

**Plenary Meeting of Working Table II, 18 November 2004
Report to the Regional Table of the Stability Pact for SEE on 19
November 2004
Fabrizio Saccomanni, Chair**

Check against delivery

When we last met in Portoroz in June we noted that the political framework and criteria for a range of reform efforts in South Eastern Europe had been agreed under the auspices of different Working Table II (WT II) initiatives. However it is the implementation of reforms that drives economic growth and the WT II initiatives were asked to focus their activities on the sometimes less glamorous area of implementation.

At our meeting yesterday, we had an opportunity to take stock of progress on implementation and I am pleased to say that in general, the WT II initiatives have done what they were asked and we can show some specific results.

Three topics formed the basis of the WT II meeting. Trade, energy co-operation and our “umbrella” theme of enterprise development and employment generation.

Turning first to trade, the Chair of the Trade Working Group, Adriana Civici of Albania, reported that attention has now shifted from the finalisation of the agreements to addressing implementation issues and in particular tackling the issue of non-tariff barriers. This work is hugely important - we must not have a situation where we have trade liberalisation on paper and where countries slide backwards by seeking protection at a sectoral level. As our Co-Chair, Professor Andras Inotai, reminded us, trade liberalisation can have a very significant impact on growth and foreign direct investment, enhancing the process of structural change needed for global competitiveness and this is particularly true for small countries.

In line with the request from SEE Trade Ministers in Rome in 2003, the Trade Working Group is exploring ways to improve the economic efficiency of the free trade process. There was a consensus that a move to a multilateral free trade agreement would greatly improve the economic efficiency of the liberalisation process. Among the options being discussed are the geographic expansion of the CEFTA agreement or the evolution of the existing network of bilateral free trade agreements into a new multilateral agreement - the South East Europe Free Trade Agreement – SEEFTA. I am in full agreement with the view as stated by the European Commission that we should not get distracted by labels; rather, we must ensure that the option selected should extend the degree of liberalisation achieved under the MoU and should not exclude any SEE country due to outdated membership criteria.

The discussions on the energy initiative – otherwise known as ECSEE, Energy Community in South Eastern Europe - were wide ranging. Firstly, participants welcomed the ambitious nature of this exercise and in particular the progress in the negotiations on the treaty that will be signed by the SEE countries and the European Union. In addition to the important negotiation process, Mr Zluwa of the Austrian Ministry of Economy and Labour, which is the current holder of the Presidency of this initiative, highlighted the range of activities that are underway as countries seek to fulfil the commitments that they have taken under the Athens Energy MoUs of 2002 and 2003, such as the creation of independent regulators and unbundling of transmission, generation and distribution activities.

However, as highlighted by the EBRD, we cannot just focus on the legal and regulatory mechanisms. We have to look at the adequacy of infrastructure for generation , transmission and distribution of electricity and gas . The physical reconnection of the electricity grid between the EU and SEE that took place on 9 November deserves special mention – electricity can now flow from Lisbon to Sofia, from Athens to Helsinki. Now we have to ensure that it can be produced and traded economically in SEE, including determining what are the investment requirements and how can we begin to develop better energy efficiency. We also have to examine issues such as what should the electricity tariff rates be – how do we ensure that tariffs will be paid, - what types of social safety nets can be put in place to protect vulnerable groups.

It is clear from our discussions that the creation of an integrated energy market in SEE can only be a gradual and co-ordinated process and that it will continue to be a highly political issue in the region. The meeting concluded that gaining public understanding and acceptance of the integration process is crucial. This means ensuring greater transparency of the process and early involvement of different stakeholders such as parliamentarians and social partners. The recent Bucharest conference on ECSEE co-organised by the Stability Pact, SEECP and the European Commission was welcomed as a first step in this process but more such activities are needed.

Miet Smet, the Chair of our Initiative on Social Cohesion provided us with a comprehensive overview of the key challenges facing the region in terms of enterprise development and employment generation, as well as outlining some specific work being done on employment policy and social dialogue under this initiative. I want to emphasise that generating employment in SEE is the shared responsibility of all WT II initiatives - trade, investment compact, social cohesion, private sector and infrastructure development. All WT II partners are involved - the SEE countries, the EC, IFIs, bilateral donors, the business community, parliamentarians and social partners.

I was struck yesterday by the improved co-operation among the WT II initiatives – the recent workshop in Skopje brought together the Investment Compact and the employment and the social dialogue sectors of the Initiative for Social Cohesion and the IFIs to discuss the impact of industrial restructuring and how to deal with it at a local level. The Investment Compact's network of Foreign Investor Councils and the Business Advisory Council are exchanging views with the Trade Working Group, the IFIs and the

national governments. The Investment Compact and the Trade Working Group are planning joint events in 2005. This is exactly the type of networking and co-ordination that will enhance our efforts to stimulate employment creation and I strongly support this approach.

Looking forward, I would like to see the results of these efforts translated into quantifiable results. I am an economist – I think numbers matter– so I have instructed each and every initiative to ensure that their progress reports from now on contain more figures. I want to know how the trade flows among the SEE countries are developing with the implementation of the FTAs, not only do I want to know what are the FDI flows to the region, I want to know how much of this is greenfield investment, what is the rate of SME start-ups, what are the priority investment needs under the different infrastructure sub-sectors and so on. This would allow WT II to have more focused discussions on economic issues and policies rather than a survey of needs and objectives. Finally, I suggested that our next WT II meeting be devoted to a review of the situation and prospects for investment in infrastructure, an issue that is the core of the Infrastructure Steering Group mandate.

Let me now conclude on a more general note. Dr Busek mentioned to us yesterday that some businessmen believe it is easier and more convenient to invest in China or India than in SEE. And Professor Inotai warned us that there is a fierce global competition, which SEE must engage in, among emerging countries to attract foreign investment. These are facts of life; and yet I believe that SEE has before it a window of opportunity to get its fair share of foreign capital, because of its growth potential and its political and economic linkages to the EU and to financial institutions like the EIB and the EBRD. I first referred to this window of opportunity a year ago in Tirana. I would like to add today that the window is still there if the region can quickly deliver on the implementation of reforms.

As outlined in the recent EBRD Transition Report and also in the recent positive evaluation of the Pact's Investment Compact – the economic evidence is clear – the countries securing the majority of investment flows are those that are further along in the reform process. In this connection I welcome the 2005-2006 strategy of the Investment Compact with its emphasis on FDI policy reform and enterprise and SME development.

But of course, time is of essence, the window will not remain open forever. Indeed the economic horizon is clouded by structural payments imbalances, by unsettled currency relationships, by rising oil prices, which can pose a threat to world economic recovery, with negative consequences for growth and transition in SEE. The region can count on the support of the Stability Pact in its efforts to implement reforms and to communicate results to the international community and global investors.