

1. The meeting was preceded by a presentation given by Mr Josep Borrell, President of the European Parliament, followed by an exchange of views.
2. The European Council also held an exchange of views with Mr Jean-Claude Trichet, President of the European Central Bank, Mr Ernest-Antoine Seillière, President of UNICE and Mr Cándido Méndez Rodríguez, President of the ETUC, in the presence of the President of the European Parliament.
3. The European Council welcomed the reports of the President of the Spanish Government on the announcement of a permanent ceasefire made by the terrorist group ETA.

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THE RELAUNCHED LISBON STRATEGY FOR JOBS AND GROWTH

4. Drawing on lessons learnt from five years of implementing the Lisbon Strategy, the European Council in March 2005 decided on a fundamental re-launch. It agreed to refocus priorities on jobs and growth coherent with the Sustainable Development Strategy, by mobilising to a greater degree all appropriate national and Community resources. It also agreed on a new governance cycle based on partnership and ownership.
5. At Hampton Court, the Heads of State or Government provided further political impetus to the relaunched Strategy, in particular by emphasising the way in which European values can underpin modernisation in our economies and societies in a globalised world.

6. Finally, the agreement reached at the December 2005 European Council on the Financial Perspectives 2007-2013 represented an important step forward in providing the Union with the means to carry through its policies, including those contributing to an effective implementation of the renewed Lisbon Strategy. On that basis, the European Council stresses the importance of concluding as soon as possible the new Inter Institutional Agreement to implement the agreement of the December 2005 European Council, and of rapidly adopting the necessary legal instruments.
7. The background in Europe is characterised by intensified competition from abroad, an ageing population, higher energy prices and the need to safeguard energy security. Since the end of 2005, a gradual economic recovery is under way, with growth expected to return towards potential in 2006. The EU is expected to create six million new jobs during the three-year period 2005-2007, helping to reduce unemployment from a peak of 9% at the end of 2004 by roughly 1% in 2007. However, the further reduction of unemployment, raising productivity and the increase of potential growth remain the key challenges for the Union.
8. Preparing for ageing populations and the ambition to reap the full benefits of globalisation will be the two main drivers for structural reforms. Further structural reforms are required to increase the competitiveness of Europe and to sustain growth, thereby contributing to an increase in living standards and the creation of new jobs. At the same time, appropriate macro-economic policies are key towards reaping the full benefits of structural reforms in terms of growth and employment. Improving business and consumer confidence will contribute to durably bring growth up to its potential level. Determined fiscal consolidation will further strengthen the conditions for more jobs and growth.
9. The economic recovery provides a strong opportunity for pursuing vigorously structural reforms in line with the National Reform Programmes, as well as for enhanced fiscal consolidation in line with the renewed Stability and Growth Pact. In this context, concrete targets and timetables are a useful tool for speeding up the implementation of the envisaged reforms and for delivering better results in terms of growth and employment.

10. The European Council welcomes the Commission's communication "Time to move up a gear", the work carried out by the Council and the fact that all Member States have rapidly drawn up their National Reform Programmes (NRPs) on the basis of the Integrated Guidelines. The NRPs are geared to Member States' own needs and specific situations. It also welcomes progress made concerning the Community Lisbon Programme.
11. The European Council notes the large convergence of views in the NRPs on the key challenges. It also notes that the NRPs contain a wealth of promising policies to be shared and learnt from. However, the European Council at the same time notes the Commission's view that some NRPs could include more specific targets and timetables and that they could also be more detailed as concerns competition and removing obstacles to market access. Further details on the budgetary aspects of envisaged reforms should be provided.
12. Member States have made real efforts to involve national parliaments and representatives from regional and local authorities as well as social partners and other stakeholders of the civil society in the formulation of their NRPs. It also welcomes the initiatives taken up by the European Parliament, the Committee of the Regions and the European Economic and Social Committee to increase the ownership on Community level. It encourages the European Economic and Social Committee and the Committee of the Regions to continue their work and asks for summary reports in support of the Partnership for growth and employment in early 2008.
13. It is necessary to involve European citizens more actively in the process in order to increase the understanding how timely and properly implemented reforms will contribute to greater and better shared prosperity. An effective renewed Partnership for jobs and growth will require an active contribution and responsibility of the social partners. In this context, their recently agreed joint multi-annual work programme will be a valuable instrument. The European Council welcomes the intention of the Finnish Presidency to hold a Tripartite Social Summit.

14. The European Council recognises the special importance of enhanced structural reforms in Member States of the Euro Area and stresses the necessity of effective policy coordination within this area, i.a. as a requirement to more effectively deal with asymmetric economic developments within the monetary union.
15. Now that the NRPs are in place, it is essential to maintain momentum by ensuring their effective, timely and comprehensive implementation and if necessary, strengthening of measures agreed in the NRPs, in conformity with the framework, the procedures and the reporting obligations defined by the European Council in March 2005 and the guidelines adopted in June 2005. Accordingly, the European Council:
- calls on the Member States to report in Autumn 2006 on the measures taken to implement their NRPs, according to their priorities, taking due account of the assessment by the Commission and the Council in the context of multilateral surveillance, as well as of the agreed priority actions mentioned below, and to take account of the NRPs when drawing up their Strategic Reference Frameworks for Cohesion;
 - invites the Council, the Commission and the Member States to organise the exchange of experiences in a practical way; and the Commission to pay particular attention, in its report in view of the 2007 Spring European Council on progress towards implementing the NRPs, to the priority actions and to propose any additional measures that may be required.
16. The European Council confirms that the Integrated Guidelines 2005-2008 for jobs and growth remain valid. Within that framework it agrees on:
- **specific areas for priority actions** concerning investment in knowledge and innovation, business potential, especially of SMEs and employment of priority categories (see part I); as well as the definition of an **Energy Policy for Europe** (see part II);
 - measures to be taken across the board in order to **maintain the momentum** under all pillars of the Partnership for growth and employment (see part III).

PART ONE
SPECIFIC AREAS FOR PRIORITY ACTION

17. The European Council agrees on the following specific areas for priority action to be implemented by the end of 2007 in the context of the renewed Partnership for growth and employment.
- (a) Investing more in knowledge and innovation*
18. In view of the importance of R&D for future growth and in providing solutions for many of the problems confronting our society today, the European Council reiterates the commitment entered into at Barcelona, welcomes the progress made concerning setting specific national targets and calls upon all Member States to promote policies and actions aiming at the established overall 3% objective by 2010, taking into account the different starting points of Member States (see Annex I). To provide more and better resources for research and innovation, Member States should refocus their public expenditure on research and innovation as well as promote private sector R&D, in particular by improving their mix of support instruments.
19. The European Council calls for the speedy adoption of the 7th **Framework Programme** for Research and Development and the new Competitiveness and Innovation Programme. It calls for the quick establishment of the European Research Council working on the basis of criteria aiming at raising yet further the excellence of Europe's best research teams. Action undertaken under the Research Framework Programme should be better coordinated with other European and national actions to promote public-private partnerships, including intergovernmental initiatives such as Eureka.
20. The European Council calls on the EIB to support innovation and to reinforce its action in R&D, through a risk-sharing finance facility to be finalised as soon as possible. The European Council expects up to 30 bn € in venture capital and guaranteed bank loans to be leveraged by the new financial instruments based on EIB and EU budget cofinancing for the period up to 2013 and private sector involvement.

21. A **dynamic environment** should be fostered by the creation of attractive clusters. Member States are invited to create a single, open and competitive European labour market for researchers, notably by overcoming remaining obstacles to geographical and intersectoral mobility, and by improving employment and working conditions for researchers as well as by attracting young research talent into research careers. The cooperation and technology transfer between public research and industry should be enhanced, both within and across national borders, and also creating conditions for placement of researchers in industry.

22. A comprehensive approach to innovation policy can be achieved by supporting markets for innovative goods and services and excellence in research in new technologies, including information and communication technologies (ICT) and eco-innovations. This would imply inter alia identifying best practices in innovation policies that would have the greatest potential for creating real value added and boosting productivity. Furthermore links should be strengthened between R&D, innovation systems and business environment in order to improve the effectiveness of the innovation process and shorten the time needed for innovations to mature and to be translated into commercial products and services. The European Council accordingly calls for a broad-based innovation strategy for Europe that translates investments in knowledge into products and services. In this context, the European Council notes the significance of the Aho report on Creating an Innovative Europe and invites the Commission to assess its recommendations and the incoming Presidency to report on progress before the end of 2006.

23. **Education and training** are critical factors to develop the EU's long-term potential for competitiveness as well as for social cohesion. The search for excellence and innovation at all levels of education and training, in particular through better links between higher education, research and enterprises is crucial. Reforms must also be stepped up to ensure high quality education systems which are both efficient and equitable. National lifelong learning strategies should provide all citizens with the competences and qualifications they need, increasingly assisted at Community level by educational and training programmes such as Erasmus and Leonardo. To support greater mobility and an efficient labour market, progress on a European Qualifications Framework (EQF) should also be achieved.

24. **Investments in education and training** produce high returns which substantially outweigh the costs and reach far beyond 2010. They should be targeted on areas where economic returns and social outcomes are high. Education and Training must occupy a central position in the Lisbon reform agenda, in this context, the Lifelong Learning Programme 2007-2013 will be essential. The European Council calls on the Member States to facilitate, in line with national practices, universities' access to complementary sources of funding, including private ones, and to remove barriers to public-private partnerships with businesses. Furthermore, it underlines the crucial role of universities and their research staff in the dissemination and transfer of research results to the business community and hence the need of developing managerial skills and competencies for the people involved. The European Council looks forward to the report of the Commission on higher education which will address in particular the triangle education-research-innovation as well as the links between universities and the business community.
25. The European Council notes the significance of the Commission's communication on the European Institute for Technology and will further examine the ideas in order to enhance together with other actions networking and synergies between excellent research and innovation communities in Europe. The European Council recognises that a European Institute for Technology – based on top-class networks open to all Member States – will be an important step to fill the existing gap between higher education, research and innovation, together with other actions that enhance networking and synergies between excellent research and innovation communities in Europe. The European Research Council should have a guiding role in this context. The European Council invites the Commission to submit a proposal on further steps by mid June 2006.

(b) *Unlocking business potential, especially of SMEs*

26. There is consensus on the overall importance of a strong and competitive industrial base in Europe and therefore on the need for a modern and coherent concept for EU manufacturing. The European Council stresses the importance of achieving the right balance between horizontal and sectoral approaches and refers to the necessity of improving the consistency of policies in order to be able to benefit on a larger scale from potential synergies. The European Council calls on Member States to proactively develop national strategies and implement measures to foster competitiveness, innovation and productivity through policies that address the social dimension and the needs of individuals in the process of internationalisation and structural change.
27. The European Council acknowledges the utmost importance of creating a more favourable business environment, especially for small and medium-sized enterprises (SMEs), which are the backbone of the European economy. At Community level, significant progress has been achieved, notably through the Commission's thorough and balanced impact assessments of new proposals and their strengthened competitiveness dimension, as well as the rolling programme of simplification. To complement this at national level, the European Council calls on Member States to transpose, enforce and fully implement Community legislation to allow consumers, workers and business to enjoy the benefits of the internal market.
28. SMEs have a crucial role in creating growth and better jobs in Europe. There is a need to develop comprehensive supportive policies for SMEs of all types, as well as a regulatory environment that is simple, transparent and easy to apply. The principle of "think small first" must be applied systematically and become a guiding principle for all relevant legislation at Community and national levels. The European Council accordingly invites the Commission to bring forward specific provisions to encourage SME growth and development, such as longer transition periods, reduced fees, simplified reporting requirements and exemptions. The European Council also expects the Commission to further assist Member States in adapting their policies for SMEs and to further promote the dialogue with all stakeholders.

29. The Commission is invited to launch an exercise to measure administrative costs associated with EU rules in specific areas, giving particular attention to SMEs and to identifying which costs flow directly from EU legislation and which costs arise from Member States' differing transposition of EU rules. This exercise should be coordinated with ongoing national initiatives. On this basis, the Commission is invited to explore options for establishing measurable targets in specific sectors for reducing administrative burdens and report to Council on progress by the end of 2006. The European Council welcomes the Commission's commitment to further reduce the statistical burden on SMEs.
30. The Member States should establish, by 2007, a one-stop-shop, or arrangements with equivalent effect, for setting up a company in a quick and simple way. Member States should take adequate measures to considerably reduce the average time for setting up a business, especially an SME, with the objective of being able to do this within one week anywhere in the EU by the end of 2007.
Start-up fees should be as low as possible and the recruitment of a first employee should not involve more than one public administration point.
31. Europe needs more entrepreneurs equipped with the appropriate skills to successfully compete in the markets. The European Council therefore underlines the need of creating an overall positive entrepreneurial climate and of appropriate framework conditions that facilitate and encourage entrepreneurship and therefore invites the Member States to strengthen respective measures, including through entrepreneurship education and training at the appropriate level of education. Communication and media as well as the creative industry in general can also play an important role in promoting entrepreneurship and in encouraging people to decide for an entrepreneurial career. Furthermore, measures to improve the business environment for SMEs and to encourage more people, in particular women and young people, to become entrepreneurs should also be explicitly mentioned in the NRPs as well as in the reporting.

32. A fully integrated financial market and sufficient access to finance is crucial for the growth of small and medium sized enterprises. If not properly addressed, the lack of finances will continue hindering innovation in SMEs. At community level, funding sources shall be made available through the financial instruments under the forthcoming Community programmes, in particular the 7th Research Framework Programme and the Competitiveness and Innovation Programme (CIP). In addition, the Council calls on Member States to fully utilise the potential of structural funds, through traditional and new funding instruments such as JEREMIE. Moreover, the intellectual property rights' (IPR) potential of SMEs deserves more attention. Furthermore, SMEs' access to markets will be improved by facilitating their access to public procurement markets and standardisation as well as by supporting their internationalisation.
33. The European Council welcomes the Commission's intention, to take fully into account the need to give consideration to amending existing state aid rules relevant to SMEs and to simplifying administrative procedures, *inter alia* by providing for wider block exemptions while maintaining the aim of less and better-targeted state aid. In this context, it notes the possibilities for investment and employment aid up to 15 million Euro for SMEs without the need for notification. It also welcomes the intention of the Commission to examine the possibility of doubling the amount for the de minimis ceiling, whilst taking full account of the ongoing consultations and in line with the Treaty and existing jurisprudence. More generally, taking into account the external aspects of competitiveness, it considers that the review of state aid should encourage a high level of investment in Europe and make Europe attractive for future investment.

(c) *Increasing employment opportunities for priority categories*

34. Increasing employment in Europe remains one of the top priorities for reform. Labour market reforms that have been undertaken in recent years are beginning to bear fruit. A key objective is to increase labour market participation, especially of the young, women, older workers, persons with disabilities and legal migrants and minorities. To achieve these objectives, work should be conducted in close cooperation with social partners.

35. Taking advantage of Europe's improved economic prospects to create more and better jobs, more effort must now be put into implementing the European Employment Strategy and the three priorities for action: attract and retain more people in employment, increase labour supply and modernise social protection systems, improve adaptability of workers and enterprises, and increase investment in human capital through better education and skills. Better organisation of work, quality of working life and continuous updating of workers' qualifications are factors which should be analysed in view of boosting labour productivity.
36. Given the gradual economic recovery underway, further active measures are needed to bring about an increase in European employment of at least 2 million jobs yearly until 2010 as a further step to reaching the employment targets of the Partnership for jobs and growth.
37. The European Council calls on the Member States to:
- develop a life-cycle approach to work, facilitating swift employment transitions throughout working life and leading to an increase in the total number of hours worked in the economy, and to improving the efficiency of investment in human capital;
 - pursue the shift towards active and preventative policies, encouraging and helping people to find paid employment;
 - better focus measures for those with low skills and low pay, in particular those on the margins of the labour market.
38. It is urgent to improve the situation of young people in the labour market and to reduce significantly youth unemployment. To that end, the European Council stresses that in line with the agreed target for 2010, efforts should be intensified to reduce early school leaving to 10% and to ensure that at least 85% of 22 year olds should have completed upper secondary education. By the end of 2007 every young person who has left school and is unemployed should be offered a job, apprenticeship, additional training or other employability measure within six months, and within no more than 4 months by 2010.

39. With a view to making it more attractive for older workers to stay employed for longer, the European Council underlines that active ageing strategies should be implemented. In this context, incentives for prolonging working lives, gradual retirement, part-time work, improving quality at work and targeted incentives to ensure that the number of older workers participating in training rises faster than that for the overall workforce should be considered.
40. Acknowledging that gender equality policies are vital to economic growth, prosperity and competitiveness, the European Council stresses that it is time to make a firm commitment at European level to implement policies to promote women's employment and to ensure a better work-life balance. To this end, the European Council approves the European Pact for Gender Equality (see Annex II) and agrees that the availability of quality childcare should be increased in line with Member States' own national targets.
41. The European Council stresses the need to develop more systematically in the NRPs comprehensive policy strategies to improve the adaptability of workers and enterprises. In this context, the European Council asks Member States to direct, special attention to the key challenge of "flexicurity" (balancing flexibility and security): Europe has to exploit the positive interdependencies between competitiveness, employment and social security. Therefore Member States are invited to pursue, in accordance with their individual labour market situations, reforms in labour market and social policies under an integrated flexicurity-approach, adequately adapted to specific institutional environments and taking into account labour-market segmentation. In this context, the Commission, jointly with Member States and social partners, will explore the development of a set of common principles on flexicurity. These principles could be a useful reference in achieving more open and responsive labour markets and more productive workplaces.
42. It also notes the proposal by the Commission to establish a European Globalisation Adjustment Fund, accessible to all Member States, to provide additional support for workers made redundant as a result of major structural changes in world trade patterns and to assist them with their re-training and job search efforts, and invites the Council, the European Parliament and the Commission to take the appropriate measures in order for the Fund to be operational as soon as possible and preferably on 1 January 2007.

PART TWO
ENERGY POLICY FOR EUROPE (EPE)

43. The European Council notes that Europe is facing a number of challenges in the energy field: the ongoing difficult situation on the oil and gas markets, the increasing import dependency and limited diversification achieved so far, high and volatile energy prices, growing global energy demand, security risks affecting producing and transit countries as well as transport routes, the growing threats of climate change, slow progress in energy efficiency and the use of renewables, the need for increased transparency on energy markets and further integration and interconnection of national energy markets with the energy market liberalisation nearing completion (July 2007), the limited coordination between energy players while large investments are required in energy infrastructure. Leaving these challenges unaddressed has a direct impact on the EU environment, and jobs and growth potential.
44. In response to these challenges and on the basis of the well articulated Commission's Green Paper "A European Strategy for Sustainable, Competitive and Secure Energy" and contribution of the Council, the European Council calls for a Energy Policy for Europe, aiming at effective Community policy, coherence between Member States and consistency between actions in different policy areas and fulfilling in a balanced way the three objectives of security of supply, competitiveness and environmental sustainability.
45. The European Council underlines that, to achieve this consistency both in internal and external EU policies, energy policy has to satisfy the demands of many policy areas. As part of a growth strategy and through open and competitive markets, it prompts investment, technological development, domestic and foreign trade. It is strongly linked with environment policy and is closely connected with employment, regional policy and particularly transport policy. In addition foreign and development policy aspects are gaining increasing importance to promote the energy policy objectives with other countries. Therefore, the European Council calls for an enhanced coordination between the relevant Council formations and invites the European Commission to take into account the better regulation principles when preparing further actions.

46. This EPE should be developed with adequate knowledge and understanding of Member States' energy needs and policies, bearing in mind the strategic role of the energy sector. The EPE should therefore be based on shared perspectives on long term supply and demand and an objective, transparent assessment of the advantages and drawbacks of all energy sources and contribute in a balanced way to its three main objectives:

(a) Increasing security of supply through:

- Development of a common external policy approach in support of energy policy objectives, and the furthering of energy dialogues between the EU and its Member States on the one hand, and their main partners, be they producer, transit or consumer countries on the other hand, in synergy with relevant international organisations
- Intensified diversification with respect to external as well as indigenous sources, suppliers and transport routes supported by investments in the necessary infrastructure, including LNG facilities
- Ensuring common operational approaches to address crisis situations in a spirit of solidarity, taking subsidiarity into account

(b) Ensuring the competitiveness of European economies and the affordability of energy supply to the benefit of both businesses and consumers, in a stable regulatory framework, by:

- Working with Member States to complete the opening of the internal market for electricity and gas for all consumers by mid-2007, while accepting the special circumstances of some small and isolated Member States
- Ensuring full, effective and transparent implementation of internal market legislation, which should play also a key role for the security of supply
- Promoting approaches similar to that of the internal energy market to neighbouring countries and enhancing the coordination and role of energy regulators

- Accelerating the development of regional energy cooperation within the EU, facilitating the integration of regional markets into and further development of the EU internal market, paying particular attention to the countries and regions largely isolated from the EU energy market
- Fostering the rapid and coherent development of storage and infrastructure, in particular of gas and electricity interconnections with, for electricity, the target of at least 10% of Member States' installed production capacity, and as agreed by the 2002 Barcelona European Council, financing requirements should be met mainly by the enterprises involved
- Reviewing existing directives and legal framework in order to speed up the administrative authorisation procedures for, and develop a regulatory environment more conducive to investment projects

(c) Promoting environmental sustainability by:

- Strengthening the EU leadership by adopting an ambitious and realistic Action Plan on Energy Efficiency bearing in mind the EU energy saving potential of 20% by 2020, as estimated by the Commission, and taking into account measures already implemented by Member States
- Strengthening the EU leadership by continuing the EU-wide development of renewable energies (road map) on the basis of an analysis by the Commission of how to achieve the existing targets (2010) and how to sustain in a cost-efficient manner the current efforts over the long-term e.g. considering to raise, by 2015, the share of renewable energies, considering a target of 15%, and the proportion of biofuels, considering a target of 8%, and developing a medium and long-term strategy to reduce the EU's dependency on energy imports in a manner that meets the objectives of the strategy for growth and jobs, taking into account the problems of islands or regions largely isolated from the EU energy market
- Implementing the Biomass Action Plan

- In the context of the development of a medium- to long-term EU strategy to combat climate change, completing the review of the EU Emissions Trading Scheme as an instrument to achieve climate change objectives in a cost-effective manner, providing medium and long-term certainty to investors, and assessing the potential of various sectors with respect to these objectives
- Ensuring adequate support from RD & D national and Community instruments to energy efficiency, sustainable energies and low emission technologies

47. In fulfilling these main objectives the EPE for Europe should:

- Ensure transparency and non-discrimination on markets
- Be consistent with competition rules
- Be consistent with public service obligations
- Fully respect Member States' sovereignty over primary energy sources and choice of energy-mix

48. The European Council invites the European Commission and the High Representative to work closely together on the important issue of external energy relations and to provide input for an EU strategy that may be discussed at the next European Council meeting.

49. The European Council welcomes the Commission's intention to present a Strategic Energy Review on a regular basis, starting in 2007, addressing in particular the aims and actions needed for an external energy policy over the medium- to long-term. Actions of European interest could be reported by Member States on that occasion. Preparatory discussions should take place in the latter part of 2006.

50. Annex III sets out a series of possible actions that have the potential to contribute to the above objectives. Deciding on new actions should be done in synergy with the work carried out by existing international institutions, fora, mechanisms or processes. On that basis the European Council invites the Commission and the Council to prepare a set of actions with a clear timetable enabling the adoption of a prioritised Action Plan by the European Council at its 2007 spring session.

51. Given the urgency of the challenges to be faced, the European Council invites the Commission to start with the following measures:
- Submitting an Action Plan on Energy efficiency by mid-2006
 - Implementation of the Biomass Action Plan
 - Developing a priority Interconnection Plan and facilitating the realisation of priority infrastructure projects contributing to diversification of supply and integration of regional markets into the EU internal market, while noting the primary role of the enterprises involved
 - Making the EU-Russia dialogue more effective including as regards the ratification of the Energy Charter and the conclusion of the Transit Protocol during Russia's G8 presidency
 - Developing a strategy for exporting the internal energy market approach to neighbouring countries
 - Secure adequate priority for energy in the 7th Framework Programme
 - Initiating the analysis of long term supply and demand perspectives
 - Improving the transparency of the energy market in particular data on gas storage capacities and on oil stocks

PART THREE
MAINTAINING MOMENTUM ACROSS THE BOARD

(a) *Ensuring sound and sustainable public finances*

52. At present, 12 EU Member States are in excessive deficit and the debt levels are above 60% of GDP in several Member States. Against this background, the European Council calls upon Member States to use the opportunity of the evolving economic recovery to pursue fiscal consolidation in line with the Stability and Growth Pact. In the context of the recovery underway, Member States should make fast progress towards their medium term objective and those Member States in excessive deficit should pursue ambitious fiscal consolidation so as to put an end to their excessive deficit as soon as possible.
53. Further comprehensive reforms are needed in many Member States to improve the sustainability of their welfare systems, and meet the economic and budgetary consequences of ageing. In this context, the European Council welcomes the report on the impact of ageing populations on public spending, and reaffirms the three-pronged strategy, aiming at reducing public debt, increasing employment rates and productivity, and reforming pension and health care systems. Measures which discourage early withdrawal from the labour force, or reduce pension costs should be promoted. Further the European Council invites the Commission to undertake a comprehensive assessment of the sustainability of Member States' public finances by the end of 2006, using the commonly agreed framework, to be subsequently discussed by the Council.
54. The European Council underlines the need to further improve the efficiency and effectiveness of public spending and taxes in order to enhance the quality of public finances and foster growth and employment enhancing activities, in line with the priorities of the partnership for growth and employment.

55. Monetary integration creates stronger spill over effects amongst members. Membership in the euro area places also a particular premium on effective policy coordination to ensure fiscal discipline and flexibility to cope with asymmetric shocks, and to carry on with structural adjustment needed for example to deal with deviating trends in competitiveness. In that respect, further fiscal consolidation and enhanced structural reforms in goods, services, labour and real estate markets are especially important in Member States of the Euro area and require effective policy coordination within this area.

(b) *Completing the internal market and promoting investment*

56. The extension and deepening of the internal market is a key element for achieving the aims of the renewed Strategy. Accordingly, the European Council calls for:

- final agreement on the REACH package before the end of 2006, as well as – if agreement between the European Parliament and the Council can be reached at first reading – on the closely-related Regulation concerning classification and labelling of hazardous substances and mixtures;
- completion of an effective legal framework of EU and international level for protecting intellectual property rights;
- further progress on simplification and modernisation of the VAT and customs system;
- promotion of a fully integrated and well functioning financial market and better access to finance, particularly through the implementation of the FSAP-measures and the Commission's working programme outlined in the White Paper on Financial Services Policy (2005-2010), making progress on clearing and settlement of securities transactions, the creation of a Single Payment Area in the EU, enhancing the framework for cross-border financial sectors supervision and crisis management, and a mutual recognition of accounting standards with the US.

57. Recalling its conclusions of March 2005 and the conclusions of the Competitiveness Council of 13 March 2006, the European Council stresses that the internal market for services must be made fully operational, while preserving the European social model, by securing a broad consensus on the Services Directive. The European Council welcomes the European Parliament's vote and looks forward to the Commission's modified proposal. The European Council takes good note of the Commission's intention to base the amending proposal largely on the outcome of the European Parliament's first reading and expresses the hope that the institutions will be able to swiftly conclude the legislative process.
58. The European Council welcomes the presentation of the Commission communication on the functioning of the Transitional Arrangement on freedom of movement and takes note of the evaluation contained therein. Against this background, and in the light of experience, Member States of will notify the Commission of their intentions according to the relevant provisions of the 2003 Accession Treaty.
59. The European Council calls on Member States to transpose, enforce and fully implement EC legislation to allow consumers, workers and businesses to enjoy the benefits of competitive, border-free markets.
60. The European Council recalls the Hague Programme of November 2004 whereby legal migration could play an important role in enhancing the knowledge-based economy in Europe, in advancing economic development, and thus contributing to the implementation of the Partnership for growth and employment. It takes note of the Commission's Policy Plan on Legal Migration presented in December 2005.

61. Taking due account of the principle of subsidiarity and proportionality and the importance of respecting the *acquis communautaire*, the European Council underlines the importance it attaches to Better Regulation at national and European level as a core element to achieving the goals of the Partnership for jobs and growth and urges all institutions and the Member States to implement their respective commitments, including using robust and balanced impact assessment with measurement of administrative costs, delivering the rolling programme of simplification for the priority sectors of waste, construction and the automotive industries. Unnecessary bureaucratic burdens hinder entrepreneurial dynamism and pose a significant barrier to a more innovative and knowledge-intensive economy. Such burdens particularly harm small and medium-sized enterprises, which account for two thirds of jobs in Europe.
62. The European Council welcomes the Commission's intention to table an analysis of the progress to date and of where further work is needed to continue to make progress in all areas of better regulation: simplification, impact assessment, repeals and withdrawals, codification, sectoral analysis, reduction in administrative burdens, business involvement, small and medium sized enterprises (SMEs). The European Council recalls that better regulation is also a matter for Member States to implement in their domestic law-making and in the transposition of Community law and reaffirms its commitment to making progress in all of these areas.
63. The European Council recognises the importance of a pro-active competition policy, a regulatory framework that eases market access and a reform of State aid as key policy instruments to set incentives for innovation and to allocate productive resources efficiently. It recognises the important role of competition in ensuring effective delivery of Europe's network industries. It calls on Member States to take action in these areas.

64. The European Council recognises the crucial importance to the Partnership for jobs and growth of more productive use of information and communication technologies in business and administrative organisations throughout the European Union. Focused, effective and integrated information and communication technology (ICT) policies at both at European and national level are essential to achieving the Strategy's goals of economic growth and productivity. In this context, it notes the importance for competitiveness of reducing roaming charges. As such, the European Council calls on the Commission and the Member States to implement the new i2010 Strategy vigorously. Considering the importance of ICTs, the European Council invites the incoming Presidency to come back to this issue before the end of 2006.
65. In support to the completion and deepening of the internal market, further efforts are required with a view to making progress on the expansion, improvement, interconnection and interoperability of European infrastructure. The European Council stresses the importance of carrying out the TEN projects in the fields of transport and energy and the setting the right incentives for infrastructure investment by Member States and European institutions.
66. The European Council welcomes the EIB's Group contribution to promoting growth and employment, which, building on the European Action for Growth with new financial instruments combining multi-annual EU and EIB resources, will shift the quality of the Bank's operations towards higher value added and risk, thereby leveraging private capital to increase substantially financing available for growth-enhancing investments in R&D, SMEs, infrastructure and energy security in Europe.
67. The European Council invites the relevant actors to take the necessary follow-up steps without delay, taking into account the final agreement on the Financial Perspectives, and respecting the agreed framework for the EIB's capital (i.e. no capital increase before 2010 and self financing via reserves) and the need to fulfil its tasks under the Treaty. It also underlines the need of close co-operation between the EIB and the Commission as well as between the EIB and the EBRD in order to fully exploit their catalyst function with regard to economic growth and employment.

68. The European Council further underlines the importance of ensuring open and competitive markets inside and outside Europe. An ambitious and balanced outcome of the WTO DDA negotiation can make a significant contribution to European growth.

(c) *Enhancing social cohesion*

69. The new strategy for jobs and growth provides a framework where economic, employment and social policy mutually reinforce each other, ensuring that parallel progress is made on employment creation, competitiveness, and social cohesion in compliance with European values. For the European social model to be sustainable, Europe needs to step up its efforts to create more economic growth, a higher level of employment and productivity while strengthening social inclusion and social protection in line with the objectives provided for in the Social Agenda.

70. The Spring European Council in March 2005 stated on the occasion of the mid-term review of the Strategy that growth and employment are at the service of social cohesion. In this context, the European Council welcomes the Joint Report for Social Protection and Social Inclusion and the new objectives and working methods in this area and asks the Member States to submit National Reports for Social Protection and Social Inclusion for 2006-2008 by September 2006. The Commission and the Council will inform each Spring European Council with the Joint Report on the progress in the area of social protection and social inclusion. The European Council also underlines the potential contribution which businesses can make through corporate social responsibility and welcomes the Commission's recent communication on this issue.

71. The European Council stresses that the policies for social protection and social inclusion have to be closely coordinated with the Partnership for jobs and growth, both at national and European level in order to ensure that economic, employment and social policies interact in a positive way and that social protection is regarded as a productive factor.

72. The European Council reaffirms the objective of the Partnership for growth and jobs that steps have to be taken to make a decisive impact on the reduction of poverty and social exclusion by 2010. Social inclusion policies should be pursued by the Union and the Member States, with its multifaceted approach, focusing on target groups such as children in poverty. The European Council asks the Member States to take necessary measures to rapidly and significantly reduce child poverty, giving all children equal opportunities, regardless of their social background.
73. The European Council stresses that in view of the demographic change in the European Union employment rates have to be increased and the reconciliation of work and family life has to be promoted. To tackle these demographic challenges, it will be necessary to support policies that make it possible to combine working life with children and family life, equal opportunities, to promote the solidarity between the generations, promote health, improve affordable care for children and other people in need of care, life-long learning and an increased employment rate of young people, older workers and disadvantaged groups. The European Social Fund will play an important role in this context.
74. Further progress is also needed as concerns measures for young people, including the implementation of the European Pact for Youth. The European Council encourages the Member States to reinforce links between policies on education, training, employment, social inclusion and mobility, so as to develop more effective cross-sectoral strategies. The Commission and the Member States are requested to involve young people and youth organisations in the implementation of the European Pact for Youth.

(d) *Environmentally sustainable growth*

75. Over and above its importance in its own right, environmental policy can make an important contribution to jobs and growth and can impact positively on important sectors such as public health and health-care costs, and social inclusion and cohesion as well as on the development of a Energy Policy for Europe, including the promotion of energy security and energy efficiency.

76. The European Council endorses the following lines for action:

- strong promotion and diffusion of eco-innovations and environmental technologies, *inter alia* through the Environmental Technology Action Plan and considering setting performance targets;
- following up the Montreal Climate Action Plan under the UN Framework Convention on Climate Change, preparation of options for a post-2012 arrangement consistent with meeting the 2°C objective without delay through constructive engagement in a broad dialogue on long-term cooperative action and at the same time through a process under the Kyoto Protocol;
- review of the environmental structural indicators in order to cover the environmental dimension of the Strategy for jobs and growth more comprehensively and coherently;
- urgent implementation of the EU objective of halting the loss of biodiversity by 2010, notably by integrating its requirements into all relevant Lisbon agenda policies including the elaboration of a structural indicator on biodiversity, and by swift presentation and discussion of the Commission communication on biodiversity;
- exploration of specific actions to bring about more sustainable consumption and production patterns at EU and global level, including the development of an EU SCP Action plan, and fostering green public procurement, *inter alia* by promoting environmental criteria and performance targets, by examining the proposal for a Directive on the promotion of clean road transport vehicles as soon as possible and by making progress with the realization of an ambitious European source based policy;
- further exploration of appropriate incentives and disincentives, and a reform of subsidies that have considerable negative effects on the environment and are incompatible with sustainable development, with a view of gradually eliminating them.

R&D expenditure (2004) as % of GDP and targets set by Member States in National Reform Programmes

Member State	2004 ¹	Target for 2010 or other years ²	Remarks
Belgium	1,93	3,00	
Czech Republic	1,28	2,06	Target of 1% public R&D with estimated 1,06% of private expenditure
Denmark	2,61	3,00	Target of 1% public R&D in 2010
Germany	2,49	3,00	
Estonia	0,91	1,90	
Greece	0,58	1,50	
Spain	1,07	2,00	
Ireland	1,20	2,50% of GNP	Target for 2013.
France	2,16	3,00	
Italy	1,14	2,5	
Cyprus	0,37	1,0	
Latvia	0,42	1,50	
Lithuania	0,76	2,00	
Luxembourg	1,78	3,00	
Hungary	0,89	1,8	with an increased participation of the private sector
Malta	0,273	0,75	
Netherlands	1,77	3,00	
Austria	2,26	3,00	
Poland	0,58	1,65	Target for 2008.
Portugal	0,78	1,80	Target of 1% public R&D and tripling of private R&D.
Slovenia	1,61	3,00	
Slovakia	0,53	1,80	
Finland	3,51	4,00	
Sweden	3,74	4,00	Target of 1% public R&D and unchanged private R&D.
UK	1,79	2,50	Target for 2014.

¹ Source: Eurostat. Most values are provisional. The values for IT, LU and PT refer to 2003.

² Source: National Reform Programmes, with European Commission estimates based on the targets provided by PT, SE.

EUROPEAN PACT FOR GENDER EQUALITY

Considering the gender equality road map proposed by the Commission and the need to:

- contribute to fulfilling EU ambitions on gender equality as mentioned in the Treaty,
- close the gender gaps in employment and social protection, thus contributing to make full use of the productive potential of the European labour force,
- contribute to meeting the demographic challenges by promoting better work-life balance for women and men,

the European Council has adopted a European Pact for encouraging action on Member State and Union level in the following fields:

Measures to close gender gaps and combat gender stereotypes in the labour market

- promote women's employment in all age brackets and reduce gender gaps in employment, including by combating all forms of discrimination;
- equal pay for equal work;
- combat gender stereotypes, in particular those related to the sex-segregated labour market and in education;
- consider how to make welfare systems more women's employment friendly;
- promote women's empowerment in political and economic life and women's entrepreneurship;
- encourage social partners and enterprises to develop initiatives in favour of gender equality and promote gender equality plans at the workplace;
- mainstreaming the gender perspective into all public activities.

Measures to promote a better work-life balance for all

- achieve the objectives set at the European Council in Barcelona in March 2002 on the provision of childcare facilities;
- improve the provision of care facilities for other dependents;
- promote parental leave for both women and men.

Measures to reinforce governance through gender mainstreaming and better monitoring

- ensure that gender equality effects are taken into account in impact assessments of new EU policies;
- further develop statistics and indicators disaggregated by sex;
- fully utilise opportunities presented by the establishment of the European Institute for Gender Equality.

The European Pact for Gender Equality, as well as the Annual Report on Equality between Women and Men, should be integrated into the established follow-up mechanisms of the Partnership for growth and employment, taking into account the European Youth Pact, and aim to promote the implementation of gender mainstreaming in actions taken within the strategy. When reporting on the implementation of their NRPs for jobs and growth, Member States are encouraged to include a perspective of gender equality, especially concerning Guideline 18. The Commission and the Council are invited to do likewise in the Annual Progress Report on the Partnership for growth and employment.

ENERGY POLICY FOR EUROPE (EPE)

INDICATIVE LIST OF ACTIONS

The actions listed below pertain to both the internal and external aspects of energy policy and may contribute to more than one of its three objectives. Mentioning a particular action is without prejudice to the division of competencies between the EC and the Member States.

SECURITY OF SUPPLY

Facing supply disruptions

1. While recalling the primary responsibility of Member States with regard to their domestic demand and in synergy with existing mechanisms, ensuring the availability of effective mitigating measures and coordination mechanisms in the event of a supply crisis based on the principles of solidarity and subsidiarity e.g. by considering a flexible combination of the measures set out in the Gas Supply Directive, taking into account improved data on gas storage capacities and stocks.
2. Enhancing demand-side management, particularly in the housing and transport sectors, to accelerate the demand response.
3. Improving the effectiveness of gas and oil provisions.

Intensified Diversification

4. Member States should intensify their diversification strategies while considering the development of a common approach, be it in terms of the supplier countries or the transportation routes. New gas supply routes should be opened in particular from the Caspian region and North Africa. This diversification should not be limited to external sources but include the development and exploitation of indigenous energy potential and energy efficiency.

5. Completion of network infrastructure, in the East-West direction but also along a South-North axis, and LNG (Liquified Natural Gas) facilities contributing to that diversification should be accelerated, and more competitive LNG markets should be promoted.
6. Subject to competition requirements, the contribution of long-term contracts should be acknowledged from both demand and supply points of view.

External dimension of security of supply

7. Developing a common voice in support of energy policy objectives when addressing third countries fostering a more cooperative approach regarding access to energy resources, stability in transit and producer countries, and energy security. In this respect the intensified diversification to be pursued will increase the EU margin of manoeuvre in its relations with third countries.
8. Securing the entry into force of the Energy Community Treaty (with South-East Europe) in 2006 and considering the extension of its membership or principles to neighbouring countries.
9. Developing a common framework for establishing new partnerships with third countries, including transit countries and improving existing ones. This framework should consider the geopolitical implications of third countries approaches towards energy. Consumer to producer partnerships should be supplemented with consumer to consumer ones. All fora should be put to good use for carrying out these dialogues, which can be conducted in a regional setting (e.g. OPEC, Euromed, or Northern Dimension area) if this adds to their effectiveness, including for assisting in mediating in case of disputes affecting supply Member States should be adequately represented in these fora, notably the IEA.
10. In order to maximise the outcome of these dialogues as well as facilitating the access of developing countries to sustainable energy and related technologies, synergies with international organisations, including IFI's, should be fully exploited.

11. The Energy Dialogue with Russia should be revitalised and become more open and effective in support of EU energy objectives, based on our mutual inter-dependence on energy issues and thus the need for secure and predictable investment conditions for both EU and Russian companies and reciprocity in terms of access to markets and infrastructure as well as non discriminatory third party access to pipelines in Russia, ensuring a level-playing field in terms of safety, including nuclear safety, and environmental protection. Decisive efforts should be made to complete the negotiation of the Energy Charter Transit Protocol and secure Russia's ratification of the Energy Charter Treaty.

MARKET COMPETITIVENESS AND INVESTMENT

Furthering market integration to the benefit of businesses and consumers

12. Improving regional cross-border exchange and accelerating the development of regional energy cooperation while facilitating the integration of regional energy markets into and the further development of the EU internal market notably through adequate interconnection measures. To that effect the Commission should submit a Priority Interconnection Plan by the end of 2006 identifying measures to be taken at Member State level as well as Community level. These measures will also contribute to reaching the target of a level of electricity interconnections equivalent to at least 10% of their installed production capacity as agreed by the European Council in Barcelona in 2002.
13. Making networks operate like a single grid from the end-user's point of view by completing the technical rules required for cross-border trade in energy, improving the functioning of gas market flexibility instruments, including storage capacities, access to networks and congestion management on the electricity market. It is expected that the Commission will address the issue of full and transparent access to infrastructure in its 2006 report on the internal energy market.
14. Ensuring full, effective and transparent implementation of existing legislation. This implementation should be in line with public service obligations, ensuring that liberalisation is also beneficial in terms of affordable access to energy. This liberalisation process should also take into account Member States situation in terms of diversification of supply in order to avoid excessive control by external suppliers.

15. Enhancing cooperation and coordination between regulators and system operators on a regional basis inter alia by a coordinated exchange of information and at Community level e.g. by building on already existing administrative bodies like the European Energy Regulators Group for Electricity and Gas (EREG).

Fostering the coherent development of infrastructure

16. Improving medium- to long-term investment planning procedures and investment coordination, especially as regards cross-border interconnection, gas infrastructure and LNG facilities as well as generation capacities, and ensuring a business climate more conducive to long-term investment through increased transparency and exchange of information based on Member States' own planning. This should contribute to starting the implementation of priority energy infrastructure projects without delay.
17. Providing a balanced mechanism in regard of long term contracts that will strengthen competition on the internal market and at the same time safeguard investment incentives.
18. Reviewing existing directives and legal framework conditions in the light of the need to speed up administrative authorisation procedures substantially while maintaining environmental and health standards, in particular by considering time-limits for the procedures.

SUSTAINABLE ENERGY

Renewables

19. Producing a Commission analysis of how to achieve the existing targets (2010) of renewables and how to further promote in a cost-efficient manner renewable energies (road map) over the long-term e.g. considering to raise their share to 15% by 2015 and in the same way further the use of biofuels in the transport sector by considering to raise their proportion to 8% by 2015 accompanied by a constructive dialogue with the oil industry and by giving maximum support to research on and development of the 2nd generation bio fuels. The setting of new targets shall be justified on the basis of thorough analysis of the potential and cost-effectiveness of further measures.

20. Promoting the use of biomass with a view to diversify the EU's fuel supply sources, reduce greenhouse gas emissions and offer new income and employment opportunities in rural areas by taking forward proposals in the Biomass Action Plan in all of its three sectors: heating and cooling, electricity and transport. This should be developed in the framework of a long-term strategy for bioenergy beyond 2010.
21. Mitigating legislative and administrative obstacles to renewables take-off by facilitating access to grid, cutting administrative red-tape and ensuring the transparency, effectiveness and certainty of support policies.

Energy efficiency

22. Bearing in mind the EU energy saving potential of 20% by 2020, as estimated by the Commission, the Commission should propose an ambitious and realistic Action Plan on Energy Efficiency, aiming at strengthening the EU leadership, with a view to its adoption in 2006 and consider how to engage third countries in making progress on energy efficiency.
23. Improving energy efficiency notably in the transport sector given the important role this sector has to play, making use of cost-effective instruments, including voluntary agreements and emission standards.
24. Fully implementing the legislation on energy performance in buildings and end-use efficiency and energy services.
25. Substantially enhancing the efficiency of power stations in particular by further promoting the use of combined heat and power.

Contributing to climate change policy

26. Contributing to the development of a medium to long term EU strategy to combat climate change in a post-2012 perspective and the achievement of the existing Kyoto targets.
27. Completing in a timely manner the review of the EU ETS as an instrument to achieve climate change objectives in a cost-effective manner, taking into account its impact on the three objectives of energy policy, on energy markets, the growth potential and industry structure of Member States and the need for medium and long term certainty

28. In its energy dialogues with third countries, the EU should facilitate the development of sustainable and efficient energy systems and assume a more proactive approach in combating climate change, promoting renewables, low emission technologies and energy efficiency and the implementation of the Kyoto Protocol mechanisms.

HORIZONTAL AND SUPPORTING ACTIONS

Evidence-based policy-making

29. Developing analytical (energy modelling and regional scenarios; indicators), and market and stocks monitoring tools in order to provide the EU with shared perspectives on long-term supply and demand as regards the EU and its partners, in synergy with other international institutions. In particular the Commission is encouraged to make rapid progress on the means to provide transparency and predictability regarding demand and supply on EU energy markets and to complement the work of the IEA while avoiding duplication of work.
30. Assessing the advantages and drawbacks of all individual energy sources with regard to the three objectives of energy policy; this assessment should cover all different sources, from indigenous renewable energy sources, to clean coal and the future role of nuclear energy in the EU for Member States which wish to pursue this option.

Research, Development and Demonstration - Technology development

31. Increasing the priority for energy in national and Community RD & D budgets, especially within the 7th Framework Programme, focusing on energy efficiency, sustainable energies and low emission technologies responding to the challenges faced by the EU.
32. Supporting these technologies through a broader range of platforms and partnerships with third countries, and facilitating the market take-up of the resulting technologies including through relevant Community instruments, so as to comfort the EU leadership.

Coordination

33. In order to ensure a coherent implementation of the above priority actions, shared general orientations addressing the various components of energy policy as implemented by Member States should be developed, taking due account of Member States' characteristics.

DECLARATION ON BELARUS

The European Council condemns the action of the Belarus authorities this morning in arresting peaceful demonstrators exercising their legitimate right of free assembly to protest at the conduct of the Presidential election. The European Council deplores the failure of the Belarusian authorities to meet OSCE commitments to democratic elections and considers that the Presidential elections in Belarus on 19 March were fundamentally flawed. On a continent of open and democratic societies, Belarus is a sad exception.

The European Council has therefore decided to take restrictive measures against those responsible for the violations of international electoral standards, including President Lukashenko. We will continue to act in close co-ordination with our international partners.

At the same time, the European Council welcomes the message of hope brought by Belarus' democratic opposition and civil society. Their brave efforts to advance the cause of democracy in exceptionally difficult circumstances deserve our full recognition and support. The European Union reiterates its commitment to engage with Belarusian society by further strengthening its support for civil society and democratisation; it will also intensify people to people contacts and enhance access to independent sources of information.

The European Council demands the immediate release of all those detained. It calls upon the Belarus authorities to refrain from action against any further peaceful protests. It urges its international partners, and in particular Belarus' other neighbours, to follow the same approach towards Belarus.