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BEYOND LISBON

Europe's opportunities and challenges in a globalising world

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Featuring:

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BEYOND LISBON

Europe's opportunities and challenges in a globalising world

Introduction

With only two years to go before the EU's self-imposed deadline to become "the most competitive knowledge-based economy in the world", participants at a *Friends of Europe* Policymakers' Lunch Debate, organised in association with Unilever on 26 June, proceeded to a critical review of the key successes and failures encountered by the 27-member bloc while trying to meet its ambitious goal.

According to Maria João Rodrigues, Special Advisor to the Commission on the Lisbon Strategy for growth and jobs, the Lisbon Strategy has led to a number of good achievements. "There is a positive trend in employment creation. Our target was to create 20 million jobs by 2010 and, so far, we have created nearly 17 million. On growth rates the situation is now more mixed but we had a good trend last year with an average of 2.7%," she told participants.

But the world is changing much faster than expected, with the rise of new economic giants, such as China and Brazil, and there is no room for complacency, particularly in light of the current global credit crunch and the recent hike in food and energy prices.

By making the analogy with his large multinational company, Patrick Cescau, CEO of Unilever, presented some thoughts on how to be successful in a globalised world. According to him, "the challenge is twofold. It's one of perception and communication and one of speed and determination."

But can the EU achieve this at a time when its very future is plunged into doubt after the Irish rejection of its Lisbon Treaty for institutional reform?

Background

The Lisbon Strategy was adopted by the European Council in 2000, with the aim of making the EU "the most dynamic and competitive knowledge-based economy in the world capable of sustainable economic growth with more and better jobs and greater social cohesion, and respect for the environment by 2010."

The ambitious agenda contained measures to boost R&D, accelerate the deployment of new information technologies, support entrepreneurship and innovation, increase employment levels, modernise the European social model to make it more financially sustainable, and raise investment in people and combating social exclusion.

After five years of disheartening results, a mid-term review of the strategy, in 2005, sought to increase the agenda's focus on growth and jobs and to transfer more ownership of the strategy to the member states via national action plans.

Recommendations on the way forward

According to Patrick Cescau, Unilever is successful on the global market thanks to a strategy based on:

- § embracing globalisation as an opportunity, not a threat;
- § making tough choices, which means “backing the winners” and “shedding the losers”, on the basis of competitiveness, relative market share, competences and strength;
- § a total focus on growth and innovation, with big investments in knowledge, the latest technologies and the best manufacturing practices;
- § nurturing people and human capital;
- § a flexible and competitive global supply chain;
- § putting sustainability at the heart of its business agenda, rather than focusing on short-term profit, and;
- § clear governance and rapid decision-making.

These principles should underpin Europe’s own strategy in order to be successful.

Romanian MEP Daniel Dăianu, however, criticised the comparison, saying: “It is very wrong to make an analogy between a company – be it a very large company – and a society. Re-engineering and reforming an economic society is mind-bogglingly complex. So we should not go too far in this analogy. We must retain a sense of proportion.”



But Cescau defended these principles, saying they were “very relevant” because the EU and multinational companies have the “same agendas: that is growth, innovation and social inclusion.”

Sustainability at the heart of the agenda

Cescau explained that, at the centre of his company’s strategy, is the belief that winning is not only about performing well.



“You cannot have a successful company in a collapsing or unhealthy environment. That is why we try to do ‘well’ at the same time as we do ‘good’. We believe that adding integrity and sustainability to the agenda is the only way to succeed and is the only way to win the hearts and minds of the people we work with.”

Patrick Cescau, CEO of Unilever

“It’s a question of enlightened self-interest,” he explained, urging the EU to integrate sustainability into its agenda in a similar way so as to win over its citizens.

But Maria João Rodrigues insisted that sustainability does already figure highly on the EU agenda, stressing: “The Lisbon goal was never to make the EU the most competitive economy in the world. If you read the conclusions of the Lisbon European Council of 2000, we had a longer sentence that

combined a higher level of competitiveness with more and better jobs, social cohesion and environmental protection. So although the main focus of the Lisbon agenda is competitiveness, our aim is to build a sustainable competitive advantage."

Yet the European Commission's Director General for Employment and Social Affairs, Nikolaus van der Pas, said he believed the 2005 'refocus' of the Lisbon Strategy towards jobs and growth had raised the question, among citizens, of whether the EU is really interested in defending 'Social Europe' or whether it simply wishes to boost its economic statistics. "This is what sparked the 'hearts and minds debate' in Europe," he said.



Protecting people, not jobs

While stressing that the social dimension is essential, Patrick Cescau however cautioned against spending too much energy on protecting European jobs.



"It is irresponsible to try to protect jobs that cannot be protected from the competitive standpoint. Rather, it is important to try to protect the people by offering them education, training and lifelong learning opportunities. That's where our social responsibility lies,"

Patrick Cescau, CEO of Unilever

"Social responsibility is not to block the evolution of a company towards a more competitive future. Because, in the end, we will have to close the factories that are not competitive and then restructuring will come in a more brutal way, causing a lot of pain," he explained.

He therefore spoke out in favour of the "flexicurity" concept promoted at EU level. "We need to institutionalise this flexibility and change the debate from protecting jobs to protecting people. Otherwise we are just losing time," he warned.

Globalisation: the big bad wolf?

The challenges related to globalisation are visible from the statistics, Cescau pointed out. China, notably, has become bigger in terms of volume than either the EU or the US. The economies and populations of developing and emerging countries are growing much faster than ours and they are fast becoming the world's largest consumers. By 2010, Unilever expects more than half of its business to take place in developing and emerging economies. "It's very attractive. With average annual growth rates at around 10-15%, we can deliver 5-6% growth for our stakeholders without a penny of growth from Europe or North America," he noted.



Rodrigues agreed that "the main problem for the future is that the world is changing much faster than we are. And the others are also investing in knowledge, research and

innovation as the major competitive factors. Not only the US and Japan but in China and India and many Latin American countries."

In order to succeed in this global race, the EU must continue to play the game and not be tempted to surround itself with protectionist barriers, Cescau argued. "Europe, as a winner, must embrace globalisation and not fear it. That means full-hearted support to the Doha Agenda, as well as dealing with those who are excluded from the benefits of globalisation," he said.

But Carlos Garia De Cortazar, Counsellor at the Spanish Permanent Representation to the EU, pointed out that the citizens and workers of Europe don't trust globalisation.



"Citizens and workers of Europe are afraid of globalisation. They see it as the big bad wolf. We have to inform more about the good things that globalisation brings, but it's very difficult to explain this to workers facing delocalisation and restructuring,"

Carlos Garia De Cortazar, Counsellor at the Permanent Representation of Spain to the EU

Good results, dreadful communication

According to Cescau, while Europe has "a powerful case for globalisation", it has failed in terms of communication.

"Europe continues to be the largest trading bloc in the world, so it should be interested in a further opening of the global multilateral trading system. Europe also represents 41% of global exports. What's more, of total post-war gains generated in Europe, 20% can be attributed to globalisation. And a European Commission study shows that you could improve the income of each EU household by €5,000 per annum if all the opportunities of globalisation were captured," Cescau noted.

What's more, the bloc has already created nearly 17 out of the 20 million new jobs it had promised by 2010, Rodrigues added.

But the EU has totally failed to communicate these successes, Cescau said, citing Ireland as a case in point. "It is quite extraordinary that one of the countries in Europe that benefited most from the single market is the very one that just rejected the move to a further level of progress."

Wim Philippa, Secretary General of the European Round Table of Industrialists, agreed, saying that although those outside the EU recognise that "Europe has done a remarkable job and is performing extremely well", European citizens themselves largely under-estimate the Union's achievements.



"Europe had done a remarkable job and is performing extremely well. But this is more recognised outside than inside Europe. It's recognised by the Americans. It's recognised by the Asians. It's under-estimated by European citizens,"

Wim Philippa, Secretary General of the European Round Table of Industrialists

"We have had the three cases – Holland, France and Ireland now – where there was a negative vote in the referendum – three countries that are particularly pro-European. But the citizens have been mis- or under-informed on the advantages of introducing the euro, the advantages of enlargement, the positive aspects of immigration or globalisation. There is a major job for MEPs, member states and industry."

Van der Pas agreed that there was a clear lack of communication on the benefits of more Europe. "The Irish 'no' resulted from the fact that the Irish thought it would not cost them anything at all to reject the Treaty," he argued.

According to him, the EU has been taking the issue of communication from the wrong angle. "Citizens don't need to be informed about every detail. They have a life to live. It is blatantly untrue that there is not enough information out there. There is an ocean of information out there. But citizens don't care what the Commission says. It is up to local and national politicians to act. Europe must become part of the local, regional and national discussions."

Rodrigues also laid the blame with the member states, saying: "The problem cannot only be solved by European representatives. The problem lies at national level because national leaders should also be European leaders. They should be consistent with the commitments they take here in Brussels," she said, calling for "a stronger European dimension in the national debate".



"We do have a gap in implementation, but the worst gap we have is in communication. The problem cannot only be solved by European representatives. The problem lies at national level because national leaders should also be European leaders. They should be consistent with the commitments they take here in Brussels."

Maria João Rodrigues, Special Advisor to the European Commission on the Lisbon Strategy for Growth and Jobs, Institute for Strategic and International Studies (IEEI)

Lousy management

For Cescau, the communication question brings us straight to the issue of governance: "We need to spend time on winning the hearts and minds of citizens. It doesn't happen by accident. It requires discipline, clarity, alignment and clear governance," he stressed.

The question of governance is also crucial in achieving the EU's global competitiveness goals, urged Cescau and Rodrigues.

"A lot of the ingredients are there. There's focus and recognition that we need to invest more in networks when it comes to knowledge and education and industry. Everyone seems to be in agreement, but the pace of change is alarmingly slow," lamented Cescau, who believes the answer is in establishing stronger partnerships with key stakeholders, including both industry and civil society.

According to Rodrigues, "many measures are being implemented", but the problem is that the Lisbon Agenda represents an extremely ambitious reform agenda. "Critical reforms of labour markets, social protection, education systems, research systems and public administration take time. It is moving ahead, but in a very unbalanced way, whether we compare policy areas or member states."

The solution, according to her, involves going faster at European level, with stronger instruments. It also requires an acceleration of the reform agenda at national level and a strengthening of external action, in order to open up more markets abroad and get others to converge around our standards.

"That's why we really need the Lisbon Treaty," she stressed, saying this would both "speed up the decision making process" and "create the conditions for a stronger leadership in the external area".

"This is very important because for the moment the EU has very ambiguous competences and this is not a demonstration of strength, it is a demonstration of weakness," she lamented.

Head of Unit in the European Parliament's Committee on Industry, Research and Energy, Luis Martin Oar, agreed that the EU could not be truly successful without institutional reform: "We have exhausted the decision-making model," he said, urging governments to accept the move from unanimity to majority voting at the EU level. "It is a real political necessity. If we do not break this barrier, the EU, even if it is in the short and mid term an economic giant, will remain a political dwarf, and that will not work in a globalised world," he warned.

But Van der Pas said that the Europe of 27 was a political reality that "we have to live with", which means the EU will always be "a little bit slow in its reactions".

Lisbon overtaken?

According to Dăianu, increased inter-linkages between financial markets, with the potential for crises such as the current one, soaring energy prices, the threat of climate change and the need to shift towards renewable energies mean that today is "a whole different ball game than ten years ago".

He believes that the EU's Lisbon agenda, which dates back to 2000, "is already overtaken by these events. One therefore has to rethink the Lisbon agenda," he stressed.

While conceding that the food and financial crises "do represent a new challenge", Rodrigues nevertheless emphasised that the "structural change" process launched with Lisbon would help weather the effects of the storm – which is more than macro-economic policy alone can do.

Marc Stocker, Director of Economics at BusinessEurope agreed that the Lisbon Strategy does respond to the main challenges facing Europe, but stressed that it all comes down to implementation in the end. "The key is not to set new priorities. The key is to create ownership at national level," he stressed.

Conclusions

Despite raging competition from emerging Asian economies and a looming economic downturn, it appears that the EU has not done so badly in securing economic growth and job creation.

And yet, while outsiders recognise the bloc's success, the EU still lacks the support of its very own citizens, crucial to undertaking the necessary reforms to drive Europe forward.

A key failing lies in the lack of clear governance at EU level. National priorities seemingly always take the upper hand over European ambitions and the EU is more often taking the blame for things going wrong than the merit for things going right.

While the Lisbon Treaty – if it is ultimately adopted, despite suffering a shattering defeat in Ireland – could go some way towards helping the EU to address these failings, national politicians, MEPs and industry also have a major role to play in making citizens more aware of the benefits of Europe.





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