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COMMUNICATION FROM THE COMMISSION

Community policies in support of employment

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Introduction

The extraordinary European Council meeting on employment held in Luxembourg in November 1997 called for the harnessing in a more systematic, more deliberate way than hitherto of all Community policies in support of employment, both framework policies and support policies, to help unleash the potential for dynamism and enterprise to be found in Europe's economy. This is in line with article 127(2) of the Amsterdam Treaty which provides that the objective of a high level of employment shall be taken into consideration in the formulation and implementation of Community policies and activities.

For many years the Commission has been drawing attention to the scope and potential of Community policies and initiatives to promote employment. The Communication of 5 June 1996 - *Action for Employment in Europe: A Confidence Pact* - and the Communication of 12 November 1997 - *Community Policies in Support of Employment* - are notable in this respect.

This Communication is intended to show how Community policies and EU-wide activity can help Member States to develop and implement employment policies which are consistent with both the Employment Guidelines and the Broad Economic Policy Guidelines. Taken together, these three documents, which will be on the table at the Cardiff Summit, provide the parameters for the coordinated strategy for employment embedded in the new Treaty.

A framework for employment growth

The European Union is becoming more and more an integrated economic entity. Trade and capital flows reveal that the Union is increasingly becoming - like the United States - a relatively integrated economy with a high level of interdependence between the economies of the Member States. EMU will further increase the opportunities for cross-border trade for European companies, including in particular SMEs. Imports of goods from outside the EU currently account for only 8% of Community GDP.

In the run-up to the final stage of EMU, this interdependence provides an opportunity, and a good reason, to strengthen economic and employment policies and to make optimal use of the possibilities offered by the launch of EMU on 1 January 1999. This will require effective policy coordination and full adherence to Single Market rules and standards.

Single Market

The Single Market Action Plan, agreed at the Amsterdam European Council, commits Member States to removing the remaining barriers by 1 January 1999. The second Single Market Scoreboard issued recently shows that significant progress has been achieved. Supply side reform is taking hold: in telecoms, energy, air transport for example. Nevertheless, with only six months to go before the end of year deadline, some delays and hesitations are becoming apparent and this is worrying. In particular, some Member States are behind in implementing Community legislation as the scoreboard shows.

The Commission's report to the European Council *Doing Less but Doing it Better : the Facts* demonstrates that the volume of proposals for Community legislation has dropped and shows that it is indeed the Member States themselves who are largely responsible for additional legislation. Meanwhile, the work on simplification continues. The third phase of SLIM was launched in March 1998 and the fourth one should be launched in the coming weeks. However, there is a serious risk that new technical barriers to trade arise as Member States continue to adopt a vast array of technical regulations concerning products. This underlines the importance of the proposals which the Commission is preparing on mutual recognition and standards. They should contribute to boosting the job creation effect of the single market which has already led to the creation of several hundred thousands jobs according to the economic evaluation carried out by the Commission in 1996.

Electronic Commerce

Globalisation, the growth of information and communication technologies (ICTs) and the development of electronic commerce offer enormous opportunities for the EU to improve its competitiveness and create new jobs. In view of the potential impact of ICTs on training and employment, and in line with the mandate of the Luxembourg Jobs Summit, the Commission is currently preparing a report for the Vienna Summit on the results obtained to date and future prospects for electronic commerce, the development of open networks and the use of multi-media for education and training.

Taxation and employment

On several occasions, the last time in Luxembourg in November 1997, the European Council has stressed that taxation policy in the EU should be geared to making tax systems more employment

friendly. Among other things, this requires reversing the current trend in tax structures towards shifting the tax burden from capital to labour. An important step in this direction was made on 1 December 1997, when the ECOFIN Council agreed on a package to tackle harmful tax competition in the European Union. This package, consisting of a code of conduct for business taxation and an agreement on elements for the taxation of income from savings and the taxation of interest and royalty payments between companies, respectively, will increase the room for manoeuvre for Member States to reduce the tax burden on labour. The Commission has in the meantime presented two draft directives based on the orientations agreed by the December 1997 ECOFIN Council. Another possibility for reducing the tax burden on labour is the Commission's proposal for an energy product tax which could contribute to job creation assuming that the revenues from taxation of natural resources would be used to reduce social security contributions.

Making Europe more entrepreneurial

A simple environment for business start-ups and encouraging entrepreneurship are essential for creating new and better jobs. Action at the EU level is aimed at creating and sustaining a positive environment for all sectors of the economy in which new sources of jobs are identified and where the job creating potential of growth sectors and services is encouraged rather than hindered.

- BEST Task Force

The BEST Task Force has recently submitted its report on how to improve the business environment with a view to encouraging enterprise and removing or reducing obstacles and barriers, especially for SMEs. The Report, which contains recommendations which need to be addressed at the European level as well as by the Member States, has been forwarded to the Cardiff Summit. The Commission's response to the individual BEST

recommendations will form an overall strategy for action before the end of 1998. In its recent Communication *Fostering Entrepreneurship* the Commission has again underlined the importance of promoting an enterprise culture and a business - friendly environment, and the need for a concerted effort at Community, national and local levels to identify and implement measures in a coherent and consistent way. Priorities include promoting education and training, improving business support services, simplifying public administration, accessing new technologies and encouraging innovation and better access to finance.

For its part, the Commission will promote a series of actions including a Communication on Training for SMEs and the setting up of a Business Education Network of Europe (BENE).

- Access to Finance

Lack of finance hinders the setting up of businesses or limits their growth potential, especially SMEs and those launching innovative products or services. Lack of financial flexibility due to over reliance on short term loans increases the risk of failure, especially in times of recession. The widespread practice of late payment further aggravates liquidity problems, especially for SMEs.

In its Communication *Risk Capital: A Key to Job Creation in the European Union*, the Commission has analysed the damaging impact of an inadequate equity culture on the growth and employment capacities of fast growing, innovative companies. In addition to implementing the action plan aimed at opening European capital markets and strengthening the European equity culture for our European business, a series of other barriers (cultural, taxation, regulatory, bureaucratic fragmentation) need to be addressed - mostly by Member States. The Union has to create an economic environment whereby new ideas can be developed

swiftly and profitably inside the Union, for the global market place.

The Commission will propose improvements to credit finance, especially in the start-up phase through the Third Round Table of Bankers and SMEs, and study the possible setting up of an SME investment agency at EU level based on the successful Small Business Investment Corporation in the US.

To ensure coherence in implementing the policy measures at all levels on fostering entrepreneurship, an annual report focusing on main priorities not covered by the National Action Plans will be prepared for the Council and the European Parliament.

Culture and employment

The various strands of the culture industry (heritage, literature, press, music, performing arts, visual and audio-visual media and socio-cultural activities) are a major economic and social force in the European Union with significant job creating potential. Recent studies suggest that in 1995 the number of jobs in this sector, including artistic crafts, exceeded 3 million, or some 2% of EU employment. Indeed the cultural sectors provide an interesting testing ground for new practices linking versatility, occupation and geographical mobility, and innovative new approaches which can create new jobs. Although multimedia groups operating on a global economy have emerged, small and self-employment continue to predominate in the sector.

The possibilities offered by multimedia and on-line services in the information society are developing fast. However, public support may also be required to contribute to the development of the necessary infrastructures and to encourage entrepreneurship, including especially access to finance, as well as helping to fill the skills gaps with new training and re-training facilities.

A Strong Social Dimension Open to Change and Facing Up to New Challenges

The Commission has adopted a new Social Action Programme 1998-2000 which provides a framework for the continuing development of social policy at EU level. The Programme is structured around three interlinking objectives : promoting jobs, skills and mobility; the changing world of work and an inclusive society. Employment is central to the approach set out in this programme because it is a Europe at work that will sustain the core values of the European social model.

Within this framework, the Commission has launched debates on a number of issues such as modernising and improving social protection systems; the implications of demographic change for economic, social and employment policies and the need to bring undeclared work into the open.

Improving Social Protection

Increasing the employability of those excluded from the labour market is now a central aim of social protection policy, next to income maintenance and prevention of social exclusion. In line with the Commission Communication of 12 March 1997 *Modernising and Improving Social Protection in the EU*, the Commission is currently examining how the social protection system can be made more employment-friendly. It is in this perspective that the Commission has studied, in its recent report *Social Protection in Europe 1997*, Member States initiatives to tighten eligibility for benefits, strengthen incentives to work, shift to active measures to help those out of work find a job, extend job creation schemes, reduce reliance on benefits, help people with disabilities and reverse the trend towards early retirement while encouraging partial retirement.

- Industrial Change

The High Level Group on the economic and social implications of industrial change, which the Commission launched earlier this year in response to the Job Summit Conclusions, has prepared and submitted an interim report which has been forwarded to the Cardiff Summit.

The Report emphasises that an effective social dialogue based on mutual trust and information is vitally important both in adjusting to change on a continuous basis and in handling difficulties arising from industrial restructuring. To this end, employers, workers and governments should share the responsibility for ensuring the employability of the workforce, with governments providing for adequate education and training programmes, employers continuing developing the skills of their workforces and the workers using every opportunity to upgrade their qualifications.

The Report stresses the need to have a full understanding of the forces driving industrial change, and suggests that the economic forecasts and forward studies produced by professional organisations and private research bodies through the European Union be gathered together and disseminated by a European Observatory of Industrial Change.

- Social Dialogue

The Social Dialogue at EU level has an increasingly important role to play in the development of EU-level policy, particularly through information, consultation, employment partnerships and negotiation. The aim is to achieve greater co-operation and openness with, and between, the Social Partners and to encourage the further development of contractual relations both at cross-industry and sectoral levels.

This dialogue needs to be adapted and strengthened in the context of the major policy challenges facing the EU, particularly in the field of employment, including work organisation, flexibility of working life and working time.

Undeclared work

On 7 April 1998, the Commission adopted a Communication on *Undeclared Work*. The Commission's intention is to launch a debate on the causes of undeclared work and the policy options available to bring it into the open. It suggests that there is, firstly, a need to identify correctly the causes and extent of the problem, and, secondly, to regard combating undeclared work as part of the overall employment strategy.

To the extent that is perceived as an issue of individuals and firms taking improper advantage of the system, public authorities must aim at a greater enforcement of the rules through enhanced control and through reducing the advantage of not declaring work. As far as undeclared work is related to slow adaptation of legislation to changes in working patterns, a preventive approach is required. It should cover the liberalisation of product and service markets, the adaptation of inappropriate legislation and regulations, the structuring of supply of services such as care or cleaning, a decrease in the taxation of labour and a greater involvement of the social partners in information, enforcement and control.

The Commission has issued a Communication *Adapting and Promoting Social Dialogue* with a view to strengthening it at European level and linking the work of the Social Partners more closely with the development and implementation of EU policies. The Communication is the result of a wide-ranging consultation exercise launched in

September 1996 and sets out a number of key actions with a view to achieving a more open social dialogue, more effective consultation and dialogue and the development of a collective bargaining process at European level.

Complementing and supporting action by the Member States

Reform of Structural Funds

The proposals for new Regulations on the Structural and Cohesion Funds provide the legal framework for financial support in the next programming period 2000-2006, in line with the Agenda 2000 proposals.

The Commission's intention is that the overall envelope for structural and cohesion policies should be maintained at the level of 0.46% of GNP over the period 2000-2006, which amounts to almost EUR 287 billion (in 1999 prices). Of this amount about EUR 240 billion, including EUR 21 billion for the Cohesion Fund, will be available in the present Member States (compared with EUR 208 billion for 1993-99 on the same price basis). The remaining EUR 47 billion will be for structural assistance in new Member States and the candidate countries. This represents a further substantial commitment to the policy of promoting economic and social cohesion in Europe.

The main aim of this Structural Fund assistance is to help establish the conditions for sustainable economic development through growth, competitiveness and employment. Only by ensuring that such conditions are in place can the aim of safeguarding employment and creating new jobs be fully realised. The main areas where assistance is provided are infrastructure, the development of human resources, the promotion of equal opportunities and support for the productive sector. The impact on employment is positive in both the short and long term: in the short term because assistance will stimulate demand for goods and services

and in the long term by maximising the potential of both human and physical resources and improving linkage between the productive environment and the operation of the labour market.

In the next period Structural Fund assistance, particularly from the European Social Fund, should also contribute to supporting the European Employment Strategy and the National Action Plans on Employment submitted by the Member States in accordance with the Luxembourg process.

Local Development

Co-ordinated efforts to promote job creation are increasingly undertaken at regional and local level. The Second Report on Local Development and Employment Initiatives, issued in January 1998 indicate that these initiatives have a significant job-creation potential in the medium-term. The proposals to reform the European Social Fund and European Regional Development Fund put particular emphasis on developing this potential. In this context, the Commission is now providing support for the development of 89 territorial pacts for employment covering some 10% of the population of the EU. A pilot scheme "Third system and employment" has been launched to explore and promote the employment potential of local initiatives in new types of services.

Fifth RTD Framework Programme

The improvement of the international competitiveness of EU industry, economic growth and job creation are some of the challenges which the EU research and technological development policy must help to meet. Following the opinion delivered by the European Parliament in December 1997, on the Commission's proposal, which had earmarked a budget of ECU 16.3 billion for the 5-year period, the Council adopted its Common Position

on the 5th RTD Framework Programme (1998-2002) on 23 March 1998. The European Parliament and the Council have to reach agreement on this Framework before the end of this year. On 13 May 1998, the Commission adopted proposals for 8 specific programmes to implement the 5th Framework Programme.

The promotion of employment will be the major criterion for the selection of research programmes. Four of the eight programmes are directly relevant for the promotion of employment. They are focusing respectively on the creation of a user-friendly information society, the promotion of competitive and sustainable growth, innovation and the participation of small and medium-sized enterprises, and the improvement of human potential.

Environment and Employment

As stated in the Commission Communication *Environment and Employment* of 18 November 1997, building a sustainable Europe will require important modifications in industry, transport, energy and agriculture policies as well as consumption patterns. Achieving these modifications will require different policy instruments and the co-operation of all partners (public authorities, private sector, social partners and NGOs) at all levels. It will also require new technologies and new investment.

Much of manufacturing industry's efforts to date to meet environmental requirements have focussed on implementing end-of-pipe solutions which do not usually result in efficiency or productivity gains, while opting for clean technology would improve process efficiency. The potential for job creation in energy conservation could be substantial while considerable environmental benefits can be realised, in particular in the field of climate change and acidification. Also, combined heat and power generation schemes contribute to the increased competitiveness of industrial and

commercial sectors and at the same time generate jobs. In the agricultural sector and related downstream activities, the following areas have potential for job creation :

- (i) processing and marketing of agricultural and forestry products, mainly regional products, and organic production;
- (ii) diversification into non-food activities and renewable raw materials;
- (iii) actions related to environmental protection and maintenance of landscapes;
- (iv) diversification of on-farm activities such as tourism.

The renewal of the urban environment offers important job creation opportunities through investments in waste and water treatments and also through construction activities.

Consumption patterns are becoming more environmentally friendly, as environmental and resource costs become increasingly integrated in market prices. It has been shown that waste recycling is capable of creating a significant number of new jobs.

Education, Training and Youth

The Commission's recent proposals for three decisions in the domain of Education (Socrates), Training (Leonardo de Vinci) and Youth (Youth) extend and broaden the current Community action programmes in line with the emphasis set out in Agenda 2000 on improving knowledge policies within the EU. The common central objective of these three proposals is to support, at all levels, the process of lifelong education and training. Together, they seek to promote the progressive construction of a European educational space oriented towards the development of competences, the enrichment of citizenship and the development of employability.

All three have been designed to complement the European Employment Strategy: formal and informal education and training is not only an essential dimension of employability and adaptability, but can also support the development of an entrepreneurial culture and the promotion of equal opportunities. A budget of ECU 3 billion has been proposed by the Commission for the 5-year period 2000-2004.

Trans-European Transport Network

The Jobs Summit also emphasised the importance of the Trans-European Networks for long-term competitiveness, growth and employment.

Following the Summit emphasis on the need for firm timetables and financing plans, the Commission, has in co-operation with the Member States reviewed progress and prospects in relation to the 14 priority projects identified at the Essen Summit in December 1994.

The overall picture is one of significant progress : three projects are nearing completion, all are under construction or at an advanced stage of preparation and most will be completed by 2005. This may be slower than originally envisaged, but judged against the normal timescale for very large infrastructure projects – and all 14 come into this category - this represents sound progress, and it is worth noting that it has been made at a time of budgetary rigour.

Latest estimates confirm that the next financing period (2000-2006) will see a significant increase of expenditure on the 14 priority projects, as many of them reach the peak construction phase. The progress already made in improving the sustainability of public finances opens up the possibility of increased infrastructure spending within tightly controlled overall national budgets. As far as Community funding is concerned, the ERDF and

Cohesion Fund will continue to provide support and the Commission's proposed revision of the TEN Financial Regulation earmarks ECU 5 billion for this period. Completing the TEN network will, however, require a combination of public and private finance. This partnership approach can achieve more rapid project implementation and better value-for-money. Firm commitment is needed from Member States if the private sector is to invest in development of suitable financial instruments and approaches

With most of the projects underway, particular attention will need to be given to the Alpine tunnels, and to the other projects with continuing financing gaps. The revision of the TENs Guidelines in 1999 will provide an opportunity to review priorities. A major effort is also required to prepare for the extension of the TENs to the accession countries, for which ISPA, provided for in the Commission's Agenda 2000 package, will be the main source of EU funding.

Employment and Growth Initiative

On April 21, the ECOFIN Council adopted the *Employment and Growth Initiative*, due to provide ECU 420 million over three years for innovative and job-creating SME and to help them overcome some of the financial obstacles they encounter. To respond to various needs across regions and sectors, the means are divided between three complementary facilities:

- A European Technology Facility Start-up, (risk capital) managed by the European Investment Fund (EIF) through investment in relevant specialised investment funds. The scheme will target a segment of the venture capital market with a higher inherent risk, notably SMEs at the setting up and early stages.

- A Joint European Venture action, (provision of financial contributions), under the management of the Commission for the establishment of trans-national JEV by SMEs within the European Union.
- An SME Guarantee Facility, managed by the EIF to increase the availability of loans to small or newly established firm through risk sharing.

Annual reports on the schemes will, in addition to assessing SMEs access to financing, look at the immediate effects on employment creation as well as the long term prospects.

Conclusion

The creation of new and better jobs and combating unemployment continues to be the Union's priority. The Member States have demonstrated their determination to make progress by preparing, adopting and submitting their National Action Plans for Employment within the tight timeframe set by the Luxembourg Jobs Summit. They have moved decisively from the guidelines phase to action.

At EU level too, the Commission's proposals in relation to the Structural and Cohesion Funds, the 5th RTD Framework Programme, the Education, Training and Youth Programmes, as well as non-spending proposals, have been refocused on the employment priority. This demonstrates its commitment, in accordance with the new Article 127(2) that a high level of employment be taken into account in the formulation and implementation of Community policies and activities.

For this reason, the Commission has decided to report regularly in future to European Council meetings on the contribution of Community policies in support of employment.

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