



**COUNCIL OF
THE EUROPEAN UNION**



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2715th Council Meeting

Competitiveness (Internal Market, Industry and Research)

Brussels, 13 March 2006

President **Mr Martin Bartenstein**, Federal Minister for Economic
Affairs and Labour and
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6964/06 (Presse 65)

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Main Results of the Council

*The Council approved a **key issues paper** containing a set of policy recommendations for improving European competitiveness, to be submitted to the Spring European Council.*

*It adopted conclusions on **small and medium-sized enterprises**.*

*The Council reached agreement on a partial general approach on a proposal for establishing a **competitiveness and innovation** framework programme for 2007-2013.*

*The Council took stock of developments as regards the draft directive on **services in the internal market**.*

*The Council held an exchange of views on **specific programmes** proposed for implementing the **7th research framework programme**.*

*It also adopted, without discussion, a resolution on a customs response to latest trends in **counterfeiting and piracy**.*

CONTENTS¹

PARTICIPANTS..... 4

ITEMS DEBATED

PREPARATION OF THE SPRING EUROPEAN COUNCIL 6

SMALL AND MEDIUM-SIZED ENTERPRISES - *Council conclusions* 7

COMPETITIVENESS AND INNOVATION FRAMEWORK PROGRAMME 13

SERVICES IN THE INTERNAL MARKET 14

NEW EU CUSTOMS CODE 15

7th RESEARCH FRAMEWORK PROGRAMME: SPECIFIC PROGRAMMES AND
RULES FOR PARTICIPATION 16

OTHER BUSINESS 18

– EU - Latin America/Caribbean summit 18

– Motor vehicles: emissions and access to vehicle repair information..... 18

OTHER ITEMS APPROVED

INTERNAL MARKET

– Vehicles - Approval of mechanical components - Retreaded tyres 19

CUSTOMS UNION

– Counterfeiting and piracy - *Council resolution*..... 19

TRADE POLICY

– Azerbaijan, Kazakhstan - Textiles agreements.....21

FISHERIES

– Agreement with the Solomon Islands.....21

¹

- Where declarations, conclusions or resolutions have been formally adopted by the Council, this is indicated in the heading for the item concerned and the text is placed between quotation marks.
- The documents whose references are given in the text are available on the Council's Internet site <http://ue.eu.int>.
- Acts adopted with statements for the Council minutes which may be released to the public are indicated by an asterisk; these statements are available on the abovementioned Council Internet site or may be obtained from the Press Office.

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Mr Janez POTOČNIK

Vice-President

Member

Member

Member

The Governments of the Acceding States were represented as follows:

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Deputy Minister for Education and Science

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State Secretary at the Ministry of Education and Research
State Secretary, Ministry of European Integration

ITEMS DEBATED

PREPARATION OF THE SPRING EUROPEAN COUNCIL

The Council held an exchange of views on the state of play of the re-launched Lisbon strategy for growth and jobs on the basis of the Commission's annual progress report, which contains information provided by member states on their national reform programmes (5745/06).

In this context, the Council also approved a contribution (key issues paper) to be submitted to the European Council on 23-24 March. The key issues paper formulates a set of policy recommendations in crucial areas for improving European competitiveness. The Council's contribution concentrates on issues arising from the Commission's progress report which fall within the scope of the Competitiveness Council:

- investing more in knowledge and innovation;
- unlocking the business potential, particularly for small and medium-sized enterprises (SMEs);
- strengthening the global competitiveness of European enterprises and Europe's industrial base, and
- a better functioning of the internal market and more competitive markets, in particular in services and network industries.

SMALL AND MEDIUM-SIZED ENTERPRISES - Council conclusions

The Council held an exchange of view on the Commission's communication on modern SME policy for growth and employment (14434/05).

The debate took place against the background of a questionnaire elaborated by the presidency (6594/1/06) in the context of the implementation of the Lisbon programme. It concentrated on initiatives to simplify and accelerate administrative procedures for setting up new companies in Europe; and on possible measures to integrate the "think small first" principle proposed by the Commission into all Community policies in order to unlock the full potential of SMEs.

Following the exchange of views, the Council adopted the following conclusions:

"THE COUNCIL OF THE EUROPEAN UNION:

1. RECALLING that the Commission Communication to the Spring European Council "Working together for Growth and Jobs – a new start for the Lisbon strategy"¹, the Integrated Guidelines² (2005-2008) for the re-launch of the Lisbon Strategy, and the Community Lisbon Programme³ submitted in May 2005, underline the key importance of SMEs in the context of the Lisbon mid term review;
2. RECALLING the important policy messages with regard to small enterprises contained in the Council conclusions on "stimulating entrepreneurship - European Charter for small enterprises" of 7 March 2005⁴, "research and innovation, growth and employment" of 28 November 2005⁵, as well as in the contributions from the "Competitiveness" Council to the Spring European Council in 2004 and 2005⁶;

¹ 5990/05 ECOFIN 28 SOC 34 AG 4 MI 6 COMPET 14 IND 8 RECH 14 EDUC 11 ENV 43.
² Council Recommendation 2005/601/EC on the broad guidelines for the economic policies of the Member States, O.J. L 205, 06/08/2005, p.28-37.
³ 11618/05 ECOFIN 261 SOC 322 AG 19 MI 107 COMPET 165 IND 47 RECH 163
EDUC 121 ENV 374 TELECOM 83 REGIO 46.
⁴ 6811/05 (Presse 42), p.10.
⁵ 14155/05 (Presse 287), p.9.
⁶ 8584/1/04 REV 1 COMPET 29 REV 30 POLGEN 8, 7134/05 POLGEN 12 COMPET 42
RECH 50.

3. RECALLING the key importance of SMEs in the diffusion of more sustainable production and consumption patterns and the resulting need for more investment in knowledge-based skill and competitiveness;
4. NOTES that evidence shows that SMEs, and in particular micro-enterprises, are disproportionately affected by administrative burdens and recalls the conclusions of the Competitiveness Council meeting of 28 and 29 November 2005 on better regulation;
5. WELCOMES the proposed approach to SME policy contained in the Commission's communication "Implementing the Community Lisbon Programme - Modern SME policy for growth and employment"¹. This highlights the SME contribution to the Lisbon objectives and the need to integrate the "Think Small First" principle into Community policies, underlines the need for partnership between the European, national and regional level when designing and implementing measures for the benefit of all types of SMEs, including social economy enterprises and calls for the Member States to assume their full responsibility in the implementation and follow-up of the measures included in the Communication;
6. STRESSES the benefits for SMEs of a well functioning internal market, paying special attention to the service sector which is crucial for growth and employment;
7. STRESSES the importance of wide involvement of SME stakeholders and SME representatives in the policy-making process both at the national and Community level to ensure the relevance of the measures proposed, as well as their efficient implementation;
8. ACKNOWLEDGES the potential of Community programmes, in particular the Commission proposals for the 7th Research Framework Programme² and the Competitiveness and Innovation Framework programme (CIP)³ for SMEs, both currently under negotiation at the Council, and of the Structural Funds.

¹ 14434/05 ECOFIN 351 COMPET 247.

² 8087/05 RECH 80 ATO 45 COMPET 68 CODEC 266.

³ 8081/05 COMPET 67 RECH 78 ENER 55 ENV 164 TELECOM 27 ECO 124 CODEC 264.

9. WELCOMES THE COMMISSION'S INTENTION TO:

- Provide a single coherent framework for SME policy, in order to give greater visibility to SMEs and to the public in general of measures and initiatives for unlocking the full potential of all types of SMEs;
- Step up its efforts to complete the internal market, with special attention being paid to services;
- Focus on improving access to finance for SMEs, strengthening the Community's role in addressing market failures, increasing the promotion of good practices and fostering the development of public-private partnerships;
- Carry on the work on Better Regulation following the principle of "Think Small First" to ensure that the needs of SMEs are fully and systematically taken into account when screening and conducting integrated impact assessment of forthcoming legislation and by consulting all relevant stakeholders on new Community legislation;
- Organize the 4th European Conference for Crafts and Small Enterprises in early 2007, special attention having been given to the integration of crafts and small enterprises from the new Member States into the Single Market;
- Take fully into account the need for consideration to be given to amending existing state aid rules reflecting market failures relevant to SMEs and at simplifying administrative procedures (*inter alia* via an increased de-minimis rule and, more importantly, wider block exemptions);
- Take into account SME needs in the field of Intellectual Property Rights and Counterfeiting;
- Implement more efficient mechanisms for a regular and comprehensive dialogue with key SME stakeholders, especially representative SME organisations;
- Review progress achieved in the implementation of the modern SME policy communication by organising an annual high-level conference.

10. INVITES THE COMMISSION TO:

- Ensure that the "Think Small First" approach is the guiding principle, while bearing in mind the three pillars of sustainable development when assessing the impact of existing and forthcoming legislation on SMEs at the Community level; bring forward specific proposals for reducing the burden of EU regulation on SMEs through its programme of simplification, and assessing administrative burdens using the EU common methodology;
- Bring forward specific provisions to encourage SME growth and development, such as longer transition periods, reduced fees, simplified reporting requirements and exemptions;
- Ensure that this approach takes into account all SMEs, traditional enterprises as well as enterprises with high growth potential ("gazelles");
- Improve the role of the SME Envoy in fostering the application of the "Think Small First" principle in all Community initiatives and programmes;
- Propose measures for more efficient participation of SMEs in the European standardisation process and take an active part in the implementation;
- Review the public procurement rules and practices, taking into account the specific needs of SMEs, in order to facilitate their access to public procurement markets and practices;

11. INVITES THE MEMBER STATES TO:

- Follow the "Think Small First" principle in the implementation of Community legislation as well as national legislation, as SMEs suffer disproportionately from administrative costs in comparison to larger companies;
- Improve the regulatory environment for SMEs in order to enable them to create more jobs, including by making public procurement rules and practices more SME-friendly;
- Consider appropriate action for encouraging SME cross-border business activities;

- Improve SMEs' competitiveness by completing the Internal Market in line with the re-launched Lisbon Strategy, in particular in the services sector, inter alia by swiftly implementing the new Directives on public procurement to improve SMEs access to public procurement markets;
- Make better use of the cohesion policy funding to promote the key priorities in the field of SME policy according to the general objectives of the new Lisbon strategy and corresponding national priorities;
- Facilitate the opportunities for SMEs of making better use of co-operation between research institutes and the business community;
- Strengthen the measures to promote a more entrepreneurial culture and the skills to encourage more people to consider a career as entrepreneur, including through entrepreneurship education and training at the appropriate level of education;

12. INVITES THE MEMBER STATES AND THE COMMISSION TO:

- Promote a coherent, pragmatic and well coordinated approach on the European and national level towards policies aimed at unlocking the full potential of SMEs, which have already, through their success, demonstrated their ability to innovate continuously; encouraging the prospects for expansion and job creation of micro-enterprises and the self-employed;
- Involve on a regular basis all relevant SME stakeholders in the policy-making process, building on the recommendations of the project on stakeholder consultation¹ and, wherever relevant, integrate systematically also representative SME-organisations, into their advisory expert committees, high level working groups and other appropriate fora, building on the experience and best-practices already identified in this domain, notably through the European Charter for Small Enterprises and the Entrepreneurship Action Plan;
- Encourage the internationalisation of SMEs and cross-border cooperation between SMEs;

¹ Consultation with stakeholders in the shaping of national and regional policies affecting small businesses (Best Procedure Project, October 2005).

- Follow up on the progress of SME-related measures, including in the areas of the European Charter for Small Enterprises and report explicitly on the results in the progress reports on their national reform programmes;
- Support micro enterprises, including one-person-enterprises, in order to tap their potential regarding growth and employment;
- In adopting key Community programmes such as the Competitiveness and Innovation Framework Programme (CIP) and the 7th Research Framework Programme, ensure that SMEs are put in a position of fully benefiting from the programmes' added value. In particular, this should be achieved through appropriate and user-friendly modalities for their participation."

COMPETITIVENESS AND INNOVATION FRAMEWORK PROGRAMME

The Council reached unanimous agreement on a partial general approach¹ on a proposal for establishing a competitiveness and innovation framework programme (CIP) for 2007-2013.

The agreement was reached on the objectives, instruments and content of the CIP pending the opinion of the European Parliament and the final agreement on the financial perspectives for the seven-year period.

The agreed text on the partial general approach builds upon results achieved under previous presidencies and includes inter alia the following main features:

- clear articulation of the complementarities between the CIP and 7th research framework programme and the EU's structural funds, respectively;
- clarification and higher visibility in respect of eco-innovation;
- improvement of the monitoring and evaluation aspects of implementation of the CIP.

The future framework programme is intended to contribute to the enhancement of competitiveness and innovation capacity in the EU with a particular focus on small and medium sized enterprises, in line the goals of the Lisbon strategy for growth and jobs.

The CIP regroups existing specific programmes into a unified framework under three pillars: the Entrepreneurship and Innovation programme, the Information and communications technology policy support programme and the Intelligent Energy-Europe programme (8081/05).

¹ A partial general approach enables the Council to determine non-budgetary elements of proposals which are linked to the ongoing negotiations on the financial perspectives for the period 2007-2013. It leaves open the possibility of adjusting agreed parts of a proposal should that be necessary following agreement on budgetary amounts.

SERVICES IN THE INTERNAL MARKET

The Council took note of an oral progress report by the presidency following the informal debate of the competitiveness ministers on 12 March on the outcome of the vote in the European Parliament on the draft directive on services in the internal market.

On 16 February, the European Parliament voted in first reading on the draft directive on services (6275/06) and agreed on significant amendments to the original proposal. The outcome of the vote can be summarised as follows:

- the country of origin principle is replaced by the rule of the freedom to provide services. It requires the member states to respect the right of the service provider to supply services and to guarantee the provider "free access to and free exercise of a service activity within its territory";
- member states will continue to apply their own rules on conditions of employment, including those laid down through collective bargaining agreements;
- services of general economic interest, as defined by each country, such as postal services, water supply, electricity and waste treatment are included in the draft directive. Nevertheless these services are not subject to the rule of freedom to provide services;
- services of general interest are excluded from the scope of the future directive. Other sectors excluded are: healthcare, social services, financial services, electronic communication services and networks, transport; audiovisual services; gambling, taxation activities linked to the exercise of public authority (as notaries), legal services, temporary employment agencies and security services.

The Commission is expected to submit a revised proposal in April. Following this, the Council will resume its deliberations with a view to reaching an agreement on a Council common position. The common position will then be forwarded to the European Parliament for a second reading, in accordance with the codecision procedure.

The Commission submitted its original proposal on services in January 2004, with the objective of providing a legal framework to eliminate obstacles to the freedom of establishment for service providers and the free movement of services within the EU, giving both providers and recipients of services the legal certainty required to exercise these two principles enshrined in the treaty. Work in the Council at technical level advanced during 2004-2005 clarifying the provisions contained in the Commission's proposal as well as the positions of the Member States, while awaiting the opinion of the European Parliament.

NEW EU CUSTOMS CODE

The Council took note of a presentation by the Commission on a draft regulation aimed at modernizing the EU's customs code (15380/05).

The code lays down the general rules and customs procedures applicable to goods traded between the Community and third countries.

The proposed regulation is intended to replace the existing Communities customs code, which dates back to 1992, in order to adapt it to changes in which international trade is conducted.

The Commission proposal provides for a general reform of the customs code. It addresses issues concerning the requirements of an electronic environment for customs and trade, the simplification of customs rules, and the changing nature of the tasks performed by the customs authorities. The simplification of legislation and administration procedures, both from the point of view of customs authorities and traders, endeavour to:

- simplify the structure and provide coherence, with fewer provisions and simpler rules;
- encourage a radical reform of customs import and export procedures to reduce their number and make it easier to keep track of goods;
- rationalise the customs guarantee system;
- extend the use of single authorisations (whereby an authorisation for a procedure issued by one member state would be valid throughout the Community); and
- implement the "e-Government" initiative in the area of customs.

7th RESEARCH FRAMEWORK PROGRAMME: SPECIFIC PROGRAMMES AND RULES FOR PARTICIPATION

The Council held an exchange of views on five of the seven specific programmes proposed for implementing the 7th research framework programme (FP7). It also took note of a progress report, followed by an exchange of views, on the rules for participation of undertakings, research centres and universities in actions under FP7.

The Council instructed the permanent representatives committee to continue the examination of the Commission proposals bearing in mind the guidance given by the Council and in the light of the opinions that will be delivered by the European Parliament and on the outcome of the ongoing discussions on the long-term financial perspectives.

The debate took place on the basis of compromise proposals for the following specific programmes:

- "Cooperation": collaborative research (*12736/05*),
- "Ideas": establishment of an European Research Centre (ERC) (*12730/05*),
- two programmes for direct actions to be carried out by the Joint Research Centre (*12727/05 and 12732/05*), and
- "Euratom": for nuclear research and training activities (*12734/05*).

The debate focused on the following:

- the ethical principles that apply in respect of the eligibility of projects to be funded under FP7;
- the broad principles governing the management and implementation of the specific programmes;
and
- questions related to the implementing structure for the ERC.

Following the exchange of views a large degree of consensus was reached on the above mentioned specific programmes.

The Council, at its session on 28 November 2005, reached agreement on a partial general approach on the FP7 for research, technological development and demonstration activities for the years 2007 to 2013, including the separate "Euratom" decision (which runs until 2011).

The remaining specific programmes "People" (human resources) and "Capacities" (potential research capacities of small and medium enterprises) will be examined at a later stage.

As far as the rules for participation are concerned, the exchange of views on the draft regulation laying down rules for the participation of undertakings, research centres and universities in actions under FP7 and for the dissemination of research results (2007-2013), took place on the basis of a report prepared by the presidency reflecting the current state of play (6958/06).

The rules on participation define conditions, rights and obligations of legal entities wishing to take part in FP7 and establish principles for the use and dissemination of research results.

The Commission presented its proposal, which is part of the legislative package of the FP7, on 3 January (5057/06).

On 7 February, the Commission also submitted a proposal for the corresponding rules on participation in the 7th "Euratom" framework programme (6185/06). This proposal will be examined at a later stage.

* * *

Over lunch, EU research ministers listened to a presentation by the Commission on its communication to the European Council in relation to the setting up of a European Technology Institute (6844/06).

They also listened to a presentation by Esko Aho, chairman of the independent expert group which drew up a report on "Creating an innovative Europe" following the informal Hampton Court summit¹.

¹ http://www.europa.eu.int/invest-in-research/action/2006_ahogroup_en.htm

OTHER BUSINESS

– ***EU - Latin America/Caribbean summit***

The Council took note of a report by the presidency on the preparation of the 4th EU-Latin American and Caribbean summit as regards science and technology cooperation. The summit, involving heads of state and government, civil society and the business community from both regions, will take place in Vienna on 11 and 12 May (6384/06).

– ***Motor vehicles: emissions and access to vehicle repair information***

The Council took note of information from the German delegation on the draft regulation on type approval of motor vehicles with respect to emissions and on access to vehicle repair information ("Euro 5") (7158/06).

The Council (ministers for the environment) held a policy debate on 9 March on this proposal (*see press release 6762/06, p. 9*).

OTHER ITEMS APPROVED

INTERNAL MARKET

Vehicles - Approval of mechanical components - Retreaded tyres

The Council adopted decisions :

- approving the accession of the EU to the United Nations economic commission for Europe (UN/ECE) on provisions concerning the approval of mechanical coupling components of combinations of vehicles (11233/05). These provisions are aimed at removing technical barriers to trade in motor vehicles while ensuring a high level of safety; and
- authorising for placing re-treaded tyres on the EU market if they have been manufactured in accordance with the requirements laid down in the UN/ECE (9916/05).

CUSTOMS UNION

Counterfeiting and piracy - Council resolution

The Council adopted the following resolution on a customs response to latest trends in counterfeiting and piracy:

"THE COUNCIL OF THE EUROPEAN UNION,

1. RECALLING the objectives set by the Lisbon Strategy, as relaunched by the European Council of 22 and 23 March 2005, for the Union "to renew the basis of its competitiveness, increase its growth potential and its productivity and strengthen social cohesion, placing the main emphasis on knowledge, innovation and the optimisation of human capital";
2. UNDERLINING that the strategic objective set by the European Council can only be achieved through a well-functioning internal market with adequate measures to encourage investment in the knowledge-based economy;
3. RECOGNISES the threat posed by the serious growth in counterfeiting and piracy to the Union's knowledge-based economy and in particular to health and safety, as well as the key responsibility of customs in protecting the economy and consumers from this threat;

4. EMPHASIZES that efficient and uniform customs controls to protect legitimate business from unfair competition and knowledge theft are essential to protect Community interests and to counter the risk of distortion of competition. With customs being responsible for the large majority of fake goods seized and having seen customs seizures in the EU increase in the last five years by more than 1000%, further practical improvements in customs controls will strengthen the protection offered to the economy and consumers;
5. STRESSES the need to ensure that customs controls and co-operation measures provide maximum protection to the economy and consumers from this dangerous traffic and RECOGNISES that this represents a major challenge which requires improved customs techniques. Meeting this challenge represents, at the same time, a valuable contribution toward promoting fair trade, safeguarding Community and national revenues, protecting consumers and combating organised crime and money laundering;
6. WELCOMES the Commission Communication on a customs response to counterfeiting and piracy¹ (hereinafter the Communication), in particular
 - the concrete actions to improve customs controls, in particular via the increased exchange of risk management techniques and information, and to strengthen international co-operation, notably with main exporting countries and relevant international organisations;
 - the need to build and promote a strong customs-business partnership, based on commitment from both sides, in tackling the problem of counterfeit and pirated goods;
 - the approach taken to tackling the growing problem of fake goods, in particular those which pose a health and safety risk, via a comprehensive EU Action Plan building on the Communication's concrete actions;
7. INVITES the Commission to
 - present appropriate proposals to support the implementation of the approach set out in the Communication, paying special attention to enhancing the information exchange both between customs and between customs and operators involved in combating counterfeiting and piracy;

¹ COM(2005) 479 final

- to report on the implementation of the Communication and the actions set out therein as part of the annual report foreseen in Article 23 of Council Regulation (EC) No 1383/2003¹;

8. INVITES the Commission and the Member States, within their respective competencies, to implement the comprehensive approach set out in the Communication thereby further improving customs controls and co-operation in order to combat the growing menace of counterfeiting and piracy."

TRADE POLICY

Azerbaijan, Kazakhstan - Textiles agreements

The Council authorised the Commission to open negotiations with Azerbaijan and Kazakhstan to modify provisions on trade in textiles contained in the EU's partnership and cooperation agreements with both countries in order to take account of the expiry of its bilateral textiles agreements with both countries.

FISHERIES

Agreement with the Solomon Islands

The Council adopted a regulation approving a partnership agreement between the EU and the Solomon Islands on fishing off the Solomon Islands (5290/06).

The agreement provides for economic, financial, technical and scientific cooperation in the fisheries sector with a view to guaranteeing the conservation and sustainable exploitation of resources, as well as partnerships between undertakings aimed at developing economic activities in the fisheries sector and related activities of common interest. It will apply for three years from the date of its entry into force and it will be automatically renewable for additional periods of three years.

¹ Council Regulation (EC) No 1383/2003 of 22 July 2003 concerning customs action against goods suspected of infringing certain intellectual property rights and the measures to be taken against goods found to have infringed such rights, OJ L 196 of 2.8.2003, p.7.

The regulation also defines the allocation of fishing opportunities among the member states set out in a protocol to the agreement. They are expressed in vessel numbers (6 surface longliners for Spain and 4 for Portugal) and percentage of fishing possibilities for freezer tuna seiners (75% of fishing possibilities for Spain and 25% for France).

The financial contribution is set at EUR 400 000 per year.
