



**COUNCIL OF
THE EUROPEAN UNION**

Brussels, 18 December 2007

16714/07

**ECOFIN 519
COMPET 442
SOC 543
ENV 721
EDUC 224
RECH 433
ENER 326**

COVER NOTE

from: Secretary-General of the European Commission,
signed by Mr Jordi AYET PUIGARNAU, Director

date of receipt: 17 December 2007

to: Mr Javier SOLANA, Secretary-General/High Representative

Subject: Communication from the Commission to the Spring European Council
Strategic report on the renewed Lisbon strategy for growth and jobs: launching
the new cycle (2008-2010) - Keeping up the pace of change (Part I/V)

Delegations will find attached Commission document COM(2007) 803 final (Part I).

Encl.: COM(2007) 803 final (Part I)



COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 11.12.2007
COM(2007) 803 final
PART I

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

**Strategic report on the renewed Lisbon strategy for growth and jobs: launching the new
cycle (2008-2010)**

Keeping up the pace of change

KEEPING UP THE PACE OF CHANGE

By re-launching the Lisbon strategy in 2005, and refocusing it on growth and jobs, Europe has come a long way. There has been a significant and permanent change in the way the Union works: a close partnership and a clear division of responsibilities between Member States and the Commission have made possible a big step forward.

The results are already visible. The economy is performing much better than it was in 2005. The growth figures are strong. Almost 6.5 million new jobs have been created in the last two years. Another 5 million are expected to be created up to 2009. Behind these figures stand millions of Europeans who have been lifted out of the misery of unemployment and whose lives have changed for the better.

Of course, some of the current upturn is cyclical. But structural reforms implemented by Member States and the Union within the framework of the Lisbon strategy in the last few years have made a difference, and they are the best protection against a cyclical downturn.

The Lisbon Strategy is the EU's vehicle for accompanying change. This makes it an essential part of the Union's response to globalisation, helping Europeans to shape this new set of challenges and opportunities.

Reform can be tough. It can sometimes be unpopular. But the path of reform is the only one in tune with today's needs. Our success so far should spur us on to further efforts in the next cycle of the Strategy.

This means keeping up the pace of change. Too many Europeans are still unemployed. We do not yet have the best environment for business to grow. Europe is still fragmented when it comes to fostering innovation and research and development; the contribution from the private sector is still insufficient. We have only just begun to transform the EU into a low-carbon economy. Given the risk of a global slowdown in growth, it is essential to press ahead with reform and increase the resilience of our economies.

The Lisbon strategy requires strong leadership. When Europe gives that leadership, action follows. The priority actions agreed by the 2006 Spring European Council have generated real momentum. It is now much easier and quicker to set up a business in most Member States. Common principles on flexicurity have been agreed. This provides a strong basis for a fresh political impetus.

We have to build on this momentum and agree on a focused list of ambitious new actions. Here are a few examples of what we need to do together:

- reduce the number of early school leavers to ensure that no one is left behind in the age of globalisation;
- give Europe a new "fifth freedom", the free movement of knowledge, to allow Europe to capitalise on its creative potential;
- roll out high-speed internet to stimulate innovation and keep Europe at the forefront of the internet age;

- stimulate small and medium sized enterprises through a Small Business Act for Europe;
- improve substantially the energy efficiency of our buildings, using our huge procurement budgets to drive change;
- reinforce the education-research-innovation triangle, notably through the establishment and operation of the European Institute for Innovation and Technology (EIT) and the Joint Technology Initiatives (JTI).

Europe has a unique opportunity to transform itself into a creative, modern innovation-friendly, low-carbon economy, with a dynamic business environment, a highly-skilled work force and high-quality education, underpinned by a strong social model. The Lisbon Strategy for growth and jobs is part of helping Europeans to prosper with an agenda of access, opportunity and solidarity which will enable us to benefit from being open to the wider world and to shape globalisation to reflect European values.

José Manuel Durão Barroso

Brussels, 11th December 2007

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1. INTRODUCTION

With the re-launch of the Lisbon Strategy in 2005, the European Union and its Member States committed themselves to a new partnership aimed at securing sustainable growth and jobs.

Almost three years later, the results of this partnership are clearly visible. Economic growth has risen from 1.8% in 2005 and is expected to reach 2.9% in 2007 and 2.4% in 2008. While most of the recent upturn is cyclical, structural reforms in the Member States have also contributed. Almost 6.5 million new jobs have been created in the last two years. Another 5 million jobs are expected to be created up to 2009. Unemployment is expected to fall to under 7%, the lowest level since the mid-80's. The employment rate, currently at 66%, has moved much closer to the overall Lisbon target of 70%. For the first time in a decade, strong increases in employment have gone hand in hand with robust productivity growth. Standards of living in the Member States that recently joined the EU are visibly rising.

However, not all Member States have undertaken reforms with equal determination. Reforms in some areas, such as opening up markets and tackling labour market segmentation, have lagged behind. At the same time, the context is becoming less favourable as a result of a global economic slowdown, financial turmoil and higher commodity prices.

At the Informal European Council in Lisbon in October 2007, Heads of State and Government discussed the European response to globalisation¹. They confirmed the central place of the renewed Lisbon strategy and called for it to be deepened during the next cycle. They also emphasised that the EU should use the Strategy to help shape globalisation in line with its own values and interests. The Union's model of development, combining competitiveness with solidarity and sustainability, and its long experience of economic integration, can be major assets in the age of globalisation. With the signature of the Lisbon Treaty, the EU will enter a new phase. Having resolved key institutional questions, the EU can now turn its attention to the issues that directly affect its citizens in their everyday lives.

The first part of this Communication to the 2008 Spring European Council sets out the Commission's proposals for taking the Strategy forward. While underlining the importance of macro-economic stability, it emphasises the need to implement outstanding reforms to reinforce the fundamentals to sustain solid economic growth in the future and help the EU withstand adverse developments in the global economy.

The second part consists of an assessment of progress made by each Member State (and the euro area) in the implementation of its National Reform Programme and of the country-specific recommendations, as adopted by Council². The third part is a companion document containing a detailed assessment of progress by policy area³. The Lisbon package furthermore contains: (1) a proposal for a Council recommendation to update the country-specific recommendations and 'points to watch'; (2) a proposal for a Council recommendation to reaffirm the Integrated Guidelines for growth and jobs; (3) a new Community Lisbon

¹ "The European Interest: Succeeding in the Age of Globalisation" - COM(2007) 581.

² Council Recommendation 2007/209/EC of 27 March 2007 (OJ L 92, 3.4.2007).

³ As far as the employment part is concerned, this also serves as the basis for the Joint Employment Report. It also includes a summary of the mid-term assessment of the growth initiative.

Programme; and (4) an analysis of the reorientation of the structural funds in support of growth and jobs.

2. STRUCTURAL REFORMS IMPLEMENTED DURING THE FIRST LISBON CYCLE (2005-2008)

Although there is a broad consensus on what needs to be done, the pace of delivery has been uneven. All Member States have implemented substantive reforms since 2005 but some have responded more robustly to the challenge than others. Some signs of "reform fatigue" have become apparent over the last twelve months.

On the positive side, budget deficits have been reduced from 2.5% of GDP in 2005 to a forecasted 1.1% in 2007, whilst public debt has declined from 62.7% in 2005 to just below 60% in 2007. Nonetheless, the opportunity to use the relatively strong growth conditions to reduce structural deficits has not been fully seized, especially in the euro area.

In some Member States, the improving growth conditions have been accompanied by a gradual build-up of imbalances, as witnessed by large current account deficits with signs of overheating, a loss of competitiveness, increasing household indebtedness as well as rapidly rising house prices.

The euro has been an anchor of stability. It has facilitated the functioning of the single market to the benefit of the euro area and the EU as a whole. The potential estimated growth rate of GDP in the euro area has increased by 0.2 percentage points since 2005 to 2.25%, which is partly due to the effects of structural reforms.

Productivity growth reached 1.5% in 2006, compared to an annual growth rate of 1.2% between 2000 and 2005. However, Europe is still lagging behind other leading economies both in investment in information and communication technologies (ICT) and in terms of their use to enhance productivity. Opening up network industries and services to competition has been slow and important obstacles to market entry remain. Some Member States lag behind with the implementation of internal market directives. Likewise, efforts to improve the intellectual and industrial property framework and to speed up standardisation have not borne fruit.

The EU's better regulation agenda is gradually being put in place, although many Member States still need to implement the necessary instruments, including impact assessments and methods to measure and reduce administrative burdens.

It is now much easier and cheaper to start a business in almost all Member States. Europe, as a whole, however, does not yet have a dynamic entrepreneurial culture. Too often, efforts to improve the business environment are made in a piecemeal way as opposed to being part of an integrated approach geared towards the growth of SMEs. Whilst Member States have set targets committing themselves to significantly increasing R&D investments which would help the EU approach its 3% of GDP target by 2010, the evidence does not yet reflect this ambition.

Employment growth has been impressive, although some regions and groups have benefited less. Many Member States have begun to reform their pension and early retirement systems. This has contributed to a large and sustained increase in the employment rate of older workers, although the 50% target is still some way off. The employment rate for women has

increased significantly (at 57.2%, it is approaching the 60% target), even though Member States should take further steps to promote gender equality on the labour market.

About half of the Member States have developed - or are developing - policies on the basis of a 'flexicurity' approach. Yet the policy response remains fragmented. A sustained move from passive to active labour market policies is underway. Member States are reforming social security systems, especially through changes to their tax and benefit systems, so as to balance rights and obligations. More flexible labour contracts for particular categories (e.g. new entrants) have been introduced but have not been backed up sufficiently by opportunities to acquire new skills which can help people to advance in the labour market. The more difficult task of reforming the rules governing other kinds of contracts has received little attention. As a result, many labour markets remain segmented, with well-protected insiders and more precarious outsiders on contracts with uncertain prospects.

Equally, lifelong learning falls far short of what is required, particularly among the low-skilled, who need it most. Education and training systems are not yet sufficiently responsive to labour market needs.

The EU has made the first steps towards transforming itself into a low carbon society. There is progress in meeting the overall EU Kyoto target and, at the Spring 2007 European Council, the EU committed itself to ambitious targets for greenhouse gas reduction and increasing the share of renewable energies by 2020.

A detailed account of progress at Member State level can be found in Part II of this Communication.

3. DEEPENING THE LISBON STRATEGY IN THE NEXT LISBON CYCLE

Although the economy is in better shape than in 2005, the EU goes into the new Lisbon cycle against a background of slowing global growth and risks arising from the financial turmoil and rising oil and commodity prices. Now is therefore the time to decide to deepen the implementation of the Strategy to bolster confidence and strengthen economic fundamentals to weather possible economic downturns.

3.1. Pressing ahead with reforms at national level

The key challenge for Member States during the next cycle is to implement the outstanding reforms, particularly in those areas which are detailed in the country-specific recommendations and 'points to watch'.

Given that it takes time to implement reforms and see their results, the Commission proposes to maintain the current set of recommendations largely unchanged and to fine-tune them in the light of progress made since their adoption in spring 2007.

In order to maximise their impact on growth and jobs, the new generation of EU Cohesion policy programmes are required to " earmark " over 60% of these funds⁴ in support of the

⁴ The earmarked categories must account for a minimum of 60% in the less developed regions eligible under the Convergence programmes and 75% in the relatively more prosperous regions eligible under

National Reform Programmes (NRPs). € 347 bn will be available for cohesion in the period 2007-2013. This will be complemented by national public and private co-financing of some € 160 bn. In total, € 70 bn will be mobilised annually up to 2013, mostly in support of the NRPs. Now that the programming phase has been completed, it is important to ensure that expenditures reflect the earmarking commitments and are not subsequently shifted to lower priority areas.

Local and regional authorities are already actively involved in the renewed Lisbon Strategy through the programming and implementation of earmarked cohesion programmes. Further efforts are necessary to reinforce wider stakeholder involvement, and to intensify the exchange of experience, ideas and best practice, which is already a major strength of the strategy. In this context, the Commission welcomes the strong interest of the European Parliament, the European Economic and Social Committee and the Committee of the Regions in particular to monitor the extent of stakeholder involvement in the strategy.

3.2. Strengthening economic policy co-ordination

Member States' economies are highly inter-dependent. There are many benefits to be gained if all move in the same direction and if reforms are aligned in time. The new governance of the Lisbon strategy, with its emphasis on partnership between EU and Member States, has proved its worth. The integrated guidelines are a key instrument for closer economic policy co-ordination under the renewed strategy. They offer a general framework within which Member States at different stages of development and with different social systems and institutional frameworks can pursue their own national reform agendas and are sufficiently broad to allow for adjustments in the light of changes to the policy environment. There is broad consensus among Member States and stakeholders that the guidelines should not be changed and that the focus should be kept on implementation⁵.

For these reasons, the Commission proposes to re-affirm the current guidelines for the next cycle, whilst updating the explanatory notes which explain the context within which they should be implemented. This includes, for example, putting a stronger emphasis on measures aimed at investing more in people and at modernising labour markets. Member States should review their NRPs to ensure that they are up-to-date for the new cycle and should continue to include a broad range of stakeholders in their development and implementation.

Experience over the last three years has shown that the co-ordination of reforms should be strengthened further. The Commission therefore proposes that Member States discuss their specific policy responses to the country-specific recommendations and 'points to watch' as part of the multilateral surveillance process in Council. To structure the debate, each Member State should, as part of its implementation report, submit an action plan in which it sets out the measures it will take to follow-up the recommendations and/or points to watch.

In addition, the argument for coordinating reforms is even stronger in the euro area. Proposals for more effective co-ordination and governance in the euro area will be part of the review of the functioning of EMU to mark its tenth anniversary, which the Commission will present before summer 2008.

the Competitiveness and Employment programmes. These thresholds apply on a voluntary basis to Member States that joined the Union after May 2004.

⁵ Evaluation of the Integrated Guideline Package for Growth and Jobs, Draft Final Report, October 2007, Eureval and Rambøll Management and Ecofin Council conclusions (13.11.2007).

3.3. Reforms needed at Community level, including the Community Lisbon Programme

The new Community Lisbon programme (CLP) is the Community's contribution to the renewed Lisbon Strategy. It should be seen as the counterpart to the NRPs, setting out those Community actions which add the greatest value to reforms undertaken by Member States, and which will produce the greatest impact on growth and jobs. While some CLP measures only require adoption by the Commission, most also require adoption on a priority basis by the Council and Parliament. There is a need for a concerted political drive by all the EU institutions to reach agreement on these measures in the next cycle to boost growth and jobs. The full CLP is presented in a separate Communication.

It is important at Community level to close the remaining gaps in the single market, particularly in services, so that the full benefits of national reforms can be reaped. The Commission has recently presented its vision for a single market for the 21st century⁶. Some of the proposed measures will be taken forward through the CLP. They aim to empower consumers and small businesses and improve the implementation and enforcement of single market rules, for instance through "single market centres" at national level and regular monitoring of price developments for consumer goods. Enforcing consumer legislation will help consumers exercise choice of producers, thereby promoting competitiveness.

3.4. Shaping the external agenda

Whilst the EU needs to protect its citizens, its interests and its values, protectionism cannot be the solution. As the world's leading trader and investor, its openness allows lower cost inputs for industry, lower prices and a wider choice for consumers, a competitive stimulus for business, and new investment.

Globalisation is the context within which the Lisbon strategy operates and this must be built more effectively into its delivery. This can be done in a number of ways:

- the EU should use all its instruments to ensure that its openness is maintained and matched by increased access to third country markets for its companies:

Multilateral negotiations, in particular, the successful conclusion of the Doha Trade Round, and on-going bilateral trade deals must be used to open new market opportunities and remove tariff and other barriers to trade⁷. They should also be used to promote a rule-based approach supporting high standards of social and environmental protection. In addition, the Commission will report annually on market access, identifying countries and sectors where significant barriers remain. This should normally give rise to consultations with the countries concerned. If problems remain, the use of Community trade instruments and/or action in the WTO should be considered. Particular attention will be paid to improving access to procurement markets and enforcement of intellectual property rights, fair competition, as well as to market access for SMEs.

⁶ "A Single Market for 21st Century Europe" - COM(2007) 724.

⁷ "Global Europe: Competing in the world – a contribution to the EU's growth and jobs strategy" - COM(2006) 567.

- the EU should upgrade its strategic dialogues with key third countries to develop mutually beneficial solutions, promote higher standards and greater regulatory convergence:

Thanks to its experience with the single market, the EU can contribute specific expertise (e.g. on market integration, social protection, employment and workers' rights, health care, environmental protection, competition rules, customs) which could be beneficial to its key partners, whilst discussions could also lead to solutions in areas where the EU has strategic interests (e.g. market access, energy, climate change, managing migration, decent work, technological standards and IPR, SME policy). New approaches, taking account of the specificities of each partner, should be developed, such as the recently launched Transatlantic Economic Council. Particular attention should be paid to the neighbourhood of the Union.

3.5. Integrating national, Community and international action into an effective policy response

The 2006 Spring European Council agreed four priority areas as the pillars of the renewed Strategy (knowledge and innovation, unlocking business potential, investing in people and modernising labour markets, energy/climate change). These areas are inter-related; if pursued in parallel, they constitute an integrated policy approach.

In each of these four areas, the 2006 Spring European Council also endorsed a limited number of specific, concrete actions for delivery by the end of the first cycle. The success rate in implementing these actions is good. For example, it is now possible in all but a few Member States to start up a business within one week by means of a one-stop shop. Agreement has been reached on a common set of flexicurity principles. The reduction of administrative burdens was given a strong impetus following the decision of the European Council to set a 25% target. These examples show that the renewed Lisbon Strategy can be used to deliver direct and tangible benefits to business and citizens. All this constitutes a solid platform from which the European Council can provide a further impulse to the implementation of the Strategy by agreeing on a limited set of further actions for delivery by 2010.

The renewed Strategy is built on a partnership approach, which recognises that, to address the common challenges, each level needs to play its full part. The priority areas are a way of bringing the different levels together. Where the actions have to be implemented by Member States, they should find their way into the NRPs; where they require Community-level action, they should be pursued through the CLP. Moreover, many of them can only be realised if they are backed up by a pro-active external policy designed to help the EU shape globalisation and benefit from the opportunities it offers.

4. ACTIONS IN THE FOUR PRIORITY AREAS

4.1. Investing in people and modernising labour markets

'Flexicurity' strikes a balance between flexibility and security on the labour market. It aims at ensuring that all citizens can enjoy a high level of employment security i.e. that they can easily find a good job at every stage of their active life. It helps employees and employers alike to seize the opportunities globalisation offers. After the agreement reached between the social partners, the European Council is invited to endorse the Commission's proposal for

common principles on 'flexicurity'⁸. Member States should now implement them, tailoring them to their own specific situations.

Reinforced efforts to fight poverty and social exclusion and integrate people at the margins, in particular through active inclusion policies, are crucial. Reducing poverty is at the heart of the renewed Lisbon Strategy through its emphasis on growth and jobs and implementing measures which invest in people's capacities, provide equal opportunities, adequate social protection and the provision of good quality jobs. Support for low-skilled workers, migrants and disabled people needs to be reinforced, notably by fostering skills development.

Investing more in education and skills throughout people's lives is not only critical to Europe's success in the age of globalisation, it is also one of the most effective ways to fight inequality and poverty. At a very early age, children develop the ability to acquire knowledge during the rest of their lives. Later on in primary and secondary education, reading skills becomes a pre-requisite for advancement. However, one out of every five 15-year olds in Europe cannot read sufficiently. One out of every six 18 to 24-year olds has dropped out of school with no more than lower secondary education. This makes it very difficult for them to enter and progress in the labour market. Many end up as long-term unemployed. Europe has not made any substantial progress in meeting its targets in this area. A determined effort must be made to raise the basic skills of young people and to drastically reduce early school leaving. What is needed is to concentrate resources over a period of years in order to make a step change.

Learning abroad can be an important stimulus for personal development and language skills. The Erasmus programme has enabled almost two million young Europeans to study abroad. More young people should be able to benefit from it so that, in time, it becomes a standard part of university education.

Ensuring that qualifications learnt on the jobs are recognised across Europe will greatly increase the incentives for people to go on acquiring new skills throughout their working lives. The recently agreed European qualifications framework will help to achieve this, provided Member States move rapidly to relate their national qualification systems and frameworks to it.

Skills development and life-long learning support 'flexicurity' policies by enhancing flexibility, employment security and mobility between jobs. Stronger and more focused vocational training policies must be developed to respond to the challenge of active ageing and contribute to raising productivity and employability. The European Social Fund can contribute significantly to such an effort.

More should be done to forecast and monitor future skills needs and, with pressing labour and skills shortages in an increasing number of sectors, Europe will need to improve regional and national labour mobility, as well as define a regulated immigration policy. Such a policy must be accompanied by measures to improve the economic and social integration of immigrants.

Accompanying the single market review, the Commission has set out its vision for an agenda of access, opportunity and solidarity and launched a public consultation to seek views on these crucial issues. This will feed into a renewed Social Agenda to be adopted by mid-2008.

⁸ "Towards common principles of flexicurity – more and better jobs through flexibility and security" - COM(2007) 359.

To invest more in people through a life-cycle approach in employment and education, to modernise labour markets and to reinforce social inclusion:

Community action:

- *the Commission will propose a renewed **Social Agenda** by mid-2008 based on opportunities, access and solidarity, taking account of Europe's new social realities and covering notably issues such as youth, education, migration and demography;*
- *the Commission will make proposals to address the skills gap by improving the forecasting and monitoring of **future skills requirements** in Europe;*
- *the Commission will make proposals for a common policy on **immigration** in 2008.*

Member States should:

- *implement the agreed common principles on '**flexicurity**' by defining national pathways within their NRPs by end 2008;*
- *increase the availability and affordability of quality **childcare** in line with national and Community targets;*
- *draw up action plans and set targets to substantially reduce **early-school leaving** and improve basic **reading skills**;*
- *link up national and regional programmes to the **Erasmus programme** to increase the number of students participating in international exchanges;*
- *by 2010, draw up national **qualification frameworks** aligned with the European framework.*

4.2. Unlocking the business potential, especially of SMEs

The business environment in Europe has been improved as a result of Member States implementing the 2006 Spring European Council decisions to introduce one-stop shops and reduce the time to set up a business to one week or less. The EU now needs to go further and agree an integrated policy approach which tackles obstacles at all stages of SME development and which enables more of its small businesses to grow into bigger companies that compete successfully in the global market place. This approach could be encapsulated in a Small Businesses Act, setting out both principles and concrete measures to support SMEs throughout their life-cycle.

A clear priority for the Union is to close the important gaps in the single market, particularly in services, so that the full benefits of national reforms can be reaped. The complete and timely implementation of the services directive will not only create a genuine single market for services but also offer a major opportunity to streamline procedures, remove red tape, facilitate market access and accelerate the introduction of interoperable e-government applications.

Europe's better regulation agenda is starting to produce results and administrative burdens should be reduced by 25% at EU level. Member States have committed themselves to equally ambitious targets at national level. An important part of improving the business environment for SMEs, and an underestimated source of innovation, is the modernisation of public

administrations, notably as regards their uptake of interoperable ICTs. As part of the better regulation agenda, many administrations are already responding to growing expectations; treating businesses and citizens as customers, using new technologies, promoting social innovation and making organisational changes to provide a transparent, predictable service and effective means of redress. The Commission will promote the exchange of good examples.

Unlocking business potential:

Community action:

- adopt a **European Small Business Act** setting out an **integrated policy approach** to unlock the growth potential at every stage of the life-cycle of **SMEs**;
- move towards the target to reduce EU **administrative burdens** by 25% by 2012 and implement an ambitious **simplification programme**;
- strengthen the **single market**, increase **competition in services** and take further steps to integrate financial services markets.

Member States action should:

- undertake sustained and consistent efforts to implement the **services directive** by end 2009; complete the screening and assessment of national legislation before end 2008 and, in parallel, set up single contact points and electronic procedures and introduce an effective system of administrative cooperation across borders;
- set and announce national **administrative burden reduction** targets before the 2008 Spring European Council;
- make full use of the opportunities offered by the implementation of the services directive and the better regulation agenda to continue **modernising public administrations**.

4.3. Investing in knowledge and innovation

Following decisions by the 2006 Spring European Council, Member States have set targets and taken steps to increase investments in research and development. The European Research Council and several Joint Technology Initiatives are being launched, based on Commission proposals. The European Institute for Innovation and Technology (EIT) is expected to start work in 2009. Under the new cohesion policy programmes, more than € 85 bn will be made available for investments in knowledge and innovation.

These are good first steps, but much more is needed to achieve Europe's ambitions. Member States should take additional measures to meet their R&D investment targets for 2010. This is particularly urgent as the EU's R&D ratio fell back slightly in 2006, as growth in R&D investment did not keep up with stronger GDP growth.

With globalisation, R&D is increasingly outsourced to other parts of the world. In Europe, the costs of protecting and enforcing innovations remain too high. Licences for distributing content are still nationally-based. The procedures for setting interoperable standards are far too slow. Spectrum is still managed in a fragmented way putting a brake on the development of new high-tech products and cross-border services. Too many barriers, including legal ones,

prevent universities, research institutes, companies and researchers from working together. This also holds back one of Europe's traditional strengths: the creativity and inventiveness of its people.

To reverse this trend Europe needs a "fifth freedom" – the freedom of knowledge – completing the four freedoms of movement of goods, services, people and capital. This "fifth freedom" should spur the EU's transition to an innovative, creative knowledge economy:

- one dimension is a genuine European research area where not only the framework conditions are in place to stimulate and reward innovation, but where the EU and national R&D programmes complement each other; where resources are allocated competitively geared towards excellence, where it is easy for universities and businesses to co-operate, where degrees are fully recognised and students, academics, researchers and skill workers can move around freely and cooperate easily with the worldwide scientific community;
- Europe must also pool its resources for a new generation of large-scale facilities for future laboratories and instruments which are indispensable for staying at the forefront of frontier research over the next decades. A common agenda identifying the priority research facilities ranging from lasers, telescopes and marine exploration to databases for cancer research has been agreed. As the resources needed to launch them exceed the capacity of any individual Member State, national decisions need to be taken now on how to join forces;
- information and communication technologies, driven by high-speed internet are key to raising productivity and stimulating innovation in Europe. Too many small businesses and citizens are not yet connected to high-speed internet which hampers their development and their innovation potential. Alongside increasing competition in telecoms markets, national plans are needed to ensure that, by 2010, 30% of Europe's population uses high-speed internet.

Making the "fifth freedom", the free movement of knowledge, a reality:

Community action:

- *improve the key **framework conditions** for innovation through an integrated patent jurisdiction and a single affordable patent; streamline the currently fragmented IPR rules, particularly to facilitate the circulation of content; accelerate the setting of interoperable standards and move towards more common spectrum management ; and improve access to venture capital;*
- *remove obstacles to the cross-border **mobility of researchers** based on a European "passport";*
- *pool EU and Member States' R&D resources to ensure their more effective use, by agreeing by end 2008 areas for joint programmes and launching common calls for projects by end 2010;*

- launch a **new generation of world-class research facilities** by drawing up by end 2009 roadmaps for the launch of the 35 commonly agreed projects⁹. For those projects of a global scale, launch a dialogue with interested international partners during 2008;

- improve competition for **high-speed internet** by adopting the telecoms review by May 2009.

Member States should:

- better co-ordinate efforts to improve framework conditions for **innovation**;

- indicate how national **R&D investment targets** for 2010 will be met and how their R&D strategies will contribute to realising a European research area;

- remove obstacles to the **mobility of researchers** between public and private research centres;

- draw up, by end 2008, national strategies identifying the **new generation of world-class research facilities** in which they will participate;

- as part of their NRPs, set national targets for **high-speed internet usage**¹⁰ aiming at a 30% penetration rate of the EU population and connection of all schools by 2010.

4.4. Energy and climate change

The 2007 Spring European Council committed itself to transform Europe into a low carbon economy with secure, sustainable and competitive energy. It agreed ambitious targets to cut greenhouse gas emissions, increase energy efficiency and boost the use of renewable energy by 2020. The challenge during the next cycle will be to put the framework and instruments in place to deliver these targets and to work with the rest of the world to agree similarly ambitious action within the UN framework.

The whole economy will need to gear up to reach such far-reaching goals. Market-based instruments, such as the emissions trading scheme (ETS), provide incentives to economic actors to reduce their emissions in the most cost effective way. A strengthened ETS should be complemented by action to realise legally-binding national targets on greenhouse gases and renewables: this will involve a mix of targeted regulation, effective use of economic instruments, such as subsidies, tax incentives or procurement, as well as steps to increase transparency, such as labelling or green accounting. The earliest gains can be made in the area of energy efficiency where governments can play a pioneering role. All of these efforts will need to be accompanied by sustained investment in research and development and active take up of new technologies, as outlined recently in the Commission's proposal for a Strategic Energy Technology Plan¹¹.

A more competitive and integrated internal energy market will make a major contribution to achieving secure, sustainable and competitive energy for the Union. This involves new

⁹ European Strategy Forum for Research Infrastructures (ESFRI), European Roadmap for Research Infrastructures, Report 2006 + Conclusions of the Council on 21-22.5.2007.

¹⁰ The Commission will monitor the development of the EU internet economy through a broadband performance index to be launched in 2008.

¹¹ "Towards a European Strategic Energy Technology Plan" - COM(2006) 847.

investments to improve infrastructures and interconnections, better stocks management, solidarity mechanisms and a more diversified energy mix. At the same time, all policies will need to adapt to the impact of climate change. Whilst climate change can be contained at acceptable levels with decisive global action, it cannot be prevented. Policies need to factor in this reality and minimise the social, environmental and economic impacts, while developing the potential of new technologies to enhance the competitiveness of EU industry.

Transform Europe into a low carbon and energy-efficient economy:

Community action:

- *adopt legislative proposals to complete the **internal electricity and gas markets** and the **climate change package** in order to put in place the framework to achieve at least a 20% reduction in greenhouse gas emissions and reach a renewables energy share of 20% by 2020;*
- *promote an industrial policy geared towards **more sustainable production and consumption**, focusing on renewable energies and low-carbon and resource-efficient products, services and technologies;*
- *review the **energy tax directive** to link it more closely to the EU's energy and environmental objectives;*
- *strengthen the requirements in the **energy performance of buildings directive**.*

Member States should:

- *review their **economic instruments**, including taxation, subsidies and charging, to ensure that they contribute to the fight against climate in a cost-effective way;*
- *urge contracting authorities to systematically include **energy efficiency** as one of the award criteria for public procurement;*
- *set mandatory energy reduction targets for government buildings;*
- *improve **inter-connection of energy grids**.*

5. FOLLOW-UP AFTER THE 2008 SPRING EUROPEAN COUNCIL

The renewed Lisbon Strategy for growth and jobs is already delivering results. Europe now has a common integrated agenda, a set of instruments to work in partnership on common challenges as well as an effective yearly monitoring of progress by the Spring European Council.

Everything is in place for the 2008 Spring European Council to **launch an ambitious next cycle**, by:

- adopting the actions within the four priority areas as set out in Section 4;
- re-affirming the integrated guidelines for the next three years;

- endorsing the Commission's proposals for country-specific recommendations and 'points to watch';
- calling on Member States to implement the remaining reforms in their National Reform Programmes and ensure that they have up-to-date NRPs for the new cycle; invite Member States as part of their annual implementation reports to present to Council and Commission concrete action plans setting out their specific policy responses and time-tables to implement the country-specific recommendations and 'points to watch';
- endorsing the new Community Lisbon programme;
- calling on Member States to work with national and regional parliaments with a view to organising annual debates on the implementation of their NRPs and country-specific recommendations;
- calling on Member States to ensure that cohesion funds are used in accordance with the earmarking provisions so that they produce maximum impacts on growth and jobs;
- encouraging the Lisbon National Co-ordinators to continue to exchange experiences on reform, in particular in the four priority areas and on strengthening stakeholder involvement;
- calling on the European Parliament to play an active role throughout the next cycle, including through its dialogue with national parliaments.