

- The Lisbon European Council placed employment at the heart of its agenda, aspiring to a Europe “capable of sustaining economic growth with more and better jobs and greater social cohesion”. The objective was to inject US-style employment performance into a Europe characterized by different social welfare systems and preferences, and by a diverse range of labour markets, educational and wage-bargaining systems.
- Boosting employment and labour force participation is important for growth and, in a context of adverse demographics, sustainable public finances and pension systems. It is also important for social justice. **The best safeguard against social exclusion is a job.**
- The Spanish Presidency has recognized the imperative of employment growth in its priorities for Barcelona. Its highlighting of, in particular, the need to remove structural barriers to job creation, and to enhance worker mobility, are greatly to be welcomed; so, too, is the emphasis it gives to improvements in the quality of, and access to, education.
- Governments must address employment and employability in a comprehensive manner. They must recognise that, in a changing economy, employees need the opportunity and incentive to pursue life-long learning, and businesses the incentive and opportunity to provide it. They must also recognise that encouraging EU citizens to gain basic skills, to improve their skills, or to enter, re-enter or remain longer within the workforce, requires a holistic approach from policy-makers; one which encompasses education, labour market legislation, regulation and competition policy, tax and benefits, and measures both to counter discrimination and prejudice, and raise expectations and aspirations.
- The EU’s approach of ‘open coordination’ is particularly well suited to a common problem – low employment – which demands a variety of responses tailored to national circumstances.

INTRODUCTION

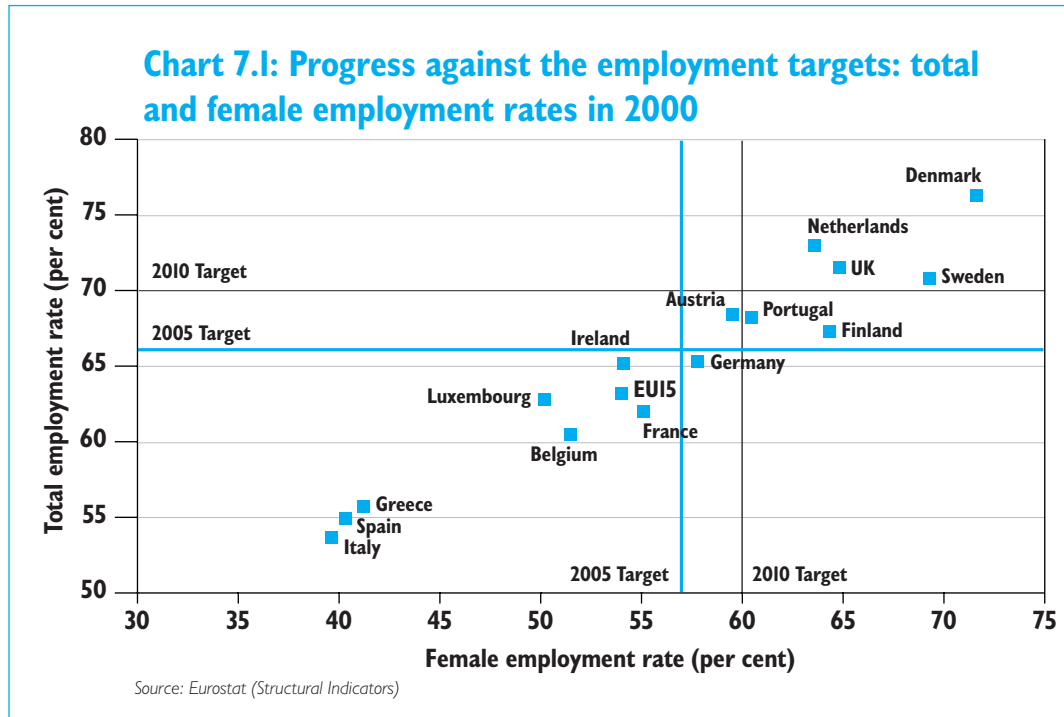
“European public opinion demands more growth from governments...and a growth that translates into jobs. In our opinion that requires structural changes in markets.” (Rodrigo Rato, Spain’s Second Deputy Prime Minister and Minister for Economic Affairs)¹

Regaining full employment

7.1 One of Lisbon’s most ambitious goals was that of **full employment – opportunity for all**. EU leaders acknowledged with disappointment that over 15 million European citizens were at the time unemployed, that too few women and older workers (55-64 years) were active in Member States’ labour markets, and that long term unemployment and sharp regional differences in joblessness remained characteristic of some parts of the Union. Taken together, this added up to economic costs and social exclusion; a combination so unacceptable as to prompt targets to be set for both total and female employment rates in 2010. Intermediate 2005 goals, and a further target for older workers, were added at the Stockholm Council of the following year. Chart 7.1 places the total and female employment objectives in the context of actual EU and Member State employment rates in 2000. More specifically, the targets are:

¹ Interview with Reuters, 23 January 2002.

- a total employment rate of 67 per cent by January 2005, and of 70 per cent by 2010;
- a female employment rate of 57 per cent by January 2005, and of 60 per cent by 2010; and
- an older workers (55-64 years) employment rate of 50 per cent by 2010.



Why the targets? 7.2 The Lisbon European Council recognised that Europe's labour markets were not working to their full potential. The past few decades have been characterised by sluggish job creation and persistently high unemployment rates. These trends stand in sharp contrast to the US which has created not only many more jobs, but also (and contrary to some perceptions) many more well-paid and skilled jobs (see Box 7.1). Lisbon identified the setting of clear and ambitious employment rate targets as being central to the development of an effective response at EU level.

Box 7.1: Are the new jobs, desirable jobs?

The strong private sector job creation track-records of some countries is sometimes criticized on the grounds that many of the newly employed are working in low-paid, low-skilled and insecure jobs – in the parlance of Naomi Klein² and others, “McJobs”. While the unemployment numbers look good, the argument runs, social welfare is actually reduced as employees are badly paid and working long hours in poor conditions.

There is, however, little evidence that strong job creation has come at the expense of those taking the jobs. One study³ of the country which outperforms most of its peers in the employment stakes – the US – concluded that, between 1993 and 1999, 81 per cent of jobs created were in industries/occupations paying above median wages. In an environment of technological and economic change, ‘good’ jobs had been created in large numbers, including in the 1990s about 1.5 million in the skilled IT service sector.

A survey⁴ of the UK since 1997 similarly concluded that employment growth, far from being concentrated in low-paid or unskilled sectors, had been distributed across a wide range of jobs and occupations. Little evidence, in short, of countries with good employment records having achieved their status on the back of “McJobs”.

Some signs of improvement in the late 1990s...

7.3 Certainly, **EU labour markets had improved** somewhat in the immediate run-up to Lisbon. Factors contributing to improvements included general economic recovery, but also, importantly, the positive influence of the merging European Employment Strategy (agreed at Luxembourg in 1997) and also national reforms – not only to labour markets, but also to product and capital markets. As a result, the EU employment rate rose from 59.8 per cent in 1995 to 63.2 per cent in 2000⁵.

7.4 More interestingly, there were indications that Member States’ **labour markets had become more sensitive to growth**. The positive economic growth in the second half of the last decade was much more ‘job-rich’ than had been the case during previous upswings⁶, as Table 7.1 and Chart 7.2 illustrate.

² *No Logo*, Naomi Klein, 2000.

³ *20 Million Jobs: January 1993–November 1999*, Council of Economic Advisers, White Paper, Washington D.C., 1999.

⁴ *Employment Now*, DfEE, 1999.

⁵ Eurostat estimates.

⁶ In their recent report on the euro area, the OECD commented that: “over the last three years, net employment creation per unit of output growth was stronger than in the United States or in the United Kingdom, and than during the expansion of the late 1980s”, OECD Economic Surveys, Euro area, May 2001.

Table 7.1 Employment Intensity During Upswings¹ (Whole Economy)

	1970-95 (average)	1996-2000 (average)
France	0.22	0.47
Germany ²	0.17	0.49
Italy	0.06	0.64
Spain	0.32	0.96
All 4 countries	0.19	0.64

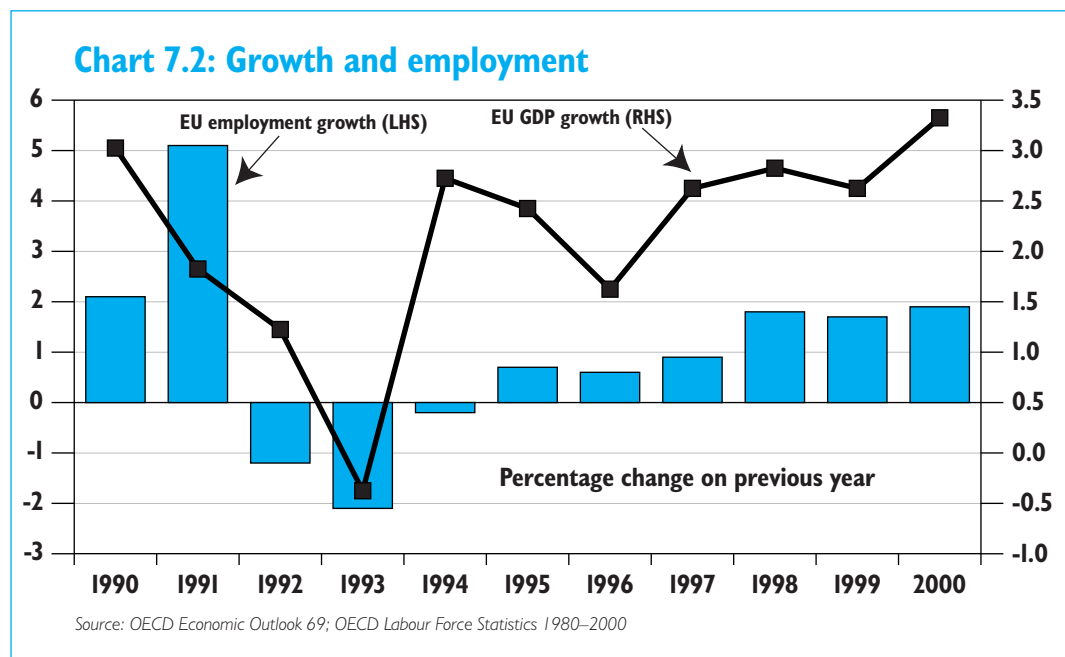
¹ Upswings are defined as years of shrinking output gaps. Employment intensity is the ratio of employment to GDP growth.

² Excluding 1991, the first year of data for reunited Germany.

Source: IMF 2001

...but a long way to go

7.5 Such welcome improvement notwithstanding, the EU unemployment rate stubbornly refused to fall sustainably below 8 per cent even at the peak of the economic cycle; a rate almost double that of the US. The employment rate, while rising, was still around 10 percentage points below its US equivalent, and the increase in employment was far from evenly distributed across the EU.



WHY LABOUR MARKET REFORMS ARE IMPORTANT

7.6 Boosting employment is clearly important for growth and, in a context of adverse demographics, for the quality of public finances and the sustainability of pension systems. It is also, however, important from a perspective of social justice.

The best safeguard against social exclusion is a job

7.7 Well-functioning labour markets, coupled with dynamic product and capital markets, equate to the strong job creation which best safeguards against social exclusion. Tackling unemployment and raising employment is therefore one of the most important routes to delivering both prosperity and social justice to all of the EU's citizens. As Lisbon rightly noted, the best safeguard against social exclusion is a job.

The heavy cost of long term unemployment **7.8** **Long-term unemployment** is a particularly acute social as well as economic problem for Europe. While the proportion has declined slightly, over a third of Europe's unemployed (13.6 million at end-2001) have been out of work for more than a year. This entails enormous cost not only to the skills base and the economy, but also in financial and emotional terms to the individual, their household (children in households with no income earner may be particularly at risk not only of poverty but also of social exclusion, with consequences carried through into adult life) and their immediate social network.

Female employment; the missing link **7.9** There is also the **large differential between male and female employment** to consider. Lower employment among women explains much of the difference between EU and US overall employment rates. While, thirty years ago, the picture in both economies was roughly the same, this had changed by 1999 to one in which 71.7 per cent of working age women were employed in the US, but on average only 54 per cent in the EU. Social and cultural factors, working hours, tax systems, income incentives and child care, all feature as possible causal factors of low female participation rates. The UK has developed a comprehensive strategy designed to address the main obstacles to higher female participation. Improving childcare provision through the National Childcare Strategy, and helping to make work pay through the Working Families' Tax Credit, are key elements of this approach.

REBALANCING LABOUR MARKET POLICY

7.10 There are, as the Government recognizes, a variety of different routes by which social justice can be delivered, and the success of many domestic welfare systems in this regard has been one of the EU's major achievements. These gains must be protected. At the same time, however, it is important to realize that people who are able to work, but are not in work, do not just need financial help; they also need opportunity.

7.11 The message of Lisbon is that **the EU needs to reform its labour market policies** so that individuals are able to compete effectively for jobs. Efforts to boost employment through, for example, measures to encourage enterprise and innovation will be blunted if similar attention is not paid to labour market policy.

Developing a framework for reform **7.12** The importance of structural factors in explaining differences in unemployment over time and between countries, has become accepted wisdom in the last twenty years. A sizeable academic literature has built up.⁷ Although the theoretical underpinnings and empirical results vary, a number of generic structural features emerge as causes:

- the level, duration and conditions attached to unemployment benefits;
- the efficiency of job-matching services (especially public employment services);
- the structure of taxes on labour;
- the availability of people with the right skills to meet employers' needs;
- the use of active labour market policies to encourage individuals into work; and
- the extent to which pay bargaining systems, industrial relations and legislation protect the interests of the already employed "insiders" relative to not employed "outsiders".

⁷ See for example *Unemployment: Macroeconomic Performance and the Labour Market*, R. Layard, S. Nickell and R. Jackman, Oxford University Press, 1991; and *The Role of Shocks and Institutions in the Rise of European Unemployment: The Aggregate Evidence*, O. Blanchard and J. Wolfers, *The Economic Journal*, 110, C1-C33, March 2000.

No magic formula... **7.13** From an EU perspective, it is difficult to isolate one specific factor as a priority from this list. Each Member State's labour market has its own particular features. There is no single 'European labour market model', and no 'one-size fits all' blueprint for success. There are, however, clear recipes for failure, and there are several potentially employment-boosting measures which can be adopted in different combinations and to different degrees. The **Employment Guidelines** of the European Employment Strategy, coordinated under the Luxembourg Process (Box 7.2), recognise the need to address the problem across a broad front. They highlight the importance of implementing active labour market policy, enhancing employability, and ensuring that tax and benefit systems support rather than impede employment growth.

...but a range of options to choose from **7.14** While the Luxembourg Process offers a crucial mechanism for sharing experience and developing strategy at the EU level, it is at the national level that theory must be translated into action. UK experience, centred on the success of the **New Deal** and on a broad agenda of welfare reform, suggests that an effective national employment strategy needs to be based on a comprehensive approach which facilitates the shift from welfare into work; makes work pay; and helps develop skills and career prospects.

7.15 The New Deal, at the heart of the UK's active labour market policy, provides tailored and targeted support to help people reconnect with and re-enter the labour market. Alongside it comes a commitment to modernising the services which facilitate the transition, including integrating benefit and employment services to ensure that maximum help is offered whenever a jobseeker or inactive person has contact with the public service. The new 'Jobcentre Plus' initiative, together with new system of tax credits to be introduced from 2003, mark the culmination of a five year process within a comprehensive strategy. Empirical and academic work suggest a number of policy levers which, used in harness, can help increase the efficiency of labour markets while delivering social justice⁸. These centre on three broad principles:

- providing help and incentives to get those who can work into employment;
- providing decent minimum standards for those who are in work; and
- providing support for those who cannot work.

⁸ For example, *The Modernisation of Britain's Tax and Benefits System, Number Two; Work Incentives*, HM Treasury, March 1998.

Box 7.2 The Luxembourg Process

The 1997 Amsterdam Treaty introduced a new chapter on employment aimed at promoting high employment and making EU labour markets more responsive to economic change. Employment strategy is reviewed and coordinated on an annual basis under the annual Luxembourg Process, which also serves to feed information on individual labour markets into the overall co-ordinating framework of economic reform: the annual BEPGs.

What does the Luxembourg Process involve?

There are four stages that together make up the annual Employment Package:

- **Annual Employment Guidelines** set out the policies that Member States are required to take into account in their employment agenda. They are structured around four themes or pillars: employability, entrepreneurship, adaptability and equal opportunity;
- **National Action Plans** in which Member States set out national policies and programmes consistent with the Employment Guidelines;
- the **Joint Employment Report** of the Council and the Commission on the employment situation and the implementation of the Employment Guidelines; and
- **Recommendations to Member States**; specific feedback to each EU Member State.

What next?

The Luxembourg Process is due in 2002 for its five-year review; an opportunity to assess how successful the programme has been, and to consider how it might be improved. The EU needs to address both substance and process in order to deliver more effectively on employment and come closer to matching aspiration with realisation.

PROVIDING OPPORTUNITIES TO MOVE INTO WORK AND PROGRESS

Active Labour Market Policies

7.16 Active Labour Market Policies should be adopted to help and encourage individuals to move into work and to progress. Member States have introduced active labour market policies to varying degrees, and experience in both the UK and in other OECD countries, most notably the US, attests to their effectiveness. The challenge, now, is to discover what works best for particular groups in particular labour markets. Active labour market policies can be divided into four broad types:

- measures to enhance job search;
- measures to raise the skills of job seekers via education, training and lifelong learning;
- subsidised employment opportunities, via wage subsidies to employers; and
- direct job creation in the public and voluntary sectors.

7.17 Measures to assist job search appear, on the basis of OECD experience, to have been particularly successful. Training programmes have been most effective when targeted at particular groups and tied closely to labour market needs (and especially when there is a strong on-the-job component). Subsidised employment has also proved effective in many cases, but is sometimes subject to low take-up. The track-record of direct job creation is less impressive in its contribution to boosting employment rates, but nevertheless still helpful when targeted at particularly disadvantaged groups. The need for Member States to pool their experiences on this topic, and the importance of learning from each other, is obvious.

MAKING WORK PAY

7.18 One obvious pitfall to be avoided is a situation where it is less advantageous to take paid employment than to remain on benefits. Active Labour Market Policies therefore need to be complemented by policies that provide financial incentives to move into work or to progress once in work. The United Kingdom's approach has been to introduce reforms to make work pay at all levels of the labour market combined with additional targeted support for those with the greatest work incentive problems.

7.19 Reforms to the tax and benefit system are an important part of 'making work pay' and tackling two particular 'traps':

- **The unemployment trap**, in which the ratio of benefits to earnings is such that little or no financial incentive exists to move from welfare into employment.
- **The poverty trap**, in which the rate at which extra earned income is withdrawn (via tax or lost benefits) provides little incentive to move up the earnings ladder.

7.20 Both traps can be tackled through increased employment incentives and a smaller tax wedge (the difference between gross and net income). Different countries have approached the challenge of improving work incentives in different ways. Income tax cuts and/or increased tax credits targeted at low to middle income earners have been implemented in Austria, Belgium, Denmark, Finland, Germany, Greece, Ireland, Italy, Sweden and the UK; reduced social security contributions in Belgium, Finland, Germany, Greece, Ireland, Italy, the Netherlands and Spain; and an increased use of in-work and employment related benefits in Belgium, Finland, Ireland, the Netherlands and the UK. The UK plans further reform to the tax and benefits system to help make work pay with the introduction of a new system of tax credits from 2003. The new Working Tax Credit and Child Tax Credit will improve work incentives, as well as help to support families with children and tackle child poverty. Box 7.3 provides further detail on four of the above examples.

Box 7.3 Examples of tax/benefit reforms to boost employment incentives

Spain has simplified its tax system, raising the minimum threshold for income tax and cutting minimum and maximum marginal tax rates by 2 and 8 percentage points respectively. The reduction in the effective tax rate on labour is intended to boost the labour supply and encourage participation by female workers in particular.

Ireland has cut marginal tax rates and converted personal tax allowances into tax credits, raising significantly the threshold at which income tax is payable. The objective is to remove from the tax net all those earning only the minimum wage.

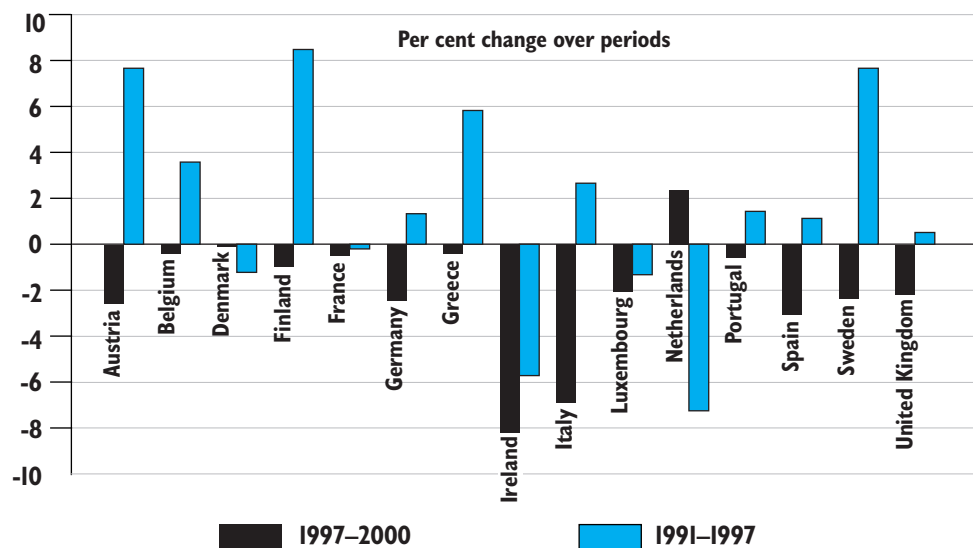
France has cut employer social security contributions in order to reduce labour costs. The housing tax and subsidy system has been amended to avoid an abrupt increase in taxation on taking a job or an abrupt withdrawal of benefits when giving up the Insertion Minimum Revenue. In 2001 a tax credit scheme, the *prime pour l'emploi*, was introduced for workers at or slightly above the minimum wage to address the unemployment trap.

Finland has introduced a package of complementary measures designed to correct a situation in which work incentives had been dampened by very high effective marginal tax rates at the low end of the wage scale. Changes in labour market support, housing benefit, social assistance and child care fees have all been used to increase participation rates.

7.21 Policies to tackle the 'traps' have focused in general on the tax side of the equation. Changes to benefit systems have, in comparison, been relatively minor (see chart 7.3).

7.22 Some studies highlight the duration of benefits as an important influence on the duration of unemployment. Benefit reform in the EU has, however, tended to concentrate rather on eligibility requirements; changes in levels and duration have, on the whole, been less pronounced.

Chart 7.3: Changes in the tax wedge, 1991–1997 and 1997–2000



Note: Tax wedge calculated as income tax plus employee and employer contributions less cash benefits (as a percentage of labour costs) for a single-earner family with children.
Source: OECD, *Taxing Wages 1999–2000*, 2001

IMPROVING STANDARDS IN THE WORKPLACE

Employment Protection Legislation

7.23 Since coming to power in 1997, the UK Government has introduced a framework of decent minimum standards to promote fairness in the workplace without deterring employment or causing disproportionate costs to business. This framework incorporates a national minimum wage, new trade union recognition rights and new family friendly policies such as better maternity rights and the right to paternal leave. Legislation is, however, not always an appropriate or effective tool. Applied inappropriately, it can discourage the creation of entry-level jobs (especially low-skilled), and hinder innovation⁹. Small firms may be particularly vulnerable to being hamstrung by unnecessary or ill-conceived regulations.

7.24 Badly designed legislation can also insulate labour market ‘insiders’ – the employed – from the competition posed by those without work. One particularly damaging consequence is that this may exacerbate the incidence of long-term unemployment, which in turn “distances” the individual further from the labour market and reinforces the position of the insider.

7.25 Legislation can also be a very blunt tool, especially at EU level. Conditions in labour markets vary across (and even within) Member States, as do labour market institutions, workplace relations, corporate structures, employee representation and bargaining systems. No single approach to labour market policy is correct of itself: each has been shaped by national circumstances, and can only be assessed in context. Failure to reflect national differences in a policy response may damage rather than enhance employment creation, rendering local labour markets less rather than more flexible, and creating greater uncertainty for employers.

7.26 Meeting the Lisbon targets requires dynamic labour markets. It also requires policies that are both carefully thought-out and readily adapted; not only to local conditions, but also to changing methods of working (such as teleworking) and to new forms of work organization. Creating employment opportunity for all requires adaptable policy-makers, and nowhere is the need for exchange of experiences and lessons learned more important than in the key area of skills.

EDUCATION AND SKILLS

7.27 If Europe is to develop an adaptable, skilled workforce that is equipped for the challenges of the knowledge-based economy, then education, training and lifelong learning must feature strongly within employment strategies. From basic education to strategies on lifelong learning the emphasis needs to be on equipping people with the transferable skills they will need if they are to compete successfully in the modern labour market. It is essential that this is a genuinely inclusive process; extending to all groups, sectors and skills levels, and flexible enough to cater to the needs of those already in work and those seeking to enter or re-enter employment.

7.28 From a productivity perspective, human capital is clearly important, both in the sense of embodying technological knowledge, and in providing the basis for innovation¹⁰. Support for this view comes not only from the theoretical literature, but also from empirical work at the international, firm and individual level.

⁹ *The cross-market effects of product and labour market policies*, OECD Economic Outlook No. 70, December 2001.

¹⁰ See amongst others: *Does Human Capital Matter for Growth in OECD Countries? Evidence from Pooled Mean Group Estimates*, Bassanini and Scarpetta, 2001; *Endogenous Growth Theory*, Aghion and Howitt, MIT Press, 1998; *The Role of Human Capital in Economic Development: Evidence from Aggregate Cross-Country Data*, Benhabib and Spiegel, *Journal of Monetary Economics*, 34(2), 1994.

7.29 Skills are derived from both learning through work and from education and learning opportunities throughout life. They increase employability and wages, and thus decrease social exclusion. Sparkes¹¹ found that “adults with low basic skills are five times as likely to be unemployed as those with average skills” and that “poor numeracy is especially important.” There are thus strong social reasons as well as economic ones to encourage skill acquisition. Social and economic outcomes are strongly related to the initial period of education during childhood; results from school are strong predictors of adult learning and employment outcomes.

7.30 At the international level, research into productivity differentials confirms the importance of human capital. O’Mahony¹² concludes that “on one measure, Britain’s productivity gap with Germany is eliminated when skills differences are taken into account”. Layard, McIntosh and Vignoles¹³ attribute half of the UK’s productivity gap with Germany to lower skill levels.

7.31 It is therefore critical to ensure that individuals have access to high quality education. It is equally important that training and development opportunities exist throughout adulthood to consolidate, develop and adapt skills. This is pursued in different ways by different countries. The US and UK adopt a market driven, primarily voluntaristic approach; countries such as Singapore and, to a lesser extent, France and Germany, lean towards direct state intervention.

7.32 Research at the firm and plant level confirms the importance of skills. Plants in higher productivity quartiles employ a greater proportion of skilled workers. Oulton¹⁴ finds that differences in physical and human capital explain around 60 per cent of the productivity gap between domestically owned firms and US-owned firms in the UK, and nearly all of the gap with other foreign-owned firms.

Skills, investment and productivity interactions

7.33 The links between skills, investment and productivity have already been noted (Chapter 5). If there are insufficient skilled workers to implement and utilise investments, businesses’ ability to take advantage of investment will be constrained. Nickell and Nicolitsas¹⁵ found that a permanent 10 per cent increase in the number of firms in an industry reporting skilled labour shortages, led to a permanent 10 per cent reduction in fixed capital investment. Layard, McIntosh and Vignoles¹⁶ have suggested that a low level of skills means that the UK attracts less physical capital investment than would otherwise occur.

7.34 Chart 7.4 plots public expenditure on education against productivity growth over the past decade in EU Member States; Chart 7.5 does likewise, but substitutes public spending on education, with the share of the population attaining tertiary education (1998 data). The more significant correlation in the latter instance offers a reminder of the need to focus on outputs rather than inputs, in order to achieve policy goals.

¹¹ *Schools, Education and Social Exclusion*, J. Sparkes, Centre for Analysis of Social Exclusion Discussion Paper: CASE/29, November 1999.

¹² *Britain’s Productivity Performance 1950-96: An International Perspective*, M. O’Mahony, NIESR, 1999 (data updated 2000).

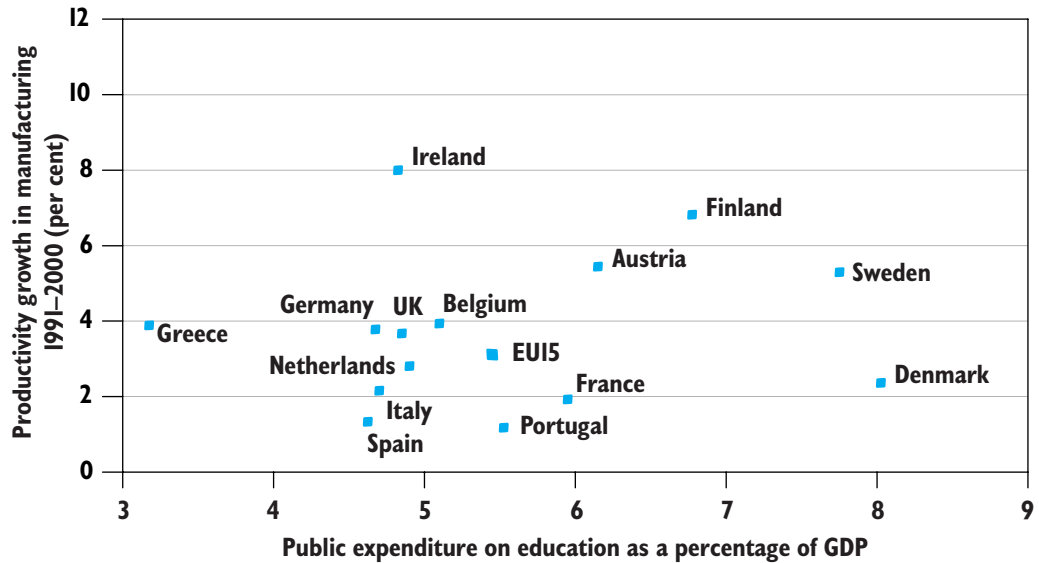
¹³ *Britain’s Record on Skills*, R. Layard, S. McIntosh and A. Vignoles, Centre for Economic Performance (London School of Economics) Working Paper, 2001, <http://cep.lse.ac.uk/>

¹⁴ *Why do foreign-owned firms in the UK have higher labour productivity?*, N. Oulton in *Inward Investment Technological change and growth*, ed. Nigel Pain, Macmillan, 2000

¹⁵ ‘Human Capital, Investment and Innovation: What are the Connections?’, Nickell and Nicolitsas in *Productivity, Innovation and Economic Performance*, ed. Barrel, Mason and O’Mahony, Cambridge University Press, 2000.

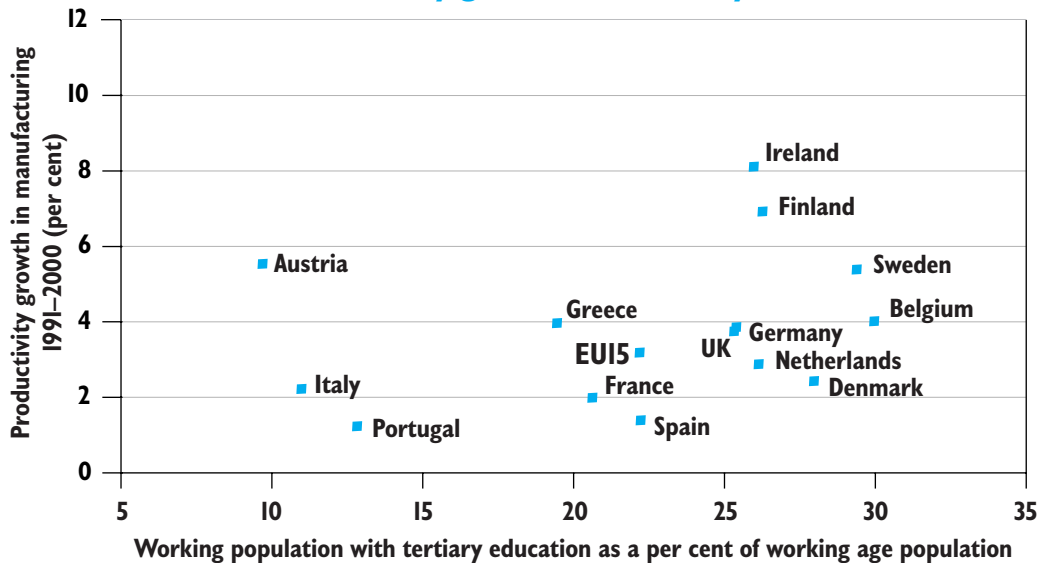
¹⁶ *Britain’s Record on Skills*, R. Layard, S. McIntosh and A. Vignoles, Centre for Economic Performance (London School of Economics) Working Paper, 2001, <http://cep.lse.ac.uk>

Chart 7.4: Productivity growth and public expenditure on education



Source: European Competitiveness Report 2001, European Commission

Chart 7.5: Productivity growth and tertiary education



Source: European Competitiveness Report 2001, European Commission

7.35 Recent OECD studies using both work-related and academic qualifications show that the UK lags many other EU countries such as Germany in terms of the proportion of its workforce with intermediate skills. The UK faces serious basic skills shortages; a fifth of adults lack functional literacy. Recent skills and education policies in the UK have, however, shown some promising results, one of the most notable being that the proportion of adults with no formal qualifications fell from 18.4 per cent in 1996 to 15.1 per cent in 2000.

7.36 The EU as a whole trails the US at high skill levels. This picture is confirmed in research by O'Mahony and de Boer¹⁷ (Table 7.2). It is also echoed in the Skills Audit and the International Adult Literacy Survey which suggest that, while the US performs well in terms of higher level skills, its stock of 'intermediate' skills is below that of many European countries. Both the US and UK display long 'tails' at both high and low skill levels; a characteristic of countries where the market is the dominant force behind adult workforce development.

Table 7.2: Labour force skills, total economy, 1999¹⁸

Per cent of the workforce with qualifications at levels:				
	Higher	Intermediate	Low	Relative skills UK=100
US	27.7	18.6	53.7	100.5
France	16.4	51.2	32.4	105.5
Germany	15.0	65.0	20.0	105.3
UK	15.4	27.7	56.9	100.0

Source: Britain's Relative Productivity Performance: update and extensions, O'Mahony and De Boer, mimeo, NIESR, 2002.

7.37 There have been some welcome improvements in the EU skills picture. Over 60 per cent of the adult working population has at least upper secondary education, and gender gaps have been removed or even reversed; the educational attainment of young women now exceeds that of young men¹⁹.

7.38 Education and skills policies within the EU are pursued within an open coordination framework, using benchmarking as a way of identifying best practice. Each Member State faces its own challenges, and will need to design bespoke solutions to address its own weaknesses. Policies to raise skills levels in a changing environment should be based around three core areas:

- providing a firm foundation of skills for young people and adults;
- improving adult literacy; and
- increasing the emphasis on lifelong learning.

7.39 The Stockholm Council, recognising that "improving basic skills, particularly IT and digital skills, is a top priority to make the Union the most competitive and dynamic knowledge based economy in the world", established a High Level **Skills and Mobility Taskforce**. Drawing on expertise from business, education and social partners, this Taskforce has a particular focus on improving ICT skills; an initiative strongly supported by the UK.

The Skills and Mobility Taskforce

7.40 In the UK as elsewhere, much remains to be done. Employers have highlighted skills shortages in communications, team working, numeracy, literacy and ITC. To address these, the Government has introduced measures including:

- increased spending on education and training of over £10 billion between 2000-2001 and 2003-2004 (a real increase of 5.4 per cent a year), improving standards in schools and delivering lifelong learning through the University for Industry;

¹⁷ Britain's Relative Productivity Performance: update and extensions, O'Mahony and de Boer, mimeo, NIESR, 2002.

¹⁸ The skill proportions depend on the assumptions employed on matching labour force qualifications across the four countries.

¹⁹ Assessing the implementation of the 2001 employment guidelines, European Commission Services Paper, 2001.

- the introduction of the ‘Skills for Life’ initiative to help adults acquire basic skills, the aim being to assist 750,000 adults in achieving this by 2004;
- the expansion of the higher education sector, such that 50 per cent of 18-30 year olds have the opportunity to enter higher education by the end of the decade;
- reform of the National Curriculum to better meet basic skills needs, and progress towards achieving ambitious targets in both primary and secondary schools;
- the introduction of local Learning and Skills Councils and Sectoral Skills Councils to ensure that training is responsive to the needs of employers and individuals;
- Education Maintenance Allowances pilots to help young people overcome financial barriers to post-16 study; and
- pilots of new measures to support low-skilled workers with free training and paid study-leave, financial support for employers and extensive information and guidance.

7.4i Different European training systems have been successful in different ways. What is important, is that all European systems should support training and life long learning. To be effective, experience shows that such schemes should be coherent and flexible (between regions and over time), recognise the responsibilities of individuals, employers and governments, and encourage broad participation. In the light of other countries’ experiences (see Box 7.4, for three examples), the UK is developing policies which reflect such thinking.

Box 7.4: Training: experiences to learn from

Germany has long provided a high proportion of the workforce with intermediate skills through established youth-focused programmes. Its ‘dual training’ apprenticeship system is joined by over half a million young people every year, who receive 1½ days per week of class-based training paid for by the state, and practical training with an employer for the remaining 3½ days. Firms must belong to the chambers of commerce which run training, and young people are in effect obliged to continue training when they leave school. This reduces the need for a subsequent focus on adult workforce development.

In **France**, a training levy has funded adult workforce training since the early 1970s. Firms with more than 10 employees pay 1.5 per cent of payroll costs towards training.²⁰ Expenditure on workforce training has risen over the last 20 years; however, the system is expensive, and highly trained, mobile workers are more likely to benefit than the less skilled. Furthermore, small firms remain less likely to train and see the levy essentially as a tax, often not taking full advantage of the system.

The **US** approach is characterised by Federal, state, local and industrial intervention. Responding to demographic change, to declining manufacturing and to a growing service sector, and to demands for higher skills levels, the Federal Government in 1998 introduced the Workforce Investment Act (WIA) which replaced previous federal statutes governing programmes of job training, adult education, literacy and vocational rehabilitation. The WIA aims to “increase the employment, retention and earnings of participants, and as a result, improve the quality of the workforce, reduce welfare dependency, and enhance the productivity and competitiveness of the Nation.”²¹

Reports²² indicate that the WIA has been particularly effective in two areas. First, the tertiary sector, with government funding and via community college-business partnerships, has become more responsive to the skills requirements of local employers. Second, local One-Stop service delivery systems, combining information on education, training and employment under one roof, have proved effective and efficient. Also beneficial to US performance was the introduction in 2001 of voluntary, industry-recognised core manufacturing skill standards by the National Skills Standards Board²³. The Board is working on similar standards for the retail, tourism, IT and utilities sectors.

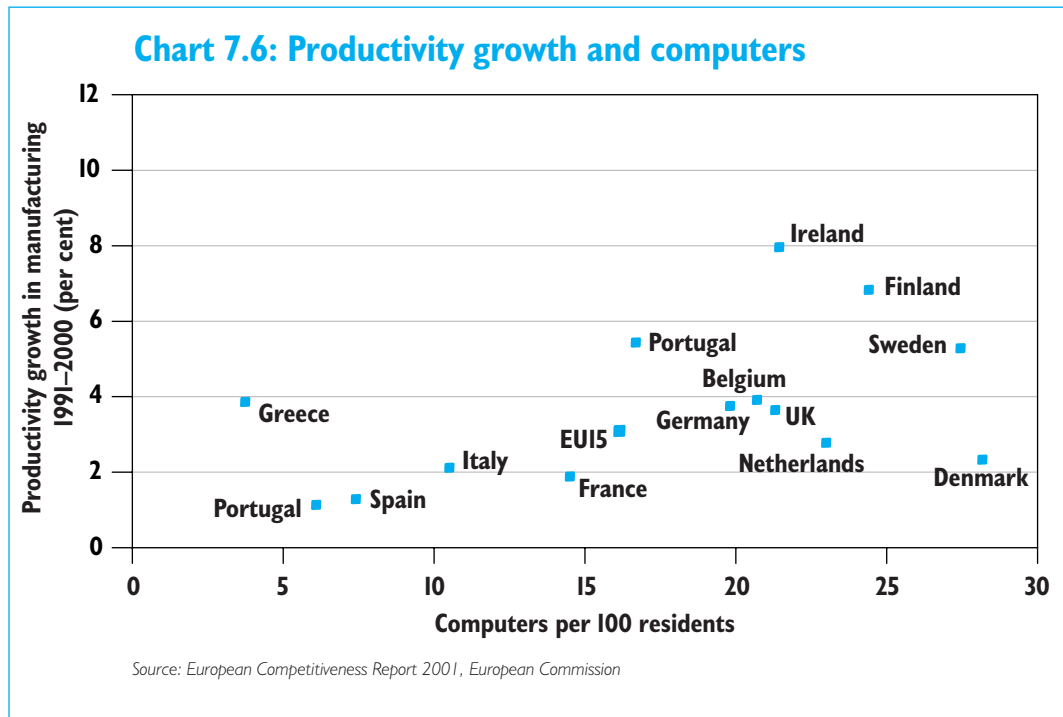
7.42 Education and training must be flexible and readily available to all in order to meet the skills challenge in Europe. There is clear evidence that a lack of appropriate skills has significant implications for the social and economic outcomes that an individual can expect, and thus also for social inclusion in the wider community. As Chart 7.6 illustrates, access to and hence familiarity with IT, appears to be positively linked with productivity growth. Widespread Internet availability is also increasingly important from the point of view of social linkages.

²⁰ For details on the French levy see *Adult Vocational training and Government Policy in France and Britain*, C. Greenhalgh, Oxford Review of Economic Policy, 15.1, 1999.

²¹ US Department of Labour.

²² *In demand: Adult Skills for the 21st Century*, Cabinet Office Performance and Innovation Unit, 2001.

²³ NSSB Annual Report 2000-2001 at www.nssb.org



7.43 Finally, if the full potential of the EU workforce is to be harnessed, it is important that skilled workers also be mobile workers, geographically as well as occupationally. The EU's 'High Level Task Force on Skills and Mobility' recognised that action was required across a wide range of areas towards this end. The Government particularly welcomes its proposals for an improved system of mutual recognition of qualifications across Member States, better information about job opportunities in other Member States and the firm integration of labour mobility policies into the European Employment Strategy.

SUPPORT FOR THOSE WHO CANNOT WORK

Social justice for all

7.44 Employment, while the best option for many people, is not feasible for everyone. Social protection and pension systems must provide a decent level of support for those unable or no longer able to work.

7.45 The UK Government is committed to eradicating child poverty within a generation. To this end, it has boosted the income of low-income families, both in-work through the introduction of the Working Families' Tax Credit and the Disabled Persons' Tax Credit, and by increasing universal Child Benefits and the child-related elements of out-of-work benefits. It has also significantly increased spending on all pensioners since 1997, to the greater benefit of the poorest. A new Pension Credit worth around £2 billion a year and rising over time, will provide further help to the poorest pensioners and encourage saving for retirement among today's workers.

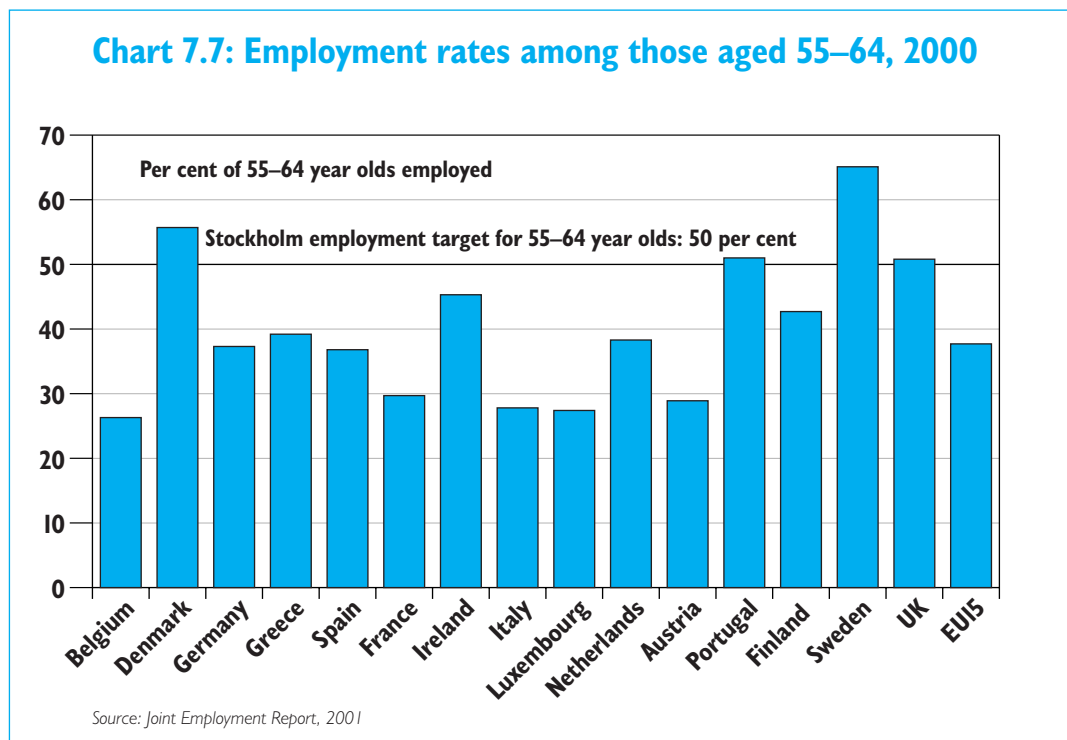
7.46 The issues of social inclusion and pension reform are also pursued at an EU level through the open method of coordination. The links with labour market reform are self-evident; strong employment growth combats social exclusion and secures the sustainability of pension systems.

ACTIVE AGEING

7.47 Given Europe's demographic outlook, increased labour force participation must necessarily be a key EU aim. Stockholm recognized the importance of boosting activity among older workers, setting a target employment rate of 50 per cent for those aged 55–64 by 2010.

7.48 As Chart 7.7 illustrates, this goal is some way off. Incentive structures will need to change if the older workers' employment target is to be met, with reforms being structured so as to encourage people to move into, or back into, the labour market, and to remain there for longer.

7.49 That incentives for older workers to take early retirement or claim out of work benefits are still high in several Member States, runs counter in many ways to the policy implications of rising life expectancy, better health and ageing populations. Social and cultural attitudes also play a part in retirement behaviour, both in terms of the expectations of employees, and of direct or indirect age discrimination among customers or employers.



7.50 Raising employment rates among older workers will require a broad package of measures, adapted by Member States to suit national characteristics. These include:

- reform of early retirement schemes to promote choice and eliminate work disincentives;
- review of tax-benefit systems, to eliminate work disincentives for older people;
- Active Labour Market Policies and skills training;
- encouragement of flexible work organisation, to suit different lifestyles; and
- measures to combat discrimination, especially when recruiting or restructuring, in view of the need to implement the age provisions of the Employment Directive by 2006²⁴.

²⁴ Council Directive establishing a general framework for equal treatment in employment and occupation, 2000/78/EC of 27 November 2000.

THE WAY FORWARD – A STEP CHANGE

7.51 If European labour markets are to deliver low unemployment and high and rising employment, they must become more adaptable and efficient. That the EU's unemployment rate can be double that of the US at the peak of an economic cycle, is unacceptable, and adjustment processes must occur much more quickly when the economy is at a low point.

7.52 The need for reform is widely accepted. What is also clear is that Europe is not faced with a choice between clichés – between an over-liberalised, uncaring US model and an over-regulated inefficient EU model. The reality is that a Europe composed of a variety of models needs to find its own route towards efficient labour markets, putting the goal of employment opportunity for all at the centre of its social policy.

7.53 The Government welcomes the debate on this issue, and sees it as raising a number of issues:

- how to take forward, and make more effective and focused, the European Employment Strategy;
- the appropriate role for EU legislation, sometimes built up in an ad hoc fashion; and
- how best to promote the emergence of EU labour markets which combine US-style job-creation and EU-style social justice.

7.54 The UK Government believes that a key aim should be to underline and re-emphasise the Lisbon and Stockholm employment objectives. Member States should focus in particular on groups commonly marginalized in the labour force, which, depending on national circumstances, may include the young, the long-term unemployed, lone parents, women, older workers, ethnic minorities and the disabled.

7.55 These goals demand a comprehensive approach to employment policy. Regulation is not the only solution, especially at an EU level. This is not to suggest that EU legislation does not have a role. It is simply to recognise that today's environment demands ever more sophisticated and adaptable solutions. The European Employment Strategy – the Luxembourg Process – is an attempt to do just this; a step-change in mentality which the Government has strongly supported since its inception.

Enhancing the Luxembourg process

7.56 The open method of co-ordination, which was pioneered in the employment field and is now being tailored for use in other policy areas, is becoming an increasingly important means of pursuing joint action at an EU level. The value of an approach which allows the EU to move forwards without detriment to the diverse natures and preferences of Member States is clear; and the Government welcomes the fact that the EU employment debate is being driven under the auspices of the Luxembourg Process through the sharing of best practice.

7.57 The five-year review of 2002 offers an opportunity to assess just how successful this process has been in the context of employment goals, to consider how to improve it, and to map out a new comprehensive strategy to 2010. The new agenda should:

- be based on that agreed at Lisbon, and run to the same 2010 timescale;
- focus on the Lisbon and Stockholm employment targets as the key priority;
- be based on outcomes, and make greater use of global benchmarking; and
- operate with as light a touch and as little bureaucracy as possible.

European Legislation **7.58** There is now a considerable body of legislation in place at an EU level which safeguards employee rights, and the UK is committed to its effective implementation. The challenge now for the EU is to implement existing legislation, in a better and more effective fashion, making full use of peer review and the exchange of best practice. The UK welcomes the agreement with the European Parliament on the Information and Consultation Directive. This legislation has still to be implemented in Member States, and will need time to bed down.

Different working practices **7.59** If employment is to be open to all, it must cater to the needs and circumstances of different groups of workers. For some, such as parents, carers or older people returning to the labour market, part-time work may be an attractive option. It is essential that regulation of such work does not close off employment opportunities for these individuals. Flexible working practices and times do not only benefit employees. Employers may be better placed to respond to changing market conditions, better able to retain and attract skilled staff, and benefiting from improved morale and lower absenteeism among their workforce.

7.60 UK legislation will mean that, from 2003, employers will have to consider seriously any request for flexible working from parents of young children. In addition, the Government's Work-Life Balance Campaign is aimed at promoting new ways of working which meet the demands of businesses and customers while enhancing the work-life balance of employees. Labour market reform involves looking at the balance between legislation and other tools such as encouraging the spread of best practice, taking into account the needs, traditions and expectations of Member States. The right policy mix for one Member State may not be equally appropriate for another.

A new EU framework **7.61** The fundamental objective should be a new, distinctively European framework – not a single model, given the diversity of the EU – in which labour markets, welfare systems, and tax and benefits systems interact effectively in the light of both economic and social objectives. The Government looks forward to being part of bringing about such a dynamic and socially cohesive Europe.

MEETING THE LISBON GOALS

Box 7.5: Priorities for action

Full employment and opportunity for all was a central priority at Lisbon, on both economic and social grounds. Boosting currently low employment levels would help growth and (not least, given an adverse demographic outlook) enhance the quality of public finances and the sustainability of pension systems. It would also serve to promote social justice; the best safeguard against social exclusion is a job.

The **Spanish Presidency** has recognized the imperative of employment growth in its priorities for Barcelona. Its highlighting of, in particular, the need to remove structural barriers to job creation and to enhance worker mobility, are greatly to be welcomed. So too is the emphasis it gives to improvements in the quality of, and access to, education.

Within this context, **the Government supports further comprehensive efforts to improve labour market conditions**. These should assist those able to work in finding employment; should make work pay; should encourage the employed to remain in the labour market during their now generally longer active working lives; and should ensure decent minimum standards for those who are working, while at the same time providing support for those who cannot.

The Government also believes, however, that the EU must make use of its forthcoming opportunity to undertake a fundamental reappraisal of its approach to labour market policy. It therefore calls on the EU to:

- develop a **new, distinctly European framework** for labour market policies that combines high levels of social justice with greater labour market efficiency; and
- enhance **the Luxembourg process**, taking the Lisbon and Stockholm employment targets as the key priority and focusing on outcomes, making greater use of global benchmarking and with as light a regulatory touch as possible.

- The EU is an important part of an increasingly interconnected world. **Europe's opportunities, responsibilities and challenges do not stop at its borders.**
- A reforming, stronger and more dynamic Europe **benefits its global neighbours directly** (stronger import demand, more competitive export suppliers, and improved access to markets no longer so unfairly protected by state aid or regulation). It also offers **indirect benefits**, in that its own experience of reform may help other countries, in particular EU candidates and those in the developing world, to reform their own economic and social frameworks in the light of EU lessons learned.
- A reforming, stronger and more dynamic **Europe committed to open markets and free and fair trade** can play a leading role in breaking down barriers to trade and investment, and encourage (by influence and example) effective competition policy which prevents public sector barriers being replaced by private sector constraints. Both bilateral and multilateral means should be pursued to this end, in particular under the auspices of the **WTO's Doha Development Agenda**, which should offer a major boost to the global economy and to developing countries in particular.
- A reforming, stronger and more dynamic Europe can, and must, play a leading role in **reform of the international financial architecture and institutions**, and in **supporting and promoting sound, sustainable macroeconomic frameworks.**
- A reforming, stronger and more dynamic Europe is better placed to meet, and to encourage others to meet, **the challenge of the Millennium Development Goals.**
- A reforming, stronger and more dynamic Europe is better placed to ensure that economic, social and environmental objectives are pursued concurrently in a global as well as domestic context, thereby raising the quality of life for both current and future generations – **the goal of sustainable development.**

INTRODUCTION

“Europe’s approach must acknowledge that global interdependence has human and social as well as economic consequences. It must do its best to ensure that the wealth generated is shared, and seen to be shared, by all.” (Spanish PM Aznar and UK PM Blair)¹

Opportunities and challenges

8.1 The EU is part – and an important part – of an increasingly interconnected and interdependent world economy. Europe cannot simply concern itself with the economic development of its own Member States, but must recognise its broader opportunities, challenges and responsibilities.

8.2 The **opportunities** stem from global free trade, investment and competition; the **challenge** is to ensure that these opportunities are open to all, including the very poorest; and the **responsibility** is to remain and become increasingly outward-looking, providing a stimulus to world growth and promoting international cooperation beyond the EU’s borders in the interests of bringing the benefits of globalisation to all.

¹Joint article, 22 November 2001; Spain’s EU Presidency website.

TRADE: THE OPENING UP OF WORLD MARKETS

Ensuring benefits are shared by all

8.3 The links between trade and growth are well established. Less widely known, but equally important, are those between overall growth and the incomes of the poor². While per capita GDP fell by 1.1 per cent during the 1990s in non-globalising developing countries, it rose by 5.1 per cent per year in globalising ones³. Trade liberalisation on its own is not, however, enough to ensure this outcome. Sound domestic policymaking and international cooperation must accompany it to ensure a fair distribution of its global benefits.

8.4 **Free trade means greater competition.** Competition, as noted throughout this paper, prompts a more effective and productive use of resources, a lower cost of capital and an enhanced ability to diversify risk; it also encourages the pass-through of these gains to the consumer in the form of lower prices, improved quality and/or greater choice.

Alleviating poverty through liberalisation

8.5 The World Trade Organisation (WTO) estimated that the **1994 Uruguay Round** trade deal could boost world income by between \$109 billion and \$510 billion. This does not take account of any benefits from higher productivity and competition. For a leading international trading nation such as the UK, a new round of trade liberalisation presents major opportunities. UK exports of goods and services are equivalent to 25 per cent of GDP, and an important source of employment. A new trade round could boost the average income of every UK household by nearly £500 a year⁴.

8.6 Halving trade protection globally, meanwhile, could raise world income by \$400 billion per year⁵, of which \$150 billion would go to developing countries – more than to the EU and US combined. According to the World Bank, extensive liberalisation would lift 300 million people out of poverty⁶.

The EU's responsibility

8.7 The Government believes that the EU has the ability and responsibility to play a leading role breaking down trade barriers and hence promoting growth and development. With 370 million citizens (and enlargement in prospect), the EU forms the biggest market in the world. It accounted last year for nearly a fifth of global exports and over half of the world's foreign direct investment outflows⁷. It is also the largest exporter of commercial services, with a quarter of the global market⁸; more than half of the EU's inward and outward foreign direct investment is service-related⁹.

Breaking down barriers

8.8 The EU's openness to trade is comparable with that of other major economies, and rising as agreements negotiated under a WTO umbrella take effect. Measured as the share of imports of good and services in GDP, EU openness has increased by more than 2 percentage points (from 10 per cent to 12.4 per cent), since the completion of the Single Market in 1992¹⁰.

² *Growth is good for the poor*, D.Dollar, and A.Kraay, World Bank, March 2000.

³ *Trade, Growth and Poverty*, D.Dollar, and A.Kraay, World Bank, June 2001. Globalisers and non-globalisers are defined by Dollar and Kraay in terms of increases in trade to GDP ratios over 20 years. They took the top one third developing countries whose trade/GDP ratios had risen most and whose weighted average tariffs had declined most from the 1970s to the 1990s. The non-globalising group had a decline in trade/GDP. The globalisers also cut tariffs significantly more – 22 points on average compared to 11 points for non globalisers.

⁴ Based on *The Millennium Round: an economic appraisal*, N.Nagarajan, Economic Papers No 139, European Commission, Brussels – Luxembourg, 1999.

⁵ N.Nagarajan, *N op cit*

⁶ *Global Economic 2002: Making Trade Work For The Worlds poor*, World Bank 2001.

⁷ Eurostat, 2001.

⁸ 25 per cent in 1998. European Commissions, Trade Directorate-General website. www.europa.eu.int/comm/trade/wto_overview/overview.htm

⁹ *Ibid.*

¹⁰ *Ibid.*

8.9 Trade *within* the Community still represents two thirds of all Member States' trade. In making efforts to consolidate the Single Market, it is important not to lose sight of the contribution that trade with the rest of the world can make to growth, competition and innovation in both traded and non-traded sectors. The Government believes that the benefits of EU economic reform will be all the greater if undertaken in a context of the removal of remaining tariff barriers, quantitative restrictions, customs inefficiencies and such behind-the-border obstacles as standards, regulations and technical barriers, and unfair competition and investment policies. The EU has an important, constructive and liberalising role to play in the Doha Development Agenda.

Developing countries have the most to gain

8.10 Developing countries have proportionately the most to gain from lower trade barriers. Estimates of the gains to these countries of a new trade round range from \$100 billion¹¹ to \$155 billion¹² per year; one OECD study puts developing countries' gains at around 3.1 per cent of GDP, or three times what they receive each year in aid¹³. In part this is because their own tariff barriers tend, on average, to be higher; but it is also because they face trade barriers in developed countries on products in which they are well placed to compete. Low income countries (and, as already noted in chapter 2, EU candidate countries) would, for example, derive significant benefits from **agricultural liberalisation**. The developing world bears the main costs of the farm support schemes of its developed neighbours whose surpluses, placed on the world markets at subsidised cost, weigh on world prices. In terms of lost revenue from lower prices, the estimated cost of the CAP to developing countries is \$20 billion per year¹⁴.

8.11 The importance of agriculture was highlighted by PM Tony Blair during his recent visit to Africa. Speaking in Nigeria, he argued that the G8 should "*commit not only to a reduction in overall tariff levels in the WTO round, but to the peaks and escalation of certain tariffs which hit African countries hardest. They prevent Africa adding value to its commodity exports and thus increasing its income from trade. And we should seek early progress in phasing out agricultural subsidies.*"¹⁵

'Everything But Arms'

8.12 At the same time, of course, many developing countries are important manufacturers. One calculation suggests that 75 per cent of the benefits from an across-the-board cut in manufacturing tariffs would accrue to developing countries, with the major beneficiaries being South and South East Asia¹⁶. The removal of the Multi-Fibre Agreement quotas on 1 January 2005, in accordance with the WTO agreement on textiles and clothing, could improve developing countries' welfare by \$13-22 billion¹⁷. If the US, Canada and Japan were to match the EU in providing full duty-free and quota-free access to exports from the least developed countries – the 'Everything But Arms' initiative – the latter's exports could rise by 11 per cent.¹⁸

Competition and investment

8.13 Investment is an important driver for growth and development, generating higher productivity, employment and wealth, and transferring knowledge, skills and technology. The poorest and least developed countries often suffer from too little investment, both domestic and foreign. As WTO members have recognised, promoting a more competitive environment

¹¹ *Market Access for Developing Countries*, Exports IMF and World Bank Staff paper, 2001.

¹² *The economic impact of new multilateral trade negotiations*, J.Francois, J.Tinbergen Institute and Centre for Economic and Policy Research, May 2000.

¹³ *Multilateral Tariff liberalisation: and Developing Countries*: OECD Development Centre, 1999.

¹⁴ *Market access for developing Countries' Exports*, IMF and World Bank Staff Paper, 2001.

¹⁵ PM's speech to Nigerian Parliament, 7 February 2002 <http://www.number-10.gov.uk/news.asp?NewsId=3575&SectionId=32>

¹⁶ *Developing country interests in liberalising manufacturers trade*, W. Martin and T. Hertel, paper presented to the WTO/IBRD conference on developing countries in the millennium round, Geneva, September 1999.

¹⁷ *Market Access for Developing Countries' Exports*, IMF and World Bank, Staff Paper, 2001.

¹⁸ *Ibid.*

and implementing a basic framework of rules for investment (in particular, foreign direct investment) are key to ensuring the wide distribution of the full benefits of trade liberalisation.

8.14 Companies and governments must work to achieve greater cross-border corporate accountability. There are already agreed international standards of best practice for multinational corporations drawn up by the OECD, to which 33 countries have signed up.

Labour Standards **8.15** Some of the greatest public concerns raised by globalisation relate to **labour standards**. The Government has ratified all of the International Labour Organisation (ILO) conventions on core labour standards, and supports their implementation worldwide through, for example, the ethical trading initiative. It is working to secure implementation of, in particular, the convention on child labour, and supports international action to strengthen the rights of workers in the informal sector. The EU's Generalised System of Preferences offers a higher level of access to EU markets through lower tariffs, to countries which have signed up to the ILO's core conventions.

Intellectual Property Rights **8.16** The effects on development of intellectual property rights (for example patents, copyright, trade marks) remain a cause of some concern. To look at this complex issue more closely, the government has established a Commission to examine such questions as the use of traditional knowledge, access to medicines, geographical indications (such as 'Demerara' sugar), and the patenting of human or plant genomes. The Commission will advise on how intellectual property rights regimes might best work for the poor.

Securing social justice **8.17** The gains of open borders and free trade must be exploited without incurring offsetting costs from destabilisation or rising inequality. The White Paper *Eliminating World Poverty*¹⁹ set out in detail the Government's strategy for managing globalisation in a way which would systematically reduce poverty while respecting traditional cultures, social structures and the environment. Central to this approach is the integration of developing countries fully into the WTO and its decision-making processes.

8.18 An outward-looking EU committed to realising the gains of globalisation for both its own citizens and its trading partners, must address trade, investment and competition in multilateral, regional and bilateral negotiations. No issue, and no forum, can be ignored.

Multilateral negotiations **8.19** The primary multilateral forum for trade and investment issues is the WTO, the 142 members of which agreed, at Doha in Qatar on 14 November 2001, to launch a new round of multilateral trade negotiations. The aims of this round are described in Box 8.1.

Improved Transparency and Accountability **8.20** The WTO's dispute settlement procedure – a major achievement of the Uruguay Round – provides the means of enforcing the rules governing the international trading system, and is used by developing and developed countries alike. Experience has, however, highlighted areas for improvement and clarification, and this will be pursued under the Doha agenda. The Government provides financial support to the Advisory Centre on WTO Law, which offers developing country members subsidised legal assistance in Dispute Settlement cases.

8.21 The EU is also working on ways to improve the WTO's external accountability. It has submitted papers to WTO members on improving the WTO's functioning, with suggestions including enhanced transparency, and best practice for consultations between national governments and civil society.

¹⁹ White Paper on International Development: *Eliminating World Poverty: Making Globalisation Work for the Poor*, Cm 5006 December 2000.

Box 8.1: The new WTO trade round

In November 2001, WTO Ministerial agreement was reached on the Doha development agenda. Largely consistent with UK aims, this includes:

- a commitment to further **trade liberalisation** in goods, agriculture and services, to boost international growth and restore business confidence at a difficult time for the world economy;
- in **agriculture**, a commitment to negotiating improved market access, reductions in domestic support, and reductions in all forms of export subsidies with a view to their eventual phasing out;
- strengthening of the **rules-based nature of the multilateral trading system** by agreeing to clarify the relationship between WTO rules and trade rules in multilateral environmental agreements. Negotiation in due course of WTO agreements on investment, competition, trade facilitation and public procurement;
- recognition that **the concerns of developing countries should be addressed**, and of the need to rebalance the uneven impact of past trade agreements. Commitment to greater help to developing countries in building capacity and in implementing existing WTO agreements;
- a declaration on the existing **Intellectual Property Agreement (TRIPS)**, such that it is interpreted and implemented so as to promote access for all to medicines;
- a **stronger commitment to sustainable development and environmental protection**, responding to the expectations of civil society for greater transparency; and
- improvement and clarification of **the WTO's dispute settlement understanding**.

Trade negotiations begin in January 2002, with a target end-date of January 2005.

Regional agreements 8.22 The **political case** for preferential regional agreements is often regarded as much stronger than the economic. The EU has, among others, regional agreements with the 77 Africa, Caribbean and Pacific (ACP) countries, and with European Economic Area members. It is in negotiations with Mercosur (a free trade area between some South American economies) and the Gulf Cooperation Council. The Generalised System of Preferences gives preferential access to developing countries which are not already part of another, more preferential agreement with the EU. Preferential agreements can be a stepping-stone for developing countries towards integration into the multilateral trading system. Through the 'Everything But Arms' initiative all 49 of the least developed countries already have duty and quota free access to the EU for all exports except bananas, sugar and rice, for which free access is being phased in.

8.23 The Government welcomes such initiatives. Regionalism has a role in liberalisation, though is not a substitute for making free trade available to all on a multilateral basis. The outcome sought from all regional agreements should be trade creation through market access, rather than trade diversion.

Bilateral negotiations: **8.24** The case for liberalisation on a bilateral basis arises where this allows greater progress than would be possible multilaterally (subject to the proviso of there being no adverse effect on third countries), and increases with the size of the economies concerned. The largest and most significant bilateral trading and investment relationship is that between the EU and the US. Annual two-way flows amount to nearly a trillion dollars. Each accounts for around a fifth of the other's merchandise trade, one third of services trade and more than half of direct investment. An estimated 7 million jobs depend on that investment²⁰.

US-EU trade and relations

8.25 Transatlantic mergers and acquisitions have accounted for over a quarter of all cross-border deals over the past five years. Merger-related capital flows between the EU and US totalled over \$300 billion in each of 1999 and 2000, driven primarily by European purchases of US firms. While acquisition activity declined sharply in 2001, volumes remain large, and pressure for consolidation in many sectors points to ongoing merger activity across borders or with cross-border implications.

8.26 A Commission Communication of 20 March 2001 set out ideas for reinforcing the transatlantic relationship, building on the New Transatlantic Agenda of 1995. It highlighted strategic themes such as globalisation and the multilateral trading system, the fight against organised crime, energy, the digital economy, consumer protection and poverty. This approach was broadly endorsed by the Council of Ministers on 14 May, and agreed a month later with the US at the Göteborg EU/US Summit. Implementation is ongoing. More recently, the Chancellor has called for a **detailed analysis**, similar to Cecchini's report on completing the Single Market, of the benefits in terms of growth, jobs, prosperity and world trade of a deeper and truly open transatlantic relationship.

8.27 The obstacles to greater transatlantic integration and cooperation reside not only in remaining tariff barriers, but also in non-tariff barriers (especially in services) and competition policy. Financial services is one obvious priority sector, and e-financial services are examined in greater detail in Box 8.2. Others might include business services, bundled services and aviation. Greater regulatory cooperation based on mutual recognition, core standards of consumer protection and effective cross-border redress, would benefit consumer and suppliers on both sides of the Atlantic.

Twin aims of competition policy

8.28 The aim with respect to **competition policy**, meanwhile, is two-fold: to facilitate competition and thereby deliver high and rising standards of living in both economies, and to draw on both EU and US experience so as to realise more fully the potential of the EU's Single Market. The benefits of greater procedural convergence via non-binding agreements and standards could be substantial, especially if (as might prove easier, with informal arrangements) bilateral agreements were then reinforced at a multilateral level. Procedural advances could also pave the way for convergence on more substantive issues.

8.29 Effective competition policy can be of even **greater benefit to developing than to developed countries**. It can help prevent the gains of trade liberalisation being compromised by companies' restraints on trade; enhance an economy's ability to respond to internal and external shocks; and help a country stand on its own feet within the global economic and financial system. Insofar as the EU and US are able to lead by example, and especially in a context of multilateral initiatives (such as the proposed WTO framework agreement on competition), the opportunity should not be overlooked. At times of increased global political and economic uncertainty, it is arguably even more incumbent on both sides of the world's largest bilateral trading relationship to ensure that the momentum towards market openness, fair competition and overall economic reform is maintained.

²⁰ Speech by Pascal Lamy to European American Business Council, Washington, 14 October 1999.

Box 8.2: EU-US Initiative on E-Financial Services

A recent success in efforts to modernise EU financial services regulation, was the adoption of the **e-commerce Directive**. This provides for mutual recognition by all Member States of regulation by the home state regulator in the “place of establishment”. Financial services marketed and sold over the Internet are therefore regulated in the Member State where the website is based, irrespective of where in the EU they may be sold. Each country recognises the licensing decisions and other regulatory conditions applied in the home state rather than attempting to apply their own standards.

In a speech at Yale on 26 July 2001, **the Chancellor** called for the EU and US to discuss the application of mutual recognition and core standards to e-trade in financial services across the Atlantic.

The same arguments and benefits that applied in an intra-EU context, apply also to trade between the EU and the US. In theory, there is nothing to stop a consumer in, for example, Greece purchasing a financial service over the Internet from a US supplier operating a US-based website, and vice versa. Two things prevent this from being a frequent occurrence.

First; unless the US provider already has a license from the Greek regulator, the US provider may not market its services in Greece. Second; the Greek consumer may well be reluctant to purchase the service from a non-EU supplier because of ignorance or reservations about the standards by which the supplier is supervised and regulated. The same considerations would prevent most US consumers from contemplating cross-border purchases from an EU-based supplier.

Substantial gains would follow if these barriers to free trade could be broken down. From an EU perspective, EU suppliers would be able to enter a market of nearly 200 million consumers; EU consumers would benefit from the greater choice, lower prices and increased quality which accompanied the arrival of new US competitors; and the need to be licensed only once, and be subject to one set of regulatory and supervisory rules, would reduce the cost of doing business and hence, in the now even more competitive market, the ultimate price to the consumer.

SUPPORTING FINANCIAL STABILITY

8.30 As discussed in Chapter 6, capital markets are an important determinant of growth. In a world of rapid and large financial flows, the developing countries which most need capital are also among those **most vulnerable to the judgements and instabilities of global financial markets**. Many of these countries have, over the past couple of decades, experienced financial market contagion. A crisis in one country may prompt a withdrawal of capital by nervous investors from an entire region, thereby exacerbating (if not creating) difficulties in neighbouring economies and across the entire financial system. For every country, macroeconomic stability is a precondition of economic success; and in a world of integrating capital markets and rapid flows of funds and information, everybody’s macroeconomic stability cannot help but be everybody else’s concern. It is therefore crucial that the international community works together to improve crisis prevention and resolution methods.

The role of the IMF

8.31 Strengthened IMF surveillance is a crucial element of any stability-enhancing reform of the international financial architecture, and is key to the international community’s efforts to establish better mechanisms for crisis prevention. The IMF’s Article IV consultation process is central to its bilateral surveillance, and comprises reviews of economic and monetary developments in member countries on a broadly annual basis. Over recent years the transparency and accountability of the Article IV surveillance process has been improved, with many countries (including many European countries) agreeing voluntary publication of staff reports and press notices.

8.32 The Government believes that there is a case for going further. Enhancing the IMF's role in Article IV surveillance – making it more transparent, more independent and, therefore, more authoritative – would contribute to stability and ensure that it was seen to be providing impartial advice, independent of the inter-governmental decision-making process. While governance of the IMF and decisions about financial support for countries are, of course, matters for the IMF Board, there is a strong argument for ensuring that surveillance is, and is seen to be, independent of decisions about crisis resolution.

8.33 To help tackle national financial sector problems which have international repercussions, the Financial Stability Forum (which brings together the combined expertise of the IMF and key regulatory authorities including Europe's main financial centres) should evolve into **an effective early warning system**. Countries which operate transparent and effective systems, fully monitored by the international community, should receive due support through a reformed contingent credit facility. Box 8.3 spotlights the critical role that codes and standards can play in international financial stability.

Private sector involvement

8.34 Whenever the international community encounters a national financial crisis, it is faced with the dilemma of either standing aside or putting tax payers' money at risk to bail out lenders. The Government believes that a better scenario is one in which countries subject themselves to better surveillance, in return for which the **private sector recognises its commensurately increased responsibilities to contribute to crisis resolution**.

8.35 Over the past three years, European countries have been working with their international partners to develop a new framework of partnership for preventing and managing balance of payments problems between the public and private sectors has been established, to ensure that all parties that benefit from the international financial system play their part in maintaining stability. Further progress is, however, needed to shape expectations and ensure that the burden of economic adjustment does not rest unfairly on the poor and most vulnerable.

8.36 Part of this process must involve **resolving those legal obstacles** which now stand in the way of debt rescheduling. This should include steps to establish an effective international bankruptcy procedure. Governments must also be prepared, when other reasonable options have been exhausted, to support a country forced to impose temporary capital controls or a debt standstill as part of an orderly process of crisis resolution.

8.37 The present time offers **a real opportunity to transform international financial governance** in the interests of both the poorest countries and the developed world, creating a structure in which effective surveillance systems rest on a firm base of codes and standards, within which there is a new responsibility on governments to be open, on the IMF to scrutinise, and on the private sector to engage.

FINANCING FOR DEVELOPMENT

Millennium Development Goals

8.38 That the international community has committed itself to meeting the **Millennium Development Goals** set for 2015 (Box 8.4), reflects a shared commitment to social justice for all. The goals include halving the proportion of people living in extreme poverty; providing universal access to primary education; reducing child and maternal mortality; and reversing the spread of HIV/AIDS, malaria and other fatal diseases.

Box 8.3: Codes and standards

In the interests of stability and crisis-prevention, a **new rules-based system is essential**: a reformed system of economic governance under which each country, rich or poor, adopts agreed codes and standards for fiscal and monetary policy and for corporate governance. This adoption of clear transparent procedures in monetary and fiscal decisions (for example, by presenting a full factual picture of national accounts, usable central bank reserves, foreign currency borrowings and indicators of the health of the financial sector) would enhance macroeconomic stability, deter corruption, and provide markets with a flow of country-specific information that would promote investor confidence and reduce the risk of contagion. Confidence about the future is essential if there is to be confidence about today.

Codes can assist countries in the process of capital market liberalisation by reducing the risk of destabilising and speculative inflows. A dash to full capital liberalisation was once perceived as the best signal of a modernising economy. Instability, however, has too often been the consequence. The introduction and application of transparent codes and standards, with proper sequencing of capital market liberalisation, is a better assurance of both an investment-friendly environment and long-term stability.

The Government believes that **the international community must offer direct assistance and transitional help** to ensure that those countries willing to implement codes and standards are able to do so. The Department for International Development is working with the International Monetary Fund and World Bank to establish a technical assistance trust fund for this purpose. Implementing such codes will mean radical changes in the way governments and financial markets operate. As part of this process of adopting codes and standards which benefit all countries, rich or poor, there must be:

- an enhanced role for the IMF in monitoring and reporting on the operation of codes and standards; and
- more effective systems of crisis prevention and management, with support from the international community for the good performers, and matching commensurate responsibilities on the part of the private sector.

8.39 Stability, investment and trade are the main long term drivers of global prosperity. There cannot, however, be a solution to the urgent problems of poverty – and to the need for public investment as a partner with private investment – without a **substantial increase in development aid** to those nations most in need.

Aid effectiveness 8.40 As a first step, **donor aid effectiveness must be improved and international institutions strengthened** to ensure the better management of international funds. It is increasingly anomalous that, in a Single Market, many EU Member States still tie development assistance to procurement from their own companies, despite studies showing that this can reduce the value of that aid by as much as 25 per cent. Aid spending by the EC itself is also tied. The UK has already untied its bilateral aid, worldwide: the Government believes that all Member States should apply the **procurement directives** to all their international assistance, and that the tying of contracts let under financial aid by recipient countries should also be outlawed. As a step towards complete aid untying of Member States' and EC spending, the UK also supports the Commission's proposal that there should be greater untying in favour of developing countries. At the same time, more effective in-country use of aid can release extra resources for poverty reduction. Donors can help by pursuing

Box 8.4: The Millenium Development Goals

Eight Millenium Development Goals were agreed by 189 countries, the IMF, World Bank, OECD and others, at the September 2000 UN Millenium confrence in New York. The Goals are to:

- **eradicate extreme poverty and hunger** by halving between 1990 and 2015, the proportion of people whose income is less than one dollar a day and the proportion of people that suffer from hunger;
- **achieve universal primary education** by ensuring that, by 2015, children everywhere (boys and girls alike) are able to complete a full course of primary schooling;
- **promote gender equality and empower women** by eliminating gender disparity in primary and secondary education, preferably by 2005, and at all levels of education no later than 2015;
- **reduce the under-five mortality rate** by two thirds between 1990 and 2015;
- **improve maternal health**, reducing the maternal mortality rate by three quarters between 1990 and 2015;
- **combat HIV/AIDS, malaria and other diseases:**
- **help ensure environmental sustainability** by halving the proportion of people without sustainable access to safe drinking water by 2015, and by significantly improving the lives of at least 100 million slum dwellers by 2020; and
- **develop a global partnership** for development.

greater collaboration between themselves to achieve economies of scale (by, for example, budget pooling and joint monitoring) and better targeting of aid.

8.41 The focus must move from short term aid which compensates for poverty, to **aid as a long-term investment** which tackles the causes of poverty by promoting growth, prosperity and participation in the world economy.

Reforming the EU development budget

8.42 **Better use could be made of the aid which Europe provides collectively**, and the Government strongly urges reforms to this end. The EU's external programmes have been under-performing in comparison with those of other donors. The Government is working to support the European Commission's internal reforms including a more strategic approach based on country analysis, streamlined procedures and improved staffing of delegations so as to deliver faster and more effective programme implementation.

8.43 The adoption in November 2000 of a Development Policy that applies to EU co-operation with all developing countries, and which has poverty reduction as its principal aim, was a significant step forward. It must, however, now be put into practice. The Government is pressing in particular for a higher percentage of EU grant aid to be allocated to low-income countries, and for the mix of EU instruments to be better tailored to the needs of each region and country.

Debt relief 8.44 The Government continues to be a leading advocate of debt relief, through the Highly Indebted Poor Countries (HIPC) scheme, working hard with our European and international partners to ensure an exit from unsustainable debt for eligible countries. It calls on other countries to follow its lead on bilateral policies, such as 100 per cent relief at Decision Point, and on holding payments in trust for those countries yet to receive debt relief. Already, 24 countries have qualified for debt relief, and will benefit from over \$56 billion in debt reduction; this will bring their debt to below the developing country average. The international community has a responsibility to continue to move forward in this area and to provide a special route for post-conflict countries coping with the double burden of debt and reconstruction.

8.45 A report prepared by Mexico's former President Ernesto Zedillo, and submitted to the UN Secretary General ahead of the UN Financing for Development Conference to be held in Mexico in March 2002, concludes that if the international community is to meet its Millennium Development Goals, an extra \$50bn in aid will be required each year until 2015.

8.46 Recent months have seen **an assortment of proposals for new and innovative ways to meet this funding gap**, including the Tobin Tax, the Arms Tax, and Special Drawing Rights. It is right that the EU should examine, as European finance ministers have asked the European Commission to do, the practicalities of all of these proposals. While the provisional conclusions of the Commission's analysis are that there are implementational difficulties associated with all these proposals, the UK Government will approach further evaluation with an open mind. At the same time, however, it believes that, if the international community is to move with the urgency that the challenge demands, national governments of the richest countries of the world must be prepared to recognise their responsibilities to the poorest.

International development Trust Fund 8.47 Meeting this challenge will require **a substantial increase in the development assistance budgets** of developed countries. One option, set out by the Chancellor of the Exchequer in a speech to the New York Federal Reserve on 16 November, is that of a significant increase in donor aid flows coupled with leveraging from international capital markets, through a new International Development Trust Fund.

8.48 The international community has already committed itself to raising the level of overseas development assistance to 0.7 per cent of GDP. Since 1997, the UK has increased the aid budget of the Department for International Development to £3.6 billion, and looks to a real 45 percent increase by 2004. The Government is committed to making further substantial progress, and calls on others to do likewise. It will significantly raise its development aid in the next spending round covering the years up to 2005/06.

Leveraging through a new Trust Fund 8.49 The proposal for a Trust Fund would require a long-term commitment of substantial additional aid flows to 2015 and beyond. If pooled, and with national Governments offering a guarantee (either through callable reserves, or using appropriate collateral as security) these funds could be leveraged through borrowing on international capital markets to meet the demand for large-scale assistance now. A newly created \$50 billion Trust Fund, disbursing finance through existing mechanisms so as not to add to bureaucracy, would build on the achievements of the World Bank, the IMF and the Regional Development Banks, while going further to address the lack of investment that hamstrings the poorest countries.

New Partnership for Africa's Development 8.50 The New partnership for Africa's Development (NEPAD) offers a unique opportunity to improve the partnership between the EU and Africa. Current work by African governments on political and economic governance could result in commitments to a step-change in governance and reform. Such action should be rewarded with commensurate support from the EU. The Prime Minister urged a strong response to African efforts during his recent visit to Africa as part of the preparations for a G8 response to the NEPAD proposals.

SUSTAINABLE DEVELOPMENT

Making development sustainable

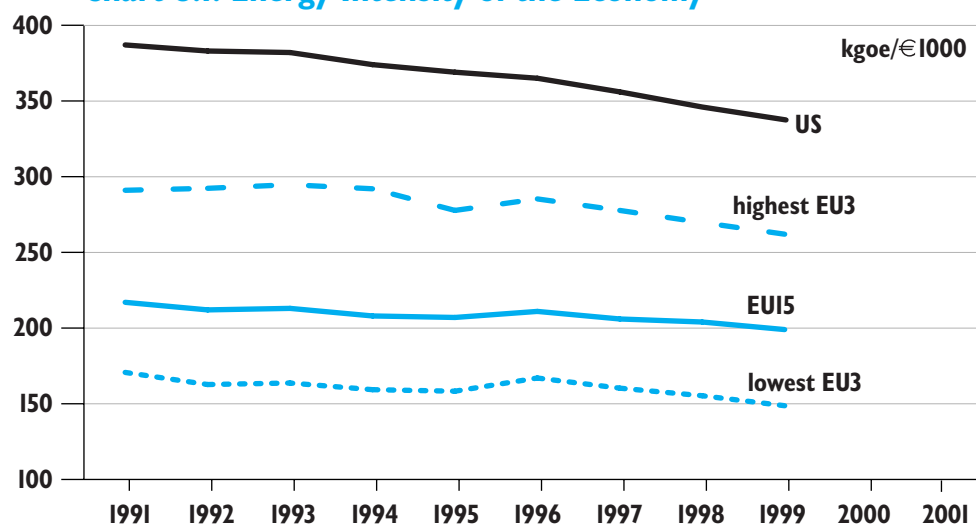
8.51 Economic and social progress should be achieved while protecting and, where possible, enhancing the environment. Society needs to make more productive use of existing natural resources by engaging in more environmentally friendly practices and investing and developing new and renewable technologies. The quality of the environment affects everyone's quality of life; directly through, for example, air and water quality, and also through longer-term influences such as climate change. To achieve a better quality of life, for both current and future generations, economic, social and environmental objectives need to be achieved at the same time. Getting EU environment policy right is central to this quality of life agenda.

The World Summit on Sustainable Development

8.52 A key event with respect to helping all play their part in sustainable development is the **World Summit on Sustainable Development** (WSSD), to be held in Johannesburg from 26 August to 4 September 2002 – the 10th anniversary of the United Nations Conference on Environment and Development in Rio. The Summit comes after the Doha World Trade talks and the Monterrey Financing for Development Conference.

8.53 Taking the three conferences together, the UK is seeking to move beyond the texts and help shape a new global architecture which better integrates poverty reduction, economic prosperity and the environment. The UK's strategic objective for the WSSD summit is to make globalisation work for sustainable development, especially for the poorest. It aims to build on other processes (including the Doha Development Agenda and Financing for Development) to focus the efforts of governments, international institutions, business and civil society on delivering the sustainable development necessary to achieve the Millennium Development Goals and other international targets. There is a need to secure a new approach to the way in which poverty and environmental degradation are tackled, based on effective, practical action by all countries and stakeholders to deliver an improved quality of life for all.

Chart 8.I: Energy Intensity of the Economy



Note: This indicator allows the evaluation of the energy consumption of an economy and its overall energy efficiency. It is measured in kgoe (kilogram of oil equivalent)/€ 1000. Highest EU3 and lowest EU3 are defined as the simple average of the three highest or lowest performing Member States in that year.
Source: Eurostat (Structural Indicators)

8.54 Environmental protection is often best pursued locally or nationally, taking account of particular circumstances and local needs. Indeed, many of the most immediate impacts on people's quality of life come from very localised environmental problems, perhaps caused by poor air quality or pollution in the local river or lake²¹. In order to address these problems the UK has a well-developed system of environmental protection, with demanding national legislation in place, taxes to promote environmental 'goods' and discourage 'bads', and a network of enforcement staff in the Environment Agency to advise, monitor and, if necessary, prosecute.

8.55 These measures have contributed to real improvements in the UK's environment in recent years. In 2001, bathing water quality in England was the best ever, hitting a new record of 98 per cent compliance with the EU's Bathing Water Directive. The Government's headline indicators on sustainable development²² shows that the UK's rivers and the air quality are also improving.

Looking beyond the boundaries of the EU

8.56 Some of the challenges the EU faces cannot be solved by Member States' domestic action alone. **They need a co-ordinated European and global response.** Some pollutants are trans-boundary, with emissions in one country impacting on the environment of another – the issue of the 'global commons'. In other cases, it may make sense to adopt common standards in order to promote trade and remove barriers.

8.57 The trans-boundary or international nature of some environmental problems raises the important question of who pays for abating the polluting behaviour. There are strong disincentives for a country to cut down on transboundary pollution whilst another 'free rides' on the environmental benefits at no cost to itself. However, by agreeing a common EU approach, every Member State has an incentive to incur the costs necessary to reduce emissions, knowing that it will also share in the benefits. By working with its EU partners and by taking a leading role internationally, the UK plays a big part in delivering a cleaner environment at home and abroad.

8.58 The UK is therefore working with other Member States to, for example, address the problems of ozone pollution and the resulting respiratory and other health problems. The chemicals responsible for this pollution can travel hundreds of miles, including across national borders. A parallel case is the example of climate change, where different countries emit different levels of emissions.

Costs and benefits

8.59 By examining closely **the overall costs and benefits in the short and longer term,** society is better able to make an informed decision about the scale of the environmental problem and what is the most appropriate solution. Sustainable development – society's economic, social and environmental goals – is not promoted by adopting policies whose benefits are outweighed by their costs, even if they are intended to deliver environmental gains.

The costs of environmental policies

8.60 Because of the high costs of environmental improvements, and the adverse impact it can have on economic and social goals, the Government believes the techniques of cost benefit analysis and the assessment of risk should be developed and more widely used. Poorly designed regulations or ill-judged government intervention can create inefficiencies that impact on our overall quality of life – through effects on employment and the prices of goods for example. One recent survey²³ estimated that direct spending on **environmental protection**

²¹ "Rainforests are a long way from here: the environmental concerns of disadvantaged groups" Kate Burningham and Diana Thrush, Joseph Rowntree Foundation, 20001.

²² www.sustainable-development.gov.uk/indicators

²³ UK Environmental Protection Expenditure Survey, DEFRA, 2001.

by UK manufacturing industry was over £4 billion in 1999 alone. An equivalent survey in 1997 drew similar conclusions. Direct expenditure is just one measure of the potential economic impact, but shows the significant costs associated with environmental policy.

8.61 While these costs can have significant economic impacts in the UK, the effect in those countries seeking to join the EU could be dramatic. Some estimates put the cost of compliance with the environment *acquis communautaire* as high as 11 per cent of GDP for some applicant countries²⁴. This poses opportunity costs for the applicants who must decide how best to ensure that the resources that are available for public investment are best prioritised. The pursuit of high environmental standards must therefore be carefully balanced against applicants' social and economic objectives that also make up their sustainable development goal.

8.62 Whether an environmental problem is local, national or international, if sustainable development aims are to met, the costs faced by firms and consumers to pay for environmental standards argues strongly that they should be achieved as efficiently and cost effectively as possible.

The UK's approach

8.63 In the UK, an approach to environmental policy has been developed that seeks to ensure that we maximise the efficiency gains from government intervention and minimise the inefficiencies. This is through a rigorous analysis of **the costs and benefits** of policy options, and an assessment of the risks to citizens and the environment associated with certain types of economic activity.

8.64 However, **at Community level** the Government believes that the careful and rigorous analysis of the costs and benefits of environmental policy should play a greater part in policy decisions. Although the Commission is asked to assess the anticipated impacts of its proposals, there are cases where the analysis appears to rely on assertions rather than evidence. The absence of accurate analysis from the Commission makes the efficient pursuit of environmental goals more difficult to achieve.

8.65 But the problem does not rest just with the Commission. The **Council of Environment Ministers** and the **European Parliament** are ultimately responsible for the adoption of environment legislation. There are numerous examples of directives and regulations that have been adopted either without as rigorous consideration of the impacts as the Government would like to see, or in some cases, despite evidence to suggest that the benefits are unlikely to justify the costs.

8.66 In one recent example, the Environment Council and European Parliament reached agreement on a directive to control emissions from vehicles used in low temperature environments, tightening the proposed limit values significantly. Analysis produced by the Commission estimated that each tonne of pollution reduction came at a cost of around £26,000. While total costs were low (given the small number of vehicles affected) the measure was an inefficient way of delivering a desirable environmental goal, thus raising costs unnecessarily for consumers.

Choosing the right instrument

8.67 The Government believes that **careful analysis** should also underpin the choice of policy instrument, so that the right tool is chosen for the job. Environmental protection can be delivered by a range of different tools that help to protect human health and the environment when the market has failed to do so. Using the right one can ensure that sustainable development goals are delivered in a way that is cost effective and efficient.

²⁴ *The Challenge of Environmental Financing in the Candidate Countries*, European Commission, 2001.

8.68 Binding regulations are instruments which have an important part to play in delivering environmental benefits. They can set clear environmental standards for certain types of pollution; for example, where a particular eco-system is so sensitive or a pollutant so hazardous that emissions must not exceed a certain level. Such standards are currently being sought for a set of 'priority substances' identified under the EU's Water Framework Directive as particularly dangerous for the aquatic environment. Cost benefit analysis should again inform how these standards should be met.

Box 8.5: Climate change; flexible instruments at work

Climate change is a global problem that requires a global solution. The most recent estimate of the extent of global warming for the 21st century is double that estimated in 1995²⁵. No country will be immune from the social, economic and environmental challenges it will bring; and no country acting alone can address those challenges, no matter how great its commitment. The UK Government has been at the forefront of efforts to build an international response and make globalisation work for the benefit of everyone. Having played a key role in securing the Kyoto Protocol in 1997, the UK continues to work for a broad international agreement on measures to reduce emissions, while taking action at home to deliver a legally binding commitment to reduce greenhouse gas emissions to a level 12.5 per cent below 1990 levels by 2008-12.

The UK has one of the largest emission reduction targets in the EU, but is nevertheless one of the few Member States on course to meet its target. The Government has also set a domestic goal that goes further: a 20 per cent reduction in CO₂ emissions below 1990 levels by 2010. Progress is being made: the UK's total greenhouse gas emissions in 1999 were 14.5 per cent below 1990 levels²⁶, as Chart 8.2 demonstrates.

The **UK Climate Change Programme** sets out the various measures that the Government will use to fulfil its commitments, and provides a good example of the way in which environmental problems can be addressed by a variety of measures:

Market-based instruments

- the Climate Change Levy (CCL), a tax on industrial energy use;
- reforms to company car taxation;
- the UK Emissions Trading Scheme, supported by incentive money of up to £215 million over five years from 2003/2004; and
- EU-level voluntary agreements with car manufacturers to improve the fuel efficiency of cars.

Government support

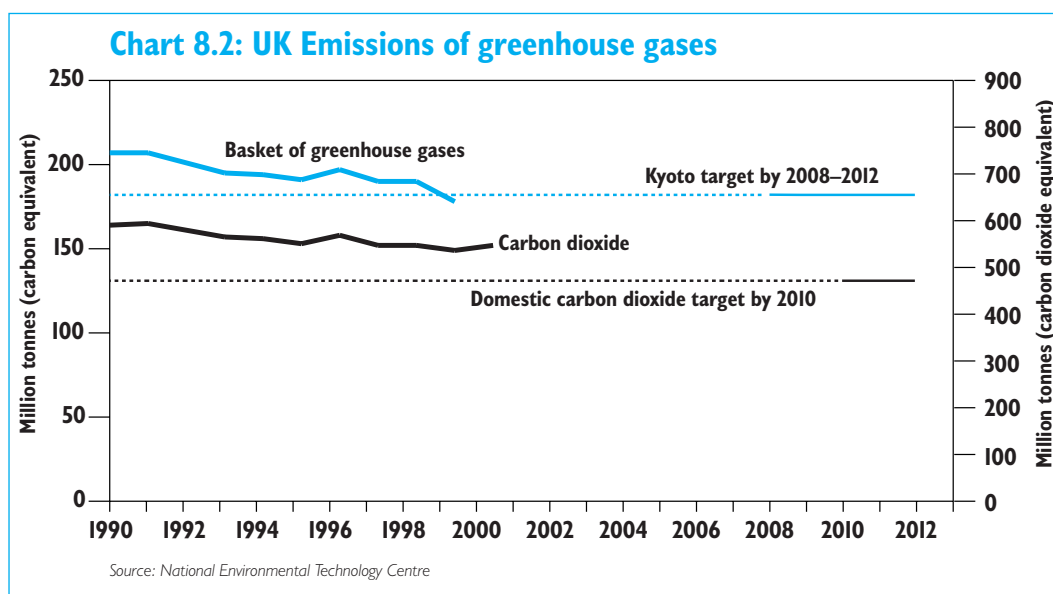
- £50 million a year for the Carbon Trust, using CCL receipts to promote take-up of low carbon technologies; and
- measures to improve domestic energy efficiency

Regulation

- Regulatory control through Integrated Pollution Prevention and Control.

²⁵ The UK's Third National Communication under the UNFCC, 2001, DEFRA.

²⁶ Climate Change 2001, Third Assessment Report of the Intergovernmental Panel on Climate Change.



Market-based instruments 8.69 Many environmental problems do not, however, necessarily need a purely regulatory, ‘command and control’ approach. Flexible, **market-based instruments** can often deliver environmental protection more cost-effectively, helping to deliver a better overall quality of life. By making use of the price mechanism, economic instruments allow those involved in environmentally damaging activities to respond according to their own circumstances, so that those facing the lowest costs of abatement have the incentive to make the largest reductions.

8.70 Market-based instruments include taxes, pollution charges and trading of pollution permits. Environmental taxes, for example, can help to ensure that the price of a good or service in the market place better reflects the overall cost to society and the environment from the pollution that results from economic activity²⁷. All these instruments offer the potential for delivering environmental improvements in a more cost effective way than purely command and control instruments.

8.71 At **Community level**, the Government supports the use of flexible instruments where these are most appropriate. The voluntary agreements with car manufacturers to reduce CO₂ emissions and the development of greenhouse gas emissions trading are two areas where the Community is now developing alternatives to regulation.

An optimal mix of instruments 8.72 Climate change is a good example of where a variety of instruments suited to solving different problems can be used to meet an environmental objective. Box 8.5 illustrates the range of instruments the Government has put in place to reduce greenhouse gases through measures such as the Climate Change Levy (a tax on industrial emissions of greenhouse gases) and the greenhouse gas emissions trading scheme. As noted, however, the challenge of international pollution problems such as climate change will not be addressed by measures taken by just the UK; and some of the most severe impacts of climate change will be faced by those least able to deal with them.

8.73 The Government is committed to taking **steps to help developing countries to control their own climate change emissions** and to prepare mitigation programmes for the changes that are already occurring. Through such instruments as the Climate Change Challenge Fund and the Climate Change Projects Office, the public and private sectors in the UK are encouraged to share their knowledge and expertise with developing countries.

²⁷ Statement of Intent on Environmental Taxation, HM Treasury, 1997.

REFORMING THE COMMON FISHERIES POLICY – AN OPPORTUNITY FOR REFORM

8.74 The Government recognises that achieving environmental objectives, and pursuing sustainable development, is not just a matter for environment ministries. The last few decades have been difficult for EU fisheries. Fish stocks have declined, and many – especially cod and hake – remain at levels that are far from healthy. In some areas, including the North Sea, the Irish Sea and the West of Scotland, emergency conservation measures such as the temporary closure of some areas to all fishing have been necessary. To a high degree these problems have arisen because of the continuing imbalance between the fishing capacity of Member States and the available fish stocks; put simply, too many vessels are chasing too few fish.

8.75 The Review of the EU Common Fisheries Policy (CFP), due to be completed by the end of 2002, must address current problems. The UK recognises that the negotiations may not be easy, and will continue to support strongly Commission proposals to put in place mechanisms to deliver sustainable fisheries both in EU waters and elsewhere, fully recognising wider environmental and international development goals. The EU must take the opportunity offered by the Review to demonstrate its commitment to sustainable development.

AN INTEGRATED APPROACH

Integrating the environment into wider policy

8.76 To achieve the balance required for sustainable development, protecting the environment needs to be integrated into the work of other departments, ministries and stakeholders. The UK has taken steps to promote this integrated approach to policy making, launching during its EU Presidency in 1998 the Cardiff Process which requires individual Council formations (including ECOFIN, Transport and Agriculture) to produce integration strategies, setting out how they will consider environmental issues in their work. These strategies have provided a valuable opportunity to mainstream environmental thinking in the EU.

EU Sustainable Development Strategy

8.77 The **EU Sustainable Development Strategy** provides a further opportunity to promote better policy making. Adopted by the European Council in June 2001, it recognised the importance of taking social, economic and environmental effects into account in Community decision-making through Sustainability Impact Appraisals. The European Commission informed the Laeken European Council that it intended to have a system for such appraisals in place by December 2002.

8.78 The Government will continue to press the Commission to meet this deadline and will work with other Member States to deliver better policies that meet our social, economic and environmental goals. Achieving sustainable development requires more than the adoption of a strategy. The Government will use the opportunity presented by the **Barcelona European Council** to reinforce the importance of a policy making approach that recognises the need to deliver social, economic and environmental objectives.

Box 8.6: Priorities for reform

The EU is an important part of an increasingly interconnected world. Europe's responsibilities do not stop at its borders. A reforming, stronger and more dynamic Europe benefits all of its neighbours. The **Barcelona European Council of March 2002** can reinforce the importance of an approach that recognises the need to deliver social, economic and environmental objectives. These objectives can be pursued through a number of routes:

- the **WTO's Doha Development Agenda**, a welcome package of negotiating commitments which should deliver a positive boost to the world economy and major gains for developing countries in particular;
- **the relationship between the EU and the US**. Pursuing a deeper and truly open transatlantic relationship must remain an ongoing EU priority;
- **a substantial increase in development aid** to those nations most in need – a necessary aspect of solving the urgent problem of poverty. Encouraging a stronger response from the EU and its Member States to meeting the Millennium Development Goals. Further reform of the EU's own development budget will reinforce these efforts;
- **reform of international financial architecture and institutions**, supporting the application of sound and sustainable macroeconomic frameworks which help protect against destabilising financial flows and the global economic cycle;
- utilising the **World Summit on Sustainable Development (WSSD)** to demonstrate how globalisation can be made to work for sustainable development. The focus must be on intergovernmental activity to set the right framework conditions for global development that delivers social, economic and environmental benefits; and
- simultaneous pursuit of **economic, social and environmental objectives; sustainable development**, to achieve a better quality of life for both current and future generations. Many of the challenges this entails cannot be tackled by individual governments acting alone. EU partners must work together to protect their shared environment in a way which is cost-effective, efficient and contributes to sustainable development at a European and global level.

A

PROGRESS AGAINST THE LISBON AND STOCKHOLM OBJECTIVES

A1 At Lisbon the European Council agreed a wide range of measures to move Europe towards becoming the “most dynamic and most competitive and dynamic knowledge-based economy in the world, capable of sustaining economic growth with more and better jobs and greater social cohesion”. It is the responsibility of many players: the Council, Member States, the Commission, the European Parliament, industry and citizens to ensure the success of the Lisbon Strategy. A key element of many of these measures is that they have concrete deadlines.

A2 Table A1 and A2 outline in brief the successes, developments and some failures since Lisbon and Stockholm. In some cases progress has come earlier, while in others detailed negotiations have caused delay despite a consensus amongst Member States. For simplicity, the charts have been marked to show the degree of progress:

- ✓ measure completed according to the timeline set;
- ✗ deadline passed without measure being agreed; or
- measure not yet completed but deadline has not yet passed or not yet able to ascertain progress.

Table A.1: Progress against the objectives set at Lisbon

Lisbon agreement	Progress to Date
An Information Society for All	
✓ eEurope Action Plan.	Adopted; consists of 64 actions on existing EU initiatives which are on track for completion.
✓ Adopt all pending legislation on e-commerce (distance selling, dual use export control regime, copyright) during 2000.	Adopted; implementation is underway in Member States.
✓ Consider alternative dispute settlement mechanisms for promoting confidence in e-commerce .	Full operation of extra-Judicial Network expected in November 2002.
✓ Conclude legislative proposals on telecoms regulation .	Complete.
✓ Introduce greater competition in local access networks by end 2000.	Adopted the regulation on local loop unbundling.
✗ Ensure all schools have access to the internet and multimedia resources by end 2001.	Substantially met – about 90 per cent of EU schools connected.
– All the teachers needed are skilled in their use by end 2002.	On track. More than half of Europe’s teachers have been trained in the use of computers and the Internet, around 90 per cent of teachers use a computer at home.

Lisbon agreement	Progress to Date
– Ensure generalised electronic access to main basic public services by 2003.	On schedule.
– Make available low cost, high-speed networks for internet access, as in the eEurope action plan.	On track. European network is fastest in the world. Some Member States still upgrading.

Establishing a European Area of Research and Innovation

– Develop appropriate mechanisms for networking national and joint research programmes .	On track; the 6th Framework Programme will push this forward.
✗ Map by 2001 research and development excellence in all Member States in order to foster the dissemination of excellence.	First map rescheduled for end 2002 due to technical needs.
– Improve the environment for private research investment , R&D partnerships and high technology start-ups, by using tax policies, venture capital and EIB support.	On track.
✓ Introduce by June 2001 a European innovation scoreboard .	Completed.
– Take steps to remove obstacles to the mobility of researchers in Europe by 2002 and to attract and retain high-quality research talent in Europe.	On track; the 6th Framework Programme will push this forward.
✗ Ensure that a Community patent is available by the end of 2001.	Agreement on most points, but several major issues remain.

Creating a friendly environment for starting up and developing innovative businesses, especially SMEs

✓ Launch a benchmarking exercise on issues such as the length of time and the costs involved in setting up a company , the amount of risk capital invested, the numbers of business and scientific graduates and training opportunities to report by end 2000	Completed.
✓ Put in place the Multiannual Programme in favour of Enterprise and Entrepreneurship for 2001–2005.	Adopted in December 2000. But this year's action plan not yet agreed.

Lisbon agreement	Progress to Date
✓ The Council and the Commission to draw up a European Charter for small companies to be endorsed in June 2000 which should commit Member States to focus in the abovementioned instruments on small companies as the main engines for job-creation in Europe, and to respond specifically to their needs.	Completed.
✓ Report by end 2000 on the ongoing review of EIB and EIF financial instruments in order to redirect funding towards support for business start-ups , high-tech firms and micro-enterprises, as well as other risk-capital initiatives proposed by the EIB.	Completed.
✓ EIB should go ahead with its plans to make another billion euro available for venture capital operations for SMEs and its dedicated lending programme of 12 to 15 billion euro over the next 3 years for the priority areas.	Completed.

Economic reforms for a complete and fully operational internal market

✓ Set out by the end of 2000 a strategy for the removal of barriers to services .	Strategy issued in November 2000.
✗ Speed up liberalisation in areas such as gas, electricity and transport .	Little progress since Lisbon, but a key area for Barcelona.
– Speed up liberalisation in postal services .	Common position agreed in December 2001.
✓ The Commission to put forward its proposals regarding the use and management of airspace as soon as possible.	Completed.
– Conclude work in good time on the forthcoming proposals to update public procurement rules , in particular to make them accessible to SMEs, in order to allow the new rules to enter into force by 2002.	Implementation of proposed classic and utilities directives by 2002 and the possibility by 2003 for Community and government procurement to take place on line: still on course.
– To take the necessary steps to ensure that it is possible by 2003 for Community and government procurement to take place on-line .	On course.

Lisbon agreement	Progress to Date
✘ Set out by 2001 a strategy for further coordinated action to simplify the regulatory environment , including the performance of public administration, at both national and Community level.	Commission Action Plan due in June 2002, but several specific simplifications published.
✔ Further their efforts to promote competition and reduce the general level of State aids .	On-line register and scoreboard operational.

Efficient and integrated financial markets

– Implement the Financial Services Action Plan by 2005, taking into account priority action areas.	In progress.
– ensure full implementation of the Risk Capital Action Plan by 2003.	In progress.
✘ Make rapid progress on the long-standing proposals on takeover bids .	Rejected by European Parliament in July 2001. Commission plan to put forward new proposal in spring.
✔ Make rapid progress on the restructuring and winding-up of credit institutions and insurance companies .	Directive agreed.
– Conclude, in line with the Helsinki European Council conclusions, the pending tax package .	In progress.

Coordinating macro-economic policies: fiscal consolidation, quality and sustainability of public finances

– Alleviate the tax pressure on labour and especially on the relatively unskilled and low-paid, improve the employment and training incentive effects of tax and benefit systems .	EU structural indicator suggests small drop in tax rate on low wage earners in 2001.
– Redirect public expenditure towards increasing the relative importance of capital accumulation – both physical and human – and support research and development, innovation and information technologies.	In progress.
– Ensure the long-term sustainability of public finances , examining the different dimensions involved, including the impact of ageing populations.	Report published on the effect of aging public finances.

Lisbon agreement

Progress to Date

Education and training for living and working in the knowledge society

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| – Facilitate a substantial annual increase in per capita investment in human resources . | Issues reflected in 2001 Employment Guidelines. |
| – Cut the number of 18 to 24 year olds with only lower-secondary level education who are not in further education and training by half by 2010. | Indicator at 17.7 per cent for EU in 2001, compared to 17.8 per cent in 2000. |
| – Schools and training centers, all linked to the Internet, should be developed into multi-purpose local learning centres accessible to all, using the most appropriate methods to address a wide range of target groups. | By the end of 2002 there will be 6,000 UK online centres throughout England. |
| – A European framework should define the new basic skills to be provided through lifelong learning . | In progress. Working group met in December 2001. |
| – A European diploma for basic IT skills , with decentralised certification procedures, should be established. | In progress. |
| ✓ Define, by the end of 2000, the means for fostering the mobility of students, teachers and training and research staff . | Commission recommendation published end 2000, adopted 2001. |
| – Take steps to remove obstacles to teachers' mobility by 2002 and to attract high-quality teachers. | In progress. |
| – A common European format should be developed for curricula vitae , to be used on a voluntary basis. | Undergoing testing. |

More and better jobs for Europe: developing an active employment policy

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| – Give higher priority to lifelong learning as a basic component of the European social model, with benchmarking towards this goal. | Around 8.4 per cent of 25–64 year olds participate in lifelong learning. |
| – Increasing employment in services , including personal services, where there are major shortages. | In progress. |
| – Further all aspects of equal opportunities and making it easier to reconcile working life and family life, in particular by setting a new benchmark for improved childcare provision . | Indicators developed, awaiting agreement. |

Lisbon agreement	Progress to Date
– Raise the total EU employment rate from an average of 61 per cent in March 2000 to as close as possible to 70 per cent by 2010.	EU employment at 63.9 per cent in 2001.
– Increase the number of women in employment from an average of 51 per cent in March 2000 to more than 60 per cent by 2010.	EU female employment at 54.7 per cent in 2001.
Modernising social protection	
✓ Strengthen cooperation between Member States by exchanging experiences and best practice on the basis of improved information networks which are the basic tools in this field.	Open method of coordination in social exclusion and pensions.
✓ Prepare a study on the future evolution of social protection from a long-term point of view with a progress report by December 2000.	Social Policy Agenda and Pensions Report both completed.
Promoting social inclusion	
✓ Exchanges information and best practice , on the basis of commonly agreed indicators.	Indicators agreed and included in Commission Synthesis Report.
✓ Mainstream the promotion of inclusion in Member States' policies, this being complemented at Community level by action under the Structural Funds within the present budgetary framework.	Social Agenda agreed at Nice.
– Develop priority actions addressed to specific target groups with Member States choosing amongst those actions according to their particular situations and reporting subsequently on their implementation.	Ongoing.
Implementing a new open method of coordination	
✓ A fully decentralised approach will be applied in line with the principle of subsidiarity.	Open method in place for Broad Economic Policy Guidelines, pensions, and R&D.

Table A.2: Progress against the objectives set at Stockholm

Stockholm agreement	Progress to Date
Towards full employment	
– Intermediate targets for employment rates across the EU as a whole for January 2005 of 67 per cent overall and 57 per cent for women.	EU total employment rate at 63.9 per cent and female employment rate at 54.7 per cent in 2001.
– Target for increasing the average EU employment rate among older women and men (55–64) to 50 per cent by 2010.	EU employment rate for older workers at 38.3 per cent in 2001.
✓ Council and the Commission for report jointly, in time for the Spring European council in 2002, on how to increase labour force participation and promote active ageing.	Completed.
✓ Develop indicators on the provision of care facilities for children and other dependants and on the family benefit systems by 2002.	Completed.
Education, training and skills	
– Report to the Spring European Council in 2002 containing a detailed work programme on the follow-up of the objectives of education and training systems.	In progress. Three expert groups set up in ICT; maths, science and technology; and basic skills – report will be circulated before Barcelona.
Mobility of workers	
✓ Recommendation on mobility of students, persons undergoing training, young volunteers, teachers and trainers should be adopted by June 2001, and Member States should implement in parallel the mobility action plan.	Mobility action plan agreed at Nice, and recommendation adopted in June 2001.
✓ To assess before the end of 2001 the feasibility of establishing a one-stop European mobility information site.	Information feasibility study completed in September 2001.
✓ In depth discussion to take place at the Laeken European Council in 2001 on immigration, migration and asylum.	Discussed at Laeken, listed in Council Conclusions.
✓ Create a high-level task force on skills and mobility.	Launched 20 June 2001. Report in December 2001 to inform Commission's Action Plan to be presented to Barcelona.
– Present report on how to increase labour market participation and active ageing.	Will be presented at Barcelona.

Stockholm agreement	Progress to Date
<ul style="list-style-type: none"> – Present for the 2002 Spring European Council an Action Plan for developing and opening up new European labour markets, as well as specific proposals for a more uniform, transparent and flexible regime of recognition of qualifications and periods of study, as well as on the portability of supplementary pensions. 	<p>Will be circulated before Barcelona.</p>
<h3>Exploiting the potential of the internal market</h3>	
<ul style="list-style-type: none"> – Interim transposition target of 98.5 per cent for the 2002 Spring Council. 	<p>In progress.</p>
<ul style="list-style-type: none"> – Commission's intention to present a proposal in 2002 tackling the barriers identified in the internal market for services. 	<p>In progress.</p>
<ul style="list-style-type: none"> ✓ Adopt before the end of 2001 the directive on postal services. 	<p>Adopted in October 2001.</p>
<ul style="list-style-type: none"> ✗ Present strategy for regulatory simplification and quality before the end of 2001. 	<p>Expected by June 2002.</p>
<h3>Financial services and risk capital</h3>	
<ul style="list-style-type: none"> – Full implementation of the Financial Services Action Plan by 2005. 	<p>In progress.</p>
<ul style="list-style-type: none"> – Integrated securities market by the end of 2003. 	<p>In progress.</p>
<ul style="list-style-type: none"> – Well-functioning risk capital market by 2003 through implementation of the Risk Capital Action Plan. 	<p>In progress.</p>
<h3>Encouraging effective competition</h3>	
<ul style="list-style-type: none"> ✓ Adopt procurement rules before the end of 2001. 	<p>Completed.</p>
<ul style="list-style-type: none"> – Member States should demonstrate a downward trend in State aid in relation to GDP by 2003. 	<p>For assessment in 2003.</p>
<ul style="list-style-type: none"> ✓ Publicly accessible State aid register and Scoreboard to be available on line by July 2001. 	<p>Completed.</p>
<h3>Taxation issues</h3>	
<ul style="list-style-type: none"> – Reach an agreement on the tax package as a whole as soon as possible, and no later than by the end of 2002. 	<p>In progress.</p>

Stockholm agreement	Progress to Date
Improving quality in work	
– Define common approaches to maintaining and improving the quality of work which should be included as a general objective in the 2002 employment guidelines.	Indicators adopted at Laeken.
✓ Develop indicators on quality in work and will make quantitative indicators more accurate, to be presented in time for the Laeken European Council in 2001.	Completed.
– Update existing legislation on implementing the principle of equal treatment of men and women as regards access to employment, vocational training and promotion and working conditions, by end 2001.	Beijing indicators adopted in 2001. Equal treatment Directive amendment to be produced by Spanish Presidency.
✓ Develop indicators to ensure that there are no discriminatory pay differentials between men and women.	Completed, included in Synthesis Report.
Promoting social inclusion	
✓ Agree in the course of 2001 on the proposal for a social inclusion programme .	Finalised at Laeken Council.
✓ Agreeing on indicators for combating social exclusion by the end of the year.	Completed, included in Synthesis Report.
Safe and sustainable social protection systems	
✓ Prepare a report for the Council in view of the Spring European Council 2002 on the quality and sustainability of pensions . A progress report should be submitted by December 2001.	Completed progress report.
✓ Agree parameters for the modernisation of Regulation 1408/71 on coordination of social security systems , by the end of 2001.	Agreed at Laeken.
eEurope	
✓ Telecoms package should be adopted in 2001.	Completed.
– Agreement on a regulatory framework for radio spectrum policy as well as broadband networks .	Council has reached common position, but still in progress.
✓ Legislation for the use of electronic invoicing for VAT purposes will be adopted before the end of 2001.	Completed.

Stockholm agreement	Progress to Date
✓ Ensure that the .eu top-level domain is available to users as soon as possible.	Completed.
✓ Develop a comprehensive strategy on security of electronic networks including practical implementing action for the Göteborg European Council.	Council resolution in information and network security in December 2001.

Research and innovation

– Adopt in co-decision with the European Parliament the sixth Community Research Framework Programme by June 2002.	On track. Research Council reached agreement in 2001.
– Examine a specific strategy for mobility within the European Research Area on the basis of the proposal announced by the Commission.	In progress.
✓ Consider ways in which Member States' ideas for, and experience of, boosting R&D through economic incentives could be shared.	ECOFIN report agreed.
✓ EIB is invited to further step up its support for R&D activities .	Agreement with Framework Programme.
✓ Present by June 2001 the first European Innovation Scoreboard .	Completed.
– Before the end of 2001 present proposals to promote a more interactive dialogue with the public on issues of science and technology , the first results of benchmarking of research in the EU and a map of research excellence, as well as renew the framework for State aid for research.	State aid framework to be renewed before June 2002.

Frontier technologies, especially biotechnology

– Examine measures required to utilise the full potential of biotechnology .	Action Plan proposed.
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Stockholm agreement**Progress to Date****From Stockholm to Göteborg: streamlining the process**

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| – | Review progress in integrating the sustainable development aims into the Lisbon strategy ; and the contribution that the environment technology sector can make promoting growth and employment at its Spring meeting in 2002. | Sustainable development strategy adopted at Göteborg; evaluating contribution of environment technology sector in progress. |
| – | Evaluation of the Luxembourg process to examine the possibility of improving coordination of this process with the preparatory work leading to its Spring meeting. | In progress. |

Climate Change

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| – | To facilitate a successful outcome of the resumed COP-6 , which will create the conditions for ratification and entry into force of the Kyoto Protocol by 2002. | Agreement of Proposals in Marrakech in October 2001, ready for ratification. |
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