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from:	Mr Jan Willem OOSTERWIJK, Chairman of the Economic Policy Committee
dated:	11 February 2005
to:	Mr Jean-Claude JUNCKER, President of the (Ecofin) Council
Subject:	Opinion by the Economic Policy Committee on the Commission's proposals on governance, in its communication on the mid-term review of the Lisbon Strategy

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Delegations will find attached the Opinion by the Economic Policy Committee on the Commission's proposals on governance, in its communication on the mid-term review of the Lisbon Strategy, and an accompanying letter from Mr Jan Willem OOSTERWIJK, Chairman of the Economic Policy Committee.

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Annexes



## ECONOMIC POLICY COMMITTEE

THE PRESIDENT

Brussels, 11 February 2005

Dear Mr. President,

### ***Proposals by the Commission on the Lisbon mid-term review***

On 2 February the Commission issued its proposals on relaunching the Lisbon strategy: 'Working together for growth and jobs. A new start for the Lisbon Strategy'. I herewith submit to you, in view of the Ecofin discussion on 17 February on the Lisbon strategy, a background note trying to clarify certain crucial governance aspects in the Commission communication which are of direct interest to Ecofin Ministers. Those views were prepared by my Committee, but finalised under my own responsibility.

Ministers, on the basis of this note, may wish to discuss their future role in relation to the responsibilities of the Competitiveness and ESPHCA Council formations, in light of the proposal to establish an "Integrated Guidelines Package" under the new governance arrangements of the Lisbon strategy. The EPC is also seeking Ministers' views on the inclusion of specific road maps for reform in the National Lisbon Programmes, and on the continued use of benchmarking to monitor progress of structural reforms in the Member States.

Yours sincerely,

Jan Willem Oosterwijk

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President of the Ecofin Council  
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Brussels, 11 February 2005  
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**Opinion by the Economic Policy Committee on the Commission's proposals on governance, in its communication on the mid-term review of the Lisbon Strategy<sup>1</sup>**

*Background note*

The economic performance of the last few years has failed to deliver results consistent with the ambitious goals of the Lisbon strategy. The EPC's Annual Report on Structural Reforms 2005<sup>2</sup>, endorsed by Ecofin on 18 January, provides an in-depth analysis of progress on structural reform in EU-25. The Report once again showed that Europe is suffering from unsatisfactory growth in its productive potential. It needs to implement structural reforms that can contribute to raising sustainable growth, by improving productivity and competitiveness and by creating jobs.

***The Strategy***

Structural reforms are essential in order to meet the economic challenges for the EU. In an increasingly integrated global economy, bringing more people into the labour market, ensuring open and competitive product and capital markets and facilitating innovation increases the ability to respond to economic change efficiently and quickly in a way that raises living standards, maintains low inflation and leads to the high levels of employment and productivity necessary to increase potential output. High levels of employment and growth are a precondition for maintaining or reaching sound fiscal positions both in the short term, and in the longer run, helping to deal with the challenges to fiscal sustainability due to ageing populations.

The EPC welcomes the proposal by the Commission that the Lisbon agenda should be re-focused on growth and employment. It similarly welcomes the concept of a Partnership for Growth and Jobs to facilitate and speed up delivery of the reforms needed to boost growth and employment. The three main priority areas for reform proposed by the Commission to boost growth and employment - (i) making the EU a more attractive place to invest and work; (ii) knowledge and innovation for growth; and (iii) creating more and better jobs – are broadly consistent with the key priorities for action identified in the Annual Report on Structural Reforms mentioned above. Also, macroeconomic policies supportive of stability and growth are key in reaping the full benefits of structural reforms in terms of growth and employment.

***Governance issues***

Despite progress in those areas in some Member States, closing the implementation gap is essential to reap the benefits of reforms. Ecofin Ministers have on several occasions concluded that governance is a key reason for that implementation gap. Delivery of reforms needs to be stepped up, and national policy makers should show their determination in driving through the reforms necessary to deliver the objectives agreed at the EU level. The Commission communication on the Lisbon review contains a number of proposals bearing upon the role the Ecofin Council plays, in particular because the Commission suggests to bring the Broad Economic Policy Guidelines (BEPGs) and the Employment Guidelines (EGs) together in one "Integrated

<sup>1</sup> "Working together for growth and jobs. A new start for the Lisbon strategy", COM(2005)24 final of 2 February 2005.

<sup>2</sup> Annual Report on Structural Reforms 2005: "Increasing Growth and Employment", doc. Ecofin 5309/05 of 12 January 2005.

Guidelines Package”, which could entail a new division of responsibilities between the Ecofin Council, the Competitiveness Council and the Employment Council. In the following, the Economic Policy Committee proposes a few clarifications on aspects related to governance of the refocused Lisbon Strategy, which are of direct interest to Ecofin Ministers.

1. The BEPGs, being the overarching economic policy co-ordination instrument, should continue to cover the whole spectrum of macroeconomic, microeconomic and employment policies, and must ensure consistency between the different elements. The existing set of general guidelines should be updated in 2005 to focus them more sharply on the refocused objectives of growth and employment. The updated BEPGs should clarify the challenges for the national action programmes. Prioritisation and focus within the BEPGs should be increased, and the number of general guidelines significantly reduced. It is also essential to continue to provide a high-quality follow-up on implementation of the BEPGs. Reporting by the Commission on implementation, including the existing country-specific recommendations, should also take place in 2006 and 2007 to maintain the momentum for reform.
2. At the Spring European Council, heads of state and government are invited to present, in the context of a multi-annual cycle, their annual “Lisbon national action programmes” specifying the forward looking reforms needed to deliver higher growth and employment. These programmes should follow-up and be consistent with the BEPGs. There was no consensus in the EPC about the inclusion of specific roadmaps for reform, with measures and timetables in these programmes. Bringing all existing reports under a comprehensive national report could be welcome, provided that it serves to increase consistency of policies and streamlines processes.
3. To fulfil its obligations under Article 99 of the Treaty<sup>3</sup>, to ensure consistency of economic policies, the existing annual multilateral surveillance mechanisms for examining reporting instruments should be continued to be carried out by the Ecofin Council, including on the new Lisbon national action programmes.
4. There was no consensus in the EPC about the continued use of benchmarking national performance to strengthen accountability of Member States for implementing reform, following the Commission communication. This runs counter to Ecofin’s earlier views, as expressed in its conclusions of 16 November 2004.
5. In pursuit of the Lisbon objectives, the EPC sees strong advantage in stepping up co-operation between the Ecofin Council and other Council formations, in particular the ESPHCA and the Competitiveness Council. Building on past initiatives, the EPC stands ready to explore ways for better co-operation, for example on the BEPGs and multilateral surveillance.

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<sup>3</sup> III -179 of the Treaty establishing a Constitution for Europe