



Brussels, 7 March 2006

Draft
BACKGROUND¹

COMPETITIVENESS COUNCIL
Brussels, 13 March 2006

*The Council session, under the presidency of Mr **Martin Bartenstein**, Minister of Economics and Labour, and Ms **Elisabeth Gehrler**, Minister for Education, Science and Culture, of Austria, will start at 9:30 hrs.*

*The Council will discuss progress on the revised **Lisbon strategy** and adopt a contribution to be forwarded to the Spring European Council.*

*Following a public debate, the Council will adopt conclusions on **small and medium-sized enterprises policy** for growth and employment.*

*The Council will discuss a draft decision establishing a **competitiveness and innovation programme** for 2007-2013 with a view to reaching an agreement on a "partial general approach".*

*Over lunch, EU research ministers will hear a presentation by Mr. Esko Aho about the Hampton Court follow-up expert group report on research and innovation as well as a Commission's presentation on a proposal for setting up a **European Technology Institute**.*

*Research related items will be taken in the afternoon starting with an exchange of views on five **specific programmes implementing the EU's 7th research framework programme (FP7)**. The Council will also take note of the progress on draft rules for participation in actions under FP7.*

*The presidency will provide the Council with an oral report concerning the draft directive on **services** in the internal market, following an exchange of views at an informal ministerial dinner on 12 March.*

The Council will also take note of a presentation on a draft regulation aimed at modernizing the Communities customs code.

The presidency will hold press conferences at the end of the morning session and at the end of the meeting.

¹ This note has been drawn up under the responsibility of the Council press office.

HORIZONTAL QUESTIONS

Spring European Council: Lisbon strategy on growth and jobs

The Council will hold an exchange of views on the state of play of the revised 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).

The Council will also adopt a "key issues paper" prepared by the presidency with a view to providing input to the European Council meeting on 23-24 March.

The key issues paper contains a set of policy recommendations in key areas for improving European competitiveness which are in line with the Integrated guidelines for growth and jobs for the period 2005-2008, approved by the European Council last June. The Council's contribution concentrates mainly on two areas of action prioritised in the Commission's progress report falling within the scope of the Competitiveness Council:

- investing more in knowledge and innovation, and
- unlocking the business potential, particularly for small and medium-sized enterprises (SMEs).

Furthermore, the key issues paper elaborates on:

- 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.

INDIVIDUAL POLICY FILES

Small and medium-sized enterprises

The Council will hold a public debate on SMEs policy for growth and employment on the basis of a Commission communication (14434/05) and will adopt conclusions on this subject.

The presidency has prepared a questionnaire in order to structure the debate, and may request ministers to address the following questions: initiatives to simplify and accelerate administrative procedures for setting up new companies in Europe; and the kind of 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.

The Council will also hear a presentation by the Commission on its communication: "Implementing the Community Lisbon Programme - Fostering entrepreneurial mindsets through education and learning" (6505/06).

Competitiveness and innovation framework programme

The Council will discuss on a draft decision establishing a competitiveness and innovation framework programme (CIP) for 2007-2013 on the basis of a compromise text elaborated by the presidency, with a view to reaching an agreement on a partial general approach¹.

Building upon results achieved under previous presidencies and pending the opinion of the European Parliament, substantial progress has been made during the Austrian presidency on the objectives, instruments and content of the CIP.

The compromise text takes into account the points raised in a progress report discussed by the Council last November (*13814/1/05*). The main features of the compromise text are as follows:

- clear articulation of the complementarities between the CIP and FP7 and the EU's structural funds, respectively;
- user-friendliness, introduction of a vademecum for the users;
- clarification and more visibility of eco-innovation;
- visibility of the horizontal use of instruments;
- improvement of the monitoring and evaluation aspects of implementation of the CIP;
- focus on SMEs as the main target group of the programme.

The CIP is intended to contribute to the enhancement of competitiveness and innovation capacity in the EU; the advancement of the knowledge society and sustainable development based on economic growth, in line the goals of the Lisbon strategy.

The future programme brings together several existing specific programmes into a single framework with three pillars: the Entrepreneurship and Innovation programme, the Information and communications technology policy support programme and the Intelligent Energy-Europe programme. The initial proposal, submitted by the Commission in April 2005, provides for a total financial allocation of more than EUR 4 billion for the seven-year period (*8081/05*).

The 2003 Spring European Council called for an integrated strategy for competitiveness to be developed by the Commission, reviewing on a regular basis both horizontal and sectoral issues. In March 2005, the European Council called for the new programme to lend the necessary impetus to innovation throughout the EU by establishing a new mechanism for financing innovative SMEs with a high growth potential, by streamlining and strengthening the technical support network for innovation in undertakings, and by supporting the development of regional centres and European networks for innovation.

Legal basis of the draft decision are articles 156, 157(3) and 175(1) of the EC treaty.

¹ A partial general approach enables the Council to determine non-budgetary elements of proposals which are linked to the pending negotiation on the financial perspective 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

On 12 March, industry ministers will meet for an informal dinner in order to hold an exchange of views on the proposal for a directive on services in the internal market, following the vote at first reading in the European Parliament. The next day, the presidency will summarise the exchange of views at the Council session.

The Commission submitted its 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. The proposal has been discussed in Council working groups and at ministerial level under the Irish, Dutch, Luxembourg and UK presidencies.

On 16 February, the European Parliament voted on the draft directive and revised significantly the original proposal (6275/06). 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 to the Council a revised proposal in April. On this basis, the presidency will endeavour to take work forward 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.

Legal basis proposed: articles 47(2), 55, 71 and 80(2) of the EC treaty (qualified majority).

New EU customs code

The Council will take 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.

Legal basis proposed: articles 26, 95, 133 and 135 of the EC treaty: adoption by the Council by qualified majority in codecision with the European Parliament.

RESEARCH

7th research framework programme: the specific programmes

The Council will have an exchange of views on five of seven proposed specific programmes implementing the 7th research framework programme (FP7).

It will examine presidency compromise proposals on 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 specific programmes "People" (human resources) and "Capacities" (potential research capacities of small and medium enterprises) will be examined at a later stage.

Substantial progress has been made on the scientific and technological objectives and content on the five specific programmes. The budgetary aspects of the programmes are pending of agreement on the financial perspectives for the 2007-13 period. The European Parliament has not yet delivered its opinion on the proposals for the FP7 and for the specific programmes.

The debate will concentrate on:

- 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
- administrative questions on the future ERC.

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 (until 2011).

Rules for participation under the 7th research framework programme

The Council will take note of the state of play on a draft regulation laying down the rules for the participation of undertakings, research centres and universities in actions under FP7 and for the dissemination of research results (2007-2013).

It will have an exchange of views, on the basis of a progress report presented by the presidency, with a view to providing guidance for continuing examination of the proposal (6879/06).

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 4 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.

OTHER BUSINESS

- EU - Latin America/Caribbean summit

The Council will take 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 will take 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").