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Choosing to grow:
Knowledge, innovation and jobs in a cohesive society

Report to the Spring European Council, 21 March 2003 on the Lisbon strategy of economic, social and environmental renewal

{SEC (2003) 25}

EXECUTIVE SUMMARY

The Lisbon strategy remains the right approach

In March 2000 the Lisbon European Council launched the Union's decade long strategy for economic, social and environmental renewal. Conditions today could hardly be more different. Political uncertainty and the protracted downturn over the last eighteen months have knocked business and consumer confidence. The vulnerability of our economy to external conditions reinforces the case for accelerating the pace of change.

The Lisbon strategy will make the Union stronger and provides it with an opportunity to show global leadership. It remains the right course for an enlarged Union. Its added value lies in its co-ordinated, comprehensive and mutually reinforcing approach. Past achievements – ten years of the internal market, five years of a European Employment Strategy and the first anniversary of the arrival of the euro – show the Union's capacity to deliver ambitious reforms. In many areas, they are already driving growth and job creation within flexible, strong and open markets, but pressure for further structural reforms must be maintained.

Is the Union still on track?

Successfully transforming the Union by the end of the decade depends on improving the Union's potential to grow. This requires action that increases employment and improves productivity. While progress has been seen in almost all areas of the Lisbon strategy, it has generally neither been fast enough nor sufficiently co-ordinated to produce the results that Heads of State and Government signed up to three years ago.

– **Employment**. Despite the rise in unemployment in response to the downturn, there are strong signs that reforms over the last five years have produced important structural changes in many, but not all, European labour markets. More than 12 million new jobs have been created since 1996 with around 500,000 jobs still being added during 2002. Nevertheless, performance varies considerably and reforms have not been pursued in a sufficiently comprehensive way in all Member States.

  As a result without additional efforts (particularly from those Member States who have not yet contributed significantly to employment growth), the Union looks set to miss its intermediate employment rate target for 2005 (67% of the working age population). And it remains far away from its goals of keeping at least 50% of older workers in the workforce by the end of the decade and raising the average effective exit age from the workforce by five years – both key factors in achieving full employment by 2010. Given current economic conditions, the priority (already signalled in last year's Spring Report) attached to strengthening activation measures for the unemployed remains valid.

  Moreover, the picture is just as mixed as regards progress towards providing the workforce with the skills needed to drive a knowledge-based economy and improving not only the number of jobs, but their quality as well; both important factors for better productivity.

– **Reforms of product, service and capital markets**. Significant parts of the internal market have worked well over the last decade. But in others the benefits have had less impact. This is why the Lisbon strategy targets areas such as services, public procurement, transport, energy, financial services and the modernisation of competition rules, as well as certain areas of taxation. Agreement on important reforms for many of these has however been seen over the last twelve months.

The greatest risk– in contrast to last year's European Council in Barcelona - is not the lack of decisions at European level, but the failure by Member States to ensure that agreed rules and new policies are effectively implemented and applied. This means that in key areas the Union has yet to unleash the full potential of the internal market. Each Member State must do much more to ensure that agreed measures are implemented properly and on time.

– **Knowledge, innovation and business dynamism**. These are key to opening up new opportunities for growth, stimulating competition, and delivering new, more effective ways of approaching common problems such as disease or climate change. Many of the Union's knowledge industries have been badly hit by current conditions, and business and industry as a whole is still held back by a complex and incomplete regulatory environment. Business is not investing sufficiently in knowledge and innovation. The proposed Community Patent – a touchstone for the Union's commitment to innovation – remains blocked.

  Despite current strains on national budgets, Member States should create the conditions for more public and private investment in education, research and the knowledge economy, as these are essential for medium-term growth. Fiscal and regulatory incentives, as well as a competitive environment are therefore needed to ensure that private spending follows these priorities.

  Establishing bridges between knowledge and the market place and putting in place the right environment for innovation is the new competitiveness challenge. Both existing and future Member States have been doing more in recent years and initiatives such as *e*Europe and the European Small Firms Charter are helping; but once again a more co-ordinated and consistent approach is needed if EU businesses are to take advantage of new opportunities in order to contribute fully to Lisbon strategy, create jobs and drive growth.

– **Social cohesion**. Developing an accurate picture of progress in tackling poverty and social exclusion is still held back by the lack of up to date data. Nevertheless, improvements in employment, particularly reductions in long-term unemployment and in the number of jobless households, are helping. On the other hand, little progress has been registered in reducing the numbers of early school leavers or gender inequality. Reform and the modernisation of social protection systems, which continue to play a central role in strengthening cohesion across the Union, are underway in most Member States. Their pursuit is central to long-term success. It is, of particular concern, however, that Member States have not yet done enough to ensure the long-term sustainability and quality of their social protection systems, particularly in the face of an ageing population. In the short-term, enlargement, is likely to increase significantly the diversity in performance and cohesion across the Union.

– **The environmental dimension of sustainable development** - Higher economic growth and increased market opening will not be sustainable over the long-term if not accompanied by action to curb environmental pressures and to preserve natural resources. Natural and man-made disasters – like the recent "Prestige" catastrophe – calls for renewed attention to the implementation of the Union's agenda for sustainable development.

  Continued efforts are needed to implement Community environmental legislation, and to complement it through the use of economic instruments. Measures to ensure a continued reduction in greenhouse gas emissions and improved air quality must be treated as a priority, and Member States have to ensure that they stay on track to meet their Kyoto commitments. Pricing mechanisms and tax systems need to reflect better the broader cost to society of economic activity to ensure long-term-sustainability and to encourage the take up of clean technologies, so that both the economy and society can reap their potential benefits. In turn this will help boost competitiveness, while helping to meet commonly agreed international goals.

– **The EU commitment to sustainable development on a global scale.** The Union has chosen to take a leading role in promoting sustainable development on a global scale, and has been on the forefront in setting up the international agenda in recent years. Important decisions were taken in 2002 At a global level, important decisions were taken in 2002 through the launch of the Doha development agenda, the Monterrey Conference on development assistance and the World Summit on Sustainable Development in Johannesburg last August. But decisions must now turn into delivery.

Given its ten-year perspective, time is needed to formulate, agree and deliver the Lisbon strategy policies, but there is a lack of progress and urgency at a national level in many of the most important areas. Developments since the last Spring European Council, taking account of the current slowdown, therefore show that while the Lisbon strategy goals remain well within reach, there is not yet a firm guarantee of success. Economic and political conditions have made things considerably more difficult. The next twelve months will be crucial. At European level, they offer the narrowing window of opportunity before the next European Parliament elections to deliver the full set of reforms proposed by the European Council. At a national level, they must be used to push the pace of change.

Enlargement and the Lisbon Strategy

Enlargement too reinforces the case for accelerating progress. The new Member States are increasingly familiar with Lisbon's logic and working methods. It forms the basis of many of the policies that they are now adopting and efforts to integrate them further into the process must accelerate.

Enlargement does not, however, require a wholesale rewriting of the Lisbon strategy or the relaxation of its key targets – those are targets for the whole of the Union rather than for individual counties. They remain valid for a Union of 25 or more.

It does, however, mean that additional efforts are needed from existing Member States to keep the Union on track. But such efforts are possible. As this Report shows, in almost every area of the Lisbon strategy, the best performing Member States serve as a benchmark of often world beating performance. The structural and sectoral indicators developed through the open method of co-ordination promoted by the Lisbon Strategy provides a valuable tool for mutual learning and sharing common solutions to common problems. It should be strengthened in key areas in view of accession.

In the face of enlargement, existing and new Member States must now choose to grow – but in a way which anchors future growth and new and better jobs to steady improvements in cohesion and our environment.

Choosing to grow – the March 2003 Spring European Council

The European Council must assume its enhanced role at the centre of economic, social and environmental policy-making. Its spring meeting must look beyond the short-term challenges and pressures to focus attention on action, which can stimulate our medium-term prospects and ensure that decisions are consistent with long-term objectives. It must set the direction and speed of future work, in partnership with the European Parliament.

To do this, Member States and the EU Institutions must do two things – **set the conditions for improved investment in knowledge and innovation**, while **delivering and accelerating the reforms already agreed**.

The Lisbon strategy must continue to lay the foundations for new opportunities for future generations.

The European Council, building on the Spring Report, needs to **reinforce its central role each year in setting the direction for the Union's economic, social and environmental action**. This March it will have a particular opportunity to set priorities within three of the main policy instruments - **the Broad Economic Policy Guidelines**, the revamped **Employment Guidelines** and the **Internal Market Strategy** – used to deliver the Lisbon strategy. All of which from this year take on a new three-year perspective.

In doing this, the European Council must ensure that:

(1) **A boost is given to knowledge and innovation.** This means supporting entrepreneurship, promoting knowledge industries and the diffusion of new ideas, technologies and services. It must be underpinned by effective and increased investment in education, life-long learning and research. Both public and private funding at Community and national level will have a role to play.

(2) **Final decisions are taken on the remaining Lisbon reforms.** This means delivering agreed reforms of product, capital and labour markets, as well key environmental measures and moving ahead with the modernisation of social protection systems. The Spring European Council must set deadlines and assign responsibilities to ensure that all measures at EU level are adopted ahead of the European Parliament elections in June 2004 – including those still to be tabled up by the Commission before June this year. Commitment is required not only from Governments, but also from a range of stakeholders including the Social Partners, to ensure success.

(3) The **interaction between the Lisbon strategy and macroeconomic policy is reinforced.** This means that economic policy co-ordination should be strengthened, in line with recent Commission proposals on budgetary co-ordination. The Lisbon objectives should be better taken into account within the Broad Economic Policy Guidelines.

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1. INTRODUCTION

The Lisbon strategy sets out a roadmap for European Union's economic, social and environmental renewal in the medium to long-term. It involves a comprehensive, coherent and mutually reinforcing set of actions designed to transform the performance of the Union and deliver sustainable development.

These actions can deliver the conditions for a continued period of high, non-inflationary growth. They can improve competitiveness and allow businesses to play a full role in seizing new opportunities, creating jobs and wealth. They can enhance social cohesion and ensure that investment in the environment and sustained growth reinforce each other. They mark Europe's positive choice in favour of quality of life.

The strategy has now reached a decisive moment. As it enters its fourth year, building on the decisions taken in Copenhagen, it faces a clear choice. The Union can maintain the current sluggish pace of reforms or show that it is capable of a step change ahead of enlargement.

It is a choice between moderate growth, continuing unemployment, limited cohesion and slow progress in curbing unsustainable trends, or raising the Union's potential and sustaining it over the next seven years to keep the Lisbon goals within reach. A choice between following or leading.

Past reforms in the second half of the 1990s already show what is possible; an additional half a percentage point on growth, 12 million jobs and a reduction in structural unemployment of around 40%. But developments have shown that despite progress, the Union is still too easily knocked off course by global conditions and that greater efforts are needed to curb unsustainable trends and improve cohesion and share prosperity across the Union.

This year's Spring Report contains a special focus on knowledge and innovation. It is the key to taking the agenda forward over the next twelve months, but it remains an area of unfulfilled promise. Lisbon was rapidly followed by the current downturn that burst the dotcom bubble and unjustifiably knocked short-term confidence in a knowledge-driven economy with a follow on effect for sectors such as telecommunications.

An enlarged Union needs to reinforce investment in knowledge and to create the conditions in which businesses can turn innovation into growth and employment. If at the same time it can speed up product, service, capital and labour markets reforms, the medium-term prospects for productivity and more and better jobs are good. By promoting all aspects of the knowledge chain from basic education to advanced research, from finance to entrepreneurial know-how, the Union can boost innovation. It can speed up the creation of employment, modernise traditional industries while securing future ones - from the life sciences to environmental technologies - and it can put ideas and technology to work in ways which strengthen cohesion, relieve environmental pressures and offer greater opportunity to participate in society.

This Report and its accompanying Staff Paper set out the progress that has been made across the whole of the Lisbon strategy. Chapter 2 looks at progress towards the Lisbon goals. It also takes into account the internal and external dimensions of sustainable development in the follow up to the Johannesburg World Summit. Chapter 3 identifies the challenges and opportunities that the Lisbon strategy presents for candidate countries. Chapter 4 draws this analysis together and sets out priorities and actions needed within the broad set of Lisbon strategy reforms in order to make the biggest contribution to boosting the Union's future performance.

2. PROGRESS TOWARDS THE LISBON GOALS

The Lisbon strategy's potential lies in the comprehensive and co-ordinated nature of the reforms it contains. Market reforms, labour market policies and social protection systems all have a role to play in improving the performance and quality of life within the Union. The European Council has set out an ambitious programme of change.

	Box 1 Remaining milestones on the road to economic, social and environmental renewal by 2010
2003	New framework for communications services
	Rules for VAT and electronic commerce
	New impact assessment system for EC legislation
	Integrated risk capital markets
	Opening of rail freight markets on trans-European networks
	Revision of the European Employment Strategy
	Mid-term review of the social policy agenda and of the Structural Funds Programming
2004	European Company
	New rules on consultation and information of employees
	Further opening of gas and electricity supply for business customers*;
	Single European Sky
	New rules for public procurement*
	New rules for pharmaceuticals
2005	Integrated financial market
2006	Further stage of opening up postal service markets
2007	Opening of gas and electricity markets for household customers*
2008	Galileo satellite navigation system operational
	Market opening of the entire rail network**

<u>Reform decisions still pending:</u> Community Patent, 2nd Railway package, climate change package, TENs-transport revision, temporary agency workers, updating of social security co-ordination rules, mutual recognition of qualifications; EU wide regime for taxation of savings.

<u>Reforms where Commission proposals will be tabled in 2003</u>: Proposals on transport infrastructure pricing including a Eurovignette modification (*Mid 2003*); Phasing in of the European health insurance card (*February 2003)*; Action plan on raising R&D investment in the Member States (*April 2003*); New framework for management of chemicals (*Mid 2003); Development* of European Technology Platforms (*End 2003)*; Environmental technologies action plan (*End 2003*);)

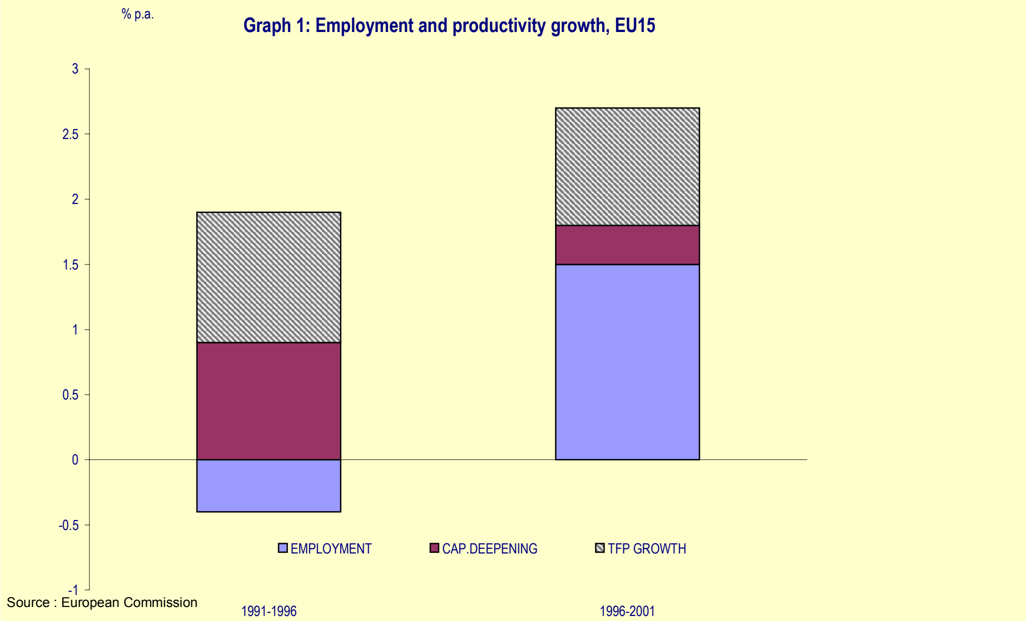
* Agreement in principle in Council ** current rules provide only for international freight services, but second rail package will extend this to all rail freight services.

Reform today can and will deliver a medium-term growth dividend[1]. Current economic and political uncertainty makes it all the more important to accelerate the process of change. This means addressing the factors that can make the biggest contribution to growth and ensuring that is consistent with sustainable development.

Box 2 Key factors behind EU growth

Two principal factors contribute to output growth: the **number of people in work** and **productivity**.

Productivity can be broken further into two areas. One is the level of investment or capital deepening, for example, to expand businesses, adopt new technologies, or to invest in human capital (skills, training and education). The opportunities provided by market reforms tend to stimulate investment. The second is the output-generating effects of both human and business capital investments. It reflects factors such as the degree of competition, the ability to create new ideas and know how and use them to drive innovation and to reorganise work processes, and the overall regulatory environment. This is often described by total factor productivity.

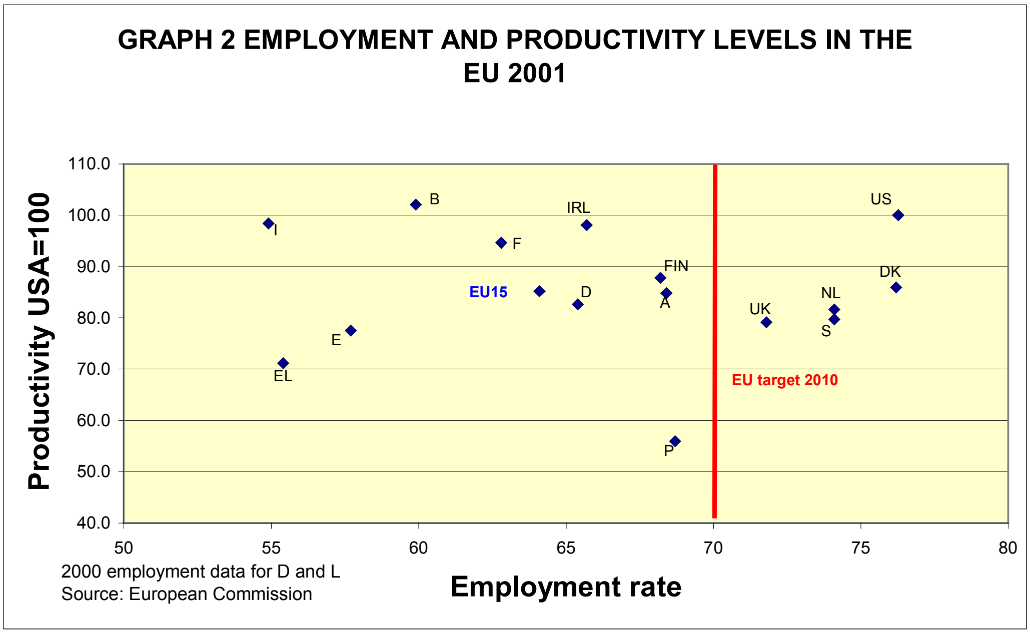


Source : European Commission

The evidence highlights that growth during the second half of the 1990s and in 2000 was driven by the Union's success in creating and filling new jobs. The contribution of investment to growth dropped significantly and there was little change in the impact of other elements.

This translates into a varied picture across the Union in actual levels of employment and productivity. Absolute levels of productivity per worker are high in some Member States. However, in the second half of 1990s the US made progress in raising both employment rates and labour productivity. The Union succeeded in raising the employment rate, while, in contrast to the US, labour productivity growth has slowed down.

[1] See The 2002 EU economy review, COM(2002) 712, 11.12.2002.



This picture forms the backdrop against which progress on jobs, structural reforms, knowledge, social cohesion and sustainability should be assessed.

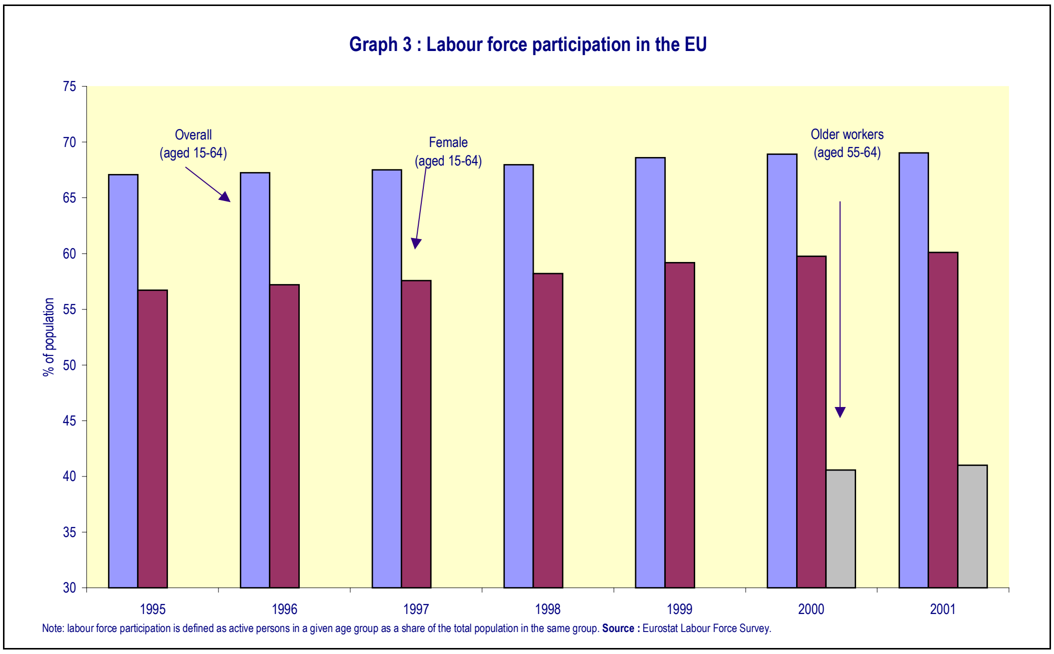
2.1 Employment driven growth in the second half of the 1990s

Overall, the Union has improved its performance in terms of employment rates. Member States have been pursuing structural reforms of their national labour markets, which have started to bear fruit in the form of more people in work and lower unemployment, including a notable reduction in long-term unemployment. One significant development has been that improvements in the labour market have not led to a short-term increase in inflation as companies put up prices in order to recover the higher wages needed to retain and attract employees. This suggests structural improvements in the employment market.

Box 3 Employment performance

- Between 1995 and 2001, the **total number of jobs increased** by about 12 million and the employment rate rose by 4 percentage points.
- Employment increased with the creation of around **500,000 new jobs** during the downturn in 2002.
- Overall **employment in 2001 grew fastest in Luxembourg, Portugal and Ireland** with strong growth in employment for women seen in Ireland at close to 4% and in the accession countries (over 8%). The three best performing Member States saw overall employment grow at 3.9% and female employment around 3.6%.
- **Unemployment fell between 1995 and 2001** by more than 4 million across the Union, though as a result of current conditions there has been a modest increase to an EU average in 2002 to 7.6 %. The average for the three Member States with the lowest levels of unemployment was around 3%.
- **Unemployment in 2002 remained lowest in Luxembourg, the Netherlands and Austria** and rose in all Member States except Greece and Italy. Five of the accession countries (Cyprus, Hungary, Slovenia, the Czech Republic and Malta) had unemployment rates below the EU average.
- **Mobility of the workforce between and even within Member States remains relatively limited** at around 1.2% of the population.
- **Important gender gaps persist** in employment rates, earnings, job status and career progression.

Employment performance varies considerably across the Union. Denmark, the Netherlands, Sweden and the UK currently meet the 70% target set for 2010 for the overall employment rate, while another three Portugal, Austria and Finland are above the 67% intermediate target set for 2005. Yet overall, despite these positive performances, the Union may not meet its intermediate target unless all Member States make greater efforts.



There is strong evidence that the countries that have made the strongest progress are those that have undertaken wide ranging reforms[2]. Denmark, Ireland and the Netherlands stand out as having implemented the most comprehensive set of labour market reforms, tackling wage bargaining structures; training and activation policies, benefit levels and eligibility criteria; and high levels of general and labour taxation. In addition, labour market reforms in these countries were often accompanied by other structural reforms in product markets. The need for a broad approach was also recognised by the Spring European Council 2002, which identified priorities for further labour market reforms in the Member States[3].

The most significant challenge is to boost employment and participation rates, first and foremost, for older workers, but also for women and for minority and other groups. Attracting and retaining these people depends on a range of factors, amongst which tackling the gender gap that is visible in many Member States.

A sizeable proportion of new jobs created during the 1990s and 2000 were in sectors requiring medium to high levels of educational attainment. It is essential to equip all levels and age groups within the workforce with the skills needed in a knowledge-driven economy.

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2 See EU Economy Review, footnote 1 above.

3 In Barcelona the European Council set the following objectives for national labour market reforms: (1) reduction of tax burden on low-wage earners, (2) make work pay within tax and benefit systems, (3) national labour institutions and collective bargaining to take account of relationship between wage developments and labour market conditions in order to bring wage developments in line with productivity, (4) review employment contract regulations in order to strike a proper balance between flexibility and security, (5) remove disincentives for female participation in workforce and strive to improve childcare provision, (6) promote active ageing and reduce early retirement incentives for individuals and companies. Presidency Conclusions, Paragraph 32, Barcelona, 21 March 2002.

This is why the Lisbon strategy places a premium on educational achievement and on life-long learning. Yet, public spending on education seems to have stagnated since the mid-1990s, while the performance in terms of life-long learning across the Union is extremely varied. Participation rates are above one in four in the UK and one person in five in Sweden, Finland and Denmark, but below one in twenty in six Member States and eight of the future Member States and candidate countries.

2.2 Boosting investment and productivity

2.2.1 Boosting investment and productivity through market reforms

The internal market has succeeded over the last decade in boosting growth and creating jobs. It has increased trade and investment flows within the Union. Open markets and greater competition has also stimulated innovation and helped businesses to grow, while offering users benefits in terms of lower prices and greater choice in utility sectors such as telecommunications, and to a lesser degree, electricity. There appears to have been a permanent reduction in price differences between Member States as a result of market integration and competition, but evidence suggests that the impact may now be tailing off[4] – enlargement may help to re-ignite this effect.

Box 4 Examples of the benefits of economic reforms

Ten years of the internal market[5]

- 2.5 million people extra are in work today as a result of the internal market.
- The Union is €877 billion better off amounting to €5,700 per household.
- The internal market has contributed to growth. Without it, EU GDP would be 1.8% lower this year.

The Integration of Financial Markets

Recent studies for the Commission have highlighted the potential impact of integrated financial markets over a ten-year period[6]. The benefits translated into:

- A 1.1% rise in GDP or €130 billion (at today's prices) and a boost to total employment of 0.5%.
- Businesses will be able to get cheaper finance: with an expected drop in the cost of equity capital of 0.5% and a corresponding fall of 0.4% for bond-finance. Investors should benefit as well from higher returns on their investments.
- Eliminating inefficiencies in the retail sector could bring an increase of 0.5% in GDP.

The Community Patent

- Estimated annual savings in processing and administrating intellectual property rights under the current proposal would be around €0.5 billion with a saving of around €5,000 per patent compared to a European Patent.
- A one off benefit to the economy of around €18 billion could be felt as a result of the increased value of patent portfolios because of lower litigation costs and simpler enforcement.

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4 Economic Reform: report on the functioning of Community product and capital markets, COM(2002) 743, 23.12.2002, (the "Cardiff Report").

5 The Internal Market - Ten years without frontiers, SEC(2002) 1417. 7.1.02.

6 London Economics study for the European Commission / European Round Table on Financial Services/CEPR Study for the European Commission, November 2002.

Untapped potential in key sectors. The internal market's benefits have not yet been effectively felt in those areas where there has been less reform and less competition such as energy markets, transport, service markets, financial services and public procurement all of which are targeted by the Lisbon strategy. As a result businesses in these and other areas have found it harder to grow, while past reforms have not always done enough to curb pressures on the environment.

Taxation also remains a source of fragmentation across the Union. Discrimination and double taxation, for instance, create problems in several fields, such as pensions, car taxation and corporate taxation. Having to comply with 15 different tax systems comes at a cost and is stopping companies from reaping the full benefit of the internal market[7]. The lack of a common approach in key areas has prevented the tax system playing a consistent role in supporting Lisbon priorities, such as investment in R&D or a better environment. Moreover, rapid progress is hampered by the requirement for unanimity to adopt such measures and the unwillingness of Member States to give this the priority that it deserves. All this acts as a brake on growth and employment.

Strong competition and an effective competition policy have also been an important factor for the internal market. At Union level there has been a trend in Member States to reduce and redirect State aid. Total aid in the Union fell from €105 billion in 1996 to €82 billion in 2000 (the last year available). Member States have also been redirecting aid to horizontal objectives such as the environment and research and development. In parallel, Member States have been reforming national competition rules to align them with the Community approach and will shortly take over responsibilities as regards the application of the Community level rules within their national markets.

Transforming decisions into action at a national level

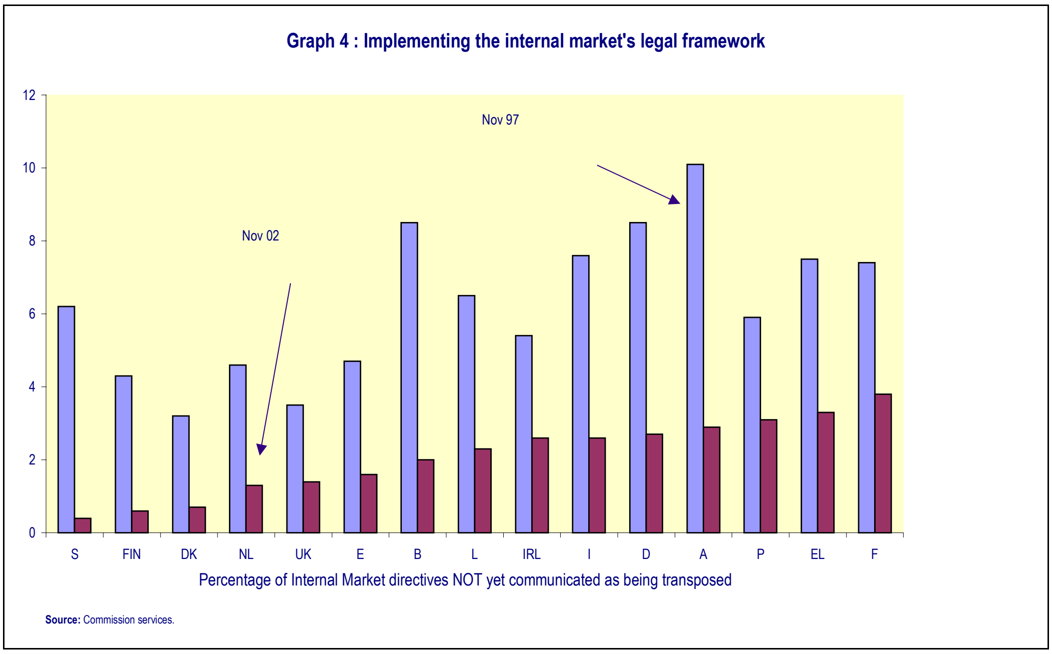
Progress on delivering further market reforms has been mixed so far. Much has been done by the Commission, the European Parliament and by the Council to overcome the "delivery gap" at EU level signalled by the Barcelona European Council. There have been notable recent successes such as those on opening of energy markets, the Single European Sky and postal services. But some of the most pressing reforms are still being delayed. The Community Patent and pending proposals on tax and on procurement are just some examples.

A source of even greater concern is the continuing problem of ensuring that rules agreed by the Council and European Parliament and the orientations given by the European Council are transformed into national action:

– On average, for legislation, it takes four and half years from the moment rules are proposed before they are uniformly applied across all Member States. This is around two years longer than should be the case taking account of the time needed to steer measures through the decision-making machinery and implement them at a national level.

7 The Commission has identified priority areas; in particular for immediate action in the field of corporate taxation to address obstacles deriving from the tax rules applied to transfer prices, to mergers and to transactions between parents and subsidiaries. Towards an Internal Market without tax obstacles. A strategy for providing companies with a consolidated corporate tax base for their EU-wide activities. COM(2001) 582, 23.10.2001.

– Nevertheless there has been some progress. The European Council in Stockholm set a target transposition rate of 98.5% of all internal market directives set by the European Council, as well as the additional target set in Barcelona of zero tolerance for measures that were more than two years overdue. Such targets can only be viewed as staging posts on the road to full compliance with Community law.



– In November 1997 the transposition deficit was still above three percentage points in all Member States, in November 2002 this was only true for three. The improvements in Sweden and to a lesser extent in Belgium and Austria show what is possible with political will over a relatively short period. Nevertheless, in the months since the Barcelona European Council the transposition deficit has started to increase once again with the number of Member States meeting the Stockholm target slipping back from six to five and only one Member State – Finland, meeting the zero tolerance target.

All this increases costs for business, impacts trade and often undermines the regulatory goals such measures pursue.

2.2.2 Boosting investment and productivity through knowledge, innovation and business dynamism

Knowledge is an important factor in releasing the potential of the Lisbon agenda. The knowledge captured in new technologies and processes can drive growth, competition and new jobs and deliver a cleaner environment. But knowledge must be treated as part of the wider framework in which businesses grow and operate. Equipping people with the right skills is a key tool in overcoming risks of exclusion and improving cohesion. Establishing the bridge between knowledge and the market place and backing it by the right environment for innovation is the new competitiveness challenge.

In general terms, Member States are increasingly conscious of the need to **improve the overall business environment**. Actions underway vary from cutting red-tape, reducing the formalities and costs involved in creating a new business, easing the process of transferring such businesses, promoting public and private business support mechanisms, such as business angel schemes, and changing approaches to business failure. Yet although Europe is as good at creating businesses as the US, businesses here often have difficulty growing. The entrepreneurial culture within the Union needs to be further strengthened.

Box 5 The Lisbon strategy and Industry

The Lisbon strategy actions will be a **key factor in the competitiveness of the whole of the EU economy**. It is relevant to businesses of all sizes and all sectors. The Union's industrial base – and the low to medium-technology businesses that predominate in the future Member States – is central to Lisbon's success. It has played an important role in driving the successes of the late 1990s and the fragile signs of recovery seen in 2002 have been largely export-led.

In the face of competition from newly industrial countries, **EU industry has outperformed its main competitors**. While the Union's share in world exports fell from an average of 19.3% over the 1991/95 period to 18.4% in 2002, the US share over the same period dropped from 15.1% to 12.1%, and Japan's share from 12.2% to 8.2%. Furthermore, in some major industrial sectors such as automobiles, aeronautics, mobile communications or pharmaceuticals, EU companies have achieved world leadership.

The Commission has recently set out its ideas for the role of industrial policy in fostering competitiveness in an enlarged Union[8]. This is part of a broader reflection to be continued in a forthcoming Green Paper on Entrepreneurship and a Communication on Innovation Policy – both to be presented before the Spring European Council. The Commission will return in the second half of the year to pull together these separate strands to reinforce its approach to the businesses across all sectors that are the driving force behind jobs and growth.

Insufficient investment in knowledge by business

Although progress has been made in moving towards a knowledge-based economy, the Union is still lagging behind its main competitors in terms of investment and performance[9], despite policy measures put in place in many Member States. The paybacks on research and innovation are often more favourable in other parts of the world, and industry in the last decade has increasingly voted with its feet. Today 40% of the research of Europe's largest companies takes place outside the Union. Enlargement will add a new dimension to this. The skills base and lower costs in the future Member States and candidate countries can offer an attractive home for new research.

There are numerous examples of the problems faced by the Union as a whole when compared with its competitors or the best performing Member States:

– There are **five researchers per 1000 working people** compared to eight in the US and nine in Japan. In the three best performing Member States the figure is around ten per 1000.

– The average **level of high-tech patents** (28 per million inhabitants) highlights a wide variation across the Union with Finland (138), Sweden (95) and the Netherlands (58) ranking well above average.

– Public expenditure on **education** (around 5%) and total expenditure on **R&D** (around 1.9%) as a share of GDP, hardly changed in the second half of the 1990s, even if for R&D Member States are now strengthening measures to boost investment, for example, through

8 Communication on industrial policy in an enlarged Union, COM(2002) 714, 11.12.02.

9 Sectoral composite indicators developed by the Commission services confirm this trend, which is found in the individual structural indicators. See *Science, Technology and Innovation - Key Figures 2002, European Commission*.

fiscal incentives, promotion of risk capital, university-industry collaboration and selective immigration policies. Yet the public investment in education in the three best performing Member States amounts to 7.3% of GDP and for research the figure is above 3%.

– **ICT spending** has risen significantly, since the mid-1990s, even if it has remained below that in the US and does not seem on its own to have brought about a similar or uniform boost to EU productivity. Continued investment in ICT is also critical to modernising public services.

Investment tends to be higher in education, R&D and information technology in Sweden, Denmark, Finland, while the rise in overall business investment as a percentage of GDP has been steepest in catching-up countries – Greece, Ireland, Portugal and Spain. Higher investment and the impact of the internal market and improved competitiveness contributed to productivity growth, even if it failed to close the gap with growth in the US. Improvements in total factor productivity – possibly reflecting stronger investments in technology, innovation and knowledge – were highest in Greece, Ireland and Finland. TFP growth in Ireland and Greece was twice that in Spain and Portugal despite comparable increases in the level of overall business investment in all those countries.

2.3 Improving social cohesion

Assessing progress in relation to cohesion continues to be hampered by the lack of up to date data in several areas. Nevertheless, both the improvements in employment since the mid-eighties and the continuing fall in long-term unemployment between 2000 and 2002 should help to reduce the risk of exclusion. This is reflected in a stabilisation or modest decline in the number of jobless households – a factor closely linked to the risk of poverty – in nine of the twelve Member States for which data is available. The reduction in the tax burden on the low paid should also have helped in reducing the risk of poverty, while helping to remove disincentives which keep people outside the workforce. Other improvements, such as the efforts being made in most Member States, to boost childcare provision – sometimes by setting national targets is a further positive step.

Yet disparities across the Union continue, both in income distribution (where the gap between the income of the top and bottom 20% of society in the three best performing Member States is half of that in the three worst performers) and in the regional distribution of employment.

Exclusion imposes unjustifiable and avoidable costs on society. The Lisbon strategy's response - a European social agenda - is to provide basic skills for all, promote employment for those who are able to work and ensure adequate social protection for those who cannot. This approach recognises the role of well-developed social protection systems in reducing poverty and promoting employment and employability, as well as the need for such systems to be modernised to ensure their long-term sustainability in the face of an ageing population[10]. Ageing is returned to in the section below.

Action and targets at a national level are important, but not yet sufficiently developed, within the two-yearly plans on poverty and social exclusion. The use of the open method of co-ordination in this field can help to overcome the lack of recent data by monitoring progress on the ground.

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[10] The Commission assesses progress in its social policy agenda scoreboard. The next edition is foreseen before the Spring European Council.

2.4 Sustainable development

In June 2001, the Göteborg European Council agreed a strategy for sustainable development that completed the Union's political commitment to economic and social renewal, added an environmental dimension to the Lisbon strategy and established a new approach to policy making. It highlighted unsustainable trends posing a threat to the Union’s quality of life[11]. These included economic and social issues such as poverty and social exclusion, but also a number of environmental problems such as climate change, the depletion of natural resources, transport and land-use pressures and the longer term effects of many hazardous chemicals in everyday use.

Many of the Lisbon strategy reforms are already helping to address these problems. However, Göteborg emphasised that many of them are closely tied to economic structure and development. In making policy choices and assessing results, greater account needs to be taken of the long run impact of different choices, the “spill over” between policy areas and the fact that the effects of new policy measures take time to be felt. This approach is essential if the Union is to succeed in decoupling economic growth from environmental damage. This Report focuses on three aspects of sustainability – ageing, environmental trends in the Union and the external developments impacting Lisbon and sustainability in the light of the World Summit on Sustainable Development held in South Africa in August 2002.

2.4.1 The challenge of ageing

All Member States are facing up to the impact of an ageing population, but few have so far taken sufficient steps to cope with the financial challenges ahead while maintaining the adequacy of pensions, and other benefits and services.

Box 6 The challenge of an ageing population

Ageing has far reaching implications for public budgets, for continuing improvements in growth and employment, but also for pensions, health systems and long-term care.

- The number of **people over 65 is expected to rise from 61 million in 2000 to 103 million by 2050** and those over 80 from 14 million to 38 million.
- At the same time, the **working age population will decrease significantly** so that from one person over 65 for every four of working age today, the ratio will fall to one for every two by 2050.
- The ageing population will make it even more **necessary beyond 2010 to maintain high levels of employment and improving productivity** levels.
- **Public pension spending is set to rise by between 3 and 5% of GDP** in most Member States over the coming decades, but could be as high as 7.9% in Spain and 12.2% in Greece[12].

The national Pension Strategy Reports submitted for the first time last September show that all Member States are committed to maintaining adequate pensions and protecting older

[11] Communication on a sustainable Europe for a better world, COM(2001) 264, 15.5.01.

[12] Estimates from the work of the Pensions Working Group of the Economic Policy Committee in 2000. They do not take account of the latest reforms undertaken by Member States since then. Large increases in Spain and Greece reflect the maturing of the pension system with an increasing number of people during the period having a full working career.

people against the risk of poverty[13]. Similar messages emerge from the questionnaires on healthcare and long-term care[14]. They also show to varying degrees how Member States have started addressing these challenges, for example, by raising employment rates for older workers, designing tax and benefit systems to provide rewards for those remaining in the workforce longer and continuing the consolidation of public finances which has the benefit of providing a greater margin of manoeuvre for pension systems and other age-related expenditure.

2.4.2 Environmental trends

With less than two years since Göteborg the pace and direction of progress in this area is difficult to assess. Certain industrial sectors have succeeded in cutting emissions while increasing output. There are positive signs in terms of policy development and implementation – particularly in terms of developing the global perspective of sustainability. On the basis of the data available for 2000, the worrying trends that were observed at the time of the launch of the Union's sustainable development strategy have continued.

Box 7 Developments concerning unsustainable environmental pressures

– **Freight transport** continues to grow more quickly than GDP while passenger transport growth is slightly less, although both generate large environmental costs.

– **Road transport**, even though trends towards lower emissions and fewer road deaths continue, imposes a particularly high cost in terms of air pollution, congestion, noise and road fatalities (still over 40,000 per year).

– Overall progress towards **Kyoto** targets is mixed. While overall emissions fell by around 3.5% from 1990 to 2000, much of the improvement results from reductions in the UK and Germany. In 2000 nine Member States remained well above their Kyoto targets paths.

– **Renewable energy sources** represent an increasing share of electricity generation but progress is not fast enough to meet the indicative target for renewables set by the European Council, unless the Member States implement effectively the Community measures recently approved[15].

– The **energy intensity of the Union** is slowly reducing. The future Member States and candidate countries must make a major effort, as average energy intensity is four times higher than the current Member States.

– In relation to **public health**, the European Food Agency is operational from the beginning of this year. Air quality has improved and that is expected to continue in coming years, but there are significant problems with some specific pollutants and in "hotspots".

– Despite progress made by Member States in proposing sites for nature protection under the Natura 2000 network, **bio-diversity and habitats** are under pressure from a range of economic activities, such as agriculture and over fishing.

These trends highlight the need to accelerate efforts, reflected in recently adopted and pending proposals, to address unsustainable trends. Clean, environmental technologies may have a particular role.

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13 Draft Joint Report by the Commission and the Council on adequate and sustainable pensions, COM(2002) 737, 17.12.2002.

14 Draft Joint Report by the Commission and the Council on health care and care for the elderly: supporting national strategies for ensuring a high level of social protection, COM (2002) 774, 3. 01. 2003.

15 Directive 2001/77/EC on the promotion of electricity produced from renewable energy sources, OJ L283, 27.10.2001.

Box 8 Stimulating the take up of environmental technologies

Environmental technologies – already a €180 billion market world-wide - will be major factor in ensuring that environmental pressures can be decoupled from economic growth. EU businesses are well placed to tap into rapidly growing export markets. Trade in environmental technologies is good for the Union, but it is also good for our trading partners by offering them a wider range of options for the environmental problems they face.

However, **investment in clean technology is held back where market prices** are distorted by subsidies, tax breaks or price structures that support environmentally damaging technologies, especially in key sectors such as transport and energy.

Decisions at the Community level are needed to **provide the right incentives**. The proposed emissions trading regime for greenhouse gases will be an important step forward. The Commission during 2003 will propose a Europe-wide framework to ensure that all transport modes are properly priced. The energy tax directive which should be agreed before the Spring European Council after five years of discussion will be a welcome first step leading perhaps to a small cut in emissions equivalent 0.5% reduction. All of these instruments are important tools, which need to be followed up by further and broad ranging action.

2.4.3 External developments

The focus of the Lisbon strategy is on internal policy reforms. This is also true of sustainable development strategy adopted at Göteborg. However, the Union's "internal" policies have a significant effect on the policies and prospects for third countries. Moreover, some policy issues such as climate change are intrinsically global. It is therefore important to ensure that internal policies are coherent with external commitments.

The Union has chosen to take a leading role in promoting sustainable development on a global scale. It can do this by aiming to make its own policies more sustainable, but also through a more pro-active stance on issues of trade, aid and debt relief. In the past year there have been a number of important developments:

– At *Doha*, an agenda for a new trade round was established, raising the prospect of further trade liberalisation. Free and fair trade will be a further stimulus to reform and innovation within the European Union, underpinning the Lisbon reforms. But more than that, Doha offers a way to manage globalisation in a responsible manner. It can support sustainable development by providing a level playing field for trade, by ensuring that the developed world opens its markets to the developing world and finding new ways of working with all stakeholders in addressing common problems.

– In the run-up to the *Monterrey Conference on Financing for Development*, the Union established clear commitments to increase the EU's Official Development Assistance (ODA) providing an additional €20 billion by 2006. This will raise ODA from the current level of 0.33% of ODA to the 0.39% level between now and 2006, as a first step towards the long-term objective of the 0.7% ODA target. It is essential that Member States act decisively on these commitments.

– The *World Summit on Sustainable Development in Johannesburg*, the 10 year follow up to the United Nations summit in Rio in 1992, added new momentum to the objective of sustainable development. It led to a range of important commitments, which the Union is now actively seeking to implement. Delivery of the Monterrey commitments will be crucial to its ability to do so.

Box 9 Commitments from the World Summit on Sustainable Development

- Halving the number of people lacking **access to basic sanitation** by 2015, currently 3 billion people or half the world's population.
- Minimising the harmful effects on human health and the environment from the production and use of **chemicals** by 2020.
- Halting the **decline in fish stocks** and restoring them to sustainable levels no later than 2015.
- Beginning **national strategies on sustainable development** by 2005.
- Curbing the loss of **bio-diversity** by 2010 in line with the Bio-diversity Convention.
- The Summit also agreed to establish ten-year framework programmes for **sustainable production and consumption** and agreed concrete actions to support sustainable trade and to strengthen corporate social responsibility.
- On **energy** while the Union was unsuccessful in establishing global targets for the share of renewable energy within the overall energy mix, it launched a coalition of countries prepared to set such targets.

The outcome of the World Summit on Sustainable Development (WSSD), together with the Doha Development Agenda and the Monterrey consensus, has shaped a global partnership for sustainable development. The issue is now to follow up and deliver on these commitments. The Union should consolidate its leading role in the follow up process by translating its political ambitions into concrete actions. This will require a long-term effort focusing on:

- *Policy coherence.* The Union will need to redouble its efforts to ensure coherence between its internal and external policies. Some domestic EU policies have negative spillover effects on other countries, notably in the developing world. In several important areas, like agriculture and fisheries where the Commission has proposed important reforms, EU policies need to change.

- *Sustainable globalisation.* Globalisation and increased trade and investment flows have created new opportunities for economic development. But the pace of change also creates new challenges, particularly for developing countries and countries with economies in transition.

  The Union should continue to ensure that market liberalisation takes place within a broader regulatory framework that aims to spread the potential benefits of globalisation. Pursuing negotiations in the WTO on the basis of the Doha Development Agenda is the main task, but other actions can contribute. In particular, enhancing corporate social and environmental responsibility in the Union and internationally, promoting sustainable and fair trade through developing incentives to trade in sustainably produced goods and ensuring that export credit agencies act in a way which supports sustainable development.

- *Sustainable consumption and production.* Some challenges, such as climate change, can only be tackled through fundamental changes in the way societies produce and consume. In Johannesburg it was agreed that developed countries should take the lead in decoupling economic growth from environmental damage, in particular by making full use of the potential of new environmental technologies. The Union should push forward at the international level a 10-year framework for regional and national programmes on sustainable consumption and production, building on existing initiatives.

  In addition, the Union should also develop and consolidate the Johannesburg coalition of countries prepared to make commitments on renewable energy, for example, by achieving the indicative EU target for renewable energy (12% of the total energy mix by 2010).

– *Poverty eradication.* Meeting the United Nations Millennium Development Goal of halving extreme poverty in the world by 2015 is a huge challenge. From the Union side significant efforts are needed to improve the effectiveness of development policy and to help promote good governance in developing countries. The timely delivery of the Monterrey commitment for additional ODA resources including agreement on monitoring arrangements will help. In addition, the Union should finalise arrangements to implement the "water of life" and the "energy initiative for poverty eradication and sustainable development".

3. ENLARGEMENT

The negotiations have been concluded with Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovak Republic and Slovenia. After ratification these countries will join the European Union on 1 May 2004.

Detailed roadmaps have been agreed for Bulgaria and Romania, which offer them the perspective of membership from 2007 and the prospect established of starting Turkey's accession negotiations without delay after December 2004 if it fulfils the Copenhagen political criteria.

Enlargement offers the expectation in the medium to long-term of giving a substantial boost the Union's performance and its capacity to grow. It provides opportunities that with time will bring the Union closer to the Lisbon strategy goals.

The challenges posed by those goals are common to both future and existing Member States. The integration of the future Member States and the candidates into the Lisbon strategy is already well underway. For example, they are preparing their involvement in the European Employment Strategy and Social Inclusion Process, have adopted an *e*Europe Plus strategy and are participating in both the structural indicators for this Report and in sectoral benchmarking.

The future Member States has achieved a high degree of macro-economic stability and the process of structural reform is well underway. This has resulted in market opening, accompanied by significant industrial restructuring. They have also made progress in modernising their institutional, legal and administrative environment.

A key factor in their future success will be ensuring and maintaining high levels of investment in order to improve overall performance in the medium-term, creating the conditions for economic convergence and greater cohesion. The Union is providing around €21.7 billion for investment through the Structural Funds in the future Member States over the period 2004-2006, a significant share of which will support human and physical capital. The aim is to help reduce the wide disparities within an enlarged Union and to contribute to improving the quality of life (including the environment) and releasing the full potential of those countries.

Box 10 Enlargement brings with it considerable challenges

- Candidate countries have experienced **rapid growth in the last five years**, partly due to economic reforms and inward investment. However, catch up implies sustained investment into physical and human capital to allow substantial improvements in productivity. But patterns are varied. In 2001 direct foreign investment ranged from €521 per person in Slovakia to €2,284 per person in the Czech Republic.

- The **enlarged Union will be much more diverse**. The gap in GDP between the richest 10% and the poorest 10% of the population will be nearly twice what it is at present, and more than a quarter of the population will live in regions where GDP per capita will be below 75% of the EU average.

- The **employment rate of an enlarged Union today would be 62.6%** - somewhat lower than the current Member States, however, employment growth can pick up even ahead of accession if the future Member States embrace further reforms in line with priorities jointly established with the Community.

- The **structure of industry and employment is different** to the current Member States, with agriculture representing a larger share of employment. The industrial base of those countries is biased towards low to medium-technology sectors.

- **Infrastructure needs are large**. Completing the transport infrastructure alone, which gives access to the internal market, as identified in the enlargement negotiations on trans-European networks, will require investment of around € 100 billion. That is 1. 5% of the GDP of the future Member States until 2015.

- **Further industrial restructuring is likely to be necessary**, particularly in the steel sector where over-capacity remains and within industries still in public ownership that may find it difficult dealing with increased competition.

In many of the future Member States, the Lisbon strategy has acted as a further catalyst for their comprehensive structural reforms. Progress has, however, been uneven and is notably lagging in a number of priority areas. For most candidate countries, achieving income levels close to the EU average will take time. In 2001, the future Member States had on average a GDP per capita of 45% (in PPS) of the EU average, despite last years' economic growth figures for most them that exceeded those of the current Member States.

Labour productivity has improved for all future Member States since 1995, although sometimes interrupted by temporary down turns in the countries concerned. Levels of labour productivity are still very divergent varying between 83% of the EU average in Cyprus and 33% in Latvia.

Future and existing Member states alike share several challenges. These include: the need to improve incentives embedded in tax and benefit systems and labour market institutions so as to increase employment rates, the strengthening of competition rules and competition authorities, further efforts to make the public sector more efficient, reform of network industries to increase competitiveness, and the need to build up their skills base and their knowledge infrastructure. This will help them adapt to the knowledge-economy. Even though recent developments in these countries have been impressive, the magnitude of the shared challenges is still substantially greater than for the existing Member States. However, the ten new Member States are aware of these challenges and in the Pre-Accession Economic Programmes they have already defined their own agenda of reforms.

4. CHOOSING TO GROW: PRIORITIES FOR NEXT TWELVE MONTHS

This Report has made the case for **accelerating structural reforms** to boost productivity and jobs, and to help decouple environmental damage from economic growth. This should deliver the improvements in performance needed to make all the Lisbon strategy goals possible, at the same time that the Union is opening its arms to ten new Member States.

The **Spring European Council must set the direction and speed of future work.** It must provide orientations for the Council in partnership with the European Parliament. It must take **advantage of the new three year perspective of the Union's main policy tools** for structural reforms – the Broad Economic Policy Guidelines (BEPG), the Internal Market Strategy and the Employment Guidelines. It must identify dates and responsibilities for the next steps.

Tough economic conditions and political uncertainty over the last year cannot be allowed to slow down change. Instead, they strengthen the case for the Lisbon reforms. They are needed to ensure in the medium-term that the Union is better able to cope with future uncertainties and economic shocks. Lisbon remains the right way to bring this about, not least because of its co-ordinated, mutually re-enforcing and comprehensive approach.

4.1 Lisbon remains the right strategy

The Report has **shown the potential of structural reforms to raise the overall performance** of the Union. Recent reforms have stimulated growth, created jobs and helped to remove people from the risk of poverty and exclusion. Future reforms will produce similar improvements potentially raising annual growth rates to close to 3 percent or more during the course of the decade and creating the additional 15 million jobs needed to achieve the Lisbon employment targets. At the same time, Lisbon's comprehensive approach should allow reforms to go ahead in a way that ensures improvements are economically, socially and environmentally sustainable.

In many areas of the Lisbon strategy, **some Member States are already doing as well or better than the targets that have been set for 2010**. Moreover, in assessing the best performers within the structural indicators chosen in agreement with the Council, the same countries – Denmark, Sweden, Finland, come up time and time again as best performers. This proves that progress can be made on all fronts – economic, social and environmental – if the policy mix is right. It signals the unfulfilled potential in other Member States and the importance of benchmarking and learning from the experience of others.

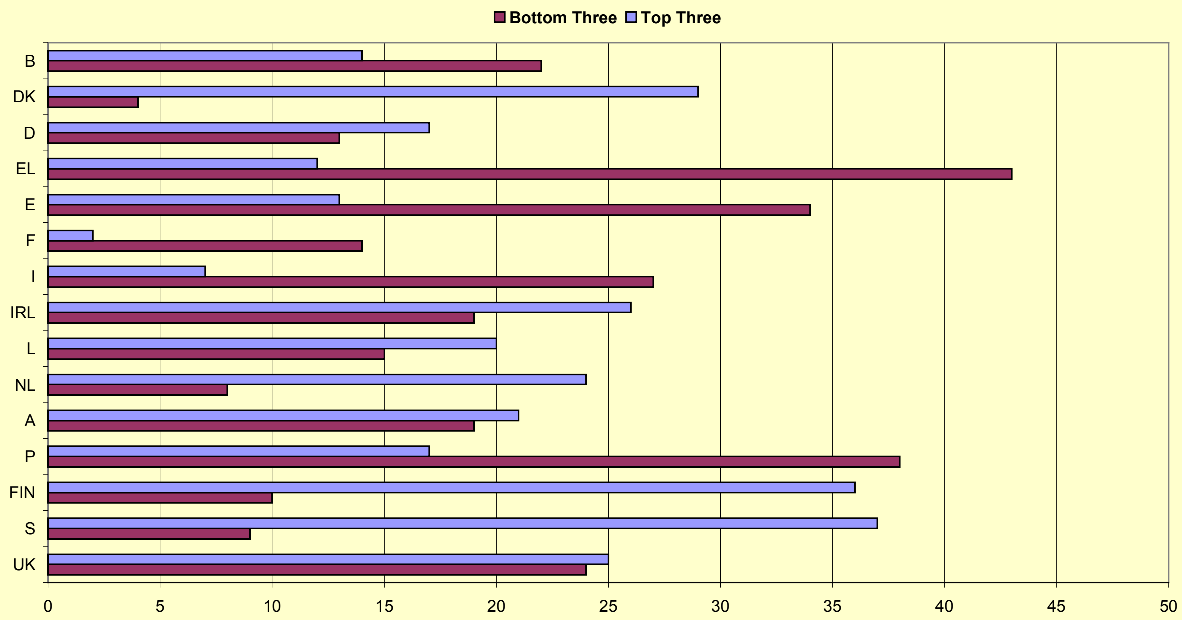
Box 11 Structural Indicators - Best Performers

The Lisbon strategy is backed up by a broad and balanced set of structural indicators that reflect the performance of Member States across six areas (general economic performance, employment, research and innovation, economic reform, social cohesion and the environment). While the indicators cover a wide range of factors, which make varying contributions to the success of the Lisbon reforms, they nevertheless provide a **snapshot of relative performance between Member States** and – for the first time this year –the future Member States and candidate countries. The full set of indicators can be found in the Staff Paper[16] supporting this Report. An overview table is also annexed to this Report.

One striking fact is the frequency that certain countries appear again and again amongst the top three Member States, most notably **Sweden, Finland and Denmark**. These are countries that had already undertaken deep and successful reforms well before the launch of the Lisbon strategy.

The Graph below should the frequency with which Member States appear in the Top/Bottom Three of the Structural Indicators. It should, of course, be treated with a degree of caution. First, it only provides a static picture of the situation based on the current indicators without taking account of the different starting points that exist. Nor does it capture the strong growth and progress made by some countries – Greece, Portugal and particularly, Ireland and Spain, over recent years in catching up with the Union's best performers. Finally, the indicators selected by Council in agreement with the Commission are quite diverse, so the graph should not be taken as an aggregate measure of performance.

Graph 5: Frequency of Appearance in the Top/Bottom Three of the Structural Indicators



Other countries do well, but not so consistently across all the indicators. At the same time all Member States appear among the best performers at least once across the full set of structural indicators.

16 SEC(2003) 25, 14.1.2003. The Structural Indicators can also be found on the Eurostat Website, where they are updated around the middle of each month (http://europa.eu.int/comm/eurostat/).

A further indication of progress over the last year is provided below, which summarises the Commission's assessment of progress made in relation to the country specific recommendations within the 2002 Broad Economic Policy Guidelines[17]. These, of course, cover some but not all of the Lisbon strategy.

	Public finances	Labour markets	Product markets
BELGIUM	SOME	SOME	SOME
DENMARK	GOOD	SOME	GOOD
GERMANY	LIMITED	LIMITED	SOME
GREECE	SOME	SOME	SOME
SPAIN	SOME	SOME	SOME
FRANCE	LIMITED	SOME	SOME
IRELAND	SOME	SOME	SOME
ITALY	LIMITED	SOME	SOME
LUXEMBOURG	SOME	SOME	LIMITED
NETHERLANDS	SOME	SOME	SOME
AUSTRIA	LIMITED	LIMITED	SOME
PORTUGAL	SOME	SOME	SOME
FINLAND	SOME	SOME	LIMITED
SWEDEN	GOOD	GOOD	SOME
UNITED KINGDOM	SOME	SOME	GOOD

The challenge of **enlargement does not call the Lisbon targets into question**. Existing Member States must keep to those targets and new Member States must use the best performers as their benchmark. Enlargement offers opportunities for both new and existing Member States.

At the same time, the **credibility of the Lisbon reforms depends most on transforming policy declarations into action**, allowing Member States to judged by what they do and not just by what they say.

The Council and the European Parliament have done much to close the "delivery gap" at the level of the European Union. However, progress should be a matter of commitment rather than brinkmanship. Ensuring that European level decisions lead to action on the ground is a difficult challenge. It can and must be tackled more seriously. Whether measured in terms of implementing directives on time or delivering national policies to keep the Lisbon goals on track, the performance of Member States is too varied. This undermines the internal market and harms jobs, innovation and growth. Showing a greater capacity to deliver change at a national level and unblocking key decisions in the run up to the Spring European Council would be an important short-term step to boost confidence in the Union's capacity to change.

[17] Communication on the implementation of the 2002 Broad Economic Policy Guidelines, COM(2003) 4, 14.1.2003.

Box 12 A comprehensive and a co-ordinated approach to reform

This report has provided evidence that:

- **Comprehensive reform is most beneficial**. A piecemeal approach to reforms is much less effective. Ensuring more effective co-ordination and coherence across different policies, as well as internally and externally, will reinforce the Union's success. However, Member States must also follow an equally comprehensive approach when pursuing national reforms.

- **A co-ordinated approach is most effective**. The Lisbon reforms, if pursued across all Member States in a co-ordinated manner, maximise the spill over effects from one country to another. This removes the disincentive for Member States of bearing the full costs of reforms, but seeing the benefits accrue in other Member States as well as their own. It also creates a critical mass, which may justify a more accommodating monetary stance from the European Central Bank, which can in turn help to ease the short-term impact of certain reforms.

- **The interaction between structural reform and macro-economic policies should be strengthened**. This is not new. Sound macro-economic policies have long been recognised as offering the best framework for the delivering reforms. By strengthening economic policy co-ordination in line with the Commission's Communication last November on strengthening the co-ordination of budgetary policies[18], the Union can reinforce the interaction between the two, in particular, by securing sound and sustainable public finances and raising the contribution of public finances to growth and employment in line with the Lisbon strategy.

4.2 Building economic, social and environmental governance around the Spring European Council

The Lisbon strategy must pursue this comprehensive and co-ordinated approach. Progress must be maintained and, in some cases, strengthened along its three dimensions.

During 2002, the governance system has been adjusted to allow it to play a more effective role in the pursuit of the Lisbon strategy objectives. The Spring European Council, drawing on the Commission's Spring Report, will continue to be the central annual event to review progress. It must set priorities for Council work and give guidance for the Member States through the Union's principal, Treaty-based co-ordination instruments, as well as for policies delivering structural reforms. The timing of these instruments - the Broad Economic Policy Guidelines and the Employment Guidelines – has now been synchronised[19]. Together with the Internal Market Strategy, they will take on from 2003 a three rather than single year perspective.

In parallel, the Council has streamlined its individual configurations creating amongst others a new Competitiveness Council and giving a clear, overall co-ordination role to the General Affairs and External Relations Council in preparing the Spring European Council[20].

Finally, the European Council must also strengthen its partnership with the European Parliament to pursue the Lisbon strategy agenda in terms of planning, which allows for all key decisions to be taken ahead of the European Parliament elections in June 2004.

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[18] Commission Communication on strengthening the co-ordination of budgetary policies, COM(2002) 668, 27.11.2002.

[19] Communication from the Commission on streamlining the annual economic and employment policy co-ordination cycles, COM(2002) 487, 3.9.2002.

[20] Notwithstanding this streamlining the Lisbon Strategy impacts the work of six of the nine Council configurations, in addition to the co-ordination role given to the GEARC, namely, Economic and Financial Affairs; Employment, Social Policy, Health and Consumer Affairs; Competitiveness; Transport, Telecommunications and Energy; Environment, and Education, Youth and Culture.

All this reinforces the Union's governance and the Spring European Council's role in the overall co-ordination of economic, social and environmental policies.

4.3 Achieving sustainable growth and raising employment within a cohesive society

The Union's **priority for the next twelve months must be to stimulate investment in knowledge and innovation alongside faster structural changes in order to boost productivity and employment.**

This relies on:

– **Strengthening public and private investment in research, education and training**, and in the **take up of new technologies**, while adopting urgent **reforms of product, service and capital markets** to open opportunities and boost competition and innovation.

– Sustaining and extending **labour market reforms** especially in Member States that are lagging behind, investing in human capital and lifelong learning, and **modernising Europe's social model**, which should include strengthening the open method of co-ordination for social protection.

– Ensuring reforms **address environmental pressures** and **taking the lead in environmental technologies**.

These actions need to be reinforced by **better integration of Lisbon strategy priorities** into the Union's instruments and monitoring mechanisms for macro-economic policy co-ordination and by **ensuring that sustainability is properly addressed in policy formulation**, and that our internal policy measures are consistent with our external commitments.

The **Spring European Council must set deadlines for decisions** at a European Union level. (Table 13 at the end of this Chapter identifies timetable and maps specific actions to different Council responsibilities). Member States must assume a double role in this regard; first, to work towards rapid agreement within the EU Institutions, and second, to put agreed measures in place at a national level.

In other areas, the Community and Member States will use different instruments. The Community, through the Structural Funds, plays an important financial role. Around ten percent of the funds are used to support investment in the area of research, innovation and the information society, whilst more than a quarter relates to the development of human resources and education. A further twenty five percent relates to the financing of transport and energy trans-European networks. A mid-term review is foreseen during 2003 will provide an opportunity for Member States to assess the impact of their programmes. <u>Ministers in charge of regional development together with ministers in charge of employment</u> meeting in spring 2003 should assess how the well the Lisbon objectives have been supported in national programmes and consider possible changes taking into account the orientations in this Report.

However, in most cases, Member States have the greatest responsibility for delivery of the Lisbon strategy. Their active commitment and involvement is vital, as is that of the social partners and other interested actors. The work programme of the social partners agreed in November 2002 is an important step forward in their contribution to the Lisbon agenda. In order to enhance their involvement, the <u>Employment, Social Policy, Health and Consumer</u>

Affairs Council must formalise the Tripartite Social Summit through a Council Decision ahead of the Spring European Council.

4.3.1 Opportunities through knowledge and market reforms

Exploiting knowledge, skills and innovation

The Union's long-term success will depend to a large extent on how easily businesses and people can generate and transform knowledge into commercial realities and new skills. The low level of investment in research is a key factor holding back innovation and the Union's growth potential.

For this reason, the Competitiveness and Education, Youth and Culture Councils must also focus on how Governments and more importantly, business can be encouraged to invest in knowledge and innovation. The Competitiveness Council must also actively assume its horizontal role of ensuring overall competitiveness taking account of developments in the internal market, industry and the research world. The open method of co-ordination – including the setting of national targets – is starting to work in areas of education, research, innovation and enterprise, but it must be better exploited as a way of sharing best practice and fostering progress.

In particular, supporting knowledge, skills and innovation means:

– Member States must look at **investment in knowledge -** both public and private **-** from teaching basic skills to pursuing high level research if they are to meet demand from high and medium-technology industries for a highly skilled labour force. At a national level within current budgetary constraints, investment must focus more on building skills, supporting R&D and encouraging the uptake of information and communication technologies, and particular attention should paid to ensuring the more effective use of the funds available.

– The Education, Youth and Culture Council must move forward with the **implementation of the action plan on the ten year objectives for education systems** and set and use benchmarks for improving overall investment in human resources, monitor progress and identify best practice.

– To make progress on the **Barcelona R&D investment objective**, public funding for R&D should be used in ways which can leverage private financing and which take account of the growing role of trans-national research collaboration. The Commission will present an Action Plan to Council and the European Parliament later this year to boost R&D investment and innovation based on the lessons learned and best practices from on-going national efforts. The Competitiveness Council and Member States should set both common and individual objectives and should monitor progress and best practice in the context of the open method of co-ordination in the research area.

– More generally, action at Union and national level to **improve the business environment** must intensify, in particular, to reduce and simplify the regulatory burden on businesses. The Commission will contribute to this at a European level by shortly launching a comprehensive rolling **programme to simplify and consolidate existing Community legislation** between now and the Spring European Council in 2005.

– Member States must **improve the overall environment for frontier and other leading technologies**, for example, by moving ahead rapidly with the European Biotechnology Action Plan. In the latter area key legislation has yet to be implemented by nine Member States, progress is very much in the hands of Governments. An emphasis should be placed on **clusters at national, regional and local levels** to bring together technological know how, industry, regulators and financial institutions to develop a strategic agenda for leading technologies or to address particular problems that may have a profound impact on growth or sustainability. These could also take the form of **European Technology Platforms** in areas such as railways, aeronautics, clean steel production, plant genomics or the transition to hydrogen as a fuel within the energy sector.

– The **European Investment Bank** should step up its support for the Lisbon strategy beyond its successful Innovation 2000 Initiative (i2I), which is now coming to an end. The EIB's follow up should target investment in the European knowledge economy, in particular, R&D and innovation in the private and public sectors, as well as support risk capital markets.

– The Competitiveness Council must **achieve a decisive breakthrough on the Community Patent** before the Spring European Council, failing which the Commission will consider withdrawing its proposal at the spring summit. The Community Patent has now become a touchstone for the Union's commitment to knowledge and innovation.

Delivering promised reforms

The economic reform agenda builds on ten years of success of the internal market. It focuses on improving the performance of goods, services and capital markets across the Union. Reforms open new opportunities for investment and business growth. Work is already well underway. Attention over the next year must focus on ensuring that reforms already agreed are finalised and that the businesses and people are equipped to seize these new opportunities.

First, final decisions are need for pending reforms for example on energy, transport, procurement, social security and qualifications. The Competitiveness Council must also inject fresh momentum into the **completion of the internal market for services,** while the Economic and Financial Affairs Council must **ensure that remaining barriers are removed to a risk capital market at the end of 2003 and that the Financial Services Action Plan is delivered** by the end of 2005. Progress on the latter should take into account new issues such as corporate governance in order to raise confidence and bolster the overall stability of financial markets.

Second, at the start of the fourth year of the strategy, it is time to ensure that all **the necessary conditions are in place to make the most of reforms already agreed**. Examples include:

– Improving cross-border connections and moving ahead on the development of trans-European networks[21], as recognised in Barcelona, in order to underpin market opening in energy, and overcome congestion in transport, particular in view of enlargement. Public financing of infrastructure could be enhanced by public-private partnerships.

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[21] To take forward the revision of the Community Guidelines on the trans-European transport network, a High Level Group chaired by former Commissioner, Karel Van Miert and made up of Member State representatives, observers from adhesion countries, EIB and the Commission will draw up recommendations in Spring 2003 on the priorities for the TEN transport network up to 2020 in both the current and future Member States.

– A knowledge-driven economy – particularly in the current business climate –which has particularly affected the telecommunications industry- depends on the new regulatory framework for communications services being in place on time with action to stimulate broadband networks and the use of new multi-platform on-line services in government, health, education and business, in line with the *e*Europe 2005 Action Plan. The Commission will report before the Spring European Council on the regulatory, technical and other issues relating to information society and the telecommunications sector.

– Reinforcing business investment in the leading industries in the Union such as the pharmaceutical and chemicals industries needs rapid progress in defining and agreeing new rules governing the operation of those sectors in order to exploit better technological progress and to take account of the objective of sustainable development.

– Consolidating the framework for the operation of services of general interest in the Union, thereby underpinning the development of the internal market, long term economic growth and improved cohesion. The Commission will shortly issue a Green Paper on general interest services and is developing guidelines for the application of State aid rules in the area.

4.3.2 New jobs and an updated social model for a knowledge society

More and better jobs within an inclusive labour market

Labour markets in many Member States have already have shown greater resilience to the economic cycle, proving that the **Lisbon employment targets are attainable** as a result of on-going reforms within the Lisbon strategy. However, sluggish productivity, an insufficient skill base and high levels of inactivity and unemployment continue to hold back growth. At the same time they put at risk the long-term sustainability of the improvements seen and limit opportunity across the Union. This is particularly true for women and older workers.

The Employment, Social Policy, Health and Consumer Affairs Council and the Member States must therefore maintain the momentum for reforms of national labour markets. They should promote and manage change on the basis of a **revamped European Employment Strategy**[22], which will more closely link employment goals to the Lisbon objectives. Those Member States that have made only small contributions to improving the operation of EU labour markets so far should do more by pursuing comprehensive reforms.

The new strategy should foster three mutually supportive objectives: full employment and higher labour market participation; raising quality and productivity at work; and promoting cohesion and inclusive labour markets. The strategy will therefore focus on issues highlighted in earlier Spring Reports, such as the balance between flexibility and security at work, entrepreneurship and reducing undeclared work; gender gaps and regional disparities and increasing employability and the integration of disadvantaged groups.

In the context of this year's Spring European Council, particular emphasis should be paid to three aspects of the new strategy:

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22 Communication on the future of the European Employment Strategy, COM(2003) 6, 14.1.2003.

– **Boosting employment and participation rates for older workers**. This is where performance is still a long way from the Lisbon targets. Comprehensive strategies are needed to attract older workers and reward people for remaining in employment[23].

– **Improving productivity** by promoting adaptability and job quality and by ensuring the right incentives and resources for private and public investment in human capital and lifelong learning.

– **Strengthening prevention and activation measures** for the unemployed and **reforming tax/benefit systems** to make work pay and further reduce structural unemployment.

A fresh approach must be taken to immigration as a means of ensuring that high levels of employment and productivity can be maintained in future decades. At the heart of any approach must be the better integration of migrants – who are often able to make a substantial contribution to entrepreneurship - into society, while taking account of the impact of such immigration on the countries from which migrants come.

The revised **European Employment Strategy should be results-oriented and include quantified targets**, where these can help to achieve the Union's goals. This could be the case, for example, in relation to prevention and activation policies, gender equality, life-long learning, and health and safety actions.

In many of these areas, action is not just a matter for Government. It requires investment from industry, other stakeholders and the full and active involvement of the social partners.

Modernising social protection systems in view of an ageing society

Sustained progress towards the Lisbon goals can only be achieved by moving ahead at the same time in the social area. Particular emphasis should be put during the coming year on reducing the risk of poverty and modernising social protection systems to meet the challenge of an ageing population:

– Member-States should seize the opportunity to set, in their Social Inclusion National Action Plans covering the period 2003-2005, **national targets to reduce significantly the number of people at risk of poverty and social exclusion by 2010**, as a means to inject more ambition into their policies in this domain.

– The momentum behind the **on-going reforms to secure sustainable and adequate pension systems** must be maintained. Similar challenges are posed for health and long-term care systems by ageing. Adapting pension systems to new needs, increasing employment rates and improving incentives so that older workers remain longer on the labour market will be particularly important. The Economic and Financial Affairs Council and the Employment, Social Policy, Health and Consumer Affairs Council must work together to ensure that all Member States are actively addressing these issues.

– The **streamlining of current disparate actions linked to social inclusion and pensions** and, in time, co-operation in relation to health care and 'making work pay' into a single open method of co-ordination will contribute to the necessary modernisation of social protection systems. The Employment, Social Policy, Health and Consumer Affairs Council

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[23] Joint Council/Commission report on increasing labour market participation and promoting active ageing, Council doc No 6707 of 8 March 2002 adopted on the basis of COM(2002) 9, 24.1.2002.

in co-operation with the Economic and Financial Affairs Council must actively pursue this streamlining, which will considerably strengthen the social dimension of the Lisbon Strategy. The Commission will adopt a Communication on this topic.

4.3.3 Addressing environmental pressures

As markets are opened and new jobs created, it is also essential to ensure that the opportunities are sustainable and that growth and environmental policies reinforce each other. A renewed effort is needed to implement Community environmental legislation, complement it through the use of economic instruments to provide the right signals and incentives to change behaviour, as well as removing damaging subsidies, and using fewer resources or using and reusing them more efficiently.

This should support the decoupling needed to **ensure that the economy can grow faster without increasing pressure on the environment** and can **benefit from the growth potential of cleaner technologies**.

New environmental technologies will help by offering more environmental protection for less money. The countries and regions that can harness these technologies today will play a major role in shaping the world of tomorrow. The Commission will shortly publish a progress report on the way to a fully-fledged Action Plan in December 2003. That Action Plan will identify the steps needed to support Europe's leading role in their diffusion.

Recent accidents such as the sinking of the Prestige oil tanker cause long-term environmental and economic damage for the areas and sectors concerned. New and modern technologies, as well as early implementation of adopted maritime safety measures by Member States, will also help to make the Union's coastlines safer.

The Transport, Telecoms and Energy Council and the Environment Council must both play a full role. In particular:

– Member States must accelerate implementation of the existing ERIKA I and II legislation and the Transport, Telecommunications and Energy Council and the Environment Council must ensure early adoption of the measures proposed by the Commission to further limit the risk of future accidents[24].

– Measures to ensure a **continued reduction in greenhouse gas emissions and improved air quality** against the trends of increasing transport demand and energy consumption must be treated as a priority. For energy, an important first step should be for the Economic and Financial Affairs Council to agree the pending energy tax proposal before the Spring European Council.

– Member States must make renewed efforts to ensure that they stay on track to meet their **Kyoto commitments**. The focus should be on measures where costs are likely to be low, such as emissions trading and removing environmentally harmful subsidies. Such steps will be important to meet the European Council's indicative target for renewable energy.

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[24] In view of the increased political uncertainty and its consequences for oil prices and energy supplies, progress is also needed from the Transport, Telecommunications and Energy Council on proposals on oil and gas stocks in the context of the security of EU energy supplies.

– **Bio-diversity and habitats** are under pressure from a range of economic activities. Successful adoption by the Agriculture and Fisheries Councils of Commission proposals on agriculture and fisheries would make a significant contribution to the protection of bio-diversity and help to secure the long-term future of these sectors. The decisions in December 2002 on fishery reforms are an important step forward.

– Measures have already been agreed which should help to break the link between transport growth and GDP by shifting transport to more environmental friendly modes, but more is needed. **Transport infrastructure pricing** will be an important tool in controlling environmental pressures and bringing about a faster switch to more sustainable modes of transport. Revenues raised might be used to help finance infrastructure on the basis of public-private partnerships. Member States should also restructure national transport taxes in a way more closely linked to pollution and CO_2 emissions, which can be achieved without increasing the total tax burden.

– More generally, **pricing mechanisms and tax systems** need to reflect better the broader costs to society of economic activity to ensure long-term sustainability. Unless distortions in markets are removed, there will be a bias against investment in cleaner technologies.

4.4 Embedding Lisbon within sound economic policies

The steps set out above will be achieved most effectively if supported by well co-ordinated macro-economic policies. Here the Economic and Financial Affairs Council must play its role in preparing the 2003 Broad Economic Policy Guidelines for endorsement by the European Council in June. Those guidelines must seek to ensure an economic environment that supports the priorities set out in this Report. They have a **double role** of mapping out the macro-economic conditions for stable growth and employment and providing the economic framework for structural reforms on the basis of the orientations provided by the Spring European Council.

In terms of macro-economic policy reform, the Commission's Communication of November 2002 set out proposals for improving the implementation of the Stability and Growth Pact[25]. In addition to securing the core budgetary objectives of sound and sustainable public finances, the proposals recognise the need to raise the contribution of public finances to growth and employment in line with the Lisbon strategy. This forms part of a more general approach to strengthen economic policy co-ordination and is consistent with the relevant proposals forwarded by the Commission to the Convention on the Future of Europe.[26]

4.5 Ensuring sustainability is properly addressed

The Union's sustainable development strategy, as recognised in previous Spring Reports, underpins all of the Lisbon actions. This means moving ahead on the three pillars of sustainability – economic, social and environmental. Implementing this strategy is essential, but it presents a challenge. Policy makers need to pay close attention to the interaction of these different dimensions and making sure that the short-term concerns do not lead to "quick fix" solutions that undermine progress towards longer term objectives.

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[25] Commission Communication on strengthening the co-ordination of budgetary policies, COM(2002) 668, 27.11.2002

[26] Communication from the Commission: For the European Union Peace, Freedom, Solidarity COM(2002) 728 final, 4.12.2002.

The Commission's new system of impact assessment will be an important instrument in improving the coherence of key Commission proposals. The same attention is now needed from the European Parliament and from the Member States in assessing the impact of amendments to proposed new rules or of national measures implementing Community law.

The additional priority for this Spring European Council is for Member States and the Union to follow up Doha, Monterrey and Johannesburg. This can contribute to the long-term improvement in the performance of both the Union and its partners around the world. It will require leadership in pursuing global solutions to curb key unsustainable trends.

This means moving forward on the broad trade and development agenda that has been identified, but it also highlights again the importance of agriculture and fisheries reforms in order to deliver economic and environmental benefits.

Table 13 Role and responsibilities – Mapping Councils and the necessary legislative decisions / guidelines to take Lisbon forward

Priority	Council	Deliverable
Opportunities through Knowledge and Market Reforms	Competitiveness	▪ Breakthrough on the Community Patent <u>before</u> the Spring European Council 2003 ▪ Procurement Package (*June 2003*) ▪ Action Plan on raising R&D investment (*Dec 2003*) *Final adoption by March 2004* ▪ A Corporate Governance Strategy ▪ Take-over Bids Directive
	Transport, Telecoms, Energy	*Final Adoption by June 2003* ▪ European Single Sky ▪ Public service contracts for passenger transport ▪ Access to port services ▪ Airport slot allocation ▪ Energy package ▪ TENs transport *Final Adoption by Dec 2003* ▪ Second railway package ▪ European network and information security unit ▪ Public sector information ▪ Transport infrastructure pricing (including a Eurovignette modification) (*mid 2004*)
	Economic and Financial Affairs	*Agreement <u>before the Spring European Council:</u>* ▪ Tax Package ▪ Energy tax <u>Financial Services Action Plan</u> *Final adoption by July 2003 on* ▪ Prospectus Directive ▪ Pensions Directive and extension of Lamfalussy process to banks, insurance and conglomerates *Final adoption by March 2004 on* ▪ Investment Services Directive ▪ Transparency Directive
	Employment, Social Policy, Health and Consumer Affairs	▪ Pharmaceutical regulation package (*Dec 2003*)
	Education, Culture and Youth	▪ ERASMUS World and eLearning Programmes (*Nov 2003*)
Employment / Social Dimension	Employment, Social Policy, Health and Consumer Affairs	▪ Employment Guidelines 2003 ▪ Temporary agency workers (*Dec 2003*) ▪ Updated regulation on social security co-ordination (*Dec 2003*)
Addressing environmental pressures	Environment	*Final adoption by March 2004* ▪ Climate change package ▪ Environmental liability ▪ Air quality package
	Economic and Financial Affairs	▪ Energy taxation (*January 2003*)
Economic Policy Framework	Economic and Financial Affairs	▪ Broad Economic Policy Guidelines 2003

Annex: Summary Table showing the frequency with which Member States appear within the top three and bottom three of the Structural Indicators

The attached table provides an overview of where Member States are positioned in relation to the agreed set of indicators established by the Commission and the Council.

It highlights those countries appearing in the top three for a given indicator (**"+"**) and those appearing in the bottom three (**"-"**).

The complete set of indicator graphs are annexed to the Staff Paper (SEC(2003) 25, 14.1.2003) accompanying this year's Spring Report and are also available on line www.europa.eu.int/comm/eurostat where the indicators are updated on a monthly basis and a full explanation of the methodology used is available.

This diverse set of indicators covers the broad range of areas touched by the Lisbon strategy, but are very different in character and cover different reference years, sometimes still predating the Lisbon Strategy. This must be taken into account in looking at the picture presented by this annex.

Finally, not all of the agreed indicators are suited to producing a ranked order for Member States.

Table shows the appearances in the top (+) / bottom (-) positions for each of the structural indicators agreed between the Commission and Council.

nd = Data not available for that Member State for the year used

***** = Indicator not suitable for ranking either because of type of data recorded or lack of sufficient current data

		B	DK	D	EL	E	F	I	IRL	L	NL	A	P	FIN	S	UK
General Economic Background																
a1	GDP per capita in PPS (2002)		+		-	-			+	+			-			
a2	Real GDP growth rate (2002)				+	+		-	+	-	-					
b1	Labour productivity per person employed (2002)	+			-	-			+	+			-			
b2	Labour productivity per hour worked (2002)	+			-	-		+		+			-			
c1	Total employment growth (2001)		-		-				+	+		-	+			
c2	Employment growth - females (2001)		-	nd	-	+		+	+	nd						-
c3	Employment growth - males (2001)		nd	nd	-		+		+	nd		-	+			-
d	Inflation rate (2002)			+	-				-		-	+				+
e	Unit labour cost growth (2001)	-			+	+				-		+	nd		-	
f	Public balance (2001)			-				-		+			-	+	+	
g	General government debt (2001)	-			-			-	+	+						+
Employment																
I.1.1	Total employment rate (2001)		+	nd	-	-		-		nd	+				+	
I.1.2	Employment rate - females (2001)		+	nd	-	-		-		nd				+	+	
I.1.3	Employment rate - males (2001)	-	+	nd			-		-	nd		+				+
I.1.4	Total employment rate of older workers (2001)	-	+	nd				-		nd		-			+	+
I.1.5	Employment rate of older workers - females (2001)	-	+	nd				-		nd		-		+	+	
I.1.6	Employment rate of older workers - males (2001)	-	+	nd			-		+	nd		-			+	
I.2.1	Total effective average exit age (2001)	-					-		+	-			+			+
I.2.2	Effective average exit age - females (2001)	-			-				+		-		+		+	
I.2.3	Effective average exit age - males (2001)	-	+				-		+	-						+
I.3	Gender pay gap in unadjusted form (1999)	+						+	-	nd		-	+			-
I.4	Tax rate on low-wage earners (2001)	-		-					+	+					-	+
I.5.1	Life-long learning (adult participation in education and training) - total (2002)		+		-		-						-	+		+
I.5.2	Life-long learning (adult participation in education and training) - females (2002)				-		-						-	+	+	+
I.5.3	Life-long learning (adult participation in education and training) - males (2002)				-		-				+		-	+		+
I.6.1.1	Accidents at work - serious accidents - total (2000)	+			+	-			+						-	-
I.6.1.2	Accidents at work - serious accidents - females (2000)				+	-	-		+		nd			+		-
I.6.1.3	Accidents at work - serious accidents - males (2000)	+	+			-			+		nd				-	-
I.6.2	Accidents at work - fatal accidents (2000)		+					+	+	-	-	-				
I.7.1	Total unemployment rate (2002)				-	-				+	+	+		-		
I.7.2	Unemployment rate – females (2002)				-	-		-	+	+	+					
I.7.3	Unemployment rate – males (2002)			-		-				+	+	+		-		

		B	DK	D	EL	E	F	I	IRL	L	NL	A	P	FIN	S	UK
Innovation and Research																
II.1	Spending on human resources (public expenditure on education) (2000)	nd	+	nd	-				-	nd		nd		+	+	-
II.2.1	Total R&D expenditure - GERD (1999)			+	-	-							-	+	+	
II.2.2	Total R&D expenditure – industry (1999)	+			-			nd		nd		-	-	+	+	
II.2.3	Total R&D expenditure – government (1999)	-			+	+		nd	-	nd			+		-	
II.2.4	Total R&D expenditure - abroad (1999)			-	+			nd		nd		+		-	-	+
II.3.1	Level of Internet access - households (2002)		+		-	-					+		-		+	
II.3.2	Level of Internet access - enterprises (2002)	nd	+		-		nd	-			nd		nd	+	+	-
II.4.1	Science and technology graduates - total (2000)				nd		nd	nd	+	-	-		-	+		+
II.4.2	Science and technology graduates - females (2000)			-	nd		nd	nd	+	nd	-	-		+		+
II.4.3	Science and technology graduates - males (2000)				nd		nd	nd	+	nd	-	-	-	+		+
II.5.1	Patents - EPO (2001)			+	-	-							-	+	+	
II.5.2	Patents - USPTO (2001)			+	-	-							-	+	+	
II.6.1	Venture Capital investments - early stage (2001)		+			-				nd		-	-	+	+	
II.6.2	Venture Capital investments - expansion/replacement (2001)				-	+				nd	+	-	-		+	
II.7.1	ICT expenditure - IT expenditure (2001)				-	-				+			-		+	+
II.7.2	ICT expenditure - Telecommunications expenditure (2001)		-		+						+	-	+	-		
Economic reform																
III.1.1	Relative price levels	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*
III.1.2	Price convergence between EU Member States	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*
III.2a.1	Price of telecommunications - local calls (2002)	-				+		+				-		+		-
III.2a.2	Price of telecommunications - national calls (2002)		+	-				-		+					+	-
III.2a.3	Price of telecommunications - calls to USA (2002)			+							+	-		-	+	-
III.2b.1	Electricity prices - industrial users (2002)	-				+		-	-		nd			+	+	
III.2b.2	Electricity prices - households (2002)			-	+			-					-	+	+	
III.2c1	Gas prices - industrial users (2002)		+	-	nd	+			+		nd		-	-		
III.2c2	Gas prices - households (2002)				nd	-		-		+	+		-	nd		+
III.3.1	Market share of the largest generator in the electricity market (2000)	-			-				-	nd	nd	+		+		+
III.3.2.1	Market share of the incumbent in fixed telecommunications - local calls (including calls to the Internet)* (2000)		+	+	-				nd	-			-			+
III.3.2.2	Market share of the incumbent in fixed telecommunications -long distance calls (2000)			+	-				nd	-			-		+	+
III.3.2.3	Market share of the incumbent in fixed telecommunications - international calls (2000)		nd		-				nd	-			-	+	+	+

		B	DK	D	EL	E	F	I	IRL	L	NL	A	P	FIN	S	UK
III.3.3	Market share of the incumbent in mobile telecommunications (2002)		+	+		-				-				-		+
III.4	Public procurement (2001)			-	+			-		-					+	+
III.5.1	Sectoral and ad hoc State aid (2000)	-			+					-				-	+	+
III.6.1	Market Integration - Convergence of interest rates - mortgages	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*
III.6.2	Market Integration - Convergence of interest rates - short term loans to enterprises	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*
III.6.3	Market Integration - Convergence of interest rates - medium and long-term loans to enterprises	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*
III.6.4	Market Integration – Trade Integration - goods (2001)	+			-			-	+	+						-
III.6.5	Market Integration – Trade Integration - services (2001)	+					-	-	+	+				-		
III.6.6	Market Integration – Trade Integration – FDI (2001)	+			-			-		+	+	-				
III.7	Business investment (2001)					+	-					+	+		-	-
Social Cohesion																
IV.1	Inequality of income distribution (1999)		+		-	-							-	+	+	
IV.2.1	At-risk-of-poverty rate before social transfers – total (1999)			+			+		-		+				-	-
IV.2.3	At-risk-of-poverty rate before social transfers – females* (1999)			+				+	-		+				-	-
IV.2.5	At-risk-of-poverty rate before social transfers – males* (1999)			+				+	-				-	+		-
IV.2.2	At-risk-of-poverty rate after social transfers - total (1999)		+	+	-								-		+	-
IV.2.4	At-risk-of-poverty rate after social transfers - females* (1999)			+	-						+		-		+	-
IV.2.6	At-risk-of-poverty rate after social transfers - males (1999)			+	-								-	+	+	-
IV.3.1	At-persistent-risk-of-poverty rate - total (1999)		+		-				-		+		-	+	nd	
IV.3.2	At-persistent-risk-of-poverty rate - females (1999)		+		-				-		+		-	+	nd	
IV.3.3	At-persistent-risk-of-poverty rate - males (1999)		+	+	-			-					-	+	nd	
IV.4.1	Dispersion of regional employment rates – total (2001)	-	nd			-		-	nd	nd	+	+	+			
IV.4.2	Dispersion of regional employment rates – females (2001)	-	nd			-		-	nd	nd	+	+			+	
IV.4.3	Dispersion of regional employment rates – males (2001)		nd	-		-		-	nd	nd	+	+	+			
IV.5.1	Early school-leavers - total (2002)					-			-			+	-	+	+	nd
IV.5.2	Early school-leavers - females (2002)	+				-		-					-	+	+	nd
IV.5.3	Early school-leavers - males (2002)			+		-			-			+	-		+	nd
IV.6.1	Long-term unemployment rate - total (2001)		+	nd		-		-		nd	+	+				
IV.6.2	Long-term unemployment rate - females (2001)			nd	-	-		-	+	nd		+				+
IV.6.3	Long-term unemployment rate - males (2001)	-	+	nd	-			-		nd	nd	+	+			
IV.7.1	Population in jobless households – persons aged 0-65 (2002)	-	nd	-		+				+			+	nd	nd	-
IV.7.2	Population in jobless households – persons aged 0-60 (2002)	-	nd			+	-			+			+	nd	nd	-

Environment		B	DK	D	EL	E	F	I	IRL	L	NL	A	P	FIN	S	UK
V.1	Greenhouse gases emissions (2000)			-		-				+		-		+	+	
V.2	Energy intensity of the economy (2000)		+	+	-							+	-	-		
V.3.1	Transport - Volume of freight transport relative to GDP (2000)	+			+				-	-		-		+		
V.3.2	Transport - Volume of passenger transport relative to GDP (2000)				-	-			+	+			-	+		
V.3.3	Transport - Modal split of freight transport - percentage share of road (2000)				-	-			-		+	+			+	
V.3.4	Transport - Modal split of passengers transport - percentage share of cars (2000)					+	-		+		-	+				-
V.4.1	Urban air quality – Population exposure to air pollution by ozone* (2000)		nd		nd	-		-	nd	nd	+	-	+	+		
V.4.2	Urban air quality – Population exposure to air pollution by particulate matter (PM10) (2000)	+	nd		nd	-	nd	-	nd	nd			-	+		+
V.5.1	Municipal waste collected (2000)	+	-	nd	nd				-	-		nd	+	+	nd	nd
V.5.2	Municipal waste landfilled (2000)	+	+	nd	nd	-		nd	-	nd	+		-			nd
V.5.3	Municipal waste incinerated (2000)	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*
V.6	Share of renewable energy (2000)	-								-		+	+		+	-
V.7.1	Protection of Natural Resources - Fish stocks in European Marine Waters	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*
V.7.2	Protection of Natural Resources – protected areas for biodiversity (Habitats Directive) (2000)	-		-	+	+	-						+			
V.7.3	Protection of Natural Resources – protected areas for biodiversity (Birds Directive) (2000)		+				-		-		+	+				-