

**UK Mandelson Calls On EU To Reshape Rules, Budget**

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BRUSSELS (Dow Jones)--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 in future, U.K. Business Secretary Peter Mandelson is due to say Friday.

In a speech to be delivered at the **Bruegel** think-tank in Brussels, Mandelson is due to say the EU needs to "get real" about the challenges facing it.

"We are approaching a decisive break with the economic past--a totally reordered global economy," Mandelson, a former EU trade commissioner, will say, according to excerpts of his remarks released by his office.

"Will we drive the agenda, or become a subsidiary of a process driven and shaped elsewhere, above all by the G2, meaning the US and China? We need policies and structures for this changed world."

Mandelson is expected to say the European Commission's budget is "misaligned" and should be redirected to harness "the cutting edge" of European innovation.

He is expected to say the EU's structural and research funds should be used to promote research and development. He will also propose rethinking the way the commission is organized to reflect the importance of innovation, the digital economy and climate change.

Mandelson is also set to call for changes to state-aid rules. These, he will say, currently suppress investment in innovation by limiting the supporting role governments can play.

"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."

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

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, Mandelson said the flexibility in the EU's state aid rules--introduced to help overcome the effects of the financial crisis--should end, as currently planned, in 2010.

Mandelson's speech comes days after the Czech Republic ratified the Lisbon treaty, opening the way for the biggest institutional changes to the EU in years.

Mandelson will say the EU should take the lead in solving the problems of overcapacity in the car industry, but that this can'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, Mandelson said UK workers would welcome the decision by General Motors Co's decision to scrap the sale of its European division, because they prefer 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 International Inc.

"I think the intervention of the [European] Commission in questioning the Magna deal and the way it was undertaken was an element in the GM board's decision," he said.

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

Mandelson also condemned a speech from Conservative Party leader David Cameron on Wednesday, in which Cameron said his party would seek to win back powers from the EU if elected. 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 semi-permanent crisis", he said.

Asked whether U.K. foreign secretary David Miliband would be seeking the role of EU foreign minister, newly created under the Lisbon Treaty, Mandelson said he hadn't seen "in anything [Miliband has] said and done that he wants another job."

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