European economic situation: preparatory report on the integrated policy guidelines for 2007, concerning in particular the broad economic policy guidelines

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The Council discussed the implementation of the Member States' National Reform Programmes (NRPs) for the period 2005-2008. It endorsed the report prepared by the Economic Policy Committee which covers four major areas of reform: innovation, labour markets, energy, and better regulation. The Council noted that:

- The overall picture on progress being made towards the Lisbon objectives is encouraging, but results vary and there is more work to be done. Europe should make good use of the current relatively favourable economic outlook to build upon the reforms already underway and turn to the areas where progress remains limited, such as fostering competition, improving incentives in benefit systems and extending working lives which is an important element to promoting fiscal sustainability.

- The development of innovation policies is a key element in all NRPs. More should be done to create fully competitive markets as this is an important incentive for companies to innovate. In view of the EU-wide target, more should be done to foster private R&D expenditure. Particular attention should also be given to supporting innovation in the services sector and creating an innovation friendly environment for companies. Furthermore, Member States should strive to maximise returns on innovation inputs by enhancing the quality of their policy measures, especially the effectiveness of public research expenditure.

- Increasing employment in Europe remains a top priority. Bringing the overall employment rate of the EU closer towards 70% will require significant additional efforts by many Member States. In a number of countries, tax systems have been made more conducive to employment. However, additional steps will be required to improve incentives in tax and benefit systems and increase the adaptability of the labour market. Increasing effectiveness of activation measures and training programmes is also important in this area. Member States have put much effort into increasing the participation of older workers, but more progress is needed for the EU to reach the employment rate target for older workers of 50%. Even fulfilling this target will not be enough to respond to the challenge of ageing populations. Therefore, more should be done to extend working lives and discourage early withdrawal from the labour force or contain pension cost increases. Further attention should also be given to raising employment for female and young workers.

- The EU is far from having a well-functioning and fully integrated internal market in electricity and gas. Full implementation of agreed directives would be a first step towards an efficient energy market in the EU. The working of the energy markets would be further enhanced by increasing the degree of interconnectivity, full implementation of the provisions for unbundling and third party access, increased transparency in the markets and greater co-operation between national regulators. Member States plan many measures to promote energy efficiency and the use of renewables and should continue to address incentives and financial barriers to investment in technologies and infrastructure that promote energy

efficiency. The design of the Emission Trading Scheme, including a more rational allocation of permits and the participation of other relevant emitting countries, is a key issue and it needs to be improved for the post 2012 period in the review taking place in 2007.

- Much progress is being made on better regulation, especially in the area of measuring and educing the unnecessary administrative burden. This momentum should be maintained. National strategies for regulatory reform should be developed further. Member States should follow the experiences of 'first mover countries' by undertaking concrete actions to reduce undue administrative burdens in particular to businesses. Follow-up needs to be given to intensifying efforts with respect to the thorough use of regulatory impact assessments and the simplification of existing regulation.

The Council confirms that benchmarking national performance, accompanied by qualitative assessment, can help Member States to implement reform by facilitating the exchange of best practice. The work carried out by the EPC to develop further the use of structural indicators and their use in surveillance is useful in this respect, and Eurostat and EPC are invited to improve the database in 2007. Indicators should be developed for example in the field of integration. The structural indicators should remain part of the methodology for assessing progress with the implementation of the Lisbon strategy. The lack of reliability and transparency of the indicators, time lags in the availability of data and the diversity of countries, should be taken into account.