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**Speech by the Prime Minister of Greece**  
**Dr Kostas Karamanlis**  
**“Greece and the European Union:**  
**Partners in European Reform”**  
LSE, Hellenic Observatory Annual Lecture

Dean,  
Ladies and Gentlemen,  
Dear Friends,

It is a great pleasure for me, to address the faculty, the students and the guests of this prestigious institution. The London School of Economics and Political Science has, for many years, been providing education of the highest standard at undergraduate and graduate level, for hundreds of Greeks. People who then moved on to undertake important positions in business and public administration, in politics and academia, at home and abroad. Moreover, I would like to stress the important contribution of the Hellenic Observatory, in better understanding modern Greece. Since it was founded in 1996, the Observatory has been gradually evolving into a prominent research centre for the analysis of economic, social, institutional and political aspects of Greece. I am convinced, that the programme will continue to flourish and provide us with valuable research insights.

Ladies and Gentlemen,

Next spring, we will celebrate a milestone anniversary for the European Union. Half a century since the Rome Treaties, the Union has proved to be a unique historical example, the most successful model for peace, prosperity and cooperation among states. Doubtless, the path to European integration has not been unimpeded. It has often been hampered by introspection, dilemmas and delays. Yet, the tendency is upwards. A number of remarkable accomplishments and significant successes have taken place. The Maastricht Treaty, the adoption of the Euro and the historic enlargement of 2004 are major landmarks in the evolution of the European Union. A Union of 25, and soon 27, member-states and almost 500 million people. A Union of citizens, who share similar values and hopes, but also, similar worries.

Today, the European Union is at a critical turning point. The challenges ahead, both at the European level as well as globally, are new and complex. With the Constitutional Treaty we sought to address a number of these challenges. Certainly, we respect the decision of the French and the Dutch people. It is a message that cannot be ignored. But on the other hand, we also cannot overlook the fact that the majority of the member states and peoples of the European Union have ratified the Constitution. Greece is one of them, because we believe that it represents the best possible common denominator in order to address modern challenges facing the Union. Besides, in my view, the crisis we are facing today is not an institutional one. It is a crisis of confidence. The prime challenge for Europe today is

to restore public confidence in the European project and address the concerns of our citizens.

Hence, this is the political direction that I propose. Our vision for Europe should be directed at two levels, distinct at first sight but actually interactive. On the one hand, a united, political Europe with a strong voice in international affairs. On the other, a Europe that will use its potential to the benefit of its citizens, that will be relevant to their needs and hopes and that will stimulate them to be active and involved. We need to work together with the citizens of Europe for a "Europe of the Citizens". In other words, the challenge that we are facing today is not only to build a strong Union of States, but also a strong Union of Citizens. For example, our common aim of making Europe the world's most dynamic and competitive economy must go hand in hand with the creation of new jobs, social cohesion, improved living standards and environmental protection guarantees.

But a strong, united, political Europe takes brave steps to be achieved. Greece has always supported a faster political unification and deepening of Europe, which for the past few years lags behind compared to enlargement. Beyond the issue of the Constitutional Treaty, we will soon be faced with a, maybe, bigger challenge deriving from enlargement. A Union of 27 or more member states will inevitably have to choose between moving ahead -although not always at the same pace for all member states- or standing still. I believe that, those who want and can move forward, in the framework of our common vision, should do so opening the way for the rest, operating as a locomotive, of course without exclusions. Some talk about an avant-garde, others about a core group. I have long proposed, -and I am happy to see that this idea is also proposed by other prominent Europeans- the solution of the political strengthening of the Euro-zone. This group has already demonstrated a stronger political will for the implementation of a federal project. It is connected by common goals and interests, and it is not exclusive. It is therefore natural for those Europeans, who have been at the forefront of major European integration projects -the most important of which being the euro- to move even further. In this spirit, it will not be size and power that will define the way forward but commitment and participation in the major European projects. It goes without saying, that any such project will be open to all member states that want to join in and fulfill the relevant prerequisites at any time.

Ladies and Gentlemen,

Today, questions facing Europe, have not only to do with internal issues. Major challenges of our times for the European Union are also global in nature. Globalization is a force strong enough to affect the lives of hundreds of millions of people. The tremendous pace of technological advance has set a new platform for trade and exchange on a global scale. The internet provides unprecedented opportunities stretching beyond boundaries of time or distance. The economic development of China and India is fueling global growth. Their products are invading highly competitive markets, while both countries are providing more and more skilled graduates every year. Moreover, issues, such as security of energy supply, environmental hazard, and, especially concerning Europe, ageing populations, pose substantial risks.

Last year, member-states decided to renew their commitment to the goals of the Lisbon Strategy, the results of which have been slow and disappointing. The potential of the Strategy is impressive. If member-states implemented the agreed reforms and the Union reached the Lisbon targets, benefits in the coming years would be impressive. Europe

would see its GDP increasing by up to 23% and employment by 11%. Renewed interest resulted in the launching of the **Partnership for Growth and Jobs** aiming at

- securing macro-economic stability,
- improving the business environment and
- modernizing the labour market.

We also agreed on sharing best practice, monitoring and evaluating the progress achieved. Europe is finally committed to addressing long standing structural weaknesses. Weaknesses that undermine not only its competitiveness, but also the very existence, and sustainability of the European social model. The new Partnership for Growth and Jobs will lead the European Union to the next decade through a broad roadmap of reforms. 2010 should, by no means, be seen as the end of the road. It is merely providing us with an opportunity to evaluate our progress, address our shortcomings and strengthen our Partnership. The main focus remains the achievement of high and sustainable growth, capable of producing more and better jobs, and a more inclusive society. To do so, fiscal consolidation as well as long-term sustainability of public finances, are the prerequisites. Promoting openness and improving competitiveness is imperative. Opening up markets and reducing entry barriers, completing the internal market, modernizing employment conditions, simplifying regulation, cutting red tape, strengthening financial markets and improving transparency are essential priorities. We are coordinating our efforts to create stronger research incentives and spread innovation diffusion, a field in which the European Union lags behind its global competitors. Life-long learning is a necessity in our times. Modern education and training are crucial to increase employment, especially for women and young people, to reduce social exclusion and to limit inequalities. We need today, more than ever, to endorse a knowledge-based society and to support the creation of a skilled labor force. Shielding our economies from external shocks related to energy supply is also pursued through the adoption of a European energy policy.

All these challenges are critical today. But the transition from intention to implementation is not always straightforward. Especially, when taking into account reform resistance and pressure exercised by specific interests groups. This is exactly why, embracing society in every step of the way is so important. We need to explain lucidly the true, long-term benefits of change, particularly when the benefits will occur in the future while the costs are immediate. Reforms, after all, concern all of us. We need to promote a mutual understanding of the benefits of moving forward against the costs of standing still. We need to move past the traditional electoral cycle and to create a platform of ongoing social dialogue and reform.

Ladies and gentlemen,

During the last 25 years, since joining the European Union, Greece has come a long way. It has achieved major accomplishments and it has been established as a stable, democratic state in its region and an active partner in the European Union with a stronger voice in the international environment. It is a country steadily increasing productivity and competitiveness, a country that produces, a country that generates growth.

Today, Greece plays a leading role in SEE, a region of strong growth with large and yet untapped business potential, attracting intense international interest. The cosmogonic changes at the end of the 20th century and the reforming dynamics of the EU have unleashed immense opportunities for growth in the region. Like the rest of the world, our neighbourhood also changes at unusual speeds. In this process, the natural common partner and aide, not only for member states, but also for states of the wider region, is the European Union. Greece supports the European orientation of these states and their

integration to the common European project for reform. We develop a bilateral and multilateral cooperation, but we also work together with the Union and our neighbours, in order to create a single economic, commercial and energy space in SEE. We apply policies and we promote infrastructure that upgrades the geopolitical role, brings major investments and guarantees rapid growth, in the entire region. Already, a powerful network of business, commercial and tourist collaboration has been developed, that boosts the dynamism of the region. So far, Greek investments in SEE exceed 12 billion Euros and 3.500 Greek-owned companies and 700 bank offices are established.

Today, the Greek economy is more open and more competitive than ever. It has one of the highest GDP growth rates in the Eurozone. Total exports increased by 13% in 2005 and 22% in the first half of 2006. In the same period, total investment increased by 10%. Also, in the first 8 months of 2006, Foreign Direct Investment increased almost tenfold compared to the same period last year, reaching 3.6 billion Euros. Large investment projects, especially in tourism and energy, delayed for years due to slow and unclear bureaucratic procedures, have now been advanced decisively. Indicative of the improvement is the fact that in 2005 a net increase of 28.400 firms was recorded. Last but not least, according to the 2006 IMD Report the competitiveness of the Greek economy showed a remarkable improvement by 8 places. It was the third largest improvement noted in the IMD scoreboard after China and India. Unemployment is gradually declining. In the second quarter of 2006, it was reduced to 8.8%, after many years of double digit rates.

Greece has achieved a lot, but we are still halfway. Following the successful organization of the Athens Olympic Games in 2004, a comprehensive reform package is being promoted that aims at effectively addressing shortfalls. To this end, the Lisbon strategy is the road map that guides our course. The strategy for changes, in order to achieve both economic and social results, high added value in our economies, -drawing on new technologies, research and innovation-and more rapid growth, whilst respecting the environment and ensuring sustainable development. The key towards achieving these aims lies in one single concept: Reform. Now, more than ever, within an extremely competitive international environment, we must all accept our responsibilities towards the citizens, towards Europe, and towards the next generations. With as broad a consensus as possible, with efficacy and social sensitivity, we must bring about the necessary reforms and incisive changes in our institutions, our economy and our society. Greece embarked on a period of intense structural reforms, in order to adapt to international challenges, so that it will be adequately prepared for the future and placing itself at the forefront of European developments and reforms. Our new policy mix focuses on fiscal consolidation, improvement of the business environment, education and training. The first results are now visible and we expect to see major improvements soon.

One of the main priorities of our new economic policy is to permanently reduce fiscal deficits below 3% of GDP and secure long-term balanced and sustainable public finances. In 2006, the public deficit will be, below 3% of GDP as confirmed by the European Commission's Autumn Forecasts. The reduction of the deficit by more than 5 percentage points, in such a short period of time, is Greece's European success story. And as affirmed by the Commission's latest Forecasts it will continue in the coming years.

A series of growth promoting measures supporting private sector activity have been successfully introduced, so as to boost productivity. We are gradually opening up important markets, such as electricity and natural gas, promoting a large scale privatization programme and reinforcing financial market regulation. New investment opportunities have been created by the reduction of corporate tax rate from 35% to 25%

until 2007, as well as a new incentive law. Major infrastructure works are taking place, especially in the periphery, including motorways, seaports and airports. We have also introduced simpler start-up procedures for new manufacturing firms, adopted a Legal Framework fostering Public and Private Partnerships, redirected more funds from the 3<sup>rd</sup> Community Support Framework to competitiveness and regional development, established a new framework for enhancing healthy commercial activity, implemented more than 30 measures in support of small and medium sized enterprises.

The dynamic development of a New Energy Policy is one of our main priorities. In promoting major trans-national projects, Greece is becoming an important actor in the international energy scene, enhancing its geopolitical importance. The construction of the Bourgas-Alexandroupolis oil pipeline, the Greek-Turkish and the Greek-Italian natural gas pipelines, the establishment of the Energy Community of Southeastern Europe, are major undertakings that will transform Greece into an energy hub for the region.

A major priority for my government is education. A national strategy is already underway to improve further the quality of our education system, to promote investment in Research and Development, to advance the digital revolution and enhance the links between the research and business communities. Simultaneously, we are improving labour market to offer appropriate job opportunities that will match the high quality educational standards that we aspire to offer to the young generations. Young people like the students who are with us today, who prepare for demanding jobs and expect to have the opportunity to be employed in such positions.

Ladies and gentlemen,

Greece is in a process of change. Results this far show that we are on the right track. We are implementing a series of reforms across the board, which are the result of extensive social dialogue. Preparing our country for the challenges of tomorrow is our main conduit for change. Our vision is to establish Greece as a business and energy hub, a financial and transport center, a leading partner in South Eastern Europe, a cultural and tourist destination. Greece has created a new business environment friendly to entrepreneurship and private initiative. It has created new opportunities for domestic and foreign investors. It has created a new working environment for young, educated people. It is a friendly, modern and secure country. A country that knows how to listen and interpret the signs of times and how to adapt to them by change and reform following a clear vision and a targeted plan.

Because, as John F. Kennedy has noted “change is the law of life and those who look only to the past or present are certain to miss the future”.