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THE LISBON STRATEGY — MAKING CHANGE HAPPEN

EXECUTIVE SUMMARY

It is now almost two years since the Lisbon European Council set the **bold and ambitious ten-year goal** of making the Union the most dynamic, competitive, sustainable knowledge-based economy, enjoying full employment and strengthened economic and social cohesion.

Since then, the European Council has made its Spring meetings the focal point for economic, social and environmental policy issues, in the light of the overall objective of ensuring sustainable development. The European Council in Barcelona will therefore review progress made and agree the key priority areas for attention over the coming year. This report seeks to set the agenda for this meeting.

Progress to date is encouraging…..

The **initial phase of defining policy objectives and drafting policy reforms is coming to a close.** Many of them still have to be formally adopted and, once adopted, it may still take some time before their effects are felt.

There have already been **notable policy successes** such as new rules for telecommunication markets; co-operation in areas such as education, pension reforms and research and new programmes to tackle inequality and social exclusion.

The successful **changeover to the euro** has shown the European Union's capacity to deliver. The euro has reinforced basically sound economic fundamentals. The current **downturn** has interrupted the steady fall in unemployment and is slowing the creation of new jobs.

…but some key proposals are stalled

There have also been **disappointments** – areas such as the Community Patent, financial services, energy and the Galileo satellite system, where deadlines for agreement set by the European Council have been missed and progress has not always been fast enough. The European Parliament and Council must now act to close this "**delivery gap**" if credibility is not to suffer.

The roadmap must be pursued on all fronts…

The European Union must stand by the agreed policy of macro-economic stability and maintain the momentum behind the whole of the Lisbon strategy. The Lisbon objectives reinforce each other and only an integrated approach will guarantee that they can be met. This means:

– Closing the delivery gap on structural and economic reforms and ensuring that sustainable development is an integral part of these reforms.

– Continuing to foster economic and social cohesion and taking the necessary steps now to ensure safe and sustainable pensions for the future.

– Developing entrepreneurship within a competitive business environment

…**but some areas need priority action**

To achieve the targets for the end of the decade, the European Union must push up its potential for growth.

In the current conditions, there are **three priority areas** where the European Council in Barcelona should give a decisive impulse to action; areas which can help to speed up the Union's recovery and which are important for its long-term needs:

- **The further development of employment policies, with a particular focus on active labour market reforms.** This means looking at tax and benefits systems, rewarding people who work longer and improving childcare. Barriers, in areas such as skills and languages, which discourage people moving to different jobs within their companies, or in other sectors or countries will be tackled. Steps by the social partners to anticipate and manage change should be encouraged. This will help the European Union to move closer, even in the current climate, to its goal of full employment and better jobs.

- Connecting Europe and connecting markets. This can be done through further **reforms and completing missing links in key network industries** and accelerating **financial market integration** by delivering the right regulatory framework. This means, for example, setting dates for opening energy markets and agreeing key remaining financial services measures, but the Union must move ahead, at the same time, with investment in priority infrastructure projects which will make the internal market more dynamic and more competitive. Recent telecoms reforms must spur the roll out of fast broadband telecoms network. A more interconnected Europe, as well as efficient and well functioning services of general economic interest, will keep the European Union on its growth path and help to provide higher quality services to everyone throughout the Union.

- Increasing **investment in knowledge** to ensure future competitiveness and jobs. The European Union must step up the effort in the areas of research, innovation, education and training, and increase its impact by pursuing a more integrated approach and place these policies under a common banner: a European area of knowledge. New networks of excellence will be set up and the European dimension of lifelong learning could be backed up by European level qualifications. Action will focus as well on getting business to spend significantly more on research and innovation.

By sending a signal of confidence and exercising political leadership, the Barcelona meeting will give new impetus to the Lisbon strategy and to economic policy co-ordination. Moreover, in doing so, it will reinforce economic governance, which will help to shape a strong economy and society and will also support the euro.

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The report is supported by a Commission Staff Working Paper analysising developments and policy progress since the Lisbon European Council.

1 POLITICAL AND ECONOMIC CONTEXT

The European Council will meet in Barcelona just a few weeks after the euro has become a tangible reality in people's hands.

The euro is a powerful symbol of European integration. It shows what the European Union can achieve when the political will is there.

The same ambition must now be applied to economic, social and environmental policy if the EU is to meet the strategic goal for this decade: to become the most competitive and dynamic knowledge-based economy in the world as decided in Lisbon European Council two years ago.

By making its annual Spring meeting the focal point for the overall economic, social and environmental strategy of the European Union, the European Council has committed itself to providing leadership at the highest political level. The forthcoming meeting in Barcelona will put that leadership to the test.

There is every prospect of success. Economic and Monetary Union has delivered macro-economic stability and current conditions, even in the present downturn, remain basically sound. This reflects the role played by the European Union's Stability and Growth Pact.

This provides a setting for the action on employment, research and innovation, economic reforms, social cohesion and the environment set out in the Lisbon strategy; actions which reinforce each other to create a more dynamic and competitive internal market and addresses short- and long-term challenges for society as a whole.

Since its launch by the Lisbon European Council the strategy has been strengthened in two respects. The Nice European Council launched the Social Policy Agenda which sets out the measures to achieve the Lisbon objectives of more and better jobs and a modern welfare state within a more inclusive society. The principal lines of the Lisbon strategy were completed in Göteborg, where the European Council added an environmental dimension and confirmed, with the European Union's Sustainable Development Strategy, the need to ensure the consistency of the different policy strands with long-term objectives.

The short-term economic outlook for the Barcelona European Council

At first sight, economic and political conditions could hardly be more different from those prevailing in March 2000, or even at the time of last year's Spring Council meeting.

The economic slowdown in the United States, exacerbated by the uncertainty following the terrorist attacks on the United States and the subsequent political and military situation, is a major political challenge for the Union. It has also had serious direct and indirect economic and social consequences.

– Business and consumer confidence, already fragile, has weakened further.

– Growth forecasts for the European Union for 2001 and 2002 have been sharply cut back.

– Business investment has slowed considerably as firms of all sizes in the European Union have waited to see the direction in which the economy is heading.

– The four-year fall in unemployment has been interrupted and job creation looks set to slow considerably.

Nevertheless, there are grounds for cautious optimism that the current downturn will be short-lived. European financial markets have absorbed the shock well – greatly aided by the arrival of the euro. The downturn reflects a largely cyclical change in the global economy, which has been compounded by an unprecedented set of political and economic events.

Current conditions do not call into question basically sound economic fundamentals or the need to pursue the Lisbon strategy. Structural reforms are a major part of the long-term solution. Moreover, falling inflation has allowed short-term interest rates to fall by 1.5 percentage points within the euro area (mirrored by cuts in Denmark, Sweden and the United Kingdom) over the last year. These have yet to work their way through into the economy and there may be scope for further reductions as inflation continues to decline.

Unless the broader political situation worsens, a moderate pick-up is foreseen for the first half of this year, as confidence, consumer spending and investment start to return. Growth is likely to gain momentum in the second half of the year as export markets outside the European Union start to recover.

As recent experience has shown, developments outside the European Union can have a major impact here. This reinforces the case for structural reforms that make the Union less vulnerable to external shocks, be they political or economic. But it also highlights the importance of engaging fully in efforts to reform and reshape the international landscape, and to play an active role in relation to the current trade round launched in Doha.

The Barcelona European Council will be a critical moment for the Lisbon strategy

In Barcelona, the European Council will assess the progress that has been made. It should consolidate successes, highlight weaknesses and set priorities for the next twelve to eighteen months.

It will do this at an important moment for the Lisbon strategy:

– The Commission has by now tabled most of the main policy proposals.

– The second phase of agreeing and adopting those policies is well underway. Success or failure is largely in the hands of the European Parliament or Council, who must take decisions in key areas of the strategy.

– The final phase, where agreed policies are implemented and start to have an impact on the ground, has barely begun.

But transforming new policies into visible results, as this report shows, needs actions from all the parties involved.

There have already been important successes - such as the recently agreed Telecoms Package – which have resulted from the close co-operation between the Commission, the European Parliament and the Council. But in some other crucial areas of economic and structural reforms progress has been slow or disappointing.

The European Council must overcome this "delivery gap" before it grows any wider. It must send a signal of confidence and give a clear political impulse in those areas where the need for progress is most urgent. The Lisbon strategy set a comprehensive agenda and progress must be made on all fronts, even if not all elements can or should be given the same attention by the Spring European Council each year.

2 PROGRESS TOWARDS THE LISBON GOALS

The reform calendar set out below shows the most significant measures launched at Lisbon and the extent to which associated target dates have been met.

The Lisbon Reform Calendar :
Indications of the year in which Lisbon reforms are planned to take effect

(✓ indicates necessary measures adopted/taken;
***** indicates that the target date risks being missed because of insufficient progress in Council and the European Parliament).

2001	✓	**Local loop unbundling**
	✓	**State aid scoreboard** and **register**
		Strategy for **simplifying the regulatory environment** (*Some delay*)
2002		New framework for **public procurement *** (2001 deadline for agreement missed)
	✓	New framework for **electronic commerce** (except VAT treatment of e-commerce where 2001 deadline for agreement missed)
		First two year **National Action Plans against exclusion and poverty**
		Social Policy Scoreboard
2003	✓	New framework for **telecommunications**
		Single market for risk capital *
		Further opening of electricity markets for business customers *
		Sixth Framework Programme for research
		Community Patent* (2001 deadline for agreement missed)
	✓	Liberalisation of **international rail freight using trans-European rail networks**
2004		**Single European Sky**
		Further **opening of gas market for business customers ***
		Energy tax framework *
		Framework for the **taxation of savings**
2005		**Single market for all financial services ***
		Opening of **gas and electricity markets for residential customers**
		Start of a mandatory European **emission trading scheme for CO_2**
2006		Second stage of opening of market for **postal services**
2008	✓	Liberalisation of **all international rail freight**
		Galileo satellite navigation system enters into operation * **(** 2001 deadline for agreeing structure missed)
2009		Possible new or final stage of opening of markets for **postal services** (subject to study in 2006 on the impact of liberalisation)

A separate Staff Paper supporting this report provides a more complete assessment of the progress[1] and lists the actions implementing the Lisbon strategy. A fuller description of those actions which are part of the Social Policy Agenda will be provided in a separate Social Policy Scoreboard to be published before Barcelona.

The table below illustrates that for the European Union to become the *"most competitive and knowledge-based economy in the world ..."*, much remains to be done in moving towards key Lisbon targets, but that in most cases some Member States are already leading the way.

The "Best Performance Indicators" used in that table represent the unweighted average of three best performing Member States. They are useful in providing an indication of what can and should be achieved over time[2], although they only serve to measure progress towards EU-wide targets and do not set binding targets for individual Member States.

Table 2 : Progress towards certain Lisbon goals and indicators of best performance

	Lisbon (data available)	Barcelona (Latest data)	EU Best Performance Indicator *	EU 2010 Target
1. General economic background				
a. **GDP per capita in 1995 PPS**, US=100 (99/01)	**65.1**	**65.1**	**96.0**	
b. Growth rate of GDP at constant prices 1995 (99/01)	**2.6**	**1.6**	**4.9**	
c. Productivity per employee in PPS, US=100 (99/01)	**74.0**	**72.2**	**106.0**	
2. Employment				
a. Overall (% of active population) 99/01	**63.2**	**63.9**	**73.6 ****	**70** 67 (2005)
b. Women 99/01	**52.8**	**54.7**	**69.0**	**60** 57 (2005)
c. Older workers (55-64) 99/01	**37.2**	**38.3**	**66.0**	**50**
3. R&D				
a. Total (public and private) R&D expenditure as % GDP Years 98 / 00	**1.87**	**1.90**	**3.1**	

1 This assessment draws on agreed structural indicators. In several cases, comparable EU-wide data do not yet cover the period since the Lisbon European Council and, in the case of environmental and cohesion indicators, provide a picture which is four to five years out of date. This highlights the need to give priority to statistical work in all areas of the Lisbon strategy. See Commission Staff Working Paper, SEC(2002) 29, 15.1.02.

2 Such best performance indicators must be treated with a degree of caution, for example, because some of them are particularly sensitive to the economic cycle. Nevertheless, their evolution over the years ahead will help to show progress, both in relation to other Member States and in relation to the general Lisbon targets where they exist.

b. Share of total R&D expenditure financed by industry (%). Years 98 / 99 (Source: OECD/Eurostat)	**55.1**	**55.9**	**68.1**	
4. Education and training				
a. Public spending on education as % GDP Years 99, 00	**5.0**	**5.1**	**6.7**	-
b. Early school leavers (% not in further education) Years 99, 01	**18.7**	**17.7**	**7.2**	**9.4**
c. Lifelong learning (% participation of adults) Years 99, 01	**8.2**	**8.3**	**21.4**	**-**
5. Internet Penetration				
a. EU homes (% homes) Years 00 / 01	**18.4**	**37.7**	**60.6**	
b. EU broadband (% homes, cable/ADSL access) Year 01	**2.5**	**5.8**	**14.9**	
c. EU schools (% all schools) Year 01	-	**89**	**99**	**100** by end 2001
6. Public Procurement				
a. Value of tenders published in EU Official Journal (% of GDP) Years 98 / 00	**1.8**	**2.4**	**3.9**	-
7. Venture Capital				
a. Early stage (% of GDP) Years 99 / 01	**0.038**	**0.036**	**0.079**	-
b. Expansion (% of GDP) Years 99 / 01	**0.104**	**0.099**	**0.192**	-
8. State Aid				
a. Aid as % GDP Years 95-97 / 97-99	**1.1**	**0.9**	**0.5**	-
9. Social Cohesion				
a. Risk of poverty (after social transfers) Year 97/98	**18**	**18**	**10**	

Source of data is Eurostat unless otherwise indicated. The full data series is periodically updated on-line http://europa.eu.int/comm/eurostat. * Unweighted average of the three best performing EU Member States ** 2001 Best Practice estimate based on 2000 figures for DK, NL, and 2001 figure for UK.

Assessment of progress in the two years since Lisbon

The main messages from the assessment of progress towards the European Union's strategic goal are summarised below. Achieving the Lisbon objectives requires a sustained EU growth rate of 3%. Given the slowdown that the European Union is going through, it is all the more important to be successful in implementing the reforms leading to a continued rise in the employment rate and higher labour productivity.

Since Lisbon the gap in GDP per capita between the European Union and the US has remained unchanged. According to the latest data, GDP per capita in the Union was equivalent to 64% of that of the US. The difference in labour productivity per hour

explains around one third of this gap. The other two thirds are due to the smaller number of yearly working hours per worker and the lower employment rate in the Union.

Progress across the whole of the Lisbon strategy is needed if this gap is to be narrowed substantially.

(a) Employment[3]

Progress towards the goal of full employment is distorted by the current conditions. These have interrupted the sustained period of falling unemployment and job creation.

The creation of more and better jobs by business across the European Union will depend on how rapidly the European Union's economy emerges from the slowdown. Nevertheless, employment, and particularly, labour market polices are helping to increase the number of people with a job. The European Employment Strategy has helped to drive those reforms and their continuation should be a priority, drawing on the exchange of best practice within the Union. Given the current climate steps by the social partners to anticipate and manage changes within different sectors and companies should be encouraged.

The High Level Task Force on skills and mobility[4] has underlined the need to remove barriers to geographical mobility and to ensure people have relevant and adaptable skills which will help them move between different occupations. This should be backed up by a transparent and integrated labour market information system. At the same time, it is clear from the structural indicators related to education (lifelong learning, early school leavers) that little progress has been made across the European Union in turning lifelong learning into a daily reality for most adults.

The Council and the European Parliament have continued work on a number of legislative proposals in fields including health and safety at the workplace, the involvement of workers and equal treatment between women and men. New debates have been launched on issues such as the quality in work and corporate responsibility.

(b) Research and innovation

Momentum has built up behind the European Research Area. This is helped by the agreement last December on the main lines of the sixth Research Framework Programme. Positive trends have continued, particularly in science and research in relation to the growth in the numbers of patents in relation to the population or the number of science graduates in the Union. The Union is particularly strong in academic and fundamental research, but European researchers and businesses do not capitalise sufficiently on their expertise in frontier technologies, such as

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[3] For further information see proposed Joint Employment Report 2002, COM(2001) 438. http://europa.eu.int/comm/employment_social/empl&esf/ees_en.htm

[4] Final report of the High Level Task Force on skills and mobility, 14 December 2001, http://europa.eu.int/comm/employment_social/general/index_en.htm.

biotechnology and the life sciences[5] and other clean, environmental technologies.

Changes in the business environment are also important here, but so is accelerating measures to support financial market integration and improving the supply of venture capital once the cyclical contraction seen in 2001 is reversed, as well as getting early agreement on the Community Patent.

Not enough progress has been made to strengthen the European Union's underlying knowledge base. The level of investment in education is still too low, the take up of lifelong learning limited and too many young people still leave school with no or only basic qualifications.

(c) Economic reform

There has been significant progress in some areas of the internal market and economic reforms[6], particularly linked to creating the regulatory framework for electronic commerce and communications sectors. The role of the *e*Europe 2002 action plan has been important. Substantial progress was made on connecting schools to the Internet[7]. The internal market has brought clear benefits in terms of competition, greater choice and lower prices in important areas such as telecommunications and energy markets.

At the same time, all Member States have been taking steps to improve the business environment, making it easier for companies to innovate and grow and encouraging risk-taking and innovation. Efforts to simplify the regulatory environment identified in Lisbon and in the European Charter for Small Businesses must continue.

However, as pointed out in the report on the functioning of product and capital markets, further efforts are needed to improve the performance of the internal market. Price convergence seems to be slowing down in recent years. Moreover, progress on structural and economic reform has not been uniform. Some Member States must still make substantial efforts to meet the target from the Stockholm European Council of having 98.5% of adopted EC legislation implemented at a national level by March 2002.

A large part of the 1500 infringement cases underway against the Member States for not correctly applying internal market law relate to barriers to cross-border service provision, even though service markets are one of the areas to which the Lisbon European Council attached particular importance. Unfortunately, little progress has been made on moving forward with the Commission's plans for integrating the service sector. Some of the most important structural reforms - including some where agreement was required by the end of last year – covering electricity, gas, the Galileo

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5 This view was reflected at the stakeholder consultation meeting on biotechnology and life sciences organised by the European Commission in September 2001. http://europa.eu.int/comm/biotechnology.

6 For further information see the Report on economic reform : functioning of Community Product and capital markets (the Cardiff Report, COM(2001) 736 and Internal Market Scoreboard No 9, Nov 2001. http://europa.eu.int/comm/internal_market/en/update/economicreform/index.htm.
Also Competitiveness report 2001, http://europa.eu.int/comm/enterprise_policy/competitiveness/doc/competitiveness_report_2001/index.htm

7 The Commission will shortly publish a Communication on eEurope 2002 : Benchmarking, monitoring and future challenges.

satellite navigation system, financial services markets, and procurement markets have not been delivered. They have seen only limited progress, yet the deadlines were set by the Heads of State and Governments.

(d) Cohesion[8]

The European Social Policy Agenda has given new impetus and provided a new policy framework to deliver the Lisbon goals of improved cohesion.

In the mid 1990s around 18% of the population or 60 million people were at risk of poverty and there were significant variations across (and within) Member States. Without social transfers this rate would have been 26%. Similar variations were seen in the distribution of incomes between the richest and poorest households. The role of welfare systems has been a significant factor in protecting people from the risk of poverty.

The lack of up to date figures means that it is difficult to assess the impact of the period of stronger growth and falling unemployment in the second half of the decade. At a European and national level since Lisbon concrete measures to fight poverty, discrimination and social exclusion have been agreed, supported by new action programmes . Member States have delivered their first two year National Action Plans against exclusion and poverty. This work has drawn on the exchange of best practice and the development of agreed indicators. It has involved not only the Member States, but the social partners and civil society . However, time is needed to allow the effects of these actions to be felt in the year ahead. The statistical basis for measuring both economic and social cohesion must be strengthened.

At the same time, work[9] on the impact of an ageing population on pensions and welfare systems continues to highlight what is at stake and the need for work in that area to continue.

Differences in performance, as measured in GDP per capita, between Member States remain important and are often as acute within Member States as between them. However, although disparities between the Member States persist, they have considerably narrowed since 1998, notably in the cohesion countries (Greece, Ireland, Portugal and Spain) where the initial gap has reduced by one third. However, differences between regions in unemployment levels remain pronounced with rates averaging more than 20% in the worst affected regions.

(e) The environment

Important policy action has been taken in the seven months since the launch of the European Union's Sustainable Development Strategy at the Göteborg European

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8 For further information see 2nd Report on economic and social cohesion, COM(2001) 24. http://www.inforegio.cec.eu.int/wbdoc/docoffic/official/reports/contentpdf_en.htm

9 For further information see Communication on shared principles and objectives to ensure the sustainability of pension systems, COM(2001) 362. http://europa.eu.int/comm/employment_social/soc-prot/social/index_en.htm

Council[10]. In Barcelona, the impulse given to transport and energy policies must take due account of the environment. Available data suggests that while greenhouse gas emissions have decreased during the 1990s, meeting the agreed targets for reducing emissions and the Göteborg objective of decoupling GDP and transport growth remains a very demanding challenge. Further steps will be required, particularly as traffic has been growing in line with or faster than GDP, especially for air travel and road freight. The Bonn and Marrakech Conferences have, nevertheless, provided a framework for tackling climate change.

The adoption of the actions proposed in last year's White Paper on transport policy[11] will help to move forward the process of developing a sustainable approach to transport.

Clean technologies are also set to play an important role. They can help to tackle environmental challenges, but also to improve the performance of the whole economy. The Commission's forthcoming report on the effects of environmental ("clean") technologies on growth and employment shows that realising their full potential means overcoming current barriers. These result from price incentives, but also for example, from a lack of awareness of the cost savings that can result from reducing pollution.

3 POLICY RESPONSE

3.1 Maintaining the momentum

The European Union must stand by the agreed policy of macro-economic stability, maintain the momentum behind the whole of the Lisbon strategy, and focus on areas which can make the biggest contribution.

3.1.1 A firm commitment to the Stability and Growth Pact will help build confidence

The macro-economic policy framework offers stability that should speed up the Union's return to stronger growth:

- Current macro-economic policies within the Stability and Growth Pact can help to meet short-term needs in the economy without compromising the medium-term goal of stability;

- The easing of monetary conditions associated with diminished risks to price stability has helped to adjust the macro-economic policy mix;

- Budgetary policies are also helping to stabilise the economy. Sizeable tax cuts in 2001 (amounting to 0.5% of GDP) have been implemented in some Member States;

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[10] For further information see Communication on a sustainable Europe for a better world, a European Union sustainable development strategy, COM(2001) 264. http://europa.eu.int/comm/environment/eussd/index.htm

[11] White paper "European transport policy for 2010: time to decide" COM(2001) 370. http://europa.eu.int/comm/employment_social/soc-prot/social/index_en.htm

– Automatic budgetary stabilisers within the Stability and Growth Pact are at work. As a result of business cycle effects, budget balances are expected to deteriorate.

Member States that still have deficits should aim at their elimination by 2003-4 while letting automatic budget stabilisers work within the overall limit for budget deficits of 3% of GDP. If progress on budgetary consolidation is not made in 2002, then a bigger effort will be needed in the two subsequent years.

Against this background, the current slowdown shows that the European Union economy remains vulnerable to economic and political developments in other parts of the world. Implementing the reforms within the Lisbon strategy would contribute to reducing the impact of future shocks on the European Union.

– The **European Council** should give a firm commitment to the macro-economic stability and to further consolidation in public finances over the medium term.

3.1.2 Maintaining momentum behind all of the Lisbon targets

In Barcelona, the European Council must ensure that the strategy moves forward on all fronts — economic, social and environmental. They are mutually reinforcing and only an integrated approach will guarantee that the European Union can meet the target of high growth and full employment and remain on the path of sustainable development. The following should be highlighted:

(a) Closing the delivery gap on economic and structural reforms

A "delivery gap" exists. Deadlines for decisions and their implementation are being missed, often in the face of short-term sectoral or political interests.

This represents a real problem with real costs for business and citizens across the European Union.

President Romano Prodi highlighted this gap in his letters to Heads of State and Government in November and to the President of the European Parliament. Those letters identified the issues[12] where progress must be seen before Barcelona[13].

The Members of the European Council must assume responsibility for leadership over their respective governments. They should ensure that their ministers resolve disputes over the detail of individual proposals, rather than accept that missed deadlines are simply replaced by new ones or that they are called upon to sort out the detail of complex proposals. The European Parliament must assume its share of the responsibility for ensuring that the delivery gap is overcome.

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[12] The President identified the Community Patent, the pending legislation on public procurement, the proposals on distance marketing of financial services and on UCITs (investment funds), and within the Financial Services Action Plan the pending proposals on market abuse, collateral, prospectuses, pension funds, cross-border payments and international accounting standards.

[13] From the priority package, progress has been made on all items with the exception of the Community Patent, public procurement, pension funds, and prospectuses. In addition, decisions are urgently needed on the Galileo satellite navigation system and the institutional framework in the Lamfalussy report.

The **European Council** should address this challenge by considering options to bridge the delivery gap in this area:

- Additional Council meetings could be organised by the Council Presidency in the run up to Spring European Councils to resolve outstanding issues.
- The Council Presidency should make full use of qualified majority voting, where available, to ensure decisions on Lisbon reforms are not held up, particularly in the areas set out in this Report.
- Heads of State and Government should ensure appropriate internal co-ordination so that progress on the whole strategy is achieved.

Where blockages cannot be overcome the real importance and urgency attached to the proposals is called into question. In such cases the Commission will consider withdrawing the proposal it has made. Where the lack of progress, for example for gas and electricity, is harming competition and holding back market integration, the Commission – as it did in the 1990s for telecommunications – will consider adopting legislation to open markets using its powers under the European competition rules.

(b) Ensuring that sustainable development is an integral part of these reforms

Sustainable development means ensuring that policies are consistent with long-term objectives. Economic, social and environmental objectives all affect the quality of life. This is why an environmental dimension has been integrated into the Lisbon strategy. It should ensure that each of these three elements is given appropriate weight when the direction of policy is set at the highest political level.

This means that the overall impact and coherence of policies must be assessed against overall long-term objectives. The Commission as currently developing mechanisms for assessing the sustainability impact of its proposals, and these will be up and running before the end of this year.

Improving policy coherence will be especially important over the next twelve to eighteen months in the areas of transport and energy.

For example, although further opening of transport and energy markets will lower costs and lead to lower prices, it must not remove the incentives for individuals and businesses to invest in clean technologies and energy efficiency. This requires the removal of environmentally damaging subsidies and the appropriate use of environmental taxes. In addition, regulators should ensure appropriate market access for renewable sources of energy.

The **European Parliament and Council**:

- should adopt the energy tax directive by December 2002.

The **Commission** will bring forward in 2002:

- new proposals on transport infrastructure pricing to ensure that the prices for using different modes of transport better reflect their costs to society. The revenue raised could be an additional source of support for closing the missing links within Trans-European Networks, particularly for alternatives to road transport;

– new proposals on safer transport systems across Europe, and

– will, in parallel with continuing negotiations on the energy tax directive, review the overall approach to energy taxation and investigate options to move forward on getting energy prices to better reflect their overall cost to society.

Policies and new infrastructures, including Trans-European Networks, must be compatible with sustainable development. The Commission will bring forward proposals seeking to increase efficiency and ensure the security of energy sources following the consultation on the November 2000 Green Paper[14].

(c) Continuing to foster economic and social cohesion

Improved economic and social cohesion results from the combination of stronger economic performance, the delivery of a knowledge-based society and long-term structural support of investment in infrastructures and people, notably in the least developed regions. It builds on the strength and ambition of the European social model and the welfare state. That model is helping people back to work, recognising that a job is often the best protection against social exclusion. It combines an affordable system offering a high level of social protection with a focus on social cohesion which is often felt to be lacking in the United States.

This objective is particularly important in less wealthy regions and for disadvantaged groups within society, for whom cohesion is not just the by-product of successful integration; it is a sign of solidarity. It implies a sustained effort in terms of investment into the medium to long-term, which will become even more necessary in the context of an enlarged European Union.

The **European Council** should:

– set a target for 2010 of halving the number of people at risk of poverty[15] across the European Union. Member States should indicate in their two year National Action Plans against poverty and social exclusion how they will contribute to its achievement. Work should build on the social inclusion indicators endorsed by the European Council in Laeken;

– endorse ongoing work on the impact of ageing on healthcare and care for the elderly in order to strengthen co-operation and exchange of good practice.

(d) Ensuring safe and sustainable pensions

The old-age dependency ratio – the relationship between the working population and those beyond the retirement age - will more than double from the current 24% to 49% by 2050. Projections of future expenditure on pensions show big increases of between 3 and 5 percentage points of GDP in most countries, and even more in some countries. Increases of such magnitudes give serious cause for concern both for pension systems and public finances.

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[14] Towards a European Strategy for the security of energy supply, COM(2000) 769. http://europa.eu.int/comm/energy_transport/en/lpi_lv_en1.html

[15] The target should be based on the average level in 1997 (the latest available year) of 18% of the population for the whole of the European Union considered to be at risk of poverty after account is taken of support from welfare systems.

The **European Council** should call for the continuation of on-going reforms of pension systems in most Member States aiming to:

- safeguard the capacity of pension systems to meet their social aims;
- ensure the financial sustainability of pension systems;
- enhance their ability to respond to a changing society.

(e) Developing entrepreneurship within a favourable business environmentand encouraging effective competition

A sound economy, a better skilled and more mobile workforce, integrated energy, transport and financial markets, and a stronger knowledge and technology base within the European Union all represent opportunities.

Converting those opportunities into economic growth and jobs depends on business and the creative spirit of entrepreneurs across the European Union, as well as on a competitive environment undistorted by private or state measures. The vigour of their response that will be a key factor for success. Small businesses[16], in particular, are the backbone of the European economy. They play a pivotal role in innovation and job-creation.

Entrepreneurship will flourish in a favourable business environment. This requires progress on many fronts, which together are bringing about significant changes.

The Member States committed themselves at the Stockholm European Council to reduce state aid and redirect aid towards horizontal objectives. Even though they have made some progress in reducing aid levels, they should continue their sustained effort and not allow changes in the economic climate to become an excuse for retrograde steps.

The **European Council** should endorse on-going action to :

- reduce State aid in relation to GDP and redirect aid towards horizontal objectives of common interest, including cohesion objectives
- finalise by June 2002 an action plan for improving and simplifying the regulatory environment;
- develop quantitative targets in the area of enterprise, small businesses and the business environment, for example, on reducing the time it takes to register a company or on the availability of e-government services on line. This will help to focus attention on the areas where progress is most needed and show when it has been achieved. Flexibility will be needed allowing Member States to use, within a jointly agreed set of targets, those which best respond to their specific priorities;
- reinforce action along all ten lines of the European Charter for Small Businesses (endorsed by the European Council in Feira in June 2000);
- improve the tax environment for businesses across the European Union by tackling barriers to cross-border economic activity.

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16 The Commission will present before Barcelona its annual report on the European Charter for Small Businesses. http://europa.eu.int/comm/enterprise/enterprise_policy/charter/index.htm

The **European Commission** will:

- propose targeted action in the short-term, for example, amendments to the existing merger and parent-subsidiaries directives to cover the tax field. It will investigate medium-term, comprehensive solutions, such as possibilities for companies to work with a single set of corporate tax rules, which provides a consolidated common tax base for their EU-wide activities.

3.2 Sharpening the focus in 2002

The European Council in Barcelona should focus greatest attention on three priority areas for the year ahead:

- Employment policies, particularly active labour market policies, in order to reduce unemployment and improve employment prospects for the whole workforce, but particularly to raise the employment rates of women and older workers.

- Economic reforms to strengthen competition, integration and investment within the European Union's network industries and an acceleration of work to achieve integrated financial markets.

- A stronger knowledge base in the European Union.

These are areas which can make the biggest difference to the European Union's long-term performance. They will help to stimulate employment, investment and productivity in the short to medium term - not only in specific sectors but also across the whole economy.

Wherever appropriate, the Commission will ensure that its proposals for Guidelines on Broad Economic Policy and on Employment translate these priorities into operational measures to be taken up at European and national level.

3.2.1 Developing employment policies focusing on active labour market policies for European labour markets

The employment rate targets of the European Union for 2005 and 2010 must be maintained and efforts must be accelerated to create more and better jobs and get more people to work. Measures should be favoured which will help particular groups, such as women and older workers, to enter and remain in the workforce.

- The **European Commission** will in 2002 present a proposal for the revision of the European Employment Strategy to build on its achievements and to integrate the Lisbon objectives and targets, including the timing of the Luxembourg process.

- **Member States** should indicate from 2003 onwards how they will contribute to achieving these European Union targets, by setting ambitious, but achievable national targets within their National Action Plans for employment. This should be reflected in the Employment Guidelines for 2003.

Progress is possible if action is taken by all relevant partners, but especially from Member States and the social partners. Action should focus on:

(a) Removing obstacles and disincentives deterring people from taking up and remaining in a job

(i) Tax

Member States have already lowered taxes - from 1999 to 2001 – by approximately ¾ of a percentage point of GDP. This trend should be continued in order to obtain a further reduction by 2005 in the order of one percentage point. Such reductions will have to respect fully the Stability and Growth Pact and should, in general, be compensated by reductions in public spending.

- The **European Council** should underline that, where Member States pursue further tax cuts, they should give priority to cuts in favour of low-wage earners.

(ii) Benefits

Comprehensive reforms, addressing the combined effect of tax and benefits in creating incentives for people to take up and remain in the workforce is an urgent priority for many Member States.

While such reforms should address control systems and eligibility rules for benefits, they must focus on improving incentives which make work pay while ensuring that the social objectives of welfare systems are not undermined.

The **European Council** should underline the importance of speeding up key benefit reforms at a national level, taking account of the combined effects of tax and benefits.

Member States should pursue steps which:

- discourage early retirement for individuals and the introduction of early retirement schemes by companies. This will help to increase labour force participation and the employment rate of older workers and should contribute to an increase in the effective average retirement age presently around 58 to 60 in 2010. Efforts should be more pronounced in Member States with lower employment rates for older workers;

- promote a gradual transition from work to retirement (e.g. encourage part-time work) and reward those remaining at work longer;

- address reforms of means-tested benefits, without jeopardising the social objectives or undermining incentives for education and training, with the aim of ensuring that each member of a household has an incentive to work.

The Commission will look further at how the combination of different policies impact the level of labour market participation (such as incentive systems, penalties for work in alternative employment after retirement).

The social partners should be encouraged to support a more gradual exit from the labour force for older workers. Members States can help through changes in regulations, for example, concerning certain benefit schemes (such as those related to health care).

(iii) Improving childcare facilities and investigating the causes of current gender gaps in the workplace

To increase the participation of women in the workforce, the provision of both public and private child-care facilities should be improved. Establishing targets, which will draw on future childcare indicators, will help to build momentum for further improvements. The lack of childcare is just one example of factors which influence

the participation of women in the workforce and which contribute to the existence of a gender gap.

The **European Council** should set EU wide targets for 2010:

- Childcare should be available to at least 90% of children between 3 years old and the mandatory school age and to at least 33% of children under 3 years of age.

The **Commission** will launch an overall assessment in 2002 on the reasons why differences leading to a gender gap, including in pay levels, exist.

(b) Promoting employability, adaptability and mobility to manage change better

(i) An Action Plan on skills and mobility

The work of the High Level Task Force on skills and mobility has highlighted important barriers to greater occupational and geographical mobility within the European Union. These barriers can result from a lack of key skills, the need for a more uniform, transparent and flexible regime for professional recognition and other problems associated with qualifications, the lack of information about work opportunities in other Member States and obstacles linked to pensions, access to healthcare and social security.

The **Commission** will shortly bring forward an Action Plan seeking to remove the barriers within European labour markets by 2005. The action plan will propose steps to:

- make education systems more responsive to the needs of the labour market;
- lower regulatory and administrative barriers to professional recognition as well as other barriers resulting from the way formal qualifications and non-formal learning are recognised;
- ensure the full transferability of social security rights, including for pensions, across the European Union. This should include a very practical and symbolic step to replace the current paper forms needed for health treatment in another Member State with a European Health Insurance Card. Such a card would seek to simplify procedures, rather than to change existing rights and obligations;
- analyse the interaction between immigration, employment and social policies.

Member States should take action to improve mobility within their territories.

- This requires a targeted effort combining active labour market policies with a strengthening of the administration of benefit systems and more flexibility in the portability of benefits across regions. It also requires that wages take greater account of productivity and of labour market situations in different sectors and geographical areas.

(ii) Anticipating and managing change in the context of corporate restructuring

To address employment and the social aspects of corporate restructuring, a dialogue between social partners at all levels is important. It will contribute to a more preventive and proactive approach; an approach which anticipates changes as well as seeking to manage them.

The Commission is launching the first phase in the consultation of the social partners on anticipating and managing change. This will address the social aspects of corporate restructuring. The Commission expects the social partners to develop commonly agreed approaches based on best practices.

- The **European Council** should endorse the need for a positive approach to change in the face of the need for greater adaptability within the economy and call on the social partners to pursue work in this area.

3.2.2 Connecting Europe, connecting markets

The European Union has evolved over half a century into a network of interdependence and integration. Decisions implementing key structural economic reforms launched at Lisbon must be taken in 2002. Work on creating the regulatory framework needed to achieve integrated financial markets must be accelerated to reduce the cost of capital, create jobs and to enable citizens and businesses to reap the full benefits of the euro. A timetable and framework for further integration of gas and electricity markets and for key areas of transport must be set out by the European Parliament and Council. Missing links in Europe's key infrastructure network must be filled in and investment in basic infrastructures encouraged.

(a) Financial markets

Progress has been made towards the Lisbon targets of fully integrated securities markets by 2003 and financial services markets by 2005, but it has not been fast enough. This is crucial to growth, competitiveness, jobs and enterprise within the European Union. Remaining administrative and legal barriers must be removed. The UCITS Directives on harmonised investment funds[17] and the Regulation on cross-border payments have already been formally adopted. Decisions are needed on the other key elements of the Financial Services Action Plan if the Union is to deliver an integrated financial services sector on time as promised by the Lisbon and Stockholm European Councils.

The **European Parliament and Council** should

- adopt by June 2002 pending proposals on distance marketing of financial services, collateral, market abuse, and international accounting standards.
- adopt by December 2002 pending proposals on pension funds, financial conglomerates and prospectuses.

The High Level Expert Group on Company Law, set up by the European Commission, has delivered its first report on issues related to takeover bids. Taking into account its recommendations, the Commission will bring forward a new proposal in the second quarter of this year. It would like full political agreement on this crucial issue by the end of 2002.

[17] Undertakings for collective investment in transferable securities.

(b) Energy and transport

Final decisions are needed before the end of 2002 on steps to further integrate energy and transport markets within the European Union. Further market opening will help to improve services for businesses and citizens, while ensuring an adequate level of service everywhere in the European Union at an affordable price.

(i) Market opening.

The **European Parliament and Council** should:

- adopt as early as possible in 2002 pending proposals setting the dates and framework for the final stage of the liberalisation of electricity and gas markets;
- adopt by December 2002 proposals creating the Single European Sky, proposed rules on airport slot allocation, as well as pending proposals on access to port services and public service contracts;
- make substantial progress on the forthcoming second package of measures intended to revitalise European railways with a view to its adoption in 2003.

The **Council** must, in the light of the conclusions of the Laeken European Council:

- take the necessary decisions by March 2002 to start officially the development stage of the Galileo satellite navigation system.

(ii) Missing links

Market opening must be accompanied by efforts to improve the use of existing networks and to complete missing energy and transport links within the European Union. This will strengthen the internal market and underpin effective competition. In the case of energy, it will help to improve access to national grids for renewable sources of energy and enhance the long-term security of EU energy supplies.

Following from its Communication on European energy networks in December 2001, the European Commission believes that improving the degree of interconnection between national energy grids is essential.

- The **European Parliament and Council** should adopt by December 2002 the revision of the Guidelines and accompanying financial rules on Trans-European energy and transport networks.
- **Member States** should achieve by 2005 a target of a level of electricity interconnection equivalent to at least 10% of their installed generation capacity.

Rapid agreement on the TEN guidelines should permit a better use of structural and cohesion funds together with the TEN budget to ensure the necessary investment. This is particularly important for the further deployment of rail links to shift traffic from the roads as well as for the cohesion countries.

(c) Broadband networks

Realising the full potential of a knowledge-driven society means that citizens and businesses must be able to access affordable, high-speed communications wherever

they are in the European Union. Broadband internet access will be a key factor for improving the performance of the economy. Broadband networks will form the backbone of an increasingly interconnected and integrated society.

Broadband roll out is currently not occurring at a fast enough pace, reflecting the large investments concerned. Decisions on such networks is a matter for the market to decide. Yet, public authorities can promote competition, in particular in the local loop and ensure a level playing field through the application of the recently agreed new rules for telecommunications. They can also help to stimulate the market as a purchaser of new applications and services which need broadband capacity, and by putting government services on-line.

- The **European Council** should establish as a target the widespread availability of broadband technologies throughout the European Union by 2005.

Promoting the roll out of broadband networks is only part of what is needed. It is essential that full use is made – starting in schools - of the possibilities offered by high speed links. This highlights the importance of on-going actions to spread IT skills throughout the population within the framework of eLearning and lifelong learning initiatives. There is also an urgent need in schools for more computers, better quality Internet connections, and better training of their teachers as regards new technologies.

- The **European Council** should endorse new targets for eLearning in European Union schools. Efforts should continue to meet the existing targets and new ones should include the objective of ensuring by the end of 2002 that the ratio of Internet connected PCs to pupils is brought down across the European Union to one for every fifteen pupils.

3.2.3 Investing in knowledge for future competitiveness and employment

Europe is at the cutting edge of many areas of science, it has the proven capacity to turn ideas into innovative products and services, and its education systems are generally strong.

At the same time, the European higher education and research system fails to attract enough people and investment, both from within Europe and world-wide. Funding for research and education is still not sufficient, particularly from business sources in the case of research.

Moreover, lifelong learning is, despite progress in some Member States, still not a reality for most people. As many as 150 million Europeans have not completed their secondary education; relatively few adults participate in life long learning (varying from one in one hundred to one in five).

(a) A European Knowledge Area

The European Union must increase investment in human resources, develop the European Area of Research and Innovation, transform education and training systems within a lifelong learning perspective, create networks and centres of excellence in research and education, and foster European mobility.

Some progress has been made at both Community and national level to adapt policies to these challenges, but a stronger European impulse is needed. A more integrated

approach should also help to ensure that the business in the European Union remains competitive and that people with the right skills are there to fill new research and development jobs as investment increases.

- The **European Parliament and Council** should adopt the sixth Research Framework Programme by June 2002.

- The **European Commission** will in 2002 propose an integrated strategy for Community education and research policies. It will be based on an integrated approach towards the education and research aspects of training and career development, university issues, the development of European knowledge and science networks, and reinforced co-operation and exchanges with third countries.

This integrated strategy will include actions to:

- *Develop a transparent and open European environment for research and education*. The practical and legal conditions required to ensure genuine mobility for all those involved in education, research and innovation should be put in place. This will also draw on the Skills and Mobility Action Plan.

- *Create European networks and centres of excellence in research and education*. The new sixth Research Framework Programme will provide funding for the creation of major networks of excellence in research. The Commission will also complete the mapping of excellence in research in selected areas, with the help of Member States, and extend the process to enlargement countries. Consistency will be ensured with education aspects, for which specific actions will be proposed in the integrated strategy.

- *Enhance the European dimension of lifelong learning.* The right of free movement will be helped by a coherent approach to the recognition of qualifications and competences based on greater comparability of qualifications and on mutual trust. This should be helped by developing European masters, certificates and diplomas, minimum quality standards in education and training, peer review and co-operation between qualification authorities in the European Union.

- *Create the conditions for more investment in research from private sources*. The Commission will support the exchange of good practice and experience in this area; use the sixth Research Framework Programme to support important projects in which business participates; and step up the complementary use of Framework Programme and European Investment Bank funding following the agreement between the Commission and EIB.

  Improvements in the level of private sector spending on R&D must go hand in hand with continued high levels of public funding for research in priority areas.

  The actions envisaged make it both realistic and opportune to set targets for research spending in 2010 that will close the gap with Europe's main partners and help the European Union to achieve the objectives set in Lisbon.

The **European Council** should endorse action to:

– strengthen the European area of research and innovation by setting a target of 3% of GDP for the overall level of public and private spending on research and development by the end of the decade. Within that total, the amount funded by business should rise to around two thirds against 55% today[18].

(b) Frontier technologies

At Stockholm the European Council recognised that frontier technologies, such as life sciences and biotechnology alongside other clean, environmental technologies, are a key factor for future growth in an area where Europe's knowledge base, though behind the US, is well-developed.

(i) An Action Plan for life sciences and biotechnology

Although positive developments are underway, the European Union suffers from its late entry into the life sciences area. It is also constrained by a lack of people with the necessary skills and insufficient incentive from intellectual property rules. There is also insufficient coherence in the overall regulatory and policy framework.

The European Union must actively develop policies which are forward-looking, take a global view and which drive growth and employment opportunities in the medium-term. If it fails to do so, it is likely to be confronted by policies shaped by others, at home and abroad.

– The **European Council** should endorse the importance of this sector and provide strategic orientations for future work.

– The **Commission** will shortly present a comprehensive strategy to address the specific obstacles and opportunities for life sciences and biotechnology. The areas addressed will include competitiveness and innovation, research, the regulatory environment, the international context, the involvement of the public, and ethical issues.

– The strategy will set out an action plan proposing concrete measures and will invite other public and private actors to participate in the process. The European Council should endorse the importance of this sector and provide strategic orientations for further work.

(ii) Clean technologies

The development and wider take up of clean technologies will also be important for stimulating growth and employment. They were signalled as a key frontier technology by the Stockholm European Council. Realising their full potential means overcoming current market barriers to investing in them and creating a favourable business environment.

The sixth Research Framework Programme should also play a role in supporting the development and uptake in an area where European companies already play a leading role.

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[18] The level of business R&D spending is higher (around 65% of the amount spent on R&D), but a proportion of that spending is actually financed by public research money.

– The **European Commission**, following the forthcoming report on environmental technologies, will develop an action plan for tackling obstacles to their take up.

3.3 Beyond Barcelona

3.3.1 Ensuring and enhancing co-ordination

The growing interdependence of the economies of the Member States adopting the euro, but also of those that are not participating, calls for enhanced and effective economic policy co-ordination. This must ensure further convergence of the European Union's economies and a smooth functioning of the internal market.

The Treaty and the Stability and Growth Pact provide a framework for such co-ordination. It is based on consensus and involves a common assessment of the economic situation, agreement on appropriate economic policy responses, and peer review leading, where necessary, to adjustment of particular policies.

The European Council should endorse a strategy for enhancing economic policy co-ordination which should consist of:

– The assessment of the economic situation and the policy mix increasingly from an euro area perspective, supported by an upgrading of the European Union's statistical base.

– Greater openness in building consensus on appropriate policies by ensuring it takes place within common rules governing the conduct of economic policy.

– The provision of early information on major policy initiatives by a Member State to other Member States and the Commission in order that they can benefit from the views of their partners through a process of peer review.

Furthermore, the integration of the economic, social and environmental dimensions within the Lisbon strategy makes it imperative to pay increased attention to the consistency of the policies pursued in these fields. This implies a better co-ordination and synchronisation of the key policy instruments used to steer its different elements, particularly:

– the Broad Economic Policy Guidelines, which the Commission proposes shortly after the Spring European Council;

– the Employment Guidelines currently presented by the Commission each Autumn, and

– the "Cardiff Report" on economic reform presented by the Commission at the end of each year,

They should be organised in a way which allows the Spring European Council to provide the most effective guidance and political impetus on economic, social and environmental questions.

3.3.2 Enlargement

The Lisbon strategy provides an additional way for candidate countries to adopt and implement key economic, social and environmental objectives, but it is not an additional condition for entry. The eEurope Plus initiative launched by candidate countries at the Göteborg European Council is a good example of this. They have put in place a framework to speed up their transition to a knowledge economy. The Commission believes it could be helpful if other similar initiatives were developed across the candidate countries.

However, the process of enlargement also presents challenges for the strategy itself just as it does for economic and social cohesion. It will certainly be a further factor for growth, investment and job creation across the Union in the second half of the decade, but it will also put many of the quantitative Lisbon targets under strain.

It will involve a two-way learning process; a process which has already started with the participation of candidate countries in all Community programmes. This is helping those countries, sometimes with the support of pre-accession aid, to familiarise themselves with the objectives and way of working within the Lisbon strategy.

Moreover, pre-accession funding may help them in adopting, implementing and enforcing those elements of "acquis communautaire" which form part of the Lisbon strategy.