COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 25.1.2006
COM(2006) 30 final
PART 1

COMMUNICATION FROM THE COMMISSION TO THE SPRING EUROPEAN COUNCIL

TIME TO MOVE UP A GEAR

The new partnership for growth and jobs

TIME TO MOVE UP A GEAR: THE NEW PARTNERSHIP FOR GROWTH AND JOBS

Last year saw a decisive shift in the European Union, with a new momentum agreed for growth and jobs. In 2005, the logic that our common challenges need common responses was recognised as never before. The renewed Lisbon strategy showed how a European growth and jobs strategy could be, and must be, more than the sum of its parts. The meeting of European leaders at Hampton Court made clear that Europe is indispensable in the search for solutions to global problems. There was full support for the European Commission's analysis of the challenges ahead, and for an ambitious framework for tackling them. All agreed that the potential of the enlarged Europe could not be taken for granted – action is needed to exploit that potential to the full and to secure sustainable development into the future.

This emerging consensus has again been shown in the national reform programmes prepared by every Member State. They add up to a promising start for the new approach. Now the momentum needs to be stepped up and the national programmes put into action.

What are the most urgent steps needed? We need more research and development, with more efficiency and better coordination. We need to work together on a European scale to ensure that research is translated into innovative products and services, which feeds into growth and jobs. For our companies, particularly small and medium-sized companies, to compete successfully on an increasingly competitive global market, they must be able to draw strength from a European-wide home market. A market free of barriers and red tape, where rules are predictable and where dynamic companies can prosper.

We need more people in work to finance pensions and health care as populations get older. We need a lifecycle approach to work. Young people need help starting their working lives. Parents need affordable childcare and a decent work-life balance. And we cannot afford to have people drop out of the labour market when they are in their fifties.

We have been reminded in recent times, in various ways, of the importance of energy to our economies. We cannot afford to waste it. We need to get more of it from renewable, non-polluting sources. And we need security of supply at affordable prices. Competition can help here too. But Europe also needs to speak with one voice in ensuring supply from beyond its borders.

So we know what we are aiming for, and we know how to get there. But now for the difficult part: turning good intentions into action. Reform needs to be the guiding principle for national as well as European economic policy. It is vital that Member State and EU measures complement each other to create a powerful growth and jobs engine. This is our common responsibility, and the job is not finished until every worker, every business, every consumer can enjoy the benefits of reform.

The first year of the strategy has offered real hope that progress towards economic reform is under way, that Europe is on the move. If we can redouble our energies and make reform our top priority, the renewed Lisbon strategy will be seen as a genuine turning point towards growth and jobs in Europe. It is up to us all to make that happen.

It is time to move up a gear.

José-Manuel Durão Barroso

EXECUTIVE SUMMARY

The Lisbon strategy has entered a new phase. Last year saw a fresh start, and a step change in how Lisbon works. The spotlight is now on delivering results. By submitting national reform programmes, Member States have accepted a new responsibility, setting out detailed commitments for action. At the same time, the Community Lisbon Programme specifies what has to be done at EU level to complement national, regional and local efforts.

The national reform programmes add up to a good basis for driving the reform agenda forward. The case for prioritising growth and employment is compelling, with a wide consensus about the key challenges we face. In parallel, EU-level action is on track and will receive new impetus once EU spending plans for 2007-2013 are finalised. So the instruments are in place; the national programmes have kept up the momentum; now political will is needed to translate commitments into real results for growth and jobs. It is time to move up a gear.

National programmes must now be implemented based on a real national consensus. This will not come overnight. We must explain better to our citizens why our growth and jobs strategy is the route to prosperity and social justice in the long term.

The programmes must be strengthened so that reform covers all the key policy areas for growth and jobs in all Member States. As the meeting of European leaders in Hampton Court has shown, there are key areas where Europe could make a difference, where implementing bold decisions will give a new impetus to reform:

- A decisive leap in investment for research and innovation will realise Europe's potential to offer the goods and services citizens will want. This needs more public investment, with existing spending shifted to research and innovation and with better coordination between Member States. Just as importantly, the environment must be right to carry research through to innovation and to spur growth: the fruits of research excellence must not be squandered by unnecessary barriers to commercial use or by tying the hands of the universities.

- Unlocking Europe's business potential means creating a business climate that encourages businesses to start and to grow. Europe must have the confidence to let entrepreneurs flourish by clearing the way for new businesses. Governments must be ready to help smooth the path for businesses at every stage of their development, with less red tape to help SMEs develop at home and cross-border, as well as positive action to ease access to the finance they need.

- An ageing population means that European society must be ready to help more people to work, to work longer, and work in a way that uses their talents to best effect. That means employment policies that help people to find jobs at every stage of their working lives and remove barriers for those who wish to work. People need the right skills at the right time, they need help in facing change and finding new openings, and they need to be able to fit the demands of work into the rest of their lives.

- A secure, affordable energy supply is a crucial springboard for growth. But energy is a finite resource to be shepherded with care. A European energy policy is needed to offer a real internal market, to maximise the benefits of energy efficiency and renewables, and to safeguard supply inside EU borders and beyond.

National experience shows what is possible, and what needs to be done. Member States should exploit this potential and do more to draw lessons from their partners.

Alongside full delivery of the national programmes, the next steps should centre on key actions to maintain the momentum:

- The Commission calls upon the European Council to commit themselves to a series of precise, time-limited actions across all these areas: on research and education spending, on the ease of starting and running a business, on helping the jobless to find work, on childcare, on an integrated energy policy in Europe. Citizens, workers, entrepreneurs must feel that public policy is designed to help what they are trying to achieve, not to hold them back.

- Efforts to build a real national consensus behind the programmes should be stepped up. The EU institutions and the Member States should ensure that a dedicated communication strategy should be established involving all national, regional and local stakeholders. There should also be a special role for the social partners.

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Part I – Time to move up a gear

1. EUROPE ON THE MOVE: WORKING TOGETHER FOR MORE GROWTH AND JOBS

We live in a fast-changing and interdependent world. This provides us with many opportunities but we also face many challenges if we are to secure a prosperous and fair society. Above all, if we are to address the core task of creating more growth and jobs, public policy at every level needs to factor in modern realities like globalisation and the ageing of our population. This is the only way to successfully modernise our economies and safeguard and promote Europe's values at home and abroad. And delivering results can restore a sense of confidence in our ability to meet citizens' expectations.

At the Spring European Council in March 2005, EU leaders put **growth and jobs** at the top of Europe's political priorities. The **renewed Lisbon Strategy** meant a fresh commitment by all to mobilise behind a positive reform agenda. At its origin was a recognition that success depends on a comprehensive approach, bringing the maximum of levers to bear and touching every corner of every Member State in Europe.

This commitment was given further weight by agreement on the integrated guidelines for growth and jobs[1], which provide a clear roadmap for the design of national reforms, and by the informal meeting at Hampton Court in October. At Hampton Court, EU leaders analysed how European values can underpin modernisation in our economies and societies and help us to tackle key challenges in a distinctively European way. And at the end of last year, the agreement in the European Council on the financial perspectives meant another step forward: once finalised with the European Parliament, this will open the way to new investment to modernise the European economy.

So there is a common vision and a strong consensus about what needs to be done - supported at the highest level. Europe needs to bring the full range of policies and instruments into play: it cannot afford to pick and choose only the politically convenient options. Sound macro-economic policies are an essential requirement for realising its growth potential. Europe also needs a climate which lets Europeans' creativity flow by offering a more attractive place to invest, innovate and work. Freeing business from unnecessary red tape and outdated bureaucratic controls encourages new businesses, sparks expansion in existing businesses, and creates new jobs. Greater and more efficient private and public investment is the catalyst for the knowledge economy, galvanising the fruits of research and the high skills which promote social inclusion and higher earning power over a longer, healthier working life. Promoting eco-innovation and spreading environmental technologies brings sustainability as well as growth. Modernising our labour markets and our social protection systems mean more people in work, greater adaptability to change, higher productivity and a more sustainable and fairer economic growth. And further opening up world trade by reaching a successful WTO agreement by the end of 2006 will create new opportunities and boost competitiveness both inside and outside the Union. All these goals must be achieved respecting the imperatives of sustainable development.

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[1] OJ L 205 (06.08.2005)

The first step to **translate this ambition into action** has been to set up the tools to deliver the job. This needs a partnership approach, with the right measures taken at the right level.

- Member States have drawn up country-by-country national reform programmes on the common basis of the integrated guidelines. These are the key tool to drive implementation of the Lisbon Strategy: they offer a checklist of national commitments and benchmarks to monitor progress in the months and years ahead.

- The Council, the European Parliament and the Commission are working together on the actions needed at Community level to make the growth and jobs agenda work: The Community Lisbon programme[2], which was welcomed by the European Council in December 2005, has started to deliver on a substantial number of important proposals to complement initiatives taken by Member States.

In many areas, the centre of gravity for action lies at **Member State level** (or regional or local) – such as for employment and labour market policies where the role of the social partners is also crucial. But the fact that actions are applied locally, regionally or nationally does not mean that they do not have Europe-wide consequences: with the inter-dependence of the single market, even the best performing economies suffer from the shortcomings of others.

At the same time, the common challenges faced mean that responses can be shared. All too rarely do governments look to their partners for ideas and solutions. Every country can point to examples of good ideas and good experience. The national reform programmes provide a store of knowledge and experience to be shared and spread: exploiting this treasure trove of best practice to the full is the best way to draw value added from the Lisbon Strategy. As a first step, this Report proposes a set of key steps as a common programme for national action.

In addition, there are also goals which cannot be delivered by Member States acting alone but where results require action at **Community level**. The success of many national initiatives will depend on supporting national efforts through Community action and Community investment making Europe the right place to live and work. The European Commission is committed to driving this agenda forward.

This partnership must now be taken into a new phase. The tools are in place. The policy consensus is there. If the Lisbon Strategy is to make the difference, the focus must now shift to implementation.

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This Communication to the Spring European Council sets out where we stand on the road to creating a new dynamism for growth and jobs in Europe:

- Part I evaluates the process of drawing up the reform programmes and highlights a limited number of key initiatives for agreement at the European Council. An illustrative list of examples of national initiatives and measures is attached which shows how a fruitful exchange of national experiences can bring real mutual benefit.

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2 COM (2005) 535 final

- Part II is a detailed assessment of the national reform programmes, pointing out their strengths as well as areas where they need review and updating by Member States. It also contains an assessment of the euro area.

- A more detailed analysis of the macro-, micro-economic and employment aspects of the national reform programmes can be found in annex I. As far as the employment part is concerned, this also serves as the basis for the Joint Employment Report.

2. MAKING IT HAPPEN: THE POLICY RESPONSE

The two main instruments to implement the new Lisbon strategy are the Community Lisbon programme, setting out what should be best done at Community level, and the 25 national reform programmes: each Member State's policy response to the key challenges they have identified. These instruments must work in tandem to have the best effect.

2.1. The Community Lisbon programme

In the six months since its adoption, significant progress has been made on the Community Lisbon programme. The Commission has already adopted two thirds of the actions foreseen. However, legislative proposals will only produce practical effects once adopted by Council and Parliament. In addition, many of the financing actions depend on the finalisation and implementation of the financial perspectives 2007-2013.

The Community Lisbon programme includes a number of important initiatives to tackle the decisive cross-border impact of research and innovation and the fragmentation of European research efforts: namely the 7th framework programme for research, technological development and demonstration and the competitiveness and innovation framework programme. The Commission has also set out concrete initiatives to improve the research and innovation environment in Europe in its Communication "More research and innovation for Europe: a common approach[3]". The 7th framework programme introduces a new model of research support – joint technology initiatives – in the form of public-private partnerships to back promising new research and to give European industry a head start in areas ranging from hydrogen and fuel cells, aeronautics and air transport, to innovative medicines, and nano-electronics. Galileo, the satellite navigation initiative and the development of integrated rail and air traffic management systems are other key examples of cutting-edge industrial projects which have a strong European dimension.

Reforming the Community's state-aid policy framework for R&D, as planned, will facilitate public-private partnerships and should leverage more private R&D investment. The programme also includes actions aimed at stimulating eco-innovation and the take-up of environmental technologies. The framework may be extended to cover new provisions to support innovation, especially for small and medium-sized enterprises. In addition, state support to young and innovative companies should be facilitated, not only through direct financial support but also through easier access to risk capital funding. As an additional important step in the delivery of the Community Lisbon programme, the Commission has launched a new, more integrated industrial policy to improve the framework conditions for manufacturing industries. These industries employ more than 34 million people, accounting for more than 80% of EU private sector R&D expenditure.

[3] COM (2005) 488 final

A number of actions in the Community Lisbon programme aim at making Europe a more attractive place to invest and work. These include initiatives to make the internal market for services a reality, steps to drive forward regulatory reform, improve the tax and customs environment for economic activity, and promoting market access and more competitive markets, particularly in energy and financial services where the Commission has launched inquiries.

Legislation has been proposed to create a "single payment area" in the EU, to make cross-border payments as easy and affordable as domestic payments. This alone could save the EU economy between €50 and €100 bn per year. Other notable initiatives include improving access to venture capital, particularly for SMEs. New Community funding, for example in the form of guarantees and risk capital investments, will become available through the competitiveness and innovation programme. This programme will also help bring to market innovative solutions to improve energy supply (in particular for renewables) as well as demand (through energy efficiency measures). In addition, the Commission has put forward ambitious measures to help the creation of more and better jobs through the removal of obstacles to mobility, a common approach to economic migration and efforts to deal with the social consequences of economic restructuring.

Community institutions and Member States have a shared responsibility for the quality of the regulatory environment. The Commission has stepped up its efforts to improve the quality of Community legislation. The impact of these actions will of course be much greater if they are matched by a determined effort by Member States to improve the quality of their national rules and reduce the administrative costs they impose on citizens and businesses.

2.2. The national reform programmes

Nearly one year into the new Lisbon Strategy for growth and jobs, the partnership is off to a promising start. Responsibilities for action are clearly defined. All Member States have drawn up a national reform programme on the basis of a single set of integrated policy guidelines. These national reform programmes are the main tools to implement the new Lisbon Strategy, to translate the integrated policy guidelines into reform owned by Member States and which Member States are responsible for delivering. The fact that all Member States have done so, often under tight deadlines, has been an important first test.

In line with the new partnership approach, and to facilitate co-operation and public visibility, all Member States have appointed national Lisbon co-ordinators. Meanwhile, many Member States have used the opportunity of drafting national reform programmes to streamline internal co-ordination between different government departments. For its part, the Commission has maintained close contacts with the national authorities responsible for the preparation of the national reform programmes, helping where it can to make national policy development work well.

The Commission has carefully assessed each national reform programme, taking into account work carried out by the Economic Policy and the Employment Committees[4]. A detailed

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[4] Economic Policy Committee: Report on the Lisbon National Reform Programmes 2005, ECFIN/EPC(2005)REP/55392, available under: http://europa.eu.int/comm/economy_finance/epc/documents/2005/nationalreports/nrp_report_en.pdf. The Employment Committee's so-called Cambridge review country examinations of the employment sections of

assessment of each national programme, pointing out particular strengths as well as a number of issues which can be further developed and strengthened, can be found in Part II. The Commission encourages Member States to take up the points highlighted in its conclusions. It will give particular attention to these aspects in its follow up discussions with Member States and its monitoring of the implementation of the national reform programmes throughout 2006.

In the interest of consolidation and stability of the process, the Commission proposes to maintain the integrated guidelines on the basis of which the national programmes have been drawn up. In addition, the Commission has decided not to propose formal, country-specific recommendations in response to the national reform programmes. This is the first year of the partnership: national reform programmes need some time to be fully integrated into national policies and structures. The Commission attaches high priority to forging a strong relationship of trust and co-operation with Member States, based on ownership of the programmes by Member States themselves. However, the Commission will not refrain from using the instruments at its disposal, including proposing country-specific recommendations, when it considers that this contributes to the smooth implementation of the Lisbon Strategy.

In spite of the tight time schedule, most Member States have made a real effort to involve national parliaments, stakeholders, and representatives from regional and local authorities in the formulation of their national programme. As the Lisbon strategy is a medium to long-term agenda requiring implementation on the ground, the sustained involvement of parliaments, local governments, social partners and civil society is essential. In fact, public acceptance depends on citizens and businesses recognising that reform is needed and will help improve their lives; an ownership that can only come from having a role in shaping reform, either directly or through representative organisations. A lot remains to be done to convince people that reforms will contribute to greater, shared prosperity and to involve them in the process. This will require a major effort from both Member States and the EU institutions.

2.2.1. Evaluation of the different policy areas

The integrated guidelines set out three main policy areas for action: the macro-economic, the micro-economic, and the employment dimensions. Conclusions can be drawn from the national reform programmes in these three areas.

The macro-economic dimension

- Budgetary discipline stands out as the most important macroeconomic challenge identified by Member States. It is typically formulated in terms of public finance sustainability - pension, health and labour market reforms as well as short-term budgetary consolidation are tools to ensure the long-term sustainability of public finances in an ageing society. The related challenge of improving the quality of public finances tends to be addressed by measures aimed at increasing the efficiency of the public administration. Some new Member States have identified the introduction of the euro as a key policy challenge requiring budgetary consolidation and the convergence of inflation rates to euro area levels. Other factors mentioned by some Member States include the external account and price stability.

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the national reform programmes are available at: http://europa.eu.int/comm/employment_social/employment_strategy/emco_en.htm.

- To balance public finances, Member States tend to prefer spending cuts to increased taxes, though the source of the cuts is often unclear. However, the specific measures to achieve short-term budgetary consolidation are not spelled out in enough detail in several countries, particularly within the euro area. Most Member States clearly have the intention to improve the quality of public finances by setting aside public resources for strengthening infrastructure, human capital and R&D investment. However, few national reform programmes are explicit about the budgetary implications of proposed measures.

- Member States participating in the euro have presented rather comprehensive and mostly forward looking national programmes to ensure the sustainability of public finances, to boost labour productivity through R&D, innovation and attractive business environment, and to increase employment and participation rates. Measures are mainly aimed to raising the effective pension retirement age, increasing labour supply and cutting red tape. These programmes are broadly supported by the Commission. However, measures should also aim to improve budgetary positions faster, to support labour market adjustments, to create more competitive and integrated markets for services, and to complete a better functioning internal market.

- Over the coming decades, ageing populations in Europe will put increasing pressure on public finances. Member States recognise that modernising public and private retirement and pension systems is an essential prerequisite for ensuring public finance sustainability, while responding to social concerns and economic changes. However, in most countries, the measures already taken or envisaged appear to be piecemeal or insufficient.

- It is important that the overall reform strategy is coherent, with reforms in one area supporting those in another. In this respect, some Member States make a link between sustainable public finance and reduced unemployment (lower unemployment benefit costs; higher tax revenues resulting from a better use of labour). Such an integrated approach strengthens the coherence between the different parts of the national reform programmes.

The micro-economic dimension

- The need to build a knowledge economy and to improve Europe's attractiveness as a location to do business and invest is generally well reflected in the national reform programmes. Research and innovation policies are key priorities for all Member States. Many Member States highlight actions to strengthen the industrial base, in particular through the promotion of clusters. These clusters combine universities, research institutes, small and large enterprises which through their close co-operation and interaction have a positive impact on innovation and knowledge transfer. This, in turn, generates considerable benefits for the economy as a whole. Member States recognise that facilitating access to finance is an important issue, even though they take different approaches to achieve this. Most Member States also highlight the business environment and entrepreneurship, the sustainable use of resources (including renewables and energy efficiency), transport connections and logistics among the main issues to be tackled.
- If R&D spending targets are met in the eighteen countries that have set them (in some cases, partially), R&D expenditure is estimated to go up to around 2.6% by 2010. Spending as a share of GDP has been more or less stagnant since 2001 at around 1.9% for the EU. In the medium to long term a further strengthening of national R&D and innovation systems will be necessary in most Member States. In addition, whilst all Member States appreciate the importance of the spread and effective use of information and communication

technologies and environmental technologies, the link between the identified challenges and the measures proposed to address them is not always clear.

- The national reform programmes contain many examples of interesting policy initiatives across a range of policy areas. For example, most Member States are looking to exploit the synergies between economic growth and environmental protection (by investing in alternative sources of energy, by promoting energy efficiency, and by promoting eco-innovation and protecting natural assets). Most national programmes also focus on the importance of modern transport infrastructure and of information and communication technologies (e.g. broadband availability). These are examples of precisely the kind of investments that Member States should seek to promote with the help of the resources of cohesion and rural development policies.

- The functioning of the internal market and the need to enhance competition and market access in general deserved greater attention. Only a few Member States mention concrete actions, for example, to ensure full implementation of Community directives, where greater efforts need to be made, for example on the effective opening of energy markets, to improve access to public procurement contracts or to ensure effective competition in services.

- Regarding SMEs, most programmes do not go far enough to foster a more positive attitude towards entrepreneurship and to encourage more people to start their own business. There is an important role here for education, for making it easier to transfer existing businesses, and for reducing the stigma of failure. Additional measures regarding access to finance or related targeted measures to improve investment should also be considered.

- Better regulation is crucial to creating a more competitive business environment and removing obstacles to innovation and change. Nearly all Member States address parts of this agenda, but in many cases, a more integrated approach is necessary. Action at Community level is necessary, but will not in itself be sufficient. Much of the rule-making affecting business, for example in taxation, social security or regional planning, is done at national (or local) level. There are also important differences in the way Community directives are implemented by Member States, which may give rise to administrative costs which the Community measure itself does not require. To see a real difference in the business environment, a culture change in the way decisions are prepared and taken will be needed.

- A comprehensive and co-ordinated implementation of the different microeconomic policies will generate much greater benefits than the sum of the individual policies put together. For instance, the gains from increased investment in R&D will be higher when new technologies are swiftly adopted by the market, which in turn depends on the degree of competition in product and service markets.

The employment dimension

- All programmes attach high importance to attracting and retaining more people in employment. This is vital to address the impact of ageing on the labour supply and the sustainability of public finances. Seventeen Member States now plan their measures with the help of national employment rate targets. Particular efforts are made or foreseen to improve the employment situation of women. Other measures are developed to help older workers, to support the integration of young and disadvantaged people into the labour market and to modernise social protection systems. These efforts are broadly in line with commitments taken in the framework of the Community objectives for social protection and social inclusion. However, the effectiveness and sustainability of these is hampered by a tendency towards piecemeal policies. The chances of ensuring effective delivery would be enhanced if they were based on lifecycle approaches to facilitate swifter employment transitions throughout a career.

- The importance of further measures to improve the adaptability of workers and enterprises is largely neglected. Increasing the responsiveness of European labour markets is crucial to promoting economic activity and higher productivity. However, the current balance between flexibility and security in many Member States has given rise to increasingly segmented labour markets. Greater attention should be given to establishing conditions of 'flexicurity'. This consists of a combination of sufficiently flexible work contracts coupled with effective and active labour market policies to support switches from one job to another, a reliable and responsive lifelong learning system, and adequate social protection. The potential for progress through links between the tax and benefits systems is a good example where Member States can look to their partners for inspiration. More attention should also be given to the active involvement of the social partners.

- Member States acknowledge the crucial importance of developing the skills needed in knowledge-based economies and the need to invest in human capital through better education and skills. However, the policy response concentrates more on qualitative reforms in education systems, better access to and transparency of qualifications, rather than on stepping up investment and achieving a real breakthrough.

2.2.2. Overall conclusions

The national programmes are a good basis for driving the reform agenda forward even though not all are of equal quality. There is a large convergence of views on the diagnosis and on which key challenges need to be addressed as a matter of priority: for example, sustainability of public finances, labour supply, R&D and innovation, the business environment and environmental sustainability.

The main conclusions that can be drawn at this early stage are:

- Recognising that Member States start from different positions, there are important differences between the programmes. For example, the approach to targets varies widely: some Member States have gone a long way towards integrating Community and national targets and have set clear, often quantitative, targets and timetables which can serve to measure progress. Other programmes, however, are less complete at this stage and could benefit from studying approaches adopted by other Member States facing similar challenges. Whilst some programmes clearly describe the content and form of policy measures taken or proposed, in others this information is often lacking. Targets and timetables as well as further details on the budgetary aspects of envisaged reforms are also often missing. This will make it more difficult to deliver.

- The integration between the three dimensions (macro-, micro- and employment) can be strengthened. The national reform programmes are vital tools to develop a coherent approach, but some programmes have achieved this more than others. Gains from action in one area often depend on progress made in another. For example, the returns on extra investment in R&D will be much greater if the necessary conditions are in place to convert it into growth: conditions such as competitive markets, an appropriate regulatory framework, and a highly skilled work force.

- Whilst competition and removing obstacles to market access, particularly in services, is identified as a challenge for around half of the Member States, only a few national reform programmes actually tackle this challenge effectively. Competitive markets are a pre-requisite to achieving the Lisbon objectives. In addition, many Member States have set national targets for R&D investment and employment, but some have not, despite the decisions of the European Council.

- A large number of Member States also need to ensure that Community cohesion and rural development spending is targeted towards supporting the Lisbon Strategy in general. Indeed, it should be programmed to give direct backing to the national reform programmes. In addition, stronger efforts are needed to develop coordination mechanisms between those responsible for the national reform programmes and those preparing the structural funds programmes for 2007-2013. These links must be established quickly as the preparation of these programmes intensifies, beginning with the adoption of national cohesion policy strategies (the so-called "national strategic reference frameworks").

- Last but not least, with only a few exceptions, public ownership of the Lisbon growth and jobs strategy falls short. Media coverage has also been fairly limited. We cannot yet say, therefore, that broad sections of the population have been made aware, let alone taken ownership, of the strategy. This points to the need for a dedicated communication strategy, making full use of economic analysis and showing how action will bring real benefits for individual citizens. Similarly, social partners, who have an important role to play both as participants in the process and as message multipliers, should become more actively involved in the governance process.

3. MOVING UP A GEAR: FOUR ACTIONS FOR MORE GROWTH AND JOBS

The Commission urges Member States to implement their **national reform programmes in full and on time.** However, the process of producing and evaluating the national reform programmes has highlighted gaps to be filled and synergies to be exploited. In many cases, gaps can be tackled by Member States improving their national programmes, drawing inspiration from their partners' experiences. In a number of cases, several Member States have developed successful responses to particular challenges which, if implemented by all Member States, could yield major benefits for the Union as a whole. There are also challenges which cannot be addressed at Member State level alone, and where genuine success depends on co-ordinated action at both European and national level:

- The national reform programmes show that many Member States expect to increase their **R&D spending,** but that we will fall short of the overall EU target of 3% of GDP. Every Member State needs to make a contribution if this target is to be reached. Well-functioning markets, increased spending, better targeting of spending and effective dovetailing of national and Community budgets are all needed. Increased R&D spending will also need to go hand in hand with improving our knowledge infrastructure, promoting educational and research excellence, strengthening our innovation systems and ensuring that internal market policies fully contribute to converting research and innovation into value.

- Many national reform programmes pay limited attention to **improving market access and competition**. National rules and practices, as well as self-regulation, can often fragment the market and hinder competition. Member States need to do more to identify ways to remove such rules and restrictions in their programmes. The Community also has important responsibilities for effective and fair competition (for example, by taking vigorous action against price-fixing and market sharing cartels which raise input costs for business and harm the consumer) and to achieve a real EU-wide internal market. On the other hand, many national programmes highlight actions to make it easier to set up and run a business, promote a more entrepreneurial culture and create a more supportive environment for SMEs.

- Over the coming decades, Europe will be confronted with the implications of an **ageing population**. National programmes recognise that a thorough overhaul of retirement and pension systems is necessary to ensure increased employment and sustainable public finances. However, in most Member States, the measures already taken or foreseen are not up to the scale of the challenge. Urgent action is needed to facilitate entry of young people into the labour market, in line with the Youth Pact, achieve a better work-life balance for families and make it more attractive for older workers to remain employed. Moreover, the adaptability of labour markets will become an increasing challenge. Globalisation also brings new challenges for the EU. It reinforces the need for greater labour market adaptability but it also offers us new opportunities as a result of increased openness of third countries' markets.

- Many programmes underline the importance of energy. Europe needs **a truly integrated energy policy** which promotes growth, provides greater security of supply and which contributes to greater efficiency and environmental sustainability. Whilst important progress has been made in opening domestic markets, there is as yet no European-wide energy market. Energy is a global issue; only a European response will meet our needs.

On this basis, the Commission has identified **4 priority actions** which require a strong impetus from the highest political level and which should be implemented quickly – <u>no later than the end of 2007</u>. In this way, the Spring European Council in 2008 can launch the second cycle of the growth and jobs strategy on a firm foundation.

The four actions follow an integrated approach – they span different policy areas, several of which were discussed at the Hampton Court meeting, and which are intimately linked. Separately, they will make an important contribution to growth and jobs and to making Europe fit for the future. Acting on all of them together, as part of the new partnership between the Community and Member States, will create a forceful dynamo effect, moving the European engine for growth and jobs into higher gear.

3.1. Investing more in knowledge and innovation

In view of the importance of R&D for future growth and in providing solutions for many of the problems confronting our society today, it is a cause for serious concern that the EU is unlikely to meet its target of boosting research spending to 3% of GDP by 2010 (of which two thirds is by the private sector and one third by the public sector).

The Commission is mindful of the need for Member States to control public spending, but believes there is considerable scope for improving the quality of public expenditure by shifting resources, notably state aid, to more productive use and by closer co-ordination between Member States to avoid costly duplication of efforts. The effectiveness of public sector support for R&D can also be improved, for example through a wider and better use of fiscal incentives (e.g. tax credits or vouchers), which many Member States have included in their national programmes. The European Council's decision to earmark Lisbon-related cohesion spending shows how priorities like research can be mainstreamed across a range of policies.

The biggest contribution, however, should come from the private sector. To get industry to invest more in R&D in Europe, it is essential to gear internal market policies more towards fostering the knowledge economy and to boosting market dynamism for research-intensive and innovative goods and services. This will require improving market access conditions, facilitating access to external sources of financing (venture capital, loans, risk-sharing instruments) and integrating financial markets, using public procurement more as leverage to promote innovative private-sector solutions, enhancing the development of researchers' careers, including by removing obstacles to their mobility (across border and across sectors) and putting in place a modern and affordable industrial and intellectual property rights regime which strikes the right balance between protecting the right holder and ensuring that ideas can circulate in a dynamic information society. More effective methods to agree standards for high technology products, which are interoperable and reflect the interests of European business, are also needed. Competition policy is another powerful tool to enhance interoperability and stimulate innovation[5].

Whilst investing more in knowledge and innovation is necessary, it is not in itself sufficient to secure Europe's economic future. Ultimately, the contribution to growth and jobs comes from the outcomes of R&D through innovation, i.e. attractive products and services that people from all over the world will want to buy. The quality of our innovation systems therefore requires particular attention[6]. This may include exploring the potential of clusters as innovative poles for growth and jobs, in particular the formation and cooperation of trans-national clusters within the EU. The Hampton Court meeting also called for urgent action to promote excellence in both research and education, particularly world-class universities with adequate funding streams and closer links with business.

Action 1: Investing more in knowledge and innovation

- Member States should make a stronger commitment to R&D and innovation. By the Spring European Council, Member States should all set an R&D expenditure target for 2010 so that the European Council can set a credible R&D expenditure target for the Union as a whole. This can be done within the framework of the European Council's previous calls for less and better targeted aid, by redirecting public expenditure towards R&D; for example, by doubling the share of state aid allocated to this area to 25% (from 12% at present). This could be used, for example, to step up the provision of targeted fiscal incentives to the private sector in accordance with orientations which the Commission will provide. In addition, spending a significantly greater share of EU

[5] All these aspects are highlighted in the report drawn up by a group of authoritative experts established after the Hampton Court meeting under the chairmanship of former Finnish Prime Minister Esko Aho, which argues, inter alia, for the establishment of a pact for R&D.

[6] National reform programmes highlight a variety of promising initiatives. In addition, the latest Commission innovation scoreboard (http://www.trendchart.org/) highlights that many Member States face still important challenges which need to be taken into account when programmes are updated

structural funds on R&D, innovation and ICT (e.g. infrastructure and applications to speed up the roll-out of broadband) can foster competitiveness, regional cohesion and benefit SMEs in particular[7].As regards private R&D investment, more attractive conditions for technology-intensive markets should be created. This includes a better use of public procurement, innovation-friendly regulation and standards based on an early identification of needs. Member States and the Commission should launch initiatives to create European-wide lead markets in key technology sectors[8], drawing on the work of European technology platforms.

- The EU needs to step up its investment in higher education[9] (the EU currently spends only 1.28% of GDP compared to 3.25% in the USA: the gap is mainly a result of greater private funding). By the end of 2007, universities should be allowed and encouraged to seek complementary private sources of funding; legal and other barriers to public-private partnerships between universities and businesses should be removed; all technical universities should have a technology transfer office; and a European Institute for Technology should be set up. Proficiency in maths and science will need to be stepped up to enhance people's ability to innovate; Member States should provide for compulsory teaching of two foreign languages in their national education systems. The aim should be for the EU to devote at least 2% of GDP to higher education by 2010.

3.2. Unlocking the business potential, particularly of SMEs

Compared with other successful regions in the world, Europe's markets, in particular in services, remain badly fragmented. This carries a serious price tag in the form of lower levels of innovation and lagging productivity growth[10]. Far too often, poor or late implementation of Community directives denies our companies the benefits of easy access to a large internal market. This can only weaken them in the face of international competition. If some Member States fail to act, they tilt the playing field and end up harming the interests of all.

One of the most frequently used examples of where entrepreneurship in the EU is stifled, is the difficulty in setting up a business, as well as wide variations in the costs of running a business in different parts of the EU. It takes no more than 5 days to start a business in some Member State compared to 60 days in others. The administrative cost of starting a business can be nothing in some Member States, whereas in others it can be many thousands of euros. Long and complicated procedures and red tape not only discourage people from going into business, but also reflect a negative attitude towards entrepreneurship in general.

The Commission has identified a number of commitments which will help unlock the full potential of Europe's considerable capabilities, particularly in the services sector. These

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7 5.9% of the overall envelope of the European regional development fund and the European social fund are at present spent on R&D and innovation support

8 These include in particular *e*-health, pharmaceuticals, transport and logistics, environment, digital content and energy and security.

9 See Commission Communication "Mobilising the brainpower of Europe: enabling universities to make their full contribution to the Lisbon strategy (SEC 2005 518 of 20.04.2005)

10 See, for example, the Conference Board's annual analysis of global productivity trends: "As US productivity slows, emerging economies grow rapidly, but Europe falls further behind" by Van Ark et al., Executive action series, January 2006. The report highlights that whereas EU-15 productivity growth slowed from 1.4% in 2004 to 0.5% in 2005, the EU's new Member States increased the labour productivity growth rate from 4.1% in 2004 to 6.2% in 2005.

measures, taken together with the swift finalisation of the directive on services and enhanced administrative co-operation between Member States, would help to create a new business and employment dynamic in the EU.

Action 2: Unlocking the business potential, particularly of SMEs

- It should become much easier to set up and run a business in all Member States. By the end of 2007, every Member State should have set up a one-stop shop to assist would-be entrepreneurs and to enable businesses to fulfil administrative requirements all in one place – where possible electronically – and under short deadlines. The average time taken to set up a business should be reduced by half[11], with the ultimate objective of being able to do this within one week anywhere in the EU. Start-up fees should be as low as possible, and recruitment of a first employee should not involve more than one public administration contact point. Every student should have access to entrepreneurship training, which should become part of national school curricula in all Member States. Furthermore, Member States should facilitate cross-border activities of SMEs by implementing the home state taxation pilot projects. The Council should swiftly adopt the Commission's proposals for a VAT one-stop shop and for a modernised customs environment to simplify procedures. To facilitate access to finance, particularly for SMEs, the financial instruments at Community level will be further developed under the competitiveness and innovation framework programme. Member States should make full use of possibilities offered under the structural funds, notably the future funding scheme for joint European resources for micro- to medium enterprises (JEREMIE).
- In order to cut red tape and simplify administrative procedures, by the end of 2007, all Member States should adopt and implement a methodology for measuring administrative costs (for national rules and regulations). For its part, the Commission will launch a major exercise to measure the administrative cost arising from Community rules (or the way in which they have been implemented) in specific policy areas as part of the ongoing work on legislative simplification, with a special emphasis on SMEs. It will identify what share of these costs flows directly from the Community rules and what share can be attributed to their implementation by Member States. The Commission will, on this basis, come forward with proposals for reducing these administrative costs where appropriate. By the end of 2007, the Commission will remove the obligation to notify certain categories of smaller state aid, which should ease administrative burdens, particularly for SMEs.

3.3. Responding to globalisation and ageing

Europe's population is getting older. The fertility rates remain below the natural replacement rate. The life expectancy of Europeans continues to increase. Net inward migration is likely to continue. These demographic changes have important economic consequences. Less people will be of working age in the next decades. Currently, for every elderly citizen four people are at work, but by 2050 the ratio will be 2 to 1. Europe's workforce will start to shrink from roughly 300 million people today, to approximately 250 million by 2050. A smaller workforce will act as a brake on potential growth, reducing it from 2-2.5% today to just 1.25% in forty years time. The costs of an ageing population (pensions, health care) will

[11] The present average is 29 calendar days.

swell; and the sustainability of current social welfare systems will come under severe strain. Government budget positions should be improved urgently and debt set on a steady downward trajectory. Pension and healthcare systems should ensure sustainability as well as access and adequacy.

Against this background, we need more people to work and for people to work longer. We also need faster increases in labour productivity. Higher labour productivity and increased employment must go hand in hand. This will happen if people are able to obtain the skills required to introduce and apply new technologies, and if they have a greater opportunity to combine family life, work, education and care for dependents, in a balanced way. The evidence from Member States shows that there is a double dividend to gain – in terms of higher birth rates and female labour market participation – if gender policies, proper childcare facilities, appropriate fiscal incentives and work organisation are in place. More flexibility and individual responsibility for one's own life cycle is not only important for people with children. Older people will also benefit from flexible working arrangements that allow them to combine part-time work with part-time retirement. Older workers participate too little in vocational training. If they upgrade their skills, it will be more rewarding to keep working; both for the worker and the company. Likewise far more can be done to facilitate the transition of young people moving from school to work. There is a clear advantage for young people to obtain work experience as an apprentice or trainee during the school/university period. Young people who have just left school should be able to obtain a job as soon as possible. If no immediate job is available, additional training and/or internships should be an alternative.

Globalisation and demographic ageing call for an urgent improvement in the adaptability of workers and enterprises, their capacity to anticipate, trigger and absorb change and restructuring, and to thrive in highly competitive markets. In many Member States, however, dual labour markets do not properly allow for this. This limits innovation and technological change, constrains life-long learning and restricts individual life-style choices. More open and responsive labour markets should be combined with policies to help workers to remain employed and to progress in work. This is the best way to achieve labour market flexibility and employment security in a lifecycle perspective. In all of this, there should be a strong emphasis on social justice, not reform for its own sake or simply to cut costs.

Action 3: Responding to globalisation and ageing

- Member States should secure the sustainability of their public finances by improving government budget positions and steadily reducing current debt ratios. Member States should, as part of their reforms to public pension systems, enhance financial incentives for older worker to remain active, seek a closer link between pension entitlements and life expectancy at retirement, through, for example, adaptation of statutory retirement ages, whilst curtailing recourse to early retirement schemes. Disability schemes, together with health care and long-term care systems, should be reviewed to include incentives to make more effective use of scarce resources.

- Member States, should aim to increase entry into the labour market for young people, achieve a better work-life balance for families, and make it more attractive for older workers to stay employed for longer:

  - by the end of 2007, every young person who has left school and is unemployed, should be offered a job, apprenticeship, additional training or other employability measure within 6 months. This period should be shortened to no more than 100 days by 2010. Financial or other incentives should be offered to make it more attractive for companies, particularly SMEs, to give students and the young unemployed experience in the workplace;

  – the availability of quality childcare should be increased in line with Member States' own national targets. Policies aimed at enhancing gender equality as well as further measures to promote family friendly policies should be implemented. The Commission is currently consulting social partners on better ways to reconcile family and professional life;

  – active ageing strategies should be implemented which include financial incentives for prolonging working lives; gradual retirement and use of part-time work, and improving quality at work. Targeted incentives should be put in place to ensure that the number of workers over the age of 45 participating in training rises much faster than that for the overall workforce.

- Member States should seek convergence of views on the balance between flexibility and employment security ('flexicurity').The Commission will present a report with a view to facilitating agreement, by the end of 2007, on a set of common principles, comprising the following elements:

  – modern labour laws allowing for sufficiently flexible work arrangements and reducing labour market segmentation and undeclared work, should enable people to optimise their working patterns throughout their life. The Commission will consult social partners and other stakeholders on this particular subject in the course of this year;

  – reliable and responsive lifelong learning systems and active labour market policies should help people to cope with rapid change, unemployment spells and transitions to new jobs; financial and other incentives should be reviewed to achieve a breakthrough. Member States should deliver on their commitment to establish comprehensive life-long learning strategies by the end of 2006. The European Social Fund and the new Globalisation Adjustment Fund should strongly support these enhanced efforts. The Commission will work with Member States to devote a higher share of structural fund spending to education and training;

  – modern social security systems should combine the need to facilitate labour market mobility with the provision of adequate income support. The Council should reach agreement on the Commission's proposal on the portability of supplementary pension rights. Member States should consider accelerating the removal of all restrictions on the mobility of workers within the EU.

To achieve these objectives, Member States will work closely with social partners. The Commission proposes to hold an extraordinary Social Summit which should be devoted to identifying concrete steps to make progress in all of the above fields

3.4. Moving towards an efficient and integrated EU energy policy

Energy is vital for growth and jobs. Global demand for energy is up. At the same time supply of energy remains tight. Market prices for oil and gas have been rising. The main challenge facing Europe's energy system is to ensure that energy is available at competitive prices. We need to safeguard security of supply and develop autonomous sources so as to avoid interruptions and price shocks with damaging economic effects. A competitive and integrated Community energy market will provide us with the most efficient and sustainable base for diversification and security of supply. Production and consumption of energy has to take full account of environmental considerations. Europe will become even more dependent on external suppliers and will need to import most of its oil and gas in the future. We need a coherent, single voice in our dialogue with major energy suppliers and in international energy discussions.

There are important gains to be made from saving energy. Energy efficiency cuts costs, makes our goods and services more competitive and contributes to a cleaner environment. Investments in energy-efficient equipment and services will help European industries to maintain and increase their global lead. This drive for energy efficiency should go hand in hand with diversification of energy sources. Europe should consider all sources of energy, giving special attention to renewable energy sources, including the development of clean indigenous sources. Lower emissions from our energy sources will reduce air pollution and help our fight against climate change. Again, Europe's enterprises will be rewarded by the market for early investments in this field.

Measures to realise these objectives should be implemented without delay. A partnership between the Member States and the European Union is needed for an integrated approach towards energy. An integrated European energy policy can make a crucial contribution to securing Europe's future energy supply in a sustainable way, hence the call from the Heads of State and Government meeting at Hampton Court to move swiftly into this direction.

Action 4: Moving towards an efficient and integrated EU energy policy

- **Strengthening and deepening the internal energy market** promotes competitiveness and security of supply. Measures that are required include:

  – timely implementation and more effective regulation of the energy markets in order to achieve full and effective market opening by 1st July 2007, as the European Council has agreed;

  – promoting more competition on the electricity and gas markets, taking account of the Commission's sector competition enquiry, in particular by taking steps to address continued dominance of national incumbent operators; insufficient market transparency; inadequate unbundling of network and supply activities; and barriers to cross-border supply which prevents a truly integrated EU energy market;

  – More and better cooperation and integration between the grids and gas pipeline systems of the Member States, so that from the customers' viewpoint, there is only one European network. To this end, missing or inadequate cross-border interconnection links should be identified and completed. Financial assistance is available through EU financial instruments to help Member States achieve the 10% inter-connection objective.

- **Exploiting the potential of renewable energy sources, such as bio-fuels and bio-mass, and more efficient use of energy** can also help to increase security of supply in Europe, whilst reducing greenhouse gas emissions, improving air quality, and strengthening competitiveness. Member States' efforts could be complemented by a **renewables technology push and demand pull policy** at European level.. An appropriate regulatory framework should be put in place. Research and innovation for indigenous energies, including renewable energies, bio-fuels and bio-mass, clean coal and carbon sequestration and the treatment and disposal of nuclear waste, should be stimulated. Similar priority needs to be given to research to develop new energy efficient technologies. The development of a European framework of incentives to promote renewables could significantly boost their use. The present patchwork of differing national and regional systems creates artificial barriers between national markets, holding back the potential of promising new technologies.

- Developing a more **focused, coherent and integrated approach to ensuring the security of energy supply** in Europe, including with respect to emergency mechanisms, is also needed. The Community and Member States should speak with one voice in international fora and with third countries supplying energy to the Community.

The Commission will set out ideas on how these priorities can best be pursued at Member State and Community level in a green paper to be published in the first quarter of this year.

4. FOLLOW-UP AFTER THE 2006 SPRING EUROPEAN COUNCIL

It is important to maintain the momentum following the European Council, to bring our vision of a stronger Europe with higher growth and more jobs to life. To this end, the following steps are proposed over the coming months:

4.1. Implementation and monitoring of national reform programmes:

- Effective implementation of the national reform programmes and their contribution to growth and jobs must now become the prime focus of attention. Over the coming months, the Commission therefore intends to work closely with the Member States to help them with their efforts and to monitor progress. Consultations with national (and regional) parliaments, local authorities, social partners and other stakeholders will need to be pursued, particularly where there has not been sufficient time during the preparation of the programmes to receive input and engage in dialogue[12]. As Lisbon is a medium-term agenda, such a dialogue and contacts will need to take place on a regular basis;

- Another logical step will be for the Commission and Member States to discuss (both collectively and bilaterally) how the national reform programmes can be strengthened and developed, with due respect to national traditions, to take more account not only of the Community dimension, but also of the impact of policy decisions by other Member States. The Commission will organise this process. At the same time, the Commission will continue to seek improvements in the way it contributes to the success of the partnership. Member States which have not yet set targets with regard to future R&D spending and/or the employment rate should do so before the 2006 Spring European Council;

- Member States should ensure coherence between their national reform programmes and the use they will make of cohesion and rural development funding under the new financial perspectives. Member States should take into account the macro-economic impact of transfers from the structural funds in the short term, particularly where these amount to several percentage points of GDP. The Commission will work closely with Member States as they draw up their national strategic reference frameworks to ensure that the new generation of cohesion policy programmes reflects the priorities contained in the national reform programmes and the 4 priority actions highlighted under section 3. They should put in place appropriate mechanisms to provide the necessary coordination between both processes at national and regional level. In the context of the new cohesion programmes, the new Member States are encouraged to earmark the resources of the structural funds for measures in pursuit of the Lisbon objectives, as is already agreed for EU-15[13];

- The national reform programmes contain a wealth of interesting policies on the basis of which Member States should exchange experiences. The Commission will identify some specific policy areas where the scope for mutual learning is particularly large and organise meetings with Member States representatives to discuss specific policy ideas. Member States should seek to apply the most promising policy ideas included in other national reform programmes. The Commission and Member States should also ensure that EU open

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[12] UNICE and ETUC in a statement issued on 15.03.2005 welcomed the launch of the new Lisbon Strategy, committing themselves actively to work in support of the growth and jobs agenda. They have just agreed a work-programme for 2005-2008 in support of the strategy.

[13] For the convergence objective, the earmarked resources should represent a minimum of 60% of the total funding, whereas for the regional competitiveness objective it should be 75%.

coordination in the areas of education and training, social protection and social inclusion makes a strong contribution.

Member States are invited to take the elements above into account when drawing up their annual reports later this year.

4.2. Delivery of Community action

- The Council, the European Parliament and the European Commission should finalise the financial perspectives 2007-2013 and Council and European Parliament should adopt the necessary legal instruments as quickly as possible to be in time to allow investment of the growth and jobs agenda as from 1st January 2007;

- The Community Institutions will need to bring swiftly into force the measures foreseen in the Community Lisbon programme, and especially those which are required to implement the decisions taken by the European Council with regard to the four key actions proposed in the previous section. The Commission will work with Member States (including the Lisbon national co-ordinators) to ensure that all necessary steps are taken for these four actions to be fully implemented by the end of 2007. To this end, it will propose a roadmap setting out the steps required and key dates for their completion. On the basis of the Commission's next assessment of the implementation by Member States of their national programmes, the Commission will identify the necessary measures to complement Member States' efforts – and update the Community Lisbon programme accordingly.

As regards both the Community Lisbon programme and the national reform programmes, the Commission will take stock of developments in its Report to the 2007 Spring European Council.

4.3. Mobilising all players behind a common agenda

- Major communication efforts need to be made to increase awareness and ownership of the national reform programmes and of the Community actions towards more growth and jobs, by the Parliament, the Commission, European Economic and Social Committee, the Committee of the Regions, Member States, regional and local actors, civil society and social partners. As representative of the European citizens, the European Parliament has a key role to play in this enhanced communication effort - which should be closely co-ordinated with the national and regional debates on the future of Europe;

- Social partners are invited to play an even greater role in the development and implementation of the renewed Lisbon Strategy, particularly by making joint proposals on how they can directly contribute to its success. The Commission proposes that the Presidency of the Union holds an extraordinary Social Summit devoted to identifying concrete steps to making progress in all of the actions proposed in this Communication and in particular to deal with the impact of globalisation and demographic change on more and better jobs.

Appendix

List of illustrative examples of Member States' policies and measures in support of the growth and job objectives, particularly in the four priority areas identified in section 3

R&D and innovation

About half of the Member States use fiscal incentives to stimulate private R&D and several other Member States intend to apply such measures as well. Spain is considering reducing taxes for firms investing in R&D, as the Netherlands is doing already. Hungary will simplify its tax allowance scheme and France will triple its tax credits for research by 2010.

Spain, Denmark and Estonia have specific programs aimed at increasing the number of researchers in enterprises. Germany has launched an 'Excellence Initiative' to promote excellent research at universities. This initiative aims at developing some of Germany's universities into international top locations for scientific research.

Italy is developing centres of excellence for teaching and research, including the Euro-Mediterranean university distance-learning system, and promoting mobility of teachers and students throughout the Mediterranean region. Spain and Portugal have created a joint research institute.

Slovakia, Spain and France plan to introduce monitoring and evaluation systems in order to improve the effectiveness of public R&D spending.

In France, 'Pôles de Compétitivité' are being established as public private partnerships. These 'Pôles' will support and coordinate a number of complementary policies for businesses of which R&D is pivotal. A recent Slovenian cluster initiative has already yielded promising results: 18 cluster offices facilitating cooperation between 350 companies and 40 education/research institutes were operational by 2004. In Lithuania, the government is establishing an Institute of Technology assisting business in research, technological development and innovation.

In Ireland, measures have been taken to promote commercialisation of public research results by licensing it to the private sector or by helping researchers to bring their ideas to a marketable stage and help them achieve commercial success.

Italy is addressing shortcomings in the area of intellectual property rights (IPR) through a set of measures aimed at improving companies' patenting capabilities and by reducing patenting costs. In Germany, the patent exploitation agencies will be further developed and expanded. In Belgium the federal government, the European Patent Office, research centres and universities are cooperating in an initiative to support SMEs in using the IPR system. Latvia has developed a public support programme to protect and enforce IPR and raise awareness in the business community.

Improving the business environment and the functioning of markets

Latvia has made a strong political commitment to implement Community law backed up by concrete targets and deadlines to ensure timely and correct transposition of internal market directives. Ireland has strengthened its internal procedures for monitoring implementation of Community directives. In order to avoid complicating legislation, several Member States *actively discourage adding provisions when implementing Community directives (Austria, the Netherlands). In order to avoid late implementation, some Member States have put in place fast-track procedures (Italy, France).*

Many Member States have made great strides in e-government, such as setting up one-stop shops for business' and citizens' enquiries (Belgium, Estonia, Finland, France, Ireland, Italy, Poland, Portugal). This cuts paperwork and considerably reduces response time. One can start up a business in less than two weeks in Denmark, France, the Netherlands, Italy and Finland. There is only one procedure to fulfil when hiring the first employee in Lithuania; two in the case of the UK, Sweden and Ireland.

Many Member States (Austria, Belgium, Cyprus, Czech Republic, Denmark, Estonia, France, Germany, Lithuania, Luxembourg, the Netherlands, Portugal, Slovenia, the UK) are carrying out - or intend to carry out - analyses of the administrative costs imposed by legislation. A significant number of them are using variants of the standard cost model initially developed in the Netherlands and whose features have inspired key aspects of the EU common methodology proposed by the Commission to the Council and the Member States in October 2005. Five countries (Czech Republic, Denmark, the Netherlands, Sweden and the UK) have also set quantitative targets for reducing administrative costs (ranging from 20 to 25% reductions by 2010).

Eight Member States (Austria, Estonia, Germany, Italy, Poland, Slovenia, Spain and the UK) are planning to launch simplification programmes, in addition to the four Member States (Denmark, Ireland, Luxembourg, Sweden) which have already done so. The focus is on improving legislation on tax, audit and fiscal measures, setting up business, insolvency and labour and consumer protection.

Many countries, including Ireland and the Netherlands have removed specific restrictions to market access in liberal professions, financial services and energy markets. Slovakia is identifying barriers preventing the opening of the power supply market and will define measures for their elimination. It is also taking steps to improve competition in financial services. The UK will implement measures promoting competition in legal services. Estonia intends to implement a pro-active competition policy through sector analysis and awareness-raising of competition law. Denmark is undertaking a screening of domestic rules to remove obstacles to imports and investments into the country ("Task Force for the Internal Market" – TIM).

Cyprus will evaluate all existing and new aid schemes to check whether they adequately address market failures. Finland will review its subsidy policy with a view to reducing its overall volume and ensuring that aid does not distort competition.

Slovakia has launched an initiative to set up a Central European Stock Exchange addressing a lack of equity markets not only in Slovakia but also in neighbouring countries. Hungary and the Czech Republic are invited to participate. The Slovakian domestic market is too small to support a well functioning and liquid equity market; cooperation between several countries is therefore necessary.

Portugal proposes several programmes to support the internationalisation of businesses. It is also implementing a specific programme to accelerate industrial transition and restructuring.

Lithuania plans to organise promotion campaigns around successful business examples in order to promote the image of entrepreneurship amongst the general public. The UK is providing five days of enterprise courses at schools to all pupils aged 14-16. Spain plans to address the fear of stigma of failure by enabling students at all school levels to learn about the value of entrepreneurship and business failure.

A number of countries have also taken interesting initiatives to strengthen access to capital for SMEs; for example, the Czech KAPITAL programme, the Finnish PreSeed package and the UK Enterprise Capital Funds. Denmark plans to introduce a tax relief for growth entrepreneurs. The relief starts when the entrepreneur generates profits for the first time and is granted for three years.

Employment, financial sustainability and demography

A number of Member States have improved the quality of their government finances, taking into account their national priorities, with the view to raising the long-term potential of their economies. For instance, Denmark, the UK, Ireland and Finland have significantly increased government expenditure in education, with the view to increasing productivity and employability of the labour force.

Several Member States have improved the financial sustainability of their pension schemes. Belgium, Spain, France, Austria, Portugal and Finland have all strengthened the link between contributions and benefits, for example through making the number of contribution years a more important criteria regarding retirement than the age of the retiree, or by allowing early or late retirement with corresponding changes in benefits.

A number of new Member States (Estonia, Latvia, Lithuania, Poland, Hungary and Slovakia) have diversified the risk of pension systems by switching part of the statutory social security pension into private funded schemes. Sweden, Italy, Latvia and Poland have set up schemes, where pension benefits are directly linked to contributions paid during one's working life and also depend on life expectancy at retirement. France has decided to increase the required contribution years for a full pension in line with increasing life expectancy. Germany has introduced a sustainability factor in the indexation of its public pension scheme making indexation depend on the ratio between the numbers of the employed and pensioners. Such changes have improved the financial sustainability of pension schemes even if some challenges remain in the face of ageing population.

Pension reform is an important factor explaining the large increase in the employment rates amongst older workers since 2000 in some Member States. Finland, for example, has significantly increased the employment rate for older workers (from 35% in 1995 to 50.9% in 2005) as a result of changes to the pensions system as well as targeted training, more attention to older workers' well-being in the workplace and targeted subsidies for low-paid jobs.

The Irish Skill-nets programme makes it easy for companies to access flexible, innovative and cost-effective training. The initiative has already helped to upgrade the skills of some 30.000 staff. Estonia is planning to reform vocational training and Luxembourg intends to set up a system of recognition of non-formal learning.

Austria aims to fill 5000 vacancies which are currently hard to fill because the wage is too low (in many cases because the jobs in question are part time). The new 'Kombi-Lohn', *rewards both employer and worker if a vacancy is filled. Target groups are young people unemployed for more than 6 months and older workers unemployed for more than one year.*

The Netherlands has taken concrete measures to encourage workers to spread work, care and education more evenly over the lifecycle. A new voluntary savings scheme will enable workers to save a percentage of their wage to cover periods of leave, such as care leave, education or other. Savings are fiscally supported.

Slovakia is seeking to improve the work/life balance of young families. Schools and pre-schools will have longer opening hours. The state supports new day-care facilities for small children, facilitates part-time work and has put in place individual support programs for women returning to the labour market after maternity/parental leave.

In Greece, a new law reforms the national life long learning system. A committee will be co-coordinating the national efforts, encouraging business oriented education, implementing best practices and tackling exclusion.

Energy and environmental technologies

The Nordic countries have set up an integrated market for buying and selling electricity. Additional connections between the Netherlands and Norway, between Finland and Estonia and between Denmark and Sweden will facilitate trade and support power generation also from alternative sources such as water and wind, reducing harmful emissions.

Austria, the Czech Republic, Cyprus, Malta and the UK are taking steps to use public procurement as leverage to promote environmental technologies and energy efficiency. Germany provides incentives to promote energy savings in buildings, and has launched a major renovation programme. Cyprus has elaborated a concrete plan and timetable to address environmentally-harmful subsidies in order to review, reform or abolish them.

Sweden aims to break the dependence on fossil fuels by 2020. To do so, Sweden will apply green taxes, support wind power and a green electricity certificate. This certificate makes it mandatory to buy a certain share of one's electricity consumption from renewable sources. Denmark and Sweden have already a high proportion of environmental taxes in their fiscal panoply and intend to further develop them. Estonia this year launched an ambitious environmental tax reform with the view to shift the tax burden of labour to consumption and pollution and thereby promoting the sustainable use of natural resources.

Supportive national and regional policies for wind power in Germany, Spain and Denmark are showing results. Germany has more than one third of world wind power capacity and wind accounts for 6.5% of Spain's electricity output. In Denmark, the wind power manufacturing industry is a major commercial success. The sector has grown faster than any other business sector and Danish turbines now dominate the world market. The industry provides jobs for over 20,000 people in Denmark. The UK is negotiating with oil suppliers for a higher share of bio fuels in gasoline.