Target €urope

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Europe hit by the Slow Train

As the European politicians and papers in general, and British ones in particular, whip themselves into a frenzy over the European Convention, enlargement and whether Sterling will join the Euro, the major threat to European economic well-being seems to be largely overlooked. The looming threat is deflation - with Germany the one-time engine of European growth now the possible trigger for widespread deflationary pressures in the Eurozone.

So why is the Convention hogging the headlines? In many ways it is just the same hall of mirrors as many similar episodes in the evolution of the European Union. It is simultaneously the worst fulfilment of the fears of the europhobes and a disappointing failure to the aspirations of the europhiles. The great risk is that on the issues that really matter for the effective working of the EU after enlargement – e.g. A reduced number of Commissioners, making the Council more transparent, redefining the system of qualified majority voting – the outcomes will in fact be fudged. The results defined more by narrow self-interest than statesman-like vision.

Further, given the present storm and demands for referendum, it is remarkable that one of the most fundamental European Treaty agreements however – The Single Market – was put through parliament with hardly a whimper, led by that arch European federalist Margaret Thatcher!

However turning back to the Eurozone teetering on the edge of deflation – this really is a threat. A threat made worse by the fact that politicians are distracted by the Convention and enlargement, whilst the chosen policy instrument – The European Central Bank (ECB) – seems to make its limited policy options worse by dithering indecision. It is somewhat ironic that the setting of stringent parameters such as a 2% average inflation target should have been so influenced by the Bundesbank. Sticking to this target across the eurozone is now squeezing the life out of the German economy with its core inflation rate of only 0.5% and going down. Nor can the German government take effective action to remedy this situation since it is already at the 3% limit of the budget deficit as a percentage of GDP. In fact the Commission is lining up to censor/fine not only Germany, but also France for exceeding this arbitrary limit set by the Stability and Growth Pact.

So what should the German government do? Cut taxes and pump money into the economy – thus involving a fine, or continue the squeeze and sink into deflation? A situation made worse by the strength of the Euro, which is strangling Eurozone exports.

Why is deflation such a threat? First it increases the real burden of debt for both governments and public alike. Imagine what it would be like if we had a sustained period of house price decline in the UK! On a national scale Banks will actually be put at risk by mounting bad debts. Also, since interest rates cannot fall below zero (imagine if the bank paid you to borrow!), a negative rate of inflation turns even the lowest interest rate into a penal positive rate. As a result the conventional use of monetary policy fails and growth cannot be stimulated.

The Japanese, with a unified bank and a single government, has been struggling unsuccessfully with deflation for several years now. In the light of this experience, what hope has the ECB got of fighting deflation through 12 governments representing 12 economies, with different objectives and deflationary risks?

photo: DG REGIO

2 Funding News

3 Scotland and Enlargement

4 Profile of Italy

European Funding Update

Latest Funding News

Guide to European Funding

Written by Euro Access on behalf of the European Commission, this guide is now available and can be obtained from the UK European Commission Offices, or from Euro Access.

Which UK regions receive the highest levels of European Structural Funding?

Objective 1 is the designation given to the European Union's least affluent areas, defined as those with a GDP per head less than 75% of the Community average. In the UK under the current funding programme, which runs from 2000-2006, several regions have either Objective 1 or transitional status. Therefore they not only receive large sums from the EU coffers to help them catch up with the rest of Europe but also enjoy some of the highest intervention rates. These regions starting with the most northerly are: the Scottish Highlands & Islands, Northern Ireland, Merseyside, South Yorkshire, West Wales and the Valleys, and Cornwall and the Scilly Isles.

There are many different types of project that can be funded in order to achieve the economic and social objectives of the specific regional Programme, and each region has its own particular priorities.

Projects are wide ranging and can include: on site infrastructure, assistance to SMEs, re-skilling, business park creation, marketing support etc. In Scotland, the private sector requires a public sector sponsor before they can mount a bid – but this is not a requirement in England and Wales.

In addition to the Objective 1 Regions there are numerous Objective 2 areas throughout the UK. These areas are considered not to be so disadvantaged as those classed as Objective 1, however they still receive substantial funding.

Euro Access has successfully obtained European Structural Funding for a wide range of projects stretching from Cornwall to the very north of Scotland.

6th Framework Programme

Between 2002 and 2006 the EU will make available over €17.5 billion to fund EU research and development projects. This funding will be spent under the EU's Sixth Framework Programme which funds, on a competitive basis, a wide range of research projects under a number of key themes.

The money will be disbursed in a series of bidding rounds, and if applicants are to be successful they will require strong transnational partnerships combined with a proven methodology for delivery as well as excellent projects.

Another certainty is that each round will be extremely competitive, with total bids far exceeding the total funds available.

More info can be found at: www.cordis.lu/, or by contacting Euro Access.

Funding for Private Projects

RSA - Regional Selective Assistance

It is generally difficult for the private sector to access significant levels of grant directly through European fund schemes. However the Regional Selective Assistance scheme, which is operated by the local Development Agencies in England or the Scottish Executive in Scotland, is specifically aimed at private investment projects that will create or safeguard jobs. To qualify for the scheme your project must be within one of the geographically defined areas. The grant rate is variable up to a maximum of 30% of eligible project costs.

Euro Access has an excellent track record in writing successful business plans for this scheme and negotiating for maximum intervention rates.

Target Europe is the newsletter produced by Euro Access providing a digest of European legislation, key events and funding opportunities. For further information on Euro Access or Target Europe, please contact Dr Chris Mackel at the following:

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Scotland and Enlargement

A recent conference at Murrayfield Stadium hosted by the Euro Info Centre and local export support enterprise Lothian Exports was aimed at briefing members of Scotland's business community on the opportunities arising from EU enlargement.

Although the event was held at local level the topics were of relevance to Scotland and UK industry as a whole, and with trade representatives from nine of the applicant countries present there was a good opportunity to learn more about these emerging target markets.

photo: DG REGIO

Audi TTs under construction in Hungary

The morning began by assessing the implications of enlargement to Scottish industry and Scotland's existing penetration of the market. Threats include the disappearance of the Structural Funds and reduction in foreign investment here at home. Also a lower cost and skilled labour force, additional attractive tourist destinations, well established local and other EU competition, a potentially wider eurozone, and the overall shift eastwards could make it harder to compete on our own soil as well as in export markets. Factors which could make Scotland more peripheral. On the positive side opportunities include, a larger single market, access to new markets and skills, and customers who are generally quite receptive to people from Scotland partly due to numerous historic links. Currently the EU accounts for 55% of Scottish exports, while Central and Eastern Europe, which includes the bulk of the enlargement countries, accounts for only 2% (£400 million), so there is much scope for improving this situation from next Spring.

Also discussed were the opportunities created by European funding and legislation. Currently there is funding to help the applicant countries integrate successfully into the existing Community. Schemes such as PHARE, ISPA and TEMPUS, are aimed at raising the standard of infrastructure, environment, transport, education, training, enterprise and agriculture, and by 2006 applicant countries will have received nearly €130 billion in aid. These schemes offer the chance for current EU organisations to be involved in projects through partnerships or by winning contracts requiring expertise, supplies and services not available locally. The arrival of EU legislation in these countries is also seen as a useful driver for business, which often requires assistance from within present Member States.

photo: DG REGIO

Affluence on show in Prague

After 2006 the funding scenario will be re-jigged which should see substantially more European funding distributed to these new members based on their low GDP per capita. Current Member States will be reluctant to lose their current funding status as the money heads eastwards, where these new opportunities lie.

Eurozone

Whilst the Chancellors five economic tests have come to their predetermined (but still objective?) conclusions the Euro has made progress in some surprising corners of the globe.

Many of Europe's principalities have adopted it, including Andorra, Monaco, San Marino and the Vatican. Indeed the value of the Vatican day of issue coinage is appreciating even faster than the main euro at present!

More bizarrely, North Korea, Cuba and pre-war Iraq adopted the euro as their currency of choice for international dealings. Possibly a hint of tit for tat vis-à-vis the dollar!

Euro Basics: the 'Acquis Communautaire'

(a helpfull guide to eurojargon)

When the new member states join the European Community in 2004 they will have to sign up to the 'Acquis Communautaire'. Just what are they accepting and why?

The Acquis Communautaire was in common usage before its official enshrinement in the Treaty of Maastricht (1991). Essentially the expression means the sum total of all EU laws and treaties in existence at any point in time. This legislation covers all aspects of EU policy such as employment, the environment, transport, agriculture etc. It represents the accumulation of legislation which is still current since the Treaty of Rome (1957).

The new entrants are required to accept this body of legislation as it exists i.e. none of it is open to re-negotiation, and are meant to bring their own national legislation into line with it by the processes of their own parliaments.

Only after they have joined can they have a say in the formulation of future legislation via the Council and the Parliament.

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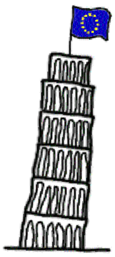
country profile: Italy

key stats...

Population: 57.8 million (15.3% of EU15 total)
Area: 301,300 km2 (9.5% of EU15 total)
Currency: the euro
GDP: €1,166 billion (13.7% of EU15 total - 2000 figures)
GDP per capita: €22,890 (EU15 average €22,530 - 2000 figures)
Employment: Services 62.6%, Industry 32.1%, Agriculture 5.3%
Unemployment: 9.5% (EU15 average 7.6%)
Main Industries: Engineering and transport products, textiles, clothing and leather, tourism.
Main Trading Partners: leading markets for exports and imports are Germany and France
European Regional Funding Status: Southern Italy and Sicily have Objective 1 status, whilst there are many Objective 2 areas throughout the remainder of the country.

Italy, one of the EU's six original members, will assume the presidency for the six month period beginning on 1st of July. Europe is no stranger to Italian leadership, indeed Italy's former Prime Minister Romano Prodi became president of the European Commission in 1999 and has since steered the EU successfully past the introduction of the euro and towards enlargement.

However the mix of Italian political life isn't always so harmonious. Since 1945 there has been over fifty governments in a volatile political scene which has involved corruption, fist fights, kidnap and murder. This instability is not helped by the system of proportional representation which can generate fragile coalitions. At the moment Prime Minister Berlusconi and his right-wing government are taking a position on foreign affairs similar to the UK, in that they seem keener on fostering links with the US than participating with their European counterparts, while at home they hope to tackle tax, labour and legal reform.



Italy, as members of the G8, are one of the worlds big economies, but the country can be divided into industrial north, and the rural less-developed south with its Objective 1 status. A common theme throughout the country is Italy's strong family orientated culture which filters through to business life as more than a half of employment is provided by SMEs, many of which are family-owned.

Another unique feature of the upcoming Italian Presidency is the fact that Berlusconi is under active investigation for serious misdemeanours whilst in public office. This fact may add to the attractions of an elected future President for the EU rather than the current system of rotating heads of state or prime ministers! Undoubtedly the driving force behind the Italian Presidency will be the achievement of turning the current Convention document into a new Treaty of Rome by December.

Dates for your Euro Diary

7/8 June	Polish referendum to join the EU
13/14 June	Czech Republic referendum to join the EU
20/21 June	European Council Summit, Thessaloniki
1 July 2003	Italy takes over the EU Presidency until the end of the year
September	Swedish referendum on the euro
14 September	Estonian referendum to join the EU
20 September	Latvian referendum to join the EU
1 January 2004	Ireland takes over the EU Presidency for six months
1 May 2004	Enlargement of the EU as first wave of new applicants join the Community.

The Euro Rising

Since the beginning of the year the euro has increased in value against the dollar. Having regained parity last year the euro has sat between $1.05 and $1.10 for most of this year but has recently risen past $1.15, close to the value at which it was introduced back in January 1999.

Capital Project - Looking for funding?

If your capital project will create or safeguard jobs or provide facilities for new business, and sits within one of the geographically defined assisted areas it could be eligible for a UK or European funding scheme.

For an opinion on whether your project is eligible for funding contact Euro Access at: access@euroaccess.co.uk, or phone 44 (0)131 553 5522.

Euro Access has considerable experience of both UK and European funding schemes having successfully secured over £60 million (€87 million) of grants for public and private sector clients.

The next issue of Target Europe will feature the latest funding information as well as a digest of relevant European news.