

# **M** **EHR** Grüne Marktwirtschaft **W** **ERT**

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## Executive Summary

We want a state which opens up fair opportunities of access, safeguards a forward-looking environmental framework and calls for an international approach to the shaping of globalization. More competition, intelligently used, can create more equitable opportunities for all and a more efficient use of resources. We want to set a global framework for the economy and so create the conditions for socially just and environmentally sustainable globalization. In order for this to become reality, consumers, business and industry and the state must all take on their share of the responsibility. Together they can bring about qualified growth; they can generate added value. The Green Market Economy is about being open – not closed. Our goal is not protectionism, but fair opportunities for all.

**The Green Market Economy seeks to encourage competition.** The basis here is a policy which encourages open markets. In addition to market liberalization, a key imperative in the global economic framework is to create functioning markets rather than monopolies and oligopolies. This needs a multilateral body to implement competition policy. We are opposed to a policy which is geared towards 'national champions', seeks to protect the vested rights of guilds and cartels, and is isolationist.

**The Green Market Economy seeks to create jobs.** Green thinking produces jobs designed for the future. The significance to employment of environmentally aware economic policy has long been played down. But there are now more people working in environment-related jobs than in the automobile industry. The fields of energy, materials and resource production offer good employment opportunities for a lot of people. In addition, other European countries have shown us that new jobs can be created in health care and other services, in particular. In Germany this potential is nowhere near fully exploited as yet.

**The Green Market Economy seeks to safeguard resources.** The disastrous effects of global climate change on our continents and oceans are becoming ever more painfully apparent. The crises it spawns will radically alter the foundations of economic activity. Already today, the rising costs of commodities and energy are colouring the 'invisible hand' of the market green. We want the economy to take greater account of the environment and we will support innovative efforts towards that end. Our ideal is low-resource economic activity. By intensifying research and technology transfer, we want to produce goods and services using fewer and fewer materials and resources and to make Germany a market leader in efficient resource management. Lower resource input means lower levels of emissions and pollution output in obtaining raw materials, and this in turn means a more competitive economy.

**The Green Market Economy relies on tolerance, technology and talent.** Forward-looking economic policy means creating space for the development of new ideas. This is also the key to greater growth. New knowledge, which generates creativity, is the seedbed for future productivity. Greater investment in education and research and better-quality educational establishments are the prerequisite for creativity in a knowledge society. The limiting factor in such a society is the number of

creative minds it has and the willingness of state, business and industry and individuals to invest in education and science. We want Germany once again to be an appealing location for the world's most creative minds. So policy-makers have to ensure that the requisite investment is made in education and science.

**The Green Market Economy needs social security.** A growing number of people suffer from poverty and social exclusion. Increasingly these include low earners in payroll employment or small-scale self-employment. All of these must be given better security in the form of basic provision geared to their needs, better access to the labour market, generous treatment of additional earnings and minimum guaranteed wages differentiated according to region and sector of employment. To us this is the central imperative in the reform of Germany's social security systems. These systems must be adapted to patterns of work and earnings which are increasingly discontinuous.

**The Green Market Economy needs more entrepreneurs.** Economic policy is geared to large companies, but not to the needs of small and medium-sized enterprises. We need more people bold enough to venture into self-employment as a way of earning their living and creating jobs for others. We want to design tax policy, labour law, company law, access to capital and social security in a way which furthers this objective.

**The Green Market Economy needs more women.** For the industrialized nations of the West, the decisive factor driving growth was female employment. Germany, with its anachronistic policy, is throwing away significant potential for innovation and growth here. We are bottom of the world league in terms of the proportion of women in senior managerial positions. Demographic trends and internationalization mean that the issue of gender inequality has long since become a problem in terms of innovation in addition to being a problem in terms of fairness. Germany's first *Wirtschaftswunder* would not have been possible without women, and unless we get more women into top jobs in science and the economy there will be no second 'economic miracle'.

**The Green Market Economy needs internationalization.** In terms of highly skilled labour, Germany has long been a country of emigration. We need to encourage immigration, specifically of highly skilled people, in order to sustain an internationally-oriented and innovative economy in the long term. Businesses started by immigrants now make a significant contribution to training and growth. Policy-makers must focus more directly on them. Instead of lumping all foreign investors together and bad-mouthing them in debates about 'plagues of locusts', we must attract more foreign direct investment into Germany by systematically eliminating our economy's rigidities and barriers.

**The Green Market Economy needs a restructuring of social insurance.** Too high a proportion of social insurance costs is borne by the 26.5 million people who pay contributions because they are in paid employment. Rising costs caused by demographic trends on the one hand, and increasing incomes from property, letting and leasing on the other hand, make it necessary to spread the burden of contributions over the whole population. This can be done only by raising more of the funds needed

from taxation, which we will do in a way which specifically reduces the burden on people with low incomes. Unemployment is particularly high amongst the low-skilled and non-wage labour costs are a particularly important factor in this context.

**The Green Market Economy needs sound public finances.** It is essential that government budgets be consolidated and national policy on revenue and expenditure be framed with reference to criteria of sustainability and inter-generational equity. A national economy designed for innovation and sustainability must have reliable and sound financial parameters. The existing statutory framework has not been able to stop national debt from rising to an unacceptably high level or social security systems from coming under threat. Existing laws and regulations must be reformed, with special regard to the objectives of sustainability, future viability, promotion of economic dynamism, and inter-generational equity.

Implementing the following key demands can help to achieve the Green Market Economy:

- **More decoupling of social security from labour costs**
- **More planning security and simplification of labour law**
- **More of a market through the dismantling of subsidies**
- **More independence from imported raw materials and energy**
- **More security for discontinuous patterns of work and earnings**
- **More women in senior management**
- **More autonomous, responsible entrepreneurship**
- **More immigration of highly-qualified workers**
- **More measures to break up monopolies**
- **More competition in services, health care, energy and logistics**
- **More freedom through the dismantling of professional cartels and guilds**
- **More foreign direct investment, especially venture capital**
- **More sustainable management of public finances**
- **More flexibility through the cutting of red tape**
- **More targeted incentives in the new *Bundesländer* (federal states)**
- **More knowledge and creativity in education and research**
- **More low-resource economic activity**

## **Added Value**

### **The Green Market Economy**

#### **Colouring the "invisible hand" of the market green**

Green economic policy aims to achieve functioning markets with a high level of competitive intensity and low information asymmetries between consumers and companies. The state's responsibility is to define the parameters for these markets through unambiguous regulatory provisions. Functioning markets are a good means of achieving our environmental and social goals.

On the basis of a demanding regulatory framework, the market guarantees freedom, so that the most efficient products and processes can come to the fore and satisfy economic, environmental and social needs. In the market, a large number of companies compete to develop the best solutions. A functioning market is thus the most efficient way of stimulating innovation. Planned economies and monopolies tend to squander energy and resources, whereas in functioning markets, a wasteful producer is unlikely to survive. However, in view of the wasteful growth which is creating poverty in many parts of the world, a commitment to the market and competition must be set within a regulatory framework which prioritises consumers, the environment and social justice over corporate interests. A market which operates at the expense of the weak and vulnerable, which inflicts irreversible damage on the environment, which functions despite, not in response to, the needs of consumers or prohibits democratic participation is not a functioning market in terms of the Green Market Economy. Comparisons of the industrialised countries over the last 30 years have shown that the most competitive countries are those which also have the best environmental policies.

The state defines the regulatory framework and the provision of public goods via a democratic process. Nowadays, the regulatory framework is strongly influenced by the European internal market. Through consistent competition policy, government action should ensure that companies with a head-start in the market do not achieve entrenched monopoly positions. A core economic policy task is to organise the markets in a way which facilitates fair processes of exchange without requiring substantial ex post regulation. Another task is to deliver the appropriate level and quality of public goods required by citizens and the corporate sector, or to safeguard the provision of these services.

As global environmental problems increase, gearing government and corporate activity towards the needs of ecological modernisation has so far only been successful to a limited extent. The concept of "creative destruction" introduced by the economist Joseph Schumpeter – which describes the process of industrial transformation through the replacement of obsolete products and processes by new and more efficient ones that are created by innovative entrepreneurs – will in future be the sustaining force of the ecological reorientation of the economy at a time of ongoing climate change and increasing scarcity of resources. We want creative destruction – not the destruction of creation. Creative destruction offers the wherewithal to overcome inefficient and environmentally damaging structures

such as centralised energy production based on large power stations, and opens the way for preserving the integrity of Creation. This process can only succeed through the creativity of a dynamic and responsible corporate sector. We are convinced that we need more self-determined entrepreneurs. State support for corporate financing must therefore focus more intensively on this market. The Green Market Economy depends on responsible market players – which must include companies which are conscious of their social and environmental responsibility, and consumers who demand high-quality goods which meet social and environmental criteria. Together, this establishes the basis for the creation of values. The state flanks this process through the adoption of clear rules which form environmental "guard rails" in parallel to the price signals sent out by the market.

Under the conditions of globalisation, demographic change and public debt, the social parameters of the market economy must be renewed and redefined. A Green Market Economy means inclusion, not exclusion. For decades, the political debate in Germany was able to focus on ways of achieving more equitable distribution of the prosperity generated. Today, we know that social justice entails more than mere financial redistribution. A Green Market Economy needs a supportive and pro-active state which creates the conditions for everyone to have a stake in society through ownership. The key issue is fair opportunities of access. Inequality can only be reduced, rather than reproduced, through fair access to education from the outset. A Green Market Economy does not nurture the illusion of all-round state provision, thus removing the individual's own responsibility for their future, but assists them to take on this responsibility. Ownership is, first and foremost, a social justice issue – but it also concerns our country's ability to master the challenges of the future: in view of its shrinking population and predicted shortage of skilled workers, we can no longer afford to deny individuals opportunities because they come from difficult circumstances, or because they are women who have no access to childcare, or simply because they are supposedly too old. There are lessons to be learned from the Scandinavian countries here: they offer a high level of social security, their economies are booming and their competitiveness is boosted by three factors – rigorous budgetary consolidation, prioritisation of education and research with adequate funding, and a pro-active labour market strategy based on a taxation and contributions system geared towards employment and equality. That is why these countries have a high employment rate, for these policies boost people's sense of security and their confidence in the economic process.

A Green Market Economy needs self-confident citizens and a self-confident state which is willing to intervene in order to create fair opportunities of access and enforce competition while setting clear boundaries for companies. These principles must apply within the framework of the European internal market and constitute the defining feature of the regulatory framework at global level. The withdrawal of the state and a shift of power in favour of major transnational corporations, accompanied by the simultaneous dismantling of social and environmental standards, cannot remain the guiding principles of economic policy action. In view of the radical changes taking place worldwide, the classic redistributive state, which focusses on maintaining its existing structures and preserving its isolation, has passed its sell-by date.

## **Core elements of the Green Market Economy**

We need an economic policy offensive. Viewed objectively, the post-war "economic miracle" was not a miracle at all, but the result of hard work flanked by economic policy decisions which were tailored to the specific circumstances of the post-war era. We believe that the time is ripe for a "green economic miracle". This is borne out, in our view, by the initial successes achieved during our time in government – notably the creation of thousands of jobs in the renewables sector, the green shoots of competition in the energy market, and the surge in business start-ups following the liberalisation of the law governing the crafts and trades.

To enable a "green economic miracle" to take place, we need reforms across the board in economic, financial and social policy. We are therefore presenting a package of measures to promote this objective.

### **1. Encouraging competition**

#### **1.1 The Green Market Economy encourages open markets**

The Green Market Economy is in favour of fair opportunities of access to world trade, for the poorest countries are those which are least integrated into the global economy. The emergence of new competitors speeds up structural change in the industrialised countries. We want to carry out internal structural reforms and offer opportunities to those who are losing out as a result of structural change. We want our role in the global economy to be based on openness and solidarity. We reject the notion of new "economic wars", and we cannot approve of countries such as China or India – whose populations still include millions of impoverished people – being described as "aggressive" states, which simply prepares the way for a new policy of isolationism. The demand for a new "trade NATO", as endorsed by the German Chancellor, makes no sense in economic policy terms. Alliance 90/The Greens are in favour of rule-based multilateral solutions.

Germany is one of the countries which benefit most from world trade. Its foreign trade surplus has steadily risen since the mid 1990s and achieved a record level of € 160 billion in 2005. The German economy has been able to improve its competitiveness through the purchase of cheap inputs from Eastern Europe but also China and India, with the result that Germany's exported value added has also increased. However, the price of this success has been high: job losses and a reduction in unit labour costs.

German trade with China is experiencing strong rates of growth, and India's share of German exports and imports is also rising. In recent years, however, imports from China have shown far more rapid growth than exports, with the result that Germany's trade deficit with China stood at € 18.5 billion in 2005. Germany's competitive advantage lies in its extremely well-qualified engineers and excellent

technical infrastructure. The cost of skilled labour is increasing in China and India as well. The numbers and quality of engineering graduates have risen in both countries. Many view this development as a far greater threat to our competitiveness than straightforward low-wage competition. Dynamic competition should not be treated as an opportunity to launch fresh debates about protectionism. Instead, the challenge is to increase investment in research and education in order to safeguard competitiveness, and implement a policy of solidarity towards those among us who are affected by structural change. The introduction of the progressive model would help to create and maintain jobs in labour-intensive industries. History shows that isolationism leads to poverty, not more prosperity.

We want to bring the WTO's Doha round to a successful conclusion. The USA should finally put forward proposals on dismantling its farm subsidies. The EU should also improve upon its offers in this area and further reduce its subsidies. The failure of the negotiations would pave the way for bilateral free-trade agreements, which would massively worsen many developing countries' bargaining positions.

## **1.2. Strengthening Europe's role**

Thinking green means thinking Europe. Today, Europe is the relevant economic policy area. Europe can only be successful in economic, environmental and social terms through better harmonisation of its Member States' economic policies and strengthened EU institutions in this area. Protectionism is an outdated solution, and any benefits it has to offer are short-term at best. The example of the restriction on competition in the sale of car parts in the EU shows how important it is to support EU policies which promote competition. Without European rules, the car industry could keep competitors permanently at bay, while consumers would end up paying up to four times as much for their car parts or would have to take out insurance policies to cover these costs. The European legislation governing freedom of establishment or the pending proceedings to abolish German pharmacists' privileges also fall into this category.

The EU's internal market has resulted in strong and beneficial linkage between Europe's national economies. Politics must keep pace with the economic integration achieved. For that reason, there must be a significant improvement in the coordination of the EU Member States' economic and fiscal policies. First, Europe's Stability and Growth Pact must be developed further, away from its current status as an economically unconvincing arrangement to control budgetary policy and towards a pact for stability and growth which is worthy of the name. To date, the Pact has failed to compel governments and parliaments to adhere to a policy of budgetary discipline during economically buoyant phases, while in times of weak or falling growth, it encourages procyclical consolidation. Developments to date have shown that the monitoring of the Pact by the European Council is inadequate. So the aim must be to strengthen the European Commission's role here.

With the exception of trade policy, the EU still does not present a sufficiently united front in the international arena. As a result, it is forfeiting many of the benefits which the internal market could

offer. Yet it is clear that only a strong Europe which speaks with one voice will be able to assert its interests vis-à-vis the USA and China. The EU Member States must therefore speak with one voice on issues concerning international agreements on the protection of intellectual property rights and rules to prohibit the theft of technology. Europe's finance ministers should also take a unified stance, together with the European Central Bank (ECB), in response to global currency risks. A united approach is essential if they are to bring a stabilising influence to bear on the situation in the international currency markets via the relevant international bodies. In this way, the EU can avoid the shocks of harmful adaptation processes.

### **1.3. The Green Market Economy campaigns for a global regulatory framework**

A market economy without democracy leads to intolerable situations, as the developments in China demonstrate every day. Corruption, the destruction of the natural environment, oppression, exploitation and torture are routine. Trade and exchange with China increase the opportunities for democratic opening. A withdrawal from this process and isolationism would also reverse the openness which can now be observed in Chinese society. So we want to safeguard workers' basic rights to participation and protection, such as trade union rights and the right to strike, by means of international agreements.

We want to end the destruction of the natural bases of life through the adoption of global environmental agreements. An international emissions trading scheme involving every country would be the most effective approach to tackle climate change. The aim must be to establish a worldwide system of tradable individual emissions rights.

Germany's Federal Cartel Office (FCO) has a good track record in working for more competition. However, it is increasingly reaching its limits due to understaffing and the imposition of new tasks, notably monitoring prices in the energy sector. We want to increase staffing levels at the Federal Cartel Office and strengthen its independence by abolishing the so-called 'ministerial permission', which allows the relevant minister to overrule an FCO ban. Moreover, competition policy is becoming an increasingly important issue for the European internal market as well as in global trade. In view of the market power of some companies at global level, especially the concentration in the raw materials sector, the time has come to establish a global institution to tackle monopolies and cartels and thus safeguard more competition. The Federal Government should put this issue on the agenda for its G8 Presidency during the first half of 2007.

For Germany, Europe is currently the relevant area in which to ensure effective financial supervision, for the national institutions, with their limited powers, are proving increasingly unable to respond to systemic risks resulting from the growth in international financial transactions or safeguard the functionality of the financial markets. As a country with high capital requirements, this is a key issue for Germany.

#### **1.4. Stimulating competition in the energy sector**

The link between rising crude oil prices, the energy companies' growing profits on sales and their market capitalisation is no coincidence. In recent years, the oil companies have made substantial profits from a market dominated by rising demand and falling supply. Although the costs of production have remained unchanged, the price of crude oil has soared. The power and heat generation companies can look back on years of healthy business, largely because the price of electricity is driven by the oil and gas markets but a large proportion of electricity production is based on coal, nuclear energy and renewables, where production costs have not increased, resulting in exorbitant additional revenue from electricity. What's more, the rising demand for raw materials has made the leading suppliers of ores and metals some of the most profitable players in the global markets. Their ensuing market power poses a serious threat to the market economy. The world's largest private oil company is Exxon Mobil with market capitalisation of USD 412 billion. It currently makes around USD 100 million in profit every day. Luxembourg's Prime Minister Jean-Claude Juncker has rightly criticised the skimming off of these windfall gains, and similar criticisms have been voiced in the US Senate. Germany should place this issue at the top of the agenda for the G8 Summit and the EU Council Presidency and push for a concerted international approach, as all the national economies are suffering as a result of the activities of this cartel of profiteers, which is making money out of the raw materials crisis. The inflationary effects of these market situations indicate that when it comes to their impact on the national economies, the emerging monopolies are just as dangerous as Microsoft, for example, or Google in future. And yet in terms of its reserves, Exxon Mobil ranks just 14th in the world's oil and gas suppliers' league table and is likely to drop further down the table, because the oil reserves which will be important in future lie in regions to which it has no access for investment. Ahead of Exxon Mobil in the rankings are 13 state-owned oil and gas companies, whose profits flow to the increasingly wealthy governments of Russia, Venezuela, Iran or the Arab states. The ensuing increase in the foreign policy significance of unstable producer regions, and the West's growing dependency on them, underline that one key strategic aim of energy and security policy must be to reduce our reliance on oil and gas. At the same time, rising oil and gas prices are the key factor driving inflation in the eurozone. As a rule, the European Central Bank responds to high inflation rates by raising interest rates, which makes consumer credit and corporate loans more expensive. An "away from oil" policy will therefore not only reduce our dependency on unstable suppliers and address climate change; it will also ensure low interest rates and thus stimulate a more dynamic economy.

Since the reform of the Energy Management Act, we have begun to make the energy market a competitive market once again, based on regulation, which shows that the government's regulatory intervention in these markets can serve as a modern instrument for forward-looking competition policy. Our efforts are geared primarily towards increasing competition in the electricity and gas markets. The Energy Management Act, which we substantially influenced, enabled the German Federal Grid Agency to cut costs in those grids which by their very nature are monopolies, which it has done by simulating competition. Costs will fall dramatically as the incentive regulation takes effect. In Germany, there is still no separation between grid ownership and power generation. However, 24 out of 25

European regulators regard the unbundling of ownership as a major step towards competition. Although we were unable to enforce this radical energy market reform during our time in government, unbundling the ownership of the transmission grids remains our political goal. Competition needs competitors, but as long as the electricity producers continue to control the grids as well, third parties will be deterred from investing in new power plants. As the first steps towards reducing costs in the power generation sector, it would be sensible to equip the Federal Cartel Agency with more effective instruments to curb abuse. The four territorial monopolies, which broadly match the old zones of occupation, could be dissolved through the appointment of an independent grid operator who would ensure that the provision of electricity – both base and peak load – and the transnational electricity trade are conducted more efficiently and therefore more cheaply. Finally, we note that the increasingly efficient production of electricity from renewable sources is now pushing down prices as it takes the place of expensive conventional peak-load power plants.

### **1.5. Competition in the trades and liberal professions**

As a prerequisite for competitive market access for the trades and crafts, we are calling for the requirement for certification to master craftsman level (*Meisterzwang*) to be confined to trades where a lack of qualifications would pose a genuine risk, such as the car industry. We want to maintain the master craftsman's qualifying examination as a voluntary certificate that demonstrates quality.

In the liberal professions, regulations which restrict competition are still in place. For example, legally regulated minimum prices still apply to the fees charged by architects, engineers and solicitors. In our view, these minimum price regulations are outdated. They are not an adequate means of guaranteeing the quality of work in these professions and nor do they facilitate access to the legal system. We are therefore calling for the introduction of non-binding reference tariffs as a market guide, which can be renegotiated on a contractual basis.

### **1.6. Fair competition through informed consumers**

Consumers who are aware of their social, environmental and economic responsibilities have specific expectations of products and services and the way in which they are produced. Through their purchasing decisions, they exert considerable influence on companies' production processes. Informed consumers therefore play a key role in controlling the practices of companies at national level, and this role must be expanded further. To this end, the autonomy of consumers and, ultimately, fair competition must continue to be strengthened. We want more transparency and the provision of appropriate information for the consumer by companies. To make it easier for consumers to opt for sustainable consumption, we are calling for the introduction of a labelling system for products which have been produced by sustainable methods and which meet specific environmental and social criteria. This type of modern consumer protection can provide people with the requisite information about consumer goods and promote sustainable consumption patterns and economic processes. We are lobbying for new forms of consumer advice in the form of quality marks and test labels. As

proposed by Alliance 90/The Greens at the time, we also want the Consumer Information Act (VIG) to be implemented on the basis of comprehensive legal rights for consumers vis-à-vis public authorities and companies, with clear and non-bureaucratic application procedures. The current draft produced by Horst Seehofer's ministry waters down the right to information and is full of loopholes, gaps and bureaucratic hurdles. Consumer protection is becoming increasingly important in the financial services sector. The markets can only develop successfully over the long term if there is transparency in relation to investment products, and if banks and insurance companies have a duty to provide adequate information.

It is thanks to the well-informed consumer that companies like Apple, Aldi or Nike can no longer afford to purchase inputs produced under inhumane working conditions in Chinese sweatshops. Companies feel compelled to introduce monitoring systems. All of this has been achieved by the efforts of a proactive civil society and NGOs bringing pressure to bear. As a result, companies have expanded their corporate social responsibility agendas in recent years. The Green Market Economy supports initiatives which create more transparency and promote responsible corporate governance. German companies have still not fully recognised that they can increase their value through participation in initiatives such as the United Nations' Global Compact.

### **1.7. Competition in grid-based infrastructures**

The Federal Government is planning to keep Deutsche Telekom's rivals at bay in the market for the high-speed Internet infrastructure by granting generous exemptions from regulations. In our view, perpetuating existing monopolies or establishing new ones is not the right way to create modern telecoms infrastructures. In view of the current monopolies, we want a regulatory framework which facilitates infrastructural competition in the landline, broadband and mobile communications sectors. In light of the investment competition within the companies themselves, the aim must be to enforce a Europe-wide competition strategy. The European Commission is quite right: the policy of giving preference to former domestic monopolies has precisely the opposite effect and puts the European market at risk.

More competition in the postal services and logistics market would unleash growth potential which is extremely important as it creates jobs for less skilled workers. As we still have the highest level of employment in this group, it makes sense to adopt a strategy which generates more dynamism and creates the potential for new jobs in this sector. We want the full liberalisation of the postal service market and an end to preferential treatment for former monopolies. We are therefore calling for the letter monopoly to expire at the end of 2007 as planned, thereby opening the way for more competition in the letter services market from January 2008. By the time the letter monopoly is finally phased out, the status of current competitors must be improved by swiftly abolishing the preferential VAT treatment enjoyed by Deutsche Post. Furthermore, new forms of letter delivery services must be created for all other suppliers with low-cost variants and operating times. Until liberalisation in 2008, there must be a progressive opening of the universal service through pilot projects.

Competition between various service providers is a core element of a genuine market economy, and this also applies to the railways. Rail transport has major macroeconomic significance and therefore requires clear rules and parameters which apply equally across the board. We should not focus exclusively on the economic interests of a single company as this would fail to do justice to the transport, environmental and economic policy interests of the wider public. The future and growth of rail can only be safeguarded if genuine competition is established on the railways. Competition is good for business – and is in the interests of customers. The higher the number of efficient suppliers engaged in fair competition in the market, the more likely it is that new customer groups will be reached through tailor-made services, thereby facilitating the modal shift from road to rail. Competition guarantees innovation and cost efficiency. Almost all the growth in rail transport is being achieved by private rail services providers. The rail network and the rest of the infrastructure, which must be accessible for use by all rail operators, should, in the Greens' view, be transferred to a federally owned German rail infrastructure agency. This would ensure that discrimination against third parties, which inhibits competition, can no longer occur. Furthermore, rolling stock which is no longer used by Deutsche Bahn AG can be included in a vehicle pool and made available for hire by private rail providers. At present, the monopoly over many freight wagons is a major impediment to more competition on the railways.

There must also be more competition for grid-based energies, especially electricity and gas, but also for distance and local heating. In order to strengthen competition in the electricity and gas markets, decoupling of grid ownership from energy production and distribution must be the goal, especially in the energy transport networks. In order to facilitate grid access for new market players, especially for those engaged in environmentally valuable activities, the priority granted to renewables under the Renewable Energies Act must be defended against the electricity industry's efforts to undermine it, while a Biogas Feed-In Act must be adopted to create similar status for biogas.

## **2. Reforming the world of work**

### **2.1. Carefully targeted lowering of social security contributions**

A Green Market Economy does not fall victim to the neo-Liberal belief in the market's powers of self-healing that will rid us of the problem of unemployment at the expense of wages and pay. It is not the high wages in Germany but the high incidental wage costs that stand in the way of more jobs, in particular for those with low qualifications, and that allow clandestine work to flourish. We want to set the framework for new jobs in the skilled trades, the services sector and many other areas and, consequently, we propose in our Progressive Model reducing incidental wage costs in the low-income sector. That will create new opportunities for those who have in the past been permanently excluded from the labour market. At the same time, lower incidental wage costs for unskilled work are a suitable means for keeping in check clandestine work, which is depriving our national economy of billions of euros in income.

We envisage that the full amount of social security contributions (employer plus employee contribution), which currently stands at around 42 per cent, should not be paid until gross income exceeds €2,000 (per month). Rates of contribution for all income below €2,000 are to increase in gentle increments. According to our model, employers and employees would have to pay only 14 per cent each (i.e. 28 per cent in total) on gross income of €1,000, for example. By lowering their contributions, employers would be able to provide more jobs and new services. To make the process as simple as possible, the reduced employee contribution could be granted as tax credit.

In our Progressive Model, all employees are to have health, pension, compulsory nursing care and unemployment insurance. To avoid the bandwagon effect, a minimum number of working hours could be stipulated as a precondition for inclusion in a statutory health insurance scheme. Our model would dispense with the current regulation governing 'mini-jobs'. Those with a mini-job would in future be classified as full members of a social security insurance scheme, thereby eliminating the key disadvantage of the current regulation, namely the lack of social security cover.

It would be necessary to meet the funding shortfall (despite the additional revenue resulting from the added employment effect) through taxes. However, this restructuring of social security systems to a total amount of some €15 billion from financing through contributions to tax-based financing is necessary from the point of view of employment policy and possible from the point of view of tax policy. Scandinavian countries in particular have shown us that it is possible to increase employment by having more tax-financed social security systems.

One of the reasons why the equal financing of social security insurance through employer and employee contributions has come under increasing pressure over the past few years is that social insurance contributions have exclusively been linked to labour as a factor of production and thus cannot meet the demands of the new income situation. Overtaxing labour has slammed the breaks on employment and has become the driving force behind clandestine work. Restructuring the financing of the social security systems is not only more fair, but also one of the imperatives of employment policy. The Greens' Progressive Model concentrates the additional tax-financed income on the labour market's problem areas, namely lower income jobs, in a targeted fashion.

Whilst further uncoupling the financing of social security from income and introducing more tax-based financing, we could transfer a second element (along with progression) in our tax system to social security contributions: A tax-free allowance could be introduced in stages for social security contributions analogous to our tax-free minimum subsistence-level threshold. Nevertheless, depending on the amount of the tax-free allowance, additional tax income would have to be mobilised. The carefully targeted lowering of social security contributions can lead to the creation of jobs where they are most needed. Further reforms of the social security systems and their modification in line with demographic changes are still long overdue.

## **2.2. Minimum wages create fair working conditions**

The construction industry was the first to introduce industry-specific minimum wages based on generally applicable collective agreements. The Federal Government's efforts to follow suit in other sectors are still too tentative. The fact that better working conditions are to be introduced in the commercial cleaning sector by agreeing a minimum wage is a good thing, but does not go far enough. Trade unions and employers have also agreed minimum wages in the dynamic temporary employment sector. That is especially important because half of all those employed in the sector move straight into it from being unemployed; one third are classed as unskilled workers. Against this background the Federal Government's refusal to regulate posting analogous to the construction and commercial cleaning industries by extending the scope of application of the Act on the Posting of Workers to all branches of industry is grossly negligent. In other sectors of employment, for example nursing care and security personnel, minimum wages - differentiated according to region and sector - could significantly improve employees' situation. These minimum wages would be somewhat lower than the standard, nationwide minimum wage which some trade unions are calling for. However, on account of their being adapted to the actual situation in various industries, they would not have a prohibitive effect by contributing to job losses. In those branches of industry in which there are no collective wage structures, we need statutory regulations which set out legally binding minimum wages and minimum working conditions. Employers, the workforce and the academic community should be involved in that legislative process.

## **3. Safeguarding resources**

### **3.1. Making Germany the forerunner when it comes to raw materials and energy efficiency and switching to renewable resources**

In the period between 1991 and 2000, the global material input for domestic production in Germany dropped by 7 per cent in absolute figures whilst growth increased by 15 per cent. Productivity of resources thus increased by 24 per cent. In light of the dramatic rise in oil and commodity prices worldwide, this development has gone a long way to help increase Germany's competitiveness. But we must not be content to rest on our laurels, since technologies and management methods for increasing resource efficiency are still attracting too little public attention.

We want German innovation policy to be guided by the ideal of increasing productivity of resources, renewable energies and renewable chemical resources. We want to make Germany the market leader in these technologies, since they will be dominating the markets of tomorrow. The focus of attention continues to be on personnel costs when it comes to reducing costs in Germany, although almost 50 per cent of the costs of an average company in the manufacturing sector is spent on energy and materials. The day-to-day experience of many consulting firms shows that innovative technologies and management methods can often help to reduce the cost of materials by 10 to 20 per cent. According

to a study published in 2004 by, among others, Prognos AG and IW-Consult, utilising the potential benefits to increase materials efficiency could lead to additional growth of between 7 and 14 per cent within 12 years and could create 760,000 new jobs. Given the increase in commodity prices since the study was carried out, the potential for investments in profitable resources savings has further increased. The proportion of creative, industrial services will also increase in the course of this process.

We must further extend Germany's lead in all fields of technology so that the German economy can overtake its international competitors. To be able to do that we need an economic policy strategy which sets the course so that we can open up the lucrative markets of the future. Germany should consistently pursue the "away from oil" strategy begun under the Red-Green coalition government and set a date from which no fossil fuels will be used to supply our energy needs. Sweden has set itself the goal of independence from oil by 2020. We believe the Federal Government should enact a law on feeding in biogas which grants compensation above costs for feeding biogas into the gas network and which forces providers to add biogas into the mix. In addition to biomass heating systems using wood, which are already competitive, we want to introduce a promotional programme to have 100,000 fuel cells installed in buildings over the next 10 years. The aim is to realise the vision of having smaller, decentralised electricity producers that are networked in virtual power stations, which use and produce heat locally and which further expand Germany's global leadership in the heating systems construction industry. The rate of expansion of renewable energies in the electricity and heating sectors must be speeded up. The German economy's lead in the wind power sector, the use of solar and geothermal energy in power stations, heating and cooling systems, small hydroelectric power stations and bioenergies must be consistently utilised in order to be able to keep pace with the fast-moving competition on these important markets of the future. Research, development and market launches in new markets such as marine energy, solar-thermal power stations, solar electromobility, superconductors and thermoelectrics must be actively supported so that other countries do not conquer these promising energy markets when Germany is already the leader in patents in these sectors. By consistently and better following up the Renewable Energy Sources Act with a law on renewable energy sources in the heating sector and by supporting zero emissions mobility we want to lay the foundations in the renewables sector to help create the 500,000 jobs by 2020 as promised.

Following Sweden's example, we propose placing all larger petrol stations under the obligation to install "green" pumps to supply biodiesel, biogas or bioethanol. Simultaneously, the automobile industry is to be obligated to market vehicles that can run on alternative fuels. By 2020, political decision-makers and the private sector must set the framework conditions to enable vehicles to run on hydrogen, a regenerative energy source. The automobile industry and the energy industry must be jointly responsible for putting in place the necessary infrastructure along select motorways and in big cities.

We need to place more efficient and profitable innovations on the market more quickly and support small and medium-sized enterprises in introducing modern management methods such as zero loss

management. To that end we want to expand consulting and financing services regarding efficient technologies for small and medium-sized enterprises and increase research funding in this sector. We also want to include resource efficiency as a module in all business administration and engineering degrees.

## **4. Mobilising potentials**

### **4.1. Promoting the unemployed**

Despite the positive trend in short-term unemployment figures, reducing unemployment remains the key challenge for our society. The German labour market is deeply divided. This is reflected by the number of problems which risk being aggravated in the light of demographic developments. The shrinking potential workforce will not solve the unemployment problem by itself. Rather, unless appropriate steps are taken, the problems will escalate. The lack of specialists will have an impact on the labour market and on industry. Social security systems will also be threatened due to the ongoing exclusion of large groups from the labour market in its current form. That is why a key goal of a Green Market Economy must be to open up new employment prospects for the long-term unemployed and those with low qualifications and to create more opportunities for them to participate and have access to work. To that end we need to mobilise and promote their potential in a targeted fashion. However, nearly two years after the Hartz IV concept (the reform of the German social welfare system) came into force we must realise that the principle of "promotion" has failed to keep its promise. Instead, Hartz IV is developing into a new criminal code under the aegis of the CDU/SPD-led coalition government. Increasing cuts in benefits and broader sanctions are aimed at "making demands" on the unemployed, whereas the idea of "promoting" them is taking more and more of a back seat. That has to change.

Efforts to integrate and train the unemployed must finally be given their rightful place and the focus of the work of employment offices, associations and local authorities opting to be responsible for job placement must be on promoting those who are out of work. We must exhaust the available integration budget and use it to fund sensible integration instruments. Those who are especially difficult to place must be given more intensive support and promotion. The Federal Employment Agency is under a particular obligation to do more to help these people whilst they are still receiving unemployment benefit I.

In our society, gainful employment is an important element of each individual's self-fulfilment and social integration. That will continue to be the case in the future too. We can help many of those seeking work to enter the labour market by means of targeted promotional measures. In addition to this, we also need to provide services for those who are looking for a job but who we will not be able to integrate into the first labour market in the foreseeable future, given the current overall conditions. That is why we are advocating the creation of publicly financed jobs requiring compulsory social insurance

payments for these people. We want to create a reliable sector of social work for this group of around 400,000 long-term unemployed people. Such jobs could, for example, involve assisting in nursing care, in kindergartens or working as caretakers. Companies specialising in integrating these workers could be founded based on the example of those working to integrate the handicapped into the labour market, providing jobs that are close to the market and that offer good prospects for subsequent integration.

Our labour market policy is based on the principles of integration and participation. It thus differs both from a mere "replacing the market" strategy advocated by the Left Party and the policy of privatising the unemployment risk which is reflected by the FDP's and the CDU/CSU's calls to (largely) abolish active assistance. We want to keep the promise to promote the unemployed and build bridges to regular employment.

#### **4.2. Supporting entrepreneurs**

Along with some 300,000 limited liability companies (*GmbHs*) with an annual turnover of less than €500,000 there are 400,000 unincorporated firms (*Personengesellschaften*) in Germany. We want to support this group of self-employed entrepreneurs. Based on the underlying idea of self-determination, we need reforms which increase the freedom and security of self-employed people so that they can develop their readiness to take risks and unfold their creativity in the best possible way. The reforms must also be geared to the needs of smaller and newer enterprises. To simplify the process of incorporation in Germany, we need to tidy up our law of partnerships and corporations and make it more flexible. We must make it easier to found a limited liability company. We want to reduce the minimum nominal capital to a symbolic figure of €1 and also want to re-introduce the limited liability partnership (*PmbH*). It would then also be possible to found a limited liability partnership with a minimum nominal capital of €1. This legal form will make it easier for entrepreneurs to limit liability in a partnership. It will become attractive for new business start-ups, smaller limited liability companies and freelancers. In addition to the law of partnerships and corporations we want to improve social insurance for entrepreneurs by enabling those in small-scale self-employment to benefit from the state subsidies for private pension insurance (known as the *Riester-Rente*) by stocking up their pension savings. The Federal Cabinet agreed better tax benefits on basic pensions (known as the *Rürup* pension) by increasing the tax-deductibility of pensions savings from 62 per cent to 100 per cent (with a €20,000 cap for the unmarried and €40,000 for married couples) by 2025. We want those provisions to apply by 2020. At the same time, income from these pensions savings is not to be subject to full taxation from 2040, but already from 2035.

One of the most successful labour market policy strategies introduced over the past few years has been the possibility an unemployed person had of starting a business. At least that is what the most recent Hartz IV evaluation has shown. Abolishing the one-man start-up known as the *Ich-AG* (Me, plc) and restructuring bridging allowance into a business start-up subsidy again makes it more difficult for the unemployed to start up a business. That is a mistake, since given the ever-increasing discontinuity

in people's working lives, the potential number of those for whom starting up a business would be a real alternative, either permanent or temporary, will increase rather than decrease. The same goes for opening up new opportunities for older employees - for whom a business start-up will increasingly be an option - and for women - who chose the *Ich-AG* to escape unemployment more often than men did. We must (re)create more opportunities and appropriate means of gaining access to employment for these people. The fact that people are willing to start up businesses is not least evident in the impressive numbers of professional eBay traders - here also Germany takes the lead.

Our definition of "entrepreneur" also includes charitable enterprises and non-profit enterprises active in the social, ecological or cultural sectors. It is especially non-profit enterprises that take on social responsibility and can take on important functions in implementing concepts such as the "Green Children's Card" and contribute to giving the modernisation of our state a social face.

The new possibilities created in the law of partnerships and corporations (simplifying the founding of a limited liability company, €1 minimum nominal capital and introducing the limited liability partnership) would provide a good variety of alternative legal forms to the former *Ich-AG*, making registration (and the associated naming of the company) unnecessary. We want to expand advisory services and the means of securing a living during the process of incorporation. We therefore advocate broadening access to advisory and promotional programmes for all those interested in founding a company as well as better quality advisory services for those founding a company. Access to social security systems must also be improved for the small-scale self-employed.

We want to offer promotional loans without much red tape to small and medium-sized enterprises through a new online banking service managed by the *Kreditanstalt für Wiederaufbau* (Reconstruction Loan Corporation, KfW). Right now many small and medium-sized business start-ups and enterprises do not have access to promotional loans, because banks and savings banks (who are responsible for providing credit advice) have to provide at least 20 per cent of the total amount of the loan. However, "house banks" are often not interested in this custom. Many forms of financing in the small-loan sector up to €50,000 in particular fail on account of the "house bank principle". The online banking services of the state-owned KfW would be able to offer these loans, removing such obstacles. The additional risk would have to be carried by the Federal Administration. The advisory services provided by the chambers, *Länder* and local authorities could co-operate closely with the bank. If there was a need for direct negotiation between the KfW and the borrower, the branches of the state-owned *Deutsche Industriebank* could be used.

Alliance 90/The Greens want innovations in all sectors - including the virtual sector. After the Internet bubble burst in 2001, many new and exciting Internet companies have arisen over the past few years. However, most new trends come from the United States, whilst investors in Germany still lack courage. Yet Flickr and YouTube are likely to be only the beginning. Web 2.0 represents a new form of tolerance on the Net, which shows how fruitful diversity can be if it is used and managed properly. It brings together tolerance, technologies and talents to create innovations which generate themselves.

The age of local data maintenance is drawing to a close, as the contents are now available online - for those who have high-speed access to the Internet. That is another reason why it is essential that we rapidly expand high-speed Internet access, because innovations need competition. The impact of Telekom being given preferential treatment over the remaining competitors would be felt far beyond the telecommunications sector and would prove a hindrance to innovations particularly in rural regions. The use of personal data remains a problematic issue, which is why we want more protective rights for consumers.

## **5. Encouraging innovation**

### **5.1. Making Germany the best venture capital location worldwide**

As a high-wage country, Germany's only chance of remaining competitive is by staying ahead technologically. That is why it is essential that we create the best conditions for innovations. In the medium-term, the declining numbers of researchers on account of the demographic changes threaten to restrict the German economy's potential for innovation if we do not manage to drastically increase the number of graduates, in particular in technical subjects, and to open up opportunities for women in technical careers.

Germany is currently the leader in patent applications, although we are facing a problem in that the number of patent applications from small and medium-sized enterprises is on the decline. The infrastructures for technology transfer also bear up to international comparison. What we are lacking in is capital. Insufficient capital is available for developing research results into marketable products and procedures through spin-off companies, in particular in the sector between €100,000 and €3,000,000 demand for investment. In our knowledge society, innovative high-tech companies are not financed by means of loans, but through equity capital, because guarantees are needed to take out a loan. The term innovation should not be restricted to technical inventions. New business models, for example, are also important innovations. Technical know-how is badly suited as a form of security, because it is very difficult to put a price on it. Investing in the technologies of the future is a high-risk business, but promises extremely high profits if they succeed. We want to replace government funding to minimise risks - where the KfW invests in a company if a private investor contributes at least an equal amount - by government-funded venture capital participation programmes, for example by means of equity financing through the KfW to create the best possible tax conditions. Granting tax credits to innovative business start-ups makes sense because it helps to lay the foundations for higher tax income tomorrow today.

Problems regarding access to equity capital in Germany pose massive difficulties as regards the founding of innovative businesses and thus the creation of sustainable jobs. At the moment, less risk capital is invested in new ideas in Germany over a period of two years than is invested in Silicon Valley in the course of one month, because the tax situation for investing in innovative high-tech

companies is very unfavourable in Germany compared to other countries. Our restrictive approach to taxation has meant that the situation has worsened over the past few years. We want to reverse this trend and make Germany the most attractive international location for venture capital. To this end, we want to comprehensively modernise the law on equity investment companies and improve the taxation of funding for innovative enterprises. We want to focus these special tax regulations on venture capital for innovative technology businesses so as not to create new tax loop-holes. That would prevent abuse, but at the same time it would create the desperately needed investments for innovations and jobs. The object of an equity investment company should be restricted to purchasing, holding, managing and selling venture capital investments.

We must make it possible for equity investment companies to offset profits and losses from various dormant equity companies to an unlimited degree. Generally speaking, only two or three out of ten investments in young technology enterprises end in success. It must be possible to offset losses and profits between the individual companies. All other options would lead to a drastic drop in profitability on investments and would make Germany an unattractive location for venture capital.

Enterprises funded by equity investment companies should be able to carry forward their losses to an unlimited degree and for an unlimited period and to offset them against profits. Limiting the loss deduction above a tax-free allowance of €1,000,000 to 60 per cent of the total income means that companies who are not yet making a profit have to pay taxes. However, innovative high-tech companies in particular make heavy losses on investments for five years or more before making a profit.

The current regulations mean that losses carried forward are lost when the majority participation changes and when young technology enterprises are sold to strategic investors, although it is clear that there has been no improper conduct. The Venture Capital Business Model is based on the central idea that the equity capital investor can, after a certain time, sell the investments for a profit in order to re-invest them. The business does not have to have developed to such an extent that it is already making a profit. That is why it must be possible to carry forward losses in the case of a sale. It must be possible to carry forward losses when taking on participations of more than 50 per cent and new equity investments.

Under the law on equity investment companies, these companies should be classed as asset management enterprises, not as a commercial activity. That increases transparency as regards taxation to the same level as for stock funds. It would mean that the funds themselves would not be taxed, but rather the corporations and stockholders.

## 5.2. Green industrial policy

For some years now Germany has been undergoing a dynamic structural change from an industrial society into a knowledge and service society. Our country has the competitive edge particularly when it comes to knowledge-intensive and technology-intensive products. The German economy has benefited particularly from the integration of Central and Eastern European countries. By purchasing low-cost materials and services, Germany was able to improve its position vis-à-vis its international competitors and to create more value-added in Germany. Green industrial policy takes into account the connection between industrial services and services during the process of European integration. Innovative knowledge-driven services need the link to industry. The single market enables us to make use of the comparative advantages of the various Member States. Green industrial policy sets the competitive framework for the industries of the future. It is not a traditional industrial policy, but takes the effects of sectoral policies on individual sectors into consideration and utilises competitive instruments to make Germany the market leader in the industries of the future. More and more countries are taking on the market launch mechanisms set out in the Renewable Energy Sources Act, which has made Germany the world's leading producer of renewable energy systems.

We want to further develop the Renewable Energy Sources Act and, for example, provide more promotion for off-shore wind-power stations in order to ensure that the German economy stays ahead of the competition when it comes to renewable energies and resource efficiency. Green industrial policy is characterised by its focussing on low-resource economic activity, its advocating fair competition, strengthening consumer rights, as well as supporting open markets. We want to create the overall political conditions to promote resource efficiency and further speed up the dynamic ecologicalisation of our economy. In view of the current crisis on the gas market, 81 per cent of Germans say that renewable energies are the right answer - and that shows the level of backing for our strategy.

Based on renewable natural resources, white biotechnology can turn enzymes and other biocatalysts into fine chemicals products using little energy and producing little waste. We want to make better use of these potentials. Green industrial policy must agree easy targets with the producers of mass products destined for use in private households in order to increase resource and energy efficiency. Given the long list of voluntary commitments that have failed in the past - to which will be added, in the near future, the voluntary commitment entered into by European automobile manufacturers to emit less than 140g of CO<sub>2</sub> per kilometre across the entire fleet from 2008 - we advocate introducing binding legal regulations. Clear statutory regulations make it easier for industry to adapt to requirements. In those areas in which our standards are falling behind comparable markets in Asia and North America, Europe should undertake to introduce higher standards. We are convinced that the resulting technological innovations will create competitive advantages.

However, even our industrial policy can see beyond the end of our green noses and promotes new technologies which reach beyond the environmental sector in the narrower sense. The current crisis at

EADS has shown the weak points of a state-funded industrial policy which on the one hand generously provides support for the location of the business, research funding and lines of credit, but on the other hand provides few means of direct intervention in the event of a crisis. European industrial policy succeeded in giving birth to Airbus, a global aerospace enterprise, which has created more competition on the market for larger commercial aircraft. Should the Airbus A380 aircraft or another new model in a lower segment fail, it would mean relegation from the Champions League to the second division. Europeans, especially France and Germany, must therefore help to stop that happening. Instead of increasing government participation in the enterprise, we think it is more sensible to formulate the Foreign Trade and Payments Act more precisely and introduce the requirement of authorisation from the Federal Government for larger-scale changes in stockholder structures on account of the significance for industrial and security policy. In order for an industrial policy strategy to generate more competition, the opportunities and prospects of success must be carefully examined and linked to conditions that help to defend the advantages Germany has as a business location. Repaying government funding when a project is making a profit is part of that strategy.