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ANNEX

PROGRESS REPORT ON THE EUROPE 2020 STRATEGY

to the

COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT, THE COUNCIL, THE EUROPEAN ECONOMIC AND SOCIAL COMMITTEE AND THE COMMITTEE OF REGIONS

Annual Growth Survey 2012

1. INTRODUCTION

In 2010, the European Council agreed on a comprehensive response to the challenges that Europe is currently facing: the Europe 2020 strategy. In the current climate, this strategy has become more relevant than ever. GDP in the EU grew in the first quarter of 2011, but has slowed down substantially since then. Economic growth is now expected to come to a virtual standstill towards the end of the year.[1] In the euro area, this is exacerbated by the continuing sovereign debt crisis and remaining fragilities in the banking sector. In this situation, households and businesses lack confidence and therefore hold back on consumption and investments. In addition, with strained public finances, there is very limited room for further expansionary fiscal policy to boost growth.

This situation weighs heavily on future growth prospects, having wide-spread negative effects on business operations, on the labour market – with the young and low-skilled being particularly hit, and on government finances - both on the revenue and expenditure side. At the same time, the global environment is becoming ever more competitive, with emerging economies climbing up the technology ladder.

In the face of its deepest economic crisis since its inception, the EU must redouble its efforts to accelerate growth, productivity and job creation. There is no longer a distinction to be made between the short and the long-term as longer-term economic prospects have an immediate short-term impact on countries' borrowing costs. Longer-term reforms have to be pursued in parallel to shorter-term measures.

The Europe 2020 strategy rightly puts an emphasis on the need for a new growth path that can lead to a smart, sustainable and inclusive economy, a path that can overcome the structural weaknesses in Europe's economy, improve its competitiveness and productivity and underpin a sustainable social market economy.

The strategy defines where the EU wants to be by 2020 through five headline targets: 75% of the EU population aged 20-64 should be employed; 3% of the EU's GDP should be invested in R&D; the "20/20/20" climate/energy targets should be met. The share of early school leavers should be under 10% and at least 40% of the younger generation should have a tertiary l education attainment or equivalent. At least 20 million people should be lifted out of poverty and social exclusion. These targets are interrelated and critical to our overall success and require concerted efforts across Member States, supported by EU-level actions.

The Europe 2020 strategy is part of the European semester. This process of enhanced economic coordination was launched in the beginning of 2011. Based on the National Reform and Stability and Convergence Programmes, the Council concluded the first semester in July by agreeing on a set of country-specific recommendations, highlighting areas where Member States needed to take further action[2]. They reflected the need to step up structural reforms in a number of areas in order to release Europe's growth potential, while putting a particular focus on the opening up of services markets, improving the

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1 http://ec.europa.eu/economy_finance/eu/forecasts/2011_autumn_forecast_en.htm
2 COM(2011)400 of 7.6.2011.

regulatory environment, ensuring access to finance and promoting energy efficiency.[3] The implementation of these country-specific recommendations should now be a priority.

2. PROGRESS ON THE EUROPE 2020 HEADLINE TARGETS

Reaching the Europe 2020 targets can enhance Member States' growth potential significantly. However, at this point in time, commitments set out by Member States in their Spring 2011 National Reform Programmes are insufficient to meet most of the EU-level targets, in particular for energy efficiency[4]. Moreover, on the basis of the latest statistics available, some progress towards achieving the targets has so far only been made at EU level in the area education.

- **Education target:** The global EU target of early school leaving will not be reached on the basis of current national commitments. The national targets suggest that a rate of 10.5% early school leavers would be achieved by 2020, thus missing the common European target of 10%. Early school leaving still averaged 14.1% across the EU in 2010 compared to 14.4% in 2009. However, the figure hides considerable differences between and within countries. On tertiary education attainment (among 30-34 year olds), the cumulative effect of achieving the existing national targets set by Member States would on its own only lead to an attainment level of around 37% in 2020. However, the EU tertiary attainment rate has increased from 32.3% in 2009 to 33.6% in 2010 and current trends suggest that the headline target of 40% could in fact be met for the 30-34 year old age group.

- **Employment target:** If all Member States achieved their national target, the EU as a whole would still fall short of the 75 % target by 1.0-1.3 percentage points. In the course of 2011 there has been no substantial progress. With the recovery stalling and only marginal overall employment growth during the first half of the year, the EU-27 employment rate for 2011 is likely to be only slightly above the 2010 level of 68.6% and to remain well below its pre-crisis high of 70.3%. The challenge remains to bring an additional 17.6 million people into employment between now and 2020.

- **Research and development target:** Based on the national targets, the EU would still fall short of the 3% target by approximately 0.3 percentage points. The R&D investment rate stood at 2.01% in 2009, with little progress foreseen in 2011.

- **Poverty reduction target:** The EU target of lifting at least 20 million people out of poverty and social exclusion by 2020 will not be reached based on current national targets. According to a first preliminary estimation of the cumulative ambition around 12 million people would be lifted out of poverty and social exclusion by 2020. If spillover effects of strategies focusing on, for example, combating child poverty or reducing long-term unemployment are taken into

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[3] Overview table in Annex 1.
[4] Overview table in Annex 2.

account, this number can be increased by 25%. However, this would still fall short by at least 5 million or 25% of the EU headline target.

- **20/20/20 target:** Concerning the 20/20/20 targets, recent emission reduction projections[5] suggest that the EU as a whole would meet its 20% greenhouse gas emission reduction target, while for a number of Member States, additional policies will be necessary to achieve their binding national targets. As far as energy efficiency is concerned, work is ongoing on the overall analysis of Member States' national targets. A report should be ready in early 2012. However, the 20% renewable energy target based on the legally binding national targets should be met by 2020 if Member States fully implement their renewable action plans. At EU level, the share increased from 10.34% in 2008 to 11.6%[6] in 2009.

The purpose of the targets is to generate momentum with each Member State committing to stretch itself to make measurable progress in the key areas which are summarised by the five headline targets. While the current difficult economic context and ongoing fiscal consolidation are constraining the level of ambition, further efforts will be needed over the next years to make sure that the objectives set at the EU level are reached by 2020.

3. RELEASING EUROPE'S GROWTH POTENTIAL

The Europe 2020 flagship initiatives and EU levers need to be fully mobilised to boost growth. With all seven flagships in place[7], focus has now shifted to implementation. Overall, progress has been satisfactory. In each flagship, a number of key actions have already been completed throughout 2010 and 2011. However, a large number of actions are still at the proposal stage and will need to be adopted by the Council and European Parliament. Given the urgency of the situation, the Commission has identified a number of priority proposals with a substantial growth potential whose adoption should be accelerated in order to kick-start growth[8].

3.1. Europe 2020 Flagship: Innovation Union

Europe's research and innovation performance has not progressed satisfactorily in recent years, broadening an already important innovation gap vis-à-vis the US and Japan. A number of other important competitors, including China and Brazil are now catching up with the EU's innovation performance[9]. The EU-wide situation masks a wide range of

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5 COM(2011) 1151 of 7.10.2011.

6 Provisional data.

7 Digital Agenda for Europe (COM(2010) 245 final/2, 19.5.2010), Youth on the Move (COM(2010) 477, 15.9.2010), Innovation Union (COM(2010) 456, 6.10.2010), An industrial policy for the globalisation era (COM(2010) 614, 27.10.2010) An agenda for new skills and jobs. A European Contribution towards full employment (COM(2010) 682, 23.11.2010), A European Platform against Poverty and Social Exclusion: A European Framework for Social and Territorial Cohesion (COM(2010) 758, 15.12.2010), Resource Efficient Europe (COM(2011) 21, 26.1.2011).

8 Annex on EU-level specific proposals, Annual Growth Survey 2012.

9 http://ec.europa.eu/research/innovation-union/pdf/iu-scoreboard-2010_en.pdf

performance amongst Member States, with some (notably Sweden, Denmark, Finland and Germany) performing well by global standards.

A number of reasons have been put forward to explain Europe's innovation deficit. These include the fact that European firms are to a large extent present in more traditional, less R&D intensive sectors ("path dependency"); that investment in more innovation-based growth sectors (e.g. bio-tech, internet) are held back by an incomplete Single Market, including in services, by lower market prospects for innovative products, and by the growing shortage of human resources with the right mix of skills; that access to finance is more difficult, the weak exploitation of framework and demand-side policies in favour of innovation;; and that linkages between the "knowledge-triangle" are relatively poor across the EU.

The Innovation Union flagship aims to tackle these challenges through 34 specific commitments within clearly defined timescales. Overall, good progress has been made and actions are fully on track for 30 out of the 34 commitments. Concrete initiatives and pilot schemes have been launched. By the end of 2011, based on wide ranging discussions with stakeholders, the Commission will have put forward the six legislative proposals announced in the flagship initiative (unitary patent protection, standardisation package, Horizon 2020, new Cohesion policy, modernisation of public procurement legal framework and a European passport for venture capital funds).

Europe needs faster and modernised standard-setting, more affordable patents, more public procurement of innovative products and services, better access to capital and a genuine European knowledge market. The Commission has already tabled proposals for the creation of unitary patent protection to reduce the complexity and costs of patenting. The Commission calls for a political agreement on these proposals as well as on the Unified Patent Court agreement before end 2011. It has also presented a standardisation package to modernise and speed-up standard setting by 50%.

Key actions taken in 2011 include the launch of the pilot European Innovation Partnership on 'Active and Healthy Aging', which aims to contribute to a two year increase in healthy life years, and consequent increases in employability and reduction in losses to the labour market through mobilisation of actors across the innovation cycle and across sectors to speed up innovative solutions to address societal challenges. The European Innovation Partnership on Agriculture and Rural Development has been put forward within the framework of the CAP Reform proposals. It is expected to fill in a substantial gap that currently exists between research and improvement of farming practices. Progress has also been made towards the establishment of the 48 priority European research infrastructures identified in the 2010 roadmap of the European Strategy Forum on Research Infrastructures. 10 are already underway and development could start for another16 in 2012.

With an estimated 19.9% of EU GDP in 2009, public procurement has an immense potential to pull EU innovations to the market. The Commission is working with Member States towards a better use of this potential. The Commission will present a proposal to simplify the public procurement framework and make procedures more efficient and greener before the end of 2011. This proposal will include a new specific procurement procedure for the development and subsequent purchase of new, innovative products, works and services.

Furthermore, options are being explored to improve the exploitation of intellectual property by companies. The Commission has investigated a set of options for enhancing the value of intellectual property rights at European level. The Commission plans to launch a debate with Member States in 2012 to shape further actions. To enhance the linkages between scientific researchers and businesses, the European Institute of Innovation and Technology (EIT) was set up in 2008. It aims to bring together higher education institutions, research organisations and businesses in new types of partnerships – Knowledge Innovation Communities (KICs). Such Communities have so far been set up in three areas: sustainable energy, climate change and ICT, with positive results so far. The Commission will continue to monitor and evaluate the performance of the EIT KICs that are up and running and come forward with proposals under Horizon 2020 for an expansion of the EIT from 2014.

The Commission will also support business-academia collaborations through the creation of "Knowledge Alliances" between education and business to develop new interdisciplinary curricula addressing innovation skills gaps and entrepreneurship. A pilot project was launched to this end in 2011. In 2012, the Commission will propose a European Research Area framework and supporting measures to remove obstacles to mobility and cross-border cooperation, aiming for them to be implemented by end 2014. The Commission will also launch the "U-Multirank" in 2012: a performance-based ranking and information tool for profiling universities, with first results in 2013.

Two Member States received country specific recommendations to improve their research and innovation systems, in particular their framework for private research and innovation. First indications on implementation show that some progress has been made in this area, albeit still limited.

3.2. Europe 2020 Flagship: A digital agenda for Europe

ICTs are a major growth driver, explaining half of the productivity growth of modern economies. However, compared to its main competitors, Europe is lagging behind in ICT investment as well as in the roll-out of high-speed broadband and is not fully exploiting the growth and jobs potential of what should be booming sectors.

Progress on the Digital agenda flagship as measured by the digital agenda scoreboard[10] is ongoing, but efforts need to be stepped up if the related targets are to be achieved. Out of the 101 actions planned under the 7 pillars of the digital agenda, 14 actions have already been completed in 2010 and 2011 and another 50 actions are on track to be completed in the next 12 months. Lowering barriers to fast internet take up and building trust in the online environment could help kick start GDP growth, enhance Europe's competitive edge and create new jobs and businesses. In the Digital Agenda, the most urgent actions are to create a Digital Single Market, which could deliver 4% extra GDP growth over the next ten years[11].

World demand for **bandwidth** has been growing by 50-60% per year. Today, more than 50% of broadband lines in Japan and 40% in Korea are fibre, delivering high-capacity

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[10] http://ec.europa.eu/information_society/digital-agenda/scoreboard/index_en.htm

[11] http://ec.europa.eu/bepa/pdf/monti_report_final_10_05_2010_en.pdf

connections, while fibre accounts for only around 5% in Europe. A 10 percentage-point increase in the broadband penetration rate is expected to result in a 0.9-1.5 percentage-point increase of GDP. Investments in broadband should therefore become a core part of the EU's growth strategy, in particular by using available national and regional funds, adopting appropriate town planning rules to reduce deployment costs and focusing on exploiting synergies with energy infrastructure to accelerate the delivery of smart grids. In 2010, the Commission issued a Communication[12] outlining common rules within which EU and national policies should be developed to meet the broadband targets. This measure is aimed at accelerating the development of very fast internet. The Communication was adopted along a Recommendation on Next Generation Access Networks to encourage investment through clear and effective regulatory measures.

The rise in mobile internet traffic calls for greater availability of **spectrum bands**. This is evidenced by the generalisation of smartphones (that could reach 100% of the population globally by 2020) and the explosion of the use of tablets (projection of 62 million units in 2011[13]). The increased use of video, which accounts already for two thirds of all mobile traffic, requires greater capacity. Services which rely on radio spectrum represent 2% - 2.5 % of EU GDP (about €250bn) and the European wireless electronic communications industry supports 3.5m jobs, generates around €130bn annually in tax revenues and contributes €140bn directly to European GDP. The 5-year Radio Spectrum Policy programme, which has been agreed in principle between the institutions, should be adopted as soon as possible by the European Parliament and Council in early 2012.

The growth potential of **e-commerce** is still largely untapped in the EU. It plays an important role for business to business (B2B), as 27% of enterprises purchase online and 13% sell online. Nonetheless, it is currently limited to 3.4% of retail commerce. While 40.4% of citizens purchased online in 2010, only 9% did so cross border (Eurostat). Recent evidence suggests that the current consumer welfare gains from e-commerce in goods alone in terms of lower online prices and wider choice are estimated to be around €11.7 billion, an amount equivalent to 0.12% of EU GDP. If e-commerce were to grow to 15% of the total retail sector and Single Market barriers were eliminated, total consumer welfare gains are estimated to be around €204 billion, an amount equivalent with 1.7% of EU GDP.[14] The difference with the US in buying music and books on-line is striking. In 2010, digital music sales accounted for 19% of the market for recorded music in the EU compared with 49% in the US. Two online music service providers are available in all 27 Member States, but most online music services are available in only one or a few Member States. In the US, e-books outsold mass market paperback books in the first quarter of 2011 whilst the EU e-book market is anaemic.

In 2011, the Commission proposed legislation to improve alternative dispute resolution between consumers and businesses in the Union, comprising a specific proposal on an EU-wide online redress tool to resolve effectively dispute arising from cross-border e-commerce. The Commission will announce in 2012 proposals to facilitate e-commerce inter alia through the mutual recognition of e-authentication and electronic signature across borders, rules to stimulate cross-border trade of digital content modernising

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12 COM(2010) 472 final of 20.9.2010.
13 IDC Report, Sept. 2011.
14 Civic Consulting (2011) "Consumer market study on the functioning of e-commerce".

Europe's copyright regime. The Commission will also consider measures supporting market integration at EU level for card, internet and mobile payments on the basis of a Green Paper consultation. It will also propose new legislation for increased protection of personal data and actions in the areas of enforcement and information provision to increase consumers' confidence in e-commerce.

There is also scope for significant efficiency gains through the full implementation of electronic **procurement** (e-procurement) procedures throughout the EU: some estimates indicate that these untapped savings could as high as €50 to €70 billion per year. The Commission estimates that only about 5% of procedures were conducted by electronic means in 2009. Its proposal to modernise the public procurement directives, scheduled in December 2011, will therefore set out measures to make the use of electronic procedures the rule rather than the exception.

To support advanced digital devices, a European approach to **cloud computing** is necessary to provide the legal certainty for European companies and administrations to offer and use cloud-enabled services, which are fast becoming key enablers for efficiency and entrepreneurship in today's digital economy. The average contribution of cloud computing to GDP is estimated in the range of 0.1% in the short run and 0.4% in the medium run, with the initial creation of about 300,000 additional jobs in Europe[15]. The Commission will propose a European approach to cloud computing by 2013 to provide the necessary legal certainty for European providers and users.

Bold action is also needed to reinforce the **security of the internet** and counter the costs of the mounting number of the attacks against what is an essential infrastructure for the single market. The Commission plans to propose an ambitious EU Internet Security Strategy in 2012.

3.3. Europe 2020 Flagship: Resource efficient Europe

Europe can benefit economically from tackling the energy/climate and resource challenges. The Union's energy efficiency target of saving 20% of energy by 2020 could cut consumers' bills by up to €1000 per household a year and improve Europe's industrial competitiveness creating up to 2 million new jobs by 2020. In a broader resource-efficiency perspective, according to preliminary modelling results for the Commission, a reduction of the Total Material Requirements (TMR) of the economy by 15% can boost GDP by up to 3.6% and employment in the EU by around 2 and a half million. Each percentage point reduction of TMR would be worth around €25 billion to business and up to 150,000 new jobs[16]. Business could achieve important savings (around € 25 billion per year in the UK only) from resource efficiency measures that are either no or low cost, using raw materials more efficiently and generating less waste. The sectors with the greatest potential identified were chemicals, minerals, metal manufacturing, power, utilities, construction and waste management[17]. In spite of the

[15] F. Etro (2010), "The economic impact of cloud computing" Review of Business and Economics.

[16] The TMR indicator comprises the cumulative volume of primary materials which are extracted from nature for the economic activities of a country. TMR indicates the material basis of an economy. It includes extraction from the domestic territory as well as the resource requirements associated with imports.

[17] "Further Benefits of Business Resource Efficiency", Oakdene Hollins, 2011.

CO_2 emission reductions due to the economic crisis, projections suggest that additional policies will be necessary in a number of Member States to achieve their national 2020 emission reduction targets. Equally, effective measures will be needed to achieve the remaining renewable energy and energy efficiency targets. In this context a substantial increase of investment in energy infrastructure, energy transmission networks, renewable energies and energy efficiency of buildings will be needed.

The Commission has delivered 14 out of the 20 planned strategic initiatives under the flagship. To further guide the implementation of the Resource Efficiency Flagship the Commission published a roadmap that lists concrete actions to follow and identifies the economic sectors that consume the most resources and have the dominant environmental impacts, and suggests tools and indicators to help guide action in Europe and internationally. In particular, a legislative proposal for a Directive on energy efficiency has been presented, specifying a range of energy efficiency measures to be implemented to achieve further energy saving. A communication on security of energy supply and international cooperation has also been adopted, setting out a comprehensive strategy for the EU's external relations in energy. The Commission launched a Roadmap for moving to a competitive low carbon economy indicating intermediate milestones to deliver cost-effective emission reductions in line with the -80 to 95% objective by 2050. The gradual transition to a low-carbon economy would improve energy security and reduce EU's average fuel costs by between €175 and €320 billion per year. Other benefits include better air quality and public health, which would cut costs by up to €27 billion per year in 2030. The Commission also presented a new Transport White Paper for a competitive and resource efficient transport system. It sets ambitious targets to decarbonise transport, achieve a genuine Single European Transport Area and to reduce oil dependency.

The Commission approved in 2011 a package of legislative proposals for the reform of the Common Agricultural Policy which include a strong commitment to substantially improving the management of natural resources. Changes proposed to both the first and second pillars of the CAP aim at better integrating environmental and climate challenges at farm level and incentivise the sustainable economic development of rural areas.

Finalising the **internal energy market** is a precondition for realising the full savings potential which a truly integrated pan-European market for gas and electricity can yield due to enhanced liquidity and competition. Market integration will also enhance energy security and facilitate the integration of new generation sources from renewable energies thanks to larger balancing areas. More cross border trading of electricity and gas can smooth out price peaks and facilitate entry of new market players, thereby stimulating innovation and competition.

For the proper functioning of the internal energy market, it is crucial to have a more coherent approach in national policies on issues that affect neighbouring countries. When legislating at national level, and providing incentives for investments, including on prices and taxation, interactions between different instruments should be carefully assessed to ensure a stable investment framework for European industries and service providers. For instance, in the renewable energy sector, drastic policy changes, including with retroactive effect, should be avoided to prevent unnecessary regulatory risks that undermine the viability of renewable power generation. The current support schemes for renewable energies should become more cost-effective. The challenge is to support large-scale production, enabling market actors to bring down costs, reduce subsidies and integrate renewable energies in a truly European market.

Under any future energy scenario, **energy infrastructures** will play a vital role in balancing demand and supply across the entire Union. To this end, Europe's electricity and gas networks must be modernised and expanded urgently. The Commission's proposal for a new energy infrastructure regulation replacing the current TEN-E framework was presented recently[18]. The objective of the new framework is to ensure that strategic energy networks and storage facilities are completed by 2020 in the different regions of the Union. With respect to EU financing, the € 9.1 billion foreseen in the Commission's proposal for a Connecting Europe Facility will allow the full realisation of € 200 billion worth of investments needed for infrastructure projects of European relevance between now and 2020. This investment will have a significant positive overall effect on GDP and employment, with a cumulative effect of up to about +0.4% of GDP and 400,000 additional jobs over the period 2011-2020.

According to studies regarding **energy and resource efficiency**, better construction and use of buildings in the EU would influence 42% of final energy consumption[19], about 35% of greenhouse gas emissions[20] and more than 50% of all extracted materials[21]; it could also help save up to 30% water[22]. The building sector employs 8% of Europe's workforce. Around 230,000 people are involved in the manufacturing and installation of insulation. As energy efficiency investments are partly financed by energy savings, public measures to remove barriers, such as access to capital and information can have a strong leverage effect. In this context, rapid adoption of the proposed directive on energy efficiency would help close the gap towards the Europe 2020 target, create the necessary framework conditions[23] and allow the Member States to set their efficiency targets and submit first reports by end 2012.

There is also scope for better use of EU structural funding in energy efficiency as well as renewable energies. Investments in sustainable energy can be further triggered by the EU support mechanisms ELENA (European Local Energy Assistance) and EEE-F (European Energy Efficiency Facility). Finally, the upfront investment costs for building refurbishment or for the promotion of energy efficiency in the public sector can be met or leveraged by involving energy service providers (ESCOs).

Phasing out of **environmentally harmful subsidies** enhances resource efficiency and fosters economic growth. Inefficient subsidies lock in obsolete technologies and business structures, and hinder investment in clean energy and other green technologies. Removing inefficient subsidies could also be an important element of fiscal consolidation. For instance, direct revenue losses may approach 0.5% of EU GDP (€60 billion) and welfare losses from distortions of consumer choice are substantial, estimated at 0.1 to 0.3 percent of GDP (€12 billion to €37 billion). The Commission has asked the

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18 COM(2011) 658 of 19.10.2011.
19 COM(2007) 860 final of 21.12.2007.
20 COM(2007) 860 final of 21.12.2007.
21 COM(2007) 860 final of 21.12.2007.
22 COM(2007) 414 final of 18.7.2007.
23 COM(2011) 370 of 22.06.2011.

Member States to identify the most significant environmentally-harmful subsidies in 2012 and to prepare plans to phase them out[24].

There is large scope for advancing on **green taxation** to help facing today's and tomorrow's challenges related to climate change, water scarcity, energy security and general resource limits. When carried out in a budgetary-neutral way, green taxation combined with a tax shift away from labour improves resource allocation while boosting employment[25]. Adoption of the Commission's 2011 proposal for a revision of the Energy Taxation Directive[26] will facilitate this shift. Moreover, getting prices right would also help stimulate new industries and investments in green technologies.

In the 2011 European semester, a number of country specific recommendations referred to issues related to sustainable growth, such as functioning of the energy markets and competition, network interconnectors and resource efficiency. So far, the first indications on implementation show that in most Member States there is some progress on addressing the recommendations.

3.4. Europe 2020 Flagship: An industrial policy for the globalisation era

Manufacturing industry led the recovery from the economic crisis: output has increased some 15% over its trough in early 2009. Nevertheless, the economic recovery in EU industry has stalled in recent months, whilst business confidence has fallen back to its historical average. Uncertainties about the prospects of the European economy and the turmoil related to the debt crisis in the euro area have taken their toll on industrial confidence. High energy prices and persisting difficulties in access to finance are also adversely affecting the dynamics of the recovery. Nevertheless, EU industry is now in better shape to face a slowdown, with lower inventories and higher productivity than in 2008.

The flagship initiative on An Integrated Industrial Policy for the Globalisation Era contains 70 key actions many of which are already being implemented by the Commission. For instance, the Commission ensures an in-depth assessment of the impacts on competitiveness and on SMEs of its new policy proposals with significant impacts. This has been the case for proposals such as the ETS allowances to address the risk of carbon leakage and the Capital Requirements Directive IV.

The Commission will also propose concrete actions to **minimise the regulatory burdens** on SMEs, in particular micro enterprises. The envisaged actions include possible exemptions for micro and small enterprises from the existing acquis; improved involvement of smaller enterprises in the shaping of proposals for EU regulation; introduction of a micro-entities dimension to the existing SME test and; a scoreboard on exemptions and lighter regimes for SMEs and micro companies in proposals made by the

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24 COM(2011) 571 of 20.9.2011.

25 For example, a permanent one-percentage point reduction of the average tax burden on labour is estimated to increase the employment rate by about 0.4 percentage points in the typical country over the long run; OECD (2006), OECD Employment Outlook 2006 – Boosting Jobs and Incomes: Policy Lessons from Reassessing the OECD Job Strategy, Paris.

26 COM (2011) 169 of 13.4.2011.

Commission for new EU regulation, their adoption by the EU legislator and their implementation by Member States.

The **Small Business Act** for Europe was reviewed in February 2011[27] putting emphasis on improved access to finance, more favourable regulation environment and helping SMEs facing globalisation challenges. The latter aspect was further developed in related follow-up actions, like the new strategy to support the internationalisation of SMEs that was adopted in November 2011[28]. The review also recalled the need for Member States to prioritise the business environment through smart regulation, reducing unnecessary regulations and permits, introducing simpler procedures through e-government, and reducing the set-up time for a new business to 3 working days.

The Commission will present an Action Plan to improve **access to finance** for SMEs before the end of 2011. It will be accompanied by a proposal to facilitate access to venture capital across Europe through an EU passport that will allow venture capital funds to raise capital in all 27 member States on the basis of a single registration. It is expected that, if successful, this initiative could create up to 315,000 additional jobs and € 100 billion additional GDP. The Commission will endeavour to eliminate any tax treatment that disadvantages cross-border venture capital investments and to reduce the administrative burden.

Enhancing competition across the economy requires not only horizontal, sector-specific product and service market reforms, as well as effective enforcement of competition rules but also an overall **institutional set up conducive to competition** at all levels (EU, national, regional and local) at a limited cost for Member States. This includes an effective role for competition authorities, sectoral regulators and judicial authorities entrusted with the protection and promotion of competition. A well functioning civil justice system is a vital link in any institutional framework conducive to competition and growth.

In the area of industrial innovation, the High-Level Group on Key Enabling Technologies presented its final report in June 2011 with concrete recommendations on development and deployment of these technologies[29]. These technologies have enormous market potential with annual growth rates between 5% and 16% per year up to 2020 and also provide crucial spill-over effects to key downstream industry sectors in terms of innovation and growth. The Commission also proposed in June a major modernisation of the European standardisation system[30] by, amongst others, including standards on services in the European system and giving more recognition to ICT industrial specifications.

The Commission has put forward some **sector-specific initiatives**, such as adoption of a strategy for space policy[31] aiming at strengthening of the European space sector or re-launching of the CARS 21 process[32] which will serve as an input to the EU's strategy for

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27 COM(2011) 78 of 23.02.2011.
28 http://ec.europa.eu/enterprise/policies/sme/market-access/internationalisation/index_en.htm
29 http://ec.europa.eu/enterprise/sectors/ict/key_technologies/kets_high_level_group_en.htm
30 COM(2011) 311 and COM(2011) 315 of 1.6.2011.
31 COM(2011) 152 of 4.4.2011.
32 First meeting of the relaunched High Level Group on 10 November 2010.

clean and energy efficient vehicles. The deployment of electric vehicles has a major market potential growing from 100.000 today to 1 million hybrid vehicles by 2020, whilst the fully-electric vehicle market is expected to reach 750,000 units by 2020. The Commission also continues its efforts to address the concerns of energy-intensive industries, in particular through initiating the Sustainable Industry Low Carbon Scheme (SILC), and by promoting ultra-low carbon production technologies and through developing a private-public partnership to stimulate innovation in the energy-intensive process industries.

Based on first indications, Member States' efforts to implement the country-specific recommendations in this area appear to have been mixed. The implementation of recommendations as regards access to finance to SMEs is rather poor. The picture is slightly better regarding measures to improve the business environment, such as the reduction of administrative burden, improving administrative capacity or the efficiency of the judicial system. Six of the ten Member States which received a recommendation to improve the business environment took some actions, but these remain partial in most of the cases.

3.5. Europe 2020 Flagship: An agenda for new skills and jobs

Increasing employment levels and enhancing labour productivity are two key sources of growth together with capital investment and innovation. Currently, there are 23 million unemployed people in the EU, corresponding to 10% of the working age population.

The slight improvement in the EU's unemployment rate since 2010 has come to a halt. The share of the long term unemployed in the total stock of those looking for work exceeds 40% and is up one third compared to the level of 30% registered two years ago. An increased share of people live in households with very low work intensity in 12 out of the 15 Member States for which data is available.

A jobless recovery has not only important economic and social costs but also signals structural deficiencies in the labour market that weakens growth potential in the medium to long-term. In particular, skills mismatches and shortages hinder economic recovery. Unfilled vacancies started to increase as of mid-2009, while unemployment is not showing signs of improvement. This fact points to labour market mismatches, such as inadequate skills or limited mobility, at least in certain sectors and regions.

Life-long learning policies are essential to equip people with the right skills for the labour market. In 2000, 22% of employed people had high level qualifications in the EU while 29% had low qualifications. In 2010, it was the reverse. By 2020, 35% of jobs will require high qualifications and the demand for low skills will drop by 12 million jobs. However, educational attainment currently falls short of this growing skill-intensity of available jobs. One out of seven (14.41%) young persons aged 18 to 24 in the EU currently leaves the education system with no more than lower secondary education and participates in no further education and training (early school leavers) and many have qualifications that do not match with labour market requirements. Moreover, more than one fifth of all children do not meet basic standards of literacy and numeracy (measured at age 15).

Policy actions to address these challenges are being developed under the flagship an Agenda for new skills and jobs. Work is progressing well on the 13 key measures such as the EU Skills panorama aimed at improving transparency for jobseekers, workers, companies and/or public institutions by providing updated forecasting of skills supply and labour market needs up to 2020 planned for October 2012, as well as on sectoral initiatives foreseen under the flagship such as the Action Plan on Health workforce.

The legislative proposals on the review of the EU labour law are under preparation. Social partners have agreed to negotiate on the revision of the Working Time Directive. The adoption of the package of two legislative proposals concerning the Posting of Workers is foreseen in the coming weeks. A Council Recommendation to promote the validation of non-formal and informal learning is expected by the first half of 2012 and a practical tool to help citizens record their skills acquired through work and other experiences will be operational online by October 2012. A wider reflection on addressing the skills challenge in Europe will be the object of a Commission Communication in the second half of 2012.

3.6. Europe 2020 Flagship: Youth on the move

The current labour market situation is particularly critical for young people who face an unemployment rate of over 20%, twice as high as that of the overall population. Furthermore, the decrease in permanent jobs as a result of the crisis has hit young people disproportionally and even though over-represented in temporary contracts, the recent net growth in the latter has not benefited young people in any significant way.

Work has started on all the policy actions planned under the flagship initiative Youth on the Move. Some key actions have already been launched to fight youth unemployment, such as Youth@work, an awareness-raising campaign to build contacts between young people and small businesses (SMEs) or the European Vacancy Monitor, which gather up-to-date information on job vacancies, which can also serve as an early-warning tool for bottlenecks and mismatches on the labour market.

Regarding education, a Council Recommendation on policies against early leaving from education and training was adopted on 7 June 2011 setting out a framework to Member States for coherent, comprehensive and evidence based policies against early school leaving. Now it should be implemented.

Moreover, in October 2011, the Commission adopted a Communication on the modernisation of higher education systems which includes a proposal for the Erasmus Masters student loan guarantee facility, aimed at improving mobility of Master's students across Europe.

The aim of the European framework for youth employment is to ensure robust policy coordination at European level within the common principles for flexicurity. The framework is built upon four pillars: 1) Help to get a first job and start a career; 2) Support youth at risk; 3) Provide adequate social safety nets for young people; 4) Support young entrepreneurs and self-employment. As part of the framework, the Commission has proposed the following specific areas for action in Member States: Youth Guarantees to ensure that all young people are in jobs, further education or activation measures within four months of leaving; open-ended "single" contracts to reduce labour market segmentation; unemployment and social assistance to young people in a mutual obligations approach. In the context of the future Youth Opportunities Initiative, which the Commission will present before the end of the year, further action will be needed to support transition into the labour market, provide more traineeships and encourage mobility.

3.7. Europe 2020 Flagship: European platform against poverty

Apart from being valuable objectives in their own-right, fostering inclusive labour markets and societies have an impact on growth through improved labour market outcomes, enhanced aggregate demand and strengthened confidence. These three areas are also three important bottlenecks that hinder a robust recovery.

In the few countries for which income data reflecting the economic crisis is already available, household disposable income has fallen significantly[33]. Moreover, there is some evidence that both income-poverty, especially child poverty, and severe material deprivation represents an increasing challenge in several Member States. As long term unemployment shares rise and unemployment benefits run out, there is a risk of seeing a significant decline of disposable income affecting low income earners.

The consumption propensity of low-income people tends to be high, since they have to spend most of what they earn in essential goods and services. For this reason, any further reductions at the bottom of the income distribution may have a lasting impact on domestic demand and hence on growth[34]. Hence also the importance of consumer empowerment, allowing consumers to make optimal consumption choices and thus maximise their welfare.

Work is ongoing on the 10 key actions of the Platform against poverty and social exclusion flagship initiative. Some have already been launched this year such as the New European Agenda on Integration to support efforts of Member States promoting third country nationals to participate actively in our societies or the EU Framework for national Roma Integration Strategies.

The Social Business Initiative was adopted in October 2011, and its key actions will be rolled out in the coming months, starting with the new framework on social investment funds, the new investment priority for social enterprises in the proposed structural funds, or the future draft Regulation on a statute for European Foundations.

A White Paper on pensions addressing sustainability and adequacy of pensions in the post-crisis context is scheduled for adoption in the coming months.

To **fight poverty and social exclusion**, the modernisation of social protection systems should be pursued along the lines of the active inclusion common principles. In particular, public services are an essential element to support labour market integration and social inclusion. Furthermore, access to effective and affordable services plays a key role in reducing private expenditure and hence raising disposable income, mitigating

[33] For instance by more than 15% in the middle of the distribution in Lithuania and Latvia, by 8% in Estonia and by 2-4% in Spain, Ireland and the UK.

[34] IMF (2011): World Economic Outlook Report 2011, *Global Prospects and Policies*, Washington.

income poverty and inequality[35]. According to an OECD study on publicly provided services, imputing public services in household income reduces poverty estimates to a considerable amount. At-risk-of poverty rates fall substantially, by almost 40% when a floating poverty line is used and even by close to 80% when a fixed poverty line is used. Consequently, in-kind benefits taken together would have the potential to reduce the poverty gap by 80% on average.

Among the 30 million Europeans over 18 that do not have a bank account, it is estimated that about 6.4 million are actually deprived of or afraid to ask for a bank account.[36] The situation in the EU regarding lack of a bank account is very diverse and in Romania and Bulgaria around half of the respondents do not have a bank account. Unbanked consumers are likely to face problems in relation to employment, renting property and receiving wages or benefits and they face higher transaction costs. The Commission Recommendation on access to a basic payment account[37] provides the details on the actions needed to fight financial exclusion.

The cost and quality of housing are a key determinant of living standards and well-being, especially for the most vulnerable people. This is clearly shown by the EU indicators on housing cost and housing deprivation[38]. In 2010, 38% of people at-risk of poverty spend more than 40% of their disposable income on housing – more than six times for the rest of the population (6%)[39]. At the same time, the share of housing costs in total disposable income reached 32% and more for half of the people at risk of poverty against 16% for the rest of the population. If housing costs are analysed more in detail, it emerges that rents and interest paid on mortgage make up only around 30% of total gross housing costs, while other elements – repairs, maintenance, fuel and others costs of various kind – make up some 70%[40]. According to the Commission's Household Budget Survey, housing, water, electricity, gas and other fuels is the single most important item in household's expenditure corresponding to 27.7% of household consumption.

The consequences of housing costs, and in particular utilities, on poverty rates is very significant: if disposable income is defined after deducting housing costs, the proportion of people with income below 60% of the (new) median was increased in 2007 from 16% to 22% in the EU as a whole.[41] This points to the importance of a full implementation of Directive 2009/72/EC concerning common rules for the Internal Market in electricity, including Article 3(8) on the need to address energy poverty.

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[35] See OECD (2011) *The impact of publicly provided services on the distribution of resources*; Report for the European Commission.

[36] European Financial Integration Report 2008, SEC(2009) 19 final of 19.1.2009.

[37] C(2011) 4977 of 18.7.2011.

[38] For a more detailed analysis, see the supporting document to the 2010 Joint Report on Social Protection and Social Inclusion, section 5.2.

[39] The Indicators Sub-Group of the Social Protection Committee agreed on the 40% threshold has an indication of unsustainable housing costs overburden.

[40] See the Social Situation in the EU 2009 report section 3.2.1.

[41] See the Social Situation in the EU 2009 report, fig. 69, p. 138.

3.8. Addressing missing links and bottlenecks

3.8.1. Getting more out of the Single Market

During the past two decades, the creation of an internal market and the opening of borders have been two of the main driving forces behind European growth. The estimated effect of internal market integration in the EU in the period 1992-2006 has been the creation of 2.75 million additional jobs and an extra 2.1% of GDP growth. Today, intra-European trade accounts for 17% and 28% if world trade in goods and services respectively. For every €1000 of wealth created in a Member State, it is estimated that about €200 end up benefitting other EU Member States through trade.

The **Single Market Act** of April 2011 set out twelve levers to further complete and deepen the internal market in the areas of access to finance, citizen mobility, public procurement, professional qualifications, intellectual property rights, consumer rights, services, networks, the digital single market, taxation, the regulatory environment for businesses, social entrepreneurship and social cohesion. The Commission has already presented several of the 12 key legislative proposals of the Single Market Act, and will put forward the remaining ones by the end of the year (except for proposed legislation on eSignatures, eIdentity and eAuthentication). These proposals should all be agreed by the European Parliament and the Council before the end of 2012, so that their practical benefits can be rapidly felt across the EU.

The implementation of the Single Market Act is of key importance to create a favourable environment for European businesses, in particular SMEs, and to restore and reinforce trust in consumers and workers so that they confidently take up the opportunities the Single Market has on offer. The Commission's annual Consumer Markets Scoreboard monitors markets across the economy and contributes to identify those which do not function for consumers. There is already a significant EU trade in services: it accounts for more than half of the global services trade and more than half of this represents trade within the single market. However, the Single Market for services is not yet delivering to its full potential. Despite that services account for over two-thirds of EU GDP and employment, services still represent only around one-fifth of total intra-EU trade. Barriers to the Single Market for services are partly accountable for low competition intensity, which in turns affects productivity.

There is therefore still a large potential for the internal market to deliver additional growth and jobs. In the 2011 European semester, the largest amount of country-specific recommendations for structural policies concerned the services sector, including calls to step up the full implementation of the **Services Directive**[42], to remove unjustified barriers to entry and further opening professional services. The Services Directive covers a wide range of economic activities representing around 45% of the EU economy, including large sectors such as retail, construction, business services, tourism and most regulated professions. According to conservative estimates it could deliver growth of up to +1.5% of EU GDP. Progress so far in Member States seems mixed, ranging from some reform efforts to no progress at all depending on the recommendations.

[42] Directive 2006/123/EC of the European Parliament and of the Council of 12 December 2006 on services in the Internal Market.

To exploit the Directive's full potential, there is now a need to shift from a compliance perspective to a competitiveness driven focus. The Commission will continue the analysis of the quality of implementation and, where necessary, take formal enforcement measures. The Commission will also put forward in 2012 additional actions to deepen the Single Market for services.

Beyond the current scope of the services directive, there are other sectors with an important growth potential. For example, the **health and social sector** created 4.2 million jobs over 2000-2009, more than a quarter of total job creation in that period. It accounts for 10% of all jobs in countries like Denmark, Finland, Netherlands and Sweden and represent around 5% of the total economic output. Ageing will increase demand for such services and their development should therefore be facilitated. Issues that need to be addressed include a lack of qualified personnel in the sector in a number of Member States, a limited freedom of establishment due to various unjustified or disproportionate restrictions, and difficulties in recognising professional qualification cross-border, which affects these and other sectors, including education, construction, manufacturing and business services.

Rising unemployment in Member States will drive professionals to seek job opportunities in other Member States[43], changing patterns of mobility in the European Union. The upcoming modernisation of EU legislation facilitating the recognition of professional qualifications[44] will respond to needs of Member States facing an increasing shortage of skilled workforce while easing the unemployment pressure.

Finally, confidence in the Single Market will be enhanced for all stakeholders through the policies that safeguard the legal framework for the operation of services of general interest (State aid and public procurement) and that guarantee that competitiveness and liberalisation go hand in hand with the respect for social rights of workers and citizens.

[43] 28% of EU citizens consider working abroad according to recent Eurobarometer surveys.
[44] Directive 2005/36/EC.

Box 1: The implementation of the Services Directive

The implementation of the Services Directive has been a crucial milestone in improving the functioning of the Single Market for services. The Directive has lead to the abolition of a multitude of restrictions. Two years after the expiry of the Directive's implementation deadline, a lot has been achieved. Hundreds of discriminatory, unjustified or disproportionate requirements (such as authorisations, tariffs or economic needs tests) have been abolished. Most Member States have set up operational "Points of Single Contact".

But the full potential of the Directive will only be realised when all Member States have completed the work required to fully implement it. This is not yet the case. To use the Directive's full potential, there is a need to shift from a compliance perspective to a competitiveness driven focus.

24 out of 27 Member States have finalised the adoption of all the necessary legislation. In Austria, Germany and Greece work is in the final stages but one or more laws are still pending. On 27 October 2011 the Commission decided to refer these Member States to the European Court of Justice for failure to respect EU law[45]. In 2011, the Commission has been assisting those Member States where there have been strong indications of incorrect or incomplete implementation of the Services Directive to improve their implementation[46]. The Commission will continue its analysis of the quality of implementation for all Member States and, where necessary, formal enforcement measures will be taken.

Operational "Points of Single Contact" (PSCs) are now in place in 24 out of 27 Member States. Three Member States have delays: Romania, Slovakia and Slovenia. However, the functioning of the existing PSCs needs to be improved significantly. The most important gap concerns the degree of availability of electronic procedures (i.e. the possibility to complete administrative formalities online). In only 1/3 of Member States can a significant number of procedures be completed online through the PSCs[47]. In Bulgaria, Ireland, and Malta, PSCs do not yet offer online completion of procedures at all; in nine Member States, only a small number of procedures can be handled online[48]. In most Member States, it continues to be very difficult for users from abroad to use the PSC, partly for linguistic reasons (in Austria, France, Hungary and Italy for example PSCs are only available in the national language), but also for technical reasons: most Member States continue to accept only national means of signing an application form or of identifying oneself electronically. In general, the PSCs in a general manner need to be made more user-friendly and more responsive to the needs of entrepreneurs.

As part of the efforts to improve the implementation of the Services Directive in 2012, the Commission will address various issues revealed by the mutual evaluation exercise of the Directive. There are still important barriers to cross-border services provision in terms for example of specific requirements which Member States impose on the shareholding in companies or which limit the choice of legal form of service businesses. There are also practical difficulties resulting from the wide use by Member States of the possibility to reserve certain service activities for certain operators holding specific qualifications, in particular as regards cross-border trade. Competition among service providers using broadband, energy and transport

45 IP/11/1283 of 27.10.2011.

46 Meetings have taken place with Bulgaria, Cyprus, Latvia, Lithuania,Portugal and Greece.

47 Austria, Czech Republic, Denmark, Estonia, Luxembourg, the Netherlands, Spain, Sweden and the United Kingdom.

48 Cyprus, Finland, France, Germany, Greece, Hungary, Lithuania, Latvia, Poland.

infrastructures should be promoted. It is necessary to provide fair access to distribution networks as well as facilitating new entry to bring down utility prices for businesses. Removing unnecessary restrictions on retail opening hours can stimulate new investment and boost consumer spending. The full implementation of the third Postal Directive should complement these efforts.

3.8.2. Maximising the impact of EU funds

In the current economic climate the Commission stresses the need to use existing EU budgetary resources to the maximum and to put in place a reformed Multi-annual financial framework that will more thoroughly support Europe 2020 objectives[49].

Existing budget lines have a strong potential to provide a significant boost to growth in the EU. Different large scale investments through the Cohesion Fund and European Regional Development Fund (CF and ERDF), in particular to improve the environment, transport infrastructure, energy and broadband connections, can have a direct impact on growth and jobs. Alongside these direct investments, the ERDF provides valuable support for entrepreneurship, investment in enterprises, innovation and Research, and ICT for business. The European Social Fund (ESF) works under four priority areas: employment, with special emphasis on the employment of disadvantaged groups and the young, skills and lifelong learning, improving the adaptability of the labour market and promoting social inclusion. In many cases this support is tailored towards the recommendations given to the Member States in the context of the Europe 2020 strategy.

To improve the potential to generate growth offered by the Structural Funds, Member States should ensure the **(re-)prioritisation of funding** to direct support towards country-specific recommendations or areas that have a high growth potential using the flexibility available in their programmes. In some cases, **reprogramming** may be necessary when a more intensive and upfront use of EU funding could be beneficial to support sources of growth. Actions to support growth include:

– Improving the liquidity of SMEs in a financially constrained banking environment by more intensive use of JEREMIE financial instruments (loans, guarantees and venture capital);

– Investing more in the energy efficiency of buildings (as has been done in France). This would also help secure jobs in the building and construction sector, a sector severely hit by the crisis and which has sizable underutilised capacity;

– Reinforcing resource efficiency, by investing in eco-innovation, renewable energies and environmental technologies;

– Accelerating major projects in convergence regions (as has been done in Greece);

49 See also the opinion of the Committee of Regions of 12 October 2011 on the role of regional and local authorities in achieving the objectives of the Europe 2020 strategy.

– Developing a fast-track list of priority projects, which are both ready to be implemented and can directly contribute to growth, to replace programmes performing significantly below potential. The Commission is ready to offer its help in this process, as it is already doing to Greece and Romania;

– Accelerating the use of available funds by reprioritising programmes on fewer priorities with the aim of improving the conditions for growth and reducing the regional divide as recently agreed with Italy in the framework of the Action Plan for Cohesion.

In any event all Member States should report by end 2012[50] on outputs and results and the progress in achieving the objectives of cohesion policy and of its contribution to Europe 2020.

To support the **disbursement of unused funds** in times of fiscal constraints, the Commission proposed on 1 August 2011 to increase the co-financing rates to get some of the EU's most troubled economies back on track. Under the proposal, higher rates of EU co-financing would be made available for Greece, Ireland, Portugal, Romania, Latvia and Hungary to take forward growth and competitiveness-enhancing projects in each of these countries. In total, the maximum expected impact would amount to € 2,884 million. The Council and the European Parliament are invited to adopt this proposal urgently, before the end of the year.

The Commission is making good progress in detailing its blueprint for a **future EU budget** geared to driving growth and job creation in line with the Europe 2020 strategy. Detailed proposals have been adopted in relation to the Connecting Europe Facility and Cohesion Policy, the Common Agriculture Policy and Rural Development, with further proposals close to adoption, i.e. on Horizon 2020. These legislative bases will also be accompanied with policy frameworks such as the revised Trans European Transport and Energy guidelines, and proposals in early 2012 for two Community Strategic Frameworks, one for shared management funds[51] and a second for research and innovation. These frameworks will prioritise the areas for EU support and better coordinate different EU funding programmes.

A key element of the Multi-annual Financial Framework (MFF) proposals is the need to ensure effective, growth enhancing investment from the EU budget. Key elements of the cohesion policy proposals that respond to these objectives are the mechanisms for thematic focus in Europe 2020 priorities, concentration of resources and the new conditionality provisions that will ensure that EU funding is focussed on results and creates strong incentives for Member States to ensure the effective delivery of the Europe 2020 growth and jobs objectives. Partnership contracts will be concluded with each Member State to ensure mutual reinforcement of national and EU funding.

In anticipation of the **Connecting Europe facility** under the next Multiannual Financial Framework, the Commission proposed a Europe 2020 Project Bond Initiative pilot phase in October, amounting to € 230 million. This Initiative seeks to mobilise investment in areas that will stimulate growth and create jobs. The large and urgent infrastructure

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50 National Strategic Reports are required under existing rules.
51 ERDF, ESF, Cohesion Fund, Fisheries fund and Rural Development.

investment needs combined with the long lead times for project preparation, call for immediate action to address the scarcity of funding. At a time of tight public budgets, innovative solutions are urgently required to mobilise a greater share of private savings and to improve the range of financial instruments available for energy, transport and ICT projects. Reduced possibilities to access finance by infrastructure projects calls for alternative sources of debt financing. The norm for infrastructure projects with commercial potential should be to combine EU funds in partnerships with the capital market and banking sectors, particularly via the European Investment Bank (EIB) as the EU financial body established by the Treaty.

3.8.3. Exploiting the potential of the global market

The core of the EU's economy remains the Single Market, but the share of trade in growth generation has never been as high as now – in 2010 roughly 25%of EU growth came from international trade. In the short-term, the bulk of economic growth will happen outside of Europe. In fact by 2015, 90% of future economic growth will be generated outside of Europe. The EU's growth potential will depend on the ability to reap the benefits of that growth. Yet, the fastest-growing markets are less open than the EU.

Europe's external economic relations are well established. The EU will continue to pursue them with all partners, especially developing countries, and adapt them to changing circumstances. The US and China are the EU's biggest trading partners. The EU has developed new and broad instruments with strategic partners (with the US: TEC as example on electric vehicle cooperation; with China: HED as example in the area of innovation). The Asian region is home to the fastest growing economies in the world. Its regional economic integration is moving at a fast pace and the EU wants to tap into this potential and seize opportunities. A FTA with India is a key plank of the EU's strategy. Asia is not only a crucial export market; it is also key element in the EU's supply chains.With respect to Russia, the EU's interest lies in anchoring Russia in the global economic system and in a potential FTA, and with Mercosur and Japan FTAs are being explored. The trade agenda with the **near neighbourhood** goes beyond growth and jobs, implying also security and solidarity. Nevertheless the neighbourhood region is an economic factor as the EU's fifth largest trading partner. With respect to the Southern Mediterranean: the EU concentrated on FTAs and short-term initiatives. The EU also engages with Ukraine (DCFTA) and other Eastern Partnership countries.

An initiative on commodities and raw materials[52] proposed actions to secure access to raw materials for the European industry on world markets and to improve transparency of financial and commodity markets.

More trade and investment with the world are key to a stable and sustainable economic recovery, growth and jobs in Europe. To achieve this the EU's immediate priority is to conclude those trade agreements which are underway: (1) subject to the position of partners, the EU aims to conclude negotiations with India and Ukraine by the time of the next Summits with these countries; (2) subject to the position of partners, the EU aims to conclude negotiations with Canada, Singapore and Malaysia during 2012 at the latest and

[52] COM(2011) 25 of 2.2.2011.

(3) finalise formally in early 2012 agreements with Peru and Colombia, on which negotiations have already concluded.

Overview of Member States' country specific recommendations by policy area																
	Public finances				**Labour market**				**Structural policies**						**Financial stability**	
	Fiscal consolidation	**Long-term sustainability**	**Fiscal framework**	**Taxation**	**Wage setting**	**Active Labour market policy**	**Labour market particip-ation**	**Education**	**Network industries**	**Energy efficiency**	**Service sector**	**Business environment and SMEs**	**R&D, innovation**	**Public services, cohesion policy**	**Banking**	**Housing market**
AT	x	x	x	x			x	x			x					
BE	x	x		x	x	x	x		x		x				x	
BG	x	x	x		x		x	x	x	x				x		
CY	x	x	x		x		x	x	x	x	x				x	
CZ	x	x		x		x	x	x				x		x		
DE	x		x				x	x	x		x				x	
DK	x	x		x			x	x			x			x		x
EE	x			x		x	x	x	x	x						
ES	x	x		x	x	x		x			x	x			x	
FI	x	x				x	x	x			x	x		x		
FR	x	x		x	x	x	x	x			x			x		
HU	x		x	x		x	x					x		x		
IT	x		x		x	x	x				x	x	x	x		
LT	x	x	x	x			x		x	x	x	x				
LU	x	x			x	x	x	x								
MT	x	x	x		x	x	x	x		x				x		
NL	x	x				x	x					x	x			
PL	x	x	x				x	x	x			x	x	x		
SE	x						x									x
SI	x	x	x			x	x	x			x	x		x	x	
SK	x	x	x	x		x		x						x		
UK	x	x		x			x	x				x				x
	22	**17**	**11**	**11**	**8**	**13**	**20**	**16**	**7**	**5**	**11**	**10**	**3**	**11**	**5**	**3**

Note (1): For Ireland, Latvia, Greece, Portugal and Romania, the only recommendation is to implement existing commitments under EU/IMF financial assistance programmes
Note (2): The number of crosses do not necessarily correspond to the number of CSR for each Member State as CSRs often cover more than one area.

Europe 2020 targets[53]

*Countries that have expressed their national target in relation to an indicator different than the EU headline target indicator

Member States targets	Employment rate (in %)	R&D in % of GDP	Emissions reduction targets (compared to 2005 levels)[54]	Renewable energy	Energy efficiency – reduction of energy consumption in Mtoe[55]	Early school leaving in %	Tertiary education in %	Reduction of population at risk of poverty or social exclusion in number of persons
AT	77-78%	3.76%	-16%	34%	7.16	9.5%	38% (including ISCED 4a, which currently is at about 12%)	235,000
BE	73.2%	3.0%	-15%	13%	9.80	9.5%	47%	380,000
BG	76%	1.5%	20%	16%	3.20	11%	36%	500,000*
CY	75-77%	0.5%	-5%	13%	0.46	10%	46%	27,000
CZ	75%	1% (public sector only)	9%	13%	n.a.	5.5%	32%	Maintaining the number of persons at risk of poverty or social exclusion at the level of 2008 (15.3% of total population) with efforts to reduce it by 30,000
DE	77%	3%	-14%	18%	38.30	<10%	42% (including ISCED4 which currently is at 11.4%)	330 000 (long-term unemployed)*
DK	80%	3%	-20%	30%	0.83	<10%	At least 40%	22,000 (persons living in households with very low work intensity)*
EE	76%	3%	11%	25%	0.71	9.5%	40%	61,860 people out of risk-of-poverty*
EL	70%	No target available	-4%	18%	2.70	9.7%	32%	450,000
ES	74%	3%	-10%	20%	25.20	15%	44%	1,400,000-1,500,000
FI	78%	4%	-16%	38%	4.21	8%	42% (narrow national definition)	150,000

53 The final national targets were set out in the National Reform Programmes in April 2011.

54 The national emissions reduction targets defined in Decision 2009/406/EC (or "Effort Sharing Decision") concerns the emissions not covered by the Emissions Trading System. The emissions covered by the Emissions Trading System will be reduced by 21% compared to 2005 levels. The corresponding overall emission reduction will be -20% compared to 1990 levels.

55 It should be noted that the national projections also vary as to the base year(s) against which savings are estimated.

FR	75%	3%	-14%	23%	34.00	9.5%	50%	Reduction of the anchored at-risk-of-poverty rate by one third for the period 2007-2012 or by 1,600 000 people*
HU	75%	1.8%	10%	14.65%	2.96	10%	30.3%	450,000
IE	69-71%	approx.2% 2.5% of GNP)	-20%	16%	2.75	8%	60%	186,000 by 2016*
IT	67-69%	1.53%	-13%	17%	27.90	15-16%	26-27%	2,200,000
LT	72.8%	1.9%	15%	23%	1.14	<9%	40%	170,000
LU	73%	2.3-2.6%	-20%	11%	0.20	<10%	40%	No target
LV	73%	1.5%	17%	40%	0.67	13.4%	34-36%	121,000*
MT	62.9%	0.67%	5%	10%	0.24	29%	33%	6,560
NL	80 %	2,5 %	-16%	14%	n.a.	<8 %	>40% 45% expected in 2020	93,000*
PL	71%	1.7%	14%	15.48%	14.00	4.5%	45%	1,500,000
PT	75%	2.7-3.3%	1%	31%	6.00	10%	40%	200,000
RO	70%	2%	19%	24%	10.00	11.3%	26.7%	580,000
SE	Well over 80%	4%	-17%	49%	12.80	<10%	40-45%	Reduction of the % of women and men who are not in the labour force (except full-time students), the long-term unemployed or those on long-term sick leave to well under 14% by 2020*
SI	75%	3%	4%	25%	n.a.	5%	40%	40,000
SK	72%	1%	13%	14%	1.65	6%	40%	170,000
UK	No target in NRP	No target in NRP	-16%	15%	n.a.	No target in NRP	No target in NRP	Existing numerical targets of the 2010 Child Poverty Act*
Estimated EU	**73.70-74%**	**2.65-2.72%**	**-20% (compared to 1990 levels)**	**20%**	**206.9**	**10.3-10.5%**	**37.5-38.0%**[56]	
EU headline target	**75%**	**3%**	**-20% (compared to 1990 levels)**	**20%**	**20% increase in energy efficiency equalling 368 Mtoe**	**10%**	**40%**	**20,000,000**

[56] Calculation doesn't include ISCED 4 (Germany, Austria) , result with ISCED 4: 39.9 -40.4%