

**Charlie McCreevy, European Commissioner for Internal Market and Services**

**Irish Croatian Business Association  
2007 Čičin-Šain Lecture  
Zagreb, September 20th**

Excellencies, Ladies and Gentlemen,

It is a great pleasure for me to be here in Zagreb today to deliver the second Čičin-Šain Lecture.

I would like to thank the Irish Croatian Business Association for organising and the Croatian National Bank for hosting this lecture.

I want in the first instance to pay tribute to Dr Ante Čičin-Šain, who I know, as first Governor of the Croatian National Bank, oversaw the introduction of the Croatian dinar.

Dr. Čičin-Šain was Croatia's first Ambassador to Ireland and after that became the first Irish Honorary Consul to Croatia. I know that he retains a deep interest in Ireland and has never ceased to be centrally involved in all aspects of Irish Croatian relations and friendship.

I want also to pay tribute to your Prime Minister, who I know also has been at the forefront of the campaign for Croatia's membership of the European Union, which will be of considerable benefit to Croatia in the years ahead.

Croatia is the first EU applicant country that I have visited since my appointment as Commissioner for the Internal Market. When my own country joined the EU – or the EEC as it then was – 35 years ago, the opportunities that opened up to us as a relatively under-developed Member State were enormous. But they were as nothing compared to today.

The most recent EU enlargements – in particular the addition of ten new Member States three years ago - have brought a tremendous new dynamism to Europe, including several fast growing emerging economies - creating new business opportunities in a much bigger marketplace. Therefore, while the upheavals of two World Wars produced the accident of history whereby Croatia, which was always historically at the heart of Europe, is arriving late in the development of the European Union, the opportunities provided by the single market of 500 million people that now populate the enlarged and more single market, are one's I am sure Croatia will make the most of once it joins.

After several years of underperformance Europe has more recently experienced a significant upturn. It now looks set to outpace the United States in terms of economic growth both this year and next. Unemployment in the Eurozone has fallen from over 9 per cent to under 7 per cent in just two years. That's good. But it's not good enough. Growth in some significant Member States is still slower than it could be. The key to improvement is for the market integration and market reforms upon which we have embarked to go deeper and faster in the years ahead.

Clearly Croatia is achieving steady improvements in relative economic performance with growth running at more than 6 per cent, inflation at around the EU average, and steady progress in reducing the general government balance. Sustained progress along these lines will, I have no doubt, be rewarded, provided structural reforms continue and are implemented vigorously, and provided also that rising imbalances in the trade and current accounts are contained.

Croatia's economic success in the future should also be greatly enhanced by the effective transposition and implementation of the EU acquis, a framework that provides a level playing field for

economic operators, one in which international investors can have the confidence to increase the flow of inward investment and propel the growth potential of the Croatian economy. But that potential will be dependant too on the EU's ability to further deepen the integration of the European market, on our ability to continue to reduce the barriers to competition across borders, to effectively enforce our existing laws, and to ensure that future law making is based on our clear-cut agenda of better regulation and enhanced competitiveness. Europe must also remain at the forefront of the drive to further open up world markets from which everyone can benefit – developed and developing nations alike.

The challenges of globalization are formidable. But the opportunities that openness offers and the dynamism that it stimulates are the best guarantee of rising prosperity. That's why Europe must embrace globalization and embrace the changes that it demands.

As I know from the experience of my own country, smallness is a handicap if you don't have unfettered access to large, open markets. It is a tremendous benefit if you do. But only if you focus on and implement what it is that stimulates inward investment and entrepreneurship – the development of an efficient communications infrastructure, of a substantial pool of intellectual capital, of a competitive tax structure, of a light touch regulatory environment, the promotion of flexible labour laws, of an efficient public sector, and of sound and sustainable public finances. These are all vital elements. Small economies of course suffer the handicap of lack of scale in their home market. But they have the advantage of flexibility that often eludes larger competitors. And in a small economy being successful through the pursuit of excellence in just a small number of areas -where comparative advantage can be identified and developed - can make a big difference to overall economic performance and export potential.

What is critical to the long term success of any economy, however, is a judicial and public administration framework that ensures that the legal processes are fairly and impartially enforced and appropriate to the needs of a market economy, and that there is a level playing field for economic operators.

In this regard the transposition of the existing EU acquis has a key role to play as have further measures that we have in mind for the period ahead.

To date, the Internal Market has been a great success: It has boosted European growth, created millions of new jobs, expanded choice, and deepened competition – to the benefit of all the citizens of Europe. For businesses cross border trade is easier. And with recent initiatives – like the Services Directive and the modernized Customs Union –it is getting easier still. So Europe's businesses have more opportunities to export and grow. But we are still nowhere near reaching our full potential – potential that will only be fully realised when we have done more to liberalize markets like energy and postal services, when we further deepen financial market integration through improved financial market infrastructure, a single pan-European payment system, and freer movement of capital and investment services across borders. Equally important is the need to strengthen Europe's capacity to innovate through a more streamlined and cost effective framework for the registration and protection of intellectual property. Work is under way in all of these areas.

I want to see more effective application and enforcement of public procurement rules. This, I believe, is particularly important for new and applicant Member States where all has not been as it should be or could be. I cannot stress too strongly the importance of this not just from the perspective of delivering value for money to the taxpayer but also for signalling to investors and economic operators that Member States operate fair, open, transparent systems of public administration and a level playing field. When that is in place investment is stimulated, economic growth is faster, exchequer revenues are stronger and there is the means to finance more and better infrastructure and other public needs through a bigger public procurement programme. The current public procurement

framework in the EU covers public services and public works over minima thresholds. But it will, I hope, soon be extended to cover concessions and in due course public-private partnerships. We have also been working on the strengthening of the framework to facilitate simpler and less cumbersome remedies for aggrieved parties in the tendering process and will also be clarifying the rules applicable to the procurement of security and defence equipment. Competitive tendering and effective procurement play a key role in enhancing economic competitiveness. Done properly it can significantly reduce the tax burden on individuals and business, and helps to underpin sound public finances and financial stability. Transposition of the public procurement rules is therefore important for applicant Member States but effective enforcement is even more so.

Another area which I know is of interest to people in Croatia relates to the provision of services. Last year we completed the steering of the Services Directive through the Parliament and the Council and we are now at the transposition stage.

The Services Directive aims to maximise the benefits of the Single Market for citizens, consumers and businesses.

In the decade after the completion of the first Single Market programme in 1993, the removal of barriers created at least 2.5 million extra jobs and an increase in wealth of nearly €900 billion (on average about €6,000 per family in the EU).

Competition increased as companies found new markets in other Member States. In many areas, prices came down and the range and quality of products available to consumers increased.

But most of the benefits that we saw occurred in goods markets. For services, the Single Market is not yet working as well as it should. There are still barriers hindering service providers from establishing themselves in other Member States – or trading across borders. This needs to be addressed because services are important to the EU. They account for between 60 and 70% of economic activity in the 27 Member States of the EU.

Once the Services Directive is transposed, businesses will be able to establish themselves anywhere in the EU – saving time and money. Service providers will be able to obtain information and complete administrative formalities through single points of contact in each Member State. This should substantially speed up authorisation and reduce costs. A business wishing to build and run a hotel or a store in another Member State will no longer have to deal with several different authorities at national, regional and local level.

A service provider will be able to complete all formalities to set up a business online. They will avoid the expense and inconvenience of multiple visits to authorities in the Member State into which they intend to provide services.

Authorisation schemes in Member States will be clearer, more transparent, less restrictive and non-discriminatory. Currently, getting authorisation can be an unpredictable and time-consuming exercise involving substantial delays and cost in terms of legal fees, staff dealing with negotiations and foregone profits.

In due course - even if not during the life of this Commission - I hope that Europe will be able to extend the Services Directive and widen its scope of application so that the huge potential that a competitive and dynamic pan-European services industry can bring is realised.

Lastly, Ladies and Gentlemen, I want to say a few words about the single currency and fiscal policy.

As the experience in Croatia has already demonstrated, the benefits of joining a stability-orientated

monetary system are enormous. At the most obvious level, avoiding the need for currency conversion facilitates more efficient interaction within the single currency area for people and businesses and lowers transaction costs. It increases cost and price transparency which in turn stimulates greater competition and enhances productivity. But the single currency does more: It enables the Euro area countries to be more effectively represented on the world economic stage and to address the challenges faced by the global economy. The Euro area represents about one sixth of world GDP and roughly the same proportion of world trade. The Euro accounts for about one third of the international debt market and for a significant part of international bank liabilities and foreign exchange transactions. New Member States are very well placed to benefit from further monetary integration. They are, in the main, very open economies and are more and more closely integrated with the EU economy in terms of trade, foreign direct investment, and financial linkages. The prospects for further economic and financial integration are good. I want to commend Croatia's success since independence in tying the value of its currency to the Deutsche Mark in the first instance, and then to the Euro, and in keeping the exchange rate within a narrow band.

But the policy challenges for new Member States seeking to join the Euro area are not insubstantial: While Croatia for example does not presently have a tight labour market, as economic expansion continues – and with interest rates converging towards Eurozone levels -this could change over the medium term. It will be important in those circumstances that the fiscal stance remains appropriate and that pro-cyclical impulses are avoided. Prudent fiscal policies, effective financial supervision and structural reforms that liberalize labour, product, and capital markets play a key role in sustaining external sustainability and competitiveness. For all Member States – new and prospective - containing inflationary pressures is not just a question of meeting Maastricht criteria at a particular point in time but a key element to safeguard competitiveness and long-term macroeconomic stability.

Ladies and Gentlemen, it is only a few months since we celebrated the 50th anniversary of the Treaty of Rome. Over the intervening 50 years European integration has brought great prosperity to the members of the EU. And not just prosperity: freedom and security too. But prosperity, freedom and security are built on the same, single foundation – peace.

Like you, I come from a country that in the past was deeply divided. I am acutely aware that lasting peace is only achieved when the roots of reconciliation between former enemies gets firmly entrenched. That requires maturity from people: it requires forgiving the past without forgetting it, agreeing to set aside ancient battles and to move forward on the basis of shared, common goals.

As a result of parallel deepening of integration and gradual widening, Europe is today much safer and more prosperous than it was when the integration process started. And now with 27 Member States and a population of close on 500 million Europe is much stronger and more powerful in the world than it was 35 years ago when – with the accession of the UK, Ireland and Denmark the EU expanded from 6 to 9 members and to a population of less than half its current level. Today our leverage in the world economy is immensely greater and with the accession of countries like Croatia and others, Europe will become stronger and more powerful still. I wish you well as you move further and further along the path towards EU membership. I hope you can move quickly towards meeting all of the agreed opening benchmarks on the acquis. The challenges and opportunities that lie ahead for Croatia are significant. I am sure that you will rise to those challenges and grasp the many exciting opportunities that are there for the taking.