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**COMMUNICATION FROM THE COMMISSION**

**REALISING THE EUROPEAN UNION'S POTENTIAL:  
CONSOLIDATING AND EXTENDING THE LISBON  
STRATEGY**

**Contribution of the European Commission to the Spring European Council, Stockholm  
23 – 24<sup>th</sup> March 2001**

## EXECUTIVE SUMMARY

At Lisbon the European Council defined an **ambitious strategy for change**. A strategy to make the European Union by 2010 *“the most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion.”*

Lisbon invited the European Council to meet each Spring to discuss economic and social questions, against the background of the European Union’s strategic goal. This report responds to the Lisbon mandate. It presents a picture of progress since Lisbon, drawing on economic and social indicators agreed with the Member States. It identifies decisions and action required over the next 12 months to **consolidate and extend the Lisbon Strategy** and to deliver results. It will be for the Stockholm European Council to give the necessary impulse to ensure those decisions happen.

2000 has been a good year for the European Union economy. Governments and business have benefited from strong growth, continuing low inflation and healthy public finances. Around **2.5 million new jobs** have been created, with more than two thirds of them having been taken up by women.

It has also been a year of **notable policy successes** as the Commission has moved forward in all the areas requested by Lisbon. But it has also seen **disappointments** - where key proposals brought forward by the Commission risk being delayed or watered down for various reasons, including a lack of political will.

By the end of the year, unemployment has fallen significantly across the European Union, the euro has strengthened, and the economy has weathered the fuel price shock and the turbulence within stock markets, and looks set to grow at a steady pace over the coming years. The final preparations for the introduction of the euro are underway and the agreement at Nice on institutional reforms have cleared the way for enlargement. All this suggests that the roadmap provided by Lisbon was the right one.

But the European Union cannot afford to be complacent. Our relative economic strength must be used to **speed up - rather than slow down - difficult reforms**. Despite progress, achieving the EU’s strategic goal requires determined action:

- **Employment.** While new jobs have been created, 14 million people are currently out of work. The overall employment rate across the European Union is still far from the targets set at Lisbon and not enough has been done to set corresponding targets at national level. There are signs of labour shortages and skills gaps which risk limiting our capacity for further growth. And too many barriers discourage people from entering the workforce or limit mobility once they are in it.
- **Economic reforms.** While economic reforms have progressed, efforts need to be accelerated to open key sectors of the economy further (telecommunications, energy, transport, posts, procurement). An internal market for services is still lacking. Ad hoc and sectoral state aid is still too common. The integration of financial markets and cross-border investment is held back by our cumbersome way of regulating the sector, and the supply of risk capital is barely a third of what is available elsewhere and not sufficiently focused on early stage finance.
- **Research and innovation in the knowledge society.** Business in the European Union continues to invest less in new technologies and less in research than its competitors in the United States – one of the factors explaining a productivity and innovation deficit within the European Union, despite our wealth of expertise and talent. The patenting of good ideas is still nationally based and too expensive. More needs to be done to pool research, business and financial skills – particularly around “frontier technologies”. Moreover, the take up by business, citizens and governments of the new *e*-economy is not fast enough.
- **Social cohesion.** Poverty and exclusion persist within the European Union – compounded by substantial regional variations in employment and the standard of living. Social protection systems need to be modernised and improved. With an ageing population, efforts need to start now to ensure that pensions are safe and sustainable into the future and that healthcare systems are ready to meet changing demands for care.

To answer these problems, action is needed across ten priority areas.

The actions proposed within each area form an **integrated and mutually reinforcing response**. They take the Lisbon Strategy forward over the next decade. They imply difficult decisions and call for political will and vision. Yet if the European Union can move ahead across all these areas, we will be helping to **realise and release the European Union’s full potential**.

**TEN AREAS FOR DECISIONS FOR STOCKHOLM**

- (1) More and better jobs**
- (2) New European labour markets – open to all, with access for all**
- (3) Economic reforms for goods and services**
- (4) Integrated financial markets**
- (5) The right regulatory environment**
- (6) eEurope 2002**
- (7) The IT skills gap**
- (8) Research, innovation and enterprise**
- (9) Frontier technologies**
- (10) Effective social protection for an ageing population**

## TABLE OF CONTENTS

<b>EXECUTIVE SUMMARY</b>	<b>2</b>
<b>I LISBON – ONE YEAR ON</b>	<b>6</b>
<b>II THE ECONOMIC AND SOCIAL CONTEXT</b>	<b>6</b>
<b>III THE WAY AHEAD IN 2001</b>	<b>9</b>
1. <b>More and better jobs</b>	<b>10</b>
2. <b>New European labour markets – open to all, with access for all</b>	<b>12</b>
3. <b>Economic reforms for goods and services</b>	<b>14</b>
4. <b>Integrated financial markets</b>	<b>16</b>
5. <b>The right regulatory environment</b>	<b>17</b>
6. <b>eEurope 2002</b>	<b>18</b>
7. <b>The IT skills gap</b>	<b>20</b>
8. <b>Research, innovation and enterprise</b>	<b>21</b>
9. <b>Frontier technologies</b>	<b>23</b>
10. <b>Effective social protection for an ageing population</b>	<b>26</b>
<b>IV FROM STOCKHOLM TO GÖTEBORG : ADDING A SUSTAINABILITY DIMENSION</b>	<b>27</b>
<b>V MAINTAINING THE MOMENTUM</b>	<b>28</b>

## I LISBON – ONE YEAR ON

*Lisbon provided a common vision to transform the EU economy and society*

One year ago at Lisbon the Heads of State and Government and the Commission set out a ten year strategy for change. Against the background of an emerging knowledge society, they agreed a common vision for economic and social development for the European Union. A vision to transform the economy and society by placing people and ideas at the centre. A vision of innovation and enterprise.

*The Commission has delivered*

The Commission started to implement this strategy without delay. It has delivered in all the areas requested<sup>1</sup>. One year on the strategy agreed at Lisbon remains the right way to move ahead. In this report the Commission identifies progress drawing on the “Lisbon indicators” of success agreed with Council<sup>2</sup>. But it also highlights areas - notably, **new European labour markets, integrated financial markets, and “frontier technologies”** - where action must be accelerated or extended.

*A culture of economic dynamism and social renewal*

At the heart of the Lisbon strategy is the aim of strengthening competitiveness, moving towards full employment and promoting social cohesion - adding a **culture of economic dynamism and social renewal** to the economic stability which has now been achieved.

*Lisbon provides an integrated strategy for success*

Reaching this objective requires an integrated approach – parallel action across a range of interconnected areas to develop a virtuous cycle of creating more and better jobs, accelerating economic reforms, embracing innovation and the knowledge society, and strengthening social cohesion.

This was the approach defined at Lisbon. Decisions are needed now to consolidate and extend this strategy to realise the European Union’s full potential over the decade ahead.

## II THE ECONOMIC AND SOCIAL CONTEXT

The year 2000 was a good year for the European economy. The reality of a single currency and its consequences in terms of the need for stronger economic policy co-ordination are being learnt. Efforts are underway to reinforce such co-ordination, making it more effective and contributing to the definition of the appropriate policy mix.. The convergence of the

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<sup>1</sup> A summary of new policy and legislative initiatives launched by the Commission, together with adopted legislation and other initiatives is annexed.

<sup>2</sup> The full set of structural indicators is annexed to this Report

economic cycle across the European Union is becoming more pronounced.

*More than 2.6 million new jobs*

Governments and business have been able to draw the benefit from strong growth in the economy, continuing low inflation, and healthy public finances. Around **2.5 million new jobs** have been created, more than two thirds of which have been taken up by women. The European Union is reaping the rewards of an integrated internal market, of sound monetary and fiscal policies, and of the increasing effectiveness of employment and cohesion policies.

*Stockholm should give an impulse for the Broad Economic Policy Guidelines 2001*

Provided Member States pursue medium-term objectives of controlling inflation and improving the quality of public finances, this progress is set to continue in the years ahead. Implementing changes in the quality of public finances is a difficult task but the rewards are potentially great<sup>3</sup>. At Stockholm the European Council must maintain and enhance the macroeconomic framework, so that it contributes further to creating a dynamic and inclusive Europe. The forthcoming Broad Economic Policy Guidelines for 2001 should reflect this choice.

*Economic reforms complement sound macro-economic conditions*

Sound macro-economic conditions have been complemented by continuing economic and structural reforms at both a national and European level and the emergence of a knowledge society.

The effects on the European Union's economic performance of new action following Lisbon will not be measurable for some time, but notable policy successes at a European level – and some disappointments - have already been seen.

**THERE HAVE BEEN IMPORTANT SUCCESSES SINCE LISBON.....**

- ✓ Key economic and employment policy instruments have been reoriented in the light of the targets established in Lisbon, notably the **Broad Economic Policy Guidelines for 2000**; the Report on the functioning of the internal market ("the Cardiff Report"), and the **2001 Employment Guidelines**.
- ✓ A general regulatory framework has been agreed for **electronic commerce**, as well as rules on cross-border legal disputes and who can issue "**electronic money**". Exports of encryption products within and from the European Union have been freed up.
- ✓ **Greater competition for local telecoms services** will flow from rules on local loop unbundling introduced on target in January 2001. This will lower the cost of using the Internet.

<sup>3</sup> The Community instruments for economic policy co-ordination must help Member States, in addition to continuing their efforts to reduce public debt, to make tax and benefit systems more employment friendly; support R&D, innovation and IT, and prepare pension systems for an ageing population.

- ✓ Rules allowing businesses to operate as a **European Company** were agreed after more than 30 years of negotiation, accompanied by rules on the involvement of their employees. These should be formally adopted in the Spring.
- ✓ Important progress was made after difficult negotiations on the so-called **tax package**.
- ✓ The Commission updated its 1996 **Communication on general interest services** providing greater legal certainty for the organisations concerned.
- ✓ The **first stage of rail liberalisation** has moved ahead, following adoption of rules ensuring by 2008 the complete opening of the international freight transport throughout the European network.
- ✓ The **European social agenda** was adopted at the Nice European Council, setting out how the social objectives agreed in Lisbon will be achieved. A **strategy on social exclusion** was also endorsed which extends the open method of co-ordination to this area, in particular, through the preparation by Member States of national action plans by June 2001.
- ✓ Progress was made with the adoption of two directives and an action plan combating **discrimination, as well as** agreement on a framework strategy and action plan in the area of **equal opportunities**.
- ✓ The **European Investment Bank** has committed over **€2 billion** of the €12 to 15 billion announced in its Innovation 2000 Initiative to re-orient its lending activity towards support for the knowledge society. At a national level at least around **€6 billion within the Structural Funds** is foreseen to be spent on investments linked to the knowledge society and eEurope over the next 6 years.
- ✓ A tenfold **upgrading of the speed of networks linking leading research centres** in 30 European countries is well underway with the help of €80 million from Community research funds.

***BUT THERE HAVE ALSO BEEN SIGNIFICANT DISAPPOINTMENTS....***

- ✗ Discussion in Council is currently stalled on **postal services** and progress has not been sufficient on new rules on the **distance marketing of financial services**. The **take-over bids** proposal risks further delay.
- ✗ Despite ambitious proposals, progress has been insufficient on new **procurement rules** and on the **Community patent** with the result that the target dates agreed in Lisbon are put at risk.
- ✗ There has been no agreement on the structure to take forward **GALILEO** to its second phase of development due to the lack of political consensus.
- ✗ **Gas and electricity liberalisation** still need to be fully implemented and applied in some Member States.
- ✗ Despite the success in liberalising international rail freight, the challenge regarding **passenger transport and domestic rail freight** remains.
- ✗ Insufficient progress has been made within the European Employment Strategy on implementing **lifelong learning**, particularly with regard to setting national targets.



*US slowdown must not delay decisions here*

Despite the generally positive outlook, this is not a time for complacency. The European Union's relative economic strength compared to a slowing United States economy must not be used as an excuse to delay necessary structural reforms.

*The Union must seize the window of opportunity*

The European Union must take decisions now to achieve a growth dividend in future years and use the cushion of a sound economy to ease the impact of reforms. Past mistakes of slowing the pace of economic reform when the economy is doing well must not be repeated. Without a continued commitment to structural and social change, the prospect of sustainable growth, further falls in unemployment and greater cohesion will be seriously undermined.

*Lisbon strategy has broad policy implications*

Success in moving forward on the Lisbon strategy in 2001 also has wider importance. It will enhance the impact of the euro as the final preparations for its introduction within the Euro-zone countries are made. It can provide additional momentum for developing an open and strong system of global trade rules as a complement to economic and social reforms within the European Union. Any trade agenda should draw on the objectives, and learn from the methods, established at Lisbon. A strong economy will also be an essential component in preparing for enlargement. The candidate countries too, must become involved in the Lisbon strategy, taking on board wherever possible the targets and objectives the European Union has set.

### III THE WAY AHEAD IN 2001

*Stockholm to take stock of progress and give new impetus*

At Stockholm the European Council will have an opportunity to take stock, to set priorities, and address new challenges. It must identify decisions that need to be taken during the next 12 months to drive forward the Lisbon strategy.

*Ten mutually reinforcing and integrated priorities*

The ten priority areas for 2001 identified by the Commission represent an integrated response. They are each mutually reinforcing. They use **macroeconomic stability, economic and social reforms, integrated financial markets, the right regulatory environment, and the wider take up of the e-economy**, to create an **environment for research, innovation and enterprise**. An environment in which ideas and increased investment – particularly in the knowledge economy - are transformed into new products and services, fuelling improvements in **productivity**. An environment which acts as a motor for growth and competitiveness, creating **more and better jobs** and enhancing **social and regional cohesion**.

But new jobs will remain unfilled unless the European Union invests more in **education and skills**, continues to reform its **tax and benefit systems** and encourages **labour force mobility** within emerging “**new European labour markets**”.

The knowledge society and “**frontier technologies**” will be held back unless the **digital skills gap** is filled, more is invested in **innovation and research**, and a **regulatory environment** which ensures public confidence is in place supported by a good supply of early stage risk capital.

**Enhancing social cohesion** and **modernising social protection systems** to respond to economic changes and an ageing population will not progress without a strong economy to pay for change and **public finances** which are sustainable in the long-term.

**The Commission therefore recommends the following areas for action to be agreed by the European Council in Stockholm:**

## **1. More and better jobs**

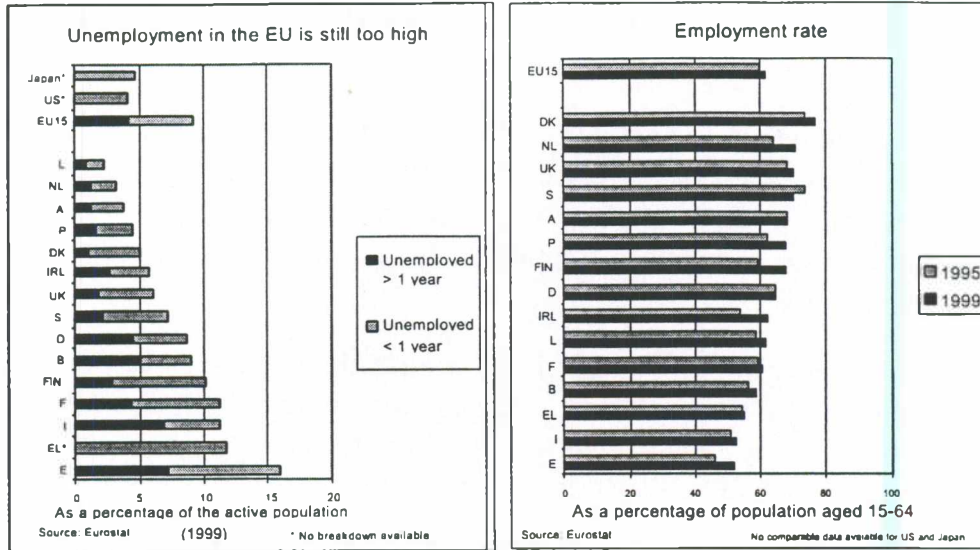
*Towards the goal  
of full employment*

Moving towards the goal of **full employment** is at the heart of the **Lisbon strategy**. It is a key means of ensuring fuller participation in society. The European Union faces a twin challenge. It must push up the employment rate overall, but particularly for women. These rates are too low compared with the Union’s key competitors. It must also continue to bear down on unemployment, tackling the marked regional variations and particular problems of the young and long term unemployed.

*14 million remain  
unemployed*

While around two and a half million jobs have been created each year for the last three years, 14 million Europeans are currently unemployed. The EU average unemployment rate at 8.1% is more than twice that in the United States, yet that masks performances in some Member States which are amongst the best in the world.

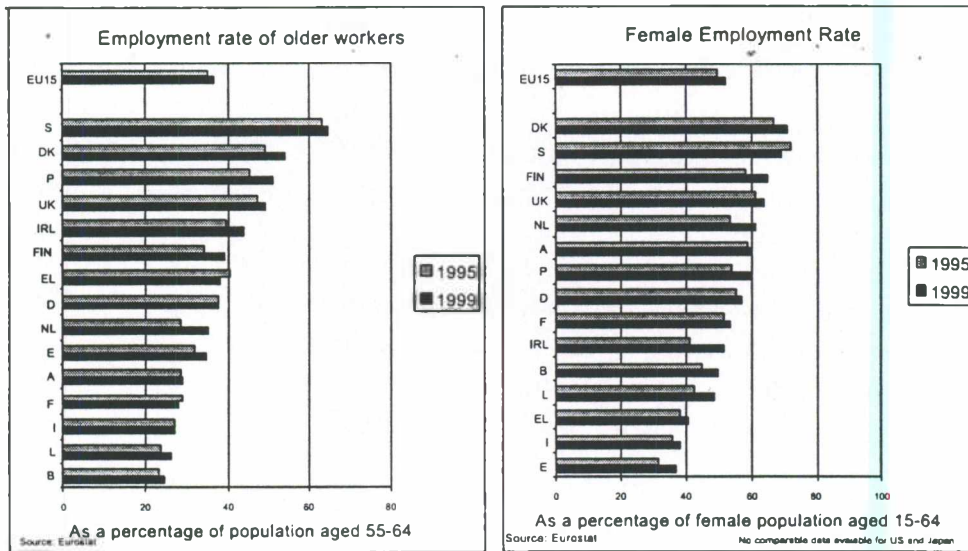
**The EU must tackle unemployment and push up employment rates...**



*Employment rates must be raised*

At the same time, more needs to be done to help individuals to enter or remain in the workforce<sup>4</sup>. This applies particularly to **women**, and to the **55-64 age group** where only 37% remained in the workforce in 1999. Pushing up employment rates is also essential if we are to face the challenge that an ageing population presents for welfare and healthcare in the Member States.

**National targets are needed, particularly for older workers (55-64) and for women...**



<sup>4</sup> The six “employment” gaps (gender, services, regional imbalances, long-term unemployment, skills and age) identified in the Commission’s contribution to the Lisbon European Council remain as valid today (see [http://europe.eu.int/comm/commissioners/prodi/lisbon\\_en.htm](http://europe.eu.int/comm/commissioners/prodi/lisbon_en.htm)).

*Tax and benefit systems must make work pay*

One factor will be pursuing efforts to develop active employment policies which encourage rather than discourage participation in the workforce. Efficient **tax and benefit systems** will be a key contributor to Europe's return to full employment. At the same time, the Lisbon strategy also focuses on the quality of the jobs which are available – an area where better understanding and clear indicators are needed.

#### JOBS – ACTION POINTS FOR STOCKHOLM

**The European Council should**

- agree **intermediate targets for employment rates** across the EU for Jan 2005 of 67% overall and 57% for women.

**Council should**

- ensure that these targets are reflected in the **Broad Economic Policy Guidelines** for 2001 and the **Employment Guidelines** for 2002.

**Member States should**

- in consultation with social partners and in order to contribute to achieving the EU-wide targets, set **national targets** for meeting the Lisbon objectives and in particular, for significantly increasing the number of older people (55-64) remaining in the workforce.
- ensure that actions to achieve these targets are included in their National Employment Plans.

**Social Partners should**

- contribute to the European Employment Strategy, in particular with regard to measures aimed at improving employability and adaptability.

## 2. New European labour markets – open to all, with access for all

*A new European labour market is emerging*

“New European labour markets” are emerging against the background of globalisation and the knowledge economy. This reflects the fact that it is becoming increasingly common for people to take advantage of the single market to live and work in different Member States. This is a very concrete example of European integration.

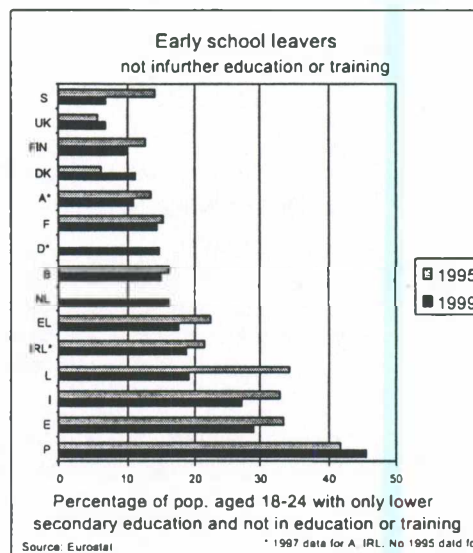
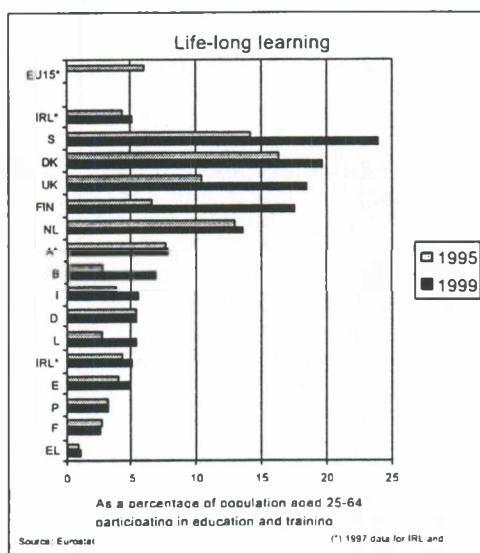
Public authorities have a role in ensuring that these labour markets are as open and widely accessible as possible by **tackling barriers** resulting from red tape, and from tax and benefit systems, pensions, and recognition of qualifications. By breaking them down and by improving information on mobility, greater adaptability to change can be introduced into the European labour force. It should be easier for skills to be transferred across borders and for the supply of skilled labour to be matched better to demand.

*Education and training is also key*

**Skills** - from basic education to specialist trade or professional qualifications - are also fundamental to opening new European labour markets to everyone. Almost 80% of new jobs created have been in “high education” areas (managers, professionals, technicians, etc.). But the Lisbon indicators show that significant numbers of young people are

not acquiring additional qualifications beyond their basic secondary school careers. At the same time, more needs to be done if life-long learning is to become a reality rather than a slogan.

*A culture of life long learning (as measured by adult participation in education and training in the 4 weeks preceding the survey) is making slow progress in most Member States ... and a substantial number of school leavers are not acquiring further skills ....*



## NEW EUROPEAN LABOUR MARKETS – ACTION POINTS FOR STOCKHOLM

### The European Council should

- endorse the creation by the Commission of a **high level skills and mobility task force**, drawing on expertise from business, education and the social partners, to examine the drivers, characteristics and barriers within the European labour market. The task force should report before the Spring 2002 European Council.

### Council and the European Parliament should

- adopt by June 2001 the **Recommendation on mobility of students, persons undergoing training, young volunteers, teachers and trainers**; and in parallel Member States should implement the Mobility Action Plan.
- adopt by June 2001 proposals for **modernising social security for migrant workers**.

### The Commission will

- present in 2002 an action plan for the Spring European Council to **develop and open up new European labour markets by 2005**.
- present in 2002 proposals for a more uniform, transparent and flexible regime of **professional recognition** based on the existing General System, including ways of ensuring more widespread automatic recognition.
- present before the end of 2001 a proposal on the **portability of supplementary pensions** following a Communication in March 2001 on the **elimination of obstacles to the cross-border provision of supplementary pensions** caused by tax systems.
- work with national and local governments, employment services and other relevant actors, to assess before the end of 2001 the feasibility of establishing a **one-stop European mobility information site**.

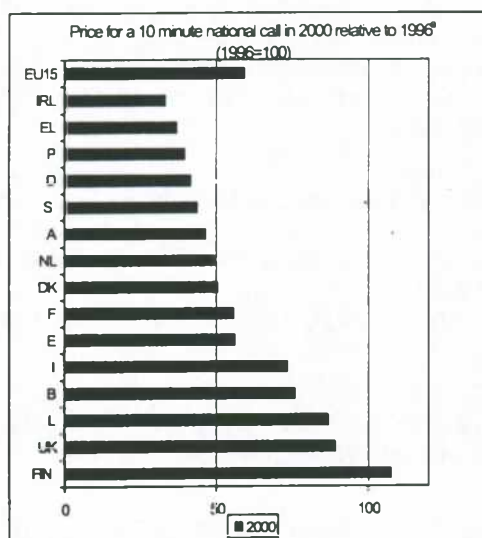
### 3. Economic reforms for goods and services

*Political attention must focus on priority sectors*

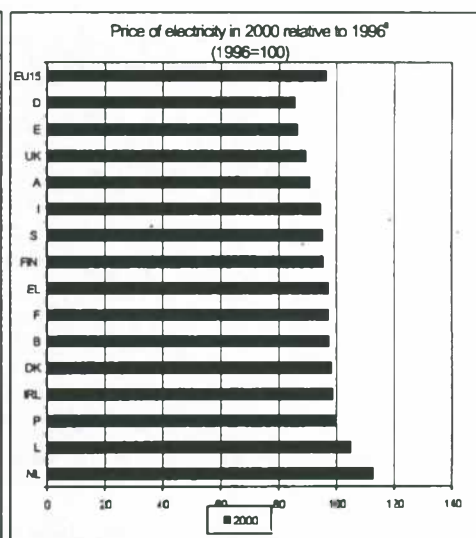
A clear set of **priorities for economic and structural reform** during 2001 is required to ensure a competitive economy delivering growth, jobs and social cohesion. The Lisbon indicators show that the integration of European markets is being widely felt through a greater alignment of prices across the EU and a strengthening pattern of trade between Member States. The Internal Market Strategy, based on clear targets and regular reviews, has been an important factor in achieving this.

*A true internal market for services is needed and liberalisation of energy and transport sectors must be pursued*

Lisbon has already identified the creation of an **internal market in services** – which generates around three quarters of EU GDP - to be one of the European Union's highest priorities. The success of earlier reforms in the services sector should be a strong spur to further action. For example, the cost of telecoms and electricity have fallen significantly for businesses and consumers as the result of more effective competition, in parallel with improvements in choice and quality of the services delivered. At the same time, more needs to be done by Member States to ensure the existing rules are implemented uniformly across the EU.



Source : Eurostat 2000<sup>5</sup>



Source : DG INFSO 2000

*Commitments needed in key sectors*

A clear deadline is needed to drive forward **further structural reforms in the energy and transport sectors**. Benefits for consumers and business are expected from greater liberalisation of the air and rail markets. Existing problems, such as inefficiencies and flight delays in the air transport sector, are estimated to lead to extra costs of €5 billion

*Air traffic delays cost Europe €5 billion a year*

<sup>5</sup>For **electricity**: Nominal prices per kWh, excluding taxes, in national currency for a 3.500 kWh consumer. EU15 is simple average of price reductions. For **telecoms**, nominal charges in national currency, including taxes, for a 200 km call Wednesday at 11.00. Call duration is 10 min. EU15 is simple average price reductions.

each year. Benefits should also flow from the introduction of **Galileo** – Europe's own satellite navigation system – later in the decade. Projections suggest it could generate more than 140,000 jobs by 2010.

Renewed commitment is also needed on **postal services** and **public procurement**. Progress in opening up public services must take full account of the importance attached to general interest services in the European Union.

*Ad hoc and  
sectoral State aid  
should be reduced*

Economic reforms will foster competition. But a competitive market place also requires **competition policy** at Community and national level to be reinforced, building on the reform of European competition rules currently underway. Moreover, **State aid** in the European Union still accounts for more than 1% of GDP. This must be further reduced and the system made more transparent. Attention should focus particularly on reducing further the volume of sectoral and ad hoc aid to minimise its potential to distort competition and create barriers to entry.

#### **ECONOMIC REFORMS – ACTION POINTS FOR STOCKHOLM**

##### **The European Council should**

- endorse the Commission's recently adopted **Internal Market Strategy for services**.
- endorse the **full opening of gas and electricity markets** for business users, respectively by 2003 and 2004, and for all consumers by 2005.
- endorse the **creation of a Single European Sky** before the end of 2004, building on the recommendations of the High Level Group, including the establishment of Joint actions within the Common Foreign and Security Policy.

##### **Council and the European Parliament should**

- agree by May 2001 on the organisational structure for the next stage of development of the **Galileo** satellite navigation system.
- agree by June 2001 on a balanced **opening of postal markets** in the European Union to enable final adoption before the end of 2001.
- agree by June 2001 on **procurement rules** in order to ensure their adoption before the end of 2001.

##### **Member States should**

- commit themselves to speed up their transposition of internal market legislation.
- continue to **reduce the volume of ad hoc and sectoral State aid**.

##### **The Commission will**

- propose by March 2001 the necessary measures covering the opening of **energy and transport sectors**, as well as in the case of energy, measures to provide a **framework to develop effective cross-border energy markets** supported by adequate infrastructure capacity.
- present by June 2001 a comprehensive proposal to revise the rules on **airport slot allocations**.
- present by June 2001 a 2<sup>nd</sup> package of measures to the **opening up of domestic rail freight and passenger markets**.
- ensure that a **publicly accessible State aid register and Scoreboard** are available on line by July 2001 and strengthen the strict control of cases of sectoral and ad hoc aid.

#### 4. Integrated financial markets

*Faster progress  
needed on  
integrating  
financial markets*

An efficient and integrated European financial market will help to support growth and job creation within a competitive economy. In the year since Lisbon, as the importance of the euro develops, the process of consolidation within the European financial services sector has continued – most visibly amongst European stock exchanges. But as the pace of market change accelerates, the barriers to achieving an internal market remain. The **Financial Services Action Plan** identified 43 measures to dismantle barriers created by differing national rules. Such rules, for example, make raising capital more difficult and expensive, they lower returns made by pension funds without enhancing security and they reduce investor confidence deterring cross-border investment. At the same time, the development of on-line services gives rise to new challenges.

Despite the evidence of a strong contribution from the sector to the economy over the last decade, there is clearly a major macroeconomic cost for the European Union of non integration – lower growth, fewer jobs. The costs and benefits should be further explored, quantified and widely publicised.

*Mismatch between  
our ambition and  
the tools to  
achieve them*

Getting the **right regulatory environment for financial markets** by 2005 is central to Lisbon. The high level group chaired by Alexandre Lamfalussy has highlighted the mismatch between our ambition and the legislative and regulatory tools at the European Union's disposal. It takes far too long to get proposals from the drawing board to market or to adapt them once they are in place. And the legislation is often too full of ambiguity or inconsistently implemented.

What is needed is a strong political commitment to a more flexible, fully accountable approach to financial regulation, which respects the different roles of the Community institutions. A key innovation should be the creation of a **European Securities Committee** to assist the Commission in ensuring that the European Union's regulatory processes meet the challenge of complex and rapidly-changing financial markets. A European Securities Market Regulators Committee should also be established. This set up would help to develop the technical details of Regulations and Directives (which should in future be more focused on framework principles).

#### FINANCIAL MARKETS – ACTION POINTS FOR STOCKHOLM

The European Council should



- endorse the broad approach of the Lamfalussy report and especially the need for a **new approach** for securities markets in order to offer markets and investors the speed and certainty they require, while fully maintaining democratic accountability.

**Council and European Parliament should**

- accelerate work on the Financial Services Action Plan, notably on proposals on **supplementary pensions, international accounting standards, and collateral** to ensure full implementation of the financial services action plan by 2005 at the latest.
- Adopt as soon as possible the framework legislation implied by the new approach, including the setting up of a **European Securities Committee** to be in place by the beginning of 2002.

**The Commission will**

- **Respond, before the end of 2001, to the recommendations made by the Lamfalussy group**
- present the proposals set out in the Financial Services Action Plan including on **capital adequacy, market abuse, prospectuses and wholesale investment services.**
- present by March 2001 a Communication on **electronic commerce and financial services.**
- **set up a European Securities Market Regulators Committee.**

## 5. The right regulatory environment

*Rules must be effective, workable and easily adapted*

Business and citizens in the European Union need a regulatory environment which is clear, effective and workable in a rapidly changing, global market place. This is a key element if the European Union is to become the **cheapest and easiest place to do business** in the world.

The Lisbon strategy is helping because it attaches clear dates to what needs to be done. In this way, key rules have been agreed in the last year – for example on e-commerce - cutting through difficult sectoral arguments which in the past led to long delays before anything is done.

At the same time, calls continue for the regulatory system to be simplified and made more transparent. And for the impact of proposed regulation to be more effectively assessed

*New means of developing and applying rules may be needed*

The Lisbon conclusions also stressed that **formal regulation is not always the answer.** Other alternatives such as co-regulation, self-regulation or agreements between the social partners can sometimes provide more effective solutions. The challenge is to ensure high levels of protection while avoiding over-regulation. Simplifying and streamlining current rules at a Community level is important, but for most citizens and businesses, it is even more important at national and local level.

Getting the right regulatory framework is part of a broader debate about how European Union's institutions operate. The Commission will shortly present a clear outline of its approach which will be developed

further by the end of the year. The forthcoming **White Paper on Governance** will contribute to these reflections.

**REGULATORY ENVIRONMENT – ACTION POINTS FOR STOCKHOLM**

**The Council and European Parliament and the Member States should**

- continue to review, simplify and modernise regulation at a national and European level.

**The Commission will**

- present before the end of 2001, on the basis of the discussion of its contribution to the Stockholm European Council, a **co-ordinated strategy to simplify the regulatory environment.**

## 6. eEurope 2002

*Europe's lower investment in new technology is undermining productivity and competitiveness*

The shift to a knowledge based economy is of crucial importance to competitiveness and growth. Business and citizens in the European Union have been slower in embracing this new economy than in the United States. The Lisbon indicators confirm that investment in the development and introduction of new technologies is behind the United States, even if they are estimated to have contributed between 0.5% and 0.7% annually to EU output since the mid 1990s. The impact of such investments is felt throughout the economy. But hourly labour productivity has been growing more slowly in Europe since the mid 1990s and in most Member States is still behind the United States.

Fostering the conditions for the new knowledge economy is the principal objective of the **eEurope 2002 Action Plan**. Efforts to pursue key targets in that plan must be accelerated and action by candidate countries to adopt similar plans should be supported.

*Early agreement needed on telecoms package*

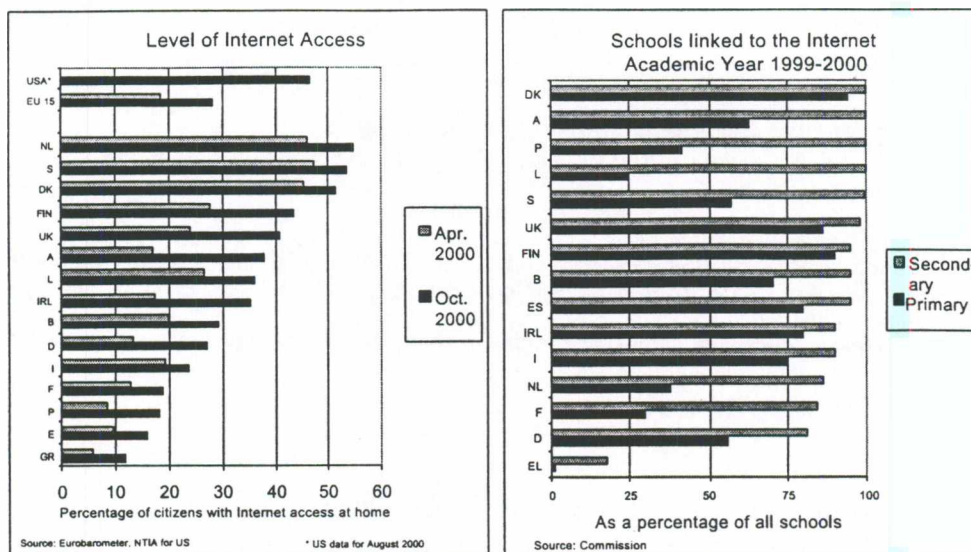
The crucial regulatory objective for 2001 must be the adoption as early as possible of all elements in the **telecoms package** proposed by the Commission last June. The final rules must guarantee a level playing field across the European Union. This is needed to avoid the patchwork resulting from different national interpretations of how the existing framework applies.

*Decisions also needed on copyright and distance marketing of financial services*

Rules for the **distance marketing of financial services** and on **copyright** in the Information Society must be urgently agreed. Work in these areas has slipped behind the schedule set in Lisbon.

The Lisbon objective of achieving **digital literacy** is a key part of eEurope 2002. It is reflected in the eLearning initiative and the 2001 Employment Guidelines which set the target for every worker to have opportunity to become digitally literate by 2003.

**The Internet is becoming a reality in homes and schools...**



*More ambitious digital literacy targets must be set for schools*

There has been real progress in efforts to connect all schools to the Internet across the European Union in 2000. A jump of 10 per cent in the number of homes with Internet access across the European Union was recorded between March and October. But young people are still not systematically acquiring the digital skills they need to participate in the knowledge society. It is **not enough just to provide basic connections** to schools - targets for better and more widespread access and use are needed. Training for all teachers needs to be completed by the end of 2002.

*On-line school twinning*

New ways of encouraging use should be promoted, such as **on-line school-twinning** across the European Union and across the candidate countries.

*Business, particularly SMEs have yet to embrace e-business*

The **slow take up of electronic commerce by businesses**, particularly by SMEs, as well as by consumers remains a cause for concern. This is despite significant progress on the regulatory framework and steps to strengthen consumer confidence. Only 66% of SMEs have access to the Internet compared to 76% of large companies. But far fewer are using the Internet to generate sales and only 6% can carry out true e-commerce. Yet defining the right policy response is hampered by the absence of up to date, comparable "new economy" data.

*Consumer confidence in the Internet must be strengthened*

For consumers, e-commerce is still held back by the cost of buying a PC and high telecoms charges when using the Internet, combined with doubts about security, privacy and their rights on-line. Work on **cross-border alternative dispute resolution** and on the **security** of transactions needs to be accelerated. Public authorities, together with industry, must act - sometimes through formal rules, sometimes through

co-regulation - to ensure consumers feel safe and secure when using the Internet. Prompt and rigorous implementation of the e-commerce directive will be crucial.

*Governments must lead by example in going on-line*

Governments and public authorities must use new technology to modernise public administration, improve services and add value to the lives of European Union citizens. On-line services make everyday administration more convenient, more accessible for people with disabilities, and save administrations money. The **adoption of e-procurement** by the public sector needs to be accelerated. Governments need to exploit the potential which many private businesses have already discovered.

#### **eEUROPE 2002- ACTION POINTS FOR STOCKHOLM**

##### **Council and the European Parliament should**

- accelerate work on all the elements in the **telecoms package** to ensure adoption as early as possible in 2001.
- adopt by June 2001 the proposal on **copyright in the information society** and before the end of 2001 the proposals on the **distance marketing of financial services**, the application of **VAT to electronic commerce** and the use of **electronic invoicing** for VAT purposes.
- take the necessary decisions to ensure that an **.eu Internet domain name** is available in time for Laeken European Council
- implement (alongside the Commission and Member States) before the end of 2001, the **web accessibility** guidelines developed by the WWW Consortium, in order improve the accessibility of their Internet services to people with disabilities.

##### **The Commission will**

- present by June 2001 a plan for **candidate countries which will help them embrace the objectives of eEurope 2002**.
- propose before the end of 2001 **additional targets beyond the connection of schools to the Internet**.
- support **eSchola**, a Europe-wide action to promote use of new technologies and develop on-line school twinning.
- launch its **Go Digital** initiative to strengthen the take up of e-commerce by small and medium-sized businesses.
- present before the end of 2001, with a view to promoting consumer confidence in on-line services, communications on promoting **on-line dispute resolution systems** and the **security of electronic networks**, including proposals for a rapid alert system between Member States in cases of virus attacks or other risks to network security.

## **7. The IT skills gap**

*Up to 1.7 million unfilled IT jobs*

As the knowledge economy booms, business and public services are competing for people across a range of sectors as signs emerge of skills bottlenecks and labour shortages. The lack of skilled IT professionals presents a particular problem within the knowledge-based economy. One recent study by International Data Corporation suggests that demand for IT experience and skills is expected to grow from 10 million today to 13 million by 2003 producing a **skills shortage equivalent to 1.7 million jobs**.

*Insufficient basic IT training compounds the problem*

With almost half the working population using computers at work, rising to three quarters for white collar workers, formal PC training either at home or in the workplace, may be a powerful tool to boost digital skills. However, **less than 22% of the workforce have had any formal computer training**. The number of people whose employers have paid for that training is even smaller.

*The skills gap cannot be solved overnight*

Both short and medium-term answers are needed. Almost a third of the unfilled posts are for people with five or more years graduate and professional experience. In the case of IT technicians training of six to twelve months is required. The skills gap cannot easily be filled from one day to the next. The responsibility to overcome these problems falls more on industry than on public authorities.

Nevertheless there are clear tasks for governments, beyond the digital literacy targets of eEurope 2002, in **improving the skills base in the European Union**. Firstly, **they must** tackle the structural causes of the IT skills shortage - by promoting proactive education policies and life-long learning, supporting real or virtual IT training and re-training centres and speeding up the removal of barriers which prevent specialists moving and working across the European Union. Secondly, as a short-term solution, we also need to open Europe's doors more widely to skilled and talented people from other countries. This should be done within the framework of a common immigration policy which recognises the need to maximise the benefits of economic migration to the Member States, to the countries of origin and to the migrants themselves.

#### IT SKILLS GAP – ACTION POINTS FOR STOCKHOLM

##### **Member States should**

- **address the structural causes of the skills gap**, particularly in the context of education and life-long learning, and
- in the short-term, identify skill needs and assess how far they can be met from a **more open immigration policy** for people with those skills.

##### **Social partners should**

- contribute to filling the skills gap, by pursuing a **dialogue** on the areas such as lifelong learning, skills and information technologies.

##### **The Commission will**

- define the framework within which to develop a **Community immigration policy** as set out in its recent Communication on the subject.

## 8. Research, innovation and enterprise

*Innovation and enterprise are decisive*

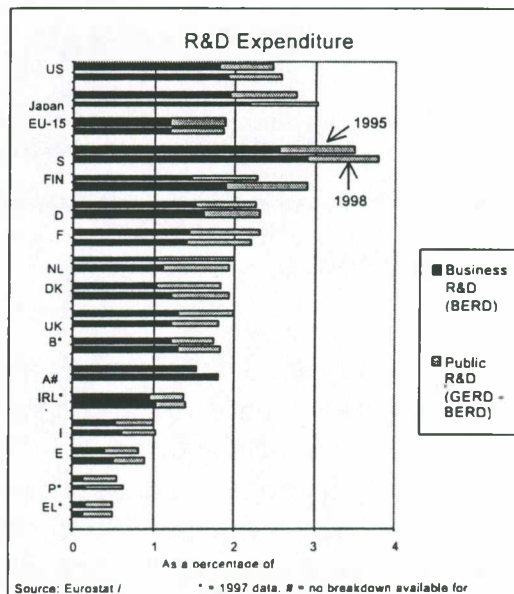
Europe must do more to harness research, finance and business talents to ensure that European ideas reach the European market place first. Innovation, enterprise and knowledge are increasingly decisive for

competitiveness and the success of the Lisbon Strategy. The particular focus on small and medium-sized businesses should continue.

*Not enough is invested in research*

But one cause of concern is a continuing trend of **lower spending on R&D by business and government in the EU** compared to the United States. The spending gap widened from €40 billion per year in the middle of the decade to €75 billion by 1999. This problem is aggravated by duplication, lack of coherence and fragmentation in the EU of research effort and by limited competition in certain sectors reducing the incentives for companies to fund research. This is occurring at the same time that the interdisciplinary nature of research is becoming more apparent. The mapping of the human genome is just one example of progress in life sciences which would not have been possible without parallel leaps forward in information and communication technologies.

***Business spending on R&D is too low..***



This is why the development, endorsed in Lisbon, of a **European Research Area** is so important to strengthen Europe's research base. It should enable the Union to identify excellence, to strengthen pan-European collaboration and to establish clearer and more consistent priorities for public research. The forthcoming Sixth Research Framework Programme should cement this new, more strategic and coordinated approach against the background of the increasingly interdisciplinary nature of research in the "frontier technologies". Its new and ambitious approach will be instrumental in realising a European Research Area.

*Skills and mobility are important in science as well*

Other factors are also important. Firstly, as in other parts of the economy, there is a **skills gap** and **problems of mobility**. More needs to be done to make scientific and research careers attractive - this is primarily a task of industry, but governments can also play a role. Moreover, it is essential that the scientific voice is heard more strongly in public policy choices, but equally that the public's voice is heard within the **on-going debate about science and society**. Finally, the Lisbon strategy is helping through its **benchmarking and scoreboards** of research, innovation and enterprise, but that will only add value if the lessons revealed are learnt and applied by Member States.

*Continue efforts to benchmark progress*

**RESEARCH, INNOVATION AND ENTERPRISE – ACTION POINTS FOR STOCKHOLM**

**Council and European Parliament should**

- adopt by June 2002 the **6<sup>th</sup> Community Research Framework Programme** on the basis of the Commission proposal foreseen for February 2001.

**The Commission will**

- present by June 2001 a specific strategy for **mobility within the European Research Area**, and before the end of 2001, proposals to enhance the interaction between science and society and to reinforce interest in scientific careers, in particular through **public-private partnerships**.
- present by June 2001 the first **European Innovation Scoreboard**, and in December 2001, the first results of **benchmarking of research**, and a **map of research excellence**.

## 9. Frontier technologies

*EU must capture the next wave of the knowledge economy*

In Stockholm, the European Union must capture the **next wave of knowledge technologies** and put them at the service of society. Today's "frontier technologies" will be tomorrow's Internet. By combining life sciences, materials technology and advances in computing and information, new areas of interrelated knowledge are being opened up. From proteomics, bioinformatics, and nanotechnology to more familiar concepts such as new fuels and "clean" technologies which will help to combat environmental degradation, Europe has proven expertise.

*Frontier technologies will have profound effect across industry and society*

These technologies are supporting new industries. They will be centres of growth and job creation in their own right in the future. They will play an important role in ensuring sustainable development within the EU. But their distinguishing feature - as we see with information and communication technologies today - is a capacity to change fundamentally other industrial sectors and, indeed, society itself.

**THE SPECIFIC CASE OF BIOTECHNOLOGY**

Biotechnology is one of the most prominent examples of a "frontier technology". Biotechnology is transforming the pharmaceutical sector. Techniques such as the use of microbes to clean up pollution can help the environment. It is contributing to improved

nutrition and reducing the need to use agro-chemicals. It is offering low-energy and low-polluting industrial processes. It is already having a direct impact in the market place and raising issues for society. This brings with it a regulatory dimension not yet seen in other frontier industries.

Yet today the bio-tech industry in the EU is outperformed by the industry in the United States in terms of research expenditure, number of patents granted, venture capital investment, and sales. The biotech sector in the United States is estimated to employ 160,000 people compared to around 50,000 in Europe, despite the total number of businesses being roughly comparable. This situation is exacerbated by the right regulatory framework not yet being in place; even where rules exist such as on the patenting of biotechnological inventions, they have not yet been fully implemented by Member States into their national law.

Additionally, for some of these technologies, their public acceptance and use must be based on an open and informed dialogue in order to take account of their broader economic and social impact – sometimes including important ethical issues for society as a whole.

In reality, many of the barriers faced by bio-technology companies are common to most “frontier technologies”. These include high development costs, companies which are often created by young academics with limited business experience, limited clustering of business and scientific experience and a business climate which is not sufficiently supportive of innovation and risk-taking.

*Agreement on the Community Patent is urgently needed*

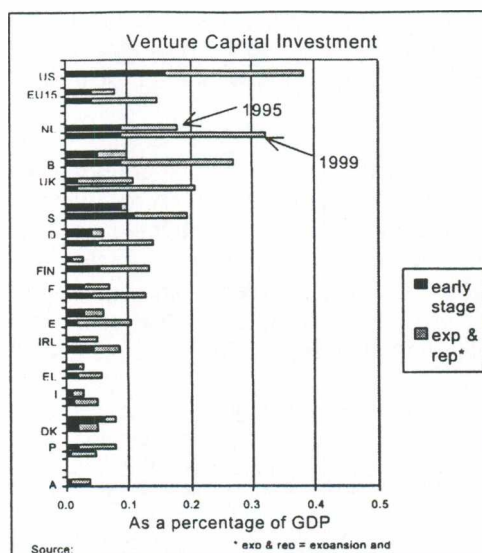
Additionally, the lack of comprehensive and affordable EU-wide patent protection remains a major bar to finding external finance. The Nice Council opened the way to agree the right institutional structure to resolve patent litigation. Real efforts are needed now to accelerate agreement on a **Community patent** before the end of 2001.

*The underdeveloped venture capital market is holding frontier technologies back*

Despite the progress made – a 70% increase in 1999 - in the supply of risk capital within the EU, it remains barely one third of what is available in the United States. Furthermore, only around a quarter of total venture capital invested was used to provide early stage finance, even if the supply of venture capital to high technology projects jumped by more than 40%.

***Too little of the supply of venture capital takes the form of early stage finance....***





*Private investors must take the lead*

However, it is exactly this early stage investment which is critical to getting these technologies from the laboratory to the market place. Institutional investors have the key role to play in reversing this situation. The EIB innovation 2000 initiative and the work of the EIF provide an important impetus. They should continue to develop creative support schemes adapted to the new knowledge-driven economy – particularly for small and medium sized businesses.

*State research and venture capital funds must not distort competition*

Public authorities, as well as public research efforts, can also play a role in supporting new ventures – particularly by removing the market barriers which deter institutional investors - but clarity is needed to ensure that any public financial support given does not unfairly distort competition.

#### FRONTIER TECHNOLOGIES – ACTION POINTS FOR STOCKHOLM

##### **Council and European Parliament should**

- accelerate work on the **Community patent** in order to adopt it before the end of 2001.

##### **Member States must ensure**

- the rapid implementation of the Directive on the **legal protection of biotechnological inventions**.

##### **The European Commission will**

- design its forthcoming proposal for the **sixth Community Research Programme** so that it strengthens Europe's science base for the development of frontier technologies and highlights them in its benchmarking of research and innovation.
- present before the end of 2001, drawing on the discussion of first orientations at the Göteborg European Council, a Communication setting out a **strategic vision for life sciences and biotechnology up to 2010, including ways to address ethical issues**.
- present by June 2001 guidance as to how it will apply the **state aid rules** to measures designed to promote risk capital. It will also renew before the end of 2001 the framework for State aid for **research and development**.

## 10. Effective social protection for an ageing population

*Modernising the European social model*

Improving and modernising the **European social model** is vital to the success of the integrated strategy agreed in Lisbon. It involves strengthening cohesion and ensuring all citizens are able to participate in the knowledge society. It also involves ensuring sustainable public finances.

*Comparable EU wide data on poverty and exclusion is too old*

Poverty and social exclusion persist across the European Union. However, in this area as well, there is a lack of timely, comparable statistics, with many of the Lisbon indicators only able to capture the situation in 1996. This must be improved if experience is to be shared and the impact of social changes measured.

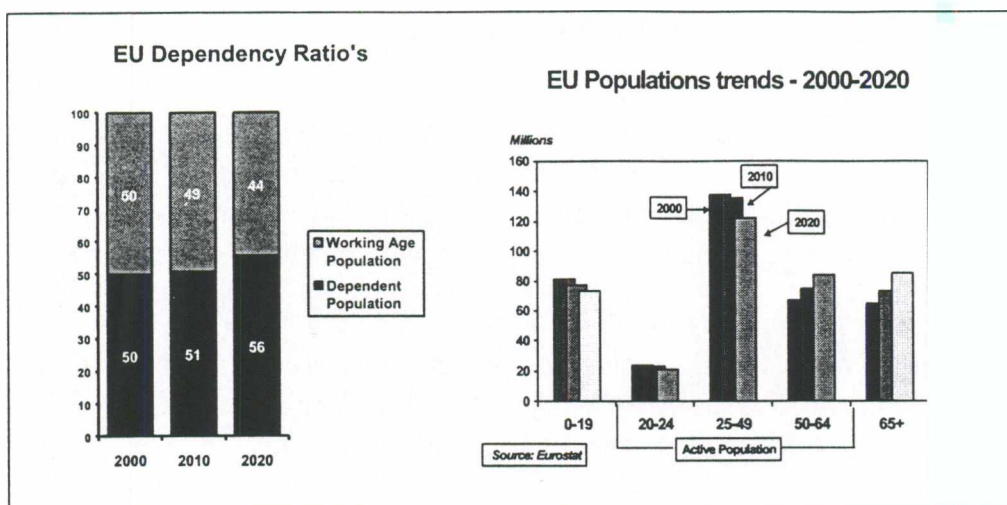
Improving and modernising **social protection systems** across the European Union is a key step towards strengthening social cohesion. In particular, the Commission and Member States must work together on safe and sustainable pensions against the background of an ageing population.

*Meeting the challenge of an ageing population*

Ageing will present new challenges for European societies. The European Union will also need to find new ways of using and renewing the **expertise and skills of an ageing workforce** - particularly in the context of a knowledge-based economy where experience is at a premium. Current social protection and healthcare systems will need to adapt to the different demands of an older population, as well as to changing family structures. The number of people 85 or above is expected to triple from 7 million in 2000 to 19 million in 2050.

*The dependency ratio*

A key consequence of ageing will be change in the **balance between the active and retired population** ("the dependency ratio"). By 2010 the working age population will remain stable, but will age slightly and the dependency ratio will not change dramatically. By 2020 the size of the working population will remain much the same, but it will age with 16 million more people over 50. The dependency ratio will also have changed as the population over 65 in 2020 will have grown by around 18 million.



These changes are significant for social protection systems. The longer term impact in terms of increased spending on pensions and healthcare could be between 5 and 8% of GDP in most countries. The financial implications vary across the European Union, but preparations must be started by all Member States now.

Achieving the employment targets set in Lisbon – particularly by encouraging older workers to remain in the workforce - will, however, help to offset these additional costs. What is needed in the Member States is a **comprehensive approach** which will involve reversing the trend towards early retirement; faster reduction of public debt in order to use interest savings to support pensions and healthcare; and continuing pension reforms in Member States, including allowing private pension schemes to take full advantage of the internal market.

#### SOCIAL INCLUSION/SOCIAL PROTECTION – ACTION POINTS FOR STOCKHOLM

##### The Council and European Parliament should

- agree by June 2001 on the proposal for a **social inclusion action programme**.

##### Member States should

- strengthen their efforts to combat social exclusion in line with the European social agenda, and to agree before the end of 2001 on **indicators for social exclusion**.

##### The Commission will

- adopt in September 2001 a Communication promoting **co-operation at European level on the issue of pensions**.

## IV FROM STOCKHOLM TO GÖTEBORG : ADDING A SUSTAINABILITY DIMENSION

*Lisbon needs an environmental dimension*

Taken together, the Lisbon strategy sets us on course for greater social inclusion and economic growth. But the strategy risks failing to deliver long-term prosperity unless it also identifies and tackles **unsustainable trends** which risk undermining the Lisbon vision of a competitive,

knowledge-based and inclusive society. For example, increased mobility and more advanced transportation systems need to rely on a well-matched use of existing and new energy sources and on rational land use. Ageing populations, as highlighted above, will challenge social protection and healthcare systems and may reduce the room for manoeuvre in budgetary policy.

The economic and social dimensions of Lisbon must be completed by **integrating an environmental dimension** to contribute to a European Union strategy for sustainable development. A strategy which is oriented towards innovation and more investment, exploiting the possibilities offered by frontier technologies. A strategy which can draw on further market reforms - including targeted taxation - aimed at getting prices right to reflect better the costs of environmental degradation and offer incentives for change. A strategy constructed on a strong analytical basis.

*At Göteborg objectives must be set out for sustainable growth*

Defining this overall approach to sustainability will fall to the **European Council in Göteborg**. One key target should be to return to the Spring European Council in 2002 having identified the decisions required to adapt the Lisbon Strategy to the objectives identified in Göteborg.

## V MAINTAINING THE MOMENTUM

The key challenge for the Stockholm European Council is to **continue and develop the structural reform process** begun at Lisbon. Stockholm must build on the way of working initiated in Lisbon. The Commission believes that using the Community method to tackle the economic and social challenges ahead provides the best chance of success. However, the pace of developments risks varying reflecting the diversity of ways in which the decisions taken can be implemented across the 10 priority areas. Lisbon has provided the additional and complementary tool of an open method of co-ordination. It provides a vehicle for sharing experience and comparing progress. This way of working should continue. But lessons must also be learnt. The weakness of Europe's statistical base must be overcome for progress to be more effectively measured in the future.

*Build on the Community method*

*Integrated approach*

At Stockholm the European Union must pursue with vigour an integrated approach to creating a dynamic and inclusive Europe. Our response must reflect the balance achieved at Lisbon between **the right combination of macro and micro-economic policies**, and at its core, a commitment to **invest in people and their ideas** to take forward this process of economic and social renewal.

*A Europe of  
realised potential*

If this can be done, the European Union will be moving towards realising and releasing its full potential.