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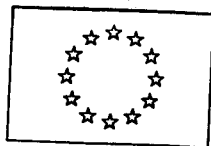
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P. H. Olsen



COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 21st January 2004
COM(2004) 29

**REPORT FROM THE COMMISSION
TO THE SPRING EUROPEAN COUNCIL**

DELIVERING LISBON

REFORMS FOR THE ENLARGED UNION

SUMMARY

The European Union has been implementing the Lisbon strategy for four years and these have given rise to undeniable progress, instituting the transition needed towards a competitive job-creating knowledge-based economy characterised by growth, social cohesion and respect for our environment.

This fourth report shows the state of progress made since 2000. It invites the European Council to seize the opportunities provided by the economic recovery and by the coming enlargement, and to give the necessary impetus to carry the Lisbon strategy forward.

Progress made

The analysis of progress made by the Union and by the Member States is based on the implementation reports of the Broad Economic Policy Guidelines and Employment Guidelines, and on the structural indicators proposed by the Commission and agreed on by the Council.

The analysis highlights in particular the need for an energetic implementation of reform in the different spheres through integrated strategies. Insufficient implementation of the Lisbon strategy could produce significant net costs for Europe: in terms of reduced growth, delayed improvements in employment levels, and a growing gap with some of our large industrial partners in the fields of education and R&D.

Studies and simulations, conducted by the Commission, have concluded that the simultaneous and integrated pursuit of reforms will produce an increase in the GDP growth potential of the Union in the order of 0.5-0.75 percentage points over the next 5 to 10 years.

Apart from the advances made in certain domains, **the report clearly highlights that measures taken at the European level are only part of the formula for putting the Lisbon strategy on the right track; numerous reforms and investments, which are the responsibility of the Member States, have yet to be achieved.**

Indeed, in certain domains there are significant problems which hold back the entire strategy and which hinder the return of strong growth. What is more, the most important delays have been identified in three strategic domains which are crucial for growth: knowledge and networks, industrial and service sector competitiveness, and active ageing.

Priorities for 2004

With so much implementation still to be done, **the Member States must now commit more firmly to pursuing the reforms** defined since the Lisbon European Council. Accordingly, the Commission proposes that the European Council take the necessary decisions, while emphasizing the importance of swift action, in the following three priority areas:

- **Improving investments in knowledge and networks**, by implementing the 'Growth Initiative', all the while giving greater priority to the level and quality of investments in research, education and training;
- **Strengthening the competitiveness of European enterprises**, by applying better regulation – particularly for the industrial sector – and by adopting both the

proposal for the Framework Directive on Services and the proposal for the Environmental Technologies Action Plan;

- Finally, **promoting active ageing** by encouraging older workers to remain in the work force and through a modernisation of educational systems for lifelong learning, of work organisation, and of prevention and health care systems.

Preparing for the 2005 mid-term review

The Commission also invites the European Council to define the framework and method for preparation of the **mid-term review of the Lisbon strategy in 2005**. Essentially, this review should focus on implementation and be based, most notably, on the next post-2006 financial perspective.

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1. SEIZING THE OPPORTUNITIES TO MOVE FORWARD

The European Union has been implementing the Lisbon strategy for four years and these have given rise to undeniable progress, instituting the transition needed towards a competitive job-creating knowledge-based economy characterised by growth, social cohesion and respect for our environment.

Nevertheless, the overall implementation levels and the progress made in Member States are still insufficient, and there are still major problems in some areas which are holding back the strategy as a whole and may inhibit the return to strong growth.

The European Commission therefore requests the Spring European Council to **give fresh impetus** to the Lisbon strategy and take the required decisions in the strategic sectors. Everybody needs to be involved to enable change to take place. The year 2004 offers the Union opportunities on this count which it must grasp if it is to make progress.

1.1. Capitalising on the current economic upturn

Economic growth in the Union remained disappointing in 2003 for the third year running (0.8%). Over the past three years, the average annual growth rate has been in the region of 1.25%, compared with 2.7% for the second half of the 90s.

Nevertheless, as a result of favourable conditions created by macroeconomic policies, steadily retreating inflation, interest rates holding steady, some progress on structural reforms and reduced geopolitical uncertainties, the confidence of economic operators is starting to return, the international environment is improving and the investment climate is becoming more sanguine.

The recovery that started in the second half of 2003 should therefore continue and gather pace throughout 2004. The real growth rate of gross domestic product may rise to 2% this year and approach 2.5% in 2005¹. There is a likelihood of revival with more sustained growth in the European economy in the short term, thus generating fresh impetus on the employment front.

1.2. Benefiting from the added impetus of enlargement as well

The Spring European Council will take place less than forty days before the enlargement of the Union on 1 May 2004. From now on, implementation of **the Lisbon strategy will take in the ten new Member States**, which are covered by this report and by the structural indicators as are the current Member States.

Enlargement must be met with confidence. These new Member States' entry into the Union will help stimulate the European economy, thanks mainly to their potential for growth (4% per year on average), productivity and ability to attract investment. Furthermore, the creation of an internal market of 450 million inhabitants, 300 million of whom use the same currency, will lead to greater intra-Community trade and provide new opportunities for investment and industrial organisation which will benefit from the assets of not just the current but also the new Member States.

¹ SEC (2003) 1222 final, Autumn Economic Forecasts 2003-2005.

By way of defined common objectives, the **Lisbon strategy should give powerful impetus to the convergence and integration elements underpinning enlargement.** These objectives thus remain perfectly valid and relevant in terms of the Union's overall development.

A further point to emphasise is that the Lisbon strategy can in some ways be seen as an extension of the structural reforms already accomplished by those countries over a period of ten years and more, and as a catalyst for the work still to be done to attain the current standards and performance of the Union. However, the ground these new Member States need to make up in several areas should not conceal their good individual performances in other areas that are sometimes better than those of current Member States. What is more, these future Member States have greater potential for improvement – and more chance of catching up – thanks in particular to stronger growth and higher investment. **Through their experience of reform and their desire to pursue this process, these countries will make a valuable contribution** to the Lisbon strategy and its political momentum.

The economic upturn and enlargement therefore offer the Union a potentially favourable situation which it must exploit to the full. **This means that both the current and new Member States must commit themselves more firmly to implementing the Lisbon strategy and achieving its aims.**

2. ANALYSIS OF PROGRESS TOWARDS THE LISBON OBJECTIVES

Since March 2000 the Lisbon strategy has provided the Union with an effective governance tool and an appropriate action framework for achieving its goals. The overall progress already made in four years is proof of this.

OVERALL PROGRESS MADE SINCE 2000

- **More than six million jobs have been created** since 1999, boosting the total employment rate from 62.5% to 64.3% in 2002. In addition, long-term unemployment has dropped sharply in Europe, falling from 4% in 1999 to 3% in 2002. Lastly, the labour market reforms now under way are starting to bear fruit, with employment holding up relatively well in the face of slower growth.
- **Several key markets have been completely or partially opened up** to competition: telecommunications, rail freight, postal services, electricity and gas markets. This process makes it possible to modernise and stimulate these markets, to improve service quality and to lower costs, with no negative impact on employment. Moreover, a single European air space will become reality from this year onwards, enabling delays and congestion in air transport to be reduced.
- **The knowledge-based economy is becoming a reality**, with strong Internet take-up in 93% of schools, as well as in businesses, public administration and households, and thanks to the gradual development of the European Research Area.
- **The sustainable development approach is being taken more fully into account in policy-making.** Several Member States have embarked on reform of their pension systems/schemes to cope with the ageing of the population. Similarly, Community action is now paying increasingly greater heed to preserving our natural environment.
- Finally, the work done over the first four years has enabled some **one hundred regulations, directives and programmes** to be adopted – in different fields but all pursuing the Lisbon goals.

However, despite these initial positive and encouraging results, there is still much to do to achieve the aims the Union has set itself for 2010. An analysis of the progress made² highlights the relatively positive developments but also the major problems which need to be tackled urgently. These are also confirmed by the reports on implementing the Broad Economic Policy Guidelines and the Employment Guidelines³ and also by the European Economic and Social Committee opinion delivered last December⁴.

The Commission's analysis identifies four factors: the need for public finances to be viable, the unsatisfactory contribution of employment and productivity to growth, the disappointing development of the internal market and, finally, the lack of sustainability of growth.

2.1. Ensuring that public finances are viable

So as not to jeopardise the incipient growth, while providing a suitable economic environment for it to develop, it is essential to **maintain a stable macroeconomic framework**. In particular, fiscal policies in the Union must continue to be guided by the Stability and Growth Pact. Such management of budgetary policies can help sustain growth by stabilising inflation, reducing public debt and fostering consumer and investor confidence.

Budgetary and fiscal discipline has not been kept to in the same way by all Member States. Thus, due to the weak economy – and also as a result of expansionary budgetary policies in some cases – the average EU deficit stood at 2.7% of GDP in 2003. It should also be noted that these policies have led to an increase in savings instead of the desired aim of boosting consumption, which has thereby reduced confidence.

Furthermore, more has to be done to **make national public finances viable** in the medium and long term to guarantee sustainable development of our economy so as to cope with the demographic trends. If immigration rates remain constant, the contraction of the working population coupled with the costs of ageing is likely to bring economic growth down below 2% in the long term. At least half the Member States are at risk here: in 2003, the average level of government debt for the European Union is expected to rise to 64.1% of GDP, with six Member States exceeding the reference value of 60% of GDP.

Against this backdrop, several States have undertaken **reforms of pension schemes and healthcare systems** over the past few months to ensure that such systems are socially adequate and financially efficient and viable. These efforts, which are heading in the right direction, must be sustained.

2.2. Employment and productivity still insufficient for growth

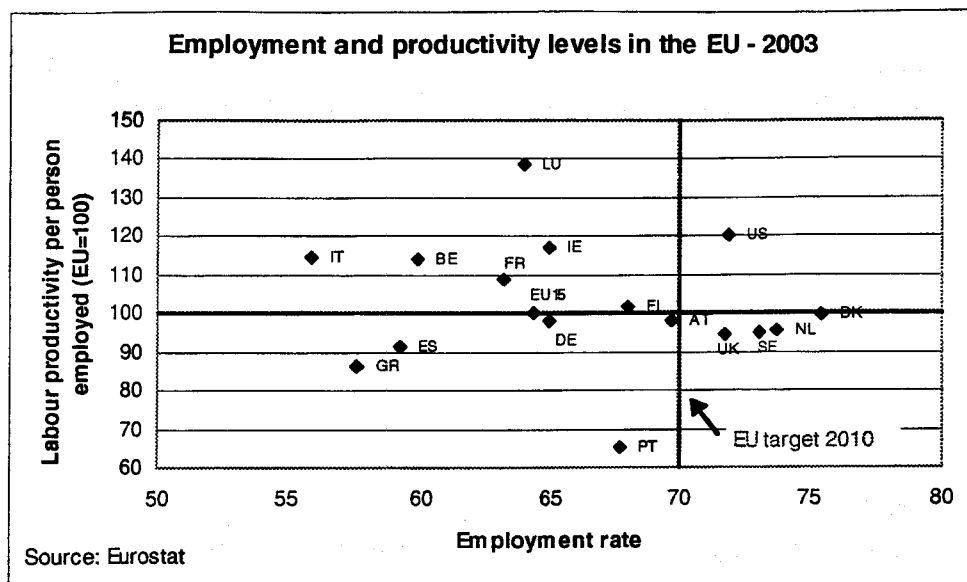
Growth in Europe has remained low over the past three years. As a result, the relative level of per capita gross domestic product for the Union remained unchanged in 2003. The Union cannot catch up on the United States as our per capita GDP is 72% of our American partner's.

The reasons for this insufficient growth are known: unlike in the United States, employment and productivity are still not contributing enough.

² This analysis is partially based on the 14 structural indicators proposed by the Commission (COM(2003) 585) adopted by the Council on 8 December. The entire set of structural indicators can be consulted at <http://forum.europa.eu.int/irc/dsis/structind/info/data/index.htm>

³ COM(2004) 20 final and COM(2004) 24 final.

⁴ See European Economic and Social Committee opinion 1698/2003.



Denmark, the Netherlands, Sweden and the United Kingdom have already exceeded the 2010 total employment rate target, while having a level of productivity that is close to or just below the European average. In Germany, Austria and Finland the employment rate is still below target, but productivity levels are close to the Union average. Belgium, France, Ireland, Italy and Luxembourg are countries with relatively high productivity levels, but with employment rates that are still well below the 2010 target. In Greece, Spain and Portugal the employment rate is still below the 70% EU target and labour productivity is below the Union average. However, this situation needs to be seen in the light of the strong progress made by Spain and Greece⁵ these past few years.

2.2.1. Employment still making only a limited contribution

At the start of the slowdown, **employment held up quite well** and the rise in unemployment was limited. This outcome is explained partly by the relative stability of employment in the services sector, combined with the initial effects of the labour market reforms launched or continued in certain Member States.

However, the effects of the economic downturn are now being felt on employment. The euro area recorded a loss of some 200 000 jobs (in net terms) in 2003, the first decline since 1994. Given the sluggish recovery and some persistent inflexibilities, very little job creation is foreseen for 2004 and the unemployment rate should continue to rise slightly to **8.2% in 2004** (9.1% in the euro area), **before heading downwards in 2005⁶**.

Against this background, it is vital for employment to make a greater contribution to growth in Europe, in keeping with the targets set since 2000. At present, employment rates are still too low and a greater effort needs to be made by the Member States.

- The overall employment rate settled at **64.3% in 2002**, as against 62.5% in 1999. Despite a 1.8 point advance in three years, it will not prove possible to achieve the

⁵ Cf. Graph 3.3, Annex 1.

⁶ SEC (2003) 1222 final, Autumn Economic Forecasts 2003-2005.

intermediate target of 67% in 2005 for the Union as a whole. Nevertheless, the 70% target laid down for 2010 is still realistic if the economic upturn feeds through into rates as high as those at the end of the 90s. Furthermore, and mainly because they were unable to create enough jobs, the new Member States had an average employment rate of just 57% in 2001, but with the Czech Republic, Cyprus and Slovenia already bettering the current Community average. This situation, which is on the whole disappointing, can mainly be accounted for by the persistence of structural obstacles in labour markets and by the overly low participation rate of older workers.

- **The trend in the employment rate of workers aged between 55 and 64 is indeed worrying.** Although it has improved by three points since 1999, settling at 40.1% in 2002, about another seven million jobs are needed for this age group in order to achieve the target of 50% in 2010. Belgium, Luxembourg and Italy have the worst record on this score. This needs to be examined in parallel with the increase in the average age at which people leave the labour market, which rose from 60.4 in 2001 to 60.8 in 2002. This situation is all the more worrying given that the average rate for the new Member States is as low as 30%. These two objectives are a long way from being achieved at the current pace. The Union must take action to **promote and ensure active ageing of the labour force** if it is to succeed on this score.
- **The rate of female employment** is growing proportionately more quickly than the average employment rate, thereby doing something to close the serious structural gap. The increase of 2.7 points in three years, with the rate in 2002 standing at 55.6%, means the objective of 60% in 2010 remains realistic. The corresponding figure for the new Member States in 2001 was 50.1% on average. Parallel to this, some headway has been made on the availability and accessibility of care facilities for children under three years of age. However, as stressed by the report on equal opportunities for men and women presented to the Spring European Council, women continue to be more vulnerable to unemployment and inactivity. Furthermore, the gender discrimination situation on the job market, especially in terms of different pay rates, has hardly improved these past few years.
- The European Employment Task Force headed by Wim Kok shared this view of things in the report it handed to the Commission last November.

2.2.2. *Productivity still too low*

Productivity, the second factor in growth, is still not making enough of a contribution either. **The growth rate in productivity per employed person** in Europe has been going down since the mid-Nineties and is **now fluctuating between 0.5% and 1%** (as against 2% in the United States). As a result, the European Union's efforts to catch up with the United States are at a standstill. Luxembourg, Ireland and Belgium have the best results.

The hourly productivity rate has remained stable on the whole, still representing almost 90% of that in the United States, although it is particularly low in Portugal, Greece, Spain and the United Kingdom. What is more, it is interesting to note that although the new Member States' productivity per employee is less than half of the Union's current average, all these countries have strong growth in productivity which is higher than the Community average.

The low growth in overall productivity in Europe is due in particular to two main factors: the contribution of information and communication technologies (ICTs) is too low and investment is inadequate. The Union's efforts to increase its productivity must

focus on these priorities in order for us to remain competitive with the United States and also more globally with other partners, particularly China and India.

Lower contribution from information and communication technologies

The contribution of information and communication technologies to productivity growth is less than half of that found in the United States. This is largely due to **take-up and use of these technologies** still being too slow in certain service sectors (financial sector and wholesale and retail trade) and in certain sectors of industry. This is particularly manifest in Belgium, Spain and France whilst Denmark and the United Kingdom are performing better on this score. The new Member States, however, are benefiting from major investment in this sector which is enabling Information and Communication Technologies to spread more widely.

This situation is a result of inadequate investment in these technologies and in accompanying measures for training and organisational reform in companies.

Falling investment overall...

Investment right across the spectrum is the key to prospects for growth in the medium and long term. However, **investment by businesses fell** from 18.3% of GDP in 2000 to 17.2% in 2002. Faltering investment is also making itself felt in the new Member States, though foreign direct investment is still high and accounts for between 1.5% of GDP in Lithuania and 5% in Estonia.

The same applies to public investment which, in terms of percentage of GDP, was in decline in the Union during the 90s and is now far lower than in the United States (3.3% as against 2.4% in 2003). This overall slowdown is all the more worrying as it works to the **detriment of the priority areas identified by the Lisbon strategy**: projects of European interest, such as transnational network infrastructures and the knowledge sector (research, innovation, education and training).

In this respect, **the European Growth Initiative and the Quick Start Programme**, which have been given the green light by the European Council, are a major source of leverage to unlock investment in the infrastructure and knowledge sectors.

THE QUICK START PROGRAMME

The **Quick Start Programme** is at the very heart of the European Initiative for Growth. It sets out to mobilise political commitments and resources behind priority investment projects of European interest. This programme, which could develop further if other projects keep to the criteria laid down, covers **54 "ready-to-go" cross-border investment projects** chosen together with the European Investment Bank after in-depth assessment of priorities and needs based on objective and clear criteria, and taking account of the potential financing sources at Community and national levels.

- 31 projects with 38 billion until 2010 for cross-border sections of TEN transport network. No new set of priorities but identifies segments ready to go within 3 years.
- 15 projects with 10 billion until 2010 in key TEN energy projects.
- 8 projects with 14 billion for high-speed and mobile communications networks, R&D and innovation.
- Total of 10 billion per annum (6 billion from Union and national budget sources, i.e. around 0.05% of the Union's GDP). 60/40 split between public and private financing. Private financing needs regulatory reforms and innovative financial tools from the EC budget and from the EIB Group. There is little margin for a further reallocation within the existing financial perspective.

... especially in research and innovation...

In general, measures to increase the volume of, and improve the environment for, research investment have been fragmented and sluggish. Latest available figures (2001) show overall R&D investment in the Union to be approaching 2% of GDP, but at an average annual growth rate of 4% (1997-2002) which is wholly insufficient to meet the 3% target by 2010. While most Member States and acceding countries have adopted targets for increasing research spending, few of them have been able to translate these into budgetary terms, and efforts to make spending more efficient are often needed.

Furthermore, despite steady progress, such as the setting-up of several European technology platforms, the European Research Area is not fully developed yet. In this context, the adoption of the Action Plan for "Investing in Research" by the Council in 2003 is a first important step towards this goal⁷. Finally, if current trends persist Europe will be faced with major shortages in highly qualified research staff. While the **number of researchers in the Union** rose slightly from 5.4 per 1000 workforce in 1999 to 5.7 in 2001, this is well below the level in countries that are near or on the EU 3% R&D investment target (USA 8.1/1000; Japan 9.1/1000)⁸.

... and in education and training

Investment – both public and private – in human capital is still inadequate. Whereas the level of public expenditure on education as a proportion of GDP in the Union (4.9%) is comparable to that in the United States (4.8%) and even superior to that in Japan (3.6%), the level of private investment is markedly inferior⁹. The private sector contributes three times more in Japan and five times more in the United States than in Europe. Recent studies demonstrate that one additional year of schooling can increase aggregate productivity by 6.2% for a typical European country. This improvement is particularly marked in Southern Europe, reaching 9.2% for Portugal¹⁰.

But simply raising the overall level of investment in human resources will not be enough: there is a clear **need to invest more effectively**, that is, to identify and invest in those areas of education and training which produce the greatest returns¹¹. In this respect the Council adopted reference levels last May to organise the reform of education and training systems. The draft joint report, which the Council and the Commission must submit to the Spring European Council, shows that the Union has much ground to make up.

⁷ COM(2003) 449 final, Investing in research: an action plan for Europe.

⁸ Sources: Third European Report on Science and Technology Indicators and Key Figures 2003.

⁹ COM(2003) 685 final, Education and Training 2010 – The success of the Lisbon Strategy hinges on urgent reforms (draft joint interim report).

¹⁰ Source: "Human Capital in a global and knowledge-based economy": A. de la Fuente and A. Ciccone. Research for DG Employment and Social Affairs 2003.

¹¹ See "Investing Efficiently in Education and Training: an Imperative for Europe", COM(2002) 779 final and "The EU Economy: 2003 Review", (Chapter 4 on Education, Training and Growth), ECFIN/391/03.

EUROPE OF KNOWLEDGE: REFERENCE LEVELS FOR EDUCATION/TRAINING

- The **proportion of adults aged from 25 to 64** with upper secondary education rose from 55.4% in 1995 to 64.6% in 2002. As regards the 20-24 year-old category, the average for the new Member States is much higher than that of the current Union (86% versus 73%).
- The percentage of **young people dropping out of the school system without any qualifications** was 18.1% in 2003. However, this is still a long way away from the target of 10% by 2010, and the rate remains very high in Portugal (41.1% in 2003), which calls for urgent action.
- Adult participation in **life-long learning and training** has increased a lot over the past few years, reaching 8.5% in 2002. Nevertheless, the aim of raising this rate to 12.5% by 2010 will require major efforts, via customised national strategies in particular.
- 17.2% of young Europeans aged 15 do not have the **minimum necessary skills** (reading, writing, arithmetic).

2.3. Weaknesses in our internal market and competitiveness

Inadequate investment in the strategic areas of research and innovation is also undermining our competitiveness. At the same time, it is vital for the internal market to function properly to create an environment which is conducive to dynamic entrepreneurship and to make our economy more competitive. Despite the successes of the past decade, **the internal market has still not reached all its potential**. There are several warning signs which need to be dealt with urgently¹².

- The Union is facing a **slowdown in its product market integration**. Cross-border manufacturing trade has stalled, growing only by 2.5% in 2001 and then shrinking by 0.3% in 2002. In addition, prices across the Union have stopped converging in the last five to six years. Cross-border investment is also low. Furthermore, there are still too many technical obstacles preventing goods from circulating freely. Finally, consumer lack of confidence in cross-border transactions and electronic commerce is undermining the potential of free cross-border competition to increase our competitive edge.
- **The internal market is still highly fragmented in the services sector**, especially in distribution and retail sales. The services sector accounts for 70% of GDP. But companies and consumers continue to suffer from many restrictions on establishing businesses and the provision of cross-border services. This seriously restricts the European economy's competitiveness.
- Market opening in **network industries** is not yet fully implemented and the benefits relating to efficiency, inter-connectivity and security of supply in the Union have not yet been realised. The situation appears to vary considerably between Acceding Countries. A majority of Acceding Countries have deregulated their telecom markets. Slovenia and Poland have already opened up more than half of their electricity markets for competition. However, in many Acceding Countries, effective competition in these sectors is still lacking.
- At the same time, several **strategic measures to increase our competitiveness have not got off the ground because of a lack of political will**. Reforms such as the Community patent, recognition of professional qualifications in the Union, enforcement of intellectual

¹² COM(2004) 22 final; Implementation Report on the Internal Market Strategy (2003-2006).

property rights and the definition of a consolidated common base for taxing company profits are currently still lacking for internal market development.

- Finally, the **rate of transposition of directives linked to the internal market has fallen appreciably over the past few months**, going from 98.2% in May 2002 to 97.3% in November 2003. Ireland and Portugal have made the most progress whilst Belgium's deficit has greatly increased. Only Denmark, Spain, Finland, Ireland and the United Kingdom have kept to the transposition target of 98.5% set in Barcelona. Belgium, France and Germany register 96.5%, with over 53 directives delayed. Furthermore, Denmark, Finland and Portugal are the only Member States without any transposition delays exceeding two years. The situation is even worse for directives adopted under the Lisbon strategy.

TRANSPPOSITION OF "LISBON" DIRECTIVES

The Union has adopted over 70 directives under the Lisbon strategy¹³, which should make for greater harmonisation and a joint regulatory framework that helps reinforce the internal market, our competitiveness and, in the final analysis, our potential for growth. **Forty directives should have been transposed by the end of 2003.**

- **Member States' average transposition rate for these 40 directives is only 58.3%**, i.e. a very poor showing.
- Denmark, Spain and Italy have the best records (from 85 to 75% of "Lisbon" directives transposed), while **France, Germany and Greece are the furthest behind** (from 42 to 35%).
- **Only 7 out of these 40 directives have been transposed by all Member States.**
- **Not transposing these directives means delaying reforms the Union needs desperately:** e-commerce, electronic communications, postal services, first railway package, renewable energies in the electricity market, etc.

- Over and above transposition, which is the bare minimum, Member States also have a duty to actually implement these provisions to guarantee that the reforms take effect. However, the number of open infringement procedures is still over one thousand and their number has been decreasing by no more than 3% over the past few years.

However, we should also look at the developments or advances in the right direction which should be sustained and intensified.

- The fragmentation of our financial markets remains one of the key disadvantages of EU businesses, particularly when compared to the United States. Good progress has, however, been achieved on the **Financial Services Action Plan which is now in its home straight**. A few key measures still need to be adopted shortly to meet the European Council's commitment of completing the Action Plan by 2005. The key to reaping the full benefits lies in timely and correct implementation of the measures and in their effective application.
- **Elimination of fiscal distortions** remains a priority so as to improve company competitiveness. Some progress has been made on this. For one thing, the tax package aimed at reducing distortions within the internal market has been adopted. For another, the tax scheme applicable to dividends between parent companies and subsidiaries has been changed so as to eliminate any form of double taxation and fiscal obstacles to cross-border activities.

¹³ The list of directives and the Member State transposition scoreboard are available at the "Lisbon Strategy" website: http://europa.eu.int/comm/lisbon_strategy/index_en.html.

- A **favourable regulatory environment** is likewise essential if competitiveness is to increase. From this point of view, the conclusion in 2003 of the interinstitutional accord on "Better Lawmaking" should help make the Community's regulatory framework more effective, more flexible and simpler. The Commission's introduction of an impact analysis tool and the formulation of alternative regulatory instruments – such as coregulation and self-regulation – constitute important steps forward that ought to be exploited.
- Finally, it is vital to **maintain a strong-competition policy** in the internal market to uphold and boost our competitiveness. Progress is being made in this area, especially in reducing the average level of State aid (which is tending to stabilise at 0.7% of GDP) and in having it redirected towards horizontal objectives. In addition, the Council has finally managed to reach a political agreement on the legislative package concerning mergers and control of mergers which Member States now need to enforce quickly.

2.4. Growth still not sustainable enough

Strong growth based on higher employment and productivity must also be sustainable. The Lisbon strategy promotes a development model which makes it possible to improve in a sustainable manner Europeans' living standards and quality of life by virtue of strong economic growth affording a high degree of social cohesion and environmental protection. The model is informed by a medium- and long-term perspective and places more emphasis on the linkage between and mutual effects of the various policies: sustainable growth requires that economic growth contributes to social progress and respects the environment, that social policy shore up economic performance and that environmental policy makes economic sense.

2.4.1. Reinforcing social cohesion

The European Council has set itself the aim of giving decisive impetus to reducing poverty by 2010. However, **there is real risk of poverty increasing in several Member States**, mainly due to the increase in unemployment but also to the fact that the social protection and pensions systems are not sustainable. Despite the progress made in the Nineties, the number of people facing the risk of poverty was still very high in the Union in 2001 – 55 million, i.e. 15% of the total population, more than half of whom face this risk permanently. This risk was higher in the countries of southern Europe and Ireland, reaching its peak in 2001 (21%).

This phenomenon is very closely linked to unemployment as it affects 38% of the unemployed. Large families, elderly women living alone, and single-parent (71% of whom are women) families. In the latter case, the risk is very high in the United Kingdom (50%) and in the Netherlands (45%).

Under the Lisbon strategy, and on the basis of joint goals, the Member States have devised and implemented **social inclusion strategies** since 2001 in connection with the draft joint Council and Commission report on social inclusion¹⁴. The new round of National Action Plans (NAPs) shows **significant efforts by most Member States to set national targets**.

¹⁴ COM(2003) 773 final.

2.4.2. *Taking greater account of environmental concerns*

In the environmental sphere, **Member States' performance is generally inadequate**. This shows a lack of awareness of the fact that growth may harm the environment and prove counter-productive in the medium and long term.

On the one hand, more efficient use of natural resources contributes to the economy's productivity at the same time as reducing environmental degradation; reducing air pollution and noise can avoid significant impacts on health; reducing transport congestion reduces lost time and therefore costs for both individuals and business. On the other hand, a more dynamic economy may lead to a better environment, if the faster turnover of the capital stock associated with more rapid growth results in more widespread diffusion of new technologies, which often are more energy efficient and thus less polluting than the equipment they replace.

During the 1990s the European Union's greenhouse gas emissions fell by 3.5%, or almost half of the Union's commitment to reduce its emissions for the period 2008-2012 by 8% compared with their 1990 level. However, this positive trend has been reversed in 2001. **Five countries, which represent more than 50% of EU emissions, are currently on course to meet their Kyoto burden sharing agreement targets** (Luxembourg, Germany, United Kingdom, France and Sweden). A number of other countries (Austria, Belgium, Italy and the Netherlands) still have not turned the corner and have emissions above 1990 levels. **Most worrying is the trend in Ireland, Spain and Portugal**. Although the Burden Sharing Agreement allows these countries to increase their emission by between 13-27% over 1990 levels these allowances have already been exceeded.

Improvements in the **energy efficiency** of the Union economy resulted in a decreased energy intensity of 11% during the 1990s. While much of this performance can be ascribed to exceptional events, such as German reunification, **all Member States have reduced or maintained their energy intensity** over the period. The association of the economic "catching up" process with an equivalent increase of energy needs does not seem to be inevitable, however, as is shown by the case of Ireland, where the strong economic growth of recent years has gone hand-in-hand with sizeable improvements in energy intensity. Despite these positive performances, during the 1990s total energy consumption continued to grow by an average rate of 1% annually.

Moreover, the share of renewable energy remains low at around 6%. Latest projections clearly indicate that unless additional policy measures are taken, the EU will fail to meet its indicative target of 12% by 2010. It is also unlikely that the EU will be able to meet its target of generating 22% of gross electricity consumption from renewable sources by 2010.

Figures for 2002 still show no signs of a **decoupling between GDP growth and rises in the volume of transport**. Some countries do show a relative slowdown in transport volume growth, but it is possible that this is a temporary phenomenon and that the expected recovery in economic activity will also see a rebound in the transport sector. Many countries still show an increase in the volume of transport higher than GDP growth.

Other trends also show reasons for concern, such as soil erosion, biodiversity loss, air and water quality.

2.4.3. *Limited implementation of the sustainable development strategy*

Efforts towards **implementation of the sustainable development policy** approach have continued at European and national level. In line with the Gothenburg European Council, the

Lisbon strategy underlines the effective and coherent integration of economic, social and environmental aspects in policy developments and fully exploits the synergies between the three elements.

All Member States and the majority of acceding countries have adopted sustainable development strategies. They should increase their efforts to further develop and implement these strategies. A first overview of existing strategies shows that they are highly diverse, reflecting specific national contexts. The environmental dimension is a predominant theme in many strategies. However, most strategies address sustainable development in its three dimensions and include explicit social and economic objectives. Geographical focus also varies widely from one strategy to the next, with some focusing primarily or exclusively on domestic priorities, and others considering global issues as well; and with some giving prominence to the territorial dimension while others do not. Finally, some strategies are based upon a sectoral approach – e.g. transport, agriculture, fisheries etc. – while others are organised around thematic priority issues – e.g. climate change, biodiversity protection, resource use, etc.

At the European level, a review of the Gothenburg sustainable development strategy will be undertaken by the end of this year. This review will provide an opportunity to assess progress made so far, to consider the linkages between the outcomes of the 2002 World Summit on sustainable development, the Union and the national sustainable development strategies, and identify priority actions needed to speed up the pace of reform.

SUSTAINABLE DEVELOPMENT AND COMMUNITY POLICIES IN 2003

At European level, great efforts have been made to enhance the synergies between policies and longer-term sustainability.

- **Reform of the common agricultural policy redirecting aid to promote sustainable agriculture**, introduction of a single farm payment totally or partly unrelated to production activity and entailing the obligation to keep land in good agricultural and environmental condition.
- Adoption of the **taxation legislation on energy products**.
- The **Commission has put in place an Impact Assessment tool** that will progressively be applied to all major proposals. The tool, which combines economic, social and environmental analysis, has already been applied to important legislative proposals during 2003.
- The most visible case is the new proposed regulatory framework for **chemicals**. By analysing potential economic, social and environmental impacts and by establishing a transparent and broad consultation with all interested parties during the drafting, a cost-effective and balanced system has been proposed.
- Finally, the Union has set itself quantified targets for **renewable energies** (22% for green electricity and 5.75% for biofuel in 2010).

2.5. The state of play

The analysis of the current situation enables a distinction to be made between Member States with relatively **better overall achievements to date (Denmark, Luxembourg, the Netherlands, Austria, Sweden and the United Kingdom)** and those that — according to the latest data available — are performing relatively poorly (Greece, Spain, Italy and Portugal)¹⁵. After four years of the Lisbon strategy it is also important to compare **progress of Member States since 1999. Belgium, France and Greece have made rather good progress**, while progress in Germany, Luxembourg, Austria and Portugal has been rather disappointing¹⁶. The detailed analysis indicates more clearly that **there are still problems in all Member States** and that all of them need to make a greater effort to achieve results.

Annex 2 shows the performance of each Member States, in terms of progress made and in terms of the principle areas in which reforms still need to be completed.

Implementation, albeit partially, of the reforms under the Lisbon strategy seems to be starting to bear fruit as regards **employment**. Although the interim goal for 2005 will not be attained, the employment target remains valid as long as in the seven years remaining until 2010 employment picks up at a similar pace to that at the end of the 90s. Spain, and to a lesser extent Italy, have successfully maintained relatively rapid job creation since 1999. The rate of employment amongst women has made fairly good progress, partly because of the improvement in child care. This is not true of the rate of employment amongst elderly workers where the objective for 2010 is probably out of reach, even though Finland, France and the Netherlands in particular have managed to increase this rate since 1999. Austria and Portugal have recorded disappointing trends in employment since 1999.

As far as **productivity** is concerned, the trend has been fairly positive in the ICT sector but worrying in more traditional services and industries. The Commission's analyses show that there are four areas determining productivity trends which have a major influence in the European Union apart from workforce ageing. These are the level of regulation, the structure of financial markets, the level of integration of product markets and the degree of investment in knowledge. Growth in employment productivity has been particularly rapid in Greece and Ireland since 1999 but disappointing in Italy and Luxembourg over the same period.

An analysis of the indicators mentioned above shows that there has been fairly steady progress in reforming the financial markets, stagnation in integrating product markets and, in particular, an alarming trend as regards investment in knowledge, which has not only not increased at the same pace as our main competitors but has fallen over the past few years (although investment in businesses in Italy, Spain and Greece has increased relatively quickly since 1999).

The analysis also shows the importance of vigorously implementing integrated reform strategies in various areas. Insufficient implementation of the Lisbon strategy could produce significant net costs for Europe: in terms of reduced growth, delayed improvements in employment levels, and a growing gap with some of our large industrial partners in the fields of education and R&D. Studies and simulations conducted by the Commission conclude that simultaneous and integrated pursuit of these reforms can produce an increase in potential

¹⁵ See Annex 1, graph 15, which summarises the performances of all the Member States for the fourteen structural indicators.

¹⁶ See Annex 1, graph 16.

growth in the Union in the order of 0.5 to 0.75 of a percentage point of GDP within the next five to ten years.

Finally, while some progress, particularly on the legislation front, has been made with regard to **sustainable development** and taking better account of the environment in Community action, the Union is still finding it difficult to capitalise on the synergy between various policies, especially environment, research and competitiveness. At national level overall performance in preserving the environment has been disappointing, with standards falling in certain instances since 1999. Furthermore, although the progress made on social cohesion has been fairly good in Spain and France, it has been inadequate in Portugal.

3. **PRIORITIES IN 2004: PLACING EMPHASIS ON INVESTMENT, COMPETITIVENESS AND EMPLOYMENT**

The Union has still not managed to achieve all its objectives, in particular due to Member States' inadequate implementation of the reforms.

The Lisbon strategy's potential lies in both its integrated and targeted approach as regards the policies and reforms to be implemented, with each element reinforcing the others. It is only by adopting this integrated, coordinated and synchronised approach to reform that the results can be optimised. In order to move forward, the Union must therefore undertake a consistent action on these various priority fronts.

The stock-take of progress made should prompt the Union to pinpoint the sectors in which the **momentum of reform should be maintained, given a fairly encouraging trend there, and those requiring urgent action to correct a negative trend.**

3.1. **Maintaining the momentum of reforms already under way**

This assumes in particular that progress will be made in **complying with the Stability and Growth Pact** in 2004 and 2005, especially by the Member States carrying excessive deficits.

The **European Employment Strategy** supports Member States in their efforts to implement structural reforms in their labour markets. In this context the Commission adopted its draft Joint Employment Report, based on the analysis of Member States' National Action Plans for Employment and also drew heavily on the **positive contribution of the Employment Task Force headed by Wim Kok**. In this framework, the emphasis at EU level should now be on stronger monitoring of Member States' reforms. To boost productivity and employment, Member States and the social partners should implement the European Employment Strategy and give immediate priority to: increasing adaptability of workers and enterprises; attracting more people to the labour market; investing more and more effectively in human capital; ensuring effective implementation of reforms through better governance.

In order to sustain development of **Information and Communication Technologies** the Member States must define and implement national strategies for broadband networks, as part of the e-Europe Action Plan for 2005.

As regards the **internal market**, it is vital for the commitments made by the European Council on transposition to be complied with. The same applies to the large number of infringement procedures.

Following the recent corporate scandals on both sides of the Atlantic (Parmalat, Enron, etc.), priority also needs to be given to the speedy implementation of the **Action Plan on Company Law and Corporate Governance**, which aims at strengthening shareholders' rights, reinforcing protection for employees and creditors and boosting confidence on capital markets. In this context, the Union should adopt quickly the directive on statutory audit to tighten the oversight of auditors. Finally, the Commission will continue to work closely with the American Public Company Accounting Oversight Board to develop an effective, cooperative approach to the international regulation of audit firms.

The Member States must also sustain their efforts to reduce and redirect **State aid** and introduce, by 1 May, the legislative framework allowing full implementation of the European anti-trust policy by the authorities and the national courts.

In the **social inclusion policy**, the inclusion goals set in the National Action Plans need to be borne more in mind by Member States when setting overall expenditure priorities, including the expenditure of Structural Funds. And more needs to be done to ensure that economic, employment and social policies are mutually reinforcing.

In the **environmental sphere**, the Council and the European Parliament should adopt without delay the directive establishing the system of exchanging greenhouse gas emission quotas in the Community in keeping with the draft Kyoto Protocol. What is more, in line with the commitments undertaken in Johannesburg, the Union and the Member States must reinforce their endeavours to adopt sustainable production and consumption models, especially by doing more in the environmental technology field.

Finally, in the context of the external dimension of the Lisbon strategy, measures should also be taken to enhance export-led growth, in particular by continuing efforts to secure a successful outcome to the Doha process and broadening and strengthening our Positive Economic Agenda with the United States.

At the same time, the Union must take urgent action to reverse the negative trend in several sectors, viz.: investment in networks and knowledge, competitiveness of industries and services, and active ageing. The Commission therefore calls upon the Spring European Council to concentrate on the following three-pronged approach: **investment, competitiveness and reform.**

3.2. Boosting investment to support growth

Given the **generally low level of investment**, the European economy needs public and private investment to be redistributed, stepped up and used more effectively in various key sectors that are vital for getting things moving again. This is not incompatible with the Stability and Growth Pact and the Broad Economic Policy Guidelines. In this light, the European Council should adopt a global and consistent approach to raise investment level and effectiveness.

The Union has already drawn on some of the potential offered by the financial instruments at its disposal to redirect spending towards aims pinpointed by the Lisbon strategy. These efforts will be sustained in 2004, especially at the time of the Structural Funds mid-term review, and in connection with the post-2006 financial framework.

STRUCTURAL FUND CONTRIBUTION TO LISBON OBJECTIVES

- **Nearly 80 billion euros have been disbursed since 2000** to support three of the Lisbon strategy's chief aims: investment in human capital (20 billion), innovation and entrepreneurship (22 billion) and linking up trans-European transport, energy and telecommunications networks (37 billion).
- As part of the structural fund mid-term review, an extra 8 billion euros from the performance reserve will be allocated to successful programmes before the end of March 2004, in keeping with the Lisbon strategy priorities (broadband infrastructures in particular).
- Furthermore, the structural funds will also greatly **contribute to implementing the Growth Initiative** as it relates to high output networks, especially for schools and hospitals.
- Finally, the new Member States have received guidelines for **preparing future programmes** that focus on modernisation of networks, the environment, employment, research and innovation.

Implementing the European Initiative for Growth

By stimulating investment within a stable macroeconomic framework in two key areas highlighted in Lisbon – networks and knowledge – the Union can send out a **powerful message to encourage the reforms under way**. Last December's European Council warmly welcomed the Quick-Start programme.

In the medium term, such new investment will cut production times and transport times, enhance quality, accelerate the pace of innovation, boost competition and generate a wider choice of where to set up in business. Development of broadband communication networks, including high output networks for research (GEANT), will help to promote high value-added on-line services and the dissemination of knowledge, thus stimulating economic growth. Furthermore, this should also benefit cohesion within the enlarged Union, because the countries and regions lacking adequate infrastructures or with limited access to knowledge and innovation will thereby be given the chance to integrate into an economic area transformed by knowledge. Across the board, this greater investment effort in networks and knowledge could bring about appreciable benefits in terms of greater productivity and enhanced job creation in the Union.

All the players involved must now set to and implement the Quick Start programme.

IMPLEMENTATION OF THE QUICK START PROGRAMME

Member States

- Implement, as from 2004, the national plans in connection with the European Initiative for Growth concerning transport projects, research and broadband networks.
- In this context, speed up the preparatory work for the Quick Start initiatives in the fields of research & development and broadband networks by 2004 and, where projects are sufficiently advanced, before the end of the year draw up the financing plans needed to implement them.
- Remove the technical, legal and administrative obstacles to implementing public-private partnerships.

European Investment Bank

- Deploy adequate financing instruments to provide leverage for private capital and arrange for securitisation funds.

European Parliament and Council

- Adopt the second railway package before the Spring European Council.
- Adopt the revised guidelines for the trans-European transport networks before May 2004 and those for energy before March 2005.
- Adopt the revised version of the directive on HGV charging ("eurovignette") before March 2005.

Commission

- Study the need to create a specific Community guarantee instrument and present a legislative proposal, if necessary.
- Designate, in consultation with Member States, European coordinators for certain cross-border projects linked to the Growth Initiative.
- Present in the first half of 2004 a proposal for the third railway package to open up international passenger transport services and improve the quality of services.
- Present, in the first half of 2004, a green paper on public-private partnership.
- Evaluate, together with the EIB, implementation of the Quick Start programme up to 2007 as part of the annual report to the Spring Council.

Boosting investment in knowledge

The Initiative for Growth makes an active contribution to developing the knowledge economy. This measure should be extended through stepped-up efforts in the fields of research, education and training which are not contributing enough to growth and our competitiveness.

It is now urgent for progress to be made in implementing the action plan "Investing in Research", on which the Commission will report before the end of the year. Member States should give high priority to improving framework conditions and public support for research investment, and ensure European consistency and synergy through the open method of coordination. In relation to this, they should ensure swift implementation of actions related to the recruitment of researchers, R&D careers and the public recognition of researchers, as agreed by the Council in 2003. In this context, the Commission has proposed a Directive and will present an Action Plan on the entry and stay of third country researchers to help increase the supply of highly trained researchers in Europe.

The Spring European Council should give a decisive fillip to investment in education and training in order to enhance development of the knowledge economy in the medium term. Measures should be targeted on a number of key fields: increasing the private sector's contribution by providing specific incentives, reinforcing life-long learning, and improving the effectiveness of national education and training systems. The available resources in the Structural Funds, i.e. the European Social Fund, and with the European Investment Bank could also be used. These priorities are also highlighted by the report from the European Employment Task Force.

INVESTING IN KNOWLEDGE

Member States

- Improve framework conditions and public support for research investments ensuring European consistency and synergy through the open method of coordination.
- Enhance the leverage effect of public support on private investments by a more effective use and combination of financing instruments (grants, fiscal incentives, guarantee mechanisms and support to risk capital) and strengthen links between public research and industry.
- Increase the efforts to improve researchers' recruitment and careers through applying the open method of coordination.
- Present regular reports on implementation of the goals of education and training systems at national level.
- Define and implement national life-long learning strategies for 2005.

European Parliament and Council

- Adopt, before March 2005, the proposal on recognition of professional qualifications. In this context the Competitiveness Council should come to a political agreement before May 2004.
- Adopt, before the end of 2005, the proposal for the framework programme on life-long learning, to enable it to be implemented on 1 January 2007.

Commission

- Complete the setting-up of the first series of European technology platforms.
- Prepare the revision of the Community framework on state aid for R&D.
- Present a proposal for a directive on the entry and stay of third-country researchers and the associated action plan.
- Propose a Harmonized European Fund Legal Structure for risk capital capable of ensuring transparency, from the fiscal point of view, all over Europe.

Social Partners

- Promote national implementation of the framework of actions for life-long development of competences.

3.3. Strengthening competitiveness in a sustainable economy

Competitiveness is a key element of the Lisbon strategy and remains a major source of concern for some Member States and businesses.

The Union already has a strategy for boosting our competitiveness. Its implementation must now be stepped up and priorities set. The first of these must be adoption of the pending proposals as soon as possible in order to give a strong boost and positive signal to companies and investors. It is essential that this "competitiveness package" make headway, both at first and second reading, before the end of the present Parliament next May.

Furthermore, the Commission has just brought out a major new proposal on services¹⁷ to facilitate cross-border trade and simplify the regulatory framework governing it. Services constitute the sector with the greatest potential for the internal market. Efficient and competitive services help increase productivity in the other sectors. As stated by the Irish Presidency, it is absolutely essential to give priority to this proposal and make legislative headway on it.

ACCELERATING THE "COMPETITIVENESS LEGISLATIVE PACKAGE" BEFORE MAY 2004

- Adopt the regulation on the **Community patent** and reach a political agreement on the instruments relating to the jurisdictional aspects.
- Reach a political agreement in Council on the **recognition of professional qualifications**.
- Make headway with the **financial services action plan**: adopt the proposals for directives on investment services and on transparency.
- Reach a political agreement in Council on **strengthening the enforcement of intellectual property rights**.
- Immediately initiate a discussion on the proposal for the **framework directive on services**.

Finally, it is essential that the Union adopt as quickly as possible a common consolidated definition of taxation on company profits covering all company activities. If no progress were to be made by the Union as a whole, the possibility of applying the Treaty rules on enhanced cooperation would have to be contemplated.

Reinforcing industrial competitiveness

Along with services, Europe's **industrial competitiveness** is of cardinal importance for our economy. Sterner competition from our competitors across the globe, the transition now under way towards the knowledge economy, plus enlargement of the Union through the accession of new countries, once again raise the question as to what place industry occupies in our economy. In this context the phenomenon of de-industrialisation – highlighted by the European Council last October – might be an increasingly acute problem.

The Commission has addressed this question¹⁸ and will pursue its analysis. Preliminary findings, however, indicate that there is no evidence that the Union economy is showing signs of global de-industrialisation. Nevertheless, policy-makers need to remain vigilant.

In this context we should note the **loss of competitiveness —and of jobs — in some of our industrial sectors**, such as textiles, mining (non-ferrous metals and coal), whilst others, such as chemicals, office or electrical equipment and telecommunications, are putting up stronger resistance. This shows how our economy is developing in new sectors, but also underlines the urgent need for the players in question to actively pursue the Lisbon strategy and to modernise the structures of European industry, in the new Member States too. It is important to boost European productivity and the adaptability of businesses and workers, particularly in sectors in difficulties, and to make up the ground Europe has lost in the spread of Information and Communication Technologies, so as to hone businesses' competitive edge and boost worker productivity by underpinning investment in this area through measures to enhance organisation

¹⁷ COM(2004) 2 final, proposal for a Directive of the European Parliament and of the Council on services in the internal market.

¹⁸ COM(2003) 704 final; Some key issues in Europe's competitiveness – Towards an Integrated Approach.

and training. Anticipating what is ahead and remaining adaptable in the face of such developments are also factors pinpointed by the European Employment Task Force.

COMPETITIVENESS AND INDUSTRIAL POLICY

Commission

- Enhance the quality of competitiveness analyses, particularly in the industrial sectors. Every action designed to boost industrial competitiveness must be based on prior analysis of the existing situation, with a view to highlighting problems and responding to clearly identified needs. This work will involve close liaison with the sectors concerned, including the social partners
- Develop its new industrial policy approach. In this connection, the Commission will deepen the analysis stemming from the December 2002 communication on "industrial policy in an enlarged Europe" from this spring and will look at further aspects of de-industrialisation, in conjunction with the October 2003 European Council conclusions.
- Focus, in 2004, on several key measures with a bearing on industrial competitiveness, via the entrepreneurship action plan and that for innovation.
- Ensure that the guidelines from the mid-term review of the action plan "e-Europe 2005 – An information society for everybody" are followed up and action in this area is stepped up.

Social Partners

- Continue their efforts to reach an agreement on industrial restructuring, founded on the joint text they submitted in the second half of 2003.

Reinforcing the synergies between competitiveness and the environment

Synergies between enterprise and the environment need to be fully exploited to foster economic growth that brings broader benefits while minimising environmental damage. To this end, it is necessary to strengthen the policy and regulatory framework that gives clear signals to all economic actors, and to include innovative instruments that may reconcile certain business sector preoccupations with environmental protection.

This framework can also further stimulate the development and marketing of innovations that contribute to an eco-efficient economy, which in the longer term could provide the European economy with a strategic lead and increased productivity.

This is also the main thrust of the **Environmental Technology Action Plan**, which the Commission has presented to the European Parliament and the Council in order to establish the adequate framework to boost clean technologies. The Union has become a leading producer and exporter of some key environmental technologies and services such as photovoltaic, wind energy and water supply and services. Current market developments in the eco-industry sector, as defined by the OECD, provide clear evidence of these trends. Both total turnover and employment creation in a sector which presently accounts for over 2.5 million jobs have constantly been above average over the last decade.

REINFORCING SYNERGIES BETWEEN COMPETITIVENESS AND THE ENVIRONMENT

European Parliament and Council

- Put in place an impact analysis tool for proposals for major amendments, in keeping with the "Better Lawmaking" interinstitutional agreement. This integrated tool should cover the economic impact, especially on competitiveness, and the consequences for jobs and the environment.
- Adopt the proposal on environmental liability before the end of the present Parliament.
- Adopt and implement the environmental technology action plan.
- Adopt, before March 2005, the proposals on HGV-charging (eurovignette), chemical products (REACH), the framework directive on eco-design of energy-using products, and the directive on energy end-use efficiency and energy services.

3.4. Focusing on reforms fostering active ageing

In the medium term the ageing of the European population places very great pressure on our society, the labour market, our productivity and the viability of our public finances. Against this backdrop, we must foster active ageing of elderly workers through greater reform of the labour market and by modernising not just retirement schemes but also prevention and healthcare systems to ensure people live longer in good health.

Promoting active ageing

In order to avoid a rapid decline of the labour supply which will impact negatively on economic growth and the sustainability of social protection systems, efforts to promote *active ageing* must be pursued vigorously, particularly in those Member States with low employment rates for older workers and low average exit age. Prolonging working lives calls for action on four fronts combined with pension reforms: removing disincentives for workers to work longer, discouraging early retirement, stimulating lifelong learning to avoid skills obsolescence, as well as improving working conditions and maintaining the overall health status of the mature population. In line with this analysis, the Commission proposed the following actions.

PROMOTING ACTIVE AGEING

Member States together with Social Partners

- Should remove financial **disincentives for workers to retire later and for employers to hire and keep older workers**. This includes adjusting specific tax-benefits mechanisms, employment and pensions legislation to reduce the provisions discouraging older workers from staying longer in employment and to discourage early exits from the labour market. Efforts to discourage early retirement should be pursued in all Member States.
- Should **promote access to training for all and developing lifelong learning strategies**, in particular for older workers, who are under-represented in training.
- Should **improve quality at work** to provide an attractive, safe and adaptable work environment throughout working life, including the provision of part-time and career breaks.

The recommendations made by the European Employment Task Force are in line with these proposals.

Modernising healthcare systems

Despite the diversity of their healthcare systems or schemes, all Member States are facing the challenges of demographic ageing and constant pressure on budgets, which has led many of them to embark on major reforms.

In the wake of the Commission communication on streamlining open coordination in the field of social protection – whose approach was endorsed by the Council – and in order to support such efforts, promote the exchange of good practice and improve the performance of health schemes in terms of quality, access and financial viability, the Union should make use of more structured and formal coordination. Dovetailing with the existing processes in the fields of social inclusion and retirement, this will contribute to a broader-based process of reflection in the health sphere, including public health, with a view to the Lisbon strategy mid-term review.

What is more, the role of information and communication technologies in healthcare system reforms and in improving care, plus the potential efficiency gains linked to the development of “e-health”, should be further explored, especially in connection with the *e-Europe 2005* action plan.

MODERNISING HEALTHCARE	
European Council	
	– Extend the open method of coordination in the social protection field to modernisation of healthcare schemes.
Council	
	– Adopt , before the Spring European Council, the pending proposals on coordination of social security systems, especially alignment of rights, to enable the European Health Insurance Card to be used as from this coming 1 June.
Commission	
	– Examine the possibilities for integrating public health into the Lisbon strategy by 2005, as a contribution to growth and sustainable development.
	– Present a communication on patient mobility and development of healthcare in the Union.
	– Present in 2004 a communication on modernisation of healthcare and care for the elderly.

4. PREPARING FOR THE 2005 MID-TERM REVIEW

The Union’s institutional framework will be radically altered by the time the 2005 Spring European Council comes around, especially due to the institutional renewal process and the adoption of a constitution for the Union.

KEY DATES IN 2004/2005

- February 2004: presentation by the Commission of the communication on the post-2006 financial perspective. First general discussion under the Irish Presidency.
- 26 March 2004: Spring European Council.
- **1 May 2004: enlargement of the Union, taking in ten new Member States.**
- 10-13 June 2004: European Parliament elections.
- June-July 2004: adoption by the Commission of legislative proposals on the financial perspective.
- 1 November 2004: the new Commission takes office.
- End 2004: review of sustainable development strategy.
- **March 2005: Spring European Council, marking the mid-term of the Lisbon strategy.**

Therefore, 2005 will constitute the half-way stage in implementing the Lisbon strategy. It will also be the first year in which that programme is applied to the enlarged Union, and a new Commission and a new European Parliament will be in place. This report is, accordingly, the final report of the current Commission, which has developed and maintained the Lisbon strategy since 2000.

This mid-term point should be an occasion for reviewing the Lisbon strategy in order to give it fresh vigour for its second implementation phase. It should also provide an opportunity to discuss the need to match the goals and the tools for attaining them and the players involved at various levels. **The next European Council should already start things rolling by defining the framework and general direction so as to allow in-depth preparation by March 2005.**

Whereas the strategy's first stage constituted a major regulatory phase with a view to erecting the framework for these reforms, the second stage should be devoted to their active and targeted implementation. Bearing in mind the deficit in implementing reforms, the mid-term review should be the occasion for defining a consistent method for remedying this situation and underpinning implementation.

As part of its proposal on the next financial perspective after 2006, the Commission intends to place implementation of the Lisbon strategy at the very heart of Union action for the coming years. To back up this proposal the Commission envisages proposing a **roadmap to guide and structure the implementation efforts of the Union and Member States.** Following the method used for Objective 92, which made it possible to put the internal market in place, the roadmap could set out interim target goals, specific means and effective tools, as well as a clear implementation timetable.

FRAMEWORK FOR MID-TERM REVIEW (2005)

2004 Spring European Council

- Define the policy and practical framework of the operation, in particular its preparation by the Commission and the other institutions involved.

Commission

- **Take in-depth stock** of the progress achieved since 2000, as well as of the approach, tools and instruments deployed in this context, especially the open method of coordination. The Commission will draw in particular on the opinions of the European Parliament, the relevant formations of the Council, the European Economic and Social Committee and the Committee of the Regions.

- Present, on this basis, in its next spring report the **main thrust of the strategy for 2005-2010**, while confirming its basic principles and goals.

- Propose a working method to **support implementation of the reforms**, based on a roadmap.

European Parliament and Council

- Adopt the thirty or so legislative proposals still pending (Annex 3).
- Contribute in good time to evaluating the progress made since 2000.

Social Partners

- Flesh out their commitment to a new European partnership for change in Europe in order to promote growth and accelerate employment and productivity.

March 2005 European Council

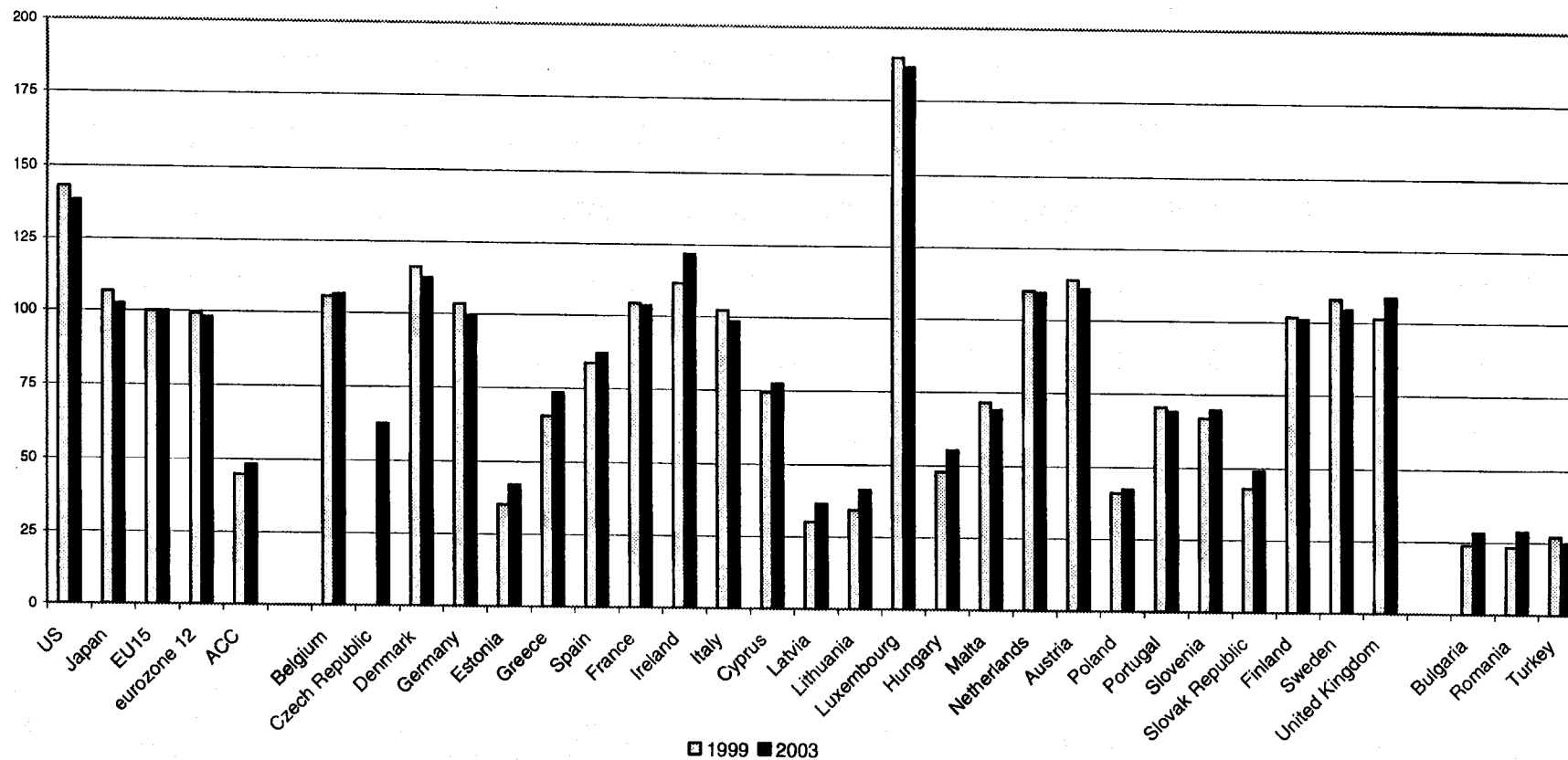
- Inject fresh **political impetus for 2005-2010**, on the basis of the Spring 2005 Report.

ANNEX 1

PRESENTATION OF STRUCTURAL INDICATORS

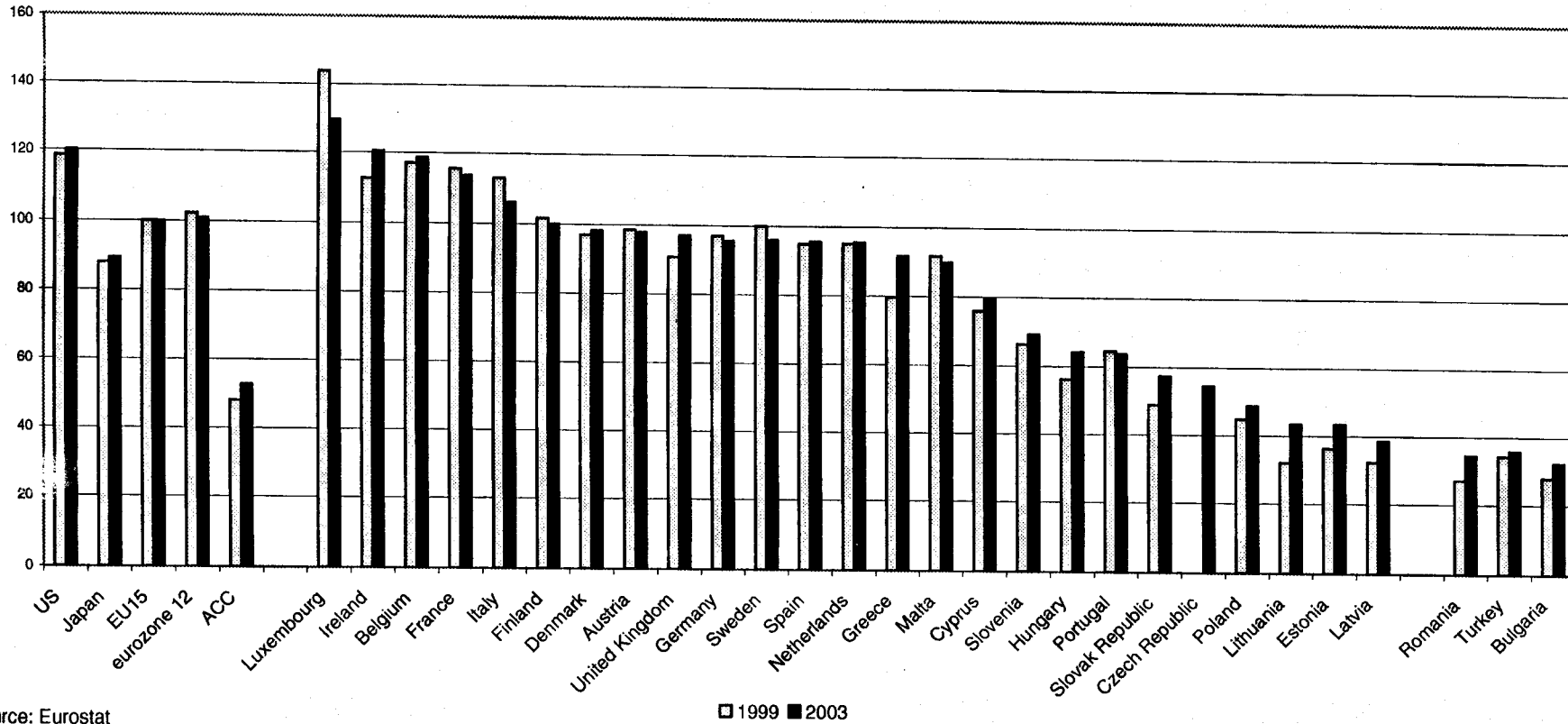
As required by provisions currently in force, the datas relating to the European Free Trade Association States and the structural indicators are available in French, English and German at the Europa site of DG ESTAT: <http://europa.eu.int/comm/eurostat/structuralindicators>

GENERAL ECONOMIC BACKGROUND
Indicator 1 GDP per capita in PPS
 GDP per capita in Purchasing Power Standards (PPS), (EU-15=100)



Source: Eurostat
 Notes:
 2003: forecast
 ACC: Eurostat estimate for 1999

GENERAL ECONOMIC BACKGROUND
Indicator 2 Labour productivity per person employed
 GDP in PPS per person employed relative to the EU-15 (EU-15=100)



Source: Eurostat

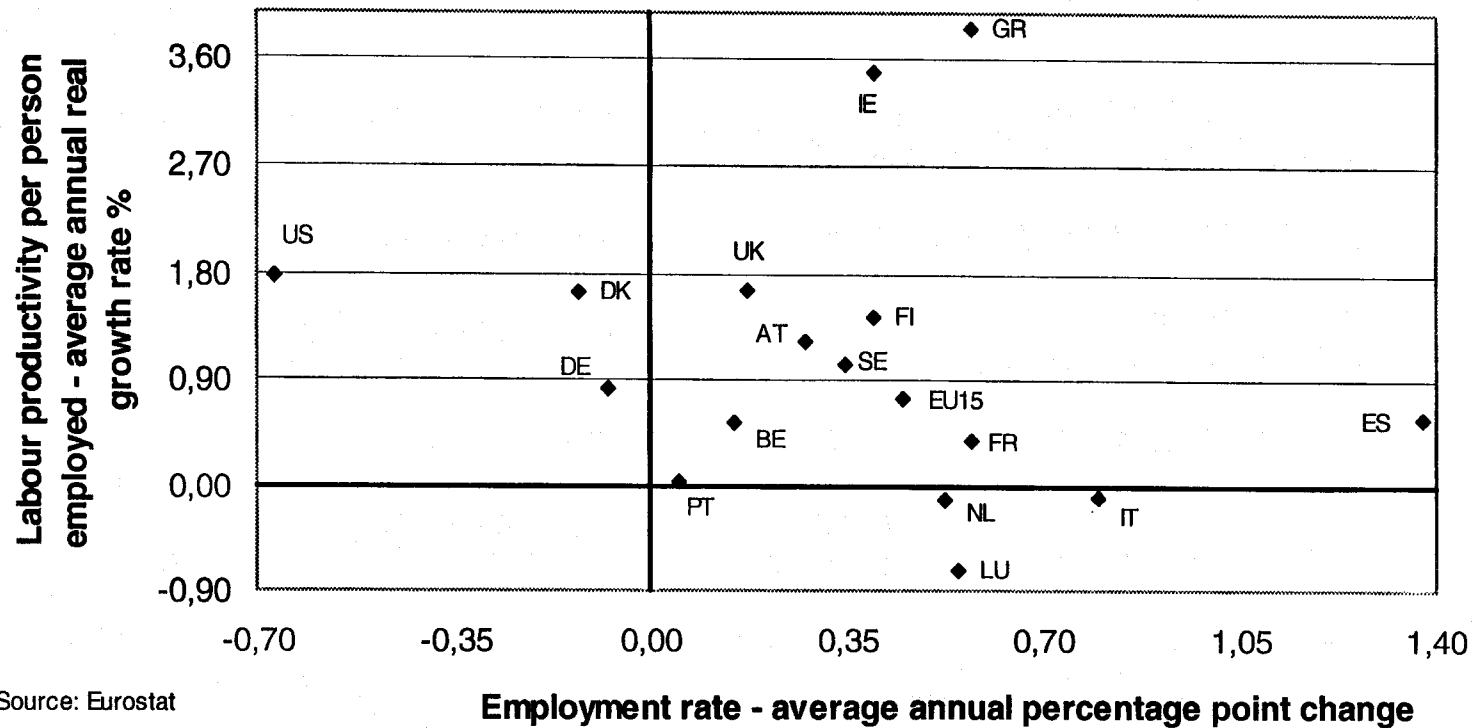
Notes:

2003: forecast

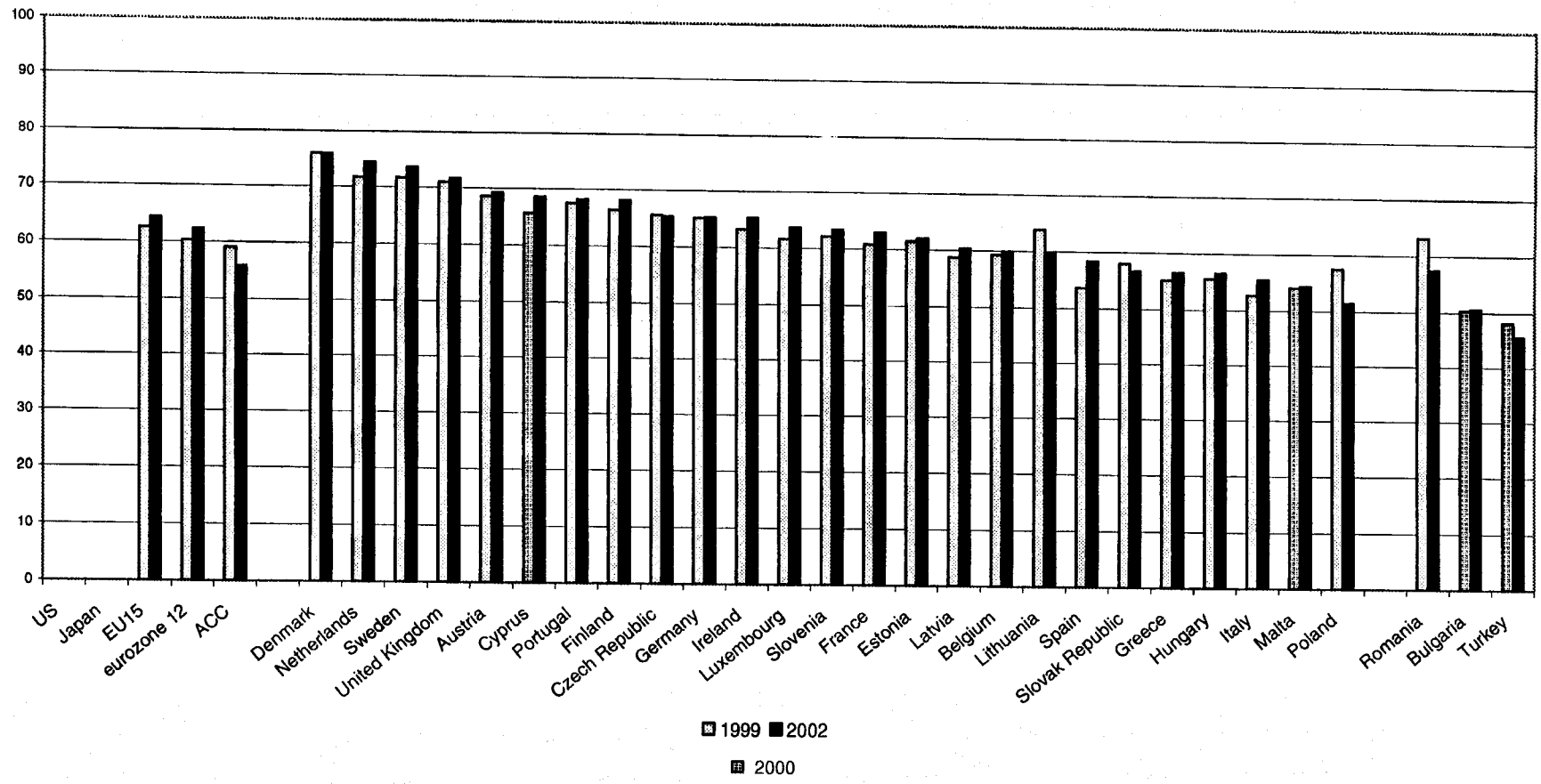
ACC: Eurostat estimate for 1999

Japan, Portugal : forecast for 1999

Employment and productivity developments in the EU - 1999-2003

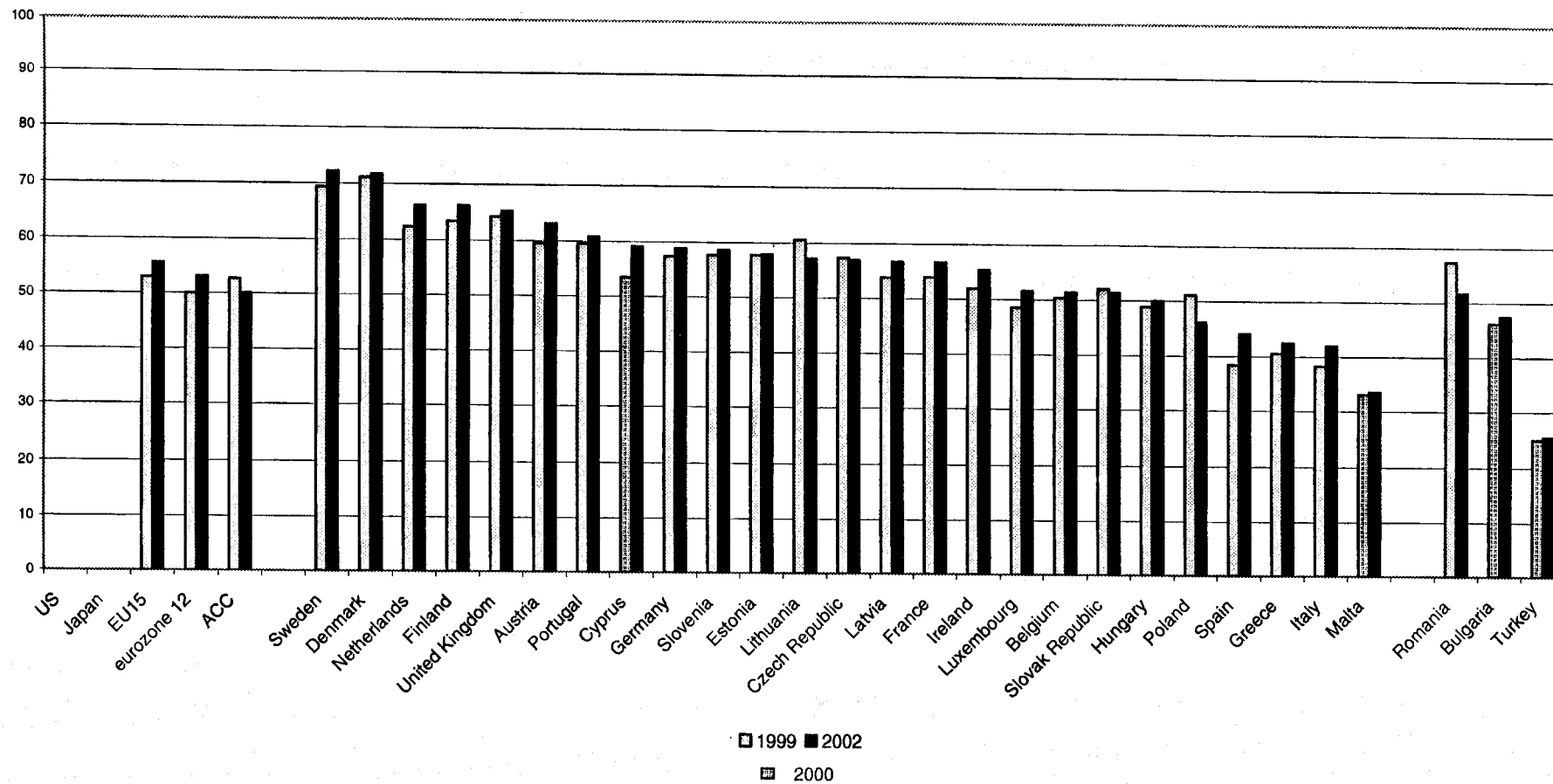


EMPLOYMENT
Indicator 3.1 Total employment rate
 Employed persons aged 15-64 as a share of the total population of the same age group



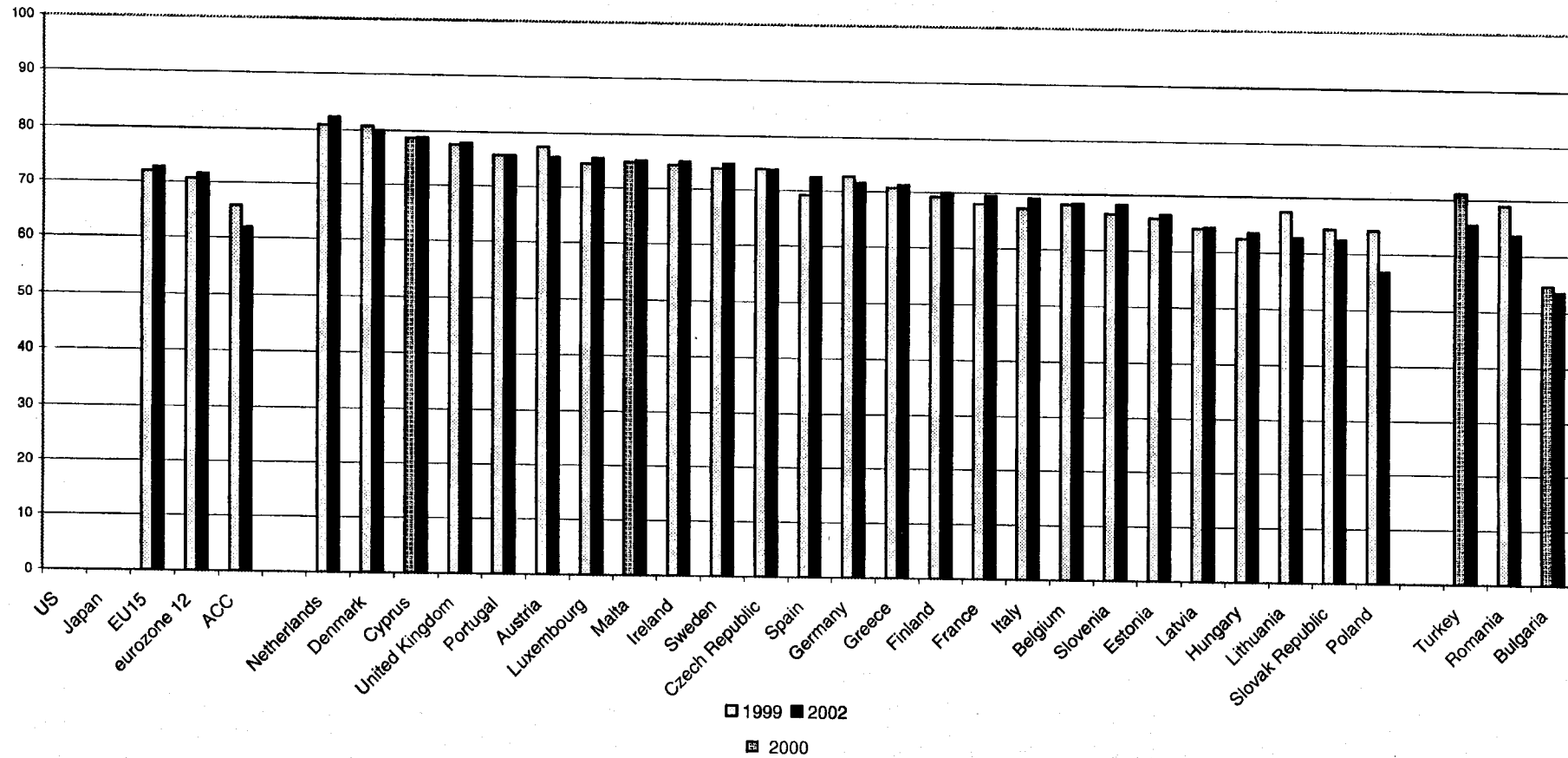
Source: Eurostat

EMPLOYMENT
Indicator 3.2 Employment rate – females
 Employed women aged 15-64 as a share of the total female population of the same age group



Source: Eurostat

EMPLOYMENT
Indicator 3.3 Employment rate – males
 Employed men aged 15-64 as a share of the total male population of the same age group

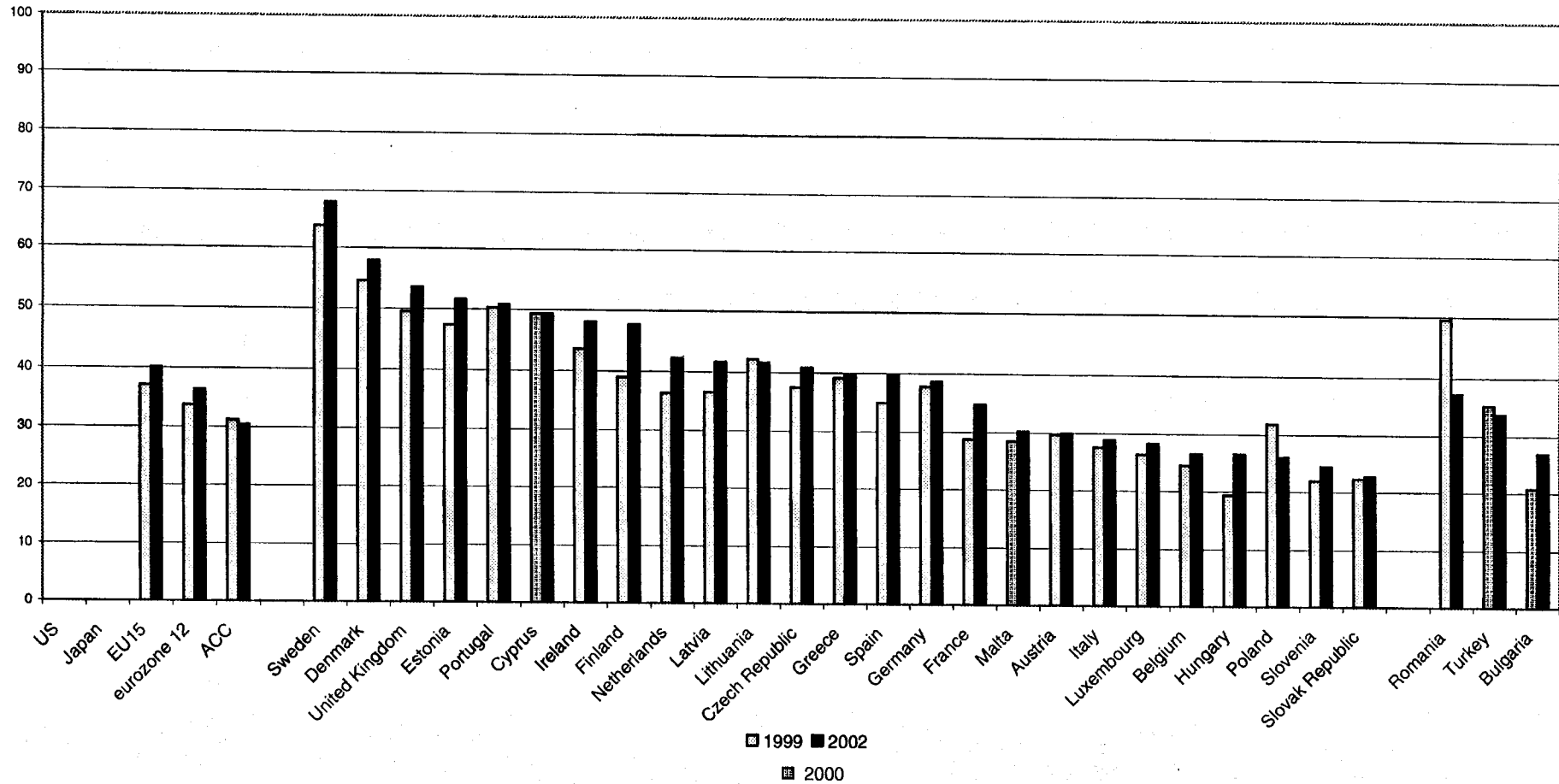


Source: Eurostat

EMPLOYMENT

Indicator 4.1 Total employment rate of older workers

Employed persons aged 55-64 as a share of the total population of the same age group

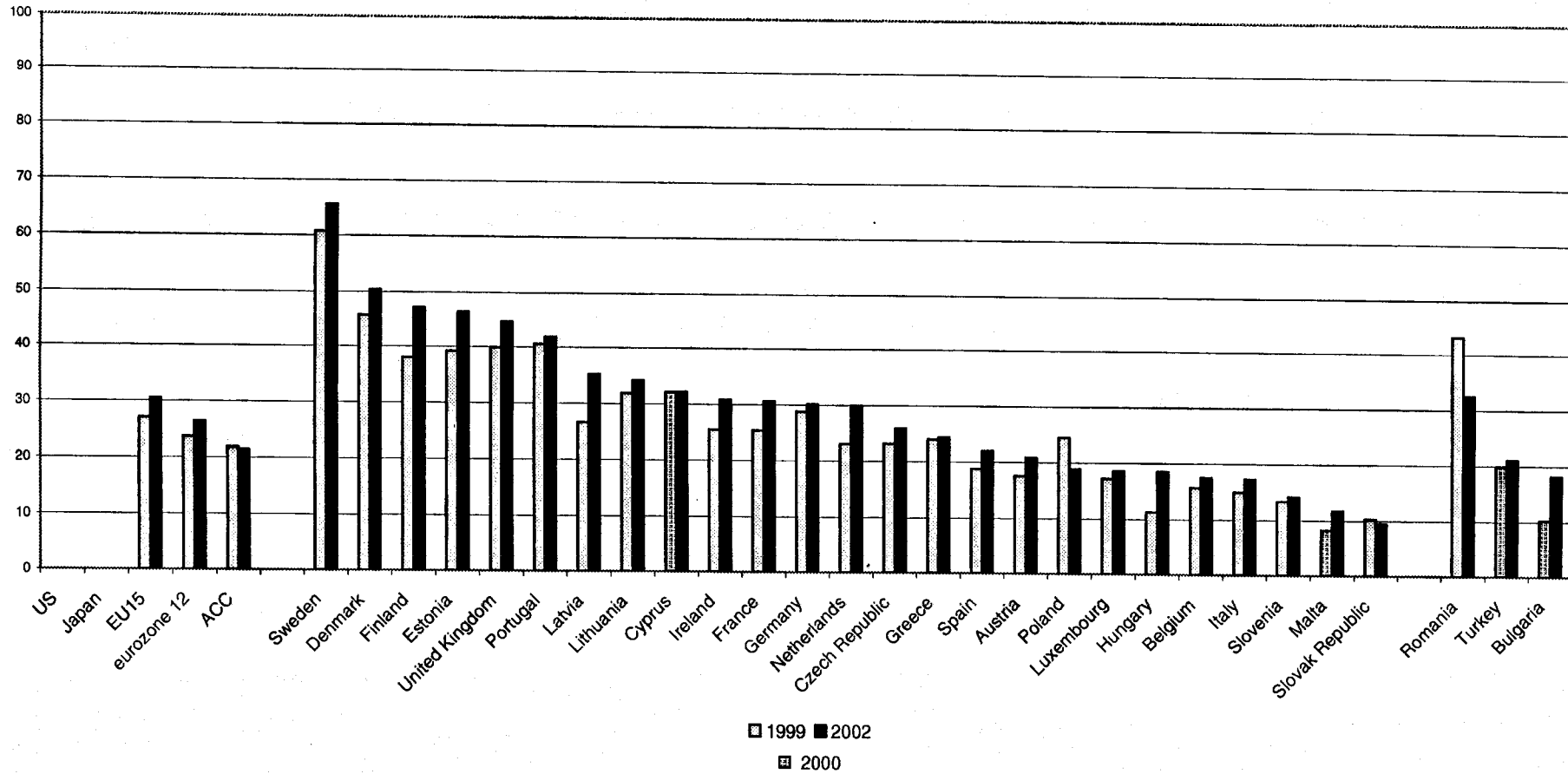


Source: Eurostat

EMPLOYMENT

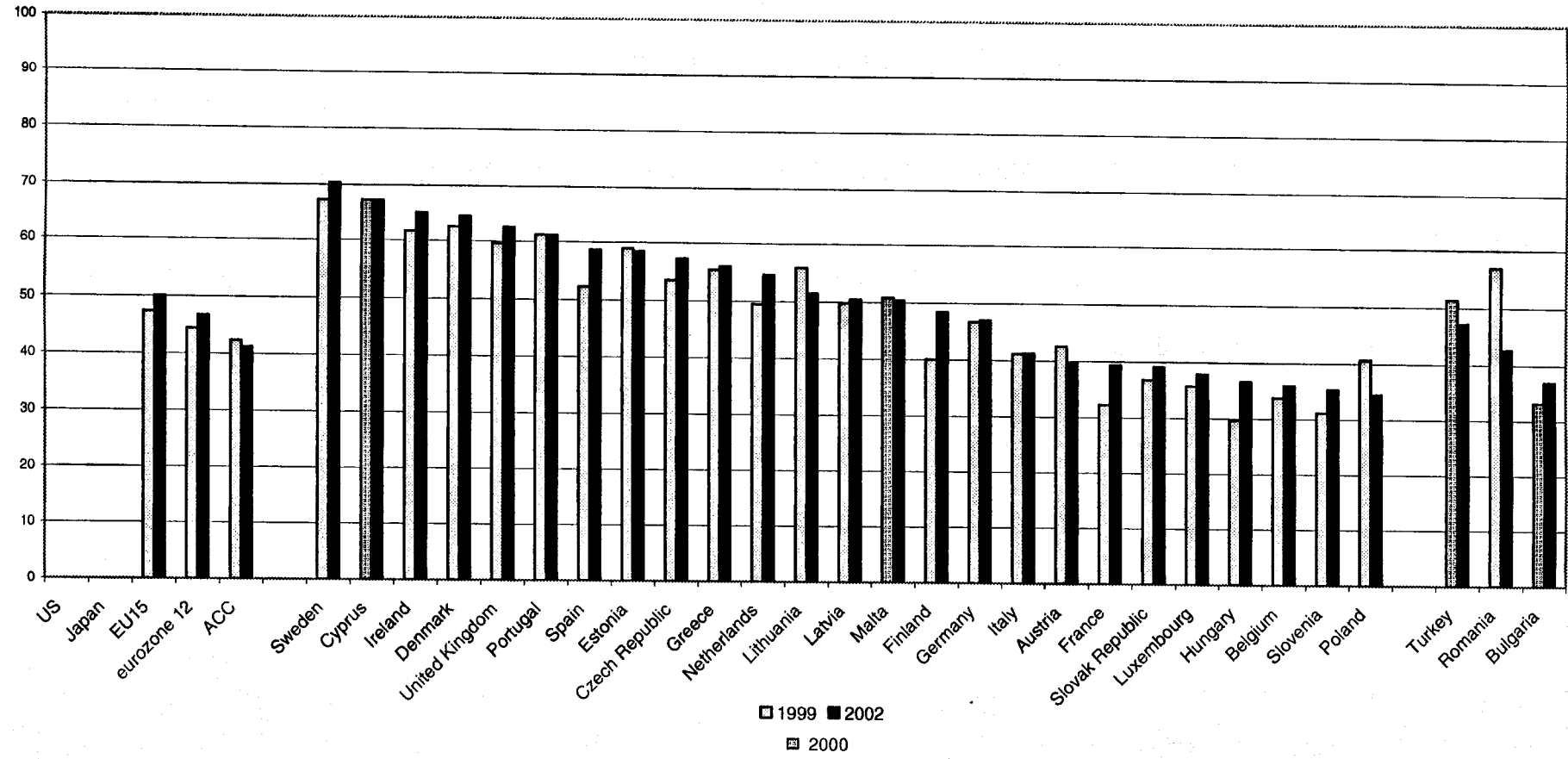
Indicator 4.2 Employment rate of older workers – females

Employed women aged 55-64 as a share of the total female population of the same age group



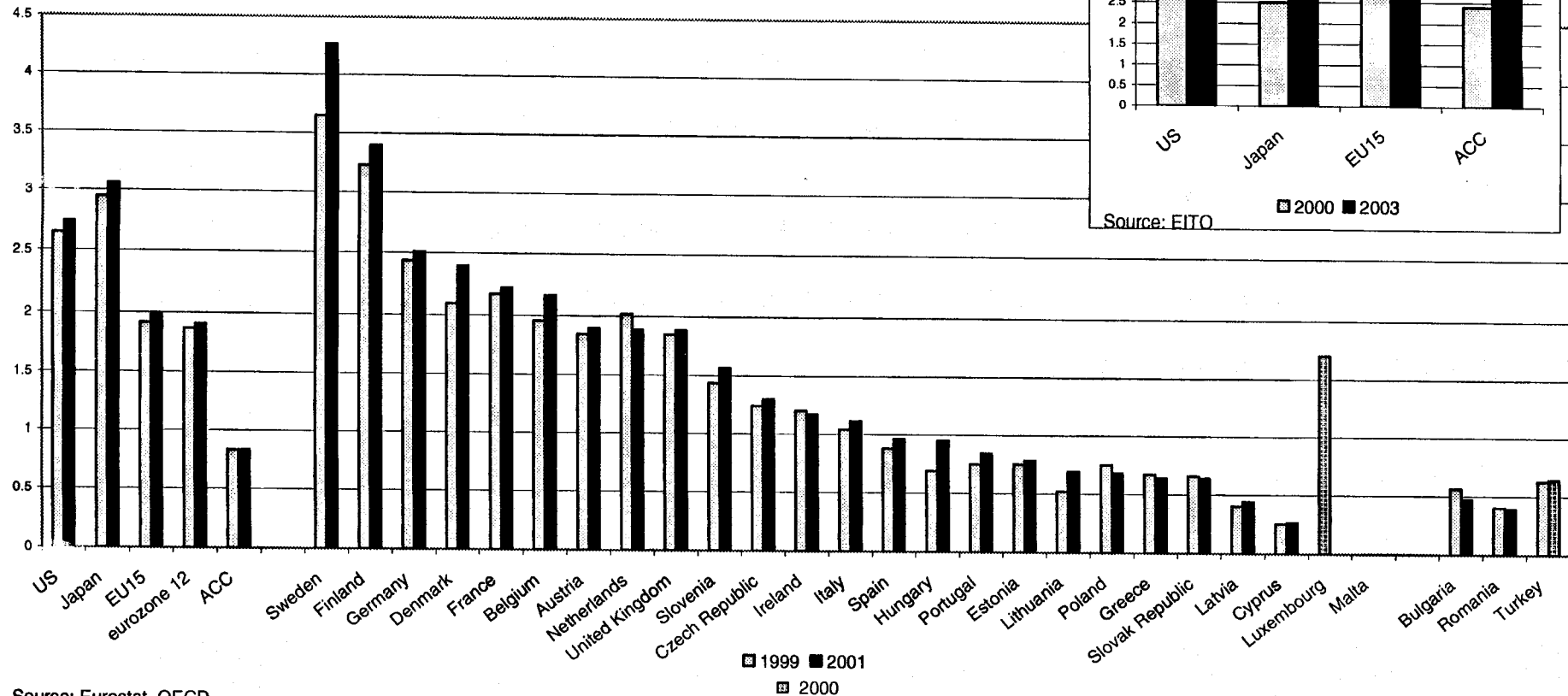
Source: Eurostat

EMPLOYMENT
Indicator 4.3 Employment rate of older workers – males
 Employed men aged 55-64 as a share of the total male population of the same age group



Source: Eurostat

INNOVATION AND RESEARCH
Indicator 5 GERD (Gross domestic expenditure on R&D)
 As a percentage of GDP



Source: Eurostat, OECD

Notes:

US: excludes most or all capital expenditure.

EU15, Eurozone12, ACC (without Malta): OECD estimate

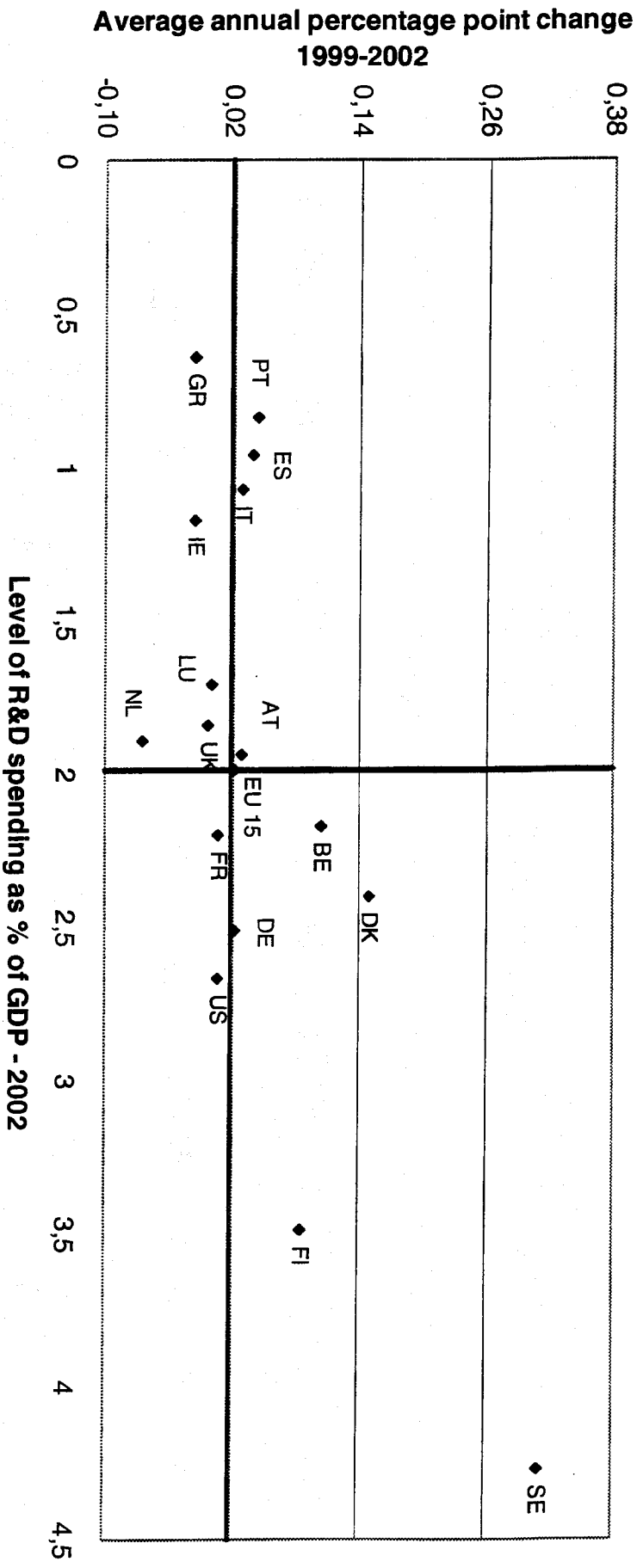
Austria: provisional estimate for 2001, 1999; Belgium, Greece: estimate for 2001, 1999

France: provisional for 2001; Portugal: estimate for 2001

Ireland: estimate for 1999

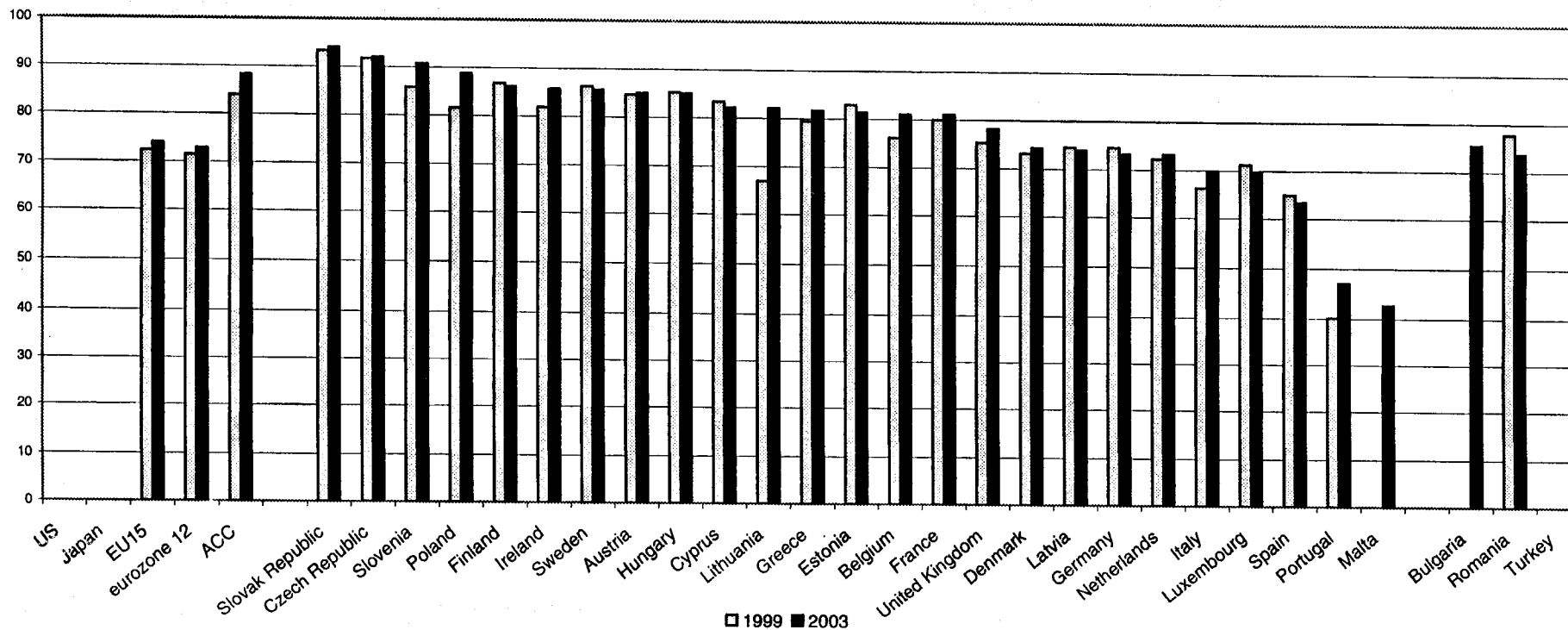
2002 available for US (OECD estimate): 2.67; EU-15 (OECD estimate): 1.99; Austria (provisional estimate): 1.94; Finland (forecast): 3.49; France (estimate): 2.2; Germany (estimate): 2.51; UK (forecast): 1.84; Slovak Republic 0.59

Evolution of R&D spending 1999-2002



Source: Eurostat structural indicators

INNOVATION AND RESEARCH
Indicator 6.1 Youth education attainment level - total
 Percentage of the population aged 20 to 24 having completed at least upper secondary education



Source: Eurostat

Notes:

EU15, Eurozone12, ACC, United Kingdom: provisional for 1999 and 2003

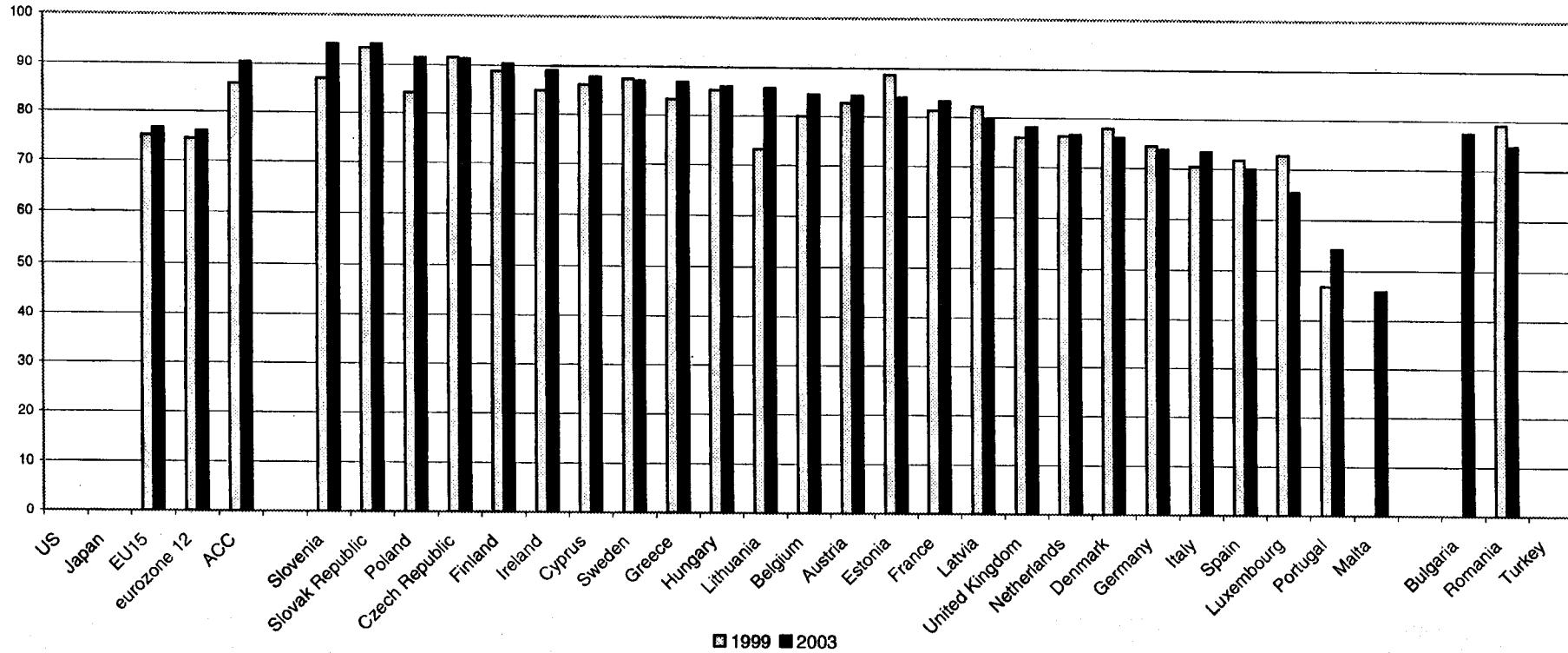
Belgium, Germany, France, Luxembourg, Netherlands, Austria, Finland, Poland: provisional for 2003; Malta: estimates for 2003

Denmark and Hungary: 2003 break in series

ACC and Poland: Poland data for 1999 refer to quarter 1.

Cyprus: students studying abroad are not covered

INNOVATION AND RESEARCH
Indicator 6.2 Youth education attainment level - females
 Percentage of the female population aged 20 to 24 having completed at least upper secondary education



Source: Eurostat

Notes:

EU15, Eurozone12, ACC, United Kingdom: provisional for 1999 and 2003

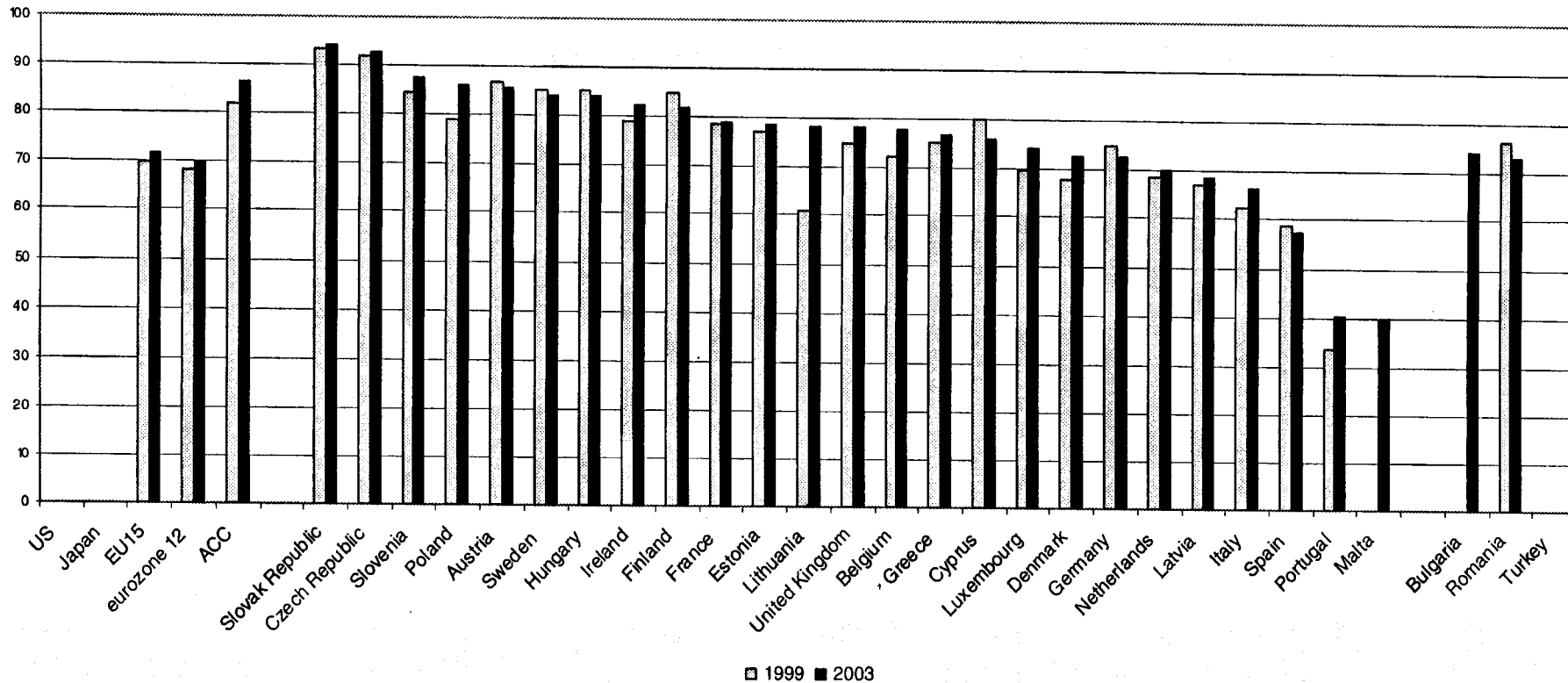
Belgium, Germany, France, Luxembourg, Netherlands, Austria, Finland, Poland: provisional for 2003; Malta: estimates for 2003

Denmark and Hungary: 2003 break in series

ACC and Poland: Poland data for 1999 refer to quarter 1.

Cyprus: students studying abroad are not covered

INNOVATION AND RESEARCH
Indicator 6.3 Youth education attainment level - males
 Percentage of the male population aged 20 to 24 having completed at least upper secondary education



Source: Eurostat

Notes:

EU15, Eurozone12, ACC, United Kingdom: provisional for 1999 and 2003

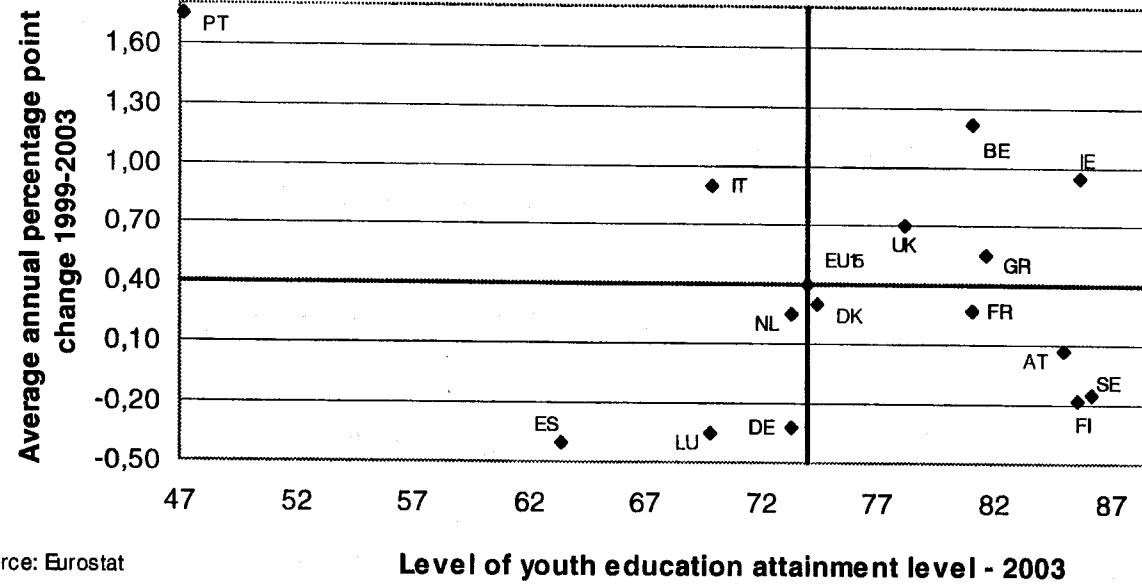
Belgium, Germany, France, Luxembourg, Netherlands, Austria, Finland, Poland: provisional for 2003; Malta: estimates for 2003

Denmark and Hungary: 2003 break in series

ACC and Poland: Poland data for 1999 refer to quarter 1.

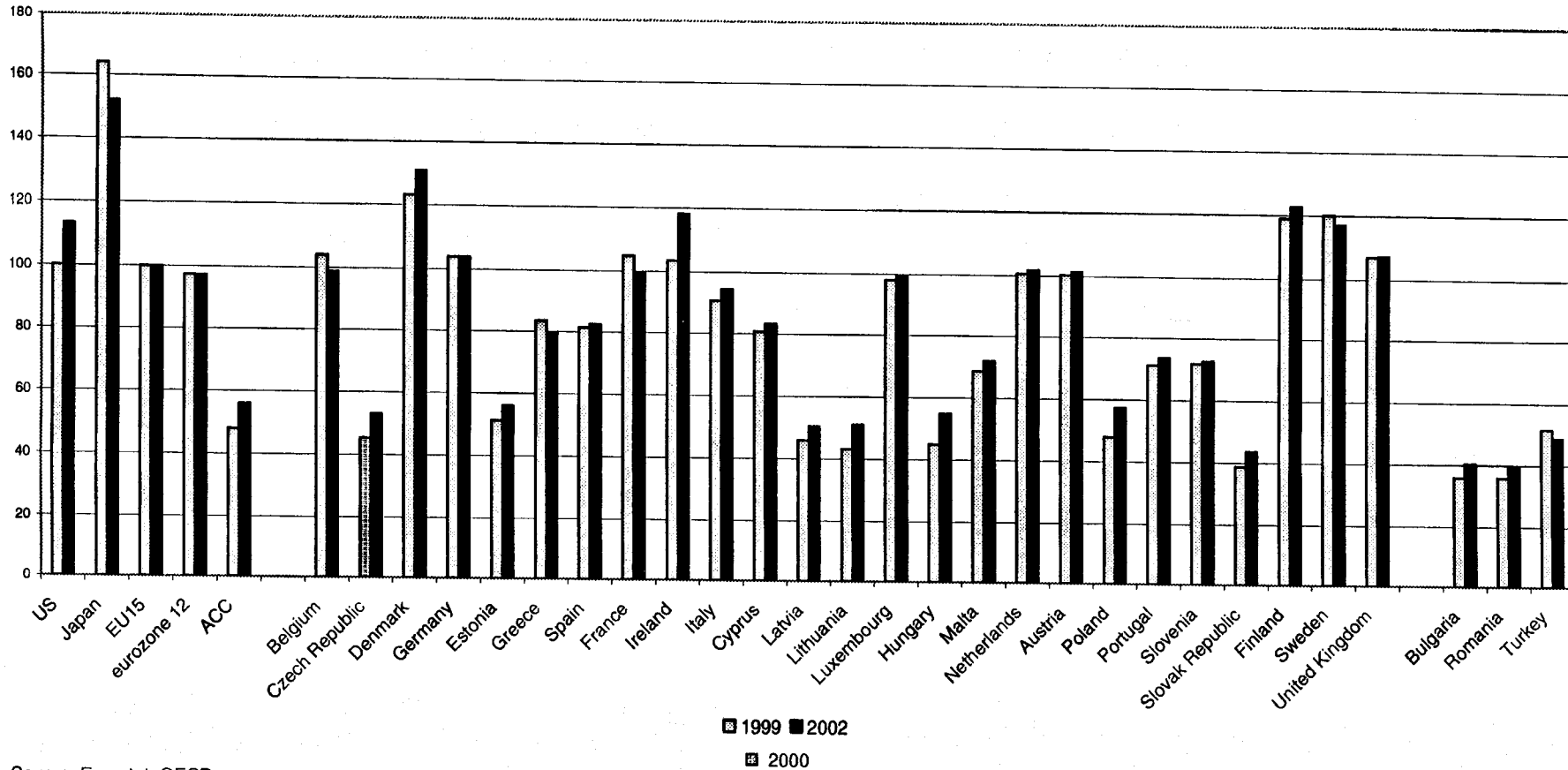
Cyprus: students studying abroad are not covered

Evolution of youth education attainment level 1999-2003



Source: Eurostat

ECONOMIC REFORM
Indicator 7 Comparative price levels
 Comparative price levels of final consumption by private households including indirect taxes (EU-15=100)

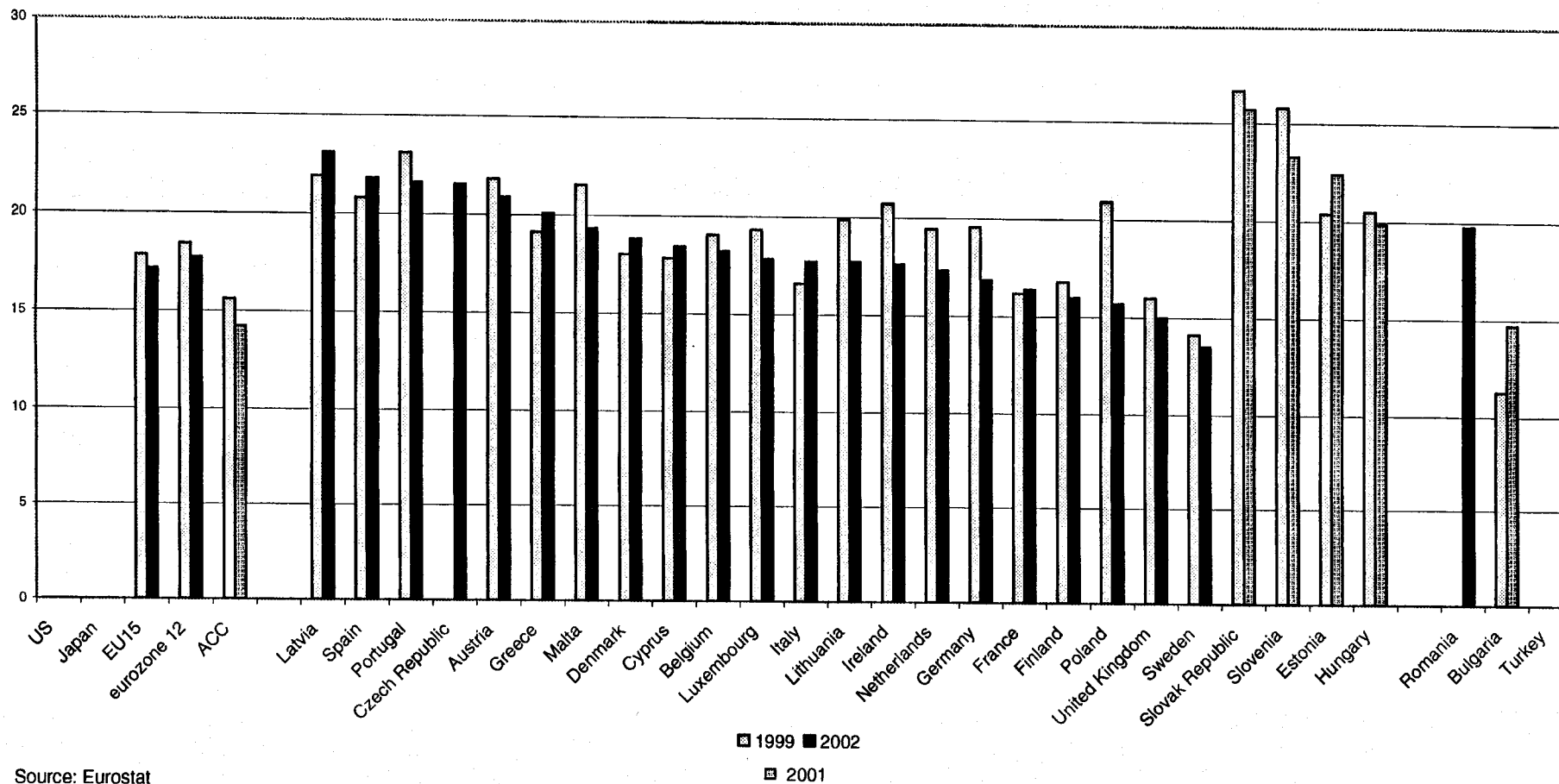


Source: Eurostat, OECD

Notes:

2002: provisional

ECONOMIC REFORM
Indicator 8 Business Investment
 Gross fixed capital formation by the private sector as a percentage of GDP

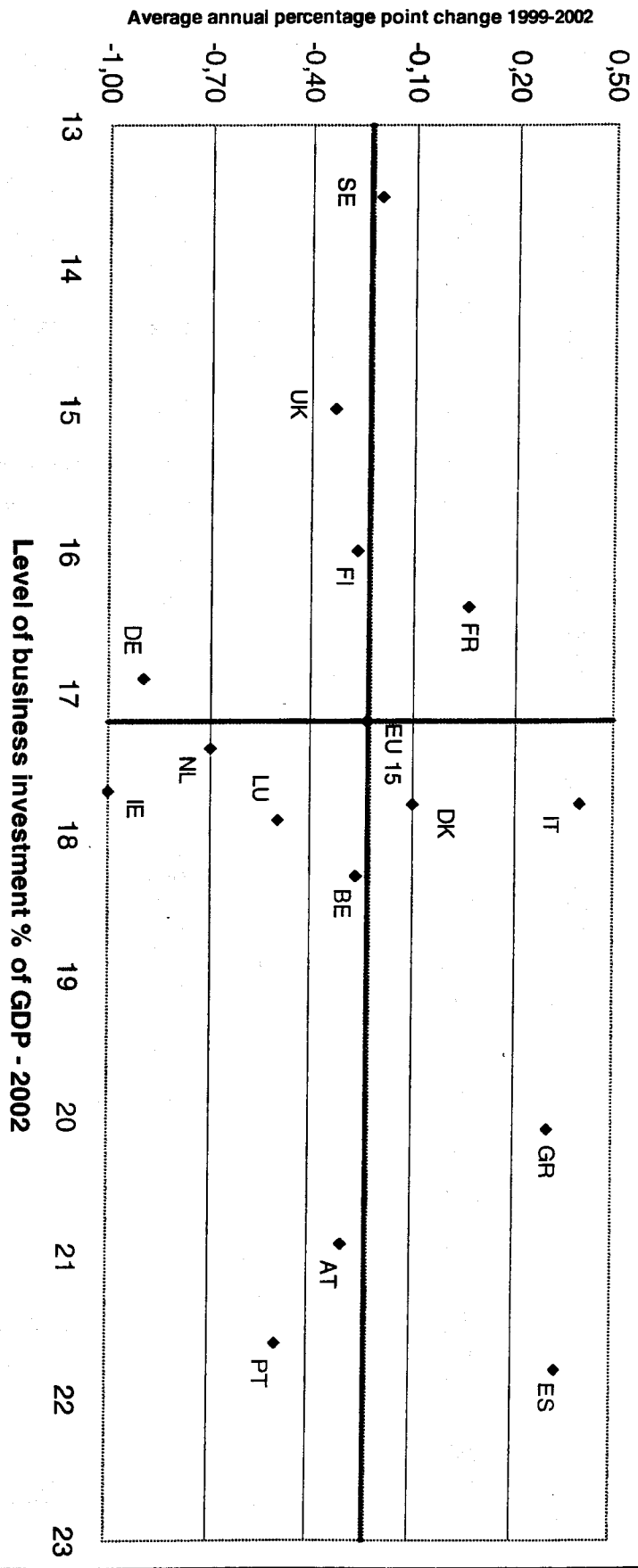


Source: Eurostat

Notes:

ACC: Eurostat estimate for 1999

Evolution of business investment 1999-2002

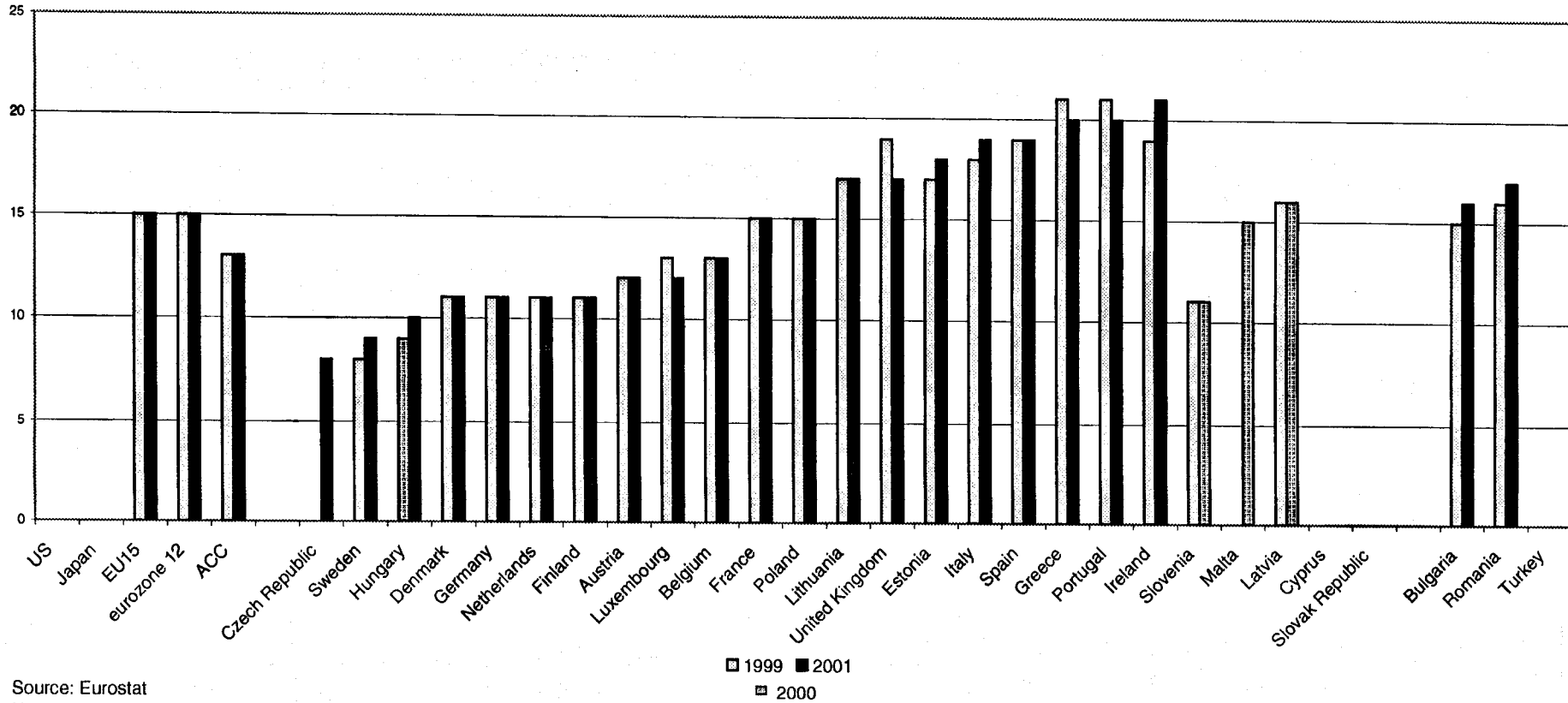


Source: Eurostat structural indicators

SOCIAL COHESION

Indicator 9.1 At-risk-of-poverty rate after social transfers – total

The share of persons with an equivalised disposable income below the risk-of-poverty threshold, which is set at 60% of the national median equivalised disposable income



Source: Eurostat

Notes:

The indicator for Sweden may not be fully comparable with those for other EU member states.

The indicator for the Candidate Countries cannot be considered to be fully comparable with the EU ones, or between Candidate Countries due to the differences of underlying data sources.

EU15, Eurozone12, ACC: Eurostat estimate

Cyprus: figure for 1997: 16

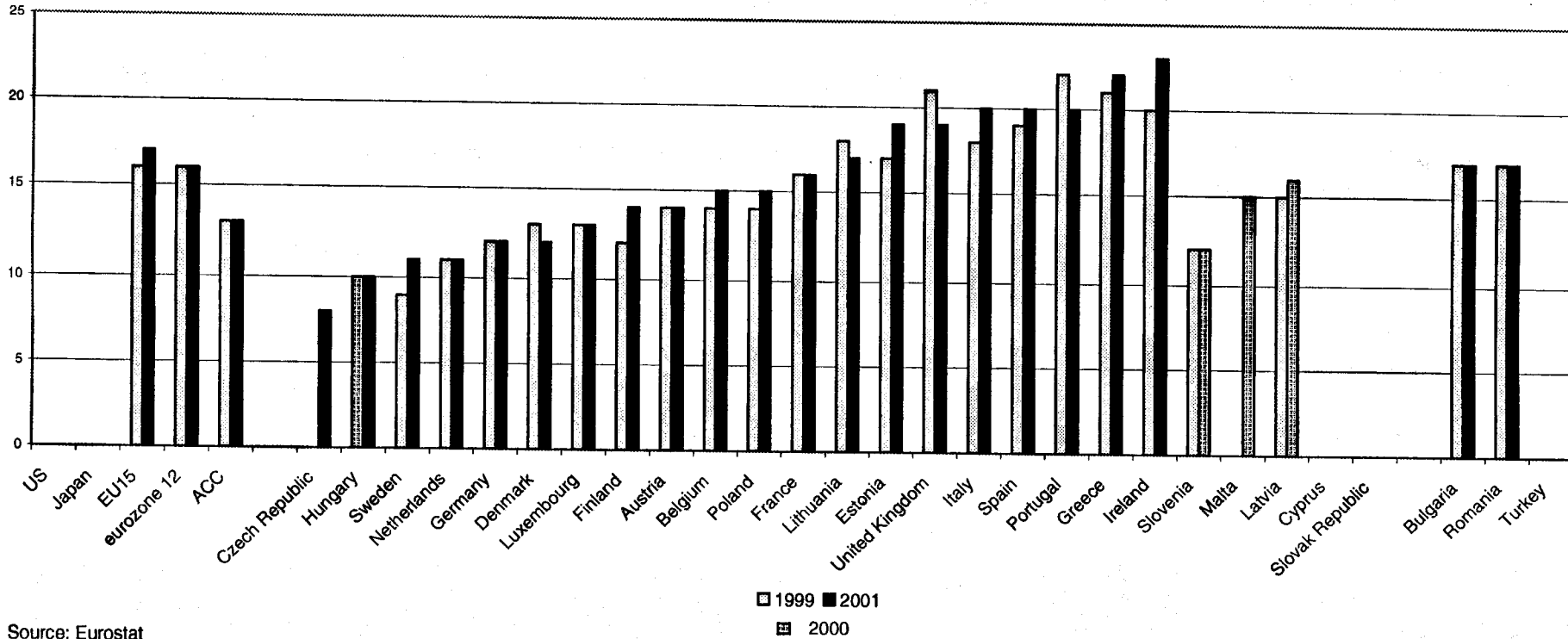
Slovak Republic: figure for 1996: 11, figure for 2003: 5

Turkey: figure for 1994: 23, figure for 2002: 25

SOCIAL COHESION

Indicator 9.2 At-risk-of-poverty rate after social transfers – females

The share of women with an equivalised disposable income below the risk-of-poverty threshold, which is set at 60% of the national median equivalised disposable income



Source: Eurostat

Notes:

The indicator for Sweden may not be fully comparable with those for other EU member states.

The indicator for the Candidate Countries cannot be considered to be fully comparable with the EU ones, or between Candidate Countries due to the differences of underlying data sources.

EU15, Eurozone12, ACC: Eurostat estimate

Cyprus: figure for 1997: 18

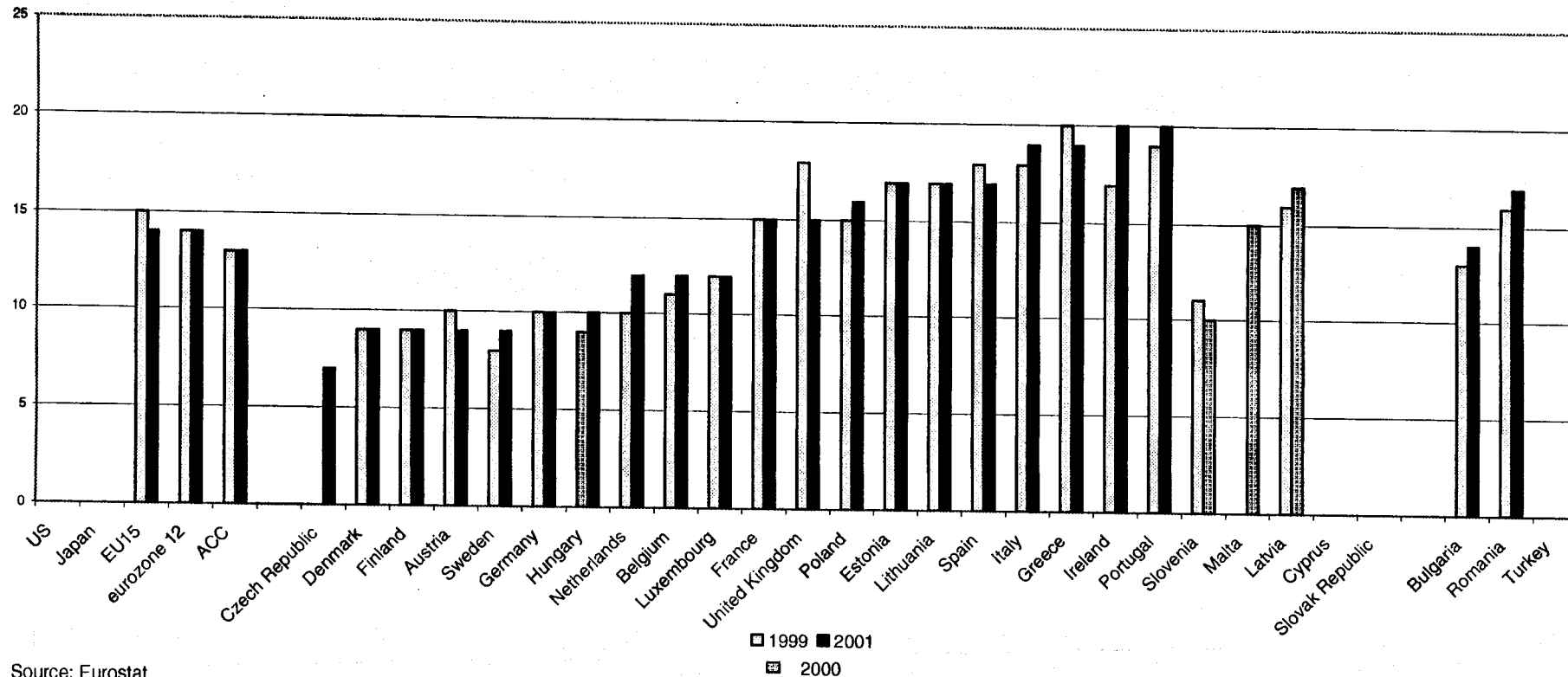
Slovak Republik: figure for 1996: 16, figure for 2003: 12

Turkey: figure for 1994: 24, figure for 2002: 26

SOCIAL COHESION

Indicator 9.3 At-risk-of-poverty rate after social transfers – males

The share of men with an equivalised disposable income below the risk-of-poverty threshold, which is set at 60% of the national median equivalised disposable income



Source: Eurostat

Notes:

The indicator for Sweden may not be fully comparable with those for other EU member states.

The indicator for the Candidate Countries cannot be considered to be fully comparable with the EU ones, or between Candidate Countries due to the differences of underlying data sources.

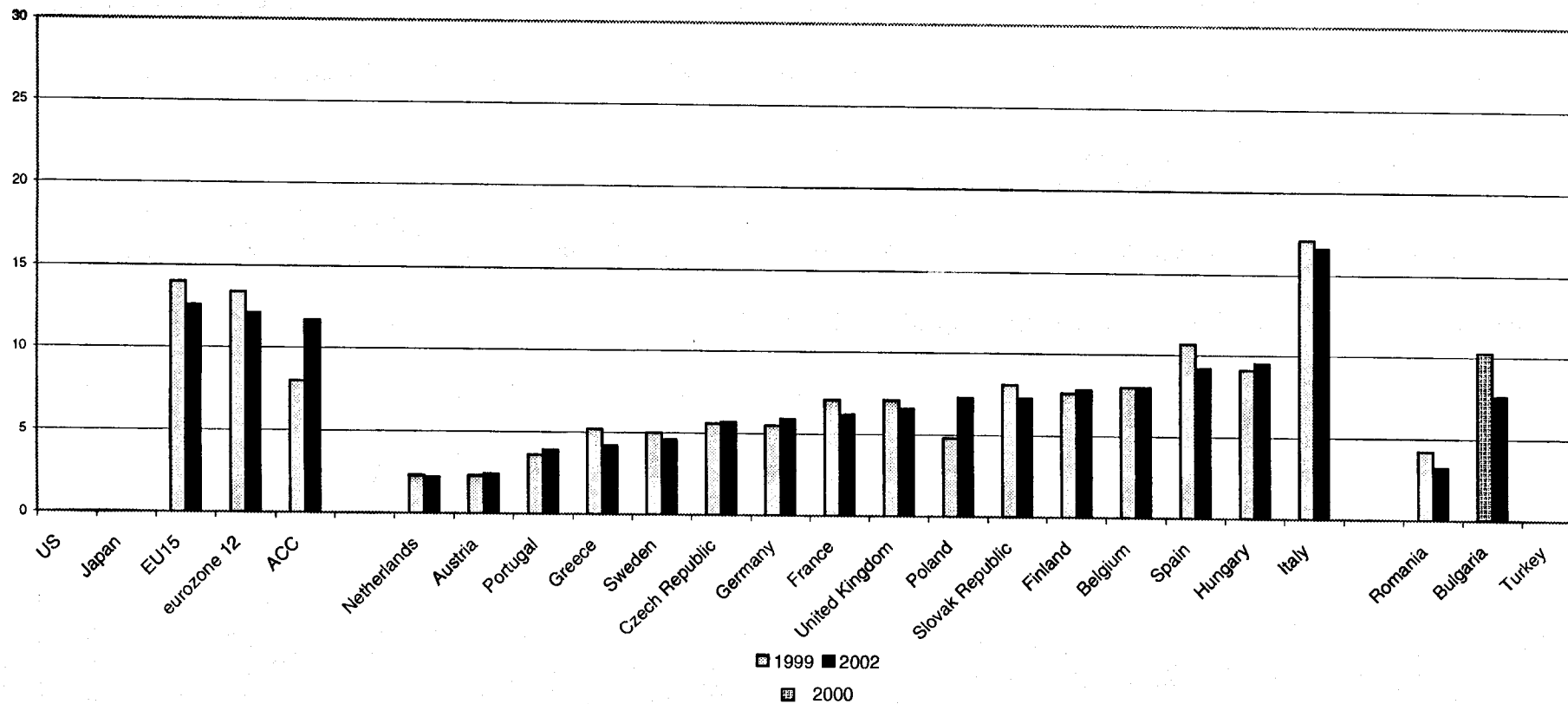
EU15, Eurozone12, ACC: Eurostat estimate

Cyprus: figure for 1997: 15

Slovak Republic figure for 1996: 10, figure for 2003: 3

Turkey: figure for 1994: 23, figure for 2002: 25

SOCIAL COHESION
Indicator 10.1 Dispersion of regional employment rates - total
 Coefficient of variation of employment rates across regions (NUTS 2 level) within countries

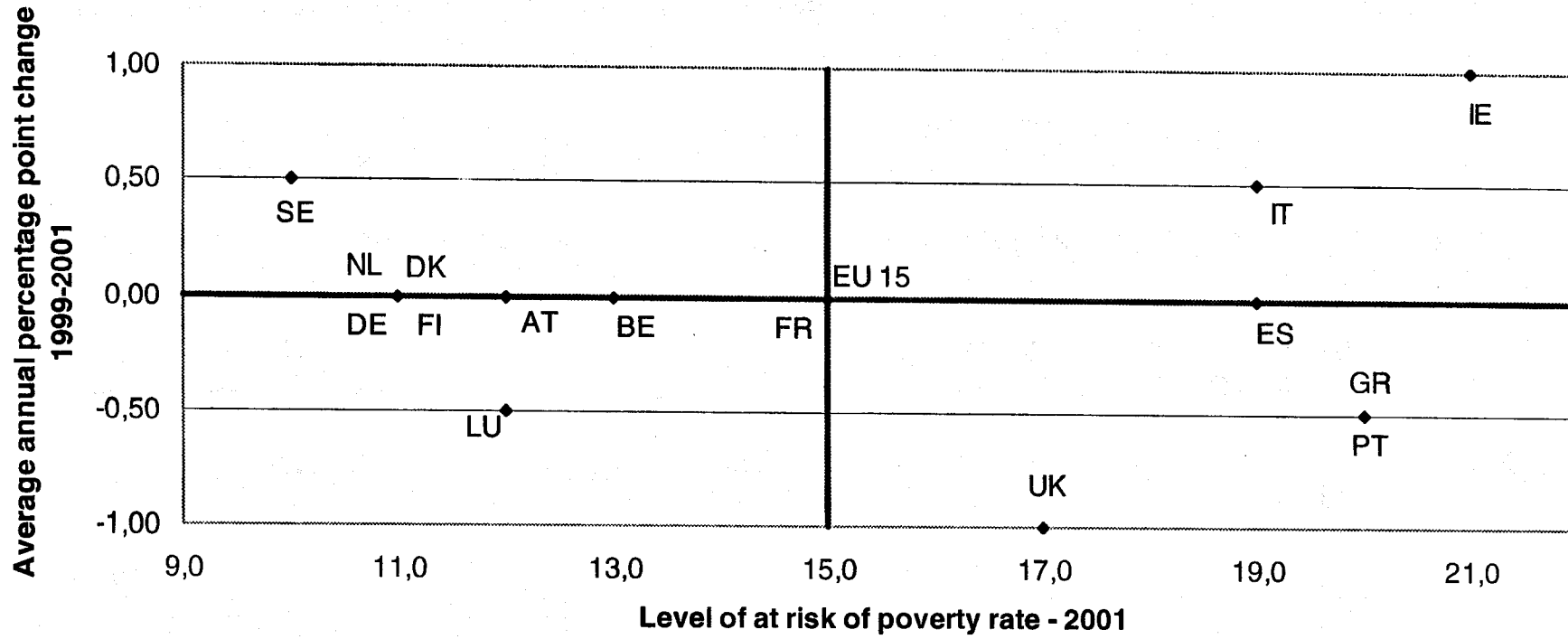


Source: Eurostat

Notes:

Not relevant for Denmark, Ireland, Luxembourg, Cyprus, Estonia, Lithuania, Latvia, Malta, Slovenia

Evolution of the at risk of poverty rate 1999-2001

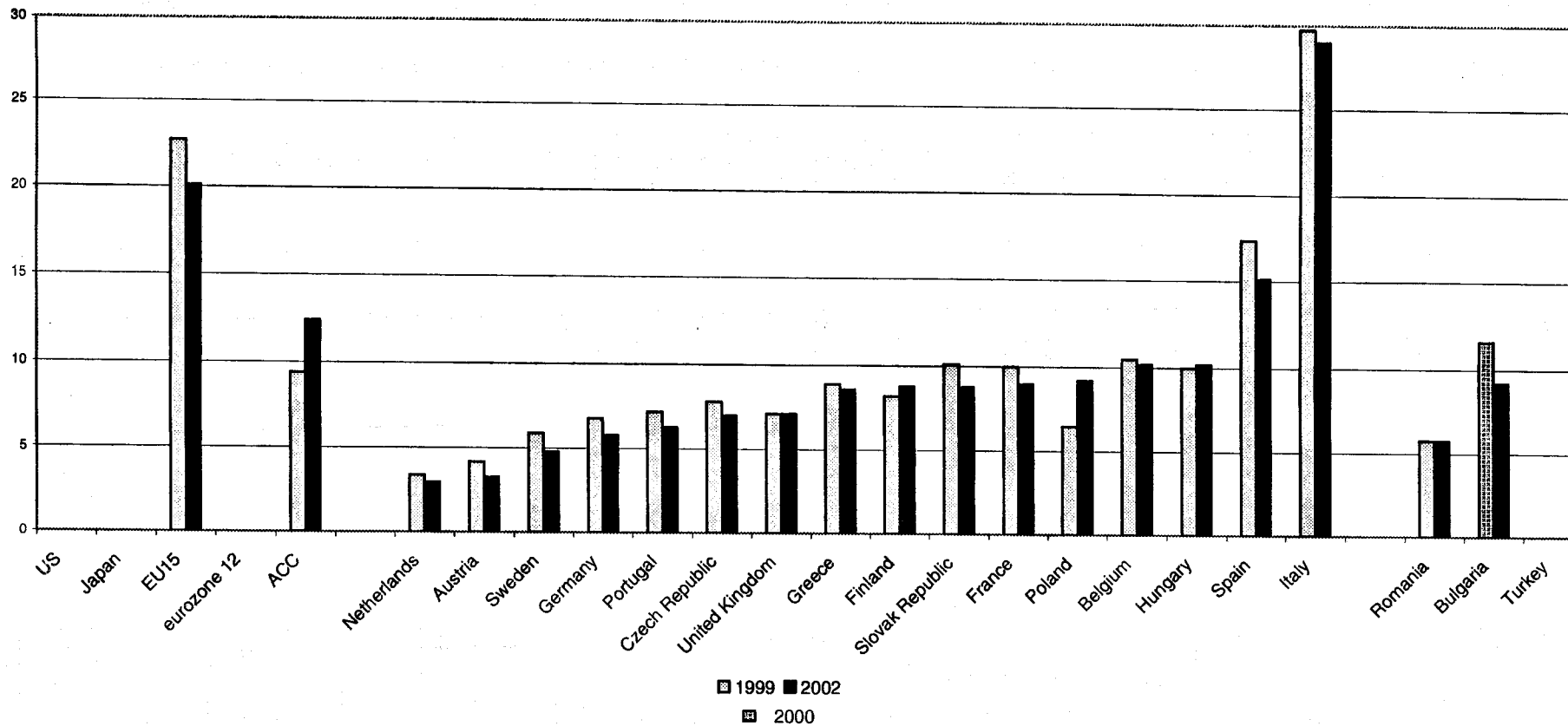


Source: Eurostat structural indicators

SOCIAL COHESION

Indicator 10.2 Dispersion of regional employment rates - females

Coefficient of variation of employment rates of women across regions (NUTS 2 level) within countries

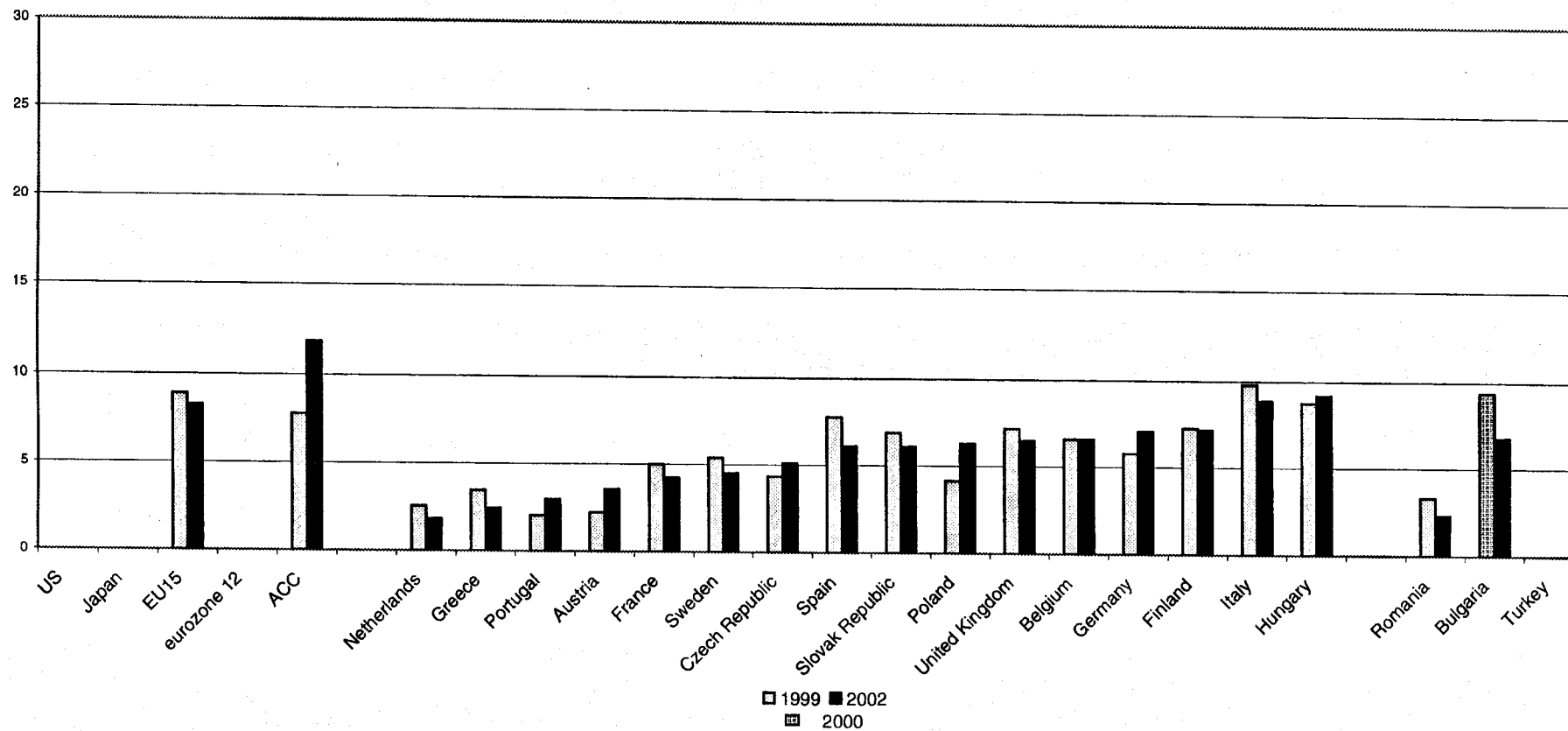


Source: Eurostat

Notes:

Not relevant for Denmark, Ireland, Luxembourg, Cyprus, Estonia, Lithuania, Latvia, Malta, Slovenia

SOCIAL COHESION
Indicator 10.3 Dispersion of regional employment rates - males
 Coefficient of variation of employment rates of men across regions (NUTS 2 level) within countries

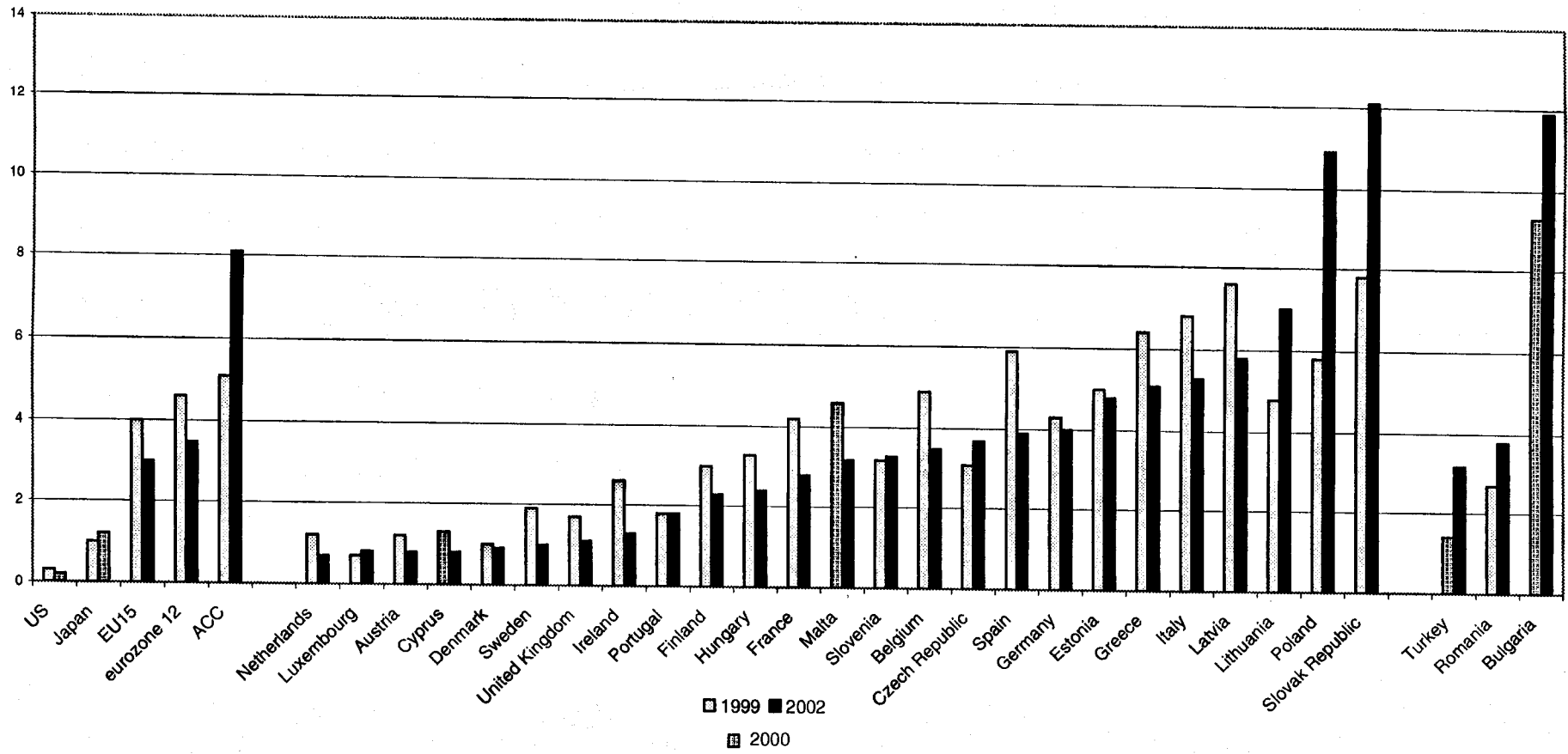


Source: Eurostat

Notes:

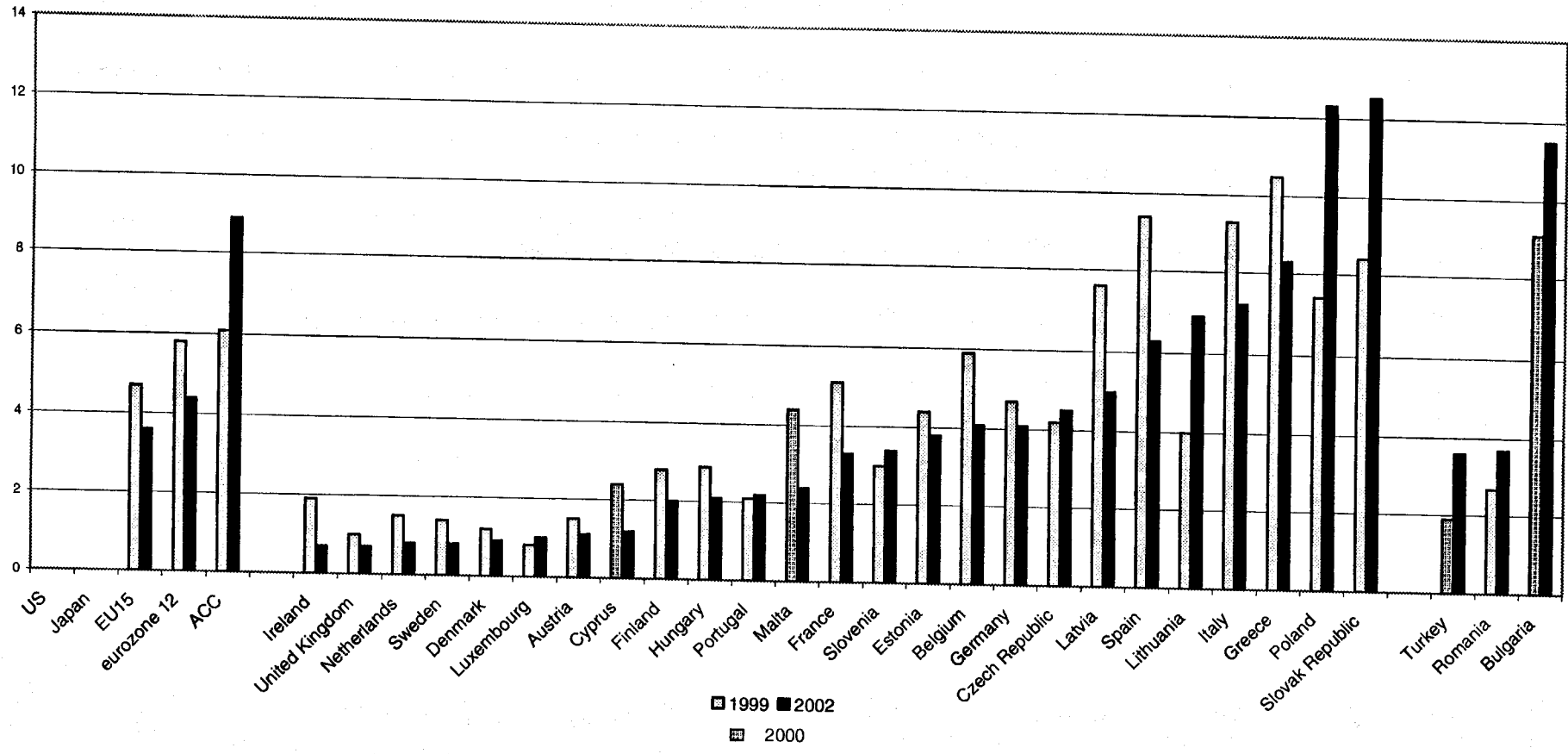
Not relevant for Denmark, Ireland, Luxembourg, Cyprus, Estonia, Lithuania, Latvia, Malta, Slovenia

SOCIAL COHESION
Indicator 11.1 Total long-term unemployment rate
 Long-term unemployed (12 months and more) as a percentage of the total active population



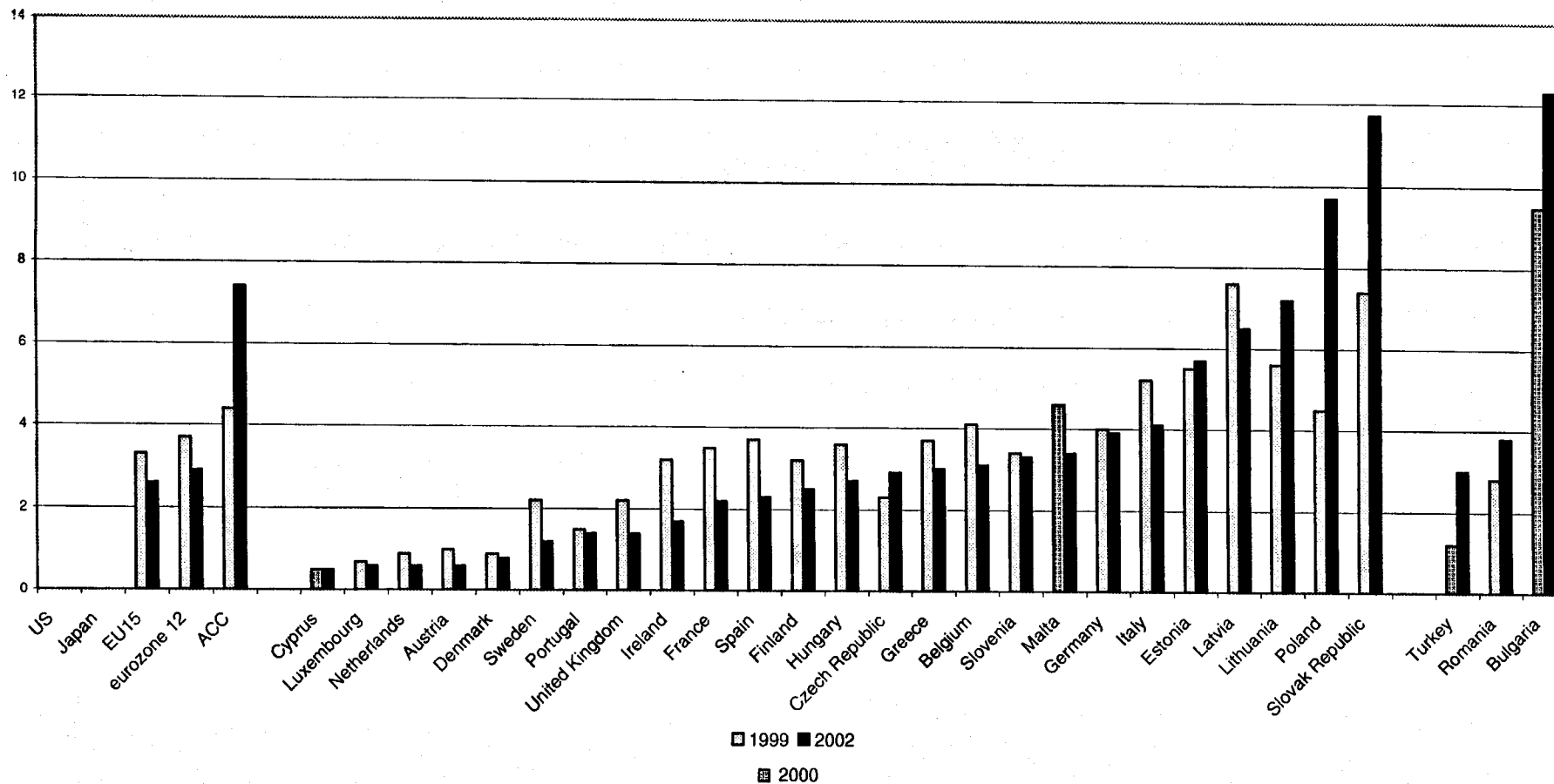
Source: Eurostat

SOCIAL COHESION
Indicator 11.2 Long-term unemployment rate - females
 Long-term unemployed women (12 months and more) as a percentage of the female active population



Source: Eurostat

SOCIAL COHESION
Indicator 11.3 Long-term unemployment rate - males
 Long-term unemployed men (12 months and more) as a percentage of the male active population

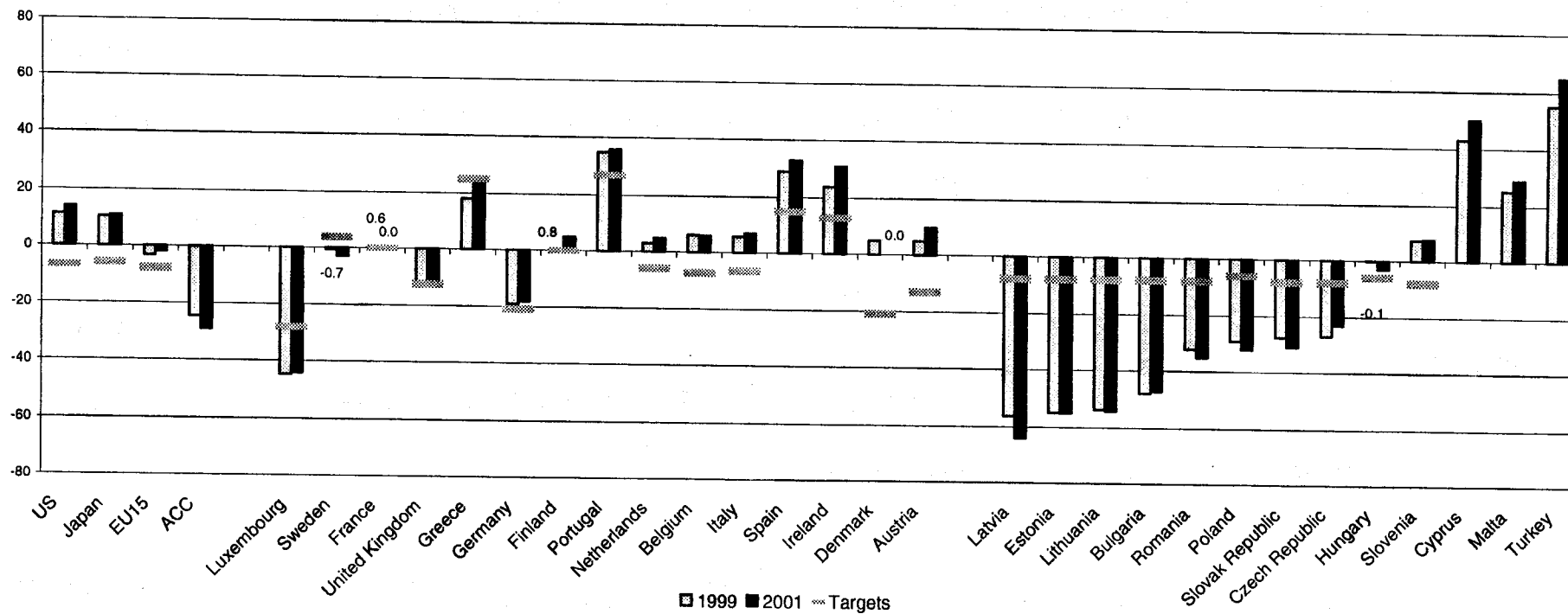


Source: Eurostat

ENVIRONMENT

Indicator 12 Total greenhouse gas emissions

Percentage change since base year and targets according to Kyoto Protocol/EU Council Decision for 2008-2012 (in CO₂ equivalents). Indexed on actual base year=100



Sources: European Environment Agency, European Topic Centre on Air and Climate Change

Notes:

Countries are sorted according to the distance to their targets. For Member States targets are established under the EU Burden Sharing Agreement (Council Decision 2002/358/EC).

Total GHG emissions comprise the Kyoto basket of 6 greenhouse gases; CO₂, CH₄, N₂O, HFCs, PFCs and SF₆.

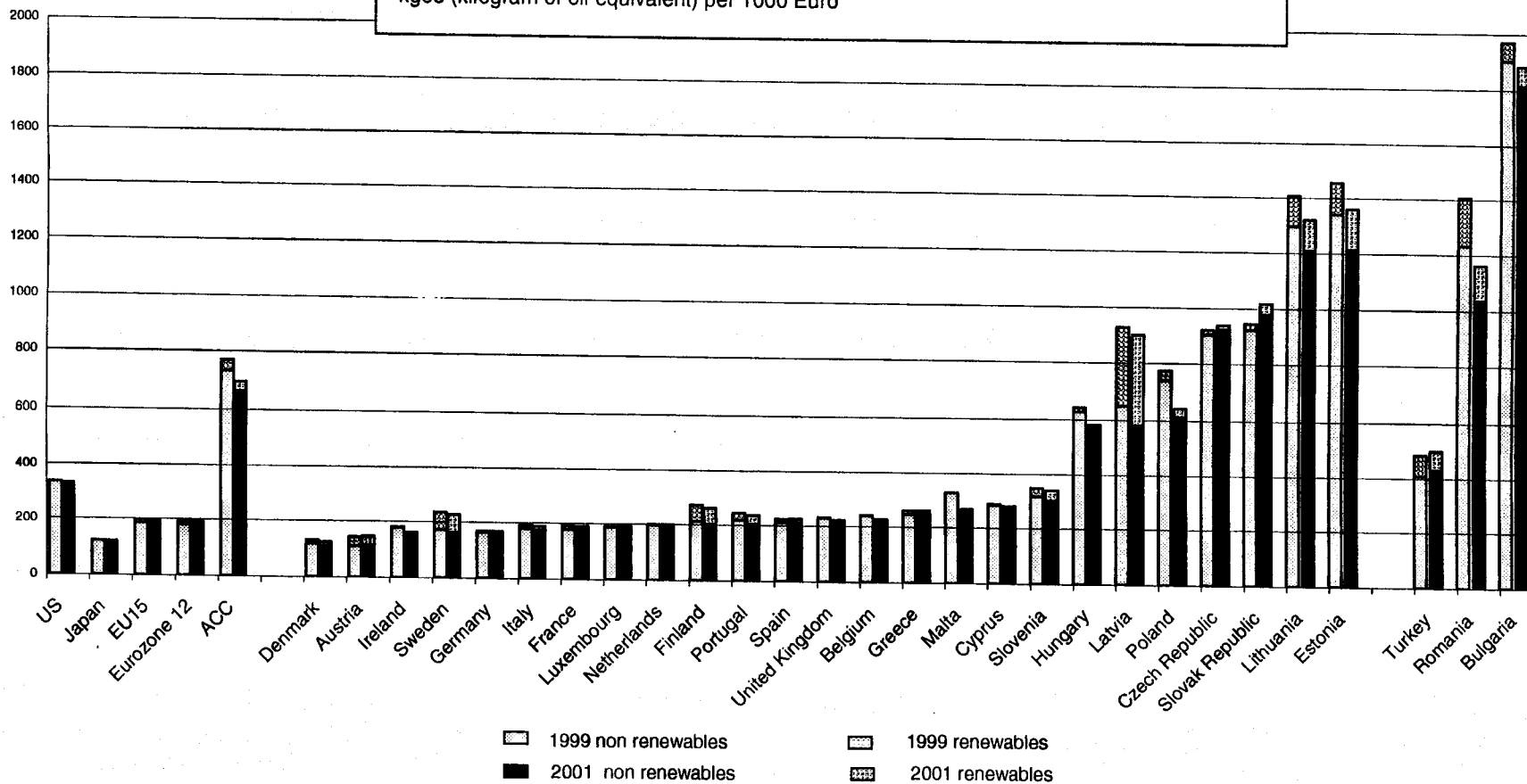
Data exclude emissions and removals due to land use change and forestry (LUCF).

ENVIRONMENT

Indicator 13 Energy intensity of the economy

Gross inland consumption of energy divided by GDP (at constant prices, 1995=100)

- kgoe (kilogram of oil equivalent) per 1000 Euro



Source: Eurostat

Notes:

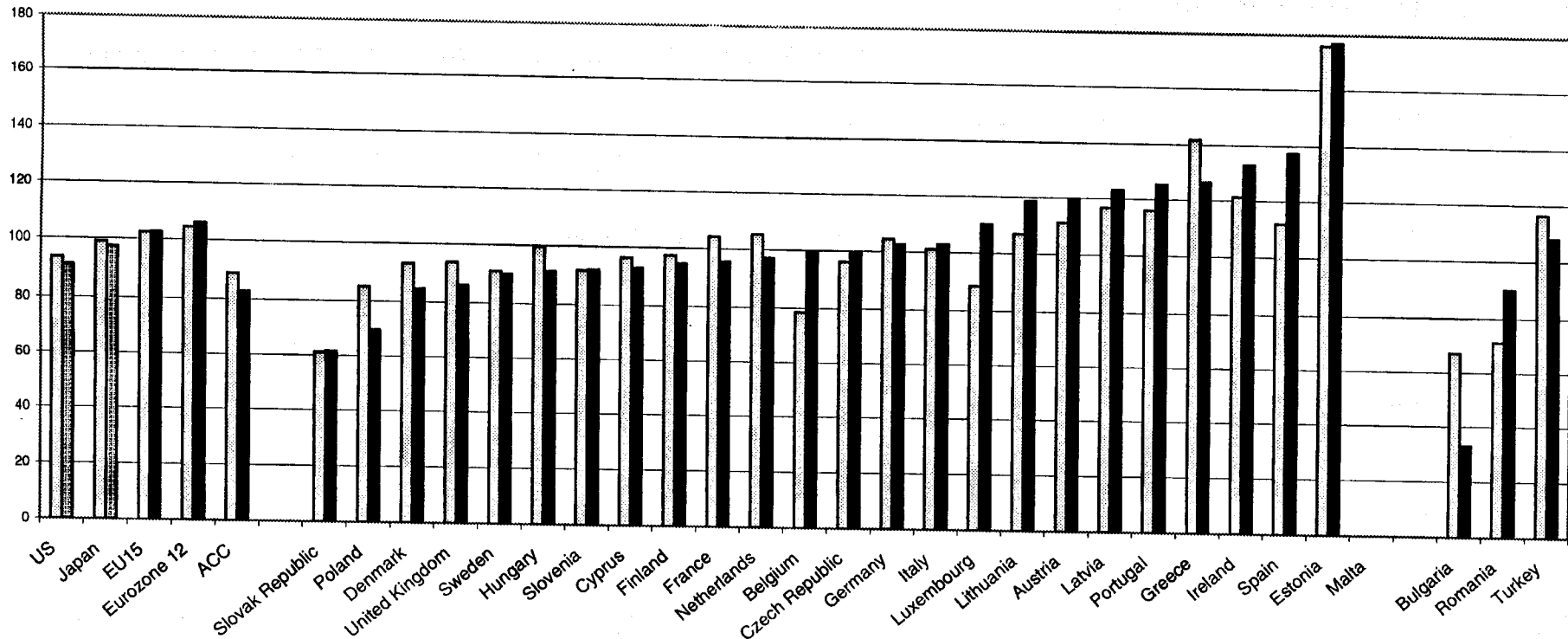
EU15, Eurozone 12, Germany, Italy, Netherlands, Spain: provisional for 2001

ACC : provisional for 1999

ENVIRONMENT

Indicator 14 Transport - Volume of freight transport relative to GDP

Index of inland freight transport volume relative to GDP, measured in tonne-km / GDP (in constant 1995 Euro), 1995=100



Source: Eurostat

Notes:

Includes road, rail and inland waterways.

Greece, Sweden, Cyprus, Slovenia, Bulgaria: estimate for 1999

Belgium, Greece, Italy, Luxembourg, Portugal, UK, Poland : estimate for 2002

■ 1999 ■ 2002

■ 2001

Graph 15: Relative performance of the 15 Member States according to the structural indicators on the shortlist

Levels		at	be	de	dk	es	fi	fr	gr	ie	it	lu	nl	pt	se	uk	eu15	us
GDP per capita in PPS (EU 15 = 100)	2003	110,9	106,5	99,3	112,6	87,3	101	103,5	73,5	87,2	98,4	100	109,4	69,2	104,4	108,7	100	138,5
Labour productivity (EU 15 = 100)	2003	97,9	95,7	95,7	98,3	95,7	100,1	103,5	91,8	122,7	106	100	95,6	63,8	96,1	97	100	120
Employment rate (%)	2002	69,3	59,9	65,3	72,7	58,4	68,1	63	56,7	65,3	55,5	63,7	67,7	68,2	74,5	71,5	64,3	71,9
Employment rate of older workers (%)	2002	30	26,4	38,6	42,3	39,7	47,8	34,8	39,7	48,1	28,9	29,3	42,3	39,1	35	39,7	40,1	59,5
Educational attainment (20-24) (%)	2003	81,1	81,1	73,3	74,4	63,4	80,3	81,1	81,7	62,7	69,9	69,8	73,3	47,2	65,1	78,2	74	:
Research and development expenditure (% of GDP)	2002	1,9	2,2	2,5	2,4	1,0	1,5	2,2	0,8	1,2	1,1	1,7	1,9	0,8	1,1	1,8	2,0	2,7
Business investment (% GDP)	2002	18,3	18,3	16,9	17,8	11,3	16	16,4	11,3	17,7	17,8	17,9	17,4	21,4	13,5	15	17,2	:
Comparative price levels (EU 15 =100) ¹	2002	100	99	104	131	92	123	100	80	118	95	100	102	74	117	107	100	113
At-risk-of-poverty rate (%)	2001	12,0	13,0	11,0	11,0	19,0	11,0	15,0	20,0	21,0	19,0	12,0	11,0	20,0	10,0	17,0	15,0	:
Long-term unemployment (%)	2002	3,3	3,5	4	0,9	3,9	2,3	2,8	6,1	1,3	5,8	3,8	0,7	1,8	1	1,1	3	0,3
Dispersion of regional employment rates	2002	2,1	8	5,9	n.r	9,2	7,8	6,2	4,2	n.r	16,6	n.r	2,1	3,9	4,6	6,6	12,6	:
Greenhouse gases emissions (Index base year=100) ²	2001	110	106	97	100	133	105	100	126	131	107	100	105	136	107	100	98	114
Energy intensity of the economy	2001	146	228	168	145	227	263	189	261	161	188	191	201	238	229	225	194,2	330,1
Volume of transport	2002	120	100	102	100	137	95	96	127	133	103	110	97	126	100	100	102,4	91,3

1. Analysis takes into account relation between GDP per capita and comparative price levels. 2. Analysis based on distance to target indicators for the Kyoto Protocol and burden sharing targets of the EU Member States. N.r: not relevant.

Graph 16: Relative improvement in the performance of the 15 Member States according to the structural indicators on the shortlist

Evolution		at	be	de	dk	es	fi	fr	gr	ie	it	lu	nl	pt	se	uk	eu15	us
GDP per capita	Average annual real growth rate 1999-2003 (%)	1,4	1,1	0,8	1,2	2,1	2,3	1,3	1,1	1,1	1,2	2,1	0,3	0,6	1,8	2,5	1,4	1,2
Labour productivity	Average annual real growth rate 1999-2003 (%)	1,2	0,6	0,8	1,6	0,6	1,4	0,4	1,0	0,5	-0,1	-0,7	-0,1	0,0	1,0	1,7	0,7	1,8
Employment rate	Average annual percentage point change 1999-2002	0,2	0,2	0,0	0,0	1,9	0,6	0,7	0,5	0,7	0,3	0,7	0,5	0,2	0,6	0,2	0,6	-0,7
Employment rate of older workers	Average annual percentage point change 1999-2002	0,1	0,7	0,3	1,1	1,6	2,9	2,7	0,2	1,5	0,4	0,6	2,1	0,2	1,4	1,3	1,0	0,6
Educational attainment (20-24)	Average annual percentage point change 1999-2003	0,1	1,2	-0,3	0,3	-0,4	-0,1	0,3	0,6	0,9	0,9	-0,4	0,3	1,4	-0,2	0,7	0,4	:
Research and development expenditure	Average annual percentage point change 1999-2002	0,03	0,1	0,02	0,15	0,04	0,07	0,01	-0,02	-0,02	0,03	0,00	-0,07	0,05	0,31	0,00	0,02	0,01
Business investment	Average annual percentage point change 1999-2002	-0,30	-0,27	-0,90	-0,10	-0,22	-0,27	0,07	0,41	-1,00	0,41	-0,50	-0,70	-0,50	-0,20	-0,33	-0,23	:
Comparative price levels ¹	Average annual percentage point change 1999-2002	0,4	2,5	0,0	2,5	0,4	1,2	1,7	1,5	4,9	1,3	0,5	0,4	0,8	0,5	0,0	0,0	4,4
At-risk-of-poverty rate	Average annual percentage point change 1999-2001	0,0	0,0	0,0	0,0	0,0	0,0	0,0	-0,5	1,0	0,5	-0,5	0,0	-0,5	0,5	0,0	0,0	:
Long-term unemployment	Average annual percentage point change 1999-2002	-0,1	0,1	-0,1	0,0	0,0	-0,2	0,1	-0,4	-0,4	-0,1	0,0	-0,2	0,0	-0,3	-0,2	-0,3	0,0
Dispersion of regional employment rates	Average annual percentage point change 1999-2002	0,0	0,0	0,1	n.r.	0,0	0,1	-0,3	-0,3	n.r.	-0,2	n.r.	0,0	0,1	-0,1	-0,2	-0,5	:
Greenhouse gases emissions ²	Average annual percentage point change 1999-2001	2,4	-0,1	0,5	2,0	2,0	2,1	-0,3	4,0	3,5	0,5	0,3	1,0	0,5	0,5	0,5	0,6	1,3
Energy intensity of the economy	Average annual percentage point change 1999-2001	1,4	0,5	-0,6	-3,6	0,2	0,5	-1,3	-0,6	1,2	-2,9	-0,9	-0,5	-4,7	-4,5	-4,8	-2,0	-4,1
Volume of transport	Average annual percentage point change 1999-2002	3,0	7,0	-0,6	-2,8	8,6	-0,9	-2,8	0,9	3,9	0,6	7,1	-2,6	3,2	-0,3	-2,5	0,0	-0,8

1. Analysis takes into account relation between GDP per capita and comparative price levels. 2. Analysis based on distance to target indicators for the Kyoto Protocol and burden sharing targets of the EU Member States. N.r.: not relevant.

ANNEX 2

MEMBER STATES SPECIFIC ACHIEVEMENTS AND SHORTCOMINGS IN VIEW OF LISBON OBJECTIVES

* The following tables present a brief picture of select Member State performances – both achievements and shortcomings – in view of the objectives of the Lisbon strategy. An entry is made for a Member State if it is amongst the three best or three less good performers in the EU, according to the shortlist of 14 Structural Indicators (see Annexe 1). Other entries are based on the country-specific assessments made in the following reports: *the Broad Economic Policy Guidelines Implementation Report (Com(2004) 20)* and *the Country Notes (SEC(2004) 44)*, *the Internal Market Implementation Report and notably the Scoreboard (Com(2004) 22)*, *the Education and Training 2010 Report (COM(2003) 685)*, and *the Environmental Policy Review (COM(2003) 745)*.

Achievements	<ul style="list-style-type: none"> ❖ Steadily declining GDP-debt ratio and high (although decreasing) surpluses ❖ Highest increase of youth educational attainment (1999-2003) ❖ Significant increase in R&D expenditure in 2001, and efforts to reach the 3% target ❖ Initiatives to reduce administrative burdens and encourage entrepreneurship 	<ul style="list-style-type: none"> ❖ Reform measures, including lowering tax on labour, to increase labour supply ❖ Highest total employment rate in the EU at 76%, highest female employment rate in the EU at over 71%, and second highest employment rate of older workers at 58% (2002 figures) ❖ Lowest overall transposition deficit, highest transposition rate for 'Lisbon' directives (85%), and no directives overdue by more than two years ❖ 2nd highest increase in gross domestic expenditure on R&D in 2001
Shortcomings	<ul style="list-style-type: none"> ➤ Lowest employment rate in the EU of persons aged 55-64 (25%) ➤ Highest increase since May 2003 in the transposition deficit for Internal Market directives, producing the largest transposition deficit (54 directives) ➤ Low effective competition in the energy market ➤ Low levels of participation in education and training 	<ul style="list-style-type: none"> ➤ Highest price level in the EU, with a significant increase between 2000 and 2002 ➤ Medium-term strategy for public finances in jeopardy due to size of public consumption ➤ Poor performances for Kyoto targets ➤ Disappointing levels of youth educational attainment

	GERMANY	GREECE
Achievements	<ul style="list-style-type: none"> ❖ Agenda 2010 – extensive restructuring of social security system with profound impact on labour and product markets ❖ Noticeable progress in the implementation of the 2003 labour market recommendations and modernisation of the vocational training system ❖ Reforms to improve entrepreneurship ❖ 3rd highest level in the EU of gross domestic expenditure on R&D in 2001 ❖ Among the best performances for Kyoto target and burden sharing indicators 	<ul style="list-style-type: none"> ❖ Highest growth rate in the EU for labour productivity (1999-2003) ❖ Measures aiming at increasing incentives to work and developing skills of the unemployed, and a significant increase in youth educational attainment (1999-2003) ❖ 2nd highest in business investment (1999-2002) with initiatives to promote ICT use and R&D spending and innovation, and efforts to simplify the business environment.
Shortcomings	<ul style="list-style-type: none"> ➤ Excessive deficit for several years, with repeated slippages in expenditures compared to the plans of the Stability Pact ➤ Lack of far-reaching reforms of the pension system ➤ High labour market rigidities and high unemployment ➤ Disappointing levels of youth educational attainment ➤ 2nd highest transposition deficit for Internal Market directives (more than double the 1.5% target) 	<ul style="list-style-type: none"> ➤ High debt with slow decline, despite high nominal GDP growth in last years ➤ 2nd lowest female employment rate in the EU, and 2nd highest long term unemployment ➤ Delayed follow-up on reforms in the social security and pension systems ➤ Effective competition in the energy sector not yet secured ➤ High transposition deficit for Internal Market directives

	SPAIN	FRANCE
Achievements	<ul style="list-style-type: none"> ❖ Highest growth in the employment rate since 1999, and highest decrease in the long term unemployment rate (1999- 2002), with measures taken to increase female employment rates ❖ 2nd lowest transposition deficit for Internal Market rules (well below the 1.5% target) ❖ Adoption of 'España.es 2004-2005' – package of measures for promotion and development of information society, with parallel promotion of internet access for citizens and SMEs ❖ Adoption of Limited Company Act, creating a simplified legal framework for establishment of small companies/SMEs 	<ul style="list-style-type: none"> ❖ Implementation of comprehensive pension reform ❖ Significant increase in employment rate for older persons (1999-2002) although employment rate for older workers remains amongst the lowest in the EU ❖ Significant decrease in relative price levels between 1999 and 2002 ❖ Well above EU average for youth educational attainment ❖ Good performance on Kyoto targets.
Shortcomings	<ul style="list-style-type: none"> ➤ Highest unemployment rate in EU at 11.3% in 2002, female employment rates more than 10 percentage points below EU average in 2002 , and excessive use of fixed-term contracts which hamper mobility ➤ No new reforms of the pensions system scheduled in the near future ➤ Decrease in the level of youth educational attainment (1999-2003) ➤ Effective competition in retail distribution still insufficient ➤ Among the poorest performers for Kyoto target and burden sharing indicators 	<ul style="list-style-type: none"> ➤ Excessive deficit for several years, with repeated slippages in expenditures compared to the plans of the Stability Pact; long term sustainability of public finances not secured ➤ Labour market reforms likely to be insufficient at this stage ➤ Market openings for gas and electricity remain low ➤ Highest transposition deficit on Internal Market directives combined with a high number of infringement cases

	IRELAND	ITALY
Achievements	<ul style="list-style-type: none"> ❖ Medium term growth rate at 5% ❖ High and increasing labour productivity – well above the EU average ❖ Significant decrease in the long term unemployment rate (1999-2002) ❖ Marked increase in youth educational attainment (1999-2003) ❖ Introduction of more competition in telecoms and public transport, and new competition rules for electricity and gas market ❖ Highest reduction of outstanding Internal Market directives since May 2003 (32 directives) 	<ul style="list-style-type: none"> ❖ Highest increase in business investment (1999- 2002) ❖ Medium-term pension reform plan announced in Autumn 2003 ❖ Measures taken to increase the flexibility of the labour market ❖ Reform of the primary and secondary level education system, implemented, and increase in the level of youth educational attainment (1999-2003) ❖ Reduction in Internal Market transposition, and among three best for transposition of ‘Lisbon’ directives
Shortcomings	<ul style="list-style-type: none"> ➤ Among poorest performance in EU for Kyoto target and burden sharing indicators ➤ Largest increase in price levels between 1999 and 2002 ➤ Below EU average for gross domestic expenditure on R&D ➤ Largest decline in business investment (1999-2002) 	<ul style="list-style-type: none"> ➤ Lowest total (55.5%) and female (42%) employment rate in the EU, with the highest rate of long term unemployment at 5.3% ➤ Significant decline in labour productivity between 1999 and 2003 ➤ Lasting budgetary consolidation still to be achieved and long term sustainability of public finances uncertain ➤ Slow liberalisation of the service sector and of the energy markets ➤ High number of infringements for misapplication of Internal Market rules and high transposition deficit on the Internal Market directives

LUXEMBOURG		NETHERLANDS
Achievements	<ul style="list-style-type: none"> ❖ Highest – although declining – relative labour productivity in the EU ❖ Very low long term unemployment ❖ Best performance in EU for Kyoto target and burden sharing indicators ❖ Highest increase in enterprise internet access in 2002 ❖ Initiatives taken to encourage entrepreneurship 	<ul style="list-style-type: none"> ❖ Substantial efforts taken to consolidate and make sustainable public finances in recent period of acute economic slowdown ❖ Very low long term unemployment ❖ Measures to enhance the flexibility of the labour market, including the creation of and Innovation Council ❖ Increased power given to Dutch Competition Authority in order to achieve increased effective competition ❖ On the right track to meet the Kyoto targets
Shortcomings	<ul style="list-style-type: none"> ➤ 3rd poorest performance in the EU for youth educational attainment, with performance levels in decline (1999-2003) ➤ Very low rate of employment for persons aged 55-64, with no concrete policy measures introduced ➤ Delays in reforming competition law ➤ High transposition deficit on Internal Market directives and highest number of transpositions 2 years overdue 	<ul style="list-style-type: none"> ➤ Weak labour productivity in recent years, due in part to losses in competitiveness but also to lack of competition in some sectors and declining specialisation in high-tech manufacturing ➤ Gender pay gap in private and public sector above EU average ➤ Declining gross domestic expenditure on R&D in 2001 ➤ 2nd highest Internal Market directives deficit increase since May 2003

	AUSTRIA	PORTUGAL
Achievements	<ul style="list-style-type: none"> ❖ Comprehensive reform of public pension system approved ❖ Very low long term unemployment ❖ Youth educational attainment well above EU average at 85% (1999-2003) ❖ Simplification of regulatory framework for SMEs and start-ups ❖ Significant reduction of Internal Market directives transposition deficit 	<ul style="list-style-type: none"> ❖ Implementation of actions to promote ICT use and R&D spending and innovation ❖ Significant increase in youth educational attainment (1999-2003) ❖ Significant reduction of Internal Market directives transposition deficit with no directives overdue by more than two years ❖ Quadros Programme' provides financial compensation to small and micro enterprises
Shortcomings	<ul style="list-style-type: none"> ➤ Below the EU average for gross domestic expenditure on R&D ➤ Older persons employment rate significantly below EU average ➤ Transposition deficit for Internal Market directives remains high ➤ Poor performance on Kyoto target and burden sharing indicators ➤ Significant decline in business investment (1999-2002) 	<ul style="list-style-type: none"> ➤ Excessive deficit, with sustainability of public finances questionable on account of projected expenditure on pensions ➤ Poor achievements in education (although recent initiatives have been taken to improve education quality) with highest percentage of early school-leavers in the EU (twice the EU average) ➤ Effective competition in the electricity market not yet secured with prices for gas and electricity among highest in EU ➤ Poor performance for Kyoto target and burden sharing indicators

	FINLAND	SWEDEN
Achievements	<ul style="list-style-type: none"> ❖ Maintains a leading position in the transition to the knowledge-based economy ❖ Reform measures introduced to raise employment and prevent social exclusion, and target for employment rate for workers aged 55-64 is achievable ❖ Highest level of youth educational attainment in the EU (1999-2003) ❖ Below the 1.5% transposition deficit target of Internal Market directives and no directives overdue by more than 2 years ❖ Relatively good performance on Kyoto targets 	<ul style="list-style-type: none"> ❖ Highest level and increase for gross domestic expenditure on R+D in 2001 ❖ Measures undertaken to retain older workers and to promote the participation of the young in the labour force ❖ Highest rate of employment in the EU for workers aged 55-64 and 2nd highest rate of female employment (1999-2002) ❖ Maintains a leading position in the transition to a knowledge-based economy ❖ Good performance for Kyoto target and burden sharing indicators
Shortcomings	<ul style="list-style-type: none"> ➤ Prices among the highest in the EU, with an increase in price levels (1999-2002) ➤ Limited competition in non-tradable services ➤ Continued high structural unemployment ➤ 3rd poorest and declining business investment (1999-2002) 	<ul style="list-style-type: none"> ➤ Prices among the highest in EU, although price levels have declined (1999-2002) ➤ Lowest and declining level of business investment in the EU (1999-2002) ➤ Weak competition in some sectors, notably in public sector services

UNITED KINGDOM

<p>Achievements</p>	<ul style="list-style-type: none"> ❖ Low long term unemployment rate with an increase in the level of youth educational attainment (1999-2003) ❖ Increased quality of public in spending (for education and transport) including reform initiative to boost training and basic skills. ❖ Good performance for Kyoto target and burden sharing indicators ❖ Below 1.5% transposition deficit target of Internal Market directives ❖ Extension of R&D investment tax credit for large companies and identification of priority areas for increasing productivity
<p>Shortcomings</p>	<ul style="list-style-type: none"> ➤ Disappointing labour productivity levels, despite a recent increase (1999-2003) ➤ Widening government deficit ➤ Delay in the opening of the postal markets to competition ➤ Disappointing level of gross domestic expenditure on R&D in 2001 with 2nd poorest level of business investment in the EU (1999-2002)

ANNEX 3

PENDING PROPOSALS IN LISBON AGENDA TOWARDS
MARCH 2005

LISBON STRATEGY: LEGISLATIVE ROADMAP

Council	Before end of present Parliament (in April 2004)	Before mid-term review (in March 2005)
Competitiveness	<ul style="list-style-type: none"> ▪ Community patent 	<ul style="list-style-type: none"> ▪ Recognition of professional qualifications* ▪ Enforcement of intellectual property rights* ▪ Consumer protection enforcement co-operation* ▪ Unfair commercial practices* ▪ Community patent (jurisdiction proposal and Munich Convention) ▪ Patentability of software ▪ Framework directive on services ▪ REACH
ECOFIN	<ul style="list-style-type: none"> ▪ Transparency directive ▪ Directive on investment services 	
Transport, Telecommunication, Energy	<ul style="list-style-type: none"> ▪ 2nd railway package ▪ Maritime security ▪ TENs - Transport 	<ul style="list-style-type: none"> ▪ Framework Directive on eco-design of energy-using products* ▪ energy supply and efficiency ▪ 3rd railway package ▪ Road pricing for heavy goods vehicles (Eurovignette) ▪ e-Content ▪ Internet Safety Action Plan ▪ TENs - energy
Employment, Social Policy, Health, Consumers	<ul style="list-style-type: none"> ▪ Regulation 1408/71 ▪ European Health Insurance Card ▪ Temporary work 	<ul style="list-style-type: none"> ▪ Directive Article 13 (not including professional circles)
Education and Culture		<ul style="list-style-type: none"> ▪ Life-long learning framework programme ▪ New generation of programmes for post-2006
Environment	<ul style="list-style-type: none"> ▪ Environmental liability ▪ Kyoto flexibility mechanism 	<ul style="list-style-type: none"> ▪ Aarhus Convention

* Common position before June 2004.