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FILE TITLE: EUROPEAN COUNCILS		SERIES EUROPEAN POLICY
PART BEGINS: 4 JAN 2002		PART: 4
PART ENDS: 5 MARCH 2002		CAB ONE:

Labour Administration

Part closed

PREM 49/2508

CONFIDENTIAL

PART

CLOSED

DATE CLOSED	5 MARCH 2002
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Series : EUROPEAN POLICY

Title : EUROPEAN COUNCILS

Part : 4

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BARCELONA EUROPEAN COUNCIL - SHORT UK
PROPOSALS FOR CONCLUSIONS

Opening energy markets for business and consumers

The Council underlines the importance, on both economic and social grounds, of an open and fully integrated EU energy market. The Council calls for the market to be liberalised on a progressive and controlled basis taking account of public services and the environment.

It therefore invites the Energy Council and the Parliament to reach a common position on the Commission's proposals on electricity and gas liberalisation at the June Energy Council. This should include at least:

- Opening of the non-domestic market by [2003] for electricity and [2004] for gas
- Opening of the domestic market by [2007], with a review in [2005] to establish whether this date could be brought forward, based on indicators of market opening and a comparison of experiences across the Union.
- Legal separation of transmission and distribution from production and supply
- Independent authorities in each Member State to oversee the market on the basis of a common set of functions
- Published network non-discriminatory access tariffs approved by these independent authorities
- Agreement on transparent and non-discriminatory cross-border trading mechanisms including congestion management

The Council calls on the Commission to establish indicators of energy market opening and integration. As well as measuring progress towards full market opening, these indicators should cover non-discriminatory network access, increased separation between network costs and energy costs and the implementation of common rules for cross border trade.

The Council underlines that market opening measures should not undermine important public services objectives in energy supply – the protection of vulnerable consumers, the provision of electricity across the whole territory of the EU, environmental protection and security of supply. It calls on the Commission to consider how best to reflect these objectives and values across the EU.

Networking Europe

Energy

Recalling the Commission's Green Paper on security of supply, the Council stresses the importance of a regulatory framework that provides incentives for operators to build and maintain adequate electricity generation capacity, gas storage, and pipelines for gas supplies from outside the EU. The Council asks the Commission to monitor the situation and submit a report on the issues relating to security of supply to the Council and the European Parliament next year.

Transport

The European Council recognises that one of the main obstacles to the timely completion of the **transport trans-European network** is the difficulty of mobilising capital. It believes there is significant unrealised potential for the private sector to contribute to the funding of major projects. And it calls on the Member States, together with the Commission, actively to embrace the public-private partnership approach to infrastructure development.

The Council calls on the Transport Council to reach agreement on **Single Sky Framework Regulation** by the end of December 2002, enabling the setting up of the Single Sky Committee tasked with creating the European Single Sky by 2005.

The Council calls on the Transport Council to reach agreement on the **second rail package** by the end of December 2002.

The European Council calls on the Transport Council to reach agreement on the proposal for a new regulation on **public service requirements** and the award of public service contracts in June 2002.

eEurope

The European Council recognises the success of the eEurope Action Plan in getting Europe online and stimulating the right legal, infrastructure and skills frameworks for the digital economy. We must

build on this by connecting Europe through broadband. The European Council:

- invites the Commission to present to the European Council in Seville in June an eEurope Action Plan to run to 2005, based on the target of widespread availability of broadband technologies in Europe by 2005.

A real single market in financial services

Key objectives:

- establishing an **integrated and efficient European capital market**.
- accelerate completion of the internal market for financial services by focussing on priority areas in FSAP which will **reduce the cost of accessing capital and enable its more efficient allocation** throughout the EU.
- competitive retail markets that lead to **increased choice and lower prices for consumers and investors** with appropriate levels of protection.

Actions:

- Combine **mutual recognition**, applying the country of origin principle, with agreement on **core standards** which are essential for investor protection.
- Agree by **June 2002** the draft Directives on **market abuse** and the **use of financial collateral** and the draft Regulation on **international accounting standards**;
- Agree by December 2002 draft Directive on **prospectuses** [to achieve an effective passport for issuers across the EU] resulting in a lower cost of capital, and on financial conglomerates.
- Commission to prioritise its work on **indicators** of success in establishing a single market in financial services, and to publish these by June 2002.
- calls for early proposals from the commission on **Takeovers** to ensure clarity and consistency in takeover laws, to better facilitate the creation of an integrated EU capital market, to exploit synergies, and to enhance wealth creation.

- welcomes recent agreement on **Lamfalussy** implementation and calls for rapid progress on the proper implementation of Lamfalussy recommendations: **consultation, transparency and principles based legislation.**
- calls for rapid progress to clarify the boundary between professional and retail investors in context of Investment Services Directive so that inter professional business is subject to proportionate regulation.

A vibrant European labour market

The European Council emphasises that the over-riding goal of European employment policies must be to achieve by 2010 the 70% employment rate achieved at Lisbon. To that end, it calls for the European Employment Strategy to be revised, and to focus on practical policies to meet the Lisbon target. Particular attention should be paid to active labour market policies, lifelong learning, and those excluded from the labour market (older workers and women).

The European Council welcomes the Action Plan on Skills and Mobility as a sound basis for developing a more flexible, adaptable and mobile European labour market. It calls upon the Commission, in co-operation with Member States, to identify priority areas for early action and to develop proposals to take these forward, while respecting the competence and subsidiarity of Member States.

Developing the European Social Model

The European Council welcomes the recent adoption of the Directive for employee information and consultation in the European Community, and notes the prospect of a directive on agency workers. The European Council endorses the need for a positive approach to change in the face of the need for greater adaptability in the economy but does not believe that further legislation is required. The Council therefore calls on the social partners to reach voluntary agreement on measures to promote the exchange of good practice in dealing with industrial restructuring.

Knowledge Europe: education and innovation

Education

Education, lifelong learning and skills are essential to creating and maintaining employment in Europe. The European Council calls on the Commission to work with Member States, individually or in groups, to develop exchange of good practice.

Building links between schools in different member states and in accession countries is crucial to developing mutual understanding and improving language learning amongst our young people. By the end of 2003, every secondary school needing assistance to establish or enhance an internet twinning link with a partner school in another Member State or accession country will be eligible for financial assistance.

The Council calls on the Commission to undertake a feasibility study to identify options and report back to the Seville Council in June.

Research and innovation

For the Union to become the most competitive and dynamic knowledge-based economy in the world it will need to achieve a sustained research and innovation performance that matches or beats the world's best.

Robust **framework conditions** are needed to create the right environment for investors. Key indicators of success include higher levels of business R&D and patenting and stronger innovation performance. The Council:

- welcomes proposals for the **Sixth Research Framework Programme (FP6)**, and calls for the completion of codecision with the European Parliament by June 2002;
- endorses the **ECOFIN study on R&D and innovation** and calls for work a **European Research and Innovation Area (ERIA)** to foster the development of a European-wide innovation system able to match the US.
- asks the Commission to make recommendations on how **intellectual property rights protection** fosters innovation at Community level; investigate increasing **networking between industry and science** across the EU; consider the growing importance of **intangibles**; and review the scope and incentives for **service sector innovation**;
- calls for swift agreement on a **Community Patent** system that is efficient, legally certain and affordable and so attractive to business.
- invites the Commission to pursue **radical reform of the R&D state aid rules** to ensure they do not hold back innovation. New guidelines should be ready during 2002.

Better regulation

The European Council reaffirms the importance of better regulation and recalls the Commission's commitment to produce the co-ordinated Action Plan on better regulation in time for the Seville European Council.

The European Council requests that this Action Plan be based on the recommendations contained in the Mandelkern report, the Commission's Communication on improving and simplifying the regulatory environment and the White Paper on European Governance. In particular, the European Council welcomes the Commission's commitment to introducing a total impact assessment system by the end of 2002 and calls on Member States to introduce their own impact assessment systems by the end of 2003. Further, the European Council underlines that access to policymaking at all levels should continue to be improved for all stakeholders through better and earlier consultation, and endorses the importance the Commission attaches to promoting a culture of better regulation in the EU Institutions and Member States. Finally, the European Council requests the Commission to launch its wide-ranging simplification programme by the end of 2002.

Small and medium-sized enterprises

The European Council recognises the central role of SMEs in job creation, innovation and economic reform. It calls for:

- Member States to renew and reinforce their commitment to the European Charter for Small Businesses;
- a stronger voice of SMEs within the EU. Member States should strengthen as appropriate the involvement and representation of SMEs within the EU institutions. Following on from this year, SME Ministers should meet before each Spring European Council.

Biotechnology

The European Council welcomes the Commission's "Life sciences and biotechnology - A Strategy for Europe". The Council endorses the Action Plan calls on the Commission and Member States to work

together to implement the action plan and create a cohesive framework to help Europe compete with the best in the world.

Encouraging effective competition

Effective competition is a key part of the wider economic reform objectives set out at the Lisbon Council and it provides the discipline and incentives to deliver these objectives.

The Council reaffirms the commitment of the Member States to:

- reduce state aid levels in relation to GDP by 2003 and seek to eliminate aid that most distorts competition
- reorient aid to horizontal objectives and target it at clearly identified market failures
- evaluate the effectiveness, quality and impact of their state aid

The Council welcomes the Commission's commitment to ensure that all state aid is assessed on the basis of economic criteria and to continue its work to simplify, clarify and modernise the state aid rules, improving their effectiveness and speed.

The Council calls on the Commission and the Member States to increase the transparency of the state aid regime, improving the quality of reports and statistics and developing statistical tools and indicators to supplement the State aid scoreboard. The Council looks forward to the Commission's initial assessment of progress against these objectives later in 2002.

Services of General Economic Interest (SGEI)

The European Council underlines the importance for citizens and territorial and social cohesion, of access to Services of General Economic Interest. The opening of utility markets should be taken forward in a way which takes full account of the importance of quality public services.

The European Council, recalling both the Conclusions of the 27

November 2001 IMC and recent jurisprudence calls on the European Commission to:

- produce, in close cooperation with the Member States, Community guidelines on state aid granted to undertakings entrusted with the provision of services of general interest, by September 2002
- present its Communication on evaluation methodology at the May 2002 IMC
- continue its examination of the appropriateness of consolidating and specifying the principles on services of general economic interest, underlying Article 16 of the Treaty, in a framework directive, while respecting the specificities of the different sectors involved, and in the light of an examination of recent jurisprudence.

Sustainable development

The European Council welcomes progress so far in integrating the objectives of the Union's sustainable development strategy into the Lisbon strategy.

The European Council encourages the Council to elaborate the external dimension of sustainable development for further consideration at its meeting in Seville, in time for it to be presented at the Johannesburg World Summit on Sustainable Development. The European Council reaffirms its commitment to make this Summit a success and to establish the necessary framework to make globalisation work for sustainable development, especially for the poorest.

JH

From: Jeremy Heywood
Date: 5 March 2002

PRIME MINISTER - BOX

cc: Jonathan Powell
Stephen Wall
Alastair Campbell
Roger Liddle
Martin Donnelly
Sally Morgan
Peter Hyman

The reaction of UKIC & the CBI will be important here. I think it can be a modest success but it needs energy + Mandelkern + someone had a good E.

BARCELONA

Roger, Martin and I had a useful session today with Aznar's economic team on Barcelona. The Spanish seem confident that they are on course for a successful Summit. On the key issues:

- energy: they believe that the French will accept a firm date for opening up the non-domestic market, probably end 2004, in return for some warm words (i.e. not a Directive) in the Council Conclusions on services of general economic interest (universal service obligations, protection of vulnerable consumers etc). They estimate that "non-domestic" customers represent about 60% of the total energy market. So this would be a big step towards complete liberalisation, for which we would aim to set a firm date by end 2002. This would be a good outcome if we can get it. But we are slightly concerned that the Spanish may be over-estimating French flexibility (see Roger's separate note on the French position). Certainly, to be sure of delivering this we believe you will need to talk very tough in the Council itself and ensure in advance that Schroeder is firmly behind you. It may also be necessary, as Roger

has proposed, to offer the French a political declaration or non-binding "Charter on Public Services".

- **labour markets:** the Spanish will table good Conclusions language on the need for further labour market reform; and will ensure that there are no unhelpful references anywhere in the Conclusions to the various regulatory proposals currently in the pipeline. However there is little prospect that they will be prepared, as Presidency, to support our desire to see a line drawn under the existing body of employee rights legislation. We need to decide whether it is worth pressing for explicit language on this, against French, Belgian and other resistance. Without that, the text will probably not cut much ice with the British media, though if we can secure a more limited agreement in the Council that there is no need for legislation on industrial restructuring, this would be warmly welcomed by the CBI.

we will never get that do explicitly

- **financial services:** the Spanish Conclusions text will take credit for recent (excellent) progress on Lamfalussy and include a list of key directives that they want to see agreed this year. While we still have significant difficulties with some of the Commission drafts (notably the draft Prospectus Directive), we are reasonably content with progress in this area. And if we can indeed reach agreement on all the listed Directives by the end of the year then this will be a significant achievement. But the trick, again, will be to make all this come "alive" in media terms! As a minimum we should press for the Council Conclusions to include a reference to the recent

independent assessment that full implementation of the financial services action plan could add 0.5% a year to EU GDP.

- **transport**: the Spanish are looking for a "balanced package" of timetabled deliverables (Single Sky; rail freight liberalisation etc) on the one hand and agreement to proceed with Galileo on the other. Aznar clearly sees Galileo as a big prize for Barcelona, and important for keeping the French on board. You need to agree with GB and SB (and then Schroeder) how to handle Galileo at Barcelona. The Spanish are very keen to avoid a contentious discussion on financing, civil/military etc at the Summit. But it is difficult to see how we can simply sign up to this huge project without conditions (Stephen is providing further advice).

- **regulation**: the Spanish are willing to have some reference to "better regulation" in the Conclusions. But they do not really see this as a central element of the strategy. You will need to flag up to Aznar the importance of this issue and its relevance to the competitiveness and small business agenda.

- **innovation**: there will be satisfactory language on broadband. The main concern here is that the Spanish are continuing to press the idea of setting a 3% of GDP target for spending on R&D. We are obviously keen to encourage more R&D in the UK. But departments do not support the establishment of an arbitrary spending target which could have major implications for public

spending or the need for tax reliefs. Again we need to work with the Germans to head this off.

An outcome along these lines at Barcelona would be pretty respectable – but if we lost the energy liberalisation date the rest of the package would look rather modest. We have agreed to send Aznar's team some thoughts on how to spice up the Conclusions language; and obviously Stephen et al will be briefing the UK press, particularly the FT. But we will need to work hard at the Summit itself to convince the media that we have passed the "make or break" test.

Next Steps

You have a ministerial meeting on Thursday after Cabinet to take stock of progress and agree final UK positions on Galileo etc. Aznar then hopes to speak to you by phone on Saturday. It would also be worth considering whether you need to talk to Schroeder and/or other potential allies in the run up to the Summit next week. Aznar is clearly hoping that you will play a leading role at the Summit itself – given that he himself will be in the chair. We need to ensure that on energy, labour markets, regulation etc there is solid support for you from others round the table during the scheduled five hours of discussion. As a minimum it would probably be worth having a pre-meeting with Schroeder at Barcelona. Are you prepared to do this?

pro m'ca.

P.S.

See UNICE
priorities below.

Very similar to 0-50:
h

PP JEREMY HEYWOOD

UNICE

THE VOICE OF BUSINESS IN EUROPE

Pr

To note.

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EUROPEAN BUSINESS says:

**BARCELONA MUST REVITALISE THE
LISBON PROCESS**

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EUROPEAN BUSINESS says: BARCELONA MUST REVITALISE THE LISBON PROCESS

"The Union has today set itself a new strategic goal for the next decade: to become the most competitive and dynamic knowledge-based economy in the world capable of sustainable economic growth with more and better jobs and greater social cohesion."

Presidency conclusions, Lisbon European Council, 23-24 March 2000

FAILURE TO MATCH POLITICAL COMMITMENT WITH ACTION

The introduction of the Lisbon process could - and should - have marked a turning-point for the European economy. But political commitments have not been matched by actions, and tough choices have been avoided time and again.

The European economy has under-performed as a consequence. At the Lisbon summit, Member States concluded that a combination of the agreed measures and a sound macro-economic background should allow an average economic growth rate of around 3%.

There was an enthusiastic reception for the Lisbon strategy within the business community, as Heads of State and Government made the clear commitment to achieving a genuine Single Market in the EU, setting themselves an ambitious goal.

EU LAGGING BEHIND

Since Lisbon, the EU's relative performance has been poor.

In comparison with the USA, growth and productivity in the EU has been consistently low. Does this matter? Yes, it matters very much. If the EU had achieved the same rate of growth as the US over the last 10 years, its total GDP would have been roughly 17% higher in 2001 than it actually was.

THE ECONOMIC COST

This loss of income can no longer be justified. The Lisbon process is falling well behind schedule. Implementation of the Lisbon strategy will boost Europe's growth potential; without it, the benefits of the single market will not be achieved.

For business to succeed it needs a legislative system which provides clarity and certainty, and an infrastructure that enables it to be efficient - in terms of economic, social and environmental costs.

A COHERENT APPROACH IS REQUIRED

First of all, a dynamic Europe needs a **stable macro-economic climate**, with free and open markets which offer opportunities for investment and growth. Both pillars of macroeconomic policy must function properly: it is not enough to have a single monetary policy - governments must ensure that their fiscal policies are conducive to sustainable economic growth. The Stability and Growth Pact has an important role as guarantor of fiscal responsibility.

Secondly, we need the **economic and structural reforms** encompassed by the Lisbon process.

UNICE has consistently argued that the single market needs to become a reality if growth is to increase. Liberalising protected markets will create opportunities for investment and growth, with increased competition leading to higher quality and lower prices for goods and services. Improving the quality and efficiency of labour markets will enhance job creation. Opening up the markets for public procurement will improve economic efficiency. Companies face a vast number of barriers to cross-border activities. 15 different administrative and legal systems, and technical fiscal barriers are not conducive to a dynamic and flexible business sector.

Third, there are areas where the EU has a great deal of untapped potential that can be released through combining policies and **creating synergy** between different areas.

In Lisbon and in Stockholm, the buzz was on the potential benefits from using new technologies. Some progress has been made on a number of key issues identified in the eEurope 2002 Action Plan, including the so-called "Telecom Package", but cheap, fast and secure Internet access is not yet a reality for all in Europe. UNICE calls on Member States to demonstrate their commitment to making this a reality by requesting the continuation of a more focused eEurope Action Plan beyond 2002. And of course equipping the workforce with the skills they need through their lives underpins all other policy measures. Europe's skilled workforce is one of its greatest assets, notably in the fields of science and engineering. Member States should therefore ensure that EU policies and legislation reflect the EU's innovative potential in these areas, and do not hinder it.

WHAT IS AT STAKE

If progress is not made in Barcelona, the 2010 deadline will not be met. Two years out of the ten have already passed. Progress has been inadequate and time is running out. We have to ensure that the momentum set at Lisbon, as with the EU Charter for Small Businesses, delivers for Europe's companies, 99% of which are SMEs, employing two thirds of Europe's workforce. Europe cannot afford to waste this opportunity to revitalise our markets and our economy. Governments may be keen to set targets for participation rates and job creation, but without the conditions for a dynamic economy, business will be unable to create the jobs and prosperity Europe needs. UNICE expects decisive and real steps in this direction from the summit in Barcelona. The glaring gap between commitments made at summits, and actual implementation needs to be closed.

UNICE, consisting of 34 central industrial and employers' federations from 27 countries and representing more than 16 million companies, calls on Heads of State and Government to meet this challenge. On their decision depend significant economic and social improvements in Europe. UNICE undertakes to appraise annual progress in time for each spring summit.

EXECUTIVE SUMMARY

INNOVATION AND ENTREPRENEURSHIP

Research and development must be a priority at the Barcelona summit. In order to have a competitive knowledge-based economy, Member States must recognise Europe's potential in areas of science and high technology, and provide a legislative environment in which this can flourish. This includes facilitating the mobility of highly skilled workers, providing European business with a competitive Community patent, encouraging the development of the biotechnology sector, and ensuring that the objectives of the EU Charter for Small Businesses are met.

FLEXIBLE LABOUR MARKETS, PROVIDING THE NECESSARY SKILLS

Increasing employment rates requires carrying on with sound macroeconomic policies, speeding up structural reforms and effectively implementing the entrepreneurship pillar of the employment guidelines. Member States should endeavour to simplify, streamline and ensure the coherence of existing processes in the area of employment. This will enable the proper focus to be put on a limited number of real priorities. In Barcelona, Member States should strengthen coordination in the fields of education and training. Labour market reforms must support lifelong learning strategies so as to translate economic growth into employment. The modernisation of the labour market depends above all on measures taken within Member States. But the European level must avoid imposing additional constraints in the form of ill-conceived social measures. The proposed directive on temporary work, which is currently being discussed by the Commission, is an example of such a measure.

ESSENTIAL INFRASTRUCTURE FOR THE INTERNAL MARKET

Europe needs integrated and interoperable networks that are open and competitive. The Barcelona summit should provide new impetus for the full opening-up of energy, transport, postal and telecommunications networks. Member States are urged to complete the single market, which is the backbone of the European economy. This will enable European companies to operate and compete effectively across borders.

FINANCIAL SERVICES

UNICE calls on all governments to increase their efforts to push Financial Services Action Plan measures through the legislative process. All Member States have committed to the FSAP, yet there is a substantial risk that the targets for implementation will be missed due to insufficient political conviction. This will hamper Europe's economic growth. Greater urgency to meet the targets should not lead to inadequate consultation and transparency, which would be counter-productive. Both are essential elements in making good policy.

SUSTAINABLE DEVELOPMENT

The Barcelona summit should uphold the recommendations from Göteborg that there must be a balance between the three pillars of sustainable development; economic, social and environmental. In order to develop strategies which combine high environmental effectiveness and high economic efficiency, it is essential to create more space for co-regulation and negotiated agreements. In addition, the Barcelona summit should provide the impetus for wide regulatory reform, to improve the quality of EU regulatory activity.

BARCELONA SUMMIT

The Lisbon process will be a failure unless concrete action is taken now. Actions are needed, not words. Europe's leaders must face the challenge of implementing the reforms they have all committed themselves to. Too much time has been wasted. Europe must now push ahead with determination. European business expects its political leaders to take decisive steps at the Barcelona summit. We can no longer afford to wait.

Innovation and entrepreneurship

RESEARCH AND DEVELOPMENT (R&D)

Lisbon target: to make the EU the most competitive and knowledge-based economy in the world by 2010.

UNICE's expectations for Barcelona: UNICE supports the Commission's proposal to launch a concerted strategy designed to strengthen R&D efforts in all European countries. The Commission has proposed that the ratio of R&D spending to GDP in the EU should be increased from 1.7% to 3% by 2010. UNICE can support this objective if it signals a political commitment to a simultaneous upgrading of the framework conditions for innovation, the volume of actions to support R&D and innovation, and the quality of the support instruments deployed. At operational level, however, a strengthening of national R&D policies will have to be piloted by means of objectives which are more targeted than simply the ratio of R&D spending to GDP.

The principal objective of the common R&D policy must be to help underpin innovation in Europe and to support the competitiveness of European companies. **Only if the framework conditions for innovation are favourable will corporate spending on R&D be able to increase substantially.** Greater efforts must be made with a view to:

- ◆ encouraging entrepreneurship as well as young people's interest for natural sciences and engineering
- ◆ adopting the Community patent
- ◆ eliminating barriers to market development
- ◆ improving financing and fiscal conditions for innovation
- ◆ eliminating barriers to growth of firms, particularly those linked to size thresholds in the application of excessively rigid labour regulations.

Careful consideration of the impact of new policies on competitiveness is necessary. The white paper on "A strategy for a future chemicals policy" is an example where the policy objectives are welcome, but the excessively bureaucratic approach will most likely inhibit innovation in the European chemicals industry.

BUSINESS RECOMMENDATIONS

Future challenges require an increase in public and private R&D efforts. **UNICE calls on the public authorities in each country to make immediate plans to upgrade their support for R&D in proportions which are in line with the ambitions of the Lisbon strategy.** At the same time, efforts must be made to improve the efficiency of spending, especially in public research activities.

Given that business and industry account for two thirds of R&D spending in Europe, any policy for increasing corporate spending on R&D must be developed in cooperation and partnership with the business world. **Best practice should be identified in the field of incentives for R&D** (in particular horizontal aid for research) and cooperative ventures between academia and industry. It is essential to eliminate obstacles which stand in the way of commercialisation of the results of academic research, whether initiated by academic centres or through companies.

In view of the EU's aim to make Europe more attractive for private R&D investments, it is essential that the Commission takes care not to damage European industry's international competitiveness in the planned revision of the Community framework for state aid for R&D.

***Lisbon target:** The **Stockholm** summit concluded that the EU should harness new technologies, calling on the Council and Commission to utilise the full potential of biotechnology and strengthen the competitiveness of this sector.*

UNICE's expectations for Barcelona: Business calls for the endorsement and implementation of the recent communication from the Commission "Life sciences and biotechnology - A strategy for Europe", with the time frames indicated there, taking into account the business recommendations below.

IMPLEMENTATION OF THE COMMISSION ACTION PLAN

On January 23, 2002, the European Commission adopted a major policy initiative in the form of the communication "Life sciences and biotechnology - A strategy for Europe".

This strategy paper forms one of the main building blocks of the Commission's contribution to the Barcelona European Council in March 2002. It includes an action plan with recommendations for Member States, local authorities, industry and other stakeholders. Industry welcomes this effort to acknowledge biotechnology as a major source of innovation for a very wide range of products and the important role it can play in building a knowledge-based economy.

The communication is particularly welcome at a time when Europe's biotech industry is struggling to keep up with the international competition. In order to reap the fruits of biotechnology, the recently established European Food Safety Authority must become the leading European authority for risk assessment of GMO products, and the current moratorium on the market introduction of GMO products should be lifted as soon as possible.

Meanwhile, business considers the rapid implementation of the action plan in the communication, with the time frames indicated there and taking into account the business recommendations below, as a crucial step towards meeting the Lisbon objectives for innovation.

BUSINESS RECOMMENDATIONS

The European Council must now take forward the Commission's communication on the European strategy for life sciences and biotechnology. In the short term, particular focus should be put on the following:

- ◆ There is an urgent requirement in EU legislation for a practical, cost-effective and controllable system for the traceability and labelling of GMO products. The current Commission proposal does not yet meet these criteria. The legislation must be implemented in the EU by the end of 2003 at the latest.
- ◆ Clear criteria for risk management by governments must be formulated and introduced by the end of 2002.
- ◆ Full and immediate national transposition of directive 98/44/EC on the legal protection of biotechnological inventions. Non-implementation offers a pretext to opponents to keep calling for a "square one" re-discussion of the directive.

Innovation and entrepreneurship

COMMUNITY PATENT: ESSENTIAL INSTRUMENT FOR INNOVATION

Lisbon target: *The European Council asked the Council and Commission to "ensure that a Community patent is available by the end of 2001" so that "Community-wide patent protection in the Union is as simple and inexpensive to obtain and as comprehensive in its scope as the protection granted by key competitors".*

UNICE's expectations for Barcelona: UNICE calls upon the Member States in Barcelona to push for progress, to ensure that this key dossier is tackled with due diligence and pragmatism to meet users' needs, and not sidetracked by nationalistic interests. Discussions at Council level impeded adoption of the proposal by the end of 2001.

WHAT IS AT STAKE

Innovation depends on the creation and diffusion of new ideas, requiring considerable investment in time, skills and capital. To encourage and reward innovation, which in turn develops competitive advantage, intellectual property rights must be protected. As it currently stands, European innovators are at a disadvantage when it comes to obtaining and enforcing patents, compared to their competitors. The Commission has set out the essential elements for a patent system.

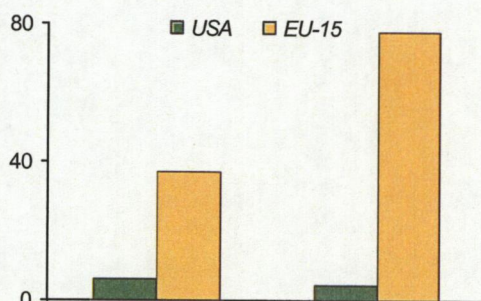
The Community patent must be of a unitary character, affordable, guarantee legal certainty and coexist with the present patent systems in Europe.

The EU needs:

- ◆ a unitary Community patent which provides incentives for creation of inventions and remedies the current cost-gap vis-à-vis the US and Japanese patents;
- ◆ a reliable jurisdictional system, based on a Community court specialised in patent matters and competent to examine infringement and validity of Community patents for the entire Union;
- ◆ an instrument that makes use of and can coexist with the present European Patent Convention.

BUSINESS RECOMMENDATIONS

UNICE calls upon the Spanish Presidency to secure a rapid adoption of the Community patent by the end of June 2002. It is crucial that European companies be entrusted with an instrument which meets their needs, enhancing their competitiveness by protecting the results of their R&D investments as easily and efficiently as possible, and at a similar price to that in the US and Japan. In this context, UNICE believes that the Commission's August 2000 proposal represents a sound basis to develop further the framework for creation of a Community patent system.



Cost in euro (€1000) of obtaining and renewing patents, 1999 (cost of application for 15 EU countries; cost of renewal for 20-year patent life)

Source: Industrial Research and Development Advisory Committee of the European Commission (cited in UNICE 2000 Benchmarking report)

Essential infrastructure for the internal market

LIBERALISATION OF ELECTRICITY AND GAS MARKETS

Lisbon target: complete liberalisation of the European internal market for electricity and gas.

UNICE's expectations for Barcelona: Member States should reach a political agreement on directives presented by the Commission in March 2001, notably with a view to creating a fully operational internal market for business customers by 1 January 2003 (electricity) and 1 January 2004 (gas). A positive decision on these directives is essential, both in terms of competitiveness, and to demonstrate the EU's decision-making capacity. In the absence of progress, UNICE calls on the Commission to take action on the basis of article 86 of the Treaty.

LESSONS FROM THE FIRST STAGE OF LIBERALISATION, STARTED IN 1996

UNICE emphasises the need for a twin-track approach for effective market opening: pursuit of the proposed new **quantitative** objectives for the extent of liberalisation must go hand in hand with paying much closer attention to improving the **qualitative** aspects of the legal implementation of existing directives.

There are major deficiencies in this area, which have harmful consequences. In several countries, the degree of market opening achieved on paper is robbed of its significance by inadequate legislation for unbundling. It is therefore just as important to correct serious qualitative shortcomings in the implementation of directives 96/92/EC (electricity) and 98/30/EC (gas) as it is to work on the second stage of liberalisation. UNICE deplores the unacceptable fact that some Member States have failed to meet the timetable for implementation of directives 96/92/EC and 98/30/EC.

BUSINESS RECOMMENDATIONS

Speeding up unbundling is particularly important if existing and future directives are to deliver their economic benefits. It is essential that the process of unbundling should ensure that:

- ◆ There are no cross-subsidies
- ◆ Neutrality of network operators vis-à-vis all network users is guaranteed
- ◆ Transparency is injected into cost-reflective network tariffication

The comparative market principle should be applied for all network utilisation compensation.

There is a clear need to reshape national legislation on the basis of identical principles of liberalisation, but UNICE cautions against seeking total technical harmonisation of the tools for implementation of liberalisation as an end in itself. Instead, policy makers should take account of the specific tools that have generated a broad measure of satisfaction among users in the Member States. There should be continual evaluation of these tools.

Companies are also concerned that the benefits of liberalisation could be negated by new constraints in the form of tax penalties, new constraints on network operators (disproportionate public service obligations) or linked to exaggerated support for renewables. UNICE could not accept a link being established in the negotiations between liberalisation of energy markets and the introduction of measures designed to harmonise and increase energy taxes on the basis of the Commission's poorly thought-out proposals in this area.

Liberalisation must go hand in hand with an economic policy that creates conducive framework conditions for the investment needed to develop gas and electricity infrastructure, including **cross-border links**. For markets to function efficiently, complicated, non-transparent or non-cost-reflective pricing structures for cross-border transport of electricity and related services, must be overhauled, as these dissuade foreign operators from adding to the service offer. In this regard, UNICE urges the Commission not to endorse the introduction of cross-border tariffication models which would perpetuate artificial obstacles to trade.

"The Barcelona summit must finally take a clear decision for rapid and complete liberalisation of the European internal market for electricity and gas. This is a precondition for reducing the competition disadvantages which European companies face as compared with their competitors in important OECD countries, in particular the USA, due to high energy prices."

*Dr. Werner Marnette
Chairman of the Executive Board, NORDDEUTSCHE AFFINERIE AG, Hamburg*

Essential infrastructure for the internal market

COMPLETION OF THE INTERNAL TRANSPORT MARKET

Lisbon target: to speed up liberalisation in the area of transport.

UNICE's expectations for Barcelona: Member States are urged to adopt the Commission's proposals to create a single European airspace, to liberalise domestic rail freight transport and liberalise access to port services within the deadlines foreseen.

RAILWAY LIBERALISATION

Liberalisation of rail freight transport is crucial to improving the price quality ratio of railway services. With an anticipated 38% growth in demand for freight transport over the next ten years, Europe will clearly need well-functioning railway transport services. This is why European business fully supports the Commission's proposals to liberalise domestic rail freight transport, essential for putting rail on an equal footing with other transport modes. It is equally important to make swift progress to improve connections between the different national networks and to give more priority to slots allocated to freight trains. **The Commission's proposals are a very positive step towards completing the internal railway market. UNICE calls on the European Council to adopt them swiftly, without extending the 2006 deadline,** as proposed by the Commission.

SINGLE EUROPEAN SKY

Business is suffering more and more from delays in air traffic, leading to increasing costs for the European private sector. This is the result of the aggravating mismatch between the capacity of the airspace as well as airports and the growing demand for air travel and air transport. The full benefits of the internal market cannot be realised as long as internal air travel and air transport are impeded. Statistics show that one of every three to four intra-European flights is delayed. The current functioning of air traffic management (ATM) is a key cause of the increased delays. **European business therefore strongly supports the Commission proposals for creating a Single European Sky, through better organisation and use of airspace, as well as integration of the different air traffic management systems.** UNICE calls upon the European Council to recognise the urgency of adopting the necessary EU legislation, in order to meet the target date of 31 December 2004.

MARKET ACCESS TO PORT SERVICES

In 2001 the Commission submitted a proposal for a directive on Market Access to Port Services. In its first reading, the scope of the directive was limited by the European Parliament by excluding pilotage. UNICE considers that the directive, especially in its original scope, will contribute to completing the internal transport market and pave the way for improving the quality and efficiency of port services. This will increase the efficiency of supply chains and support a more prominent role for maritime transport and short-sea shipping, thereby promoting the development of a sustainable transport policy. **UNICE calls on the European Council to express its support for adoption of the directive.**

INTERCONNECTION OF INFRASTRUCTURES




UNICE calls for selective financial intervention by the EU to accelerate the construction of major transeuropean traffic routes and to eliminate infrastructure bottlenecks, paying due attention to effective integration between the different transport modes.

Implementation of 2001 railway liberalisation package

	A	B	Dk	Fin	D	Irl	It	NL	P	E	Sw	UK
Progress in legislation	Red	Red	Green	Yellow	Red	Red	Yellow	Green	Yellow	Yellow	Yellow	Yellow

Transposition to be completed by March 2003

Progress in legislation to date

-  transposition of the directive and adoption in national law
-  official draft has been produced in national Parliament
-  no official draft

"Liberalisation of railway freight transport can break the vicious circle of high tariffs, low quality, falling market share, continuing financial losses, postponement of necessary investments and the threat of job losses."

Peter Elverding, DSM Managing Board chairman

Essential infrastructure for the internal market

TARGETING A FULL LIBERALISATION OF POSTAL SERVICES

Lisbon target: the European Council asked the Commission, the Council and the Member States to speed up liberalisation in the area of postal services.

UNICE's expectations for Barcelona: Member States must commit themselves to opening up all cross-border postal services to full competition throughout the EU, at the earliest possible date.

STATE OF PLAY: ASSESSING DEVELOPMENTS

The compromise agreement reached under the Belgian Presidency shifted any real progress in the liberalisation process into the distant future:

- ◆ By 2006, not even 23% of the current revenues of the postal operators will be opened to competition and another directive will be necessary to continue the liberalisation process
- ◆ In 2006, a study needs to assess whether universal service can still be guaranteed in a fully liberalised postal market

BUSINESS RECOMMENDATIONS

The Spanish Presidency should, as a priority:

- ◆ Speed up the correct implementation of all provisions of the 1997 postal directive, including the notice which deals with competition rules
- ◆ Ensure that the common position is adopted by the European Parliament
- ◆ Ensure that competition rules, also for the postal sector, are rigorously enforced

THE MARKET FOR POSTAL SERVICES

Business activities generate more than 85% of postal services in Europe. European business supports the efforts of the European Commission and of some Member States to speed up the process of dismantling the postal service's monopoly. Full liberalisation of the postal services should be achieved at the latest by 2007. Such efforts are fully in line with the conclusions of the Lisbon European Council (23/24 March 2000).

All postal operators have to adapt rapidly to customers' demands and to the international dimension of their activity, having to cope with market developments, requiring better quality and adaptation to technological changes. The remaining monopolistic situation of the incumbents in most Member States for letter post slows down their adaptation process, which has counterproductive effects both for their customers and for themselves.

Public service obligations can be fulfilled by both public and private operators, through tenders based on specifications.

The fundamental evolution of the postal and express courier services, due to the fast development of e-business in the global economy, makes it necessary to open all cross-border postal services to full competition throughout the EU, before the end of 2003, together with all direct mail activities and the national postal packages above 50g. This is a market-driven need for liberalisation. The current regime acts as an obstacle for postal operators to comply with the needs of their customers, i.e. regarding the possibility to provide door-to-door delivery on a cross-border level.

Essential infrastructure for the internal market

CONDITIONS FOR THE DEVELOPMENT OF BROADBAND

Lisbon target: *The European Council in Lisbon, 23-24 March 2000, called on Member States to introduce greater competition in local access networks, unbundle the local loop in order to help bring about substantial reduction in the costs of using the Internet, make available in all European countries low-cost, high-speed interconnected networks for Internet access.*

UNICE's expectations for Barcelona: Member States are requested to demonstrate their commitment to making broadband available and stimulating demand throughout the European Union by 2005 in a competitive environment.

WHAT CAN BROADBAND DO FOR EUROPE?

Business in particular is increasingly reliant on modern and fast communications to operate effectively and to be competitive. Broadband, in providing **cheap, fast Internet access** for European business and citizens alike is a key factor for Europe's competitiveness.

STATE OF PLAY - BROADBAND IN EUROPE

The current lack of effective implementation of the regulation on unbundled access to the local loop¹ in the EU prevents businesses and citizens from reaping the benefits of effective competition in local access networks.

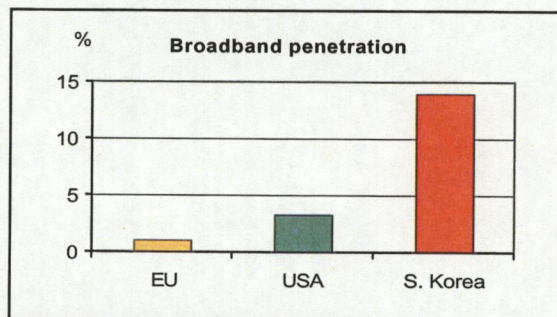
But while local loop unbundling (LLU) is an important ingredient in availability of broadband because it creates a competitive environment for ADSL² providers who use the local loop, it is by no means the only factor. Competition between broadband access platforms (metal local loops, cable modem, xDSL, Wireless Local loop, fibre-optic networks, high-speed mobile Internet access through UMTS) will provide considerable stimulus to the market. Regulators must refrain from being technology-specific. Mobile broadband (UMTS) should not suffer from the lack of harmonisation of the allocation of frequencies which, at present, varies dangerously between Member States.

Governments have a major role to play in stimulating the development of broadband through developing eGovernment broadband services applications, ensuring that regulation stimulates investment in broadband infrastructure, services and applications and that non-urban areas are not left on the wrong side of the digital divide.

TAKE-UP AND ROLL-OUT OF BROADBAND IN EUROPE: ESSENTIAL FOR EUROPEAN INDUSTRY'S COMPETITIVENESS

European industry calls on Member States to promote effective competition and a level playing-field including measures such as:

- ◆ Effective implementation of the local loop unbundling regulation;
- ◆ Further increasing Internet penetration;
- ◆ Ensuring that non-urban areas have access to broadband;
- ◆ Allowing for competition between broadband access platforms;
- ◆ Adopting action plans to promote the roll-out of broadband;
- ◆ Measures to stimulate demand, including eGovernment initiatives and services, fiscal measures and tax incentives.



¹ OJ L 336, 30.12.2000, p.4.

² Asymmetric Digital Subscriber Line: technology that facilitates the high-speed transmission of digital data over copper lines found in the local loop

Essential infrastructure for the internal market

LEGAL CERTAINTY FOR E-COMMERCE DIRECTIVE

Lisbon target: creation of an information society for all: the Council and European Parliament were asked to adopt the directive on electronic commerce³ as soon as possible in 2000.

UNICE's expectations for Barcelona: Member States are requested to transpose rigorously the e-Commerce directive without delay and to ensure that future regulatory initiatives do not undermine the "country of origin principle" thereby demonstrating their commitment to it and the legal certainty it creates.

STATE OF PLAY: LACK OF COHERENT TRANSPOSITION

The European Parliament and the European Council of Ministers adopted the directive on 8 June 2000, requiring Member States to transpose it into their national legislation before 17 January 2002. This deadline has now elapsed. Although welcoming the fact that all Member States have at least initiated transposition, UNICE regrets the wide disparity in the state of progress (see table below). It appears that while a number of Member States have finalised the adoption of the national transposition measures, a significant number are still at very early stages in the process and others have yet to present any official draft law.

EUROPEAN EFFICIENCY IS AT STAKE

Such a disparity is detrimental to the take-up of e-commerce by European industry and consumers. The e-commerce directive provides a sure framework for all, which will facilitate cross-border e-commerce throughout the EU and provide legal clarity and security for business and consumers. It is estimated that e-commerce has growth potential of 150-220% between 2001 and 2003⁴.

KEY PRINCIPLE

UNICE draws Member States' attention to the importance of transposing the directive while fully respecting one of the key principles enshrined therein: **the country of origin principle** (Article 3). This principle means that operators established in one Member State are, in principle subject only to the law of that Member State. A correct, rigorous and rapid transposition of the country of origin principle is of the utmost importance to European industry because of the degree of **legal certainty** it creates regarding the law applicable to information society services.

In UNICE's view, the most efficient way to transpose the country of origin principle is to ensure clearly and unambiguously that information society service providers established in the EU have to comply only with the laws of the Member State in which they are established. UNICE encourages regulators to refrain from undermining this cornerstone principle of the Internal e-Market in other initiatives related to determining the law applicable to e-commerce.

VAT AND E-COMMERCE

UNICE is pleased that Member States finally reached an agreement on the directive [COM(2000) 349 final] regarding the value added tax arrangements applicable to certain services supplied by electronic means, which creates a level playing-field for European companies.

Implementation of the e-commerce directive

	A	B	Dk	Fin	F	D	EL	Irl	It	L	NL	P	E	Sw	UK
progress in legislation															
implementation in practice: has country of origin principle been applied correctly?	↗	⇒	↘	↗	↗	↗	N/A	↗	N/A	↗	↘	N/A	↗	↘	N/A

Progress in legislation

- transposition of the directive and adoption in national law
- official draft has been produced in national Parliament
- no official draft

Application of country of origin principle

- ↗ correct and clear application
- ⇒ application unclear
- ↘ poor application

³ Directive 2000/31/EC, OJ L 178, 17.7.2000, p. 1

⁴ Source: Forrester Research

Essential infrastructure for the internal market

PUBLIC PROCUREMENT

Lisbon target: *The European Council called for creation of a new framework for public procurement (development of the new set of rules was initially supposed to be ready by 2001).*

UNICE's expectations for Barcelona: UNICE has welcomed the fact that the Commission has initiated the "Legislative Package" aimed at simplifying and modernising the EU directives on public procurement. It is, however, deeply concerned about the European Parliament's wish to increase the thresholds of these directives. Such an increase would lead to a extensive destruction of the Internal Market for public procurement.

UNICE urges the Commission and the Council not to allow an increase of the current thresholds. Furthermore the EU legislator should abstain from the far-reaching demands of the European Parliament to make public procurement dependent on the consideration of aspects of social and environmental policies not linked with the specific subject of procurement.

STATE OF PLAY

On 17th January 2002 the European Parliament adopted a large set of proposals for amendments to the Commission's proposals for revised EU Procurement directives ("Legislative Package"). In general UNICE endorsed the initiative of the Commission to develop the legislative package with the aim of simplifying and modernising public procurement. UNICE especially welcomes proposals for the introduction of a "competitive dialogue" procedure for complex contracts allowing for more flexibility concerning complex procurements. UNICE furthermore supports the intention to create an appropriate framework for the implementation of modern electronic business in public procurement. UNICE has actively contributed to the discussion of these and other items of the legislative package.

UNICE'S CORE POSITIONS

UNICE is very concerned about the European Parliament's call for an increase of the thresholds for EU public procurement law to an extent of up to 50 per cent of the current values. Such an increase would drastically reduce the area of application of the EU Directives on public procurement which provide concrete rules for fair and transparent procurement procedures throughout the EU. Increasing the thresholds would almost certainly lead to a re-creation of national and local barriers to cross-border procurement. Apart from that it would conflict with the thresholds of the Government Procurement Agreement which has been signed by the EU.

Furthermore, UNICE is strictly opposed to a set of proposals by the Parliament to make the procurement of goods and services dependent on social and environmental aspects apart from the quality of the products/services purchased. These proposals are not acceptable as they would decisively weaken core principles of competitive procurement, especially the obligation to purchase according to the principles of "best value for taxpayer's money" and the efficiency of public services. However, UNICE welcomes the Parliament's proposals concerning electronic procurement; they will help to optimise and clarify the rules on data security in future electronic tendering and should be accepted by the Council and the Commission.

"I was astounded that it is the European Parliament which is calling for a drastic increase of the thresholds for the EU procurement Directives. The European Parliament should not restrict, but encourage the application of common European procurement rules. The Commission and the Council should not accept the Parliament's call for increased thresholds."

*Michael Kutschenreuter, Member of the Group Board,
Information and Communication Networks, Siemens AG.*

Flexible labour markets and skills availability

ENTREPRENEURSHIP IS THE BASIS FOR EMPLOYMENT GROWTH

***Lisbon target:** the Union and Member States committed themselves to achieving target employment rates of 70% overall and 60% for women by 2010. The **Stockholm European Council** introduced intermediate targets of 67% overall and 57% for women by 2005 and a new target of 50% for older workers by 2010.*

UNICE's expectations for Barcelona: Increasing employment rates requires carrying on with sound macroeconomic policies, speeding up structural reforms and effectively implementing the entrepreneurship pillar of the employment guidelines. Simplifying, streamlining and ensuring coherence of existing processes is essential to concentrate efforts on a limited number of real priorities.

STATE OF PLAY: PROMOTION OF ENTREPRENEURSHIP IS ESSENTIAL TO MEET THE EMPLOYMENT TARGETS

	Situation at Lisbon	Situation at Barcelona	EU 2010 target
Overall employment rate	63.2	63.9	70
Women employment rate	52.8	54.7	60
Older workers employment rate (55-64)	37.2	38.3	50

European Commission 2002, synthesis Report⁵

The European Employment Strategy (EES) provides a good basis for achieving these targets, and is starting to bear fruit. However, the current economic situation has interrupted the four-year fall in unemployment and makes job creation more difficult. After the first five years of application of the EES, a complete evaluation of its impact has been launched, and discussions on the future shape of the strategy are under way.

UNICE is concerned that progress in implementing the entrepreneurship pillar is lagging behind.

BUSINESS RECOMMENDATIONS

Employment growth depends on the effective implementation of a whole spectrum of **policies geared towards sound economic growth**. In the light of less favourable economic prospects, it is necessary to **speed up structural reform** of all markets, including labour markets. Further reforms of pension systems and the discouraging of early exit from the labour market are also essential if the ageing of the population is not to endanger future economic growth prospects.

The European employment strategy should focus on **encouraging entrepreneurship**. The strong bias towards the supply side (labour supply) in the employment guidelines must be corrected. More attention must be paid to the demand side (job creation). Reversing the long-term trend towards higher taxes and charges on labour is essential to encourage companies to create jobs. Member States should be encouraged to **set targets for the reduction of the tax burden on labour** (which is particularly penalising for older workers) in order to reach the average level of the three best-performing countries.

Multiplication of processes at EU level (on employment, on economic policy, on structural reforms, on social inclusion, on pensions, etc.) can damage efficiency. Efforts should concentrate on real priorities. **Simplifying, streamlining and ensuring coherence of existing processes** is indispensable.

The modernisation of the labour market depends above all on measures taken within Member States. But the European level must avoid imposing additional constraints in the form of ill-conceived social measures. The proposed directive on temporary work, which is currently being discussed by the Commission, is an example of such a measure.

"Business organisations have a responsibility resolutely to encourage the spirit of enterprise, one of the key elements for job creation in Europe. It is essential to place the right value on qualities such as risk-taking, creativity, drive or organisational capacity so that ever more young people decide to create new businesses, and thereby promote prosperity and employment."

José María Cuevas-President of CEOE

Flexible labour markets and skills availability

INCREASING COMPETENCES OF THE EUROPEAN WORKFORCE FOR THE 21ST CENTURY

***Lisbon target:** to modernise the European social model by investing in people and building an active and dynamic welfare state. "Europe's education and training systems need to adapt both to the demands of the knowledge society and to the need for an improved level and quality of employment."*

UNICE's expectations for Barcelona: Member States in Barcelona are asked to strengthen coordination in the fields of education and training. Labour market reforms must support lifelong learning strategies so as to translate economic growth into employment.

FROM LISBON TO BARCELONA

A number of initiatives have been taken to implement the objectives set in Lisbon, such as the Council report on the concrete future objectives of education and training systems (February 2001), and the Commission communication on lifelong learning (November 2001). In March 2002, the Barcelona European Council will be the occasion for governments to review progress in the field of education and training and to set action priorities for the coming years. In its 2002 synthesis report⁶, the Commission called on Member States to step up efforts in the areas of education, training, research and innovation and to launch a process for coordinating national education and training policies.

European social partners (UNICE, CEEP and ETUC) will also present a specific joint contribution to the Lisbon objectives on the lifelong development of competences in view of the Barcelona summit.

BUSINESS RECOMMENDATIONS

At European level, the **open method of coordination**, through structured exchange of experience and monitoring exercises, could help Member States to achieve the Lisbon objectives. UNICE fully supports the Council's objectives for education and training systems. However, further work needs to be done on indicators and benchmarks, in particular to focus on outputs, i.e. raising skills levels, and to take better account of non-formal learning.

Consistency between the coordination process of education and training policies and the Luxembourg process for employment is essential to ensure that measures taken in Member States have a real impact on the general employment situation and respond to companies' needs, notably by creating conditions conducive to increased development of competences within companies.

Further actions are needed to promote **recognition of learning achievements and transparency of qualifications**. Responsibility in this field is mainly national. However, at European level, exchange of experience and actions with a view to improving employee mobility, transparency of competences and qualifications and the functioning of labour markets, are desirable.

An increase in the level of qualification will enable us to: (...)

- *maintain over time the employability of employees by guaranteeing their adaptability in a rapidly changing world, through qualifications, which requires a joint effort by companies and employees;*
- *improve the competitiveness of companies by moving forward the professionalism of the individual so that companies can face up to global competition, adapt to technological developments and respond to changes in their environment;*

We need better trained employees to enable us to come to grips with activities with increasing value-added.

Ernest-Antoine Seillière, President of MEDEF

⁶ The Lisbon strategy - making change happen, COM(2002)14 final

REVIVAL OF FINANCIAL SERVICES ACTION PLAN

Lisbon target: creation of "efficient and integrated financial markets", including steps to implement the Financial Services Action Plan (FSAP) by 2005.

UNICE's expectations for Barcelona: UNICE calls on all governments to **increase their efforts to push FSAP measures through the legislative process.** All Member States have committed to the FSAP, yet there is a substantial risk that the targets for implementation will be missed due to **insufficient political conviction.** This will hamper Europe's economic growth. Greater urgency to meet the targets should not lead to inadequate consultation and transparency, which would be counter-productive. Both are essential elements in making good policy.

Resources should now be focussed on implementing several priority areas by 2003:

- ◆ Directive on the activities of Institutions for Occupational Retirement Provision
- ◆ Adoption of International Accounting Standards
- ◆ Single company prospectus
- ◆ Directive on international financial collateral arrangements
- ◆ E-commerce and financial services
- ◆ Directive on insider dealing and market manipulation

STATE OF PLAY

Of the 42 original measures, some 25 have been completed, or look likely to be completed. This means 17 measures are still outstanding. In order to meet the target dates established, 10 legislative acts will need to be adopted in 2002. 8 new legislative proposals still have to be made by the Commission. Much of the legislation is stuck in Council.

ESTABLISH PRIORITIES

This represents a heavy workload. The quality of legislation cannot be compromised by the need to accelerate adoption. The obvious solution would be to focus political efforts on the most important proposals first. We therefore suggest that the six proposals above be accorded priority in terms of political will and resources. These are the most important legislative proposals for the business community in the EU; they are fundamental to any serious attempt to establish a single market for capital. The target date for their implementation should really be 2003.

THE LAMFALUSSY REPORT

UNICE welcomes the recent compromise that allows the implementation of the recommendations contained in the Lamfalussy report. These establish a new procedure for financial market legislation, which will accelerate the adoption of FSAP measures. The report's **emphasis upon consultation and transparency** throughout the legislative process - which is essential - should ensure both quality and speed are maintained. Once these recommendations are implemented, UNICE expects Member States to make every effort to adopt the FSAP measures within the original timeframe.

THE IMPORTANCE OF A SINGLE MARKET FOR FINANCIAL SERVICES

Without further integration of financial markets, the full benefits of the single market will not be realised. A single capital market in the EU is about much more than simply oiling the economic system. Ready access to the capital markets is essential for a vibrant and thriving economy. Capital market integration implies a fuller exploitation of profitable opportunities, leading to a permanently higher rate of return on invested funds, and more dynamic investment. This will increase long-run growth rates in the EU.

The year 2002 will also see the Basel committee's recommendations for a revision of the Basel Capital Accord. Once implemented, these proposals will have far-reaching effects upon the banking system. It is essential that the recommendations do not lead to a loss of competitiveness for European business. Once adopted, however, Europe should not lag behind in the implementation of the accord, which would place companies in the EU at a disadvantage.

Financial services

INSTITUTIONS FOR OCCUPATIONAL RETIREMENT PROVISION

Lisbon target: Among the measures contained in the FSAP, the proposed directive regulating the activities of Institutions for Occupational Retirement Provision (IORP) is a priority. The **Stockholm** Council confirmed the need to address the long-term issue of pensions sustainability, and asked the Commission to look into the issue of the portability of supplementary pensions for the Barcelona Council.

UNICE's expectations for Barcelona: UNICE calls for rapid adoption of this directive under the Spanish presidency. The European Parliament's amendments introducing qualitative investment rules, rather than quantitative restrictions, improved the original Commission proposal in July 2001. Since then progress in the Council has been very disappointing. The size of the potential gains makes it all the more incomprehensible that there should be such limited progress in the Council.

THE FRAMEWORK

This proposed IORP directive establishes a framework for the operation of occupational pension funds across the EU as a whole, based on mutual recognition of such funds across all 15 Member States.

Currently, regulatory differences between Member States inhibit the cross-border operation of such pension funds in Europe, which means that a single market for occupational pensions is far from being a reality. The directive would enshrine the prudent man principle as the regulatory basis for investment choices, rather than imposing quantitative restrictions on investment choices. An apparent misunderstanding over the implications of the prudent man principle seems to be impeding the progress of the directive.

The prudent man principle does not imply complete freedom of investment choices for managers; but within a set of prudency rules, it allows them more flexible investment choices, taking into account the characteristics of their contributors.

The key features underlying the prudent man principle are clearly defined:

1. Take into account the nature and duration of the future pensions.
2. Ensure security, quality, liquidity, and profitability of the portfolio.
3. Ensure that assets are properly diversified.
4. Invest no more than 5% of technical provisions in sponsor.

FINANCIAL SERVICES

"Europe needs to provide its companies with inexpensive, flexible sources of capital, which are essential to our global competitiveness. Companies are the engine of economic growth and socially inclusive wealth creation. Therefore they need efficient and intelligently regulated markets that enable them to thrive. And nowhere is this more important than in facilitating access to capital and driving down costs. The Commission's proposal on the prospectus directive would have represented a step back from the single market; we welcome the Parliament's actions to get the proposal back on track. The European institutions need to deliver on the spirit of the Lisbon process, not just the number of legislative measures taken, in order to achieve a more entrepreneurial Europe."

Digby Jones, Director General - CBI

⁷ UNICE published its strategy paper on sustainability of pensions in November 2001.

Financial services

INSTITUTIONS FOR OCCUPATIONAL RETIREMENT PROVISION

A WIN-WIN-WIN DIRECTIVE

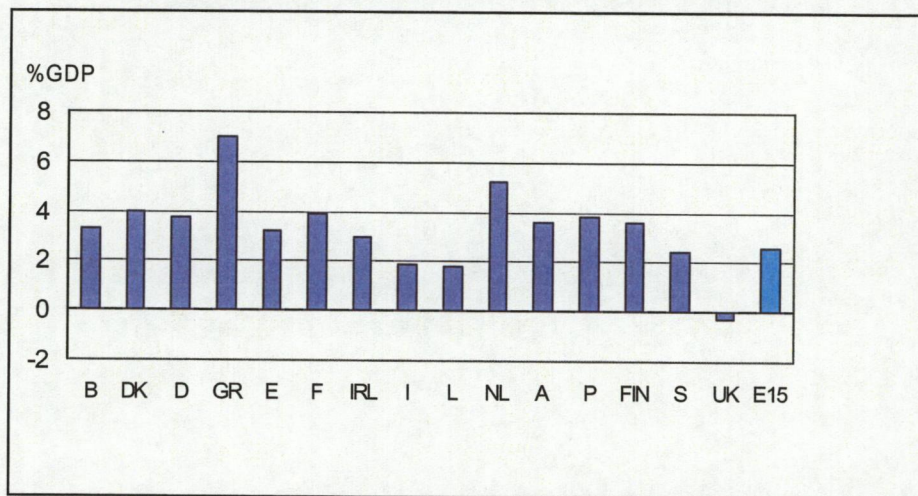
The gains from this directive would not only be large, but would also be felt across large sections of the economy. More active and integrated pension fund activity sets the stage for higher returns to occupational pensions contributions.

- ◆ **Employees** would benefit from higher retirement benefits
- ◆ **Employers** would be able to organise the occupational pension arrangements of all their employees within a single pension fund, leading to considerable cost savings. More broadly, where mature funded schemes are in place, employers benefit from lower pension contributions, so containing their labour costs. The IORP directive would make it easier for more Member States to introduce funded systems, while also improving the performance of funded schemes.
- ◆ **Economy** - the macro-economic benefit of the genuine cross-border operation of pension funds would be considerable. The removal of barriers to the investment activities of pension funds across the Union as a whole represents a substantial step towards a single market for capital. Companies of all sizes would benefit from lower capital costs, as access to cheaper financing in equity markets increases. Similarly, the venture capital market would increase in size and activity. The economy would become more dynamic as a consequence. Furthermore, effective second pillar pension schemes could relieve some of the pressure that public pension schemes will suffer due to population ageing in the coming years, so improving the stability of public finances.

TAXATION OF PENSIONS

UNICE would like Member States at the Barcelona summit to make a commitment to remove the fiscal barriers to cross-border provision of occupational pensions, an essential complement to this directive.

Increase in public pensions expenditure 2000-2030 (% GDP)



Source: EPC: Budgetary challenges posed by ageing populations, 2001

Financial services

INTERNATIONAL ACCOUNTING STANDARDS

Lisbon target: *The Presidency conclusions stressed the need to accelerate completion of the Internal Market for financial services, setting a deadline of 2005 to implement the FSAP, and urged that steps be taken to enhance the comparability of financial statements prepared by listed companies.*

UNICE's expectations for Barcelona: It is extremely important to ensure rapid adoption of the regulation on accounting standards to meet the 2005 deadline, and is essential to have consistent application of IAS by all listed EU companies, to enable comparability: national variations would hinder the efficient functioning of the markets. Any delay in adoption will jeopardise the goal of applying International Accounting Standards for EU listed companies by 2005.

THE OBJECTIVE: THE COMMISSION ACTION PLAN

The Commission's 13 June 2000 Communication *The EU's Financial Reporting Strategy: The Way Forward*, aimed at the adoption of uniform, high quality financial reporting rules in EU capital markets, so as to enhance overall market efficiency and to reduce the cost of capital for companies.

The Communication proposes that all EU companies listed on a regulated market should be required to prepare their consolidated accounts in accordance with a single set of accounting standards, namely International Accounting Standards (IAS) from 2005, at the latest.

WHY WE NEED A NEW APPROACH

EU accounting legislation, adopted in the 1970s, provided a base level for harmonisation in terms of reporting requirements for limited liability companies. However, it has not been able to deliver sufficient comparability for publicly traded companies. A new approach is necessary to meet the current needs of a fully integrated European capital and financial services market.

Furthermore, companies are subject to more demanding disclosure requirements from investors and need a financial reporting system that offers a much higher level of transparency and comparability of company performance.

"In a globalised corporate environment it should be made possible for multinational companies to issue one set of financial statements in all countries in which they are active. Therefore convergence of International Financial Reporting Standards and US-GAAPs is absolutely necessary in order to ensure a worldwide level playing-field for EU- and US-listed companies"

Jacques H. Schraven, President VNO-NCW

Sustainable development

EU SUSTAINABLE DEVELOPMENT STRATEGY

Lisbon target: *the economic and social commitments made in Lisbon were supplemented in Göteborg with the launch of an EU sustainable development strategy based on the principle that the economic, social and environmental effects of all policies should be examined in a coordinated way, opening up the way for a new approach to policy-making.*

UNICE's expectations for Barcelona: in order to develop strategies which combine high environmental effectiveness and high economic efficiency, it is essential to create more space for co-regulation and negotiated agreements. In addition, the Barcelona summit should provide the stimulus for wide regulatory reform, to improve the quality of EU regulatory activity.

Business plays a principal part in the process towards a sustainable society. Sustainable development is best achieved through open, competitive and rightly framed international markets. Economic growth and environmental and social improvements are mutually dependent.

COMBINING HIGH ENVIRONMENTAL EFFECTIVENESS AND HIGH ECONOMIC EFFICIENCY

To meet this goal, it is essential to make much more use of co-regulation and negotiated agreements, engaging companies and public authorities in joint selection of objectives and tools for environment policy. These approaches should be fully recognised and integrated in the conclusions of the debate on European governance currently under way. With a view to improving the quality of EU regulatory activity, UNICE calls on Member States in Barcelona to agree the launch of a wide regulatory reform. This will entail committing all EU institutions to undertake high-quality regulatory impact analyses, following standard procedures. This reform should correct the shortcomings of the present arrangements, which fail to guarantee adequate quality and scope for the impact analyses that are carried out.

As a first step, it is essential that the Commission develops, before the summer, an efficient sustainability impact assessment mechanism for testing all major policy proposals, ensuring an assessment of their potential economic, environmental and social benefits and costs.

ECONOMIC INSTRUMENTS

UNICE would be happy to play its role in developing well-designed economic instruments capable of delivering environmental progress at lower costs than traditional "command-and-control" regulation. Such economic instruments must meet the following criteria:

1. effectiveness/efficiency: existence of sound and transparent environmental objectives; environmental effectiveness; economic efficiency; and ease of introduction and adjustment of the instruments through regular monitoring;
2. policy coherence: consistency with the internal market; compatibility with the principles of sustainable development (including the principle of shared responsibility); and clear and substantial value to be added by Community initiatives;
3. competitiveness: the international competitiveness of European business and industry should not be weakened.

UNICE remains completely opposed to the current proposal for an EU directive to harmonise taxes on energy products, which clearly does not meet these criteria.

"Design of strategies for sustainable development must fully involve policy-makers with responsibility for the economy, employment and environment so that the strategies can deliver economic, social and environmental progress in an integrated manner. These strategies must take full account of economic and social realities on the ground."

Fabrizio d'Adda
Chairman and CEO, POLIMERI EUROPA

**Rue Joseph II, 40/4
B - 1000 Brussels - Belgium
Tel : 32 2 237 65 11 - Fax : 32 2 231 14 45**

E-mail : main@unice.be



10 DOWNING STREET
LONDON SW1A 2AA

From the Principal Private Secretary

4 March 2002

Dear Sir,

I attach an agenda for the Prime Minister's meeting on preparations for the Barcelona European Council on Thursday, 7 March.

I am copying this letter and attachment to Simon McDonald (FCO), Bernadette Kelly (DTI), Neil Couling (DWP), Chris Wormald (DFES) and Lucy Makinson (HMT).

FAXED

Yours,

JEREMY HEYWOOD

Mark Bowman
HMT

MEETING ON BARCELONA COUNCIL

No 10 DOWNING STREET, 11:30am, THURSDAY 7 MARCH

AGENDA

Preparations for the Barcelona European Council, 15-16 March

Likely outcomes for the Council

a) Aznar's five priorities

Energy liberalisation

Networks (telecommunications, energy, transport)

Financial services, including takeovers

Employment and labour market reform

Education and innovation

b) other priorities, including better regulation/small firms, R&D, biotechnology, state aid

c) difficult issues – tax and macroeconomic co-ordination, Services of General Economic Interest, coal

1. Further contacts with key EU partners

2. Presentation strategy



10 DOWNING STREET
LONDON SW1A 2AA
020 7930 4433

F.

1 March 2002

Dear Kim,

EUROPEAN COUNCIL BRIEFING

Thank you for the ideas in your letter of 21 February for reducing the weight of the Prime Minister's briefing pack for European Councils.

We here are happy to run with your suggestions for Barcelona.

As Nigel suggests, the Prime Minister should be provided with advice on whether to intervene and related "arguments to make" for each session of the council or cluster of subjects.

I would also suggest that the objective(s) be placed in their negotiating context – even at the expense of another sentence of two – so that the Prime Minister can see at a glance how the debate has got to where it is (eg "anxious to avoid upsetting French cheese-makers, Jospin wants a five-year derogation") as well as what it is we want him to do ("you should settle for three years").

The background is important. It should be brief but it needs to be clear from the background what the issues are. Very often the Prime Minister will decide for himself what he wants to say provided it is clear what the issues are. Unless that is clear, the speaking note can often be meaningless (qv our experience with the Lord Chancellor earlier in the week).

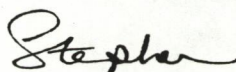
I assume, as Nigel seems to hope, that you will continue to weigh down officials with a "fact pack" of off-the-shelf papers.

We can review these arrangements after Barcelona.

ds

I am copying this letter to Sir Nigel Sheinwald (UKRep Brussels), Richard Jones (FCO) and Michael Roberts (CO).

Yours ever,

A handwritten signature in cursive script, appearing to read "Stephen".

J S WALL

Kim Darroch CMG
FCO



CABINET OFFICE

70 Whitehall London SW1A 2AS
Telephone 020 7270 0447 Facsimile 020 7270 0120
e-mail: Martin.Donnely@cabinet-office.x.gsi.gov.uk

Martin Donnelly
European Secretariat

Katy Peters
European Economic Reform Team
HM Treasury
Parliament Street

28 February, 2002

Dear Katy

BARCELONA: CONCLUSIONS LANGUAGE AND TALKS WITH THE MONCLOA

Many thanks to you and all those who have provided draft Barcelona Conclusions language to pass to the Spanish. I attach a consolidated set of the material we have received from Departments, which we have grouped as far as possible under the five Aznar priorities.

We plan to hand some suggested Conclusions text to the Spanish when a No 10/Cabinet Office team visits the Moncloa for talks next Tuesday 5 March. We expect to use the session to run through our proposals under the Aznar five priorities plus those other areas where we want to see positive language. To that end, it would be helpful if Departments could:

- check they are happy with the language on their subject areas, particularly where more than one Department has submitted language;
- submit any further positive language on areas not covered as they judge necessary.

I would also be grateful if Departments could provide short background briefing for use by the No 10/CO team in talking through their areas of Conclusions language

Moncloa, as follows:

- Networks – DTLR (transport – including latest lines on Galileo), DTI (energy, eEurope)
- Energy liberalisation – DTI
- Financial services – HMT (plus HMT/DTI on takeovers)
- Labour markets – DWP
- Education – DfES
- Better regulation – RIU
- Small firms - SBS
- R&D – DTI/HMT
- Biotech – DTI
- State aid – DTI/HMT
- Trade – DTI/HMT
- Sustainable development - DEFRA

We are very happy to use position papers, off the shelf briefs etc. as convenient to keep down the load on Departments: but as well as objectives the briefing should set out any fallbacks and where appropriate our bottom line; and the rationale for these.

We may also discuss French pressure on tax harmonisation, macroeconomic co-ordination and services of general economic interest. We have briefing material on SGEI; perhaps HMT could provide material on tax and macro issues.

It would be helpful if final comments on the Conclusions, plus briefing for the Moncloa talks, could reach Mark Sweeney here by **11:00am on Monday 4 March** at the latest.

I am copying this letter to Shan Morgan (UKRep), Mara Goldstein (FCO), Nick Williams (FCO), Roger Liddle (No 10), Clive Tucker (DWP/DfES), Win Harris (DWP/DfES), Hugh Savill (DTI), David Wilson (DTI), Ian Fletcher (DTI), John Stevens (DTLR), Jo Durning (OST), Robert Lowson (DEFRA), Philip Stamp (DEFRA), Colin Church (RIU), Clare Chaubert (SBS), Josh McCallum (HMT) and Edward Oakden (BE Madrid).

Yours ever

Martin

MARTIN DONNELLY

BARCELONA EUROPEAN COUNCIL - UK PROPOSALS FOR CONCLUSIONS LANGUAGE - 28 February 2002

Opening energy markets for business and consumers

One of the most basic requirements of Europe's citizens is an assured system of energy supply, from which no citizen should be excluded on grounds of cost.

Businesses in the EU need energy at price levels that allow them to compete successfully on world markets. At Lisbon we agreed to the objective of speeding up the liberalisation process so as to achieve a fully operational internal market in these areas. At Stockholm we reaffirmed our commitment to the objective of market opening as soon as possible.

Good progress has been made in the Energy Council, in the Parliament and in consultation with industry and other social partners in defining the necessary legislation. The Council therefore re-emphasised the importance, on both economic and social grounds, of a genuinely open and fully integrated EU energy market being put in place as soon as possible on a progressive and controlled basis, taking account of public services and protecting the environment.

It therefore invited the Energy Council and the Parliament to reach a common position on the Commission's proposals *on electricity and gas liberalisation* at the June Energy Council, which should include at least:

- o Opening of the non-domestic market by [2003] for electricity and [2004] for gas
- o Opening of the domestic market by [2007], with a review in [2005] to establish whether this date could be brought forward, based on indicators of market opening and a comparison of experiences across the Union.

- o [Legal separation of transmission and distribution from production and supply (*accounting and rigorous management separation in gas as a transitional measure, with legal separation by 2007*)
- o Independent authorities in each Member State to oversee the market, on the basis of a common set of functions

- o Published network non-discriminatory access tariffs approved by these independent authorities
- o Agreement on transparent and non-discriminatory cross-border trading mechanisms including congestion management [*by the time the Directives enter into force*]]

The Council noted that the successful implementation of this process of progressive liberalisation would mean taking steps to review the effectiveness of liberalisation against the objectives of economic reform, and to provide for important public services. It calls on the Commission to establish indicators of real market opening and integration, and to ensure that these measure the objectives of non-discriminatory network access, increased separation leading to legal separation between network costs and energy costs, and common rules for cross border trade, as well as progress towards full market opening.

The Council underlined the importance of taking full account of the general interest in overseeing the process of market opening, in order to protect vulnerable consumers, to ensure the provision of electricity everywhere, to protect the environment and to provide for security of supply. It calls on the Commission to study and report how best to reflect these objectives and values across the EU, without unnecessarily impeding Member States' ability to impose specific obligations consistent with common rules.

Networking Europe

Energy

In addition, the Council emphasised the need for adequate infrastructure and non-discriminatory access to it. In this regard, it noted the Commission's Communication on European energy infrastructure and proposal to amend the trans-European energy networks guidelines, which are intended to make the most efficient use of existing infrastructure and provide for new infrastructure where necessary.

The Council also invited the Commission to continue to apply the European competition rules to ensure that the provisions of the Treaty are fully observed and that no distortions of competition result, and to remove existing bottlenecks and facilitate the introduction of effective competition throughout the single market.

Recalling the Commission's Green Paper on security of supply, the Council stressed the importance of the regulatory framework providing adequate incentives for operators in the market to build and maintain adequate electricity generation capacity, gas storage, and pipelines for gas supplies from outside the EU. The Council asked the Commission to monitor the situation and submit a report on the issues relating to security of supply to the Council and the European Parliament next year.

Transport

Transport Trans-European Network (TEN)

The European Council recognises that one of the main obstacles to the timely completion of the transport trans-European network is the difficulty of mobilising capital. It believes there is significant unrealised potential for the private sector to contribute to the funding of major projects. And it calls on the Member States, together with the Commission, actively to embrace the public-private partnership approach to infrastructure development.

Single Sky

The Council calls on the Transport Council to reach agreement on Single Sky Framework Regulation by the end of December 2002, enabling the setting up of the Single Sky Committee tasked with creating the European Single Sky by 2005.

Rail freight liberalisation

The Council calls on the Transport Council to reach agreement on the second rail package by the end of December 2002.

Public Service Requirements

The European Council calls on the Transport Council to reach agreement on the proposal for a new regulation on public service requirements and the award of public service contracts in June 2002.

eEurope

The eEurope Action Plan 2002 focused on getting Europe online and providing frameworks for the law, infrastructure and skills for the digital economy. The policy response in 2002 must be to create a **next stage** to maintain momentum by connecting Europe, connecting markets, through broadband networks. The key is "always on", higher speed access that allows new, interactive, value added services. These will widen and deepen the use of the Internet in European society and economy, for the benefit of individuals, consumers, businesses, schools, governments.

We ask the Commission to come forward with a new draft action plan which is to supersede eEurope 2002 beyond 2002 and to last until 2005, for presentation to and endorsement by the European Council in Seville in June.

A real single market in financial services

The European Council reaffirms the political imperative of establishing an integrated and efficient European capital market. At the centre of these efforts are the measures set out in the Financial Services Action Plan (FSAP).

To accelerate completion of the internal market for financial services, steps should be taken to focus on priority areas which will **reduce the cost of accessing capital and enable its more efficient allocation** throughout the EU.

The Council also stresses the need for competitive retail markets that lead to **increased choice and lower prices for consumers and investors** while ensuring appropriate levels of protection. The way forward is to combine mutual recognition, applying the country of origin principle, with agreement on core standards which are essential for investor protection.

In order to achieve the objectives above and to meet the 2003 deadline for the Risk Capital Action Plan and the 2005 deadline for the FSAP, the European Council calls for agreement:

- by June 2002, on the draft Directives on market abuse and the use of financial collateral and the draft Regulation on international accounting standards;
- by December 2002, on the draft Directive on prospectuses to achieve an effective passport for issuers across the EU resulting in a lower cost of capital, and on financial conglomerates.

The European Council also calls on the Commission to prioritise its work on indicators of success to measure progress in establishing a single market in financial services, and to publish these by June 2002.

The Council welcomes the renewed impetus which the Commission is now putting behind the Takeovers Directive, and looks forward to an early new text. Europe needs common rules to ensure clarity and consistency in takeover laws, to better facilitate the creation of an integrated EU capital market, to exploit synergies, and to enhance wealth creation.

The European Council welcomes the fact that the EP and the Commission have recently reached agreement on Lamfalussy implementation and calls for rapid progress on the proper implementation of Lamfalussy recommendations: consultation, transparency and principles based legislation.

The Council also welcomes the consultation on the Investment Services Directive. The Council calls for rapid progress to clarify the boundary between professional and retail investors so that inter professional business is subject to proportionate regulation and the introduction of country of origin regulation to clarify which Member State's conduct of business rules apply.

A vibrant European labour market

The European Council emphasises that the over-riding goal of European employment policies must be to achieve by 2010 the 70% employment rate achieved at Lisbon. To that end, it calls for the Spring Council each year to assess progress towards achieving the Lisbon strategy.

The European Employment Strategy

The European Employment Strategy should be revised to align it more closely with the key problems that must be addressed if the Lisbon and Stockholm employment targets are to be met. It should focus on practical policies to overcome these problems, in particular:

- removing disincentives for unemployed and inactive people to take jobs, to look for work or to take full advantage of training and other programmes which can help their return to work;
- creating an effective culture of lifelong learning to equip everyone, especially the unemployed and inactive people, with the skills and qualifications they need if they are to enter and progress in productive employment in the modern labour market;
- addressing the barriers which women face in accessing the labour market, in particular the provision of suitable childcare; and
- giving older workers real choice and effective opportunities to remain in productive work, and removing perverse incentives for early retirement which are barriers to achieving the 50% employment target for older workers.

Improving Skills and Mobility

The European Council welcomes the Commission's Action Plan on Skills and Mobility as a sound basis for developing a more flexible, adaptable and mobile European labour market. It calls upon the Commission, in co-operation with Member States, to identify priority areas for early action and to develop proposals to take these forward, while respecting the competence and subsidiarity of Member States.

Developing the European Social Model

The European Council welcomes the recent adoption of the Directive for employee information and consultation in the European Community, and notes the prospect of a directive on agency workers. There is now a considerable body of legislation in place at EU level which safeguards essential employee rights. The challenge now is to implement this fully and effectively rather than to extend it. The European Council endorses the need for a positive approach to change in the face of the need for greater adaptability in the economy but does not believe that legislation is required. The Council calls on the social partners to reach voluntary agreement measures to promote the exchange of good practice in dealing with industrial restructuring.

The European Council notes the report of the High Level Group on Industrial Relations and Change and its recognition that diversity in Europe should be treated as an asset. It supports the Group's call for the social partners to explore new ways of working, including the possibility of entering into voluntary framework agreements to be implemented through existing national procedures.

The Council stresses the importance of increasing the momentum in the fight against social exclusion. In preparing their next National Action Plans, Member States are invited to develop by 2003, national targets in the light of the agreed structural indicators which reflect national priorities for tackling social exclusion.

Knowledge Europe: education and innovation

Education

Education, lifelong learning and skills are vital in meeting the Lisbon targets. We welcome the follow-up to the Report on the Concrete Future Objectives of Education and Training Systems and the Commission's Communication on Lifelong Learning. Different Member States have different needs and priorities within this framework. We call on the Commission to work with Member States, individually or in groups, to undertake appropriate preparatory work for the Council.

Building links between schools in different member states and in accession countries is crucial to developing mutual understanding and improving language learning amongst our young people. By the end of 2003, every secondary school needing assistance to establish or enhance an internet twinning link with a partner school in another Member State or accession country will be eligible for financial assistance.

The Council calls on the Commission to undertake a feasibility study to identify options and report back to the Seville Council in June on providing:

- additional support to improve schools' use of ICT links for formal and informal education; and

- online information and advice for schools to help them to make effective use of ICT links.

We need to strengthen efforts to ensure that all our citizens have the basic skills which enable them to participate effectively in a competitive and dynamic knowledge based economy.

Turning research into innovation

For the Union to become the most competitive and dynamic knowledge-based economy in the world it will need to achieve a sustained research and innovation performance that matches or beats the world's best by 2010. To foster such performance, robust **framework conditions** are needed to create a positive environment for investors in research and innovation and to develop high levels of dynamic competition. These include labour market reform, improving the regulatory environment and progress on the Risk Capital Action Plan. Key indicators of success will include:

- **Higher levels of business R&D**
- **Higher levels of patenting**
- **Stronger business innovation performance**

In this respect the Council welcomes proposals for the **Sixth Research Framework Programme (FP6)**, which is designed to generate greater critical mass and added value at European level as well as improved knowledge networks through greater researcher mobility. In order to ensure a smooth transition to FP6, the Council is invited to make every effort to complete the codecision procedure with the European Parliament by June 2002. The momentum for reform also needs to be maintained in subsequent Framework Programmes, ensuring in particular a focus on knowledge transfer and researcher mobility, and on creating a coherent EU innovation system.

The need to undertake further effort is underlined by the **ECOFIN study on R&D and innovation**, called for by Stockholm European Council and which the European Council endorses. This shows that Member States must pool their talents in order to translate the high standard of European research into world-class innovations and higher productivity.

To consolidate this approach, the Council calls for work to forge a **European Research and Innovation Area (ERIA)**. This would form an integral part of the European Knowledge Area. It should foster the development of a European-wide innovation system able to match the US – universities and industry clusters must be able to draw on talent from across Europe and beyond, and feed innovation across the Union.

Furthermore, to make the ERIA a reality, the Commission is invited to undertake further work on:

- **Intellectual Property Rights:** instances of best practice need to be pooled concerning the promotion and use of the full portfolio of IPRs and their enforcement. Recommendations should be made on the variety of protection at Community level.
- Increasing **networking between industry and science** across the EU: universities and public research institutes should seek ways to promote the commercialisation of their research and knowledge, ensuring with governments that there are sufficient incentives for all actors to engage in the innovation process.
- The growing importance of **intangibles:** successful companies now adopt a variety of techniques to protect their knowledge. Member States and the EU will need to think about what the effect of this will be both on the flow of knowledge throughout Europe and on competition. Furthermore, as the **service sector** continues to expand, there is a need to review scope and incentives for innovation in this sector.

The Commission is invited to pursue **radical reform of the R&D State Aid rules** to ensure they meet the needs of modern economies, and do not hold back the innovation that is essential for the future of the European economy. In particular, this means addressing specific market failures, and facilitating the framework conditions that enable the innovation system to operate effectively. New guidelines should be ready during 2002.

Community Patent

The European Council recognises that the deadline of end 2001 for the adoption of the patent, although it proved too ambitious for agreement, led to faster progress in the development of a Community Patent system. The Council hopes that this momentum can be maintained to

agree a system which will be attractive to business and provide a real stimulus to innovation.

Better regulation

The European Council reaffirms the importance of better regulation in the social and economic development of the Union and in the achievement of its strategic goal. In this context, the European Council recalls the Commission's commitment to produce the co-ordinated Action Plan on better regulation in time for the Seville European Council.

The European Council requests that this Action Plan be based on the recommendations contained in the Mandelkern report, the Commission's Communication on improving and simplifying the regulatory environment and the White Paper on European Governance. In particular, the European Council welcomes the Commission's commitment to introducing a total impact assessment system by the end of 2002 and calls on Member States to introduce their own impact assessment systems by the end of 2003. Further, the European Council underlines that access to policymaking at all levels should continue to be improved for all stakeholders through better and earlier consultation, and endorses the importance the Commission attaches to promoting a culture of better regulation in the EU Institutions and Member States. Finally, the European Council requests the Commission to launch its wide-ranging simplification programme by the end of 2002.

Small and medium-sized enterprises

The European Council recognises the central role of SMEs in job creation, innovation and economic reform and calls for member States to renew and reinforce their commitment to the European Charter for Small Businesses. As highlighted by the European Commission's report on this Charter, for SMEs to flourish and to continue to create jobs the legislative environment of the EU must place the needs of SMEs at its centre with all member States, the European Commission and the European Parliament using the principles of Think small first. This must include consulting SMEs fully on proposals which have been subjected to an impact assessment that makes clear the implications for them.

The European Council recognises that, as part of this, the voice of SMEs within the EU must be strengthened and therefore calls for all member States to examine, improve and materially strengthen, by the most appropriate means for each member State, the involvement and representation of SMEs within the EU institutions. The European Council acknowledges the value of SME Ministers meeting prior to this Council and calls for this to become a regular event prior to each Spring Economic and Social Summit.

Biotechnology

The European Council welcomes the Commission's "Life sciences and biotechnology - A Strategy for Europe". It offers a key opportunity for Europe to move forward and take a proactive role in the development of biotechnology in the face of increasing global competition. The European Council equally welcomes the recognition that broad public support is necessary if the wealth of potential offered by biotechnology is to be realised.

The European Council calls on the Commission and Member States to work together to implement the action plan and create a cohesive framework which will contribute to Europe becoming a leading knowledge-based economy.

Encouraging effective competition [state aid and competition policy]

Effective competition is a key part of the wider economic reform objectives set out at the Lisbon Council, and it provides the discipline and incentives to deliver these objectives.

In particular by:

- *Promoting a vigorous approach to opening up markets and tackling anti-competitive practises;*
- *delivering less but better state aid across the EU.*

Less but better state aid

The Council reaffirms the commitment of the Member States to:

- reduce state aid levels in relation to GDP by 2003, and seek to eliminate aid with the greatest distortive effects (in terms of competition);
- reorient aid to horizontal objectives and target it at clearly identified market failures; and
- evaluate the effectiveness, quality and impact of their state aid.

The Council encourages the Commission to:

- intensify the assessment of the impact of aid on competition on the basis of economic criteria; and
- continue its work to simplify, clarify and modernise the state aid rules, improving their effectiveness and speed.

The Council calls on both the Commission and the Member States to:

- increase the transparency of the state aid regime, improving the quality of reports and statistics, and to develop statistical tools and indicators to supplement the State aid scoreboard.

The Council looks forward to the Commission's initial assessment of progress against these objectives later in 2002.

Opening up markets and tackling anti-competitive practices

Vigorous competition is at the heart of the benefits of economic reform in the Community. Competition helps consumers get a good deal, and as a key driver of productivity growth is central to maintaining and improving the Community's international competitiveness.

An effective competition policy needs to be comprehensive in its coverage, predictable, transparent, fair and proportionate, and must be enforced robustly and independently.

The current updating of the framework for competition in the Community – the modernisation of Regulation 17/62, the review of the Merger Regulation, and other recent revisions to Community

competition legislation – are all important elements of the programme of economic reform in their own right. This Council reaffirms the determination of ministers at the December 2001 Industry Council to complete negotiations on the Commission proposals on modernisation of the implementing rules by the end of 2002.

In addition to getting the framework right at the level of the economy as a whole, the Community must also ensure that it has a market-opening effect in individual sectors. The European Council calls on the Commission to ensure that its proposed revised cars block exemption regulation delivers effective competition in this area as well as improving the functioning of the Single Market.

An internationalisation of competition policy is also a necessary response to globalisation, as competition issues now transcend national barriers. We therefore welcome both the agreement reached among Governments at Doha in November 2001 to begin negotiations in the WTO on a multilateral framework agreement on competition, and the formation shortly before (by practitioners, policymakers and competition authorities) of the International Co-operation Network (ICN) which will further enhance communication between competition authorities.

Competition policy is most effective when the approach adopted by the authorities is widely understood and commands the confidence of business and consumers. In particular competition authorities need to communicate with affected parties as to their thinking in a timely and effective way to enable business to understand their concerns and, if possible, address them

The European Council therefore welcomes the steps the Commission has taken to increase transparency, notably through strengthening the role of the hearing officer and by publishing guidance notices, and encourages the Commission to continue its work to explain its approach and the reasons behind it both to business and wider constituencies.

Services of General Economic Interest (SGEI)

The European Council underlines the vital importance for citizens and consumers, as well as for territorial and social cohesion, of access to Services of General Economic Interest. The opening of utility markets

should be taken forward in a way which takes full account of the importance of quality public services.

In accordance with Article 16 TEC, member states should be free to provide public services to achieve legitimate social and environmental objectives in fair and open markets. But member states must ensure too that these public services are pursued in ways that do not undermine efficiency and competition in the Single Market. The EU legal framework must make a positive contribution to this goal by promoting the principles of transparency, objective justification, and proportionality.

The European Council, recalling both the Conclusions of the 27 November 2001 Internal Market, Tourism and Consumer Council and recent jurisprudence in this field, therefore calls on the European Commission to:

- provide, in close cooperation with the Member States, Community framework guidelines on state aid granted to undertakings entrusted with the provision of services of general interest, by September 2002;
- present its Communication on evaluation methodology at the May 2002 IMC. Effective and dynamic evaluation at Community level of the competition effects and performance of services of general interest, carried out within existing structures should be an important part of horizontal and sectoral reporting and the Commission's Cardiff report on economic reform. This evaluation needs a clear methodology on market structure and performance, including employment aspects, the economic and social assessment of public service obligations, and citizens' and consumers' opinions on the performance of services of general interest and the impact of liberalisation on them;
- continue its examination of the appropriateness of consolidating and specifying the principles on services of general economic interest, underlying Article 16 of the Treaty, in a framework directive, while respecting the specificities of the different sectors involved, and in the light of an examination of recent jurisprudence.

Sustainable development

Review of the EU Sustainable Development Strategy

The Lisbon strategy sets out how Europe's economies must adapt to face the future. [One essential attribute of successful economies will be their resource productivity.] The challenge of integrating economic, social and environmental objectives means that innovation is essential. To that end the European Council welcomes progress so far in integrating the objectives of the Union's sustainable development strategy into the Lisbon strategy.

The external dimension

As part of a globalised economy the Union's development is closely linked to that of all countries, both rich and poor. Markets are increasingly open and the challenges of sustainable development cross regional boundaries. To this end the European Council welcomes the Commission's Communication "*Towards a Global Partnership for Sustainable Development*" and will elaborate its external strategy for sustainable development at its meeting in Seville, in time for it to be presented at the Johannesburg World Summit on Sustainable Development.

The strategy will embrace the following themes:

- Making globalisation work for sustainable development;
- Eliminating poverty and promoting social development;
- Sustainable management of natural and environmental resources;
- Improving coherence of EU policies;
- [Achieving greater resource productivity;]
- Better governance;
- Financing for development.

The World Summit and global co-operation

The European Council recognises the need for concrete EU commitments at the Financing for Development conference – inter alia on aid volume and aid effectiveness – and reaffirms its commitment to work for a Global Deal at the Johannesburg Summit, so setting the necessary framework to make globalisation work for sustainable

development, especially for the poorest. The EU wants practical action to deliver Rio's Agenda 21 and the Millennium Development Goals. European Union Member States reaffirm their commitment to attend the Summit at the highest political level and call upon other countries to do so.

The European Council:

- Welcomes and endorses the Commission's commitment to establish, by the end of 2002, a coherent method for sustainability impact assessment of all major policy proposals, covering their environmental, economic and social impacts;
- Invites GAC to consider further arrangements for improving co-ordination between the various sectors concerned by sustainable development;
- Considers that Heads at the 2003 Spring Council should review progress on the internal and external components of the Sustainable Development Strategy, and address follow-up to the World Summit on Sustainable Development, and natural resources, in particular sustainable agriculture

Transposition

The European Council recognises the efforts made by member states to meet the target set at Stockholm of implementation of 98.5% of directives in time for the Barcelona Council. The Council calls on member states to increase this figure to 99% by the time of the next Spring European Council, and to ensure that no Directives are implemented later than 2 years after their agreed implementation date.

The European Council also calls on member states to pay particular care to the quality of the regulation implementing Community instruments, with the aim of reducing the total number of infringement cases.

Trade

The European Council underlines that a strong multilateral trading system is key to both European and world growth. It calls on the Commission to drive forward negotiations under the Doha Development Agenda and agrees that the Community should work quickly to fulfil the commitments made to developing countries at Doha.

The European Council recognises that a dynamic bilateral trade relationship with the US is an essential counterpart to the multilateral WTO framework. It calls on the Commission and the member states to work to reduce the number of trade disputes with the US and to develop a positive EU/US trade agenda.



10 DOWNING STREET
LONDON SW1A 2AA

to all
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FAKED

File
in DSO inbox
+ floats

23 February 2002

Dear Mark,

ANGLO GERMAN LETTER ON COUNCIL REFORM

I enclose a copy of a letter I have sent to EU posts covering the joint letter by the Prime Minister to Chancellor Schroeder on Council reform. If you agree, I think it would also be worth asking posts in candidate countries to give copies to their host governments. Could you very kindly arrange this?

I am sending copies of this letter to Private Secretaries of members of EP Committee and to Sir Richard Wilson.

Jan eve.
Steph

STEPHEN WALL

Mark Sedwill
FCO



10 DOWNING STREET
LONDON SW1A 2AA

25 February 2002

Dear José-Maria,

The Helsinki and Nice European Councils underlined the importance of reform of Council working methods in improving EU decision-making. Ensuring that the Council continues to operate effectively is essential both for meeting the future challenges of an enlarged EU and for delivering security, prosperity and stability for all our citizens. Javier Solana has therefore been working on proposals which he plans to present to the Barcelona European Council. Germany and the UK look forward to this and set out some of our own thinking below.

The Laeken Declaration of course also raised the need for Council reform which will be addressed in the Convention led by Valéry Giscard d'Estaing. Issues concerning the Council's relationship with other institutions, the organisation of its Presidency or other changes requiring Treaty amendment will clearly need to be considered further. However we hope that agreement on practical steps to improve the functioning of both the European Council and the Council of Ministers can be reached in time for the Seville European Council.

The European Council plays a key role in providing the EU with strategic direction and a clear sense of purpose, such as driving forward the Lisbon and

Tampere agendas. The European Council was also instrumental in framing the EU's response to the events of 11 September. As the EU confronts increasingly complex global issues and as we embrace new Member States, providing such leadership will become both more important but of course more challenging. We therefore need to ensure that we maximise the efficient use of European Council time, keeping our agenda focussed on key priorities. For example we should avoid European Council meetings becoming bogged down in dealing with specific dossiers simply because the relevant sectoral Councils have failed to reach agreement. Equally we should not need to engage in detailed drafting sessions over conclusions language.

To ensure optimal outcomes at European Councils we should therefore commit ourselves to applying the following principles:

- overloaded agendas should be avoided;
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- consideration of individual legislative dossiers should in principle be precluded. Where there are problems in reaching agreement in sectoral councils, the European Council might set fixed deadlines for agreement;
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- the confidentiality of European Council discussions should be restored;
- the process for producing Council conclusions should be reformed in order to minimise the time Heads need to spend considering draft text.
Language should focus on the issues discussed.

Delivering on these commitments will require more intense preparation before each European Council, particularly of conclusions language. The role of the Council Secretariat should be strengthened in this regard. We need to ensure that the Council of Ministers is able to present the European Council with a clearly focussed and manageable agenda.

There is also scope for improving the effectiveness of how the Council of Ministers operates, particularly in terms of co-ordination of decision-making across sectoral Councils. A substantial reduction in the number of Council formations would help significantly. We should consider asking Javier Solana to bring forward proposals on this in time for Seville. This might also be accompanied by a rationalisation of the number of high-level committees.

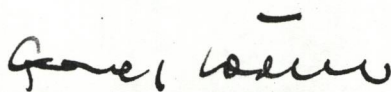
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objectives would be furthered by holding Council meetings in public when the Council is acting in its role as legislator. Council discussions on executive and CFSP matters should remain private.

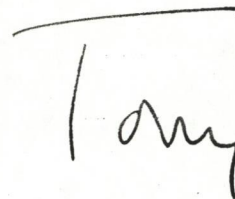
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Clearly the functioning of the Council will remain a key strand of the Future of Europe debate to be addressed in the context of its relationship to other institutions. But early adoption of the package of measures set out above would send a clear signal of both the European Council's commitment to reform and to ensuring the success of the enlargement process.

We are copying this to European Council colleagues, Romano Prodi, Javier Solana and Valéry Giscard d'Estaing.



GERHARD SCHRÖDER



TONY BLAIR

His Excellency Señor Don José María Aznar

Gerhard Schröder
Bundeskanzler
der Bundesrepublik Deutschland

Tony Blair
Premierminister
des Vereinigten Königreichs

Berlin, London den 25. Februar 2002

Luís José Hariz

Sehr geehrter Herr Vorsitzender,

die Europäischen Räte von Helsinki und Nizza haben die Bedeutung einer Verbesserung der Arbeitsweise des Rates, insbesondere seiner Beschlussfassung, unterstrichen. Nur ein Rat, der effizient handelt und entscheidet, wird vor den Herausforderungen einer erweiterten Union bestehen können und auch weiterhin in der Lage sein, Sicherheit, Wohlstand und Stabilität für die Bürger zu gewährleisten. Javier Solana arbeitet daher an Vorschlägen, die er dem Europäischen Rat Barcelona unterbreiten möchte. Deutschland und das Vereinigte Königreich setzen große Erwartungen in diese Vorschläge und legen im Folgenden einige ihrer gemeinsamen Ideen dar.

Die Erklärung von Laeken verweist ebenfalls auf die Notwendigkeit der Ratsreform. Der Konvent unter dem Vorsitz von Valéry Giscard d'Estaing wird sich dieser Thematik annehmen. Dabei werden Fragen wie das Verhältnis des Rates zu den übrigen Institutionen, die Ausgestaltung des Ratsvorsitzes und andere Veränderungen erörtert werden müssen. All dies erfordert eine Änderung der Verträge. Wir hoffen jedoch, dass es daneben schon rechtzeitig zum Europäischen Rat in Sevilla gelingt, Einvernehmen über praktische Schritte zu erzielen, die die Arbeitsweise der Europäischen Rates wie des Ministerrats verbessern können.

Der Europäische Rat spielt eine Schlüsselrolle, indem er der Europäischen Union strategische Ziele setzt und Leitlinien für die inhaltliche Arbeit gibt, als Beispiele seien etwa die Umsetzung der Agenden von Lissabon und Tampere genannt. Der Europäische Rat hatte auch wesentlich Anteil daran, Europas Antwort auf die Ereignisse des 11. Septembers zu formulieren. Vor dem Hintergrund einer zunehmend komplexeren Welt und der Tatsache, dass wir neue Mitgliedstaaten aufnehmen werden, wird die Führungsrolle des Europäischen Rats immer wichtiger werden, aber auch immer schwieriger zu gewährleisten sein. Daher müssen wir sicherstellen, dass wir die dem Europäischen Rat für seine Beratungen zur Verfügung stehende Zeit so gut wie nur möglich nutzen, indem wir unsere Tagesordnung auf wenige Prioritäten konzentrieren. So sollten wir etwa vermeiden, dass die Tagungen des Europäischen Rats durch die Erörterung von Einzeldossiers blockiert werden, nur weil die zuständigen Fachräte keine Einigung erzielen konnten. Ebenso sollten wir uns nicht über ganze Sitzungen hinweg bis in die Einzelheiten mit der Formulierung der Schlussfolgerungen befassen müssen.

Damit die Europäischen Räte zu optimalen Ergebnissen kommen, sollten wir uns auf die folgenden Grundsätze verpflichten:

- zu umfangreiche Tagesordnungen sollten vermieden werden;
- die Beratungen sollten sich auf strategische und themenübergreifende Fragen konzentrieren, wie etwa die Erörterung des Jahresprogramms der Kommission oder die Frage wie wir die Dynamik der wirtschaftlichen Reformmaßnahmen in der Europäischen Union sicherstellen;
- die Erörterung einzelner legislativer Dossiers sollte grundsätzlich ausgeschlossen sein. Gibt es Schwierigkeiten bei der Entscheidungsfindung in den Fachministerräten, könnte der Europäische Rat Termine festlegen, zu denen die Beschlussfassung auf Ebene der Minister erfolgt sein muss;
- Zahl und Länge der dem Europäischen Rat vorgelegten Berichte sollten begrenzt werden;

- einstimmige Beschlussfassung sollte nur in Bereichen angewandt werden, für die die Verträge dies vorsehen. Entscheidungen, die an den Europäischen Rat verwiesen wurden und die nach Maßgabe des Vertrags im Rat mit qualifizierter Mehrheit zu fassen sind, sollten auch im Europäischen Rat mit qualifizierter Mehrheit gefasst werden, anderenfalls könnten Fortschritte in wichtigen Bereichen behindert werden;
- die Vertraulichkeit der Beratungen im Europäischen Rat sollte wieder hergestellt werden;
- das Verfahren zur Formulierung der Schlussfolgerungen des Europäischen Rates sollte reformiert werden, um den Zeitaufwand der Staats- und Regierungschefs für die Behandlung des Textentwurfs auf ein Minimum zu reduzieren. Der Wortlaut sollte sich auf die erörterten Themen konzentrieren.

Um diese Ziele zu erreichen, wird eine intensivere Vorbereitung jeder Tagung des Europäischen Rates, insbesondere der Schlussfolgerungen, erforderlich sein. Im Hinblick darauf sollte die Rolle des Ratssekretariats gestärkt werden. Und wir müssen gewährleisten, dass der Ministerrat dem Europäischen Rat eine Tagesordnung vorlegen kann, die sich auf die wesentlichen Punkte konzentriert und zu bewältigen ist.

Auch die Effizienz der Arbeitsweise des Ministerrats kann noch verbessert werden, insbesondere im Blick auf die Koordinierung der Beschlussfassung in den Fachräten. Eine deutliche Verringerung der Zahl der Ratsformationen wäre hierbei eine große Hilfe. Wir sollten in Betracht ziehen, Javier Solana zu bitten, hierzu bis Sevilla Vorschläge vorzulegen. Dies könnte mit einer Reduzierung der Anzahl der hochrangigen Ausschüsse einhergehen.

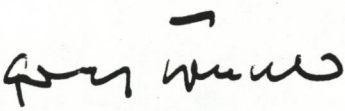
Eine verbesserte Transparenz der Beschlussfassung und die Frage der demokratischen Verantwortlichkeit sind natürlich wichtige Punkte in der Erklärung von Laeken. Wir sind der Meinung, dass beiden Zielen gedient wäre, wenn der Rat in seiner Rolle als Gesetzgeber öffentlich tagen würde. Ratsverhandlungen zu

exekutiven sowie außen- und sicherheitspolitischen Angelegenheiten sollten dagegen weiterhin nichtöffentlich bleiben.

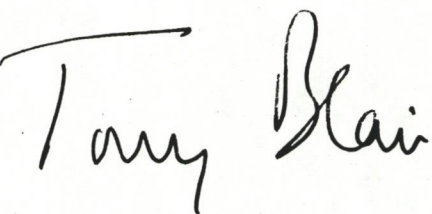
Wir sollten ferner ernsthaft in Erwägung ziehen, die Tradition des "tour de table" aufzugeben. Es könnte viel Zeit gespart werden, indem die Delegationen gebeten werden, den Kollegen im Rat eine kurze Zusammenfassung (1-2 Seiten) ihrer Position als Gesprächsgrundlage vorzulegen. Eine Meinungsäußerung wäre dann nur vonseiten derjenigen Mitgliedstaaten erforderlich, die sich konkret äußern möchten. In jedem Fall wird es nach der Erweiterung wohl kaum mehr praktikabel sein, wenn zunächst 27 oder mehr Mitglieder ihre Positionen im Einzelnen darlegen und erst danach die eigentlichen Verhandlungen beginnen können.

Die Arbeitsweise des Rates bleibt eine wesentliche Frage, die in der Debatte um die Zukunft Europas zu beantworten sein wird. Dabei wird sich das Augenmerk auch auf die Beziehungen des Rates zu den übrigen Institutionen richten müssen. Eine rasche Einigung über das oben dargelegte Maßnahmenbündel wäre aber ein deutliches Zeichen, dass der Europäische Rat entschlossen ist, Reformen durchzuführen und den Erfolg des Erweiterungsprozesses zu gewährleisten.

Die Kollegen im Europäischen Rat, Romano Prodi und Javier Solana sowie Valéry Giscard d'Estaing erhalten Kopien dieses Schreibens.



Gerhard Schröder



Tony Blair



10 DOWNING STREET
LONDON SW1A 2AA

25 February 2002

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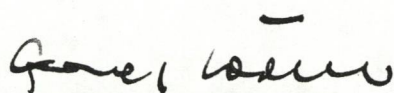
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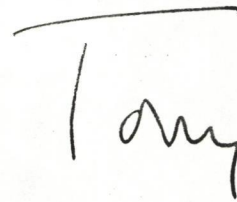
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Berlin, London den 25. Februar 2002

Luís José María

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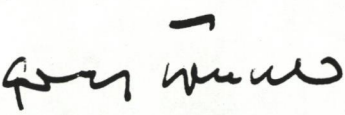
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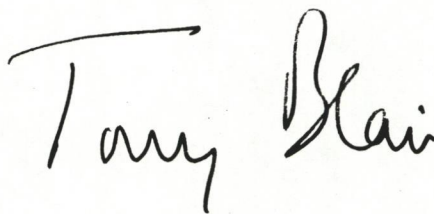
exekutiven sowie außen- und sicherheitspolitischen Angelegenheiten sollten dagegen weiterhin nichtöffentlich bleiben.

Wir sollten ferner ernsthaft in Erwägung ziehen, die Tradition des "tour de table" aufzugeben. Es könnte viel Zeit gespart werden, indem die Delegationen gebeten werden, den Kollegen im Rat eine kurze Zusammenfassung (1-2 Seiten) ihrer Position als Gesprächsgrundlage vorzulegen. Eine Meinungsäußerung wäre dann nur vonseiten derjenigen Mitgliedstaaten erforderlich, die sich konkret äußern möchten. In jedem Fall wird es nach der Erweiterung wohl kaum mehr praktikabel sein, wenn zunächst 27 oder mehr Mitglieder ihre Positionen im Einzelnen darlegen und erst danach die eigentlichen Verhandlungen beginnen können.

Die Arbeitsweise des Rates bleibt eine wesentliche Frage, die in der Debatte um die Zukunft Europas zu beantworten sein wird. Dabei wird sich das Augenmerk auch auf die Beziehungen des Rates zu den übrigen Institutionen richten müssen. Eine rasche Einigung über das oben dargelegte Maßnahmenbündel wäre aber ein deutliches Zeichen, dass der Europäische Rat entschlossen ist, Reformen durchzuführen und den Erfolg des Erweiterungsprozesses zu gewährleisten.

Die Kollegen im Europäischen Rat, Romano Prodi und Javier Solana sowie Valéry Giscard d'Estaing erhalten Kopien dieses Schreibens.


Gerhard Schröder


Tony Blair

File

Baron W.O. Bentinck van Schoonheten
Ambassador of the Netherlands



PR

London, 19 February 2002

Sir Stephen,

At the request of Prime Minister Wim Kok, I have the honour to send you a copy of his letter of February 15th to Prime Minister Aznar, concerning the preparations for the Barcelona European Council and the Lisbon Strategy..

Annexed to the Prime Minister's letter, which states the Dutch priorities, are two further documents:

- The Netherlands' position paper for the Barcelona European Council;
- Recommendations of the [Dutch] Central Economic Committee for the European Council of Barcelona.

The Netherlands' government is looking forward to further collaboration with the UK government in order to achieve concrete progress.

Yours sincerely,

Sir Stephen Wall KCMG LVO .cc. JP
Head of European Secretariat
10 Downing Street
London SW1A 2AA

UH
JT
RL
FC
JP

The Hague, 15 February 2002

[Dear Jose Maria,]

The Barcelona European Council comes at an important time for the Lisbon strategy. In the present economic conditions, the Lisbon strategy's integrated approach to economic, social and sustainability policy has assumed even greater importance than it already had. On the eve of enlargement, Europe must ensure that its own economic house is in order. In line with the Spanish Presidency's motto of "More Europe", "More Lisbon" is the central theme of the Netherlands' position paper for the Barcelona European Council, which is enclosed.

In Barcelona we must ensure that the European Union takes concrete steps towards achieving the strategic objectives of Lisbon. The Netherlands therefore wants to give special attention to the following:

1. making Lisbon happen: to achieve the Lisbon objectives, the member states must live up to their pledges, otherwise the strategy will lose credibility;
2. education, research and innovation: these are the pillars of the knowledge-based economy. They will make the European Union less vulnerable to economic downturns and enable it to take advantage of economic upturns more quickly. This also includes engagement with new technologies, such as biotechnology and broadband internet;
3. the ageing population: the Lisbon strategy must take account of the ageing of the population, the most important socioeconomic development. This means paying special attention to pensions and health care.

In view of the clear focus of the Spanish Presidency, I am confident that in Barcelona we shall make significant progress towards achieving the Lisbon objectives.

I am sending a copy of this letter to the other participants in the European Council.

[Warm regards,]

Wim Kok

**The Netherlands' position paper for the Barcelona
European Council**

More Europe - More Lisbon

The Hague

February 15, 2002

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1

Introduction¹

With the Lisbon strategy, Europe has set itself the goal of becoming a modern knowledge-based economy. This goal hinges on sustainable growth, low unemployment and strong social cohesion. The European Council has drawn up a large number of proposals in areas ranging from employment, innovation and education to pension reform. The instrument that is to be used to realise these goals is open coordination, which encourages member states to pursue successful policies. The European Council meets every spring to monitor the progress made. Since the Stockholm European Council (March 2001) three developments have taken place that make the Lisbon strategy even more important than before. The Netherlands therefore believes that it should receive greater emphasis ("More Lisbon").

First, the three largest economic blocs in the world are all suffering a downturn in the economy. The attacks of 11 September have further dented the confidence of consumers and producers alike. The Netherlands believes that the Lisbon strategy provides the right tools for tackling a faltering economy and rising unemployment. In his letter of 15 November 2001, Romano Prodi, President of the European Commission, asserts that the Lisbon strategy is the best way to alleviate the consequences of the slowdown, to make it shorter and to speed up recovery when it appears.

Second, the eurozone countries introduced euro coins and banknotes on 1 January 2002. This was an important moment for EMU. To make EMU successful, the economies of the member states must converge. Modern economies must be flexible and capable of responding rapidly to change, if only because the eurozone operates a single exchange rate policy. Completing the internal market and removing all obstacles to competition and innovation will help Europe's citizens to benefit from the new currency.

Third, the EU will be completing its negotiations with the candidate countries at the end of this year. On the eve of enlargement the EU must ensure that its own economic house is in order. This too underscores the importance of a rapid and effective implementation of the Lisbon strategy, including the active involvement of candidate countries.

Europe is not an island. To fulfil a responsible role in the world, we must ensure that economic growth, social cohesion and environmental protection go hand in

¹ This position paper draws on the content of the "Central Economic Commission Recommendations for the European Council Meeting in Barcelona on 15 and 16 March 2002", which is appended to this position paper and constitutes an integral part of it.

hand. This means that there is a link between the Lisbon strategy and the strategy for sustainable development.

The Spanish Presidency wishes to highlight the following issues in Barcelona: (1) a European transport and communication area, (2) the internal energy market: liberalisation, opening up the market, and interconnections, (3) the internal financial market, (4) the objective of full employment: the foundations of social cohesion in Europe, and (5) education. The Commission has three priorities: liberalisation of network sectors and integration of financial markets, employment, and creating a European area of knowledge.

The Netherlands supports these agendas. Nonetheless, it will become clear from this position paper that its own aims for Barcelona are more wide-ranging. The Netherlands particularly urges that more attention be paid to:

- making Lisbon happen;
- education, research and innovation;
- demographic ageing.

2 Making Lisbon happen

In its synthesis report for the Barcelona European Council, the Commission describes three phases in the Lisbon strategy: (1) the conceptual phase, (2) adopting the proposals, and (3) implementing the proposals and getting results. The conceptual phase has been completed, and the Lisbon strategy is fully formed. Although decision-making is progressing reasonably, too little progress has been made in implementing the proposals, let alone in achieving results.

The emphasis should now be on honouring the agreements that have been made. Europe will only succeed in guaranteeing sustainable economic growth and higher employment in the long term if it:

- turns proposals into rules and keeps to existing agreements;
- implements measures, supported by benchmarking and open coordination;
- maintains a good balance by integrating the environment into the Lisbon strategy.

The European Union must take action now. Postponing action until the second half of the decade will make the strategic objectives unattainable. Time is pressing.

2.1 Adopting the proposals

The appendix ("Central Economic Commission Recommendations for the European Council Meeting in Barcelona on 15 and 16 March 2002") presents a mixed picture. Good progress has been made with the telecoms package, the open coordination of education, European companies, the single European sky,

eEurope, demographic ageing, and to a certain extent, the liberalisation of postal services. Nonetheless, some deadlines have been missed. The Council has not succeeded in forging a compromise on the Community Patent. The Council and the European Parliament have been unable to formulate new public procurement rules because of the complexity of the issues involved. The Commission has not presented an action plan for better European legislation. All these matters were scheduled to be resolved by the end of 2001. To preserve the credibility of the strategy, a solution must be found as soon as possible.

Several other deadlines seem likely to be missed. The further liberalisation of network sectors is a particularly difficult issue. The Netherlands considers adopting a revised electricity and gas directive a matter of urgency. The member states are very divided on this issue. The Netherlands therefore supports the efforts of the Presidency and the Commission to reach a solution and thus to safeguard fair competition. Progress in the Financial Services Action Plan is slow in some areas, partly because of the European Parliament. The Commission, the Council and the European Parliament are making constructive efforts to resolve the impasse surrounding the new decision-making procedures for legislation to govern the securities trade. Decision-making on biotechnology is moving slowly, partly because of the reservations concerning biotechnology that exist in European countries.

The Netherlands wants to achieve the following results in Barcelona.

At European level:

- *the European Council should adopt 1 January 2004 as the absolute deadline for opening up the energy market for commercial and other users;*
- *the European Council should set ambitious but achievable deadlines for parts of the Financial Services Action Plan;*
- *if the Council fails to resolve the Community Patent and public procurement problems, the Barcelona European Council should map out a path that will enable it to do so before the end of the Spanish Presidency;*
- *by June 2002 at the latest, the Commission must submit the proposal for the action plan for better legislation that was requested by the European Council;*
- *the Commission should make proposals to involve the European Parliament more closely in the Lisbon strategy and to prevent delays in the adoption of proposals.*

At national level:

- *member states must provide good national coordination to ensure that the European Council's proposals do not get bogged down in discussions in the Council.*

2.2

Implementing the measures through benchmarking and open coordination

The Commission notes that the implementation of the measures is stagnating, at national as well as European level. This is first and foremost a matter for member states. Nonetheless, the Commission can promote implementation with the active use of the open coordination method. It takes the first steps in this direction in the synthesis report, but the Netherlands believes that it is still being overly cautious. The Netherlands would like to see the Commission set out a comparative overview of individual member states' achievements in the main text of the synthesis report in future, and identify the causes underlying discrepancies. If a country lags behind because of poor implementation, highlighting this fact will have a salutary effect. If a country has taken the lead because of a better policy, this will suggest possible courses of action to other member states. It would be best for the Commission to focus on the key indicators and themes of the Lisbon strategy. This will prevent member states from hiding behind achievements in areas of minor importance. Clarity fosters good implementation. The Lisbon strategy must not become too complicated. The Commission has a definite task to perform here.

The objective is to achieve the Lisbon goals. Input indicators are less informative in this regard. Alongside the existing input indicators, the Netherlands is therefore primarily interested in indicators that measure results. Good statistics are essential here.

The importance of focusing on implementation is underscored by the fact that only five states have achieved the norm of 98.5% for transposing directives into national legislation. This is a serious impediment to the internal market. Too little attention is being paid to the measures in the Charter for small and medium-sized enterprises. Member states should use this Charter as an agenda for their policy on SME's.

The implementation of measures to promote employment, on the other hand, is going well. The Luxembourg process illustrates the way in which open coordination, supported by an upturn in the economy, can make the Lisbon strategy work. The member states must hold on to these good achievements. In the light of the poor economic outlook, the European Union should use the evaluation of the Luxembourg process for this purpose. It also presents a good opportunity for simplifying procedures and bringing them into line with the broad economic policy guidelines.

To achieve the Lisbon goals for participation in the labour market, for women as well as in general, the Netherlands believes that employment policy should emphasise the following:

- strengthening incentives to work and modernising employment patterns, labour relations and labour market institutions;

- combating poverty and social exclusion;
- training and increasing labour mobility;
- expanding childcare facilities.

Employment remains the best way of escaping from poverty and strengthening social cohesion. This means that a successful employment policy can contribute greatly to achieving the Lisbon goal of reducing the number of people living in poverty.

The Netherlands wants to achieve the following results in Barcelona:

At European level:

- *the European Council should lay down guidelines for the evaluation of the Luxembourg process, such as a close linkage with the Lisbon goals, and improved procedures;*
- *the European Council should discuss the implementation of the Charter for small and medium-sized enterprises every two years; the Commission should encourage this by including an analysis in its synthesis report based on the reports submitted by member states;*
- *the Commission and member states must ensure that open coordination is actively applied (benchmarking and the identification of the best policy practices);*
- *the Commission should compare the achievements of individual member states in its synthesis report; the main text of its synthesis report should explicitly identify the countries that are performing best and most poorly;*
- *the Commission should propose an ambitious action plan for labour mobility.*

At national level:

- *in the implementation of employment policy, member states should pay particular attention to enhancing incentives to work and modernising the labour market, with a view to removing barriers for flexible forms of labour at the same time as ensuring that flexiworkers are properly protected in terms of social security;*
- *member states must ensure that the supply of childcare facilities matches the demand for them in the light of the objectives for participation in the labour market.*

2.3

Balance in the Lisbon strategy: integrating the environment

The Barcelona European Council must discuss the integration of the environmental dimension into the Lisbon strategy, on the basis of the conclusions of the Gothenburg European Council (June 2001). Sustainable development is an

integral part of the Lisbon strategy. Unfortunately, the priorities formulated by the Spanish Presidency do not contain a single reference to the environment.

The Netherlands believes that the integration of environmental considerations into the Lisbon strategy should be achieved by using structural indicators, a sustainability test and concrete environmental action points. The Commission used environmental indicators in its synthesis report, which is a good beginning. However, the next step must be to set priorities and choose appropriate indicators. The Netherlands is also keen to define a sustainability test that can be used to determine, where relevant, whether new policy proposals are economically, socially and ecologically sustainable. This test should also be used when existing policy is amended. The Barcelona European Council should further promote the integration of the environment by selecting some of the environmental action points formulated by the Gothenburg European Council.

The external dimension of sustainable development also merits more attention, partly in preparation for the World Summit on Sustainable Development to be held in Johannesburg in August 2002. However, such attention should not be to the detriment of internal policy. The Kyoto Protocol imposes on member states an obligation to reduce their carbon dioxide emissions. The emissions trading needed to achieve this calls for market regulation at European level.

The Netherlands wants to achieve the following results in Barcelona.

At European level:

- *in its conclusions the European Council should make proposals for integrating the environment into the Lisbon strategy, in part by adding the following environmental action points:*
 - *ratification of the Kyoto Protocol, so that definite progress has been made in achieving the reduction targets by 2005;*
 - *trying to ensure that at least 22% of electricity production in the European Union is from sustainable sources by 2010;*
 - *modes of transport that are user-friendly and environmentally sound should be given priority, where appropriate, in Trans-European transport networks;*
 - *the Commission should formulate proposals to ensure that by 2004, prices for different modes of transport more accurately reflect their cost to society;*
 - *implementation of the chemicals strategy by 2004 at the latest;*
 - *implementation, together with industry, of the integrated product policy aimed at reducing the use of resources and environmental impact of waste;*

- *the European Council must point out that a shift from road transport to other modes of transport will not in itself suffice to achieve the goal of sustainable transport; measures are needed to make all forms of transport cleaner and more efficient;*
- *the European Council should formulate guidelines for Europe's contribution to the World Summit on Sustainable Development in Johannesburg in August 2002;*
- *the Commission should submit a proposal for a sustainability test in its action plan for better legislation, so that the instrument is available by the end of 2002;*
- *the Council should make a decision on the proposal for market regulation regarding CO₂ and emissions trading.*

3 Education, research and innovation

In modern economies, knowledge is an essential factor of production. Increasing and disseminating knowledge helps to boost productivity, thus driving economic growth and employment. Knowledge helps make employees and companies alike less vulnerable to downturns in the economy and helps them to take advantage of an economic recovery more quickly. The Netherlands would like to see attention being paid to the pillars of the knowledge-based economy: education, research and innovation. It supports the idea of a European education, research and innovation area.

3.1 Education, training and knowledge

A highly educated population is the cornerstone of a knowledge-based economy. The Netherlands wants special attention paid to education, training and knowledge. Europe must strengthen its knowledge base by investing more in people. This means recognising education as an explicit part of the Lisbon strategy.

To achieve this, the open coordination of education needs to be fleshed out. The transparency of vocational education in Europe needs improvement. A European declaration on vocational education (analogous to the Bologna Declaration on higher education) would be a good beginning. Recognising competences acquired elsewhere remains an essential point. The conditions for lifelong learning need improving, and should be premised on the needs of individuals. Member states must seek ways of improving the way education and training are attuned to individual needs.

Higher education in Europe attracts too few people and too little investment. Member states' accreditation systems must be harmonised and the mobility of

students, lecturers and researchers increased. Proposals to achieve this should be included in the labour mobility action plan. The rough guidelines for economic policy include a recommendation to ensure that education is better attuned to the demand for basic skills.

The Netherlands wants to achieve the following results in Barcelona.

At European level:

- *the Council should adopt a detailed working plan fleshing out the concept of open coordination in education;*
- *in mid-2003 the Council should decide on a Commission proposal for the recognition of competences acquired elsewhere;*
- *the Council should draw up a policy agenda for human resources in science and technology;*
- *in mid-2003 the Commission should submit proposals aimed at improving transparency in the supply of vocational education and courses supporting lifelong learning;*
- *before the end of 2003 the Commission should make proposals as to minimum requirements for accreditation in higher education.*

At national level:

- *the member states, together with the social partners, should give priority to lifelong learning.*

3.2 Research and innovation

European research can compete with the best in the world. Public investment in research is high, but commercial applications lag behind. There are many reasons for this. The climate for innovation is not optimal. Publicly funded research is sometimes insufficiently geared towards society's needs. Privately and publicly funded research do not always mesh. Private investment in research and development is too low.

The Netherlands therefore welcomes the proposal for a European area of knowledge with an integrated approach to research, innovation, education and training. Innovative investments by companies are a key area of concern. The Netherlands is in favour of formulating concrete, realistic aspirations geared towards innovation output. Instead of the Commission's proposal to use an input objective of 3% of GDP for total R&D expenditure, the Netherlands would like to focus on the following three areas: more private investment in R&D, more use of patents and more added value in industry through the use of innovative products. Open coordination and benchmarking with the innovation scoreboard can foster progress.

Action is needed. Member states must reach rapid agreement on the Community Patent. The European Union must devise a more varied package of measures for the protection of knowledge. It must also increase researchers' mobility. Cooperative links between companies and research institutes, and among research institutes, promote the exchange of knowledge, boosting innovation. The rules for state aid must be better attuned to the complex reality of innovation.

Europe is achieving too little in terms of new technologies and biosciences in particular. This is partly because of a lack of clarity and partly because the measure of public support is uncertain. Biotechnology companies need clarity, even if it means being told that some kinds of research are no-go areas. Experience gained in the Netherlands with a wide-ranging debate on biotechnology illustrates how a society's doubts can be tackled and overcome. There is now broad-based public support for the further development and application of biosciences, within clear boundaries. The Commission's biotechnology strategy is a good beginning for a European approach. It seeks to strike a balance between public concern and the potential offered by biosciences to allow for safe and responsible development.

Likewise, ICT has a long way to go to realise its potential. This is particularly true of mobile technology and telematics. The implementation of eEurope is making quite reasonable progress to date. An extra effort is needed in areas such as the coordination of frequency policy, electronic signatures, EU domain names, freely accessible software and smart transport. The eEurope Action Plan runs to the end of 2002. To guarantee progress, the Barcelona European Council must provide for a sequel for 2002-2005, which the Netherlands believes should focus on the security of networks, e-government, e-learning and the implementation of rules for the information society. Besides this, the Netherlands would like to see special attention paid to the availability (e.g. for research and education) and application of broadband internet, and ways of encouraging its use.

The Netherlands feels more attention should be paid to environmental technology and urges the drafting of a European action plan.

The Netherlands wants to achieve the following results in Barcelona:

At European level:

- *the Council should compare public and private research investment levels in the different member states (benchmarking);*
- *the Council should promote European research and innovation networks;*
- *at the end of 2002 the Council should decide on the strategy to be followed for the biosciences, to clarify the situation for companies and the public;*

- *the Commission should expand its proposal for an education and research area into an education, research and innovation area, including proposals to promote innovation;*
- *the Commission should draft a proposal for a sequel to the eEurope 2002 Action Plan in the short term;*
- *in the short term the Commission should draft a proposal for making broadband internet widely available, e.g. for use in education and research;*
- *the Commission should draft an action plan for environmental technology.*

At national level:

- *member states should seek to achieve a high level of investment in research and development; they should create conditions that will encourage private investment in new technologies, including broadband internet;*
- *member states should create conditions that will encourage companies to invest more in research and development.*

4 The ageing population

The European Union and the member states must ensure that European societies have sound economic foundations. This implies that the Lisbon Strategy must take account of demographic ageing, which it already does to a large extent. Boosting participation in the labour market and labour productivity while reducing debt are the main ways to keep the burden of an ageing population within affordable limits.

4.1 Sustainable pensions

As a follow-up to the Stockholm European Council, the Netherlands feels particular attention needs to be paid to sustainable pensions. The Laeken European Council (December 2001) agreed that member states would draw up national strategy reports on this topic in 2002. This is to serve as the basis for a joint report to be submitted to the European Council in the spring of 2003. The Barcelona European Council must ensure that member states implement these agreements and involve the candidate countries in the work. The objectives should be incorporated into the general guidelines for economic policy. The qualitative social principles underlying pension schemes must be borne in mind at all times when these guidelines are worked out in detail.

The Netherlands wants to achieve the following results in Barcelona:

At European level:

- *the Council should make recommendations for the further elaboration of the strategy to attain sustainable pensions, taking the candidate countries into account;*

- *the Council must continue to take account of the ageing of the population in the general guidelines for economic policy and in stability and convergence programmes;*

At national level:

- *member states must incorporate the common objectives into their policy and ensure that their budgets will be able to bear the costs of the ageing population in the long term.*

4.2

Health care

The ageing of Europe's population has consequences for the health care systems in the member states. Higher costs are unavoidable, and the quality and accessibility of health care may also come under pressure. The member states therefore drafted a joint report on the consequences of ageing for European health care, which the Commission has expanded into a communication with three long-term objectives: the accessibility, quality and affordability of care. The Netherlands urges that member states adopt the open coordination of these aspects of health care, by analogy with the joint strategy for the sustainability of pension schemes. This is not only necessary because of the impact of ageing, but also because of the correlation between health and labour productivity and participation in the labour market.

It is not easy to compare the health care systems that exist in the various member states. The EU's competence in this area is only supplementary. Alongside the impact of ageing, the EU should also look at cross-border aspects of health care.

The Netherlands wants to achieve the following results in Barcelona:

At European level:

- *the European Council should discuss the EU's future role in health care;*
- *the member states should make a start on the open coordination of the consequences of demographic ageing for health care (accessibility, quality and affordability) as well as pooling information on the best policy practices.*

Recommendations of the Central Economic Committee (CEC) for the European Council Meeting in Barcelona, 15-16 March 2002

These CEC recommendations chart the progress made in the implementation of the Lisbon strategy at national and EU level. Part 1 briefly outlines the goals of the Lisbon strategy. Part 2 highlights the areas in which the most and the least progress has been made. Finally, in part 3 the CEC presents a number of recommendations for the Netherlands' contribution to the European Council Meeting in Barcelona.

1) The Lisbon strategy

At the Lisbon Summit, the European Union set itself the goal of becoming "the world's most dynamic and competitive knowledge-based economy, capable of generating sustainable economic growth with more and better jobs and closer social cohesion."

Although this is likely to be a lengthy process, progress must be made each year if the end target is to be reached. A large number of action points (including deadlines) were drawn up to assist this process. The European Council therefore decided to meet each spring to assess progress and to adjust its actions where necessary. The Lisbon strategy covers three dimensions:

1. Competitive knowledge-based economy (economic reforms, knowledge and innovation)
2. Employment-focused social protection systems (job creation, social inclusion, pensions)
3. Environmental dimension (since Göteborg)

The results of the first follow-on summit, the European Council of Stockholm in March 2001, were mixed. Positive progress had been made in the following areas:

- Anchoring pensions (sustainable public finance) into the global economic guidelines and into the stability and convergence programmes
- Establishing a high-level skills and mobility task force to identify obstacles to the movement of workers within the EU and to draw up an action plan
- Agreement concerning the Lamfalussy report on the accelerated integration of the financial services sector (accelerated procedures).

The Stockholm summit reported no progress with regard to the Community patent, the liberalisation of the energy market and the 'single European sky'. Another disappointment was the absence of a structured debate on the key priorities of the Lisbon strategy.

The European Council of Göteborg (June 2001) concluded that the Sustainable Development Strategy was a supplement to the Union's political efforts to achieve economic and social renewal, and that a third dimension – the environmental dimension – should be added to the Lisbon strategy. The element of sustainable development is reflected in all three dimensions of the Lisbon strategy (economic, social and environmental). Examples include the sustainability of the energy/transport sector, the sustainability of public finance in the light of a greying population and the development of environmental technologies. In spring 2002, the European Commission will unveil a strategy outlining the way in which the EU intends to approach its external activities with a view to achieving sustainable development.

The next "spring summit", the European Council of Barcelona, will be held during the Spanish presidency on 15-16 March 2002. We will then be two years on from Lisbon. In the interests of preserving a credible strategy, it is crucial that our work remains on course. The deadlines which the EU has set itself for the end of 2001 must be met. Any delays must be resolved by the European Council in Barcelona.

The current slowdown in the world economy is making the effective implementation of the Lisbon strategy more urgent than ever. The contribution which the strategy will make

to structural reforms in the Member States is badly needed if we are to strengthen the competitiveness of Europe's economies. Without such reforms, the EU is unlikely to be able to play a leading role in the global economy, as the United States did during the second half of the 1990s.

The Spanish presidency plans to focus on the following five themes:

- transport and telecoms infrastructure
- liberalisation of the energy markets
- strengthening the financial markets
- boosting employment
- improving education and training

The European Commission will be playing a central role in preparations for the summit through the presentation in January 2002 of the Synthesis Report for the European Council of Barcelona. In November, the Commission president Romano Prodi called on the EU heads of state and government and the European Parliament to give priority to a number of dossiers (including patents, public procurement and elements of the financial services action plan).

2) The inventory

An inventory of the action points for implementing the Lisbon strategy, and an assessment of the progress made, yields a mixed picture. A detailed version of the inventory can be found in the annex. These, however, are the main points.

Areas in which progress has been made

Greying of the population

The issue of demographic developments was placed very firmly on the agenda at the Stockholm summit. It was agreed that the financial viability of pensions would in future be included in the 'updates' of the growth and stability programmes and in the global

economic guidelines. At Barcelona, the European Council must ensure that the various procedures have also been set in motion and are being actively pursued by the Member States. The European Council in Göteborg also agreed that the Member States must draft a joint strategy to ensure the long-term viability of pension systems and to provide relevant recommendations to the European Council in Barcelona. ECOFIN and the Social Council presented a report on the subject in September, which was used as the basis for the more detailed agreements that were made at the Laeken summit.

Postal service: Although the Netherlands was disappointed by the failure to agree a date for the full liberalisation of the postal service, a political agreement was nevertheless reached in October for further liberalisation in 2003 and 2006. These are steps in the right direction.

Single European Sky: Progress was made in the sense that the Commission tabled a proposal in the autumn that will pave the way for a political agreement in the near future. To facilitate this agreement, the issue of Gibraltar has been omitted from the proposal. The creation of a single European airspace will assist the aviation sector (in that it will save time and reduce costs).

Telecoms package: An agreement must be reached by the end of 2001. The aim is to review the legal framework of the European telecoms market by creating equal competitive conditions throughout the European Union. The outlook is promising. In June, Member States had already reached agreement on the majority of this package. One outstanding issue is the privacy Directive.

European Company: Agreement was reached in October. Companies can now register as European companies and operate as such throughout the EU.

Sixth Framework Programme: Preparations in the European Council and the European Parliament are well under way. The programme is vital for progress in the field of R&D.

Remote sale of financial services: The Council reached a political agreement in the autumn. The proposal now awaits approval by the European Parliament.

Social Inclusion Action Plan: The programme has almost been completed. Indicators will be agreed at the Laeken summit; the Member States will use these indicators every two years to report on progress in bringing about social inclusion.

Areas in which progress has been lacking

Energy market

The Council must adopt the revised electricity and gas Directives in spring 2002. The Commission's proposal provides for full liberalisation by 2005. The position of the various Member States regarding the degree of liberalisation they envisage differs markedly. The Netherlands supports further liberalisation and the creation of a genuine European 'level playing field', and endorses the Commission's proposals. In view of the forthcoming French presidential elections, however, there are some doubts as to whether a date for full liberalisation can be agreed in Barcelona. Progressive consolidation throughout Europe and an insufficiently level playing field are two of the main obstacles to the further development of a European energy market. It is therefore important, in view of the threat of stagnation, for a combined effort to be made to remove these obstacles. The United Kingdom and Germany have also indicated that they want to discuss this at the Barcelona summit.

Financial Services Action Plan

The Financial Services Action Plan must be fully implemented by 2005. An integrated stock market and a smoothly operating risk capital market will also have to be up and running before 2003. Progress is generally satisfactory, with more than half of the action points completed. Areas which have hit snags include the pension funds Directive and the acquisitions Directive.

The stance of the European Parliament, which cannot agree to the new accelerated decision-making procedures (part of the Lamfalussy proposals), is giving rise to particular problems.

New provisions governing public procurement

The European Council feels that the deadline of 2001 for an agreement on the Commission proposal for a new legislative package on public procurement is unlikely to be met. It has failed to reach agreement on a number of other subsidiary issues (competitive dialogue, technical specifications).

Quality of legislation

An action plan for screening new and existing EU legislation and regulations must be drawn up by the end of 2001 (Laeken summit). This deadline will probably not be met. Progress is vital in the interests of a good enterprise environment.

e-Europe

The current action plan runs up to and including 2002 and its implementation is broadly on track. However, extra effort is required in some areas due to the fact that deadlines are not being/will not be met (coordination of frequency policy, electronic signatures and 'open source software' in the public sector, EU top level domain name and intelligent transport systems). The Netherlands also has a list of priority areas for the remaining period of the current action plan. In Barcelona, steps may be taken to arrange a follow-on to the action plan.

Community patent

The lack of progress in this area is being given considerable attention. The deadline (end of 2001) does not now appear to be attainable. Nor was the Council (Single Market) able to reach a political agreement concerning the main points on 26 November 2001.

International businesses will benefit substantially from the introduction of the Community patent. The new system will allow companies to obtain a single patent for the

whole of the EU companies via a single application (to the European Patent Office); this patent will be upheld by EU law. The process will considerably simplify the application, operation and enforcement of patents. The purpose of the Community patent is also to reduce the costs of translation by no longer requiring the texts of patents to be translated into all the EU languages. This could substantially reduce the disparity in costs and the length of application procedures between the EU and the United States and Japan.

The Netherlands is committed to keeping translation costs to a minimum and hence to a system with the fewest possible language options. Due to the limited capacity at the European Patent Office and the available capacity at national level, one or two Member States, including the Netherlands, are in favour of contracting out some of the work to national patent offices, provided this does not compromise the quality of the Community patent.

Biotechnology

During the autumn, the Commission published a notification which gave the discussion and policy on biotechnology an additional boost. This notification ties in closely with the paper jointly presented by the United Kingdom and the Netherlands to the European Council in Stockholm. However, progress is being hampered by obstructive EU and national laws and regulations. This is due to political blockades between Member States, the national parliaments and in the EP concerning the de facto moratorium on the entry of genetically modified crops and the wishes of the Dutch parliament concerning the implementation of the EU patent Directive.

The CEC recommends that during the Barcelona summit, the Netherlands call for the acceleration of efforts to remove these obstacles.

3) Additional priorities

The CEC also recommends that in addition to the obstacles cited above, an extra impulse should be given to the following areas. These priority areas have been selected due to the

contribution they could make to realising the aims of the Lisbon strategy and on the basis of the recommendations contained in the Global Guidelines for Economic Policy, which have not yet been fully adopted by the Member States. These priority areas largely match the priorities of the Spanish presidency.

Innovation

Again and again, innovation appears to be an area in which the EU is still underperforming compared to other regions in the world. Improving the knowledge dynamism is a crucial element in the Lisbon strategy. This paper mentioned earlier that it is vital for the Member States to reach consensus in the near future concerning the introduction of the Community patent. Under the chairmanship of the Netherlands, the Economic Policy Committee (EPC) is conducting a study for the Barcelona European Council on ways of improving the innovation environment in the EU. In line with this study, the Netherlands will be calling for the following measures at the Barcelona Council Meeting:

Framework conditions:

- To bring about a competitive enterprise environment and an effectively operating market

Networks and the dissemination of knowledge:

- To further integrate (1) a close interface between public and private R&D sectors and (2) innovative cluster formation. Promoting cooperation between SMEs and research institutes is also crucial
- To increase the mobility of researchers between the public and private R&D sectors and to stimulate far-reaching exchanges between researchers from the various Member States to offset shortages and/or surpluses

Institutional framework:

- To ensure that from 2002, the revised R&D support framework matches the increased complexity of innovation more closely

Resources:

- To focus more attention and resources on SMEs as innovators within the European Research Space
- To encourage the generation of sufficient venture capital, especially during the start-up phases of development (seed and pre-seed capital).

Innovative entrepreneurship must be given an additional stimulus through the removal of obstacles for techno-starters and rapid growth companies. In order to increase the number of potential self-starters and start-up companies, entrepreneurship must be encouraged in education. The intangible aspects of entrepreneurship must also be made visible in order to reduce the information asymmetry on the capital market and elsewhere.

Education and training

Education and training are on the list of priorities of the Spanish presidency. The Global Guidelines for Economic Policy 2001 include a recommendation "to enhance the capabilities of education systems to respond adequately to changes in skill requirements". In order to respond more fully to the wishes of a rapidly changing society, we must introduce more market function into education. The introduction of more demand-focused forms of financing is also necessary in the market for worker training.

Transparency in vocational and higher education within Europe must also be improved through the international accreditation of training courses and the application of international standards. In order to bring open coordination within education a step closer, the Education Council will be presenting a detailed work programme to the European Council of Barcelona.

Employment

Increasing labour participation throughout the European Union is an important goal. In Lisbon, the Member States agreed to try to bring labour participation as close as possible to 70 per cent by 2010, and to increase the labour participation of women to more than 60

per cent. A participation target of 50 per cent for older workers was added at the Stockholm Council.

The Member States made good progress during a period of economic growth. Labour participation rose from 62.1 per cent in 1999 to 63.3 per cent in 2000. However, the latest analysis of the Commission and the Council shows that structural problems remain. In many countries, including the Netherlands, the level of unutilised labour potential is still considerable. The Netherlands is therefore committed to improving the participation of vulnerable groups, including older workers, the disabled and ethnic minorities.

Extra measures are now required, given that the economic outlook is now less rosy. Even if the recent positive trend is continued, the European Union will only just manage to meet its participation target. In that light, the following aspects should be given specific attention:

- Reorganisation of social security systems, notably to reduce poverty and to increase the incentives for participation in the labour process, especially for older workers.
- Modernisation of work patterns and labour relations aimed at increasing the flexibility of companies and other organisations (e.g. by creating more opportunities to combine work with other requirements, both individual and collective).
- Modernisation of labour market institutes, notably with regard to wage-formation through greater flexibility and the decentralisation of wage talks.
- Increasing worker mobility throughout the EU. The Netherlands will urge the European Council to ask the 'Mobility & Skills Task Force' which was established this year, and the Commission to come up with new proposals.

Environmental dimension

The European Council in Göteborg added an environmental dimension to the existing economic and social dimensions of the Lisbon strategy. This new dimension will be more fully worked out at the Barcelona summit.

New environmental indicators will be used for benchmarking. These indicators measure emissions of greenhouse gases, the energy intensity of the economy, the relative share of transport in GNP, the ratio of the various modes of transport, urban air quality and waste. The Netherlands will also be adding critical comments concerning the relevance of one or two of these indicators.

The Netherlands could also urge the European Council to strengthen the cohesion within the Lisbon strategy between the socio-economic and environmental dimensions through the development of an overall strategy (compare the Environment and Economy policy document). The Barcelona summit will look at how the environmental technology sector can help to promote growth and employment.

4) Conclusions

The inventory of the progress made in implementing the Lisbon strategy yields a mixed picture. Positive progress has been made in a number of areas, including European companies, the postal service, a single European sky, e-Europe and telecoms. In other areas (the Community patent, public procurement and the legislative quality action plan), the deadlines set for the end of 2001 are unlikely to be met, and the dossiers on energy, biotechnology and parts of the financial services action plan (the acquisitions Directive and pension funds) are facing a hold-up. In order to help realise the Lisbon strategy, the CEC has earmarked the greying population, innovation, education, employment and environment as additional priority areas for the European Council of Barcelona. It is vital that the EU remains fully committed to actively implementing the Lisbon strategy, especially in the present climate of economic slowdown.

Copy in DCO Inbox

file

cc HMA
FCO
Mark Sweeney
(CO)
Danny Rice
(Press)

SW
RL

Forward to EU Heads
+ Prodi

His Excellency Mr José Maria Aznar
Prime Minister of Spain

The Hague, 19 February 2002

Dear José Maria,

Our governments stand four square behind yours in our determination to make the Barcelona European Council a success. We remain firmly committed to meeting the Lisbon objective and view Barcelona as an important opportunity to accelerate progress.

The enclosed paper - "Overcoming the European Paradox" - contains new and practical ideas for tackling Europe's failure to exploit fully its excellent and well-funded scientific research base. It seeks ways of increasing innovation and the commercialisation of scientific knowledge. We hope it will lead to Barcelona agreeing to take appropriate action at both Community and Member State level.

Firstly, we want the European Council to invite the Commission to deliver, in Spring 2003, an Action Plan to create a fully integrated European Research *and Innovation* Area (ERIA). This would build upon the present European Research Area and go beyond the Commission's current proposals. Its job would be to bring together those who use and exploit knowledge with those who finance it and generate it. With stable macroeconomic conditions and modernised capital, product and labour markets, ERIA could stimulate business investment in R&D and unlock the EU's considerable innovation potential. This would do much to help Europe realise its ambition to become the most innovative economy in the world.

ERIA's main tasks would be to:

- Improve the use of Intellectual Property Rights across Europe
- Develop EU Research Framework Programmes in ways that help businesses
- Increase networking between businesses and the science base

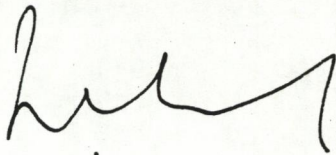
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At the same time, we invite the Commission to provide a detailed report on:

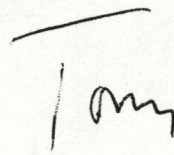
- The scope and incentives for innovation in the EU service sector
- The growing importance of intangible assets

We are copying this letter and its annex to our other colleagues in the European Council and to the President of the European Commission.

Yours sincerely,



Wim Kok



Tony Blair

OVERCOMING THE EUROPEAN PARADOX

1. In March 2000 the Lisbon European Council agreed a new strategic goal for the Union to become the most competitive and dynamic knowledge-intensive economy in the world by 2010.
2. To meet the Lisbon objective, it is imperative that we encourage innovation and the commercialisation of scientific knowledge. We need to ask ourselves why the EU has been falling behind other leading economies: in the US, businesses invest almost twice as much in research and development (R&D) and patent their ideas far more.
3. A focus on innovation, as well as economic reform more generally, is especially important given weaknesses exposed by the current downturn. A key objective at the Barcelona European Council in March must therefore be to promote reforms which will ensure that Europe's return to strong growth is accompanied by the success of innovative, knowledge-based companies – the only sure way to boost employment and productivity. And we should not forget that innovation and the commercialisation of scientific knowledge would also deliver wider social (eg healthcare) and environmental (eg cleaner technologies) benefits.
4. Unfortunately the EU is failing to exploit fully its strong science and knowledge bases. This is the so-called “**European paradox**”. Europe's scientific research base, and the graduates it produces, are world class – this is helped by high levels of public investment in R&D. But we must ask why this achievement is not matched by business investment in R&D or high levels of patenting, as is often the case in the US. The result of this failure is to leave the share of economic growth from innovative products in most member states lower than in other major economies. It is clear that action is required to overcome this European Paradox.
5. The EU should state explicitly that its goal is to become the most innovative economy in the world by 2010. This demands progress on three main fronts: increased private investment in R&D, higher levels of patenting and improved business innovation performance. Input targets alone fail to capture fully the importance of these three areas and risk overlooking the European paradox. Therefore, in order to achieve progress in these three fronts, we propose a number of actions in this paper.

6. First and foremost we must establish appropriate economic **framework conditions**. A stable macroeconomic framework is a precondition. And an underlying priority must be to step up our efforts to reform the EU's capital, product and labour markets. More specifically: high levels of dynamic competition are needed to allow smaller firms to grow quickly and challenge incumbents. Effective capital markets are essential to channel investment to innovative, high growth sectors – it is therefore crucial that the Prospectus Directive is implemented in a way that does not raise the cost of capital for small businesses. Finally, a strong supply of skilled labour is needed to undertake research and to diffuse its results.

ERIA

7. The Commission is proposing to present an integrated strategy for Community education and research policies (European Area of Knowledge). We fully support the proposal to improve the links between education and research, and would stress here the particular importance of innovation. The EU needs to focus above all on ensuring that knowledge is able to flow unimpeded throughout a coherent EU-wide innovation system. Those who *use* and *exploit* knowledge need to be brought together with those who *finance* it, and those who *generate* it.
8. Therefore, we propose that the EU develops a fully integrated **European Research and Innovation Area (ERIA)**, that builds upon the present European Research Area and moves beyond the recent proposals of the Commission.
9. Through the ERIA, Member States must ensure that knowledge transfer mechanisms are adequately supported, that universities and companies cooperate and collaborate fully, and that intellectual property regimes are fully effective. It is not enough for Member States to rely on a strong, publicly funded research base: the stimulation of business investment in R&D and high levels of technology diffusion is needed to unlock the EU's innovation potential.
10. A recent ECOFIN study, in which both the Netherlands and the UK played a key role, underlines perfectly our views. We propose that at the *practical* level, the focus of the ERIA should be on **structural and institutional reforms**. The R&D State Aid rules need to be modernised to suit the complex and interactive processes which underpin innovation in knowledge-based economies. Intellectual property regimes need to be designed with innovators in mind. This means overcoming the inflexibility which has characterised discussions over the Community Patent – and agreeing on a solution which helps innovation and that businesses will use. Innovators in Europe need to be in a position, as those in the US more often are, to use intellectual property rights as a means to raise finance.

11. And universities and public research institutes must actively promote the commercialisation of their research and knowledge, ensuring with governments that there are sufficient incentives for all actors to engage in the innovation process. It is of utmost importance to maintain a high level of public R&D investment. Furthermore, co-operation with companies as well as commercialisation should take into account the specific mission of universities and applied research organisations..
12. At a deeper *structural* level, the ERIA needs to be developed and fostered by the EU. The multi-annual EU Research Framework Programmes are best placed to act as facilitators and catalysts for knowledge flows and cooperation across the EU. The new EU research Framework Programmes should be fully exploited to focus less on specific research projects and more on networking between industry and academia and mobility of researchers, public/private partnerships in R&D programs, and on the way knowledge is transmitted to the companies and organisations that need it most.
13. Finally, the EU needs to grapple with two important issues. Firstly, the **service sector** is continuing to expand and its capacity for innovation will be ever more important for EU competitiveness and job creation. Countries which already have a large service sector will need to move even more swiftly. We must therefore look in more detail at the different innovation needs of service industries.
14. Secondly, **intangibles** – intellectual assets – are growing in importance. Successful companies now adopt a variety of techniques to protect their knowledge. The appropriate form of Intellectual Property protection for companies may not always be patents. For example, reliance on design rights, trade marks or copyright may be better options in some cases. Knowledge-intensive services need to be especially resourceful here. Member States and the EU will need to think about what the effect of this will be both on the flow of knowledge throughout Europe and on competition.
15. **Therefore, to become the most innovative economy in the world, we invite the European Council to invite the Commission to deliver, in Spring 2003:**
 - **Firstly, an Action Plan to create an integrated European Research and Innovation Area, focusing on key structural and institutional reforms:**
 - **Intellectual Property Rights:** instances of best practice need to be pooled and recommendations made on the variety of protection at both national and Community levels.

- **New EU Research Framework Programmes:** proposals are needed which will move the focus away from specific research projects and towards networking between industry and academia, the mobility of researchers, public/private investments in R&D programs and on the way knowledge is transmitted to the companies and organisations that need it most.
 - **Increase networking between Industry and Science:** Universities and public research institutes must actively promote the commercialisation of their research and knowledge, ensuring with governments that there are sufficient incentives for all actors to engage in the innovation process. It is herewith of utmost importance to maintain a high level of public R&D investment. Furthermore, co-operation with companies as well as commercialisation should not have an impact on the mission of universities and applied research organisations.
-
- **Secondly, a detailed report outlining the EU's current and proposed response to two important questions:**
 - The scope and incentives for innovation in the **service sector**
 - The growing importance of **intangibles**
16. The EU needs to take this opportunity to make the Lisbon objective a reality. Alongside broader economic reform, raising the EU's innovation performance will be an essential part of a more dynamic and competitive Europe.



10 DOWNING STREET
LONDON SW1A 2AA
020 7930 4433

file
Copy in OCO
INBOX

18 February 2002

Dear Dianne,

**TENS AND TRANSPORT LIBERALISATION
ISSUES FOR BARCELONA**

I chaired a meeting here on 13 February to discuss prospects for the Barcelona European Council. Although no one from DTLR was able to attend, John Stevens sent a helpful e-mail beforehand updating us briefly on progress on TENS and transport liberalisation.

At the meeting it was agreed that we needed a bit more detail on where we are on TENS ahead of Barcelona. It would be useful to have a short paper setting out:

- How much money the UK get under TENS now and how much we would stand to get under the new proposals.
- What other potential benefits there are for us in the proposals (including on PPPs).
- What the Presidency are likely to push for on TENS at Barcelona (our Embassy in Madrid think TENS will be priority for the Spanish because they stand to benefit from new links across the Pyrenees).
- What language we want at Barcelona.
- What language we should resist.
- Where other Member States stand.

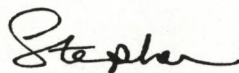
I would be grateful if DTLR could prepare a paper on these lines by 22 February with input from DTI and Treasury as necessary. We will then hold a short ad-hoc meeting here in the week of 25 February to finalise our approach.

SM

We also felt it would be useful to have a clearer strategy on transport liberalisation in the run up to Barcelona. John Stevens e-mail suggested that there was little prospect of getting anything concrete on transport liberalisation at Barcelona. This may be right but we nonetheless think it would be useful to keep this issue in play so as to have something on which to make concessions at the Council. I would therefore be grateful if you could prepare a short note setting out what exactly is being proposed on Single Sky, Freight Liberalisation and the Public Services Requirements Regulation and what the implications of each of these proposals would be for the UK. We will also need some ideal conclusions language on each of these issues that we could pass to the Spanish. If you could let us have a draft of this at the same time as the TENS paper we will cover our strategy for transport liberalisation at the same ad-hoc meeting as TENS.

I am copying this letter to Ivan Rogers (HMT) and Hugh Savill (DTI).

Yours ever,

A handwritten signature in cursive script, appearing to read 'Stephen' or 'Stephan', written in dark ink.

J S WALL

Dianne Phillips CB
DTLR

Sen Callaghan,

Please find enclose copy of the letter that President Berlusconi e Prime Minister Blair have sent to Prime Minister Aznar, with some documents concerning the preparation of the European Council of Barcelona.

Best wishes

Yi

MASTER



10 DOWNING STREET
LONDON SW1A 2AA

15 February 2002

Dear Jose-Maria,

The Barcelona European Council will provide an important opportunity to give new impetus to the reform strategy set out at Lisbon. It aims to make Europe the world's most successful and dynamic economy with high social cohesion, delivering full employment by 2010.

The successful introduction of the Euro makes the completion of an open and dynamic single market even more pressing. To grasp and exploit to the full the signs of economic upturn which are currently emerging, we need faster delivery of structural reforms aimed at making our economies more flexible.

We intend to give the strongest possible support to the Spanish Presidency to ensure that the results of Barcelona live up to expectations. To make a concrete contribution to the success of the Summit, we have set out a detailed and operational programme of reforms, based on a platform of macroeconomic stability, which should permit us to meet swiftly the ambitious growth targets which were fixed at Lisbon.

We believe that the European Union should be able to exploit its potential in a more efficient manner: breaking down barriers to innovation and competition, reforming inefficient labour markets and improving our human resources. In this

vein, knowing that the route towards the goal of full employment lies through ambitious reforms, we have drawn up a series of specific proposals. These are set out in the attached documents.

The Governments of the United Kingdom and Italy have collaborated in different areas, and will continue to do so, to deliver this programme. We are at the Presidency's and Commission's disposal to take forward the fulfilment of these objectives in the interests of a more cohesive and more prosperous European Union.

We are sending copies of this letter to the other members of the European Council.

Yours ever
Tony
TONY BLAIR

Con me abbraccio
Silvio
SILVIO BERLUSCONI

HE Senor Don Jose Maria Aznar

**JOINT STATEMENT BY PRIME MINISTER BLAIR AND PRIME
MINISTER BERLUSCONI FRIDAY 15 FEBRUARY****MEETING THE CHALLENGE OF REFORM: PRIORITIES FOR THE
BARCELONA EUROPEAN COUNCIL**

Two years ago at Lisbon the European Council set a clear goal for the EU: to make Europe the world's most dynamic, successful and socially inclusive economy, delivering full employment by 2010. We set out a detailed work programme of reforms, founded on a platform of macroeconomic stability, to take us there. Maintaining macroeconomic stability is crucial in helping to deliver lower interest rates and higher investment leading to more jobs, sustained growth, and the right framework for innovation and entrepreneurship.

The Barcelona European Council will be a test of our commitment to reform. It takes place against the challenging background of a world economy poised to recover from a downturn. But this is not a reason to postpone or dilute action: it strengthens the case for quickening the pace.

Meanwhile the successful launch of the Euro is delivering a huge boost to price transparency and competition, to the benefit of Europe's consumers. It will help raise the efficiency and productivity of Europe's businesses. But the Euro alone cannot provide the boost to growth and jobs that Europe needs. A single currency makes a truly open and dynamic single market even more essential, alongside more effective economic policy coordination.

At the Barcelona European Council next month, we will make our second annual assessment of progress. It is a chance to say what challenges remain and to give new impetus to the reform agenda. A lot has been achieved. But even more remains to be done. The Council should help us take a decisive step

forward in delivering a range of specific reforms and mapping out the next steps for the reform agenda.

Delivering on this agenda requires purpose and leadership. The European Commission's Synthesis Report was an authoritative assessment of where we have succeeded and where we have more to do. Jose Maria Aznar has made stepping up the pace of reform the centrepiece of Spain's Presidency of the EU. We strongly support Spain in its efforts to ensure that the EU makes progress across a broad front: strengthening Europe's infrastructure; making rapid and substantial progress on opening energy markets; completing the single financial services market; more flexible labour markets; a better regulatory framework especially for smaller firms; action on education and innovation. These reforms together with the benefits of further opening and integration of EU markets in other sectors, including transport infrastructure development to enhance present and projected goods circulation and to remove bottlenecks, intellectual property rights, and progressive postal liberalisation will stimulate growth and employment across the EU.

We underline the European dimension of this process. Reforms are bound to be more effective if undertaken at a pan-European level. A fuller integration of labour, capital, and product markets can multiply the benefits of national reform.

It is now more than ever important that the reform of European labour markets is tackled in parallel with the reform of product and capital markets. The overriding objective of labour market reform must be the achievement of the ambitious employment targets set by the Lisbon and Stockholm Councils. In particular we need to review existing labour market regulation at both EU and national level to ensure that it takes account of both the business need for

flexibility and the employee's need for job security and employability, as well as to press ahead with an ambitious programme of structural reforms.

The UK and Italy believe that economic dynamism and social justice go hand in hand. We believe that the best way to combat social exclusion, to increase self-worth and involvement in society, is to create jobs. We should therefore reform labour markets with a view to increasing employment for all groups in society.

We know that to prosper in the modern world Europe needs to tap its potential more effectively – removing barriers to innovation and competition, reforming inefficient labour markets, and improving our human resources.

We are fully aware that a well educated labour force is essential to achieve low unemployment, greater mobility, and to develop the knowledge economy. To this end, we reiterate our commitment to strengthen the educational systems at all levels in our countries.

Our reform agenda is not a question of doctrine. It is about modernisation. Delivering jobs and growth in a modern economy is the challenge for all Europe's Governments. The Lisbon reform agenda is our common attempt to meet that challenge.

That is why as part of our contribution to making Barcelona a success we are publishing today a series of detailed position papers.

We will continue to work closely with Prime Minister Aznar and our European partners at Barcelona and beyond to help deliver the reforms that Europe needs.

In the months ahead the UK and Italian governments will cooperate closely in a range of areas to pursue this agenda, including reform of the Employment Guidelines, welfare to work programmes, e-Europe issues, and implementing better regulation. Senior officials will meet every six months to review progress.

Rome
February 2002

TOWARDS BARCELONA: LABOUR MARKET REFORM

1. Creating new jobs and raising employment rates is the key to a cohesive and prosperous Europe. Reducing unemployment by offering every citizen the possibility of access to the labour market and the chance to remain employable during the whole of their working life are the most important objectives for Europe. An economic and social environment where Governments, employers and employees cooperate to build "the most competitive and dynamic knowledge-based economy in the world" means creating the conditions for sustained growth, more and better jobs and social cohesion.

2. The European economies have experienced important structural changes: the modernisation and liberalisation of product and service markets, globalisation and the rapid development of information and communication technology. The paradigm of a long term job with a single employer has begun to vanish and it is being replaced by a working life which consists of several different jobs requiring different skills. These new scenarios challenge policy makers as well as individuals.

3. European labour markets are characterised by structural problems. Fundamental reforms are needed if we are to tackle the challenges ahead, increase employment rates and ensure the full development of our economic potential. Some reforms have been made, including introducing greater flexibility into those regulations which hamper

access to employment and the implementation of active labour market policies. These have helped to improve European competitive performance and to create more jobs

4. In order to take full advantage of these improvements we need to adjust the existing regulatory, legislative and contractual employment framework in most countries to meet the new circumstances. The current regulatory framework often reflects forms of work organisation which are now obsolete. For this reason it is necessary to reinvigorate the structural reform process to ensure the efficient functioning of our labour markets and to develop more targeted labour market policies. The goals agreed by the European Council at Lisbon challenge national Governments and the European Commission to undertake reform which will ensure less regulated labour markets, more work flexibility and less social inequality.

5. The European Spring Council at Barcelona should set new priorities and identify key strategies which will lead to full employment and a more cohesive and open society. Short-term concerns about the European economy should not detract us from the need to pursue necessary reforms. On the contrary, they should act as an incentive to pursue comprehensive reform more vigorously.

Flexibility, security and efficient labour markets

6. The current economic uncertainty underlines the importance of an efficient functioning of the labour market. It is important to resist any

pressure resulting from the cyclical downturn of recent months to revert to traditional policies of subsidising and protecting jobs - which would have damaging consequences for employment growth in the longer term. These policies might reduce the number of job losses in the short term but would damage job creation in the long term by reversing progress towards efficient and flexible labour markets. Excessive labour market regulation could impede the necessary economic restructuring of some sectors and threaten a return to the sclerotic European labour markets, which experienced mass unemployment at the end of the '80s and beginning of the '90s.

7. Employment performance has improved considerably during the last two years and unemployment has decreased quite substantially within the European Union as a result of sustained growth, less regulation and active labour market policies aimed at preventing growth in long term unemployment. Labour market institutions, regulations and practices which impede responsiveness to structural changes have been progressively removed and the benefits are apparent in stronger employment growth. An emphasis on labour market regulation which tries to protect existing jobs has been replaced by an emphasis on promoting employability in the labour market, including lifelong learning, training and more flexible forms of work.

8. The attainment of the employment targets agreed at the Lisbon European Council depends above all on the implementation of the structural reforms which will ensure greater efficiency and flexibility

of and access to the labour market. The integration of labour and product markets has highlighted the rigidity of over-regulated labour markets: excessive regulation can prevent young people from entering the labour market and lead to the persistence of long term unemployment.

9. A balance must be reached between businesses' need for flexibility and employees' need for job security and employability: striking this balance is not an easy task. Competitive pressures, technological changes and shifting consumer preferences have forced many enterprises to rethink traditional organisational strategies and practices in recent decades. Increasingly businesses have needed to react with greater flexibility to changes in supply and demand. Technological developments have allowed enterprises to introduce new and more flexible arrangements in the organisation of production procedures. The increased fragmentation of the labour market and the emergence of multiple labour markets have highlighted the need for co-ordinated micro-economic reform aimed at promoting access to the labour markets for all categories of workers.

10. EU Member States, where appropriate, should therefore review their existing regulatory framework and introduce new provisions and incentives to reduce barriers to employment, facilitate the introduction of modernised work organisation and help the labour market adapt to structural change. The social partners should agree on action in areas such as the development of more flexible working hours, the reduction of overtime, and the development of part-time working and lifelong

learning and career breaks. Part-time work can help the transition from unemployment to the labour market and from full time employment to retirement, as well as the participation of women and older workers in the active society.

11. Each Member State should examine the possibility of implementing more flexible types of employment contracts, taking into account the fact that forms of employment are increasingly diverse. At the same time, people working under new forms of employment contracts should continue to enjoy adequate security. To raise skill levels within enterprises, Member States should re-examine the obstacles to investment in human resources through tax or other incentives for the development of in-company training. The aim of giving every worker the opportunity to achieve information society literacy by 2003 should be seriously considered.

Skills and mobility

12. The European Council should consider what action needs to be taken to improve mobility and the free circulation of all workers and job seekers on the basis of the work carried out by the Task Force on Mobility and Skills. Action is needed to remove the present barriers to the free movement of qualified workers in particular and to reduce the problem of skills mismatch, particularly, but not solely, in information technology.

13. The removal of barriers to mobility will make it possible to increase market efficiency and overcome bottlenecks which can engender damaging wage pressures. The greater efficiency of public and private employment services is an important element in ensuring the widest possible access to the labour market.

14. The social partners should be encouraged, first, to identify the main characteristics of new European labour markets, with a focus on the supply and demand for skills, specific skill gaps and the role of lifelong learning; and, second, to identify the main barriers to the development of European labour markets, particularly in the areas of skills and mobility. These issues should be central to the social partners' efforts to secure modernisation and adaptability of the labour market.

Active policies and tax incentives

15. Employment and social inclusion goals are strongly interrelated in the framework established by the European Employment Strategy and further strengthened by the conclusions of the Lisbon Summit. Employment is a key factor in social inclusion, both at the macro level – in order to ensure the long-term financial sustainability of our welfare systems – and at the micro level – because paid employment is the best route out of poverty. These general principles should shape the proactive stance of labour market policies launched by the Luxembourg process and successfully implemented in all EU countries.

16. The European Employment Strategy has had more limited success in driving the reform of tax and benefit systems. Insufficient emphasis has been put on ensuring that there is an adequate financial incentive for unemployed people to take jobs. It is no longer sufficient simply to ensure that benefit systems provide financial support for those who cannot find work.

17. Further action is needed to redirect the focus of benefit systems from the traditional passive support for people out of work to the provision of incentives to retrain and to return to work. Ensuring that tax and benefits provide employment incentives will safeguard the long run financial viability of our pensions systems.

18. Two issues are of paramount importance in shaping fiscal policy choices. First, unemployment and low participation in the labour market are heavily concentrated in particular groups in society. These concentrations take different forms in different countries, reflecting skill or regional differences, but it is a common feature that people with low earning potential are those most likely to have poor employment prospects. Second, in order to become more competitive Europe needs to reinforce its capacity to develop and exploit modern technologies. Investment in our human capital and employees' active involvement in learning are crucial in this respect.

19. Reshaping our tax and benefits systems so as to make work and human capital investment pay is imperative, particularly in the case of

low wage earners. The tax burden should be reduced more intensively in the case of low wage earners, with rebates concentrated on workers with low incomes.

20. Reshaping the tax and benefits system may also help in tackling regional problems. An advantage of channelling support to less favoured areas in this way is that it can be directly targeted on employment without any economically distorting effects. Lowering the tax burden for low wage earners can also help to secure a more decentralised wage bargaining system, with wage relativities more in line with productivity.

Labour Market Regulation

21. Modern, flexible labour markets require a new approach to employment regulation of labour law (i.e. fewer mandatory rules, more "soft" regulation based on benchmarking best practice) and collective bargaining (framework agreements instead of quasi-legal collective contracts). They also require a higher degree of employee involvement as one of the main factors which might determine the quality of the industrial relations system and the adaptability of businesses and their employees to the new environment.

22. As recently suggested by the "High Level Group on Industrial Relations and Change in the European Union", social partners should explore new ways of negotiating agreements, making further use of the Treaty provisions, and fully exploring the possibility of entering

into voluntary framework agreements, to be implemented through their own national procedures.

23. The measures already adopted at EU level complete the construction at European level of a comprehensive framework of essential minimum standards of employment regulation and social protection, thereby ensuring that the European Social Model safeguards the core rights of employees in the modern workplace. The task now is to ensure that this *acquis* is fully implemented at the national level. Future work at European level should concentrate on fostering partnership, diversity and flexible and safe ways of working, through the exchange of best practice and the open method of coordination. The social dialogue at EU level must be re-invigorated and enriched in order to take forward the practical application of the Lisbon Agenda of competitiveness and quality.

The new Employment Strategy

24. More effective links must be established between employment, labour relations and macro-economic policies by focusing the Employment Guidelines on the objective of achieving a competitive, knowledge-based economy founded on greater job creation, as agreed by the Lisbon Council. It is important to streamline the Luxembourg process by focusing on a limited number of topics and identifying areas for priority action.

25. The review of the European Employment Guidelines should take account of the following principles, keeping in mind that the best strategy for combating unemployment and social exclusion is an active, employment-based society:

- strengthening active labour market measures and prevention policies to avoid the persistence of long term unemployment: this includes increasing the effectiveness of public employment services, including by opening this market to the private sector;
- reinforcing of individual responsibility through strict benefit control and tax benefit reforms which redress the balance between income support and providing incentives to turn to employment;
- broadening participation in the labour force, especially with regard to women and older workers, and strengthening the policies aimed at reconciling work and family life;
- guaranteeing long-term employability, by encouraging employees to stay on at work and making retirement more flexible, especially in the case of skilled employees;
- consolidating policies aimed at maintaining employees' employability, in particular by the improvement of lifelong learning schemes.

KEY ISSUES FOR BARCELONA: VIEWS OF ITALIAN AND UK GOVERNMENTS

1. At the Lisbon European Council in March 2000 the European Union set itself the ambitious target of becoming the most competitive and dynamic knowledge-based economy in the world capable of sustainable economic growth with more and better jobs and greater social cohesion.
2. Over the last two years significant progress has been made towards that objective. But it is vital that the momentum is maintained and stepped up in the coming years if the EU is to meet its objective, and generate higher levels of employment, investment and growth.
3. The UK and Italian Governments share a common aim of ensuring that the Barcelona European Council next month marks a further milestone in delivering the Lisbon agenda. We have identified a number of policy areas where further progress needs to be made.

Increasing employment

4. This year's review of the European Employment Strategy should concentrate on identifying the policies which are essential to the achievement of the employment targets. The Employment Guidelines should be streamlined and focused specifically on issues such as:

- reviewing existing labour market regulation at both EU and national level to ensure that it takes account of both the business need for flexibility and the employee's need for jobs security and employability;
- reform of public employment services which, in partnership with the private sector, can deliver effective active employment policies;
- tax/benefit reforms to ensure that work pays;
- the removal of incentives for early retirement so that older people have a free and effective choice and the opportunity to continue working;
- the development of a culture of lifelong learning which is essential for a skilled and adaptable workforce.

Energy liberalisation

5. An integrated EU energy market is essential to ensure the future supply of energy at reasonable prices to Europe's citizens and businesses. In order to avoid unfair competition the liberalisation process must be fair and balanced across all member states. These are the key conditions for a genuinely integrated EU energy market:

- to agree as soon as possible during 2002 draft proposals on electricity and gas liberalisation, in accordance with the Lisbon timetable;
- setting an early date for the liberalisation of the industrial and commercial sectors, with a commitment to agree a timetable for the domestic sector;
- the establishment of a regulatory authority in each member state, independent of the industry and fully responsive to users, responsible for oversight of the electricity and gas markets and for regulating access to the network, with published tariffs;
- legal separation of transmission and distribution from production and supply;
- removing regulatory barriers to interconnection and developing infrastructure between national markets.

Takeovers

6. Europe needs common rules on takeovers to ensure clarity and consistency in takeover laws in order to facilitate the creation of an integrated capital market in the EU, to enhance wealth creation and exploit synergies and avoid tactical litigation. The key elements must be:

- fair treatment of shareholders of companies subject to takeover bid;
- letting shareholders decide on the merits of a bid, with minimal scope for frustrating action to be taken by Board of target company without contemporaneous approval of shareholders.

7. To this end, the UK and Italy welcome the report of the Wise Men, and urge the Commission to bring forward a revised Directive rapidly, building on their proposals.

Financial services

8. Development of the internal market in financial services provides opportunities for consumers and industry alike. An integrated capital market is vital to ensure that Europe's firms become more competitive, and benefit from access to cheaper funds for investment. At present, however, capital, banking and insurance markets remain more fragmented than goods markets within the Union.

9. Lisbon set a clear strategy to open the financial services market. This was taken forward in the Commission's Financial Services Action Plan. But progress so far has been disappointingly slow. The agreement now reached on the Lamfalussy proposals offers a chance to speed up work in this area, consistent with the FSAP objectives.

10. Reform should also focus on other aspects of the Lamfalussy report, including consultation, appropriate harmonisation, the principles of good regulation, prioritisation and proper use of all four 'levels' of decision making (framework directives, comitology, agreement among competent authorities and enforcement). The principle of subsidiarity should be respected.

11. It will be helpful to highlight the economic benefits of progress, for both industry and consumers. The work of the European Roundtable on Financial Services is therefore welcome. The Commission should publish its work on economic benefits as soon as possible.

12. Good progress has recently been made on a number of issues including collateral and market abuse, and the money-laundering directive has been approved. Progress on a genuinely market-opening Prospectus Directive to deliver a 'single passport for issuers', contributing to more efficient equity and bond markets to cut the cost of capital for all sizes of company, is now a priority.

Better regulation

13. The effect of Europe's regulatory environment on our economic development can and must be addressed urgently – getting this right is a high priority for both Italy and the UK. Both Governments endorse the work of the Mandelkern Group and call on the Commission to produce a concrete Action Plan based on that work as early as possible in the first half of this year. They also call on the Presidency and the Commission to establish the suggested inter-institutional working group rapidly so that it can deliver the inter-institutional elements of the Action Plan in time. Italian and UK priorities for the Action Plan are:

- a robust business-friendly EU level impact assessment system, covering economic, social and environmental aspects considering simpler alternatives to formal regulation and reviewing existing rules;
- simplification of the *acquis communautaire*, including codification and other forms of consolidation; and
- to ensure the European Parliament, Commission, Council and Member States support this work effectively and engender a culture of better regulation throughout the European institutions.

14. Italy and the UK recognise that they too have their own responsibilities in this matter and are both taking action. For example, Italy has improved its regulatory impact analysis system and has introduced new simplification criteria based on pro-competition principles and alternatives to regulation. For its part, the UK is introducing an assessment of competition effects into its regulatory impact assessment system and has recently produced a comprehensive simplification package that will benefit businesses, charities, the voluntary sector, public administrations and the individual citizen.

15. There is a need to improve the quality of public administration within member states, learning from best practice across the EU, to improve government responsiveness to enterprise, and to stay close to the citizen. Both governments commit themselves to work closely in the open method of coordination to achieve this. They look to EU Public Administration Ministers to take this forward, and to develop further their excellent cooperation in the Mandelkern Group, and to monitor closely the effective implementation of its recommendations.

State aids

16. The state aids regime has served the EU well, but is now in need of reform, to reflect the economic reform priorities agreed at the Lisbon Summit.

17. This reform should seek to achieve less but better state aid, in particular by:

- continued downward pressure on state aids which undermine competition and efficiency;
- making it easier for Governments to intervene where this promotes structural reform, increased productivity, and the efficiency of the Single Market;
- better procedures to assess the quality, effect on competition and impact of state aid cases and schemes, to make them more effective in correcting market failure and improving the competitiveness of the economy;
- greater emphasis on horizontal, rather than sectoral assistance.

18. Both UK and Italian Governments welcome the conclusions of the Industry Council (of 5 December 2001), and look forward to the proposals to streamline state aids procedure promised by Commissioner Monti.

Europe's E-agenda

19. Barcelona should lay the ground for Europe's strategic approach to the information economy and society after the eEurope Action Plan expires at the end of 2002. The EU should make a commitment to further deepening and generalising the exploitation of the Internet to ensure that new technology helps to break down, not increase, social exclusion. This requires above all a step-change in speed, affordability and accessibility of the Internet, and maximising its interactive use. Broadband communications infrastructures and their use should therefore be a priority in the next phase of the European strategy for the knowledge economy.

20. The UK and Italy agree that Barcelona should:

- call on the Commission to draw up a revised eEurope action plan aimed at achieving widespread availability of broadband throughout the EU by 2005, for endorsement by the Seville

European Council in June 2002;

- underline that the new Action Plan should focus on creating the right environment to encourage, in a balanced fashion, the take-up and exploitation of broadband, as much as the deployment of infrastructure and the stimulation of demand for broadband services;
- reaffirm that broadband deployment is principally a matter for the private sector, while recognising the potential role of Governments in showing leadership through initiatives at national and regional level to attract investment in broadband in the public sector and increase the range and interactivity of their own online services;
- reaffirm that the new Action Plan should include eGovernment and the question of integrated, interactive and safe services to citizens assuring them secure access to the network;
- make a commitment to the full and early implementation by May 2003 of the new legislative package for the regulatory reform of communications access and services;
- reaffirm the commitment to vigilant and rigorous enforcement by the Commission and national regulatory authorities of competition in communications networks, especially local networks for fast Internet access.
- promote an improved climate for business and consumer confidence in e-commerce by completing implementation of the E-Commerce Directive as early as possible in 2002, and monitoring the consistency of new national and EU regulatory initiatives with an impact on e-commerce;
- launch early, systematic and effective exchanges of national experience, with the benefit of the results of the first full benchmarking of eEurope against indicators, in accordance with the open method of co-ordination agreed at Lisbon.

Small and medium-sized enterprises (SMEs)

21. A crucial element of economic reform is the creation of world class conditions for SMEs to thrive. SMEs are the backbone of the European

economy and vital to job creation, a key element for tackling the current economic climate. There needs to be a stronger SMEs focus in top-level decision making, and SMEs themselves need to play a greater part in influencing policy.

22. Positive action by Member States needs to be encouraged through a reinforcement and strengthening of the Small Firms Charter, as supported in the European Commission's Synthesis Report.

23. At Barcelona, and at the informal SME Ministers meeting in Madrid prior to this (22-24 February), the two countries will be calling for:

- a "Think Small First" approach to better regulation so that the needs of SMEs are taken into account and alternatives to legislation are considered;
- a review of potential institutional improvements, such as a pre-spring European Council SME Ministers meeting to ensure that there is a strong SME focus to the agenda; and the introduction of an SME segment at each Industry Council to focus on entrepreneurs and those who will, given the right conditions, create jobs;
- a stronger SME forum in Brussels, consulted on legislative proposals. This would give more weight to the views of smaller firms and help produce more business-friendly outcomes;
- a favourable framework for SMEs to attain their optimal scope, in order to enhance their competitiveness in the relevant market.

February 2002

July 1998 *File:*
please include PM's comments
on final page, return. →

From: Roger Liddle
Date: 15 February 2002

PRIME MINISTER

cc: Stephen Wall
Jeremy Heywood
Jonathan Powell
Martin Donnelly
Andrew Adonis
Geoffrey Norris
Derek Scott
Francis Campbell

BARCELONA: FRENCH VIEWS

We had senior Matignon officials in Downing Street for 5 hours today. The good news is **Jospin's willingness to make some move on energy liberalisation**. The bad news is that to make this possible for Jospin, a **'balanced package'** is essential. Liberalisation should be balanced by regulation in the following areas in order of priority:

- a political commitment to a **Framework Directive on "services of general economic interest"**;
- **stronger economic coordination** in the Euro Zone following this week's debacle over the Stability and Growth Pact;
- a fresh impetus to **tax harmonisation**;
- acknowledgement that in the Lisbon process, the **social dimension is of equal weight** to the economic one.

The French stressed to us Jospin's wish for Barcelona not to be a failure. **Our strong impression is that Jospin is in the mood for compromise and would not therefore expect to get all of his wish list.** He wants to stress his credentials as a cautious moderniser (leaving the Communists to pick up the traditional working class vote in the first round). But any attempt by us to bounce Jospin into full energy liberalisation at Barcelona would be met with determined defence of French national interests. Jospin would simply have no alternative in the middle of his Presidential campaign.

On **energy** the French will contemplate a target date for market opening in the industrial and commercial sectors. Jospin could support a costs benefit study of the benefits of full market opening as long as there was no presumption that this would be the result. The Barcelona Conclusions could set dates for completion of negotiations on the gas and electricity Directives as long as they included strong language on appropriate regulatory safeguards (a lot of which we could endorse). **We should be able to reach agreement here.** But their willingness to be bold politically (for them) will depend on the progress made on Jospin's own priorities.

The French present their proposal for a **Framework Directive** on services of economic interest as a political gesture, doing **no more than putting in a legal instrument case law that the European Court has already established.** The purpose would be guarantee the right of Member States to subsidise public service obligations in a liberalised environment. A block exemption from the State aid rules would be insufficient for Jospin's political needs.

In response, we struck a balance between recognising the legitimacy of their concerns and expressing doubts about whether a Framework Directive was the right way forward.

- Could it introduce legal uncertainty into the Single Market?
- Would it be used to obstruct competition and market opening?
- It would also be difficult to combine in a single directive a set of rules that would match the differing structures and funding regimes of public services in Member States.

A better course might be agreement on a **Charter of Public Services**, rather like the Charter for Small Firms agreed at Lisbon - but even that, we had not agreed with our Ministers. But we have sown the seed and Martin Donnelly has since established that the Spaniards, wearing their Presidency hat, are keen to explore this idea. We will need to decide quickly whether to pursue it with the French.

Clearly this is a key issue for Barcelona. **The issue will almost certainly be raised by Jospin when you meet him next weekend in Stockholm.** ✓

On **economic coordination**, the French are looking for two specific steps:

- **peer review of major tax and spending changes** before they are implemented nationally. So, for example, the French would have had to subject their petrol tax policy to consideration by ECOFIN before they went ahead with it - similarly, the Germans with their big tax reform;

- **formal dialogue between the Euro Zone Finance Ministers and the ECB** about the appropriate fiscal stance of the Euro Zone, given the impact this inevitably has on ECB interest rate policy.

On **tax harmonisation**, the French are hoping for :

- renewed impetus behind implementation of the **1997 tax package** especially in tackling harmful tax competition;
- an invitation to ECOFIN to follow up on the Commission's recent report on **corporate taxation** in which Bolkestein recommended work on harmonisation of tax bases while rejecting harmonisation of tax rates;
- an examination of the case for **some measure of income tax harmonisation** because of the increasing tendency for nationals to work abroad in search of lower tax rates within the Union. We were extremely negative about that!

On **social policy**, the French had no horrors to offer and said nothing particularly new. They stressed promotion of student exchanges, European history teaching and access to cross border broadband links between schools.

On the rest of the Barcelona agenda, the French sounded reasonably positive. It was interesting that in our earlier discussion of the state of the European economy, **the French described Germany's difficulties as structural because of failure to reform German labour markets.** Their explanation for France's

success in job creation in recent years rests heavily on the steps taken to reduce the burden on employers of creating low paid jobs.

Your meeting with Jospin in Stockholm will clearly be important. The French want to work with us and the Spanish to produce a compromise for Barcelona that will not send French political sparks flying. This might prove possible - both on the regulatory principles for energy liberalisation and a Charter for Public Services. We need to work out what compromise would be acceptable to you.


ROGER LIDDLE

We cannot agree to
tax harmonisation - except
some on corporate tax rates
for efficiency reasons - or to
near review of economic policy

For approval

PRIME MINISTER

From: Stephen Wall
Date: 13 February 2002

cc: Jonathan Powell
Alastair Campbell
Sally Morgan
Jeremy Heywood
Roger Liddle
Michael Tatham
Danny Pruce
Sir Richard Wilson
Martin Donnelly (CO)

**BARCELONA: JOINT LETTER WITH WIM KOK TO AZNAR
ON RESEARCH AND DEVELOPMENT**

**Draft letter and paper for you to send jointly with Wim Kok to Aznar
/ attached for your approval and signature.**

We have been working closely with the Dutch on Barcelona preparations. In particular, HM Treasury and the Dutch Finance Ministry we have collaborated to produce a study for ECOFIN on barriers to innovation in Europe.

We have produced a joint paper with the Dutch on research and innovation for you and Kok to send jointly to Aznar as a contribution to Barcelona Conclusions. It makes proposals, based on the findings of the ECOFIN study, to boost levels of innovation in Europe. The paper has been shown to Aznar's office in draft. They are very pleased with it.

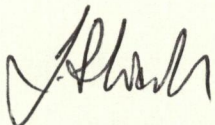
The paper calls for Barcelona to mandate the Commission to:

- produce by Spring 2003 an Action Plan to create a fully integrated European Research and Innovation Area (ERIA). ERIA's main tasks would be to improve the use of Intellectual Property Rights across Europe, develop EU Research Framework Programmes in ways that help businesses and increase networking between businesses and the science base;
- provide a detailed reports on the scope and incentives for innovation in the EU service sector and the growing importance of intangible assets.

Media handling

We plan to issue the text on the No 10 website once it has issued to EU Heads and brief in lobby. No 10 press will try to interest the FT.

If you are content, please could you sign the letter.



STEPHEN WALL

file (matrix)

From: Stephen Wall
Date: 13 February 2002

PRIME MINISTER

cc: Jonathan Powell
Alastair Campbell
Sally Morgan
Jeremy Heywood
Roger Liddle
Michael Tatham
Danny Pruce
Sir Richard Wilson
Martin Donnelly (CO)

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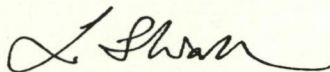
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STEPHEN WALL

His Excellency Mr José Maria Aznar
Prime Minister of Spain

The Hague, February 2002

Dear José Maria,

Our governments stand four square behind yours in our determination to make the Barcelona European Council a success. We remain firmly committed to meeting the Lisbon objective and view Barcelona as an important opportunity to accelerate progress.

The enclosed paper - "Overcoming the European Paradox" - contains new and practical ideas for tackling Europe's failure to exploit fully its excellent and well-funded scientific research base. It seeks ways of increasing innovation and the commercialisation of scientific knowledge. We hope it will lead to Barcelona agreeing to take appropriate action at both Community and Member State level.

Firstly, we want the European Council to invite the Commission to deliver, in Spring 2003, an Action Plan to create a fully integrated European Research *and Innovation* Area (ERIA). This would build upon the present European Research Area and go beyond the Commission's current proposals. Its job would be to bring together those who use and exploit knowledge with those who finance it and generate it. With stable macroeconomic conditions and modernised capital, product and labour markets, ERIA could stimulate business investment in R&D and unlock the EU's considerable innovation potential. This would do much to help Europe realise its ambition to become the most innovative economy in the world.

ERIA's main tasks would be to:

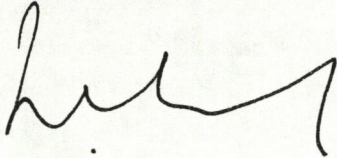
- Improve the use of Intellectual Property Rights across Europe
- Develop EU Research Framework Programmes in ways that help businesses
- Increase networking between businesses and the science base

At the same time, we invite the Commission to provide a detailed report on:

- The scope and incentives for innovation in the EU service sector
- The growing importance of intangible assets

We are copying this letter and its annex to our other colleagues in the European Council and to the President of the European Commission.

Yours sincerely,

A handwritten signature in black ink, appearing to be 'Wim Kok', written in a cursive style.

Wim Kok

Tony Blair

OVERCOMING THE EUROPEAN PARADOX

1. In March 2000 the Lisbon European Council agreed a new strategic goal for the Union to become the most competitive and dynamic knowledge-intensive economy in the world by 2010.
2. To meet the Lisbon objective, it is imperative that we encourage innovation and the commercialisation of scientific knowledge. We need to ask ourselves why the EU has been falling behind other leading economies: in the US, businesses invest almost twice as much in research and development (R&D) and patent their ideas far more.
3. A focus on innovation, as well as economic reform more generally, is especially important given weaknesses exposed by the current downturn. A key objective at the Barcelona European Council in March must therefore be to promote reforms which will ensure that Europe's return to strong growth is accompanied by the success of innovative, knowledge-based companies – the only sure way to boost employment and productivity. And we should not forget that innovation and the commercialisation of scientific knowledge would also deliver wider social (eg healthcare) and environmental (eg cleaner technologies) benefits.
4. Unfortunately the EU is failing to exploit fully its strong science and knowledge bases. This is the so-called “**European paradox**”. Europe's scientific research base, and the graduates it produces, are world class – this is helped by high levels of public investment in R&D. But we must ask why this achievement is not matched by business investment in R&D or high levels of patenting, as is often the case in the US. The result of this failure is to leave the share of economic growth from innovative products in most member states lower than in other major economies. It is clear that action is required to overcome this European Paradox.
5. The EU should state explicitly that its goal is to become the most innovative economy in the world by 2010. This demands progress on three main fronts: increased private investment in R&D, higher levels of patenting and improved business innovation performance. Input targets alone fail to capture fully the importance of these three areas and risk overlooking the European paradox. Therefore, in order to achieve progress in these three fronts, we propose a number of actions in this paper.

6. First and foremost we must establish appropriate economic **framework conditions**. A stable macroeconomic framework is a precondition. And an underlying priority must be to step up our efforts to reform the EU's capital, product and labour markets. More specifically: high levels of dynamic competition are needed to allow smaller firms to grow quickly and challenge incumbents. Effective capital markets are essential to channel investment to innovative, high growth sectors – it is therefore crucial that the Prospectus Directive is implemented in a way that does not raise the cost of capital for small businesses. Finally, a strong supply of skilled labour is needed to undertake research and to diffuse its results.

ERIA

7. The Commission is proposing to present an integrated strategy for Community education and research policies (European Area of Knowledge). We fully support the proposal to improve the links between education and research, and would stress here the particular importance of innovation. The EU needs to focus above all on ensuring that knowledge is able to flow unimpeded throughout a coherent EU-wide innovation system. Those who *use* and *exploit* knowledge need to be brought together with those who *finance* it, and those who *generate* it.
8. Therefore, we propose that the EU develops a fully integrated **European Research and Innovation Area (ERIA)**, that builds upon the present European Research Area and moves beyond the recent proposals of the Commission.
9. Through the ERIA, Member States must ensure that knowledge transfer mechanisms are adequately supported, that universities and companies cooperate and collaborate fully, and that intellectual property regimes are fully effective. It is not enough for Member States to rely on a strong, publicly funded research base: the stimulation of business investment in R&D and high levels of technology diffusion is needed to unlock the EU's innovation potential.
10. A recent ECOFIN study, in which both the Netherlands and the UK played a key role, underlines perfectly our views. We propose that at the *practical* level, the focus of the ERIA should be on **structural and institutional reforms**. The R&D State Aid rules need to be modernised to suit the complex and interactive processes which underpin innovation in knowledge-based economies. Intellectual property regimes need to be designed with innovators in mind. This means overcoming the inflexibility which has characterised discussions over the Community Patent – and agreeing on a solution which helps innovation and that businesses will use. Innovators in Europe need to be in a position, as those in the US more often are, to use intellectual property rights as a means to raise finance.

11. And universities and public research institutes must actively promote the commercialisation of their research and knowledge, ensuring with governments that there are sufficient incentives for all actors to engage in the innovation process. It is of utmost importance to maintain a high level of public R&D investment. Furthermore, co-operation with companies as well as commercialisation should take into account the specific mission of universities and applied research organisations..
12. At a deeper *structural* level, the ERIA needs to be developed and fostered by the EU. The multi-annual EU Research Framework Programmes are best placed to act as facilitators and catalysts for knowledge flows and cooperation across the EU. The new EU research Framework Programmes should be fully exploited to focus less on specific research projects and more on networking between industry and academia and mobility of researchers, public/private partnerships in R&D programs, and on the way knowledge is transmitted to the companies and organisations that need it most.
13. Finally, the EU needs to grapple with two important issues. Firstly, the **service sector** is continuing to expand and its capacity for innovation will be ever more important for EU competitiveness and job creation. Countries which already have a large service sector will need to move even more swiftly. We must therefore look in more detail at the different innovation needs of service industries.
14. Secondly, **intangibles** – intellectual assets – are growing in importance. Successful companies now adopt a variety of techniques to protect their knowledge. The appropriate form of Intellectual Property protection for companies may not always be patents. For example, reliance on design rights, trade marks or copyright may be better options in some cases. Knowledge-intensive services need to be especially resourceful here. Member States and the EU will need to think about what the effect of this will be both on the flow of knowledge throughout Europe and on competition.
15. **Therefore, to become the most innovative economy in the world, we invite the European Council to invite the Commission to deliver, in Spring 2003:**
 - **Firstly, an Action Plan to create an integrated European Research and Innovation Area, focusing on key structural and institutional reforms:**
 - **Intellectual Property Rights:** instances of best practice need to be pooled and recommendations made on the variety of protection at both national and Community levels.

- **New EU Research Framework Programmes:** proposals are needed which will move the focus away from specific research projects and towards networking between industry and academia, the mobility of researchers, public/private investments in R&D programs and on the way knowledge is transmitted to the companies and organisations that need it most.
 - **Increase networking between Industry and Science:** Universities and public research institutes must actively promote the commercialisation of their research and knowledge, ensuring with governments that there are sufficient incentives for all actors to engage in the innovation process. It is herewith of utmost importance to maintain a high level of public R&D investment. Furthermore, co-operation with companies as well as commercialisation should not have an impact on the mission of universities and applied research organisations.
- **Secondly, a detailed report outlining the EU's current and proposed response to two important questions:**
- The scope and incentives for innovation in the **service sector**
 - The growing importance of **intangibles**
16. The EU needs to take this opportunity to make the Lisbon objective a reality. Alongside broader economic reform, raising the EU's innovation performance will be an essential part of a more dynamic and competitive Europe.



file

10 DOWNING STREET
LONDON SW1A 2AA
020 7930 4433

12 February 2002

Dear Ivan,

**CABINET OFFICE MEETING ON BARCELONA:
13 FEBRUARY**

We are meeting at 11:00 on Wednesday 13 February in 70 Whitehall to take
/ stock of progress on our Barcelona preparations. I attach an outline agenda.

With the Council a month away, I should like to use the meeting to take stock of Spanish plans and check progress on the potential outcomes for the Council, and to assess what further steps we need to take to meet our objectives. I should also like to discuss our presentation strategy. Finally, we should consider what lobbying activity we should undertake over the next few weeks. We should conclude by 12:30.

I am copying this letter and attachment to Nigel Sheinwald (UKRep), Kim Darroch (FCO), Jeremy Heywood (No 10), Roger Liddle (No 10), Geoff Norris (No 10), Derek Scott (No 10), Ivan Rogers (HMT), Clive Tucker (DWP/DfES), Hugh Savill (DTI), John Stevens (DTLR), Jo Durning (OST), Robert Lawson (DEFRA), Phil Wynn Owen (RIU), Clare Chaubert (SBS) and Edward Oakden (BE Madrid).

Yours ever,

J S WALL

Ivan Rogers
HM Treasury

Cabinet Office meeting, 11:00am, 13 February 2002

Preparations for Barcelona

Agenda

- 1. Presidency and Commission plans**
- 2. Progress against priorities, likely deliverables**
 - a) Aznar's five priorities
 - energy liberalisation
 - networks
 - financial services
 - labour markets
 - education/training
 - b) Other items, including trade and sustainable development/WSSD
- 3. Presentation**
 - a) key Councils/announcements in the run-up to Barcelona
 - b) core messages
 - b) Economic Reform White Paper
- 4. Lobbying and bilateral activity**
 - a) key member states
 - b) Commission and EP
 - c) accession states

**Cabinet Office
February 2002**

RESTRICTED
BARCELONA PREPARATION: AZNAR, PRODI, HEWITT AND KELLY
From: MADRID

TO IMMEDIATE FCO
TELNO 47
OF 080735Z FEBRUARY 02
INFO IMMEDIATE CABINET OFFICE, DFE, DTI, DWP, EU POSTS, HMT

DTI FOR PS/SECRETARY OF STATE, SAVILL, WILSON
HMT FOR PS/ECONOMIC SECRETARY, ROGERS, PETERS, LAWRENCE
CABINET OFFICE FOR WALL, DONNELLY, SWEENEY
Summary

1. In separate public speeches in Madrid, Aznar and Prodi stress importance of substantial progress on economic reform at Barcelona. Both say national elections cannot be an excuse for failing to act. Aznar criticises European socialist majorities for impeding Lisbon. Similarly strong calls for liberalisation and results at Barcelona by Patricia Hewitt and Ruth Kelly.

Detail

2. Earlier this month, Aznar agreed to give the opening speech at this week's Wilton Park Conference in Madrid on Economic Reform, which was co-hosted (if not co-organised) by a PP-affiliated think tank. The Secretary of State for Trade and Industry and the Economic Secretary also attended and spoke. Separately Prodi, in Madrid for the Gymnich, gave a speech about the priorities for Barcelona.

3. Aznar set out quietly but clearly why Barcelona must give an important impulse towards the Lisbon target. Many had criticised the lack of progress hitherto. But the target remained feasible, especially now the EU had the Euro at its disposal. Through the 1990's the US had grown over 3pc every year save one; Europe had grown under 3pc every year save one. This was not a conjunctural but a structural weakness. Before its introduction, Spain's economy had risen and fallen higher and deeper than the EU average. The pursuit of Lisbon principles in Spain had shown it was possible to combine over 3pc growth with budgetary stability and rising employment.

4. Policies that prevented this kind of stable framework were irresponsible and led to the dictatorship of the short term, which in turn produced deficit, unemployment and economic inequality. Europe had only gone part of the way towards the Lisbon objective of full employment by 2010. But the main brake on liberalisation and the Lisbon strategy - with all clarity - was European socialist majorities.

5. The Commission's Synthesis Report was an ambitious but realistic diagnosis, and should be acceptable to all. Spain's five Barcelona priorities were well known:

- Full employment was the raison d'etre of all five. The obstacles that disincentivised job seekers had to be eliminated. That meant addressing social protection, tax, and fiscal pressure on the low paid; and rewarding active labour market policies, training and worker mobility. There was no greater enemy of the unemployed than labour market rigidity.

- Education and training: modern society's challenge was to create a system of quality education. That future would be what sorted the economic sheep from the goats.

Pay to see
→ Jacques Powell
copy Jeremy Hayward

TB should see. Aznar is getting quite political about Barcelona. "Socialist majorities" will be to blame if Barcelona doesn't deliver.

Doubtless his helpful rhetoric would be rejected (perhaps) on by Chirac and Ströberg (actually).

'Upping the ante' is good news, I think

RJ
✓
Gow

- Networks: connecting markets was the best way of creating a true single economic space. That meant better infrastructure, more interconnection and a regulatory framework that rewarded openness, competition and quality service. The Single European Sky and second railway package were two examples.

- Energy Markets: there was a wide consensus on the principles; "I am confident that at Barcelona we can reach a consensus, an agreement, on very concrete and ambitious objectives to implement this. The agreements on energy policy should be directed, in my opinion, as much at opening the gas and electricity sectors as at improving the infrastructures and their interconnection". Asked later how happy he was going to be on this point after Barcelona, Aznar remained delphic: "I suspect not as pleased as I'd like to be, but not as depressed as you'd like me to be".

- Financial services: this week's EP approval of Lamfalussy was crucial. It was one Barcelona objective already achieved, so work could start on meeting the 2003 and 2005 deadlines.

6. The EU also needed to be open externally. Doha was an important advance and should enable the start of a new WTO Round. But some recent interventions had been extraordinary in appearing to argue that the higher the debt, and the less the investment and trade, the better for developing and poor countries. The opposite was the truth. The EU had also made important commitments on sustainable development and Kyoto (comment: this section received this one sentence).

7. Prodi's speech was on similar lines, and took Aznar's five priorities as its point of departure;

- the Euro was a crucial springboard.

- But economic policy needed to be better coordinated, if the prize of greater economic stability was to be promoted. The Commission would shortly propose a Code of Conduct (comment: a member of Prodi's Cabinet said privately at the Wilton Park Conference that this would be based on last year's Commission paper on economic policy coordination. Concrete proposals would follow in the next few weeks).

- Competitiveness and social protection went hand in hand. The EU had to raise its productivity and investment in knowledge. R&D spending was still well below 3pc of GDP. The EU needed to invest in education, mobility and the new technologies. Biotech, the human genome and clean technology needed to come together.

- Employment must also be addressed. Again education and mobility were key. Female and older workers needed particular help through the tax structure and other aids.

- The internal market had to be rid of remaining barriers, especially in services and above all financial services. The EP vote on Lamfalussy was a great step forward.

- More generally, the MS had to fulfil their commitments. Lisbon had agreed to a series of principles. Deadlines were essential, otherwise nothing happened. National elections could not be an excuse: after enlargement, there could be a national election almost every month.

8. In a public speech at the Wilton Park Conference, Patricia Hewitt set out strongly the case for economic reform: the Lisbon agenda was for the bad times as well as the good. Flexible, dynamic economies were better placed to withstand difficulties.

Economic will should not be defeated by a political won't. For her part, Ruth Kelly majored on the criticality of the liberalisation of financial services was so critical.

Comment

9. The cumulative effect of these speeches in the Spanish media will be considerable. Aznar received considerable coverage on TV and in today's press (Mrs Hewitt's last night came too late for today's editions).

10. Aznar's line, and content, was consistent with the series of public speeches he has now given on this theme since last summer. What was significant was;

- the timing, and clarity, of his commitment, now only five weeks from Lisbon;

- the political attack on socialist economic policies for frustrating Lisbon. We cannot remember him having done so before: again pretty brave this close to Barcelona.

11. The UK profile, and the closeness of our analysis with the Spanish, has also been reaffirmed with the successive interventions of Patricia Hewitt, Ruth Kelly and separately, John Monks.

TORRY

Sent by MADRID on 08-02-2002 07:35
Received by No10 on 08-02-2002 08:28

02072702326

File



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Michael.Arthur@fco.gov.uk
Economic Director

7 February 2002

Martin Donnelly Esq
Cabinet Office

MH
LL
SW
JSH
RL
PC
JS

Da Martin

BARCELONA: LISBON PROCESS AND SUSTAINABLE DEVELOPMENT

1. I have seen Robert Lowson's letters of 5 and 29 January, and yours of 30 January. From my perch here, I see both elements of these policies. The following reflects my views, not yet put to our Ministers.
2. Barcelona is a crucial European Council. The Lisbon process is an important new strand in Community work, with a strong UK signature. The economic reform agenda has moved on well in the last two years, but lost some visibility at Stockholm. Barcelona must both move the agenda on further, and get better Europe-wide impact for the economic reform message. That has to be the dominant priority for HMG at Barcelona, and in the ensuing series of Spring Councils. Our Economic Reform White Paper shows how high up HMG's agenda this is, this year.
3. Sustainable development is another key theme for HMG, particularly this year as WSSD sets the scene for the medium term future; and given the Prime Minister's lead. Gothenburg required Barcelona to look at sustainable development too, including the external element. The Foreign Secretary is keen that we should work up an international environment strategy this spring, not least in the run-up to WSSD. Part of this will need to be how we support the move from an unconnected set of environmental desiderata to getting "sustainability" mainstreamed in all relevant international policy making.
4. So we have two parallel policy objectives. The two main risks in running them both are that:
 - (a) Those (eg France) who don't like the economic reform agenda use sustainable development as a diversion;
 - (b) Even without that, the SDS element weakens the public impact message on economic reform.

02072702326



5. In my book, and without prejudice to actions after Barcelona, the SDS strand of HMG's policy is clearly subordinate to economic reform for the Barcelona European Council.

6. But there are at least two bridges between our two policy objectives. The most obvious – and fresh in the Prime Minister's mind following the innovative PIU report – is the energy sector. In addition to market liberalisation and energy networks (insofar as that is a topic for Barcelona) energy efficiency and energy sustainability should be important themes. Environmental impact will also be relevant to the Barcelona discussion on networks, particularly transport. But, frankly, we would overstrain the rope if we tried to make all our SDS objectives fit into the Aznar 5 priorities: they won't.

7. So one way round this may be to go for a short declaration at Barcelona, perhaps an annex to the communiqué, which would set out some core priorities on SDS, particularly focussed on how we can mainstream sustainability in policy making (eg transport, agriculture, economy, development, R&D) ie both internal and external. These priorities could be written in sufficiently broad a way to be the launch platform for any subsequent EU action on better policy coherence, and to demonstrate political commitment to the EU's approach to WSSD. Some of those basic tenets are emerging from recent MISC 18 discussions. But we should stop any such declaration becoming a Christmas tree for specific environment proposals.

8. Suitably crafted, such a text could fulfil our Gothenburg remit; show an EU leadership pre-WSSD; and still not detract from the core message of Barcelona, which is economic reform.

9. Once Whitehall has an agreed approach, we should move quickly to square our allies on both Lisbon and SDS. That means sharing with the Spanish, Italians and Commission our view that this is the best way to manage the EU SDS at Barcelona without it detracting from the economic reform headlines. And explaining to the Dutch/Nordics (who are already working on SDS for Barcelona) that this keeps our common Sustainable Development agenda on track for Johannesburg. We must also give background briefing to the media explaining how we are marrying our two objectives.

Tim en

Michael

Michael Arthur

cc: Peter Unwin, Cabinet Office
Nicola Brewer, FCO
Kim Darroch, FCO
Ivan Rogers, HMT

02072702326



Dr Alistair Keddie, DTI
Andrew Bennett, DfID
Liz Lloyd, No 10
Martin Hurst, No 10
Shan Morgan, UKRep
Dinah Nichols, DEFRA
Andy Lebrecht, DEFRA
Nicci Collins, DEFRA
Peter Madden, DEFRA

In DCO Inbox

File

From: Stephen Wall
Date: 7 February 2002

PHILIP BUDDEN

cc: Jonathan Powell
Jeremy Heywood
Roger Liddle
Michael Tatham
Martin Donnelly (CO)
Michael Roberts (CO)
Sir Paul Lever (Berlin)
Sir Nigel Sheinwald
(UKRep Brussels)
Kim Darroch (FCO)
Paul Heardman
(c/o Berlin)

ANGLO-GERMAN PAPER ON COUNCIL REFORM

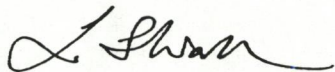
Silberberg rang this morning to say that, following discussions with Chancellor Schröder, they would like to propose an Anglo-German paper for Barcelona on Council reform. The first draft would be produced by Paul Heardman (now on secondment in the Chancellery). The main elements would be:

- (i) Strengthen the European Council as the leading institution, designed to give strategic direction and concentrate on fundamental issues.
- (ii) Cut down the agenda of European Councils to core issues and reduce the number of reports.
- (iii) Restore confidentiality.
- (iv) Avoid too many single issue decisions at the European Council but involve the European Council more in setting deadlines for others.
- (v) Reformed conclusions; limited to the subjects actually discussed.
- (vi) Consensus in the European Council only where the Treaty so provides ie any decisions referred up to the European Council under Treaty bases subject to QMV should be decided by QMV.

- (vii) Reduce the number of the Council formations.
- (viii) Public meetings of the Council when it meets in legislative mode.
- (ix) Improvement of preparation (code for some of the radical change we have in mind but recognising that that cannot be broached just yet).

Silberberg said foreign ministries should not be informed for the time being, so everyone please protect.

Needless to say, I welcomed the proposal and Paul will now be set to work.



STEPHEN WALL

RESTRICTED - POLICY

File
Copy in 00
Inbox



10 DOWNING STREET
LONDON SW1A 2AA
020 7930 4433

5 February 2002

Dear Mark,

BARCELONA EUROPEAN COUNCIL

The Prime Minister met Gordon Brown, Jack Straw, Patricia Hewitt, Alastair Darling, Estelle Morris, Andrew Smith and Peter Hain yesterday to discuss preparations for the Barcelona European Council.

The Prime Minister said that delivery on economic reform was important for the credibility of the EU. The Spanish had set out five objectives: energy liberalisation, networks, financial services, labour markets and education and innovation. We needed a clear sense of where we were on each of these and where we needed to push harder. We should go for an outcome at Barcelona that was both credible and achievable, without lowering our expectations. It would not be easy but the Spanish were good allies. The Commission had produced a good Synthesis Report.

Energy

We noted that the outcome on *energy liberalisation* was still unclear. There was no firm evidence yet that Jospin would move on a date for liberalisation of the industrial sector. The Germans had told the Spanish that they did not want a repeat of Stockholm. Patricia Hewitt said that we should aim to make sure that we got all of the technical language we needed on issues like interconnection and security of supply. This is itself would be an achievement: a date for liberalisation would be the icing on the cake, but would depend on how the Jospin/Chirac politics played out at Barcelona. This was also the view of EDF's UK chairman.

Gordon Brown underlined the tax angle. The Spanish had agreed with the Germans that they would drop their objection to the tax harmonisation elements of the Energy Products Directive in return for a date for business liberalisation of energy. But we could not allow the measure to harmonise taxation for domestic

RESTRICTED - POLICY

JW

fuel. The Government had a clear manifesto commitment in this area. The principle of harmonisation for industrial fuel use was acceptable. We were talking to the Germans – who wanted exemptions for elements of industrial use – about getting an exemption for domestic fuel, and we should get it in time.

In any case, what was really needed was energy liberalisation for domestic customers, and this was where the real economic benefit lay. Movement on this was unlikely in the short term. Our approach should be to welcome advances towards industrial liberalisation but to continue to press for full liberalisation, including of the domestic market.

Jack Straw said that Jospin was in a tricky political situation. Chevenement was doing better than expected in polls, which gave him less room for manoeuvre. We should not be too optimistic about co-operation from Jospin at Barcelona. Generally speaking we should seek to control expectations before the Council and major on what had been achieved since the start of the Lisbon process. Patricia Hewitt noted that the Germans were also looking for a deal on coal subsidies. The Prime Minister concluded that the Chancellor and the Secretary of State for Trade and Industry should continue with their concerted lobbying of the Germans on energy liberalisation and taxation.

Network industries

I described the outlook on *networks*. The Synthesis Report proposed a target of 2005 for “widespread availability of broadband” in the EU. The Spanish also hoped for some progress on improving Europe’s energy and transport infrastructures. Patricia Hewitt noted that we could live with the broadband target but the question was whether our companies would be able to meet a 2005 deadline. On networks generally, Roger Liddle noted that it was important to get the right principles underpinning regulation. On transport infrastructure, Gordon Brown noted that the EU proposed to raise the threshold for Commission investment in TENs projects to 20% from 10%. We should watch out for longer term budgetary pressures flowing from this. We should not allow ourselves to be pushed into agreement on Galileo. We needed to proceed with care: this was turning into a huge public sector investment after the fashion of Concorde.

Patricia Hewitt noted that if we got progress on elements of energy infrastructure, for example commitments to improve gas interconnection, then we could point to this as progress on the efficiency of energy markets. On Galileo we should avoid being isolated or getting into a heated row at Barcelona. If

Galileo did go ahead with the UK on the sidelines, our companies risked missing out on major research and development opportunities. Expertise would flow to companies on the Continent. I said that the decision on funding was scheduled to be taken by QMV at the Transport Council after Barcelona. ECOFIN would discuss before Barcelona. We had strong support from the German and Dutch finance ministries at the moment. The Prime Minister might raise with Schröder when they spoke later this month. Andrew Smith noted that the cost to the UK taxpayer could be as much as £300 million.

Financial services

On *financial services*, I said that Lamfalussy should be agreed this week subject to one or two points. This would facilitate agreement in turn on a number of detailed measures. We had a report from the High Level Group on Company Law which would inform a new takeovers proposal, due to emerge formally from the Commission in April. The Report was broadly welcome, but we needed to do further work on the potential implications for golden shares. Gordon Brown said that we could signal progress on the financial services agenda, but that some of the detail was more problematic. We needed to look at the issue of golden shares very carefully, including the effect on PPPs. We were also under pressure from the City to improve the Prospectus Directive. Alastair Darling noted that drive for common standards for pensions seemed to be waning under the Spanish. But we were meeting resistance to our efforts to open up the supplementary pensions market. We would need to make sure that in pushing for portability we did not open the door to unhelpful extra EU regulation.

Gordon Brown said that a Cecchini-style report would issue in the next few days showing the benefits for Europe's economy of liberalising the financial services market. Our problem was that the Spanish were not that interested in getting the detail of financial services reform right. We needed to make sure that we did not end up with timetables at Barcelona that led to the adoption of suboptimal measures which would actually damage the City of London and reduce its competitive advantage. I said that the Prospectus Directive had been getting progressively better with each draft. Meanwhile the CBI had complained last week that the cost of the E-Commerce directive implementation to business would come to £11 billion. Patricia Hewitt said that our estimate of the costs was far less. The directive had been far more complicated to implement than we had envisaged. The Prime Minister said it was vital that measures agreed were genuinely market-opening and did not close or distort markets.

Employment and labour markets

Alastair Darling was optimistic that the Spanish Presidency would place *employment and labour market policy* firmly back on the Lisbon track. There was a clear majority in the EU in favour of moving away from the Franco-Belgian regulatory agenda. But the influence of social partners was disproportionate in other Member States, which meant real political will was necessary to steer policy in this direction. Nevertheless, we should have a good story to tell at Barcelona. We needed to watch two points: the Commission's proposal to agree an EU level target to halve child poverty within 10 years; and that Commission ambitions on exportability of social benefits did not cause problems for the UK. We had been successful so far in resisting the latter, with the help of the Danes.

The Prime Minister did not think the Council would agree such a poverty target. He asked what proposals for labour market regulation were in the pipeline. Patricia Hewitt said that there was a lot on the way. We had to implement the Article 13 directives and the Commission was proceeding with its proposal on agency workers. The Commission had also produced a paper on industrial restructuring for the social partners to consider. This could lead to a directive if the social partners could not agree. Although we were among a majority of Member States with a more progressive view of employment regulation, the Commission came from a the traditional "Franco-Belgian" angle. We needed to consider how we could get the Commission to respond to the change in the political climate. A related issue was the attitude we should take in the Convention on the Future of Europe to incorporation of the Charter of Rights into the Treaties. The Charter contained a number of "rights" which could act as a prospectus for the Commission to bring forward proposals. We had to take care given the scale of labour market regulation, both domestic and originating in the EU, that we were already signed up to.

Jack Straw noted that he planned a meeting on the Charter shortly. We needed to consider how to deal with the tendency of the UK courts to place a more literal interpretation on such documents than in other member states, e.g. in Germany where the Basic Law was in practice paramount. The Prime Minister said that rather than fight its inclusion, we should seek to alter the Charter or place legal constraints on it so that it could not have unintended effects. There was no political desire in the EU to "enhance" rights through the Charter. We should

start our preparatory work on this now. Jack Straw commented that to be effective such legal constraints would need to be in place in both EU and UK law.

The Prime Minister commented that we needed a strong political alliance to send a signal to the Commission that in effect there was a permanent blocking minority against excessive labour market regulation. The UK, Italy, Spain and two or three smaller member states should be engaged in this. We also needed to get the Mandelkern Report's recommendations implemented as quickly as possible. Alastair Darling added that we needed to get more individuals with a more modern view of social policy into positions of influence in the Commission.

Education and innovation

Estelle Morris said that the Prime Minister had written to the Spanish on using Barcelona to initiate deeper contact between school children in EU countries over the internet. This should begin with secondary schools, and would give a boost to the domestic agenda to increase foreign language learning. The Spanish had been receptive, as had the Commission. The Skills and Mobility Action Plan, comprising measures to enhance labour mobility in the EU, would be published on 13 February. It would tackle mutual recognition of qualifications. None of the proposals should present major difficulties for the UK.

The Prime Minister said that overall the test for Barcelona would be whether or not we were moving towards a deregulating, competitive EU. Looking at what might be delivered against each of Aznar's five priorities, getting the right outcome and message on labour markets and regulation was very important. There should be a desire among EU leaders not to see Lisbon fail. It was not in Schröder's interest to stand out against progress: he had told Aznar he would accept language on reforming labour markets. Chirac might even see advantage in pushing Jospin to the left and presenting himself as in the EU mainstream. We needed to be clear about what was achievable at the Council and build our message around that. It might be that labour markets and better regulation offered a more convincing central message than weak progress on energy liberalisation. If progress was modest we should not try to sell it as a great leap forward, but be frank about the progress Barcelona had made.

Gordon Brown set out four further areas where we could make progress. First, research and development, where the EU had a strong base and was moving forward, but could do more to co-ordinate research effort and knowledge

dissemination. Second, state aid, where we had made progress at the December Industry Council in moving the debate on to recognise market failure, and hoped the Spanish would take this forward at Barcelona. Third, reform of cross-border arrangements for professional services such as lawyers and architects. This should feature in the Conclusions. Finally, the UK's idea of a Cecchini-style report on the economic benefits of the EU-US trade relationship. The Spanish had expressed interest, and Zalm had offered to co-sponsor a UK paper. UNICE were also interested. We should aim to kick this off at Barcelona or Seville. I said that we needed to square Lamy to make the EU-US idea fly. The French would be instinctively against, and Lamy was worried that this work would distract the US from the WTO path.

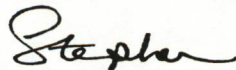
Gordon Brown said that these four strands of work would feature in the Economic Reform White Paper. This should be published towards the end of February. It would be circulated again to Departments in the next few days. The Prime Minister would be writing an introduction. It might say that the UK was leading this agenda in Europe, and that a lot had been achieved, but there was more to do. The proposals in the White Paper were a contribution to where the reform agenda should go next. The success of the Lisbon agenda was important for Europe's standing in the wider world.

The Prime Minister noted that getting the tone right would be very important. The single currency made economic reform even more necessary. Gordon Brown agreed, noting that economic reform should not be seen as a sixth test. The Prime Minister said that Aznar's leadership gave us our best chance of getting a good outcome on economic reform. We should meet again in three weeks to review the detailed outcome and consider how we should shape our presentation strategy. Patricia Hewitt added that for that meeting we needed a clearer appreciation of where other member states were coming from on the big issues. I ran briefly though some of the bilateral initiatives we had underway.

Gordon Brown mentioned the discussion on the Stability Pact scheduled for ECOFIN on 12 February. Solbes was likely to face a backlash over the threatened censure of the Germans. The Prime Minister commented that this was likely to be difficult. Gordon Brown said that last year the focus had been on the ECB's setting of interest rates; this year it was on deficits. This limited the ability to deliver reform and might affect the atmosphere at Barcelona. We and the French expected to line up with the Germans at ECOFIN.

I am copying this letter to the Private Secretaries to Jack Straw, Patricia Hewitt, Alastair Darling, Estelle Morris, Andrew Smith, Peter Hain and Sir Richard Wilson, and to Sir Nigel Sheinwald (UKRep).

Yours ever,

A handwritten signature in cursive script, appearing to read "Stephen".

J S WALL

Mark Bowman
HM Treasury

Melanie Johnson MP
Parliamentary Under Secretary of State
for Competition, Consumers and Markets

Paper-ec
200
concern



cc PD (COP)
PD (COP)

Lord Whitty
Department for Environment, Food and Rural Affairs
Nobel House
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February 2002

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Melanie.Johnson.MPST@dti.gsi.gov

Dear Larry,

TRANSPOSITION OF SINGLE MARKET DIRECTIVES: BARCELONA TARGET

I am writing to set out what we expect to achieve against this target following my meetings in recent weeks with you and other colleagues.

In our discussion, you said that DEFRA would fully transpose and notify 25 out of the 32 Directives for which you have lead responsibility by the Barcelona deadline. On the basis of my discussions with colleagues from the Departments and devolved administrations with most to do, and the work done by the other Departments and devolved administrations, we would expect to transpose and notify 52 of the 66 Directives due by the time of the Council. This would give us a transposition deficit of 0.9% against the target of 1.5%.

However, it is still a very close call and even minor slippage across Departments and devolved administrations would take us back below target level. It is vital, therefore, to make every effort to deliver these Directives and notify the Commission of their transposition by 1 March.

We continue to monitor progress closely. I am concerned that the latest reports to my officials suggest that there might now be serious problems with the transposition of Directives 1997/78, 1997/79, 2000/27 and possible problems with the transposition of Directives 1999/74 and 2000/37. I should be grateful if you could follow this up as a matter of urgency - working with the devolved administrations on 2000/27 in particular - to help ensure that they are transposed on time and keep me informed of progress. After discussion at EP Committee earlier this week, Jack Straw indicated that he has in mind to talk to Departments about delivery on this for Barcelona.

dti

Department of Trade and Industry

50 6/02



The Barcelona Scoreboard is of course in addition to the Internal Market Scoreboards published each May and November. We also need to be focusing on those Directives that are due for transposition before these therefore. My officials are sending yours the Commission listings of the Directives due to be transposed between Barcelona and May. As always, they stand ready to offer further advice and assistance where required.

There are signs that the Commission will propose a tightening of the target at Barcelona, probably to 1% by the time of the next Spring Council, and possibly with a 0% target for Directives for which transposition is overdue by more than a certain time. This may be discussed at the Internal Market, Consumer and Tourism Council that I shall attend on 1 March. Initial discussions at official level suggest that most Member States will be content to sign up for this and we would not, as a champion of the Single Market, wish to oppose it in our view. We shall write seeking colleagues' views when we have a clearer idea of handling at the Council.

I am writing in similar terms to other colleagues nominated to oversee transposition in Departments and devolved administrations. I am copying this letter to Patricia Hewitt, Jack Straw, Margaret Beckett, Rhodri Morgan, Denis Haughey, Sir Richard Wilson and Sir Stephen Wall at the Cabinet Office, and to Jeremy Heywood at No.10.

Best wishes,

MELANIE JOHNSON

dti

Department of Trade and Industry

Melanie Johnson MP
Parliamentary Under Secretary of State
for Competition, Consumers and Markets



4th February 2002

Hazel Blears
Department of Health
Richmond House
79 Whitehall
London SW1A 2NS

Department of
Trade and Industry

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London
SW1H 0ET

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e-mail
Melanie.Johnson.MPST@dti.gsi.gov.uk

Dear Hazel,

TRANSPOSITION OF SINGLE MARKET DIRECTIVES: BARCELONA TARGET

I am writing to set out what we expect to achieve against this target following my meetings in recent weeks with you and other colleagues.

In our discussion, you said that your Department and the Food Standards Agency would fully transpose and notify 7 out of the 9 Directives for which you have lead responsibility by the Barcelona deadline. On the basis of my discussions with colleagues from the Departments and devolved administrations with most to do, and the work done by the other Departments and devolved administrations, we would expect to transpose and notify 52 of the 66 Directives due by the time of the Council. This would give us a transposition deficit of 0.9% against the target of 1.5%.

However, it is still a very close call and even minor slippage across Departments and devolved administrations would take us back below target level. It is vital, therefore, to make every effort to deliver these Directives and notify the Commission of their transposition by 1 March.

dti

Department of Trade and Industry



We continue to monitor progress closely. I am concerned that the latest reports to my officials suggest that there might now be problems with the transposition of Directives 1999/41 and 2000/51, with Northern Ireland waiting for information from the Food Standards Agency to help complete its transposition. I note also that the expected transposition date of 2000/38 is very tight and gives no room for slippage. I should be grateful if you could follow this up as a matter of urgency - working with Denis Haughey in Northern Ireland - to help ensure that these are transposed on time. Please keep me informed of progress. After discussion at EP Committee earlier this week, Jack Straw indicated that he has in mind to talk to Departments about delivery on this for Barcelona.

The Commission has removed Directive 2000/70 from the Barcelona list on the basis of delays in the publication of an amending Directive and a Commission Decision (this was one of the 7 which you indicated could be transposed by the Barcelona deadline). We are still awaiting confirmation from the Commission that 2000/77 requires no transposition.

The Barcelona Scoreboard is of course in addition to the Internal Market Scoreboards published each May and November. We also need to be focusing on those Directives that are due for transposition before these therefore. My officials are sending yours the Commission listings of the Directives due to be transposed between Barcelona and May. As always, they stand ready to offer further advice and assistance where required.

There are signs that the Commission will propose a tightening of the target at Barcelona, probably to 1% by the time of the next Spring Council, and possibly with a 0% target for Directives for which transposition is overdue by more than a certain time. This may be discussed at the Internal Market, Consumer and Tourism Council that I shall attend on 1 March. Initial discussions at official level suggest that most Member States will be content to sign up for this and we would not, as a champion of the Single Market, wish to oppose it in our view. We shall write seeking colleagues' views when we have a clearer idea of handling at the Council.

dti

Department of Trade and Industry



I am writing in similar terms to other colleagues nominated to oversee transposition in Departments and devolved administrations. I am copying this letter to Patricia Hewitt, Jack Straw, Alan Milburn, Denis Haughey, Sir Richard Wilson and Sir Stephen Wall at the Cabinet Office, and to Jeremy Heywood at No.10.

Best wishes,

A handwritten signature in black ink, appearing to read 'Melanie Johnson', with a long, sweeping underline that extends to the right and then curves back down.

MELANIE JOHNSON

Melanie Johnson MP
Parliamentary Under Secretary of State
for Competition, Consumers and Markets



David Jamieson
Department for Transport, Local Government and the Regions
Eland House
Bressenden Place
London SW1E 5DU

4 February 2002

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e-mail
Melanie.Johnson.MPST@dti.gsi.gov.

Dear David,

TRANSPPOSITION OF SINGLE MARKET DIRECTIVES: BARCELONA TARGET

I am writing to set out what we expect to achieve against this target following my meetings in recent weeks with you and other colleagues.

In our discussion, you said that DTLR and the Health and Safety Executive would fully transpose and notify by the Barcelona deadline 10 out of the 12 Directives for which you have lead responsibility. On the basis of my discussions with colleagues from the Departments and devolved administrations with most to do, and the work done by the other Departments and devolved administrations, we would expect to transpose and notify 52 of the 66 Directives due by the time of the Council. This would give us a transposition deficit of 0.9% against the target of 1.5%.

However, it is still a very close call and even minor slippage across Departments and devolved administrations would take us back below target level. It is vital, therefore, to make every effort to deliver these Directives and notify the Commission of their transposition by 1 March.

We continue to monitor progress closely. I am concerned that the latest reports to my officials suggest that there might now be problems with the transposition of Directives 1996/48 and 2000/39. I understand Directive 2000/39 and also Directive 96/29 now only require transposition in Gibraltar. I should be grateful if you could follow these up as a matter of urgency - working with FCO on Gibraltar - to help ensure that they are transposed on time. Please keep me informed of progress. After discussion at EP Committee earlier this week, Jack Straw indicated that he has in mind to talk to Departments about delivery on this for Barcelona.

The Barcelona Scoreboard is of course in addition to the Internal Market Scoreboards published each May and November. We also need to be focusing on those Directives that are

dti

Department of Trade and Industry



due for transposition before these therefore. My officials are sending yours the Commission listings of the Directives due to be transposed between Barcelona and May. As always, they stand ready to offer further advice and assistance where required.

There are signs that the Commission will propose a tightening of the target at Barcelona, probably to 1% by the time of the next Spring Council, and possibly with a 0% target for Directives for which transposition is overdue by more than a certain time. This may be discussed at the Internal Market, Consumer and Tourism Council that I shall attend on 1 March. Initial discussions at official level suggest that most Member States will be content to sign up for this and we would not, as a champion of the Single Market, wish to oppose it in our view. We shall write seeking colleagues' views when we have a clearer idea of handling at the Council.

I am writing in similar terms to other colleagues nominated to oversee transposition in Departments and devolved administrations. I am copying this letter to Patricia Hewitt, Jack Straw, Stephen Byers, Sir Richard Wilson and Sir Stephen Wall at the Cabinet Office, and to Jeremy Heywood at No.10.

Best wishes,



MELANIE JOHNSON

Melanie Johnson MP
Parliamentary Under Secretary of State
for Competition, Consumers and Markets



Denis Haughey
Office of the First Minister and Deputy First Minister Northern Ireland
Parliament Buildings
Stormont
Belfast BT4 3XX

4 February 2002

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Dear Denis,

TRANSPOSITION OF SINGLE MARKET DIRECTIVES: BARCELONA TARGET

I am writing to set out what we expect to achieve against this target following my meetings in recent weeks with you and other colleagues

In our discussion, you said you expected to transpose and notify by the Barcelona deadline 22 out of the 27 Directives that are due for transposition in Northern Ireland. On the basis of my discussions with colleagues from the Departments and devolved administrations with most to do, and the work done by the other Departments and devolved administrations, we would expect to transpose and notify 52 of the 66 Directives due by the time of the Council. This would give us a transposition deficit of 0.9% against the target of 1.5%.

However, it is still a very close call and even minor slippage across Departments and devolved administrations would take us back below target level. It is vital, therefore, to make every effort to deliver these Directives and notify the Commission of their transposition by 1 March.

We continue to monitor progress closely. I am concerned that the latest reports to my officials suggest that there are now be problems with the transposition of Directives 2000/27, 1999/41 and 2000/51. These all require close liaison with Whitehall Departments (DEFRA and the Food Standards Agency). I should be grateful if you could follow this up as a matter of urgency, working with them, to help ensure that they are transposed on time. Please keep me informed of progress. After discussion at EP Committee earlier this week, Jack Straw indicated that he has in mind to talk to Departments about delivery on this for Barcelona.

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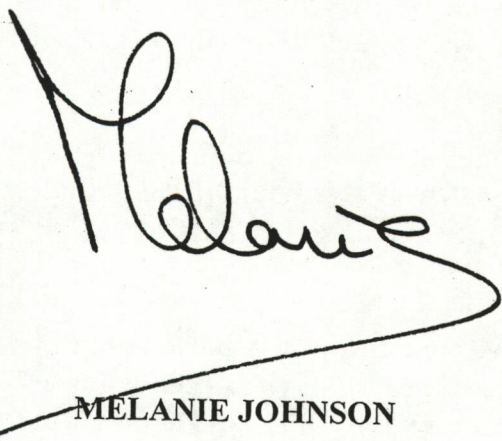


The Barcelona Scoreboard is of course in addition to the Internal Market Scoreboards published each May and November. We also need to be focusing on those Directives that are due for transposition before these therefore. My officials are sending yours the Commission listings of the Directives due to be transposed between Barcelona and May. As always, they stand ready to offer further advice and assistance where required.

There are signs that the Commission will propose a tightening of the target at Barcelona, probably to 1% by the time of the next Spring Council, and possibly with a 0% target for Directives for which transposition is overdue by more than a certain time. This may be discussed at the Internal Market, Consumer and Tourism Council that I shall attend on 1 March. Initial discussions at official level suggest that most Member States will be content to sign up for this and we would not, as a champion of the Single Market, wish to oppose it in our view. We shall write seeking colleagues' views when we have a clearer idea of handling at the Council.

I am writing in similar terms to other colleagues nominated to oversee transposition in Departments and devolved administrations. I am copying this letter to Patricia Hewitt, Jack Straw, David Trimble, Hazel Blears, Larry Whitty, Sir Richard Wilson and Sir Stephen Wall at the Cabinet Office, and to Jeremy Heywood at No.10.

Best wishes,



MELANIE JOHNSON

dti

Department of Trade and Industry

Melanie Johnson MP
Parliamentary Under Secretary of State
for Competition, Consumers and Markets



4 February 2002

Ruth Kelly
Economic Secretary
HM Treasury
Treasury Chambers
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Department of
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Dear Ruth,

TRANSPOSITION OF SINGLE MARKET DIRECTIVES: BARCELONA TARGET

You have taken on responsibility for ensuring timely transposition of Single Market Directives by your Department. I am writing to set out what we expect to achieve against the Barcelona transposition target following my recent discussions with colleagues in the Departments and devolved administrations with most to do, and work at official level.

On the basis of my discussions with colleagues, and the work done by the other Departments, including Treasury, and devolved administrations, we would expect to transpose and notify 52 of the 66 Directives due by the time of the Council. This would give us a transposition deficit of 0.9% against the target of 1.5%. However, it is still a very close call and even minor slippage across Departments and devolved administrations could quickly take us back below the target level.

I understand that one Directive on the Barcelona list for which you are responsible - 1998/78 - has been transposed and formally notified to the Commission.

The Barcelona Scoreboard is of course in addition to the Internal Market Scoreboards published each May and November. We also need to be focusing on those Directives that are due for transposition before these therefore. My officials are sending yours the Commission listings of the Directives due to be transposed between Barcelona and May. As always, they stand ready to offer further advice and assistance where required.

There are signs that the Commission will propose a tightening of the target at Barcelona, probably to 1% by the time of the next Spring Council, and possibly with a 0% target for Directives for which transposition is overdue by more than a certain time. This may be discussed at the Internal Market, Consumer and Tourism Council that I shall attend on 1 March. Initial discussions at official level suggest that most Member States will be

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Department of Trade and Industry



content to sign up for this and we would not, as a champion of the Single Market, wish to oppose it in our view. We shall write seeking colleagues' views when we have a clearer idea of handling at the Council.

I am writing in similar terms to other colleagues nominated to oversee transposition in Departments and devolved administrations. I am copying this letter to Patricia Hewitt, Jack Straw, Sir Richard Wilson and Sir Stephen Wall at the Cabinet Office, and to Jeremy Heywood at No.10.

Best wishes,

A handwritten signature in black ink, appearing to read 'Melanie', with a long, sweeping underline that extends to the left and then curves back under the name.

MELANIE JOHNSON

Melanie Johnson MP
Parliamentary Under Secretary of State
for Competition, Consumers and Markets



4 February 2002

Malcolm Wicks
Department for Work and Pensions
Richmond House
79 Whitehall
London SW1A 2NS

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Dear Malcolm,

TRANSPOSITION OF SINGLE MARKET DIRECTIVES: BARCELONA TARGET

You have taken on responsibility for ensuring timely transposition of Single Market Directives by your Department. I am writing to set out what expect to achieve against the Barcelona transposition target following my recent discussions with colleagues in the Departments and devolved administrations with most to do, and work at official level.

On the basis of my discussions with colleagues, and the work done by the other Departments, including Treasury, and devolved administrations, we would expect to transpose and notify 52 of the 66 Directives due by the time of the Council. This would give us a transposition deficit of 0.9% against the target of 1.5%. However, it is still a very close call and even minor slippage across Departments and devolved administrations could quickly take us back below the target level.

I understand that the one Directive for which you are responsible on the Barcelona list - 1998/49 - has been transposed and that formal notification is in hand and will be completed very shortly. I should be grateful if you confirm when this has been done.

The Barcelona Scoreboard is of course in addition to the Internal Market Scoreboards published each May and November. We also need to be focusing on those Directives that are due for transposition before these therefore. My officials are sending yours the Commission listings of the Directives due to be transposed between Barcelona and May. As always, they stand ready to offer further advice and assistance where required.

There are signs that the Commission will propose a tightening of the target at Barcelona, probably to 1% by the time of the next Spring Council, and possibly with a 0% target for Directives for which transposition is overdue by more than a certain time. This may be discussed at the Internal Market, Consumer and Tourism Council that I shall attend on 1

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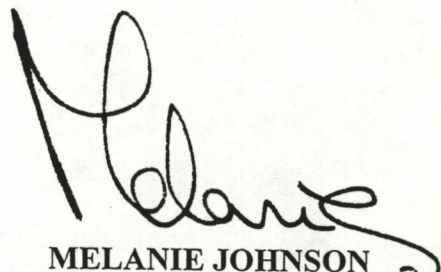
Department of Trade and Industry



March. Initial discussions at official level suggest that most Member States will be content to sign up for this and we would not, as a champion of the Single Market, wish to oppose it in our view. We shall write seeking colleagues' views when we have a clearer idea of handling at the Council.

I am writing in similar terms to other colleagues nominated to oversee transposition in Departments and devolved administrations. I am copying this letter to Patricia Hewitt, Jack Straw, Sir Richard Wilson and Sir Stephen Wall at the Cabinet Office, and to Jeremy Heywood at No.10.

Best wishes,


MELANIE JOHNSON

Melanie Johnson MP
Parliamentary Under Secretary of State
for Competition, Consumers and Markets



4 February 2002

Angela Eagle
Minister for Europe
Home Office
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Trade and Industry

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Dear Angela,

TRANSPPOSITION OF SINGLE MARKET DIRECTIVES: BARCELONA TARGET

You have taken on responsibility for ensuring timely transposition of Single Market Directives by your Department. I am writing to set out what expect to achieve against the Barcelona transposition target following my recent discussions with colleagues in the Departments and devolved administrations with most to do, and work at official level.

On the basis of my discussions with colleagues, and the work done by the other Departments, including Treasury, and devolved administrations, we would expect to transpose and notify 52 of the 66 Directives due by the time of the Council. This would give us a transposition deficit of 0.9% against the target of 1.5%. However, it is still a very close call and even minor slippage across Departments and devolved administrations could quickly take us back below the target level.

I understand that the one Directive on the Barcelona list for which you are responsible - 2001/8 - has been transposed and we need to ensure that formal notification is completed by the Barcelona deadline of 1 March. I should be grateful if you confirm when this has been done.

The Barcelona Scoreboard is of course in addition to the Internal Market Scoreboards published each May and November. We also need to be focusing on those Directives that are due for transposition before these therefore. My officials are sending yours the Commission listings of the Directives due to be transposed between Barcelona and May. As always, they stand ready to offer further advice and assistance where required.

There are signs that the Commission will propose a tightening of the target at Barcelona, probably to 1% by the time of the next Spring Council, and possibly with a 0% target for Directives for which transposition is overdue by more than a certain time. This may be discussed at the Internal Market, Consumer and Tourism Council that I shall attend on 1

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Department of Trade and Industry



March. Initial discussions at official level suggest that most Member States will be content to sign up for this and we would not, as a champion of the Single Market, wish to oppose it in our view. We shall write seeking colleagues' views when we have a clearer idea of handling at the Council.

I am writing in similar terms to other colleagues nominated to oversee transposition in Departments and devolved administrations. I am copying this letter to Patricia Hewitt, Jack Straw, Sir Richard Wilson and Sir Stephen Wall at the Cabinet Office, and to Jeremy Heywood at No.10.

Best wishes,

MELANIE JOHNSON

Melanie Johnson MP
Parliamentary Under Secretary of State
for Competition, Consumers and Markets



4 February 2002

Department of
Trade and Industry

Rt Hon Rhodri Morgan AM
First Minister
The National Assembly for Wales
Cardiff Bay
Cardiff CF99 1NA

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Melanie.Johnson.MPST@dti.gsi.gov.uk

Dear Rhodri,

TRANSPOSITION OF SINGLE MARKET DIRECTIVES: BARCELONA TARGET

You undertook to oversee work to ensure timely transposition of Single Market Directives in Wales. I am writing to set out what we expect to achieve against the Barcelona transposition target following my recent discussions with colleagues in the Departments and devolved administrations with most to do, and work at official level.

On the basis of my discussions with colleagues, and the work done by the other Departments, including Treasury, and devolved administrations, we would expect to transpose and notify 52 of the 66 Directives due by the time of the Council. This would give us a transposition deficit of 0.9% against the target of 1.5%. However, it is still a very close call and even minor slippage across Departments and devolved administrations could quickly take us back below the target level.

I understand that the Directives on the Barcelona list requiring transposition in Wales have been done (although notification to the Commission is still required for some and need to be completed) with the exception of 2000/27 where close co-ordination with DEFRA is required to ensure we can notify the Commission to meet the 1 March deadline. I should be grateful if you could follow this up as a matter of urgency to help ensure that this is transposed on time and keep me informed of progress.

The Barcelona Scoreboard is of course in addition to the Internal Market Scoreboards published each May and November. We also need to be focusing on those Directives that are due for transposition before these therefore. My officials are sending yours the Commission listings of the Directives due to be transposed between Barcelona and May. As always, they stand ready to offer further advice and assistance where required.

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Department of Trade and Industry



There are signs that the Commission will propose a tightening of the target at Barcelona, probably to 1% by the time of the next Spring Council, and possibly with a 0% target for Directives for which transposition is overdue by more than a certain time. This may be discussed at the Internal Market, Consumer and Tourism Council that I shall attend on 1 March. Initial discussions at official level suggest that most Member States will be content to sign up for this and we would not, as a champion of the Single Market, wish to oppose it in our view. We shall write seeking colleagues' views when we have a clearer idea of handling at the Council.

I am writing in similar terms to other colleagues nominated to oversee transposition in Departments and devolved administrations. I am copying this letter to Patricia Hewitt, Jack Straw, Sir Richard Wilson, Larry Whitty and Sir Stephen Wall at the Cabinet Office, and to Jeremy Heywood at No.10.

Best wishes,

A handwritten signature in cursive script, appearing to read 'Melanie', with a long horizontal flourish extending to the right.

MELANIE JOHNSON

dti

Department of Trade and Industry

Melanie Johnson MP
Parliamentary Under Secretary of State
for Competition, Consumers and Markets



4 February 2002

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Jim Wallace
Deputy First Minister and Minister for Justice
Scottish Executive
St Andrew's House
Regent Road
Edinburgh EH1 3DG

Dear Jim,

TRANSPOSITION OF SINGLE MARKET DIRECTIVES: BARCELONA TARGET

You have taken on responsibility for ensuring timely transposition of Single Market Directives in Scotland. I am writing to set out what we expect to achieve against the Barcelona transposition target following my recent discussions with colleagues in the Departments and devolved administrations with most to do, and work at official level.

On the basis of my discussions with colleagues, and the work done by the other Departments, including Treasury, and devolved administrations, we would expect to transpose and notify 52 of the 66 Directives due by the time of the Council. This would give us a transposition deficit of 0.9% against the target of 1.5%. However, it is still a very close call and even minor slippage across Departments and devolved administrations could quickly take us back below the target level.

Our understanding is that the Directives on the Barcelona list requiring transposition in Scotland have all been done although notification to the Commission is still required for some. I should be grateful if you could ensure this is completed as a matter of urgency and confirm when it has been done.

The Barcelona Scoreboard is of course in addition to the Internal Market Scoreboards published each May and November. We also need to be focusing on those Directives that are due for transposition before these therefore. My officials are sending yours the Commission listings of the Directives due to be transposed between Barcelona and May. As always, they stand ready to offer further advice and assistance where required.

There are signs that the Commission will propose a tightening of the target at Barcelona, probably to 1% by the time of the next Spring Council, and possibly with a 0% target for

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Department of Trade and Industry



Directives for which transposition is overdue by more than a certain time. This may be discussed at the Internal Market, Consumer and Tourism Council that I shall attend on 1 March. Initial discussions at official level suggest that most Member States will be content to sign up for this and we would not, as a champion of the Single Market, wish to oppose it in our view. We shall write seeking colleagues' views when we have a clearer idea of handling at the Council.

I am writing in similar terms to other colleagues nominated to oversee transposition in Departments and devolved administrations. I am copying this letter to Patricia Hewitt, Jack Straw, Sir Richard Wilson and Sir Stephen Wall at the Cabinet Office, and to Jeremy Heywood at No.10.

Best wishes,

MELANIE JOHNSON

Melanie Johnson MP
Parliamentary Under Secretary of State
for Competition, Consumers and Markets



4 February 2002

Department of
Trade and Industry

Tessa Blackstone
Minister for the Arts
Department for Culture, Media and Sport
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Melanie.Johnson.MPST@dti.gsi.gov.uk

Dear Tessa,

TRANSPOSITION OF SINGLE MARKET DIRECTIVES: BARCELONA TARGET

You have taken on responsibility for ensuring timely transposition of Single Market Directives by your Department. I am writing to set out what expect to achieve against the Barcelona transposition target following my recent discussions with colleagues in the Departments and devolved administrations with most to do, and work at official level.

On the basis of my discussions with colleagues, and the work done by the other Departments, including Treasury, and devolved administrations, we would expect to transpose and notify 52 of the 66 Directives due by the time of the Council. This would give us a transposition deficit of 0.9% against the target of 1.5%. However, it is still a very close call and even minor slippage across Departments and devolved administrations could quickly take us back below the target level.

I understand that the one Directive on the Barcelona list for which you are responsible has been transposed and that the Commission have confirmed that formal notification has been received.

The Barcelona Scoreboard is of course in addition to the Internal Market Scoreboards published each May and November. We also need to be focusing on those Directives that are due for transposition before these therefore. My officials are sending yours the Commission listings of the Directives due to be transposed between Barcelona and May. As always, they stand ready to offer further advice and assistance where required.

There are signs that the Commission will propose a tightening of the target at Barcelona, probably to 1% by the time of the next Spring Council, and possibly with a 0% target for Directives for which transposition is overdue by more than a certain time. This may be discussed at the Internal Market, Consumer and Tourism Council that I shall attend on 1 March. Initial discussions at official level suggest that most Member States will be content to sign up for this and we would not, as a champion of the Single Market, wish to

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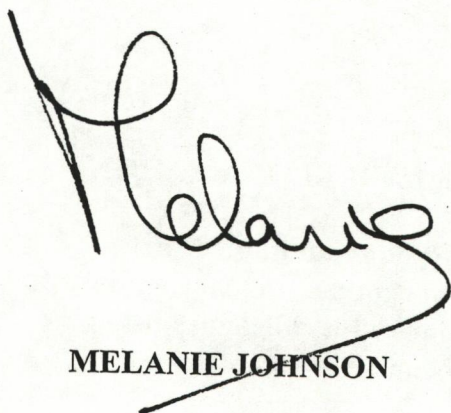
Department of Trade and Industry



oppose it in our view. We shall write seeking colleagues' views when we have a clearer idea of handling at the Council.

I am writing in similar terms to other colleagues nominated to oversee transposition in Departments and devolved administrations. I am copying this letter to Patricia Hewitt, Jack Straw, Sir Richard Wilson and Sir Stephen Wall at the Cabinet Office, and to Jeremy Heywood at No.10.

Best wishes,



MELANIE JOHNSON

dti

Department of Trade and Industry

file



10 DOWNING STREET
LONDON SW1A 2AA

From Sir Stephen Wall
EU Adviser to the Prime Minister and
Head of the European Secretariat, Cabinet Office

1 February 2002

Dear Mr Gyllenhammar,

As part of our preparations for the Barcelona European Council I would like to invite you and some of your colleagues from the ERF to a meeting to discuss current EU financial services issues. In particular, we would be very interested to hear your views on what the main short-term priorities should be in order to achieve the removal of the most important remaining barriers to the creation of an integrated, liberalised single market in financial services.

Would it be possible for you to meet here in No10 on 12 February at 12 noon? I would be joined by my deputy, Martin Donnelly, and Roger Liddle the Prime Minister's Special Adviser. If this is a possibility, Francis Campbell here (020-7930-4433) would make the detailed arrangements once you know who you would like to accompany you.

Yours sincerely

Stephen Wall

J S WALL

Mr Pher Gyllenhammar

From: Stephen Wall
Date: 1 February 2002

PRIME MINISTER

cc: Jonathan Powell
Jeremy Heywood
Alastair Campbell
Sally Morgan
Roger Liddle
Michael Tatham
Sir Richard Wilson
Sir Nigel Sheinwald
(UKRep Brussels)
Martin Donnelly (CO)

BARCELONA AND ECONOMIC REFORM: MEETING 11.00AM, 4 FEBRUARY

You are meeting at 11:00 on Monday to discuss preparations for Barcelona. Cast list is Gordon Brown, Jack Straw, Alastair Darling, Patricia Hewitt, Andrew Smith and Peter Hain.

There has been some encouraging progress – a good Commission Synthesis Report focused on UK and Spanish market opening objectives; agreement on Lamfalussy almost in the bag; a lot of pressure on the French to move on energy liberalisation.

But there is more to do on substance and on presentation if Barcelona is not to come across as worthy but basically dull.

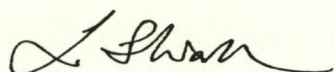
This meeting should do two things. First, energise Ministers to keep up the pressure for the right outcomes in their areas. Second, encourage them to sell the Lisbon agenda - job-creating economic reform and modernisation - more effectively in the UK and with partners. You might underline the broader

political significance of the Lisbon agenda: it shows that Europe is capable of serious reform, even if it is not always as swift as we would like.

The Chancellor may want to cover the macroeconomic angle. Spanish plans for discussing the economic outlook at Barcelona are currently unclear. There will be a discussion of some sort: but the theme is likely to be that economic difficulties make reform more important, rather than a detailed discussion of stability pact issues. But this depends on how the 12 February ECOFIN discussion of German and Portuguese stability programmes goes.

He may also raise his idea that Barcelona should call for a study on the economic benefits of EU-US trade. The Spanish are supportive of the idea but are reluctant to add this to their list of priorities for Barcelona. Lamy is firmly opposed and other member states (particularly France) could react badly. You might encourage him to go on building momentum on the ECOFIN net and engage with Lamy and Fabius.

/ Agenda circulated to Ministers and a detailed brief attached. I also attach a note showing our proposed reaction to each of the proposals in the Commission's Synthesis Report.



STEPHEN WALL

MEETING ON BARCELONA COUNCIL

No 10 DOWNING STREET, 11:00am, MONDAY 4 FEBRUARY

AGENDA

Item 1: Preparations for the Barcelona European Council, 15-16 March

- Progress on key policy outcomes for the Council: Aznar's five priorities

Energy liberalisation

Networks (telecommunications, energy, transport)

Financial services, including takeovers

Employment and labour market reform

Education and innovation

- Political contacts with key EU partners
- Presentation strategy

2003 → sector
2005 broadband
gas
wholesale



CHAIRMAN'S BRIEF

Objectives

- encourage Ministers to **keep up the pressure for outcomes in key areas** – energy, financial services, better regulation (Mandelkern), broadband – in the run-up to Barcelona;
- Ministers to **sell individual reform achievements and the Council** itself in the media.

Introductory remarks

- A Barcelona Council with **emphasis on employment and economic reform will reflect our own political priorities.**
- **getting good result** at Barcelona and **selling it effectively** key to strategy of **proving EU is capable of serious reform.** Should also **sell achievements so far.**
- Message should be: this is a **long-term process.** It's **starting to deliver real results.** **EU is reforming as we said it would.** **Gordon's White Paper important.**
- Looking at **substantial outcomes in Aznar's five priority areas.** These are the **evidence** for us to say **Lisbon agenda is making progress:**

Energy - date for liberalisation for business customers is a possibility. Major test. Need to keep up pressure on French and Germans;

Networks – should agree target for widespread availability of broadband by 2005. Important to CBI. Telecommunications legislation now agreed to boost competition and bring down prices. E-commerce legislation being implemented: will tear down barriers to trade across borders. Should agree detailed action to plug gas and rail infrastructure gaps;

Financial services - Lamfalussy package should be agreed this week. Will have a new takeovers directive on the table before Barcelona – important signal for business. Barcelona should endorse mid-term review of Financial Services Action Plan and

speed progress on measures lowering cost of capital.

Labour market/employment - Barcelona should enhance focus on active labour market policy and making work pay: will be entrenched in revised Employment Guidelines. Commission committed to implementing recommendations on better regulation (Mandelkern) by June;

Education and innovation - Target for all EU schools to have internet "twins" by 2004. Endorse Commission Strategy for boosting EU biotechnology and call for specific action to boost industry's competitiveness.

- Also working with the Spanish to deliver steps towards more effective competition policy and less and better state aid.
- **Six weeks left. Need to focus on getting right outcome on key dossiers** e.g. financial services; energy liberalisation; broadband; employment policy. **Want you to intensify contacts on political net** to make sure we deliver these outcomes.
- **Business** must be left with clear sense after Barcelona **that Lisbon is on track** and we are listening to their concerns. I'm seeing key European industrialists in week of Council.
- **Like you all to find time and a way to promote the outcomes in your areas, and the whole agenda, between now and the Council.** Need to give this resonance for **public and business**. **What are your views on how we pitch this?**

Background

Current signs are that we are broadly on track for a reasonable, if not spectacular, outcome at Barcelona. The Commission are beginning to grip this agenda, and produced a good Synthesis Report last month which made a frank assessment of progress. We can support almost all of their proposals for Barcelona Conclusions: other member states will be less keen.

What will we get? The Spanish are quietly confident. In particular they think they may get a date for business energy liberalisation. This could yet change - key decisions will be taken in Paris and Berlin over the next few weeks - but the signs are currently favourable. We are in

close touch with the Spanish, and with the French, Germans, Dutch and Italians in particular.

Our current assessment at the potential Barcelona "headlines" is therefore:

- a **date for energy liberalisation for business customers;**
- a **deal on the Lamfalussy package** to unblock financial services reform;
- a new **takeovers** proposal. This will formally appear in April but Barcelona could take the credit;
- agreement that **Employment Guidelines** should be **redesigned to increase emphasis on active labour market policy/making work pay.**
- a **better regulation Action Plan** from the Commission – implementing Mandelkern - **by June.**
- a successor to **eEurope Action Plan**, with centrepiece a **target for widespread availability of broadband by 2005.** Important to CBI.
- **funds for all EU schools to have internet "twins" by 2004.**
- endorsement of **Strategic Vision for biotechnology;**
- plus a raft of **more detailed** measures and positive language on other dossiers including single sky, competition and state aid.

This should allow us to claim that Barcelona shows the reform agenda is on track. We should also cite recent successes as evidence that the process is delivering. The **telecommunications legislation** now agreed will boost competition and bring down prices. **E-commerce legislation** being implemented will tear down barriers to trade across borders.

With six weeks left you need to galvanise Ministers to intensify their efforts with key countries on the political net to make sure these and other detailed outcomes are delivered, and to raise the profile of this agenda in the media. We are in close touch with the CBI, who are supportive. GB is likely to launch the White Paper on Economic Reform on 11 February. It will be important to show this in draft to the Spanish and the Commission to cement our relationships and boost coverage. HMT are also pursuing the idea of a study on the benefits of EU-Americas trade. Spanish keen in principle, but not a priority for them. HMT should pursue in ECOFIN.

COMMISSION SYNTHESIS REPORT

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

The **European Council** should give a firm commitment to the macro-economic stability and to further consolidation in public finances over the medium term. *Agree. Extent of further consolidation needed will vary across MS, taking account of cyclically adjusted deficits, debt stock levels and capital spending.*

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

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

- Additional Council meetings could be organised by the Council Presidency in the run up to Spring European Councils to resolve outstanding issues. *Agree – where the extra Council, or possibility of it, adds value.*
- The Council Presidency should make full use of qualified majority voting, where available, to ensure decisions on Lisbon reforms are not held up, particularly in the areas set out in this Report. *Agree, to deliver genuine economic reform objectives.*

- Heads of State and Government should ensure appropriate internal coordination so that progress on the whole strategy is achieved. *Agree.*

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

The **European Parliament and Council**:

- Should adopt the energy tax directive by December 2002. *Agree that discussions should continue with a view to making progress on energy tax, taking into account desirability of linking to progress on energy liberalisation. UK must have exemption for domestic energy consumption, which has no cross-border impact.*

The Commission will bring forward in 2002:

- New proposals on transport infrastructure pricing to ensure that the prices for using different modes of transport better reflect their costs to society. The revenue raised could be an additional source of support for closing the missing links within Trans-European Networks, particularly for alternatives to road transport; *Agree that prices should reflect the economic and social costs to society. Right for Member States to determine precise measures used.*
- New proposals on safer transport systems across Europe; *Agree, subject to the detail.*
- Will, in parallel with continuing negotiations on the energy tax directive, review the overall approach to energy taxation and investigate options to move forward on getting energy prices to better reflect their overall cost to society. *Agree (but see points on EPD above).*

3.1.2(c) Continuing to foster economic and social cohesion

The European Council should:

- Set a target for 2010 of halving the number of people at risk of poverty¹⁵ across the European Union. Member States should indicate in their two year National Action Plans against poverty and social exclusion how they will contribute to its achievement. Work should build on the social inclusion indicators endorsed by the European Council in Laeken. *Right to focus on reducing poverty, but a single EU headline target not necessarily most effective route. Council experts have concluded that a large number of indicators are needed to assess properly the multidimensional nature of social exclusion.*
- Endorse ongoing work on the impact of ageing on healthcare and care for the elderly in order to strengthen cooperation and exchange of good practice. *Agree: but without extending European competence over the organisation and delivery of healthcare.*

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

3.1.2(d) Ensuring safe and sustainable pensions

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

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

3.1.2(e) Developing entrepreneurship within a favourable business environment and encouraging effective competition

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

- reduce State aid in relation to GDP and redirect aid towards horizontal objectives of common interest, including cohesion objectives; *Agree strongly. Need to distinguish “good” and “bad” state aid: state intervention should focus on correcting market failure.*
- finalise by June 2002 an action plan for improving and simplifying the regulatory environment; *Strongly agree. Would like date brought forward, using Mandelkern report as basis for action.*
- develop quantitative targets in the area of enterprise, small businesses and the business environment, for example, on reducing the time it takes to register a company or on the availability of e-government services on line. This will help to focus attention on the areas where progress is most needed and shows when it has been achieved. Flexibility will be needed allowing Member States to use, within a jointly agreed set of targets, those which best respond to their specific priorities; *Strongly agree.*
- reinforce action along all ten lines of the European Charter for Small Businesses (endorsed by the European Council in Feira in June 2000); *Strongly agree.*
- improve the tax environment for businesses across the European Union by tackling barriers to cross-border economic activity; *Caution. Open to ideas but would need to see specific ideas Cion has in mind before offering definitive view.*

The **European Commission** will:

- proposed targeted action in the short-term, for example, amendments to the existing merger and parent-subsidiaries directives to cover the tax field. It will investigate medium-term, comprehensive solutions, such as possibilities for companies for work with a single set of corporate tax values, which provides a consolidated common tax base for their EU-wide activities; *Agree that work on existing Directives should continue. But opposed to general harmonisation of corporate tax systems on subsidiarity grounds.*

3.2.1 Developing active labour market policies for European labour markets

- The **European Commission** will in 2002 present a proposal for the revision of the European Employment Strategy to build on its achievements and to integrate the Lisbon objectives and targets, including the timing of the Luxembourg process. *Agree: detailed reform a matter for negotiation on which we and others have ideas to offer.*
- **Member States** should indicate from 2003 onwards how they will contribute to achieving these European Union targets, by setting ambitious, but achievable national targets within their National Action Plans for employment. This should be reflected in the Employment Guidelines for 2003. *national employment targets should be voluntary, not obligatory; choice for Member States.*

3.2.1(a)(i) Tax

- The **European Council** should underline that, where Member states pursue further tax cuts, they should give priority to cuts in favour of low-wage earners. *Agree reducing taxes on low wage earners is a priority, either in context of revenue neutral reforms or, where appropriate under the Stability and Growth Pact and/or accompanied by equal or larger reductions in public spending, as part of general tax cuts. Specific decisions for individual MS, taking account of national circumstances.*

3.2.1(a)(ii) Benefits

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

Member States should pursue steps which:

- Discourage early retirement for individuals and the introduction of early retirement schemes by companies. This will help to increase labour force participation and the employment rate of older workers and should contribute to an increase in the effective average retirement age presently round 58 to 60 in 2010. Efforts should be more pronounced in Member States with lower employment rates for older workers; *Agree*.
- Promote a gradual transition from work to retirement (eg encourage part-time work) and reward those remaining at work longer; *Agree*.
- Address reform of means-tested benefits, without jeopardising the social objectives or undermining incentives for education and training, with the aim of ensuring that each member of a household has an incentive to work. *Agree in principle*.

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

The social partners should be encouraged to support a more gradual exit from the labour force for older workers. Member States can help through changes in regulations, for example, concerning certain benefit schemes (such as those related to health care). *Agree in principle, need to consider consistency with existing benefit regimes*.

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

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

- Childcare should be available to at least 90% of children between 3 years old and the mandatory school age and to at least 33% of children under 3 years of age. *Agree importance of childcare; targets and definitions*

proposed need more analysis.

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

3.2.1(b)(i) An action plan on skills and mobility

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

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

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

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

Agree in general. More work needed on viability of 2005 target, education proposals and the added value of the health card.

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

- The **European Council** should endorse the need for a positive approach to change in the face of the need for greater adaptability within the economy and call on the social partners to pursue work in this area. *Agree – in so far as actions are limited to exchange of good practice and voluntary agreements. Strongly opposed to any new legislative proposals.*

3.2.2(a) Financial markets

The **European Parliament and Council** should:

- adopt by June 2002 pending proposals on distance marketing of financial services, collateral, market abuse, and international accounting standards; *strongly agree.*
- adopt by December 2002 pending proposals on pension funds, financial conglomerates and prospectuses; *agree early progress welcome, but have to ensure that the Directives promote a liberalised integrated single market in fs. Draft Prospectus Directive does not yet achieve this. Need to ensure Supplementary Pensions text is genuinely market-opening.*

3.2.2(b)(i) Market opening

The **European Parliament and Council** should:

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

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

- take the necessary decisions by March 2002 to start officially the development stage of the Galileo satellite navigation system. *Agree decision as to whether to proceed to the development stage of Galileo needs to be taken soon on basis of evidence.*

3.2.2(b)(ii) Missing links

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

3.2.2(c) Broadband networks

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

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

3.2.3(a) A European knowledge area

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

- The **European Commission** will in 2002 propose an integrated strategy for Community education and research policies. It will be based on an integrated approach towards the education and research aspects of training and career development, university issues, the development of European

knowledge and science networks, and reinforced cooperation and exchanges with third countries. *Strongly agree. Development of networks particularly important.*

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

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

3.2.3(b)(i) An Action Plan for life sciences and biotechnology

- The **European Council** should endorse the importance of this sector and provide strategic orientations for future work. *Strongly agree.*
- The **Commission** will shortly present a comprehensive strategy to address the specific obstacles and opportunities for life sciences and biotechnology. The areas addressed will include competitiveness and innovation, research, the regulatory environment, the international context, the involvement of the public, and ethical issues.
- The strategy will set out an action plan proposing concrete measures and will invite other public and private actors to participate in the process. The European Council should endorse the importance of this sector and provide strategic orientations for further work. *Strongly agree with all three, to help EU catch up with world leaders in these sectors.*

3.2.3(b)(ii) Clean technologies

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

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



10 DOWNING STREET
LONDON SW1A 2AA

From the Principal Private Secretary

1 February 2002

Dear Marc

BARCELONA EUROPEAN COUNCIL: MEETING 4 FEBRUARY

I attach an agenda for Monday morning's meeting on preparations for the Barcelona European Council.

I am copying this letter and attachment to the Private Secretaries to Jack Straw, Patricia Hewitt, Alastair Darling, Estelle Morris, Andrew Smith and Peter Hain.

Yours ever

S Macleod

pp **JEREMY HEYWOOD**

Mark Bowman
HMT

*to all
Pr. 12.*
FAXED

MEETING ON BARCELONA COUNCIL

No 10 DOWNING STREET, 11:00am, MONDAY 4 FEBRUARY

AGENDA

Item 1: Preparations for the Barcelona European Council, 15-16 March

- Progress on key policy outcomes for the Council: Aznar's five priorities

Energy liberalisation

Networks (telecommunications, energy, transport)

Financial services, including takeovers

Employment and labour market reform

Education and innovation

- Political contacts with key EU partners
- Presentation strategy

MATRIX RESTRICTED



Europe Councils.

PM/02/005

PRIME MINISTER

SW
C:JP
DM
MT
AC

Prospects for the Spanish Presidency

1. I am circulating under cover of this minute the customary EP paper addressing the prospects for the incoming, Spanish EU Presidency. Officials have discussed this in draft.
2. This paper will help inform discussion of the prospects for the Spanish Presidency at the meeting of EP which I shall be chairing on 29 January.
3. I am copying this minute to EP colleagues, and to Sir Richard Wilson, Sir Stephen Wall and Sir Nigel Sheinwald.

(JACK STRAW)

Foreign and Commonwealth Office
25 January 2002

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PROSPECTS FOR THE SPANISH PRESIDENCY

Introduction

1. The Spanish have set six clear priorities for their Presidency: fighting terrorism, launching the future of Europe debate, maintaining the pace on enlargement, boosting economic reform, successfully introducing the Euro, and an active CFSP. They know where they want to go; and are well-organised and professional. They want to act, and be seen, as a major player, raising Spain's international profile. While their agenda is ambitious, they are also pragmatic. They will not take final decisions until they have to. With elections imminent in four member states, they will not court disaster if they judge progress not to be achievable. They are also conscious of how world events can upset best-laid plans. This paper takes the main issues, in the order of the Presidency's priorities.

Terrorism and Justice and Home Affairs

2. Spain is a natural ally on the EU counter-terrorism agenda. Opinion polls regularly show that 60% of Spaniards rate terrorism as their major worry. Aznar terms the fight against terrorism the Presidency's priority of priorities. Within the EU, Spain wants to: increase police co-operation; improve information exchange between intelligence agencies; and move work forward on freezing terrorist financing. We are pushing for early action to expand the 18 December EU list of asset freezing targets to include external groups targeted by separate UK asset freezes. Externally, we want to ensure that counter-terrorism co-operation features in all new third country agreements, including two sensitive ones (Iran and Syria) coming up for negotiation. Indications are that the Presidency will be supportive. The Spanish have also helpfully said they will push for increased cooperation with the US on counter-terrorism, and seek the start of negotiations on an EU/US

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Treaty on criminal judicial co-operation. We shall need to be clear on our own counter-terrorism priorities; and, in particular, be ready for further work on civil protection, and on bioterrorism.

3. Spain is also a key UK ally on Justice and Home Affairs. It wants to deliver on the Tampere agenda (which Aznar reckons he invented) and shares UK frustration at backtracking by others. Illegal immigration is a worry for Spain: they will want to make progress on securing the EU's external borders (we fully support this, and can do trade-offs on our differing geographical interests). Conversely, the asylum agenda is more important to us than the Spanish, and we shall have to work harder to ensure results (but they know they'll have to do their duty). On mutual recognition of judicial decisions, the intended centrepiece of the Presidency – the European Arrest Warrant – was hijacked in the follow-up to 11 September. The Spanish now intend to ensure its final adoption and press on with mutual recognition of fines (a UK proposal), and with mutual recognition in the civil field. They will also press for the adoption of further Framework Decisions harmonising offences and penalties, most notably on drug-trafficking, where they share our perspective on appropriate penalty levels: the Spanish will be the first Presidency for a long while to take action against drugs seriously. They will also try to get agreement on the Framework Decision harmonising penalties on racism and xenophobia.

4. On law enforcement co-operation, the focus will be on tackling drugs-related crime (in particular the capacity of the candidates), a priority which again we and the Spanish share. Spain also wants to highlight work against organised crime in Russia. Both we and they want to ensure more operational co-operation (which gives us a chance to push again our ideas for a more effective Police Chiefs Task Force), including the preparatory work necessary to ensure effective

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Joint Investigative Teams in the second half of the year (we are already working on a (UK/Spanish) team on drugs trafficking).

Enlargement

5. The Spanish will preside over the beginning of the enlargement endgame. Sensitive to charges that they are not fully committed to the project, they are adamant that they will fulfil their responsibilities (if others fulfil theirs) and keep to the roadmap (three big financial issues: agriculture; regional policy, finance/budget – and the institutions chapter). They will also have to mop up the many chapters closed with some but not all candidates, in particular Poland. The Commission will table a framework for negotiating the budgetary chapters in early February, including proposals for applying CAP and Structural Funds to the candidates, on the basis of the existing *acquis* and the Berlin principles. The 8-9 February Foreign Ministers' informal will be the first chance for Ministers to consider the Commission's proposals. It would also be useful for ECOFIN to review them. The Spanish are committed, as Presidency, to agreeing EU positions on these issues; they have signalled their determination to retain their national share of Structural Funds post 2006, but are unlikely to return to this under their Presidency. Those opposing CAP reform may try to use the enlargement negotiations to prejudice any parallel discussion of reform in the context of the CAP mid term review, starting under the Danish Presidency. So these negotiations will be difficult for the UK: we shall need to protect our commitment to budget discipline and CAP reform while keeping to the enlargement timetable. The Institutions chapter will be largely based on the Nice treaty, making it difficult to agree an EU position before a second Irish referendum (probably under the Danes). The issue of implementation of EU legislation will also come up, when the Commission reports the findings of its monitoring exercise.



6. Key UK aims will be to:

- support the Presidency and Commission to ensure we keep to the agreed Gothenburg timetable, while allowing a delay on the Institutions chapter, and thus the roadmap, until after the second Irish referendum, if that helps the Irish;
- work with other friends of CAP reform to ensure the EU's position on the agriculture chapter goes with the grain of reform;
- ensure that agreements on the financial chapters respect both the principles and the financial framework agreed at Berlin;
- ensure that the treatment of institutional issues does not strengthen the hand of the Irish 'no' camp in the run-up to the second referendum;
- support the Commission monitoring exercise so that it is both timely and effective;
- ensure that EU public, animal and plant health and animal welfare standards are not compromised.

7. The Spanish Presidency has also shown interest in Cyprus, and in improving the EU's relations with Turkey. They should listen to UK and US advice. They understand the need not to cut across the new Clerides-Denktaş contacts; to offer the Turks something on their candidacy, in return for help on Cyprus; and to accommodate any settlement flexibly in the context of accession.



The endgame is unlikely to be played out under the Spanish, but Seville may have a role in pushing for a final effort.

8. We want a swift and successful enlargement. But the level of public awareness is low. As we begin discussions on the big money-related chapters – agriculture, structural funds and the budget – we shall increasingly face stories on the costs of enlargement; the loss of structural funds to the UK; or a possible threat to our abatement. So, it is important that we take every opportunity – for example, in general speeches about the EU – to stress enlargement's benefits.

Future of Europe

9. The Spanish Presidency will see the launch the Convention on the Future of Europe on 28 February. Spanish instincts on the Convention are good – they want to see it stick to a practical agenda to make an enlarged EU function efficiently, and to deliver outcomes which EU citizens want. The Spanish will have no more influence within the Convention than any other member of the Praesidium, but they will be able to set precedents on the Convention's relationship with the GAC and the European Council. Seville will provide an opportunity to respond to the Convention's initial work. The Spanish will also want to prevent the debate encouraging the pretensions of the Spanish regions (Basques above all) both for still greater autonomy within Spain, and for greater representation in Brussels.

10. The Convention will inevitably range very widely. Giscard (Convention Chairman) is unlikely to stick to the brief set out by the Laeken Declaration. We can turn this to our advantage. The Convention will be an opportunity to introduce some of our own proposals. We shall want to position ourselves well in the Convention's Secretariat. The key lobbying targets are the Praesidium,



Secretariat and Giscard himself; but we shall also be in close touch with all the Britons in the Convention (including MEPs and members of the Committee of the Regions). And we shall need to build contacts with potential allies, both among existing member states (the French, Spanish, Nordics and Irish are likely to be the most helpful), and the candidates (who will also take part in the Convention). Presentationally, we should welcome the Convention, and stress the potential benefits from a fundamental examination of what EU citizens want from Europe, and how to achieve that in an EU of 25, or more.

11. Spain will also oversee work on Council reform. Solana (Secretary-General) is due to submit proposals before Barcelona. Aznar will want Barcelona to have before it a list of questions on which Seville should agree operational conclusions. We want radical reform, and should so encourage Solana and the Spanish (we understand that they may even be willing to push at Seville for agreement in principle on an end to the traditional six monthly presidency). But we should recognise that the existence of the Convention will have an effect, encouraging others to resist any radical reform being effected outside that forum. Neil Kinnock is making steady progress on Commission reform (vital to ensure public confidence). The College of Commissioners has agreed the human resources package, which we support, and which will be put to the Council in March. We support the package, which reforms career and pay structures, and accept that the resulting short-term increase in costs will be offset by long term benefits. We want to use our position as both reformer and budget disciplinarians to prevent the package being unpicked.

Economic Reform



12. Economic reform is a priority for the Spanish, and the top priority for the UK. Aznar has been very public with his ambitions for the Presidency and Barcelona, setting out five areas where he wants to see progress: communication and transport networks; energy; education and training; financial services; and employment and labour market reform. These fit well with the UK's headline objective for Barcelona – delivering a business-friendly outcome, which demonstrates that the Lisbon process remains on track. We have made clear our support for Aznar's approach, and are working closely with the Spanish at official level across the waterfront.

13. Aznar is pushing his economic reform agenda hard, including in his public statements. But he will want to keep his options open, and in particular not drive the French and Germans together at Barcelona so that progress during the rest of the Presidency becomes impossible. A number of key issues, such as energy liberalisation and takeovers, are unlikely to be resolved at Barcelona. But the prospects for movement on these and other dossiers look better later in the Presidency. We also want progress on financial services dossiers and the Lamfalussy recommendations, Single Sky, R & D and the Community Patent. We shall need to decide how hard to push on which dossiers before, at and after Barcelona. A clear presentation strategy will be important – striking the right balance between calling for progress and managing expectations.

14. Barcelona will also review progress on the EU Sustainable Development Strategy (EU SDS) and the Commission proposal for an external dimension to the SDS. The Spanish will want to keep the focus on the Lisbon agenda, but, in response to pressure from others, they may have to consider whether they can reflect sustainable development within their five priorities for Barcelona. We want language at Barcelona highlighting the importance of the external dimension



to the SDS and its further development, and looking forward to the World Summit for Sustainable Development in September.

15. On the environment, the Spanish Presidency will be looking to conclude the EU's ratification of the Kyoto Protocol and the decision to formalise the EU burden sharing agreement on greenhouse gas emissions. There will also be potentially controversial discussions on a proposed EU environmental liability regime, and on traceability and labelling of GMOs. Other important issues are: the development of an EU soil strategy; the revision of the recovery and recycling targets in the Packaging and Packaging Waste Directive; and conciliations on the 6th Environment Action Programme, and on Waste from Electrical and Electronic Equipment.

16. On social issues, this will be a far easier Presidency for us than the Belgians'. The Spanish share our aim of reasserting the primacy of the Lisbon employment targets in the revision of the European Employment Strategy. They will advance work on pensions and social exclusion through open coordination, shifting back from the Belgians' preference for increased regulation. They do not seem minded to take forward new employment relations measures (eg EU mediation, industrial restructuring), although the Commission will still consult the social partners in this area. There will nevertheless be tricky areas for us, which we shall have to watch closely: some health and safety dossiers (eg vibrations); Regulation 1408/71 on the coordination of social security schemes; the EC role in health care; Equal Treatment, Agency Workers, and Insolvency Directives. On education, we are working closely with the Spanish on the schools twinning initiative, and their support for the UK view on basic skills will strengthen the case against the Commission's more maximalist view.



Economic outlook

17. Difficult, but improving. While recovery looks unlikely in the first half of the year, a variety of indicators suggest that the Euro area may have troughed at the end of 2001. The key difficulty for Barcelona is likely to be a rise in unemployment (which tends to lag the cycle). We should support the Spanish, and push the message that an uncertain outlook makes economic reform more relevant, not less: a successful summit would boost consumer, business and market confidence. The Spanish will also have to deal with the Stability and Growth Pact programmes and the Broad Economic Policy Guidelines, and fear that discussion here may overshadow the economic reform agenda. The budget positions of several member states are under pressure, with the Commission estimating a 2.7% of GDP deficit in Germany, in particular.

Successfully launching the Euro

18. The Spanish will be relieved to hear the Commission say that 'the changeover is practically complete'. A smooth changeover would help the Spanish to concentrate on economic reform without distractions.

Other internal issues

Tax

19. While the Presidency has not made tax a major priority, they inherit a full agenda. Key priorities for the UK will be to protect the Tax Package, including both the Code of Conduct on business tax and the draft Taxation of Savings Directive. This requires maintaining progress with our dependent territories on the Code and Savings, putting pressure on the Commission to negotiate equivalent



measures with third countries on Savings; and putting pressure on other Member States to roll back harmful measures identified by the Code Group. We need to consolidate our success at the December 2001 ECOFIN on e-commerce. We may need to be more proactive (with the Germans and the Commission) on energy products, given the importance of a deal to Germany, and our own insistence on an exemption for domestic energy use. We should resist proposals in the Commission's company tax study for long-term harmonisation (while deciding which, if any, of the short-term proposals we might explore); and Commission moves to undermine unanimity for tax dossiers (including through extended use of Commission-chaired management committees). The Commission will submit its delayed review of alcohol rates: we want higher minimum excise rates (including a positive minimum rate for wine) but will keep our lobbying low-key to forestall a pressure on the UK's zero VAT rates. The Presidency will also press for progress on biofuels (we support the objective).

Galileo

20. The Commission and Presidency will push hard to unblock the Galileo satellite navigation project. We won more time in December to consider the financial implications of the Price Waterhouse Report. Laeken called for decisions on funding Galileo's development phase in March and on the Regulation establishing the Joint Undertaking (management structure) in June, although it now seems likely that both decisions will be taken at the 25-26 March Transport Council. Funding will be a QMV decision by the Transport Council, but it may also be discussed at ECOFIN (probably on 5 March), and the European Space Agency Council (20-21 March) The Presidency may give Galileo a push at Barcelona (15-16 March).



21. We need to consider our position in the light of:
- (a) any potential improvements to the Galileo Joint Undertaking proposal (on which officials are in direct contact with the Commission and our allies);
 - (b) progress in resolving potential EU-US problems over trade discrimination and military application;
 - (c) the position of our allies, in particularly Germany;
 - (d) the need to avoid diverting attention from the economic reform agenda.
22. Even if we secure concessions on (a) and (b), Galileo is unlikely to meet our initial financial criteria. But if we look like losing our blocking minority, Ministers will soon need to judge whether we are prepared to pay for a more expensive Galileo (albeit one where we exercise influence and can gain some commercial benefit); or whether to continue to oppose the launch of the development phase - risking the consequences of the project going ahead without us. All this will require careful presentation.

Sites

23. After Laeken, the Presidency is likely to be seeking agreement at Barcelona only if confident of avoiding a similar undignified scrum. The UK's primary objective remains to win the European Police Training College Secretariat for Bramshill. Although the bidding has now opened up again, we remain the strongest contender. There does not appear to be any need to lobby further at this point, although we should if asked, make it clear that our wish to host the College



remains as strong as before. A central location for the European Food Safety Authority would be helpful, and it is now likely that Belgium will put in a formal bid to turn the temporary premises in Brussels into a permanent home. There are also indications that the package will be increased further to award every Member State with an agency. In UK public presentation terms, the likely story will be another "Brussels row" (with a good news story if/when we get the Police Training College Secretariat).

External issues

24. Afghanistan. EU political and financial support for the Interim Administration will be essential to support the transitional recovery efforts. We shall need to ensure that partners work with us to achieve the objective of a stable and prosperous Afghanistan. This will be key to achieving our long-term objectives of fighting terrorism and drug production in the country. We shall need, in particular, to ensure rapid and effective injection of financial aid in support of reconstruction. The Tokyo donors' conference on 21 January pledged a total of \$4.5 billion for reconstruction, including \$1.8 billion for 2002. As one of four co-chairs of the Afghan Steering Group Meeting, the EU is a key partner in restoring Afghanistan's social, political and judicial infrastructure. Visible results will be essential. And we shall also need to keep partners in the picture on issues where the UK is playing a leading role, such as in the International Security Assistance Force. We can expect the Presidency to be supportive.

25. European Security and Defence Policy (ESDP). 2002 will see at least one use of ESDP, possibly for policing in Bosnia, where the EU will need to decide whether it is ready to take on its first ESDP civilian policing operation as a follow-on to the current UN mission. Military operations will be more circumscribed,



until we have secured Greek and Turkish acquiescence to the package of decisions assuring EU access to NATO planning, and have finalised the terms of Turkish involvement in ESDP. But some will press for the EU to take over in Macedonia. The Spanish do not want to get caught in the Greek-Turkish mangle. We shall need to persuade them to keep pressure up on Greece. 2002 is the crucial year for real work behind the scenes to improve Europe's military and civilian capabilities. The Spanish intend to push here, and are setting about it the right way. Two areas to watch are armaments, where some in Madrid may favour an approach too ambitious and communitaire in the long term, and the establishment of a Defence Ministers' Council (the current - acceptable - Spanish compromise proposal is for meetings as part of the GAC).

26. Trade policy. The main trade policy concern during the Spanish Presidency will be to get negotiations well underway on the WTO Doha Development Agenda. The Presidency will also want progress on: EU-Mediterranean trade relations (see below); regional partnership agreements between the EU and ACP; the EU-Chile and EU-Mercosur negotiations (the Spanish have also called a summit of 50 EU and Latin American Heads in May; but the situation in Argentina will remain a major complication); and Russian WTO accession, in the wider context of EU/Russia cooperation (Aznar told the Prime Minister that he would be happy to invite Putin to Barcelona). We want the EU to play its part in securing a pro-developing countries outcome at the Financing for Development conference in Monterrey in March.

27. On EU/US, we and the Spanish will want to use the Summit to develop a positive economic relationship, and ensure that it is not soured by trade disputes. Top of the list is the Foreign Sales Corporation (FSC) case. The final WTO decision this month upheld the previous finding, that the US was providing an



illegal subsidy through its tax system. The EU has requested \$4bn of trade retaliation, although the WTO will probably approve a lesser amount (in early April). The Spanish Presidency will not want to move towards sanctions against the US. But nor will they wish to stand in the way if the Commission and other Member States conclude that pressure needs to be brought to bear. We will need to strike a careful balance between pressing the US to comply with the WTO ruling, and keeping the atmosphere low-key. This will require deft handling, in the context of other potential disputes – on steel (this has the potential to develop into a nasty dispute: President Bush due to decide on possible retaliatory measures by 6 March) and GMOs (will US patience with the stalemate within the EU on approving new GMO varieties?). Set against this, Finance Minister Rato looks set to take up the suggestion aired by the Chancellor in his New York speech of a Cecchini style report on greater transatlantic trade liberalisation and economic integration.

28. Middle East Peace Process. This Presidency will continue to press both parties to implement the Tenet Security Plan and the Mitchell Committee Report – the only realistic route back to negotiations; pressing Arafat to dismantle Hamas and Palestinian Islamic Jihad infrastructure, and Israel to end their military operations. We agree with this: we want to keep the EU in step with the US, and encourage US engagement, while making full use of Solana with both parties.

29. EuroMed Process. The Spanish will want to give this, their invention, a push, principally through the Valencia Foreign Ministerial in April. But progress on political and security issues remains difficult. So, they will focus on the cultural and economic dimensions – including the possible creation of a Mediterranean Development Bank. We shall want to maintain our commitment to the process, but to continue to press for realistic objectives which can be agreed by



all 27 partners, and that economic initiatives reflect the genuine needs of the region.

30. Western Balkans. The Spanish will have two main priorities in the Balkans: restraining separatist pressures in the FRY and Macedonia; and moving ahead with the EU's Stabilisation and Association (SAA) process. We support them on Montenegro and on Macedonia (where the focus should be on ensuring implementation of the framework peace agreement). On the SAA process, things may be trickier. In particular, Spain is keen to begin SAA negotiations with Albania, despite evidence that reforms are losing momentum. We want to ensure that the EU applies conditionality rigorously, across the board; and want tough country progress reports keeping up the pressure for reform in Albania, and for cooperation from FRY and Croatia with ICTY. On Bosnia, we want effective EU support for Lord Ashdown when he takes up the reins as High Representative.

Conclusions

31. Our key objectives should be:
- (a) on the fight against terrorism, to support the priority given by the Spanish Presidency, and to work for concrete action on both internal and external aspects;
 - (b) on Justice and Home Affairs, to press ahead with work on common immigration and asylum policies, mutual recognition of judicial decisions, and the fight against drugs, in particular;



- (c) on enlargement, to keep up with the roadmap, respect the Berlin financial package, ensure that discussion of enlargement goes with the grain of CAP reform, and sell the benefits of enlargement domestically;
- (d) on the future of Europe, to guide the debate in the Convention along a practical agenda making an EU at 25 work efficiently, and deliver outcomes which ordinary citizens want; and to maintain the momentum outside the Convention on Commission and Council reform;
- (e) on economic reform, to maximise the potential for progress on Aznar's five key areas at Barcelona, while remaining alive to the need not to fuel expectations unduly;
- (f) to encourage partners not to flag in working to achieve the objective of a stable and prosperous Afghanistan;
- (g) on ESDP, to continue efforts with the Greeks and Turks on EU/NATO links, and to support the Spanish in their work on capabilities;
- (h) on EU/US, to support Presidency efforts to manage the relationship, against the backdrop of potentially very serious trade disputes.



CABINET MINISTERIAL COMMITTEE ON EUROPEAN POLICY (EP)

Membership (Cabinet members):

Jack Straw	Secretary of State for Foreign and Commonwealth Affairs (Chairman)
John Prescott	Deputy Prime Minister and First Secretary of State
Gordon Brown	Chancellor of the Exchequer
Robin Cook	President of the Council and Leader of the House of Commons
Lord Irvine of Lairg	Lord Chancellor
David Blunkett	Secretary of State for the Home Department
Margaret Beckett	Secretary of State for Environment, Food and Rural Affairs
Clare Short	Secretary of State for International Development
Alistair Darling	Secretary of State for Work and Pensions
Stephen Byers	Secretary of State for Transport, Local Government and the Regions
Alan Milburn	Secretary of State for Health
John Reid	Secretary of State for Northern Ireland
Paul Murphy	Secretary of State for Wales
Geoff Hoon	Secretary of State for Defence
Helen Liddell	Secretary of State for Scotland
Lord Williams of Mostyn	Lord Privy Seal and Leader of the House of Lords
Patricia Hewitt	Secretary of State for Trade and Industry
Estelle Morris	Secretary of State for Education and Skills
Tessa Jowell	Secretary of State for Culture, Media and Sport
Hilary Armstrong	Parliamentary Secretary, Treasury and Chief Whip
Charles Clarke	Minister without Portfolio

Members of EP not in the Cabinet

Lord Goldsmith	Attorney General
Peter Hain	Minister for Europe, Foreign and Commonwealth Office

Other Ministers will be invited to attend as the nature of the business requires.

The United Kingdom's Permanent Representative to the European Union is also invited to attend.

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Cabinet Ministers who are not members of EP:

Tony Blair	Prime Minister
Andrew Smith	Chief Secretary to the Treasury

Ministers attending Cabinet who are not members of EP:

Nick Brown	Minister of State for Work
Lord Carter	Lords Chief Whip and Captain of the Gentlemen at Arms
John Spellar	Minister for Transport

RESTRICTED

**BY FAX**

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Dear Martin,


ENERGY: BARCELONA: CONTACTS WITH THE GERMANS AND THE DUTCH

1. We spoke this morning. Thank you for the read-out you were able to give me on Friday afternoon of your contacts with the Spanish last week. It provided helpful (and exceptionally timely) input to our discussions with the German Director-General (Moeller) and the Dutch Director-General (van Hulst) here, on Friday.
2. Needless to say, Barcelona figured as a significant item on agenda otherwise devoted to mutual exploration of each other's national energy review outcomes (an interesting process in itself, which Loraine Dawson will be reporting separately). On Barcelona, the following points emerged:
 - a) Germany (Moeller) emphasised the significance of coal for Germany, at least in terms of some sort of headline political deal which could be presented as a success. Details could be left until later. Moeller recognised that this may well need to be part of a wider energy package. She suggested that Germany was willing to accept the idea of agreement at some point at or around Barcelona on a date for industrial and commercial liberalisation ahead of full market opening, provided that the implementation of the resulting package was synchronised, so that the introduction of some sort of independent regulation in Germany was linked to some level of market opening elsewhere (ie. in France). Again, she emphasised that Germany was really only interested at Barcelona in some sort of headline deal. Subsequent details could be sorted out at the June Energy Council or even later, provided satisfactory arrangements for coal were in place;
 - b) For the Netherlands, van Hulst simply took note.



3. Separately, at your suggestion we ran through the ideas in the gas liberalisation paper (without handing over a copy). The immediate reaction was that more open and encouraging than I had expected; both the Germans and the Dutch (who are themselves distantly conservative on gas liberalisation, because of the Dutch Government's stake in Gasunie) seemed to accept the broad analysis in the paper but questioned the extent to which the EU was capable of developing an operational policy towards gas exporting countries which would meet EU interests. Their conclusion was that we should try our hand at conclusions language which could be linked to moribund debate on the Commission's Security of Supply Green Paper. We are taking this idea up and will circulate a text shortly.

4. Separately, you said you were interested in a shorter version of the gas liberalisation paper. I attach a possible draft.

Jous,

Ian Fletcher

Copies: Joan MacNaughton, Director General, Energy
Neil Hirst, ENP
John Alty EP
Rob Wright CPD
Sue Harrison ENP
Lorraine Dawson ENP
Peter Gysin ENP
Julian Miller, FCO
Ian Holt, UKREP
Jo Kuenssberg, Paris
Sophie Goodrick, Berlin
Edward Oakden, Madrid
Catharine Bradley, Netherlands
Roger Liddle, No 10
Geoffrey Norris, No 10

European gas liberalisation: external issues

Introduction

- 1 Regardless of the speed or final shape of internal market liberalisation and integration in gas, the EU already has significant shared interests as a result of continued, growing reliance on neighbouring regions for pipeline gas supplies. These issues are likely to be best dealt with at EU level if Europe's economic, security of supply, enlargement and environmental objectives are to be met.

Background

- 2 The process of internal market energy liberalisation has led to concerns within the gas industry that a rapid move towards market liberalisation could jeopardise EU gas supplies, by making it harder to finance long term investments in new sources.
- 3 Separately, some gas-supplying countries (especially Russia) see the advent of a liberalised EU market as a threat to stable income flows, and they oppose key parts of the liberalisation process.
- 4 At first sight, these concerns seem significant, at least to some extent:-
 - (a) gas is increasingly important in the EU economy. Across the EU, gas provides 27 per cent of total energy inputs. EU enlargement will stimulate further growth in gas demand. But it is important not to overstate the case either: there remains real diversity of supply in gas across the EU;
 - (b) gas is increasingly imported, and rising demand means that new external sources are needed. New pipelines require large up-front investments, and have longish payback times (although some claims here may be overstated). But again the problem may be overstated. Norway is a major gas exporter to the EU, but from a strategic perspective it seems right to count Norwegian production as "internal". On this basis, "internal" European production meets 71 per cent of current EU needs, with about 40 percent of the imported volume coming from Russia. Nevertheless, the overall volume and proportion of gas imported will rise as EU demand expands and "internal" production remains stable or falls; and
 - (c) the political and fiscal stability of many gas exporting countries is an important objective in itself. Gas is 17 per cent of Russian export income. It is 32 per cent of Algerian export income. Steps that undermined the finances of exporting countries (or confidence in their public or private credit) would not be in the EU's interest.

EU Interests

- 5 The EU has a strong political commitment to the early completion of the internal energy market. In the case of the gas market it also reflects an existing shared economic interest: some 40 per cent of EU gas (internal or imported) crosses a border en route to final destination.
- 6 The growing role gas plays in the European economy means the EU has a growing interest in ensuring both an efficient internal market (contributing to competitiveness), and a shared interest in ensuring both physical security of supply, and the orderly long term development of new supplies to meet growing demand. The nature of networks (transmitting economic signals even more quickly than physical gas) and the growing integration of the EU's economy mean gas issues can only sensibly be addressed at EU level – problems or disruptions in one country will quickly affect all.

External interests

- 7 In the analysis that follows, Norway is (again) counted as an internal supplier. Transit states are not considered separately from supplying states, although transit issues are important, and transit states play a significant energy security role.
- 8 The "headline" external interest lies in access to secure supplies of gas at competitive prices now and in the future; the means is the active encouragement of competitive gas markets outside the EU, both in producer and in transit states. That involves addressing outward facing aspects of the internal market (like long term contracts, where exporters have real concerns, even if these are likely to be misplaced) as well as investment and development issues in exporting countries.
- 9 So far, this interest – while acknowledged – has not been pursued effectively at EU level. The Energy Charter Treaty has been developed as one possible attempt at dealing with investment in gas supplying countries. But it has not been successful, and does not deal with the outward facing aspects of the internal market. Indeed, the only real example of a politically credible EU external gas policy has been the EU-Russia energy dialogue. However, this has been open to the following criticisms:
 - (a) it has sent the signal to the Russians that we need their gas, and (by implication) that we shall be prepared to pay a premium (and compromise our internal market objectives) in order to secure it. This may also undermine reform in Russia. And it has had the perverse effect of allying EU gas industry incumbents with Russia to oppose internal market reform, on the grounds that it would undermine existing long term contracts (possibly true, and an

issue to be addressed) and deter new investment (only true if new investment was not economic anyway);

- (b) conversely, it has also sent the wrong signal to major alternative suppliers of piped gas - Algeria and Iran. Algerian officials have said that they are getting the message that the EU is not interested in more Algerian gas; the risk is that the Algerians will consequently put their effort into the LNG market, denying EU consumers the advantage of low marginal cost, and probably lower prices, if additional pipe-lines were built from Algeria to the EU; and
- (c) more generally, there is inadequate political control over the processes that have led to the EU-Russia dialogue, and the dialogue is not underpinned by a coherent strategy based on shared analysis of the EU's interests.

Next steps

- 10 It makes sense to develop a coherent, explicit external gas strategy to address these issues and complement the internal market programme. It should have the following features:-
- (a) the objective of encouraging competitive gas supply into the EU consistent with internal market objectives, with competitive gas market structures and investment regimes outside the EU;
 - (b) it should be grounded in an assessment of the relevant circumstances, including the EU's location within pipe-line supply of 70% of the world's gas reserves, and the fact that a number of the major gas suppliers need the EU market as much as the EU market needs their gas;
 - (c) the strategy should aim at encouraging a larger number of players to compete to supply gas into the EU (and to encourage foreign governments to establish competitive gas markets with separation of pipes, and competition at the production level). It should do this through a "working with" approach - by building a shared interest among producer and supplier countries (which implies focussing at government, not company, level). Bilateral dialogue should reflect the fact that a positive signal to one player is a negative signal to others;
 - (d) the strategy should also aim at potential transit states (a category which includes Russia!). A priority must be to inject new momentum in to the Energy Charter Treaty process, including the Transit Protocol, to overcome Russian (essentially Gazprom) objections; this would help to open up gas supplies from Central Asia;

(e) the strategy should explicitly address the transitional issues which will arise as the EU market evolves. In particular, existing long term contracts should be analysed to see how they might need to be adapted, to accommodate market change in the EU without disrupting gas flows, investor confidence, or the income of exporting countries.

11 Political accountability has been lacking from the Commission's previous political initiatives in this area. It would be important for the Commission to articulate a strategy on these lines on the basis of a clear and transparent framework, discussed and agreed by Member States, and to report back at regular intervals.

Conclusion

12 Whatever particular actions might be agreed, three key points seem important:

- The EU gas market is already well integrated, although very imperfectly. The liberalisation process underway will reinforce that integration, and improve competition everywhere.
- The EU gas market is connected at every level (physical, economic and political) to gas supply countries around the EU. That relationship is mutually beneficial, but needs to be developed further if Europe's economic and security of supply interests are to be met, and if exporting countries are to secure a reasonable return for their resources.
- The issues that surround the interaction of the internal market and gas supply affect the whole of the EU, and should be addressed at that level.

23 January 2002

MATRIX
PR



Foreign &
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The Rt Hon Peter Hain MP
Minister For Europe

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22 January 2002

Jan Stegole

MINECOR, 17 JANUARY: BARCELONA

1. John Cridland, Deputy Director of the CBI, was our guest speaker at the 17 January MINECOR discussion on the Barcelona process and economic reform. He gave us a useful business perspective of Barcelona, explaining that the CBI shared HMG's main objectives on economic reform, but expressing some disappointment at lack of progress on this agenda since Lisbon. Barcelona needed to recapture the initiative and identify the elements of economic reform which were key to our future competitiveness.

CBI presentation

2. John's presentation focused on four key areas:

- opening European markets: we needed to achieve a true level playing field, for example through energy liberalisation. But the UK's price advantage and in-built market protection meant that this would not be the number one issue. More important was to boost the E-agenda, which had been one of the successes of Lisbon but which had fallen off since. We had achieved many of the targets of Lisbon but needed to reassess our objectives to make sure we were the most open e-market. We also needed to make more tangible progress on broadband, including a new EU approach on incentives;
- financial services regulation: Stockholm had missed the potential here. The CBI had fears that the agreements reached were adding to the costs to businesses by over-regulating;
- labour market reform: this was not moving in the right direction. The CBI was opposed to unnecessary directives, such as those on information and consultation. The UK's labour market flexibility was the key to its competitive advantage. Giving it up was a high price to pay. The latest Commission proposals on company restructuring could reduce companies' ability to take swift action: they could cost rather than create jobs;



- stimulating innovation: we needed to push issues such as biotechnology up the Barcelona agenda. More companies had been launched in this field during the last five years in Israel than in the whole of the EU: we were clearly not providing the conditions they needed.

Discussion

3. In the subsequent discussion, John described the CBI's attempts to improve relations with the TUC (which had improved at the national level but were still bedevilled at the European level by social policy), and the European Parliament, (where the CBI was working with all parties in its attempts to strengthen a still weak British input). He also spoke of the need for HMG to enlist major companies, employer and trade union groups in working for an internationally competitive EU. In parallel to this, there was great potential for improving social cohesion in Europe, for example by reinvigorating the life-long learning agenda, identifying common EU skills shortages, and making progress on labour market issues related to completion of the single market, such as a common approach to pension policies.

Managing expectations

4. We agreed on the need to manage public expectations of Barcelona. The summit would not make the same broad progress as had been achieved at Lisbon. We needed to focus on those issues where we could achieve progress, and flag those up as our priorities. Larry Whitty mentioned the need to deliver on the environment and sustainable development. These policies could work in hand with economic reform. Helen Liddle made the point that we should work with employers' organisations to maximise the run-up to Barcelona, and also get their endorsement of its outcomes. Denis MacShane thought we might manage expectations by pointing out the limitations placed on progress by rising unemployment levels in other member states.

Core script

5. I circulated the Barcelona core script and stressed the need for all of us to build its key messages into all our public speaking engagements.

Applications for asylum from EU Enlargement candidate countries

6. At the 21 November MINECOR on Enlargement, I undertook to provide figures on asylum claims from the current candidate states and on European migration patterns following earlier enlargements. These are **enclosed**.

Next meeting

7. We agreed that the next meeting would be at 14:00 on Monday 18 March, in the Map Room at the FCO. It would focus on communication strategy. We would refine and circulate the main MINECOR core script in advance of the meeting, and this would then



form the basis of our discussion. Any contact at official level in the meantime should go through the new MINECOR Secretary, Giles Portman, (tel: 7270 2564; Giles.Portman@fco.gov.uk).

A handwritten signature in black ink, consisting of a large, stylized 'J' followed by a smaller, more complex signature.

Peter Hain

BARCELONA/ECONOMIC REFORM – CORE SCRIPT

TOP MESSAGES

- Economic reform on track. Much done. Much to do.
- Reform already created 5m new jobs and cheaper phone calls.
- Want more progress at Barcelona. But **not a one-off summit**. Only **2nd year of 10 year programme**. One summit in ten.
- Reform matters. UK citizens could be £5,000 richer (if matched US productivity levels, EU be 40% richer). Plus will create 20m new jobs in EU.
- **Our kind of Europe: focused on delivering practical benefits**. Open, outward-looking EU – learning from US, Asia.
- **UK agenda**. Aznar and Blair launched reform in 1999. **UK shaping Europe by engagement, not isolation**.

DETAILED MESSAGES

ECONOMIC REFORM AGENDA

- **Ambitious – but realistic - programme.**
- **Two aims (agreed Lisbon, 2000):**
 - **make EU most competitive economy in world.**
 - **create full employment.**

- 2010 deadline. So 2 years into 10 year programme.

WHY MATTER?

- Prosperous Britain needs prosperous EU. 60% of UK trade with EU. 3m UK jobs depend on EU.
- EU not living up to potential. If did, every UK citizen be £5,000 richer (EU 40% richer).
- So must reform. Can learn from US and Asia.

PROGRESS SO FAR

- 2 years into 10 year programme. Some successes; some setbacks. But reform on course. Benefits to UK already:
 - i. More jobs: EU created 5m in last 2 years. 80% high skilled.
 - ii. Cheaper phone calls from opening-up Member State' telecoms markets to more competition.
 - iii. Less employment discrimination: EU adopted measures.
 - iv. Business benefits: Action taken to reduce unfair subsidies and promote fair competition.
 - v. Small firms: Charter adopted to help them flourish.

BARCELONA – (INC UK AIMS)

- **EU take stock.** Evaluate progress in first 2 years of 10 year programme.
- **Redouble efforts.** Uncertain world economic climate makes reform more – not less – necessary.
- **Would like to see:**
 - i. **more internet links between schools across borders;**
 - ii. **opening up broadband technology to EU citizens;**
 - iii. **progress on single market in financial services and capital;**
 - iv. **measures to make gas and electricity markets more competitive**
 - v. **progress on a single European sky to cut air traffic delays;**
- **Also Spanish and Commission aims.**
 - **But may not get all this. Must be realistic. Decisions by unanimity. Only 2 years into 10 year programme. Maybe too soon (e.g. for energy liberalisation). Key is to keep reform moving.**

ECONOMIC BENEFITS OF EU MEMBERSHIP

- **Single market removed barriers to trade. Boosted UK jobs, UK trade, UK investment, UK growth. Boosted EU GDP by more than 1.5%.**

SPECIFIC POLICIES

Energy liberalisation

- **Key Lisbon objective. UK, Presidency, Commission pushing for next step. Progress – not final agreement – at Barcelona.**

- But realistic about prospects for Barcelona. Only 2nd year of 10 year programme. Probably too early to take this step.

Community Patent

- Want fast agreement. Boost EU innovation. Increase competitiveness.
- But industry support more important than speed. Business must use it i.e. be affordable, efficient.

Takeovers Directive

- Would deliver fairer competition, higher growth, better returns for savers.

Single market in financial services

- Would deliver fairer competition, higher growth, better returns for savers.
- Hope European Parliament and Commission resolve procedural differences soon.

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Bulgaria

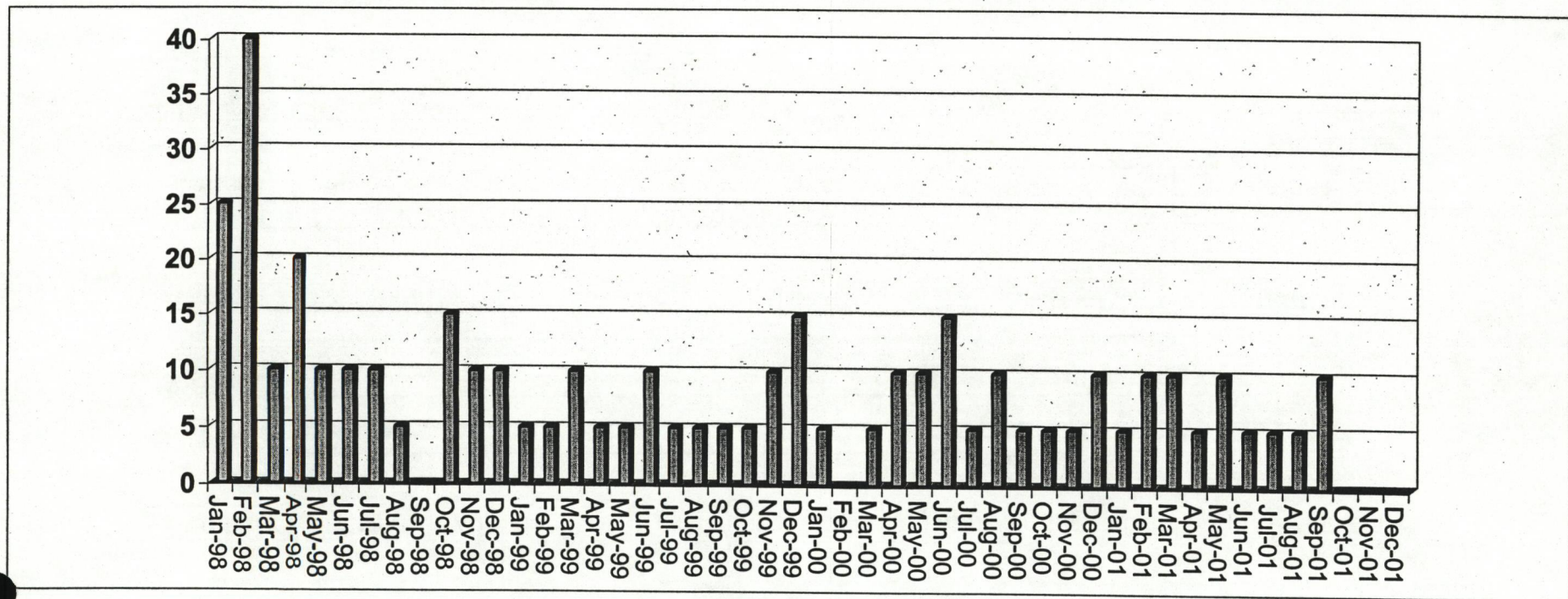
Number of principal asylum seekers (ie excluding dependants) applying for asylum in the United Kingdom

Month	Jan 98	Feb 98	Mar 98	Apr 98	May 98	Jun 98	Jul 98	Aug 98	Sep 98	Oct 98	Nov 98	Dec 98	Total
Number	25	40	10	20	10	10	10	5	0	15	10	10	165

Month	Jan 99	Feb 99	Mar 99	Apr 99	May 99	Jun 99	Jul 99	Aug 99	Sep 99	Oct 99	Nov 99	Dec 99	Total
Number	5	5	10	5	5	10	5	5	5	5	10	15	85

Month	Jan 00	Feb 00	Mar 00	Apr 00	May 00	Jun 00	Jul 00	Aug 00	Sep 00	Oct 00	Nov 00	Dec 00	Total
Number	5	0	5	10	10	15	5	10	5	5	5	10	85

Month	Jan 01	Feb 01	Mar 01	Apr 01	May 01	Jun 01	Jul 01	Aug 01	Sep 01	Oct 01	Nov 01	Dec 01	Total
Number	5	10	10	5	10	5	5	5	10	0	0	0	65



Cyprus

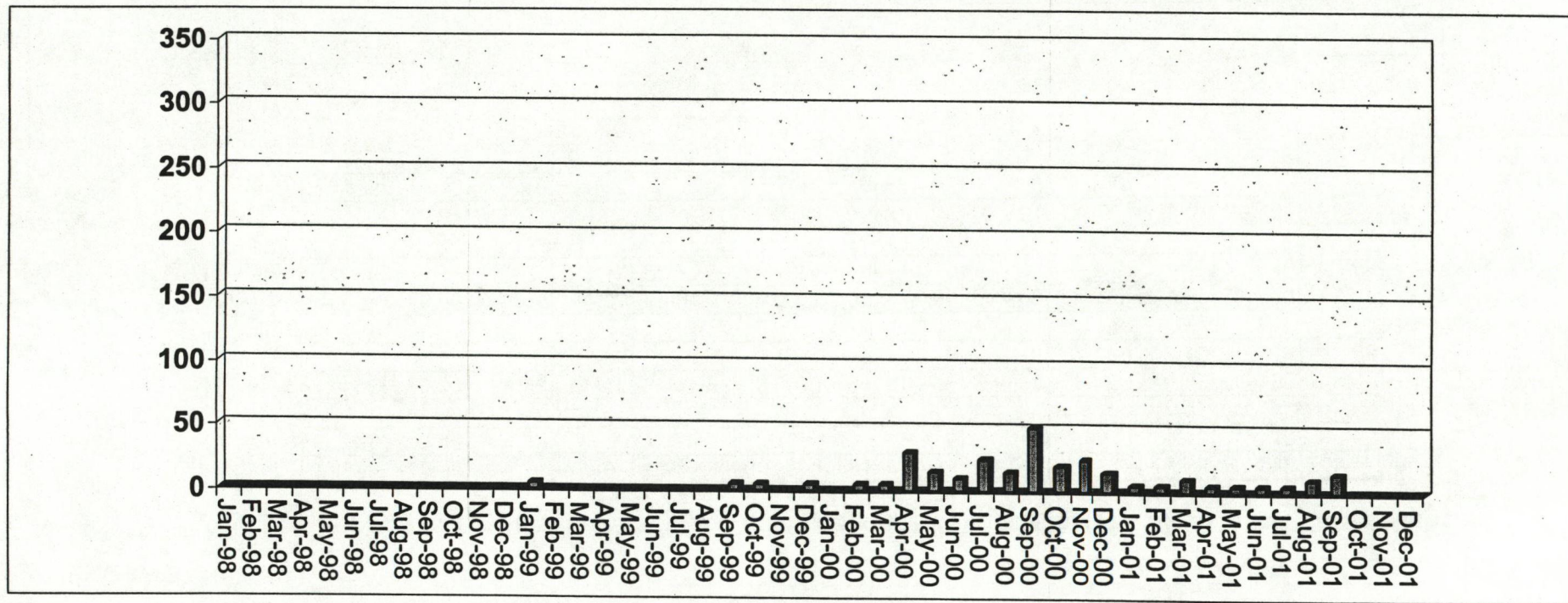
Number of principal asylum seekers (ie excluding dependants) applying for asylum in the United Kingdom

Month	Jan 98	Feb 98	Mar 98	Apr 98	May 98	Jun 98	Jul 98	Aug 98	Sep 98	Oct 98	Nov 98	Dec 98	Total
Number	0	0	0	0	0	0	0	0	0	0	0	0	0

Month	Jan 99	Feb 99	Mar 99	Apr 99	May 99	Jun 99	Jul 99	Aug 99	Sep 99	Oct 99	Nov 99	Dec 99	Total
Number	5	0	0	0	0	0	0	0	5	5	0	5	20

Month	Jan 00	Feb 00	Mar 00	Apr 00	May 00	Jun 00	Jul 00	Aug 00	Sep 00	Oct 00	Nov 00	Dec 00	Total
Number	0	5	5	30	15	10	25	15	50	20	25	15	215

Month	Jan 01	Feb 01	Mar 01	Apr 01	May 01	Jun 01	Jul 01	Aug 01	Sep 01	Oct 01	Nov 01	Dec 01	Total
Number	5	5	10	5	5	5	5	10	15	0	0	0	65



Czech Republic

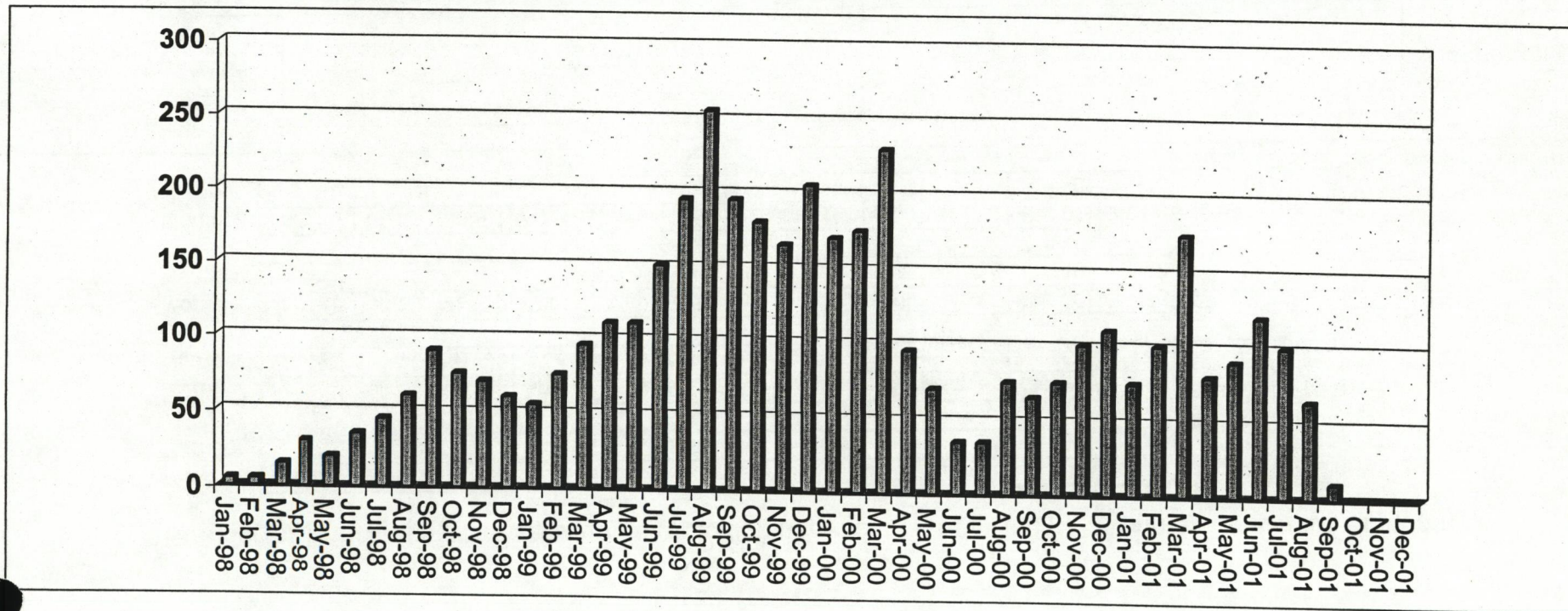
Number of principal asylum seekers (ie excluding dependants) applying for asylum in the United Kingdom

Month	Jan 98	Feb 98	Mar 98	Apr 98	May 98	Jun 98	Jul 98	Aug 98	Sep 98	Oct 98	Nov 98	Dec 98	Total
Number	5	5	15	30	20	35	45	60	90	75	70	60	510

Month	Jan 99	Feb 99	Mar 99	Apr 99	May 99	Jun 99	Jul 99	Aug 99	Sep 99	Oct 99	Nov 99	Dec 99	Total
Number	55	75	95	110	110	150	195	255	195	180	165	205	1790

Month	Jan 00	Feb 00	Mar 00	Apr 00	May 00	Jun 00	Jul 00	Aug 00	Sep 00	Oct 00	Nov 00	Dec 00	Total
Number	170	175	230	95	70	35	35	75	65	75	100	110	1235

Month	Jan 01	Feb 01	Mar 01	Apr 01	May 01	Jun 01	Jul 01	Aug 01	Sep 01	Oct 01	Nov 01	Dec 01	Total
Number	75	100	175	80	90	120	100	65	10	0	0	0	815



Estonia

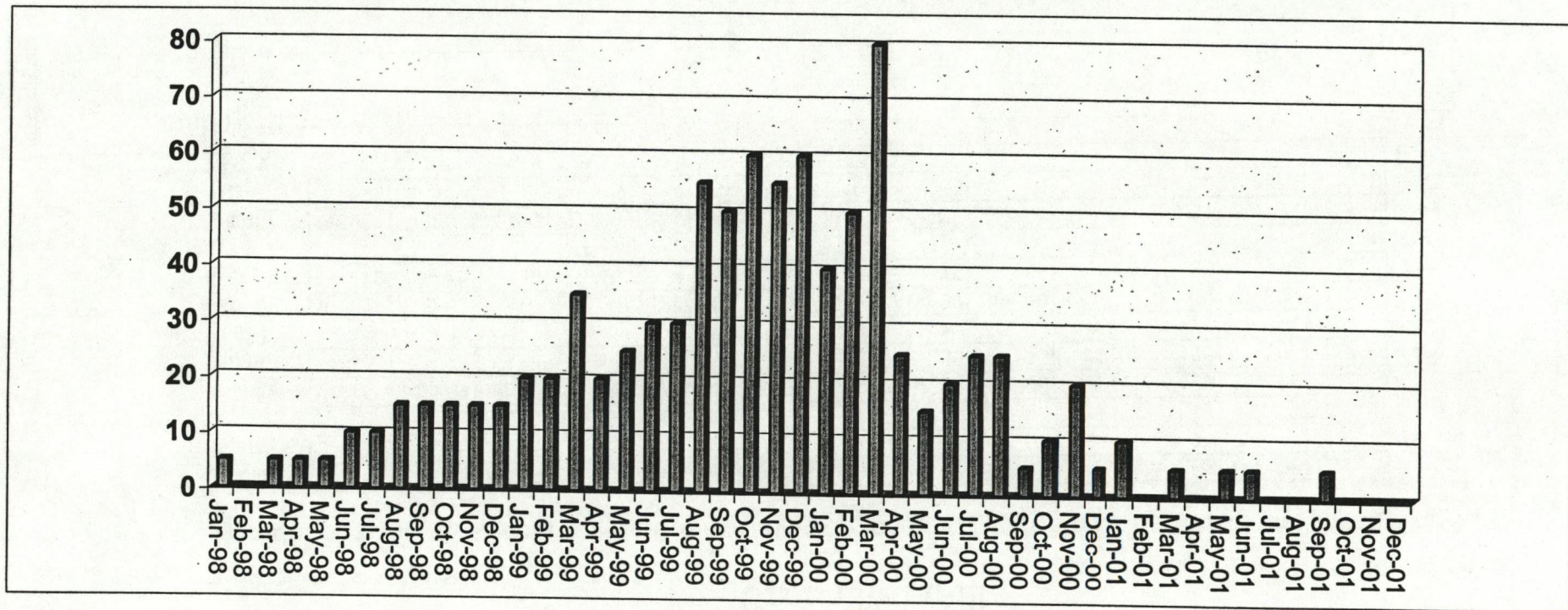
Number of principal asylum seekers (ie excluding dependants) applying for asylum in the United Kingdom

Month	Jan 98	Feb 98	Mar 98	Apr 98	May 98	Jun 98	Jul 98	Aug 98	Sep 98	Oct 98	Nov 98	Dec 98	Total
Number	5	0	5	5	5	10	10	15	15	15	15	15	115

Month	Jan 99	Feb 99	Mar 99	Apr 99	May 99	Jun 99	Jul 99	Aug 99	Sep 99	Oct 99	Nov 99	Dec 99	Total
Number	20	20	35	20	25	30	30	55	50	60	55	60	460

Month	Jan 00	Feb 00	Mar 00	Apr 00	May 00	Jun 00	Jul 00	Aug 00	Sep 00	Oct 00	Nov 00	Dec 00	Total
Number	40	50	80	25	15	20	25	25	5	10	20	5	320

Month	Jan 01	Feb 01	Mar 01	Apr 01	May 01	Jun 01	Jul 01	Aug 01	Sep 01	Oct 01	Nov 01	Dec 01	Total
Number	10	0	5	0	5	5	0	0	5	0	0	0	30



Hungary

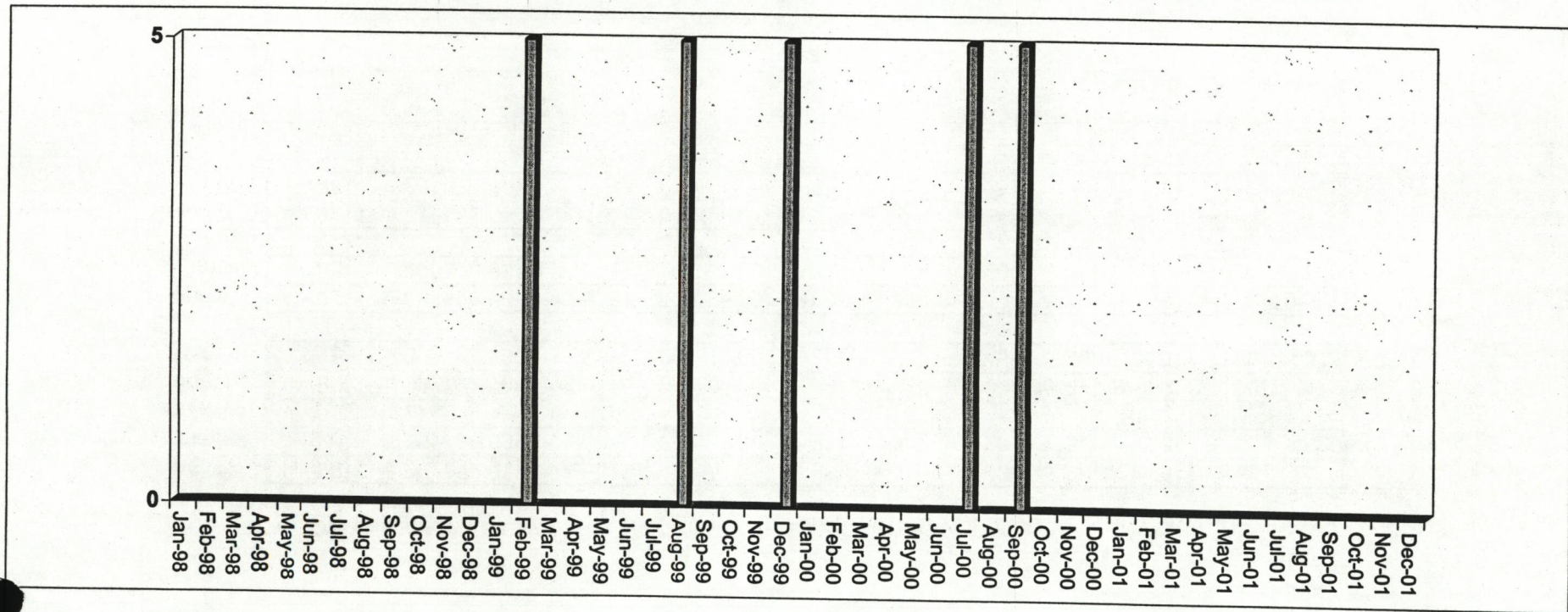
Number of principal asylum seekers (ie excluding dependants) applying for asylum in the United Kingdom

Month Number	Jan 98	Feb 98	Mar 98	Apr 98	May 98	Jun 98	Jul 98	Aug 98	Sep 98	Oct 98	Nov 98	Dec 98	Total
	0	0	0	0	0	0	0	0	0	0	0	0	0

Month Number	Jan 99	Feb 99	Mar 99	Apr 99	May 99	Jun 99	Jul 99	Aug 99	Sep 99	Oct 99	Nov 99	Dec 99	Total
	0	5	0	0	0	0	0	5	0	0	0	5	15

Month Number	Jan 00	Feb 00	Mar 00	Apr 00	May 00	Jun 00	Jul 00	Aug 00	Sep 00	Oct 00	Nov 00	Dec 00	Total
	0	0	0	0	0	0	5	0	5	0	0	0	10

Month Number	Jan 01	Feb 01	Mar 01	Apr 01	May 01	Jun 01	Jul 01	Aug 01	Sep 01	Oct 01	Nov 01	Dec 01	Total
	0	0	0	0	0	0	0	0	0	0	0	0	0



Latvia

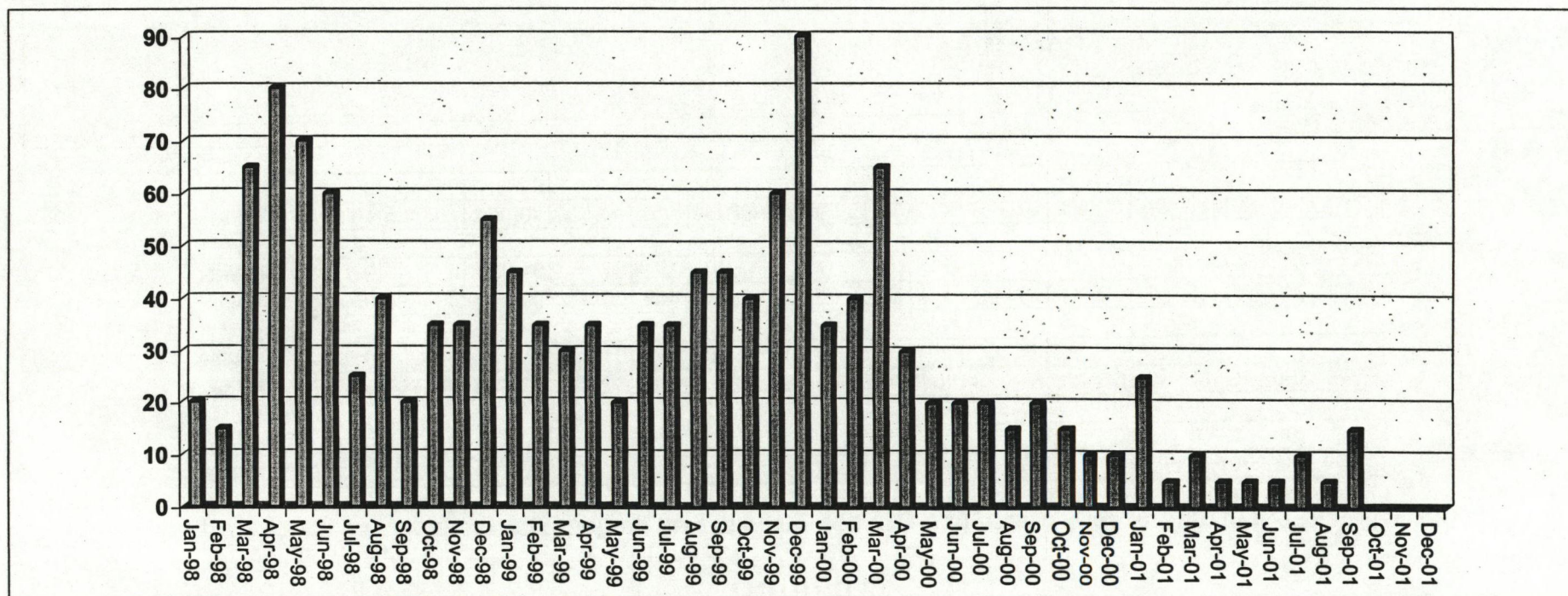
Number of principal asylum seekers (ie excluding dependants) applying for asylum in the United Kingdom

Month	Jan-98	Feb-98	Mar-98	Apr-98	May-98	Jun-98	Jul-98	Aug-98	Sep-98	Oct-98	Nov-98	Dec-98	Total
Number	20	15	65	80	70	60	25	40	20	35	35	55	520

Month	Jan-99	Feb-99	Mar-99	Apr-99	May-99	Jun-99	Jul-99	Aug-99	Sep-99	Oct-99	Nov-99	Dec-99	Total
Number	45	35	30	35	20	35	35	45	45	40	60	90	515

Month	Jan-00	Feb-00	Mar-00	Apr-00	May-00	Jun-00	Jul-00	Aug-00	Sep-00	Oct-00	Nov-00	Dec-00	Total
Number	35	40	65	30	20	20	20	15	20	15	10	10	300

Month	Jan-01	Feb-01	Mar-01	Apr-01	May-01	Jun-01	Jul-01	Aug-01	Sep-01	Oct-01	Nov-01	Dec-01	Total
Number	25	5	10	5	5	5	10	5	15	0	0	0	85



Lithuania

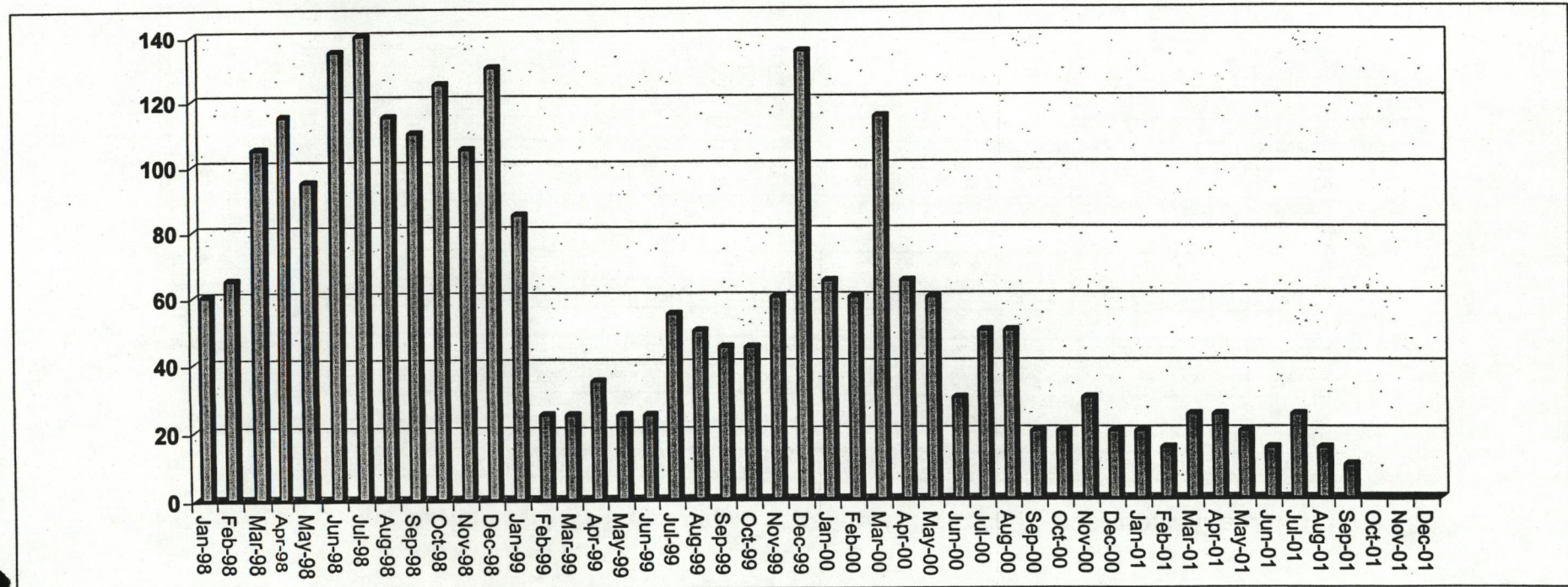
Number of principal asylum seekers (ie excluding dependants) applying for asylum in the United Kingdom

Month	Jan 98	Feb 98	Mar 98	Apr 98	May 98	Jun 98	Jul 98	Aug 98	Sep 98	Oct 98	Nov 98	Dec 98	Total
Number	60	65	105	115	95	135	140	115	110	125	105	130	1300

Month	Jan 99	Feb 99	Mar 99	Apr 99	May 99	Jun 99	Jul 99	Aug 99	Sep 99	Oct 99	Nov 99	Dec 99	Total
Number	85	25	25	35	25	25	55	50	45	45	60	135	610

Month	Jan 00	Feb 00	Mar 00	Apr 00	May 00	Jun 00	Jul 00	Aug 00	Sep 00	Oct 00	Nov 00	Dec 00	Total
Number	65	60	115	65	60	30	50	50	20	20	30	20	585

Month	Jan 01	Feb 01	Mar 01	Apr 01	May 01	Jun 01	Jul 01	Aug 01	Sep 01	Oct 01	Nov 01	Dec 01	Total
Number	20	15	25	25	20	15	25	15	10	0	0	0	170



Poland

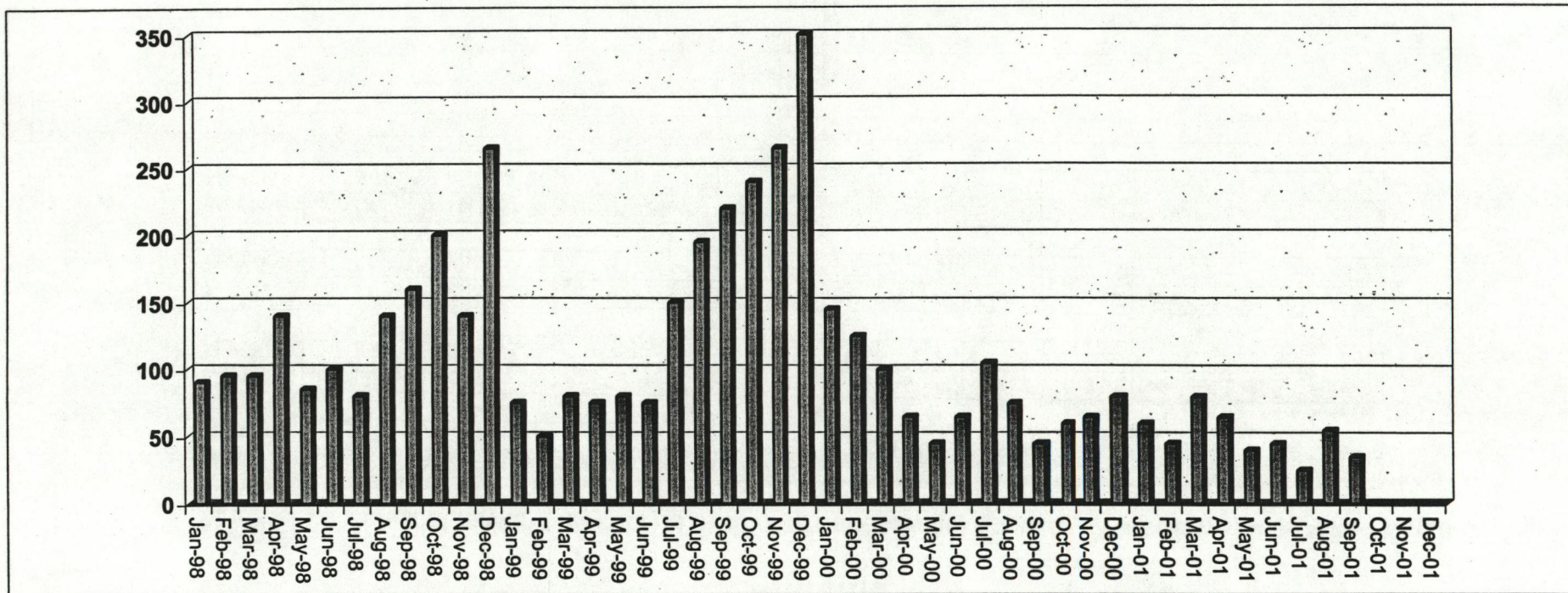
Number of principal asylum seekers (ie excluding dependants) applying for asylum in the United Kingdom

Month	Jan 98	Feb 98	Mar 98	Apr 98	May 98	Jun 98	Jul 98	Aug 98	Sep 98	Oct 98	Nov 98	Dec 98	Total
Number	90	95	95	140	85	100	80	140	160	200	140	265	1590

Month	Jan 99	Feb 99	Mar 99	Apr 99	May 99	Jun 99	Jul 99	Aug 99	Sep 99	Oct 99	Nov 99	Dec 99	Total
Number	75	50	80	75	80	75	150	195	220	240	265	350	1855

Month	Jan 00	Feb 00	Mar 00	Apr 00	May 00	Jun 00	Jul 00	Aug 00	Sep 00	Oct 00	Nov 00	Dec 00	Total
Number	145	125	100	65	45	65	105	75	45	60	65	80	975

Month	Jan 01	Feb 01	Mar 01	Apr 01	May 01	Jun 01	Jul 01	Aug 01	Sep 01	Oct 01	Nov 01	Dec 01	Total
Number	60	45	80	65	40	45	25	55	35	0	0	0	450



Romania

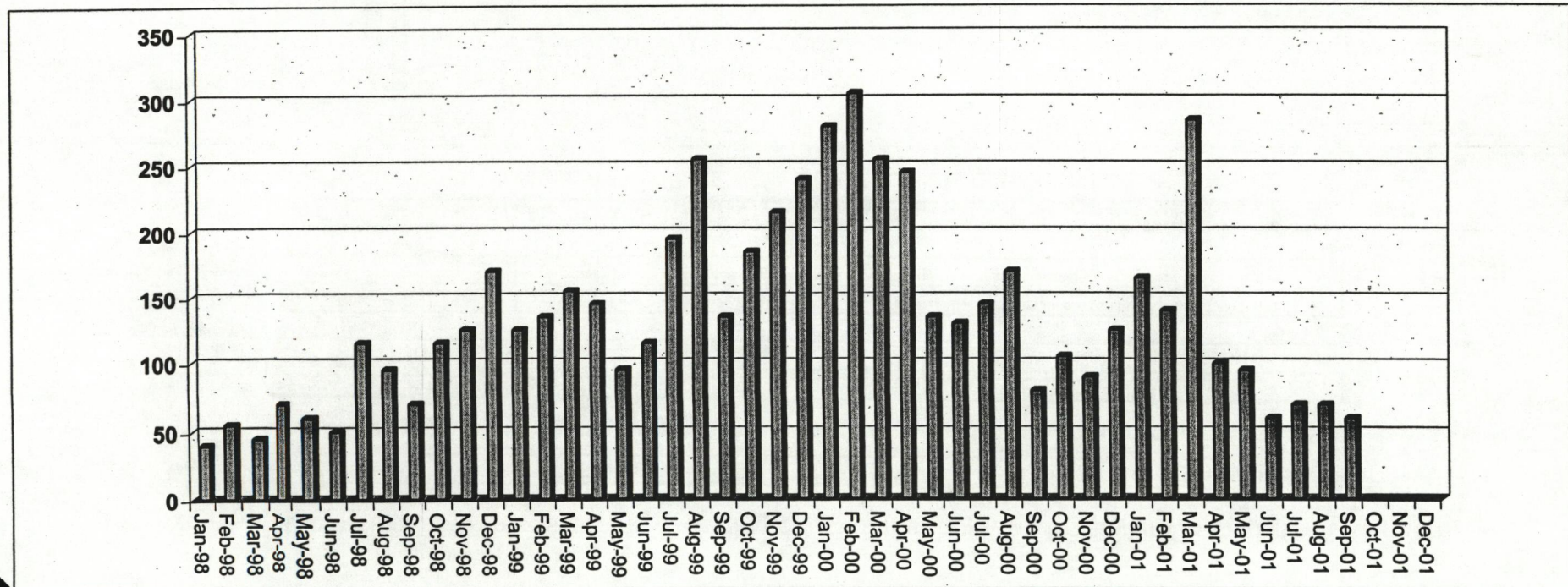
Number of principal asylum seekers (ie excluding dependants) applying for asylum in the United Kingdom

Month	Jan 98	Feb 98	Mar 98	Apr 98	May 98	Jun 98	Jul 98	Aug 98	Sep 98	Oct 98	Nov 98	Dec 98	Total
Number	40	55	45	70	60	50	115	95	70	115	125	170	1010

Month	Jan 99	Feb 99	Mar 99	Apr 99	May 99	Jun 99	Jul 99	Aug 99	Sep 99	Oct 99	Nov 99	Dec 99	Total
Number	125	135	155	145	95	115	195	255	135	185	215	240	1995

Month	Jan 00	Feb 00	Mar 00	Apr 00	May 00	Jun 00	Jul 00	Aug 00	Sep 00	Oct 00	Nov 00	Dec 00	Total
Number	280	305	255	245	135	130	145	170	80	105	90	125	1940

Month	Jan 01	Feb 01	Mar 01	Apr 01	May 01	Jun 01	Jul 01	Aug 01	Sep 01	Oct 01	Nov 01	Dec 01	Total
Number	165	140	285	100	95	60	70	70	60	0	0	0	1045



Slovakia

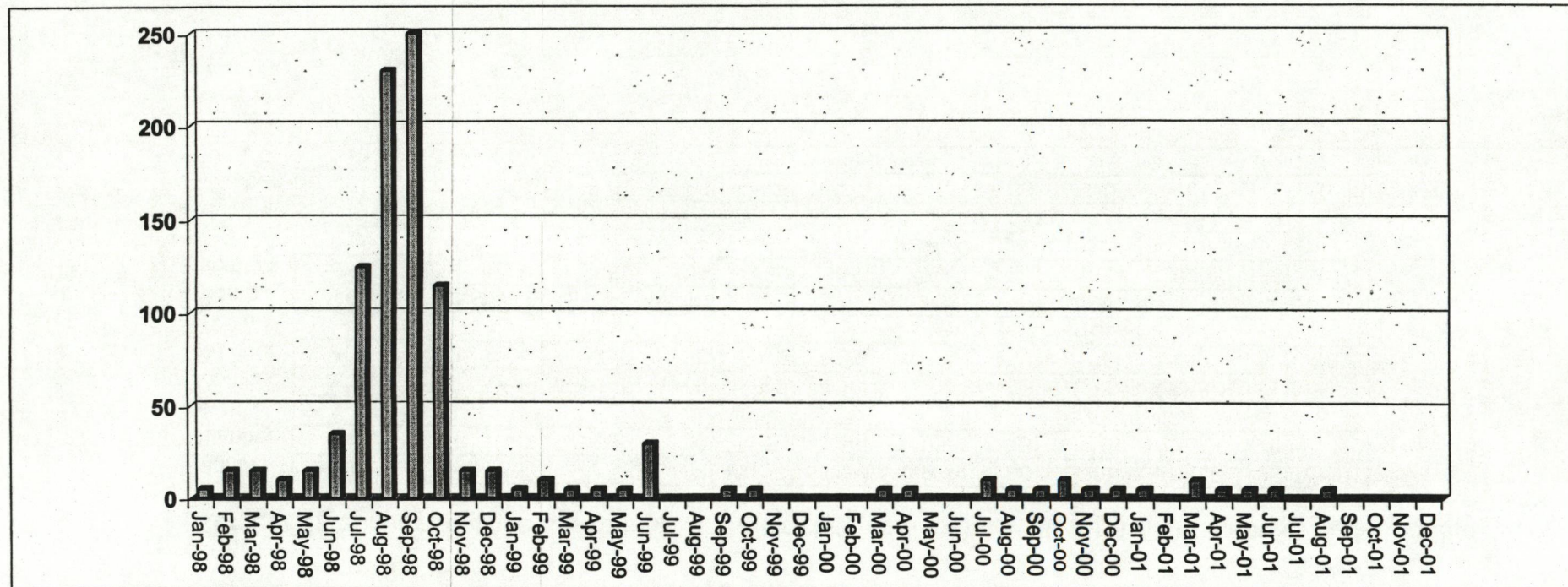
Number of principal asylum seekers (ie excluding dependants) applying for asylum in the United Kingdom

Month	Jan 98	Feb 98	Mar 98	Apr 98	May 98	Jun 98	Jul 98	Aug 98	Sep 98	Oct 98	Nov 98	Dec 98	Total
Number	5	15	15	10	15	35	125	230	250	115	15	15	845

Month	Jan 99	Feb 99	Mar 99	Apr 99	May 99	Jun 99	Jul 99	Aug 99	Sep 99	Oct 99	Nov 99	Dec 99	Total
Number	5	10	5	5	5	30	0	0	5	5	0	0	70

Month	Jan 00	Feb 00	Mar 00	Apr 00	May 00	Jun 00	Jul 00	Aug 00	Sep 00	Oct 00	Nov 00	Dec 00	Total
Number	0	0	5	5	0	0	10	5	5	10	5	5	50

Month	Jan 01	Feb 01	Mar 01	Apr 01	May 01	Jun 01	Jul 01	Aug 01	Sep 01	Oct 01	Nov 01	Dec 01	Total
Number	5	0	10	5	5	5	0	5	0	0	0	0	35



Slovenia

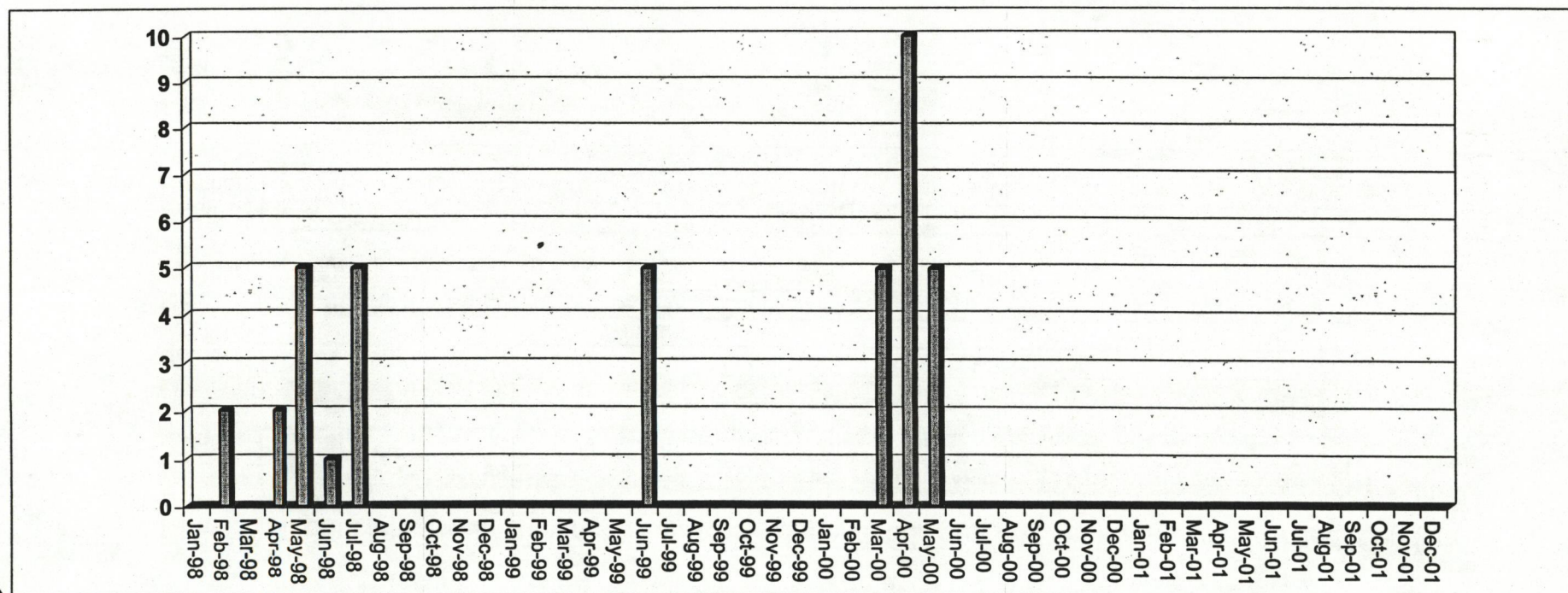
Number of principal asylum seekers (ie excluding dependants) applying for asylum in the United Kingdom

Month	Jan 98	Feb 98	Mar 98	Apr 98	May 98	Jun 98	Jul 98	Aug 98	Sep 98	Oct 98	Nov 98	Dec 98	Total
Number	0	2	0	2	5	1	5	0	0	0	0	0	15

Month	Jan 99	Feb 99	Mar 99	Apr 99	May 99	Jun 99	Jul 99	Aug 99	Sep 99	Oct 99	Nov 99	Dec 99	Total
Number	0	0	0	0	0	5	0	0	0	0	0	0	5

Month	Jan 00	Feb 00	Mar 00	Apr 00	May 00	Jun 00	Jul 00	Aug 00	Sep 00	Oct 00	Nov 00	Dec 00	Total
Number	0	0	5	10	5	0	0	0	0	0	0	0	20

Month	Jan 01	Feb 01	Mar 01	Apr 01	May 01	Jun 01	Jul 01	Aug 01	Sep 01	Oct 01	Nov 01	Dec 01	Total
Number	0	0	0	0	0	0	0	0	0	0	0	0	0



Turkey

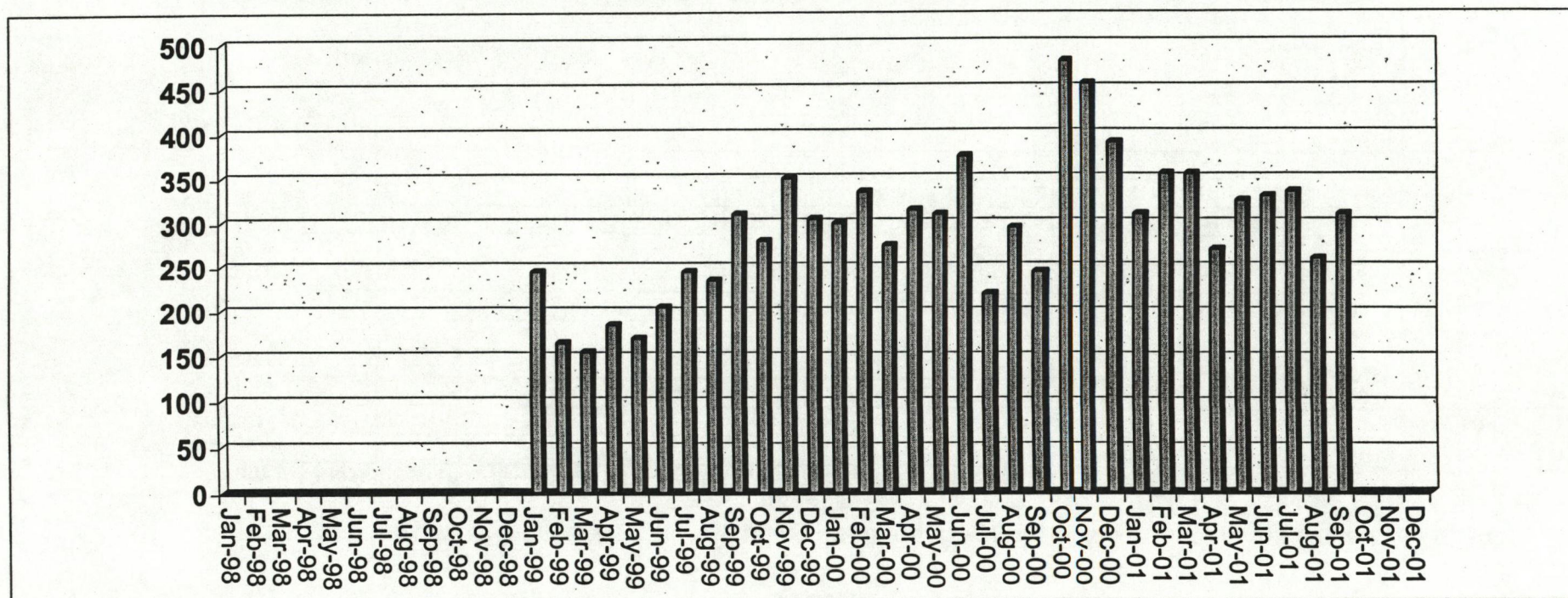
Number of principal asylum seekers (ie excluding dependants) applying for asylum in the United Kingdom

Month	Jan 98	Feb 98	Mar 98	Apr 98	May 98	Jun 98	Jul 98	Aug 98	Sep 98	Oct 98	Nov 98	Dec 98	Total
Number	0	0	0	0	0	0	0	0	0	0	0	0	0

Month	Jan 99	Feb 99	Mar 99	Apr 99	May 99	Jun 99	Jul 99	Aug 99	Sep 99	Oct 99	Nov 99	Dec 99	Total
Number	245	165	155	185	170	205	245	235	310	280	350	305	2850

Month	Jan 00	Feb 00	Mar 00	Apr 00	May 00	Jun 00	Jul 00	Aug 00	Sep 00	Oct 00	Nov 00	Dec 00	Total
Number	300	335	275	315	310	375	220	295	245	480	455	390	3995

Month	Jan 01	Feb 01	Mar 01	Apr 01	May 01	Jun 01	Jul 01	Aug 01	Sep 01	Oct 01	Nov 01	Dec 01	Total
Number	310	355	355	270	325	330	5	5	10	0	0	0	1965



Migration to the UK following previous EU Enlargement Rounds

The most comprehensive analysis of this question is to be found in a report produced by University College London for the European Commission in 2000 entitled 'Patterns, and Trends in International Migration in Western Europe'. The report examined the migration impacts of previous EU enlargements to Greece (in 1981), Spain and Portugal (both in 1986) in an attempt to draw tentative lessons for future enlargement rounds given the important similarities (eg the substantially lower income levels than the EC/EU Member States)¹ between those earlier, and current, accession countries. The report notes, however, that the current economic and political conditions in Europe differ significantly from previous decades.

The methodology used is particularly suited to an impact assessment as it examines the statistical portrait of Greek, Spanish and Portuguese citizens in Europe for the period 1986 to 1997. Consequently, by establishing the overall picture of population stocks, flows, labour and trends of change during this period, the report was able to assess and compare migration trends both during and following accession transition periods for free movement of persons², where the relevant data was available. The following summarizes the report's findings regarding migration flows to the UK only. As a point of clarification, one should note that the three case studies below do not include an examination of migration statistics to the fourth enlargement countries (see footnote 1).

The Greek Enlargement (1981)

In 1987, the last year of the transition period for free movement of people, 345,000 Greeks lived in the other nine EC Member States. By 1997, this figure had climbed to 447,000, representing an increase of 23%. The UK, with 23,100 Greek citizens, was the second most popular EU country of residence in 1997. However, this situation must be viewed against the fact that 359,000 Greeks (or 80% of the Greek migrant population) resided in Germany.

An analysis of the migration data for Greece shows that every EC/EU country recorded its highest number of Greek immigrants post-1991 (ie 4 years after the end of the transition period). In the UK an upward trend was experienced from 1990, with the greatest annual percentage increase in the Greek population was 40.2% in 1991-2 (a

¹ The first enlargement (to the UK, Denmark and Ireland in 1973) and the fourth enlargement (to Austria, Finland and Sweden in 1995) were not examined because most of the countries in question enjoyed similar levels of prosperity to those of the richest EC/EU Member States. Moreover, the fourth enlargement countries were not only prosperous; they also had already obtained free movement rights through their prior membership of the EEA.

² These end on 31 December 1987 in the case of Greece, and on 31 December 1991 in the cases of Spain and Portugal, except in Luxembourg where free movement provisions applied for a further year.

figure notably higher than that for migration from other EC/EC countries (16.8%) and other non-EC/EU countries (27.2%) during the same period). This resulted in Greek migration to the UK reaching a peak in 1992 at 23,000. The figures subsequently fell to 19,000 in 1994, and it was only in 1997 that the number of Greek citizens barely exceeded the 1992 peak for the first time in a decade at 23,100. However, an examination of Greek *labour* stocks in the UK during the period under examination tells a slightly different story as Greek labour increased significantly (by 3,995, or 138%) between 1988 and 1990 (ie just following the expiry of the transitional period). The upward trend for Greek labour migration appears to have peaked by 1995.

The Spanish Enlargement (1986)

In 1991, the last year of the transition period, the total number of Spanish citizens living in the EC area was about 477,000. Between 1991 and 1997 this figure appears to have fallen to 471,000³. By far the largest group (216,000 in 1994) were resident in France, with the second largest (132,300) living in Germany. The UK, with 34,600 Spanish citizens (or 7.35% of the EU12 total), was the fourth most popular EU country of residence in 1997.

While some EC Member States recorded their greatest number of Spanish citizens before the end of the transition period at the end of 1991, the UK recorded the highest number of Spanish residents between 1992 and 1994 (ie immediately following the end of the transition period). This resulted from the fact that the UK experienced its greatest annual percentage increase (29.5%) in Spanish stocks in 1991-2, making the UK only one of the two EU countries in which Spanish immigration figures were higher than immigration figures for other EU or other non-EU countries (16.8% and 27.2% respectively) for that period. Yet in 1992, the first year following the end of the transition period, the immigration of Spanish citizens increased in every EU country *except* the UK, in which it fell from 1,655 in 1991 to 581 in 1992. Between 1992 and 1994 Spanish immigration to the UK again grew quickly, to a total of 4,531, but by 1996 this total had reduced to 2,746. The number of Spanish residents in the UK has been in constant - if gradual - decline following the 1992-4 peak.

The Portuguese Enlargement (1986)

In 1991, the last year of the transition period, the total number of Portuguese citizens living in the EC was around 864,000. By 1997 this figure had increased by 6% to reach 917,000. By far the largest group (649,700, or 71%) were resident in France, and the second largest (125,100, or 14%) resided in Germany. The UK (with 28,100, or 3.06% of

³ The lack of data from France, which has the largest Spanish resident population, precludes any confidence in the complete accuracy of these figures.

the total) was the fourth most popular country of destination for Portuguese immigrants in 1997.

The UK was one of only three EC countries that experienced the greatest annual increase in Portuguese immigration before the end of the transition period, showing a 19.6% increase between 1986-7 (a figure above that for other EC countries (16.8%), but significantly lower than for other non-EC countries (27.2%) in the same time period). Despite this dramatic increase in numbers in the UK immediately following accession, every EU country for which data are available recorded its highest number of Portuguese citizens after 1991. The UK also stood out as being one of only two EU countries in which the number of Portuguese residents did not increase between 1991 and 1992. Instead, the number of Portuguese in the UK dipped to 17,800 in 1992, only to peak at 29,500 in 1994. By 1996 this figure had fallen again to total 28,100.

The report concluded from its analysis that there no clear, common or consistent relationship existed between changing patterns of population and labour stocks, or immigration, and the accession to the EC of Greece, Spain and Portugal.

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please copy to

Sir Nigel Sheinwald (Brussels)

Mr. Durieux (F10)

Sir John Holmes (Paris)

Sir Paul Leaver (Brussels)

Robin Tarry (Madrid)

PRIME MINISTER

From: Roger Liddle
Date: 18 January 2002

cc: Jonathan Powell
Jeremy Heywood
Stephen Wall
Alastair Campbell
Sally Morgan
Andrew Adonis
Geoffrey Norris
Peter Hyman
Martin Donnelly (CO)
Michael Tatham
Francis Campbell

*Paris is good
to show the value of
the Spanish relationship*

PROSPECTS FOR BARCELONA: MADRID VISIT, 17 JANUARY

I had a good day in Madrid yesterday with Stephen and Martin. Our Moncloa friends are reasonably upbeat about prospects for Barcelona – “cautiously optimistic”, I would say. They remain absolutely determined to push hard on all our shared objectives and they believe the mood in Europe is shifting reform-wards.

There are three substantive grounds for optimism:

- The Commission getting behind Barcelona
- Schroeder's new advocacy of labour market reform
- Some signs of shift on the part of the French on energy

The Spaniards are extremely enthusiastic about the **Commission's Synthesis Report** (and they are right to be). The economic reformers inside the Commission apparently resisted strong attempts to give the report a stronger sustainable development or social thrust. At the same time, the Social Affairs

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Directorate's Consultation Paper on Industrial Restructuring had been significantly watered down so that it now includes no proposals for new legislation: this reflects strong opposition to a renewed regulatory agenda within the Commission and among most Member States . **Prodi has at last started to show leadership on the Lisbon agenda.** This has been reflected internally within the Commission. His comment at the launch press conference has greatly cheered us all that the Commission could unilaterally impose energy liberalisation on the French, as Leon Brittan did with telecoms in the early 1990s.

The grounds for **optimism about Schroeder** are based on his recent speech in the Bundestag which opened the door to **labour market reform** on the lines of our tax benefit reforms to encourage the unemployable to accept low paid work. The measures he proposes are tentative and relatively small scale, but the significance is that he has pitched himself on the side of reform. In the Spaniards' (and our) view that would make it difficult for him to resist strong reform language at Barcelona. The announcement of Stoiber's candidacy may force him to position himself even more as a pragmatic and successful reformer.

At the same time Mueller, the Industry Minister, has been making positive noises about energy liberalisation. (I am pressing Patricia to see him in the next month.)

The Spanish also detect **signs of movement from the French on energy.** The Head of EDF has indicated that he believes France's existing position must change. There have also been indications that both Fabius and Strauss-Kahn at a very senior political level back this. When Strauss-Kahn came to see me in Downing Street last week, all his body language suggested that some flexibility

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should in his view be forthcoming. (He is working on Jospin's programme for the Presidentials.) We have, of course, no confirmation that Jospin is prepared to move – or if he is prepared to move, how far. I would rule out a complete turn round on his position of last year. A realistic goal for us might be a combination of:

- agreement on a target date for business liberalisation
- a commitment to finalise the Electricity Directive (by majority voting) by the end of the Spanish presidency
- agreement on the regulatory principles that would allow an open and integrated European energy market to operate in a fair and transparent way for competing suppliers
- a later date for agreement on the Gas Liberalisation Directive (where German industrial interests are still a substantial obstacle to rapid progress).

If we get that, we will have moved forward a lot but I may be a bit too optimistic.

As for the rest of the Barcelona conclusions, we gained the impression that the Spanish intend to run pretty well with the recommendations of the Synthesis Report. They were receptive to all our suggestions. The dimension they are

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likely to add is a very strong emphasis **reinforcing the Stability Pact**. They are adamant that the euro area must not abandon, or seek to redefine, the Stability Pact at the first sign of trouble. Whatever the technical deficiencies of the Stability Pact framework I guess this is the right political judgement.

Signed : Roger Liddle

18/01/2002

About to discuss a big political
row in Brussels!

ROGER LIDDLE

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file (matrix)



10 DOWNING STREET
LONDON SW1A 2AA
020 7930 4433

16 January 2002

Dear Kim,

ESG DISCUSSION OF BARCELONA PREPARATIONS

I suggest that we might aim to cover the following points at Friday's ESG discussion of Barcelona.

Economic reform priorities

- energy liberalisation;
- better regulation/Mandelkern;
- single sky;
- transport infrastructure;
- financial services including Lamfalussy;
- takeovers.

Employment/labour market reform

- social policy/restructuring problem areas;
- themes for revision of employment guidelines.

Sustainable development

- our key UK objectives; points to watch.

Presentation of Barcelona/Lisbon process

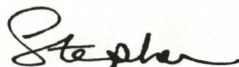
The balance between selling our achievements and not raising expectations too high.

Bilateral contacts

We should also touch on bilateral contacts with key member states, the Commission and EP in the run up to Barcelona itself.

I am copying this letter to other ESG members and Jeremy Heywood.

Yours ever,



J S WALL

Kim Darroch CMG
FCO