IV. THE COMPANY AND ENVIRONMENTAL POLICY

In this chapter, the CAG limits itself to analysing environmental policy in the context of the company, competitiveness and the functioning of the internal market.

Innovation combined with effective regulation is also the main key to the simultaneous achievement of two of Europe's prime objectives - protecting the natural environment and improving the competitiveness of European business in order to secure living standards and employment. Although the two objectives create pressures and potential conflicts, we do not believe that they are incompatible goals.

> Two examples demonstrate what can be achieved. In the first, a co-operative approach involving the regulatory authorities, the car industry and oil suppliers is achieving a progressive reduction in vehicle emissions with the goal of meeting air quality targets based on guidelines set by the World Health Organisation. In the second, co-operative action helped in the process of eliminating refrigerator cooling agents suspected of damaging the ozone layer. The encouragement through regulation of alternative technologies has given some European companies an advantage over U.S. competitors who have faced a rigid regulatory framework which has not permitted the development of the most cost effective solutions.

In some areas, however, inappropriate or ill designed regulation has damaged competitiveness and employment, while achieving little or nothing in terms of environmental protection. In other areas, weak regulation can increase rather than decrease waste, and can raise the long term costs of environmental protection. If regulation is focused too narrowly, it can fail to correct weakness in pricing structures which do not always reflect the cost of resource depletion and can impose undue costs relative to the benefit.

To achieve environmental protection in a least-cost way, the CAG believes that market-based instruments should be used whenever possible, rather than quantitative regulations. The latter can be most effective when well proven health hazards are at issue, or when only a limited number of companies is involved. In general, however, quantitative regulation cannot guarantee that the marginal cost of pollution abatement will be equalised across uses and firms. A typical case is the relative cost of a further unit of reduction of pollution at a well-run plant within the Union compared to the much smaller sum required to achieve the same improvement in an out-dated plant in the neighbouring Central or Eastern Europe. Quantitative regulation can therefore lead to wide disparities in the costs of emission reduction, depending on the starting point of improvement.

Compatibility of the objectives of competitiveness and a clean and secure environment rests on the quality of the regulatory process. To be successful, that process must be based on a high quality dialogue, underpinned by sound expert advice and up-to-date scientific evidence that need not compromise the independence of environmental policy making from the interests of industry and of labour.

We believe that the optimal regulatory process is one in which:

a. the development of the regulatory framework is open with full participation from all parties;

b. regulation is framed in terms of goals, which should be precise, scientifically valid and clearly understood by all parties;

c. the costs of achieving such goals - in terms of their impact on competitiveness and employment - is made clear before regulation is enacted, as is the way in which any such costs are to be met;

d. the goals are set, but the means of achieving those goals are normally not prescribed - creating the incentive for enterprises to develop innovative and cost effective ways of meeting the objectives, for instance through the application of technical advance;

e. whenever possible, pricing instruments (such as taxes or incentives, tradable permits, etc.), should be used, rather than quantitative regulations.

The presence of multiple regulatory systems operating within the EU imposes further costs. A simplification of the regulatory structure to establish a single clear set of objectives applicable to enterprises throughout the Union would be highly beneficial. Pan-European, rather than national, regulations should play a greater role in the environmental field. In many cases, environmental protection cannot be tackled in an effective way at a national level. First, there are obvious externalities in pollution abatement across Member States. Reduction in transboundary pollution originating in one country would also benefit others. Second, the functioning of the Union's internal market must not be constrained by national environmental policies.

Given a sound regulatory system the desire to enhance the quality of the environment can also create opportunities for improved competitiveness, new products, employment and trade. In the words of a recent study "Properly designed environmental standards can trigger innovations that lower the total cost of a product or improve its value".

> A good example of the potential which exists is energy conservation. "It has been estimated that a potential market worth some 430bn ecu exists within Europe for measures to reduce energy waste. The effective application of existing measures to improve all round energy efficiency in process plant and buildings could create up to 3.4 million man years of work over the next decade. By cutting down waste and by using energy efficiently, additional wealth can be created while burning less fuel, with less damage to the environment."

Growing international concern about environmental issues can provide opportunities for European firms which have identified commercial ways of meeting those concerns. Incorporating environmental objectives into the design of products and processes is already a valid marketing strategy. The scope in this area is considerable, but it is as yet little understood across the European Union. The commercial potential arising from the need to manage environmental issues would be a legitimate focus for a European Technology Foresight programme designed to stimulate interest and the development of applicable research.

V. THE MEANING OF THE LEARNING SOCIETY

Basic training is essential in preparing individuals for life in a democratic society and to endow them with general skills and the capacity to adapt flexibly to a changing environment. It cannot be disassociated from the needs of the economy. Well-designed apprenticeship schemes can ease the integration of young people into the labour market and provide a sizeable contribution to lowering youth unemployment. In its first Report, the Group emphasised that early education is only one component in the accumulation of human resources, which should be seen as a continuing process throughout an individual's life.

The notion of what is in effect a 'learning society' has been debated in education, training and business circles for some time. The CAG is convinced that the creation of a learning society will be good for competitiveness. Therefore we have chosen to focus in this second Report on stages of education and training beyond initial vocational transition, especially on the approach to continuing development of the individual.

Occupational structures are changing so rapidly as to demand more career flexibility, adjusting to transformation in job content in existing occupations or mobility between occupations. Restricting adaptation to the unemployed or to the entry of young people trained to modem requirements is not enough. Effective adaptation must increasingly involve much greater proportions of the adult population. This means that the learning process will need to:

- continue further beyond the phase of education and training for entry to an occupation;

- involve a broader group of people;

- encompass a wider set of learning situations.

Undoubtedly, the rise in skill and knowledge intensity is most apparent in those areas of the market economy which are subject to the fiercest combination of technological change and international competition. But successful economies cannot be built on these 'islands of excellence'.

From both economic analysis and practical experience, we know that both companies and individuals investing in qualifications face several market insufficiencies. For example, there is a lack of information about the future demand for skills and qualifications. It is difficult for enterprises to determine what are the appropriate levels for their education and training programmes; for this reason, some companies opt for a minimum effort. Uncertainty in product markets strengthens this tendency. Companies can then be under pressure to compete for workers trained by other companies rather than organise training schemes themselves. This is also true for SMEs, which moreover have practical difficulties in releasing staff for training. Overall, therefore, if left to market forces, only a weak version of the learning society is likely to result. Learning organisations will not materialise in sufficient numbers.

To remedy this deficiency, the CAG believes that a combination of 'cluster-building' and co-ordination is required:

Cluster-building: groups of firms which are supplying goods and services to each other, or simply share the same regional economic base, can try to co-ordinate their efforts in education and training. Governments can stimulate such co-operative behaviour.

More co-ordination by government, with an assumption of responsibility on the part of the social partners: this can take the form of regulations which underpin the training efforts of those firms that are already highly active by requiring the same effort from other organisations; it can also involve installing follow-up mechanisms, for example, at a sectorial level, which seek to provide better information by which firms can aim for and attain appropriate levels and patterns of training.

V.1 Innovators in the Learning Society

In examining numerous examples of innovative behaviour, the CAG has been struck by the extent of new thinking, experimentation and the gradual accumulation of real experience in Europe. It notes especially the national initiatives to empower individuals to develop the range of opportunities open to them and to pursue their independent career objectives, including distance learning developments which encompass 'open universities' and 'open colleges'. This requires qualification systems which facilitate flexibility whilst maintaining quality: modularity, credit transfer and external transparency of assessment standards are needed in order to achieve these goals.

Key to the development of the learning society are the efforts of educational institutions, but also of corporate management and the social partners, working together. Just three examples of action are described here.

- Educational institutions and companies collaborating to combine both technology transfer and professional training at a high level:

UNIVERSITY-ENTERPRISE TRAINING PARTNERSHIPS (UETPS)

UETPs aim to promote technology transfer and training, sometimes on a regional basis, sometimes on a sectorial basis. In one region, in Spain undergoing major industrial restructuring and experiencing mass unemployment, a UETP has been established between seven universities, ten enterprises and eighteen professional associations. By reaping the economies of scale through collaboration, this has helped to redeploy through training and retraining many of those lacking the skills which are essential for the new jobs being created. This approach contributes to both economic and social regeneration. It not only encourages existing producers to invest in modern production methods and organisational designs, but also attracts new producers to the region by making them more confident of finding the necessary skills.

- Companies which take very long-term views of the need to enhance the learning capacities of their employees and have reached agreements with employees, trade unions, colleges and universities over the contributions which all should make to the arrangements:

EMPLOYEE DEVELOPMENT SCHEMES

These schemes have emerged in a number of Member States and sectors with particular take-up in manufacturing. One example serves to emphasise the key features:
One UK company aimed to promote better relations with its workforce and the active involvement of the trade unions was seen as a key element. The original intention was to provide opportunities for personal development and training for all employees. Later this was extended to include the pursuit of healthier lifestyles and career development. Each employee may receive a grant of Ecu 250 per year towards the cost of courses which have to be undertaken voluntarily, outside working hours and treated separately from any job-related training in progress.
Initial predictions that about 5 per cent of employees would apply were well exceeded by the third of employees who did so in the first six months of the scheme. Subsequently, this level of commitment has increased - virtually half of the workforce is now involved every year. Such a scheme extends the idea of continuing learning to a wider group of employees than might usually be involved regularly in it for vocational reasons. A capacity for learning cannot be turned on and off at the convenience of the organisation. It must be developed and maintained.

- Government and/or social partners agreeing to fund special training efforts for the long-term unemployed, low skilled and other groups which are vulnerable to social exclusion. These 'outsiders' will not otherwise benefit from improvements which are made for the 'insiders', i.e. those who are in employment. An example of this would be to devote a percentage of the wage bill to this end. Such schemes establish a direct sense of responsibility, an element of solidarity, between employees who are in strong positions in the labour market, and those who are not:

SOCIAL COHESION AND THE LEARNING SOCIETY

In Belgium, by agreement between the social partners and the government, 0.25 per cent of the wage bill of the private sector is devoted to the training and integration of risk groups. Collective agreements have to be concluded by sectors and enterprises which provide for training of:

- the long-term unemployed
- young people studying half-time and working half-time
- unemployed people with schooling limited to the lower secondary level
- older employees facing dismissal from the sectors and enterprises which are, themselves, running the initiatives.

These innovations will depend for their success on much more rigorous monitoring and evaluation than is currently the experience in Europe. Costs incurred by social partners and other groups involved in the development of the system need to be properly covered, recognising their investment on behalf of the respective sectors and of society as a whole.

V.2 Knowledge Resource Centres

A much wider take-up of best practice must be encouraged. The CAG welcomes new Union programmes, centered on LEONARDO covering vocational training. It supports the Commission's proposal to report regularly on the European vocational training situation. The CAG stresses the importance of the Commission developing its evaluation role so as to be able to disseminate both best practice and promising innovations on the basis of thorough analysis. In our first Report, we proposed a pilot scheme of Knowledge Resource Centres (KRC). We now try to go further.

The function of the KRC is to ease access to professional judgment about the knowledge which it may become increasingly important to possess, the alternative ways of acquiring it, and the relative merits of the different routes to doing so. The KRC is not just another advertising medium or a database: it will deal particularly with material which has been subjected also to qualitative analysis of some kind.

KRCs need to acquire and update knowledge about developments in the labour market, their impacts upon the industrial-occupational structure, the relationships between different occupations and the evolving job content associated with them. Contributions to this are already made both by the EU Employment Observatories and by independent research organisations.

KRCs must play a dual role: that of providing information about what learning technologies and opportunities are available and that of providing information about how good they are. Moreover, it is here where the value of adopting a European-wide approach to ensure the diffusion of best practice can best be seen. To achieve real benefit, the special importance of strict monitoring of quality to pan-European standards must be recognised.

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ENHANCING EUROPEAN COMPETITIVENESS

Third Report to the President of the Commission,

the Prime Ministers

and Heads of State.

June 1996

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Commission Permanent Representative: Professor A. Jacquemin, Chief Advisor, European Commission.

F.A. Maljers

June 1996

Dear Mr. President,

On behalf of the Competitiveness Advisory Group, I hereby submit the Third Report, dealing with Competitiveness and Employment. The issues in this Report are closely related to the wider subject of the competitiveness of the European Union. A higher level of competitiveness would effectively be the best way to create more jobs. In addition, a better use of the labour resources in the Community would also mean that the waste of productive people being idle would be reduced, thus improving our competitive position.

We do make a number of suggestions which are, where possible, supported by examples taken from various countries.

The preparation of the Report was largely done under the chairmanship of Dr. Ciampi who, as you know, resigned mid-May following his appointment in the new Italian Government.

Yours sincerely

F.A. Maljers

Mr. Jacques SANTER
President
European Commission
BRUSSELS

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I. SUMMARY AND CONCLUSIONS

In its first two Reports, the Competitiveness Advisory Group focused on issues which Europe must resolve if it is to meet today's global challenge. These included completion of the Internal Market, steps toward EMU, progress in the priority Trans-European Networks, public-private partnerships, the East-West win-win opportunity, expansion of Europe's vibrant small and medium size enterprise sector. The CAG also stressed the role environmental policies and education and training policies play in establishing the competitiveness framework.

This Third Report moves to what is often regarded as an even more central area, the labour market, employment, competitiveness. We start from a basic fact: unemployment is too high in Europe. The waste of resources this represents is one side of the coin. The social consequences, the real hardship, even the potential political repercussions, are all just as important. Europe's current dismal performance is fairly new. Historically, we did better than our trading partners. The time has come to see why we no longer do so, and how we can do better. There are other labour market models outside Europe. These have some apparent advantages in terms of job creation, yet each carry with them definite costs. Europe has to find its own way, in the context of a social model based on consensus, agreement, involvement.

The competitiveness of an economic system cannot be divorced from the range and scale of employment prospects it offers its people. Better functioning of the labour market in Europe is generally acknowledged to be vital for competitiveness, just as competitiveness itself is a determining factor for the level of employment. We cannot avoid policy changes - as well as changes in attitudes - and not only in labour matters. There is a view of unemployment as the inevitable corollary of the present stage of industrialisation. This must be countered by both sides in the employment equation - workers and employers. In terms of labour market modernisation, the perceived dichotomy between efficiency and solidarity need not be so stark. This is one CAG message. In combination with a supporting macroeconomic policy, we need to encourage mobility, positive flexibility and change in the labour market, avoiding rigidities which become disincentives to work and to take on new employees. The CAG is convinced that reforms in this direction need not conflict with Europe's high standards of social protection, nor affect provision of the safety net which those most exposed to hardship as a result of joblessness have a right to expect.

The Report is in three sections. Part One traces the current situation and how it has developed over time. It analyses what should be done - and what can be done - to establish positive flexibility in labour markets and to reform labour relations in Europe. Parts Two and Three adopt a novel methodology. They develop the CAG's established bottom-up approach, illustrated by cases studies, applying it both to a country-by-country, as well as to a company-by-company, analysis. The benchmarking of countries provides practical illustrations from the Europe of today of measures that can be taken to increase employment and, particularly, to decrease unemployment in exposed groups. The companies and organisations analysed are known to have undertaken changes in work organisation, giving greater flexibility to achieve enhanced competitiveness with job creation and job enrichment, and benefits to employers and employees.

In its work the CAG discovered significant lack of comparative evidence relating to socio-economic policy across the European Union. This is clearly regrettable and should be rectified. The Report aims to offer first indications for such comparative analysis, a start on that benchmarking which will enable us to agree the parameters of debate and so start the process of reform.

The Report makes a series of key recommendations in the following policy areas.

1. Modernisation of the labour market needs to be carried out in the framework of a **growth-oriented scenario**. This includes completion of the Single Market to realise the European dimension of our economy, infrastructural investment, a fresh commitment to education to provide the full range of core skill which must be available in the workforce of a successful economy operating in the global marketplace. But the benefits of reform and restructuring will not materialize if macroeconomic policies do not play their role in ensuring that the potential increase in the output of the economy is matched by an expansion in demand.

2. There is an ongoing need for **wage moderation**. Wage moderation facilitates the task of maintaining low inflation and keeping public finances under control, and achieve the Maastricht criteria. But excessive reliance on wage moderation only can generate serious problems of inadequate demand and even incurs the risk of deflation. A broad consensus is required. For this reason national social pacts, in the light also of the overall scenario set out in President Santer's Confidence Pact, will enable us to move forward simultaneously on the stability and on the employment front.

   The question of relative wage levels must be seen in context, given by age, sector, region. Minimum wages help contain excessive wage inequality, but may hurt those seeking to (re-)enter the labour market.

3. An important contribution to kick-starting Europe's labour markets would be a sizeable **lowering of employment costs for the lower-skilled and the long-term unemployed**. The aim should be to reduce the cost of labour without reducing the return on that labour. The CAG recommends the suppression of employers' social security contributions and the reduction of