

U.K. aide urges EU to revamp economy

BY LAURENCE NORMAN
AND STEPHEN FIDLER

BRUSSELS—The European Union needs to reshape its budget and redesign state-aid rules to focus on strategic, high-growth sectors if it hopes to compete with the U.S. and China, U.K. Business Secretary Peter Mandelson is expected to say Friday.

"We are approaching a decisive break with the economic past—a totally re-ordered global economy," Mr. Mandelson, a former EU trade commissioner, plans to tell an audience in Brussels. "Will we drive the agenda, or become a subsidiary of a process driven and shaped elsewhere, above all by the G-2, meaning the U.S. and China? We need policies and structures for this changed world."

Mr. Mandelson's expected remarks mirror comments this month from the British foreign secretary, David Miliband, suggesting that without leadership Europe could become globally irrelevant in the wake of changes to the world economy following the financial crisis.

They will reprise some familiar themes, arguing that the 27-nation bloc should not slip back toward government domination of economies and warning that a proposed EU directive aimed at reining in hedge funds risks curbing investment in new ventures.

Mr. Mandelson is also expected to say the European Commission's budget—equivalent to 1% of the 27-nation bloc's gross domestic product—is "misaligned" and should be redirected to harness "the cutting edge" of European innovation, according to remarks released by his office. He will also propose rethinking the way the commission is organized to reflect the

importance of innovation, the digital economy and climate change.

"EU rules need to encourage private capital to invest and innovate and state-aid rules need to provide the right kind of space for governments to encourage and facilitate such investment," he will say.

The U.K. government has long called for the EU's budget to be redirected from large-scale support for agriculture and focus more on areas like research and development.

Mr. Mandelson has also been trying to carve out a more activist role for the U.K. government in developing and supporting key new industrial sectors, reversing years of a hands-off approach in London. However, Mr. Mandelson said the flexibility in the EU's state-aid rules—introduced to help overcome the effects of the financial crisis—should end as planned in 2010.

Mr. Mandelson's speech comes days after the Czech Republic ratified the Lisbon Treaty, opening the way for the biggest institutional changes in years. Mr. Mandelson was due to say that the EU should take the lead in solving the problems of overcapacity in the car industry, but this couldn't be done through tariffs and quotas.

"I don't underestimate for a moment the political challenge in talking about Continental restructuring or rationalization, but it is surely preferable to a subsidy war or wasted resources."

In remarks to reporters Thursday, Mr. Mandelson said U.K. workers would welcome the decision by General Motors Co.'s decision to scrap the sale of its European division, since they preferred the management they know. The GM board decided this week to retain its Opel business rather than sell it to the Canadian auto supplier Magna Inter-

national Inc.

Keeping Opel within GM "would be a significantly less-costly deal for European taxpayers, notably U.K., German and Spanish taxpayers," he told reporters.

Mr. Mandelson also criticized a Wednesday speech by Conservative Party leader David Cameron. Mr. Mandelson said the speech had given "fresh red meat" to Euroskeptics in the opposition party. If the Conservatives get into power they would obsess about "picking fights in Europe" and "plunge Britain's EU relations into semipermanent crisis," he said.

Asked whether Mr. Miliband would be seeking the role of EU foreign minister, newly created under the Lisbon Treaty, Mr. Mandelson said he hadn't seen "in anything he'd said and done that he wants another job."

