From Lisbon to Europe 2020
Lisbon Strategy Implementation in 2010: Assessments and Prospects

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Spring 2011

Marcin Koczor, Paweł Tokarski

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Executive Summary

1. This Report presents Member States' performances in fulfilling the Lisbon Strategy objectives in 2010—the last year of its implementation (Part I of the report). This third survey ends the cycle of annual reports prepared by the Polish Institute of International Affairs. The end of the Lisbon Strategy provided not only a good opportunity to carry out an overall assessment (contained in Part II of the report) but also a focus on more forward-looking issues concerning the new economic governance architecture that includes governance of the Europe 2020 strategy (Part III of the survey). The methodology of the report remains unchanged compared to previous editions.[1]
2. The EU has still been struggling with the effects of the financial and economic crisis, which initiated serious fiscal problems in Member States. Macroeconomic data for 2010 showed a visible gap between Member States with respect to the pace of recovery and the fiscal situation. Recovery in some Member States has been fragile and does not provide a strong framework to conduct the harsh budgetary consolidation required.
3. There was no substantial progress with respect to entrepreneurship in 2010. The key problems (effectiveness of commercial judicature and bankruptcy proceedings) have not been tackled effectively. The EU is on the right track to achieve targets concerning a reduction of administrative burdens.
4. The Lisbon progress referring to the single market was rather limited in 2010. Transposition of the Services Directive was not completed. Key bottlenecks remain in many segments of the market, such as energy, telecommunication and railways. A positive element is that the EU effectively managed to control state aid granted to the financial sector during the crisis.
5. The Knowledge Triangle assessment indicates stagnation in lifelong learning, higher education development and R&D spending, which is far below the goal of 3% of GDP. Mathematics and science literacy shows that there is no real distinction between EU-12 and EU-15. Progress was observed in the development of patent issue during the Belgian presidency.
6. The rates of Internet users and fixed and mobile broadband penetration are gradually increasing. The e-government services availability represents a mixed picture as there are large differences between the Member States, with a group of laggards that have difficulty closing the gap with the other EU members.
7. As far as energy and climate change are concerned, the EU-15 will probably meet the Kyoto targets. The figures show modest progress in generating electricity from renewable resources and cogeneration.
8. The recent economic and financial crisis has had an adverse effect on employment and social policy, touching especially young people and groups at risk of poverty. A difficult fiscal situation makes it problematic to use public instruments to fight against unemployment or to soften its repercussions.

[1] An analysis of the Strategy's implementation is difficult in the absence of updated and complete statistical data, especially in such fields as the Knowledge Triangle, social affairs, energy and climate. Hence it has not been possible to present 2010 statistics in all the segments, and the **Report is based on figures and information last updated in mid-March 2011**.

9. The Lisbon Strategy, which is largely considered to have been a failure, should be assessed taking into account broader economic and political contexts and different results achieved by the particular Member States. During the last 10 years, the EU economy experienced two crises, including the deepest one since the Great Depression. The Strategy suffered from weak management tools as well as a lack of political interest from most of the Member States. If Europe 2020 is to score better, lessons from Lisbon must be taken into account.
10. The strengthening of economic governance, especially in non-fiscal dimensions, can improve prospects for the successful implementation of Europe 2020. However, the key condition for a good outcome is in retaining political ownership of the Strategy at the highest level.

Part I

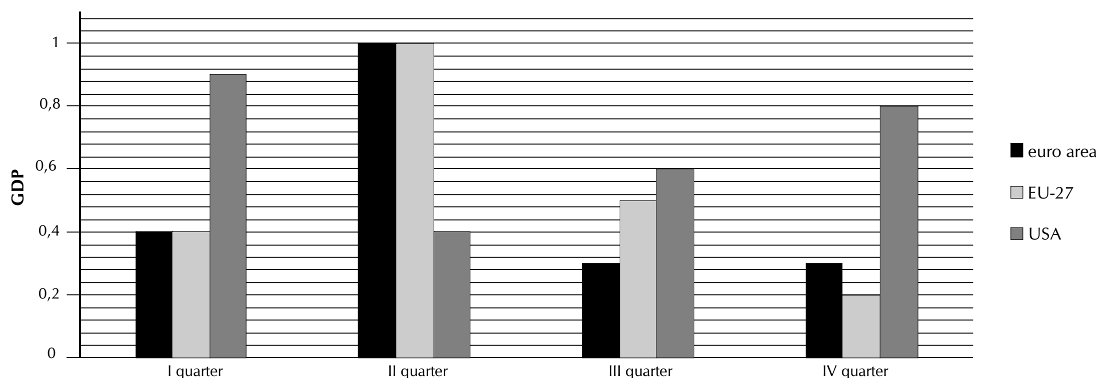
1. Economy

The recent global economic and financial has crisis affected very seriously the EU economy. According to the Commission, it wiped out four years of growth in the EU.[2] The EU economy exited from the recession in the third quarter of 2009, but the path of recovery has been very slow and uneven, exactly as was the case a year ago.[3] In some respect, this is a part of a global trend for developed economies. The main points of risk shifted in 2010 from the financial sector to the fiscal situations of the EU Member States, especially in the euro area. The situation in financial sector is, however, far for stable.

1.1. General Economic Situation

Quarterly GDP growth in the EU peaked in the second quarter of 2010, when GDP in both the EU and the euro area grew by 1% in comparison to the previous quarter. GDP growth amounted to 2% in the second quarter (year to year). Such growth was mainly the result of a strong performance by the German economy, which grew by 2.2% quarter to quarter and by 3.9% year to year. This good economic picture in Germany was because of a picking up of exports.[4] During the two last quarters, growth was slower (0.3% quarter to quarter in the euro area in the third and fourth quarters and 0.5% and 0.2%, respectively, in the EU-27).

Chart 1. Quarterly GDP Growth



Source: Eurostat.

The Commission's estimates for 2010, published last autumn, delivered a slightly more optimistic picture than those presented in the spring. The GDP in the EU and the euro area grew respectively by 1.8% and 1.7% (both about 0.8 pp higher than estimated by the Commission in the spring). Despite the upward revision of estimates, these figures are lower than world output (5.0%, according to IMF estimates),[5] the U.S. (2.7%) and Japan (3.5%). The highest rates were predicted for Sweden (4.8%), Slovakia (4.1%),

[2] European Commission, *Annual Growth Survey, Annex 2: Macro-economic Report*, p. 6, http://ec.europa.eu/europe2020/pdf/2_en_annexe_part1.pdf (accessed on 13 January 2011).

[3] See. M. Koczor, *Lisbon Strategy Implementation in 2009: An Analysis*, pp.13–24, www.pism.pl/zalaczniki/report_LS_2009.pdf (accessed on 12 December 2010).

[4] European Commission, *European Economic Forecast 2010*, Autumn 2010, p. 76, http://ec.europa.eu/economy_finance/publications/european_economy/2010/pdf/ee-2010-7_en.pdf (accessed on 1 December 2010).

[5] IMF, *World Economic Outlook Update*, January 2011, p. 2, www.imf.org/external/pubs/ft/weo/2011/update/01/pdf/0111.pdf (accessed on 30 January 2011).

Germany (3.7%) and Poland (3.5%). A relatively good picture also can be expected in other Nordic states (estimated growth in Finland and Denmark is, respectively, 2.9% and 2.3%) and Czech Republic (2.4%). The worst situation is in Greece (its GDP may contract by 4.2%). Others with shrinking economies include Romania (–1.9%), Latvia (–0.4%), Ireland (–0.2%), Spain (–0.2%) and Bulgaria (–0.1%). This decline is, to a large extent, a result of huge consolidation efforts undertaken in order to repair public finances.

The main factor that drove growth in the EU and euro area was exports, which soared by 4% (quarter to quarter) in the second quarter of 2010. In the whole EU, exports of goods and services grew by 10.2% compared to 2009, though that year exports declined by 12.5% (in the euro area, 10.7% and -13.2%, for the respective years). Domestic demand remains subdued and increased only by 1.3% in the EU and 0.9% in the euro area (in 2009, domestic demand fell by 4.1% and 3.5%, respectively). Private consumption rose slightly, by 0.6%, in the euro area and 0.7% for the EU-27.

Recovery would be stronger if investment fully rebounded. This was not the case. Total investment dropped by 0.8% in the euro area and 0.6% in the EU. However, the scale of the decrease is rather limited in comparison to the decrease in 2009.

Financial conditions in the EU improved, and banks eased credit criteria for households. However, access to credit has still been difficult for enterprises. The situation in the European financial sector has not yet returned to optimum. A relatively good picture of bank health that emerged after the results of stress tests had been published in late July 2010 was not fully convincing as many market analysts and observers argued that overly optimistic assumptions had been used to conduct the tests.[6] Some problems in the banking sector (e.g., related to toxic assets) have not been fully solved. The serious risk for the banking sector would be a wider spread of the sovereign-debt crisis within the eurozone, because of the banks' high levels of exposure to this debt. European banks are seriously exposed to their individual countries' debts (i.e., about 226% of Greek banks' Tier 1 capital is Greek sovereign debt). Sovereign debt exposures of EU banks are estimated to be more than €1.6 trillion.[7] The total exposure of European banks to the public and private debts of Greece, Ireland, Italy, Portugal and Spain amounted to more than $2.5 trillion in the third quarter of 2010.[8]

The development of a solution to the EU banking sector's involvement in the sovereign-debt crisis and the effectiveness of consolidation efforts will be crucial for economic growth in the EU in the short-term. Risks in the euro area are balanced, and there are some optimistic signals about the expansion of domestic demand and business investment.[9]

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6 Stress test was conducted by the Committee of European Banking Supervisors in cooperation with national supervisors, the European Commission and the ECB. Ninety-one European banks representing 65% of the European market underwent a scrutiny. The exercise showed that European banks have sufficient resistance to negative macroeconomic and financial shocks. Eighty-four banks have their Tier 1 capital ratios above the required level (6%). Among seven banks that did not pass the test are five Spanish savings banks (*Cajas*), one Greek bank and one from Germany.

7 This amount refers to the banking book value (securities held by banks that are not traded and held to maturity). Source: A.Blundell-Wignall and P. Slovik, *The EU Stress Test and Sovereign Debt Exposures*, OECD Working Papers on Finance, Insurance and Private Pensions, no. 4, OECD Financial Affairs. Division, 2010, p. 7, www.oecd.org/dataoecd/17/57/45820698.pdf (accessed on 15 January 2011).

8 Own calculations based on Bank of International Settlements' data. Exposure to Greece amounted to $153.6 billon; Ireland, 564.5 billion; Italy, 902 billion; Portugal, 215.9 billion; and Spain, 726.9 billion. Source: M. Stabe, R. Minto, P. Feeney and S. Bernard, "Bank, Exposure: The Eurozone risk," *Financial Times*, 28 January 2011, www.ft.com/cMember States/s/0/9686c004-fca4-11df-bfdd-00144feab49a.html#axzz1DfiKpHuW (accessed on 30 January 2011).

9 OECD, *Economic Outlook*, no. 88, November 2010, p. 88.

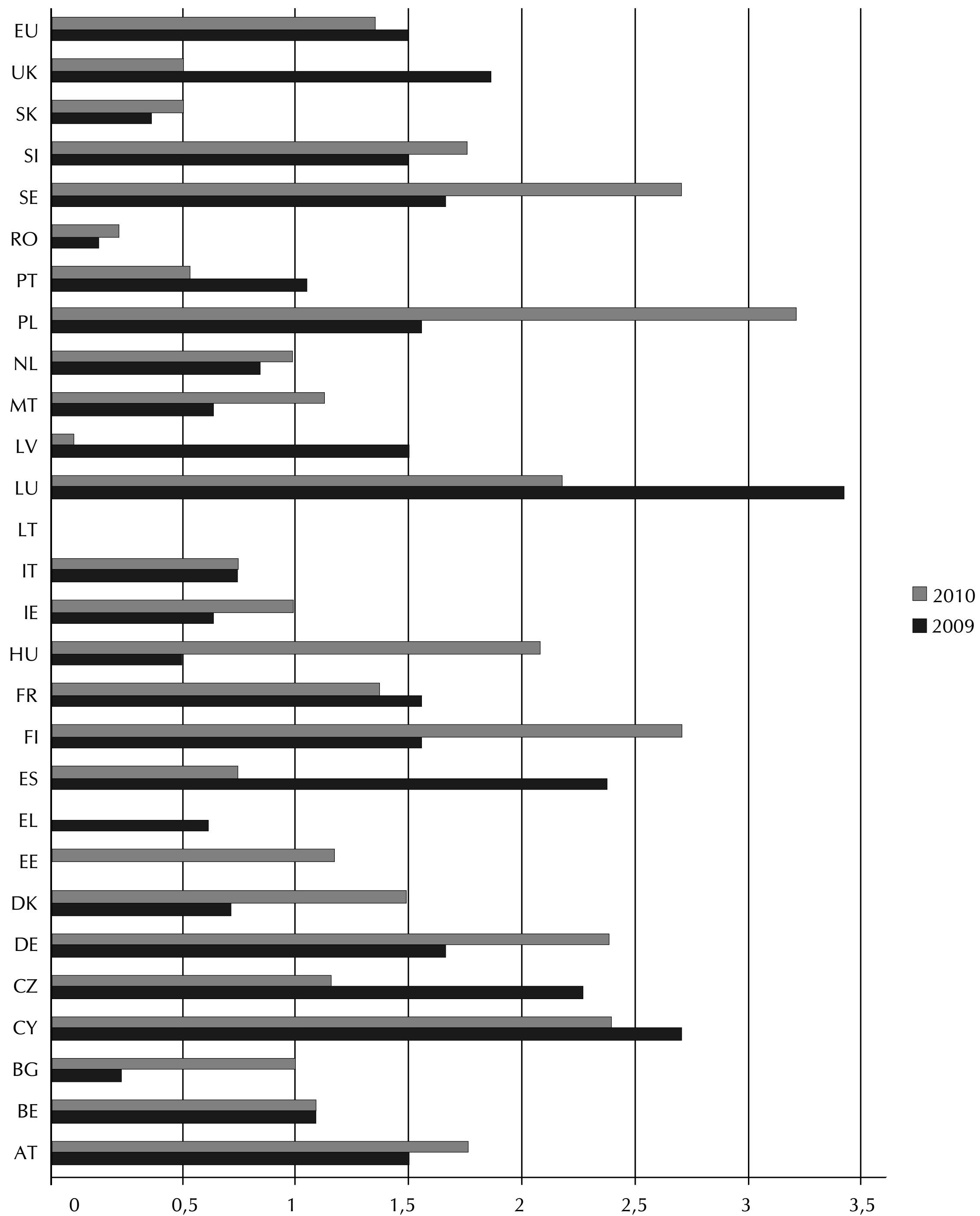
Table 1. GDP in 2010

Country	2009	2010 (estimate)	2011 (forecast)
AT	–3.9	2.0	1.7
BE	–2.8	2.0	1.8
BG	–4.9	–0.1	2.6
CY	–1.7	0.5	1.5
CZ	–4.1	2.4	2.3
DE	–4.7	3.7	2.2
DK	–5.2	2.3	1.9
EE	–13.9	2.4	4.4
EL	–2.3	–4.2	–3.0
ES	–3.7	–0.2	0.7
FI	–8.0	2.9	2.9
FR	–2.6	1.6	1.6
HU	–6.7	1.1	2.8
IE	–7.6	–0.2	0.9
IT	–5.0	1.1	1.1
LT	–14.7	0.4	2.8
LU	–3.7	3.2	2.8
LV	–18.0	–0.4	3.3
MT	–2.1	3.1	2.0
NL	–3.9	1.7	1.5
PL	1.7	3.5	3.9
PT	–2.6	1.3	–1.0
RO	–7.1	–1.9	1.5
SE	–5.1	4.8	3.3
SI	–8.1	1.1	1.9
SK	–4.8	4.1	3.0
UK	–5.0	1.8	2.2
EU-27	**–4.2**	1.8	1.7
Euro area	**–4.1**	1.7	1.5
USA	–2.7	2.7	2.1
Japan	–5.2	3.5	1.3
China	9.1	10.5	9.2

Source: European Commission, *European Economic Forecast,* Autumn 2010.

EU GDP growth was to some extent the result of stimulus actions, which were continuing in 2010 under the framework of the European Economic Recovery Plan.[10] According to the Commission's data, the value of discretionary stimulus measures was 1.4% of EU GDP in 2010 (1.5% in 2009), and the majority of adopted measures have a temporary character.

Chart 2. Discretionary Fiscal Stimulus in the EU in 2009–2010 (%GDP)



Source: European Commission, *Public finances in EMU 2010*.

[10] See: M. Koczor, *Lisbon Strategy: Implementation in 2008: An Analysis*, p. 23, www.pism.pl/zalaczniki/raportSL_ang.pdf (accessed on 12 December 2010).

1.2. Fiscal Situation in the EU

The crisis deteriorated public finances across the EU. The Excessive Deficit Procedure has been opened against all Member States with the exception of Estonia, Luxembourg and Sweden (according to the Commission, estimates of the public sector deficits in these states were 1.0%, 1.8% and 0.9%, respectively). The estimated general government deficit remained roughly unchanged compared to the previous year for both the EU and the euro area (6.8% and 6.3%, respectively). According to Commission forecasts, the deficits will begin to fall to 5.1% in the EU-27 and 4.6% in the euro area in 2011, when consolidation efforts will be triggered by many Member States within the framework of the fiscal exit strategy, which was endorsed by ECOFIN in October 2009. In Member States grappling with huge deficits, consolidation has been ongoing and needs to be very tight. The highest level of estimated general government deficit is in Ireland (32.3% GDP), which has, however, an exceptional character because of the costs of restructuring the Irish banking sector incurred by the state budget. Estimates of the amount of public deficit were 10.5% in UK and 9.6% in Greece. A bleak situation in this respect is also noted in Poland, Slovakia and Spain.

High deficits triggered higher borrowing needs by the Member States. According to the ECB, borrowing needs in euro area Member States amounted to 26% of GDP in 2010, compared to 14% in 2007.[11] Greater borrowing needs are reflected in rising debt levels—estimated public debt soared by more than five percentage points in the EU and euro area (to 79.1% and 84.1%, respectively). According to the Commission's projections, public debt in 2011 will rise to 81.8% of GDP in the EU and 86.5% in euro area. OECD's estimations concerning debt in the euro area showed similar data: 84% in 2010 and 87% in 2011.[12]

The highest debt burdens are noted in Greece (140.2% of GDP), Italy (118.9%), Belgium (98.6%) and Ireland (97.4%).

Table 2. Fiscal Indicators in the EU

Country	Public deficit/surplus (general government), % GDP		Public debt (general government), % GDP	
	2009	2010	2009	2010
AT	–3.5	–4.3	67.5	70.4
BE	–6.0	–4.8	96.2	98.6
BG	–4.7	–3.8	14.7	18.2
CY	–6.0	–5.9	58.0	62.2
CZ	–5.8	–5.2	35.3	40.0
DE	–3.0	–3.7	73.4	75.7
DK	–2.7	–5.1	41.5	44.9

[11] European Central Bank, *Financial Stability Review*, December 2010, p. 58, www.ecb.int/pub/pdf/other/financialstabilityreview201012en.pdf?a08d9014dc9765db19857609d29cb19e (accessed on 20 December 2010).

[12] OECD, *Economic Survey: Euro area*, vol. 20, December 2010, Supplement 2, p. 20.

Country	Public deficit/surplus (general government), % GDP		Public debt (general government), % GDP	
	2009	2010	2009	2010
EE	–1.7	–1.0	7.2	8.0
EL	–15.4	–9.6	126.8	140.2
ES	–11.1	–9.3	53.2	64.4
FI	–2.5	–3.1	43.8	49.0
FR	–7.5	–7.7	78.1	83.0
HU	–4.4	–3.8	78.4	78.5
IE	–14.4	–32.3	65.5	97.4
IT	–5.3	–5.0	116	118.9
LT	–9.2	–8.4	29,5	37.4
LU	–0.7	–1.8	14.5	18.2
LV	–10.2	–7.7	36.7	45.7
MT	–3.8	–4.2	68.6	70.4
NL	–5.4	–5.8	60.8	64.8
PL	–7.2	–7.9	50.9	55.5
PT	–9.3	–7.3	76.1	82.8
RO	–8.6	–7.3	23.9	30.4
SE	–0.9	–0.9	41.9	39.9
SI	–5.8	–5.8	35.4	40.7
SK	–7.9	–8.2	35.4	42.1
UK	–11.4	–10.5	68.2	77.8
Euro area	**–6.3**	**–6.3**	**79.1**	**84.1**
EU-27	**–6.8**	**–6.8**	**74.0**	**79.1**

Source: European Commission, *European Economic Forecast*, Autumn 2010.

1.3. Inflation

The risk of inflation was moderated both in the eurozone and in the whole EU for most of 2010, however it was growing during the last month of the year (HICP inflation in the euro area was 2.2% in December, which exceeded the ECB's target). The upward risks included rising global commodity prices, especially a sharp rise in agricultural products. These factors are offset by a still weak economic situation in Europe. Inflation in the euro area was estimated to amount to 1.5% and 2.0% in the EU in 2010. Deflation was indicated in Ireland (–1.5%) and Latvia (–1.3%). The highest level of inflation was noted in Romania (6.1%), Hungary (4.7%), and Greece (4.6%).

Table 3. Inflation Rate in EU (HICP) in 2010

EU-27	**EA**	AT	BE	BG	CY	CZ	DE	DK	EE
2.0	**1.5**	1.7	2.3	2.9	2.8	1.2	1.1	2.2	2.7
EL	ES	FI	FR	HU	IE	IT	LT	LU	LV
4.6	1.7	1.6	1.7	4.7	–1.5	1.6	1.2	2.8	–1.3
MT	NL	PL	PT	RO	SE	SI	SK	UK	
1.9	1.0	2.6	1.4	6.1	1.8	2.1	0.7	3.2	

Source: European Commission, European *Economic Forecast, Autumn 2010*.

1.4. EU Actions in Response to the Sovereign Debt Crisis among Member States in 2010

The fiscal situation in Greece triggered serious problems in the euro area, spreading the risk of contagion to other PIIGS states (Portugal, Ireland, Italy, Greece, Spain). The approval of €110 billion in financial support for Greece by the Eurogroup on 2 May 2010 was preceded by weeks of uncertainty by market investors concerning the timing, character and size of such support.[13] Markets were not reassured by political declarations about the EU readiness to provide support to Greece, but they were expecting concrete actions. As a result, confusing signals from EU Member States and institutions had contributed to some extent to increased market turmoil and the risk of contagion.[14] A further worsening of the situation in late April and early May in the euro area required serious steps in order to preserve its stability. EU leaders were forced to adopt far-reaching measures in this respect to prevent investors from panicking. Against this background, the ECOFIN Council on 9–10 May decided to set up a stabilisation framework, which has a hybrid character and consists of three elements:

- **European Financial Stabilisation Mechanism**—the EU instrument based on Art. 122.2 TFEU. It can provide loans or lines of credit (up to EUR 60 billion), which originate from loans drawn on financial markets by the Commission (the EU budget's own resources as a collateral). A decision about resources granted through this instrument may be made by a qualified majority of the Council.
- **European Financial Stability Facility**—it is a Special Purpose Vehicle company located in Luxembourg whose main task is to issue bonds (up to €440 billion over three years) that are backed by guarantees from euro area Member States proportionate to their contribution to ECB capital and voluntarily by other EU countries (Sweden and Poland declared an initial willingness to participate in

[13] On 23 April 2010, a Greek government official requested activation of the financial support programme. Under an agreement, made by the heads of state or government from the euro area countries on 25 March 2010, the programme is to consist of two-thirds bilateral loans made by these states and one-third from resources provided by the IMF. The various Euro area state contributions to the bailout programme are determined on the basis of their respective shares in the capital of the European Central Bank (ECB). The programme was based on very broad and detailed conditions. A review of progress is conducted quarterly by the joint missions of the European Commission ECB and IMF. On the basis of results of the review, each disbursement is released. Greece received €38 billion (€27.5 billion from rest of the euro zone members and €10.5 billion from the IMF) through January 2011.

[14] J. Carmassi, S.Micossi, *The role of politicians in inciting financial markets to attack the eurozone,* EuropEos, no. 4, 21 June 2010.

this mechanism). A decision about the activation of resources from this mechanism is taken unanimously by the Eurogroup;
– **IMF involvement** that would amount to half of the European contribution (€250 billion).

In addition to the measures approved by the ECOFIN Council, the ECB Governing Council decided to buy eurozone treasury bonds on the secondary market. It has also initiated additional liquidity operations, including the provision of funds in U.S. dollars (on the basis of a swap agreement with the U.S. Federal Reserve).

The main goal of establishing the framework was to create a climate in which using this mechanism would not be necessary. The EU managed to calm tensions in the markets until autumn 2010. At the end of October, a second wave of market panic spread across the eurozone after signals that private investors would participate in a future crisis-resolution framework mechanism. The message was first delivered by Angela Merkel and Nicolas Sarkozy in their joint declaration from Deauville in mid-October 2010.[15] Several days later, the European Council agreed that such a stability mechanism should be set up and that the private sector needed to participate in the new resolution system. Head of states or governments also agreed that a moderate modification of the Treaty (TFEU) should be introduced that allowed the creation of this mechanism. Unfortunately, EU leaders did not correctly predict the negative reactions of investors. Spreads between Portuguese, Spanish or Irish and German bonds were quickly going up and euro exchange rate against the U.S. dollar began falling again after only a few months on the rebound.

These uncertainties were especially painful for Ireland, which began to be perceived as the weakest part of the euro area. In the meantime, the Irish authorities were underlining that the country had satisfied its borrowing needs until mid-2011. Still, many investors were sure that financial support for Ireland would be unavoidable. Indeed, in November Ireland requested international financial support and the Eurogroup and ECOFIN, in cooperation with the IMF, agreed to provide it €67.5 billion.[16] Investors then shifted their attention towards Portugal and Spain and were wondering whether these counties would be next in line for support.

In order to calm down market participants, the Eurogroup clarified the main features of the future permanent resolution mechanism, especially the role of the private sector. According to Eurogroup's statement, the European Stability Mechanism (ESM) will replace EFSM and EFSF after 30 June 2013, and any assistance provided by the new instrument would be strictly conditional. The participation of private investors will be based on a case-by-case basis and according to IMF policies. As euro area ministers underlined "for countries considered solvent (...) the private sector creditors would be

[15] Franco-German Declaration, Statement for the France-Germany-Russia Summit Deauville – Monday, 18 October 2010, www.elysee.fr/president/root/bank_objects/Franco-german_declaration.pdf (accessed on 1 December 2010).

[16] Out of this volume, €22.5 billion are available through the IMF, €22.5 billion from EFSM, €17.7 billion from EFSF and €4.8 billion is provided from bilateral loans from the UK (€3.8 billion), Sweden (€600 million) and Denmark (€400 million). These funds will cover the Irish budgetary financial needs. Under an agreement between Irish authorities and the EU, Ireland contributed (through the Treasury cash buffer and investments of the National Pension Reserve Fund) €17.5 billion to finance half the costs related to support for banking sectors, with the remaining part to be covered by external support. See: *Statement by the Eurogroup and ECOFIN Ministers,* 28 November 2010, www.consilium.europa.eu/uedocs/cMember States_data/docs/pressdata/en/ecofin/118051.pdf.

encouraged to maintain their exposure according to international rules and fully in line with IMF practices. In the unexpected event that a country would appear to be insolvent, the Member State has to negotiate a comprehensive restructuring plan with its private sector creditors, in line with IMF practices with a view to restoring debt sustainability." According to the statement, collective action clauses (CACs) will be enshrined to all euro area bonds from June 2013.[17] The European Council endorsed this statement in December and agreed on a text of a draft decision concerning Treaty modification. According to the agreed schedule, this decision should be ratified by all Member States by the end of 2012 and enter into force on 1 January 2013.[18] In addition to that decision, euro area leaders stated they were committed to undertaking comprehensive actions in order to safeguard the euro area. These actions include among others: strict implementation of fiscal consolidation programmes, adoption of structural reform, completion of economic governance reform, availability of adequate financial support through the EFSF and a strengthening of the financial system.[19] On 16 December 2010, the Governing Council of the ECB decided to increase its subscribed capital from €5.76 billion to €10.76 billion in order to keep a sufficient level of paid-up capital that should be equal to provisions and reserves.[20]

1.5. Conclusions

The EU economy, especially the euro area, in 2010 went through another stage of the global financial and economic crisis—this time the fiscal crisis. As a result, fiscal adjustments had to become top priority for a vast majority of Member States; hence, they sped up exit strategies.

The Commission underlines that a fiscal correction by the standard benchmark of 0.5% may be insufficient in order to reduce public debt to close to 60% by 2030 in many Member States.[21] A fiscal correction of 1.0% increases the chances of achieving a credible reduction path through this period.

According to the OECD, the biggest consolidation efforts in order to stabilise the debt-to-GDP ratio by 2025 are required in Ireland, Poland, Portugal, Slovakia and the UK.[22] Due to the sovereign debt crisis in the eurozone, the biggest consolidation, apart from Greece and Ireland, needs to be in Spain and Portugal. All of these countries

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17 Statement by the Eurogroup, 28 November 2010, www.consilium.europa.eu/uedocs/cMemberStates_data/docs/pressdata/en/ecofin/118050.pdf (accessed on 12 December 2010).

18 According to this decision, the following paragraph will be added to Art. 136 TFEU: "The Member States whose currency is the euro may establish a stability mechanism to be activated if indispensable to safeguard the stability of the euro area as a whole. The granting of any required financial assistance under the mechanism will be made subject to strict conditionality."

19 European Council Conclusions, 16–17 December 2010, annex III, www.consilium.europa.eu/uedocs/cMember States_data/docs/pressdata/en/ec/118578.pdf (accessed on 18 December 2010).

20 According to this decision, euro area national central banks (NCB) will pay approximately €3.5 billion in three equal annual installments. The first installment was paid on 29 December. The non-euro central banks will subscribe to the rest of this amount but their real payments will be minor (€84 220 on 29 December 2010), source: *ECB increases its capital*, www.ecb.int/press/pr/date/2010/html/pr101216_2.pl.html (accessed on 20 December 2010).

21 European Commission, *Annual Growth Survey: Macroeconomic Report*, p. 11. http://ec.europa.eu/ europe2020/pdf/2_en_annexe_part1.pdf (accessed on 14 January 2011).

22 OECD, *Economic Outlook*, preliminary version 88, November 2010, p. 220.

already have adopted harsh measures, but they will have to take further actions in order to calm market tensions.

A reconciliation of consolidation efforts with pro-growth actions can be even harder to reach than was previously expected. Consolidation in the EU had to begin when the economy was not yet fully back on the right track. This may negatively affect economic growth in the EU. However, the impact of consolidation on growth depends on the character and composition of adopted measures. In the case of expenditure cutting, a reduction in government investment can hamper GDP more than a reduction of transfers, which usually contribute to growth only to a limited extent.[23] The effects of consolidation on the revenue side (mainly by increasing taxes) depends to a large extent on the type of taxes that are increased. Raising direct income taxes can bring about more negative implications for growth than an increase in some indirect taxes (such as excise taxes).

According to the Commission, successful consolidation depends on:

- the composition of fiscal adjustment;
- the credibility of the policy strategy;
- strong fiscal institutions that will be responsible for the smooth implementation of consolidation;
- the adoption of structural reform that will supplement fiscal adjustment; and,
- the minimisation of negative effects of adjustment on social issues.[24]

Debt-accumulation can have a negative impact on growth. According to Carmen M. Reinhart and Kenneth Rogoff, debt level that exceeds 90% of GDP can lead to a reduction of median growth rates by 1.0%.[25] Among ways by which debt can influence GDP are: national savings/interest rates, the introduction of distortional taxes (i.e., labour and property taxation) or impact of risk premiums. The effectiveness of consolidation in great respect depends on the quality of the national fiscal framework[26] and the determination of the government to implement reforms.

The key conditions for long-term growth prospects in the EU are:

- the repair of public finances;
- a resolution to the problem of external imbalances;
- reinforcement of fiscal and non-fiscal macroeconomic surveillance in the EU;
- the setting up of a permanent crisis resolution mechanism, including a debt restructuring option; and,
- the strengthening of the banking sector in the EU by e.g. restructuring of banks.

Meeting all these conditions is required in order to ensure that growth in the EU will not be at risk. In case of a lack of sufficient reform and actions, EU growth prospects will be very bleak (according to the EC's projections it could be around 1.5% for the period 2011–2020). Despite the commitments of leaders to do everything possible to safeguard the stability of the euro area, strong criticism has risen from many experts and observers. They state that EU actions are not sufficient in the face of the scale of the crisis and the EU has failed to deliver effective solutions to tackle existing problems.

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[23] European Commission, *European Economic Forecast*, Autumn 2010, p. 37.

[24] European Commission, *Annual Growth Survey: Macroeconomic Report*, p. 13.

[25] European Commission, *European Economic Forecast*, Autumn 2010, p. 34.

[26] European Commission, *Public Finances in the EMU in 2010*, p. 6.

Reaction of the EU to the sovereign-debt crisis in Europe shows a lack of good communication between markets and the EU. Wolfgang Münchau, columnist for the *Financial Times* describes this mechanism as "[T]he EU has a tendency to hype whatever it agrees. The markets first react with euphoria to the announcement then with disappointment once they have read the small print."[27] One of the factors that contributed to such a situation has been a lack of coherence between leaders about what needs to be done. Contrary messages that were flowing from EU officials and from key countries, especially Germany (about the potential involvement of the IMF in the case of Greece and later about the role of the private sector and euro-bonds) gave wrong signals to the markets, broadening uncertainty among investors. Despite the above-mentioned weaknesses, the EU has proven its ability to adopt fast decisions when needed (as in the case of the stabilisation framework in May and the limited Treaty change). This fact underpins opinion that the political will to safeguard the euro area is high.

Among further proposals formulated in response to the crisis are the creation of euro-bonds, an increase in the amount of the EFSF or the restructuring of debt.[28] The situation in the euro area is very dynamic and hardly predictable. A logic of a self-fulfilling prophecy seems to be an important driving force behind investor decisions. Against this background, the scenario that other countries from the PIIGS group could require financial support is very realistic.

1.6. Evaluation

1.6.1. Positive

Germany is once again an engine of growth in the European economy. In the second quarter of 2010, growth in Germany was the highest since the country's reunification. Trade returned to its pre-crisis level, and domestic consumption increased. Germany will start the implementation of fiscal consolidation in 2011. This good performance improves the economic and political responsibility of Germany to safeguard the euro area. The largest economy in Europe seems to be built on more sustainable fundamentals than the rest of the euro area. Germany did not experience a housing market bubble and it introduced structural reforms before the crisis, which improved flexibility in the labour market. Clearly, strong growth in Germany has a direct influence on other economies in the EU via a spill-over effect. According to the Commission, such effects are substantial for other states in the euro area and the EU as a whole.[29]

1.6.2. Negative

The roots of **Greek** and **Irish** problems are different, but both are struggling with similar effects, namely mounting deficit and debt. It seems probable that both these states, especially Greece, may not avoid a restructuring of their debt.

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27 W. Münchau, "Total Überfordert," *Financial Times*, 6 December 2010.

28 The proposal of euro-bonds was put forward by Jean-Claude Juncker and Giulio Tremonti "Issuing E-bonds: A way to overcome the current crisis," *Financial Times*, 6 December 2010.

29 European Commission, *European Economic Forecast*, Autumn 2010, p. 16.

1.7. Recommendations

1. EU Member States need to introduce comprehensive actions in order to get back on a sustainable track to growth and to restore the health of their public finances. Reconciliation of these two priorities has remained a real challenge for the vast majority of Member States. Against this background, the introduction of the European semester for economic policy coordination can provide a good framework for implementation of the priorities.
2. Consolidation efforts should be implemented, though better coordinated between the Member States in order to avoid a negative spill-over effect across the EU. The framework of the exit strategy adopted by ECOFIN in October 2009 should be adjusted to take into account the current situation related to the debt problems in the euro area and growth prospects.
3. According to the December 2010 European Council conclusions, the adoption of legislative proposals on economic governance should be completed by summer 2011.
4. Broad discussion about long-term solutions for safeguarding the euro area (such as euro-bonds) should be conducted, but potential decisions have to be fully coherent with the ESM framework.

2. Entrepreneurship

An improved climate for running a business in the EU was of one the key goals of the Lisbon Strategy from the outset. The progress achieved in recent years was not sufficient to create stable and favourable conditions for entrepreneurship in the EU. The final year of the implementation of the Lisbon Strategy could not have changed the overall picture that was shaped in previous years.

2.1. Registration of Business Activity

EU Member States have been paying increased attention to the improvement of start-up conditions for a few years. However, overall progress still has been uneven among the Member States. The group of leading countries does not change much compared to previous PISM reports and includes Belgium, Denmark and Slovenia. The overall picture of progress is rather bleak. Only in the case of the time required to complete all registration procedures was small progress indicated (the average number of days decreased from 15.1 in 2009 to 14.6 in this year's report). The average number of required procedures for business registration in the EU remains unchanged (5.9). Moreover, the costs of business registration went up (from 5.3% to 5.7% of income *per capita*). However, according the European Commission, the average cost of registration of a limited company decreased from €417 in 2009 to €399 in 2010.[30] It is difficult to find any Member State where registration conditions are tangibly better than one year ago. Germany, Italy, Lithuania, Luxembourg and the Netherlands achieved progress with respect to the time it takes to register a business. In some countries, the situation is

[30] See: *Start-up procedures under the Lisbon Agenda for Growth and Jobs. Actions in 2010*, http://ec.europa.eu/enterprise/policies/sme/business-environment/start-up-procedures/progress-2010/index_en.htm (accessed on 25 February 2011).

even slightly worse than last year (in the Czech Republic all three indicators show a less-favourable situation with respect to setting up a business than one year ago). The worst registration conditions persist in Greece, Poland and Spain.

Table 4. Registration of a Business in the EU

Country	Time (days)		Number of procedures		Costs % GNI	
	2009	2010	2009	2010	2009	2010
AT	28	28	8	8	5.1	5.1
BE	4	4	3	3	5.3	5.4
BG	18	18	4	4	1.7	1.6
CY	8	8	6	6	13.3	12.6
CZ	15	20	8	9	9.2	9.3
DE	18	15	9	9	4.7	4.8
DK	6	6	4	4	0.0	0.0
EE	7	7	5	5	1.7	1.9
EL	19	19	15	15	10.9	20.7
ES	47	47	10	10	15.0	15.1
FI	14	14	3	3	0.9	1.1
FR	7	7	5	5	0.9	0.9
HU	4	4	4	4	8.0	8.2
IE	13	13	4	4	0.3	0.4
IT	10	6	6	6	17.9	18.5
LT	26	22	7	6	2.4	2.8
LU	24	19	6	6	1.8	2.1
LV	16	16	5	5	2.1	1.5
NL	10	8	6	6	5.6	5.7
PL	32	32	6	6	17.9	17.5
PT	6	6	6	6	6.4	6.5
RO	10	10	6	6	2.9	2.6
SE	15	15	3	3	0.6	0.6
SI	6	6	3	2	0.0	0.0
SK	16	16	6	6	2.0	1.9
UK	13	13	6	6	0.7	0.7
Average EU	**15.1**	**14.6**	**5.9**	**5.9**	**5.3**	**5.7**
USA	6	6	6	6	0.7	1.4

Source: Doing Business 2011: the European Union, http://doingbusiness.org/~/media/FPDKM/Doing%20Business/Documents/Profiles/Regional/DB2011/DB11-European-Union.pdf; Doing Business 2010: the European Union, http://doingbusiness.org/~/media/FPDKM/Doing%20Business/Documents/Profiles/Regional/DB2010/DB10-European-Union.pdf.

2.2. Registration of Property

In the analyzed period, progress was achieved only in the case of the time necessary for property registration in the EU: the average time needed for registration fell from 51.6 to 35.2 days. Taking into account that the average number of procedures remained unchanged in comparison to last year's report (5), it can be assumed that a speeding up of this process at the administrative level could be a result of more effective work by public institutions with respect to all the procedures required. Unfortunately, a faster pace for the registration process was not reflected in the level of registration costs—they even slightly increased (from 4.6% of property costs to 4.8%). Portugal is the leader of overall progress and achieved substantial progress in the reduction of time (from 12 to 1 days) and procedures (from 5 to 1). This improvement allowed Portugal to become the EU frontrunner in this field. A good picture is seen in Lithuania (where registration can be completed in three days and in three procedures). Some progress was achieved, among others, in Denmark (where the number of procedures fell by three), France (the time of registration decreased by 39 days), Slovenia (time of registration was reduced from 391 to 113 days), Poland (time of registration fell by 45 days) and Hungary (costs fell by six percentage points). In Greece, registration costs went up, and in the Netherlands both the time required and the number of procedures increased.

Table 5. Registration of Property

Country	Time (days)		The number of procedures		Costs (% property value)	
	2009	2010	2009	2010	2009	2010
AT	32	21	3	3	4.5	4.5
BE	79	79	7	8	12.7	12.7
BG	15	15	8	8	2.3	3.0
CY	34	34	3	3	10.0	10.0
CZ	78	43	4	4	3.0	3.0
DE	40	40	4	5	5.2	5.1
DK	42	42	6	3	0.6	0.6
EE	18	18	3	3	0.5	0.5
EL	22	22	11	11	4.0	12.7
ES	18	18	4	4	7.2	7.1
FI	14	14	3	3	4.1	4.0
FR	98	59	8	8	6.1	6.1
HU	17	17	4	4	11.0	5.0
IE	38	38	5	5	6.7	6.3
IT	27	27	8	8	4.6	4.5
LT	3	3	2	3	0.5	1.9
LU	29	29	8	8	10.3	10.2
LV	45	42	6	6	2.0	2.0

Country	Time (days)		The number of procedures		Costs (% property value)	
	2009	2010	2009	2010	2009	2010
NL	5	7	2	5	6.2	6.1
PL	197	152	6	6	0.5	0.4
PT	12	1	5	1	7.4	7.4
RO	48	48	8	8	1.3	1.3
SE	15	7	2	1	3.0	3.0
SI	391	113	6	6	2.0	2.1
SK	17	17	3	3	0.1	0.0
UK	8	8	2	2	4.1	4.1
Average EU	**51.6**	**35.2**	**5.0**	**5.0**	**4.6**	**4.8**
USA	12	12	4	4	0.5	0.5

Source: Doing Business 2011: the European Union, http://doingbusiness.org/~/media/FPDKM/ Doing %20Business/Documents/Profiles/Regional/DB2011/DB11-European-Union.pdf; Doing Business 2010: the European Union, http://doingbusiness.org/~/media/FPDKM/Doing%20Business/ Documents/Profiles/Regional/DB2010/DB10-European-Union.pdf.

2.3. Taxation System

There is limited progress in terms of the functioning of the taxation system in the EU compared to last year's report. All taxation indicators used in this report improved for the EU average. The average number of payments slightly fell from 18 to 17.5. A drop in the number of payments also was reflected in the lower amount of time required to comply with tax procedures (from 231.1 to 221.8 hours), as well as a decrease in the total tax rate (from 44.5% to 44.2%). Spain, Hungary and Poland achieved the greatest progress in comparison to last year's PISM report (in Spain, registration time dropped from 213 to 197 hours, in Hungary, from 330 to 277 hours, and in Poland from 395 to 325 hours). Poland is the only Member State where all taxation indicators improved. As in the previous report, Sweden was characterised as having the lowest number of tax payments (2). Luxembourg remained the Member State with the most favourable taxation conditions, because of the shortest period necessary for tax settlement (59 hours) and the lowest total tax rate level (21.1%).

Table 6. Taxation Procedure

Country	Number of payments		Time (hours)		The total tax rate	
	2009	2010	2009	2010	2009	2010
AT	22	22	170	170	55.5	55.5
BE	11	11	156	156	57.3	57.0
BG	17	17	616	616	31.4	29.0
CY	27	27	149	149	28.8	23.2
CZ	12	12	613	557	47.2	48.8
DE	16	16	196	215	44.9	48.2

Country	Number of payments		Time (hours)		The total tax rate	
	2009	2010	2009	2010	2009	2010
DK	9	9	135	135	29.2	29.2
EE	10	7	81	81	49.1	49.6
EL	10	10	224	224	47.4	47.2
ES	8	8	213	197	56.9	56.5
FI	8	8	243	243	47.7	44.6
FR	7	7	132	132	65.8	65.8
HU	14	14	330	277	57.5	53.3
IE	9	9	76	76	26.5	26.5
IT	15	15	334	285	68.4	68.6
LT	12	11	166	175	42.7	38.7
LU	22	22	59	59	20.9	21.1
LV	7	7	279	293	33.0	38.5
NL	9	9	164	134	39.3	40.5
PL	40	29	395	325	42.5	42.3
PT	8	8	328	298	42.9	43.3
RO	113	113	202	222	44.6	44.9
SE	2	2	122	122	54.6	54.6
SI	22	22	260	260	37.5	35.4
SK	31	31	257	257	48.6	48.7
UK	8	8	110	110	35.9	37.3
Average EU	**18.0**	**17.5**	**231.1**	**221.8**	**44.5**	**44.2**
USA	10	11	187	187	46.3	46.8

Source: Doing Business 2011: the European Union, http://doingbusiness.org/~/media/FPDKM/ Doing %20Business/Documents/Profiles/Regional/DB2011/DB11-European-Union.pdf; Doing Business 2010: the European Union, http://doingbusiness.org/~/media/FPDKM/Doing%20Business/ Documents/Profiles/Regional/DB2010/DB10-European-Union.pdf.

Despite very serious fiscal problems in the EU, along with budgetary consolidation, the EU Member States remained rather restrained in increasing the corporate tax. Many governments fear that such a move could weaken their competitiveness and meet with negative investor reaction.

In comparison to the situation presented in the last PISM report, the CIT rate increased only in Hungary (from 16% to 19%). Moreover, the CIT rate was reduced in among others the Czech Republic (from 20% to 19%) and Greece (from 25% to 24%). The average CIT rate in the EU fell slightly from 23.22 to 23.03%.

Table 7. Corporate Income Tax (CIT) in the EU (as of 1 January 2010)

AT	BE	BG	CY	CZ	DE	DK	EE	EL	ES
25	33.99	10	10	19	29.41	25	21	24	30
FI	FR	HU	IE	IT	LT	LU	LV	MT	NL
26	33,33	19	12.5	31.4	15	28.59	15	35	25.5
PL	PT	RO	SE	SI	SK	UK	**Average EU**		
19	25	16	26.3	20	19	28	**23.03**		

Source: KPMG's corporate and indirect tax survey.

In contrast to their approach to the corporate tax rate, Member States have shown far more willingness to increase indirect taxation, for example the Value Added Tax, in order to improve revenues and reduce public deficits. In comparison to the situation in previous reports, several Member States decided to increase the VAT tax. A further increase in indirect taxation as part of consolidation efforts in public finances can be expected.

2.4. Commercial Judicature

There has been no progress with respect to the effectiveness of commercial judicature in the EU. The present report again shows that in the EU both the average duration of contract enforcement is longer (from 547.7 to 548.9 days) and costs higher (from 20.5% to 20.7%) compared to data from the last PISM report. There is no Member State that improved. Moreover, for some Member States, the situation is worse than in 2009: Denmark (from 380 to 410 days), Finland (costs increased by 2.9 percentage points to 13.3%) and Hungary (costs went up from 13% to 15%). The shortest settlement period remains in Lithuania (275 days), Latvia (309) and Luxembourg (321 days). This last state is also the leader with respect to the lowest cost of claims (9.7%). The countries with the worst durations of contract enforcement are Slovenia, Italy and Poland. The costs of enforcement are highest in the Czech Republic (33% of a claim).

Table. 8. Functioning of Commercial Judicature

Country	Duration of contract inforcement (days)		Costs (% claim value)	
	2009	2010	2009	2010
AT	397	397	18.0	18.0
BE	505	505	16.6	16.6
BG	564	564	23.8	23.8
CY	735	735	16.4	16.4
CZ	611	611	33.0	33.0
DE	394	394	14.4	14.4
DK	380	410	23.3	23.3

EE	425	425	26.3	26.3
EL	819	819	14.4	14.4
ES	515	515	17.2	17.2
FI	375	375	10.4	13.3
FR	331	331	17.4	17.4
HU	395	395	13.0	15.0
IE	515	515	26.9	26.9
IT	1 210	1 210	29.9	29.9
LT	275	275	23.6	23.6
LU	321	321	9.7	9.7
LV	309	309	23.1	23.1
NL	514	514	24.4	24.4
PL	830	830	12.0	12.0
PT	547	547	13.0	13.0
RO	512	512	28.9	28.9
SE	508	508	31.2	31.2
SI	1290	1290	12.7	12.7
SK	565	565	30.0	30.0
UK	399	399	23.4	23.4
Average EU	**547.7**	**548.9**	**20.5**	**20.7**
USA	300	300	14.4	14.4

Source: Doing Business 2011: the European Union, http://doingbusiness.org/~/media/FPDKM/ Doing %20Business/Documents/Profiles/Regional/DB2011/DB11-European-Union.pdf; Doing Business 2010: the European Union, http://doingbusiness.org/~/media/FPDKM/Doing%20Business/ Documents/Profiles/Regional/DB2010/DB10-European-Union.pdf.

2.5. Bankruptcy Proceedings

Limited progress was indicated with respect to the effectiveness of bankruptcy proceedings across the EU. The duration of bankruptcy proceedings is shorter than in 2009 (from 2.1 to 1.9 years) and the costs of insolvency are slightly lower (from 10.8% to 10.6% of the estate), but the average progress was a result of improvements in only three Member States, namely: the Czech Republic (where duration dropped by 3.3 years), Spain (costs decreased from 15% to 11%) and Slovenia (costs dropped by half). In the rest of the EU states, the situation remains unchanged. Bankruptcy proceedings remain most efficient in Belgium, Denmark, Finland, Ireland and the Netherlands. The worst situation persists in Italy, which has the highest cost of insolvency at 22%, Slovakia, which has the highest duration at four years, and in Poland.

Table 9. Bankruptcy Proceeding

Country	Duration of bankruptcy proceeding (years)		Proceeding costs (% of property)	
	2009	2010	2009	2010
AT	1.1	1.1	18.0	18.0
BE	0.9	0.9	4.0	4.0
BG	3.3	3.3	9.0	9.0
CY	1.5	1.5	15.0	15.0
CZ	6.5	3.2	15.0	17.0
DE	1.2	1.2	8.0	8.0
DK	1.1	1.1	4.0	4.0
EE	3.0	3.0	9.0	9.0
EL	2.0	2.0	9.0	9.0
ES	1.0	1.0	15.0	11.0
FI	0.9	0.9	4.0	4.0
FR	1.9	1.9	9.0	9.0
HU	2.0	2.0	15.0	15.0
IE	0.4	0.4	9.0	9.0
IT	1.8	1.8	22.0	22.0
LT	1.5	1.5	7.0	7.0
LU	2.0	2.0	15.0	15.0
LV	3.0	3.0	13.0	13.0
NL	1.1	1.1	4.0	4.0
PL	3.0	3.0	20.0	20.0
PT	2.0	2.0	9.0	9.0
RO	3.3	3.3	11.0	11.0
SE	2.0	2.0	9.0	9.0
SI	2.0	2.0	8.0	4.0
SK	4.0	4.0	18.0	18.0
UK	1.0	1.0	6.0	6.0
Average EU	**2.1**	**1.9**	**10.8**	**10.6**
USA	1.5	1.5	7.0	7.0

Source: Doing Business 2011: the European Union, http://doingbusiness.org/~/media/FPDKM/ Doing %20Business/Documents/Profiles/Regional/DB2011/DB11-European-Union.pdf; Doing Business 2010: the European Union, http://doingbusiness.org/~/media/FPDKM/Doing%20Business/ Documents/Profiles/Regional/DB2010/DB10-European-Union.pdf.

2.6. Smart Regulation

So-called smart regulation is strongly promoted by the European Commission as a new approach towards regulation and was presented in President Barroso's political guidelines from September 2009. Barroso stated that "smart regulation should protect the consumer, deliver effectively on public policy objectives without strangling economic operators such as SMEs or unduly restricting their ability to compete."[31] The smart regulation approach is a concept that is strictly based on better regulation initiative, so it is not a new idea. The key is that the quality of regulation should be further improved and benefits that are given by EU legislation should not be limited only to businesses, but should also spread to citizens or SMEs to a greater extent. The smart regulation approach encompasses the following main elements:

- *an ex-post* evaluation of the existing legislation;
- a "fitness check" of pieces of legislation from important areas;
- a "competitiveness proofing" that should be enshrined into the impact assessment process; and,
- the greater involvement of stakeholders and citizens through a consultation process.[32]

Ex-post evaluation can identify potential burdens and costs deriving from existing legislation and can be a useful instrument in the context of a reduction in administrative burdens and a simplification of legislation. The EC wants to use *ex-post* evaluation during the review of legislation in different policies. A "fitness check" can be seen as an element of *ex-post* evaluations, and has been launched to assess the usefulness and quality of existing legislation in important areas. The Commission has already started an inquiry in four areas: environment, transport, employment and social policies, and industrial policy.

The "competitiveness proofing" will be an element of an *ex-ante* evaluation in the framework of the impact-assessment process. The main aim in this respect is to identify the potential impact of legislative proposals on competitiveness, including cost and price. An analysis of a proposal's impact on the competitiveness of EU companies as well as investment flows has already been foreseen by the Commission's impact-assessment guidelines.[33] With regard to the consultation process, the EC decided to increase the consultation period to 12 weeks starting from 2012 and make a review of its consultation policy in 2011.

All these actions can improve the quality of regulations, but the main condition for real progress is to ensure the full engagement of all relevant institutions at the EU level, especially the Council and Parliament. They do not use impact assessments regularly to identify the effects of amendments introduced to the Commission's proposals during the legislative process. This can lead to a situation in which there is a lack of detailed

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[31] J. M. Barroso, *Political Guidelines for the Next Commissions*, p. 29, http://ec.europa.eu/commission_2010-2014/president/pdf/press_20090903_en.pdf (accessed on 20 November 2010).

[32] European Commission, *Smart Regulation in the European Union,* COM(2010) 543 final, http://ec.europa.eu/governance/better_regulation/documents/com_2010_0543_en.pdf (accessed on 10 December 2010).

[33] M. Kałużyńska, "Inicjatywa *Better Regulation*" in: *Wybrane aspekty konkurencyjności europejskiej – stan debaty*, Department of Analyses and Strategies, Office of the Committee for European Integration, December 2005, p. 111.

knowledge about the potential impact of regulations that are finally adopted by the Council and Parliament, which puts into question the credibility and sense of the whole impact-assessment process. Within the framework of the smart regulation approach, great attention is also paid to improving the implementation of the EU legislation.

A reduction of administrative burdens has been ongoing at the EU level, and its progress is clearly visible. According to the Commission, the EU is on track to achieve the 25% reduction target by 2012. The burdens reduction has already reached the 21.8% level and may even exceed the target if the Commission's proposals are fully adopted. It could ultimately reach 32.9%. The EU has so far adopted 70 administrative reduction measures that decrease burdens by more than €26 billion. Adoption of all the proposals could cut the burdens by more than €40 billion.

Table 10. Adopted Reduction Burdens in the Relevant Sectors

Sector	Mln euro
Agriculture	–1 907.6
Annual Accounts/Company Law	–1 362.9
Cohesion Policy	–179.9
Environment	–58.15
Financial Services	–141.5
Fisheries	–25.9
Food Safety	–24.6
Pharmaceutical Legislation	–40.1
Public Procurement	–12.5
Statistics	–328.3
Taxation/customs	–21 936.9
Transport	–748.3
Working Environment/Employment Relations	–232.5

Source: European Commission, *Reducing administrative burdens: context and overview of achievements and examples*, MEMO/10/654, Brussels, 7 December 2010.

2.7. Industrial Policy in the New Decade

The smart regulation approach is promoted also in the context of one of the flagship initiatives of the Europe 2020 framework—"an Integrated Industrial Policy for the Globalisation Era"[34]—that was presented in late October 2010. The main goal of this initiative is to deliver actions that can improve the competitiveness of European enterprises, especially SME. The other important elements are:

– improving access to finance for businesses, especially for SME (e.g., the Commission wants to put forward legislation that would ensure that financial

[34] European Commission, *An Integrated Industrial Policy for the Globalisation Era: Putting Competitiveness and Sustainability at Centre Stage,* COM(2010) 614, http://ec.europa.eu/enterprise/policies/industrial-competitiveness/industrial-policy/files/communication_on_industrial_policy_en.pdf (accessed on 20 November 2010).

markets do not jeopardize the financial needs of the real economy during a crisis);[35]
- developing a single market and enforcing intellectual property rights;
- improving energy, transport, communications services infrastructure;
- paying more attention to innovation;
- improving access to external markets, especially for SME;
- speeding the standardisation process of products; and,
- promoting carbon efficiency, sustainable development and ensuring better access to natural resources.

Some of the actions mentioned above are delivered within the framework of other flagship initiatives, such as the "Innovation Union," or will be part of broader actions foreseen under the Single Market Act or the new external trade strategy, which was put forward by the Commission in November 2010.

2.8. Conclusions

The overall identified progress made in the field of entrepreneurship is rather limited when compared to the previous PISM report. The main bottlenecks indicated in last year's report, namely the effectiveness of bankruptcy procedures and commercial judicature, were not tackled effectively. Unless the situation in these areas improves, conditions for running a business in Europe cannot be seen as fully favourable. Unfortunately, the Europe 2020 strategy insufficiently underlines the importance of these two issues, and therefore it is hard to foresee that this situation will change rapidly in the coming period.

There are no tangible changes between the group of leaders and laggards with respect to conditions for running a business. Taking into account the aggregate data from the "Doing business report" published in November 2010, the former group includes UK, Denmark, Ireland and Finland, while the latter encompasses Greece, Italy, Poland and Czech Republic.

The smart regulation approach is a step in the right direction, but real effects can be achieved only when these issues will be put higher on the political agenda of the Union. The fact that President Barroso took over this agenda in the Commission can be perceived as a move in the right direction. However, the key challenges are to improve the involvement of the Council, the European Parliament and the national governments and parliaments. This is a multiannual task that requires the ownership of this issue by all these institutions.

Undoubtedly, the new flagship initiative "Industrial Policy" from the Europe 2020 framework does not bring a new EU approach to enterprise and industry. Nevertheless, implementation of all these initiatives is necessary in order to create a favourable framework for the long-term development of European industry.

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[35] *Ibidem*, p. 9.

2.9. Evaluation

2.9.1. Positive

The United Kingdom maintained its position as the European leader in the "Doing business" ranking. Portugal should be appreciated for progress made in registration of property.

2.9.2. Negative

Greece remained the laggard with respect to conditions for doing business in the EU.

2.10. Recommendations

1. In the context of the Europe 2020 strategy, more attention should be paid to the main bottlenecks that remain in the area of entrepreneurship (especially conditions for SME functioning, effectiveness of the courts and bankruptcy proceedings).
2. Further action for easing financial conditions for SME should be taken at the EU and national level. All initiatives in this respect proposed by the Commission in the review of the Small Business Act (e.g. facilitate access to venture capital, the EU funding programmes and other financial instruments) should be adopted.[36] More attention should be paid to the promotion of initiatives for the improvement of skills by young entrepreneurs.
3. The better/smart-regulation approach should be promoted further by Member States. They should continue efforts to reduce administrative burdens and improve the quality of national law.
4. The EU should focus more on the facilitation of access to external markets by European companies, mainly through its trade policy strategy for 2010–2015. In this context, particular efforts need to be done to smooth implementation of the new EU investment policy (after the Lisbon Treaty had come into force, foreign direct investment became one of the areas of the common commercial policy that is the exclusive competence of the EU).[37]

3. Single Market

The single market has been also affected by the crisis. Apart from short-term problems deriving from the economic and financial downturn, many bottlenecks still exist within the market. The Lisbon Strategy provided the framework for removing many burdens that impede its proper functioning. The general priorities for the market

[36] European Commission, *The Review of the "Small Business Act" for Europe*, COM(2011) 78 final, pp. 8–11, http://ec.europa.eu/enterprise/policies/sme/small-business-act/files/sba_review_en.pdf (accessed on 25 February 2011).

[37] See: European Commission, *Towards a comprehensive European international investment policy*, COM (2010) 343 final, http://trade.ec.europa.eu/doclib/docs/2010/july/tradoc_146307.pdf (accessed on 20 November 2010).

remained valid for 10 years and some of them are still relevant in the context of Europe 2020.

3.1. Transposition of the Services Directive

The deadline for the transposition of the Services Directive expired 28 December 2009. Over one year later, this crucial directive has not been fully implemented by all Member States. So far, the states have adopted more than a thousand implementing measures, yet further efforts are needed in this respect and progress until now has been highly uneven. According to BusinessEurope's report, screening of national law was satisfactory in most states. Only in the case of Poland was the screening assessed as disappointing.[38]

Twenty three Member States have so far adopted horizontal legislation, thus implementing the directive. Germany and France have been transposing the directive by several acts. Austria and Luxembourg continuously note delays with horizontal implementation.

The successful transposition of the directive requires making changes in various pieces of legislation. Such modifications were accomplished by 19 Member States. Serious delays still exist in Austria, Greece, Ireland, Luxembourg and Slovenia. In order to speed up this process, the EU issued reasoned opinions to states which did not adopt the required changes (among others Greece, France, Germany, Ireland, Slovenia).[39]

As regards points of single contact (PSC), the situation is not far better. With the exception of Greece, Italy, Romania, Slovakia and Slovenia, Member States set up single-contact structures that are to provide information and support to entrepreneurs. In 14 states the PSCs are run as physical offices (among others Austria, Belgium, Czech Republic, Finland). However, there are many differences between national PSCs in the levels of their advancement and operation. The most advanced PSCs can be found in Austria, Denmark, Germany, Estonia, the Netherlands, Sweden and the UK (in these countries many procedures can be conducted online). Basic procedures are offered by the PSCs in Finland, France, Hungary, Lithuania, Latvia, Luxembourg, Poland and Portugal.

A report by Eurochambres states that 14 PSCs provide information in other languages. Businesseurope's survey gave a better picture, indicating that 23 states offer basic information in English.[40] These include, among others, Belgium, Cyprus, Denmark, Finland, the Netherlands, Sweden and the UK.

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[38] BusinessEurope, *Unleashing Cross-Border Services:* Report on implementation of services directive. January 2011, p. 7, www.businesseurope.eu/Content/Default.asp?PageID=568&DocID=27946 (accessed on 31 January 2011).

[39] European Commission, *Services Directive: good progress on implementation, but more needs to be done*, 24 June 2010, IP/10/821.

[40] Business Europe, *Unleashing Cross-Border Services, op. cit.*, p. 11.

Table 11. Implementation of the Services Directive in Member States

Type of adopted actions	Member States
Adoption of horizontal legislation	BE, BG,CY, CZ, DK, EE, EL, ES, FI, HU, IE, IT, LT, LV, MT, NL, PL, PT, RO, SE, SI, SK, UK
Adoption of specific legislation	BG, CY, CZ, DK, EE, ES, FI, HU, IT, LT, LV, MT, NL, PL, PT, RO, SE, SK, UK
Setting up points of single contacts	AT, BE, BG, CY, CZ, DE, DK, EE, ES, FI, FR, HU, IE, LT, LU, LV, MT, NL, PL, PT, SE, UK

Source: Information note from the Commission submitted to the Competitiveness Council, 10 December 2010.

The pace and quality of the implementation of the Services Directive in Member States is reviewed by a so-called "mutual evaluation process." This is a new instrument of peer review, whereby Member States, in cooperation with the European Commission, can assess each other in progress made in transposition of the Directive. On the basis of Art. 39.4 of the Directive, the Commission was obliged to submit a report about the results of the "mutual evaluation process" to the Council and the Parliament.[41] This process consisted of three steps. After a general assessment or review of the legislation, Member States worked in small groups (clusters) to discuss the situation of transposition.[42] Six groups of clusters were set up.[43] The final stage included plenary discussion between Member States. As party to this process, the Commission in June initiated a consultation process for stakeholders in order to get feedback about the assessments of the transposition process at the national level.[44] The mutual evaluation process found 34,000 different requirements for service providers among the states. The biggest number of requirements was noted in Austria, Germany, the Netherlands and Spain. The lowest number of requirements was indicated in Bulgaria, Cyprus, Malta, Latvia and Luxembourg. The number of requirements depends on many factors, such as administrative structures or legislative techniques.[45]

3.2. Transposition Deficit

A process to reduce non-implemented directives has been continuing in the right direction. However, large differences between states persist. The number of countries

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[41] The European Parliament adopted the report on implementation of the Services Directive on 15 February 2011, www.europarl.europa.eu/sides/getDoc.do?pubRef=-//EP//NONSGML+REPORT+A7-2011-0012+0+DOC+PDF+V0//EN (accessed on 16 February 2011).

[42] *Service directive: Presidency report on the mutual evaluation process*, Presidency report on the mutual evaluation under article 39 of the Services Directive, 9327/10.

[43] Iceland, Liechtenstein, Norway participated in the Mutual Evaluation Process, Cluster 1: AT, CZ, HU, SI, SK; Cluster 2: BE, FR, LI, LU, NL; Cluster 3: BG, ES, IT, MT, PT; Cluster 4: CY, EL, IE, RO, UK; Cluster 5: DK, DE, IS, NO, PL; Cluster 6: EE, FI, LV, LT, SE.

[44] European Commission, *Mutual Evaluation Foreseen by the Service Directive—stakeholders' consultation*, http://ec.europa.eu/internal_market/consultations/2010/services_directive_en.htm (accessed on 20 December 2010).

[45] European Commission, *Towards a better functioning Single Market for services – building on the results of the mutual evaluation process of the Services Directive*, Commission Staff Working Document, SEC(2011) 102, p. 9, http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=SEC:2011:0102:FIN:EN:PDF (accessed on 31 January 2011).

that achieved the 1% target remained unchanged compared to last year's PISM report (18 states). The average deficit in the EU was 0.9% (as of May 2010). Denmark and Malta kept their leadership as the countries with the lowest level of deficit (at 0.2% each). These states were followed by Slovakia (0.3%) and Finland (0.4%). The group of laggards also remained unchanged: Greece (2.4%), Portugal (2.1%) and Poland (1.8%). Between December 2009 and May 2010 the general situation for transposition slightly worsened. The number of outstanding directives increased in 18 countries in this period. Particularly worrying is the fact that the highest increase was noted in Greece and Portugal. Only in Belgium, Denmark, Finland, Ireland, Italy, Slovakia and the UK did the number of non-implemented directives drop.[46]

Nine countries have not managed to meet the "zero deficit" target that refers to long-overdue directives (more than two years). Greece leads the list with five directives whose date of transposition passed at least two years ago, followed by Ireland (4), Luxembourg (4), Austria (4) and Portugal (2). This totals 13 overdue directives. Among them is Directive 2006/24/EC, concerning publicly available electronic communications services and public communications networks/retention of data, which encountered the biggest problems and is not yet transposed in five states (Austria, Greece, Ireland, Luxembourg and Sweden).

Table 12. Categorisation of States with Respect to EU Directive Transposition Levels

Threshold	Countries
The attained level of 1% deficit	BE,BG, DE, DK, EE, ES, FI, HU, IE, LT, LV, MT, NL, RO, SE, SI, SK, UK
The attained level of 1.5% deficit	AT,CY, CZ, FR,IT,LU
Above 1.5%	EL,PL,PT

Source: European Commission, *Internal Market Scoreboard no 21*, September 2010.

A positive trend has been continuing with respect to the number of infringement procedures that were initiated by the European Commission against the Member States. Between May 2009 and May 2010, the number of proceedings dropped from 1,271 to 1,229. The average number of infringement cases per state was 46. This confirms a longer-term trend that shows the number of cases dropped by 11% between 1 November 2007 and 1 May 2010. The highest increases in this period were noted in Belgium and Slovakia (68% and 32%, respectively). Belgium replaced Italy as the country with the highest number of pending cases (111, as of 1 May 2010). The number of proceedings against Greece amounted to 94, 92 against Italy and 86 against Spain. The most tangible progress was achieved by Finland, Malta and Cyprus, where the number of infringement proceedings fell by 51%, 47% and 38%, respectively. The lowest number of proceedings was against Cyprus (13), Slovenia (17) and Latvia (17).

[46] European Commission, *Internal Market Scoreboard no 21*, September 2010, http://ec.europa.eu/internal_market/score/docs/score21_en.pdf (accessed on 20 December 2010).

Table 13. Internal Market Directive Transposition in Member States

Country	The number of not notified directives*	Directives transposition deficit	The number of not transposed directives whose implementation deadline elapsed more than two years ago
AT	16	1.1	4
BE	10	0.7	0
BG	9	0.6	0
CY	18	1.2	0
CZ	23	1.5	0
DE	13	0.9	0
DK	3	0.2	0
EE	14	0.9	0
EL	36	2.4	5
ES	10	0.7	0
FI	6	0.4	0
FR	18	1.2	1
HU	10	0.7	0
IE	14	0.9	4
IT	17	1.1	0
LT	8	0.5	0
LU	23	1.5	4
LV	8	0.5	0
MT	3	0.2	0
NL	9	0.6	0
PL	27	1.8	1
PT	31	2.1	2
RO	10	0.7	0
SE	12	0.8	1
SI	8	0.5	0
SK	5	0.3	0
UK	10	0.7	1

* Number of directives about which the European Commission received no information about transposition.

Source: European Commission, *Internal Market Scoreboard no 21*, September 2010.

A vast majority of infringement cases refer to directives (72%), while the remaining part embraces violations of treaties, regulations or decisions.

The Commission's September 2010 *Internal Market Scoreboard* (IMS) shows enforcement constructed on the basis of all indicators used in IMS. This indicates the general performance with respect to the compliance, implementation and application of internal market rules. According to the IMS, the best aggregated results were achieved by Latvia, Malta and Slovenia.[47]

3.3. State Aid

Total state aid amounted to €427.2 billion (3.6% of GDP) in 2009.[48] It is higher than in 2008, but this figure is an effect of support granted to the financial sector and the real economy. The total volume of crisis measures adopted by Member States was €353.9 billion (3% of GDP). Excluding crisis measures, total state aid amounted to €73.2 billion (around 0.62% of GDP). As in the previous year, Bulgaria, Malta and Hungary granted the biggest amount of total state aid (minus railways and crisis measures) in relation to their national GDPs (2.1%, 2.0% and 1.5%, respectively). The general trend of granting less, but better-targeted state aid was maintained in 2009.

Out of the total volume of aid (without crisis support and railways), €58.1 billion was granted to services and industry (79.3%), €11.6 billion to agriculture (15.9%), €0.2 billion to fisheries (0.3%) and €3.3 billion for transport (4.5%). Aid to the railways sector amounted to about €33 billion. As for the other sectors: €2.7 billion was granted to the coal sector, €606 million to shipyards and €338 million (the average for 2007–2013) to aviation. In 2009, €399 million were earmarked for rescue and restructuring aid (without aid granted to the financial sector).

Table 14. State Aid in 2009 (excluding crisis support and railways)

Country	As percentage of GDP	Amount (billion euro)	Share of horizontal aid in total aid granted for industry and service sector
AT	0.6	1.7	99
BE	0.6	2.0	100
BG	2.1	0.7	100
CY	1.0	0.2	95
CZ	0.7	0.9	88
DE	0.7	16.7	86
DK	1.0	2.1	97
EE	0.3	0.04	100
EL	0.8	2.0	87

[47] European Commission, *Internal Market Scoreboard no 21, op. cit.*, p. 24.

[48] Source for all data used in this subparagraph: European Commission, *State aid scoreboard*, Autumn 2010 Update-, SEC (2010)1462, http://ec.europa.eu/competition/state_aid/studies_reports/annex_2010_autumn_en.pdf (accessed on 20 December 2010).

Country	As percentage of GDP	Amount (billion euro)	Share of horizontal aid in total aid granted for industry and service sector
ES	0.5	5.7	80
FI	1.2	2.1	99
FR	0.8	14.7	79
HU	1.5	1.4	76
IE	0.9	1.5	89
IT	0.4	5.7	84
LT	0.8	0.2	100
LU	0.3	0.1	100
LV	1.0	0.2	100
MT	2.0	0.1	23
NL	0.4	2.4	99
PL	0.9	2.9	71
PT	1.0	1.6	19
RO	0.7	0.8	50
SE	0.9	2.6	100
SI	0.9	0.3	91
SK	0.5	0.3	90
UK	0.3	4.0	91
EU-27	**0.6**	**73.2**	**84**

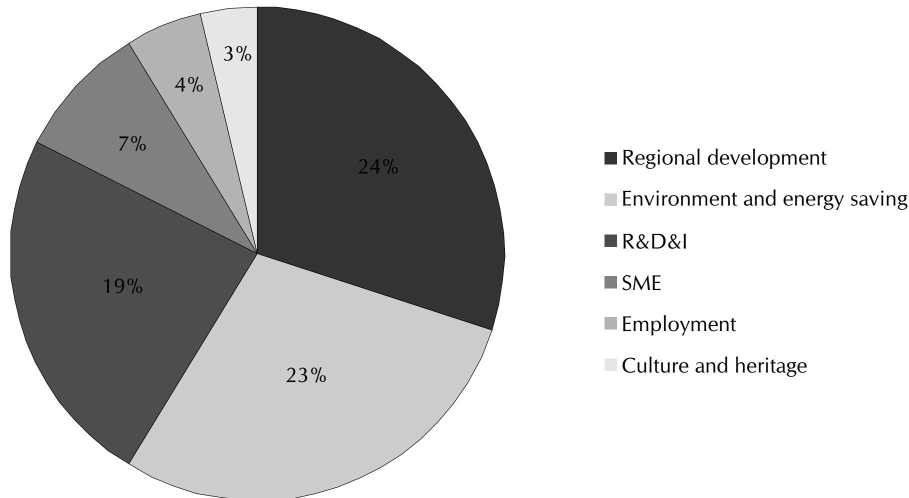
Source: European Commission, *State aid scoreboard*, Autumn 2010 Update-, SEC (2010)1462.

Of aid directed to the service industry, 84% was granted to horizontal objectives in 2009 (88% in 2008). Similar to 2008, the largest part of horizontal aid was earmarked to regional development (24% or €13.9 billion), environment (23% or €13 billion), Research and Development and Innovations (19% or €10.6 billion). This breakdown of horizontal aid is similar to that in 2008; however, more aid was spent on RD&I and slightly less on regional development.

Over 22% of horizontal aid (€10.8 billion) was granted under block exemption rules (BER) or general block exemption rules (GBER) in 2009.[49] The biggest share of exempted aid in horizontal areas was to training (88% of total aid earmarked to this area), support of SME (53%), and employment (42%).

[49] For More about GBER information, see: M. Koczor, *Lisbon Strategy Implementation in 2008*, *op. cit.*, pp. 52–53.

Chart 3. Breakdown of Horizontal Aid in 2009



Source: European Commission, *State aid scoreboard*, Autumn 2010 Update- SEC(2010)1462.

Fifteen Member States granted at least 90% of their state aid (directed to industry and service) to horizontal objectives (17 in 2008). Belgium, Bulgaria, Estonia, Latvia, Lithuania, Luxembourg and Sweden granted all their financial support to horizontal goals. The lowest share of granted aid to horizontal objectives remains in Portugal (19%), Malta (23%) and Romania (50%).

Excluding crisis measures, the most often used instruments of aid for industry and service were grants (51% of all cases) and tax exemptions (42%). Other instruments have marginal roles and include soft loans (4%), guarantees (2%) and equity participation (1%).

State Aid to the Financial Sector and the Real Economy During the Crisis in 2009

Support earmarked for the financial sector by Member States has been a core element of anti-crisis actions in the EU. It was used to resuscitate the European banking system. Between 1 October 2008 and 1 October 2010 the Commission approved measures amounting to almost €4,559 billion (39% of GDP). The vast majority of aid (€3,478.96 billion) was adopted as a general scheme for the sector. Individual support measures approved by the Commission amounted to €1,109.94 billion. Approved measures include guarantees (schemes plus *ad hoc* intervention) at €3,485.25 billion, recapitalisation at €546.08 billion, impaired assets intervention at €401.79 billion and liquidity instruments at €155.77 billion. The nominal value of aid (the amount actually used) was €1,106.54 billion (9.3% of GDP), and the real aid element in 2009 was €351.68 billion.[50] The greatest share of granted aid as a percentage of GDP was earmarked by Belgium (9.57%), UK (7.65%) and Ireland (6.74%).

[50] According to the Commission's explanation, real aid elements "express monetary advantage granted to individual banks either through schemes or *ad hoc* interventions. The exact volume of the aid element depends on the case and the aid instrument." See: European Commission, *State aid scoreboard*, Autumn 2010 Update-, SEC (2010)1462), p. 48.

Table 15. State Aid to Financial Sector During the Crisis in the EU

State	Total volume approved until October 2010	Nominal value in 2009	Aid granted in 2009	Aid granted as percentage of GDP in 2009
AT	91.70	30.94	9.35	3.37
BE	328.59	120.43	32.29	9.57
CY	3.00	2.23	0.23	1.36
DE	592.23	262.68	100.00	4.15
DK	599.66	14.44	8.03	3.60
EL	78.00	25.12	12.18	5.13
ES	334.27	60.31	7.32	0.70
FI	54.0	0	0	–
FR	351.10	129.48	26.75	1.40
HU	10.33	2.57	0.35	0.38
IE	723.31	11.29	11.03	6.74
IT	20.0	4.05	4.05	0.27
LU	11.59	2.72	0.88	2.33
LT	1.74	0.0	0.0	–
LV	8.78	0.86	0.86	4.62
NL	323.60	75.0	9.70	1.70
PL	9.24	0	0	–
PT	20.45	0.65	0.07	0.04
SI	12.0	2.0	0.2	0.57
SE	161.56	79.39	8.50	2.90
SK	3.46	0.00	0.00	–
UK	850.30	282.41	119.91	7.65
EU-27	**4 588.90**	**1106.54**	**351.68**	

Source: European Commission, *State aid scoreboard*, Autumn 2010 Update-, SEC (2010)1462.

Between December 2008 and October 2010, the Commission also approved 73 schemes of state aid for the real economy. The approval of such measures was allowed by the Temporary Framework from December 2008.[51] This support included aid up to €500,000 per company, guarantees, subsidised interest on loans, risk capital, reduced-interest loans and export-credit schemes. The total volume amounted to €81.3 billion, and aid elements were €2.2 billion.

Taking into account the economic situation and existing weaknesses in the financial system, the Commission decided to prolong the crisis framework directed to the financial sector and the real economy until the end of 2011.[52]

[51] More about Temporary Framework: M. Koczor, *Lisbon Strategy Implementation in 2009, op. cit.*, p. 53.

[52] European Commission, *State aid: Commission prolongs crisis framework with stricter conditions*, IP/10/1636, 01.12.2010, http://europa.eu/rapid/pressReleasesAction.do?reference=IP/10/1636&format=HTML&aged=0&language=EN&guiLanguage=en (accessed on 20 December 2010).

3.4. Energy Market

Ensuring the proper functioning of the energy market[53] in the EU remains a challenge. The main problems regarding the timely and correct transposition and application of EU legislation still have not been resolved. In June 2010, the European Commission formulated a reasoned opinion addressed to 20 states due to their failures to properly apply legislation under the second energy package. This is the second stage of the infringement procedure and was kicked off in June 2009 once the Commission issued the letter of formal notice to 25 states.[54] Only Denmark, Estonia, Finland, Lithuania and Latvia managed to eliminate the violations. The remaining states have been grappling with the following problems:

- a lack of cooperation and coordination between electricity systems operators and national authorities;
- a weakness in effective enforcement of rules by regulators;
- a lack of an adequate settlement procedure; and,
- an inadequate network capacity allocation system.[55]

The level of concentration of energy markets in the EU still is high; however some progress in this respect was noted, especially in Slovenia. The electricity market is very highly concentrated in Belgium, France, Greece, Latvia, Luxembourg and Slovakia. Moderated concentration is reported in Austria, Finland, Poland and the UK.[56] As the Commission noted, in 14 Member States the three largest companies cover more than 80% of the retail electricity market (among others Czech Republic, Estonia, France, Lithuania, Latvia and Portugal).[57] In the gas market, concentration also remains high.

Electricity and gas prices are still regulated in some countries.

Table 16. Regulation of Energy Prices in the Member States

	Consumers	Industry
Regulation of electricity and gas prices	BG, DK, EE, EL, ES, FR, HU, IE, IT, LT, NL, PL, PT, RO, SK	BG, DK, EE, EL, FR, HU, IE,LT, NL, PT, RO
Regulation of gas prices	–	PL
Regulation of electricity prices	CY, LV	CY, ES, IT

Source: European Commission, *Report on progress in creating the internal gas and electricity market*, Technical Annex to the Communication from the Commission to the Council and the European Parliament.

53 More information about energy can be found in Chapter 6.

54 See M. Koczor, *Lisbon Strategy Implementation in 2009, op. cit., p. 49.*

55 European Commission, *Commission requests 20 Member States implement and apply Single Market rules without delay,* http://europa.eu/rapid/pressReleasesAction.do?reference=IP/10/836&format=HTML&aged=1&language=EN&guiLanguage=en (accessed on 20 December 2010).

56 European Commission, *Report on progress in creating the internal gas and electricity market*, Technical Annex to the Communication from the Commission to the Council and the European Parliament, SEC(2010) 251 final, p. 12.

57 Data from 2008. There is a lack of data about the market situation in Belgium, Denmark, The Netherlands, Sweden and the UK.

3.5. Telecommunication

On 1 July 2010, another stage in the reduction of the prices for roaming was introduced on the basis of a 2007 regulation. Since then, the costs of receiving a call have dropped from 19 eurocents to 15 cents and making a roaming call costs 39 cents, down from 43 cents. Also from 1 July, mobile operators were required to introduce a default cut-off for data roaming devices that are taken abroad in order to minimise the shocking cost of bills. Operators also have to send a warning when a customer exceeds the limit of €50.

The functioning of the telecommunication markets in the EU varies between the Member States. According to the ECTA scorecard, the best in this respect is the Netherlands, UK and Denmark.[58] Also getting good marks were France and Ireland. The group of leaders did not change compared to the previous ECTA ranking from 2008. Progress was made in Belgium. A worse situation was reported in Germany, Austria, Italy and Slovenia. The bleakest picture of the market situation was in Bulgaria and Czech Republic.

The overall situation with respect to the regulatory and institutional framework differs a lot. Key divergences according to the ECTA scorecard include:

- different scope of powers for National Regulatory Authorities (NRA) in Member States. In a majority of member countries, the NRAs do not have full powers to enforce rules. This is partially a result of their limited independence, the limited power of NRAs to impose fines on companies that violate rules,
- different levels of transparency and effectiveness between NRAs—while some NRAs have problems with identification of violations of rules in markets; and,
- differences in market liberalisation and competition, for example, the most competitive conditions for mobile and wireless services are in Austria, UK and the Nordic states, while the Netherlands, Portugal, France and the UK have the most friendly competition environment for business services.

3.6. Railways

Railway markets in the EU struggle with similar problems as in the case of energy and telecommunications. The main weaknesses include:

- inadequate levels of competition (obstacles to access to the market for newcomers, including access to stations for international passenger trains that compete with national operators);
- the weak positions of national regulatory authorities in Member States (their unsatisfactory independence, powers, resources to conduct effective controls); and,
- insufficient levels of public and private investments in infrastructure.

These weaknesses are to a great extent a result of the incorrect implementation of EU directives. Although all Member States adopted the first package of railways directives

[58] The ECTA scorecard presents the situation in 22 European states (19 EU states) with respect to five main indicators: the general institutional environment, market entry enablers, National Regulatory Authorities' regulatory processes, the application of regulation by the NRAs and regulatory and market outcome. Information was provided by NRAs, the European Commission and stakeholders. See: ECTA. *Regulatory scorecard 2009*, www.ectaportal.com/en/upload/Scorecards/Regulatory%20Scorecard%20 2009/ECTA%20Regulatory%20Scorecard%20Report%202009.pdf (accessed on 18 January 2011).

from 2001,[59] the general quality of transposition and application of these acts varied between states. The Commission referred 13 Member States (Austria, Czech Republic, Germany, Greece, France, Hungary, Ireland, Italy, Luxembourg, Poland, Portugal, Slovenia and Spain) to the European Court of Justice for failing to properly transpose the first package. These countries did not eliminate imperfections that were indicated by the Commission in reasoned opinions issued in October 2009, or earlier in letters of formal notice from 2008 (the main problems concern the independence of regulatory authorities and difficulties in access to infrastructure).[60] Violations were correctly eliminated by eight states (Belgium, Denmark, Estonia, Latvia, Lithuania, Romania, Slovakia and Sweden). In November 2010, the Commission reduced the scope of infringements against Austria, France and Portugal, because of improvements made there.

In order to tackle the problems mentioned above, the Commission decided to recast directives from the first package with the aim to simplify and consolidate them. Such a move should lead to an improved institutional and regulatory framework of rail markets, by easing access to rail-related services for freight and passenger trains, setting up rules about conflict of interest and discriminatory practices, improving independence and extending the competences of national regulators and requiring more precise and smarter infrastructure charging rules.[61]

3.7. Future of the Single Market

At the end of October 2010, the European Commission published the Communication "Towards a Single Market Act (SMA)" that included 50 initiatives in order to improve the functioning of the single market.[62] Content of the SMA was largely based on conclusions and recommendations presented in the report titled "The new strategy for the single market," prepared by Mario Monti at the request of President Barroso.[63] Both the act and the report should be analyzed in the context of actions that have been already adopted in the framework of the single market review.[64]

In his report, Monti pointed out that there is no good climate for deepening the single market because of "market fatigue" closely related to the broader tendency of "integration fatigue." According to the report, single market issues do not draw the attention of political elites and societies. Changing this behaviour is the main condition

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59 European Commission, *Second report on monitoring development of the rail market,* COM (2009) 676 final, p. 3, http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2009:0676:REV1:EN:PDF (accessed on 18 January 2011).

60 European Commission, *Rail services: Commission legal action against 13 Member States for failing to fully implement first railway package,* 24 June 2010, IP/10/807, http://europa.eu/rapid/pressReleasesAction.do?reference=IP/10/807&format=HTML&aged=1&language=EN&guiLanguage=fr (accessed on 20 December 2010).

61 European Commission, *Commission sets out measures to improve rail services,* 17/09/2010, IP/10/1139, http://europa.eu/rapid/pressReleasesAction.do?reference=IP/10/1139&format=HTML& aged =0&language=en (accessed on 20 December 2010).

62 European Commission, *Towards a Single Market Act. For a highly competitive social market economy. 50 proposals for improving our work, business and exchanges with one another,* COM (2010) 608 final/2, http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2010:0608:REV1:EN:PDF#page=2 (accessed on 20 December 2010).

63 M. Monti, *A new strategy for the single market: At the service of Europe's economy and society, Report to the President of the European Commission,* http://ec.europa.eu/internal_market/strategy/index_en.htm (accessed on 20 December 2010).

64 See M. Koczor, *Lisbon Strategy Implementation in 2008, op. cit.,* p. 44.

for moving forward with the single market agenda. Monti's report distinguished three main groups of actions that should be launched:

- initiatives to build a stronger market;
- initiatives to build consensus on a stronger market; and,
- initiatives to deliver a stronger single market.

Among the report's main proposals are:

- creating a single digital market;
- improving the functioning of the market for citizens;
- increasing the potential of the single market in support of green growth;
- ensuring labour mobility in the single market;
- deepening the market of services and goods; and,
- improving the "physical" infrastructure in order to support the single market.

"Towards a Single Market Act" is a framework document that embraces proposals that will be implemented to a large extent under the flagship initiatives (Innovation Union, Digital Agenda and Integrated Industrial Policy for Europe). The most important proposals are:

With respect to the digital agenda: putting forward a proposal for a framework Directive on the management of copyrights, and adopting an action plan against counterfeiting and piracy while developing electronic commerce.

With respect to SME: stepping up the action plan for improving SME access to capital markets in 2011, reviewing the accounting directives to simplify financial reporting obligations and reducing the administrative burdens.

Regarding the finance of investments in a single market: the creation of project bonds to finance the European project and the greater involvement of private investors in support of the Europe 2020 strategy.

Regarding a business friendly environment: adopting a new VAT strategy in 2011.

Referring to public services: presenting a Communication and series of measures of service to general interests and communication on energy priorities in 2020–2030.

With respect to labour and social issues: adopting a legislative proposal aimed at improving the implementation of the Posting of Workers Directive, putting forward proposals concerning pensions systems based on a Green Paper from 2010, creating legislation to reform the recognition of professional qualifications.

With respect to consumers: preparing a multiannual action plan for the development of European market surveillance, putting across a legislative initiative on access to certain basic banking services at the start of 2011.

Referring to monitoring and evaluation: frequent use of a "mutual evaluation" instrument, better enforcement of the EU law and improving consultation and dialogue.

3.8. Conclusions

The single market has remained one of the leading areas in the Lisbon Strategy implementation, but recent progress is rather limited. The picture is mixed due to the disappointing pace and quality of transposition of the Services Directive, as well as problems with proper transposition and application of the directives referring to

network markets. Many flaws still exist in the entire transposition process, and, unfortunately, this problem was not sufficiently addressed in the SMA.

The Commission managed to control state aid granted to the financial sector and real economy, and proved its flexibility when deciding to prolong the temporary crisis framework. The successful implementation of the exit strategy for the financial sector will be a key challenge in the short term. Too early a withdrawal of support could damage the situation in the banking sector. In 2011, the priority will be on the continuation of financial support for the restructuring of the banking sector across the EU.

Due to tangible fiscal problems, a reduction of state aid support directed to horizontal goals can be a probable scenario in some states. Such a move could impede achieving national targets under the Europe 2020 strategy, especially in such areas as energy and climate, RD&I or employment, where public support is essential for reaching sustainable progress.

As regards the future of the single market proposal by Mario Monti to adopt a package deal with respect to sensitive issues like tax coordination, social issues or model of industrial policies, it should be seriously considered in the context of the coming anniversary of the creation of the single market. Such an arrangement agreed to at the highest political level could become a reliable pillar for the implementation of the SMA in the new decade. However, there is little chance that such an agreement can be adopted in the upcoming period.

3.9. Evaluation

3.9.1. Positive

Denmark performs very well with regard to the transposition of directives, and is among frontrunners with respect to the implementation of the Service Directive.

3.9.2. Negative

Greece, Poland and Portugal are the laggards in the transposition of directives.

3.10. Recommendations

1. The EU should set up new transposition deficit target and pay more attention to the quality of implementation and application of the EU law.
2. The Commission should have a strict approach to all poor performers with regard to incorrect transposition and the poor application of directives that do not achieve credible progress. A stronger position by the European Commission as a guardian of the EU rules is necessary to better develop initiatives in the single market. The “name and shame” approach should be renewed.
3. The Commission should further develop the mutual evaluation approach for all new directives that have a particular importance for the functioning of markets.

4. A review of state aid policy should be considered in the context of the implementation of the Single Market Act. It should aim at an adjustment of this policy to the post-crisis economic and financial environment in the EU.
5. The European Council should endorse commitments concerning the timely and smooth implementation of the SMA. As the Commission pointed out in the Annual Growth Survey, special attention should be paid to removing restrictions in professional services, liberalizing e-commerce services and the reduction of cross-border tax burdens.[65]

4. The Knowledge Triangle

The Knowledge Triangle[66] as a part of the Lisbon Strategy consists of increasing the interlinkage between three key drivers of knowledge-based society and economy: education, research and innovation. This very broad area needs to develop fast, as it constitutes a core element of the EU's competitiveness in relation to other economic forces. The role of knowledge is so important that it is often called the "fifth freedom" alongside the four classic freedoms of the individual, capital, goods and services.

The Knowledge Triangle also played a crucial role in the Lisbon Strategy aimed at developing a knowledge-based economy in the EU. The Strategy sets general guidelines, but it is up to the Member States to draft their own plans to develop the Knowledge Triangle taking into account their specific needs. The international economic and financial crisis and the subsequent consolidation of national budgets meant more obstacles to the development of education, research and innovation, but the global challenges faced by the EU cannot be addressed successfully without a dynamic development of the Knowledge Triangle.

4.1. Lifelong Learning

According to statistics, lifelong learning visibly lacks momentum, as its development has lately been exceptionally slow. The most recent data from Eurostat[67] shows that the overall EU-27 percentage of the population aged 25–64 participating in lifelong learning in 2009 amounted to 9.3%. This is still far from the 12.5% objective, which, most probably, will not be achieved. The highest participation in lifelong learning process is observed in the Nordic countries, with Denmark ahead (31.6%, up 1.6 pp) followed by Finland (22.1%, down by 1.0 pp) and Sweden (22.2%, unchanged). A relatively high level of participation was noted in the UK (20.1%, up 0.2 pp). The figures for 2009 show that the lowest participation rate was noted in Romania (1.5%, unchanged), Bulgaria (1.4, unchanged), Slovakia (2.8%, down 0.5 pp) and Greece (3.3%, an increase by 0.4 pp). The data indicates that no effective measures have been

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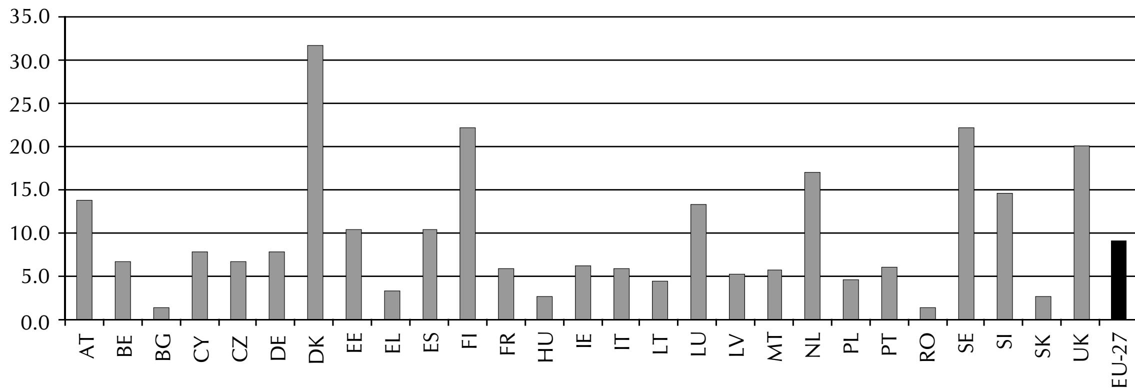
[65] European Commission, *Annual Growth Survey: advancing the EU's comprehensive response to the crisis*, p. 8, COM(2011) 11/2.

[66] The most recent data concerning early drop-outs (for 2009) was presented in last year's edition of the report. The same problem concerns the percentage of persons who completed at least upper secondary education, as the newest data available (for 2008) can be found in: M. Koczor, *Lisbon Strategy Implementation in 2009, op. cit.,* Table 20, p. 55. A new edition of the EC's report *Progress Towards the Lisbon Objectives in Education and Training: Indicators and Benchmarks* has not been issued for 2010 at the time of preparing this report.

[67] The most recent data is for 2009.

taken in those countries to promote lifelong learning. A stagnation in lifelong learning was also observed in Poland, where participation stands at 4.7%, with no progress noted in 2009.[68]

Chart 4. Percentage of Population Aged 25–64 Participating in Lifelong Learning in 2009



Source: Eurostat, http://epp.eurostat.ec.europa.eu/portal/page/portal/education/data/database.

4.2. Mathematics and Science Literacy

The most detailed and comprehensive measurements in this field are provided by the OECD, which conducts research on 15-year-old teenagers in the framework of PISA (Programme for International Student Assessment). This study evaluates the quality, equity and efficiency of school systems in some 70 countries that account for 90% of the world economy.[69] The study aims at answering the question about how the young people are prepared for future challenges in terms of their analytical, reasoning and communication skills.

In mathematics, the highest score was reserved for students from Finland (541), who ranked third in the rankings, behind the Koreans (546) and the Taiwanese (543). The best EU countries in the ranking were: the Netherlands (526), Belgium (515), Germany (513). The EU Member States with the lowest ranking were: Greece (466), Bulgaria (428) and Romania (427).[70]

By far the largest share of the best students in terms of mathematical skills is characteristic of Finland (3.3%), which also boasts the lowest number of pupils with the poorest results. A low rate of weak pupils is recorded in Estonia (8.3%). In natural sciences, the best result in Europe is also recorded Finland (554 points), followed by Estonia (528), the Netherlands (522) and Germany (520).[71]

The PISA report also provides an interesting insight into gender differences. In science, the largest gender differences in the EU in favour of the boys are observed in Denmark (12 points), the UK, Spain and Luxembourg. On the other hand, girls perform

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68 Eurostat, http://epp.eurostat.ec.europa.eu/portal/page/portal/education/data/database.

69 OECD, *PISA 2009 Results: What Students Know and Can Do. Student Performance in Reading, Mathematics and Science*, vol. I, p. 3; http://browse.oecdbookshop.org/oecd/pdfs/browseit/9810071E.PDF (accessed on 10 December 2010).

70 *Ibidem*, p. 134.

71 *Ibidem*, p. 148.

better in Finland, Slovenia, Greece and Poland.[72] In mathematics, the most significant differences in the EU can be observed in Belgium and in the United Kingdom, where the boys score better by more than 20 points. In mathematics, no measurable differences between the sexes can be observed in the following counties: the Czech Republic, Slovakia, Poland, Finland, Slovenia, Sweden, Romania and Bulgaria.[73]

4.3. Development of Higher Education

Since the early 1980s, when the first consumer-oriented university rankings were published in the U.S., this tool has become an important measure of the educational position of different universities, despite its methodological limitations and simplifications.

The position of EU universities did not change significantly in the new edition of the the ARWU ranking,[74] and it comes as no surprise that U.S. universities dominate in the top 500. As in earlier years, the top-ranked EU universities are in the UK: Cambridge and Oxford (5th and 10th place), with others representing France: Paris 6 and Paris 11 Universities (39th and 45th place); Denmark: Copenhagen and Aarhus Universities (40th and 98th); and Sweden: Karolinska and Uppsala Universities (42nd and 66th). The remaining universities are located in the Netherlands: Utrecht and Leiden (50th and 70th); Germany: Munich University and Technical University of Munich (52nd and 56th); Finland: Helsinki (72nd); and Belgium: Ghent (90th). Except for the Karolinska Institute in Stockholm, which moved up 8 places in the ranking, there are no significant changes on the list compared to the preceding year. The UK remains the unquestionable leader in the EU with 11 universities among the top 100 against Germany's five, France's three, Sweden's three and two from Denmark. The place of Polish universities in the ranking is relatively low, just as in last year's study, with only the Jagiellonian University and the Warsaw University included (in the fourth hundred of the ranking).

The U.S. dominates the ARWU ranking with 17 universities in the top 20. The best American universities are using largely private funding to provide business oriented research and they are very successful in attracting talents from all over the world. In this regard their European counterparts still have a lot to learn.

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72 *Ibidem*, p. 154.

73 *Ibidem*, p. 137.

74 For the purpose of this study, as in the previous editions, we have relied on the Academic Ranking of World Universities (ARWU), also known as the Shanghai ranking, which is considered by many to be the most objective, *Academic Ranking of World Universities 2010*, www.arwu.org, (accessed on 12 January 2011). The ARWU classifies 1,000 world academic institutions and shows the best 500 on its website. There are also many other institutions preparing world university rankings, with one of the most interesting examples provided on the http://webometrics.info website, where the ranking is based solely on the Internet activity (volume and visibility) of the institutions presented (accessed on 10 December 2010).

Table 17. Best Universities according to Shanghai Ranking in 2009 and 2010

Academic Institution	Position in Shanghai ranking in 2009	Position in Shanghai ranking in 2010	Position in the EU (based on the Shanghai ranking)
University of Cambridge	4	5	1
University of Oxford	10	10	2
University College London	21	21	3
The Imperial College of Science, Technology and Medicine	26	26	4
Pierre and Marie Curie University (Paris VI)	40	39	5
University of Copenhagen	43	40	6
Karolinska Institute Stockholm	50	42	7
University of Manchester	41	44	8
University of Paris Sud (Paris XI)	43	45	9
Utrecht University	52	50	10

Source: ARWU.

4.4. R&D Expenditure

The increase in spending levels for research and development was one of the most important quantitative targets of the Lisbon Strategy. The final target for the EU-27 of an increase to 3% GDP (1% from public sources and 2% from private sources) will not be achieved, as the general level of spending in 2009 for the EU-27 reached 2.01%.[75] This is a slight increase over the preceding year (1.9%).[76]

The EU countries with the highest R&D spending (over 3% of their GDP) include: Finland (3.96 %), Sweden (3.6%) and Denmark (3.02%). The Member States with the lowest rate are Cyprus (0.46 %), Latvia (0.46%), Romania (0.47%), Slovakia (0.48%), Bulgaria (0.53%) and Greece (0.58%).

The business sector accounts for the highest share in the R&D investment structure. Among the biggest R&D spenders in the world listed in the *EU Industrial R&D Investment Scoreboard 2010*, Toyota holds the number one place despite a drop in sales; it is followed by the Swiss company Roche (€6.4 billion).[77] Among the top 10

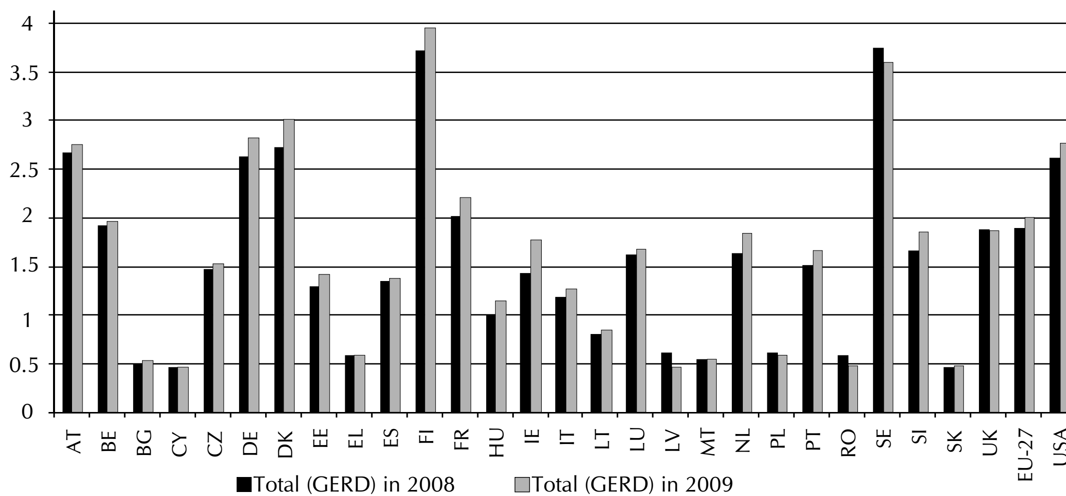
[75] Gross domestic expenditure on R&D, Eurostat, http://epp.eurostat.ec.europa.eu/tgm/refreshTableAction.do?tab=table&plugin=1&pcode=t2020_20&languagen.

[76] M. Koczor, *Lisbon Strategy Implementation in 2009*, *op. cit.*, p. 62.

[77] *Monitoring Industrial Research: The 2010 EU Industrial R&D Investment Scoreboard*, Joint Research Centre, Directorate General Research, European Commission, p. 6, http://iri.jrc.ec.europa.eu/research/scoreboard_2010.htm (accessed on 26 January 2011).

three companies from the EU are listed in this ranking, with 16 among the top 50. The largest EU R&D investor is Volkswagen (third place in the ranking), which spent €5.79 billion in 2009, followed by Nokia (€5 billion) and Sanofi-Aventis (€4.57 billion).[78] In geographical terms, companies from Germany, France and the UK account for more than two thirds of the total R&D investment of the EU. The trend observed in *The 2010 EU Indvestment Scoreboard 2010* indicates a slow rise in the Asian companies' position and a slight drop of those based in the U.S., although the latter still dominate in the ranking in terms of the number of companies listed (504 out of 1,400), against 400 located in the EU and only 21 from China.[79] The dominant position of U.S. companies is even more overwhelming in terms of the sums invested, as U.S. firms invested almost five times more than those from the EU in semiconductors and eight times more in biotechnology.[80]

Chart 5. R&D Expenditure in 2009 (in % GDP, U.S. – 2008, EL – 2007)



Source: Eurostat.

Table 18. Biggest EU R&D Investors in 2009

Name	Investment (in mln euro)	Change in % compared to 2008	Sector	Country
Volkswagen	5.790	–2.3	Automotive	DE
Nokia	4.997	–6.1	Telecommunications equipment	FI
Sanofi-Aventis	4.569	0.2	Pharmaceutical	FR
Siemens	4.282	1.9	Electrical components	DE
Dailmer	4.164	–6.2	Automotive	DE
GlaxoSmithKline	4.084	9.5	Pharmaceutical	UK

78 *Ibidem*, p. 23.

79 *Ibidem*, p. 15.

80 *Ibidem*.

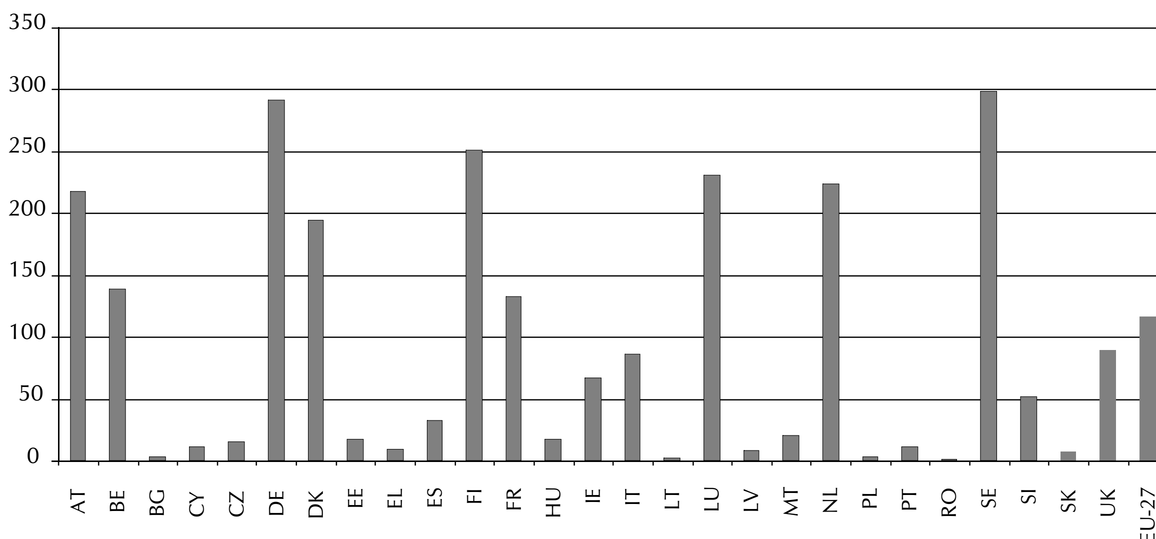
Name	Investment (in mln euro)	Change in % compared to 2008	Sector	Country
Robert Bosch	3.578	–8.6	Automotive/Parts	DE
AstraZeneca	3.090	–12.0	Pharmaceutical	UK
Bayer	2.964	8.8	Pharmaceutical	DE
EADS	2.878	4.4	Aerospace/Defence	NL
Alcatel-Lucent	2.714	–14.3	Telecommunications	FR
BMW	2.448	–14.5	Automotive	DE

Source: European Commission, *Monitoring Industrial Research: The 2010 EU Investment R&D Investment Scoreboard 2010*.

4.5. Development of Patent System

According to most recent data, in 2008 the number of patents presented to the European Patent Office (EPO) amounted to 146,150, which means a slight rise in applicants (by 3.8%) between 2007 and 2008. The data available for 2009 shows a substantial drop (by 7.9%) between 2008 and 2009, the first one since 2002.[81] The highest number of applications in the EU was submitted in Germany (135,748), France (47,597) and the United Kingdom (42,296).[82] The number of applicants in Japan stood at 502,054 and in the U.S. at 400,769.

Chart 6. Number of Applications to EPO (per 1 million inhabitants) in 2007



Source: Eurostat,http://epp.eurostat.ec.europa.eu/portal/page/portal/product_details/datase t?p_product _code=TSIIR060.

With respect to the number of applications to EPO per one million residents, the highest ratio was recorded in Sweden and Germany (almost 300), followed by Finland,

[81] WIPO, *World Intellectual Property Indicators 2010*, p. 9, www.wipo.int/export/sites/www/ips tats/en/statistics/patents/pdf/941_2010.pdf, p. 40 (accessed on 7 January 2011).

[82] *Ibidem.*

Luxembourg, the Netherlands and Austria (between 200 and 250). The poorest proportion was noted in Romania (0.98), Lithuania (2.41), Bulgaria (3.78) and Poland (3.82). [83] In 2007 the EU average was 116 (114 in 2006).

An improvement of intellectual property rights in the EU, and especially the patent system, was a key element of the renewed Lisbon Strategy. As underlined in the last EC communication "Innovation Union," the development of the EU patent system has an enormous significance for innovation investments and in fact it is a "symbol for Europe's failure on innovation."[84] The cost of registering a patent and its legal protection for all 27 Member States is at least 15 times higher than in the U.S. due to various legal and administrative fees.[85] The Commission assesses that the establishment of the EU patent system would allow business to save €250 million a year.[86]

In 2010 some progress in the discussion on creating an EU patent was observed, especially during the Belgian presidency of the EU Council, which declared its engagement in finding a solution to the deadlock over the language dispute and proposed a non-paper before the informal Competitiveness Council meeting on 29 September. The main bone of contention, as before, were the languages that would be used to register patents. The use of English, French, German in the patent system was contested by Spain and Italy. In the absence of a compromise, 11 Member States, with the support of the EC, declared their readiness to start the enhanced cooperation procedure.[87] In 2011 the Commission is planning to issue further proposals for a European knowledge market for patents and licensing.

4.6. Conclusions

The Knowledge Triangle remained a weak part of the Lisbon. Lack of substantial progress is partially due to the complexity of Knowledge Triangle issues, which are interlinked and their improvement depends on actions at different governance levels. Additionally, the EU has only limited competences in this area and can work only through the Open Method of Coordination, whose efficiency remains problematic. The overlapping competences of the EU and MS make it difficult to apply proper policy measures.

Achieving positive results in the area of the Knowledge Triangle requires the adoption of comprehensive long-term national programs gradually implemented by successive governments, which is hard to achieve in most EU countries.

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[83] Eurostat, http://epp.eurostat.ec.europa.eu/portal/page/portal/product_details/dataset?p_product_code=TSIIR060.

[84] Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions, *Europe 2020 Flagship Initiative Innovation Union,* COM(2010) 546 final, SEC(2010) 1161, 6 October 2010, http://ec.europa.eu/research/innovation-union/pdf/innovation-union-communication_en.pdf#view=fit&pagemode=none (accessed on 18 December 2010), p. 15.

[85] B. van Pottelsberghe, J. Danguy, *Economic Cost-Benefits Analysis of the Community Patent*, 7 April 2009, final version submitted to the EC DG Internal Market, p. 14.

[86] *Ibidem*.

[87] V. Pop, "Eleven states to move on single EU patent," *EU Observer*, 10 December 2010, http://euobserver.com/9/31479 (accessed on 18 December 2010).

There is much room for improvement. Participation in the lifelong learning process is not increasing and it is still far from the 12.5% objective. Interesting conclusions can be drawn from the new PISA survey. The figures show that in the area of mathematics and science education the division into EU-15 and EU-12 does not hold. The differences within the two groups depend on the different national educational models, especially of primary and secondary education.

The general academic position of most universities located in the EU is relatively low. There are only 27 universities from the EU among the top 100. The best educational institutions are located in the UK, the Nordic countries, Germany and France.

Research and development spending remains below the 3% objective in most Member States. R&D Investment level from the business sector decreased among the top-ranked companies as a result of the economic and financial crisis. The distance to the U.S. and Japan is remarkable.

In an attempt to improve the assessment of university-based research, the European Commission launched several projects, such as the European University Data Collection, a project examining EU data collection in education, research and innovation, or a pilot project European Multidimensional University Ranking System, which is expected to publish the first results in the first half of 2011.[88]

The strategy Europe 2020 sets new benchmarks in the field of education. One of its flagship initiatives, "Innovation Union," is fully devoted to developing one of the core component of the Knowledge Triangle: innovations. It embraces over 30 action points, introduces the use of public procurement budgets to finance innovations, sets the Innovation Scoreboard based on 25 indicators and promotes numerous initiatives in the field of education and research (e.g. the completion of the European Research Area). On 1 February 2011 the European Commission published the first evaluation of "Innovation Union" implementation based on 25 indicators. The main conclusions of the document were that the EU Member States can be divided into four performance groups. Denmark, Finland, Germany and Sweden were called the innovation leaders, followed by Austria, Belgium, Cyprus, Estonia, France, Ireland, Luxembourg, the Netherlands, Slovenia and the UK as the innovation followers. Other countries: the Czech Republic, Greece, Hungary, Italy, Malta, Poland, Portugal, Slovakia and Spain are below the EU average, being moderate innovators, while the poorest performers (modest innovators) include Bulgaria, Latvia, Lithuania and Romania.[89] The report concludes that there is a steady convergence among the Member States[90] and PISM's report presents a similar picture of the Member States' performance in respect of innovation.

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88 *Assessing Europe's University-Based Research*, Expert Group on Assessment of University-Based Research, European Commission, p. 19, http://ec.europa.eu/research/era/docs/en/areas-of-actions-universities-assessing-europe-university-based-research-2010-en.pdf (accessed on 1 February 2011).

89 Maastricht Economic and Social Research and Training Centre on Innovation and Technology (UNU-MERIT), DG JRC G3 of the European Commission, *Innovation Union Scoreboard 2010, The Innovation Union's Performance Scoreboard for Research and Innovation*, 1 February 2011, http://ec.europa.eu/enterprise/policies/innovation/files/ius-2010_en.pdf (accessed on 1 February 2011).

90 *Ibidem.*

4.7. Evaluation

4.7.1. Positive

In general the Nordic countries: **Denmark**, **Sweden** and **Finland** should be very positively assessed due to their achievements and position in the Knowledge Triangle area. **Germany** is worth mentioning for the level of private R&D and the number of patent applications *per capita*. The British model of higher education should be an example for the other Member States.

4.7.2. Negative

Greece, **Bulgaria**, **Romania** are holding the poorest position in almost all the rankings. **Slovakia** is performing poorly in lifelong learning and R&D expenditure. The gap is unlikely to be diminished and in some areas it is growing.

4.8. Recommendations

1. The Member States should insert ambitious measures into their National Reform Programmes in order to achieve their national targets in R&D and education. Governments should try to avoid a reduction of expenditures relevant to the Knowledge Triangle during the implementation of fiscal exit strategies. As the European Council underlined in February 2011, Member States should give priority to growth-friendly spending in conducting fiscal consolidation.[91]
2. An effective solution of the EU patent issue is of a great importance and will lead to an effective patent litigation cost reduction, which would have a positive impact on innovation development in the EU.
3. EU universities' research and educational programs should be much more oriented to promoting innovation, entrepreneurial spirit and links with the business sector. The EU public sector should be more open to innovation in services and public procurement procedures should take innovation into account.
4. National higher education institutions in the EU should be reformed. Financing should be increased and the recruitment of academic staff based on merit alone and open competitions. The system of tuition fees should be accompanied by the availability of student loans guaranteed by states.
5. The EU should speed up actions towards improving the legal and financial framework for innovation, taking into account the conclusions of the European Council of February 2011. Such a strong framework is a prerequisite for creating the "fifth freedom."

[91] *European Council Conclusions*, 4 February 2011, www.consilium.europa.eu/uedocs/cMemberStates_data/docs/pressdata/en/ec/119175.pdf (accessed on 5 February 2011).

5. Information Society

The development of information society has been one of the key objectives of Lisbon Strategy from the very outset. The economic and financial crisis did not provide a favourable framework for actions in this field, but, as mentioned in last year's PISM report, progress here depends not only on government actions, but is also a result of broader technological and social changes.

5.1. General Development Level

In the 2010 edition of the digital economy ranking prepared by the Economist Intelligence Unit,[92] the best performing country was Sweden, which overtook Denmark (2nd) and Finland (4th), whose position improved considerably compared to 2009. The most significant drop in the ranking was observed in the Netherlands, Lithuania, Slovakia and France (five places down). Among the 20 best performing countries nine are EU members. The lowest positions in the rankings are held by Poland, Bulgaria and Romania. The latter two improved their positions slightly compared to 2009, but they nonetheless face a huge gap in the field of digital economy. The exceptions for the EU-12 are Estonia and Malta, which hold a relative high position, performing better than Greece, Italy or Portugal.[93]

Table 19. Ranking of EU Countries' Digital Development (without Cyprus and Luxembourg) in 2010

Country	Position in the ranking in 2010	Position in the ranking in 2009	Score (max. 10)
SE	1	2	8.49
DK	2	1	8.41
FI	4	10	8.36
NL	5	3	8.36
UK	14	13	7.89
AT	15	14	7.88
IE	17	18	7.82
DE	18	17	7.80
FR	20	15	7.67
BE	21	20	7.52
MT	23	23	7.32
ES	24	25	7.31
EE	25	24	7.06

[92] The *Digital economy rankings: Beyond e-Readiness* prepared every year by the Economist Intelligence Unit in cooperation with the IBM institute of Business Value is one of the most reliable sources on digital development. The ranking examines different dimensions of the e-readiness, including technology infrastructure, business, social, legal and cultural environment, government actions as well as consumer and business ICT use in 70 countries.

[93] Economist Intelligence Unit, *Digital economy rankings 2010. Beyond e-readiness,* 2010, p. 4, http://graphics.eiu.com/upload/EIU_Digital_economy_rankings_2010_FINAL_WEB.pdf (accessed on 21 January 2011).

Country	Position in the ranking in 2010	Position in the ranking in 2009	Score (max. 10)
IT	27	26	6.92
PT	28	28	6.90
SI	29	29	6.81
CZ	31	31	6.29
EL	33	33	6.20
LT	34	32	6.14
HU	35	35	6.06
LV	37	37	5.79
SK	38	36	5.78
PL	39	39	5.70
BG	45	47	5.05
RO	47	48	5.04

Source: *Digital economy rankings 2010. Beyond e-readiness,* Economist Intelligence Unit, 2010.

5.2. Internet Users

The increase in the number of Internet users in the EU Member States is a stable tendency observed in recent years. According to Eurostat, in 2004 the percentage of regular Internet users (at least once a week on average) stood at 36%. In 2010 it reached 65%, a 5 pp increase from the preceding year.[94] Statistics show that the Member States with the highest share of Internet use include: Sweden (88%, up 2 pp compared to 2009), the Netherlands (88%, up by 2 pp), Luxembourg (86%, up by 3 pp), Denmark (86%, up by 4 pp) and Finland (83%, up by 4 pp). The worst performers are: Italy (48%, up by 6 pp compared to 2009), Portugal (47%, up by 5 pp), Bulgaria (42%, up by 2 pp), Greece (41%, up by 3 pp) and Romania (34%, up by 3 pp); the latter has considerably low Internet use (only a third of the population) and is well behind the second-worst performing country, Greece (7 pp).

As for the speed of broadband lines, these are considerably faster than the year before. According to the Communication Committee (CoCom) working document of July 2010, the fastest fixed broadband lines in the EU (10 megabits per second or higher) accounted for 29% of all broadbands. This was an increase by 15% from the preceding year.[95] Progress was also noted in access to broadband Internet, which went up from 23.9% (per 100 inhabitants in July 2009) to 25.6% in July 2010, although growth was the slowest since 2003, when the data collection had begun.[96] The Netherlands and Denmark have the highest level of access, respectively at 38.7% and 38.2%. The worst

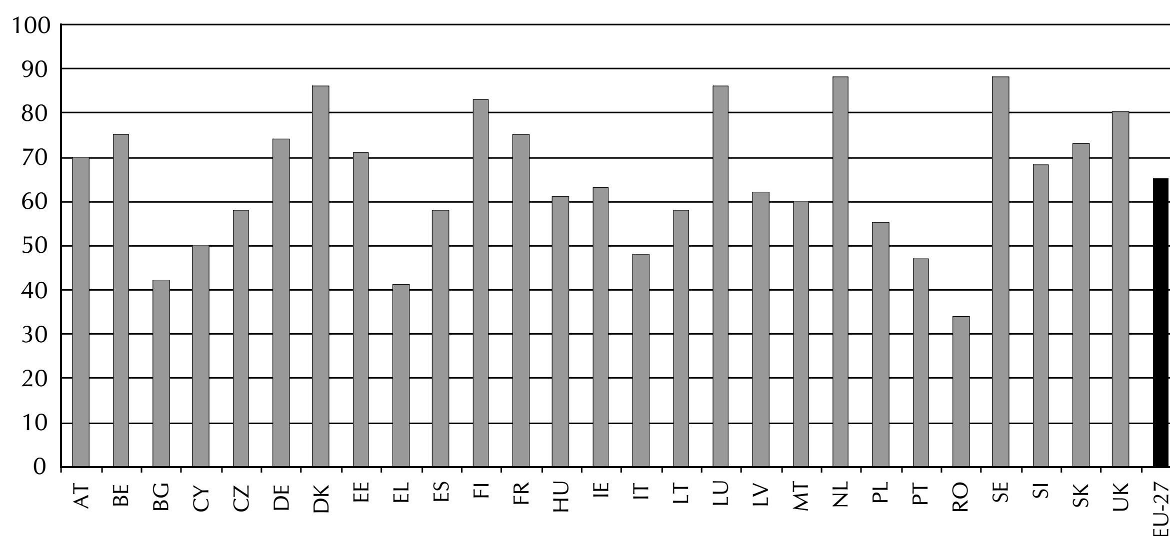
[94] H. Seybert, A. LOOF, *Internet usage in 2010: Households and Individuals,* Eurostat Data in Focus 50/2010, http://epp.eurostat.ec.europa.eu/cache/ITY_OFFPUB/KS-QA-10-050/EN/KS-QA-10-050-EN.PDF (accessed on 21 January 2011).

[95] *Broadband access in the EU: situation at 1 July* 2010, Brussels, 21 November 2010, p. 22, http://ec.europa.eu/information_society/newsroom/cf/item-detail-dae.cfm?item_id=6502&language=default (accessed on 21 January 2011).

[96] *Ibidem*, p. 11.

performers are Slovakia (15.5%), Poland (14.9%), Bulgaria (13.9%) and Romania (13.7%).[97] The CoCom report indicates that the distance between the best and the worst performing countries decreased slightly due to lower penetration growth in the best performing countries.[98] The Communications Committee working document indicates the differences between the Member States, revealing that the ones with a lower penetration rate are not catching up sufficiently (Slovakia), while countries with a relatively high penetration rate, such as Luxembourg, Germany or France, continue boosting their performance.[99] The CoCom working document shows a very swift growth of the mobile broadband market, which rose by 30% in take-ups between July 2009 and 2010, but its share remains relatively low (6%). In 2010 the EU fixed broadband market, with its 128,356,776 lines, was the largest in the world. As for mobile broadband connections, the penetration rate grew from 5.2% in January 2010 to 6.1% in July 2010, but it is expected to slow down in the coming months.[100] This dynamic market reached 500 mln connected devices in 2010 and is expected to double in 2011. Most of the connections will come from the Asia-Pacific region (400 mln) and more than 200 mln each from North America and Europe.[101]

Chart 7. Internet Use by Individuals
(% of individuals using the Internet at least once a week on average)



Source: H. Seybert, A. LOOF, *Internet usage in 2010 – Households and Individuals*, Eurostat Data in Focus 50/2010, http://epp.eurostat.ec.europa.eu/cache/ITY_OFFPUB/KS-QA-10-050/EN/KS-QA-10-050-EN.PDF.

97 *Ibidem*, p. 5.

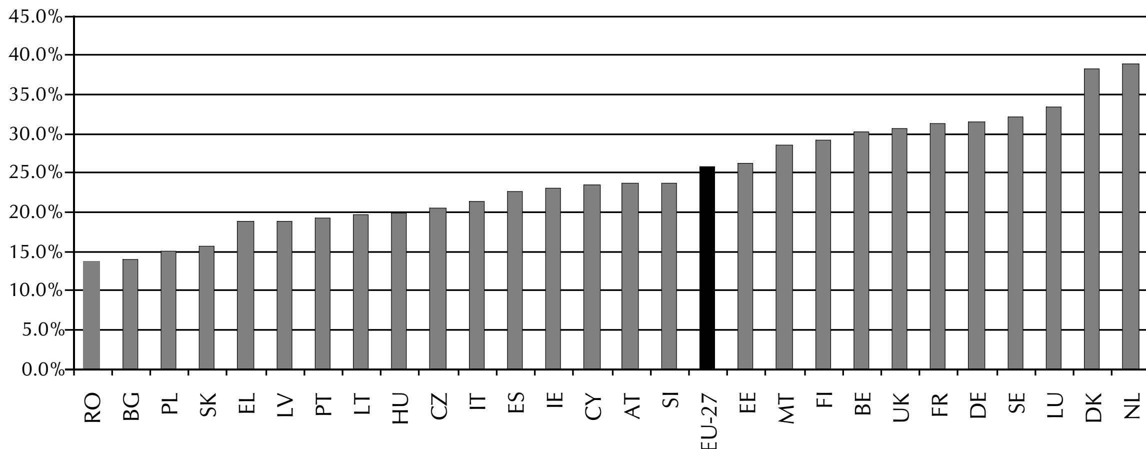
98 *Ibidem*, p. 5.

99 *Ibidem,* p.10.

100 *Ibidem,* p.10.

101 T. Constanza, *Mobile broadband subscriptions to bypass 1bn in 2011—report*, Silicon Republic, www.siliconrepublic.com/comMemberStates/item/19891-mobile-broadband-subscripti/ (accessed on 15 February 2011).

Chart 8. Fixed Broadband Penetration Rate (% of population, July 2010)



Source: European Commission, *Information Society*, http://ec.europa.eu/information_society/newsroom/cf/item-detail-dae.cfm?item_id=6502&language=default.

5.3. e-Government

The term e-government refers to use of the ICT technologies not only by the government but also by the entire public sector in order to deliver better services to citizens and businesses.

The 2010 United Nations e-government survey *Leveraging e-government at a time of financial and economic crisis* examined the development of e-government. Among the 20 best performers there are 10 EU Member States: the United Kingdom, the Netherlands, Denmark, Spain, France, Sweden, Germany, Belgium, Finland and Estonia.[102] The countries at the top of the list are: the Republic of Korea, the United States and Canada. As far as the e-government participation ratio is concerned in the top 20 countries in the survey, also 10 EU countries are represented: Spain, the UK, Estonia, Denmark, Germany, France, the Netherlands, Belgium, Lithuania and Slovenia.[103] According to the Commission, the delivery of public online services in all 27 Member States increased considerably, from 21% in 2000 to 71% in 2009,[104] although the number of citizens using public services online is estimated at 32% of the EU population.[105] As far as e-government usage by individuals in EU-27 is concerned, the figures for 2010 indicate a growth of 2 pp compared to 2009. The Member States with the highest e-government use are Denmark (72%) and Sweden (62%). Poland, with 21% of e-government users is, similarly to the preceding year, among the worst performing Member States, followed by: Italy (17%), Bulgaria (15%), Greece (13%) and Romania (7%). The three poorest performers in e-government are even below the performance of a candidate country: Croatia (16%).[106] According to Eurostat data,

[102] UN Global eGovernment Survey 2010, *Leveraging e-government at a time of financial and economic crisis,* www2.unpan.org/egovkb/global_reports/10report.htm (accessed on 1 February 2011).

[103] *Ibidem.*

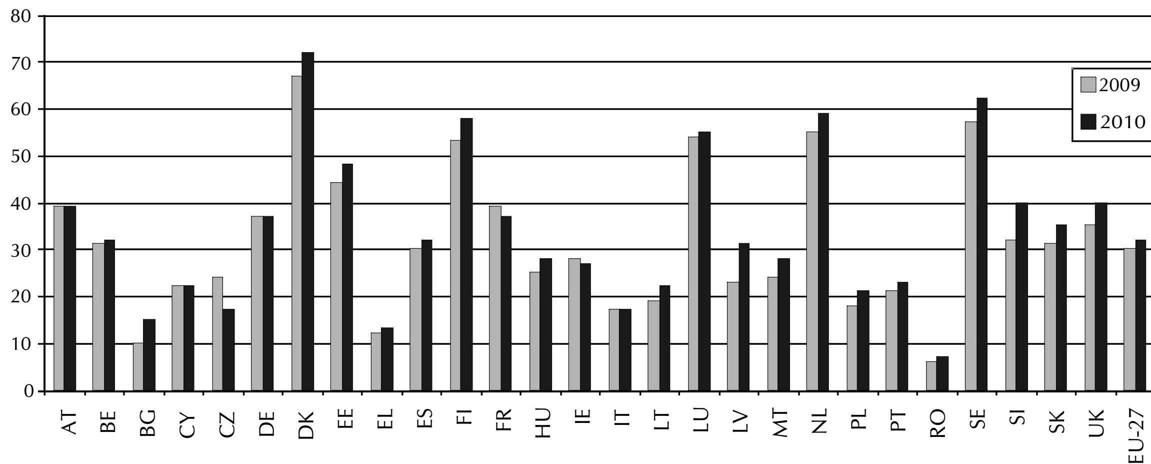
[104] *Digital Agenda: eGovernment Action Plan - what would it do for me?* Europa Press Release, Brussels, 15 December 2010, http://europa.eu/rapid/pressReleasesAction.do?reference=MEMO/10/681&format=HTML&aged=0&language=EN&guiLanguage=en (accessed on 10 February 2011).

[105] *Ibidem.*

[106] Eurostat, http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=isoc_si_igov&lang=en (accessed on 10 December 2010.

the highest growth was in Slovenia (by 8 pp to 40%) and Latvia (by 8 pp to 31%); the most significant decrease was recorded in the Czech Republic (by 7 pp to 17%). Estonia (48%) and Slovenia (40%) rank relatively high among the Member States and the percentage of e-government users there is growing rapidly.[107] During work on this study data on online availability of public services and Internet users for enterprises in 2010 was not available.

Chart 9. % of e-Government Usage by Individuals in the Last Three Months (demand side) in 2009 and 2010



Source: Eurostat, http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=isoc_si_igov&lang=en.

In December 2010 the European Commission presented a five-year e-government Action Plan aimed at developing availability and take-up of online public services to citizens and business by increasing the efficiency and cost effectiveness of e-government services.

The new EU economic strategy, Europe 2020, is largely focused on the development of digital society. One of its seven flagship initiatives, "Digital Agenda For Europe," deals directly with this area and aims at extensive use of the Information and Communication Technologies (ICT) potential for all the fields of activity: business, leisure, communication and supplying information. One of the main goals of the Agenda is to enhance innovation, economic growth and competitiveness through the development and extensive use of the ICT, e.g. by boosting the use of e-government services by citizens to 50% and by business to 80% by 2015.[108] The Commission estimates that the ICT sector generates 5% of the European GDP for a market value of €660 billion annually. The ICT sector also exerts a meaningful social impact on more than 250 million daily Internet users in the EU.[109]

[107] *Ibidem.*

[108] Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions, *A Digital Agenda for Europe*, http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:52010DC0245(01):EN:NOT (accessed on 10 February 2011).

[109] *Ibidem.*

5.4. Conclusions

Information society is developing gradually despite the last global economic and financial crisis, but progress in the EU Member States represents a mixed picture. This is reflected in digital economy rankings. Some EU countries enjoy a high level of development (Sweden, Denmark and Finland), with three laggards on the opposite side of the spectrum: Poland, Bulgaria and Romania; all three have a problem with bridging the gap to other EU countries. This long negligence necessitates efforts to support the development of such information society elements as Internet infrastructure or availability and accessibility of online public services. The number of Internet users is growing rapidly, and progress is also observed in broadband connections and e-government use.

5.5. Evaluation

5.5.1. Positive

As can be seen from statistics, **Sweden, Finland, the Netherlands and Denmark** are at the top of all rankings and hence can be set as examples for the other Member States. A relatively high position of Estonia can also be an example, especially for the new Member States.

5.5.2. Negative

In most rankings on the development of digital society, **Greece, Romania and Bulgaria** are the worst performing countries. Their modest improvements are not sufficient to bridge the digital gap to the other EU countries. It has to be pointed out that Poland's position remains very low in most rankings.

5.6. Recommendations

1. The Europe 2020 strategy's flagship "Digital Agenda for Europe" initiative aims at boosting use of the ICT. It should be implemented smoothly at the EU level. A special emphasis should be placed on opening markets for online content and copyrights protection issues.
2. Cooperation of the public and private sector in Public-Private Partnership (PPP) for investment in infrastructure (especially telecommunications infrastructure) should be enhanced. The Member States should also use the regulations governing EU state aid (e.g. 2009 guidelines concerning the swift deployment of broadband networks) to support investments in these fields.
3. The complex and interdisciplinary nature of information society issues requires reinforced interplay of the different policies not only at the EU level, but also at the national and regional levels. Strong ownership at all levels is a prerequisite for achieving progress in this area.
4. The fight against digital exclusion, especially in the Member States with the lowest rate of regular Internet users and poor availability of e-government services, should be continued with the support of the European Commission.

6. Energy and Climate

Energy and climate change are key issues for the EU and constitute elements of its strategic economic interests. They were also important components of the Lisbon Agenda. Since almost all greenhouse gas (GHG) emissions are a side-effect of energy production, the two areas are closely connected, and they are also linked closely with the external aspect of EU actions, because the GHG issue can only be solved globally by all the largest GHG producers. Hence energy and climate are an important part of the EU's external policy, especially in global climate negotiations and external aspects of energy policy.

6.1. Reduction of Greenhouse Gas Emissions

According to the European Environment Agency (EEA), between 1990 and 2008 emissions in the EU-15 decreased by 6.5% despite the GDP rise by almost 45%. The latest data available is for 2008, when the EU-15 GHG emissions fell by 1.9% against the year before. For the EU-27, the emissions went down by 2% in 2008. According to the Commission's provisional data for 2009, EU-15 and EU-27 GHG emissions were down by 6.9% compared to 2008, and 2009 emissions in the EU-27 are estimated at 17.3% below the 1990 level. [110]

One third of the GHG came from Germany and the United Kingdom, which managed to reduce their emissions remarkably (Germany—22%, the UK—18.5% in 1990–2008), exerting a significant impact on the EU-27 performance. In Germany, the reduction was due to efficiency improvements in power and heating plants, combined heat and power generation and restructuring efforts in the former East German *Länder*. In the UK the reductions were mostly due to liberalisation of the energy markets and a switch from oil and coal to gas. Poland, the sixth producer of GHG (8% for EU-27), decreased its emissions between 1988 (the base year) and 2008 by 29.8% through economic restructuring resulting in heavy industry downfall and improvements in energy efficiency.[111] In 2008 the level of emissions in eight Member States was still above base year levels, while in 17 others it was below.[112]

EEA projections show that the EU-15 will reach the Kyoto target despite a possible short-term rise in emissions resulting from economic recovery after the crisis.[113] The Commission report indicates that only two EU Member States (Austria and Italy) may have difficulties with meeting their targets. The EEA analysis also suggests shortfalls

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[110] European Commission, *Progress Towards Achieving the Kyoto Objectives*, Report from the Commission to the European Parliament and the Council, (required under Art. 5 of Decision 280/2004/EC of the European Parliament and of the Council concerning a mechanism for monitoring Community greenhouse gas emissions and for implementing the Kyoto Protocol), SEC(2010) 1204, Brussels, 12.10.2010, http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&plugin=1& language=en&pcode=tsien010 (accessed on 22 January 2011).

[111] *Ibidem,* pp. 5–6.

[112] These countries were: Austria, Denmark, Ireland, Italy, Luxembourg, Portugal, Slovenia and Spain, (Cyprus and Malta had no Kyoto commitments); *Tracking progress towards Kyoto and 2020 targets in Europe*, European Environment Agency Report 7/2010, Copenhagen, 2010, www.eea.europa.eu/publications/progress-towards-kyoto, p. 7 (accessed on 23 January 2011).

[113] *Ibidem*, p. 7.

in Denmark, and these three countries should increase their efforts to achieve further emissions reductions.[114]

Among the EU-12, nine countries will most probably meet the Kyoto targets, but this is unlikely to undermine the efforts of the EU-27 to meet the Kyoto obligations. Some of the Member States will exceed their targets and thus compensate for the poor performers. The Commission indicates that in 2008, EU-27 emissions were 14.3% below base year's levels.

In 2009 the EU adopted a climate and energy package that sets a series of provisions to address climate change until 2020 and beyond. One of the main targets was GHG reduction by 20% or more before 2020 compared to the 1990 level. The package was approved by the European Parliament and Council in December 2008 and became law in June 2009. The EEA assesses that the 20% reduction target is feasible if the Member States fully implement the package.[115]

The 20% GHG reduction below the 1990 levels is one of the chief targets of the package and an element of the Europe 2020 adopted by the European Council in June 2010. One of its flagship projects, "Smarter use of scarce resources," establishes energy efficiency as the main principle for various EU policies, such as energy, transport, climate change or industry. The initiative is aimed at enhancing cooperation between those policies, settings new EU objectives, including a reduction of European greenhouse gas emissions by 80–95% by 2050.[116]

After the fiasco of negotiations during the COP-15 summit in Copenhagen in 2009, the EU continued its engagement to reach a binding climate agreement with external partners. The Union's position adopted by the Environment Council on 14 October 2010 and then endorsed at the European Council summit on 28–29 October 2010, underlined the need to speed up negotiations on ways to establish legally-binding, ambitious, post-2012 regimes to fight climate change. In line with the conclusions, the new agreement would be based on the Kyoto Protocol and use the political guidance of the Copenhagen Conference.[117] The EU also reaffirmed its conditional proposal to move by 2020 to a 30% reduction target compared to 1990, provided that this was an element of the new post-2012 agreement. The 16th Conference of the Parties to the UN Framework Convention on Climate Change was held in Cancún, Mexico, from 29 November to 10 December 2010. The negotiating parties agreed to keep the target below two degrees Centigrade of global warming. Special measurement, reporting and verification (MRV) rules concerning emission reductions were also endorsed and a Global Green Fund with a budget of $100 billion was set up to help the developing countries fight against climate change. Progress was noted on the way to establishing a plan for reducing emissions from deforestation and degradation

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114 *Ibidem.*

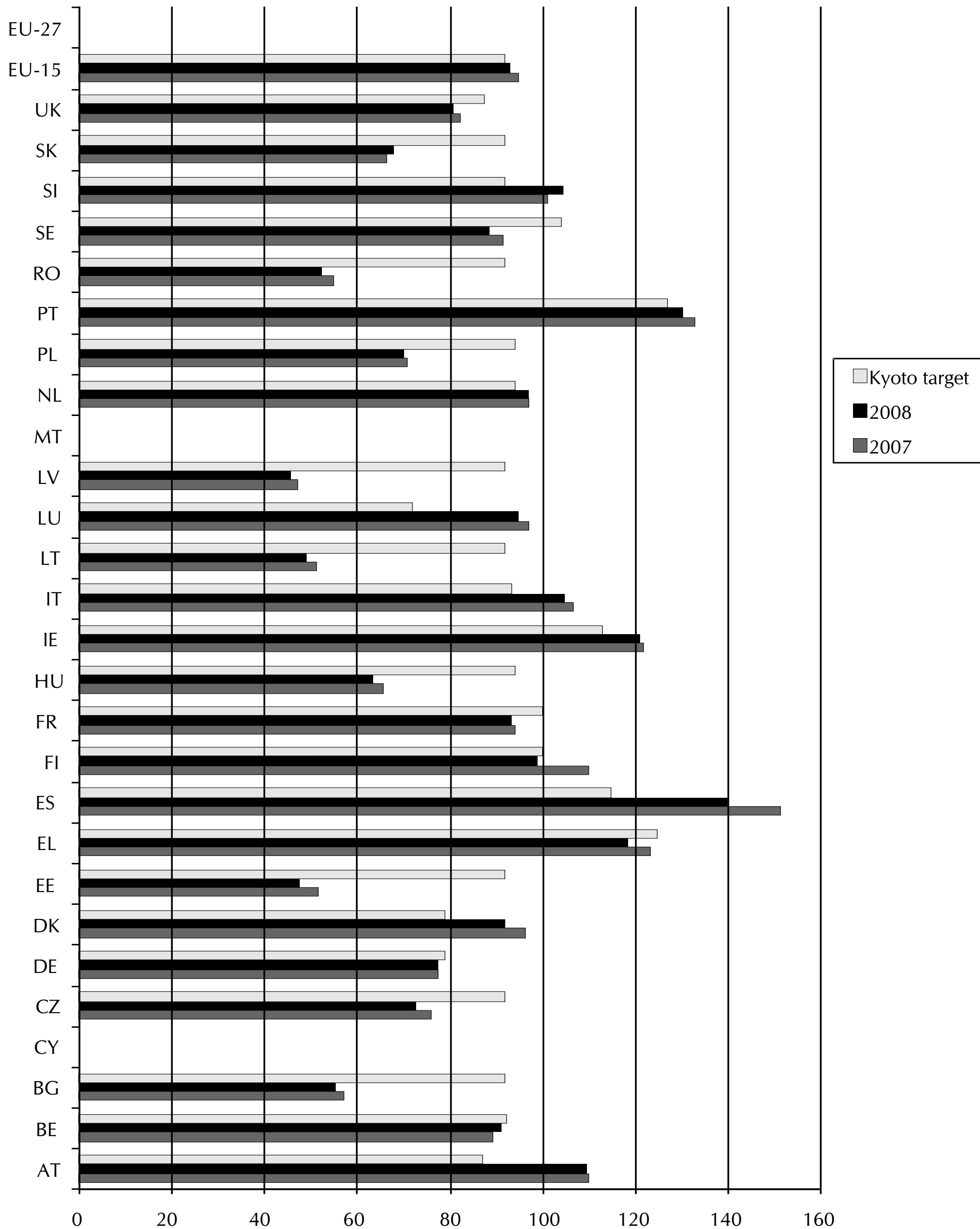
115 *Tracking Progress Towards Kyoto..., op. cit.*, p. 30.

116 *A resource-efficient Europe—Flagship initiative under the Europe 2020 Strategy*, Brussels, 26 January 2011, COM(2011) 21, http://ec.europa.eu/resource-efficient-europe/pdf/resource_efficient_europe_en.pdf (accessed on 26 January 2011).

117 *Preparation for the 16th Conference of the Parties to the UN Framework Convention on Climate Change,* Cancún, 29 November to 10 December 2010, Council Conclusions, Luxembourg, 14 October 2010, www.consilium.europa.eu/uedocs/cMemberStates_data/docs/pressdata/en/envir/117096.pdf (accessed on 23 January 2011).

(REDD) with a view to hampering deforestation in Indonesia and Brazil.[118] The progress in negotiations can be seen as a success for the EU, which played an important role in bringing climate change issues back onto the international agenda. Nevertheless, the negotiating parties are still far from concluding a post-2012 agreement.

Chart 10. Greenhouse Gas Emissions in 2007 and 2008, Kyoto Baseyeal (Actual Base Year = 100, Malta and Cyprus have no Kyoto targets)



Source: Eurostat, http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&plugin=1&language =en&p code=tsien010.

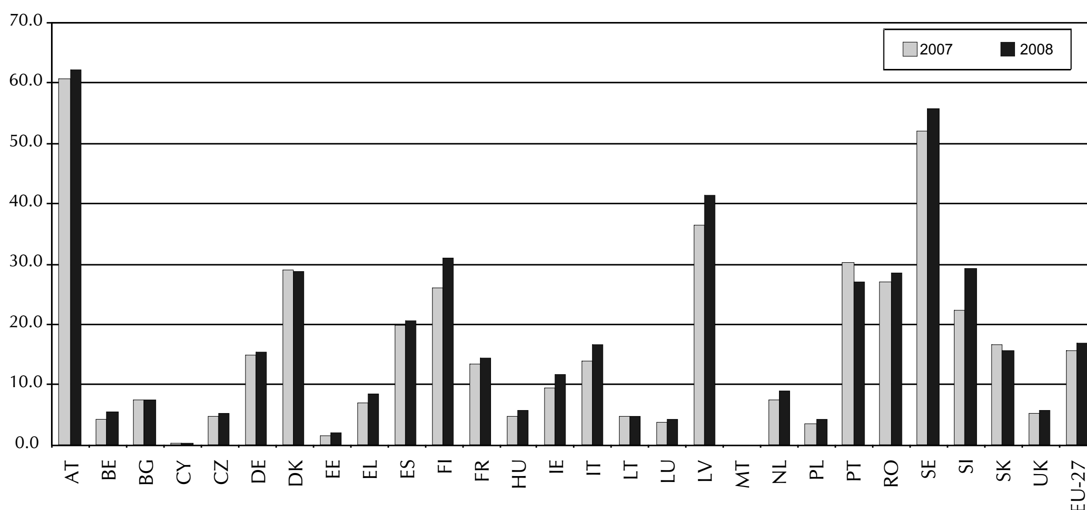
[118] A. Willis, "Cancun climate deal restores faith in UN process," *EU Observer*, http://euobserver.com/885/31482, (accessed on 23 January 2011).

6.2. Generating Electricity from Renewable Resources

Higher electricity generation from renewable resources was one of the Lisbon objectives, with the 21% target also set by Directive 2001/77/EC. The *2010 EU Industrial Scoreboard* indicates that the alternative energy sector has been growing dynamically over the past three years. The figures show that 15 companies (13 based in the EU) invested €500 million into R&D in clean energy technologies, accounting for an increase of 28.7% against the preceding year.[119]

As for the share of renewable resources in generating energy, the most recent data available (for 2008) shows that the progress remained modest that year. Despite the overall EU-27 increase from 15.5% in 2007 to 16.7% in 2008, the 21% target for 2010 is unlikely to be met. The only Member States currently meeting their national objectives are Germany (15.4%, target 12.5%) and Hungary (5.6%, target 3.6%). The EU members very close to their national targets and likely to meet the 2010 objective include: Denmark (28.7%, target 29%), Finland (31%, target 31.5%) and Slovenia (29.1%, target 31%), with the remaining EU countries unlikely to achieve the 2010 objective. Compared to 2007, high growth was recorded in Slovenia (by 7 pp), Finland (5 pp) and Latvia (4.8 pp), with a considerable drop noted in Portugal (by -3.2 pp), Slovakia (-1.1 pp) and Denmark (-0.3 pp). Austria (62%) and Sweden (55.5%) are the EU Member States with the highest level of renewable energy resources, with the latter's share in electricity production the lowest among others in Luxembourg (4.1%, up by 0.4 pp), Lithuania (4.6%, unchanged) and Belgium (5.3%, up by 1.1 pp).[120]

Chart 11. Percentage of Renewable Resources in Generating Electricity in 2007 and 2008 (for Malta this indicator is 0)



Source: Eurostat, http://epp.eurostat.ec.europa.eu/portal/page/portal/energy/data/database.

The 2020 climate and energy targets included a challenging task to increase to 20% the consumption of EU energy obtained from renewable resources, which would more than double the 2006 level of 9.2%. This objective is ambitious but may be difficult to achieve, as the most recent rate available for EU-27 is 10.3% for 2008. On the basis of the Renewable Energy Directive 2009/28/EC, the Member States submitted

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[119] *The 2010 EU Industrial R&D Investment Scoreboard 2010..., op. cit.*, p. 7.

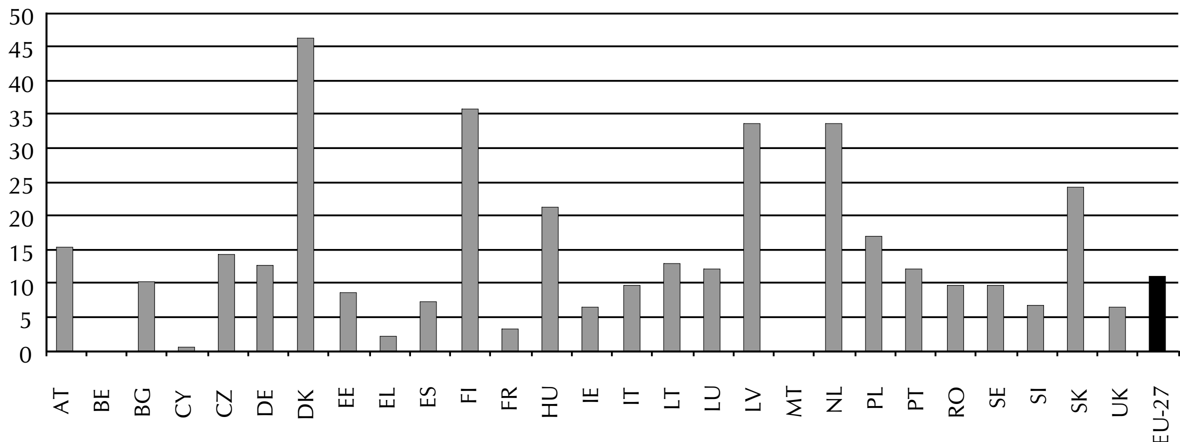
[120] Source: Eurostat, http://epp.eurostat.ec.europa.eu/portal/page/portal/energy/data/database.

national renewable energy action plans, which outline how each of them expects to reach the 2020 targets.[121]

6.3. Development of Cogeneration

Only a minor increase was recorded in statistics on the use of heat engines or power stations to generate both electricity and heat at the same time (cogeneration). The most recent data available (for 2008) puts this use at 11%, only a 0.1 pp higher than in 2007. The highest share of cogeneration in energy production is recorded in Denmark (46.1%), where growth was also noted in 2008 (3.3 pp). Next came Finland (35.6%), the Netherlands (33.6%) and Latvia (33.6%) where the share fell sharply (by 7.3 pp). In Poland cogeneration accounted for 16.9% of electricity production in 2008 following a slight drop (by 0.4 pp) compared to 2007.

Chart 12. Percentage of Electricity Generated from Cogeneration in 2008 (for Malta the indicator is 0, no data for Belgium)



Source: Eurostat, http://epp.eurostat.ec.europa.eu/portal/page/portal/energy/data/main_tables.

6.4. Conclusions

The climate and energy issue will remain vital in the EU's internal and external policies. The economic and financial crisis exerted an impact on GHG reductions, but its influence on Kyoto objectives' attainment is minor. The main polluting countries (Germany and the United Kingdom) managed to diminish their GHG emissions, and the EEA suggests that the performance of the Member States exceeding their targets might compensate for the poorest performers.

The alternative energy market continues to grow dynamically, although the EU-27 target of a 21% share will not be met, with cogeneration development remaining marginal.

Energy and climate change issues are linked with other problems, such as new technologies' development or a further liberalisation of the internal market, so they cannot be examined in isolation. The fulfilment of the objectives of the climate and

[121] European Commission, *Renewable Energy, Transparency Platform*, http://ec.europa.eu/energy/renewables/transparency_platform/transparency_platform_en.htm (accessed on 23 January 2011).

energy package will require reinforced cooperation with private partners and higher investment in green technologies. The latter may be a problem, as most Member States are continuing efforts to consolidate their public finances. The private sector will also be reluctant to finance new and risky technologies when the global economic situation is still far from stable and economic growth in the developed economies remains sluggish. The question also arises whether or not the EU will be able to assure proper financial resources for the development of green technologies in the new Multiannual Financial Framework 2014–2020. The EU needs to encourage innovations in the green energy sector in order to meet the growing competition from China and the U.S.

Higher investment is important, although the regulatory sphere and tariffs will remain the key issues in the EU.

6.5. Evaluation

6.5.1. Positive

Slovenia recorded the greatest progress in the renewable energy sector, while **Denmark** registered the further rise in cogeneration use and remained the unquestionable leader in this respect.

6.5.2. Negative

Austria and **Italy** had problems achieving the Kyoto GHG emission reduction targets, while **Lithuania** experienced difficulties with developing the alternative energy sector.

6.6. Recommendations

1. The development of green technologies should be a crucial objective for the Member States. The PPP's role should be reinforced in this respect, especially in the field of innovation in the alternative energy sector and higher energy efficiency. The Member States should improve the legal and business environment to boost cooperation in the PPP framework.
2. Energy and climate is a sphere touching upon other sectors as well, including the single market, research and development or employment. Consequently, successful implementation of objectives requires close cooperation between different sectors of governance, also within the European Commission (Energy, Enterprise and Industry, Environment, Climate Action, Research and Internal Market).
3. As the climate change issue requires coordinated action, the EU should implement a coherent negotiation strategy with the largest GHG emitters in the UNFCCC framework, using such international fora as the G20 to promote its vision and interests in the climate change arena.
4. The EU needs to draft an overall comprehensive strategy for financing all aspects of the 20/20/20 goals, a strategy based on reliable assumptions (e.g. regarding emission reduction costs) and taking into consideration the current budgetary condition of the Member States. The Union should also

consider how to better use the existing financial instruments, such as the EU budget or EIB, to support green goals.

7. Employment and Social Policy

The global downturn of 2008–2010 wrecked the pre-crisis efforts to boost employment. The crisis reversed the situation on the labour markets in the EU Member States, and job protection became one of the top priorities on the economic agenda of Union members. The Lisbon Strategy provided a sound framework for launching anti-crisis measures directed at the labour market.

7.1. Overall Employment Rate

The overall employment rate (in the 15–64 age group) dropped from 65.9% in 2008 to 64.6% in 2009, indicating that the achievement of the Lisbon target was unfeasible. This decrease was slower than in the U.S., where employment fell by more than 3 pp (to 67.6% in 2009). Only five countries (against eight mentioned in last year's PISM report) managed to reach their targets: (Austria: 71.6%, Germany: 70.9%, Denmark: 75.7%, the Netherlands: 77%, and Sweden: 72.2%). Employment rates in Cyprus and the UK were slightly below the target. The lowest rates were registered in Malta (54.9%), Hungary (55.4%) and Italy (57.5%), with the drop in employment rates in 2008–2009 most profound in Latvia (–7.7 pp), Estonia (–6.3 pp) and Ireland (–5.7 pp). The only states recording rising employment in 2009 were: Luxembourg (1.8 pp) Germany (about 0.2 pp) and Poland (0.1 pp).

Table 20. Employment Rates in the EU (age: 15–64)

Member States	Total	Women	Older people
AT	71.6	66.4	41.1
BE	61.6	56.0	35.3
BG	62.6	58.3	46.1
CY	69.9	62.5	56.0
CZ	65.4	56.7	46.8
DE	70.9	66.2	56.2
DK	75.7	73.1	57.5
EE	63.5	63.0	60.4
EL	61.2	48.9	42.2
ES	59.8	52.8	44.1
FI	68.7	67.9	55.5
FR	64.2	60.1	38.9
HU	55.4	49.9	32.8
IE	61.8	57.4	51.0
IT	57.5	46.4	35.7

Member States	Total	Women	Older people
LT	60.1	60.7	51.6
LU	65.2	57.0	38.2
LV	60.9	60.9	53.2
MT	54.9	37.7	28.1
NL	77.0	71.5	55.1
PL	59.3	52.8	32.3
PT	66.3	61.6	49.7
RO	58.6	52.0	42.6
SE	72.2	70.2	70.0
SI	67.5	63.8	35.6
SK	60.2	52.8	39.5
UK	69.9	65.0	57.5
EU-27	64.6	58.6	46.0

Source: European Commission, *Employment in Europe 2010*.

The economic activity rate in the EU stood at 71%, with the highest rate recorded in Denmark (81%), and the lowest observed in countries with the lowest employment rates, i.e. Malta, Hungary, Italy, Poland.[122]

7.2. Employment Rate for Women

The employment rate for women went down from 59.1% in 2008 in the EU-27 to 58.6% in 2009 (1.4 pp below target). Fourteen Member States managed to attain their goals. The highest level was registered in Denmark (73.1%), the Netherlands (71.5%) and Sweden (70.2%). Malta (37.7%), Italy (46.4%) and Greece (48.9%) in turn were the states with the lowest employment among women. The highest drop was reported in Latvia (–4.6 pp), Estonia (–3.3 pp) and Ireland (–2.8 pp), with positive growth noted in Luxembourg (1.8 pp), Germany (0.8 pp), Austria (0.6 pp), the Netherlands, Poland (both 0.4 pp), Greece and Malta (0.2 pp each).

7.3. Employment Rate for Older People

In contrast to the above two indicators, the number of older people employed rose by 0.4 pp in 2009, and as many as 11 states were able to attain the 50% target. The highest rates were noted in Sweden (70%), Estonia (60.4%), Denmark and the UK (57.5% each), against the lowest persisting in Malta (28.1%), Poland (32.3%) and Hungary (32.8%). The biggest drop in the employment rate was recorded in Latvia (–6.2 pp), with the highest growth registered in Luxembourg (4.1 pp).

122 European Commission, *Employment in Europe 2010*, p. 69.

7.4. Unemployment Rate

Seasonally-adjusted unemployment amounted to 23.2 million and remained stable in the EU.[123] According to the EC's estimates, the unemployment rate stood at 9.6% (up from 8.9% in 2009). In the euro area unemployment exceed 10% (up from 9.5%). The lowest unemployment was noted in Austria (4.4%) and the Netherlands (4.5%), with the highest in Spain (20.1%), Latvia (19.3%) and Lithuania (17.8%, the highest increase in the EU—by 4.1 pp). A drop in the unemployment rate was registered in 2010 in Austria, Malta and Germany only.

Unemployment grew faster among men than among women. Between the second quarter of 2008 and second quarter of 2010, the rise in unemployment for men accounted for two-thirds of the increase.[124] Most strongly affected were males aged 35–44, young male adults (25–34) and male youth (15–24). With respect to age, young adults (25–34) were affected most, as statistics show that in this group unemployment went up by 30% between the second quarter of 2008 and the second quarter of 2010, with the situation in this respect especially alarming in Spain, France and the UK.

Table 21. Unemployment Rates in the EU

Member State	2009	2010	Member State	2009	2010
AT	4.8	4.4	LT	13.7	17.8
BE	7.9	8.6	LU	5.1	5.5
BG	6.8	9.8	LV	17.1	19.3
CY	5.3	6.8	MT	7.0	6.6
CZ	6.7	7.3	NL	3.7	4.5
DE	7.5	7.3	PL	8.2	9.5
DK	6.0	6.9	PT	9.6	10.5
EE	13.8	17.5	RO	6.9	7.5
EL	9.5	12.5	SE	8.3	8.3
ES	18.0	20.1	SI	5.9	7.2
FI	8.2	8.3	SK	12.0	14.5
FR	9.5	9.6	UK	7.6	7.8
HU	10.0	11.1	Euro area	9.5	10.1
IE	11.9	13.7	EU-27	8.9	9.6
IT	7.8	8.4	USA	9.3	9.6

Source: European Commission, *European Economic Forecast*, Autumn 2010.

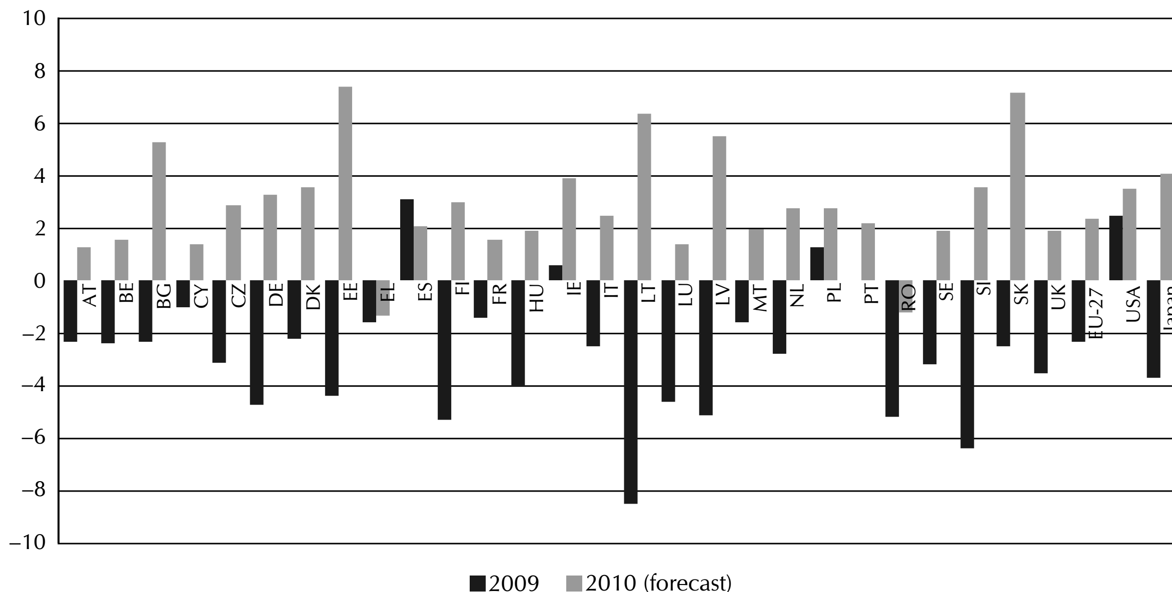
[123] European Commission, *EU employment situation and social outlook: Monthly monitoring*, January 2011, p. 5.

[124] European Commission, *Employment in Europe 2010*, p. 56.

7.5. Labour Productivity

The economic and financial crisis caused a sharp decrease in labour productivity in the EU countries and in Japan. As can be seen from the chart, the most dramatic drop in 2009 was noted in Lithuania (–8.5%), Slovenia (–6.4%), Romania (–5.2%), Latvia (–5.1%) and Finland (–5.3%). The European Commission's forecasts for 2010 are optimistic, as labour productivity should grow fast in almost all the EU-27 countries in comparison with 2009. The highest growth was expected in Estonia (7.4%), Slovakia (7.2%) and Lithuania (6.4%). Poland, together with Ireland and Spain, succeeded in avoiding a productivity drop and its growth is expected to continue in 2010 (by 2.8%). In 2009 average EU-27 productivity fell by 2.3% against 2008, but a rise by 2.4% is predicted in 2010.

Chart 13. Labour Productivity in 2009 and 2010 (percentage change on preceding year)



Source: European Commission, *European Economic Forecast*, Autumn 2010.

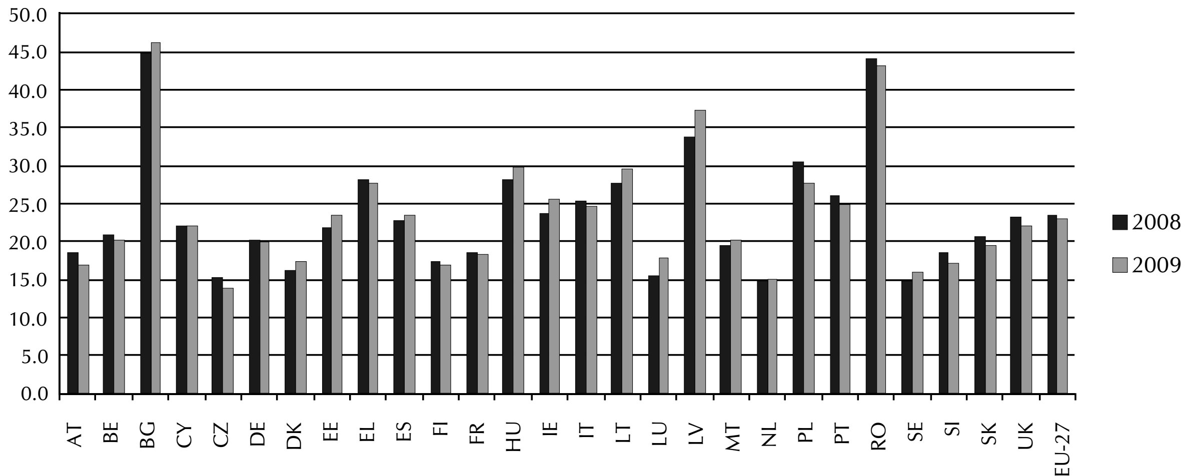
7.6. Social Policy

The economic and financial crisis was expected to exert a negative impact on the situation of the social groups most at risk of poverty, but the most recent data available (for 2009) does not show any major changes in this regard. As for the share of persons at risk of poverty, a comparison between 2008 and 2009 indicates that this group decreased slightly (by 0.5 pp) to 23.1%, with this group especially big in Bulgaria (46.2%, up by 1.4 pp), Romania (43.1%, down by 1.1 pp) and Latvia (37.4%, up by 3.6 pp). Figures also show a relatively high share of people at risk of poverty in Lithuania, Hungary, Poland and Greece (almost 30%). The lowest indicator is in the Czech Republic (14%, down by 1.3 pp), the Netherlands (15.1%, up by 0.2 pp) and Sweden (15.9%, up by 1.0 pp).

According to the most recent statistics (2008), the average level of social expenditure in the EU-27 amounted to 25.2% following an increase by 0.6 pp in comparison to the preceding year. The highest share of social expenditure among the Member States was recorded in France (29.3%, up by 0.3 pp), Denmark (28.9%, up by

0.8 pp) and Sweden (28.7, up by 0.3), compared to the lowest in Latvia (12.4%, up by 1.4 pp), Romania (14%, up by 0.9 pp) and Estonia (14.9, up by 2.7 pp).[125]

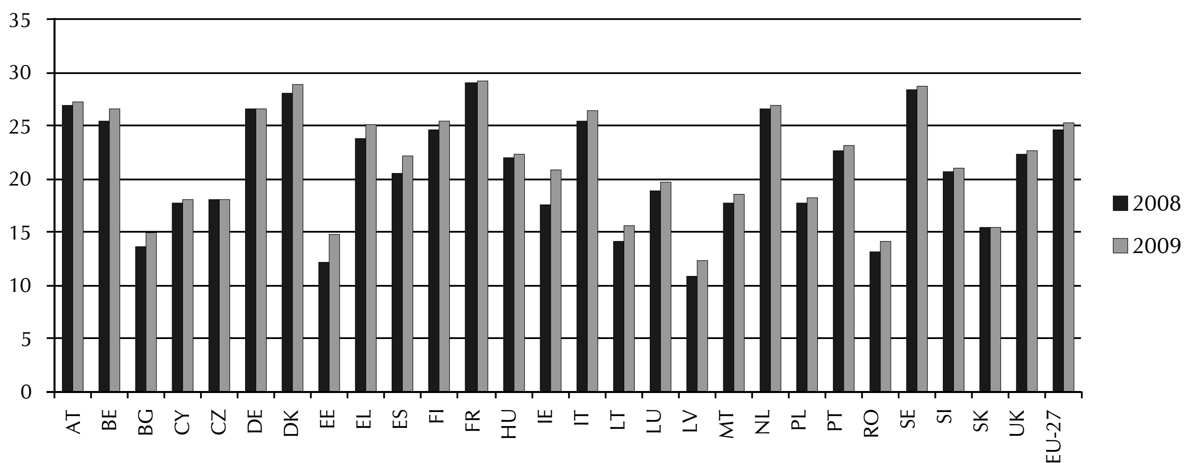
Chart 14. Percentage of Persons at Risk of Poverty after Social Transfers in 2008 and 2009



Source: Eurostat, http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&plugin=1&language=en&pcode=t2020_50.

The fight against the negative social effects of the global economic and financial crisis is easier in countries with a higher share of social spending in their GDPs, so the situation was especially difficult in states with large-scale unemployment but limited tools to fight it.

Chart 15. Overall Social Expenditure in 2007 and 2008 (% GDP)



Source: Eurostat, http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=spr_exp_gdp&lang=en.

According to the Commission, there are around 80 million people in the EU still living at the risk of poverty, one-fourth of them being children, with the crisis additionally highlighting the problem.

[125] Source: Eurostat, http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=spr_exp_gdp&lang=en.

7.7. Flagship Initiatives

There are two flagship initiatives of the Europe 2020 strategy that are relevant to employment: "An Agenda for New Skills and Jobs" and "Young on the Move." The first is derived from a concept introduced by the Commission in late 2008. The goals of the new initiative include: improving the functioning of the labour market, enhancing the skills of the workforce, strengthening job quality and promoting job creation and demand.[126] A central point of this initiative is *flexicurity*, which the Lisbon Strategy promoted. The Commission points out that in the context of the new strategy this approach should be based on four elements:

- flexible and reliable contractual arrangements (reducing labour market segmentation, greater emphasis on internal flexibility);
- developing lifelong learning (strategies for more vulnerable workers, enhanced stakeholders' involvement and social dialogue, effective incentives for increased workers' participation);
- adopting an active labour market policy (improving such measures as individual job counselling, job search assistance, enhancing skills and employability);
- modern social security systems (reforming unemployment benefits, improving coverage for risk of unemployment, reforming the pensions systems).

In the framework of "Young on the Move" actions devoted to employment mobility (including the creation of a "European Vacancy Monitor" indicating employment opportunities for young people in the EU), easier access to the labour market will be promoted and support offered to young groups and young entrepreneurs.[127]

To observe the year 2010 as the "European Year against Poverty and Social Exclusion," European leaders resolved to set new targets, including a reduction of poverty and social exclusion by 20 million before 2020. "The European Platform against Poverty and Social Exclusion," one of the seven flagship initiatives of the Europe 2020 strategy, will be a guideline for the MS on how to achieve progress at the national level in the field of social policy. The "European Platform" is closely connected with the other six flagship initiatives of Europe 2020, especially those concerning employment, education, skills and innovation, as its key projects embrace: promoting innovation in social policy; use of the available tools, such us the European Social Fund, to increase social inclusion; and enhanced effectiveness and flexibility of social services to respond actively to new challenges resulting from the global economic and financial crisis.

7.8. Conclusions

The EU Member States have been struggling with serious problems in labour markets. Temporary workers and young people have been especially hard hit by the crisis. The governments adopted several measures in order to mitigate the negative implication of the crisis for employment. According to the European Commission, labour market stimuli accounted for 0.2% and 0.3% of the GDP in 2009 and 2010 respectively.[128] Governments launched many actions in order to create jobs

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[126] European Commission, *An Agenda for new skills and jobs: A European contribution towards full employment,* COM (2010) 682 final, 23.11.2010, http://europa.eu/rapid/pressReleasesAction.do?reference=IP/10/1541& (accessed on 15 January 2011).

[127] European Commission, *Young on the move*, COM(2010) 477 final, http://ec.europa.eu/education/yom/com_pl.pdf (accessed on 15 January 2011).

[128] European Commission, *Public finance In the EMU 2010*, p. 20.

(e.g. reducing the non-wage labour costs), but their effects differ between states, depending on the situation there. The main differences on labour markets focus on the level of protection, barriers to geographical mobility, and problems connected with undeclared work.

Restructuring processes conducted in many sectors of the economy have had a detrimental impact on jobs. According to European Restructuring Monitoring (ERM), the 345 restructuring cases examined led to 144,000 job losses in 2010, which meant an improvement on 2009, when 1,650 cases were recorded and 652,000 jobs lost.[129]

EU unemployment is disturbing, especially with regard to young people, and prospects for the future are not too optimistic. In 2011 unemployment is expected to decrease by a mere 0.1 pp, both throughout the EU and in the euro area, but in Spain it may not start to fall until 2012. Turning the situation in employment around would require a relevant pace of economic growth in the EU. Against this background fragile growth prospects can derail recovery in labour markets. The potential negative implications of fiscal adjustment for growth can additionally exert an unfavourable impact on employment.

7.9. Evaluation

7.9.1. Positive

As in the preceding year, **the Netherlands** remained the EU leader in respect of the overall labour market situation.

7.9.2. Negative

Lithuania, Latvia and Spain were states with the bleakest picture in the sphere of employment.

7.10. Recommendations

1. The Member States should implement actions indicated as priorities in the Annual Growth Survey, namely:
   - speed up flexible working arrangements;
   - introduce a temporary reduction of social security contributions;
   - reform unemployment benefit systems;
   - increase participation of old workers;
   - modify wage policies.[130]
2. Pension reforms should be accelerated in the Member States, and their impact on public finances should be taken into account by the Commission and the Council in conducting fiscal surveillance in the framework of the Stability and Growth Pact.
3. In the context of the Europe 2020 strategy, particular attention should be given to tackling the problem of unemployment among young people.

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[129] *Eurofound, Extending flexicurity: The potential of short-time working shemes*, p. 26, www.eurofound.europa.eu/pubdocs/2010/71/en/1/EF1071EN.pdf (accessed on 15 January 2011).

[130] European Commission, *Draft Joint Employment Report,* pp. 11–12.

Part II

8. Lisbon Strategy: Overview and Assessment

8.1. Lisbon Strategy History in a Nutshell

On 31 December 2010 Lisbon Strategy came to an end, in silence, with no media coverage or official EU ceremonies. The most common perception is that the Strategy has been a total fiasco, not only because it did not succeed in transforming the EU into the most competitive economic area as planned, but also because it did not meet most of its objectives. Nevertheless, an assessment of the Strategy should be more balanced and take into account not only the EU's purely economic performance but also a broader political and economic context.

In recent decades we have seen new challenges for the world of globalisation and increasing competition from other economies, particularly China. At the same time, the EU economies countries have been a subject of mounting structural obstacles slowing the pace of growth and generating high unemployment. All these processes led to the launch of a broad debate on the need for a new program of economic reforms in the EU, since the measures taken by the national governments had clearly been inadequate. Hence the need for a complex economic program that would encourage the Member States to undertake the necessary reforms halting negative trends and safeguarding against the EU's global marginalisation. During the European Council meeting in Lisbon on 23–24 March 2000, the new strategy was adopted, becoming the European Union's socio-economic program for the next ten years.[132]

The Strategy's main objective quoted extensively in academic debates and the media was to create the most dynamic and competitive knowledge-based economy in the world, an economy capable of sustainable economic growth, with more and better jobs, greater social cohesion and respect for the environment. Developed at subsequent meetings of the European Council, the Strategy was based on three pillars:

- the economic pillar focused on transition towards a knowledge-based economy and information society;
- the social pillar aimed at modernizing the European social model;
- the environmental pillar, added during the European Council meeting in Göteborg in June 2001, based on the assumption that economic growth should be decoupled from the use of natural resources.

In March 2004, the European Council decided to prepare a mid-term review of the Lisbon process to be presented in March 2005. A special team of experts was set up, chaired by former Dutch Prime Minister Wim Kok, a man experienced in assessing the Lisbon Strategy. The report was published in November 2004.[133] According to experts, the disappointing effects of the Lisbon Strategy resulted from its overloaded agenda, poor coordination and conflicting priorities. The report stressed also that the main impediment to achieving the objectives of the Strategy was an absence of political will

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132 Presidency Conclusions, Lisbon European Council, 23–24 March 2000, http://www.consilium.europa.eu/ueDocs/cMember States_Data/docs/pressData/en/ec/00100-r1.en0.htm.

133 *Facing the challenge. The Lisbon strategy for growth and employment*, Report by High Level Group chaired by Wim Kok, European Communities, November 2004, http://ec.europa.eu/research/evaluations/pdf/archive/fp6-evidence-base/evaluation_studies_and_reports/evaluation_studies_and_reports_2004/the_lisbon_strategy_for_growth_and_employment__report_from_the_high_level_group.pdf (accessed on 31 January 2011).

to reform.[134] Kok's High Level Group reiterated that the EU had not shortened its distance to the United States or Asia. On the contrary, the EU had become weaker in terms of competitiveness. The experts recommended urgent action in five policy areas, action that was and remains crucial to the EU's economic future:

- knowledge-based society: promoting knowledge, innovation and ICT use;
- completion of the internal market;
- improving the business climate through a reduction of administrative burdens in the EU;
- fostering growth and employment based on social cohesion;
- promoting sustainable development.[135]

On the basis of the Kok Report, the European Council relaunched the Lisbon Strategy in March 2005, focusing on economic growth and job creation. The coordination process was also modified through drafting Integrated Guidelines embracing Broad Economic Policy Guidelines (BEPG) and Employment Policy Guidelines (EG); these were approved for the period of three years (2005–2008).[136] The relaunch of the Strategy was accompanied by the introduction of two new instruments: National Reform Programmes (NRP), established in line with the Integrated Guidelines for Growth and Jobs and Community Lisbon Programme (CLP). Their objective was to define the role of the Member States and EU institutions in the Strategy's implementation. The first CLP was presented by the Commission in July 2005 and consisted of several initiatives grouped in three main areas: supporting knowledge and innovation; making Europe a more attractive place to invest and work; creating more and better jobs.[137]

The first annual progress report of the new Lisbon cycle stated that the Member States still had difficulties with achieving the Strategy's objectives. The Commission identified four priority areas where action was necessary: education and research, support for SMEs and employment, plus an additional objective: the need for a common energy policy of the EU. In December 2007 the Commission published an in-depth review report that covered the entire implementation cycle of Lisbon and proposed a prolongation of Integrated Guidelines for 2008–2010. Following this publication, the European Council launched a new cycle of the Strategy during the summit on 13 and 14 March 2008.[138] Acting in response to growing public concern over climate change, population aging and social exclusion, the European leaders decided to put more

[134] *Ibidem.* p. 6.

[135] *Ibidem.*

[136] "The Lisbon Strategy or a Lisbon Tragedy?" *EU Observer*, 19 May 2005, http://euobserver.com/?aid=19088; *Growth and Jobs: Relaunch of the Lisbon strategy,* www.euractiv.com/en/innovation/growth-jobs-relaunch-lisbon-strategy/article-131891 (accessed on 18 August 2010).

[137] Communication from the Commission to the Council and to the European Parliament, *Common actions for growth and employment: The Community Lisbon Programme*, Brussels, 20.07.2005, COM(2005) 330 final.

[138] European Commission, Communication from the Commission to the European Council, *Strategic Report on the renewed Lisbon Strategy for growth and jobs: launching the new cycle (2008–2010,* companion document COM/2007/0803 final.

emphasis on environmental and social objectives.[139] The economic and financial crisis has made further progress on the way to the Lisbon objectives very problematic.

8.2. Objectives and Indicators

In order to measure the progress on the way to the Lisbon objectives, a number of targets were adopted: GDP level *per capita*, labour productivity per person employed, youth education, gross domestic expenditure on R&D, comparative price levels, business investment, employment rate, risk of poverty, unemployment rates, greenhouse gas emissions, energy intensity of the economy and volume of freight transport in relation to GDP.[140] The Lisbon objectives were adopted during subsequent European Council summits, with their classification shown in the tables below.

Table 22. The "Ultimate" Figure-based Objectives to be Met by 2010 as Set Out by the Spring European Councils

Subject	Figure-based objective	European Council Summit
Growth rate	3% per year	Lisbon 2000
Employment rate	70% of the economically active population	Lisbon 2000
	60% of the economically active female population	Lisbon 2000
	50% of older workers	Stockholm 2001
Greenhouse gas emission rate	8% reduction compared to the 1990 level (to apply the Kyoto protocol)	Barcelona 2002

Source: L. Cohen-Tanugi, *Beyond Lisbon. A European Strategy For Globalization,* Brussels, 2008.

Table 23. The "Intermediate Objectives" of the Lisbon Strategy

Subject	Figure-based objective	European Council Summit
Education	85% of each class group up to Baccalaureate level	Lisbon 2000
Stability and Growth Pact	Public deficit lower than 3% of GDP, public debt lower than 60% of GDP	Stockholm 2001
Internal market	98.5% of directives transposed before deadline; overall reduction of state aid as percentage of GDP by 2003	Stockholm 2001
R&D expenditure	3% of GDP, including two-thirds private expenditure	Barcelona 2002

139 "EU 'Lisbon Agenda' gets social makeover," *Euractive,* 18 March 2008, http://www.euractiv.com/en/innovation/eu-lisbon-agenda-gets-social-makeover/article-171013 (accessed on 10 January 2011).

140 These indicatiors are listed on the Eurostat website: http://epp.eurostat.ec.europa.eu/portal/page/portal/structural_indicators/indicators/short_list.

Subject	Figure-based objective	European Council Summit
Effective retirement age	To be raised by approximately 5 years	Barcelona 2002
Subsidised reception centres for children	90% of children between 3 years of age and compulsory school age; 33% of children under 3	Barcelona 2002
Youth unemployment (18–24 years of age)	Education drop-out rate lower than 10%; offer of employment, training or work experience placement within a maximum period of 4 months	Brussels 2006

Source: L. Cohen-Tanugi, *Beyond Lisbon. A European Strategy for Globalization,* Brussels, 2008.

Table 24. The New Objectives for the Renewed Lisbon Strategy 2008–2010 as Set Out by the March 2007 European Council

Subject	Objective
Strengthening of the internal market and increasing competitiveness	Transposition deficit target: to reduce this deficit progressively to 1% by 2009 at the latest, while stressing the importance of adopting appropriate transposition deadlines
Business regulatory environment	To reduce administrative burdens arising from EU legislation by 25% by 2012; to set national objectives
Energy and environment	Objective 20/20/20; increasing bio-fuels consumption to 10%

Based on: L. Cohen-Tanugi, *Beyond Lisbon. A European Strategy For Globalization,* Brussels, 2008; *Presidency Conclusions*, Brussels European Council, 8–9 March 2007, Council of the European Union, Brussels, 2 May 2007.

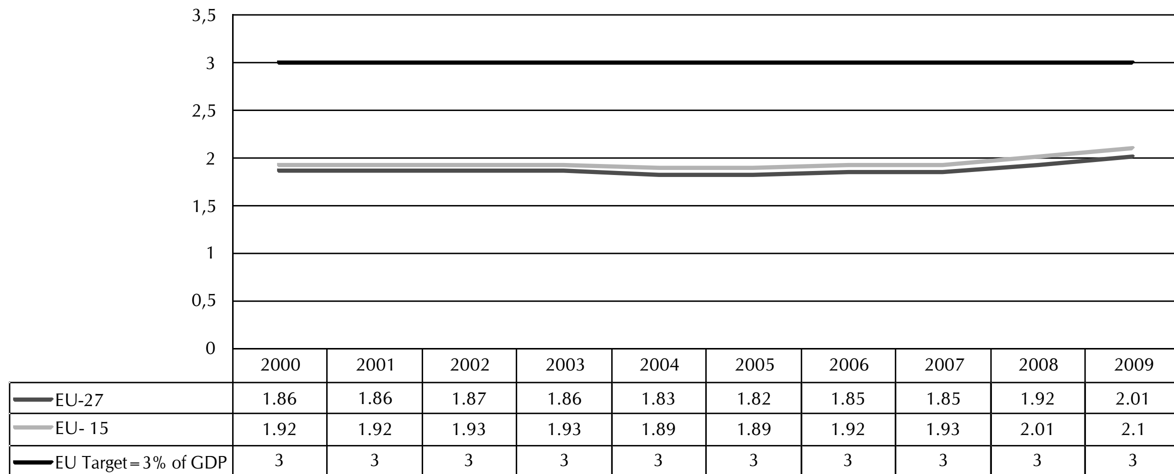
Due to the fact that most of the objectives of the Strategy have remained within the domain of the Member States, a special management tool was introduced: the Open Method of Coordination (OMC) based on voluntary cooperation of the Member States and their assessment, sometimes on the "name and shame" basis. The OMC is applied in areas under mixed and exclusive competence of the Member States, e.g. employment, social protection, social inclusion, education and training. The governance of the Strategy is focused on identifying and defining objectives to be achieved and establishing common measuring instruments and benchmarking, i.e. a comparison of the performance of the Member States. Indicators describing the implementation of the Strategy have been regularly assessed by the European Commission, with its results also discussed at European Council meetings.

8.3. General Performance

Figures show that in most cases the Lisbon objectives have not been met. The Strategy was aimed at boosting technological development by increasing investment in research as the chief engine of growth. Hence a rise in investments in research and development to 3% of the GDP was the main objectives to be achieved by 2010, but Chart 16 clearly shows that during the entire period R&D spending remained unchanged well below the target set. Only three Member States succeeded in achieving the objective: Finland (3.96%), Sweden (3.6%) and Denmark (3.02%), so the main

Lisbon indicator remained substantially below the desired level, with the ultimate objective not met.

Chart 16. Expenditure on R&D

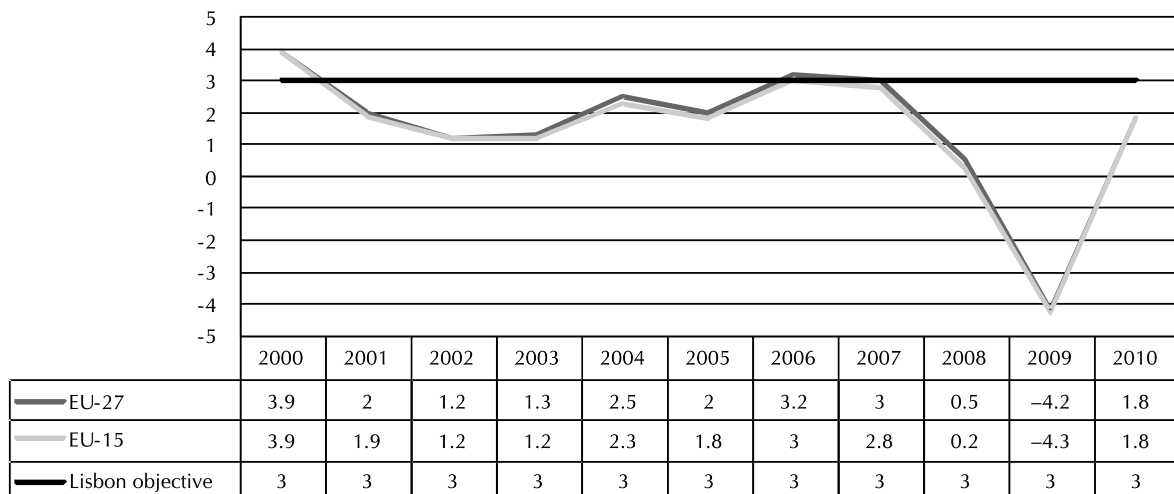


	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
EU-27	1.86	1.86	1.87	1.86	1.83	1.82	1.85	1.85	1.92	2.01
EU- 15	1.92	1.92	1.93	1.93	1.89	1.89	1.92	1.93	2.01	2.1
EU Target = 3% of GDP	3	3	3	3	3	3	3	3	3	3

Source: Eurostat, http://epp.eurostat.ec.europa.eu/portal/page/portal/europe_2020_indicators/headline_indicators.

Another important indicator was the GDP growth rate. The Strategy set an objective of 3% GDP growth, which was rather modest compared to Chinese or Indian rates. The 3% objective was briefly achieved only twice, in 2000 and in 2006. Failure in this respect is to a large extent due to the fluctuations of the world economy. The Strategy had been launched in the middle of a growing dot-com bubble and its burst resulted in recession, making the implementation of Lisbon objectives extremely difficult. The highest GDP growth in the EU was reported in 2005–2007, while the global financial and economic crisis affected economic growth adversely and hindered the achievement of other targets.

Chart 17. Real GDP Growth Rate (in % on preceding year; forecast for 2010)

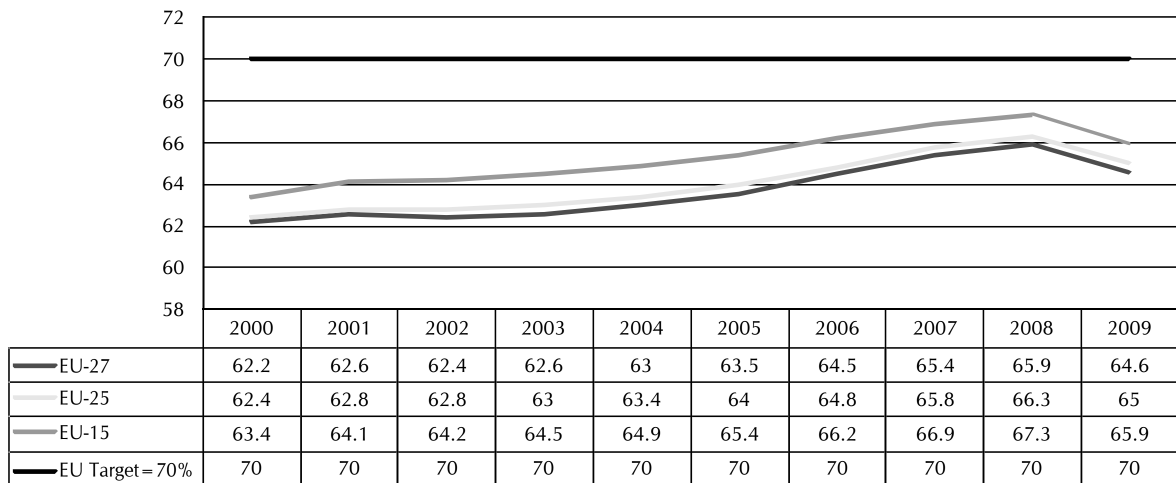


	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
EU-27	3.9	2	1.2	1.3	2.5	2	3.2	3	0.5	–4.2	1.8
EU-15	3.9	1.9	1.2	1.2	2.3	1.8	3	2.8	0.2	–4.3	1.8
Lisbon objective	3	3	3	3	3	3	3	3	3	3	3

Source: Eurostat, http://epp.eurostat.ec.europa.eu/tgm/table.do?tab = table&plugin = 1&language = en&pcode = tsieb020.

An analysis of the EU employment rate between 2000 and 2010 also brings clear conclusions. The employment rate rose from 62% in 2000 to almost 66% in 2008, but dropped again due to the international economic and financial crisis. The total employment rate for persons aged 15–64 in the EU-27 had been rising steadily from 62.4% in 2002 to 65.9% in 2008, but fell to 64.6% in 2009 and remained below the Lisbon objective of 70%, although some of the Member States managed to achieve the Lisbon employment target: the Netherlands, Denmark, Austria, Sweden, and Germany.[141]

Chart 18. Employment Rate in the EU (in %, group 15–64 years old)



	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
EU-27	62.2	62.6	62.4	62.6	63	63.5	64.5	65.4	65.9	64.6
EU-25	62.4	62.8	62.8	63	63.4	64	64.8	65.8	66.3	65
EU-15	63.4	64.1	64.2	64.5	64.9	65.4	66.2	66.9	67.3	65.9
EU Target = 70%	70	70	70	70	70	70	70	70	70	70

Source: Eurostat, http://epp.eurostat.ec.europa.eu/portal/page/portal/structural_indicators/indicators/ short_lis.

Despite failure in achieving most of the Lisbon goals, an evaluation of the Strategy represents a mixed picture. Firstly, not all comprehensive statistical data is available at the time of writing this study. A final evaluation of macro and micro objectives will be possible in the second half of 2011, once all statistics are published, because at the moment some data is still fragmentary (education, climate, energy). Secondly, for some areas a final assessment will never be possible, as it is difficult to measure the real impact of the Strategy on the Member States' performance, which rests upon specific public policies or external factors. Thirdly, the difficulty in assessing the Strategy also results from the fact that the 27 EU Member States differ substantially with respect to their performance in implementing Lisbon Strategy targets.

8.4. Overall Assessment of LS Implementation

In February 2010 the European Commission published a report assessing the Lisbon Strategy.[142] The document was brief and concise. In the evaluation, the Commission underlined the objective factors, which had largely determined the implementation of the Strategy, such as successive enlargements from EU-15 to EU-27,

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[141] European Commission, *Employment in Europe 2010.*

[142] European Commission, *Lisbon Strategy evaluation document,* Commission Staff Working Document, European Commission, Brussels, 2 February 2010, http://ec.europa.eu/europe2020/pdf/ lisbon_strategy_evaluation_en.pdf (accessed on 10 January 2011).

enlargement of the eurozone or the impact of the economic crisis.[143] The EU has failed to reduce the productivity gap dividing it from the leading economies.[144]

It is difficult to judge to what extent, if any, the Strategy has exerted a positive impact. The Commission concluded that it would be too simplistic to observe that the Strategy failed because its targets had not been met, since its chief role was to promote joint actions in tackling the biggest challenges of the Union. One of them is the area of research and innovation, where the Commission has no jurisdiction over the Member States.

The Strategy has brought many positive elements. For the first time the EU succeeded in adopting a number of common principles of economic policy in force for ten years. The quantitative indicators adopted measured real progress towards achieving the objectives. Professor Maria Joao Rodrigues, one of the authors of the Lisbon Agenda, stressed that the Strategy itself could be called a success, because it introduced new long-term strategic thinking in the EU, and succeeded in some areas despite the difficulties.[145]

On the other hand, there are many fierce critics of the Strategy, such as Professor Charles Wyplosz, who called it a "predictable and predicted" failure, leading to the accumulation of a new bureaucracy, both within the administration of each country and within the Commission.[146] Professor Wyplosz assesses that peer pressure, one of ideas behind the OMC, has turned into mutual congratulations, but nonetheless points to some good concepts brought about by the Strategy as well, including first and foremost its role in the removal of barriers to the freedom to provide services, which account for 70% of the European GDP.[147]

A more balanced assessment is provided in the report *The Lisbon Scorecard X* prepared by the Centre for the European Reform (CER). The authors underline that the Strategy represents a mixed picture due to the differing performance of the Member States. According to the report, the best performing five embrace the Nordic countries, Austria and the Netherlands. At the other end of the spectrum the laggards include some new Member States, Portugal, Greece and Italy.[148] The authors of the report suggest that in order to make the new strategy more successful, the EU needs to improve the governance method, give new momentum to the internal market, improve the human capital, increase innovation but going beyond the R&D quantitative assessment, reform the financial sector and promote broader understanding of sustainable growth, including a new consensus concerning future social privileges.[149] The CER report notes

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143 *Ibidem*, p. 3.

144 *Lisbon Strategy evaluation document…, op. cit.,* p. 3 ; see also: *The 2010 Productivity Brief: Productivity, Employment, and Growth in the World's Economies*, The Conference Board, January 2010.

145 EBS 2009, interview with Prof. Dr. Maria Joao Rodrigues, http://dare-and-care.blogactiv.eu/tag/prof-dr-maria-joao-rodrigues (accessed on 15 August 2010).

146 Ch. Wyplosz, *The failure of the Lisbon Strategy*, 12 January 2010, www.voxeu.org/index.php?q=node/4478 (accessed on 20 January 2011).

147 Ch. Wyplosz, *What Next for Europe?* Project Syndicate, 13 December 2005, www.project syndicate.org/commentary/wyplosz4/English; Ch. Wyplosz, *The failure of the Lisbon Strategy*, 12 January 2010, www.voxeu.org/index.php?q=node/4478 (accessed on 20 January 2011).

148 S. Tilford, P. Whyte, *The Lisbon Scorecard X: The road to 2020*, Centre For European Reform, 2010, pp. 5–6.

149 *Ibidem.*

that social solidarity need not rule out competitiveness, as is confirmed by the EU Nordic states, which have been able to maintain a high level of competitiveness along with the lowest rate of poverty and inequality, in contrast to the EU countries with the poorest social and market performance: Greece, Italy and Portugal.[150]

Another interesting evaluation of the Lisbon Strategy was prepared by the World Economic Forum (WEF) on the basis of a survey carried out among CEOs and top executives in each of the assessed countries, which means that it represents the business community's perspective. The report underlines the development differences between the MS, differences which were further increased by the 2004 enlargement. The Executive Opinion Survey prepared by WEF researchers ranked Sweden, Finland and Denmark as the top three. The best new Member State was classified in 12th place, with the poorest performers including Poland, Italy, Romania and Bulgaria. The results show major differences in performance among the Member States;[151] the authors point to progress in some areas (information society, innovation and sustainable development), while in other areas (network industries, development of financial services and social inclusion) progress is less visible. In general, the MS failed to engage the business community in the pursuit of the Lisbon objectives.[152]

The overall picture presented in the above reports does not differ substantially from the one depicted in the annual reports drafted by PISM.

8.5. Conclusions

While attempting to sum up the impact of the Strategy on the Member States, some general conclusions can be drawn:

- In evaluating the Strategy it needs to be borne in mind that it is very difficult to find empirical correlation between the objectives set and their practical realisation, and especially to define to what extent the economic data had actually been influenced by the Strategy itself.
- The objectives set in the Strategy were correct and indicated the right direction for the Member States, especially taking into account the emphasis on knowledge-based economy and information society, which are the most important factors determining the competitiveness of modern economies. The question arises, however, if these objectives, set at a time of economic prosperity, could ever be achieved in the present internal and external situation, factoring in such elements as the differences between the Member States or global recession.
- Analysing the objectives set and the main goal to be achieved ("the most competitive economy" in the world by 2010), the Lisbon Strategy has to be described as a fiasco, although it is worth noting that some of the Member States succeeded in performing above the Lisbon targets (e.g. the EU Nordic countries' spending on R&D), or well above the average for the other Member States (e.g. the higher education system in the UK). Hence these countries should set the example for the other EU members.

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150 *The Lisbon Scorecard X..., op. cit.*, pp. 79–80.

151 J. Blanke, S. Kinnock, *The Lisbon Review 2010: Towards a More Competitive Europe?* World Economic Forum, 2010, p. 15.

152 *Ibidem*, p. 15.

- Governance was also a problem in the pursuit of the Lisbon objectives. Most crucial areas of the Strategy (e.g. Research and Development) were covered by mixed or exclusive competence of the Member States, so they had to be managed through the Open Method of Coordination, which turned out to be ineffective.
- Critics of the Strategy should take into account the broader economic and political context. Within the EU framework there is little hope for any major changes in the institutional system, so the goals and evaluation of the Lisbon Agenda and its successor, the Europe 2020 strategy, can only be examined with the tools available, taking into account the political and legal situation of the EU.
- Lack of progress in several areas of the Lisbon Agenda is seen by many as resulting from too many objectives pursued. The common feeling is also that the Agenda has suffered from an absence of strong political ownership.
- Progress towards the Europe 2020 objectives will be determined by the EU's ability to overcome the Lisbon shortcomings. But in the nearest future, in order to get closer to the Europe 2020 objectives and to resist competition from Asia, the EU will have to find strategic solutions to its demographic, social, economic and environmental challenges. The worst performing MS will have to launch serious steps to bridge the gap to the other EU members.

Part III

9. Europe 2020 in the Context of Economic Governance Reform

9.1. Introduction

The Lisbon Strategy was concluded in 2010. One of the weakest elements of the Strategy was its governance scheme, which was largely based on soft coordination instruments. A lack of adequate governance of the Lisbon Strategy, both at the EU and national levels, was one of the main reasons of Lisbon's general failure.[153] Hence postulates for improvements in governance strategy were formulated and met with broad support of the Member States during discussion about the new economic strategy. The timing of the adoption of the Europe 2020 strategy (the formal endorsement took place during the European Council meeting in June 2010) coincided with work on enhancing economic coordination in the EU.[154] Consequently, details concerning the governance cycle of Europe 2020 were hammered out in close connection with discussions about reinforcing economic coordination in the EU.

9.2. Governance of Europe 2020 in the Context of Economic Governance Reform

9.2.1. Main Differences with Lisbon Strategy

During the ten-year period of the Strategy, its governance system went through important modifications. At the relaunch of the Strategy in 2005, a clear distinction between national and community levels was introduced.[155] Governance of the Lisbon Strategy after 2005 became more strictly linked with a system of economic coordination and fiscal surveillance under the Stability and Growth Pact. In the case of the new strategy, this interrelation was improved in order to ensure more coherence between different dimensions of economic policies.

In comparison to the relaunched Lisbon Strategy, there are some important differences with respect to Europe 2020 governance.

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[153] See: European Commission, *Lisbon Strategy Evaluation Document*, SEC (2010) 114 final, 2.02.2010, p. 7.

[154] The strategy is based on the "3–5–7" concept: three priorities, five quantitative targets, seven flagship initiatives. These priorities are: smart, sustainable and inclusive growth. The five quantitative targets include: 75% of the population aged 20–64 should be employed; 3% of the EU's GDP should be invested in R&D; the "20/20/20" climate/energy targets should be met (including an increase to 30% of emissions reduction if the conditions are right); improving education levels, in particular by aiming to reduce school drop-out rates to less than 10% and by increasing the share of 30–34 years old having completed tertiary or equivalent education to at least 40%; promoting social inclusion, in particular through the reduction of poverty, by aiming to lift at least 20 million people out of the risk of poverty and exclusion. States had different opinions about the selection of the targets, especially concerning education and social cohesion. Poland was rather skeptical about the inclusion of the "20/20/20" target. The seven flagship initiatives are: "Innovation Union," "Youth on the move," "A digital agenda for Europe," "Resource efficient Europe," "An industrial policy for the globalisation era," "An agenda for new skills and jobs," and "European platform against poverty." These initiatives are the pillars of the European level of "Europe 2020," and all but one have been adopted by the European Commission in 2010. The effectiveness of implementation of Europe 2020 relies to a great extent on three levers of the strategy: the EU budget, the single market and external trade policy.

[155] See part II of the Report, p. 80.

First, there no longer will there be one single action plan document at the EU level, as was the case with the Community Lisbon Programme, adopted twice for three-year periods: 2005–2007 and 2008–2010. In the case of Europe 2020, actions made at the EU level are conducted through flagship initiatives with different Directorate-Generals (DGs) of the Commission responsible for them.

Second, a new Strategy does not envisage retaining the function of national coordinators of implementation of the agenda (the so-called Mr. or Ms. Lisbon) that were introduced in 2005. National Lisbon Coordinators (NLCs) had very limited impact on the implementation process in a majority of Member States. To some extent this was due to a relatively low real commitment of those who held these functions (in some cases, the functions were in the hands of ministers of economy, while in others the officials were in the prime minister's office). Meetings of the NLCs were usually held twice a year (during each presidency) but were largely fruitless, mainly because there were distinct limits to the influence NLCs had with their respective administrations.

National Reform Programmes (NRPs) remain basic documents for the implementation of targets at the national level, as they are prepared on the basis of Integrated Guidelines. The three-year programming cycle for a new strategy was not explicitly specified, but the Integrated Guidelines will remain in force until 2014, so in practice such a cycle can be retained.

9.2.2. Governance Elements of Europe 2020

The system of governance of Europe 2020 reflects the need to ensure consistency and coherence between macroeconomic (both fiscal and non-fiscal) policy and structural adjustments, and especially the need to bring together actions serving to reduce the deficit and public debt in the framework of fiscal consolidation while reaching the Europe 2020 targets. Such an approach was also attempted under the relaunched Lisbon Strategy post-2005. The coherence of all dimensions of the strategy is particularly necessary in the context of the current fiscal problems in the Member States.

NRPs are prepared on the basis of the Integrated Guidelines that include the Broad Economic Policy Guidelines (BEPGs, Art. 121.2 TFEU) and Employment Guidelines (EGs, Art. 148.2 TFEU). Both guidelines were merged into a singe document in 2005.[156] Most recently, the BEPGs and the EGs were adopted by the Council as

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[156] The Broad Economic Policy Guidelines are a central pillar of the coordination of non-fiscal aspects of the economic policy. The first BEPGs were published in 1993. Country-specific recommendations were for the first time issued in the BEPGs adopted in 1999. In 2001, the BEPGs for the first time included a reference to the euro area in recommendations referring to each euro-area Member States and during 2003–2005 the guidelines also started to contain specific recommendations directed to the euro-area as a whole. The BEPGs were merged with the EGs into a single document in 2005 and adopted on three-year periods. In 2008 they were prolonged until the next cycle of the Lisbon Strategy. See: European Commission, *EMU@10-Successes and challenges after ten years of Economic and Monetary Union*, European Economy, 2/2008, p.139, http://ec.europa.eu/economy_finance/publications/publication12682_en.pdf (accessed on 12 January 2011).

ECOFIN in July 2010 and EPSCO in October 2010, respectively.[157] The Integrated Guidelines for the Europe 2020 strategy consist of 10 recommendations, a number which is significantly lower in comparison to the situation between 2005 and 2010, when 24 guidelines were in force.

The current BEPGs include:

- Guideline 1: Ensuring the quality and sustainability of public finances (introducing "growth friendly" consolidation strategies in 2011 at the latest, including the implementation of necessary action in order to reduce the public deficit and debt under the Excessive Deficit Procedure and under the preventative arm of the Stability and Growth Pact);
- Guideline 2: Addressing macroeconomic imbalances (avoiding macro-economic imbalances and increasing competitiveness by reforms of the product, financial and labour markets, including wage issues);
- Guideline 3: Reducing imbalances in the euro area (introducing urgent action for reducing imbalances, especially in cases where countries have persistent current accounts deficits);
- Guideline 4: Optimising support for Research, Development and Innovation, strengthening the Knowledge Triangle and unleashing the potential of the digital economy (reviewing national innovation systems, promoting the Knowledge Triangle and the more effective allocation of spending on RD&I);
- Guideline 5: Improving resource efficiency and reducing greenhouse gas emissions by decoupling economic growth from resource use; developing a low-carbon economy by using different instruments, including financial, market-based and regulatory tools; investing in energy infrastructure; and, Guideline 6: Improving the business and consumer environments and modernising the industrial base (improve the functioning of the market and build a low-carbon and industrial base).

The Employment Guidelines contain the following points:

- Guideline 7: Increasing labour market participation and reducing structural unemployment (the development of *flexicurity*, effective use of EU funds and combating segmentation in the labour market);
- Guideline 8: Developing a skilled workforce responsive to labour market needs, promoting job quality and lifelong learning (promoting productivity and employability, developing a system that recognises professional qualifications, removing barriers to worker mobility, increasing employment of older workers and improving access to training);
- Guideline 9: Improving the performance of education and training systems at all levels, and increasing participation in tertiary education (improving lifelong learning, developing national education systems and reinforcing higher-education systems); and,

[157] *Recommendation for a Council Recommendation on broad guidelines for the economic policies of the Member States and of the Union*, Brussels, 7 July 2010 (OR. en) 11646/10, http://register.consilium.europa.eu/pdf/en/10/st11/st11646.en10.pdf (accessed on 12 January 2011); *Council decision on guidelines for the employment policies of the Member States*, Brussels, 12 October 2010 (OR. en), 14338/10, http://register.consilium.europa.eu/pdf/en/10/st14/st14338.en10.pdf (accessed on 12 January 2011).

– Guideline 10: Promoting social inclusion and combating poverty (improving public services, promoting labour market participation, reforming health and protection systems).

The NRPs as prepared by Member States should contain three parts, namely:

– A macroeconomic scenario that directly refers to fiscal issues under SGP;
– A macroeconomic surveillance block that tackles Guidelines 1–3; and,
– Thematic coordination that should focus on the actions recommended in Guidelines 4–10.

The NRPs should include a concrete measure for achieving headline targets under thematic coordination.[158] Information about internal ownership and coordination should also be included in the reform programme.

Macroeconomic surveillance and thematic coordination form the backbone of Europe 2020 governance. These elements will be accompanied by fiscal surveillance in the framework of the SGP. In contrast to the NRPs prepared under the renewed Lisbon Strategy, there is no clear distinction between the macroeconomic, microeconomic and employment parts, but the modified format of the NRPs reflects the strict interrelations and coherence of all dimensions.

9.3. Reinforcing EU Economic Policy Coordination

9.3.1. Context of the Reform and Progress Achieved in 2010

Reinforcing macroeconomic surveillance is vitally important from any perspective for the implementation of the Europe 2020 strategy. Despite postulates for stronger coordination of economic policy formulated during the discussion about the Europe 2020 strategy (especially by Spain, which held the presidency in the first half of 2010), there was no serious debate concerning this issue at the beginning of 2010.[159] The Greek crisis and its implications for the euro area were key factors that stimulated this debate, leading in March 2010 to the creation of a task force chaired by Herman van Rompuy, the permanent president of the European Council. The task force gathered representatives from all Member States (mainly, ministers of finance), the European Commission (Commissioner Olli Rehn), European Central Bank (President Jean-Claude Trichet) and the Eurogroup (Jean-Claude Juncker). It worked between May and October.[160] Important contributions to this discussion were provided by the European Commission, which presented two communications (in May and in June)[161] and put forward legislative

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158 European Commission, *Governance, tools and policy cycle of Europe 2020*, p. 5, http://ec.euro pa.eu/europe2020/pdf/annex_swd_implementation_last_version_15-07-2010.pdf (accessed on 5 January 2011).

159 European Commission, *Europe 2020 – public consultation overview of responses* http://register.consilium.europa.eu/pdf/en/10/st07/st07508.en10.pdf p.8 (accessed on 5 January 2011).

160 Van Rompuy' task force met six times (21 May, 7 June, 12 July, 6 September, 27 September and 18 October). Preparatory work was done by a special Sherpa committee that had seven meetings. The final report was dated 21 October.

161 See: European Commission, *Reinforcing economic policy coordination*, Brussels, 12 May 2010 COM (2010) 250 final, http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2010:0250:FIN:EN:PDF (12 01 2011); European Commission, *Enhancing economic policy coordination for stability, growth and jobs – Tools for stronger EU economic governance*, Brussels, 30 June 2010 COM (2010) 367 final, http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2010:0367:FIN:EN:PDF (accessed on 12 January 2011).

proposals (five regulations and one directive) concerning this issues on 29 September. Substantial value was added to this work by the European Central Bank.[162] The task force's report was endorsed by the European Council in October 2010.[163]

The main elements of reform are:

– Strengthening fiscal surveillance within the Stability and Growth Pact;
– Deepening non-fiscal macroeconomic surveillance;
– Setting up a cycle of economic policy coordination in the EU; and,
– Creating a permanent crisis-resolution mechanism.

The task force concentrated its discussions mainly on the first three points. The problem of a crisis-resolution mechanism was *de facto* given less attention by the task force, because in short term perspective this problem was partly solved by setting up EFSM and EFSF. However, after the Deauville French-German declaration, this issue became top priority in the context of economic governance. The whole process of the finalisation of economic governance reforms has been proceeding via two tracks. The first one deals with the adoption of the legislative package, and has proceeded since September 2010 under ordinary legislative procedure. It should conclude by the deadline of June 2011. This work goes on in the Council, and in Parliament.[164]

Table 25. Key Stages in EU Economic Governance Reform in 2010

March 2010	The European Council set up a task force on economic governance under the chairmanship of Herman Van Rompuy.
May 2010	The European Commission presented its first communication "Reinforcing economic policy coordination."
	Van Rompuy's task force started work.
June 2010	The European Council endorsed the Europe 2020 strategy.
	The Commission published a second communication, "Enhancing economic policy coordination for stability, growth and jobs: Tools for stronger EU economic governance."
	The European Central Bank put forward its proposals concerning reinforcing economic governance in the euro area.

162 The president of the ECB, Jean-Claude Trichet, did not agree with all the recommendations of the task force, underlining that they are not ambitious enough. The ECB postulated far-reaching solutions and a "quantum leap" to improve the whole system of economic governance. Among its main proposals were: introducing *quasi*-automatic sanctions that should be applied earlier, broadening the scope of sanctions, and *quasi*-automatic actions of EDP procedure, the establishment of an independent EU fiscal agency, improving the position of the EC in surveillance, establishing a detailed system of competitiveness surveillance and creating a crisis resolution framework. See: European Central Bank, *Reinforcing economic governance in the euro area*, 10 June 2010.

163 *Strengthening economic governance in the EU*, Report of the task force to the European Council, Brussels, 21 October 2010, www.consilium.europa.eu/uedocs/cMember States_data/docs/press data/en/ec/117236.pdf (accessed on 12 January 2011).

164 A proposal for a Council Regulation amending (EC) no 1467/97 on the speeding up and clarification of the implementation of the excessive deficit procedure and proposals for a Directive on requirements for budgetary frameworks will be adopted by the Council, after consultation with the European Parliament. The rest of the proposals will be adopted through ordinary legislative procedure. For proposals referring to an enforcement mechanism in the euro zone, a decision in the Council will be adopted only by euro area Member States.

July 2010	The ECOFIN Council agreed to implement the "European Semester" from the beginning of 2011.
September 2010	The Commission published its legislative proposals on economic governance.*
October 2010	Germany and France agreed on key features of economic governance reform and proposed to set up a permanent crisis resolution mechanism.
	The task force adopted its report, which was endorsed by the European Council.
	Head of states and governments agreed that a permanent crisis-resolution mechanism should be established and that limited Treaty changes were necessary.
November 2010	An *ad hoc* working group in the Council to deal with the legislative package was established. A special sub-working group for the euro area also was set up.
	The Eurogroup specified the key features of the European Stability Mechanism.
December 2010	The European Council adopted a draft decision related to a Treaty change in Art. 136 TFEU. The European Council called for adoption of the legislative package by June 2011.

* The package includes the following proposals:
– a Council Regulation amending (EC) 1467/97 on the speeding up and clarification of the implementation of the excessive deficit procedure, COM (2010) 522 final;
– a Regulation amending Regulation (EC) no 1466/97 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policy, COM (2010) 526 final;
– a Regulation on the prevention and correction of macroeconomic imbalances, COM (2010) 527 final;
– a Regulation on the effective enforcement of budgetary surveillance in the euro area, COM (2010) 524 final;
– a Regulation on enforcement measures to correct excessive macroeconomic imbalances in the euro area, COM (2010) 524 final;
– a Directive on requirements for budgetary frameworks for Member States, COM(2010) 523 final.

Source: Prepared by the authors.

The second track is to adopt treaty changes under a simplified revision procedure according to Art. 48.6 TEU. It is supposed to set an intergovernmental agreement for establishing the European Stability Mechanism. The key players are the European Council, Eurogroup and the European Commission.[165]

The most relevant elements of economic governance for Europe 2020 include fiscal surveillance, non-fiscal surveillance as well as the European Semester.

9.3.2. Fiscal Surveillance

All states agreed that preventive and corrective parts of the Stability and Growth Pact should be improved both in prevention and correction. The preventive part of the Pact (Regulation 1466/97) provides the framework for the surveillance of budgetary policies in Member States and is based on the Stability and Convergence programmes. The corrective part of the Pact specifies details for implementing of the Excessive Deficit Procedure (Regulation 1467/97). Among the accepted proposals for the preventive part is a more detailed monitoring of Member States as to whether they achieve their

165 More details about the creation of the ESM can be found in Chapter 1.4.

Medium Term Objective[166] (MTO), which is enshrined in the Stability or Convergence programme (SCP). The Commission proposed the introduction of the principle of prudent fiscal policy-making, which will provide that annual growth of budget expenditures should not exceed the medium-term rate of growth of GDP, and should be below this threshold if the MTO has not been achieved, unless the MTO was overachieved or this growth was offset by more revenues. In case of deviations from prudent fiscal policy making, the concerned Member States would be warned by the Commission and, at a later stage, the Council could issue a recommendation on the basis of Art. 121.4 TFEU. Finally the European Commission proposed that the enforcement mechanism—an interest-bearing deposit amounting to 0.2% GDP—would be imposed against a euro area Member State that remains in noncompliance with the recommendation.

Among the accepted proposals for the corrective part are

- **Putting more emphasis on debt sustainability**. Debt criterion will be taken into consideration during the initiation of the Excessive Deficit Procedure (EDP). In case of deviation from the reduction path away from debt exceeding 60% (the pace of reduction should comply with a specified numerical benchmark of 1/20 per year over three previous years) and existing negative factors referring to development of debt, EDP will be opened even when the deficit is kept below 3%. Following this logic, a reduction of the deficit below 3% would not be sufficient to abrogate EDP in case of a failure to reduce excessive debt;
- **Reinforcing sanctions under the Excessive Deficit Procedure**. Van Rompuy's task force agreed that new sanctions should be, in the first stage, related only to euro area Member States and that there should be non-interest-bearing deposits (0.2% of GDP) and fines. According to the Commission's proposal, the sanction of 0.2% of GDP in a non-interest-bearing deposit would be imposed immediately after the opening of the EDP (Art. 126.6 TFEU). However, the task force decided that such a sanction should only be applied once a Member State has failed to take effective action within a time period specified by the Council (in the case of particularly serious situations, sanctions could be applied immediately). In case a Member State was punished under the framework of the preventive part of the SGP, an interest-bearing deposit would be transformed into a non-interest-bearing deposit. In case of non-compliance with the recommendations adopted by the Council, the fine (the Commission-proposed 0.2% of GDP) would be applied on the basis of Art. 126.8 TFEU. These new sanctions will supplement existing enforcement measures[167] provided for in Art. 126.11 TFEU for euro area members. At the second stage, a broad system of sanctions will cover all Member States (with the exemption of the United Kingdom because of

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[166] The medium-term objective is a specified target of public deficit that is inserted into Stability/Convergence programmes adopted by Member States.

[167] Sanctions include: a requirement of Member States to publish additional information specified by the Council about public finances before issuing bonds and securities; invitation a European Investment Bank to reconsider its lending policy towards the Member States concerned, requirement of the Member State concerned to make a non-interest-bearing deposit of an appropriate size with the Union until the excessive deficit has, in the view of the Council, been corrected, and to impose fines of an appropriate size.

Protocol 15 of the Treaties).[168] Among Member States, general consent has emerged for sanctions to be extended to all states and to include restrictions on transfers from the EU budget. However, they have not yet agreed about the scope of budgetary sanctions. The Commission proposed the establishment of a two-stage system for suspending transfers from the EU budget (applicable to the structural and agricultural funds and the fisheries fund). In stage one, we could see the suspension of budgetary EU commitments as a result of the opening of an EDP, but no automatic suspension of payments would follow. A state's failure to take effective deficit-reducing measures would result in stage two, the cancellation of commitments, i.e., the loss of payments. In the case of funds targeted at agriculture and fisheries, the loss would concern transfers to the national budget, while, under the European Commission's proposal, it would not affect funds channelled to the end beneficiaries. The task force recommended to introduce a conditionally rule on compliance with the Pact rules into new regulations of structural, agricultural and fisheries funds prepared in the context of the future Multiannual Financial Framework; a transfer from the EU could be suspended in case of persistent breach of the Pact rules.

– **Pension reforms in EDP**. The task force underlined that special attention should be paid to the impact of pension reforms in the implementation of the SGP. Nine Member States, including Poland, proposed that the cost of reforms should be reflected in the methodology of measurements of debt. Such an approach was not supported by other partners or by the Commission, but in its legislative proposal for amending Council Regulation 1467/97 the Commission stated that the impact of reform on debt should be taken into consideration in the transition period.[169] In a report to the European Council in December 2010, ECOFIN supported this approach and stressed that features of the pension system in certain states should be analysed (as to whether it promoted long-term sustainability) when it came to an assessment of their fiscal positions in the framework of preventive and corrective parts of the SGP.[170]
– **Applying sanctions in a more automatic manner**. According to the task force report, decisions related to the imposition of new sanctions should be made following a reverse qualified majority vote. After the Commission issues its proposal, sanction shall be applied unless qualified majority of Member States in the Council vote against. This application of semi-automatic sanctions increases the prospects that the entire procedure would be less discretionary.

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168 This protocol provides a British „opt-out" from participation in the third stage of the EMU.

169 In Art. 1.2e of the 29 September 2010 Commission proposal for amending Council Regulation 1467/97, the Commission stated, that "Commission and the Council shall also consider the cost of the reform to the publicly managed pillar when assessing developments in EDP deficit and debt figures. In cases where the debt ratio exceeds the reference value, the cost of the reform shall be considered only if the deficit remains close to the reference value. For that purpose, for a period of five years starting from the date of entry into force of such a reform, consideration shall be given to its net cost as reflected in deficit and debt developments on the basis of a linear degressive scale. Additionally, irrespective of the date of entry into force of the reform, its net cost as reflected in debt developments shall be given consideration for a transitional period of five years from [date of entry into force of this Regulation, to be inserted] on the basis of the same linear degressive scale."

170 Preparation for the European Council of 16 and 17 December 2010, Council Report on the treatment of systemic pension reform under the Stability and Growth Pact, 17618/10.

– **Improving fiscal framework and statistics**. The task force also concluded that reinforcing surveillance at the EU should be accompanied by the introduction of a strong fiscal framework at the national level. In this context, the European Commission proposed a directive on requirements for national fiscal frameworks. Other essential recommended action is to strengthen the quality of national statistics. Some progress in this respect has already been made, namely the regulation the Council adopted in July 2010 that increased the audit power of Eurostat, which obtained the right to carry out methodological visits in Member States and a wider scope of access to national statistics.[171]

9.3.3. Non-fiscal Surveillance

The deepening of non-fiscal surveillance was a key task during the work of Van Rompuy's group. The task force recommended a new surveillance mechanism, which will be used for monitoring macroeconomic imbalances and competitiveness within the EU, especially in the euro area. The new framework will be based on Art. 121 TFEU (in the case of the euro area, also on Art. 136) and includes preventive and corrective measures.

On the preventive side, the key instrument will be an alert mechanism that will be based on a scoreboard of indicators (such as currents accounts deficit, external debt, real effective exchange rate and private and public sector debts). If the indicators reveal distressing imbalance trends in a given state, it will come under in-depth review. If serious problems are identified, the Council may act based on Art. 121.4 TFEU and open the corrective part, which is underpinned by an "excessive imbalance procedure" providing for close surveillance and regular reporting to the Council. Member States in question will be required to submit a corrective action plan (CAP), which will be assessed by the Council within two months. The Commission will then monitor the progress of implementation of the CAP and carry out surveillance missions in the country. If there's a lack of progress, a revised recommendation can be adopted by the Council. Persistent failure to tackle the imbalances by a euro area Member State can lead to the imposition of a fine amounting to 0.1% of GDP (still semi-automatic, based on the reversed majority vote). The European Systemic Risk Board (ESRB)—a new supervisory body that will provide assessments of macro-financial situations in the EU and Member States—can provide important input into this process. ESRB can be seen as an interface between financial supervision and macroeconomic surveillance.[172]

9.3.4. European Semester

The introduction of an integrated cycle of economic policy coordination was the first concrete result of economic governance reform. Governance of the Europe 2020 is a core element of this cycle.

European Semester was started in January 2011 with the publication the Annual Growth Survey (AGS) by the European Commission. It attempts to assess the economic

[171] See: Council Regulation (EU) 679/2010 of 26 July 2010 amending Regulation (EC) 479/2009 as regards the quality of statistical data in the context of the excessive deficit procedure.

[172] M. Buti, M. Larch, *Stronger EU economic governance: A response to the critics,* VoxEU 25 October 2010, www.voxeu.com/index.php?q=node/5709 (accessed on 12 January 2011).

situation in the euro area and in the whole EU, and the related challenges. This survey contains both a review and a look forward. The first AGS consists of four elements:

- a communication from the Commission about the "Annual Growth Survey;"
- a progress report on the Europe 2020 implementation;
- a macroeconomic report; and,
- a Joint Employment Report.

The AGS has been followed by a debate in Parliament and the Council, and the first phase of the semester will be completed with the adoption of strategic guidance by the European Council. Conclusions of European Council meetings are to be taken into account during the preparation of the SCPs and NRPs by the Member States. Thereafter, both programmes will be submitted to the European Commission by the end of April each year. SCPs are to contain, among other things, basic information on budget plans, including macroeconomic projections, revenue and expenditure forecasts for the next year (Y + 1) as well as a description of the main components thereof.

Based on a Commission proposal, the Council will issue country-specific recommendations (CSR) concerning non-fiscal issues. These recommendations will be based on Art. 121 TFEU. Council opinions about the SCPs will be issued at the same time. This will end the entire cycle.

In the transition period until the full introduction of the European Semester, the Commission consulted the content of their NRPs with the Member States and they were requested to submit their drafts in November 2010. The process of consultation between Member States and the Commission was continued after the adoption of the AGS.

9.4. Prospects

Setting up the Europe 2020 governance system will be fully completed once the legislative package on economic governance is adopted. Among the Member States there is very strong political commitment to finalise the legislative work of the whole package by June 2011; hence chances to meet this deadline are very high. Missing this deadline would be a very bad signal in general as well as for financial market participants.

The conditions for effective governance of the new strategy are:

- strong ownership of the strategy by the European Council;
- the political determination to carry out reforms in the framework of NRPs;
- a strong and assertive position by the European Commission in the process of the economic coordination cycle; and,
- an active role for the Eurogroup in the process of fiscal and non-fiscal surveillance in the euro area.

The effectiveness of the Europe 2020 governance will strictly depend on the whole process of economic governance in the EU. In contrast to budgetary surveillance, non-fiscal surveillance will be largely based on soft instruments, with the exemption of an enforcement mechanism for failure to tackle imbalances, envisaged for euro area members. This lack of hard measures applied to all members can affect the effectiveness of surveillance, which will to large extent hinge on the credibility of political commitments endorsed by the European Council. The political will of national leaders

to implement reforms is a critical condition for the success of the whole process of non-fiscal coordination. Without strong political determination, an the entire system of governance will become a failure.

The central role attributed to the European Council in the cycle of economic policy has long been clear given the Lisbon experiences, as well as the recent situation in the euro area—all required the extraordinary involvement of the leaders. The agenda of the European Council has largely been dominated by economic issues after the outbreak of the financial and economic crisis. Herman Van Rompuy personally put great emphasis on the further "economisation" of summit agendas. His idea to arrange thematic summits focusing on particular aspects of the Europe 2020 strategy (as innovations, RD&I and energy) has been met with rather positive feedback from national leaders. However, the necessity to react to extraordinary situations in the euro area overshadowed other issues during the summits in 2010.[173] Of course, there is a risk that the European Council would lose attention to this process and that the "business as usual approach" would dominate, as was the case with the Lisbon Strategy, where spring summits were usually unproductive (with the exception of 2005).

From the perspective of non-euro area members it is vitally important to preserve the inclusion of all Member States in the decision-making process regarding economic coordination at the highest level. Any form of the institutionalisation of meetings of euro area leaders would be unfavourable and unacceptable for Member States outside of euro area.

The role of the Eurogroup in the surveillance process, and especially regarding macroeconomic imbalances, should be improved. Until now, some general surveillance of competiveness was conducted during meetings of euro area finance ministers, but it was a rather informal discussion with a lack of strong recommendations. With the Lisbon Treaty in force, the Eurogroup obtained a stronger position that will be further reinforced after the adoption of economic governance reform. Against this background, it is vital to ensure good communication between the Eurogroup and the ECOFIN Council.

It is also certain that the European Commission plays a primary role in the entire process of economic governance. The Lisbon Treaty gave a Commission a new instrument, namely the opportunity (on the basis of Art. 121.4 TFEU) to issue warnings to states that do not comply with BEPGs. The frequency of the use of this new instrument will be perceived as an indicator of the Commission's real political weight.

The Commission should improve its internal coordination in relation to the European Semester cycle, especially between the Secretariat General, the Directorate General for Economic and Financial Affairs (DG ECFIN) and the Directorate General for Employment, Social Issues and Inclusion (DG EMPL). With respect to macroeconomic policy surveillance, the key responsibility lies with DG ECFIN, whose position needs to be strengthened. Against this background, a right step in this direction was taken by President Barroso to separate work on analytical and political parts of recommendations that are delivered to the Council in the framework of the EDP and to increase staff level in this DG. The number of staff in SG and DG EMPL should also increase. All analytical

173 The first thematic meeting of the European Council was focused on relations with strategic partners and held on 16 September 2010. The European Council was to discuss innovations in October 2010. A very busy Council agenda provoked its postponement onto the February 2011 summit.

instruments that can help gauge progress in the framework of thematic coordination should be further developed and used in daily work by the Commission.[174]

As regards Europe 2020 implementation, cooperation between various commissioners in the framework of relevant "commissioners groups" should be strengthened.[175]

9.5. Conclusions

Better coordination of economic policy, especially in its non-fiscal dimension, increases the prospects for a more successful delivery of an economic strategy for this decade. From this point of view, there was no better time to launch a reform of the economic governance system than in the year preceding the start of the new strategy. The national dimension of the Strategy provides a framework for structural reforms, including actions for tackling the problem of macroeconomic imbalances. Effective implementation of structural actions, especially leading to a reduction of imbalances and an increase in competiveness, would be the desired outcome of economic governance reform.

The real question is to what extent the new governance framework will properly provide solutions to the key problems the EU faces, e.g., macroeconomic imbalances. Of course, in practice the framework will reveal how the situation in this respect can evolve. Some critics argue that the new framework for the monitoring of imbalances will be ineffective, because it does not properly reflect the nature of imbalances that cannot be tackled in the short-term.

The priority of Member States is to prepare and implement politically credible and ambitious NRPs and SCPs. At the EU level, the key priority is to adopt the legislative package on economic governance as fast as possible.

It needs to be underlined that even the most sophisticated governance mechanisms will not bring far-reaching progress in case of insufficient political will to implement necessary actions. It seems that in many states political will is stronger than in the past because of the current crisis, but such a determination cannot be taken for granted. The main challenge is to avoid the situation of, quoting Jean Pisani-Ferry, "Brussels talking to Brussels"[176] so that that entire coordination process does not attract sufficient attention of the Member States and is *de facto* limited to EU institutions. In this context, the building of strong ownership of the reforms at the national level is necessary.

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174 With respect to the monitoring of employment policy, in the framework of non-fiscal surveillance, the Commission, in cooperation with the Employment Committee (EMCO) and the Social Protection Committee (SPC), proposed to create a special analytical instrument—the Joint Assessment Framework (JAF)—that would help identify the progress of implementation of Employment guidelines and headline targets. Another useful analytical instrument is the LAF (Lime Assessment Framework), which was specified in 2007 as a tool to identify policies that are relevant for raising growth potential. See: European Commission, http://ec.europa.eu/economy_finance/db_indicators/laf/index_en.htm (accessed on 12 January 2011).

175 President Barroso decided to establish in the present term of the College the following groups commissioners: external relations, innovation, internal market, industrial policy, digital agenda, climate change, pensions, budget and financial perspectives. During the term 2004–2009, a "group of Lisbon commissioners" under the chairmanship of Barroso focused on all aspects related to the Lisbon Strategy. Source: *Commissioners groups*, Information note from the President, SEC(2010) 475 final, 22 April 2010.

176 J. Pisani-Ferry, "Only One Bed for Two Dreams: A Critical Retrospective on the Debate over the Economic Governance of the Euro Area," *Journal of Common Market Studies*, 2006, vol. 44, no. 4. pp. 823–844.

Part IV

General Conclusions and Recommendations:

1. After ten years of Lisbon Strategy implementation there is no clear picture of the overall process. This year's report, like previous ones, confirmed that progress is very uneven between sectors and Member States. All factors that have shaped such a conclusion were pointed out in previous PISM reports and remain valid. In current circumstances, the Lisbon performance of the Member States is to a large extent perceived via their ability to tackle the effects of the global crisis. From this point of view, Germany can be seen as a Member State that deserves distinction for its macroeconomic results and strong recovery in 2010. Good macroeconomic performances in Sweden, Denmark and Finland proved that their economies were built on a sustainable basis, which augurs well for further leadership on Lisbon issues. From the opposite side, the situation in Greece only confirmed the weak results of the Lisbon implementation in that country. An assessment of Ireland is much more complicated. Ireland performs relatively well in some sectors of Lisbon, especially in entrepreneurship and the internal market, but its current macro-financial situation is the effect of serious mistakes and flaws in its economic policy for many years. The current macro-financial position of Ireland negatively affected the assessment of the Irish performance in Lisbon Strategy in 2010. The positions of other states did not change much in comparison to the preceding year. The group of medium-performers on Lisbon includes the majority of Member States.
2. In leading Lisbon sectors, such as **entrepreneurship** and the **single market**, the problems that were indicated in previous PISM reports remain valid. Recent progress in these areas has been weak and insufficient. Many bottlenecks still exist in these fields. As a result, business potential in Europe cannot be fully unleashed. Hence, further actions are needed in order to reap the greater benefits of the functioning of the market in the EU, especially for SME and consumers. A particular role in this respect can be attributed to the regulatory policy of the EU. A "smart regulation" approach should be the first pillar of this policy. The EU should consider setting up new reduction targets concerning administrative burdens, as was suggested by the UK government.[177] The single market issues are not high on the current political agenda of the EU and this should change. The lack of strong ownership at the EU and national levels hinders progress, e.g., the liberalisation of some sectors of the markets and better transposition of directives. Proper implementation of the Single Market Act can be only possible when there is full political will at the EU and national level.
3. **The Knowledge Triangle** remains an area that needs substantial improvement in the EU. Member States should increase the quantity or quality of RD&I spending, which is considerably lower than in the U.S., Japan or South Korea. Greater importance should be attached to an increase in business RD&I spending through such measures as tax incentives and PPP encouragement. In the field of education, EU Member States should improve their strategies for lifelong learning. Some educational systems, especially in Greece, Romania and Bulgaria, need to be urgently reformed in order to increase the quality of education. The academic quality of the universities in the EU needs to be

[177] See "A confident future of Europe," speech of Prime Minister David Cameron at the World Economic Forum in Davos, 28 January 2011.

improved, especially in most of the new Member States, Greece and Italy. This should be done through the financial reforms, improvements in the quality of the academic staff through cooperation with foreign partners and the introduction of public competitions for academic posts, and greater openness to the market. British universities could be examples. Due to the difficult fiscal situation in most of the Member States they could introduce a system of tuition and fees connected to an EU-wide system of student loans. In this regard, the EU budget and EIB funding could be used. Any new sources of higher-education financing should be strictly related to thorough management reform of the universities in most of the Member States, e.g., the introduction of open competitions for academic posts based on academic performance. EU Member States should adopt ambitious NRPs in order to fulfil the objectives of the Europe 2020 flagship initiatives. The Commission should pay special attention to countries that have serious problems catching up with other Member States. Quick progress in the field of innovations cannot be achieved without a final positive solution to the patent issue. **Information society** is an area that should be treated in conjunction with other areas, such as the Knowledge Triangle, and develop steadily despite the global economic and financial crisis, though it will vary among the Member States. Poland, Bulgaria and Romania should pay special attention to the Information Society and Knowledge Triangle sectors in order to diminish the gap to the other Member States. The overall number of Internet users is growing rapidly, and the share of broadband connections and e-governance availability is increasing. The ICT sector should be treated as the highest priority as it is a core element of competition in the global market. The new strategy is well-focused on Information Society issues, but Member States' efforts are necessary in order to move closer to the objectives, using PPP cooperation and linking different policy areas at the EU, national and regional levels.

4. **Energy and climate change** is one of the core areas of EU activity in the internal and external sphere. The EU should increase efforts to build a more complex binding international agreement on climate change issues. In some areas, the EU performance is not sufficient, especially concerning the investment and development of the alternative energy sector, cogeneration and the general ability to achieve 20/20/20 objectives. The energy sector liberalisation deadlock should be overcome in order to enhance competition in this market and boost investments in green technologies. The new Multiannual Financial Frameworks should be better adjusted to investments in low-carbon energy if the EU wants to continue to play a major role in this sector.

   The Energy and Climate sector is closely correlated with others, such as the single market, research and development or employment, therefore the successful implementation of objectives depends to a large extent on cooperation between these sectors.

5. The situation in the **EU labour market** remains worrying, especially with respect to young people and temporary workers. Unemployment problems have been undermining the social situation. According to the Commission, about 80 million people in the EU are still living at risk of poverty and a quarter of them are children. The recent economic and financial crisis, followed by a radical fiscal consolidation of some national budgets, resulted in a wave of unemployment of young people and temporary workers. Decreasing national social security budgets will require an effective use of the remaining **social policy** tools. The EU is also facing dramatic demographic

trends that will undermine the structure of pension schemes, which have to be modified while taking into account the aging population. In order to prevent the collapse of the pension schemes, the retirement age should be raised in most EU Member States and the employment rate among the professionally-active population should be increased. Pension system reforms should be conducted in many Member States in the coming years. The EU should develop a common approach towards pension reforms based on features underlined in the Commission's Green Paper of July 2010 (securing the adequacy of retirement income and ensuring sustainability of public financing and the sustainability between time spent at work and in retirement) and should improve mutual learning and sharing experiences between EU states concerning the preparation and implementation of pension reforms.[178] The EU also needs to be open to migration from third countries in order to tackle labour shortages in the future. The governments should make more efforts to ensure greater cross-border labour mobility between Member States, followed by mounting compatibility of the social security and pension systems.

6. The fiscal crisis that spread across the EU can be detrimental to growth, and weaken the prospect for a successful implementation of the Europe 2020 agenda. For countries that have been facing the most serious fiscal troubles, implementation of the strategy may be a very difficult challenge. "Friendly consolidation" is not a possible option for the most deficit and debt-laden states. The harsh fiscal consolidation required in these states can entail a reduction of spending in areas that are relevant for the new strategy and would, therefore, derail actions aimed at achieving headline targets at the national level. The main challenge for the EU in the coming years is to combine consolidation efforts with the implementation of the NRPs. The new Multiannual Financial Framework (2014–2020), and cohesion policy should be more oriented to the Europe 2020 objectives. Links between cohesion and competitiveness should be better reflected in the new MFF.
7. Although the general outcome of Lisbon implementation is disappointing, it allowed improvements in the strategic-oriented programming of economic policy at the EU and national levels. The value added by the Lisbon Strategy consisted of creating a link between different dimensions of economic policies (macroeconomic, microeconomic and employment). The weak governance of the Strategy hindered smooth implementation of this coherent approach to economic policy. From this point of view, effective governance of the Europe 2020 strategy, both at the EU and the national levels, is one of the key conditions of its success. The full engagement of all EU institutions, especially the European Council, is necessary in order to deliver concrete results. At the national level, the implementation process of the new strategy should become a pillar of economic policy programming. The EU and Member States have to improve communication strategy referring to Europe 2020 in order to attract greater public interest and strengthen the awareness of the need to conduct reforms.

[178] European Commission, *Towards adequate, sustainable and safe European pension systems in Member States*, Green Paper, COM (2010) 365 final, http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2010:0365:FIN:EN:PDF (accessed on 2 February 2011).

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