



Your complimentary
use period has ended.
Thank you for using
PDF Complete.

[Click Here to upgrade to
Unlimited Pages and Expanded Features](#)



imagination at work

Transcript of the plenary session initiated by GE at XX Krynica Economic Forum

Title: **Creating EU Financial Perspective 2014-2020 – Innovation or Infrastructure?**

Date: **September 10th, 2010**

Place: **Krynica Economic Forum**

Marc Coleman: Welcome everybody to the session which is on the topic of creating the EU financial perspective for the years of 2014–2020, organizing cooperation with general election... General Electrics, I'm sorry, and the topic is: Innovation or infrastructure. We have an excellent panel for this topic. It's a very opportune time to be discussing this. We're in the midst of what we hope is the end of the financial crisis. We are also on the threshold of a Polish and Hungarian presidency of the EU, so it's a major opportunity to ask how Central and Eastern Europe and how infrastructure and innovation in Central and Eastern Europe can contribute to the process of economic renewal in Europe. It's also an opportunity to look back. If I may introduce a personal note, formerly I was an economist with the European Central Bank. I remember 6 years ago I was giving a talk in Prague on the question of infrastructure investments in the accession countries. You may recall the accession process was in full swing in the spring of 2004, and because I'm Irish, Ireland held the presidency of the EU during that period, so it was very interesting for me. In Prague I was looking forward to the next 6 or 7 years, hoping that we would see a process of infrastructural conversions and interconnectivities, so it's an opportunity also to look back at this objectives have or have not been reached. But it's also a very important opportunity to look at the crucial challenge of job creation in the EU, and investment in innovation and technology, energy, nuclear energy, and an innovation that is going to be critical if we are going to provide the jobs we need to sustain European economy.

So let me without further ado introduce our excellent panel. Immediately on my left we have Mirek Topolánek who most of you will know as former Prime Minister of the Czech Republic. On my immediate right we have Janusz Lewandowski, I hope I pronounced this correctly, who is Commissioner for Financial Programming and Budget of the European Commission. Then second on my left we have Günter Verheugen, who is honorary professor in the Institute of Conflict, who is of course also known as a former EU Commissioner. Second on my right we have Monsieur Francis Baily, who is Vice President for European Affairs for General Electric in Belgium. And then further on my left we have Jarosław Bauc

of Polkomtel Poland and of course a former Finance Minister. You forgive me if I pronounce this wrongly – is György Szapáry, who is Economic Policy Adviser to the Prime Minister of Hungary.

So without further ado, let me turn to you first, Mirek, for your thoughts on the topic of innovation or infrastructure.

Mirek Topolánek: Thank you, Marc. Ladies and gentlemen, I would like to thank you for the invitation to take part in a so prestigious panel. I must come very shortly and a little bit provocative. First thesis of my speech: Europe shall die of its political correctness, that is hidden proof or compassionate lives. I will speak on the European financial perspective in my view. The main thesis of my talk will focus on the dilemma that naturally arises: innovation or infrastructure. However, we are not understanding the content of these two words and the situation which Europe finds itself in, it will be a lone less one indeed. Second thesis in my speech: the European Union needs better innovation as an institution, it's not only about individual states or projects. We are at the end of the crisis, we know that. The question is whether we all proceed its scope and causes in the same area. I believe that it is not only a typical crisis. It's not even a momentary budget crisis, neither at a national nor European level. Let us not delude ourselves with the Greek or the (...) multiplied by global economic slowdown. All of these statements are true. Nevertheless, they are completely insufficient for understanding the depth of the crisis we are now in. Our crisis is not a mere crisis of current politics and economy. It's a crisis of philosophy, it's a crisis of the welfare state, it's a crisis of consumerism, the crisis of post modern ideology of demands and rights, which is preferred over the good old values of freedom and responsibility, it's the crisis of spiritual and moral values which were the genesis of our civilization.

Thesis number three: We are not in the crisis of budget, but in the crisis of values. Allow me a short note of the financing of the EU. You are probably not going to be taken by surprise if I tell you that my opinion and concerns are changing as opposed to that of the European council and the EU commission. The proposal saw the difficulties of the European budget. By imposing the new European tax is in my view, and not only mine, completely unfeasible. And it does not really matter in what way the tax will be structured. The solution must lie primarily, but not solely in the European budget cuts. Its value in no case can exceed 1 per cent of the EU gross national product. On the contrary, it should decrease. (...) The common agricultural policy must be strongly reduced, both in absolute numbers as well as in its share and EU expenditures. This is complete nonsense that in these times when we are struggling with overproduction of food starts to give into the post-war fear of hunger or more likely of today's fear of the agriculture lobby. On the other hand, if our fears should be full of (...) seed for biodiesel, bush for burning, and solar panels for electricity, there shall be much less space for grain, potatoes and corn. 20 per cent of the land area must suffice for energy purposes. Farmers in the past also needed 20 per cent of the land to feed their horses, that is for energy too.

Marc Coleman: Can I make a proposal, Mirek? Excellent. Can I complement you for an excellent opening remarks. You refer to budget cutbacks because of the recession. I have to impose a budgetary cutbacks on time. I'm like a financial minister with a watch here. You have some further excellent points. Can we

...n to some of the other speakers? Let's get some opening
... we come back to those points.

Mirek Topolánek: OK, OK.

Marc Coleman: Is that acceptable? Then allow me to turn to Janusz Lewandowski, Commissioner for Financial Programming. Your opening remarks, please.

Janusz Lewandowski: Thank you for the invitation. Surprisingly large audience, given this is 9 o'clock after many 'so called cultural' events by night. Placing European budget in the real perspective, that means to say that this is 1 per cent of the GDP of the member states. This is not 20 per cent of GDP of the United States, but we are not the federal Europe. This is a relatively small budget. European expenditure is coming on top of national expenditure. We shouldn't place too much exaggerated expectations with the community budget. But given the constraint of time, that is the crisis situation, so nicely with its all dimensions described by Mirek Topolánek, we have attached more than ever importance to the quality of spending, seeking new legitimization of a value added of the European budget. But that doesn't mean that we have very dramatic choices for the future. We need both infrastructure to connect both all the new Europe, because the communication system of Eastern Europe was used to serve the military needs of the Warsaw Pact, not the pleasure of travelling to the West; and we need innovation because Europe is losing in terms of number of patent applications, in terms of commercialization of innovation. Innovation is no equal to the number of scientific publications. My view of the future, my role will be of an honest broker giving the austerity, giving the need to find potentially new resources and cut the obligations... direct payments from the budgets in the member states. I think as to the substance, the Czech position will be slightly different, that of Mirek Topolánek in the final round of negotiations. But what is essential is to gain an agreement of 27 countries. This is about unanimity. We cannot imagine big losers and big winners, so this is in terms of gaining the agreement essential precondition.

Marc Coleman: Thank you very much for those opening remarks. And let me now turn to Günter Verheugen.

Günter Verheugen: Thank you very much. I'll try to be short and punchy. My first remark is innovation - innovation is the key for the future of European economy and society. We are still in the process of a double transformation, the knowledge-based economy and the equally efficient economy. And in both cases innovation is the key to achieve it. But we do not have a European innovation policy. Innovation is done here and there, but I cannot see a strategy. But what I can see is the fact that the gap, for instance, the gap in innovation between the United States and in Europe is widening again, and that the emerging economies in other parts of the world are rapidly catching up. So something needs to be done.

Number 2 on infrastructure. I don't think infrastructure and innovation have to be seen in the contradiction. Just on the contrary, I believe that Europe must concentrate spending on modern infrastructure, the digital infrastructure, the energy infrastructure, communication infrastructure, transport infrastructure, and space infrastructure, and all this kind of things. You need new innovative

it. If you concentrate spending on modern infrastructure, at

My final point concerning the European budget. There Barosso one commission missed the golden opportunity. Deliberately last year when he decided not to present the ambitious midterm review of the European budget. Therefore the discussion starts really really late. But I think everybody must agree that we have to change the structure of our spending. I do not believe that it is feasible to try to get own tax revenues for the EU and I would be extremely reluctant to support it if it at the end would create a specific EU tax. It would only increase a tax burden for citizens and companies. I am absolutely sure of this. I do not believe that the volume of the budget can increase. Therefore, the question is: Can we increase the efficiency of the spending? Can we give it a better structure? Can we concentrate the spending on those issues which I have mentioned and I believe if you look at the most important part of the budget, at the structural funds, cohesion funds, reserves and development, and agriculture. It should be possible, and it must be possible to shift the spending from one heading to another and to concentrate on those investments which we need to maintain the competitiveness of the European Union in the globalized world of tomorrow.

Marc Coleman: Thank you very much for that. Let me now turn to Francis Bailly. Your opening remarks, please.

Francis Bailly: Thank you very much. I'd like to start by sharing with you a survey that we took both in Brussels and in the member states about innovation and infrastructure. We ask the people what is thought about innovation and infrastructure. Would you believe that 86 per cent of the people we interviewed in Brussels and in the member states of Europe said and believed that innovation will create jobs. Secondly, 90 per cent believe that innovation will create competitiveness and greener economy. And when we ask them, what sector would benefit from this innovation they tell us: energy, healthcare, telecommunications, transportation. Those are also infrastructure. So clearly, as you said, Mr. Verheugen, there's a link between innovation and infrastructure. Therefore the concept of innovative infrastructure. Now the debate is whether we should go first in the classical infrastructure, and later some time into most modern. I would argue, maybe as a provocation, it's time now to leapfrog and start considering the next generation of technologies. Why? Because, you know, the most classical technologies deliver the jobs of today, creating growth, creating values. This is extremely important. This is the jobs of today. But you have now to think of the jobs for our children in the next 20 years. Therefore, it is very important starting now to prepare the jobs of our children and only innovation now can do this for later.

Second comment very quickly – I can come back later to those innovations that can change the life starting now. But I think that there is a window of opportunity right in this region, and this is 2011. When you think that, you know, both Hungary and Poland will lead the European Union in 2011, now you still sometimes talk about the large countries of Western Europe. If you now add the population of Poland to the population of the Czech and the Slovak Republic, and the population of Hungary, you come to 67 million – a very significant size, very comparable with other countries. What about if this

develop the vision of how should Europe look like in the next 20
We will come to this later.

Marc Coleman: Thank you very much. We now turn to Jarosław Bauc.

Jarosław Bauc: Thank you very much. Just after I have been asked to take part in this panel, I immediately decided to call the best informed man in the whole Europe regarding the budgetary perspective for 2014–2020, who is Janusz Lewandowski. He told me I may refer to our conversation, that there is nothing like a perspective of 2014–2020 yet, which from the point of view of this discussion is quite a nice standpoint and quite nice base because we can quite freely and openly discuss the challenges and how that perspective could look like. From my point of view in this preliminary part of our discussion I would like to stress a few things that can put some light on this perspective. The first obviously is the macroeconomic aspect coming from the recent crisis, meaning that in EU countries there was quite sudden and substantial increase of the debt. At the same time, because of the recession, the base for repaying the debt from GDP lowered. That means that the indebtedness of the whole EU will no doubt impact the budgetary perspective for 2014–2020. What's more, we can now observe the quite visible risk averse towards Europe, meaning that the refinancing perspective also worsened. So that will no doubt create a pressure for lowering the overall perhaps budget in the perspective of 2014–2020. So that's my first observation as an outsider from that issue.

The second problem that I see that I would like to touch upon is the policy of coherence, meaning that maintaining the same rules that we have today is quite unlikely. Why? Because if we were to maintain the same rules of dividing the resources, then the part of the regions from East Germany, Italy, Greece will be deprived from the funds that are already allocated. To your knowledge, I mean the audience, obviously, not the panelists, in the budget of 2007–2013, the split of the budget between the old EU-15 team and the new 12 countries in terms of the coherence policy was like 1:1. Like in the next perspective it's going to be like 1:2, creating another pressure. And if we also take into account the fact that there is a change in the voting procedure, then it might be difficult for the new accession countries to form the majority which could block the changes. So I think we have a lot of interesting things and the uncertainties regarding the budget itself before we start discussing infrastructure issues.

Marc Coleman: Thank you very much for that contribution. And the last but not least: György Szapáry, please

György Szapáry: Thank you very much. I would like to thank you for giving me a change to talk here. The question was whether the focus should be on infrastructure or innovation. I think both are important, but my message is that the future of Europe, in particular of that region as well, is knowledge-based economy. Why? Because it greatly depends on productivity, and increase of productivity is knowledge-based economy. There are international studies that show what have worked for the developed countries what are the indicators of knowledge-based economy. You might be surprised, some of you in the audience, but the Central and Eastern European countries – while there are differences between them – all lag behind the most developed European countries, and European countries lag generally behind the United States. What are these indicators? Quality of education, science education, and

because the former socialist countries were known for the quantities of engineers, but this has been for the past 20 years neglected. We are educating a lot of lawyers, psychologists, philosophers, literatures, etc. and less scientific people; engineers. An interesting development. We are lagging, the region is lagging in technology absorption, availability of the latest technology, not to talk about inventing technology. We are lagging in Internet access. We are lagging in R&D spending in the company and the government. We are lagging in languages, international languages, English and German maybe, but we are lagging in that as well. We are lagging in life expectancy and I would like to emphasize this: if life expectancy is very low that means that people are sick a longer period of time or even die earlier. That means they don't have a chance to work as much, they are missing on job days, which is reducing productivity. So knowledge-based economy is the future. And Mr. Chairman, hopefully we also have a discussion on what needs to be done because there is consensus here that innovation is important. We should also discuss in the next run what needs to be done to increase innovation, knowledge-based economy and then I come back to that in my next term.

Marc Coleman: Well, thank you, György. And thanks to all the panelists for keeping within the allotted time. As I said, there are fiscal constraints, there are also time constraints. Now we throw it open to a discussion amongst the panelists which we will do for 20 or 30 minutes before we then turn to you and ask you to contribute. But first let me turn to Janusz because I think you want to make a point in response to something that was said by Jaroslaw.

Janusz Lewandowski: A small clarification on the calendar explaining why I couldn't deliver to Jaroslaw Bauc anything on the future. We are to disclose and communicate the vision of future European finances mid 2011, but this is right in time when the Hungarian presidency is handed over to Polish presidency. This is very strange. This is about consultations, rather face-to-face type, and about rather confidential ways of preparing scenarios. But they are really preparations. But what is important to know that this is not an intellectual exercise. We are not doing it in the political, economic and social vacuum. We have to take into account: no. 1 the context of austerity, constraints that are imposing clear limits on the future volume of the budget, but also take into account the potential intergovernmental lobbies. And just a small illustration. This is about common agricultural policy. You should know that the beginning of the European budget was about agricultural spending, that was 80 per cent of the budget in the 80s. But now this is out of fashion. This is so easy to say: get rid of common agricultural spending. But you will see that this is going to be strongly defended at the intergovernmental level. This is the strongest lobby, I think. This is the paradox of disparity between what think-tanks could say to us and the real lobby defending agricultural policy and it will be one of a major pillars of future budgets to gain support of 27 countries.

Marc Coleman: Thank you very much. And perhaps that's an opportunity to turn to Mirek because you spoke about the need to overcome political taboos in a direct way. You might want to respond to that. You might also wish to finish some points that you were making.

Mirek Topolánek: I absolutely agree with my colleague that to support innovation is a great goal of the next budget, next financial perspective, especially innovation cycles, modern high technologies, science

I am fully convinced that we have to innovate European structures back and return to the prudence to use sources and money from budget more effectively. That is more important than the quantity of sources, the quantity of resources, and amount of budget. And innovation for me is to return to basic values of European Union, and prudence must be one of them. Innovation must be not only in the new budget, but also in the national states, national countries, members of the European Union, to fulfill not only criteria, but to return to the paradigm of at least middle-term balanced budget or even better the one of surplus. There must be an innovation in the area of education and family education, not only in the new knowledge and so on, but to tolerate or even to support. There must be an innovation in the social politics. To be unemployed must not be more advantageous than to work, and so on, and so on. I think the discussion about next budget is more discussions about values and about future of the European Union. I'm afraid the discussion will be closed, that's why I try to postpone other discussions not only to the concrete discussion about structure of budget, but to the values. Because it is more important than the question of budget.

Marc Coleman: Thank you. Günter Verheugen, I think.

Günter Verheugen: I want to make an additional point here. I think innovation is not always good. We have seen some innovative financial products which turned out to be disastrous. So you must really define what kind of innovation you want. And you must be aware that even the European Commission cannot organize innovation by decree. That's impossible. You need to have a political, social and economic environment that is innovation-friendly. My experience is that it cannot be done at a UE level, it cannot be done at a national level, that has to be done at a regional level. The region is the place where innovation starts. And in the regions very often are small and medium-size enterprises which need much more support from the national government or from the EU institutions. But in order to allow the regions to develop more innovation than decline it, we should, for instance, help them to cooperate better. And Janusz, I would really like to ask you whether you think it could be possible to change the rules a little bit for the next financial perspective and to allow a system where regions could cooperate in terms of innovation. A kind of inter-ino, if you understand what I mean. And this would make a huge difference and it would follow the line I have tried to explain earlier. The issue is not how can we find more money to spend. The issue is how can we spend the money that we have and we do not increase in a more efficient way.

Marc Coleman: Thank you. Francis, I know you want to make a contribution. Can I just Janusz to respond to the question first, if I may?

Janusz Lewandowski: Well, the basic assumption is the same. Yes, you are right, Günter, that innovation is not a decree top down. It cannot be done like that. And there are limits of the role of public financing to promote innovation. Innovation is about culture of innovation, spirit of entrepreneurship, venture capital in existence. So this is about the framework of innovation. On top of it, public spending that is in some cases, I believe Galileo might be like that, very much future-oriented projects like Ether could be promoting also a sort of innovation, but there are limits. The main point: full agreement with Günter. This is about culture, this is about local, medium-scale and small-scale entrepreneurship. That is with

. We are not lagging behind South Korea, or Japan or United States. At this level we are quite good. We are behind in the number of patent, concrete patent applications, we are behind in the number of commercialization of scientific inventions. That is the problem of Europe, but this is about culture, and as to this interregional communication, yes this will grow, generally the interregional cross-border cooperation will grow, that is at least my sincere wish.

Marc Coleman: Francis.

Francis Bailly: I fully agree with what you say. I'd like to address now two issues that were presented before. One is competency, the other one is money. And sharing the experience. In this region we have 25,000 people. We have some of the best engineers that we have in the world. We have an engineering development center in Poland, with thousand engineers developing energy, developing aviation, we have one in Prague, developing also the most modern aviation engines. So you know, yes, maybe there is always a way to improve an education, by the way, it's too - all around the world... Each time I talked to the prime minister he said: oh, we have a problem with education, now which would be better... I think in this region you have a pretty well educated workforce and a very competitive one. So what I believe that we should capitalize on this. And, you know, the second thing is money. I agree with commissioner – there is money available. The question is just knowing how to get at it. The structural funds are largely unused. 70 per cent of the structural funds provided by the EU are so far not used. Why is that? Probably because there need to be more knowledge how to form projects to make sure that those projects can finally, you know, be installed. So I believe that the industry is ready, that we're ready with projects, we're ready with the development, we're ready with the science. I agree that what we need now is a vision, and the vision, and a little bit of hope as well. I think that, you know, optimism, I'm an optimist, you know, this is maybe why I'm in business. But I believe, you know, that we have the tools to do better. It's just a question now of formulating the projects and those projects need to be formulated not only at the top level. Everybody's talking about Brussels. I think, you know, those projects need to take place at the level of the regions, at the level of the cities. This is where it happens. And I believe we all here can help formulating those projects.

Marc Coleman: Thank you. György

György Szapáry: I'm sorry I would like to come down to the Earth and make some specific proposals. Education. Why do we need education? Why doesn't Europe have a Silicon Valley or a Technology Triangle in the United States? Because the efforts are too dispersed nationally, in the nation. Many universities are saying: We should improve, find ways of having the Silicon Valley, of having (...) in the United States Europe is lagging behind inventing technology compared to the United States. Second thing, vocational training. Vocational training in our region is lagging behind. There are good examples, in Germany, in Austria, what needs to be done, how the government can encourage vocational training. It is very important. We are talking about the small and medium enterprises. What needs small and medium enterprises? Number 1, they need a reduction in bureaucracy. In our region, bureaucracy is very important. For instance in Hungary to get for an investment an approval you needed 40 different authorizations. That was reduced by one stroke by 1/3. This is even not enough. More can be done and

... everywhere in the former socialist countries, bureaucracy is a major obstacle to the judicial process, speed, transferring the confidence. Companies don't know whether they can win a case in the court, the courts are very very slow, medium and small enterprises cannot function without, and even big companies, without an improved judicial process. Simplify the tax system, finally improve government services. This is an important aspect. These are concrete measures. Any country can look at it and can introduce these measures and you don't need that much money for that.

Marc Coleman: thank you. ... hard perspective of this. And the former finance minister, Jarosław...

Jarosław Bauc: Thank you very much. First, one complimentary remark. The issue was already touched by Janusz. The common agricultural policy. Perhaps it seems to be quite far from the topic we are discussing, but it's not. It consumes most of the EU funds, so this is one thing. Secondly, it distorts both the price structure and the price level. It's against the free market economy and the EU rules actually in this respect. So it would be of some use to know to what extent EU is ready to reform or even abandon that kind of policy in order to give some more funds on infrastructural projects. Without solving this issue, or changing this issue it's very hard to discuss on the main topic of our panel. But this is the complimentary remark. Second thing which refers directly to the topic: Innovation versus infrastructure. I think there is no contradiction at this point, especially in the field where I am engaged now, which is the telecommunications sector. In this sector actually infrastructure means or equals innovation. And to your knowledge, if we were to talk about the EU policy or even the internal policies, there is a very distinct evidence of this high correlation between increase of Internet penetration and GDP growth. A lot of surveys made so far showing the relation is if we increase the penetration by 10 per cent, then GDP growth can be higher from 0.6 to 1.2, depending on the level of development of the given country. So this is the huge space for combining both infrastructure and innovation but the issue is that if we are to go further with the development of, for instance, the mobile access to Internet, then it turns out that economics of this investment its very dubious. And that's why... it is for many reasons, both economic and technical reasons, I don't want to go into details. And this is the space for the policy to be more active on this field in order to increase the access to the knowledge, the assess to innovation, the access to information for more people than could be on the fewer commercial basis.

Marc Coleman: Thank you for your perspective to that panel. We have a few short minutes before I am going to turn to the audience. I do recall I referred to that speech I gave in Prague, I remember doing some research into the United States. And the golden age of American growth in the 50s, the 60s and early 70s, a huge contributor to this was both infrastructure and innovation, particularly in the automobile market. In the 1930s in response to an economic crisis of the kind we had now, the American president rolled out a New Deal, a critical component of which was infrastructure – roads' infrastructure in the United States. This was a critical pillar in the cooperation of the infrastructure and innovation because at the same time the market was innovating through the mass production of cars, marketing and advertising of cars enabled infrastructure spending and innovation to go hand it hand to make a major contribution to growth. It seems to me that there is no conflict, but in order to get innovation and infrastructure working together, you must have – I think it was mentioned by you, Jarosław – you must have coherence. And it seems to me, the major challenge of coherently managing

g the decision making procedures of the European Union. So
n and infrastructure to achieve growth before we innovate,
radically innovate, the decision making structures of the government of the European Union? How can it
be possible to achieve innovation in a real economy before we achieve innovation of radical innovation
in decision making structures? I will turn to Günter first, if I may.

Günter Verheugen: I fully agree. My answer is: it is definitely possible to improve decision making mechanisms. The problems that we have are not as I may say treaty-based. They are not result of the rules which we have. But they are a result of the way how we use those rules. Our question is political orientation, and in particular strong leadership. And what we are missing is in the European Union to put it bluntly on the table is exactly strong leadership. The only institution which, in my view, can guarantee that innovation and infrastructure for instance will be seen as the European priority and that there will be the link between the activities of the European institutions and the national governments is the European Council, where now the heads of the governments have a clear responsibility to define the priorities and to make sure there are priorities. Let me give you an example, 20 years after the fall of the Wall in Berlin and the Iron Curtain, we still have, in terms of infrastructure, a divided Europe. Yes, it's still divided. The connectivity between the Western part of Europe and the Eastern part of Europe is still very, very weak. Therefore, it's not only about infrastructure we are discussing here. It's also the identity of Europe and the willing that we Europeans should stay together and that they are equal. It's a matter of decision making, it is a matter of using the opportunity, and exactly of doing what we have already decided a couple of years ago that there would be a midterm review of the budget of the European Union, and the midterm review would discuss the question whether it's possible to shift money from the agricultural budget to the more future-oriented budget, but ...

Marc Coleman: OK, ... sorry...

Günter Verheugen: Sorry, that's OK. I was a little bit surprised about the remark concerning the future of agriculture policy. I would like to remind you that the accession of Poland to the European Union was only possible because against my better knowledge we agreed on a German-French proposal to accept the level of spending for agriculture as it stood in 2002 until the year 2014. Without that, to remind you, the accession of Poland was not possible.

Marc Coleman: Ok. Because we would now like to turn to the audience as soon as possible, just very brief contributions, Francis please.

Francis Bailly: I would just like to share with you a very simple example on how things could be executed in a much faster way if we had some little changes in the processes. As I told you before, the industry is ready. It is ready to develop modern energy system, clean energy, biogas, the most modern healthcare, the most modern transportation. The problem is when the product is formulated and it comes to a tender, what happens usually it's always the cheap, the cheap, the cheap, the cheapest that gets approved. Why? Because people feel safe, they feel cheap is safe. Well, I would argue that if you go this way, modern technologies will never come through as they are more expensive, but, you know, more productive. Therefore we need a big change in the way the procurement system is done, in making sure

they are approved even though they are more expensive, they are productive, therefore they should be accepted. I know the EU is working it this, I don't know how it should be, but I know it's a very important qualification.

Marc Coleman: Thank you. György.

György Szapáry: Thank you. We haven't talked about one very important thing yet: competition. We have to extend competition, maybe the commissioner will be able to give the message and I will give you only one example, but it's very typical, about telephone mobile fees in the United States, which is a very big market, just as it is in the European Union. In the United States, you pay a monthly fee and it doesn't make any difference whether you are in Washington or Los Angeles, you can call. Here in Europe, you drive 100 kilometers and then you receive on your mobile telephone, that now in the EU it is much more expensive. This is a good example that we don't have competition, and if we don't have competition, we will not have innovation, we will not have productivity increase, and these two are everything that's the competition increase for the European Union, services and all the rest.

Marc Coleman: OK. Let me... Did you want to comment on this one?

Jarosław Bauc: To the last point. I think we agreed, but why the competition or the price structure for the mobile telephony in Europe seems to be strange. The answer is: EU regulations regarding the regulators on the EU level and on the country levels. The whole market is extremely overregulated. That's the simple answer.

Marc Coleman: OK. Now I think it's time to take a couple of questions from the floor. Would you raise your arms high in the air, please, because I'm blinded by the lights here. Perhaps the gentleman in the front row. Yes, you, sir. Could somebody pass a microphone around here?

Question form the audience: Just a technical issue. Peter Schilling is my name. I'm chairman of Sales&Strategy, a think tank. I think the European Union itself is a very exciting laboratory. However, as a citizen, I wondering if I hear what is going on. Is Europe not in a midlife crisis? What is going through at the moment that I as a citizen am puzzled: How am I going to sustain my prosperity if there is no growth, GDPs are down, it's negative, though in Poland is positive. There is no growth, and growth is actually driven by labor and productivity. So if you increase productivity, labor becomes more available, there are more unemployed. So I've got a problem there and I think as Mr. Topolanek indicated some directions we have to go through is actually decoupling the value and the monetary issue. So you really have to give it there a new model. If I have been talking to the friends from Eastern Germany and Western Germany, because they are in laboratory, and learn from them, I heard from them a very striking comment. They said they wanted us, the East Germans, they wanted us to catch up with West Germany. But catching up is making more of the same. What we should have done is actually match up. We would have the same and more. That's the thought process. And coming back to CAP, I just want to read a little phrase that I read in the Wall Street Journal this week. It goes like: 'By 2050, 60 per cent of the Italians will have no brothers, no sisters, no cousins, no aunts, no uncles. In the 14th century the plague had wiped out 80 per cent of the Italian population. In the 21st century, they are disappearing by

nister, I'm sorry, Commissioner Lewandowski: Why don't we

Janusz Lewandowski: Thank you for indicating one of the major challenges that are already detected and are overshadowed by the great economic crisis, the Greek crisis, and what is called Euro-zone crisis. I don't want this phrase, but on the other side of the Atlantic we are not talking about financial crisis, but about European crisis, is somehow depicting our old continent. But if we are over, fortunately, let's hope, other long-term issues will immediately emerge. One of them is aging Europe, and the cost of aging. This is not only agriculture, but also rural Europe. This is the cost of aging of Europe. That is not about pensions only that should be reformed, but this is also the cost of medical care and the demographic trends. So you are talking about one segment of an issue, that indicated a major challenge that is to be discovered immediately when we are somehow better in our financial environment in Europe. That is the cost of aging Europe, demographic trends, not to mention the issue that is now on the agenda, that is how to integrate groups, not only small groups, but also millions of people who are not going to integrate. They don't want to be integrated. This is one of issues, one of the responses, apart of controlled immigration, is a reform of a pension system. I am not directly responding to your question, but you have touched one of the most serious challenges ahead of united Europe.

Marc Coleman: It would be interesting to talk about aging. I come from a country – Ireland - which has, I think, the only country in Europe with strong population growth, so if the rest of Europe is not careful, we will take over Europe. It might take us 40 or 50 years to do it, but our population, i.e. Ireland, has grown by 25 per cent in 16 years. So we are doing our best to make up for the rest of you. But we are only a small country, so you guys are going to have to change. It's a very fascinating topic, but let's try and also focus on innovation and infrastructure. I think the gentleman right behind the first speaker, well, yes... Yes, sir, you. Could somebody maybe pass a microphone?

Question form the audience: Thank you. My question is specially for György Szapáry because he mentioned the Silicon Valley but of course my question would be for the whole panel. You mentioned the necessity to see the things arising in Europe, they would be similar to Silicon Valley in the States but it seems to me that you are putting between brackets the fact that United States is one country, it's one nation, it's a federal nation and if anything like a Silicon Valley would emerge in Europe, it would necessarily be in one of the 27 countries where the language being spoken would essentially be the language of that particular country. And, as we know, there are many different languages, you mentioned the necessity to become fluent in more than one language within Europe. It would be in one of these languages. So, my question is addressed to you and the whole panel: what are the conditions to be met to see anything similar to Silicon Valley emerge in Europe in very practical terms? Thank you.

Marc Coleman: Thank you. Jordan, before you answer, I suggest we take a couple of questions from the floor together, just to make sure that we get a good contribution. The gentleman in the second row, please. Keep your question brief and then I'll get a couple more questions more and we'll return to the panel.

Thank you very much. My name is Paweł Luta, I'm from magazine... question only, because during the panel it was pointed out that the EU needs to improve the effectiveness of spending. I would like to ask how to do that? Should the EU provide some new regulations in this area, or maybe not? It just may be the question of culture of the EU or how this is going on?

Marc Coleman: Okay, a few more questions. If you can direct your questions to particular panelist, it's very helpful and it is also helpful if you can keep the questions very short and direct. The gentleman in the fifth row then. Yes, you sir.

Question form the audience: Good morning. My name is Maciej Banach from University of Economics in Katowice, here in Poland. My question will be directed to the Commissioner, the most relevant person, because I think we have touched in the panel two macroeconomic approaches to innovation. The first one is related to what was said by minister Bauc that big names, big companies in their understanding, innovation really equals infrastructure, because that is the way they do it, this is the business model they have. The other approach that was touched here, was especially mentioned by Mr. Verheugen saying that is the innovation in policy making, innovation in governance and it is not a tricky regulation, it's the demands we have. So my question here is about the third layer that I could not see in this discussion and it is very important in terms of the meso-economic level, this is the original policy, because of the (...) in the 2007-13 perspective we had plenty of money allocated in innovation across Europe. That is of course very good. But on the other hand plenty of European money has been spent on very minor activities that changed people's mindsets, but maybe didn't really bring such a big impact on European economy as was expected. And I would like to hear a little bit about how the Commission maybe, how in general the panelists see this issue for the future, I think, I'd say minor or small projects towards innovation.

Marc Coleman: Alright, any questions from the middle or back? I think I need to go right to the back, the lady with the microphone could... The gentleman in the back, could you raise your hand very high, please, perhaps stand up?

Question form the audience: I'm sorry but I will speak Polish because, unfortunately, I belong to a generation which used to be russianised, and my German is quite poor and I wouldn't like to offend anyone. A couple of words... I am a council member in one of the communes in the Małopolska region. I would like to ask – one of the professors said that the decision-making mechanism of the European Union has to be improved. This is all a question of political orientation and leader's position. I would also like to mention another thing – Mr. Commissioner, are there any funds, and we are talking about them today, set aside for improving the security of people whose houses have recently four times been flooded? We do not have funds to simply restore the natural river flow and ensure safety of people who live by these rivers, so that the problems which have hit us recently, four times, do not repeat. I would like to ask you for an answer if there is a possibility to obtain funds for the communes which I represent, e.g. Łososina Dolna, as a councilor. Thank you very much.

Thank you in Polish. Perhaps, when Janusz responds to that, I unfortunately don't speak Polish. One more question and we will return to the panel. There's a gentleman at the back, at the very back, I'd like to give a chance to somebody at the back, he's standing there with his hand up next to the aisle. Could somebody give him a microphone? At the very back. Or close to the very back. Could you keep your hand up, sir? Yes. Sorry, the lady at the back, yes, that's it. Could you keep your hand up, please? Keep your hand up, thank you. The lady that is standing up at the back, yes.

Question form the audience: Good morning! I would like to point your attention to the insufficient promotion of innovativeness in the field of construction infrastructure. Energy safety could be built on the basis of energy safety of single households, if more emphasis was put on promoting innovative solutions in this area. I mean passive housing. It would enable us to save huge amounts of money, which would stay in households. It has a social dimension. I think that the impact of the power industry lobby is too big, and it wants the inhabitants of Europe to maintain the power industry lobby, instead of becoming independent through new technologies. Poland still lacks the transfer of innovative solutions in this field, and I certainly see the impact of the power energy lobby even on the government.

Marc Coleman: Thank you. There was one more lady next to you, in black I think, yes.

Question form the audience: Good morning. I would like to thank the panelists for the very interesting discussion so far. My name is Evelina Jakova, I'm a student at the Maastricht University and my question is – where can you find the balance between aging Europe and innovation in young people? Because obviously there has to be a balance in the budget of spending. How much are you willing to invest in young people and innovation? And how much are you going to invest in aging Europe? Thank you.

Marc Coleman: Thank you very much for your questions. I'm very lucky that I have a Polish panelist sitting beside me that can help me translate the two questions that I don't understand. So, there were some specific questions for Janusz, György and Francis, but perhaps maybe we turn to everybody in the panel, but I would like to start with you Janusz, and if you wouldn't mind, just repeating the two questions that were asked there.

Janusz Lewandowski: On the Polish questions: the first lady came from a local council in Małopolska and she was asking... Her issue, her concern is very much the concern of this area but also a part of Czech Republic, Slovakia and Hungary also. That is about floods that are affecting regularly this part of Europe. And the question is on whether there are funds, European funds, to deal with the issue. Yes, there is a Solidarity Fund and Poland for the first time in the history has applied for Solidarity Fund. And there are calculations related to the scale of damage. But we have the Polish application and the compensation, but this is for deteriorated infrastructure. This is not personal compensation and the nature of Solidarity Fund, the same for the Czech Republic is also applying. But what is essential, is rechanneling part of structural funding to its prevention. Because now this is ex post reaction with Solidarity Fund. With structural funding we could go for prevention, for reinforcing infrastructure protecting this area of Europe against the floods. And here is my answer. The next Polish question was about the energy security, but also in terms of housing. Here is the biggest waste and here are the potentially biggest

Eastern Europe. So far, energy security after the lesson of context of cuts of gas supply. But this is about, also, this is not only about solidarity, energy security and solidarity that need technical and legal preconditions. This is also about the quality of housing when we have big spending. But this is more, with some encouragement of the European level budgetary lines, this is mainly the national policy to impose the rules for energy efficient housing. This is a real issue also in Poland. Perhaps one more question that was rather general than it was addressed to me. That was about the aging Europe but on the other hand investing in the younger generation. Here we have the syndrome in Europe, apart from the financial crisis, but closely connected with the financial crisis, also in austerity. That is the higher level of youth unemployment that is visible for example in Spain – more than 20% of unemployment in this layer of younger generation, this is already a sociological and political problem, not only the social problem. There are no good responses to the issue given the strength of trade unions that are normally defending status quo, that is defending actually employed and rather closing fluent entrance to the jobs for the younger generation. But of course, on my side, there are programs for aging, that is life-long learning, big part of spending. And on the other hand rather well received and perceived programs for the younger generation, but this is mainly about mobility and retraining, not to mention Erasmus. Erasmus is also a big success, I think. But it's about the quality. One of the questions was about quality of spending. If we take Erasmus, it is clearly to be defended and grown, because this is quality of spending.

Marc Coleman: Thank you very much and apologies to everyone that I don't speak Polish, yet. Francis, please.

Francis Bailly: Yes, a short comment which will address the two questions on Silicon Valley and energy that the Commissioner just commented. The Silicon Valley of today is virtual, it's the Internet. Let me give you an example: a few weeks ago we started what we call the Eco-Challenge, which is inviting the start-ups and small investors to produce their ideas, to work with us and we would support them with money to develop their products. For one thing, that we call the SmartGrid. The smart network, do you know that? Between the production and the consumer we lose 50% of the energy. This is the efficiency that the Commissioner commented. 50% is lost and SmartGrids would allow to avoid losing this by bringing better efficiency all along the lines. We invited the companies and the start-ups to propose their projects. Do you know that hundreds of start-ups from Central Europe, proposed their projects? So there is creativity here and you know, they just have to go to Internet and if their project is selected, they will be supplied by money, they will be supported by money and finally, their invention would produce local jobs. So I believe that we have to work with the tools of today and I think the Internet is a great tool in this respect.

Marc Coleman: Okay, György, a question was directed at you.

György Szapáry: Yes, Europe is made up with 27 countries. Different cultures, different languages and we love that. However, we also compete with the United States and China, these are continent-like countries. What can we do? Just a couple of things. Speak our own language but learn another language so that we can all speak to each other easily. Deregulation – I mentioned the telecommunication, but there are the financial services, insurance companies, banks, so that the Polish can go to France and

the banks here. Because in the United States, for instance, it
anywhere, you can go on Internet and get a loan – where are
we from that? Or the portability of social benefits, portability of pensions, that when somebody is
working in Poland and earns benefits for pension, then goes to Germany and earns benefits for pension,
and at the end the benefits sum together, because in United States, when somebody is working in
Washington or Los Angeles, it doesn't make any difference. He gets his pension. So there a lot of things
that we can do. It's a question of will. We have already done a lot of things since the Treaty of Rome, but
we have to do more.

Marc Coleman: Alright, thank you.

Mirek Topolánek: Thanks. I think all of us agree this main topic is to support innovation process, but
we're discussing at the same time about bad governance, bad decision-making process, bad
redistribution process and so on. I think, when we decided to redistribute, we have to calculate the bad
allocation of sources. But I'm absolutely convinced that the first task, the first goal of all politicians in the
European Union is to persuade our people to be a little bit poorer in the next ten- twenty years. To
replace consumer-lifestyle with the philosophy of deferred consumption. To prefer the future to the
present. The first task, without this persuasion of the people to realize pension reform, to realize social
reduction or social expenditure, that sure is not possible to support innovation process, it's the first task.

[A chirping of a bird can be heard in the room]

Marc Coleman: We have a contribution from a speaker of the... Mother nature is trying to say
something. So we'll have to tolerate that. Please, Günter.

Günter Verheugen: Yes, how can we exploit our potential venture. Silicon Valley was mentioned here.
Silicon Valley is a cluster. We have dozens of world class clusters in the European Union, for instance in
one province in Romania cluster for modern packaging technology. We have dozens of them. But the
problem that we have is we do not really commercialize. Janusz has already mentioned it. We do not
really commercialize the results of our research and development and therefore I think we need to
concentrate on two things. First this: we must define at European level key technologies. These are the
technologies that we need for the European Union to survive in the industrial base of the 21st century.
For instance, the advanced materials or that kind of thing. And then we must allow the European
enterprises and European regions to compete, to develop these technologies and to develop clusters
cross-boarders and cross-regions. I think that would help a lot, but this definition – what are the key
technologies and how do we support them, this decision must be made in Brussels.

Marc Coleman: Thank you. Would you like to?

Jarosław Bauc: Well, some conclusions from the discussion that took part. I mean, I think that there are
very, very high expectations regarding the politicians and the EU to solve everything, from, you know,
from aging population through education, through the Silicon Valley, up to even the passive housing. So
I think that... I wouldn't risk to give politicians additional hints to what could be solved apart from what
is being solved now. Because we would have even more intervention, more taxes on the horizon and

area. So I understand obviously that kind of approach from the
and the politicians to concentrate on the most important issue
that can not be solved without politics.

Marc Coleman: You very need to make closing remarks and thank you for that, because that's the next thing I was going to ask. If I can take those as your closing remarks, then starting with Gunter and moving along the panel, could I ask the remaining panelists to make very, very brief closing remarks and emphasizing what you think your most important message is, please? Very briefly.

Günter Verheugen: My closing remark would be that there is no need to be pessimistic about the economic future of Europe. The capacities are there. Some of the most innovative regions of the world are in the European Union. More innovative than the United States. The drivers for economic growth are still there: stronger demand on emerging markets, innovation and entrepreneurial spirit or entrepreneurial initiative. The final point here would be what is underestimated in policy making of the European Union is the fact that innovation is not created by states. Innovation is created by persons, by citizens. Particularly by those who take, accept the risk to run a business, to start a small company and develop something. And if I would be in a position to make decisions of that kind, I would try to develop instruments which would help improve entrepreneurial spirit and the preparedness to accept the entrepreneurs within the European Union.

Marc Coleman: Thank you. Mirek.

Mirek Topolánek: I will be shorter. The most important goal for present time is to come back to old good values. It is the best innovation for the European Union.

Marc Coleman: Thank you. Janusz?

Janusz Lewandowski: Okay, short comment on... let's say, it's more or less what Gunter Verheugen said... on the role of the visible hand of state or European bureaucracy (now I'm among of those Eurocrats) in promoting innovation. There are some good examples. I think Finland could be the illustration of the conscious efforts, successful effort in upgrading the innovative culture of the nation, via also the public spending type of resources. But, generally there are limits. This is really about risk-taking culture, entrepreneurship culture and bad type of financial resources that could be channeled into the risky, innovative projects. This is really not about treaties, parliamentary resolutions and the European decision-making. This is about internal culture and here is the main problem of Europe vis-à-vis United States, China, even South Korea if we see the statistics.

Francis Bailly: In line with the comment of the Commissioner I would invite to act now, just now. Now implementing the technologies which are available. These will create the market and this market will create jobs. In the same way I would invite Central Europe to work as one region. The presidency is coming next. This region could develop in line with the vision for the rest of the EU.

Marc Coleman: Last, but not least, György.

a dream. My dream was that I lived, that communism will be independent countries. And my dream got realized, I live in that time. I'm very happy. I became more ambitious and I had another dream, that I lived until all countries will catch up the standard of living of Germany. And I'm sure it will happen.

Marc Coleman: Well, I can tell you it will happen, because I come from a country, it's certainly being in the news for the wrong reasons in the last couple of years, Ireland has been perhaps a producer of good news, but I can't say that without boasting Ireland is a country which, even if you take the last two years into account, if you look at Ireland since 1973, our economy has grown by 400% percent which is more than twice the European average. When we end the recession, we will still be above average GDP per capita in the EU, in spite the difficult period that we're going through. So if it's possible for Ireland, it's very possible for Eastern Europe. I may mention that we managed to do it even though our road system is not perfect, many aspects of our infrastructure were not perfect, it did not stop us. We certainly have lessons to learn from mainland Europe, but it is certainly possible and that dream can become a reality. Let me thank the panelists for their excellent contributions and I thank you, the audience, for your kind attention and some questions also. I suppose if I can sum up using the perspective as an economist which I used to be. Growth tends to be started by waves of innovation and infrastructure working together. And I mentioned one such way, in America there was a road-building program, an infrastructure program, which went hand in hand with innovation in the automobile industry. And this was a significant contribution to Americas golden age we saw in the late 1980s and 1990s. The information technology revolution which was a process of infrastructure development, but also innovation going hand in hand, which played in major role in Ireland's economy. I think that the crisis we have been through has occurred, because many countries have tried to pursue economic growth without innovation and infrastructure. And what we have learned from the last couple of years is that that does not work. Growth that is not based on innovation and infrastructure does not work. Because it has to be based on artificial stimulus, monetary stimulus, fiscal stimulus. These are unsustainable. So perhaps a closing message is that we have to go back to both infrastructure and innovation to lead to the next phase of growth in the Euro zone and the European economy. But to do this we need a different kind of infrastructure and a different kind of innovation. We need a political infrastructure and we need a political innovation. We had a referendum in Ireland on the Lisbon Treaty last year. I can say, thankfully that referendum was passed. Perhaps we can regard the Lisbon Treaty as creating the political infrastructure, necessary for the changes that have been described here. However, that needs one last ingredient and this is political innovation. And I think the key message from here is that that can not be provided by the EU. This has got to come from the leadership in the private sector and the public sector. So, hopefully, we will look with hope and confidence to the Polish and Hungarian presidency of the EU, which are coming up as opportunity the Eastern part of our great continent to provide the leadership that we all need in Europe for the way forward. Thank you very, very much.