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**Article**

## Speeding up European Reform: A Master Plan for the Lisbon Process - Keynote Address

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## VAIRA VĪĶE-FREIBERGA,

President of Latvia

Dr. Beckstein,  
Professor Sinn,  
Excellencies,  
Ladies and gentlemen,

I am pleased and honoured to address this distinguished audience of academics and decision-makers at the Fourth Munich Economic Summit. Five years ago, in 2000, the leaders of the European Union met in Lisbon and launched an ambitious set of reforms, which were designed to turn the European Union into the most dynamic knowledge-based economy in the world by the year 2010. These reforms were designed to make the European Union capable of sustainable economic growth; to generate the conditions for more and better jobs, as well as greater social cohesion and increasing respect for the environment.

Now, in 2005, we are halfway through the time frame that was assigned for reaching these goals, but are we really halfway there in practice? Apparently, we are not. The implementation of reforms in many of the EU's member states has been rather tentative, and the overall results, at best, are mixed.

During these past five years, the EU has seen an unprecedented increase in its membership, and is set to expand even further during the coming years. Just over a month ago, on May 1st, Latvia and nine other European countries celebrated the first anniversary of their accession to the EU. Both politically and economically, this landmark event spelled the end of an historical injustice that had artificially split Europe into two opposing camps. For fifty long years, Europe had been divided between the free and the oppressed, between the haves and the have-nots. Now we truly have the chance to turn Europe into one of the most dynamic areas of economic activity in the world. In that sense the latest expansion of the EU is not just a happy ending to a complicated accession process, but a significant new beginning with unprecedented perspectives for continuing growth.

The EU's older Member States already enjoy the highest standards of living in the world and have consolidated a unique, participative social model. Their educational systems are highly advanced and their science base is well developed. They are home to dynamic and innovative companies with extraordinary competitive strengths. With the vast single market offered by an EU of 25 and with the euro as a single currency, there is every opportunity to consolidate the EU's economic stability and deepen its potential of economic integration.

The EU's tremendous success over the decades was one of the reasons that induced Latvia and nine other countries to join it last year. I will add that Latvia also plans to accede both to the euro zone and to the Schengen common visa space within the next three years.

However, we must now come to terms with the paradox that the EU's notable achievements have made Europeans the victims of their own success. The Union's older Member States have established generous social support systems that are extremely costly to maintain and that will be untenable in the long term, particularly if Europe continues to experience low – and in some cases, even negative population growth – and if the proportion of pensioners continues to increase as it is now doing.

Meanwhile, competition from outside of the Union is becoming increasingly fierce. The exceptionally high wages that trade unions have managed to obtain for workers in Western Europe are compelling manufacturers to transfer their production facilities to China, India, Brazil and other countries, where wages are much lower. Insufficiently flexible labour markets, along with a complex regulatory environment and taxes that are too high, are also driving companies out of the EU's older Member States.

The result is high unemployment, stifled economic growth, strained social support and health care systems, and rising dissatisfaction among the EU's citizens. Some countries, such as Italy, are now experi-

encing a full-scale recession. That is why the EU's Member States will have to display a greater degree of commitment in the implementation of a whole series of urgently needed reforms, and that is why the Lisbon Strategy is so important for us all.

I believe that this general sense of malaise and dissatisfaction is what also swayed many voters in France and in the Netherlands to reject the EU's new constitution. They feel that Europe is not delivering the goods it is supposed to. The EU has, in effect, reached a state of crisis, which as we all know, can be interpreted in two ways. One interpretation is "danger," while the other is "opportunity." I believe that we require a considered debate about what the EU is and what it really stands for, so that we can all move forward together and turn this crisis into an opportunity.

I also believe that the EU's ten new Member States can provide the stimulus that Europe needs to regain its competitive edge. During the past few years, my own country of Latvia has been experiencing one of the fastest GDP growth rates in the entire European Union. Last year's growth rate was 8.5 percent, and annual growth rates that exceed 7 percent are expected to continue during the next few years.

I am firmly convinced that in the medium term Latvia will be able to increase its per capita income level, which currently is still below 50 percent of the EU average. We are determined to catch up with our more developed neighbours, and to catch up fast. We are anxious to reach the stage where we become net contributors to the EU budget as quickly as possible.

Latvia is experiencing rapid growth because it believes in a free market under conditions of open competition. We believe in the free movement of goods, people and services; and we believe in free and flexible labour markets. The removal of obstacles to the free movement of labour would assure that the principle of equality is truly observed within the Union. We believe in lightening the administrative burden on companies and in creating a business-friendly environment for all enterprises, and most particularly for small and medium enterprises, which account for 99 percent of all firms and two-thirds of total employment in Europe.

What's more, services account for around 70 percent of value added in the European economy. Therefore it is in the EU's interest to conclude an agreement on

a Service Directive that would facilitate the development of a dynamic service sector and promote an increase in European competitiveness.

Regarding the harmonisation of taxes, I have serious doubts about whether the imposition of a uniform company tax would add to the competitiveness of the Union. First of all, I don't believe that it would be fair to deprive the new Member States of an important stimulus for promoting their economic growth. Secondly, if we raise the tax, then Latvia and the EU as a whole will lose investments which will flow elsewhere. Does the EU need that, and would this raise our overall competitiveness? Let us talk about tax harmonisation once all the Member States of the EU are equally strong and developed, and when the per capita income is no longer so different between the richer and the poorer EU nations.

Excellencies,  
Ladies and gentlemen,

One of our common goals, and that of the Lisbon Strategy, is sustainable development. It is also to ensure continued growth, and to provide businesses with the conditions to create more and better jobs. It is to create a knowledge society. In order to do this, we must ensure that Europe is a more attractive place to invest and work in. Clearly, such a strategy cannot be based either on natural resources or on cheap labour.

Instead, Europe must develop its knowledge and innovation-based activities. Therefore it is essential to increase and effectively allocate investment into research and development (R&D), both by the public sector and by private business. In order to ensure the production of high value-added products, Europe must also facilitate innovation and the uptake of new technologies. It must invest in education to increase Europeans' knowledge and skills. During the past few years, the productivity of Europe's competitors has grown faster and they have invested more in R & D than we have.

Two other prerequisites for a competitive EU are modern transport and energy infrastructures. These would not only foster the free movement of goods, services and labour. They would also help to reduce existing disparities among the EU Member States. Since no Member State alone possesses the capacity to launch large-scale infrastructure projects, we must reach an agreement on the EU financial perspective

and ensure adequate funding for the EU's cohesion policies.

I believe that several other things are also required if we are to create a genuine knowledge society and to raise Europe's global competitiveness. One is the assignment of a pre-determined minimum of GDP by each of Europe's national governments to science and research, along with the pooling of the resources of the EU's Member States for research projects on a broader, European scale. Latvia has recently adopted a law that foresees an annual increase in budget financing for science in Latvia. This is an important step for us and a contribution to the overall development of research in Europe.

Another fundamental pillar of a knowledge society is education. Educational programs and training are necessary to provide skilled professionals who can meet the labour market's needs. Currently we do not invest enough in education. Educational budgets represent around 2 percent of GDP in the EU, versus 3 percent in the U.S. Furthermore, many researchers trained in Europe then choose to work in the U.S. The brain drain of Europe thus remains a very important issue.

Excellencies,  
Ladies and gentlemen,

We, the people of Europe, cannot be complacent. Europe's Lisbon Strategy requires immediate and concerted action. Our activities will require more focus, with an emphasis on productivity and on employment. Furthermore, the Lisbon Strategy will have to be simplified. Currently the reporting system for 25 Member States requires no fewer than 300 annual reports. Nobody can possibly read all of them, nor is this of real help in ensuring better compliance with the Lisbon agenda.

And finally, we must mobilise public support for change. We failed to mobilise sufficient support for Europe's constitution among voters in France and the Netherlands, partly because this important document was widely perceived to be long-winded and confusing, partly because it was perceived to have been drawn up by unelected bureaucrats who cater to big corporations rather than to the average citizen, and for numerous other reasons.

However, I am convinced that the people of France and of the Netherlands, and of Europe as a whole,

have not rejected the European ideals that form the basis of the European Union. They have not rejected pluralism, tolerance, fairness, solidarity, non-discrimination and gender equality. They have not rejected the vision of sustainable development, balanced economic growth, price stability, full employment and respect for the environment, which was cited in the European Constitution, and which forms part of the Lisbon Strategy. They have not rejected freedom, democracy, the respect for human rights and the rule of law, as well as fair and free market competition.

It is time to forge a new consensus, as difficult as this may be, and to make the EU closer and more understandable to its citizens. For the first time in their history, Europeans have acquired the opportunity to create a united continent, not on the basis of force and armed conquest, as during centuries past, but of their own free will. I am confident that with the required effort and commitment, we shall all be up to this important task.

I will go even further in saying that the EU must not be a closed and exclusive club, and that it must remain open to all countries in Europe that abide by, and are committed to, the democratic values that we all share. I believe that the EU should spare no effort in furthering its European Neighbourhood Policy. In so doing, the EU will support the strengthening of civil societies, independent media, NGOs and human rights defenders in such neighbouring countries as Ukraine, Georgia, and Belarus, which, sadly, remains the last authoritarian dictatorship in Europe. I also believe that we must maintain and strengthen our transatlantic partnership with the United States, regardless of any disputes that may arise over trade, the environment, or military intervention in third countries. This is in our common interests, particularly if we wish to successfully deal with such urgent issues as international terrorism, organised crime, the spread of weapons of mass destruction and the diffusion of regional conflicts. We need to actively promote the virtues of freedom, democracy, the rule of law and good governance worldwide and this is why I believe that this coming fall, when the United Nations meets during its September session, we all need to push forward with the UN reforms that have been proposed by Mr. Kofi Annan, the Secretary General of the United Nations. That institution was founded 60 years ago, after the Second World War, in a world that was entirely different from the world we are living in now. Now is the moment of opportunity, when it is possible to go forth with these reforms, and

I do hope that we will be able to reach a consensus on the majority of those points that have been put forth by the Secretary General, even if we all realise that the reform of the Security Council is going to be very hard indeed.

The values that have been mentioned and that seem as clichés to us who live them daily – these values are still but a dream in a great many countries. This is why we must never forget how precious they are, how important they are, and how dearly they have been bought by all the wars and conflicts and suffering in the history of various countries of Europe.

We know what our values are. They have been developing over the centuries and over several millennia. We have taken the best out of our history, we have put it together brick by brick, like a medieval cathedral that has been erected. It is the cathedral of our ideas, hopes and ideals. I hope that we are up to ensuring that it does not crack, that it remains standing, that we continue to appreciate what it means, that we maintain it in such a way that it is not taken for granted, and that the light that we enjoy is spread further and further into those lands where it is still a dream. I hope that our dream will remain a reality, and that the people of Europe can be a beacon of hope for those in many other lands.

Thank you.