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COMMUNICATION FROM THE COMMISSION TO THE SPRING EUROPEAN COUNCIL

IMPLEMENTING THE RENEWED LISBON STRATEGY FOR GROWTH AND JOBS

"A year of delivery"

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It is accompanied by:

– a recommendation to the Council for recommendations under articles 99 and 128 of the Treaty, and on the basis of the Integrated Guidelines for 2005-2008

– an annex (based on the national progress reports and economic analysis undertaken by the Commission) which further develops the arguments set out in the main body of the report and provides more factual material to substantiate it. The employment part of this annex is also the draft joint employment report.

1. IMPLEMENTING THE STRATEGY FOR GROWTH AND JOBS

The Growth and Jobs Strategy is a shared EU reform agenda. It reflects the growing inter-dependence of our economies and recognition of the need for the Community and national levels to work closely together to make reality of the vision of a dynamic, competitive, knowledge-intensive EU which can face the future with confidence.

The positive effects of successful reform which boosts growth and employment in one Member State will be felt in all the others. Therefore, if all Member States implement reforms together, the effects would be considerably reinforced.

The economies of the euro area are even more closely inter-connected. Consequently, there is a need for a shared commitment amongst its members to implement quickly the reforms that are necessary for the single currency to function smoothly.

Reforms at Community level are an essential element of the Lisbon Strategy. They reinforce and complement national reforms by providing a strong European framework for growth and jobs. The Commission presented the necessary actions in 2005 in the Community Lisbon Programme.

The renewed Strategy for Growth and Jobs is beginning to deliver results. All Member States have adopted national reform programmes and are reviewing them to take on board priorities defined at Community level and good practice ideas from other Member States. A shift in policy towards research and innovation, resource and energy efficiency, freeing up of SMEs, entrepreneurship and education, investment in human capital and modernisation of labour markets together with securing funding for high levels of social protection for the future can be discerned across Member States. There is a clearer recognition that, in modernising social protection and inclusion, adequacy and financial sustainability need to be considered jointly.

There is emerging evidence that past reforms are starting to deliver quantifiable benefits, and that the full implementation of the Strategy for Growth and Jobs at both EU and national level offers the prospect of potentially large gains in terms of jobs and growth. Overall, growth conditions are now more conducive to pursuing reform agendas than they have been for many years, and the challenge is to use this window of opportunity to pursue ambitious reform efforts.

The new partnership for growth and jobs is also beginning to prove its worth as an effective governance structure for managing economic reform in Europe. While ownership and knowledge about this structure must clearly still be improved, the new governance structure in itself is an important contribution to economic reforms in Europe.

This section analyses progress at both the Community and the national levels. It also assesses synergies between these levels and between macro, micro and employment policies. Section 2 focuses on the four priority action areas identified by the 2006 Spring European Council and section 3 outlines suggestions for steps to drive the Strategy forward.

1.1. The Community Dimension

Progress on implementing the Community Lisbon Programme (CLP) has been satisfactory. To date, the Commission has delivered over 75% of all the actions announced in the CLP[1]. There are a number of "good news" stories: the adoption of the services directive; the significant steps forward in financial services; the adoption of a new state aid framework for R&D and innovation as well as guidance on tax incentives in favour of R&D; agreement on the 7th Framework Programme for research and technological development which will raise R&D spending by 75% between 2007 and 2013 and support for major public-private partnerships; final political agreement on the launching of the SESAR joint undertaking; as well as support for SMEs under the Competitiveness and Innovation Programme.

However, a number of important proposed EU laws are still pending before the Parliament and the Council and there is now an urgent need to concentrate the efforts of the co-legislators on agreeing the items on the "unfinished agenda". These vital proposals would increase the portability of pensions so facilitating mobility of workers in the internal market, improve the functioning of our transport and energy markets, equip Europe with an effective and affordable intellectual property system, provide a framework for audiovisual and payment services and simplify and modernise important parts of its tax and customs rules. If implemented, they would give a significant impetus to growth and jobs in Europe.

Since the adoption of the Community Lisbon Programme, the Commission has come forward with a number of important new proposals for economic reform that seek to complement and strengthen actions at Member State level: it has proposed the creation of the European Institute of Technology;; and its proposal for a European Globalisation Adjustment Fund has been agreed. The Commission is also implementing its external competitiveness agenda encompassing trade and other external policies in order to create opportunities in a globalised economy.

The European better regulation agenda is gaining momentum. The Commission[2] has set out a coherent approach to all stages of the policy cycle as well as an ambitious simplification agenda. The Council and the European Parliament need to speed up decisions on pending simplification proposals, for example, the Commission's proposals for a VAT one-stop-shop and for a modernised customs environment to simplify procedures.

These proposals, complemented by new actions presented in Section 2, constitute the work programme for economic reform at Community level.

1.2. Implementation of the National Reform Programmes (NRPs)

Member States have delivered their first reports on the implementation of National Reform Programmes. The Commission has made a detailed assessment, taking into account work carried out by the Council.

It shows that Member States are making a real effort to reform. Many of them have strengthened the involvement of their parliaments and stakeholders. All have appointed Lisbon Co-ordinators, many at ministerial level.

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1 "Community Lisbon Programme: Technical Implementation Report 2006", SEC (2006) 1379

2 "A Strategic Review of Better Regulation in the EU", COM (2006) 689

However, in addition to the fact that Member States had different points of departure, there is considerable variation in the pace, intensity and commitment towards reforms across Member States. Progress across different policy areas is also uneven.

The macro-economic dimension

- The EU's economic performance and outlook are brighter than for a number of years. Economic growth this year is set to reach 2.8% - up from 1.7% in 2005 and is forecast to remain at some 2.5% for the next two years[3]. Some of the upturn is due to favourable cyclical developments but there is evidence that it is partly due to the impact of previous structural reforms. It is also supported by budgetary consolidation and a greater focus on the need to secure sustainable public finances in the light of ageing populations, a process that has been aided through a reformed Stability and Growth Pact[4]. The recent enlargement has also contributed to greater dynamism in the EU economy.

- Stable macro-economic conditions are underpinning the improved outlook. Despite higher energy prices, inflation in the EU has hovered just above 2% during 2006. Wage moderation has continued to support price stability. The EU25 current account remains in broad balance in the face of high energy prices, stronger growth and the appreciation of the euro against other major currencies. However, the external balances of several Member States have reached levels that need careful monitoring.

- Many countries, including those with the highest deficits, have pursued budgetary consolidation efforts, and there was a halt in the increase in the debt/GDP ratio of the EU25 for the first time since 2002. Also, several countries adopted or announced reforms to pensions and healthcare systems. However, some Member States need to do much more. More than half of them face medium to high risks to their public finances on the basis of current policies. If the time lived in good health increased in line with life expectancy, this would help to curb the increase in healthcare expenditure. Fiscal consolidation now will create the room for investments which will enhance future growth potential so helping to put public finances on a more secure footing in the longer term.

- The closer economic and financial interdependence created by a single currency means the euro area countries must not only establish the conditions to raise growth and employment in each Member State, but also improve adjustment capacity in the euro area. In the light of their greater economic and financial interdependence, euro area Member States need more ambitious budgetary consolidation, greater competition to enhance productivity, control over inflationary pressures and more adaptable labour markets. Achieving this will require deeper policy coordination and improved governance through the Growth and Jobs Strategy and in the context of the Eurogroup[5].

The micro-economic dimension

- All Member States have set a national R&D investment target. If all of these targets are met, the EU will reach an R&D level of 2.6% of GDP in 2010 (up from 1.9% in 2005). This would be a significant improvement even if the key EU target of 3% is only reached

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3 Commission Autumn Economic Forecasts 2006-2008, European Economy No. 5/2006

4 "Public finances in EMU – 2006. the first year of the revised Stability and Growth Pact", COM (2006) 304

5 "Strengthening the euro area: key policy priorities", COM (2006) 714

later. There are considerable benefits of more R&D spending: if national targets are reached, EU GDP will be between 2.6% and 4.4% higher in 2025 than it otherwise would have been. The key is increased private sector investment. This requires strengthening links between science and industry, promoting internationally competitive clusters, improving access to finance and upgrading innovation support services (e.g. broadband and e-government).

- Many Member States have started to implement the actions agreed by the 2006 Spring European Council to "unlock business potential, especially of SMEs" For example, all Member States which did not have "one stop shops" to assist future entrepreneurs are now establishing them. However, most Member States have not yet made enough progress to secure the one week target[6] by the end of 2007.

- However, success in many policy areas depends on effective competition and implementation of EU legislation – in sectors such as energy, transport, telecommunications, financial and professional services and public procurement - and on more adaptable labour markets. Renewed efforts are needed here. Total state aid has not significantly decreased over the period 2001-2005. However, Member States are now awarding more than 90% of their aid to horizontal objectives. Whilst the share of aid going towards the environment and energy efficiency has increased to 28%, aid to other "Lisbon" areas, such as R&D and training, has remained relatively stable.

- The picture on better regulation is generally good. There has been significant progress with measuring and reducing administrative burdens and with impact assessment. Moreover, many Member States are introducing ad hoc simplification measures. But fewer than ten have mandatory consultation on forthcoming new rules.

- Many Member States now recognise the potential synergies between environmental policy and growth. They also recognise global challenges such as climate change and the need to preserve biodiversity. However, more than half need additional measures to fulfil their objectives on electricity from renewable energy sources. Seven are not on track to reach their Kyoto commitments on climate change, and will need further emission reduction measures. There is progress on the promotion of environmental technologies. Progress on the internalisation of environmental costs is slow.

The employment dimension

- Employment rates are steadily increasing, due in part to more women and older people working. The EU is expected to create 7 million new jobs over the period 2006-2008. This will help increase the employment rate from 64% in 2005 to 66% in 2008 while reducing unemployment from a peak of more than 9% in 2004 to 7.3% in 2008. Resilient employment growth coupled with the substantial drop in unemployment in 2006 suggests that there has been some structural improvement in the functioning of labour markets. Moreover, several Member States have relaxed the transitional restrictions on free movement of workers.

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[6] A definition of what is to be looked at when assessing start-up times, costs and one-stop shops in the context of the Lisbon objectives can be found at http://ec.europa.eu/enterprise/entrepreneurship/support_measures/start-ups/index.htm

- Despite this good progress, only a few Member States have adopted a fully integrated "lifecycle approach" to employment. For example, more effort is needed to hit the target agreed last year for every young person who has left school or university to be offered a job, apprenticeship, training or other employability measure within six months of becoming unemployed. Gender gaps remain wide which calls for stronger commitment to the Gender Pact. Availability of affordable child care is a problem in a number of Member States which makes it more difficult to reconcile work and private life. In many Member States, particular categories of the population (i.e. the young, older workers, minorities and third country nationals) continue to suffer much higher unemployment. Early school leaving is a particularly severe problem among immigrants and minorities. Member States have put some effort into increasing the labour market participation of older workers but more is needed to create real job opportunities for them. Moreover, although all Member States are struggling to reduce child poverty (as requested by the 2006 Spring European Council), it remains a significant challenge.

- Member States are showing considerable interest in "flexicurity" but most are still implementing only some of its elements, such as measures to reduce the tax burden on labour to "make work pay" and to boost labour demand. There has been limited progress on the other elements: modernising social protection and benefit systems and putting in place coherent life long learning strategies. And not enough Member States are modernising employment protection legislation – except at the margins (providing greater opportunities to new entrants or marginal workers). In order to overcome labour market dualism (insiders/outsiders) in a number of Member States, greater security and employability for those at the margins will need to go hand in hand with greater flexibility for those on permanent contracts.

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Overall, Member States have made a promising start in implementing National Reform Programmes. However, in several Member States, there is scope for stronger action in areas such as long-term sustainability of public finances, labour market reform, R&D, climate and energy policies and innovation, as well as competition, particularly in network industries and services.

Faster progress in these areas would enhance consistency in the overall pace of implementation, generate greater synergies between policies and help to maximise the benefits of reform.

In light of its assessment, the Commission has decided to propose guidance to Member States in the form of conclusions and country-specific recommendations under Articles 99 and 128 of the Treaty. The basis for proposing country-specific recommendations was the progress in the implementation of the NRPs. They relate in particular to issues which the Commission highlighted for particular attention by Member States in its contribution to the 2006 Spring European Council. For Member States which have made significant progress in implementing their reform programmes, no recommendations are proposed.

The renewed Lisbon Strategy for Growth and Jobs is a medium- to long term agenda. Not all policy challenges can be successfully addressed in one year and the Commission has therefore taken account of the need for Member States facing complex challenges to prioritise certain actions.

The Commission also flags up some key issues for each Member State where progress during 2007 should be closely monitored. Similarly close follow-up is needed in the four priority

action areas (see section 3) which the European Council agreed should be delivered by the end of 2007.

1.3. Investing in growth and jobs: the top priority for the new cohesion programmes

A major success in the last year has been the new direction given to cohesion policy. The new regulatory framework for the Structural Funds for 2007-2013 stipulates that, in the least developed regions, a minimum of 60% of the resources available must be "earmarked" for Lisbon expenditures. In other regions, it must be a minimum of 75%. Although this "earmarking" is not compulsory for those Member States who joined the Union in 2004, all have agreed to adhere to it. This translates into Lisbon investment worth € 200 billion from the Structural Funds (plus co-financing from the Member States).

The Commission will continue to work intensively with Member States to ensure that the majority of the 360 new programmes can be decided by mid-2007, allowing much-needed investments as soon as possible. The emphasis in these programmes is firmly placed on reform priorities, such as innovation and the knowledge economy. The new rural development programmes will also bring new investment opportunities, boosting job creation outside of urban areas.

There is now much closer co-operation between those responsible for implementing National Reform Programmes and those preparing the operational programmes for the structural funds. Moreover, as the majority of programmes are conceived and implemented in partnership with the regions and other local actors, they are helping to decentralise the Growth and Jobs Strategy to the regional and local level and to increase ownership on the ground.

2. IMPLEMENTING ACTIONS IN THE FOUR PRIORITY AREAS

At the 2006 Spring European Council, Heads of State and Government agreed four priority areas for more growth and jobs. Within these, the European Council agreed specific measures to be implemented before the end of 2007 – i.e. before the start of the second cycle of the Growth and Jobs Strategy in 2008. These four priorities should be reflected in the National Reform Programmes and the Lisbon Community Programme but are highlighted in this section because of their cross-cutting nature. As the Commission assessment has shown, many Member States will need to step up their efforts to accomplish the actions on schedule. Reporting by Member States on the implementation of the four priority action areas should form an integral part of yearly implementation reports.

2.1. Investing more in knowledge and innovation:

Improving research and innovation offers the best hope of finding solutions to many major problems, such as climate change and demographic change. Creating a more innovation friendly Europe is vital for future growth.

Setting targets for greater R&D investments is not enough in itself. What matters is converting R&D investments into new products and services. This largely depends on achieving the right framework conditions to support innovation, including modernised higher education and stronger links within the knowledge triangle (business, universities, research centres) as well as competitive markets with low entry barriers. The Commission will launch a debate on the future of the European Research Area to ensure that it plays a leading role in tackling global challenges.

Furthermore, the development of some new strategic technologies (and their emergence as global lead markets) can be fostered by a common European sectoral approach (such as on carbon capture and storage and spectrum management[7]).

In September 2006, the Commission presented a broad-based innovation strategy, accompanied by a 10 point roadmap[8]. Following this, the Heads of State and Government in Lahti agreed that the EU, like its major competitors, should take a strategic approach to innovation, focusing on a limited number of closely interlinked issues[9] and the Council has subsequently adopted, on this basis, an innovation work programme to be followed at Community level.

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7 The Commission will present proposals on spectrum management in early 2007 in the context of the review of the regulatory framework for electronic communications

8 "Putting knowledge into practice: a broad-based innovation strategy for the EU", COM(2006) 502 final, 13/09/06

9 See the Commission's Communication to the Lahti Informal European Council, "An innovation-friendly, modern Europe", COM (2006) 589, 12/10/2006

Follow up actions:

- Joint technology initiatives" (JTIs) are public-private partnerships to ensure Europe's lead in strategic technology areas. The Commission will make proposals to launch a number of JTIs early in 2007.

- The European Institute of Technology (EIT) will be a flagship for excellence in innovation, research and higher education. The Commission's proposal should be adopted in time for the EIT to become operational in 2008 with the first EIT Knowledge and Innovation Community in place by 2010. Member States should also pursue reforms of higher education and research organisations.

- Europe urgently needs a clear and coherent framework for intellectual property protection, based on high quality, affordability, convergence and balance between users and right holders so that ideas can circulate easily in a dynamic information society. The Commission will present proposals.

- European standard-setting must be speeded up, particularly in fast-moving markets, whilst ensuring inter-operability. European standardisation organisations need to continue to improve their performance by adapting their working methods and structures and improving internal decision-taking. The Commission will conduct a review with the standardisation organisations, industry and stakeholders and issue an action plan in October 2007.

- Europe needs a lead markets strategy, i.e. public authorities must try to ensure that markets are, as far as possible, ready for emerging technologies and business models so helping European enterprises to become global leaders in these sectors.

- Smart procurement practices can foster demand for innovative solutions and create new business opportunities, particularly in the service sector. The public sector must take up this challenge.

2.2. Unlocking the business potential, especially of SMEs

Recognising that SMEs are the major source for future employment in Europe, the 2006 Spring European Council agreed to improve regulation to make it much easier to start up, run and transfer a business within the single market.

Now that all Member States have set up one-stop shops or are taking measures to do so, the administrative procedures behind the one-stop shops need to be streamlined (using electronic means).

The costs for businesses of complying with administrative requirements flowing from both EU and national rules are estimated at some 3.5% of GDP in EU-25. A significant share of these costs is linked to essential reporting requirements in the public interest. However, there is considerable potential for reducing burdens so that entrepreneurs and their staff can invest their time in productive tasks. It has been estimated that a reduction by 25% of these costs would over time increase EU GDP by up to 1.5% (or 150 bn euro).

Follow up actions:

- The European Council is invited to:
  - set a joint 25% target for reducing administrative burdens as a political objective to be achieved jointly by the EU and Member States by 2012;
  - endorse the priority areas identified by the Commission in which significant progress should be made to reduce administrative burden, notably: tax law including VAT; statistics; agriculture and agricultural subsidies; food labelling; transport and fisheries legislation;
  - endorse a package of dedicated proposals to reduce administrative costs with significant early benefits;
  - approve the proposed methodology for measuring costs.
- The assessment of the national implementation reports shows that a lack of competition remains a concern, hampering innovation and productivity growth. The Commission intends to conduct an analysis of key goods and services markets to identify specific obstacles.
- The European Council is invited to urge Member States to make the early and effective implementation of the Services Directive a top priority and to closely work with the European Commission to facilitate and coordinate this process of implementation.
- Member States should ensure that:
  - start-up time for a new business is no more than one week[10];
  - start up fees are low, reflecting only administrative costs;
  - one-stop shops for start-ups enable companies to fulfil regulatory obligations (including VAT registration) in a single location and/or electronically;
  - administration relating to the recruitment of the first employee can be done through a single contact point;
  - entrepreneurship education is included in school curricula.

2.3. Greater adaptability of labour markets based on flexicurity

It is now widely recognised that European labour markets must be modernised to adapt to changes resulting from increasing global competition, the ageing of the population and life-style choices. The flexicurity concept is one of the most promising ways of achieving this. Rather than protecting jobs, the aim is to protect the worker, help them deal with rapid change and so ensure secure employment. It has already been implemented in some Member States where it has been shown to work. The challenge is to build on such success.

[10] The Commission will provide guidance on the relevant definitions

Follow up actions:

- Following consultation with the social partners, the Commission will present a Communication on flexicurity by summer 2007 as the basis for agreement, by the end of 2007, on a set of common principles. As Member States' starting positions vary and to facilitate implementation, it will set out a range of policy pathways towards greater flexicurity, depending on the institutional set-up, economic situation and available financial resources.

- Member States should by the end of 2007:
  - Ensure that every school leaver is offered a job, apprenticeship, additional training or other employability measure within six months of becoming unemployed (four months by 2010);
  - Increase the availability and affordability of quality childcare in line with Member States' own national targets;
  - Provide targeted incentives to prolong working lives and increase participation in training for workers over age of 45.

2.4. Energy and Climate change

Today, the facts on climate change are clear: our planet is warming faster than ever as a result of human activity. In order to limit global average temperature increases to two degrees Celsius[11], we need decisive global action now. The costs of inaction will significantly outweigh the costs of action. These are also major opportunities for growth and employment through investment and producing and disseminating new eco-efficient technologies.

Europe has been addressing the issue of climate change. European leadership in this area should be designed to constitute leverage for a broader based fight against climate change and strengthen competitiveness. The new energy policy for Europe which is being set-up must be placed in that context.

Europe needs an integrated energy policy combining actions at European and Member State level while promoting environmental sustainability, security of supply and competitiveness:

- It will be essential to move steadily towards a low carbon energy model, demonstrating European leadership in fighting climate change while fostering the EU's competitiveness. Involving third countries will be crucial if we are to succeed in reducing global emissions. This requires also a major public and private effort in research and development, notably in new energy technologies.

- Vigorous policies to promote energy efficiency and renewable energy can also make a very significant contribution to reducing emissions, improving security of supply, and boosting competitiveness by making Europe a frontrunner in innovative industries.

[11] This is the objective fixed by the European Council

- The EU should promote cost-effective instruments that will tap the potential for the urgent emission reductions while stimulating innovation. The EUs Emission Trading Scheme (ETS) will be reinforced and expanded. The ETS directive will be reviewed in 2007.

- A fully integrated internal market will reduce inefficiencies, promote the investment and strengthen our competitiveness, as well as enhancing security and sustainability. Beyond implementing the market-opening directives, further progress on unbundling, strengthening the role of regulators and greater interconnection between Member States will be necessary.

Follow up actions:

- The Commission will propose two key initiatives in January 2007: the Strategic Energy Review which will put forward an energy scenario that is in line with the EU's long-term climate change objective while promoting further competitiveness and security; and a Communication on further action to tackle climate change. These proposals will include specific measures to be decided by the Spring European Council which should devote a major part of its discussions to these issues.

3. NEXT STEPS

3.1. Key economic reform priorities at Community level in 2007: updating the Community Lisbon Programme

Many of the actions in the priority areas will have to be taken by Member States. But there is an important Community dimension too. These actions, together with the unfinished legislative agenda of the Community Lisbon Programme (see sector 1.1), constitute a programme for economic reform at Community level for 2007. Progress here will be essential to complement and reinforce actions by Member States.

3.2. Enhancing ownership

In the run-up to the launch of the second cycle in 2008, the Commission invites the European Council to call on Member States:

– who have not yet done so to nominate national Lisbon co-ordinators at a political level. At European level the Commission will continue to seek to strengthen the role of national Lisbon co-ordinators;

– to step up efforts to root the Lisbon Growth and Jobs Strategy firmly in civic society, for example by discussing their Implementation Reports with their parliaments, by consulting stakeholders and by establishing a closer link between the National Reform Programmes and national budget debates. The Commission welcomes in this respect the dialogues which the European Parliament has established with national parliaments;

– to continue to learn from each other's experiences by exchanging good policy ideas which will be facilitated by the Commission. Building on the successful innovation seminar in Lisbon in early October, the Commission will organise further "sharing success" seminars with the national Lisbon co-ordinators. The Commission will also establish networks of regions and cities to boost the sharing of best practice on innovation as laid out in the Regions for Economic Change Initiative.

3.3. Expanding the partnership

On 1 January 2007, Bulgaria and Romania will join the European Union. The Commission invites them by the 2007 Spring European Council to present National Reform Programmes (NRPs) on the basis of the Integrated Guidelines and taking account of the latest monitoring reports.

3.4. Focusing on delivery

The Commission invites the European Council to give its overall endorsement to the contents of this report and specifically to

- endorse the policy guidance on progress with reforms including the proposal for conclusions and country-specific recommendations, and their content, based on the Integrated Guidelines, as set out in Part II, with a view to its subsequent adoption by the Council;

- invite all Member States to implement their National Reform Programmes, in particular as regards the four priority areas, the country-specific recommendations to be adopted by the Council and the conclusions reached by the Commission; to report on their implementations by 15 October 2007;

- urge Member States to step up efforts, where necessary, to deliver the 2006 European Council priority actions by the end of 2007. The European Council is invited to agree to the additional actions set out in section 2.

- instruct the Council and invite the Parliament to give priority to finalising the outstanding legislative actions in the Community Lisbon Programme and endorse the outlined 2007 working programme at Community level (section 1.1 and section 2).