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The Committee of the Regions on Regional Development Perspectives in the Enlarged Europe

Roger Kaliff

Vice-President of the Committee of the Regions

Dear participants,

I am delighted to be with you today in Klaipėda as a representative of the Committee of the Regions. And thank you for this opportunity to share my views with the UBC Conference on the importance of business development and regional development in the New Europe.

My own municipality is not very far from here. It's the Swedish city of Kalmar, just across the Baltic Sea. And as a neighbour I have many times had the pleasure to visit all the accession countries in this region - Lithuania, Latvia, Estonia and Poland. So I feel quite at home when addressing you all here in Klaipėda. I feel of course even more at home in Panevėžys, Kalmar's twin town in Lithuania.

It's impressive to see so many participants here today, from so many cities and countries all around the Baltic Sea Region. This is of course also an indication of the fact that decentralised co-operation in this region has grown dramatically during the past 14-15 years. This co-operation has also contributed to the fact that the Baltic Region today is regarded as one of the world's **fastest growing regional economies**. It's my conviction that this co-operation will continue to develop, although some bilateral economic means (for example Swedish) will be withdrawn – and we shall therefore all have to rely more on EU-funding to support our future co-operation between towns and cities in this region.

I believe that you all know that the **CoR is the “voice of towns, cities and regions”** in the EU's decision-making process. To reach decisions in Brussels is a rather complicated process, but I would like to **underline** that when the EU is proposing regulations, directives or recommendations that will directly influence the municipalities and regions of Europe – then it's **compulsory – a “must”** - to listen to the views of the CoR. Therefore the CoR has been able to influence many EU-decisions – sometimes less and sometimes more.

As Vice-President of the EU's Committee of the Regions I think it's very important indeed – also for towns and cities - to stimulate growth and fulfil the objectives set out in Lisbon "to become the most competitive dynamic knowledge based economy in the world, capable of sustained growth with more, better jobs and greater social cohesion". I will soon come back to this more in detail.

EU New Constitution

But at first I would like to make a few comments on one of the most important issues on the European agenda today - the proposal of a new Constitution for the European Union, which is partly a consequence of the enlargement. The CoR notices a general trend since the early 1990s, of taking more account of the local and regional dimension in the EU decision-making process, manifested by the creation of the CoR in 1994.

Last week in Brussels we discussed a draft opinion on the main requests of the CoR addressed to the Intergovernmental Conference, which has been convened in order to finalise the draft Constitution submitted by the European Convention.

Our draft opinion of CoR calls on heads of State and government **to accept the draft Treaty** establishing a European Constitution as the basis for negotiations at the IGC, as the draft Treaty reflects the carefully negotiated institutional balances reached by the European Convention. It welcomes the

constitutional recognition of the role of local and regional authorities in the Union. It welcomes in particular the new responsibilities the CoR has gained through the new protocol on subsidiarity. This is a big step forward!

The draft opinion, however, also requests the areas of mandatory consultation of the CoR to be extended to more areas of interest, like agriculture, research and development.

In terms of the operation of the IGC, the opinion calls for changes to the draft Constitution be made in a transparent manner in a similar way as that of the European Convention. Finally it requests that future treaty revisions should be made using the Convention method, including representatives of the Committee of the Regions as full members and better communication with national parliaments.

Business development

Now back to the main theme of this conference: how to support regional development and business development in the new Europe. These necessary, noble, ambitious goals can only be achieved through commitment to a comprehensive, integrated strategy for European territorial cohesion and regional development. The strengths of one city or region can often be harnessed to stimulate growth in another that is lagging behind. This involves all spheres of government: local, regional, national and European levels, working closely with partners in all spheres of influence; enterprise, employers, education, research, trades unions, NGOs and individuals.

If **globalisation** is one side of the coin, the importance of the **local and regional dimension** for development is the other!

Setting out ways in which we must re-launch Europe's entrepreneurial spirit, I begin from the premise that Europe's cities and regions are in fact the motors behind the Lisbon process, holding the key to Europe's success in a global society.

Across Europe today, we face the **challenge of unemployment, social exclusion**, low skills and slow business formation. In order to meet the Lisbon objectives we need to recognise the need to radically transform the European economy by creating over 15 million new jobs by 2010. **With enlargement the new, strengthened single market** will bring stable trading opportunities between 450 million people removing technical trade barriers, but it will also widen disparities between areas of growth and key skills.

Creative cities

New enterprise and European support for it has been fundamental over the past thirty years. Small businesses encourage others, provide new jobs and commercial channels through which to direct the energy and creativity of local communities. This is true across Europe where entrepreneurship has transformed initiative and innovation into jobs and economic growth for local people. The key to this success has been the recognition of **interdependence between European funding, national policies, education and research partnerships**, and the city itself. Not only as market places for goods and services, but also frontline providers of environments that encourage innovation, stimulate job creation, generate knowledge development and qualified labour forces, providing welfare and training. And that's what we are all doing – more or less successfully!

The challenge for us is to exploit the successful initiatives that are in place, encouraging their flexibility and adaptability so that they can act multipliers of best practice also for new enterprises all over Europe, through the single market. This requires a horizontal approach across European policy areas and linkage between all sectors and levels of government at local, regional, national and European levels. Moreover, in order to be responsive to the specific needs and bottlenecks of specific cities and regions, European policy in entrepreneurship needs to be locally and regionally focussed.

University and research centres, working in partnership with local and regional authorities and private finance have a "giant" potential to boost local economies with innovative ideas and key skills.

Conclusion

The challenge of developing entrepreneurship in an enlarged Europe is to ensure that it responds to the Lisbon objectives of social inclusion and sustainable growth. There is no doubt that the enterprise spirit exists in our cities and regions, but the capacity is by no means everywhere or readily available to all. European cohesion policy needs to be tied to the objective of creating the capacity for enterprise everywhere in Europe, through abolishing poverty, integrating immigrants and minorities, promoting life-long learning and reinforcing a sustainable development. Towns and cities have – together with other levels of society - a big responsibility for achieving this. Through a decentralised co-operation among cities – many interesting experiences can be shared!

The European Employment Strategy through the Commission's request for **national action plans to meet employment targets** to be based on local and regional action plans is a positive step in this direction. Locally led, integration strategies for marginalized people and immigrant communities who are often most concentrated in Europe's cities is also vital to the success of European enterprise strategies, providing the potential to access new, necessary skills in the local economy, and provide targeted services to new communities and markets.

As we reflect on the future of cohesion policy for our enlarged – or integrated - Europe, we have a responsibility to ensure that the priorities of Lisbon depend to a large extent on the capacity of Europe's towns, cities and regions – in order to foster and stimulate a sustainable regional development.

Thank you for your attention.

Integration process in Europe

Mr Hans Karlsson

Member of European Parliament, Sweden

Committee on Industry, External Trade, Research and Energy

Dear conference Delegates, Ladies and Gentlemen,

Thank you for inviting me to speak at your conference. It's a great honour for me to be given the opportunity to give you my picture of the integration process in Europe, and how it affects all of us. I'm convinced that one of the most important tasks in our time is to unite Europe. This is important from a peace and security perspective, but it's also important for Europe. Europe faces many challenges. We are about to leave the time when antagonism and conflicts led to war, to death and suffering, and to oppression and deprivation of freedom. Now we are dedicated to the struggle for resolving conflicts peacefully and to try to co-operate so we can achieve security and safety for the citizens in Europe for the forthcoming generations.

I believe that the time we're living in will become especially important in the history books. We will have completely new opportunities when eastern and western Europe become united in a political union. Unfortunately these opportunities haven't been of much debate among the European citizens so far. The support for the EU among people can be fragile sometimes. This was the situation in Sweden when we had the referendum on the European single currency. It's important that we as opinion formers and as political representatives discuss these issues with the electorates. We want to build a Europe for the European citizens. But then we also have to describe why the new Europe is better than the old one.

For three years I have been a member of the European Parliament. I'm a member in the committee for industry, in the legal affairs committee and in the committee for equal opportunities. In all these

committees we often discuss issues concerning the co-operation among the states around the Baltic Sea. Some of the subjects that are most commonly discussed are IT and telecommunication issues. Increased opportunities to communicate means that mutual understanding among people can be achieved and the break down of barriers. But the improvements in communication systems must be achieved in a way that makes the new technology available and possible to use for everybody. That's not always the case. The new technologies must be possible to reconcile problems with the different languages and it must be possible to be used by both old and young and by people with disabilities. The European parliament works really hard to achieve these objectives.

Another important field is research. Last year we agreed upon a framework programme that will give 18,5 billion Euro to the research field in the coming six years. It's resources that will come to good use both for the current member states in an enlarged union. It's important that these funding also will be used for building stronger bonds between the states in Europe, particularly between the current members and the new member states. It's essential to create a feeling of full participation in the community among the new member states as quick as possible. I want to underline my opinion that institutions in the larger member states have been especially successful in influencing priorities and political alignment for the research funds.

Another big issue for the industry committee is to support the establishment and development of small and middle-sized companies. The Commission has presented a green paper on innovation policy in Europe. The green paper contains examples of ways to manage creative innovations in a society the best possible way. How are companies established, managed and kept alive? In which areas are innovators especially needed? Why are innovations important? How can innovation policy contribute to a strong and developed welfare state?

Well, it's a lot of questions that need an answer. If we can answer these questions we can make competitiveness better in Europe, which will create new jobs and free the individual power of creativity. We can also make positive contributions to the development in society and give our support to those who want to run their own business. Opinion polls tell us that Europeans prefer to be employees. That's not so strange. Politics has often had as an objective to underline the needs of employees, to make employment regulations stronger and to improve the working environment safer and to support trade unions in their struggle for pay rises and equality in payments. But if no new companies are started this struggle is meaningless.

Some people believe that politicians are too dedicated to improving the terms for companies. I don't agree. I worked for several years with trade union business before I was elected member of the Swedish Parliament and later member of the European Parliament. Despite that I think it's important to discuss the environment for companies. With no companies there would be no employers and no jobs. It's very easy for me to stand up for a policy that supports the development for companies.

But it's not just about jobs. It's also about the economic growth which gives opportunities to maintain and develop the welfare state. Without growing companies there will be no welfare to distribute. Maybe we forgot that we have an educational task to explain this political context. The Swedish Minister of Finance recently pointed out that in the Swedish budget discussion there were a lot of proposals that would mean expenditures, but there were very few ideas on new incomes. I think that we will have to deal more with making the cake rise in the future. That's as important as distributing the cake equally. The initiative to present a green paper on innovation policy is important and was taken with perfect timing.

In the industrial committee we're also handling with matters relating to world trade. That's on the agenda for the moment, after the collapse in Cancun. I believe strongly that free and fair trade creates economic growth that will reduce the poverty in the developing countries. But free world trade must also lead to people feeling that they're given a fair share of the wealth.

In the committee of equal rights we're working with equality between men and women, of course. But equality must be achieved at work, in families and in the society as a whole. Men and women must have same opportunities through life. We have a long way to go there - including my home country.

It's easy to find unfair wages. It's also easy to see that men more often are bosses and women are assistants. But it's harder to reveal how women are disadvantaged in health care, in research and in politics. Working for equality must therefore have the same priority on every level in society. Because I believe that we all agree that men and women must be given equal opportunities.

I will now return to discuss what's in the hot spot now and what will be important in the future. Will Europe be able to fight with the United States? Can Europe become a counterweight to a super power that dominates and acts in its own interests? There are several perspectives. It's positive if we can achieve balance, but Europe also needs to have a strong economic development to be able to produce welfare.

Europe is an ageing continent in the sense that people live longer and fewer babies are born than in previous generations. This is a challenge that will have to be followed up by increased growth, so we can fulfil the needs of European citizens. I'm convinced that one of the most important results of a united Europe is that we now in fact are creating the capacity to face this challenge. When ten states become new members we create an atmosphere of creativity and opportunities. I meet observers, for example from the Baltic States, in the Parliament and they are really enthusiastic. They really want to make a change and they are eager to participate fully in the political arena. That's promising.

But this also means challenges for the current members. It's easy to see that egoism still is widespread. A kind of egoism that makes it harder to create the wealth the European Community gives the opportunities to create. It's important that all members in the EU not firstly and narrow-minded look at their own interests. Egoism can become a restraint in the struggle for a constructive co-operation.

I want to be an optimist. The Europe we're living in is unique. Europe is committed to co-operation and not fighting each other. It will not be easy. But it will make it possible to make the Europe that gives people better opportunities, a better life and put their faith in the future. But these opportunities have implications for us as politicians and opinion formers.

The European idea of co-operation between east and west, between old and new member states, is not in any way in breach with the need for a regional policy. Here in Klaipėda my first thought of course goes to the Baltic Sea co-operation. This co-operation has a long tradition, but unfortunately the co-operation historically also sometimes was hard or even impossible. There was a time when people were oppressed and the society lacked economic growth.

Now it's a new era, which means new opportunities. The Baltic States and seven other countries will become members in the European Union. The Baltic Sea will become a sea that connects people culturally and makes trade possible. This will enrich us in so many ways. Economically, but it will also give us new experiences and knowledge. The Baltic Sea will become a centre, supported by the EU. It gives us unique abilities for growth in the region.

I sometimes meet people that ask me how much the enlargement will cost. They believe that it has its price to build a large union. They think we will have to pay a price for co-operation. That is totally wrong! Co-operation means enrichment, especially in this region. The enlarged and deepened co-operation is an investment. It's a necessary investment for security and safety and for a healthy environment. New markets mean new opportunities. New customers mean new possibilities. Larger economic growth means more to distribute equally. It will be amazing if we can reduce the negative effects of having national borders and underline the positive power that arises from our different experiences and backgrounds.

Dear conference Delegates, Ladies and Gentlemen,

The new Europe is waiting! The Europe where we want co-operation, growth and safety to be the most important aspects. The new Europe, where we will not close our eyes for the difficulties but where we also have to see the opportunities. Around the Baltic Sea connections between states are developing. Connections that enrich and create possibilities. Connections that will give people a value, a better life and will make the next generation believe in the future.

Thank you for your attention.

European Union Business Support Programmes

Mr Emmanuel Berck

Administrator, European Commission, Enterprise Directorate-General

Ladies and Gentlemen,

It is indeed a great pleasure and honour to present to you the main lines of the policies and programmes related to Small and Medium sized Enterprises (SMEs) of the European Union. I will begin by referring to the importance of SMEs in the economies of the EU and our SME related policies and thereafter present what kind of operational programmes we have.

SMEs are the backbone of the economies of the Member States of the EU as well as the 10 acceding countries. They represent the majority of firms and constitute two thirds of private employment. The average European enterprise employs no more than six people. They are crucial for growth and development and are the main driver for innovation, employment as well as social and local integration in Europe. Europe's competitiveness and growth thus largely depends on the dynamism and flexibility of SMEs.

Yet SMEs are also the most sensitive of all to changes in the business environment. They are the first to suffer if burdened by excessive bureaucracy. In order to stimulate and encourage more entrepreneurs and more competitive and growing small enterprises, regulation (red-tape) needs to be freed up. SMEs also meet with more difficulties when looking for finance, information, looking for appropriate skilled workforce, access to technologies etc.

Since the Lisbon summit, the EU has reformulated and reinforced its policies and programmes related to SMEs in recognition of their importance and aiming at eradicating gradually the obstacles outlined above.

Programmes and instruments – the role of the European Commission.

The Commission's role is threefold.

1. Coordinating function

Most of the measures affecting SMEs are decided at national level. Therefore, the Commission's role is mostly to contribute to the so-called '**open method of coordination**'. This benchmarks the situation of SMEs across Europe through exchange of information, identification of best practices and monitoring of national situations.

Innovation and Enterprise policy scoreboards were developed to help the Commission to follow progress in the SME situation based on a series of indicators agreed by MS. The Enterprise scoreboard, for example, has so far collected 55 specific targets, covering innovation and administrative burdens.

The European Charter for Small Enterprises represents the main reference of what needs to be done at member state level to create a SME-friendly environment. This declaration was endorsed at the

Lisbon summit and urges MS and the Commission to take action to support small businesses. 10 key areas for action are outlined.

Each year, an implementation report is prepared by the Commission to measure progress achieved in the improvement of the business environment. The 2003 report in fact shows that real progress is being made. Member States have cut red tape and included the teaching of entrepreneurial skills in curricula of various educational institutions. Good practices among Member States are indeed being exchanged.

In order to help MS make progress towards the goals set out in the Charter, the Commission undertakes benchmarking projects, also known as **BEST projects**. These support Member States' efforts to identify and exchange best practises in a limited number of areas of particular importance to enterprises. The projects encourage Member States to improve their performance not only through concrete guidance and examples of good practice but also through peer pressure. Themes of the finalised projects include, among others, business support services, micro-credit and benchmarking the administration of start-ups. We all know that Business incubators are a good way of supporting start-ups of certain type of SMEs. The Commission has now benchmarked their management so as to increase their cost-effectiveness.

2. Entrepreneurship policy

The Commission is in the course of **elaborating a comprehensive entrepreneurship policy**. As a complement to the top-down approach of the Charter, a Green Paper on 'Entrepreneurship in Europe' was launched at the beginning of this year to stimulate debate amongst and obtain input from the widest possible audience of stakeholders. The paper seeks suggestions on two key issues for Europe, namely: How to get more entrepreneurs and how to get more European enterprises to grow?

The paper looks at measures for individuals to start, for entrepreneurs to grow their firms and for society at large to actively support entrepreneurial initiative and risk-taking. Europe lacks entrepreneurial drive for instance compared to the United States and the gap is estimated to have widened. The reason is that entrepreneurship is a mindset ... and we need to change these attitudes already at school. The Green Paper identifies three pillars of action:

- Bringing down barriers to business development and growth
- Balancing the risks and benefits of entrepreneurship
- Changing our attitudes so that our societies value entrepreneurship

It also presents 10 questions for entrepreneurship in Europe around those three pillars. Following this Green Paper, numerous reactions and contributions were received, providing a valuable input to the debate.

3. Provide support to SMEs

- Financial instruments

Access to finance is a prerequisite for the successful growth of firms. The financial instruments under the Commission's Multiannual Programme for SMEs (MAP) amount to 317 million euros for 2001-2005 and aim at plugging gaps and failures in the capital markets for start-ups and SMEs. They consist of three facilities managed by the European Investment Fund.

The SME Guarantee Facility to increase the availability of and facilitate access to debt finance, helping to overcome the lack of collateral.

The ETF Start-up scheme supports the creation and development of new innovative businesses by investing in venture-capital funds which in turn bring equity to start-up businesses.

The Seed Capital Action to support the long-term recruitment of additional investment managers by seed capital funds.

- Other programmes

The EU policy in favour of SMEs is also implemented by other programmes, including the Structural Funds and the VI Framework Programme for Research and Development, which both contain many opportunities for SMEs. Other programmes, generally more focused, may also provide funding for SME projects. This is for example the case in the field of education and training (LEONARDO), innovation (CORDIS and Gate2Growth), environment (LIFE III), energy (Intelligent Energy Programme), the promotion of the information society (e-content), international cooperation (AL Invest, Asia Invest, Gateway to Japan).

- **Information**

Support to SMEs is a crucial element for their success. In this regard the Euro Info Centres Network (almost 300 centres in 39 countries) play a vital role (I have brought a leaflet on the activities of these centres to the documentation desk). Their task is to inform, advise and assist SMEs concretely in all Europe-related areas, helping them to benefit from the Internal market, to take part in community programmes and to find business partners. The Commission manages and coordinates this network.

An additional tool is the SME Envoy appointed by Directorate General Enterprise to be the focal point in order to ensure regular dialogue with SME representatives at national and European level. He and his staff collect feedback as well as inform SME organisations on plans of new EU legislation, programmes and policies.

The Challenge of Enlargement

On 1 May 2004, ten new countries will join the EU, making it the largest integrated market in the world. In these countries, the main challenge is to build an entrepreneurial culture. Secondly their SMEs face considerable obstacles in bringing their financial systems up to the level of the present MS and are very dependent on bank lending. Therefore assisted capacity building and risk reduction is vital. This has been made available through the SME Finance facility, which was launched in 1999 in the framework of the PHARE programme.

Both Acceding and Candidate countries have already clearly benefited from their endorsement of the Charter for Small Enterprises in 2002. Identification and exchange of best practises in this framework and as a result of BEST projects has been evident. I mention only progress in the area of support to services and improvement of public administration. In Slovenia a system of vouchers in order to co-finance and encourage the use of consultancy services by SMEs has been installed. In Malta, Estonia and Poland programmes in the fields of education and training for instance to develop entrepreneurial skills in schools. At the end of September, the Commission co-organised a conference in Tallinn to discuss the implementation of the Charter in Acceding and Candidate Countries and the Western Balkans.

Future Prospects

We have put more and more emphasis in SMEs and always keep them high on the agenda, both at EU level and at national/local level. As a follow-up to the Green Paper on Entrepreneurship, the Commission will propose an Action plan by the end of the year taking into account the comments received. Our aim is to contribute to a more SME-friendly environment at all levels, from the very conception of policies, legislation and programmes to the implementation phase. This is not easy since mentalities cannot be changed overnight. We need also to put SMEs at the forefront of Community policies, think small first, improve co-ordination mechanisms and facilitate access of SMEs to support programmes.

We have several instruments to help us move forward but we have to constantly sharpen our ambition and redouble our efforts. As I intend to stick to the imposed time limit I invite you to look at the material available on the documentation desk.

Thank you for your attention.

Enlargement of the European Union and New Tasks for Regional Co-operation

Mrs Birute Vesaitė

Member of Parliament of Lithuania, Head of the Commission for Entrepreneurship and Employment, Observer in the European Parliament

Dear Ladies and Gentlemen,

The enlargement of the European Union has been facing a two-stage development problem in the EU since the accession process of 10 or 12 new members. Therefore the EU cohesion policy, co-ordination of social and economic policies, formation of employment strategy, and the strategy ensuring minimum social standards have become of vital importance. Sparing enlargement and the policy of meeting environmental protection standards will require new efforts. The EU regional policy plays a fundamental role.

The internal market of the European Union is increasing (almost 500 mln consumers) and it becomes a serious reserve of economic growth. In this case - infrastructure projects in the sectors of road, railway, environmental protection, energy (gas pipelines, oil pipelines and electricity networks) are very important as well as the benefit of all infrastructure. Lithuania alone participates in a couple of joint projects: *Via Baltica*, *Rail Baltica*, construction of gas pipelines around the Baltic sea, the connection of Lithuanian, Latvian and Estonian electricity networks. We are tied together in the implementation of these projects, therefore the self-determination of all the participant members – Latvia, Estonia, Finland and especially Poland is crucially important to us.

This is a real regional strategy, which could establish hundreds and thousands of work places. Let's look at the Baltic Sea region with a lot of different countries. Some countries are the members of the EU and NATO, others – only the members of the EU, Norway is an associated member of the EU. Russia, a very important old neighbour of the EU, and Belarus, a new neighbour of the EU, have big influence over the Baltic Sea region. The Baltic Sea region, in my opinion, has huge perspectives on the EU scale.

Effective, secure and substantial infrastructure of energy and transport sectors is an essential element of the state's competitiveness, which is vitally important to the development of economy. That is not only communication between two or three neighbouring countries that is a consolidation of Northern and Southern Europe. That is also a condition for the rapid economic growth of all the countries in the region.

There is still a missing link between Helsinki and Central as well as Western Europe, therefore we are looking forward to the implementation of '*Via Baltica*' investment programme by our neighbours. This project is very important to the EU.

As an alternative to the growing load of "Via Baltica" a joint project with our neighbours to develop 1st TRANS European corridor by building the railway "Rail Baltica" has been offered.

"Rail Baltica" project is strategically important to our region. A tentative estimate of the project is about 230 million euro. We are intending to use the support of the EU cohesion foundation at the same time ensuring proper national co-financing for the implementation of the project.

The Lithuanian–Polish electricity power system connection project is like a part of the Baltic energy ring, this project is not only our strategic priority. Its implementation would be a fundamental step towards the integration of the electricity power of the Baltic countries and Poland into the electricity

power networks of the EU, whereas we would have a connection with the Northern country system Nordel through the Finish-Estonian cable connection.

The mentioned electricity bridge of Lithuania and Poland is no less important to the older members of the EU. It is an important condition for the creation of the unanimous EU electricity market and the increase of energy supply credibility not only in the Baltic countries but also in Western Europe.

Today Lithuania is successfully using the support of the EU: PHARE, SAPARD and other programs. Although the pace of our economic growth has increased, we could face new short term economic difficulties upon the accession to the EU when we'll have to implement new trade requirements together with our Eastern neighbours. Therefore, in order to prevent possible negative consequences, it is necessary to draft new regional strategy of the European Union as well as the EU strategy for the Baltic Sea region. The Baltic Sea region is becoming a place of practical "new neighbours" policy implementation, especially when we single out the Eastern dimension of the EU.

The enlargement brings new ideas as well – a "Wider Europe", new neighbours and further EU development possibilities. Regional policy instrument of the EU could give a new impetus not only for the new EU members but also to the neighbours. New dividing lines and borders in Europe are neither tolerated nor acceptable. Eastern dimension of the EU could prevent the establishment of such borders or lines.

The region of Kaliningrad should become the pilot and priority project. In the meantime Lithuania is one of the most active partners co-operating with Kaliningrad under the Northern dimension. The extension of the Eastern dimension of the EU so that to include this region could give additional impetus for the development of the region of Kaliningrad. In other words, the region of Kaliningrad could benefit from these two initiatives.

Despite the political situation of Belarus, we cannot turn our backs to this country on the contrary, the involvement of this country into the Eastern dimension initiatives of the EU would be very important through the cross-border co-operation projects. More active relations with the non-governmental sector of this country and concrete regional projects could contribute towards the acceleration of reforms in Belarus.

Lithuania and other countries, in my opinion, could take steps so that the Eastern dimension of the EU would become a stable dimension in the European Union. Lithuania, implementing its internal reforms and preparing for the membership to the EU has accumulated wide experience, which we have to share with our neighbours in the Eastern Europe. That is our duty.

The Eastern Dimension would be beneficial to us in three ways. It would be useful to old and new members of the EU, to Russia, Belarus, Ukraine and Moldova. Upon the opening of new markets and new business possibilities and new projects of infrastructure, old members of the EU could accelerate their economic growth. It would help to reduce economic and social disparities of the new EU members as compared to the old EU member states as well as to increase work places in their countries. It would contribute towards the implementation of economic, democratic, social and infrastructure reforms in Russia, Belarus, Ukraine and Moldova in dealing with the geopolitical security issues in the region.

According to magazine Forbes tax system in Lithuania is one of the most liberal ones out of 50 countries in the world including the old EU members and the new ones. The tax burden of Lithuania is one of the smallest in the continent.

Investment environment in the country is also evaluated positively. Some foreign experts attribute Lithuania to one of the most attractive investment countries in Europe. This is illustrated by the investment growth in the country: foreign direct investment in 2002 increased by almost one fourth and amounted to 13.7 billion Litas at the beginning of the first fourth of the year. Foreign direct investment to one inhabitant during 2000-2002 doubled from 1835 Lt to 3807 Lt.

According to the UN research of human development, Lithuania falls into the group of highly developed countries and in 2003 it is 45th out of 175 countries (Poland - 35, Estonia - 41, Latvia - 50). This is a step forward as Lithuania was 49th in 2002 and 62nd in 1999. Human development index is calculated on the basis of GDP per one inhabitant, adult literacy level, average life expectancy and the quality of education. This evaluation was carried out according to the data of 2001 and evaluating the economic growth in 2002. This year we could say that human development index will even be higher.

Lithuanian economy remains dynamic and thrusting in 2003. "The Economist" recognised that Lithuanian economy is the fastest growing economy in Europe. Well-known Polish economist Balcerowicz called Lithuania a Baltic Tiger, whereas the experts of International Monetary Foundation - a history of success. We were ahead of Poland by our GDP in 2002 on the basis of purchasing power standards, whereas in 2001 we were lagging behind by 5%. Now Estonia is ahead of us but I hope we'll manage to catch up with them.

Lithuania's GDP has increased by 7,7% during the first half of the year. Trade has increased by 12,2% as compared to the respective time of the last year. The production sold amounted to 14,3 bln Litass without VAT and excise.

Meantime I have an opportunity to observe the work at the EP. The big enlargement is a challenge not only to the businessmen of the acceding members but also to the old ones. The business world of Lithuania is afraid of the increased competitiveness, higher prices of raw materials from the CIS countries, higher requirements of quality and environmental protection. The EU businessmen and politicians that due to the cheaper labour force and sometimes due to smaller taxes some businesses from their countries will move to new economies. I think that in both cases the fears are exaggerated and all should win.

Our business associations are actively preparing for the membership in the EU; they drafted the co-operation schemes with various EU and national institutions and also have in mind the opening of Lithuanian business mission in Brussels. However, this is a costly project. Besides, our business representatives do not know very well how to lobby in the EU. In this sphere I see co-operation possibilities between the old members of the EU and the acceding countries. Sister business organizations could extend a helping hand to the new ones and share the facilities and what is most important – the experience on how and where to walk in the institutions of Brussels representing national business interests for some time.

There are a number of fears and doubts in Lithuania whether we'll be able to absorb the structural funds in such a short time which will reach Lithuania in May next year. I would like to invite the older members to cooperate with the new ones in this sphere on the level of regional cooperation agencies as well as sister municipalities, in exchanging the experts, good experience, which we lack in these spheres.

The major enlargement is to take place the next May. The real integration will begin then. Hopefully our people wouldn't be disappointed in it and it will be smooth and gentle and would make the life of our people living around the Baltic Sea better.

Thank you for your attention.

Some views on the future of the Baltic Sea area power market

Mr Tapio Kuula

President, Power and Heat Sector, Fortum Corporation

Ladies and Gentlemen!

It is a great pleasure to have this opportunity to give one of the keynote speeches at the seventh General Conference of the Union of the Baltic Cities.

I will in my presentation focus on some key issues that I would hope to be of interest to you. Firstly, I would briefly like to introduce Fortum to you. Fortum was established in 1997 by merging the two major Finnish energy companies, IVO and Neste. Since that Fortum has very determinedly strengthened its position in its core business areas.

Since a few years Fortum's strategy has been to focus on the Nordic market and the Baltic Rim area. We have restructured our business portfolio with more than 9 billion euros. The oil businesses account for some two thirds of Fortum turnover, however the Power and Heat businesses can be noted to be major in the other main aspects. Fortum is a stock listed company with more than fifty thousand shareholders domestically and abroad. The Finnish State is currently the main shareholder with some 60 percent share.

Fortum's consistent work on delivering the Nordic focus strategy has been very well appreciated by the investor community – we are very proud of the fact that Fortum's stock has been one of the best – if not the best – performing European utility stock during the last few years time.

Today Fortum is a leading Nordic energy company. In the heat and distribution businesses we are number one and in the generation and retail businesses number two in our core Nordic market. Our presence extends across the Nordic countries and especially in Finland and Sweden we have been able to develop a strong position across the power and heat value chain. We also have a developing presence on the Baltic Rim – I will return to this later in my presentation. Fortum can also be described as a company with strong focus and a good track record in environmental issues. A large share of our electricity generation is based on renewable and our generation is for most part CO2 free.

Even if I will in this presentation focus on our power and heat activities, it must not go unsaid that Fortum is also a leading clean traffic fuels producer – globally – and we have a strong environmental track record in all our oil activities.

Now I would like to describe with some words how we in Fortum see the development of the power market around us. Firstly, I would like to spend with you a little time on discussing the EU and Nordic power market development.

The EU Directive on opening the power market sets the overall framework of power market development in Europe. The main object in liberalizing the European power market is to increase the efficiency of the industry – for the benefit of customers and society at large – through – for example – better utilization of natural resources and capital and by developing a more efficient energy system as a whole.

Development of regional markets is a necessary interim stage in developing the common EU electricity market as set forth in the Directive. Eventually – of course – the overall target is to fully implement the EU Directive.

The Nordic countries – or the Nordic market in fact – can be seen to be at the forefront of the EU power market development towards an open, liberalized market. How is the Nordic market then at the forefront in the EU development? There is factually today a single Nordic market in which power is generated, sold and transmitted. Electricity is transmitted from one Nordic country to another with no restrictions, e.g. in the form of transmission tariffs – the extreme conditions during last winter serve as a good example of the market's capability to function.

Nord Pool – the Nordic power exchange – is often quoted as the world's best-functioning power exchange; it is liquid thus driving the market efficiency, it is well-controlled and it acts with comprehensive information availability for all actors. This will also have influence on the European development – we have in the Nordic market demonstrated that a bigger market than comprising only one country can be developed and the goals set by the EU can be reached.

Price is also an indicator of how well a market is functioning. In normal conditions power prices in the Nordic market have been the lowest in Europe. The present situation of very low hydro inflows has impacted the Nordic prices as hydro power is dominating in the Nordic generation portfolio. Price peaks – an indication of a functioning market – give necessary signals for producers for decisions regarding generation capacity investments. Here we can see how the price on the Nordic market is very dependent on hydro inflow – almost a mirror image.

The Nordic market is still highly fragmented when compared to European markets in general – implying that there is further potential to all stakeholders to benefit from efficiency gains through industry consolidation. Forecasts on power demand and supply in the Nordic market indicate that there will be need for new generation capacity in the future.

On a functioning market price signals guide decision making of market actors on their future investments. In the long-term a higher market price than what we have historically seen will be needed to support rationally-based investment decisions on new base load capacity. To ensure cost efficient capacity in all situations – including occasional high demand peaks – price peaks need to exist – to ensure in the long term more stable power prices and also to steer demand side behaviour for more efficient solutions.

To summarize – the Nordic market has developed according to the targets set by the EU. The Nordic market has demonstrated its capability to function even in extreme conditions. There are, however, still opportunities to improve – there is room for further harmonization of rules and regulations and for example development of a Nordic transmission system operator would further enhance efficiency and competition on the Nordic market. The Baltic Rim power market is in an interesting phase of development.

As becoming member countries of the EU, the Baltic countries will also be natural participants in delivering the EU strategy – liberalizing and restructuring the energy market. Today the opening up of the markets can be said to be in a very early phase and there is a challenge for developing regional co-operation and harmonization of rules and regulations

Implementing of real market mechanisms will be of interest to all parties – both for the suppliers as well as the users of energy. Fortum follows with interest the development in the Baltic market and consequently opportunities to participate in the sector development. There is obviously also a major challenge in the Baltic market regarding decisions on future power generation – an issue that surely needs to be solved within a decade.

Fortum has developed a foothold on the Baltic Rim energy market. In Russia we are present through our 18.6 percent Lenenergo holding – the reform of the Russian power sector is also very interesting to us and we are closely following that development. We have established a significant presence in the heat business in Estonia and have also developed a presence in Poland lately.

And lastly I would like to conclude with some words. The Baltic market is about to become part of implementing the EU strategy on liberalized power markets. I believe and hope that the Nordic market development may serve as an example and guideline for the future steps in developing an efficient Baltic energy market. I am sure that there are a lot of learning in the Nordic market that can well be made of use in your future task.

I wish a most energizing journey for you!

Thank you for your attention.

The co-operation between NCC and Hydrobudowa - a perfect example of business development in the new Europe

Mr Piotr Chelkowski

Business Unit General Manager, NCC / Hydrobudowa SA

Ladies and Gentlemen,

The New Europe – where ten new countries are joining the European Union creates new opportunities for business activity and for the co-operation between various enterprises.

My brief presentation will focus on the co-operation between the two companies active in the construction industry - the Swedish company NCC (the name is the abbreviation of the Nordic Construction Company) and the Polish company HYDROBUDOWA.

NCC is located in the country, which is already a member of the European Union and HYDROBUDOWA is located in the country which is going to join the EU in May 2004. But the head offices of the two companies are in Stockholm and in Gdansk, the UBC member cities. The close co-operation between the two companies started in 2001, so it is a good example of the partnership between the two UBC member cities in the business sector.

Firstly I would briefly introduce NCC. With personnel numbering 25,000 and sales of 46 billion SEK for the year 2002, NCC is the leading construction and real estate company in the Nordic and Baltic Sea region. Since the end of the 1800's we have been laying foundation for the large technically advanced civil engineering projects that we now undertake internationally.

The core business of the NCC Group includes civil engineering, building, housing, real estate, telecom and service. Within these areas we work closely with the customer and seek to utilise the substantial synergetic potential created by being actively involved throughout the value chain, from concept to sale.

NCC uses its expertise and experience to handle both small local assignments and large scale international projects either independently or in co-operation with strategic partners. Our global building experience includes bridges, roads, tunnels, airports, railways and power plants as well as sewage treatment plants and housing.

NCC's business culture is characterised by a willingness to change – for instance by developing new business concepts and technical solutions, as well as creating and developing new forms of contract.

We also offer financial engineering assistance, operation and maintenance of what we build. NCC undertakes BOT (Build, Own/Operate, Transfer) and PPP (Public Private Partnership) projects.

In fact it was NCC who initiated and developed the first BOT project in Sweden (The Arlanda Link) and there is no doubt that in coming years the BOT approach will become more common as a solution for privately financed infrastructure projects.

Another example of the BOT project is the A2 highway in Poland. Brief information about the project: approximately 150 km of highways, 100 bridges built/renovated, value of first stage, including financing: 8 billion SEK, NCCs share: 2.4 billion SEK, completion in 2004. The bridges are built by the Polish contractor HYDROBUDOWA from Gdansk.

NCC acquired HYDROBUDOWA in 2001. HYDROBUDOWA is a legal successor of the State-owned company Hydrotrest Division 3 in Gdansk, established in 1949.

The first contracts were related to the reconstruction of sea ports and fishing harbours, shipyards, breakwaters and other hydro-engineering structures in Gdansk, Gdynia, Świnoujście, Szczecin, Władysławowo, Kołobrzeg and Hel, that were destroyed during the Second World War. At that time, the company's core business was established i.e. hydro-technical construction, piling and civil construction.

During the following years, HYDROBUDOWA developed its business activity and apart from hydro-engineering works, the company specializes in piling, works related to bridges and roads construction, environmental protection, civil engineering and industrial buildings.

The most important projects to date are:

- Northern Port in Gdańsk
- Container Terminal in Gdynia
- Engineering structures at the Sewage Treatment Plant "Wschód" in Gdańsk
- Sewage Treatment Plants in Swarzewo, Jastrzębia Góra and Żarnowiec
- Fishing Harbour quays In Władysławowo, Hel, Łeba, Darłowo and Kołobrzeg
- Liquid Fuel Handling Stand in the Northern Port of Gdańsk
- Liquid Gas Handling Terminal in the Northern Port of Gdańsk
- Reconstruction of Wisła Śmiała river estuary
- Ro-Ro Platform in the Port of Gdynia
- Intermediate Pumping Station on the Pomeranian Pipeline in Lignowy Szlacheckie
- Entrance to the Port of Kołobrzeg – including breakwaters.

As one can see, there is no marine infrastructure on the Polish coast, from Elbląg to Świnoujście that had not been built, repaired or modernized by HYDROBUDOWA.

Apart from the Polish market, the company was involved in many projects abroad, e.g.:

- Port in Famagusta on Cyprus
- Water Intake for the Power Plant in Benghazi in Libya
- Piling for industrial structures in the Czech Republic and gas pipelines in the former Soviet Union.

Since 1994, the company has been continuously operating on the Libyan market. The contract includes Design and Construction Management for two fishing and one commercial harbours in the Mediterranean, the largest of which is located in Sirte.

STRATEGY

The most important strategic goals of HYDROBUDOWA follow the definition of the "core business" of the company, and synergies resulting from the fact that HYDROBUDOWA is an affiliated company of NCC Group.

The strategic goals are as follows:

- To obtain at least 50% share in hydro-engineering works sector related to development of harbour infrastructure
- To export services within “core business” together with NCC International
- To obtain a leading position in the North of Poland among civil construction companies
- To create strategic consortia to implement large projects in other parts of Poland
- To use the affiliation to NCC Group to obtain large projects particularly in the environmental protection sector

CONCLUSIONS

The co-operation between the NCC Group and HYDROBUDOWA creates new opportunities for both companies. HYDROBUDOWA offers its expertise in harbour construction which can be used by the NCC Group worldwide and HYDROBUDOWA helps NCC to operate on the Polish construction market.

NCC offers to HYDROBUDOWA access to the world market and through its financial potential and technical experience it enables the common construction of large projects in Poland.

Thank you for your attention.