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I. INTRODUCTION

1. The EU has a well-defined **economic policy strategy** based on growth- and stability-oriented macroeconomic policies and continuous progress in economic reform. It allows to respond flexibly to changing economic conditions in the short run whilst safeguarding and strengthening the productive capacity of the economy over the medium term.
2. The successful launch of the **euro notes and coins** marks the final step towards European Monetary Union, bringing into being a monetary area of over 300 million people. The euro stands as an important contribution to the stability of the international monetary system and the world economy, while acting as a spur to deeper integration and the idea of "more Europe".

3. The euro's circulation will speed up the integration of Euro area economies, and contribute to create new investment opportunities, increased growth and stronger job creation. The advance towards fuller integration and interdependence also demands the reinforcement and continued implementation of the EU's economic policy strategy.
4. The Barcelona European Council must work to strengthen the operational bases of Economic and Monetary Union and the completion of the internal market. The goal is a **co-ordinated response** which stresses clear national responsibilities in laying the groundwork for Europe's medium- and long-term growth. Now more than ever, economic policy **messages** must be **clear, unequivocal and backed by forceful implementation**. Commitment is essential to ensure that a sustained recovery takes hold. This means, ultimately, giving credibility and impetus to the economic reform drive begun in Lisbon and developed in Stockholm and safeguarding the credibility of the macroeconomic framework.
5. The **BEPGs** are at the centre of economic policy co-ordination in the European Union. They must be concise, concentrate on the main challenges facing the Union, with particular focus on the Euro area, where co-ordination is most needed, and help to ensure that measures adopted in all Community economic co-ordination processes are consistent with it.

II. ECONOMIC SETTING AND OUTLOOK

6. The current **economic context** is one of an incipient global recovery after the steep decline in 2001. Some leading indicators are starting to signal that the economic situation is stabilising and signs that economic activity is poised to firm have become more prevalent. However, uncertainty persists about the timing, scale and robustness of recovery, and downside risks remain.

7. The **macroeconomic policy response to the slowdown** has been swift and decisive. The monetary authorities have reduced interest rates, in the absence of prospective inflation pressures, while fiscal policy has played its role through the functioning of the automatic stabilisers which contribute importantly to cushioning fluctuations in output growth. The rapid response of economic policy, sound fundamentals, and a restoration of confidence provide a **platform for recovery**. The prospects for a sustained recovery need to be enhanced by taking structural reform measures so to increase the potential for growth.

III. THE ECONOMIC POLICY STRATEGY OF THE EUROPEAN UNION

1. Macroeconomic policy

8. The Euro area is a monetary union working under a single and independent monetary policy and decentralised but co-ordinated fiscal policies. There is a need, therefore, to make further progress to:

- improve **monitoring and evaluation of Euro area economic trends**. This means more work to improve and harmonise the methodologies used to draw up Euro area statistics and indicators.
- conduct a **systematic analysis of the area's policy-mix** in order to assess the implications of monetary and fiscal policies on the Euro area economic developments including inflation, wage developments, investment as well as euro exchange rates.
- reinforce existing **economic, in particular fiscal, policy co-ordination** mechanisms within the Eurogroup.

9. The co-ordination of fiscal policies is anchored on a commitment to the budgetary stability and the rules of the game agreed in the **Stability and Growth Pact**. Member States will maintain or respect the medium-term budgetary objective of close to balance or in surplus by 2004 at the latest.

Automatic stabilisers should be allowed to play symmetrically, both in upturns and in downturns, provided the 3% of GDP limit is not breached in downturns. This means in particular that in expansionary phases growth dividends should be fully reaped.

Member States could make use of discretionary policy only if they have created the necessary room for manoeuvre.

10. More effort and co-ordination is required concerning the long-term **quality and sustainability** of public finances:

- **quality** means achieving the appropriate structure of government revenues and expenditures to ensure sound and sustainable public finances while raising the potential growth of Union economies. In this light, tax and spending reforms must aim at creating the conditions to foster employment and investment, while adhering to the medium-term objective of a budgetary position close-to-balance-or-in-surplus.
- **sustainability** demands a multi-disciplinary strategy which can address the impact of population ageing, including health care needs, while ensuring the long-term solvency of European public accounts. The strategy should be built upon further reductions of public debt, increases in employment rates and reforms of pension systems themselves.

2. Structural reform policy

2.1. Product market reforms

11. Measures to liberalise, open up, integrate and build competition in European goods and services markets contribute to a truly flexible productive system, able to direct resources where they can be most profitably employed and so boost production, employment, income and welfare. This conviction is shared by all EU Member States and is the spirit behind the ambitious economic reform agenda set by the Lisbon summit.
12. National economic reforms can be made more effective through co-ordination and their speeding-up to the level of best performers. A synchronous structural reform policy, consistently applied, provides the following advantages:
- it equips Economic and Monetary Union to cope with external shocks, enhancing the flexibility of markets.
 - the harnessing of major synergies.
 - an optimal allocation of resources, based on commonly undertaken liberalisation steps.
 - the avoidance of bottlenecks and disruption in services.
 - the assurance that European operators are competing on an equal footing.

In addition, it is important to improve the tax environment by enhancing cooperation between Member States in curbing harmful tax regimes and tackling fiscal fraud.

Reforms in network industries

13. Good progress has been made towards liberalising network industries, but there is still a long way to go:

- **liberalisation advances** have not progressed in parallel in Member States .
- the possibilities for intra-community trade are limited: **entry barriers** to national markets remain, little headway has been made regarding **interconnections**, and exchanges between Member States are generally few and far between.

14. The sectors most urgently in need of new reform measures are energy and transport.

Liberalising strategies must distinguish between two clearly differentiated aspects: interconnection and effective liberalisation. These liberalising strategies must also take into account that these network industries fulfill general interest missions. In this respect, well-designed regulations are essential.

A. Interconnection infrastructure

Electricity and gas:

- agree timetabled physical interconnection objectives between Member States networks at the Spring Summit sufficient to mark a material advance towards the single energy market. and set the appropriate framework to enable the development of relevant infrastructure. Financing requirements should be mainly met by the enterprises involved.
- guarantee equal access of third parties to the networks.

Air transport:

- actively pursue work relative to initiatives aiming at creating a single European sky before 2004, remembering also the importance of the Community participation to Eurocontrol.

Trans-European networks:

- Actively consider the measures contained in the legislative package approved by the Commission on 20 December, including proposals for the development of infrastructure projects and changes to the financing systems of Trans – European Networks subject to budgetary constraints.

B. Effective liberalisation

Electricity and gas:

- set an ambitious calendar at the Spring Summit for [corporate]¹ access to free supplier choice.

Rail transport:

- actively take into consideration the “second railway package” aimed at phasing in competition in service delivery, based on an assessment of the first one.

C. Services of general interest

The liberalisation of markets should ensure effective competition and compliance with services of general interest (equality of access, continuity of services, security for users). These obligations may be imposed, but in no case should they lead to market distortions. In the respect of the Treaty rules, Member States remain free to define services of general interest and the way to organise them.

¹ **Note from the Presidency:** The Council was not unanimous on the wording of the sentence on effective energy liberalisation.

Improvement in the entrepreneurial environment

15. Real, effective competition in markets is a cornerstone of the economic reform process.

Competition provides the discipline and the incentive to secure greater economic efficiency and strengthen the competitiveness of the European Union.

Hence the importance of enhancing the capacity of **competition authorities**, to adapt to changes in the economic structure of the European Union in an increasingly globalised World.

16. Less and better-targeted state aid is a key part of this effective competition across the European Union. To this end, the Union reaffirms the commitment of the Member States to reduce state aid as a percentage of GDP by 2003, seek to eliminate aid with the greatest distortive effects (in terms of competition), reorient it to more horizontal and shared objectives, including cohesion objectives, and target it at clearly identified market failures.

It also restates the need for both Commission and Member States to make the system more transparent.

17. **Entrepreneurship** should be encouraged by reducing administrative and legal barriers to the barest minimum. Benchmarks should be determined which shorten the time required for SME set-up, and an action plan will be laid down to improve and simplify the regulatory environment, in line with the conclusions of the Mandelkern Report. The European Charter for Small Enterprises should be further implemented. In addition, it is important to improve the tax environment for business.

18. Good **corporate governance** is key for economic efficiency. Its impact on improvements in enterprise management, confidence, investment and capital flows are well known. The Council encourages Member States to take steps to guarantee transparency of management and accounting and to protect shareholders and other stakeholders.

19. **Community directive transposition and effective implementation** must be stepped up, in accordance with the conclusions of the Stockholm European Council. The achievement of a genuine Internal Market requires more rapid progress in integrating services markets, a further opening-up of public procurement, a wider application of the mutual recognition principle and a speeding-up of the work on product standards.

2.2. Capital markets and financial services reforms

20. Reforms should seek above all to hasten the **integration of financial markets**, and to reach the full benefits of an efficient channelling of saving, by reducing the costs of accessing capital to encourage investment in the EU. At the centre of these efforts is the Financial Services Action Plan, whose component measures must be written into legislation by 2005, with every effort made by all parties concerned to achieve an integrated securities market by the end of 2003. In this context there is also a need to enhance the efficiency of cross-border clearing and settlement arrangements at the European level.

21. The way to integrate financial markets is to combine mutual recognition in legal matters, applying the country-of-origin principle, with harmonisation of the rules of conduct essential for investor protection. The following deadlines are called for:

- to be approved by the Council and the European Parliament in 2002:

- the Directive on market abuse.
- the Directive on the use of collateral.
- the Regulation providing for the adoption of international accounting standards in the EU.

- the Directive on insurance intermediaries.
 - the draft Directive on prospectuses.
 - the draft Directive on financial conglomerates.
 - the draft Directive on occupational pension funds.
- complete and approve the draft Directives to be presented by the Commission on take-over bids, and on the upgrades of regular reporting requirements, and the investment services directive.

22. **Risk capital** is another priority on the agenda. The Risk Capital Action Plan milestones should be brought forward by 2003 in order to dismantle remaining barriers to the creation of a genuine European risk capital market.

23. The effectiveness of these initiatives will hinge on a **speedier legislative procedure**, by implementing the reform proposals of the Lamfalussy Report.

2.3. Labour market reform

24. Policy action should focus on modernising the labour market in order to support the process of employment creation. The EU has set itself demanding objectives and much remains to be done: **increase labour supply**, assure that unit labour costs are compatible with the **ongoing competitiveness** of Europe's economies and supportive of an increase in labour demand, and achieve a **better match between labour supply and demand**.

25. The job creation capacity of the European economy has significantly improved in these past few years, allowing large inroads to be made into the unemployment rate. The growth spurt of the second half of the 1990s, the progress made in certain aspects of labour market functioning, the co-ordination of economic policies and moderate wage developments were instrumental in causing this change. The Council notes the **progress** made in the following categories:

- **active labour market policies.** The approach taken has been a preventive one, focusing on the employability of collectives constrained from entering the labour market, particularly due to low skills. Efforts should be continued. At the same time, an evaluation should take place with a view to better targeting these policies.
- a **reduction in the tax burden on labour.** The EU as a whole has reduced tax disincentives to work, with special regard to lower-skilled occupations.

26. However, **efforts must continue** in the following areas:

- **tax measures,** with a view to increasing labour demand and labour market participation.

benefit systems to make work pay and promote the job-search process in order to keep claimants clear of poverty and unemployment traps. Candidates for reform would be: the conditionality of benefits, eligibility, duration, the replacement rate, the availability of in-work benefits, the use of tax credits, administrative systems and management rigour.

- **wage formation systems.** In order to guarantee the EU's competitiveness and to improve employment across skills and geographical areas, it is crucial that labour institutions and collective bargaining systems take into account the relationship between wage developments and labour market conditions, thereby allowing greater differentiation of wages according to productivity developments and skills differentials.

- **improvement in labour market efficiency.** Situations frequently arise where high unemployment rates coincide with labour shortages. Among the best means to ensure an optimal fit of supply with demand is by increasing the occupational and geographical mobility of workers, for example, improving transparency and recognition methods between systems of vocational education, and increasing the schooling of the present labour force to enhance knowledge society skills. Education and training systems play an important role in increasing labour market efficiency.
- **active ageing.** Early retirement incentives should be discouraged and efforts should be stepped up to increase opportunities for older workers in the labour market, for instance, legislating partial retirement formulas.
- **barriers and disincentives for female labour force participation** by, inter alia, improving the provision of childcare facilities.
- **labour legislation.** To assess the costs attached to the formulation and termination of employment contracts, with a view to strike a proper balance between flexibility and social protection.

27. The key elements outlined above should be addressed in both the Broad Economic Policy Guidelines and the Employment Guidelines, while taking due account of other issues that arise in the context of the review of the Luxembourg Process.

3. The information and knowledge economy

28. Further efforts should be put behind the **e-Europe initiative**. The development of the broadband network should be speeded up by further encouraging competition in local telecommunication networks.

29. **Research & Development and Innovation** is a key driver for the knowledge-based society. Efforts to promote R&D and innovation, business R&D in particular, need to be strengthened through an integrated strategy, including increased competition on product markets, better access to risk capital, a better protection of intellectual property rights, and improved networking and technology diffusion.
30. **New basic skills and teaching methods** to prepare the present school generation to the knowledge society have to be further developed.

4. Sustainable development

31. Growth today must in no event jeopardise the growth possibilities of future generations. Economic, social and environmental considerations should all have a say in the economic policy design and co-ordination of Member States and the European Union. The Council strongly suggests the use of market instruments in the EU's Sustainable Development Strategy.
32. Following up on the Göteborg European Council conclusions, efforts should be made to get prices right so that they better reflect the true social costs of different activities.
33. To promote sustainability, policy needs to become more coherent. In this context it is essential that ex-ante impact assessments of policies are performed.
34. It is necessary to agree an appropriate framework for energy tax at European level, in parallel with progress in agreeing the realisation of the internal market for energy.