted in Malta (2%) and Portugal (16%). In 2008 the highest percentage of horizontal aid went to regional development (26%, up from 20% in 2007), followed by the

⁷² The remaining part of aid granted for industry and service sector was directed at among others: coal, manufacturing sector and financial sector (other than rescue aid).

environment (24%, 25% in 2007) and research, development and innovation (16%, 15% in 2007).

Diagram 4. Expenditure Distribution of Horizontal State Aid in 2008



Source: European Commission, DG Competition, http://ec.europa.eu/competition/state_aid/studies_reports/expenditure.html.

The European Commission introduced a simplified procedure for some aid proceedings to make it possible to determine at a very early stage if given aid complies with the rules or not. The simplified procedure is applicable to projects with high risk capital, investment aid for environmental protection, assistance for new and innovative enterprises, innovation clusters, rescue and restructuring programmes.⁷³

1.3.4. Network Markets

1.3.4.1. Energy and Gas

In 2009 work on the so-called third liberalization package of the electric energy and gas market was successfully terminated. The final version provides for three options of separating generation from transmission: full ownership unbundling, establishment of an Independent System Operator—ISO or establishment of an Independent Transmission Operator—ITO.⁷⁴ In line with the provisions of the package, a special

⁷³ European Commission, *Notice from the Commission on a Simplified Procedure for Treatment of Certain Types of State Aid*, 2009/C 136/03.

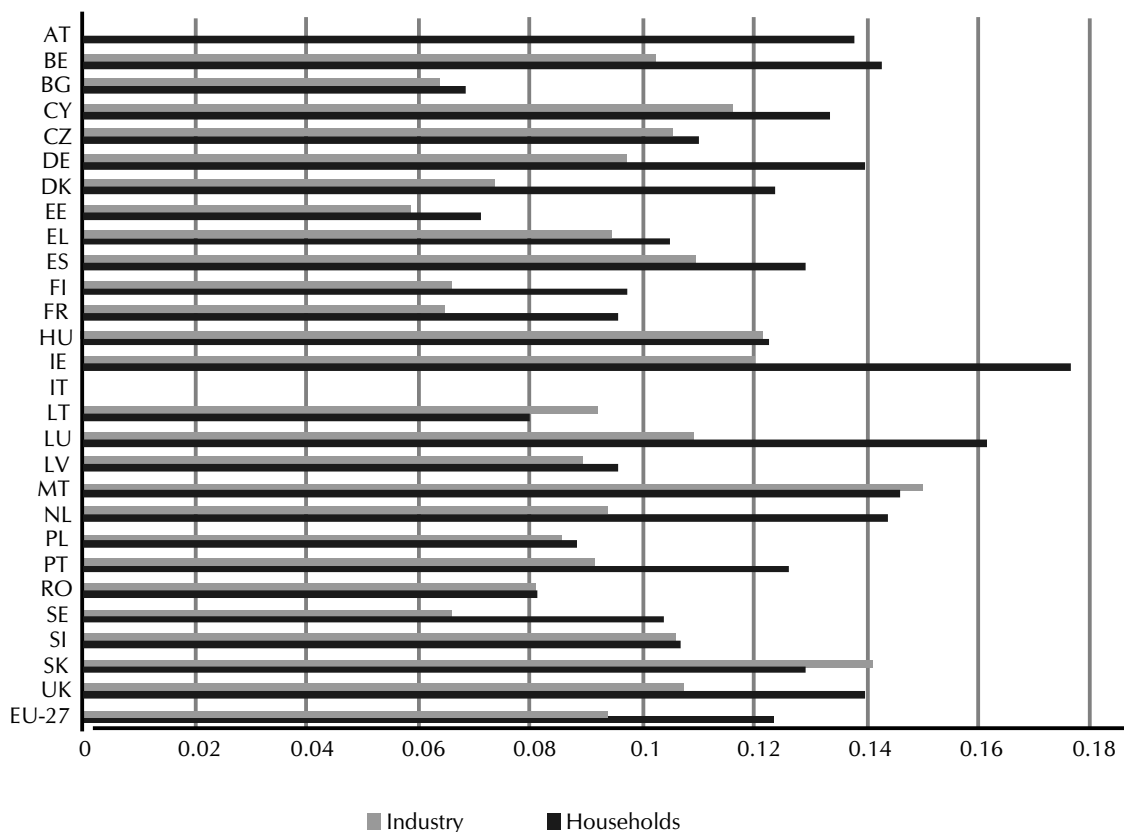
⁷⁴ Council of the European Union, *Council Adopts Internal Market Package*, 11271/09 (Presse 191), Luxembourg, 25 June 2009, www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/misc/108740.pdf, accessed on 20.10.2009.

organ was created: an Agency for Cooperation of Energy Regulators (ACER), which is to coordinate the regulatory authorities of the Member States. It is seated in Ljubljana.

In the meantime, serious problems persist with timely and correct implementation of energy markets directives (above all, the second liberalization package of 2003). In June 2009 the Commission initiated the first stage of the procedure concerning incorrect implementation or application of Community law (letter of formal notice) against 25 Member States (excluding Cyprus and Malta).⁷⁵ Additionally, Greece, Lithuania, Poland, Portugal and Romania were called upon to eliminate irregularities connected with retaining regulated energy prices.⁷⁶ The most important allegations made by the Commission concerned:

- insufficient information conveyed by transmission system operators to suppliers, which makes access to network more difficult;
- lack of adequate procedures for settling consumer disputes;
- weakness of national control organs with respect to the possibility of executing law in case of infringements by entities acting on the market.

Diagram 5. Electricity Price (for 1 kWh) in Households and Industry in 2009 (in euro)



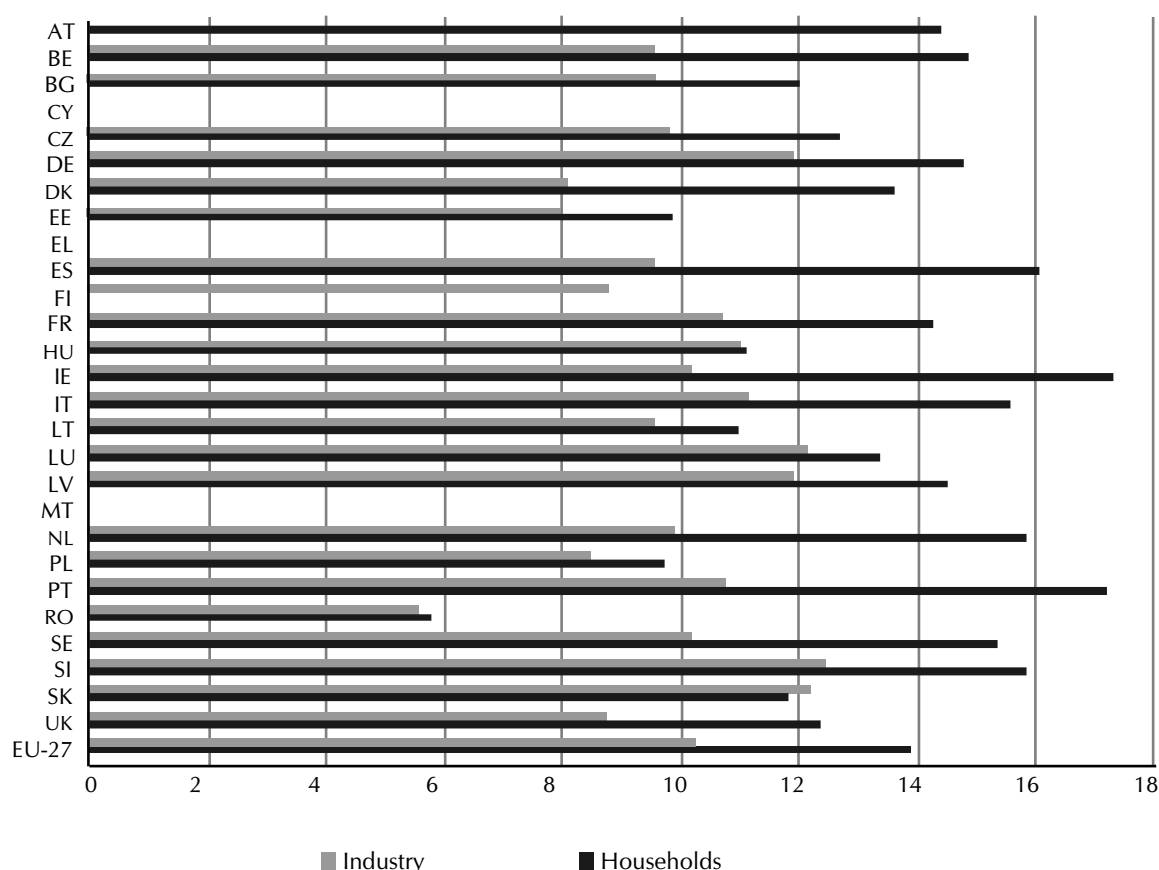
Source: Eurostat, <http://epp.eurostat.ec.europa.eu/tgm/refreshTableAction.do?tab=table&plugin=1&pcode=tsier040&language=e>. No data for Italy and Austria concerning electricity price for industry.

⁷⁵ There is no developed gas market in any of those states.

⁷⁶ European Commission, *Commission Acts to Ensure Effective and Competitive Energy Market across Europe*, Press Release, IP/09/1035, 25 June 2009, <http://europa.eu/rapid/pressReleasesAction.do?reference=IP/09/1035&format=HTML&aged=0&language=EN&guiLanguage=en>, accessed on 3.12.2009.

There are substantial differences as far as energy prices for households are concerned. According to the European Commission, in the view of purchasing parity power, electricity prices for consumers (including taxes) may be perceived as high in Hungary, Slovakia, Germany and Poland,⁷⁷ and described as low in Finland, France and Greece. By analogy, gas prices are the highest in Austria, Bulgaria and Sweden, and the lowest in France, Ireland, Latvia and the United Kingdom. Energy prices for households remain regulated in most Member States, which means they may be lower than in full liberalization conditions, although this is not a rule (in Ireland, the electricity price for households is the highest in the EU, although it is regulated). On the other hand, regulation can disturb the market, e.g. by weakening the competition. Prices for industrial users are less likely to be regulated than prices for individual consumers (10 Member States keep regulated prices for both gas and electricity for industrial users, while 17 regulate gas and electricity prices for consumers).

Diagram 6. Gas Energy Price (for 1 GJ) in Households and Industry in 2009 (in euro)



Source: Eurostat, <http://epp.eurostat.ec.europa.eu/tgm/refreshTableAction.do?tab=table&plugin=1&pcode=tsier050&language=e>. Cyprus and Malta do not have gas market, no date for Greece, data for Finland regarding household prices and for Austria concerning industrial prices are not available.

⁷⁷ European Commission, *Report on Progress in Creating the Internal Gas and Electricity Market*, COM(2009) 115 final, 11 March 2009, pp. 9–11.

Table 19. States Where Energy Prices for Consumers Remain Regulated

Regulation	Consumers	Industry
Regulation of electricity and gas prices	BE, BG, CZ, DK, EE, ES, FR, HU, IE, IT, LT, LV, PL, PT, RO, SI, SK	BG, DK, ES, FR HU, IE, LV, PL, PT, RO
Regulation of gas prices	–	–
Regulation of electricity prices	CY, EL, FI, LU, MT	CY, EE, EL, IT, LT, MT

Source: European Commission, *Report on Progress in Creating the Internal Gas and Electricity Market*, COM(2009)115 final. No information available on the gas market in Finland and Greece.

1.3.4.2. Telecommunications

On 1 July 2009, another phase of price reductions for roaming calls provided for in 2007 came into force. Since that day the price of sending a text message in roaming cannot exceed €0.11, for receiving a call €0.19 and for making a call €0.43. The cost of browsing websites in mobile phones and downloading movies was lowered as well, with the maximum wholesale rate at no more than €1 for 1MB of data. Tariff rates must be calculated by second, and not by minute.

At the end of November 2009, the telecommunications package proposal presented two years earlier was finally adopted, although in the first half of the year this seemed unlikely. Though at the end of April political agreement was reached between the Parliament and the Council, soon afterwards it was rejected by the European Parliament, necessitating conciliation to reach agreement. Due to the end of the EP's term, this phase took place in the new Parliament. The most controversial matter concerned reconciling sanctions for downloading files illegally with the protection of Internet users. According to the initial agreement, users whose Internet access was limited or cut off, e.g. for illegally downloading files, could appeal against the decision in court, but Parliament introduced an amendment stipulating that cutting off Internet access had to stem from consent given by a court.⁷⁸ The new Parliament accepted a compromise version with no prior court consent required to disconnect Internet access. According to the compromise formula, each decision limiting Internet access must be adopted in the framework of a transparent and just procedure. This was a clear revision of the EP's stance and *de facto* a victory for the Council.⁷⁹

1.3.4.3. Rail Transport

As in the preceding years, the quality and pace at which liberalization directives are implemented remain the number one problem. The majority of Member States have not achieved any progress in respect of eliminating shortcomings in the implementation of the first rail package. That is why the Commission initiated the second stage of the

⁷⁸ "Telecoms Overhaul Blocked over Internet Users' Rights," *Euractiv* of 7 May 2009, www.euractiv.com/en/infosociety/telecoms-overhaul-blocked-internet-users-rights/article-182062, accessed on 30.11.2009.

⁷⁹ 'Right to Internet' Dies Quietly in Brussels Back Room, *Euroobserver*, <http://euobserver.com/9/28944>, accessed on 30.11.2009.

procedure in October 2009 and issued a reasoned opinion concerning Austria, Belgium, the Czech Republic, Denmark, Estonia, France, Germany, Greece, Hungary, Italy, Ireland, Latvia, Lithuania, Poland, Portugal, Romania, Spain, Slovakia, Slovenia and Sweden.⁸⁰ Shortcomings have been eliminated in Bulgaria, Finland and the United Kingdom. The most important reservations of the Commission concern:

- lack of independent regulatory bodies that would guarantee the possibility of competition development on the market;
- incorrect implementation of provisions concerning fees for access to infrastructure ;
- lack of independent organs that would manage the infrastructure.

1.3.5. Conclusions

The most up-to-date data for specific markets of this segment refer to different periods. It is, therefore, objectively difficult to make a general evaluation for 2009. Yet changes with reference to the internal market stand out positively in the current PISM Report, although individual states differ substantially with respect to the achieved results.

So far, the crisis has not influenced the level of internal market directives transposition; neither has it stimulated work on speeding up the process in states which lag behind in this respect. As the consequence, the discrepancy between those countries where law is implemented without unnecessary delays and those that lag behind remains big. It should also be emphasized that it is not only the mere fact of the transposition that is important, but also its quality, which can be problematic.

Despite calls from entrepreneurs' organizations and the Commission to speed up work on Services Directive implementation, it has not been transposed as scheduled throughout the EU, delaying prospects for the establishment of a well-functioning services market in the Union. The process of its adoption is extremely long in many cases and requires not only amendments of many legal acts, but also a serious change of prevailing administrative practices. Even after the transposition of the Directive, attainment of a full operational level of the freedom of providing services may be lengthy in many countries.

Except for rescue aid for the financial sector, the tendency to direct state aid to horizontal levels has been maintained, reinforcing the fulfillment of LS goals. Aid improving the competitiveness of the European economy should be regarded as a success in LS implementation. Of extreme importance from the point of view of the internal market functioning will be an efficient and well coordinated implementation of the crisis exit strategy in the financial sector. Withdrawal of state aid for banks should lead to a restoration of competition on the financial market, which has been disturbed by rescue packages.

⁸⁰ European Commission, *Commission Warns Member States over Lack of Implementation of the First Rail Package*, Press Release, IP/09/1438, 8 October 2009, <http://europa.eu/rapid/pressReleasesAction.do?reference=IP/09/1438&format=HTML&aged=0&language=EN&guiLanguage=en>, accessed on 25.10.2009.

With reference to network markets, real progress is ambiguous given the adoption of subsequent energy and telecommunication markets liberalization packages despite poor transposition of earlier packages.

1.3.6. Evaluation

1.3.6.1. Positive

Denmark is the first state which transposed the Services Directive; it is also in the lead in the timely transposition of Community law provisions and has a low record of infringement cases.

1.3.6.2. Negative

Despite the fact that **Poland** continually underlines its attachment to deepening and developing the internal market, it is doing little to improve its functioning. Its transposition deficit is, apart from Greece, the lowest in the EU and has been steadily deteriorating since 2007. Amongst the reasons behind delays, insufficient political determination or inefficient administration should be indicated alongside a change in the way Parliament is working on the implementation of directives after EU accession or specificity of the Polish legal system, which means that transposition without amendments to an act is practically impossible. The two above factors prolong the process.⁸¹ Substantial delays in Services Directive implementation may serve as an emphatic example for Poland's inability to cope with timely transposition of Union law. It should be added that the level of network market liberalization remains highly unsatisfactory.

1.3.7. Recommendations

1. Because of its consequences for the internal market, the financial and economic crisis should become one of the core areas of the EU's new economic strategy after 2010. Actions undertaken in the framework of the new strategy should concern not only the deepening of the market but its clear orientation towards consumers and small enterprises.
2. Member States should take into consideration the June 2009 recommendations of the European Commission on measures to improve the functioning of the single market. Among the most important instruments, the European Commission included:
 - improvement of cooperation between the Commission and the Member States in better transposition and application of EU law;
 - improvement in internal coordination of actions within national markets and exchange of information amongst specific levels of Member States' administration;
 - intensified cooperation between EU Member States' civil servants;

⁸¹ M. Kałużyńska, K. Smyk, J. Wiśniewski (eds.), *Pięć lat Polski w Unii Europejskiej*, Warszawa, 2009, pp. 498–500, http://5lat.ukie.gov.pl/wp-content/uploads/2009/03/piec_lat_polski_w_unii_europejskiej.pdf, accessed on 7.12.2009.

- safeguarding that officials responsible for this area have appropriate competences;
 - more precise monitoring of the market and implementation of national regulations' evaluation;
 - enhancing the interest of citizens in solving single market problems (e.g. Solvit system).⁸²
3. By the end of 2010 the Commission should present the Council of the EU and Parliament with a report on Services Directive transposition based on mutual evaluation made by Member States. The monitoring and evaluation process should apply the “name and shame” approach and indicate all weaknesses of the implementation process in specific Member States.

1.4. The Knowledge Triangle

The segment of the Lisbon Strategy which concerns the knowledge triangle is extremely extensive. Whilst it is obvious that its development is indispensable for strengthening the competitiveness of the EU in a global perspective, it remains a challenge for the EU to draft guidelines for its practical implementation. The Lisbon Strategy lists general instruments for a realization of this goal, so each EU state must create its own model of knowledge triangle development, a model taking into consideration its internal specificity. The economic crisis has generated an additional context for actions in this area and could make progress more difficult, although the risks in this respect are not distributed evenly.

1.4.1. Secondary School Graduates

There was little progress in respect of the number of persons completing at least upper secondary education. In 2008 the indicator for the whole EU amounted to 78.5%, which means an increase by 0.4 pp in comparison to 2007. In 2000–2008 a rise by less than 2 pp was recorded. The above data indicates that the target of 85% will not be attained by the end of 2010. In comparison to 2007, there were no changes amongst the countries performing best (excluding internal reshuffling of positions). Slovakia was ahead with the 2008 indicator at 92.3% (up 1 pp in comparison to 2007), followed by the Czech Republic (91.6%), Poland (91.3%) and Slovenia (90.2%). In all those countries a small drop against 2007 was registered. The target was also achieved by Lithuania (89.1%), Sweden (87.9%), Ireland (87.7%), Finland (86.2%) and Cyprus (85.1%). Countries with the lowest percentage of young persons graduating at least from a secondary school embrace: Malta (53%), Portugal (54.3%) and Spain (60%), although in the first two countries considerable progress was noted in 2000–2008 (an increase by 29.6% in Malta and by 25.7% in Portugal).⁸³ In Spain, on the other hand, the indicator fell by 9.1%.

⁸² European Commission, *Commission Recommendation of 29 June 2009 on Measures to Improve the Functioning of the Single Market*, (2009/524/EC), OJ 2009 L176/17, <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2009:176:0017:0026:EN:PDF>.

⁸³ European Commission, *Indicators and Benchmarks 2009, Progress Towards the Lisbon Objectives in Education and Training. Indicators and Benchmarks 2009*, SEC(2009) 1616 final, p. 37, http://ec.europa.eu/education/lifelong-learning-policy/doc/report09/report_en.pdf, accessed on 2.12.2009.

Table 20. Percentage of Persons Aged 20–24 who Completed at Least Upper Secondary Education in 2008 (goal: 85%)

Country	2007	2008	Country	2007	2008
AT	84.1	84.5	IT	76.3	76.5
BE	82.6	82.2	LT	89.0	89.1
BG	83.3	83.7	LU	70.9	72.8
CY	85.8	85.1	LV	80.2	80.0
CZ	91.8	91.6	MT	54.7	53.0
DE	72.5	74.1	NL	76.2	76.2
DK	70.8	71.0	PL	91.6	91.3
EE	80.9	82.2	PT	53.4	54.3
EL	82.1	82.1	RO	77.4	78.3
ES	61.1	60.0	SE	87.2	87.9
FI	86.5	86.2	SI	91.5	90.2
FR	82.4	83.4	SK	91.3	92.3
HU	84.0	83.6	UK	78.1	78.2
IE	86.7	87.7	EU-27	78.1	78.5

Source: European Commission, *Progress Towards the Lisbon Objectives in Education and Training. Indicators and Benchmarks 2008; Progress Towards the Lisbon Objectives in Education and Training. Indicators and Benchmarks 2009.*

1.4.2. Early Leavers from Education

Similarly, the indicator of early leavers from education and training presents itself as negatively as the secondary education indicator.

In 2008 the percentage amounted to 14.9% and was higher by 0.1 pp in comparison to 2007. The target of 10%—given the hitherto pace (a drop by 2.7 pp against 2000)—is not going to be achieved. A group of leaders and states with the poorest results is generally similar to groups distinguishable on the basis of the secondary education indicator. The lowest percentage of persons who leave education early is recorded in Poland (5.0%), Slovenia (5.1%), the Czech Republic (5.6%) and Slovakia (6%). The worst situation in this respect is reported in Malta (39.0%), in Portugal (35.4%) and in Spain (31.9%). Most notable progress in 2000–2008 was observed in Lithuania, where the number of those leaving education early fell by more than 50% (from 16.7% to 7.4%), enabling the country to meet the LS target, which is also met by Finland (9.8%).

Generally speaking, education is a good safeguard against unemployment.⁸⁴ A negative co-relation can be observed between leaving education early and the level of employment. Usually employment amongst the early leavers is relatively low. In the

⁸⁴ OECD, *Education at glance 2009*, Paris, 2009, p. 121.

EU it amounted to 54.6% in 2008; in the OECD states the level of employment amongst persons aged 20–24 with education completed at a lower than secondary level stands at 58.4%, compared to 84.5% for persons with higher education⁸⁵. The lowest indicator is recorded in Slovakia (only 22% of persons who left the education system early are employed), Bulgaria (31.3%), Hungary (35.8%) and the Czech Republic (38,8%).⁸⁶ In Slovakia, for instance, the level of employment for men who have completed at least secondary education is higher by 29 pp than for less educated men, which is a record amongst OECD states.⁸⁷ The nature of the job market as well as general skills of its participants lead to a situation such as in Malta or Portugal, where the highest level of employment persists among persons with low education (77.5% and 76.2% respectively). The higher the education level, the smaller the differences in employment level between women and men; for persons with education below secondary, those differences amount to 22.5 pp, but remain under 10 pp for those with higher education.⁸⁸

Table 21. Percentage of Persons Aged 18–24 with No Upper Secondary Education Who Do Not Study (goal: 10%).

EU-27	AT	BE	BG	CY	CZ	DE	DK	EE	EL
14.9	10.1	12.0	14.8	13.7	5.6	11.8	11.5	14.0	14.8
ES	FI	FR	HU	IE	IT	LT	LU	LV	MT
31.9	9.8	11.8	11.7	11.3	19.7	7.4	13.4	15.5	39
NL	PL	PT	RO	SE	SI	SK	UK		
11.4	5.0	35.4	15.9	11.1	5.1	6.0	17.0		

Source: European Commission, *Progress Towards the Lisbon Objectives in Education and Training. Indicators and Benchmarks 2009*.

1.4.3. Lifelong Learning

In 2008 a slight drop was recorded in the EU average for lifelong learning (9.5%, down by 0.2 pp against 2007). In 2000–2008 the indicator rose by 2.4 pp, so it is clear that the goal of 12.5% will not be achieved.

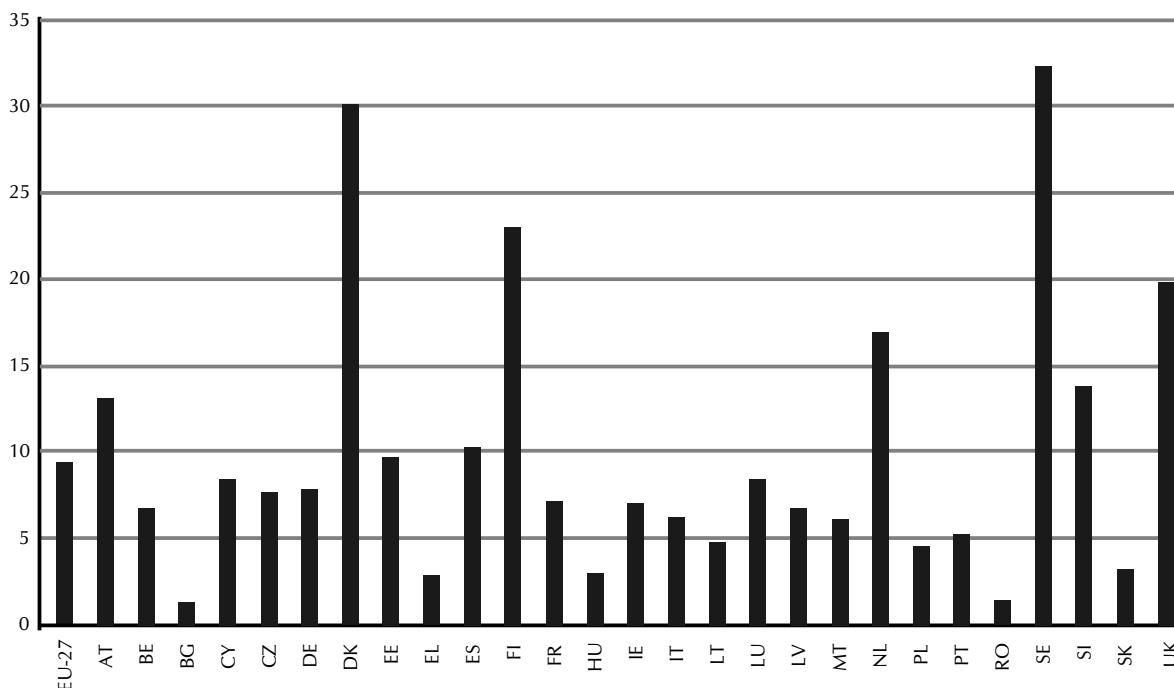
Visible differences are also observed amongst states, with the Nordic countries in the lead here: Sweden (32.4%), Denmark (30.2%), Finland (23.1%). All those countries have improved their performances since 2000. The target also was reached by Austria (13.2%), the Netherlands (17%), Slovenia (13.9%) and the United Kingdom (19.9%). On the opposite side of the spectrum the following are listed: Bulgaria (1.4%), Romania (1.5%) and Greece (2.9%). In Poland this indicator stands at 4.7% (down by more than 0.4 pp against 2007).

⁸⁵ *Ibidem*, p. 131.

⁸⁶ European Commission, *Indicators and benchmarks 2009...*, p. 67.

⁸⁷ OECD, *Education at glance...*, p. 121.

⁸⁸ *Ibidem*, p. 123.

Diagram 7. Percentage of Population Aged 25–64 Participating in Lifelong Learning in 2008

Source: European Commission, *Progress Towards the Lisbon Objectives in Education and Training. Indicators and Benchmarks 2009*.

In 2006 the European reference framework for lifelong learning was determined and eight key competences were listed:

- communication in the mother tongue;
- communication in foreign languages;
- mathematical competence and basic competence in science and technology;
- digital competence;
- learning to learn;
- social and civic competences;
- sense of initiative and entrepreneurship;
- cultural awareness and expression.⁸⁹

In recent years a number of states (Austria, the Czech Republic, Spain, France, Poland, Romania, Slovakia) have used this framework as a guideline for the introduction of changes in their education systems.⁹⁰

1.4.4. Mathematics and Science Literacy

The most widespread quality indicators in education reflect pupils' reading, mathematics and science literacy. Their most comprehensive measurement is

⁸⁹ Recommendation of the European Parliament and of the Council of 18 December 2006 on key competences of life long learning, 18 December 2009 (2006/962/EC), <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2006:394:0010:0018:en:PDF>, accessed on 3.12.2009.

⁹⁰ European Commission, *Progress Towards the Lisbon Objectives in Education and Training Indicators and Benchmarks 2009, Analysis of Implementation at the European and National Levels*, SEC(2009) 1598, p. 36.

conducted by the OECD within the framework of the PISA survey (Programme for International Student Assessment).

With reference to mathematical skills, in 2006 around 24% of pupils from the EU (except the Cypriots and the Maltese) aged 15 were considered low-performers,⁹¹ a percentage almost identical as in the case of reading literacy. The EU average (492 points scored) was below the OECD average (498).⁹² The highest score was obtained by Finnish students (548), followed by Dutch (531) and Belgian (520) ones. Finland is also a state where the percentage of low-performers in mathematics is the lowest (6.0%), followed by the Netherlands (11.5%) and Estonia (12.1%). The highest percentage of pupils with low mathematics literacy in the PISA ranking is recorded in Bulgaria (53.3%), Romania (52.7%), Italy (32.8%) and Greece (32.3%). In Poland students performing poorly in mathematics account for 19.8% of the total.

Table 22. Percentage of Pupils Aged 15 Performing Poorly in PISA Survey in 2006

Country	Mathematics	Science	Country	Mathematics	Science
AT	20.0	16.3	IT	32.8	25.3
BE	17.3	17.0	LT	23.0	20.3
BG	53.3	42.6	LU	22.8	22.1
CY	–	–	LV	20.7	17.4
CZ	19.2	15.5	MT	–	–
DE	19.9	15.4	NL	11.5	13.0
DK	13.6	18.4	PL	19.8	17.0
EE	12.1	7.7	PT	30.7	20.2
EL	32.3	24.0	RO	52.7	46.9
ES	24.7	19.6	SE	18.3	16.4
FI	6.0	4.1	SI	17.7	13.9
FR	22.3	21.2	SK	20.9	20.2
HU	21.2	15.0	UK	19.8	16.7
IE	16.4	15.5	EU	24	20.2

Source: European Commission, *Progress Towards the Lisbon Objectives in Education and Training. Indicators and Benchmarks 2009*.

With reference to science literacy, students from Finland (563 points), Estonia (531) and the Netherlands (525) are at the forefront. The EU average stands at 496 points.⁹³ In those states the lowest percentage of poor performers is also recorded (4.1%, 7.7% and 13% respectively). The worst situation in this respect is again in Romania

⁹¹ European Commission, *Progress Towards the Lisbon Objectives in Education and Training...*, *op. cit.*, p. 75.

⁹² *Ibidem*, p. 75.

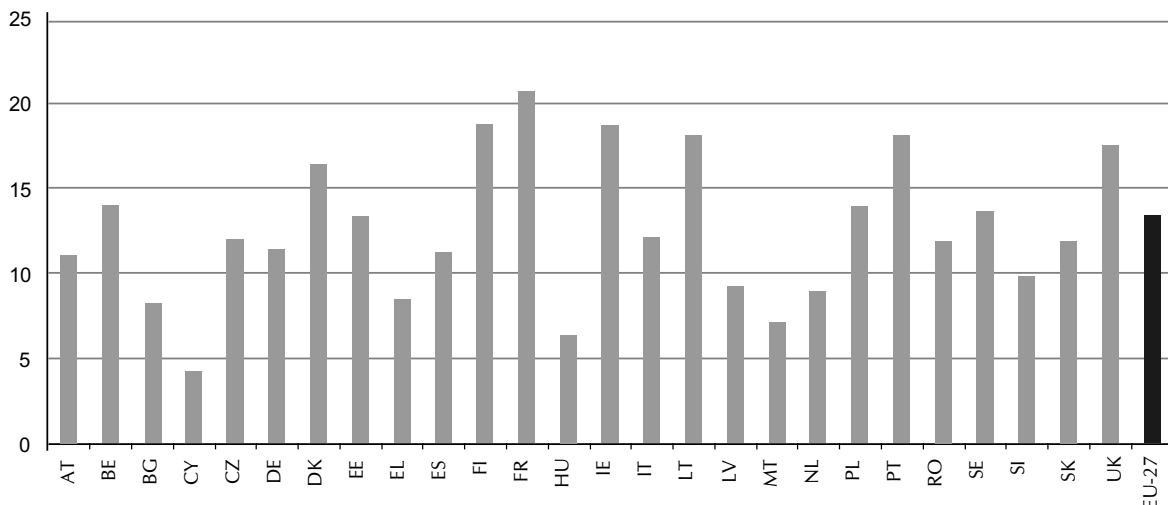
⁹³ *Ibidem*, p. 76.

(46.9%), Bulgaria (42.6%), Italy (25.3%) and in Greece (24%). The Polish index stands at 17% and is below the Union average of 20.2%. The presented data can be seen as a credible measure of the level of education, although it should not be the sole base for drawing comprehensive conclusions about the quality of the education system. A certain discrepancy can be observed between the results of states measured by quantitative and then qualitative indicators. States which lead in the number of secondary and high schools graduates and have the lowest percentage of early leavers from education and training (e.g. the Czech Republic, Poland and Slovakia) reach average results in the PISA survey. There is a certain regularity in that poor qualitative results achieved by such countries as Greece, Spain, Portugal and Italy correlate with their overall poor level of quantitative indicators.

1.4.5. Mathematics, Science and Technology Graduates

The increase in the number of graduates in science, mathematics and technology (MST) by more than 33% (230,000 in 2000–2007), thus doubling the proposed goal of an at least 15% rise, has been the sole significant success so far in the achievement of Lisbon Strategy educational goals. In 2007 the number of these graduates in the EU reached 917,000.⁹⁴

Diagram 8. Number of MST Graduates per 1,000 Inhabitants Aged 20–29 in 2007



Source: Eurostat, <http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&plugin=1&language=en&pcode=tsiir050>.

The highest percentage of MST graduates is recorded in France, Finland, Ireland, Portugal and Lithuania, while the lowest in Cyprus and Malta, Hungary and Greece. The biggest progress in this respect was reported by Portugal (almost 12 pp). In Ireland, on the other hand, despite the fact that it is a leader in terms of the number of MST graduates, the indicator fell considerably since 2000 (by 5.5 pp). There was a slight drop in the United Kingdom (by 1 pp), and Poland recorded an increase by more than 7 pp in the period examined.

⁹⁴ European Commission, *Progress Towards the Lisbon Objectives in Education and Training...*, op. cit., p. 93.

1.4.6. Development of Higher Education

EU universities have not improved their position in the international academic ranking (Shanghai ranking). In the ranking of 500 academic institutions there are 194 European (EU), 152 American and 31 Japanese ones.⁹⁵ Among the top 100 institutions in the ranking, there are only 27 institutions from the EU (29 in 2008) and 55 from the USA. In the top 20, just as in 2008, there are only two European universities: Cambridge (4th place) and Oxford (10th place). Amongst non-British EU institutions the University of Paris (VI) ranks the highest (40th), with only two Polish universities included in the ranking—the Jagiellonian University and the Warsaw University (in the fourth hundred of the ranking).

Table 23. Best Universities According to Shanghai Ranking in 2009

Academic institution	Position in the Shanghai ranking	Position in the EU based on the Shanghai ranking
University of Cambridge	4	1
University of Oxford	10	2
University College London	21	3
The Imperial College of Science, Technology and Medicine	26	4
University of Paris VI	40	5
University of Manchester	41	6
University of Copenhagen	43	7
University of Paris 11	43	8
Karolinska Institute Stockholm	50	9
Utrecht University	52	10

Source: Shanghai Jiao Tong University, *Academic Ranking of World Universities 2009*.

The states most advanced in terms of the Bologna system with respect to the introduction of levels of study (bachelor, master and doctoral studies), quality of education measurement and recognition (ECTS points and diplomas) include the United Kingdom (Scotland), Denmark, Ireland, and the Netherlands.⁹⁶ Slovakia, Malta and Italy are among the poor performers, with Poland classified in the middle of the ranking.

⁹⁵ Shanghai Jiao Tong University, *Academic Ranking of World Universities 2009*, www.arwu.org/ARWU2009.jsp. Another worldwide university ranking is prepared by the *Times Higher Education* magazine. The top 20 universities included in the 2009 edition of this ranking embraced five from the EU (all from the UK), compared to 35 universities from the EU (including 18 from the UK) in the top 100, www.timeshighereducation.co.uk/hybrid.asp?typeCode=438, accessed on 10.02.2010.

⁹⁶ See: *Bologna Process Stocktaking Report 2009*, Report From Working Groups Appointed by the Bologna Follow-up Group to the Ministerial Conference in Leuven/Louvain-la-Neuve, 28–29 April 2009, www.ond.vlaanderen.be/hogeronderwijs/bologna/conference/documents/Stocktaking_report_2009_FINAL.pdf, accessed on 3.12.2009.

1.4.7. Public Expenditure on Education

An estimated 11% of public expenditure in the EU was devoted to education in 2001–2006, with the highest percentage was recorded in Cyprus—16.2%, Denmark—15.5%, Ireland—14.3% and Estonia—14%, and the lowest in Luxembourg—8.8%, Germany and Italy—9.7% each.⁹⁷ The level of spending on education in the EU stands at around 5.05% GDP, compared to 5.5% in the USA.⁹⁸ The highest level of public expenditure on education is recorded in Denmark (7.98%), Cyprus (7.02%), Sweden (6.85%) and Finland (6.14%), with the lowest observed in Luxembourg (3.41%), Slovakia (3.79%) and Bulgaria (4.24%). Public investment in higher education in the EU averages 1.12% GDP, being the highest in Denmark (2.38%), Finland (1.94%) and Sweden (1.84%), and the lowest in Bulgaria (0.73%), Italy (0.80%), Romania and Slovakia (0.90% each).⁹⁹ In Poland investments of 1.19% GDP are recorded. An obstacle for the higher education development in the EU is posed by persisting low private investments in education (0.3% in 2006 for the whole EU) in comparison to the USA (2%) or Japan (1.1%). The highest percentage was observed in Latvia (0.9%), Bulgaria (0.8%) and Cyprus (0.8%). Overall private investments in education account for only 12.5% of spending in this area.¹⁰⁰

The EU is clearly behind the USA in terms of annual spending on education per student at all levels of education. In the USA this spending amounts to \$13,447, while in EU-19 states that are OECD members this figure stands at \$7,682 (the OECD average reaches \$7,840).¹⁰¹ The highest level of investment per student in EU states belonging to the OECD was registered in Austria (\$10,895), Denmark (\$10,395), Sweden (\$9,523) and the United Kingdom (\$9,309), being the lowest in Slovakia (\$3,485) and in Poland (\$3,868).

Table 24. Annual Expenditure on Educational Institutions in Chosen EU States in 2006 (per student, in \$)

Country	Level of expenditure	Country	Level of expenditure
AT	10,895	ES	7,819
BE	8,827	IE	8,092
DE	7,925	IT	8,263
DK	10,395	NL	9,330
FI	8,048	PL	3,868
FR	8,428	UK	9,309

Source: OECD, *Education at a Glance*, 2009.

⁹⁷ Eurostat, *Key Data on Education in Europe 2009*, p. 122, http://eacea.ec.europa.eu/education/eurydice/documents/key_data_series/105EN.pdf, accessed on 10.01.2010.

⁹⁸ The most recent data concerns the year 2006, source: European Commission, *Progress Towards the Lisbon Objectives in Education and Training...*, *op. cit.*, p. 20.

⁹⁹ Data concerns the year 2006, *ibidem*, p. 22.

¹⁰⁰ Data concerns the year 2006, source: Eurostat, *Key Data on Education in Europe 2009...*, *op. cit.*, p. 128.

¹⁰¹ OECD, *Education at a glance...*, *op. cit.*, p. 201.

1.4.8. R&D Expenditure

An increase in spending on research and development (R&D) to 3% of the GDP (including 1% coming from public sources and 2% from the business sector) is one of the key quantitative targets of the Lisbon Strategy. This target will not be reached, as Gross Domestic Expenditure on R&D (GERD) amounted to 1.9% GDP for EU-27 (over €237 bn) in 2008, a rise of around 0.05 pp from 2007. The annual GERD growth was the highest since 2000, but this progress was too modest to offset a poor performance in this regard in earlier years. The overall 2008 GERD rise in the EU was mainly due to a sharp increase recorded in Member States that are leaders in this respect: Sweden (from 3.61% GDP in 2007 to 3.75% in 2008), Finland (from 3.47% to 3.72%), Denmark (from 2.56% to 2.73%). R&D spending also went up in Austria (from 2.54% in 2007 to 2.67% in 2008), Germany (from 2.53% to 2.63%), Portugal (from 1.21% to 1.51%) and Slovenia (from 1.45% to 1.66%), but fell in the Netherlands (from 1.71% in 2007 to 1.63% in 2008), the Czech Republic (from 1.54% to 1.47%), France (from 2.04% to 2.02%) and Malta (from 0.58% to 0.54%). The latter country is among the Member States with the lowest R&D spending in 2008, with the group also embracing Slovakia (0.47% in 2008, an increase by 0.01 pp against 2007), Cyprus (0.47% in 2008, a rise by 0.02 pp), Bulgaria (0.49%, an increase by 0.01 pp). In Poland, R&D spending reached 0.61% GDP in 2008 (up 0.04 pp from 2007).

The rise in R&D expenditures in the EU stemmed from higher spending in both the public and business sectors. Public spending on R&D (GOVERD and HERD) amounted to 0.67% GDP in 2008 (34.5% of total R&D expenditure), up by 0.03 pp in comparison to 2007. The highest level of spending was in Sweden (0.97% GDP) and Finland (0.94%), with both states close to the 1% target. The lowest level was recorded in Malta (0.18%), Slovakia (0.26%), Luxembourg (0.3%), Cyprus (0.32%) and Bulgaria (0.33%), with the percentage for Poland at 0.41% in 2008.

In most countries the largest share of R&D spending comes from the business sector (55% of GERD), amounting to 1.21% in the EU-27 in 2008, which means a rise by 0.02 against 2007. Nordic countries are also ahead in this respect, with Sweden in the lead (2.78% GDP), followed by Finland (2.76%) and Denmark (1.91%). The lowest business spending on R&D was recorded in Cyprus (0.11%), followed by Bulgaria and Latvia (0.15% each).

Table 25. R&D Expenditure in 2008 (in% GDP)

Country	Government expenditure (GOVERD)	Higher education expenditure (HERD)	Business expenditure (BERD)	Total (GERD) ¹⁰²
AT	0.14	0.64	1.88	2.67
BE	0.17	0.41	1.32	1.92
BG	0.28	0.05	0.15	0.49
CY	0.10	0.22	0.11	0.47
CZ	0.31	0.25	0.91	1.47
DE	0.36	0.43	1.84	2.63

¹⁰² Including non-profit private institutions spendings amounted to 0.02% GDP in the EU in 2008.

Country	Government expenditure (GOVERD)	Higher education expenditure (HERD)	Business expenditure (BERD)	Total (GERD)
DK	0.09	0.72	1.91	2.73
EE	0.15	0.56	0.56	1.29
EL	0.12 (2007)	0.29 (2007)	0.16 (2007)	0.58 (2007)
ES	0.25	0.36	0.74	1.35
FI	0.30	0.64	2.76	3.72
FR	0.32	0.40	1.27	2.02
HU	0.23	0.22	0.53	1.00
IE	0.08	0.39	0.93	1.43
IT	0.16	0.39	0.60	1.18
LT	0.19	0.43	0.19	0.81
LU	0.25	0.05	1.32	1.62
LV	0.17	0.29	0.15	0.61
MT	0.01	0.17	0.35	0.54
NL	0.21	0.52	0.89	1.63
PL	0.21	0.20	0.19	0.61
PT	0.12	0.51	0.76	1.51
RO	0.24	0.17	0.18	0.59
SE	0.17	0.80	2.78	3.75
SI	0.36	0.22	1.07	1.66
SK	0.15	0.11	0.20	0.47
UK	0.16	0.47	1.21	1.88
EU-27	0.24	0.43	1.21	1.90
USA	0.28 (2007)	0.35 (2007)	1.88 (2007)	2.62

Source: Eurostat, http://epp.eurostat.ec.europa.eu/portal/page/portal/statistics/search_database.

Because of the recession, many companies in the world could have reduced their R&D expenditure in 2009. This would have corresponded to historical trends, which indicate that a fall in GDP results in relative reduction of R&D expenditure.¹⁰³ Against those unfavourable trends, according to fully updated data for 2008, EU companies have increased their expenditure by 8.1% in comparison to 2007. For the second time in a row, the increase was bigger than in the USA (5.7% in 2008). The aggregate expenditure of 1,000 EU companies with the highest R&D spending amounted to €130

¹⁰³ OECD, *Science, Technology and Industry Scoreboard 2009*, Paris, 2009, p. 9.

billion.¹⁰⁴ The USA remains ahead of the EU in investments in sectors with a high research density (up by 35% in comparison to 13.6% in the EU). The group of sectors concerned includes pharmaceutical and biotechnology, medical equipment and technology hardware. The highest level of EU companies' expenditure on R&D is observed in the automobiles and car parts sector (25%, 9% in the USA), pharmaceuticals and biotechnology (17%, 25% in the USA), technology hardware and equipment (13%, 24% in the USA).¹⁰⁵ It is surprising to note that despite the difficulties automotive concerns have not given up their expenditure on R&D and still invested most in technology.

Amongst the 10 biggest R&D spenders in the world there are only two EU companies: Volkswagen (€5.93 billion) and Nokia (€5.32 billion). On the top-50 list there are 16 companies from the EU. Toyota is the global leader (€7.61 billion), followed by Microsoft (€6.48 billion). In comparison to the last year's ranking, BMW disappeared from the EU top-10 list, with Swedish Ericsson taking its place.

Table 26. Biggest R&D Investors in 2008

Name	Investment (in mln euro)	Sector	Country
VW	5,926	Automotive	DE
Nokia	5,321	Telecommunications equipment	FI
Sanofi-Aventis	4,608	Pharmaceutical	FR
Dailmer	4,442	Automotive	DE
Robert Bosch	3,916	Automotive/parts	DE
Siemens	3,836	Electrical components	DE
GlaxoSmithKline	3,835	Pharmaceutical	UK
AstraZeneca	3,622	Pharmaceutical	UK
Alcatel-Lucent	3,167	Telecommunications equipment	FR
Ericsson	2,975	Telecommunications equipment	SE

Source: European Commission, *EU Industrial R&D Industrial Scoreboard 2009*.

Out of 1,350 companies on the global list, 350 are seated in the EU (in 2008 there were 52 more), with most of them seated in the United Kingdom—247, Germany—209, and France—125.¹⁰⁶

¹⁰⁴ The 2009 *EU Industrial R&D Investment Scoreboard 2009*, European Commission, Joint Research Centre, p. 17, <http://iri.jrc.ec.europa.eu/research/docs/2009/JRC54920.pdf>, accessed on 25.11.2009.

¹⁰⁵ *Ibidem*, p. 30.

¹⁰⁶ *Ibidem*, p. 27.

It needs to be emphasized that R&D investments are a part of broader policies launched by companies with innovations in mind. According to the OECD, some 40% of European enterprises undertake actions that may be considered innovative.¹⁰⁷

1.4.9. Mobility of Science & Technology Professionals

Increasing the mobility of science and technology professionals remains one of main goals of the European research area. Progress is fairly limited here. It is also difficult to measure in the absence of precise, up-to-date and fully representative data. On the basis of fragmentary data higher mobility of science and technology professionals in 2000–2006 may be observed, but primarily within the EU. The percentage of S&T professionals born in the other EU states increased in the ten countries for which data is available from 345,000 in 2000 to 496,000 in 2006 (up by 6.2%).¹⁰⁸

In the EU, on average 79.5% of Ph.D. candidates are citizens of the state where the Ph.D. programme is taking place. Only around 6% of Ph.D. candidates come from other EU states.¹⁰⁹ The highest number of Ph.D. candidates—in absolute numbers—is recorded in the United Kingdom, France and Spain, while the highest number of Ph.D. candidates from other EU states against all Ph.D. candidates is registered in the United Kingdom (12.5%), Austria (12.5%) and Belgium (12.1%).¹¹⁰ The UK attracts the biggest number of scholars within the framework of the Marie-Curie programme addressed to scientists and financed through the 7th Framework Programme.

Table 27. States Attracting the Highest Number of Marie-Curie Programme Scholars in 2003–2006

Country	Percentage of all scholars (%)
UK	35.2
FR	15.6
DE	9.7
NL	7.8

Source: European Commission, *Science Technology and Competitiveness. Key Figures Report 2008/2009*, statistical annex to the report.

From the point of view of the level of openness of a given research system (proportion of scientists moving within the Marie-Curie programme against the number of persons holding a Ph.D.), Denmark, Belgium and the Netherlands¹¹¹ are in the lead.

¹⁰⁷ OECD, *Economic Survey: European Union*, Paris, 2009, p. 48.

¹⁰⁸ Data is accessible for Austria, Belgium, Cyprus, Denmark, Greece, Spain, Luxembourg, the Netherlands, Sweden, Great Britain. Source: European Commission, *Science Technology and Competitiveness, key figures report 2008/2009*, p. 120, http://ec.europa.eu/research/era/pdf/key-figures-report2008-2009_en.pdf, accessed on 4.12.2009.

¹⁰⁹ Data from 2005, source: European Commission, *Science, Technology...*, *op. cit.*, p. 122.

¹¹⁰ Data from 2005, *ibidem*, p.122.

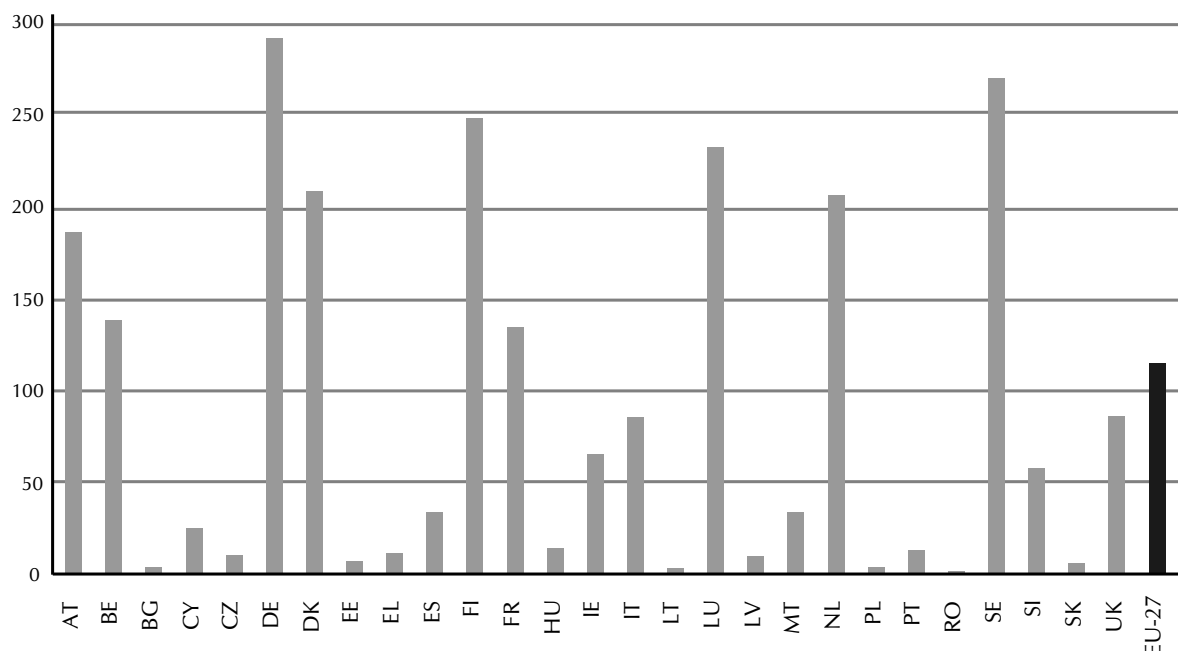
¹¹¹ *Ibidem*, p. 124.

1.4.10. Development of the Patent System

In 2007 the number of patent applications at the European Patent Office (EPO) amounted to 140,000 and was higher by more than 40,000 than in 2000.¹¹² More than 60,000 applications were filed in Germany (down by 2,000 from 2000), 25,000 in the United Kingdom (down by 7,000), just over 17,000 in France (similarly to 2000). In Poland the number of applications amounted to 2,700 (in 2000 there were 7,300). The number of applications to the United States Patent and Trademarks Office reached 456,000 in 2007 (296,000 in 2000). More applications than with EPO were filed in Japan, Korea and China.

According to the most recent data for 2006, the number of patent requests to EPO per 1 million inhabitants averaged 115 in the EU (112 in 2005). Germany leads in this respect—290 applications per 1 mln inhabitants, followed by Sweden—269 applications, and Finland—247. Some new EU Member States are the poorest performers: Romania—1.6; Lithuania—3.24; Poland—3.41; Bulgaria—3.48.

Diagram 9. Number of Applications to EPO (per 1 million of inhabitants) in 2006



Source: Eurostat, <http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&plugin=1&language=en&pcode=tsiir060>.

The most important problem influencing the functioning of the patent system in the EU is its fragmentation. The European patent, granted by the EPO, offers limited protection, as it needs to be validated and translated into official languages in each state-party to the European Patent Convention of 1973 where the intellectual property is to be protected.¹¹³ The European patent system has so far been an aggregate of national patent systems. This results in high costs of granting patent protection. Fragmentation is visible also in the absence of a uniform court system for settling patent disputes—there

¹¹² WIPO, *World Intellectual Property Indicators 2009*, pp. 89–91, www.wipo.int/export/sites/www/ipstats/en/statistics/patents/pdf/wipo_pub_941.pdf, accessed on 5.12.2009.

¹¹³ OECD, *Economic Survey...*, *op. cit.*, p. 59.

are substantial differences in the manner in which such disputes are settled by national courts of the Member States. As a direct consequence, costs increase substantially, especially if the claim needs to be examined by courts in different states,¹¹⁴ and contradictory judgments may result. The overwhelming majority of patent disputes are settled before courts in Germany, France, the Netherlands and the United Kingdom. The most costly judicial system in this area is encountered in the United Kingdom, where the cost of dispute in first instance ranges between €150,000 to €1.5 million. The aggregate costs of a dispute in those states may range between €310,000 to €1.95 million and in second instance—between €320,000 to €1.39 million.

Table 28. Patent Litigation Costs in EU States with Most Cases (in euro)

Country	First instance	Second instance
DE	50,000	90,000
FR	50,000 do 200,000	40,000 do 150,000
NL	60,000 do 200,000	40,000 do 150,000
UK	150,000 do 1,500,000	150,000 do 1,000,000

Source: European Commission, *Enhancing Patent System in Europe*, Annex IV, COM(2007)165 final, 3 April 2007.

Those problems generate barriers in access to the patent system, especially for SMEs and universities.¹¹⁵ The adoption of an EU patent regulation and creation of a uniform court system to deal with patent claims could solve those problems. The proposal of a regulation on the matter was presented by the European Commission in March 2000, but work was halted following massive discussions and controversies amongst the Member States. The Commission, having consulted the issue with the Member States, introduced a new approach in 2007, suggesting a uniform way for resolving patent disputes which would incorporate features of two distinct solutions proposed by the Member States. The first solution provided for the adoption of a European Patent Litigation Agreement and establishment of uniform jurisdiction in relation to the European patent cases.¹¹⁶ The second option provided for the creation of a special Community court with jurisdiction over both the European patent and the future Union patent. More detailed proposal followed in 2009. The Commission emphasized that a uniform system of adjudication should be established on the basis of an agreement between the EU and states from outside of the EU that are parties to the 1973 Convention. It would encompass first-instance courts (with regional and local branches), appeals courts and a register of patents. The adjudicating judges should have

¹¹⁴ B. van Pottelsberghe, J. Danguy, *Economic Cost-Benefits Analysis of the Community Patent*, 7 April 2009, final version submitted to the EC DG Internal Market, p. 7, http://ec.europa.eu/internal_market/indprop/docs/patent/studies/compact-cost%20benefit-study-final_en.pdf, accessed on 6.12.2009.

¹¹⁵ *Ibidem*, p. 9.

¹¹⁶ European Commission, *Enhancing the Patent System in Europe*, 3 April 2007, COM(2007) 165 final, pp. 10–11, <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2007:0165:FIN:en:PDF>, accessed on 5.12.2009.

appropriate legal and technical expertise.¹¹⁷ The Competitiveness Council during its sitting in December 2009 reached preliminary general agreement concerning the proposal. The agreement concerns the creation of the European and EU Patents Court (EEUPC) and a Union patent.¹¹⁸ This obviously do not conclude work on the project or mean final success, but is a sign of substantial progress.

1.4.11. Supporting R&D in the Framework of Stimulating Packages

In the framework of stimulating packages, the EU states have put in place also instruments which can directly or indirectly support the R&D sector. These account for around 4% of all resources allocated within stimulating packages.¹¹⁹ Some states e.g. Austria, Finland, Germany and Slovakia, introduced instruments for supporting R&D in companies. In some countries universities were provided with assistance in this respect (e.g. the Czech Republic, France or the United Kingdom). In most cases support is provided in the form of subsidies or direct financing (introduced by Austria, Bulgaria, the Czech Republic, Germany, the Netherlands, Slovenia). A few states introduced fiscal stimuli (e.g. Spain, the Netherlands), while Germany put special loans in place. According to Commission's estimates, budget expenditure on R&D may amount to more than €3 billion in 2009. Expenditures which are not directly financed from the budget may amount to €7.2 billion.¹²⁰

1.4.12. Conclusions

The area of the knowledge triangle, especially in the part concerning education, remains the "black sheep" of the Lisbon Strategy progress. This is a consequence of the specific nature and multilayered structure of this segment. The reform undertaken here must take various factors into consideration and hence should be more comprehensive than in other areas. For example, better and more modern higher education will not be possible without enhancing the quality of education at lower levels, creating a system of private investment in academic institutions or encouraging competition amongst universities. As the consequence, the preparation phase for innovative solutions is long and the results of reforms will be visible with much delay. Hence this is a long process, going beyond one term of office of a parliament and government. Undoubtedly, the achievement of LS goals in education to a large extent depends upon specific education systems in the Member States. This explains the positive performance of states such as the Czech Republic, Poland, Slovakia or Slovenia with regard to the number of persons with secondary education or early leavers, as well as a well-developed system of lifelong training in Denmark or Sweden.

¹¹⁷ *Recommendation from the Commission to the Council to Authorise the Commission to Open Negotiations for the Adoption of an Agreement Creating a Unified Patent Litigation System*, 20 March 2009, SEC(2009) 330 final, p. 5, http://ec.europa.eu/internal_market/indprop/docs/patent/recommendation_sec09-330_pl.pdf, accessed on 7.12.2009.

¹¹⁸ Council of the European Union—2982nd COMPETITIVENESS (Internal market, Industry and Research) Council, *Conclusions on an Enhanced Patent System in Europe*, Brussels, 4 December 2009, www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/intm/111744.pdf, accessed on 7.12.2009.

¹¹⁹ European Commission, *The EU's Response to Support the Real Economy During the Economic Crisis: an Overview of Member States' Recovery Measures*, *European Economy*, p. 67.

¹²⁰ *Ibidem*, p. 65.

A key to successful reforms in this area lies in the skillful interaction of financial and regulatory instruments. Given the seriously restricted (due to the crisis) budget potential of states, regulatory solutions may be the most appropriate instrument in this field.

Disappointing results in education should make this sector a priority in the post-Lisbon strategy.¹²¹ On the EU forum the discussion on education priorities in the post-2010 period was launched well in advance, and decisions have already been taken in this respect. The following were included amongst the most important goals: further development of lifelong training and education, promotion of equality, social cohesion and civic activity, enhancing creativity and innovation through their promotion at all levels of education.¹²² The soundness of those goals is hard to question, although their attainment may pose problems, as the EU's real influence is limited, with only soft and complementary competences in this area at the Union's disposal and implementation taking place through the open method of coordination. Apart from the set goals, five new reference benchmarks have been determined to be achieved by the year 2020. Three of them were created on the basis on existing indicators (percentage of adults participating in lifelong learning—15%; reduction of reading, mathematics and science low-performers—below 15%; percentage of early leavers from education and training—10%). The remaining two benchmarks concerned an increase in the number of persons attaining higher education (to 40% of persons aged 30–34) and the percentage of children under the age of four participating in elementary education (95%). Those benchmarks illustrate mainly the “quantitative” philosophy of change measurement, which—as proven by the experience of LS implementation—does not reflect the real picture of the quality of education. What is more, the attainment of the benchmark boosting the percentage of university graduates may be incompatible with enhanced quality of university training.

The EU is planning to create its own global university ranking, emphasizing that the existing ones (the Shanghai ranking included) do not reflect well the state of affairs in this respect; in the opinion of the Commission, they focus on the research aspect of universities without paying enough attention to teaching,¹²³ thus putting many European universities at a disadvantage. Naturally, preparing the EU ranking is a good idea, as it may enable the Commission to measure more precisely progress in developing higher education institutions and be an efficient instrument in pursuing the “name and shame” strategy. It is difficult to expect, however, that fully comprehensive measurement indicators will be created. Moreover, the gap between the best American universities and European ones (excluding the United Kingdom) is extensive and does not seem to be shrinking, so expectations that the new ranking would differ substantially from the present may turn out to be unrealistic.

¹²¹ D. Gros, F. Roth, “The Post-2010 Lisbon Process: The Key Role of Education in Employment and Competitiveness,” *CEPS Working Document*, no. 308, December 2008.

¹²² The Council of the European Union, *Council Conclusions of 12 May 2009 on a strategic framework for European cooperation in education and training (ET 2020)*, OJ 2009 C119/02, p. 7, <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:C:2009:119:0002:0010:EN:PDF>, accessed on 5.12.2009.

¹²³ H. Spongenberg, “EU to test new university ranking in 2010,” *EUobserver* of 6 January 2010, <http://euobserver.com/9/29189>, accessed on 6.01.2010.

Progress in research, development and innovation is too slow to talk about improvements in the period with the most up-to-date data available. Higher spending on R&D, also by enterprises, is not doubt a positive factor, although it is likely that 2009 data (which will appear at the end of 2010) will reflect fully the effects of the crisis and hence be less optimistic. It needs to be emphasized that a situation when most R&D activities are conducted by the automotive sector is very unfavorable in long term, because the auto industry needs to be deeply restructured, and meanwhile substantially lower resources are invested in technologically more advanced sectors.

The USA remains a better place than the EU for conducting research due to easier access to financing and a better promotion system. Enhancing the mobility of science and technology professionals must remain a priority after 2010, and progress in this area will depend on such factors as:

- enhancing competition when recruiting research and technological professionals;
- easier and truly equal access to research grants;
- adjusting pensions and social systems to mobility requirements.¹²⁴

The second identified priority is the creation of a common patent system in the EU; by reducing claim and potential litigation costs, it would safeguard more favorable conditions for developing innovation. So far, solutions in this area have not been adjusted to the needs or challenges of a modern economy.

The crisis may increase the gap between so-called innovation leaders (e.g. Scandinavian countries), innovation followers (e.g. Austria, Belgium, France, the Netherlands) and moderate innovators or catching-up countries. This results from the fact that in fighting the crisis the former launched additional support in this area, which countries at the bottom of innovation rankings did not attempt.¹²⁵

1.4.13. Evaluation

1.4.13.1. Positive

Sweden and Finland should be distinguished for being the most advanced countries in developing the knowledge triangle, while the **United Kingdom** deserves credit for the high global position of its universities, for Bologna process development and for attracting scientists.

1.4.13.2. Negative

Due to their persistent poor performance in education, **Spain** and **Portugal** are evaluated negatively.

¹²⁴ OECD, *Economic Survey...*, *op. cit.*, p. 56.

¹²⁵ European Commission, *The EU's response to support the real economy during the economic crisis...*, *op. cit.*, p. 24.

1.4.14. Recommendations

1. In the context of the Lisbon Strategy, the knowledge triangle needs to be regarded as one whole, but bearing in mind its complexity. Setting coherent qualitative and quantitative R&D and innovation indicators supplementing the new education indicators should be more important in preparing the new economic strategy than defining the general priorities in this respect.
2. Innovations should be more targeted at the social dimension and serve to improve the quality of life by offering useful solutions, e.g. in health care. This is of particular importance in the context of the aging of societies.
3. The public sector should be much more open to innovations, e.g. in public services. Such an approach should be promoted after 2010. Member States should consider introducing such public procurement procedures as would be favorable for innovation development.¹²⁶
4. Member States should reduce barriers to obtaining research grants and ensure free access thereto for the citizens of all Member States.¹²⁷
5. In the framework of the new strategy, the EU should promote innovation in SMEs through financial and regulatory instruments, especially with reference to patents.

1.5. Information Society

The development of the information society may be perceived as a process partly independent of actions launched by the Member States and resulting from a broader process of information and communications development. Actions taken by public authorities may, however, assist significantly in developing this segment by applying regulatory and financing instruments. Regulatory actions include liberalization of the telecommunications market to cut Internet and phone call costs, while financial measures may be used to develop the necessary infrastructure. Within the framework of the Lisbon Strategy, the EU has both the legal and the financial instruments (e.g. Structural Funds) to boost development in this segment.

1.5.1. Overall Level of Information Society Development

The most recent data does not take into consideration the impact of the global crisis on the situation in this area, but it illustrates the most up-to-date tendencies in information society development. In the E-readiness 2009 ranking (prepared each year by the Economist Intelligence Unit and presenting a comprehensive picture) a group of 11 states performed better than the year before.¹²⁸ Almost all EU states leading in this area improved their performance (Denmark, Sweden, the Netherlands and Finland). Austria registered a drop, although it belongs to the European forefront in terms of

¹²⁶ *Reinvent Europe through innovation—From a knowledge society to an innovation society, Recommendations by a Business Panel on future EU innovation policy*, 2009, p. 17.

¹²⁷ OECD, *Economic Survey...*, *op. cit.*, p. 67.

¹²⁸ Economist Intelligence Unit, *E-readiness Ranking 2009, The Usage Imperative*, 2009, www-935.ibm.com/services/us/gbs/bus/pdf/e-readiness_rankings_june_2009_final_web.pdf, accessed on 26.10.2009.

information society development. The United Kingdom fell in the ranking by five positions and Germany by three. France, on the other hand, advanced in the ranking by seven positions. The majority of states at the bottom did not improve their performance in the EIU survey. What is more, in Greece, Hungary and Romania the situation deteriorated. Bulgaria, Lithuania and Poland are exceptional in this respect, having improved their performance.

Table 29. Information Society Development Ranking (without Cyprus and Luxembourg)

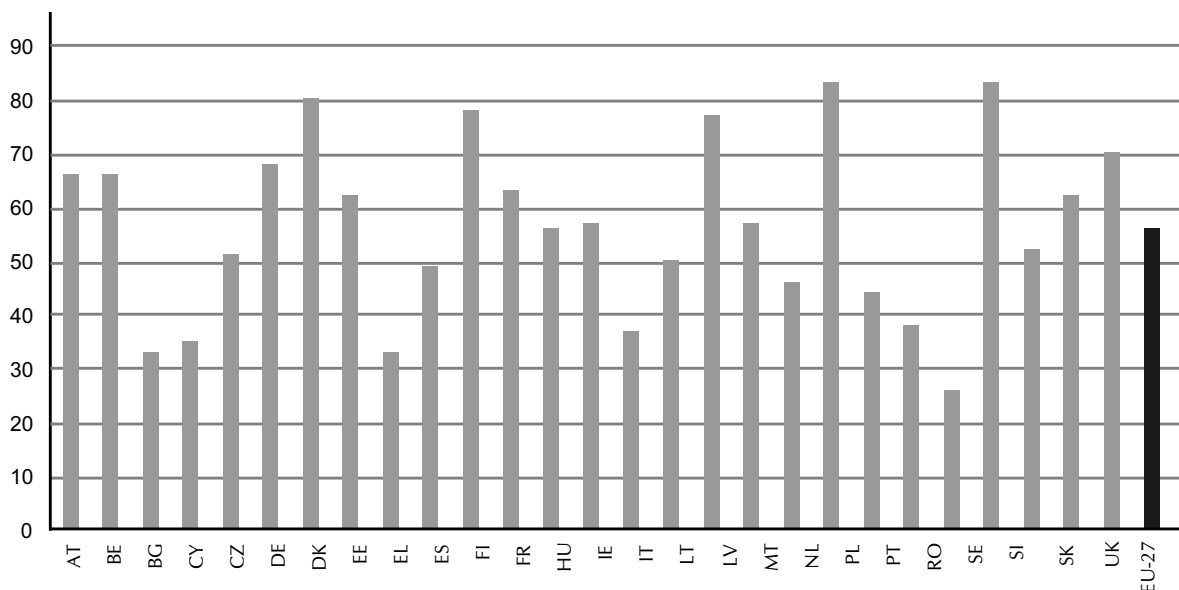
Country	Position in the ranking in 2009	Position in 2008	Score (max. 10)
DK	1	5	8.87
SE	2	3	8.67
NL	3	7	8.64
FI	10	13	8.30
UK	13	8	8.14
AT	14	10	8.02
FR	15	22	7.89
DE	17	14	7.85
IE	18	21	7.84
BE	20	20	7.71
MT	23	23	7.46
EE	24	28	7.28
ES	25	26	7.24
IT	26	25	7.09
PT	28	27	6.86
SI	29	29	6.63
CZ	31	31	6.46
LT	32	38	6.34
EL	33	30	6.33
HU	35	33	6.04
SK	36	36	6.02
LV	37	37	5.97
PL	39	41	5.80
BG	47	48	5.11
RO	48	45	5.07

Source: Economist Intelligence Unit, *E-readiness Ranking 2009. The Usage Imperative*.

1.5.2. Internet Use

The percentage of persons using Internet (at least once a week) increased. In 2008 the indicator amounted to 56%, 5 pp higher than in the previous year.¹²⁹ The Netherlands (83% in 2008, up by 2 pp in comparison to 2007), Sweden (83%, up by 8 pp) and Denmark (80%, up by 4 pp) remain leaders in this respect. On the opposite end of the spectrum there is Romania, Bulgaria, Greece and Cyprus, where Internet use remains relatively low and stands at respectively 26% (up by 4 pp), 33% (up by 5 pp), 33% (up by 5 pp) and 35% (no change). The indicator of Internet use improved in Poland (from 39% in 2007 to 44% in 2008), but the country still holds a place in the EU third ten in this respect. The biggest annual rise in the number of Internet users was registered in Slovakia (from 51% in 2007 to 62% in 2008). In 2005–2008 all Member States achieved progress in network use by citizens, with the rise especially high in Ireland, the Czech Republic and France. Among countries with the lowest rise in the number of Internet users, some states have the lowest overall percentage of Internet users (Romania, Cyprus, Italy).¹³⁰

Diagram 10. Percentage of Regular Internet Users in 2008



Source: European Commission, *Europe's Digital Competitiveness Report*, Vol. 2: *i2010—ICT Country Profiles*, SEC(2009) 1104.

Some progress was also recorded in access to broadband Internet. According to data for July 2009, the percentage amounted to 23.9% (per 100 inhabitants) and was higher by 2.3 pp in comparison to July 2008.¹³¹ The Netherlands are ahead here with broadband Internet penetration at 37.9% (35.8% in July 2008), followed by

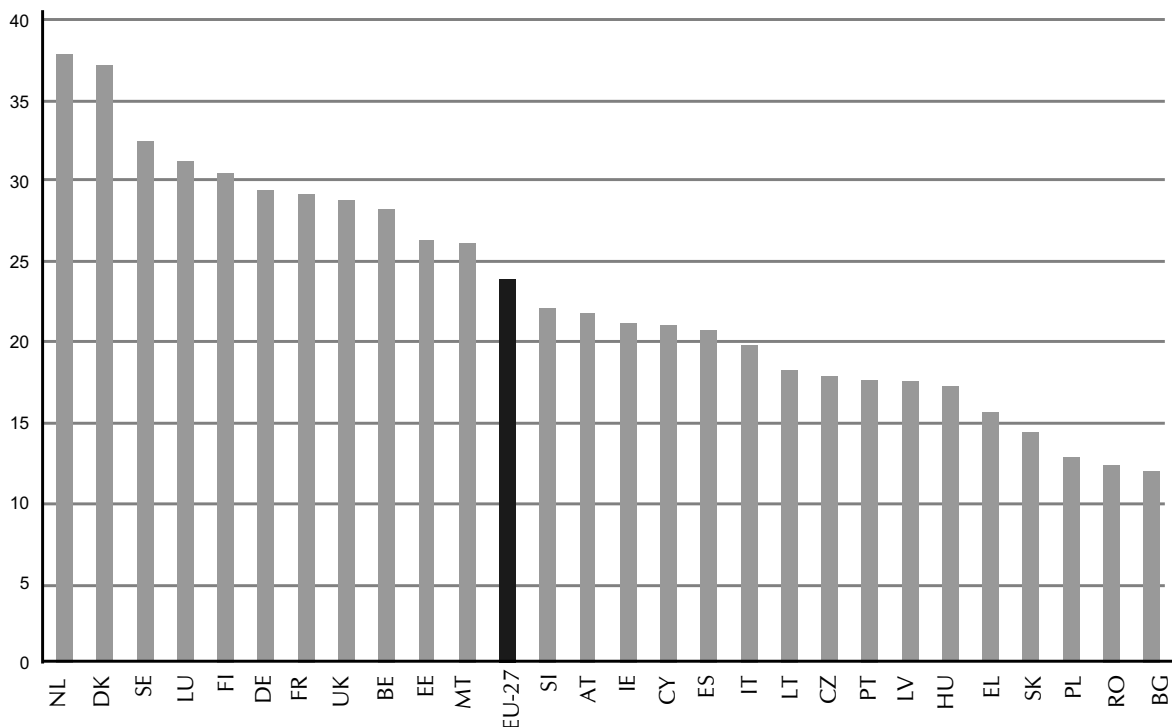
¹²⁹ European Commission, *Europe's Digital Competitiveness Report*, Vol. 1: *i2010—Annual Information Society Report 2009 Benchmarking i2010: Trends and main achievements*, SEC(2009) 1103, p. 21, http://ec.europa.eu/information_society/eeurope/i2010/docs/annual_report/2009/sec_2009_1060_vol_1.pdf, accessed on 20.10.2009.

¹³⁰ *Ibidem*, p. 22.

¹³¹ *Broadband Access in the EU: Situation at 1 July 2009*, p. 8, DG INFSO/C4, COCOM09-29 FINAL, http://ec.europa.eu/information_society/eeurope/i2010/docs/interinstitutional/cocom_broadband_july09.pdf, accessed on 10.02.2010.

Denmark—37,2% (37.4% in July 2008) and Sweden—32.5% (no change). A vast majority of states improved their performance, with the biggest improvement recorded in Malta (from 20.5% in July 2008 to 26.2% one year later) and Cyprus (from 16% to 21%). Poland improved its performance (from 9.6% to 12.8%), but is still in the group of countries with the poorest results together with Bulgaria (11.9%), Romania (12.3%) and Slovakia (14.3%). The gap between the state with the lowest broadband penetration and the leader of the survey diminished from 27.9 pp to 26 pp as states with the poorest results started to bridge the gap, although it remains far from the EU average.

Diagram 11. Broadband Penetration Rate (% of population, as of July 2009)



Source: European Commission, *Broadband Access in the EU: Situation at 1 July 2009*.

The DSL infrastructure range has increased to encompass areas inhabited by 93% of the EU population.¹³² It is developed also in rural areas, where it covers 76.6% (71.3% in 2007). Complete DSL access, also in rural areas, is recorded in France, Denmark and Luxembourg, with Romania, Poland and Slovakia the poorest performers in this respect (the DSL access range at 67.6%, 69.6% and 77.9% respectively). In terms of DSL access in rural areas, Cyprus (12%), Bulgaria (20%) and Romania (34%) are the poorest performers, with Poland at 42.5%.

1.5.3. Digital Exclusion

The reduction of digital exclusion levels within the 2006 Riga Declaration is slow,¹³³ but it is progressing in the majority of Community states. Internet use index among high-risk group rose from 0.62% in 2006 to 0.66 in 2008, chiefly due to the

¹³² European Commission, *Europe's Digital Competitiveness Report*, Vol. 1: *i2010...*, *op. cit.*, p. 11.

¹³³ For more information on Riga Declaration and the Internet usage by high risk group Index see: M. Koczor, *Lisbon Strategy Implementation in 2008...*, *op. cit.*, pp. 79–80.

poorly educated (by 0.1 pp), inactive and aged of 55–64 (by 0.08 pp).¹³⁴ The situation has not improved in Internet access for the unemployed and those living in the rural areas. Substantial differences amongst Member States in terms of the digital exclusion reflect the general lack of Internet access in the EU. It is hardly surprising that the lowest digital exclusion is noted in the Netherlands (0.85%, increase by 0.07 pp), Sweden (0.84%, increase by 0.02 pp) and Denmark (0.79%, increase by 0.01 pp). The highest level of digital exclusion is observed in Bulgaria (0.45%, increase by 0,08 pp), Greece and Romania (0.46% each). In Poland the indicator amounts to 0.55% (increase by 0.05 pp.). The biggest progress was noted in Hungary (from 0.52% to 0.64%) and in Luxembourg (from 0.66% to 0.76%).

Table 30. Internet Usage by High Risk Groups Index (in %)

Country	2006	2008	Country	2006	2008
AT	0.65	0.69	IT	0.53	0.57
BE	0.64	0.69	LT	0.49	0.56
BG	0.37	0.45	LU	0.66	0.76
CY	0.47	0.53	LV	0.54	0.60
CZ	0.56	0.60	MT	–	0.62
DE	0.72	0.74	NL	0.78	0.85
DK	0.78	0.79	PL	0.50	0.55
EE	–	0.71	PT	–	0.54
EL	0.46	0.46	RO	–	0.46
ES	0.50	0.56	SE	0.82	0.84
FI	0.71	0.77	SI	0.50	0.56
FR	–	0.74	SK	0.52	0.55
HU	0.52	0.64	UK	–	0.70
IE	0.57	0.64	EU-25	0.62	0.66

Source: European Commission, *Europe's Digital Competitiveness Report*, Vol. 1: *i2010—Annual Information Society Report 2009 Benchmarking i2010: Trends and main achievements*, SEC(2009) 1103.

1.5.4. E-Government

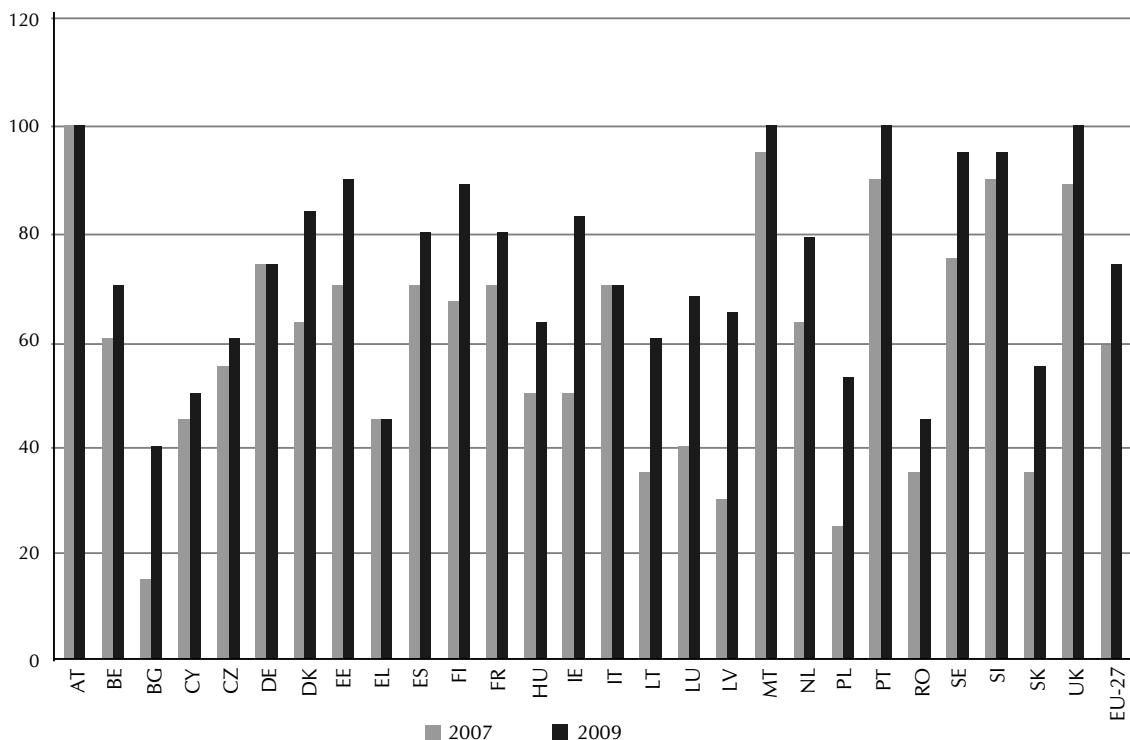
Online access to public services improved significantly throughout the EU in 2007–2009, averaging 74% in 2009 for the 20 basic public services, compared to 59% in 2007 (data for 2008 is not available).¹³⁵ Most Member States improved their indicators in this respect, with the biggest progress noted in Latvia (a rise by 35 pp to 65%) and Ireland (by 33 pp to 83%). Significant progress was also made in the Nordic states: Sweden (from 75% in 2007 do 95% in 2009), Finland (from 67% to 89%) and

¹³⁴ European Commission, *Europe's Digital Competitiveness Report*, Vol. 1: *i2010...*, *op. cit.*, p. 23.

¹³⁵ These services include e.g. payments of taxes, registration of car, social benefits.

Denmark (from 63% to 84%). Austria, Malta, Portugal and the United Kingdom are in the lead in this respect, as all the 20 basic services are fully accessible online there; in the case of Austria, full online availability was reached in 2007. Despite big progress in 2009 (from 25% to 53%), Poland is still in the group of states with the lowest indicator, together with Bulgaria (40%), Greece (45%), Romania (45%) and Cyprus (50%).

Diagram 12. Online Availability of Basic Public Services (in %)



Source: Eurostat, <http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&plugin=1&language=en&pcode=tsiir120>.

In 2008–2009 the gap widened between use of online public services by individuals and by enterprises. In 2009 this difference amounted to 42 pp (up by 2 pp in comparison to 2008). In both groups a slight increase was recorded in the indicator in the period examined: from 28% to 29% for individuals and from 68% to 71% for businesses.

The biggest rise in e-government use by individuals took place in Denmark (from 44% to 67%), which became the leader in this respect. Reasonable progress was made in Belgium (by 15 pp to 31%), the Czech Republic (by 10 pp to 24%) and Estonia (by 10 pp to 44%). In Poland the percentage of individuals using e-government services rose by 2 pp to 18%. The fewest individuals use this form of contact with the public administration in Romania (6%, down by 3 pp in comparison to 2008), Bulgaria (10%, up by 2 pp) and Greece (12%, up by 2 pp).

In terms of use of e-government services by enterprises in 2009, the highest indicator was recorded in Finland (96%, up by 1 pp) and Slovakia (92%, up by 4 pp). Progress was also noted in Lithuania (91%, up by 5 pp), Sweden (up by 8 pp up to 86%), Germany and Latvia (up by 9 pp each to 65% and 64% respectively). As many as 90% of entrepreneurs used e-government in Denmark in 2009, compared to 89% in Ireland, Luxembourg and Slovenia. In Poland the biggest drop was recorded (by 7 pp to 61%) in the use of e-government services, with the country ahead of only Romania (41%) and

Bulgaria (60%). More popular use of e-government by individuals is not necessarily accompanied by its more extensive use by entrepreneurs (e.g. in Greece and in Italy a relatively low percentage of individuals using e-government is recorded along with a relatively high share of enterprises).

Table 31. Percentage of Citizens and Enterprises Using e-Government Services (in %)

Country	Individuals		Enterprises	
	2008	2009	2008	2009
AT	39	39	80	79
BE	16	31	69	–
BG	8	10	58	60
CY	16	22	65	72
CZ	14	24	73	66
DE	33	37	56	65
DK	44	67	90	90
EE	34	44	77	79
EL	10	12	83	81
ES	29	30	64	65
FI	53	53	95	96
FR	43	–	73	75
HU	25	25	60	68
IE	27	28	91	89
IT	15	17	82	83
LT	20	19	86	91
LU	48	54	90	89
LV	16	23	55	64
NL	54	55	85	83
MT	20	24	74	79
PL	16	18	68	61
PT	18	21	75	77
RO	9	6	39	41
SE	52	57	78	86
SI	31	32	88	89
SK	30	31	88	92
UK	32	35	64	68
EU-27	28	29	68	71

Source: Eurostat, <http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&plugin=1&language=en&pcode=tsiir130>; <http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&plugin=1&language=en&pcode=tsiir140>.

1.5.5. Digital Dividend

Transfer from analogue to digital TV is a great opportunity for the development of Internet infrastructure; this change should be completed by 1 January 2012, although Member States have already been switching over to the new system of TV broadcasting. The process has been completed in Finland, Luxembourg, the Netherlands, Germany and Sweden. Poland will be probably the last country switching off ground analogue broadcasting, as this is to be completed as late as in 2015.

Table 32. Stage of Switch Over to Digital Broadcasting

Situation	Country
Process completed	BE (in Flanders region), DE, FI, LU, NL, SE
Completion—at the end of 2010 or earlier	AT, DK, EE, ES, MT, SI
Completion—at the end of 2012 or earlier	BE (in Brussels and Wallonia region), BG, CY, CZ, EL, FR, HU, IT, LT, LV, PT, RO, SK, UK

Source: European Commission, *EU Member States on course for analogue terrestrial switch-off*, Press Release, Brussels, 16 February 2009.

As the result, radio frequencies used by television will become available for use for wireless Internet, new-generation mobile services or interactive TV channels (“digital dividend”). Consequently, electronic services of both commercial and administrative nature will develop, as will market competition. According to estimates, benefits for the EU economy from digital dividend could reach €20–50 billion in the coming 15 years given coordinated action by states.¹³⁶ Positive consequences are expected for regional development, as released radio frequencies pose an opportunity for developing Internet infrastructure in areas seriously behind in this respect. The Commission is to propose harmonization of technical specifications for band 790–862 MHz to be used for providing broadband Internet to safeguard a harmonious development of electronic services in the whole EU. The Commission is also suggesting a common EU stance concerning cooperation with third countries in making use of the digital dividend.

1.5.6. Conclusions

Information society remains one of the most effectively developing segments of LS, although substantial differences can be noted in progress made by individual Member States. The differences amongst countries stay on the same level as the process of catching up with best states by those lagging behind is too slow. Infrastructural backwardness in this respect weakens the competitiveness of countries, but, often being a consequence of long-term negligence, it cannot be eliminated in a short period of time. Within the framework of stimulating packages some states launched steps for Internet infrastructure development, improving long-term chances to boost the Internet broadband penetration indicator. A substantial share of the €1 billion allocated in the

¹³⁶ European Commission, *Transforming the Digital Dividend into Social Benefits and Economic Growth*, COM (2009) 586/2 final, http://ec.europa.eu/information_society/policy/ecomm/radio_spectrum/_document_storage/other_docs/en_com586_dd.pdf, accessed on 30.10.2009.

framework of the European Economic Recovery Plan for various projects in the countryside will be spent on developing broadband Internet.

The importance of this segment is growing given the scope of challenges connected with digitalization of intellectual resources. This is likely to set the direction and development opportunities for the information society after 2010. Due to the multifaceted nature of this problem, the actions undertaken should be fully coherent with single market priorities, consumer protection policy as well as competition policy.

1.5.7. Evaluation

1.5.7.1. Positive

Because of the progress made and unchallenged lead in information society development, not only in the EU but also throughout the world, **Denmark, the Netherlands and Sweden** should be given credit.

1.5.7.2. Negative

Greece and Romania have not made any progress in this area and the gap between their indicators and the European average is growing visibly.

1.5.8. Recommendations

1. Because of the interdisciplinary nature of challenges in this area, close coordination of initiatives is needed between commissioners responsible for spheres linked with this segment (single market and consumer protection). Neelie Kroes, the new commissioner for the digital agenda, will be responsible for ensuring coordination, especially that she will also act as the College's vice-president.
2. The digital dividend and opportunities stemming therefrom should be seized and promoted, especially in the most backward states. More attention should be paid to eliminating digital exclusion, with should be a priority for both the commissioner for the digital agenda and the commissioner for employment and social affairs.
3. Despite the adoption of the telecommunications package, the EU should continue searching for efficient solutions reconciling combating piracy and efficient enforcement of intellectual property rights with protection of the rights of Internet users—an issue that is likely to remain controversial.

1.6. Energy and Climate

Energy and climate initiatives have been the most dynamically developing LS segment from the point of view of its political significance, reflecting the growing challenges faced by the EU in this respect. This area is closely connected with the external dimension of EU actions (global climate agreement as well as external energy policy), so it reflects the logic of the final Lisbon Strategy cycle, establishing that the Union's actions should also be addressed to the outside, enhancing its presence and

role in international economic relations. The world crisis should not undermine the pace of steps launched in this segment.

1.6.1. Reduction of Greenhouse Gas Emissions

The EU has made certain progress in fulfilling its reduction commitments in the framework of the Kyoto Protocol. According to the European Environment Agency (EEA), the fall in emissions of greenhouse gases (GHG) amounted to 4.3% in the EU-15 in 2007 in comparison to the base year. Amongst the EU-15, the Kyoto goal has so far been met by France, Greece, Germany, Sweden and the United Kingdom. With the exception of Germany, data concerning emissions in all those countries showed the attainment of the required level of emissions in 2006. In the last period for which full data is available (2006–2007), GHG emissions of EU-15 fell by 1.6%, to a large extent as a result of cuts in Germany, France and the United Kingdom.¹³⁷ In the whole EU the fall amounted to 1.2% in the same period, when emissions in 17 Member States were reduced and Denmark became the leader in this respect.

The biggest rise in emissions in 2006–2007 was recorded in Estonia, Lithuania and Bulgaria, although the above states had substantially reduced their emission levels of GHG and more than fulfilled their Kyoto commitments. The estimated reduction of emissions in 2007–2008 could amount to 1.5% in EU-27 and 1.3% in EU-15.¹³⁸

On the basis of Agency's projection it seems that the fulfillment of reduction obligations of the EU is feasible, but only provided the EU-15 Member States that have not met their commitments apply additional measures. Otherwise, the reduction will not exceed 6.8%.¹³⁹ The governments of these states have been using or are planning to use the Kyoto mechanisms to achieve their Kyoto targets. These mechanisms include: buying emission allowances (assigned amount units—AAU) in the framework of Emission Trading (ET); investing in emission reduction or emission removal projects in other countries listed in Annex I to the United Nations Framework Convention on Climate Change (UNFCCC)—Joint Implementation (JI) and in projects in developing countries—Clean Development Mechanism (CDM).

According to the EEA, in 1990–2007 the overall level of emissions reduction amounted to 9.3% for EU-27.¹⁴⁰ This is a result of reductions in the three biggest economies of the EU (they are responsible for more than 40% of EU emissions) as well as in the new EU-10 states.¹⁴¹ Slovenia is an exception, as it will be able to accomplish its reduction goal thanks to the application of Kyoto mechanisms.

¹³⁷ European Commission, *Progress Towards Achieving the Kyoto Objectives*, COM(2009) 630 final, 12 November 2009, p. 3, <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2009:0630:FIN:PL:PDF>, accessed on 22.11.2009.

¹³⁸ European Environment Agency, *Greenhouse gas emission trends and projections in Europe 2009*, November 2009, p. 22, www.eea.europa.eu/publications/eea_report_2009_9, accessed on 22.11.2009.

¹³⁹ *Ibidem*, p. 84.

¹⁴⁰ European Environment Agency, *Greenhouse Gas Emission Trends and Projection...*, *op. cit.*, p. 23.

¹⁴¹ Cyprus and Malta have not undertaken obligations in order to accomplish the Kyoto goal.

Table 33. Progress towards Kyoto Targets (in %)

Country	Kyoto target	Reduction/Increase Level (in relation to the base year of 2007)	Change in 2006–2007 (%)
AT	-13	11.3	-3.9
BE	-7.5	-8.3	-3.9
BG	-8	-35.6	5.4
CY	-	85.3	1.6
CZ	-8	-22.5	1.2
DE	-21	-21.3	-2.4
DK	-21	-3.5	-6.2
EE	-8	-47.5	14.8
EL	25	24.9	2.9
ES	13	53.5	2.1
FI	0	10.6	-2.0
FR	0	-5.6	-2.0
HU	-6	-23.5	-3.7
IE	13	25	-0.7
IT	-6.5	7.1	-1.8
LT	-8	-49.6	8.1
LU	-28	-1.6	-2.9
LV	-8	-54.7	3.5
MT	-	49	2.6
NL	-6	-2.1	-0.5
PL	-6	-13.2	-0.1
PT	27	38.1	-3.4
RO	-8	-37.3	-1.0
SE	4	-9.1	-2.2
SI	-8	11.6	0.7
SK	-8	-35.9	-4.1
UK	-2.5	-17.4	-1.7
EU-15	-8	-4.3	-1.6
EU-27	-	-9.3	-1.2

Source: European Environment Agency, *Greenhouse gas emission trends and projections in Europe 2009*, November 2009.

Table 34. Measures Undertaken for Reaching Kyoto Targets

Country	Planned use of Kyoto mechanisms	Type of Kyoto mechanisms	Planned use of domestic measures only
AT	yes	ET, JI, CDM	no
BE	yes	ET, JI, CDM	no
BG	no	–	yes
CY	no	–	–
CZ	no	–	yes
DE	no	–	yes
DK	yes	ET, JI, CDM	no
EE	no	–	no
EL	no	–	yes
ES	yes	ET, JI, CDM	no
FI	yes	ET, JI, CDM	no
FR	no	–	yes
HU	yes	ET	yes
IT	yes	ET, JI, CDM	no
IE	yes	ET, JI, CDM	no
LT	no	–	yes
LU	yes	ET, JI, CDM	no
LV	no	–	yes
MT	no	–	–
NL	yes	ET, JI, CDM	no
PL	no	–	yes
PT	yes	ET, JI, CDM	no
RO	no	–	yes
SE ¹⁴²	no	–	yes
SI	yes	ET, JI, CDM	no
SK	no	–	yes
UK	no	–	yes

Source: European Commission, *Progress Towards Achieving the Kyoto Objectives*, SEC(2009) 1581 final.

¹⁴² Sweden started preparations to use Kyoto mechanisms should it be indispensable for its accomplishment of the target.

The estimated internal emission reduction in 1990–2008 amounts to 10.7% in the EU-27 and 5.5% in EU-15. The EU is in fact half-way to the attainment of the goal set in March 2007 of emissions reduction by 20% by 2020.¹⁴³ The projection for the remaining period shows that with the use of additional measures emissions may be cut by 14% in 2020.

The overall decrease in emissions results from reductions in the energy sector, which together with transportation was responsible for 80% of all emissions in EU-15 in 2007. Emissions in the energy sector fell in comparison to 1990 by 13.8% in the EU and by 7.4% in EU-15. As for emissions resulting from energy use, a drop by 15% in EU-15 and by 20% in the whole Community was recorded in 1990–2007. Reductions from emissions in energy production and supply felt by 8% in EU-27, while in EU-15 a rise by 1% was recorded. According to estimates, the 2010 level of emissions from energy use may be higher than in 2007 as a result of higher emissions in Germany. In EU-15 emissions from this source are to fall in particular in the United Kingdom, France and Italy. As for energy production and supply, in 2010 a drop against 2007 is expected in emissions in EU-15 and in EU-27, with the biggest reductions expected in the United Kingdom, Germany and Italy.

The genuine problem is posed by emissions reduction in transportation, where emissions increased by 26% in EU-27 and by 23.7% in EU-15 in 1990–2007. Germany was the only EU-15 country where reductions were recorded. In its negotiation stance for the Copenhagen summit the EU suggested the adoption of reduction goals with reference to emissions stemming from air (10%) and sea (20%) transport.¹⁴⁴

Table 35. Emissions and Reductions Level by Sectors

Sector	Percentage of all 2007 emissions		Emissions reduction in 2007 (in comparison to the base year)	
	EU-15	EU-27	EU-15	EU-27
Energy (production and use)	58.5	59.8	-7.4	-13.8
Transport	21.3	19.5	+23.7	+26.0
Agriculture	9.2	9.2	-11.3	-20.2
Industry	8.2	8.5	-10.8	-9.9

Source: European Commission, *Progress Towards Achieving the Kyoto Objectives*, SEC (2009) 1581 final.

¹⁴³ European Environment Agency, *Greenhouse Gas Emission Trends and Projection...*, *op. cit.*, p. 92.

¹⁴⁴ The Council (Environment), *EU Position for the Copenhagen Climate Conference (7–18 December 2009) adopted on 21 October 2009*, p. 7, <http://register.consilium.europa.eu/pdf/pl/09/st14/st14790.pl09.pdf>, accessed on 5.12.2009.

Emissions reduction was also recorded in agriculture and industry, with emissions in agriculture down by 11.3% in EU-15 and by 20.2% in EU-27 in 2007 against 1990. Among the EU-15 states, the highest emissions reductions were reported in the Netherlands, France and the United Kingdom. Industrial emissions were also cut between 1990 and 2007: by 10.8% in EU-15 and by 9.9% in EU-27.

The biggest challenge in the EU's climate policy in 2009 was to persuade external partners to enter into an ambitious and binding climate agreement during the COP15 summit in Copenhagen. The EU upheld its promises to set a 30% emissions reduction target, but it made its own obligations dependent on other parties (for industrialized countries, a 30% reduction by 2020 and 80–95% by 2050; for the developing countries, a 15%–30% in relation to “no action” scenario). The EU also emphasized the need for all states except the poorest ones to adopt a low-carbon development strategy and strengthen verification and control mechanisms.¹⁴⁵ As for the financial aspects, the European Council in December 2009 single-handedly agreed to allocate €7.2 billion in 2010–2012 (fast track action) for combating climate change in developing countries. Earlier, the European Council accepted the European Commission's calculations according to which annual contributions for such actions should total €100 billion (from public as well as private sources), while international public contribution should reach to €22–50 billion annually.¹⁴⁶ No agreement was reached on the internal mechanism for burden distribution after 2012 as a result of differences between EU states over the criterion for determining the financial contribution of a given state. Most EU-15 states reiterated that the contribution should depend upon emission levels. The new Member States, on the other hand, led by Poland, stressed that the affluence of states should first of all be taken into account. The compromise formula accepted at the European Council summit in October 2009 reconciled the two elements, with its particulars to be elaborated by a special working group.

Despite this stance, the EU was unable to convince either the USA, China (both unwilling to assume ambitious obligations during the COP15) or even smaller developing states demanding more support from rich countries. As the result, the outcome of the Copenhagen summit turned out to be most disappointing; not only no political agreement was reached, but also the Union had little influence on the negotiations in their final phase.

1.6.2. Generating Electricity from Renewable Resources

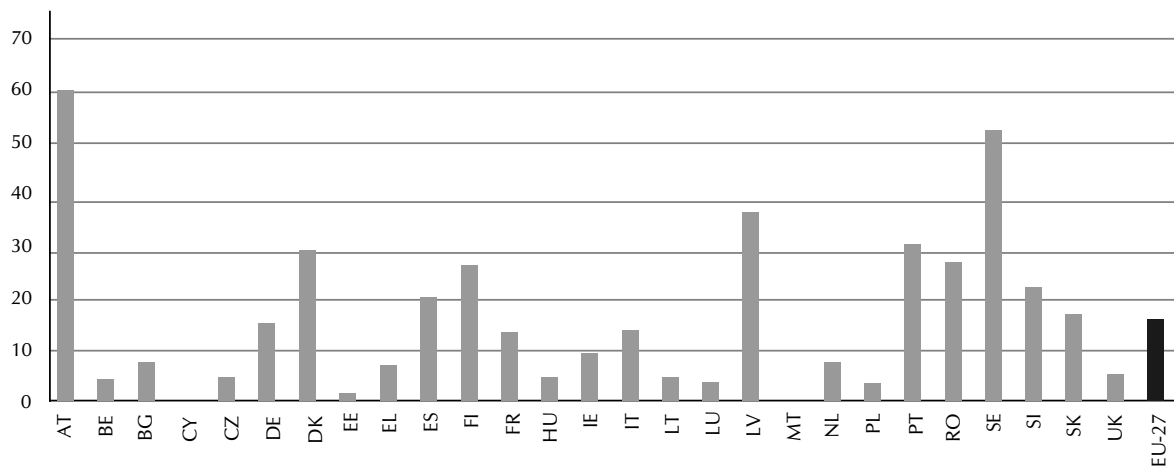
There has been little progress towards achieving the goal defining the percentage of electric energy generated from renewable resources (21% on the basis of Directive 2001/77/EC). In 2007 (the last year with full data available) the indicator amounted to 15.6%, which means a rise by 1 pp in comparison to 2006 and by 1.2 pp against 2001. Amongst the Member States the national targets were attained only by Denmark (29%—the exact target), Germany (15.1%; target—12.5%) and Hungary (4.6%,

¹⁴⁵ E. Wyciszkievicz, “European Union's Position for UN Climate Conference in Copenhagen,” *PISM Bulletin*, no. 72 (72), 8 December 2009.

¹⁴⁶ European Commission, *Stepping up International Climate Finance: A European Blueprint for The Copenhagen Deal*, COM (2009) 475/3, http://ec.europa.eu/environment/climat/pdf/future_action/com_2009_475.pdf, accessed on 10.12.2009.

target—3.6%). The overwhelming majority of EU states may face problems in reaching their targets. Compared to 2001–2007 the indicator deteriorated in Austria, France, Latvia, Portugal, Romania, Slovakia and Spain. Against 2006–2007, a deterioration of the indicator was recorded in the Czech Republic, Greece, Italy, Latvia and Slovenia. The biggest increase in the amount of electricity generated from renewable sources was recorded at the same time in Austria, Denmark, Germany and Sweden. Most Member States have problems with fulfilling obligations in this area. As a consequence, the EU target will most likely remain unattained, and the level of 18–19% can be expected at best.¹⁴⁷ Poland is more or less half-way to accomplishing its target of 7.5%; in 2007 around 3.5% of electricity was generated from renewable resources.

Diagram 13. Percentage of Renewable Sources in Generating Electricity in 2007
(for Cyprus and Malta this indicator is 0)



Source: Eurostat, <http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&plugin=1&language=en&pcode=tsien050>.

The UE is still far from reaching the 20% target of renewable resources in total energy consumption by 2020 (9.2% in 2006). In order to achieve this target, the share of electricity generated from renewables should be increased to over 30%.¹⁴⁸ The use of renewable resources in transportation should go up as well, with the target in this respect raised to 10% by 2020 (from 5.75% set in 2003).¹⁴⁹ According to the most up-to-date statistics (2007), biofuels accounted for 2.6% of fuel consumption in transport, with over 80% of this consumption in Austria, France, Germany, Sweden and the United Kingdom.¹⁵⁰

The accomplishment of the set target would require making use of various supporting instruments. Many EU states have already introduced incentives for renewable energy production e.g. guaranteed price systems or transferable certificates

¹⁴⁷ European Environment Agency, *Greenhouse gas emission trends and projection...*, *op. cit.*, p. 66.

¹⁴⁸ *Ibidem*, p. 65.

¹⁴⁹ Directive 2009/28/EC of the European Parliament and of the Council of 23 April 2009 on the promotion of the use of energy from renewable sources and amending and subsequently repealing Directives 2001/77/EC and 2003/30/EC, OJ L 140, 5 June 2009.

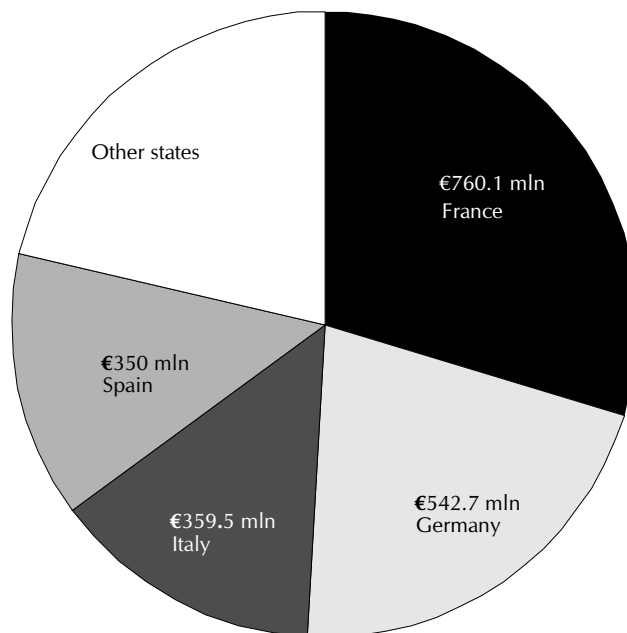
¹⁵⁰ European Commission, *The Renewable Energy Progress Report*, Commission Staff Working Document, SEC(2009) 503 final, p. 16, <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=SEC:2009:0503:FIN:EN:PDF>, accessed on 10.02.2010.

of origin (green certificates). State aid for investments in renewable energy can be granted without the consent of the Commission, as it is included in block exemption. EU's financial support for such actions is available from many sources: the European Regional Development Fund, Cohesion Fund, Intelligent Energy Europe initiative within the Competitiveness and Innovation Programme or the 7th Framework Programme.

1.6.3. Investment on Low-emission Technologies

The overall level of public spending on research and development in energy (both with reference to nuclear and other technologies) amounted to more than €2.5 billion in 2007.¹⁵¹ More than 65% of all public R&D spending was made in the biggest countries: France, Germany and Italy. In relation to the GDP, the highest spending was reported in Finland and France.¹⁵² The share of this investment in total of public expenditure on R&D amounted to 2.9% in the EU in 2007, while in Japan it reached 15.2% and in the USA—1.1%.¹⁵³ Spending in this respect diminished significantly in comparison to the 1980s. Amongst the EU states only Hungary invests in this field more than 10% of all funds allocated for R&D.

Diagram 14. Share of Contributions from Selected EU states in Total Public Expenditure on R&D in Energy in the EU in 2007



Source: European Commission, *R&D Investment in the Priority Technologies of the European Strategic Energy Technology Plan*, Commission Staff Working Document, SEC(2009) 1296.

¹⁵¹ European Commission, *R&D Investment in the Priority Technologies of the European Strategic Energy Technology Plan*, Commission Staff Working Document, SEC(2009) 1296, p. 35, http://ec.europa.eu/dgs/jrc/downloads/jrc_reference_report_2009_10_investment_set_plan.pdf, accessed on 10.12.2009.

¹⁵² *Ibidem*, p. 33.

¹⁵³ *Ibidem*, p. 33.

A low level of investment on R&D and innovations in the electro-energy sector is recorded across the EU. Among the reasons for low investment in this area are market barriers, which discourage enterprises from investing (insecurity as to the success of the investment or problems with entering the market as a result of energy market structure).¹⁵⁴ Nonetheless, the EU covers 46.5% of global expenditures on R&D in this area.¹⁵⁵

In 2007 the Commission presented the European Strategic Technology Plan (SET Plan), which is to constitute a technological component of the EU's energy and climate policy. Amongst its priorities the following were listed:

- development of second generation biofuels as an alternative to fossil fuels;
- enabling commercial use of CO₂ capture and storage (CCS);
- doubling the power generation capacity of the largest wind turbines;
- demonstrating the commercial readiness of Photovoltaic and concentrated solar power use;
- development of a uniform smart electricity grid capable of accommodating renewable energy and its distribution;
- bringing to the market energy convertors and end-use devices, for example for use in construction;
- maintaining competitiveness in fission technologies, together with long-term waste management solutions.¹⁵⁶

To implement this programme a special management structure was created (European Community Steering Group on Strategic Energy Technologies). The European Energy Technology Information System was also set up to enable monitoring of the progress made.

Within this programme in 2009 the Commission presented proposals to intensify actions concerning low-emission technologies and elaborated roadmaps for 2010–2020 with regard to wind energy, solar energy, bio-energy, electricity networks, CCS and the sustainable nuclear fission.¹⁵⁷ It also suggested an energy-saving initiative that would encompass 30 cities. The Commission estimates that efficient implementation of this initiative requires additional investments of €50 billion in the coming decade, with annual expenses rising from €3 billion now to €8 billion.¹⁵⁸ The biggest share would be invested in solar energy (€16 billion), CCS (€13 billion), bio-energy (€9 billion), fission (€7 billion) and wind energy (€6 billion). An increase in energy effecticiency in cities would mean additional €11 billion. Those costs should be covered by Member States' governments, the EU budget and businesses. Strong financial backing from the private sector is crucial to the success of the project, as businesses were behind 70% of

¹⁵⁴ OECD, *Economic survey: European Union*, Paris, 2009, p. 115.

¹⁵⁵ R. Veugelers, C. Serre, "Cold Start for the Green Innovation Machine," *Bruegel Policy Contribution*, November 2009, p. 4, www.bruegel.org/fileadmin/files/admin/publications/policy_contributions/2009/pc_climatervcs_231109.pdf, accessed on 5.11.2009.

¹⁵⁶ European Commission, *A European Strategic Energy Technology Plan- SET-Plan, 'Towards a low carbon future'*, COM(2007)723 final, 22 11 723 final, p. 5, <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2007:0723:FIN:EN:PDF>, accessed on 24.11.2009.

¹⁵⁷ European Commission, *Investing in the Development of Low Carbon Technologies (SET-Plan)*, COM(2009) 519 final, http://ec.europa.eu/energy/technology/set_plan/doc/2009_comm_investing_development_low_carbon_technologies_en.pdf, accessed on 5.12.2009.

¹⁵⁸ *Ibidem*.

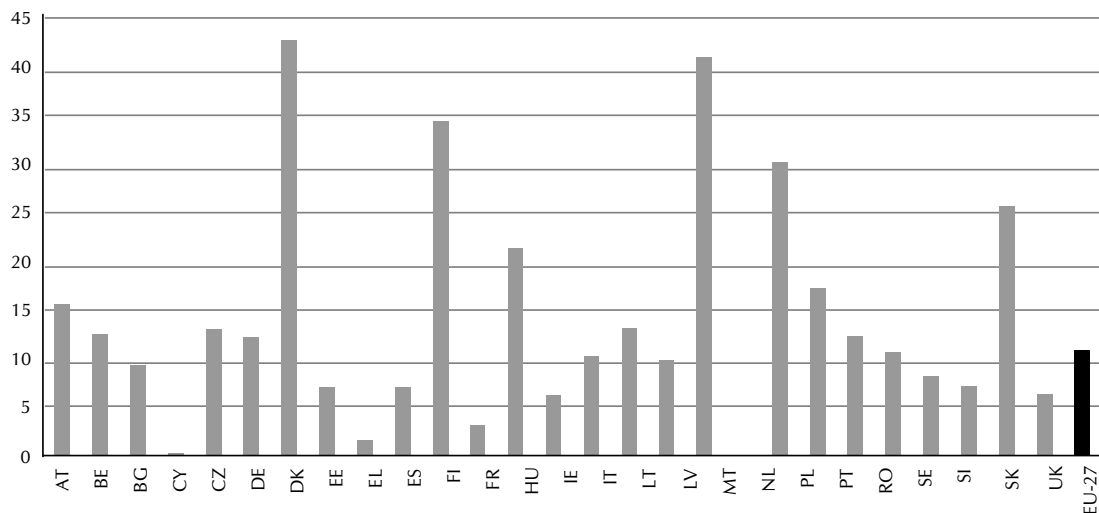
investments (€1.66 billion) allocated in 2007 for research and development on energy technologies other than nuclear defined in the SET programme. Meanwhile, the Member States spent €570 mln and the EU €160 mln, with €2.38 billion allocated in all for R&D with respect to such technologies.¹⁵⁹

A substantial contribution into financing technologies could be made by the EIB, which boosted its crediting targets in the energy sector to €9.5 billion in 2009 and to €10.25 billion in 2010. In 2008 the EIB granted loans for a total amount of €2.9 billion for projects connected with renewable energy or energy efficiency.

1.6.4. Development of Cogeneration

No increase was recorded in energy coming from cogeneration. In 2007 it amounted to 10.9%, just as a year earlier. The highest percentage of simultaneously generated electric and thermal energy as noted in Denmark (42.85%), which improved its results in comparison to 2006. It is followed by Latvia, but cogeneration there fell to 40.9%. An increase in the share of energy coming from cogeneration was registered in the Netherlands (from 29.9% to 30.1%), Poland (from 16% to 17.3%), Portugal (from 11.6% to 12.3%) and Bulgaria (from 6% to 9.4%), with the biggest drop recorded in Romania (from 18.0% to 10.7%).

Diagram 15. Percentage of Electricity Generated from Cogeneration in 2007
(for Malta the indicator is 0)



Source: Eurostat.

1.6.5. Support for Energy and Climate Initiatives within the Framework of Stimulating Actions

Within the framework of stimulating packages, the Member States have undertaken actions for energy efficiency. According to preliminary estimates, the aggregate stimulating support for this goal in 2009–2010 is to reach €20 billion (0.16%

¹⁵⁹ European Commission, *R&D investment in the Priority Technologies...*, op. cit., p. 30.

of the EU's GDP).¹⁶⁰ Most Member States announced launching special instruments supporting energy efficiency, mainly in buildings, but lower spending on ecological measures was reserved in the EU than in the USA or China.¹⁶¹

In March 2009 the European Council managed to reach a compromise on allocating €5 billion from the EU budget for energy projects and countryside development (mainly broadband infrastructure and bio-diversity projects). The Commission's detailed proposal encountered a number of obstacles, however, making its adoption impossible. Some Member States, e.g. Germany, expressed their doubts as to the real influence of those investments on stimulating the economy and the choice of energy projects.¹⁶² Finally, it was agreed that €3.98 billion will go to energy projects in 2009–2010 plus €1 billion for broadband infrastructure and initiatives resulting from Common Agricultural Policy health check. The means are to be taken from the agricultural policy budget margin and should be effectively spent by the end of 2010. They are to be distributed as follows:

- gas and electric energy projects—€2.36 bn;
- offshore wind projects—€565 mln;
- CCS projects—€1.05 bn.¹⁶³

1.6.6. Conclusions

The recession in Europe may reduce GHG emissions in the EU, although the scale of this reduction is hard to foresee. It may be the highest in states most deeply affected by the crisis (such as Lithuania or Latvia). It is also difficult to predict the outcome of stimulating actions aimed at attention energy efficiency. Although the European Economic Recovery Plan devotes much attention to measures in this respect, for most states they remain of secondary importance, well behind initiatives aimed at assisting enterprises and labor market.

The implementation of energy and climate package provisions in a way necessitates a development of the “green” dimension of European economies. Progress in the field examined depends largely on the cooperation of private partners in financing investments in low-emission technologies. Until now, initiatives in this area were weak and uncoordinated. The biggest problem in the coming years will be posed by generating adequate means to finance low-emission technologies. Budgetary problems of most EU states and the need to consolidate public finances may create a certain barrier to the development of those technologies. The crisis has additionally impeded access to private funds for such investments, although those were not easy to obtain even in normal conditions due to high risk. It remains to be seen to what extent

¹⁶⁰ European Commission, *The EU's Response to Support the Real Economy During the Economic Crisis...*, *op. cit.*, p. 58.

¹⁶¹ HSBC, *A Climate for Recovery. The Colour of Stimulus Goes Green*, February 2009, p. 3, www.globaldashboard.org/wp-content/uploads/2009/HSBC_Green_New_Deal.pdf, accessed on 7.12.2009.

¹⁶² M. Koczor, “Financial and Economic Crisis in the European Union—Decisions of the European Council of 19–20 March 2009,” *PISM Bulletin*, no. 16 (16), 25 March 2009.

¹⁶³ Council of the European Union, *Presidency Compromise Proposal for Financing of the Infrastructure Projects Put Forward by the Commission as Part of the European Economic Recovery Plan*, 18–19 March 2009, <http://register.consilium.europa.eu/pdf/en/09/st07/st07848-re01.en09.pdf>, accessed on 17.11.2009.

the future financial perspective for 2014–2020 will provide significant financing for climate change initiatives.

Prolonged negotiations on the global climate agreement and the visible lack of EU strength to push through the solutions it supports within COP may result in a more rigid negotiation stance in some cases and support for such proposals as the carbon tax, which could be imposed in the form of customs on goods manufactured in third countries that failed to reduce their emissions (this concept is promoted by France).

1.6.7. Evaluation

1.6.7.1. Positive

Denmark deserves credit for progress in reaching Kyoto targets. It has also attained its goal in generating electricity from renewable sources and has strengthened its leading position in respect to cogeneration.

1.6.7.2. Negative

Because of problems with reaching Kyoto targets and low indicators in generating electricity from renewable sources and cogeneration, **Spain** deserves negative evaluation.

1.6.8. Recommendations

1. The segment of energy and climate changes encompasses issues from various segments (single market, research and development, entrepreneurship, employment), so enhanced synergy is a prerequisite for the pursuit of the “green economy” priority. With the appointment of the commissioner for climate action (Connie Hedegaard), it is of key importance to ensure tight coordination at the Commission level (between this commissioner, commissioner for energy and environment, and all the remaining members of the Commission dealing with areas connected with energy and climate policy). Coordination is also necessary at the administrative level. Hence full functioning of the new Directorate General for Climate should be safeguarded as soon as possible and organized in such a manner as to avoid competence clashes with DG Environment and DG Energy (to be created out of DG TREN).

2. It is of a key importance to increase the role of public-private partnership in implementing initiatives in the field of low-emissions technologies. In this context it is crucial for the governments of Member States to adopt legislation encouraging such cooperation. Such public procurement policies should also be pursued as would be favorable for energy efficiency and use of renewable sources of energy.¹⁶⁴

3. The EU should seek to prioritize such an energy market development as would ensure free launch of new low-emissions technologies and their free transfer. That is why apart from actions for innovations in the energy sector, steps concerning energy market liberalization are important.

¹⁶⁴ OECD, *Economic survey: European Union...*, *op. cit.*, p. 127.

4. Member States should increase the percentage of horizontal state aid allocated to supporting modern environmental technologies and other initiatives in the area of energy and climate. For that purpose they should apply the recommendations of the European Commission of April 2008 concerning granting state aid for the environment. The general added value of projects should be an important criterion in granting such aid, and in the case of research and development projects—the possibility of their practical application. In this context support for new enterprises dealing with innovations in low-emissions technology should be enhanced.¹⁶⁵

1.7. Labor Market and Social Affairs

This segment of the Lisbon Strategy has gained importance in the context of the economic crisis. Higher unemployment resulting from the crisis undermines the effects of earlier measures launched in the LS framework to boost employment and productivity. The concentration of actions on issues aimed at improving the labor market condition is significant from both the economic and political point of view. Those actions are also important to improve the social situation, which has been adversely affected by problems on the labor market. In this respect the EU mostly plays a coordinating role, yet it has financial instruments at its disposal that can be used to back many initiatives in this area.

1.7.1. Overall Employment Rate

Because of natural delays in supplying statistical data, the information on employment rates in different categories does not yet take into consideration the effects of the financial and economic crisis. The employment rate in the third quarter of 2009 (more recent data not available during work on this Report) fell by 2% in comparison to the same period of 2008, with the drop most notable in Latvia (16.3%) and Estonia (10.7%),¹⁶⁶ and Luxembourg and Poland the only EU states recording an employment growth in the third quarter of 2009 (by 0.3% each).

According to 2008 statistics, the overall employment rate in EU-27 amounted to 65.9% of the labor force (an increase by 0.5 pp against 2007), although in the third quarter of 2009 it fell to 64.8% (by 1.6 pp in comparison to the third quarter of 2008).

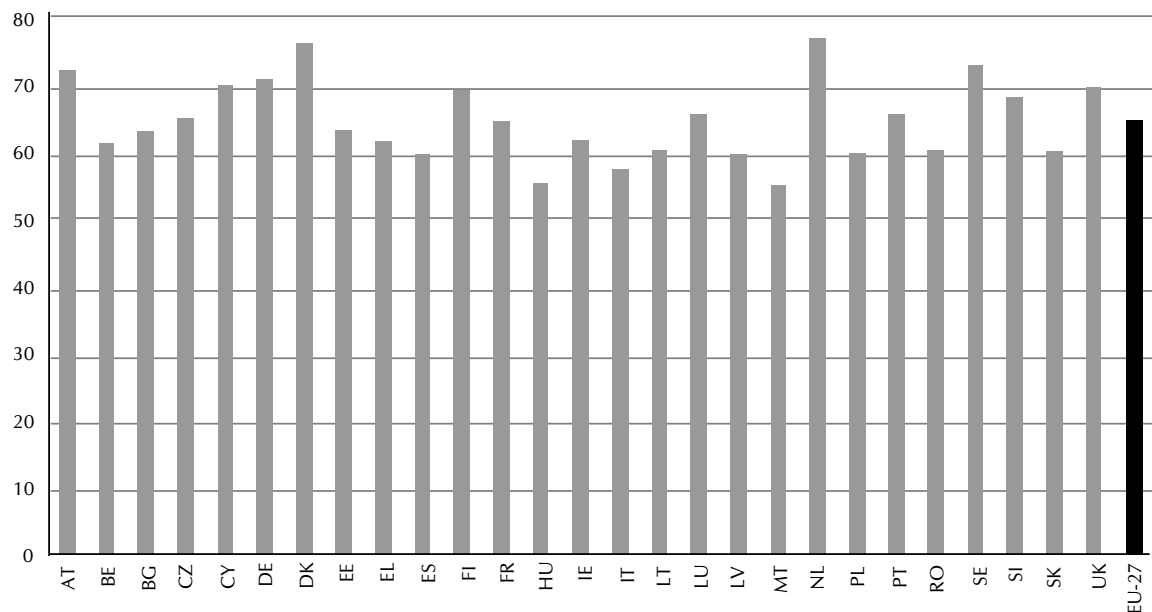
Even before the beginning of the crisis it became clear that the Lisbon goal (70%) is not going to be accomplished. So far, eight EU states have achieved goals set in Lisbon: Austria (72.1%), Cyprus (70.9%), Denmark (78.1%), Finland (71.1%), Germany (70.7%), the Netherlands (77.2%), Sweden (74.3%) and the United Kingdom (71.5%). According to data for the third quarter of 2009, six of them retained employment rates above the Lisbon target. These are: Austria (72.3% in the third quarter of 2009), Cyprus (70%), Denmark (76.3%), Germany (71%), the Netherlands (77%) and Sweden (72.9%). In Finland and the United Kingdom in turn employment dropped to under

¹⁶⁵ A. Sapir (ed.), *Europe's Economic Priorities 2010–2015. Memos to the New Commission*, Bruegel, Brussels 2009, p. 69, www.bruegel.org/uploads/tx_btbbreugel/comm_memos_082009.pdf, accessed on 7.12.2009.

¹⁶⁶ European Commission, *Quarterly EU Labour Market Review*, February 2010, p. 4, <http://ec.europa.eu/social/main.jsp?langId=en&catId=89&newsId=703&furtherNews=yes>, accessed on 18.02.2010.

70% in the third quarter of 2009, to 69.3% and 69.8% respectively. Estonia was close to the Lisbon goal (69.8%) in 2008, but recorded a decline to 63.4% in the third quarter of 2009. Due to the crisis, Ireland lost sight of attaining the goal as it registered an employment drop by 1.5 pp in 2008 (to 67.6%), and again to 61.8% in the third quarter of 2009. Spain reported a decrease from 65.6% to 64.3% in 2008 and to 59.7% in the third quarter of 2009. Amongst states with the lowest employment rate, Poland made progress by 2.2 pp to 59.2% (59.9% in the third quarter of 2009). The lowest employment indicators were recorded in Malta (55.2% in 2008 and 55.1% in the third quarter of 2009) and Hungary (56.7%, 55.5%).

Diagram 16. Employment Rate in the Third Quarter of 2009 (in %)



Source: European Commission, *Quarterly EU Labour Market Review*, February 2010.

1.7.2. Employment Rate for Women

Whilst progress in increasing the overall employment was small, a better situation was recorded with respect to women's employment rate. In 2008 it amounted to 59.1% (58.3% in 2007) and had it not been for recession, the goal of 60% could have been accomplished in 2010. Similarly as in 2007, 15 states attained their Lisbon targets. Denmark (74.3%), Sweden (71.8%) and the Netherlands (71.1%) remain the states with the highest level of employment. Denmark, the Netherlands and more than 20 other states have improved their indicators. The highest rise in women's employment in 2007–2008 was recorded in Bulgaria (by 1.9 pp to 59.5%) and in Poland (by 1.8 pp to 52.4%). A drop was reported in Ireland, Lithuania, Luxemburg, Romania and Hungary. Greece (48.7%), Malta (37.4%) and Italy (47.2%) are the countries where the fewest women are employed.

1.7.3. Employment Rate of the Older People

As in the above category, the employment rate of the elderly has improved since 2008 by 1pp in comparison to 2007, to 45.6%. Just as in 2007, in 12 Member States this rate exceeds the target level (50%), with the highest statistics reported in Sweden

(70.1%), Estonia (62.4%) and Latvia (59.4%). The lowest share of the elderly is employed in Malta (29.1%). Poland made progress in boosting employment levels of the elderly (from 29.7% in 2007 to 31.6% in 2008), but this indicator remains one of the lowest in the EU.

Table 36. Main Employment Levels in 2008 (in %)

Country	Overall	Women	Elderly
AT	72.1	65.8	41.0
BE	62.4	56.2	34.5
BG	64.0	59.5	46.0
CY	70.9	62.9	54.8
CZ	66.6	57.6	47.6
DE	70.7	65.4	53.8
DK	78.1	74.3	57.0
EE	69.8	66.3	62.4
EL	61.9	48.7	42.8
ES	64.3	54.9	45.6
FI	71.1	69.0	56.5
FR	65.2	60.7	38.3
HU	56.7	50.6	31.4
IE	67.6	60.2	53.6
IT	58.7	47.2	34.4
LT	64.3	61.8	53.1
LU	63.4	55.1	34.1
LV	68.6	65.4	59.4
MT	55.2	37.4	29.1
NL	77.2	71.1	53.0
PL	59.2	52.4	31.6
PT	68.2	62.5	50.8
RO	59.0	52.5	43.1
SE	74.3	71.8	70.1
SI	68.6	64.2	32.8
SK	62.3	54.6	39.2
UK	71.5	65.8	58.0
EU-15	67.3	60.4	47.4
EU-27	65.9	59.1	45.6

Source: European Commission, *Employment in Europe 2009*.

In 2000–2008 more than 17 million jobs were created, with most of them filled by persons aged 25–54 (58.2%), followed by persons aged 55–64 (37.9%).¹⁶⁷ Women made the bigger contribution to this increase than men (59%).

Table 37. Contribution to Higher Employment in 2000–2008 (in %).

Age	Overall	Men	Women
15–24	1.3	0.9	0.3
25–54	58.2	19.1	39.1
55–64	37.9	18.9	19.0
65+	2.6	2.0	0.6

Source: European Commission, *Employment in Europe 2009*.

1.7.4. Unemployment Rate

As a natural consequence of the financial and economic crisis in Europe more people lost their jobs, which also became more difficult to find. The average number of unemployed reached 21.5 million in 2009.¹⁶⁸ In December 2009 the unemployment rate in the euro area stood at 10%, and in the whole EU at 9.6%.¹⁶⁹ According to European Commission estimates, the unemployment rate in the EU amounted to 9.1% in 2009 and in the euro area to 9.5% (reflecting a rise by 2.1 pp and 2 pp respectively against 2008). In 2010 unemployment may reach 10.3% and 10.7% respectively. In the USA a higher unemployment growth than in the EU was observed (5.8% in 2008 and 9.2% in 2009).

A swift rise in unemployment has been recorded in all countries strongly hit by recession. Spain is the poorest performer here, with the unemployment rate estimated by the Commission at 17.9% (19.5% in December 2009) and an annual growth by more than 6.5 pp. In this respect the situation resembles the 1990s, when Spain recorded the highest unemployment in the EU. It is estimated that in 2010 unemployment in Spain may rise to 20%. In Latvia unemployment amounted to 16.9% (up from 7.5% in 2008) and in 2010 it may rise to the “Spanish” level. In neighboring Lithuania unemployment was to reach to 14.5% in 2009 (from 5.8% in 2008) and 17.6% in 2010. The least problems on the labor market were noted in the Netherlands, where unemployment amounted to 3.4% in 2009 and may reach 5.4% in 2010. In Denmark unemployment rose from 3.3% in 2008 to 4.5% in 2009, while in Poland an increase was registered to 8.4% in 2009, up from 7.1% in 2008, and 9.9% projected for 2010. The biggest contributors to the overall EU unemployment growth in

¹⁶⁷ European Commission, *Employment in Europe 2009*, p. 15, <http://ec.europa.eu/social/main.jsp?catId=119&langId=en>, accessed on 25.11.2009.

¹⁶⁸ European Commission, *Quarterly EU Market Review...*, p. 10.

¹⁶⁹ “Euro Area Unemployment Rate Up to 10%,” *Eurostat news release*, no. 16/2010, 29 January 2010, http://epp.eurostat.ec.europa.eu/cache/ITY_PUBLIC/3-29012010-AP/EN/3-29012010-AP-EN.PDF, accessed on 2.02.2010.

August 2008–August 2009 were: Spain—32%, the United Kingdom—15% and France—13%.¹⁷⁰

Table 38. Unemployment Rate in the EU

Country	2008	2009	Country	2008	2009
AT	3.8	5.5	LT	5.8	14.5
BE	7.0	8.2	LU	4.9	6.2
BG	5.6	7.0	LV	7.5	16.9
CY	3.6	5.6	MT	5.9	7.1
CZ	4.4	6.9	NL	2.8	3.4
DE	7.3	7.7	PL	7.1	8.4
DK	3.3	4.5	PT	7.7	9.0
EE	5.5	13.6	RO	5.8	9.0
EL	7.7	9.0	SE	6.2	8.5
ES	11.3	17.9	SI	4.4	6.7
FI	6.4	8.5	SK	9.5	12.3
FR	7.8	9.5	UK	5.6	7,8
HU	7.8	10.5	Euro area	7.5	9.5
IE	6.0	11.7	EU-27	7.0	9.1
IT	6.8	7.8	USA	5.8	9.2

Source: European Commission, *European Economic Forecast*, Autumn 2009.

The persons especially at risk of crisis-generated unemployment in many countries are the young (under 25), who are just entering the labor market. In December 2009 the percentage of unemployed in this group amounted to 21.4%, and in the euro area to 21% (up from the previous year by 4.5 pp and 4 pp respectively). In this respect the situation in Spain is almost dramatic, as there unemployment in his group stood at 44.5% and rose within a year by almost 14 pp,¹⁷¹ with the rise also steep in Latvia, where unemployment among the young reached 43.8% (up by over 24 pp within a year).

Differences in the extent to which the crisis has affected individual economies and labor markets stem from a number of factors, including:

- the extent to which the economy of a given EU state has been affected by the crisis;
- labor market structure in a given country;
- the extent to which the employment market is resistant to disturbances in the economy;
- flexibility of the labor market.

¹⁷⁰ European Commission, *Employment in Europe...*, *op. cit.*, p. 33.

¹⁷¹ *Euro Area Unemployment Rate Up to 10%...*, *op. cit.*

In a sectoral perspective the biggest employment drop between the third quarter of 2008 and the third quarter of 2009 was recorded in the manufacturing sector (by more than 2.4 mln jobs) and in construction (by 1.4 mln).¹⁷²

As the result of the crisis, many enterprises in the EU started developing part-time employment. Between the third quarter of 2008 and the third quarter of 2009 a rise by 0.7 pp was recorded in part-time employment.¹⁷³ The steepest growth was recorded in Estonia (by 3.6 pp), Latvia (by 3.2 pp) and Ireland (2.8 pp). At the same time, the average number of working hours per week fell from 40.4 in the third quarter of 2008 to 40.1 a year later. The most radical fall was noted in Estonia (by 1 hour).¹⁷⁴

Restructuring has become more frequent in connection with the crisis, leading to employment cuts. According to the European Foundation for Improvement of Living and Working (Eurofound), restructuring processes in 2008–2009 resulted in a loss of 900,000 jobs, with the drop most notable in the United Kingdom (205,000) and in France (137,000).

Table 39. States with the Highest Restructuring
(according to Eurofound, in 2008–2009)

Country	Number of cases	Decrease in number of jobs in thousands
UK	388	205
FR	148	137
DE	117	105
PL	172	78
IT	88	46
SE	156	40.5
CZ	102	40
RO	67	38

Source: Eurofound, *Restructuring in recession*, ERM 2009.

In the period analyzed by the Foundation, new jobs were also created as the result of restructuring processes—around 200,000 in all, including 97,000 in Poland and 93,000 in the United Kingdom.¹⁷⁵

1.7.5. Productivity

The crisis contributed to a fall in productivity, possibly as a result of sustaining the level of employment (often through public support) accompanied by lower activity in

¹⁷² European Commission, *Quarterly EU Labour Market Review...*, p. 7.

¹⁷³ *Ibidem*, p. 8.

¹⁷⁴ *Ibidem*.

¹⁷⁵ Eurofound, *Restructuring in recession...*, *op. cit.*, p. 66.

enterprises due to shrinking market demand.¹⁷⁶ In the long run this could bring down investments, e.g. on innovative solutions. According to the estimates of the European Commission, the productivity rate (measured per one employed person) fell by 2% (in 2008 an increase was recorded by 0.4% and in 2007 by 1.6%). The biggest fall was observed in Lithuania (10.8%), Latvia (6.9%) and Estonia (5.1%), but a substantial decline was noted in Slovenia (4.9%), Romania (4.9%) and Germany (4.6%). Higher productivity was recorded in Spain (3.1%), Ireland (0.3%) and Poland (1.9%), although in the case of Spain chiefly as a result of employment declining faster than the GDP drop.¹⁷⁷ It needs to be emphasized that the above-mentioned restructuring processes may in many cases improve productivity by enhancing the effective functioning of enterprises. This indicator may also be boosted by improving employees' qualifications or introducing innovations in production and management processes.

Table 40. Rate of Increase/Decrease of Productivity in 2009

AT	BE	BG	CY	CZ	DE	DK	EE	EL	ES
-2.3	-2.1	-3.9	-0.3	-2.8	-4.6	-1.9	-5.1	-0.2	3.1
FI	FR	HU	IE	IT	LT	LU	LV	MT	NL
-4.1	-0.4	-3.6	0.3	-2.1	-10.8	-4.7	-6.9	-1.6	-4.4
PL	PT	RO	SE	SI	SK	UK	EU		
1.9	-0.6	-4.9	-2.4	-4.9	-3.9	-2.6	-2.0		

Source: European Commission, *European Economic Forecast*, Autumn 2009.

1.7.6. Alleviating the Impact of the Crisis on Employment

Actions concerning fighting unemployment are to a large extent implemented by the EU and the Member States within the framework of the European Economic Recovery Plan. Their political enhancement was to take place in May 2009, when a summit on the labor market took place in Prague. However, the rank of the meeting was diminished and apart from Czech officials, only representatives of the European Commission, Sweden, Spain and social institutions attended. During this summit a ten-point action plan was adopted based on three priorities: maintaining employment level and job creation; enhancing access to employment, especially for the young; supporting the development of skills and qualifications and promoting mobility. The most important actions aimed at implementing those priorities include: adjustment of working time so that employment levels are retained, reduction of non-pay labor costs and administrative costs to stimulate job creation; enhancement of the quality of national labor services; development of internships and training programmes to enhance professional qualifications; assisting the young and unemployed in setting up their own businesses. Complementary to the Prague plan was a set of proposal of the European Commission headlined "Shared Commitment for Employment" presented at

¹⁷⁶ European Commission, *European Competitiveness Report 2009*: Vol. 1, 2009, SEC(2009) 1657 final, p. 41, http://ec.europa.eu/enterprise/newsroom/cf/document.cfm?action=display&doc_id=5559&userservice_id=1&request.id=0, accessed on 12.01.2010.

¹⁷⁷ D. Walewska, "Polacy są liderami wydajności," *Rzeczpospolita* of 20 January 2010.

the beginning of June 2009. One of the most important proposals provides for the creation of a credit instrument amounting to €500 mln (€100 mln from the EU budget and the rest from the European Investment Bank) to be allocated for the creation and development of micro-enterprises.¹⁷⁸

Among the most important actions undertaken at the EU level the following deserve attention: the European Social Fund (ESF) and the European Globalization Adjustment Fund (EGF). A revision of the EFS serves to simplify resource management and spending control and to increase the scope of eligible costs (expenses in the course of project implementation that can be reimbursed). From this fund €1.8 billion in additional advancements have been made to assist in combating the social consequences of the crisis. The deadline for using funds from the ESF for 2000–2006 was extended until the end of June 2009. Within the framework of “Shared Commitment,” for Employment, the European Commission suggested the release of €19 billion from the ESF in 2009–2010 and the possibility of complete reimbursement in this period (applicants’ own contribution not required). The majority of Member States rejected the proposed full refund, however, arguing that it was important to extend the time for using ESF funds.¹⁷⁹

The undertaken revision of the EGF refers to the extension of the assistance period from 12 to 24 months and an increase in the maximum Community contribution to restructuring programmes in enterprises from 50% to 65% (until the end of 2011). The eligibility threshold for EGF applications was lowered from 1,000 to 500 redundant workers. Ever since the EGF was launched in 2007, Member States have filed almost 50 applications for resources exceeding €130 mln. In 2008 five applications were filed to the European Commission for a total of more than €20.5 mln.¹⁸⁰ The Council and Parliament have adopted eight decisions concerning allocation of funds (five cases concerned applications filed in 2007) in the aggregate amount of more than €49 mln to support 10,000 employees.¹⁸¹ Due of the crisis the number of application rose to 31 in 2009.¹⁸² Some of them concerned the automotive sector (Volvo and Renault). The biggest number of applications came from the Netherlands (8), Lithuania (4) and Ireland (3).¹⁸³

Within the framework of rescue packages, the Member States have launched initiatives convergent with the plan adopted in Prague and the Commission’s recommendations. The Commission estimates that Member States are implementing around 300 measures to support the labor market.¹⁸⁴ More than a dozen Member States

¹⁷⁸ European Commission, *A Shared Commitment for Employment*, COM(2009) 257 Final, <http://ec.europa.eu/social/main.jsp?langId=en&catId=89&newsId=514>, accessed on 20.11.2009.

¹⁷⁹ J. Brunsten, *Barroso told to rethink unemployment scheme*, “European Voice” of 24 September 2009, www.europeanvoice.com/article/imported/barroso-told-to-rethink-unemployment-scheme/65934.aspx, accessed on 30.11.2009.

¹⁸⁰ European Commission, *Report from the Commission to the European Parliament and the Council on the Activities of the European Globalisation Adjustment Fund in 2008*, COM (2009) 394 final, 28 August 2009, p. 4, <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2009:0394:FIN:EN:PDF>, accessed on 12.12.2009.

¹⁸¹ *Ibidem*, p. 6.

¹⁸² European Commission, *Overview of EGF Applications on 19.02.2010*, <http://ec.europa.eu/social/main.jsp?catId=326&langId=en>, accessed on 20.02.2010.

¹⁸³ *Ibidem*.

¹⁸⁴ European Commission, *Employment in Europe....*, *op. cit.*, p. 41.

(e.g. Austria, Belgium, the Czech Republic, Denmark, Germany, France, Hungary) support companies in sustaining the level of employment through a reduction of working hours. Additionally, more than 20 states finance professional training to assist in job reorientation and a return to labor market. Many countries (e.g. Austria, Belgium, Bulgaria, France, the Netherlands, Germany, Portugal, Slovakia, Sweden) have reduced employment costs to contribute to job creation and preservation. Some states have increased the period as well as the amount of financial support for the unemployed (Belgium, Greece, Lithuania, Romania, Italy) or have boosted minimum pay. Some states have also launched special support addressed to the young (Bulgaria, France, Greece, the United Kingdom, Italy).¹⁸⁵ A number of states have undertaken initiatives for strengthening employment services to safeguard their more effective functioning in the face of higher unemployment (Denmark, Greece, Finland, France and the Netherlands).¹⁸⁶ Most of those actions are short-term, however, and Member States have not managed so far to make use of the crisis for launching labor market reforms.

1.7.7. Social Policy

Combating unemployment constitutes a challenge for social policies in EU states. Because of delays in gathering statistical data in this area, it has not been possible to assess the impact of the crisis on social problems, especially exclusion. The overall poverty risk (after social transfers) in 2008 amounted to 17% in the EU (unchanged in comparison to the previous year) and due to recession may increase in the most affected states. Some of those states (Latvia, Lithuania, the United Kingdom) recorded a high percentage of persons at risk of poverty (respectively 26%, 20%, 19% in 2008) even before the crisis. In Latvia a substantial rise in this indicator took place already in 2008 (by 5 pp in comparison in 2007) and it remains the highest among Union states. The lowest percentage of those threatened by poverty is registered in the Czech Republic (9%, down by 1 pp from 2007), the Netherlands (11%, up by 1 pp), Slovakia (11%, unchanged). In Poland the indicator remains at 17%.

It is disturbing that this indicator remains high in the youngest section of society (aged 0–17). In 2008 it amounted to 20%.¹⁸⁷ In 20 EU states this indicator is higher than the overall rate of poverty risk, including Romania (33%), Bulgaria (26%), Latvia and Italy (25% each). In this respect the situation in Denmark is the best (9%), followed by Slovenia and Finland (12% each). In Poland some improvement was noted in 2008 (down by 2 pp to 22%).

Social transfers reduce the poverty rate risk by 32% throughout the EU, being most effective in Hungary and the Nordic countries (by at least 50%).¹⁸⁸ In Greece, Italy, Latvia and Spain the least effective social transfers were recorded (poverty reduction risk under 20%).

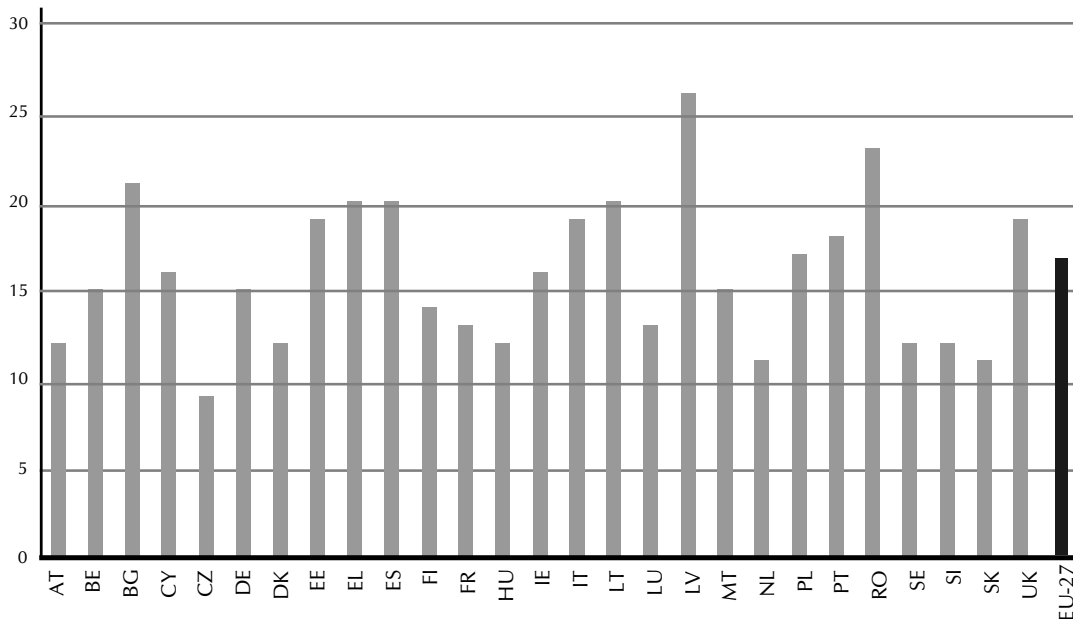
¹⁸⁵ European Commission, *Draft Joint Employment Report 2009/2010*, COM(2009) 674/3, p. 3.

¹⁸⁶ *Ibidem*, p. 4.

¹⁸⁷ P. Wolff, "17% of EU Citizens Were At-Risk-of-Poverty in 2008," *Statistics in Focus 2010*, no. 10, p. 1, http://epp.eurostat.ec.europa.eu/cache/ITY_OFFPUB/KS-SF-10-009/EN/KS-SF-10-009-EN.PDF, accessed on 19.02.2010

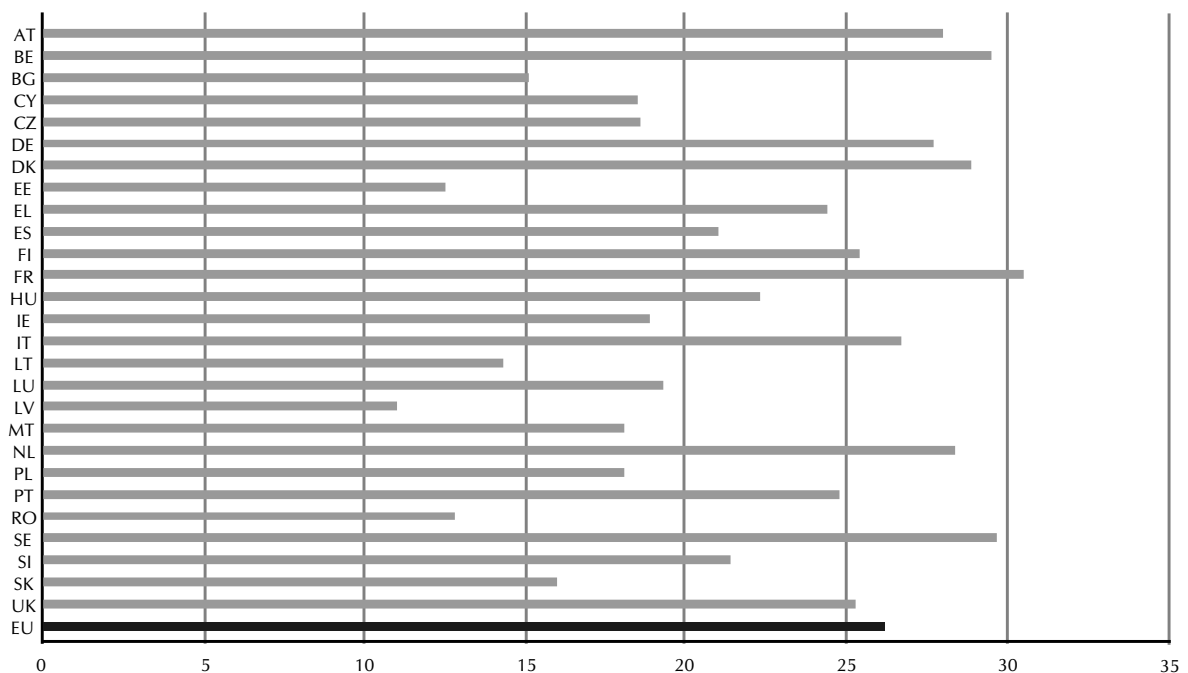
¹⁸⁸ P. Wolff, *op. cit.*, p. 3

Diagram 17. Percentage of Persons at Risk of Poverty after Social Transfers in 2008



Source: Eurostat.

Diagram 18. Overall Social Expenditure in 2007 (% GDP)



Source: Eurostat.

Social protection instruments may act as automatic stabilizers of the economic situation, so exit from the crisis in the EU depends on the size and effectiveness of the social protection system. The average level of social expenditure in the EU amounted to 26.2% in 2007. The low level of social spending (Bulgaria: 15.1% GDP, Estonia: 12.5%, Latvia: 11%, Lithuania: 14.3%, Romania: 12.8%) is in some cases correlated with a high poverty risk, so in a deep crisis the group most visibly at risk may become

even more vulnerable to the effects of recession. Chances for overcoming the crisis may be additionally reduced as a result of a weaker functioning of automatic stabilizers.¹⁸⁹

France may serve as a good example of positive effects of economic stabilizers thanks to a developed system of social protection. Its economy has turned out to be more resistant than the economies of many states (highest social spending in the EU, at 30.5%).

Countries with a developed social security system (France, Nordic states, Benelux states) in general find it easier to offset problems stemming from increasing unemployment than states where those systems are weak.

1.7.8. Conclusions

The crisis had very serious consequences for the labor markets of EU states, boosting unemployment rate and enhancing social problems. The deteriorating situation on labor markets reflects the scale of the economic crisis in the EU, enhancing protectionism in many European states. Unemployment, according to a Eurobarometer survey of November 2009, is regarded as the number one domestic problem by 51% of respondents.¹⁹⁰ The swift drop in the number of jobs in some countries (first of all Spain) demonstrates how unresistant to the crisis labor markets have turned out to be. Improvements in employment are directly dependant on the restoration of financial stability and effectiveness of stimulating packages. Higher unemployment may constitute a barrier to ensuring stable economic growth, especially if it were to become permanent in some states.

Due to the distinct specificity of EU labor markets, it is very difficult to adopt one general model of combating unemployment in the Union. Changes in the ESF may prove useful for broad financing of anti-crisis measures on the labor market. Enhancement of the role of this fund is also significant, as the EGF, on account of its size, can to a limited degree only support combating unemployment in the EU and is more of an instrument of support in individual cases.

1.7.9. Evaluation

1.7.9.1. Positive

The **Netherlands** with the lowest unemployment level resulting from a modern labor market deserves credit. The structure of this labor market (high flexibility, developed instruments for supporting employment) constitutes a key element of the whole social and economic model (referred to as “polder”), while its performance today is a result of reforms implemented by subsequent governments since the 1980s. It is

¹⁸⁹ Social Protection Committee, *Growth Jobs and the Social Progress In the EU. A Contribution to Evaluation of the Social Dimension of the Lisbon Strategy*, September 2009, p. 68, http://ec.europa.eu/employment_social/spsi/spc_policy_topics_en.htm, accessed on 20.11.2009.

¹⁹⁰ Eurobarometer 72, First Results, December 2009, p. 9, http://ec.europa.eu/public_opinion/archives/eb/eb72/eb72_first_en.pdf, accessed on 14.02.2009.

estimated that if the Dutch model were to be adopted in the whole EU, the number of jobs would go up by tens of millions.¹⁹¹

1.7.9.2. Negative

High unemployment and its swift growth in **Spain** calls into question the long-term actions launched on the labor market by the government of José Maria Aznar in mid-1990s, including the hitherto implementation of the LS.¹⁹² Whilst it is true that they led to a reduction of unemployment rates, they did not boost the resistance of the Spanish market to crises.

1.7.10. Recommendations

1. Stable improvement of the situation of the labor market in the EU and its mounting resistance to economic perturbations will be the most important challenges on the Union's economic and social agenda alongside restoring budget stability, so they should play a key role in the new strategy. Consequently, the coherence of three dimensions of the LS (introduced in 2005 in Integrated Guidelines for Growth and Employment) should be sustained.
2. The long-term goal of states' action in this area must be the reduction of risks connected with demographic changes. In this context, full synergy is needed between macroeconomic measures (deficit and debt reduction) and initiatives for prolonging employees' presence on the market or pension reform. Additionally, states should intensify health system reforms. This issue (within the EU's coordinating competences) should constitute an important part of the new strategy.
3. As in many countries the crisis negatively affected employment opportunities for young persons, who often have problems with entering the labor market, the Integrated Guidelines deal more extensively with the need to alleviate the consequences of this situation.
4. In the context of budget review and future work on the new financial perspective, the EU should analyze Community financial instruments addressed at employment and social policy. As a necessary action, enhanced role of the EGF should be considered, as its present size does not make wide-scale support possible.
5. The need to restore budgetary stability means a strongly likelihood that fiscal consolidation in many states may take place through reduction of expenditures on social security. It would be desirable to safeguard that this policy is no longer perceived as a dead weight for the budget, paying attention to its significance in alleviating the consequences of the economic collapse; this may be visible more clearly if its scope is expanded and modernization completed. The Integrated Guidelines in their employment section as adopted for the period after 2010 should deal with this problem as well.

¹⁹¹ On the basis: K. Rybiński, P. Świeboda, "Nowa strategia gospodarcza UE pilnie poszukiwana," *Rzeczpospolita* of 7 December 2009.

¹⁹² B. Wojna, "Hiszpania. Między dwiema tradycjami europejskimi," in: L. Jesień (ed.), *Zmiana i kontynuacja. Polityka europejska wybranych państw Unii Europejskiej*, Warsaw, 2008, p. 101.

CHAPTER II

THE EU AND THE ECONOMIC AND FINANCIAL CRISIS

Combating the economic and financial crisis was a key area of the EU's agenda in 2009. At the same time, it constituted the most important context of Lisbon Strategy implementation. As part of the European Economic Recovery Plan, the LS itself became an element of anti-crisis measures of the EU, although it did not have such significance as direct instruments supporting the economy and the financial sector.¹⁹⁵ An analysis of anti-crisis measures may prove very useful during the elaboration and adoption of the new post-2010 EU economic strategy. It is important, therefore, to survey and evaluate the Union's actions undertaken when symptoms of the financial crisis appeared. The analysis of EU instruments for combating the crisis, as presented in this chapter, should be treated as complementary to the first part of this Report.

2.1. Foundations of Anti-Crisis Measures

The global financial and economic crisis forced the EU to undertake a number of actions, with three priorities indicated in crisis management:

- mitigating the effects of the crisis; this group of actions includes all rescue and stimulating packages prepared within the sphere of state aid by the Member States upon consent granted by the European Commission, as well as actions of the European Central Bank, which has supported the liquidity of the financial system.
- prevention of such crises in the future; preventive actions boil down to reforming financial market regulation and creating a new European system of supervision.
- exit strategies; these are all actions aiming at a coordinated withdrawal of previously launched bank and economy assistance measures.¹⁹⁶

Actions referring to the first two priorities have been ongoing almost parallel and were intensified in autumn 2008, when the financial crisis started to take on a global character, influencing European banking sector. The third set of priorities will become important as soon as a relatively constant stability level of the financial system is attained and growth is restored.

Table 41. EU's Competences in Relevant Policies for Combating Financial and Economic Crisis

Type of competence	Area of competence	Type of anti-crisis action
Exclusive competence	Monetary policy in the euro area, competition policy (including state aid)	Crisis effects mitigating actions; Monetary and financial exit strategy
Shared competence	Single market	Preventive actions
Coordinating competence	Economic policy (fiscal) and employment policy	Crisis effects mitigating actions; fiscal exit strategy

Source: Prepared by the author.

¹⁹⁵ The relationship between Lisbon Strategy and the European Economic Recovery Plan is not entirely clear, although the author shares the view that the Strategy is directly linked to the EERP.

¹⁹⁶ European Commission, *Economic Crisis in Europe: Causes, Consequences and Responses...*, *op. cit.*, p. 58.

The character and scale of actions undertaken by the EU is a derivative of its formal competences. In the framework of policies where anti-crisis measures have been launched, the Union had very differentiated possibilities for action.

Due to the EU's competence pattern, the actions of its institutions focus on fulfilling the following functions:

- ensuring compliance with the competition law in the framework of state aid monitoring (European Commission);
- conducting direct rescue actions in the banking sector (ECB);
- creation of a coordinating framework for alleviating actions (Council of the EU and the European Council);
- stimulating actions financed from EU sources (EU budget, European Commission, Council of the European Union, European Parliament, EIB);
- creation of regulatory measures for the financial market (Council of the European Union, European Parliament);
- ensuring coordination for “extinguishing” actions in the sphere of public aid for banks and stimulating actions (European Commission, Council of the European Union);
- implementation of the monetary exit strategy (ECB).

Table 42. Crisis Management in the EU: Reaction and Forecast

	Phase of the crisis	Type of action	The most important actions
2007	Beginning of the crisis on the American financial market	Actions aiming at mitigating crisis effects and preventive actions	<ul style="list-style-type: none"> – Undertaking actions concerning cross-border crises management in banking sector (Council of the European Union). – Enhancing liquidity operations (ECB).
2008	Intensification of the crisis after the collapse of Lehman Brothers Bank in September; clear deterioration of the situation on the inter-bank market; as a result—beginning of the economic crisis.	Actions aiming at mitigating crisis effects	<ul style="list-style-type: none"> – Determination of framework for coordination of banking sector support (European Council) – Adoption of guidelines for granting state aid to banks (European Commission). – Increase in the level of deposit protection (Council of the European Union and the European Parliament). – Adoption of the European Economic Recovery Plan (European Council). – Launching financial assistance programme for Hungary and Latvia (Council of the European Union). – Interest rates reductions; liquidity operations (ECB).

	Phase of the crisis	Type of action	The most important actions
		Preventive actions	– Proposals for regulations with reference to credit rating agencies, amendment of the Capital Requirement Directive (European Commission).
2009	Deepening of recession in the global economy; the lowest point of the crisis was reached in the first quarter, the improvement took place already in the second quarter thanks to assistance packages	Actions aiming at alleviating crisis effects	– The main phase of EU-funded stimulating measures implementation (European Commission, Council of the EU, European Parliament, EIB). – Determination of further guidelines with respect to granting state aid to banks (European Commission). – Launching financial assistance programme for Romania (Council of the EU). – Agreement on allocating €5 billion for energy and rural projects (Council of the EU).
		Preventive actions	– Adoption of financial supervision reform (European Commission, Council of the EU). – Adoption of Credit Rating Agencies Regulation, amendment of the CRD and further proposals of amendments of those directives (Council of the EU and the European Parliament). – Proposals of regulations concerning hedging funds (European Commission).
		Exit strategy actions	– Designing the concept of the overall budget and financial exit strategy. – Presentation of the monetary exit strategy (ECB).
2010 (forecast)	Expected restoration of economic growth	Actions aiming at a mitigating crisis effects	– Continuation of EU-funded stimulating measures implementation (European Commission, Council of the EU, European Parliament, EIB).
		Preventive actions	– Finalization of reforms with respect to financial supervision and the majority of other legislative changes (Council of the EU and the European Parliament).

	Phase of the crisis	Type of action	The most important actions
		Exit strategy actions	<ul style="list-style-type: none"> – Launch of coordination of fiscal and financial exit strategy (European Commission, Council of the EU). – Extinguishing extraordinary monetary actions (ECB).
2011 (forecast)	Beginning of fiscal consolidation.	Preventive actions	<ul style="list-style-type: none"> – Possible finalization of legislative processes concerning financial regulations (Council of the EU and the European Parliament).
		Exit strategy actions	<ul style="list-style-type: none"> – Coordination of fiscal and financial exit strategy (European Commission, Council of the EU). – Finalization of the monetary exit strategy (ECB).

Source: Prepared by the author.

2.2. Actions Aiming at Mitigating Crisis Effects

2.2.1. Financial Sector

Rescue actions undertaken in the EU in reaction to the global financial crisis were aimed first of all at restoring the stability of the banking system, which rested upon rebuilding the trust of market participants. When the crisis on the financial market erupted in the autumn of 2008, the EU had no ready rules for providing assistance to banks or coordination in this respect. Yet it had general cross-border bank crisis management principles adopted by the ECOFIN Council in October 2007.¹⁹⁷ In confirmation of decisions made in autumn 2008, in the spring of 2007 a memorandum of understanding on cross-border financial stability was signed by representatives of supervision organs, ministries of finance and central banks. Those initiatives prove that the EU reacted relatively early and proportionally (at the time) to the crisis ongoing in the USA, yet—as is quite obvious—these steps turned out to be inadequate to the situation arising after the collapse of Lehman Brothers bank.

In the first phase of the banking crisis in Europe (September/October 2008), the actions of Member States were not coordinated. This was a consequence of an absence of a strong political stance and detailed guidelines concerning public aid for banks. This could have led to a situation when actions of a protectionist nature are adopted with a view to transferring the costs to other states (“beggar thy neighbour” approach). A clear example is provided by the Irish decision to protect the deposits of the six biggest Irish

¹⁹⁷ According to those principles, crisis management should aim at protecting stability of the whole system and not at preventing of bankruptcy of particular banks; public funds should be employed as a last resort, with solutions providing for private means use as a priority. According to the guidelines, the possible public aid for cross-border banks at risk of bankruptcy should be employed by governments of states in which such banking institution conducts wide activity and burdens resulting from such aid should be evenly distributed.

banks in obvious contradiction to competition rules and its subsequent criticism by some Member States.¹⁹⁸

The first coordination problems were resolved at the beginning of October 2008, when the European Council endorsed the concept of combating the crisis as agreed upon during the Eurogroup summit in Paris. The Paris meeting organized by France presiding over the EU at the time was attended by euro area leaders, the president of the Commission and of the ECB and the prime minister of the United Kingdom. The Czech Republic or Sweden (both in the EU Trio) were not represented, although France should have coordinated its actions with both. Decisions adopted at the Paris meeting nonetheless defined a credible and at the same time politically strong basis for coordinating actions and determined their direction. Such instruments as financial backing for banks, supporting liquidity and guarantees were to serve the attainment of goals set during the meeting: restoration of financial system stability and protection of banks customers.¹⁹⁹ The European Council, which convened a few days later, approved the plan.²⁰⁰ One of the first tasks performed efficiently included amendments to the deposit-guarantee schemes directive (1994/19/EC), making possible an increase in the minimum level of deposit guaranteed to €100,000.

Steps launched by the Commission were focused on defining a framework for the supervision and control of public aid granted to the financial sector. The first guidelines of mid-October 2008 determined the general principles of assistance, with subsequent guidelines focusing on recapitalization (December 2008), assistance in resolving problems with impaired assets (February 2009) and restructuring of banks (July 2009).²⁰¹ Between October 2008 and December 2009 the European Commission issued 81 decisions on state aid for the financial sector.²⁰²

The whole sum of the state aid authorized by the Commission for financial institutions between autumn 2008 and November 2009 amounted to €3,632 billion (29% of the EU's GDP). The biggest share of the authorized amount went to guaranties (€2,738 billion), recapitalization (€231 billion), liquidity support (€76 billion), assistance in resolving problems of toxic assets (€1.2 billion).²⁰³ In addition to the above, *ad hoc* interventions for concrete financial institutions of €587 billion were authorized as well. It needs to be emphasized that the nominal size of state aid in 2008 amounted to €957.52 billion and the effective amount of the granted aid to €212.15

¹⁹⁸ See: W. Buiet, *The Irish solution: unlawful, beggar-thy-neighbour and short sighted, but apart from that OK*, <http://blogs.ft.com/maverecon/2008/10/the-irish-solution-unlawful-beggar-thy-neighbour-and-short-sighted-but-apart-from-that-ok/> accessed on 9.12.2009.

¹⁹⁹ *Summit of the euro area countries: declaration on a concerted European action plan of the euro area countries*, www.ue2008.fr/PFUE/lang/en/accueil/PFUE-10_2008/PFUE-12.10.2008/sommet_pays_zone_euro_declaration_plan_action_concertee.html.

²⁰⁰ M. Koczor, "Przeciwdziałanie kryzysowi finansowemu – działania Unii Europejskiej," *Biuletyn PISM*, no. 55(523) of 20 October 2008.

²⁰¹ DG Competition website: http://ec.europa.eu/competition/state_aid/legislation/temporary.html.

²⁰² European Commission, *State aid: Overview of National Measures Adopted as a Response to the Financial/economic Crisis*, European Commission, MEMO/09/564, Brussels, 17 December 2009, <http://europa.eu/rapid/pressReleasesAction.do?reference=MEMO/09/564&format=HTML&aged=0&language=EN&guiLanguage=en>, accessed on 30.12.2009.

²⁰³ European Commission, *State Aid Scoreboard Autumn 2009 Update, Facts and figures on State aid in the EU Member States*, SEC(2009) 1638, p. 41, http://ec.europa.eu/competition/state_aid/studies_reports/annex_2009_autumn_en.pdf, accessed on 10.12.2009.

billion in 2008. The difference between the two figures stems from the fact that only a small part of the guarantees had to be paid out from the budgets of Member States (€93.48 billion out of €811.12 billion). In case of recapitalization, the take-up rate amounts to 55%, and in case of guarantees to around 33%.²⁰⁴ The European Commission authorized assistance packages put forward by 20 Member States. The highest number of aid notifications was noted during the main phase of the crisis between October 2008 and March 2009. The biggest volume of real public aid in 2008, from the point of view of the GDP, was put in place by Ireland—19.2% GDP, Luxembourg—7.64%, Belgium— 5.17%, Latvia—4.17%, the United Kingdom—3.79%.

Table 43. Volume of State Aid for the EU Banking Sector (in billion of euro)

Country	Total volume approved until November 2009	Nominal value in 2008	Aid granted in 2008	Granted aid as percentage of GDP in 2008
AT	90.10	–	–	–
BE	288.31	46.80	17.78	5.17
CY	3.0	–	–	–
DE	589.13	180.94	51.14	2.05
DK	599.75	2.85	2.85	1.2
EL	28	–	–	–
ES	250	99.13	0.93	0.09
FI	54	0.12	0.0	–
FR	345.95	42.90	16.48	0.85
HU	6.03	–	–	–
IE	388.50	355.76	35.58	19.2
IT	20	–	–	–
LU	7.26	4.0	2.80	7.64
LV	7.44	0.96	0.96	4.17
NL	240.54	17.09	14.08	2.37
PL	10	–	–	–
PT	24.45	4.30	0.43	0.26
SI	12	–	–	–
SE	155.32	1.39	0.36	0.1
UK	512.17	201.28	68.75	3.79
EU-27	3,631.94	957.52	212.15	1.7

Source: European Commission, *State Aid Scoreboard Autumn 2009 Update, Facts and figures on State aid in the EU Member States*, SEC(2009) 1638.

²⁰⁴ European Commission, *DG Competition's review of guarantee and recapitalisation schemes in the financial sector in the current crisis*, 7 August 2009, p. 4, http://ec.europa.eu/competition/state_aid/legislation/review_of_schemes_en.pdf, accessed on 9.12.2009.

A very important role in easing the consequences of the crisis was played by the European Central Bank and central banks from outside the euro area. The most important instruments applied in this field are the following:

- reduction of interest rates;
- increasing liquidity operations and making collateral requirements less rigid;
- unconventional actions.

As for interest rates, the base reference rate in the euro area was reduced in between October 2008 and May 2009 from 4.25% to 1%. Reductions had as their aim easier access to capital and the ECB, unlike the FED or the Bank of England, retained the possibility of subsequent use of this instrument (in the USA and Britain interest rates were reduced almost to zero).

As of August 2007, the ECB intensified operations aiming at increasing liquidity of the EU financial system. The record liquidity operation (with the participation of more than 1,100 banks) was conducted at the end of June 2009, when the ECB decided to launch a one-year loan for banks amounting to €442 billion.²⁰⁵

The Executive Board of the ECB did not decide to develop such unconventional actions as the FED or the Bank of England, which was a consequence of Treaty limitations in this respect (current Art. 123.1d TFEU and former Art. 101.1 TEC). However, in May 2009 it decided to start purchasing covered bonds worth €60 billion.

One must not forget about the close coordination of actions between the ECB and other central banks in reducing interest rates (e.g. in October 2008). The ECB made a number of swap agreements with the biggest central banks (*i.a.* the FED, Bank of England, Swiss National Bank), making granting loans to commercial banks possible in the currencies of partner states.²⁰⁶

2.2.1.1. Conclusions

In combating the consequences of the crisis on the financial market, the EU employed all instruments it had at its disposal. Following initial problems, strong coordination of rescue initiatives undertaken by particular Member States was ensured thanks to political will at the European Council level and the active role of the European Commission. The European Commission dealt efficiently with issuing decisions on rescue packages. This was possible thanks to DG Competition with its expertise and competent human resources. Hence the European Commission passed the test in crisis management with reference to state aid for banks. There is, however, one problem connected with a lack of coordination of EU actions concerning impaired assets. Not handling this issue may delay the restoration of full stability of the EU financial system. Anti-crisis actions undertaken by the ECB deserve credit, as the bank quickly reacted to developments and undertook actions on many levels, running simultaneously an efficient communication policy which generally contributed to calming down the market. In the opinion of many economists, the ECB handled anti-crisis actions most efficiently among all EU institutions.

²⁰⁵ European Central Bank, *Financial Stability Review*, December 2009, p. 63.

²⁰⁶ A. Bénassy-Quéré, B. Csuré, P. Jacquet, J. Pisani-Ferry, "The crisis: Policy Lessons and Policy Challenges," *Bruegel Working Paper* 2009/06, p. 41, www.bruegel.org/uploads/tx_btbbreugel/wp_crisis_lessons_091209.pdf, accessed on 14.12.2009.

2.2.2. Economy as a Whole

The need to counteract against the economic crisis resulting from the financial crisis corresponded to the need to launch rescue actions for the banking sector. Those actions were based on the European Economic Recovery Plan adopted in December 2008 by the European Council. The plan provided for launching €200 billion (1.5% GDP) in the period 2009–2010 for stimulating actions. The means were to be paid out from Member States' budgets (€170 billion) and EU sources (€30 billion, mainly from the budget and by the EIB). The plan was a result of a compromise among the Member States. Some EU countries (Germany, the Netherlands, Poland) expressed doubts as to costs of those measures and the effects they would have for budget stability in the EU.²⁰⁷

Table 44. Volume of Stimulating Measures in 2009/2010 in % GDP

AT	BE	BG	CY	CZ	DE	DK	EE	EL	ES
1.4	1.2	0,1	2.2	2.3	1.8	0.5	0.4	0.2	2.3
FI	FR	HU	IE	IT	LT	LU	LV	MT	NL
1.4	0.9	0.5	0.7	0.7	0.0	2.4	1.8	1.6	1.3
PL	PT	RO	SE	SI	SK	UK	EU-27		
2.2	1.0	1.9	1.0	2.4	0.4	1.7	1.4		

Source: European Commission, *Progress Report on the Implementation European Economic Recovery Plan*, December 2009.

At this level, the coordination of actions between the Member States seemed weaker than in case of the financial sector, and its absence led to higher protectionism in some states of the “old” EU. The best example is provided by the situation in the automotive sector. The European Commission was not interested in issuing special guidelines for granting assistance to the automotive industry and pointed out that this sector should not be treated in any special manner, as its bad situation was a consequence of its persistent weaknesses and not only of the economic crisis.

The Commission had to address two publicized cases in this sector: the French assistance plan for the automotive sector and the German plan of assistance for Opel. In the first case, at the beginning of 2009, the Commission emphasized the incompliance of the French plan with the basic rules of the Single Market. As the consequence, its initial version was abandoned. In the German case, Commission reacted with delay—*de facto* in September 2009.²⁰⁸ There were a number of doubts connected with the very transaction when Opel was sold; the German government preferred to sell the company to the Russian-Canadian consortium Magna/Sberbank and granting state aid was connected with the protection of jobs in Germany were among the facts known well before the Commission reacted, giving rise to controversies in other states (Belgium, Spain, Poland, the United Kingdom) where the GM concern (the owner of

²⁰⁷ M. Koczor, “Plan koordynacji działań UE na rzecz naprawy gospodarki,” *Biuletyn PISM*, no. 62(530) of 17 December 2008.

²⁰⁸ European Commission, *State aid: Commission Statement on aid for Opel Europe*, MEMO/09/411, 23 September 2009, <http://europa.eu/rapid/pressReleasesAction.do?reference=MEMO/09/411>, accessed on 12.12.2009.

Opel) had its factories. Especially harsh criticism came from the United Kingdom, which demanded relevant preventive measures.²⁰⁹ The situation changed radically in November 2009, when GM announced that it was no longer planning to sell Opel, which put the government in Berlin in an awkward position both in the eyes of its EU partners and its own public opinion. Under the circumstances, the Commission focused on ensuring coordination of decisions amongst the interested states in order to avoid “a race” of subsidies that could be offered to GM. This was received generally positively by interested governments and minimized the risk that some states would undertake unilateral measures without consulting other states.²¹⁰

The critical moment for the solidarity between the Member States in facing the consequences of the crisis came when President Nicolas Sarkozy announced the French plan to support the automotive sector and launched an aggressive attack on the presidency held by the Czech Republic. A good move on the part of the presidency was organizing an informal EU summit, which took place on 1 March 2009 in Brussels, resulting in a clear political message emphasizing role of the Commission as the guardian of the Treaties and reminding the Member States of their obligation to refrain from undertaking protectionist measures.²¹¹

The EU also undertook efficient financial assistance measures with respect to Latvia, Romania and Hungary. The means were transferred in the form of loans in the framework of balance of payment assistance for states from outside the euro area, based on Art. 143 TFEU (former Art. 119 TEC). The overall volume of assistance granted within the framework of this instrument was raised first from €12.5 billion to €25 billion (December 2008), and later to €50 billion (March 2009). The means are obtained from the financial markets through the issue of bonds by the EU. EU’s assistance in each of those plans is a part of a wide rescue package based largely on funding from the IMF, the World Bank and the European Bank for Reconstruction and Development, and in the case of Latvia also with the support of the Czech Republic, Denmark, Estonia, Finland, Norway, Poland and Sweden. Assistance from the EU, similarly to the aid from the IMF, is conditional, which means that giving out each tranche is contingent upon particular recovery measures undertaken by the state.

Latvia in particular has so far had problems with meeting the conditions. The Commission formulated restrictive expectations towards actions for fiscal consolidation that needed to be undertaken by the government in Riga.²¹² Only once the decision on spending cuts was taken did the European Commission agree to grant the second part of the loan. Even facing demands on the part of some Central and Eastern European states (especially Hungary), the EU has remained skeptical to the idea of creating an assistance fund for states in this region. This approach was obviously connected with the fact that it

²⁰⁹ *UK queries Magna’s Vauxhall plan*, BBC News, <http://news.bbc.co.uk/2/hi/business/8272382.stm>, accessed on 10.12.2009.

²¹⁰ *EU Governments Pull Back from Opel subsidy war*, EU Business, www.eubusiness.com/news-eu/competition-us-auto.1lw, accessed on 12.11.2009.

²¹¹ *Informal Meeting of Heads of State or Government of 1 March 2009*, Joint Press Lines, Brussels, 1 March 2009, www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/misc/106390.pdf, accessed on 11.12.2009.

²¹² “EU to Push Latvia on Spending Cuts,” *Europolitics* of 12 October 2009, www.europolitics.info/eu-to-push-latvia-on-spending-cuts-art250819-28.html, accessed on 14.12.2009.

would be difficult to create one programme suitable for the radically different economies of individual Central and Eastern European states.

Table 45. Rescue Measures for Central and Eastern European States (in billion of euro)

Country	Council's formal decision	Volume of EU measures	Measures from the IMF	Total value
Latvia	January 2009	3.1	1.7	7.5
Romania	May 2009	5	13	20
Hungary	November 2008	6.5	12.5	20

Source: Author's analysis on the basis of the information provided by the European Commission and the IMF.

Also worth mentioning in this respect is the active role of the European Investment Bank and the European Bank for Construction and Development, which announced at the end of February 2009 the launch of €24.5 billion over two years for supporting the economic and financial system of Central and Eastern European states. In the framework of G20, the EU supported an increase of IMF capital, which would have automatically led to enhanced assistance capability of the Fund for states of the region.²¹³

2.2.2.1. Conclusions

Ensuring greater coordination of stimulating actions with reference to the whole economy turned out to be a bigger challenge for the EU than those addressed to the financial sector. This may be a consequence of greater differences in the way individual states sought to combat the economic crisis as well as internal pressures for undertaking actions of protectionist nature aiming at internal labor market protection. It also seems that the Commission approached the creation of strong coordination framework for assistance too passively, especially with reference to the automotive sector. Commissioner for Enterprise and Industry Günter Verheugen was not active enough in this respect, while the EU states were more cautious in accepting some of the Commission's ideas. This concerned in particular the proposal to distribute €5 billion among energy projects and—in the part devoted to rural development—to broadband infrastructure.²¹⁴ It is somewhat of a failure of the Commission—as mentioned in the section devoted to employment—that the majority of Member States rejected the

²¹³ During the G20 summit in London it was agreed that the IMF will increase its loan capability up to \$750 billion (out of which \$500 billion was to come from direct contributions of Fund's members and \$250 billion from SDR emission. The EU states finally declared that they would contribute €125 billion to the Fund).

²¹⁴ The European Council in December 2008 decided that the possible consent for launching the 5 billion package is possible only after presentation of concrete projects which would be financed through those funds. This was not the Commission's initial idea. What is more, there appeared a conflict between the Secretariat General of the Council and the Commission about possibilities of using funds from the EU budget—officials from the SG of the Council argued that there exists no legal possibility for use the budget margin of 2008 (part II of the Budget) which was proposing by the Commission. Finally, the opinion of the SG of the Council was accepted.

proposal of full refunding of resources from the ESF for alleviating the consequences of the crisis.

2.3. Preventive Measures

2.3.1 Direction and Essence of Regulatory Changes

Apart from actions alleviating the consequences of the crisis, another important area of EU activity focused on protecting the financial system of the EU from similar disturbances in the future. Because of its competences, the EU has broader opportunities for action here than with respect to alleviating measures, as these lie mostly in the sphere of competence of the Member States. Undertaking activity in this area was a consequence of the belief that a financial crisis on such a scale was a result of inadequate regulations or a deficit of relevant regulations, weakness of the supervision system on all levels and incorrect risk management.

Those were among the reasons indicated in the report prepared at the EU's request by a group led by the former head of the IMF, Jacques de Larosière, and published in February 2009.²¹⁵ The key areas which, according to authors of the report, should be addressed in the regulatory dimension include:

- changes in Basel II rules to increase minimal capital requirements;
- devising a comprehensive regulatory framework for Credit Rating Agencies;
- modification of accounting rules referring to valuation of assets according to their market value;
- adoption of Solvency II directive on undertaking and conducting insurance and reinsurance schemes;
- amendment of provisions on securitization;
- adoption of common rules on defining and codifying investment funds' assets;
- improvement of the risk management process;
- adoption of a coherent regulatory framework for crisis management in the EU.

The most important and, at the same time, the most innovative proposals concerned the financial supervision system. De Larosière's group suggested devising supervision on two levels: macro and micro prudential supervision. On the former level, the European Systemic Risk Council was to be created to deal with identifying risks to the stability of the financial system. On the latter level, the European System of Financial Supervision should be established consisting of bank, capital and insurance supervision authorities.

Another important recommendation by the group concerned the global dimension and referred to an enhanced role of the Financial Stability Forum (FSF) in the approximation of financial market provisions on the international level.²¹⁶ Furthermore,

²¹⁵ Other participants of the group: Leszek Balcerowicz, Otmar Issing, Rainer Masera, Callum Mc Carthy, Lars Nyberg, José Pérez, Onno Ruding. Zob. *The High-Level Group of financial supervision in the EU*, Brussels, 25 February 2009, http://ec.europa.eu/commission_barroso/president/pdf/statement_20090225_en.pdf, accessed on 12.12.2009.

²¹⁶ As the result of agreement reached during the G20 summit in London, the Financial Stability Forum was replaced by the Financial Stability Board (FSB).

the IMF in cooperation with the FSF was to elaborate an early warning system against risks to the financial stability system.

Proposals of the group were largely supposed to enhance the effectiveness and flexibility of regulatory instruments on the market and thus reduce their pro-cyclical nature failing to take into account liquidity disturbances on the market.²¹⁷

The report exerted a substantial impact on subsequent legislative proposals referring to the EU financial market and presented by the Commission in 2009.²¹⁸ However, some of legislative proposals were presented earlier. They concerned regulations involving credit rating agencies, which at the time were not controlled in any way and through their incorrect risk assessment contributed to the outbreak of the financial crisis. The Capital Requirements Directive (CRD) was also amended to improve liquidity risk management, decrease risks connected with securitisation transactions and improve banks' capital quality.²¹⁹ De Larosière group's report thus made actions undertaken by the EU more credible and pointed to a subsequent direction of changes. Some key legislative proposals were finally adopted during the Swedish EU presidency: the Solvency II Directive, Credit Rating Agencies Regulation as well as the first amendment to the CRD of autumn 2008.

Some of the Commission's legislative proposals concerning financial regulations gave rise to serious doubts and opposition. As the best example here the proposal of a regulation concerning alternative investment funds management (e.g. hedge funds) can be indicated. Adopted by the European Commission in spring 2009, it provided for the system of concessions for activities of those who manage alternative investments funds on EU territory (it does not apply to those who manage assets worth less than €100 million and in case of not using financial leverage—those below €500 million), an increase in transparency of actions of those who manage alternative investment funds and improvement of standards with reference to risk management and liquidity.²²⁰ The Commission's proposals were criticized by the Member States (especially the United Kingdom), European Parliament, as well as financial sector representatives and the ECB. The reaction of the British government was a consequence of justified fears that the introduction of this regulation may weaken the competitive position of the City. Representatives of the European Parliament emphasized, on the other hand, that the Commission's proposal was inadequately prepared and did not go far enough. As a consequence, in late autumn 2009 there were three legislative proposals concerning

²¹⁷ A. Nowak Far, "Narzędzia Unii Europejskiej w przeciwdziałaniu skutkom światowego kryzysu finansowego," in: J. Osiński (ed.), *Unia Europejska wobec kryzysu ekonomicznego*, Warsaw, 2009, p. 93.

²¹⁸ European Commission, *Driving European Recovery*, COM(2009) 114 final, http://ec.europa.eu/commission_barroso/president/pdf/press_20090304_en.pdf, accessed on 12.12.2009.

²¹⁹ European Commission, *Commission Proposes Revision of Bank Capital Requirements Rules to Reinforce Financial Stability*, Brussels, 1 October 2008, Press Release, IP/08/143, <http://europa.eu/rapid/pressReleasesAction.do?reference=IP/08/143&format=HTML&aged=0&language=EN&guiLanguage=fr>, accessed on 12.12.2009.

²²⁰ European Commission, *Proposal for a Directive of the European Parliament and of the Council on Alternative Investment Fund Managers and Amending Directives 2004/39/EC and 2009/.../EC*, COM(2009) 207 final, http://ec.europa.eu/internal_market/investment/docs/alternative_investments/fund_managers_proposal_en.pdf, accessed on 14.12.2009.

this issue: apart from Commission's proposal, a project elaborated by Sweden (which presided over the Council) and a draft prepared by Parliament.²²¹

2.3.2. Financial Supervision Reform

Creation of a new systemic framework in the financial supervision system constitutes the most important point on the preventive actions agenda of the EU. It is also an important stage in reducing the gap between the level of development and integration of the EU financial market and the level of European supervision integration. The quick pace of work on financial supervision reform is the result of a strong political will of Member States reinforced by the recommendations of de Larosière's report.

Table 46. Timetable of Work on European Financial Supervision Reform

Period	Actions
February 2009	De Larosière Group Recommendations.
March 2009	The European Council adopts conclusions and awaits proposals of the European Commission.
May 2009	The European Commission presents the general idea of supervision's architecture.
June 2009	The ECOFIN and the European Council adopt (with certain changes) the Commission's proposal.
September 2009	Detailed legislative proposals presented by the European Commission.
October 2009	General agreement in the ECOFIN Council on the proposal of macro-prudential supervision.
December 2009	General agreement in the ECOFIN Council on the proposal of macro-prudential supervision. Initiations of negotiations with the European Parliament on the agreement in the first reading.
2010	The forecasted termination of legislative work.

Source: Prepared by the author.

In May 2009 the Commission, following de Larosière's recommendations, suggested two-stage financial system supervision.²²² The European Systemic Risk Board (ESRB) is to monitor and identify threats to financial stability in the macro scale, issuing—when necessary—risk warnings and recommendations for counteracting the threat.²²³ The need for establishing this organ results from the weakness of supervision at the Union level, to a large extent as a result of its fragmentation.²²⁴ So far, different

²²¹ N. Tait, "EU seeks pact on hedge funds," *Financial Times* of 4 December 2009.

²²² European Commission, *European Financial Supervision*, COM(2009) 252 final, http://ec.europa.eu/internal_market/finances/docs/committees/supervision/communication_may2009/C-2009_715_en.pdf, accessed on 13.12.2009.

²²³ In the May proposal of the European Commission, in the English language version of the name of this organ, it was referred to as "Council" instead of the "Board." The words have been changed in the course of the deliberations in the Council.

²²⁴ European Commission, *Communication from the Commission European Financial Supervision, Impact Assessment*, p. 12, http://ec.europa.eu/internal_market/finances/docs/committees/supervision/communication_may2009/impact_assessment_fulltext_en.pdf, accessed on 13.12.2009.

organs had competences in this area, e.g. the Economic and Financial Committee or the Banking Supervisors Committee functioning with the ECB, and their activities were poorly coordinated. The existing institutions were also focused too strongly on micro supervision. They also lacked an early warning system.²²⁵

The ESRB would not be equipped with legal personality. According to the May 2009 proposal, it was to consist of the president of the ECB (the chairperson), the vice-president of the ECB, governors of 27 national central banks as well as the heads of three European supervision organs and a member of the European Commission. Representatives of national supervision organs and the chairperson of the Economic and Financial Committee would enjoy the status of observers.

On the micro level, the Commission proposed the creation of a European System of Financial Supervisors (ESFS) encompassing three European supervision organs which would be created on the basis of three existing committees of the so-called third Lamfalussy process:

- European Banking Authority (EBA), which would come in place of the CEBS, seated in London;
- European Securities and Markets Authority (ESMA) created out of the Committee of European Securities Regulators (CESR), seated in Paris;
- European Insurance and Occupational Pensions Authority (EIOPA) created out of the Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS), seated in Frankfurt.

All three organs would be equipped with legal personality. The following would constitute their most important tasks:

- development uniform harmonized provisions (technical norms, e.g. standards of supervision of watchdog organs);
- ensuring consistent application of EU provisions as well as supervisory culture and practices;
- dispute resolution amongst national supervisory bodies;
- reacting whenever Union law is infringed by national supervisory bodies;
- complete supervision of some pan-European entities (e.g. Credit Rating Agencies);
- crisis actions' coordination, including taking extraordinary decisions.

The board of each of the three supervisory bodies would include a chairman and heads of Member States' respective supervisory bodies, and as observers representatives from the Commission, ESRB and supervisory authorities from EFTA-EEA countries.

The ESFS is to be composed of European supervisory bodies as well as national supervisory bodies. It is to be run by a Steering Committee embracing representatives of three European supervisory bodies and the Commission.

The macro and micro prudential supervisory bodies are to collaborate closely to ensure an integrated approach to supervisory actions, and ESFS bodies would transmit the necessary information to the ESRB.

The overall concept of the European Commission was approved by the European Council in June 2009, though some differences between Member States became

²²⁵ *Ibidem*, p. 12.

visible. The United Kingdom was particularly active opposing granting the president of the ECB the function of president of the ESRB, seeing this as a possible weakening of UK's position in the new organ. Finally, the European Council agreed that the president should be appointed by the General Council of the ECB.²²⁶ Another issue raised by the government of Gordon Brown was the limited possibility of European supervisory bodies to influence the budgetary responsibility of Member States through issuing binding decisions in extraordinary situations or in resolving disputes between national supervisory bodies, as was provided for in the proposal of the European Commission. Some states feared that the introduction of such a solution might lead to a situation when public funds would need to be employed for rescuing a particular institution.²²⁷ The European Council emphasized in June 2009 that the actions of the European supervisory bodies must not in any way impinge upon the budgetary responsibility of Member States.

General political consent as to the character of the new solutions enabled the European Commission to present a detailed legislative proposal at the end of September 2009. The Commission took into consideration the stance of the European Council concerning the protection of budgetary responsibility of Member States. A relevant safeguarding clause was included in the proposal of regulations creating the three European supervisory bodies. According to this clause, should a given country consider that a decision of a supervisory body taken in an extraordinary situation or concerning dispute resolution amongst national supervisory bodies, impinged upon its budgetary responsibilities, it may notify this issue to a relevant supervisory body and the Commission, and in case of extraordinary situations also to the ECOFIN Council. When notifying such a situation, a state must clarify the way in which a given decision impinges upon its budgetary responsibilities. In case of extraordinary decisions connected with serious disturbances on the financial market, the ECOFIN Council by qualified majority decides whether a given decision is upheld or overridden. In case of decisions concerning disputes, the procedure is somewhat slower. In this case, after notification the decision of a given body is suspended. The case is presented for the Council's analysis if a body decides that after a specified period the decision is upheld.²²⁸ Such wording of the clause was regarded as too weak for the United Kingdom, which demanded stronger safeguarding of budget inviolability.²²⁹ In December 2009 the Council managed to agree on legislative proposals concerning three supervisory bodies. It provides for Council decisions to be taken by simple majority (and not the qualified majority) in case an extraordinary decision of a relevant supervisory body taken in a crisis situation is overridden. If it is impossible to gather such a majority, an interested state may ask the European Council to make the final

²²⁶ European Council, *Conclusions of the European Council of 18–19 June 2009*, p. 9, <http://europa.eu/rapid/pressReleasesAction.do?reference=DOC/09/2&format=HTML&aged=0&language=EN&guiLanguage=fr>, accessed on 14.12.2009.

²²⁷ ECOFIN Council, 2948 Seating, Press Release of 9 June 2009, Luxembourg, p. 14, www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/PL/ecofin/108961.pdf, accessed on 14.12.2009.

²²⁸ See: Art. 23 in Commission's proposal: European Commission, *Proposal of Regulation of the European Parliament and of the Council Establishing a European Banking Authority*, COM(2009) 501 final, http://ec.europa.eu/internal_market/finances/docs/committees/supervision/20090923/com2009_501_en.pdf, accessed on 14.12.2009.

²²⁹ "UK Holds Back on EU Financial Supervisor," *Euractiv* of 21 October 2009, www.euractiv.com/en/financial-services/uk-holds-back-eu-financial-supervisor/article-186617, accessed on 14.12.2009.

decision.²³⁰ At the same time, the Council decided that it will be the institution determining the existence of a crisis situation on the market (for supervisory bodies to be able to take their decisions). Initially this decision was up to the Commission.²³¹ The key phase of work on the package will start with the negotiations between the Council of the European Union and the European Parliament on the adoption of the package in its first reading. This should take place in 2010.

2.3.3. Conclusions

The rich agenda of legislative changes undertaken within the framework of anti-crisis actions by the EU results from a correct assumption that in order to properly protect oneself from the risk of potential future disturbances in the banking sector, one needs to apply a comprehensive approach to all key elements of the financial system (supervision, capital requirements, risk management, credit rating agencies), so that there are no regulatory lagoons with reference to some issues. Whilst overall the EU Member States agree on the need to introduce regulatory changes, their approaches differ when it comes to the scope and scale of changes. The approach of states to this issue may be determined by the following factors: general approach to regulatory philosophy, fears concerning weakening the position of national regulatory and supervisory bodies, the will to enhance or at least maintain a competitive position in the international financial system. The need to find a compromise amongst divergent concepts and interests of Member States leads to a situation when some legislative proposals (e.g. supervision reform) have been weakened in comparison to the Commission's initial proposal in the course of work conducted in the Council. This may have negative implications for the effectiveness of EU actions on a given issue.

2.4. Crisis Exit Strategies

In 2010 the EU's crisis management will be concentrated on a development of an exit strategy on three levels:

- fiscal policy;
- single market (assistance for the financial sector);
- monetary policy.

The EU has at its disposal instruments which will play a key role in the course of the exit strategy on all the three levels presented.

²³⁰ "EU States Clinch Painful Deal on Financial Watchdogs," *Euobserver* of 3 December 2009, <http://euobserver.com/?aid=29088>, accessed on 14.12.2009.

²³¹ J. Brunsden, "Deal on strengthening financial supervision," *European Voice* of 2 December 2009.

Table 47. The Role of the EU in Crisis Exit Activities

Type of action	Area	Exit strategy type	Possible EU influence
Stimulating support	Fiscal Policy	Budgetary	Average (Pact for Stability and Growth)
Public rescue aid for the banking sector	Single Market	Financial	Significant (state aid framework)
Support in terms of ensuring liquidity implemented by the ECB and reduction of interest rates	Monetary Policy	Monetary	Full (in the Euro Area)

Source: Prepared by the author.

2.4.1. Fiscal Policy

The fiscal exit strategy is to result in a restoration of public finance stability and budgetary consolidation. Because of large difference in the economic situation of Member States and the fact that many of them will be forced to retain stimulating packages in 2010, it was not possible to create a detailed and uniform strategy for all states. Hence in October 2009 the ECOFIN Council defined a framework general concept based on four principles:

- coherent implementation of the Stability and Growth Pact by Member States;
- start of fiscal consolidation by Member States in 2011 at the latest;
- ambitious consolidation—it should go beyond the benchmark of 0.5% GDP per annum;
- parallel structural reforms' implementation as well as other actions aiming at improvement of fiscal stability.²³²

The exit strategy is to be based on the pillar of Stability and Growth Pact. As the main instrument of fiscal supervision of the EU, the Pact determines in a detailed manner a framework for programming consolidation actions (stability/convergence programmes). Furthermore, it describes more precise actions within the framework of the excessive deficit procedure provided for in Art. 126 TFEU (former Art. 104 TEC).

2.4.2. Single Market

In December 2009 the ECOFIN Council adopted the framework of an exit strategy for the financial sector and stated that its preparation and implementation should:

- be tightly coordinated between the Member States, conducted in a transparent manner on the basis of a deepened information exchange;
- include incentives for competition restoration;
- take into consideration the evaluation of the stability of the financial sector.

²³² ECOFIN Council, 2967 Meeting, Press Release of 21 October 2009, Luxembourg, pp. 5–6, www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ecofin/110622.pdf, accessed on 10.12.2009.

State aid, as determined by a number of guidelines adopted by the European Commission after October 2008, will play a key role in the implementation of the exit strategy for the financial sector. Of particular importance in this respect will be the guidelines on restructuring aid to banks of July 2009. According to those guidelines, restructuring aid should lead to a restoration of viability and its costs should be distributed appropriately amongst shareholders. Such aid should minimize competition disturbances on the market. Restructured banks must undergo the stress test to determine their strengths and weaknesses. Within the framework of this process the Commission took decisions concerning a number of big banks, e.g. ING, KBC, Lloyds or RBS, which usually resulted in limitations on their business activity.²³³

2.4.3. Monetary Policy

The ECB at the beginning of December 2009 presented the general concept of the crisis exit strategy which provided for extinguishing assistance measures for the financial sector, announcing that it will reduce the frequency of liquidity operations. In late autumn 2009 it also announced the tightening of conditions pertaining to the quality of some collaterals during loan operations for banks. The ECB announced that as of March 2011 at least two credit ratings will be required on Asset-Backed Security (ABS), which it accepts as collateral from banks that are granted liquidity loans.²³⁴ As soon as conditions improve, the Bank will start raising interest rates.

2.4.4. Challenges

In determining the exit strategy it is of key importance to establish its precise beginning, scope and pace.²³⁵ Yet the biggest challenge lies in coordinating the elements of the exit strategy and devising the order in which they will be implemented. Determining all those issues is not easy, if only due to the independence of the ECB and hence lack of an efficient coordination mechanism between Member State governments and the central bank of the euro area. Proposals have been voiced to create—on the basis of Art. 122(1) TFEU (former Art. 100(1) TEC)—a special consultation mechanism enabling such coordination, but this does not seem likely.²³⁶

2.5. Coordination of EU's Position in G20

Because of the crisis, the G20 became the most important place for global coordination of actions undertaken and decisions made. That is why the role of the Union in this body is of key importance, especially when shaping its position

²³³ J. Brunsten, "ING Says Restructuring Plan Has Been Agreed," *European Voice* of 26 October 2009, www.europeanvoice.com/article/2009/10/ing-says-restructuring-plan-has-been-agreed/66250.aspx, accessed on 10.12.2009.

²³⁴ Bank for International Settlements, *International Banking and Financial Market Developments...*, *op. cit.*, p. 11.

²³⁵ European Commission, *The crisis: Policy lessons ...*, *op. cit.*, p. 49.

²³⁶ J. von Hagen, J. Pisani-Ferry, J. von Weizsäcker, "European Exit Strategy," *Bruegel Policy Brief*, October 2009, p. 7, www.bruegel.org/uploads/tx_btbbreugel/pb_exitstrategies_151009_01.pdf, accessed on 15.12.2009.

internationally.²³⁷ There are two vital issues that need to be considered in this context: representation and the manner in which the EU stance is formulated.

As far as representation of the EU at the last three G20 meetings is concerned, all its European members participated (France, Germany, the United Kingdom and Italy), with the Union represented by a head of state or government of the country holding the presidency and the president of the European Commission.²³⁸ Additionally, Spain and the Netherlands participated after they had efficiently solicited for this possibility, although their status was never fully determined. Since the beginning it was obvious that there was a risk that the voice of the EU and the coherence of its stance during the G20 meetings will be reduced due to the presence of EU's most important members, who on the G20 forum represent first of all their own interests. Whilst during the first G20 summit in Washington this problem did not stand out (mainly because the EU was represented by a G20 member—France), during the two subsequent meetings (in London and Pittsburgh), this problem was noticeable. During both those summits, and especially in London, the EU was not a visible entity, with its presence overshadowed by an active position taken mainly by the United Kingdom and France. It should be borne in mind that the summit in London (2 April 2009) took place directly after the collapse of the Czech government, which exerted a negative impact on the Czech ability to exercise the presidency and especially to represent the EU in external relations. Sweden—given its limited political significance—was also incapable of making the EU's voice more audible in the course of summit in Pittsburgh (24–25 September). Yet, despite the political weakness of the EU at the last two G20 summits, the direction of actions endorsed there to a large extent reflected the EU's postulates (especially with reference to the regulatory agenda and the strengthening of the IMF).

With the entry into force of the Treaty of Lisbon, it seems that the EU should be represented at the coming meetings by the president of the European Commission and the permanent president of the European Council. What may prove problematic, however, is the fact that in the new institutional architecture the role and influence of the head of state or the government from the state holding the presidency is not precisely determined, so his situation is not very convenient.²³⁹ Lack of clarity in this respect, as highlighted in the context of G20 meetings at the highest level, may impact adversely on the coherence and strength of European representation.

As G20 meetings take place at two levels, two-level coordination is essential of the manner in which the EU's position is formulated. So far, at the ministerial level the ECOFIN Council was a competent body in this respect, but the Treaty of Lisbon introduces changes that may be significant from this point of view. Article 138(1) TFEU, which is only applied to states belonging to the common currency area, states that "the Council, on a proposal from the Commission, shall adopt a decision establishing common positions on matters of particular interest for economic and monetary union

²³⁷ A. Gradziuk, "New Role of G20 in the Global Economic Governance," *Bulletin PISM*, no 55 of 2 October 2009.

²³⁸ In the meetings on the level of ministers of finance and heads of European central banks, the EU, as a rule, should be represented by the Commissioner for Economic and Monetary Affairs, the head of the ECB and the minister of finance which at the time presides over the ECOFIN Council.

²³⁹ K. Smyk, "Prezydencja w Traktacie z Lizbony: Główne postanowienia i wnioski dla Polski," *Biuletyn Analiz UKiE*, no 22, November 2009, Departament Analiz i Strategii, p. 35, [www.ukie.gov.pl/HLP/files.nsf/0/7EA545D37E3CC55FC1257681003F3404/\\$file/BA_2009_22.pdf](http://www.ukie.gov.pl/HLP/files.nsf/0/7EA545D37E3CC55FC1257681003F3404/$file/BA_2009_22.pdf), accessed on 9.01.2010.

within the competent international financial institutions and conferences. The Council shall act after consulting the European Central Bank." Article 138(2), on the other hand, stipulated that "the Council, on a proposal from the Commission, may adopt appropriate measures to ensure unified representation within the international financial institutions and conferences. The Council shall act after consulting the European Central Bank." In this context the Eurogroup may be proposed as the core of the decision-making process in formulating positions for ministerial meetings of the G20, although the United Kingdom and other states outside the euro area are likely to object.

Prior to all G20 summits the EU position was determined in the course of informal or routine meetings of heads of states or governments. It is worthwhile to note that the main postulates of the EU for the G20 meeting of 2 April were in fact defined during the informal meeting of European members of the G20 which took place at the end of February 2009 in Berlin, and subsequently approved by the European Council. Therefore, despite the fact that the practice of formulating positions for G20 summits during meetings of EU heads of states/governments will be developed, there is a risk that leaders of EU Member States belonging to the Group might try to determine those positions amongst themselves, undermining the possibility for action by the remaining Union states.

Summing up, it is essential to ensure full coherence of action both at the time when a given position is formulated and when it is presented at a G20 summit. This obviously requires good will on the part of the European members of the G20, as they should coordinate their steps in the Union framework, although, it is hard to imagine that France, Germany or the United Kingdom might surrender their ambitions to play an important role in the G20.

CHAPTER III

FINAL CONCLUSIONS AND RECOMMENDATIONS

1. The crisis no doubt exerts an impact on the position of states in the survey examining LS implementation in 2009. That is why, in the process of LS monitoring and evaluation, attention should be paid to indicators that illustrate the level of resistance of individual economies to the crisis as well as the potential pace of overcoming it. The fact that Poland, as the only state in the EU, succeeded in maintaining positive growth in 2009 improved its position in the implementation of the Lisbon agenda, although this country is performing poorly in some segments of the LS (especially microeconomic).²⁴⁰ No substantial changes were recorded at the top of this ranking. What is more, the Nordic states, to a large degree thanks to their stable fiscal situation (compared to other states), additionally improved their position against other countries. The states where the recession has revealed numerous weaknesses of their economy hold lower positions in the ranking than before the crisis. Due to the dramatic budgetary situation rooted in the mistakes and negligence of the authorities as well as constantly poor results in LS implementation, Greece can be regarded as the weakest performer in this respect. A very difficult situation in the employment segment together with a lack of progress in education and energy and climate protection are reflected in a poor evaluation of Spain's performance in 2009, although the level of LS implementation there is more advanced than in Greece.
2. A positive trend was sustained in the implementation of the revised Strategy's microeconomic goals. Optimistic indicators are recorded in particular in information society development (especially broadband Internet penetration and Internet use). New challenges are emerging in this area (IP rights and digitalization) and the way they will be dealt with will to a large extent determine the direction and opportunities for development in this area.
Regulatory and administrative conditions for conducting business activity are on the similar level as described in last year's PISM Report. The flaws indicated in this year's Report in commercial judicature and bankruptcy proceedings in many cases result from a narrow perception of the climate of entrepreneurship focused solely on the most basic steps. Such negligence is naturally highlighted in a crisis.
3. Last year's Report reiterated that the crisis could become a chance for some segments of the Strategy (e.g. entrepreneurship or labor market).²⁴¹ Although this is difficult to verify within a year for a number of reasons (e.g. delays in publication of statistical data), intensified actions in the framework of the indicated segments can were observed, and some measures (e.g. deregulatory or investments) may be beneficial for the long-term LS implementation progress. It is obvious, however, that they will be distributed unevenly amongst individual states.
4. The knowledge triangle and social policy areas are those fields where—as the PISM Report shows—fewest positive results are recorded. Nevertheless, it should be borne in mind that progress in this area is relatively more difficult to

²⁴⁰ e.g. in Lisbon Council's ranking of 2009, which examined 14 EU states and takes into consideration a number of micro and macro indicators as well as those which concern employment, Poland was positioned second, just after Finland, mainly thanks to its economic growth. See: *European Growth and Jobs Monitor 2009*, Allianz Economic Research & Development, p. 10, www.lisboncouncil.net/publication/publication/37-the-2009-european-growth-and-jobs-monitor.html, accessed on 15.12.2009.

²⁴¹ M. Koczor, *2008 Lisbon Strategy Implementation Report...*, op. cit., p. 121.

achieve than an improvement of the basic information society indicators or entrepreneurship development, as it requires the launch of financial measures, while results may be slow in coming.

It is impossible at this stage to fully confirm the opinion included in the 2008 Report that the attainment of LS targets may be threatened by the fiscal consequences of the crisis. The unprecedented budgetary deterioration in the EU and in some cases (e.g. Greece or Ireland) nearly a collapse of public finances, necessitating radical consolidation measures, leave no doubt as to negative implications of those actions for the above-mentioned segments of the LS. Some states have already launched actions for public deficit and debt reduction, e.g. at the beginning of December 2009 the government of Ireland announced another phase of deep budgetary cuts encompassing spending on social programmes and investments. Similar actions are undertaken in Latvia. Limited budgetary possibilities mean that in the coming years investment expenditure on competitiveness is likely to be reduced to a minimum or financed from bonds issue, which effectively means increasing indebtedness of states. France, for example, is planning to avail itself of the second option, with its government thus planning to finance a substantial amount of investments (€35 billion in total), mainly on modern technologies, development of universities and digitalization of culture resources.²⁴²

This situation necessitates a thorough analysis of how instruments for the improvement of public finances can be reconciled with the new strategy's social and environmental priorities that will be playing a key role on the post-Lisbon agenda. The new strategy will have to take into consideration the current budgetary situation, outlining priorities adjusted to the fiscal reality of EU states.²⁴³

5. In any configuration of future priorities, energy and climate actions will remain among the most important ones. The hitherto performance in this respect remains highly unsatisfactory given the ambitious goals the EU set for itself when adopting relevant measures in March 2007 or determining instruments for their implementation a year and a half later, when the energy and climate package was adopted. The main problem is posed by financial potential of the EU, Member States and private partners to cover the cost of the necessary investments. Sufficient resources are unlikely to be generated for the attainment of the 3x20 target. For the success of this target, budget review recommendations followed by negotiations of the new financial perspective for the period after 2014 will play a more vital role than its position in the new strategy. Against the background of the general differences in the approach to the financial framework of the EU, differences

²⁴² B. Hall, "Sarkozy Offers Funds to Place France's Cultural Heritage Online," *Financial Times* of 15 December 2009.

²⁴³ The Commission's proposals concerning "the EU(Europe)2020" strategy were outlined in a working document of November 2009 and subjected to public consultation. The following priorities were proposed: generating growth based on knowledge and innovation; empowering people in inclusive societies; and creating a competitive, integrated and greener economy. In principle these priorities are supported by the Member States. An important part of debate on the new agenda focuses on post-Lisbon strategy management. The Member States generally favor enhancing the role of the European Council in this process, as suggested by the Commission in the working document. The political will of the leaders in this respect was reflected in President Herman Van Rompuy's announcement in February 2010 that the Council's meetings would be held more frequently.

in the approach of the Member States to the climate policy may become more visible.

6. Evaluation of progress in the single market segment is affected by a lack of a timely implementation of the Services Directive by a big group of states. It seems that the Directive's full implementation by all states would have not only economic and legal, but also political significance, given the context of work on this regulation.

As the anti-crisis measures were launched, observers noted that interventionist methods applied in combating the crisis and its consequences could undermine the functioning of competition on the internal market and boost protectionism. An examination of the situation in 2009 suggests that those fears were exaggerated, although it is clear that rescue aid for banks had a negative impact on competition in this sector. Assistance for Opel and earlier plans to support the French automotive sector have shown that the risk of protectionism is real and can be minimized only by a strong European Commission.

It is vital to emphasize the importance of the internal market for the whole integration process of the European Union. Its development must be more harmonious, which means that there should be no loopholes in its development, as is the case now (e.g. in network sectors or in e-commerce). The EU should first of all examine the role of the internal market in the future and determine whether its development is a goal in itself or serves the implementation of other priorities. It seems that the Commission has been giving preference to the latter option during debates on the post-Lisbon economic strategy, while some members (especially the Netherlands, Poland and the United Kingdom) support the former vision. One should expect the report of the former Commissioner for Competition Mario Monti prepared at the request of the Commission president to include concrete proposals for actions and be thoroughly analyzed by the Member States.

7. In 2009 Lisbon Strategy served the attainment of the main priority: exit from the recession. This goal was accomplished on the EU level in the third quarter of 2009. In the coming months growth will remain too weak to talk about full exit from recession. States most affected by the global crisis will struggle with its consequences in 2010, and it is difficult to list the factors contributing most substantially to overcoming recession, including actions in the LS framework. The influence of Lisbon Strategy implementation on the pace of economic growth restoration may in many states be similar to its earlier impact on the GDP and development of the economy in pre-crisis conditions. This influence should not be overestimated, bearing in mind that the construction of the revised LS and its governance could make programming and coordination of support actions for the economy at the national level more efficient.

The number one priority at the moment is to reconcile skilful actions for further stimulation and support for the banking sector with a simultaneous launch of the exit strategy. This will be impossible without tight coordination of actions and determination of their sequence, both on the Community and national levels. In this context the European Council, when adopting the new economic strategy for the EU, should take a decision linking fiscal and financial exit strategies. The creation of a special group should be considered to monitor progress in implementing the exit strategy

and ensure coordination of actions. Such a group would function best within the framework of the Economic and Financial Committee, where during the crisis a special task group was set up for monitoring state aid granted to banks.

8. Data concerning such segments as education, R&D, energy and climate or social policy is published with much delay; it is often fragmentary and in some cases (e.g. environment) not available. As a consequence, it is not possible to compare progress attained in those segments as reliably as in areas where indicators are available, updated and relatively comprehensive. It is, therefore, impossible to conduct a fully objective and just evaluation of progress in those segments.

In view of the above, it would be desirable to develop the European Commission's initiative "GDP and beyond" of September 2009, which provides for the establishment of a number of new indicators, mainly in social and environmental area.²⁴⁴ This proposal is convergent with the conclusions of a special report "The measurement of economic performance and social progress" prepared for the French government by Joseph Stiglitz, Amartya Sen and Jean-Paul Fitoussi in 2009. Its authors are suggesting a change in approach, departing from full focus on purely economic indicators in favor of a comprehensive measurement of social development in a broad sense (e.g. the shaping and redistribution of income, consumption and property, health, education, environment, social inequalities etc.).²⁴⁵

Actions for development of this methodology should be included in the post-Lisbon agenda. The European Council should give sufficient attention to the "GDP and beyond" initiative and encourage cooperation of all entities capable of providing an intellectual contribution to this ambitious task. At the same time, too ideological an approach to this problem should be avoided which stipulates that the creation of new socio-environmental indicators undermines the status of the GDP, whose dominating role was supposedly promoted by the Anglo-Saxon model of the economy. New indicators should be developed for purely pragmatic reasons, so that they provide guidance in decision-making. When elaborating those indicators the EU should closely collaborate with international institutions (e.g. UN agencies, World Bank, OECD), academic circles, social organizations and enterprises. It should also strive to include this issue on the agenda of G20 meetings.

9. Though it is too early to evaluate anti-crisis actions comprehensively, the steps launched by the EU so far in defining and pursuing targets deserve credit. It seems that the Union has set into motion all the measures at its disposal, although these differ in weight as a consequence of differing EU competences. And so, the role of the EU is more prominent when addressing the financial sector, as it has "hard" instruments in this area (monetary policy

²⁴⁴ European Commission, *GDP and Beyond. Measuring progress in a changing world*, COM(2009) 433 final, <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2009:0433:FIN:EN:PDF>, accessed on 15.12.2009.

²⁴⁵ J. E. Stiglitz, A. Sen, J-P. Fitoussi, *Report by the Commission on the Measurement of Economic Performance and Social Progress, 2009*, www.stiglitz-sen-fitoussi.fr/documents/rapport_anglais.pdf, accessed on 15.12.2009.

in the euro area, competition policy), while in supporting the entire economy its impact is limited.

In adopting regulations, political determination should not result in a primacy of politics over objective mechanisms governing the financial market. So far, the EU has managed to avoid this threat, yet attention should be paid here, as this risk could resurface when deciding upon controversial legislative proposals (e.g. directive on alternative financial funds management), especially in the European Parliament. New legislation referring to financial markets should be created in a coherent manner, in line with the “better regulation” initiative. This seems obvious, but when one takes into consideration the swift preparation of impact assessment reports (e.g. on the supervision architecture or alternative investment funds), questions can be asked if the European Commission acted with accuracy when drafting relevant proposals (especially the latter). It is important, therefore, to safeguard reliable and objective impact assessment conducted by the Commission and efficient use of this instrument in subsequent work on legislative proposals (not only for the financial sector); this has been posing a serious problem so far.²⁴⁶ It is also crucial to safeguard that the new regulations do not boost administrative burdens.

²⁴⁶ M. Kałużyńska, “Wykorzystywanie Oceny Wpływu w pracach Rady Unii Europejskiej,” *Biuletyn Analiz UKIE*, no. 21, December 2008, Departament Analiz i Strategii, [www.biuletyn.ukie.gov.pl/HLP/banal.nsf/0/86D205BC9458ABA7C1257538003769A3/\\$file/01_M.Kaluzynska_Ocena%20wpływu%20w%20pracach%20Rady%20UE.pdf?Open](http://www.biuletyn.ukie.gov.pl/HLP/banal.nsf/0/86D205BC9458ABA7C1257538003769A3/$file/01_M.Kaluzynska_Ocena%20wpływu%20w%20pracach%20Rady%20UE.pdf?Open), accessed on 15.12.2009.