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A strategy for smart, sustainable and inclusive growth

Preface

2010 must mark a new beginning. I want Europe to emerge stronger from the economic and financial crisis.

Economic realities are moving faster than political realities, as we have seen with the global impact of the financial crisis. We need to accept that the increased economic interdependence demands also a more determined and coherent response at the political level.

The last two years have left millions unemployed. It has brought a burden of debt that will last for many years. It has brought new pressures on our social cohesion. It has also exposed some fundamental truths about the challenges that the European economy faces. And in the meantime, the global economy is moving forward. How Europe responds will determine our future.

The crisis is a wake-up call, the moment where we recognise that "business as usual" would consign us to a gradual decline, to the second rank of the new global order. This is Europe's moment of truth. It is the time to be bold and ambitious.

Our short-term priority is a successful exit from the crisis. It will be tough for some time yet but we will get there. Significant progress has been made on dealing with bad banks, correcting the financial markets and recognising the need for strong policy coordination in the eurozone.

To achieve a sustainable future, we must already look beyond the short term. Europe needs to get back on track. Then it must stay on track. That is the purpose of Europe 2020. It's about more jobs and better lives. It shows how Europe has the capability to deliver smart, sustainable and inclusive growth, to find the path to create new jobs and to offer a sense of direction to our societies.

European leaders have a common analysis on the lessons to be drawn from the crisis. We also share a common sense of urgency on the challenges ahead. Now we jointly need to make it happen. Europe has many strengths. We have a talented workforce, we have a powerful technological and industrial base. We have an internal market and a single currency that have successfully helped us resist the worst. We have a tried and tested social market economy. We must have confidence in our ability to set an ambitious agenda for ourselves and then gear our efforts to delivering it.

The Commission is proposing five measurable EU targets for 2020 that will steer the process and be translated into national targets: for employment; for research and innovation; for climate change and energy; for education; and for combating poverty. They represent the direction we should take and will mean we can measure our success.

They are ambitious, but attainable. They are backed up by concrete proposals to make sure they are delivered. The flagship initiatives set out in this paper show how the EU can make a decisive contribution. We have powerful tools to hand in the shape of new economic governance, supported by the internal market, our budget, our trade and external economic policy and the disciplines and support of economic and monetary union.

The condition for success is a real ownership by European leaders and institutions. Our new agenda requires a coordinated European response, including with social partners and civil society. If we act together, then we can fight back and come out of the crisis stronger. We have the new tools and the new ambition. Now we need to make it happen.

José Manuel BARROSO

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EUROPE 2020 STRATEGY EXECUTIVE SUMMARY

Europe faces a moment of transformation. The crisis has wiped out years of economic and social progress and exposed structural weaknesses in Europe's economy. In the meantime, the world is moving fast and long-term challenges – globalisation, pressure on resources, ageing – intensify. The EU must now take charge of its future.

Europe can succeed if it acts collectively, as a Union. We need a strategy to help us come out stronger from the crisis and turn the EU into a smart, sustainable and inclusive economy delivering high levels of employment, productivity and social cohesion. Europe 2020 sets out a vision of Europe's social market economy for the 21st century.

Europe 2020 puts forward three mutually reinforcing priorities:

- Smart growth: developing an economy based on knowledge and innovation.
- Sustainable growth: promoting a more resource efficient, greener and more competitive economy.
- Inclusive growth: fostering a high-employment economy delivering social and territorial cohesion.

The EU needs to define where it wants to be by 2020. To this end, the Commission proposes the following EU headline targets:

- 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).
- The share of early school leavers should be under 10% and at least 40% of the younger generation should have a tertiary degree.
- 20 million less people should be at risk of poverty.

These targets are interrelated and critical to our overall success. To ensure that each Member State tailors the Europe 2020 strategy to its particular situation, the Commission proposes that EU goals are translated into national targets and trajectories.

The targets are representative of the three priorities of smart, sustainable and inclusive growth but they are not exhaustive: a wide range of actions at national, EU and international levels will be necessary to underpin them. The Commission is putting forward seven flagship initiatives to catalyse progress under each priority theme:

- "Innovation Union" to improve framework conditions and access to finance for research and innovation so as to ensure that innovative ideas can be turned into products and services that create growth and jobs.
- "Youth on the move" to enhance the performance of education systems and to facilitate the entry of young people to the labour market.

- "A digital agenda for Europe" to speed up the roll-out of high-speed internet and reap the benefits of a digital single market for households and firms.
- "Resource efficient Europe" to help decouple economic growth from the use of resources, support the shift towards a low carbon economy, increase the use of renewable energy sources, modernise our transport sector and promote energy efficiency.
- "An industrial policy for the globalisation era" to improve the business environment, notably for SMEs, and to support the development of a strong and sustainable industrial base able to compete globally.
- "An agenda for new skills and jobs" to modernise labour markets and empower people by developing their skills throughout the lifecycle with a view to increase labour participation and better match labour supply and demand, including through labour mobility.
- "European platform against poverty" to ensure social and territorial cohesion such that the benefits of growth and jobs are widely shared and people experiencing poverty and social exclusion are enabled to live in dignity and take an active part in society.

These seven flagship initiatives will commit both the EU and the Member States. EU-level instruments, notably the single market, financial levers and external policy tools, will be fully mobilised to tackle bottlenecks and deliver the Europe 2020 goals. As an immediate priority, the Commission charts what needs to be done to define a credible exit strategy, to pursue the reform of the financial system, to ensure budgetary consolidation for long-term growth, and to strengthen coordination within the Economic and Monetary Union.

Stronger economic governance will be required to deliver results. Europe 2020 will rely on two pillars: the thematic approach outlined above, combining priorities and headline targets; and country reporting, helping Member States to develop their strategies to return to sustainable growth and public finances. Integrated guidelines will be adopted at EU level to cover the scope of EU priorities and targets. Country-specific recommendations will be addressed to Member States. Policy warnings could be issued in case of inadequate response. The reporting of Europe 2020 and the Stability and Growth Pact evaluation will be done simultaneously, while keeping the instruments separate and maintaining the integrity of the Pact.

The European Council will have full ownership and be the focal point of the new strategy. The Commission will monitor progress towards the targets, facilitate policy exchange and make the necessary proposals to steer action and advance the EU flagship initiatives. The European Parliament will be a driving force to mobilise citizens and act as co-legislator on key initiatives. This partnership approach should extend to EU committees, to national parliaments and national, local and regional authorities, to social partners and to stakeholders and civil society so that everyone is involved in delivering on the vision.

The Commission proposes that the European Council endorses - in March - the overall approach of the strategy and the EU headline targets, and approves - in June - the detailed parameters of the strategy, including the integrated guidelines and national targets. The Commission also looks forward to the views and support of the European Parliament for making Europe 2020 a success.

1. A MOMENT OF TRANSFORMATION

The crisis has wiped out recent progress

The recent economic crisis has no precedent in our generation. The steady gains in economic growth and job creation witnessed over the last decade have been wiped out – our GDP fell by 4% in 2009, our industrial production dropped back to the levels of the 1990s and 23 million people - or 10% of our active population - are now unemployed. The crisis has been a huge shock for millions of citizens and it has exposed some fundamental weaknesses of our economy.

The crisis has also made the task of securing future economic growth much more difficult. The still fragile situation of our financial system is holding back recovery as firms and households have difficulties to borrow, spend and invest. Our public finances have been severely affected, with deficits at 7% of GDP on average and debt levels at over 80% of GDP – two years of crisis erasing twenty years of fiscal consolidation. Our growth potential has been halved during the crisis. Many investment plans, talents and ideas risk going to waste because of uncertainties, sluggish demand and lack of funding.

Europe's structural weaknesses have been exposed

Moving out of the crisis is the immediate challenge, but the biggest challenge is to escape the reflex to try to return to the pre-crisis situation. Even before the crisis, there were many areas where Europe was not progressing fast enough relative to the rest of the world:

- Europe's average growth rate has been structurally lower than that of our main economic partners, largely due to a productivity gap that has widened over the last decade. Much of this is due to differences in business structures combined with lower levels of investment in R&D and innovation, insufficient use of information and communications technologies, reluctance in some parts of our societies to embrace innovation, barriers to market access and a less dynamic business environment.
- In spite of progress, Europe's employment rates – at 69% on average for those aged 20-64 – are still significantly lower than in other parts of the world. Only 63% of women are in work compared to 76% of men. Only 46% of older workers (55-64) are employed compared to over 62% in the US and Japan. Moreover, on average Europeans work 10% fewer hours than their US or Japanese counterparts.
- Demographic ageing is accelerating. As the baby-boom generation retires, the EU's active population will start to shrink as from 2013/2014. The number of people aged over 60 is now increasing twice as fast as it did before 2007 – by about two million every year compared to one million previously. The combination of a smaller working population and a higher share of retired people will place additional strains on our welfare systems.

Global challenges intensify

While Europe needs to address its own structural weaknesses, the world is moving fast and will be very different by the end of the coming decade:

- Our economies are increasingly interlinked. Europe will continue to benefit from being one of the most open economies in the world but competition from developed and emerging economies is intensifying. Countries such as China or India are

investing heavily in research and technology in order to move their industries up the value chain and "leapfrog" into the global economy. This puts pressure on some sectors of our economy to remain competitive, but every threat is also an opportunity. As these countries develop, new markets will open up for many European companies.

- Global finance still needs fixing. The availability of easy credit, short-termism and excessive risk-taking in financial markets around the world fuelled speculative behaviour, giving rise to bubble-driven growth and important imbalances. Europe is engaged in finding global solutions to bring about an efficient and sustainable financial system.
- Climate and resource challenges require drastic action. Strong dependence on fossil fuels such as oil and inefficient use of raw materials expose our consumers and businesses to harmful and costly price shocks, threatening our economic security and contributing to climate change. The expansion of the world population from 6 to 9 billion will intensify global competition for natural resources, and put pressure on the environment. The EU must continue its outreach to other parts of the world in pursuit of a worldwide solution to the problems of climate change at the same time as we implement our agreed climate and energy strategy across the territory of the Union.

Europe must act to avoid decline

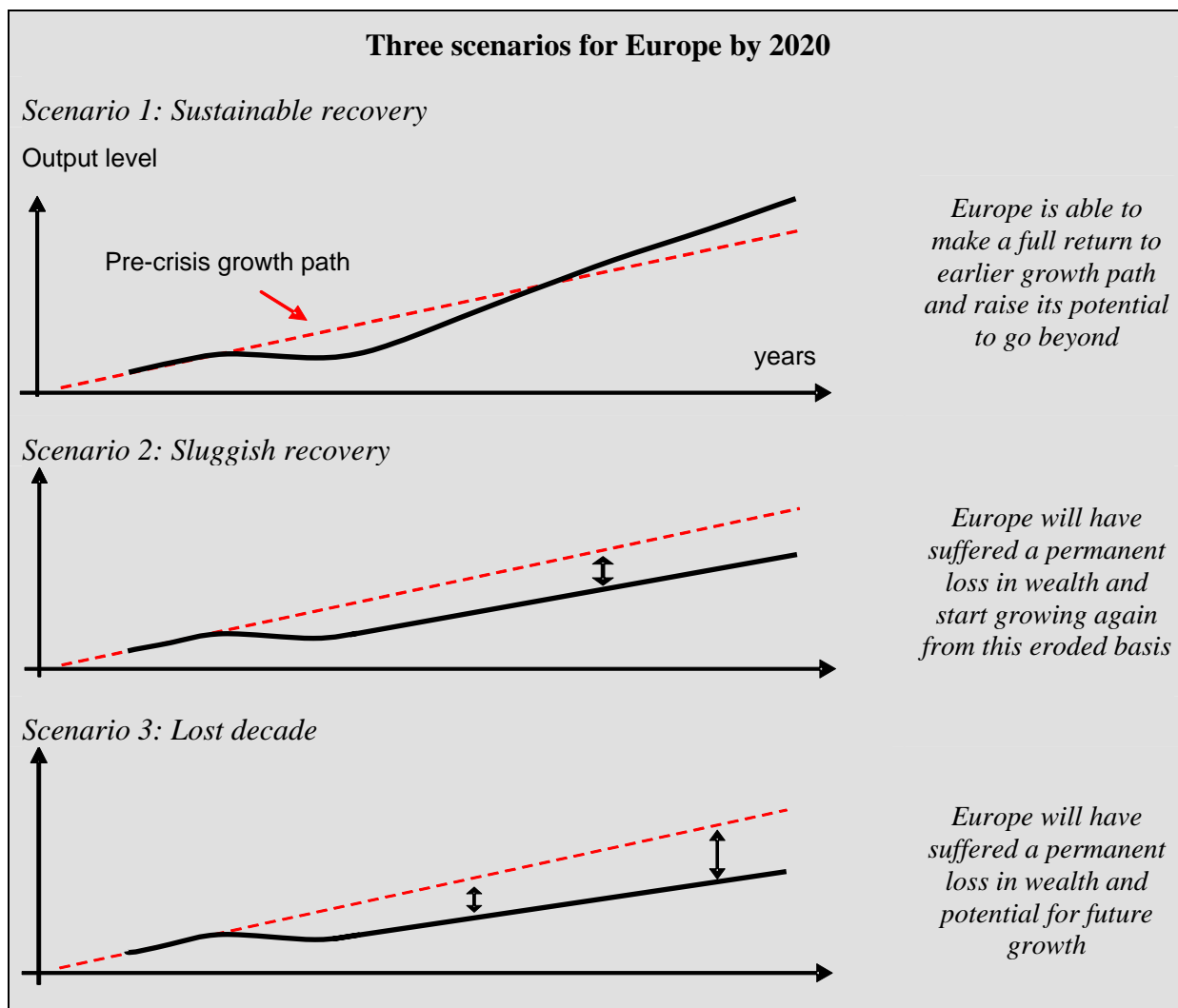
There are several lessons we can learn from this crisis:

- The 27 EU economies are highly interdependent: the crisis underscored the close links and spill-overs between our national economies, particularly in the euro area. Reforms, or the lack of them, in one country affect the performance of all others, as recent events have shown; moreover, the crisis and severe constraints in public spending have made it more difficult for some Member States to provide sufficient funding for the basic infrastructure they need in areas such as transport and energy not only to develop their own economies but also to help them participate fully in the internal market.
- Coordination within the EU works: the response to the crisis showed that if we act together, we are significantly more effective. We proved this by taking common action to stabilise the banking system and through the adoption of a European Economic Recovery Plan. In a global world, no single country can effectively address the challenges by acting alone;
- The EU adds value on the global scene. The EU will influence global policy decisions only if it acts jointly. Stronger external representation will need to go hand in hand with stronger internal co-ordination.

The crisis has not just been a one-off hit, allowing us to resume "business as usual". The challenges that our Union faces are greater than before the recession, whilst our room for manoeuvre is limited. Moreover, the rest of the world is not standing still. The enhanced role of the G20 has demonstrated the growing economic and political power of emerging countries.

Europe is left with clear yet challenging choices. Either we face up collectively to the immediate challenge of the recovery and to long-term challenges – globalisation, pressure on resources, ageing, – so as to make up for the recent losses, regain competitiveness, boost productivity and put the EU on an upward path of prosperity ("sustainable recovery").

Or we continue at a slow and largely uncoordinated pace of reforms, and we risk ending up with a permanent loss in wealth, a sluggish growth rate ("sluggish recovery") possibly leading to high levels of unemployment and social distress, and a relative decline on the world scene ("lost decade").



Europe can succeed

Europe has many strengths: we can count on the talent and creativity of our people, a strong industrial base, a vibrant services sector, a thriving, high quality agricultural sector, strong maritime tradition, our single market and common currency, our position as the world's biggest trading bloc and leading destination for foreign direct investment. But we can also count on our strong values, democratic institutions, our consideration for economic, social and territorial cohesion and solidarity, our respect for the environment, our cultural diversity, respect for gender equality – just to name a few. Many of our Member States are amongst the most innovative and developed economies in the world. But the best chance for Europe to succeed is if it acts collectively – as a Union.

When confronted with major events in the past, the EU and its Member States have risen to the challenge. In the 1990s, Europe launched the largest single market in the world backed by a common currency. Only a few years ago, the division of Europe ended as new Member States entered the Union and other states embarked on the road towards membership or a closer relation with the Union. Over the last two years common action taken at the height of

the crisis through the European Recovery Plan helped prevent economic meltdown, whilst our welfare systems helped protect people from even greater hardship.

Europe is able to act in times of crisis and to adapt its economies and societies. And today Europeans face again a moment of transformation to cope with the impact of the crisis, Europe's structural weaknesses and intensifying global challenges.

In so doing, our exit from the crisis must be the point of entry into a new economy. For our own and future generations to continue to enjoy a high-quality of healthy life, underpinned by Europe's unique social models, we need to take action now. What is needed is a strategy to turn the EU into a smart, sustainable and inclusive economy delivering high levels of employment, productivity and social cohesion. This is the Europe 2020 strategy. This is an agenda for all Member States, taking into account different needs, different starting points and national specificities so as to promote growth for all.

2. SMART, SUSTAINABLE AND INCLUSIVE GROWTH

Where do we want Europe to be in 2020?

Three priorities should be the heart of Europe 2020¹:

- Smart growth – developing an economy based on knowledge and innovation.
- Sustainable growth – promoting a more resource efficient, greener and more competitive economy.
- Inclusive growth – fostering a high-employment economy delivering economic, social and territorial cohesion.

These three priorities are mutually reinforcing; they offer a vision of Europe's social market economy for the 21st century.

To guide our efforts and steer progress, there is a large consensus that the EU should commonly agree on a limited number of headline targets for 2020. These targets should be representative of the theme of smart, sustainable and inclusive growth. They must be measurable, capable of reflecting the diversity of Member States situations and based on sufficiently reliable data for purposes of comparison. The following targets have been selected on this basis – meeting them will be critical to our success by 2020:

- The employment rate of the population aged 20-64 should increase from the current 69% to at least 75%, including through the greater involvement of women, older workers and the better integration of migrants in the work force;
- The EU currently has a target of investing 3% of GDP in R&D. The target has succeeded in focusing attention on the need for both the public and private sectors to invest in R&D but it focuses on input rather than impact. There is a clear need to improve the conditions for private R&D in the EU and many of the measures proposed in this strategy will do this. It is also clear that by looking at R&D and innovation together we would get a broader range of expenditure which would be more relevant for business operations and for productivity drivers. The Commission

¹ These themes have been widely welcomed in the public consultation carried out by the Commission. For details of the views expressed during the consultation see: http://ec.europa.eu/eu2020/index_en.htm

proposes to keep the 3% target while developing an indicator which would reflect R&D and innovation intensity;

- Reduce greenhouse gas emissions by at least 20% compared to 1990 levels or by 30%, if the conditions² are right; increase the share of renewable energy sources in our final energy consumption to 20%; and a 20% increase in energy efficiency;
- A target on educational attainment which tackles the problem of early school leavers by reducing the drop out rate to 10% from the current 15%, whilst increasing the share of the population aged 30-34 having completed tertiary education from 31% to at least 40% in 2020;
- The number of Europeans living below the national poverty lines should be reduced by 25%, lifting over 20 million people out of poverty³.

These targets are interrelated. For instance, better educational levels help employability and progress in increasing the employment rate helps to reduce poverty. A greater capacity for research and development as well as innovation across all sectors of the economy, combined with increased resource efficiency will improve competitiveness and foster job creation. Investing in cleaner, low carbon technologies will help our environment, contribute to fighting climate change and create new business and employment opportunities. Meeting these targets should mobilise our collective attention. It will take strong leadership, commitment and an effective delivery mechanism to change attitudes and practices in the EU to deliver the results which are summarised in these targets.

These targets are representative, not exhaustive. They represent an overall view of where the Commission would like to see the EU on key parameters by 2020. They do not represent a "one size fits all" approach. Each Member State is different and the EU of 27 is more diverse than it was a decade ago. Despite disparities in levels of development and standards of living the Commission considers that the proposed targets are relevant to all Member States, old and newer alike. Investing in research and development as well as innovation, in education and in resource efficient technologies will benefit traditional sectors, rural areas as well as high skill, service economies. It will reinforce economic, social and territorial cohesion. To ensure that each Member States tailors the Europe 2020 strategy to its particular situation, the Commission proposes that these EU targets are translated into national targets and trajectories to reflect the current situation of each Member State and the level of ambition it is able to reach as part of a wider EU effort to meet these targets. In addition to the efforts of Member States the Commission will propose an ambitious range of actions at EU level designed to lift the EU onto a new, more sustainable growth path. This mix of EU and national efforts should be mutually reinforcing.

Smart growth – an economy based on knowledge and innovation

Smart growth means strengthening knowledge and innovation as drivers of our future growth. This requires improving the quality of our education, strengthening our research performance, promoting innovation and knowledge transfer throughout the Union, making full use of

² The European Council of 10-11 December 2009 concluded that as part of a global and comprehensive agreement for the period beyond 2012, the EU reiterates its conditional offer to move to a 30% reduction by 2020 compared to 1990 levels, provided that other developed countries commit themselves to comparable emission reductions and that developing countries contribute adequately according to their responsibilities and respective capabilities.

³ The national poverty line is defined as 60% of the median disposable income in each Member State.

information and communication technologies and ensuring that innovative ideas can be turned into new products and services that create growth, quality jobs and help address European and global societal challenges. But, to succeed, this must be combined with entrepreneurship, finance, and a focus on user needs and market opportunities.

Europe must act:

- Innovation: R&D spending in Europe is below 2%, compared to 2.6% in the US and 3.4% in Japan, mainly as a result of lower levels of private investment. It is not only the absolute amounts spent on R&D that count – Europe needs to focus on the impact and composition of research spending and to improve the conditions for private sector R&D in the EU. Our smaller share of high-tech firms explains half of our gap with the US.
- Education, training and lifelong learning: A quarter of all pupils have poor reading competences, one in seven young people leave education and training too early. Around 50% reach medium qualifications level but this often fails to match labour market needs. Less than one person in three aged 25-34 has a university degree compared to 40% in the US and over 50% in Japan. According to the Shanghai index, only two European universities are in the world's top 20.
- Digital society: The global demand for information and communication technologies is a market worth €2 000 billion, but only one quarter of this comes from European firms. Europe is also falling behind on high-speed internet, which affects its ability to innovate, including in rural areas, as well as on the on-line dissemination of knowledge and on-line distribution of goods and services.

Action under this priority will unleash Europe's innovative capabilities, improving educational outcomes and the quality and outputs of education institutions, and exploiting the economic and societal benefits of a digital society. These policies should be delivered at regional, national and EU level.

Flagship Initiative: "Innovation Union"

The aim of this is to re-focus R&D and innovation policy on the challenges facing our society, such as climate change, energy and resource efficiency, health and demographic change. Every link should be strengthened in the innovation chain, from 'blue sky' research to commercialisation.

At EU level, the Commission will work:

- To complete the European Research Area, to develop a strategic research agenda focused on challenges such as energy security, transport, climate change and resource efficiency, health and ageing, environmentally-friendly production methods and land management, and to enhance joint programming with Member States and regions;
- To improve framework conditions for business to innovate (i.e. create the single EU Patent and a specialised Patent Court, modernise the framework of copyright and trademarks, improve access of SMEs to Intellectual Property Protection, speed up setting of interoperable standards; improve access to capital and make full use of demand side policies, e.g. through public procurement and smart regulation);
- To launch 'European Innovation Partnerships' between the EU and national levels to speed up the development and deployment of the technologies needed to meet the challenges identified. The first will include: 'building the bio-economy by 2020', 'the key enabling technologies to shape Europe's industrial future' and 'technologies to allow older people to live independently and be active in society';

- To strengthen and further develop the role of EU instruments to support innovation (e.g. structural funds, rural development funds, R&D framework programme, CIP, SET plan), including through closer work with the EIB and streamline administrative procedures to facilitate access to funding, particularly for SMEs and to bring in innovative incentive mechanisms linked to the carbon market, namely for fast-movers;
- To promote knowledge partnerships and strengthen links between education, business, research and innovation, including through the EIT, and to promote entrepreneurship by supporting Young Innovative Companies.

At national level, Member States will need:

- To reform national (and regional) R&D and innovation systems to foster excellence and smart specialisation, reinforce cooperation between universities, research and business, implement joint programming and enhance cross-border co-operation in areas with EU value added and adjust national funding procedures accordingly, to ensure the diffusion of technology across the EU territory;
- To ensure a sufficient supply of science, maths and engineering graduates and to focus school curricula on creativity, innovation, and entrepreneurship;
- To prioritise knowledge expenditure, including by using tax incentives and other financial instruments to promote greater private R&D investments.

Flagship initiative: "Youth on the move"

The aim is to enhance the performance and international attractiveness of Europe's higher education institutions and raise the overall quality of all levels of education and training in the EU, combining both excellence and equity, by promoting student mobility and trainees' mobility, and improve the employment situation of young people.

At EU level, the Commission will work:

- To integrate and enhance the EU's mobility, university and researchers' programmes (such as Erasmus, Erasmus Mundus, Tempus and Marie Curie) and link them up with national programmes and resources;
- To step up the modernisation agenda of higher education (curricula, governance and financing) including by benchmarking university performance and educational outcomes in a global context;
- To explore ways of promoting entrepreneurship through mobility programmes for young professionals;
- To promote the recognition of non-formal and informal learning;
- To launch a Youth employment framework outlining policies aimed at reducing youth unemployment rates: this should promote, with Member States and social partners, young people's entry into the labour market through apprenticeships, stages or other work experience, including a scheme ("Your first EURES job") aimed at increasing job opportunities for young people by favouring mobility across the EU.

At national level, Member States will need:

- To ensure efficient investment in education and training systems at all levels (pre-school to tertiary);
- To improve educational outcomes, addressing each segment (pre-school, primary, secondary, vocational and tertiary) within an integrated approach, encompassing key competences and aiming at reducing early school leaving;
- To enhance the openness and relevance of education systems by building national qualification frameworks and better gearing learning outcomes towards labour market needs.
- To improve young people's entry into the labour market through integrated action covering i.a guidance, counselling and apprenticeships.

Flagship Initiative: "A Digital Agenda for Europe"

The aim is to deliver sustainable economic and social benefits from a Digital Single Market based on fast and ultra fast internet and interoperable applications, with broadband access for all by 2013, access for all to much higher internet speeds (30 Mbps or above) by 2020, and 50% or more of European households subscribing to internet connections above 100 Mbps.

At EU level, the Commission will work:

- To provide a stable legal framework that stimulate investments in an open and competitive high speed internet infrastructure and in related services;
- To develop an efficient spectrum policy;
- To facilitate the use of the EU's structural funds in pursuit of this agenda;
- To create a true single market for online content and services (i.e. borderless and safe EU web services and digital content markets, with high levels of trust and confidence, a balanced regulatory framework with clear rights regimes, the fostering of multi-territorial licences, adequate protection and remuneration for rights holders and active support for the digitisation of Europe's rich cultural heritage, and to shape the global governance of the internet;
- To reform the research and innovation funds and increase support in the field of ICTs so as to reinforce Europe's technology strength in key strategic fields and create the conditions for high growth SMEs to lead emerging markets and to stimulate ICT innovation across all business sectors;
- To promote internet access and take-up by all European citizens, especially through actions in support of digital literacy and accessibility.

At national level, Member States will need:

- To draw up operational high speed internet strategies, and target public funding, including structural funds, on areas not fully served by private investments;
- To establish a legal framework for co-ordinating public works to reduce costs of network rollout;
- To promote deployment and usage of modern accessible online services (e.g. e-government, online health, smart home, digital skills, security).

Sustainable growth – promoting a more resource efficient, greener and more competitive economy

Sustainable growth means building a resource efficient, sustainable and competitive economy, exploiting Europe's leadership in the race to develop new processes and technologies, including green technologies, accelerating the roll out of smart grids using ICTs, exploiting EU-scale networks, and reinforcing the competitive advantages of our businesses, particularly in manufacturing and within our SMEs, as well through assisting consumers to value resource efficiency. Such an approach will help the EU to prosper in a low-carbon, resource constrained world while preventing environmental degradation, biodiversity loss and unsustainable use of resources. It will also underpin economic, social and territorial cohesion.

Europe must act:

- **Competitiveness:** The EU has prospered through trade, exporting round the world and importing inputs as well as finished goods. Faced with intense pressure on export markets and for a growing range of inputs we must improve our competitiveness vis-à-vis our main trading partners through higher productivity. We will need to address relative competitiveness inside the Euro area and in the wider EU. The EU was largely a first mover in green solutions, but its advantage is being challenged by key

competitors, notably China and North America. The EU should maintain its lead in the market for green technologies as a means of ensuring resource efficiency throughout the economy, while removing bottlenecks in key network infrastructures, thereby boosting our industrial competitiveness.

- Combating climate change: Achieving our climate goals means reducing emissions significantly more quickly in the next decade than in the last decade and exploiting fully the potential of new technologies such as carbon capture and sequestration possibilities. Improving resource efficiency would significantly help limit emissions, save money and boost economic growth. All sectors of the economy, not just emission-intensive, are concerned. We must also strengthen our economies' resilience to climate risks, and our capacity for disaster prevention and response.
- Clean and efficient energy: Meeting our energy goals could result in €60 billion less in oil and gas imports by 2020. This is not only financial savings; this is essential for our energy security. Further progress with the integration of the European energy market can add an extra 0.6% to 0.8% GDP. Meeting the EU's objective of 20% of renewable sources of energy alone has the potential to create more than 600 000 jobs in the EU. Adding the 20% target on energy efficiency, it is well over 1 million new jobs that are at stake.

Action under this priority will require implementing our emission-reduction commitments in a way which maximises the benefits and minimises the costs, including through the spread of innovative technological solutions. Moreover, we should aim to decouple growth from energy use and become a more resource efficient economy, which will not only give Europe a competitive advantage, but also reduce its dependency of foreign sources for raw materials and commodities.

Flagship Initiative: "Resource efficient Europe"

The aim is to support the shift towards a resource efficient and low-carbon economy that is efficient in the way it uses all resources. The aim is to decouple our economic growth from resource and energy use, reduce CO₂ emissions, enhance competitiveness and promote greater energy security.

At EU level, the Commission will work:

- To mobilise EU financial instruments (e.g. rural development, structural funds, R&D framework programme, TENs, EIB) as part of a consistent funding strategy, that pulls together EU and national public and private funding;
- To enhance a framework for the use of market-based instruments (e.g. emissions trading, revision of energy taxation, state-aid framework, encouraging wider use of green public procurement);
- To present proposals to modernise and decarbonise the transport sector thereby contributing to increased competitiveness. This can be done through a mix of measures e.g. infrastructure measures such as early deployment of grid infrastructures of electrical mobility, intelligent traffic management, better logistics, pursuing the reduction of CO₂ emissions for road vehicles, for the aviation and maritime sectors including the launch of a major European "green" car initiative which will help to promote new technologies including electric and hybrid cars through a mix of research, setting of common standards and developing the necessary infrastructure support;
- To accelerate the implementation of strategic projects with high European added value to address critical bottlenecks, in particular cross border sections and inter modal nodes (cities, ports, logistic platforms);
- To complete the internal energy market and implement the strategic energy technologies (SET) plan, promoting renewable sources of energy in the single market would also be a priority;

- To present an initiative to upgrade Europe's networks, including Trans European Energy Networks, towards a European supergrid, "smart grids" and interconnections in particular of renewable energy sources to the grid (with support of structural funds and the EIB). This includes to promote infrastructure projects of major strategic importance to the EU in the Baltic, Balkan, Mediterranean and Eurasian regions;
- To adopt and implement a revised Energy Efficiency Action Plan and promote a substantial programme in resource efficiency (supporting SMEs as well as households) by making use of structural and other funds to leverage new financing through existing highly successful models of innovative investment schemes; this should promote changes in consumption and production patterns;
- To establish a vision of structural and technological changes required to move to a low carbon, resource efficient and climate resilient economy by 2050 which will allow the EU to achieve its emissions reduction and biodiversity targets; this includes disaster prevention and response, harnessing the contribution of cohesion, agricultural, rural development, and maritime policies to address climate change, in particular through adaptation measures based on more efficient use of resources, which will also contribute to improving global food security.

At national level, Member States will need:

- To phase out environmentally harmful subsidies, limiting exceptions to people with social needs;
- To deploy market-based instruments such as fiscal incentives and procurement to adapt production and consumption methods;
- To develop smart, upgraded and fully interconnected transport and energy infrastructures and make full use of ICT;
- To ensure a coordinated implementation of infrastructure projects, within the EU Core network, that critically contribute to the effectiveness of the overall EU transport system;
- To focus on the urban dimension of transport where much of the congestion and emissions are generated;
- To use regulation, building performance standards and market-based instruments such as taxation, subsidies and procurement to reduce energy and resource use and use structural funds to invest in energy efficiency in public buildings and in more efficient recycling;
- To incentivise energy saving instruments that could raise efficiency in energy-intensive sectors, such as based on the use of ICTs.

Flagship Initiative: "An industrial policy for the globalisation era"

Industry and especially SMEs have been hit hard by the economic crisis and all sectors are facing the challenges of globalisation and adjusting their production processes and products to a low-carbon economy. The impact of these challenges will differ from sector to sector, some sectors might have to "reinvent" themselves but for others these challenges will present new business opportunities. The Commission will work closely with stakeholders in different sectors (business, trade unions, academics, NGOs, consumer organisations) and will draw up a framework for a modern industrial policy, to support entrepreneurship, to guide and help industry to become fit to meet these challenges, to promote the competitiveness of Europe's primary, manufacturing and service industries and help them seize the opportunities of globalisation and of the green economy. The framework will address all elements of the increasingly international value chain from access to raw materials to after-sales service.

At EU level, the Commission will work:

- To establish an industrial policy creating the best environment to maintain and develop a strong, competitive and diversified industrial base in Europe as well as supporting the transition of manufacturing sectors to greater energy and resource efficiency;
- To develop a horizontal approach to industrial policy combining different policy instruments (e.g. "smart" regulation, modernised public procurement, competition rules and standard setting);

- To improve the business environment, especially for SMEs, including through reducing the transaction costs of doing business in Europe, the promotion of clusters and improving affordable access to finance;
- To promote the restructuring of sectors in difficulty towards future oriented activities, including through quick redeployment of skills to emerging high growth sectors and markets and support from the EU's state aids regime and/or the Globalisation Adjustment Fund;
- To promote technologies and production methods that reduce natural resource use, and increase investment in the EU's existing natural assets;
- To promote the internationalisation of SMEs;
- To ensure that transport and logistics networks enable industry throughout the Union to have effective access to the Single Market and the international market beyond;
- To develop an effective space policy to provide the tools to address some of the key global challenges and in particular to deliver Galileo and GMES;
- To enhance the competitiveness of the European tourism sector;
- To review regulations to support the transition of service and manufacturing sectors to greater resource efficiency, including more effective recycling; to improve the way in which European standard setting works to leverage European and international standards for the long-term competitiveness of European industry. This will include promoting the commercialisation and take-up of key enabling technologies;
- To renew the EU strategy to promote Corporate Social Responsibility as a key element in ensuring long term employee and consumer trust.

At national level, Member States will need:

- To improve the business environment especially for innovative SMEs, including through public sector procurement to support innovation incentives;
- To improve the conditions for enforcing intellectual property;
- To reduce administrative burden on companies, and improve the quality of business legislation;
- To work closely with stakeholders in different sectors (business, trade unions, academics, NGOs, consumer organisations) to identify bottlenecks and develop a shared analysis on how to maintain a strong industrial and knowledge base and put the EU in a position to lead global sustainable development.

Inclusive growth – a high-employment economy delivering economic, social and territorial cohesion

Inclusive growth means empowering people through high levels of employment, investing in skills, fighting poverty and modernising labour markets, training and social protection systems so as to help people anticipate and manage change, and build a cohesive society. It is also essential that the benefits of economic growth spread to all parts of the Union, including its outermost regions, thus strengthening territorial cohesion. It is about ensuring access and opportunities for all throughout the lifecycle. Europe needs to make full use of its labour potential to face the challenges of an ageing population and rising global competition. Policies to promote gender equality will be needed to increase labour force participation thus adding to growth and social cohesion.

Europe must act:

- **Employment:** Due to demographic change, our workforce is about to shrink. Only two-thirds of our working age population is currently employed, compared to over 70% in the US and Japan. The employment rate of women and older workers are particularly low. Young people have been severely hit by the crisis, with an

unemployment rate over 21%. There is a strong risk that people away or poorly attached to the world of work lose ground from the labour market.

- Skills: About 80 million people have low or basic skills, but lifelong learning benefits mostly the more educated. By 2020, 16 million more jobs will require high qualifications, while the demand for low skills will drop by 12 million jobs. Achieving longer working lives will also require the possibility to acquire and develop new skills throughout the lifetime.
- Fighting poverty: 80 million people were at risk of poverty prior to the crisis. 19 million of them are children. 8 per cent of people in work do not earn enough to make it above the poverty threshold. Unemployed people are particularly exposed.

Action under this priority will require modernising, strengthening our employment education and training policies and social protection systems by increasing labour participation and reducing structural unemployment, as well as raising corporate social responsibility among the business community. Access to childcare facilities and care for other dependents will be important in this respect. Implementing flexicurity principles and enabling people to acquire new skills to adapt to new conditions and potential career shifts will be key. A major effort will be needed to combat poverty and social exclusion and reduce health inequalities to ensure that everybody can benefit from growth. Equally important will be our ability to meet the challenge of promoting a healthy and active ageing population to allow for social cohesion and higher productivity.

Flagship Initiative: "An Agenda for new skills and jobs"

The aim is to create conditions for modernising labour markets with a view to raising employment levels and ensuring the sustainability of our social models. This means empowering people through the acquisition of new skills to enable our current and future workforce to adapt to new conditions and potential career shifts, reduce unemployment and raise labour productivity.

At EU level, the Commission will work:

- To define and implement the second phase of the flexicurity agenda, together with European social partners, to identify ways to better manage economic transitions and to fight unemployment and raise activity rates;
- To adapt the legislative framework, in line with 'smart' regulation principles, to evolving work patterns (e.g. working time, posting of workers) and new risks for health and safety at work;
- To facilitate and promote intra-EU labour mobility and better match labour supply with demand with appropriate financial support from the structural funds, notably the European Social Fund (ESF), and to promote a forward-looking and comprehensive labour migration policy which would respond in a flexible way to the priorities and needs of labour markets;
- To strengthen the capacity of social partners and make full use of the problem-solving potential of social dialogue at all levels (EU, national/regional, sectoral, company), and to promote strengthened cooperation between labour market institutions including the public employment services of the Member States;
- To give a strong impetus to the strategic framework for cooperation in education and training involving all stakeholders. This should notably result in the implementation of life-long learning principles (in cooperation with Member States, social partners, experts) including through flexible learning pathways between different education and training sectors and levels and by reinforcing the attractiveness of vocational education and training. Social partners at European level should be consulted in view of developing an initiative of their own in this area;

- To ensure that the competences required to engage in further learning and the labour market are acquired and recognised throughout general, vocational, higher and adult education and to develop a common language and operational tool for education/training and work: a European Skills, Competences and Occupations framework (ESCO).

At national level, Member States will need:

- To implement their national pathways for flexicurity, as agreed by the European Council, to reduce labour market segmentation and facilitate transitions as well as facilitating the reconciliation of work and family life;
- To review and regularly monitor the efficiency of tax and benefit systems so to make work pay with a particular focus on the low skilled, whilst removing measures that discourage self-employment;
- To promote new forms of work-life balance and active ageing policies and to increase gender equality;
- Promote and monitor the effective implementation of social dialogue outcomes;
- To give a strong impetus to the implementation of the European Qualifications Framework, through the establishment of national qualification frameworks;
- To ensure that the competences required to engage in further learning and the labour market are acquired and recognised throughout general, vocational, higher and adult education, including non formal and informal learning;
- To develop partnerships between the worlds of education/training and work, in particular by involving social partners in the planning of education and training provision.

Flagship Initiative: "European Platform against Poverty"

The aim is to ensure economic, social and territorial cohesion, building on the current European year for combating poverty and social exclusion so as to raise awareness and recognise the fundamental rights of people experiencing poverty and social exclusion, enabling them to live in dignity and take an active part in society.

At EU level, the Commission will work:

- To transform the open method of coordination on social exclusion and social protection into a platform for cooperation, peer-review and exchange of good practice, and into an instrument to foster commitment by public and private players to reduce social exclusion, and take concrete action, including through targeted support from the structural funds, notably the ESF;
- To design and implement programmes to promote social innovation for the most vulnerable, in particular by providing innovative education, training, and employment opportunities for deprived communities, to fight discrimination (e.g. disabled), and to develop a new agenda for migrants' integration to enable them to take full advantage of their potential;
- To undertake an assessment of the adequacy and sustainability of social protection and pension systems, and identify ways to ensure better access to health care systems.

At national level, Member States will need:

- To promote shared collective and individual responsibility in combating poverty and social exclusion;
- To define and implement measures addressing the specific circumstances of groups at particular risk (such as one-parent families, elderly women, minorities, Roma, people with a disability and the homeless);
- To fully deploy their social security and pension systems to ensure adequate income support and access to health care.

3. MISSING LINKS AND BOTTLENECKS

All EU policies, instruments and legal acts, as well as financial instruments, should be mobilised to pursue the strategy's objectives. The Commission intends to enhance key policies and instruments such as the single market, the budget and the EU's external economic agenda to focus on delivering Europe 2020's objectives. Operational proposals to ensure their full contribution to the strategy are an integral part of the Europe 2020.

3.1. A single market for the 21st century

A stronger, deeper, extended single market is vital for growth and job creation. However, current trends show signs of integration fatigue and disenchantment regarding the single market. The crisis has added temptations of economic nationalism. The Commission's vigilance and a shared sense of responsibility among Member States have prevented a drift towards disintegration. But a new momentum – a genuine political commitment - is needed to re-launch the single market, through a quick adoption of the initiatives mentioned below. Such political commitment will require a combination of measures to fill the gaps in the single market.

Every day businesses and citizens are faced with the reality that bottlenecks to cross-border activity remain despite the legal existence of the single market. They realise that networks are not sufficiently inter-connected and that the enforcement of single market rules remains uneven. Often, businesses and citizens still need to deal with 27 different legal systems for one and the same transaction. Whilst our companies are still confronted with the day-to-day reality of fragmentation and diverging rules, their competitors from China, the US or Japan can draw full strength from their large home markets.

The single market was conceived before the arrival of Internet, before information and communication technologies became the one of the main drivers of growth and before services became such a dominant part of the European economy. The emergence of new services (e.g. content and media, health, smart energy metering) shows huge potential, but Europe will only exploit this potential if it overcomes the fragmentation that currently blocks the flow of on-line content and access for consumers and companies.

To gear the single market to serve the Europe 2020 goals requires well functioning and well-connected markets where competition and consumer access stimulate growth and innovation. An open single market for services must be created on the basis of the Services Directive, whilst at the same time ensuring the quality of services provided to consumers. The full implementation of the Services Directive could increase trade in commercial services by 45% and Foreign Direct investment by 25%, bringing an increase of between 0.5% and 1.5% increase in GDP.

Access for SMEs to the single market must be improved. Entrepreneurship must be developed by concrete policy initiatives, including a simplification of company law (bankruptcy procedures, private company statute, etc.), and initiatives allowing entrepreneurs to restart after failed businesses. Citizens must be empowered to play a full part in the single market. This requires strengthening their ability and confidence to buy goods and services cross-border, in particular on-line.

Through the implementation of competition policy the Commission will ensure that the single market remains an open market, preserving equal opportunities for firms and combating national protectionism. But competition policy will do more to contribute to achieving the Europe 2020 goals. Competition policy ensures that markets provide the right environment

for innovation, for example through ensuring that patents and property rights are not abused. Preventing market abuse and anticompetitive agreements between firms provides a reassurance to incentivise innovation. State aid policy can also actively and positively contribute to the Europe 2020 objectives by prompting and supporting initiatives for more innovative, efficient and greener technologies, while facilitating access to public support for investment, risk capital and funding for research and development.

The Commission will propose action to tackle bottlenecks in the single market by:

- Reinforcing structures to implement single market measures on time and correctly, including network regulation, the Services Directive and the financial markets legislative and supervision package, enforce them effectively and when problems arise, resolve them speedily;
- Pressing ahead with the Smart Regulation agenda, including considering the wider use of regulations rather than directives, launching ex-post evaluation of existing legislation, pursuing market monitoring, reducing administrative burdens, removing tax obstacles, improving the business environment, particularly for SMEs, and supporting entrepreneurship;
- Adapting EU and national legislation to the digital era so as to promote the circulation of content with high level of trust for consumers and companies. This requires updating rules on liability, warranties, delivery and dispute resolution;
- Making it easier and less costly for businesses and consumers to conclude contracts with partners in other EU countries, notably by offering harmonised solutions for consumer contracts, EU model contract clauses and by making progress towards an optional European Contract Law;
- Making it easier and less costly for businesses and consumers to enforce contracts and to recognise court judgments and documents in other EU countries.

3.2. Investing in growth: cohesion policy, mobilising the EU budget and private finance

Economic, social and territorial cohesion will remain at the heart of the Europe 2020 strategy to ensure that all energies and capacities are mobilised and focused on the pursuit of the strategy's priorities. Cohesion policy and its structural funds, while important in their own right, are key delivery mechanisms to achieve the priorities of smart, sustainable and inclusive growth in Member States and regions.

The financial crisis has had a major impact on the capacity of European businesses and governments to finance investment and innovation projects. To accomplish its objectives for Europe 2020, a regulatory environment that renders financial markets both effective and secure is key. Europe must also do all it can to leverage its financial means, pursue new avenues in using a combination of private and public finance, and in creating innovative instruments to finance the needed investments, including public-private partnerships (PPPs). The European Investment Bank and the European Investment Fund can contribute to backing a "virtuous circle" where innovation and entrepreneurship can be funded profitably from early stage investments to listing on stock markets, in partnership with the many public initiatives and schemes already operating at national level.

The EU multi-annual financial framework will also need to reflect the long-term growth priorities. The Commission intends to take the priorities, once agreed, up in its proposals for the next multi-annual financial framework, due for next year. The discussion should not only be about levels of funding, but also about how different funding instruments such as structural funds, agricultural and rural development funds, the research framework programme, and the competitiveness and innovation framework programme (CIP) need to be devised to achieve the Europe 2020 goals so as to maximise impact, ensure efficiency and EU value added. It will be important to find ways of increasing the impact of the EU budget – while small it can have an important catalytic effect when carefully targeted.

The Commission will propose action to develop innovative financing solutions to support Europe 2020's objectives by:

- Fully exploiting possibilities to improve the effectiveness and efficiency of the existing EU budget through stronger prioritisation and better alignment of EU expenditure with the goals of the Europe 2020 to address the present fragmentation of EU funding instruments (e.g. R&D and innovation, key infrastructure investments in cross-border energy and transport networks, and low-carbon technology). The opportunity of the review of the Financial Regulation should also be fully exploited to develop the potential of innovative financial instruments, whilst ensuring sound financial management;
- Designing new financing instruments, in particular in cooperation with the EIB/EIF and the private sector, responding to hitherto unfulfilled needs by businesses. As part of the forthcoming research and innovation plan, the Commission will co-ordinate an initiative with the EIB/EIF to raise additional capital for funding innovative and growing businesses;
- Making an efficient European venture capital market a reality, thereby greatly facilitating direct business access to capital markets and exploring incentives for private sector funds that make financing available for start-up companies, and for innovative SMEs.

3.3. Deploying our external policy instruments

Global growth will open up new opportunities for Europe's exporters and competitive access to vital imports. All instruments of external economic policy need to be deployed to foster European growth through our participation in open and fair markets world wide. This applies to the external aspects of our various internal policies (e.g. energy, transport, agriculture, R&D) but this holds in particular for trade and international macroeconomic policy coordination. An open Europe, operating within a rules-based international framework, is the best route to exploit the benefits of globalisation that will boost growth and employment. At the same time, the EU must assert itself more effectively on the world stage, playing a leading role in shaping the future global economic order through the G20, and pursuing the European interest through the active deployment of all the tools at our disposal

A part of the growth that Europe needs to generate over the next decade will need to come from the emerging economies as their middle classes develop and import goods and services in which the European Union has a comparative advantage. As the biggest trading bloc in the world, the EU prospers by being open to the world and paying close attention to what other developed or emerging economies are doing to anticipate or adapt to future trends.

Acting within the WTO and bilaterally in order to secure better market access for EU business, including SMEs, and a level playing field vis-à-vis our external competitors should be a key goal. Moreover, we should focus and streamline our regulatory dialogues, particularly in new areas such as climate and green growth, where possible expanding our global reach by promoting equivalence, mutual recognition and convergence on key regulatory issues, as well as the adoption of our rules and standards.

The Europe 2020 strategy is not only relevant inside the EU, it can also offer considerable potential to candidate countries and our neighbourhood and better help anchor their own reform efforts. Expanding the area where EU rules are applied, will create new opportunities for both the EU and its neighbours.

In addition, one of the critical objectives in the next few years will be to build strategic relationships with emerging economies to discuss issues of common concern, promote regulatory and other co-operation and resolve bilateral issues. The structures underpinning these relationships will need to be flexible and be politically rather than technically driven.

The Commission will draw up in 2010 a trade strategy for Europe 2020 which will include:

- An emphasis on concluding on-going multilateral and bilateral trade negotiations, in particular those with the strongest economic potential, as well as on better enforcement of existing agreements, focussing on non-tariff barriers to trade;
- Trade opening initiatives for sectors of the future, such as "green" products and technologies, high-tech products and services, and on international standardization in particular in growth areas;
- Proposals for high-level strategic dialogues with key partners, to discuss strategic issues ranging from market access, regulatory framework, global imbalances, energy and climate change, access to raw materials, to global poverty, education and development. It will also work to reinforce the Transatlantic Economic Council with the US the High Level Economic Dialogue with China and deepen its relationship with Japan and Russia;
- Starting in 2011 and then annually before the Spring European Council, a trade and investment barriers report identifying ways to improve market access and regulatory environment for EU companies.

The EU is a global player and takes its international responsibilities seriously. It has been developing a real partnership with developing countries to eradicate poverty, to promote growth and to fulfil the Millennium Development Goals (MDGs). We have a particularly close relationship with Africa and will need to invest further in the future in developing that close partnership. This will take place in the broader ongoing efforts to increase development aid, improve the efficiency of our aid programmes notably through the efficient division of labour with Member States and by better reflecting development aims in other policies of the European Union.

4. EXIT FROM THE CRISIS: FIRST STEPS TOWARDS 2020

Policy instruments were decisively, and massively, used to counteract the crisis. Fiscal policy had, where possible, an expansionary and counter-cyclical role; interest rates were lowered to historical minima while liquidity was provided to the financial sector in an unprecedented way. Governments gave massive support to banks, either through guarantees, recapitalization or through "cleaning" of balance sheets from impaired assets; other sectors of the economy were supported under the temporary, and exceptional, framework for State aid. All these actions were, and still are, justified. But they cannot stay there permanently. High levels of public debt cannot be sustained indefinitely. The pursuit of the Europe 2020 objectives must be based on a credible exit strategy as regards budgetary and monetary policy on the one hand, and the direct support given by governments to economic sectors, in particular the financial sector, on the other. The sequencing of these several exits is important. A reinforced coordination of economic policies, in particular within the euro area should ensure a successful global exit.

4.1. Defining a credible exit strategy

Given remaining uncertainties about the economic outlook and fragilities in the financial sector, support measures should only be withdrawn once the economic recovery can be

regarded as self-sustaining and once financial stability has been restored⁴. The withdrawal of temporary crisis-related measures should be coordinated and take account of possible negative spill-over effects both across Member States as well as of interactions between different policy instruments. State aid disciplines should be restored, starting with the ending of the temporary state aid framework. Such a coordinated approach would need to rely on the following principles:

- The withdrawal of the fiscal stimulus should begin as soon as the recovery is on a firm footing. However, the timing may have to differ from country to country, hence the need for a high degree of coordination at European level;
- Short-term unemployment support should only start to be phased out once a turning point in GDP growth can be regarded as firmly established and thus employment, with its usual lag, will have started to grow;
- Sectoral support schemes should be phased out early as they carry a large budget costs, are considered to have by and large achieved their objectives, and due to their possible distorting effects on the single market;
- Access-to-finance support should continue until there are clear signs that financing conditions for business have broadly returned to normal;
- Withdrawal of support to the financial sector, starting with government guarantee schemes, will depend on the state of the economy overall and of the stability of the financial system in particular.

4.2. The reform of the financial system

A crucial priority in the short term will be to restore a solid, stable and healthy financial sector able to finance the real economy. It will require the full and timely implementation of the G20 commitments. Five objectives will in particular have to be met:

- Implementing the agreed reforms of the supervision of the financial sector;
- Filling the regulatory gaps, promoting transparency, stability and accountability notably as regards derivatives and market infrastructure;
- Completing the strengthening of our prudential, accounting and consumer protection rules in the form a single European rule-book covering all financial actors and markets in an appropriate way;
- Strengthening the governance of financial institutions, in order to address the weaknesses identified during the financial crisis in the area of risk identification and management;
- Setting in motion an ambitious policy that will allow us in the future to better prevent and if needed manage possible financial crises, and that – taking into account the specific responsibility of the financial sector in the current crisis – will look also into adequate contributions from the financial sector.

⁴ European Council conclusions of 10/11 December 2009.

4.3. Pursuing smart budgetary consolidation for long-term growth

Sound public finances are critical for restoring the conditions for sustainable growth and jobs so we need a comprehensive exit strategy. This will involve the progressive withdrawal of short-term crisis support and the introduction of medium- to longer-term reforms that promote the sustainability of public finances and enhance potential growth.

The Stability and Growth Pact provides the right framework to implement fiscal exit strategies and Member States are setting down such strategies in their stability and convergence programmes. For most countries, the onset of fiscal consolidation should normally occur in 2011. The process of bringing the deficits to below 3% of GDP should be completed, as a rule, by 2013. However, in a number of countries, the consolidation phase may have to begin earlier than 2011 implying that the withdrawal of temporary crisis support and fiscal consolidation may in these cases need to occur simultaneously.

To support the EU's economic growth potential and the sustainability of our social models, the consolidation of public finances in the context of the Stability and Growth Pact involves setting priorities and making hard choices: coordination at EU can help Member States in this task and help address spill-over effects. In addition, the composition and quality of government expenditure matters: budgetary consolidation programmes should prioritise 'growth-enhancing items' such as education and skills, R&D and innovation and investment in networks, e.g. high-speed internet, energy and transport interconnections – i.e. the key thematic areas of the Europe 2020 strategy.

The revenue side of the budget also matters and particular attention should also be given to the quality of the revenue/tax system. Where taxes may have to rise, this should, where possible, be done in conjunction with making the tax systems more "growth-friendly". For example, raising taxes on labour, as has occurred in the past at great costs to jobs, should be avoided. Rather Member States should seek to shift the tax burden from labour to energy and environmental taxes as part of a "greening" of taxation systems.

Fiscal consolidation and long-term financial sustainability will need to go hand in hand with important structural reforms, in particular of pension, health care, social protection and education systems. Public administration should use the situation as an opportunity to enhance efficiency and the quality of service. Public procurement policy must ensure the most efficient use of public funds and procurement markets must be kept open EU-wide.

4.4. Coordination within the Economic and Monetary Union

The common currency has acted as a valuable shield from exchange rate turbulences for those Member States whose currency is the euro. But the crisis has also revealed the extent of the interdependence between the economies within the euro area, namely in the financial domain, rendering spill-over effects more likely. Divergent growth patterns lead in some cases to the accumulation of unsustainable government debts which in turn puts strains on the single currency. The crisis has thus amplified some of the challenges faced by the euro area, e.g. the sustainability of public finances and potential growth, but also the destabilising role of imbalances and competitiveness divergences.

Overcoming these challenges in the euro area is of paramount importance, and urgent, in order to secure stability and sustained and employment creating growth. Addressing these challenges requires strengthened and closer policy co-ordination including:

- A framework for deeper and broader surveillance for euro area countries: in addition to strengthening fiscal discipline, macro-economic imbalances and competitiveness developments should be an integral part of economic surveillance, in particular with a view to facilitating a policy driven adjustment.
- A framework for addressing imminent threats for the financial stability of the euro area as a whole.
- Adequate external representation of the euro area in order to forcefully tackle global economic and financial challenges.

The Commission will make proposals to take these ideas forward.

5. DELIVERING RESULTS: STRONGER GOVERNANCE

To achieve transformational change, the Europe 2020 strategy will need more focus, clear goals and transparent benchmarks for assessing progress. This will require a strong governance framework that harnesses the instruments at its disposal to ensure timely and effective implementation.

5.1. Proposed architecture of Europe 2020

The strategy should be organised around a thematic approach and a more focused country surveillance. This builds on the strength of already existing coordination instruments. More specifically:

- **A thematic approach** would focus on the themes identified in Section 2, in particular the delivery of the 5 headline targets. The main instrument would be the Europe 2020 programme and its flagship initiatives, which require action at both EU and Member States level (see Section 2 and Annexes 1 and 2). The thematic approach reflects the EU dimension, shows clearly the interdependence of Member States economies, and allows greater selectivity on concrete initiatives which push the strategy forward and help achieve the EU and national headline targets.
- **Country reporting** would contribute to the achievement of Europe 2020 goals by helping Member States define and implement exit strategies, to restore macroeconomic stability, identify national bottlenecks and return their economies to sustainable growth and public finances. It would not only encompass fiscal policy, but also core macroeconomic issues related to growth and competitiveness (i.e. macro-imbalances). It would have to ensure an integrated approach to policy design and implementation, which is crucial to support the choices Member States will have to make, given the constraints on their public finances. A specific focus will be placed on the functioning of the euro area, and the interdependence between Member States.

To achieve this, the Europe 2020 and Stability and Growth Pact (SGP) reporting and evaluation will be done simultaneously to bring the means and the aims together, while keeping the instruments and procedures separate and maintaining the integrity of the SGP. This means proposing at the same time the annual stability or convergence programmes and streamlined reform programmes which each Member State will draw up to set out measures to report on progress towards their targets, as well as key structural reforms to address their bottlenecks to growth. Both these programmes, which should contain the necessary cross-references, should be submitted to the Commission and other Member States during the last

quarter of the year. The European Systemic Risk Board (ESRB) should report regularly on macro-financial risks: these reports will be an important contribution to the overall assessment. The Commission will assess these programmes and report on progress made with their implementation. Specific attention will be devoted to the challenges of the Economic and Monetary Union.

This would give the European Council all the information necessary to take decisions. Indeed, it would have an analysis of the economic and job situations, the overall budgetary picture, macro-financial conditions and progress on the thematic agendas per Member State, and would in addition review the overall state of the EU economy.

Integrated guidelines

The Europe 2020 strategy will be established institutionally in a small set of integrated 'Europe 2020' guidelines (integrating employment and broad economic policy guidelines), to replace the 24 existing guidelines. These new guidelines will reflect the decisions of the European Council and integrate agreed targets. Following the opinion of the European Parliament on the employment guidelines as foreseen by the Treaty, the guidelines should be politically endorsed by the June European Council before they are adopted by Council. Once adopted, they should remain largely stable until 2014 to ensure a focus on implementation.

Policy recommendations

Policy recommendations will be addressed to Member States both in the context of the country reporting as well as under the thematic approach of Europe 2020. For country surveillance, they will take the form of Opinions on stability/convergence programmes under Council Regulation (EC) No 1466/97 accompanied by recommendations under the Broad Economic Policy Guidelines (BEPGs, Article 121.2). The thematic part would include Employment recommendations (Article 148) and country recommendations on other selected thematic issues (for instance on business environment, innovation, functioning of the single market, energy/climate change etc.), both of which could also be addressed to the extent that they have macroeconomic implications through the recommendations under the BEPGs as indicated above. This set-up for the recommendations would also help ensure coherence between the macro/fiscal framework and the thematic agendas.

The recommendations under the country surveillance would address issues with significant macroeconomic and public finance implications, whereas the recommendations under the thematic approach would provide detailed advice on micro-economic and employment challenges. These recommendations would be sufficiently precise and normally provide a time-frame within which the Member State concerned is expected to act (e.g. two years). The Member State would then set out what action it would take to implement the recommendation. If a Member State, after the time-frame has expired, has not adequately responded to a policy recommendation of the Council or develops policies going against the advice, the Commission could issue a policy warning (Article 121.4).

5.2. Who does what?

Working together towards these objectives is essential. In our interconnected economies, growth and employment will only return if all Member States move in this direction, taking account of their specific circumstances. We need greater ownership. The European Council should provide overall guidance for the strategy, on the basis of Commission proposals built on one core principle: a clear EU value added. In this respect, the role of the European Parliament is particularly important. The contribution of stakeholders at national and regional

level and of the social partners needs also to be enhanced. An overview of the Europe 2020 policy cycle and timeline is included in Annex 3.

Full ownership by the European Council

Contrary to the present situation where the European Council is the last element in the decision-making process of the strategy, the European Council should steer the strategy as it is the body which ensures the integration of policies and manages the interdependence between Member States and the EU.

Whilst keeping a horizontal watching brief on the implementation of the Europe 2020 programme, the European Council could focus on specific themes (e.g. research and innovation, skills) at its future meetings, providing guidance and the necessary impulses.

Council of Ministers

The relevant council formations would work to implement the Europe 2020 programme and achieve the targets in the fields for which they are responsible. As part of the flagship initiatives, Member States will be invited to step up their exchange of policy information of good practices within the various Council formations.

European Commission

The European Commission will monitor annually the situation on the basis of a set of indicators showing overall progress towards the objective of smart, green and inclusive economy delivering high levels of employment, productivity and social cohesion.

It will issue a yearly report on the delivery of the Europe 2020 strategy focusing on progress towards meeting the agreed headline targets, and assess country reports and stability and convergence programmes. As part of this process, the Commission will present policy recommendations or warnings, make policy proposals to attain the objectives of the strategy and will present a specific assessment of progress achieved within the euro-area.

European Parliament

The European Parliament should play an important role in the strategy, not only in its capacity as co-legislator, but also as a driving force for mobilising citizens and their national parliaments. Parliament could, for instance, use the next meeting with national parliaments to discuss its contribution to Europe 2020 and jointly communicate views to the Spring European Council.

National, regional and local authorities

All national, regional and local authorities should implement the partnership, closely associating parliaments, as well as social partners and representatives of civil society, contributing to the elaboration of national reform programmes as well as to its implementation.

By establishing a permanent dialogue between various levels of government, the priorities of the Union are brought closer to citizens, strengthening the ownership needed to delivery the Europe 2020 strategy.

Stakeholders and civil society

Furthermore, the Economic and Social Committee as well as the Committee of Regions should also be more closely associated. Exchange of good practices, benchmarking and networking - as promoted by several Member States - has proven another useful tool to forge ownership and dynamism around the need for reform.

The success of the new strategy will therefore depend critically on the European Union's institutions, Member States and regions explaining clearly why reforms are necessary - and inevitable to maintain our quality of life and secure our social models -, where Europe and its Member States want to be by 2020, and what contribution they are looking for from citizens, businesses and their representative organisations. Recognising the need to take account of national circumstances and traditions, the Commission will propose a common communication tool box to this effect.

6. DECISIONS FOR THE EUROPEAN COUNCIL

The Commission proposes that the European Council, at its meeting in Spring 2010:

- agrees on the thematic priorities of the Europe 2020 strategy;
- sets the five headline targets as proposed in section 2 of this paper: on R&D investments, education, energy/climate change, employment rate, and reducing poverty, defining where Europe should be by 2020; invites the Member States in a dialogue with the European Commission to translate these EU targets into national targets for decisions at the June European Council, taking into account national circumstances and differing starting points;
- invites the Commission to come forward with proposals for the flagship initiatives, and requests the Council (and its formations) on this basis to take the necessary decisions to implement them;
- agrees to strengthen economic policy co-ordination to promote positive spill-over effects and help address the Union's challenges more effectively; to this end, it approves the combination of thematic and country assessments as proposed in this communication whilst strictly maintaining the integrity of the Pact; it will also give special attention to strengthening EMU;
- calls on all parties and stakeholders (e.g. national/regional parliaments, regional and/or local authorities, social partners and civil society, and last but not least the citizens of Europe) to help implement the strategy, working in partnership, by taking action in areas within their responsibility;
- requests the Commission to monitor progress and report annually to the Spring European Council, providing an overview of progress towards the targets, including international benchmarking, and the state of implementation of the flagship initiatives.

At its subsequent meetings:

- endorses the proposed integrated guidelines which constitutes its institutional underpinning following the opinion of the European Parliament;
- validates the national targets following a process of mutual verification to ensure consistency;
- discusses specific themes assessing where Europe stands and how progress can be accelerated. A first discussion on research and innovation could take place at its October meeting on the basis of a Commission contribution.

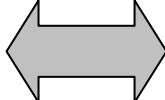
ANNEX 1 - EUROPE 2020: AN OVERVIEW

HEADLINE TARGETS

- Raise the employment rate of the population aged 20-64 from the current 69% to at least 75%.
- Achieve the target of investing 3% of GDP in R&D in particular by improving the conditions for R&D investment by the private sector, and develop a new indicator to track innovation.
- Reduce greenhouse gas emissions by at least 20% compared to 1990 levels or by 30% if the conditions are right, increase the share of renewable energy in our final energy consumption to 20%, and achieve a 20% increase in energy efficiency.
- Reduce the share of early school leavers to 10% from the current 15% and increase the share of the population aged 30-34 having completed tertiary education from 31% to at least 40%.
- Reduce the number of Europeans living below national poverty lines by 25%, lifting 20 million people out of poverty.

SMART GROWTH	SUSTAINABLE GROWTH	INCLUSIVE GROWTH
<p>INNOVATION</p> <p>EU flagship initiative "Innovation Union" to improve framework conditions and access to finance for research and innovation so as to strengthen the innovation chain and boost levels of investment throughout the Union.</p>	<p>CLIMATE, ENERGY AND MOBILITY</p> <p>EU flagship initiative "Resource efficient Europe" to help decouple economic growth from the use of resources, by decarbonising our economy, increasing the use of renewable sources, modernising our transport sector and promoting energy efficiency.</p>	<p>EMPLOYMENT AND SKILLS</p> <p>EU flagship initiative "An agenda for new skills and jobs" to modernise labour markets by facilitating labour mobility and the development of skills throughout the lifecycle with a view to increase labour participation and better match labour supply and demand.</p>
<p>EDUCATION</p> <p>EU flagship initiative "Youth on the move" to enhance the performance of education systems and to reinforce the international attractiveness of Europe's higher education.</p>	<p>COMPETITIVENESS</p> <p>EU flagship initiative "An industrial policy for the globalisation era" to improve the business environment, especially for SMEs, and to support the development of a strong and sustainable industrial base able to compete globally.</p>	<p>FIGHTING POVERTY</p> <p>EU flagship initiative "European platform against poverty" to ensure social and territorial cohesion such that the benefits of growth and jobs are widely shared and people experiencing poverty and social exclusion are enabled to live in dignity and take an active part in society.</p>
<p>DIGITAL SOCIETY</p> <p>EU flagship initiative "A digital agenda for Europe" to speed up the roll-out of high-speed internet and reap the benefits of a digital single market for households and firms.</p>		

ANNEX 2 - EUROPE 2020 ARCHITECTURE

Overall institutional structure	Integrated guidelines establishing scope of EU policy priorities, including headline targets for the EU to reach by 2020 and to be translated into national targets.		
Delivery	<p style="text-align: center;"><u>Country reporting:</u></p> <p>Aim: help Member States define and implement exit strategies to restore macroeconomic stability, identify national bottlenecks and return their economies to sustainable growth and public finances.</p> <p>Approach: enhanced assessment of main macro-economic challenges facing Member States taking account of spill-overs across Member States and policy areas.</p> <p>Instruments: reporting by the Member State through their stability and convergence programmes, followed by separate but synchronised recommendations on fiscal policy in the Stability and Convergence Programme Opinions and on macro-economic imbalances and growth bottlenecks under the Broad Economic Policy Guidelines (art. 121.2).</p>		<p style="text-align: center;"><u>Thematic approach:</u></p> <p>Aim: deliver headline targets agreed at EU level combining concrete actions at EU and national levels.</p> <p>Approach: strategic role of the sectoral Council formations for monitoring and reviewing progress towards the agreed targets.</p> <p>Instruments: reporting by the Member States through streamlined national reform programmes including information on growth bottlenecks and progress towards the targets, followed by policy advice at EU level to be issued in the form of recommendations under the Broad Economic Policy Guidelines (art. 121.2) and the Employment Guidelines (art. 148).</p>

ANNEX 3 - PROPOSED TIMELINE IN 2010 - 2012

2010

European Commission

Proposals for Europe 2020 overall approach

Spring European Council

Agreement on overall approach and choice of EU headline targets

European Commission

Proposals for Europe 2020 integrated guidelines

European Parliament

Debate on strategy and opinion on integrated guidelines

Council of Ministers

Refine key parameters (EU/national targets, flagship initiatives and integrated guidelines)

June European Council

Approval of Europe 2020 strategy, validation of EU and national targets, and endorsement of the integrated guidelines

European Commission

Operational guidance for next steps in Europe 2020

Autumn European Council

In-depth discussion on a selected thematic issue (e.g. R&D and innovation)

Member States

Stability and Convergence Programmes and National Reform Programmes

2011

European Commission

Annual Report to the European Spring Summit, Opinions on Stability and Convergence programmes and proposals for Recommendations

Council of Ministers

Review of Commission's proposals for Recommendations, ECOFIN for SGP

European Parliament

Plenary debate and adoption of a resolution

Spring European Council

Assessment of progress and strategic orientations

Member States, European Commission, Council

Follow-up on recommendations, implementation of reforms and reporting

2012

Same procedure with a specific focus on monitoring of progress
