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Subject :	Contribution of the Competitiveness Council to the Spring European Council 2006

The General Affairs and External Relations Council will find attached the contribution of the Competitiveness Council, adopted on 13 March 2006, to be forwarded to the European Council in view of its meeting on 23-24 March 2006.

INPUT FROM THE COMPETITIVENESS COUNCIL TO THE SPRING EUROPEAN COUNCIL 2006

A. INTRODUCTION

The Spring European Council in 2005 has given a new start to the Lisbon Strategy. The new **partnership approach** between the Member States and the Community institutions has provided a clear allocation of responsibilities for the implementation of the revised strategy, focusing now on **growth and jobs**, coherent with the sustainable development strategy. While the Commission presented a Community Lisbon Programme with key actions to be delivered at Community level, Member States have presented their national reform programmes, in particular for enhancing productivity growth and strengthening competitiveness. The Integrated Guidelines for growth and jobs, the Community Lisbon Programme and the 25 national reform programmes show that a solid consensus has been established on the key policy objectives throughout the EU. On the basis of these documents and policy commitments, there is broad consensus that the time for implementation is now.

The Council welcomes the **Commission's Annual Progress Report** and broadly agrees with the four priority areas for action for more growth and jobs, which are:

- investing more in knowledge and innovation,
- unlocking the business potential, particularly of SMEs,
- responding to globalisation and ageing, and
- moving towards an efficient and integrated EU energy policy.

While all four areas have an impact on the European Union's productivity and competitiveness, the Council, due to its competence, will address particularly the first two areas and furthermore elaborate on:

- strengthening the global competitiveness of European enterprises, and Europe's industrial base,
- a better functioning of the internal market and more competitive markets, in particular in services and network industries.

The Council welcomes the general findings of the Commission's Annual Progress Report and asks the Member States to address the issues highlighted in its conclusions. The Council underlines the importance of extending and deepening the internal market and therefore welcomes the emphasis on using Internal Market policy to foster market dynamism and innovation. In addition, the Council urges Member States to implement their National Reform Programmes with vigour. The Council underlines that the various policies will generate the greatest benefits for growth, employment and productivity if implemented in a coherent and integrated fashion, while taking into account the need to preserve cohesion and to bridge technological and infrastructural gaps, *inter alia* through the Trans-European Networks.

The Council confirms that the Integrated Guidelines for Growth and Jobs (2005-2008) remain valid.

The Council notes the significance of the report on "Creating an Innovative Europe", issued by an independent expert group set up by the Commission following the Hampton Court informal summit and chaired by Mr. Esko AHO.

The Competitiveness Council fully assumes the crucial role it has to play in driving forward the Lisbon reform agenda and therefore invites the European Council to endorse the policy recommendations set out in part C.

B. TIME FOR IMPLEMENTATION

The Competitiveness Council endorses the policy agenda set out in the Community Lisbon Programme and reaffirms its commitment to pursue vigorously its mandate to ensure the delivery of micro-economic reforms by taking the necessary legislative actions on the key priorities outlined in this paper, and thereby also fully implementing its commitment to better regulation, while paying due respect to the principles of subsidiarity and proportionality. It therefore stresses the importance of achieving significant progress on the following key files under its remit by the Spring Council in 2007:

- The adoption of the two interrelated Community spending programmes, namely the 7th Framework Programme for Research and Development and the new Community Competitiveness and Innovation Programme, both of which are the major instruments at Community level for supporting research, innovation and competitiveness in enterprises, in particular SMEs.
- In order to foster additional investment in European research and development, particularly by the private sector, including the SMEs, the Community and the European Investment Bank (EIB) should work towards establishing a financing facility with risk-sharing components in line with the December European Council conclusions.
- Recalling the European Council conclusions of March 2005, the 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 Council notes the significance of the European Parliament's vote and looks forward to the Commission's modified proposal.

- The REACH (Registration, Evaluation, Authorisation and Restriction of Chemicals) package is now at a crucial stage where no effort should be spared to achieve a final agreement in close cooperation with the European Parliament before the end of 2006. The Commission is expected to adopt a proposal for a Regulation concerning classification and labelling of hazardous substances and mixtures, implementing the Globally Harmonized System of Classification and Labelling of Chemicals. This proposal is closely linked to the REACH Regulation and should therefore be adopted in due time. If agreement with the European Parliament and Council can be reached at first reading, it could enter into force at the same time as the REACH Regulation.
- The completion of an effective legal framework at EU and international level for protecting intellectual property rights remains crucial.

C. POLICY RECOMMENDATIONS IN KEY AREAS OF COMPETITIVENESS¹

1. KNOWLEDGE AND INNOVATION FOR GROWTH

- **Increase and improve investment in R&D, in particular by private business, and facilitate all forms of innovation²**
 - i. The Council reiterates the Barcelona objective, namely that spending on research and development as a percentage of GDP, and as a target for the Community as a whole, should be increased to approach three percent by 2010, taking into account the different starting points of Member States. It calls upon all Member States promote policies and actions with the aim of reaching the overall European Union 3% objective by 2010³.
 - ii. To provide more and better resources for research and innovation, the Council invites Member States to refocus their public expenditure on research and innovation. Member States are invited to improve their mix of support instruments, including through promoting an optimal use of appropriate incentives to stimulate a significant increase in private R&D spending, including by foreign firms. In this context, the Council takes note of the Commission's intention to provide voluntary guidance on issues of transnational interest regarding the design, use and evaluation of tax incentives.

¹ *The structure of this part of the Key Issues Paper is in line with the microeconomic chapter of the Integrated Guidelines (2005-2008).*

² *Due to the inter-linkages of these two guidelines, they are dealt with under one heading.*

³ *The Annex sets out the situation in Member States in relation to the 2004 spend and the 2010 targets or other years, based on National Reform Programmes.*

- iii. To enhance the efficiency of research expenditure, the Council invites Member States and the Commission to improve the coordination between the 7th Research Framework Programme and other European and national actions to promote public-private partnerships in research and innovation, including intergovernmental initiatives such as Eureka; and to enhance cooperation and technology transfer between public research and industry. Moreover, the Council invites the Commission to provide guidance on cooperation and technology transfer between public research and industry within and across national borders.
- iv. To support the creation of a European market for innovative products and services, the Council invites Member States and the Commission to create attractive conditions for innovative products and services, including through a proactive approach to public procurement to help create lead markets, while improving access for SMEs and the quality of public services, and through better regulation and standards based on early anticipation of needs. The Council takes note of the Commission's intention to provide guidance on the issue of innovation-friendly public procurement .
- v. The Council invites Member States and the Commission to work with business and other stakeholders to launch sectoral initiatives in key areas for European research and innovation, building *inter alia* on the work of European Technology Platforms which in a very limited number of cases could result in the setting up of Joint Technology Initiatives in accordance with the provisions of the 7th research framework programme, and on the European innovation initiative Europe Innova.
- vi. To foster a dynamic environment and mobile resources, the Council invites Member States and the Commission to encourage the creation of attractive clusters, taking into account the importance of cross-border knowledge transfer and European agglomeration effects. The Council invites the Commission to come forward with proposals setting out how cluster formation can be promoted, notably by better taking account of possible learning synergies between clusters in different Member States.

- vii. The Council invites Member States and the Commission to support the necessary modernisation and restructuring agenda for universities in the essential functions of production, dissemination and use of knowledge, around which effective clusters and networks of research and innovation can grow. The Council reaffirms that, as highlighted in the Commission communication on the European Institute for Technology⁴, the core challenge faced by the EU innovation process lies in its ability to fully exploit and share R&D results and consequently to translate them into economic and societal values. Furthermore, the Council recognizes the need for action to reinforce the quality of the system of innovation and dissemination in Europe. Therefore, the Council notes the significance of the Commission's communication on the EIT and will examine further the idea, in order to enhance, together with other actions, networking and synergies between excellent research and innovation communities in Europe.
- viii. The Council invites Member States to create a single, open and competitive European labour market for researchers, 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, for example through further progress on the uptake of the Commission's Recommendation on the European Researchers Charter and a Code of Conduct for their Recruitment.
- ix. The Council invites Member States and the Commission to work on improving the mobility and availability of finance, including notably venture capital and loan finance, in particular for RTD and innovation activities for start-ups and SMEs.
- x. The Council invites Member States and the Commission to exploit, on a voluntary basis, the full potential of the open method of coordination in R&D to enhance mutual learning and to reap the benefits of more coherent and coordinated approaches leading to a greater combined impact.

⁴ "Implementing the renewed partnership for growth and jobs - Developing a knowledge flagship: the European Institute of Technology".Doc. 6844/06 EDUC 43 RECH 44 COMPET 36.

- xii. Furthermore, the Council invites Member States and the Commission to make optimal use of CREST as an interface between the research policies of the Union and those of the Member States and as a platform for enriching national research policy making through mutual learning informed by research aspects of the national reform programmes.

- **Facilitate the spread and effective use of ICT and build a fully inclusive information society**

The Council notes that all Member States give attention to Information and Communication Technology (ICT) and the information society in their national reform programmes and confirms the need for action on eGovernment, broadband and digital literacy. The Council welcomes the Commission's i2010 framework which makes an important contribution to the achievements of these objectives.

- **Strengthen the competitive advantages of Europe's industrial base**

- i. There is consensus on the overall importance of a strong and competitive industrial base in Europe. The Commission's Communication on industrial policy sets out a modern and coherent concept for EU manufacturing. The Council stresses the importance of achieving the right balance between horizontal and sectoral approaches, prioritizing initiatives concerning the external aspects of competitiveness and market access, better regulation and research, development and innovation. In this regard, the Council refers to the necessity of improving the consistency of policies in order to be able to benefit on a larger scale from potential synergies. Analysis is to be based on data reflecting the situation in all Member States wherever possible.
- ii. While many Member States intend to accompany the process of internationalisation, some Member States explicitly address the issue of structural change. The Council calls on Member States to proactively develop national strategies and implement measures to foster competitiveness and productivity through policies that address the social dimension and the needs of individuals in the process of internationalisation and structural change.

- **Encourage the sustainable use of resources and strengthen the synergies between environmental protection and growth**
 - i. In the context of pursuing growth and employment objectives, special attention should be drawn to sustainability issues, in particular with respect to the need to maintain European competitiveness in a global environment, bearing in mind that long-term economic and social well-being will not be maintained in the absence of environmental protection. The Council underlines the importance of progressing towards the sustainable management of natural resources to fully exploit the potential this has for growth and employment.
 - ii. The Council underlines in this context the importance of multilateral action to tackle global environmental problems such as climate change, consistent with the principles of countries' common but differentiated responsibilities and respective capabilities, also in the interests of ensuring that the EU can compete internationally on a fair basis.
 - iii. The Council recognises the positive contributions eco-efficient innovations can make to growth, jobs and sustainability and the need to continue the necessary dynamics in that field. The Council notes the recommendations of the report of the Eminent Persons Group on a "Clean, Clever and Competitive Europe".
 - iv. The Council invites the Commission to develop further steps for a European approach to an energy policy ensuring the security of energy supply, with a particular focus on external relations, sustainability, improved interconnections, competitiveness, energy efficiency and renewable sources of energy.
 - v. The Council highlights the importance of the Emissions Trading Directive and its review.
 - vi. The Council takes note of the establishment of the High-Level Group "Competitiveness, Energy and Environment".

2. MAKING EUROPE A MORE ATTRACTIVE PLACE TO INVEST AND WORK, IN PARTICULAR FOR SMES

- **Extend and deepen the Internal Market**

- i. In order to extend the benefits of the single market to the services sector, the Council will work closely with the Commission and the Parliament in seeking agreement on the Services Directive that pays attention to the various opinions expressed and the various observations that have been made about the current proposal. This Directive must provide the legal basis for a well-functioning internal market for services and make the most of the opportunities this offers for economic growth and boosting employment.
- ii. The Council welcomes the significant reduction in the transposition deficit in 2005. However, in some important respects, the internal market is still neither fully integrated nor indeed fully competitive. The Council calls on Member States to transpose, enforce and fully implement Community legislation to allow consumers, workers and businesses to enjoy the benefits of competitive, border-free markets. In particular, the Council urges Member States to implement agreed energy directives as soon as possible, thereby completing the single market in energy.
- iii. Reinforced efficient cooperation among Member States' competent authorities as well as with the Commission is important for a well-functioning internal market.
- iv. The Council acknowledges that important benefits could be gained through further simplification and improvement of cross-border payments in the internal market.

- **Ensure open and competitive markets inside and outside Europe**
 - i. Pro-active competition policy, a regulatory framework that eases market access and a reform of State aid – while further reducing the overall level of State-aids - are the best policy instruments to set incentives for innovation and to allocate productive resources efficiently, while respecting the principles of sustainable development, as well as social, economic and regional cohesion. The Council recalls that, according to the Treaty, effective competition is needed in all of Europe's markets, including services and network industries. The Council calls on Member States to take decisive action in this area. Taking into account the external aspects of competitiveness, the Council invites the Commission in the ongoing reform of State-aid rules to put an increased emphasis on cases of distortion of competition - but without loss of legal certainty - and on the reduction of the administrative burden in State aid control, in particular for SMEs. Effective enforcement of State aid rules is considered important.
 - ii. The Council emphasises that any weakening of Member States' resolve to foster open and competitive markets needs to be offset by reinforced efforts at Community level. The Council welcomes the Commission's first market inquiry, launched under the Community Lisbon Programme, as an important tool in improving market performance in the network industries, and it looks forward to its final results and encourages the Commission to undertake further inquiries.
 - iii. An ambitious outcome with respect to industrial goods and services in the framework of an ambitious and balanced outcome of the Doha negotiations can make a significant contribution to European growth. The Council looks forward to the Commission's communication on the external aspects of competitiveness.

- **Create a more competitive business environment and encourage private initiative through better regulation**
 - i. At Community level, significant progress in the area of better regulation has been made in 2005. The Council encourages the Commission to maintain its practice of thorough and balanced impact assessments for new proposals and significant amendments, and to implement the agreed rolling programme of simplification in line with the timetable outlined in its communication, while respecting the "acquis communautaire". The Council states that it will start its preparatory work on Commission proposals by analysing the accompanying Impact Assessments. The Council welcomes the October 2005 screening initiative and invites the Commission to regularly review legislation pending.
 - ii. In their national reform programmes, many Member States have committed themselves to impact assessments on legislative initiatives, and to measuring administrative costs. The Council encourages all Member States to draw inspiration from the Commission's revised guidelines for impact assessments, and from the agreed common methodology for assessing administrative costs.
 - iii. The Council reiterates its commitment to carry out Impact Assessments on substantive amendments to proposals where appropriate and calls on the European Parliament to do likewise, using the common approach agreed in November 2005 and taking the Commission's impact assessment as a starting point.
 - iv. The Council will give priority to addressing simplification proposals brought forward by the Commission and asks the European Parliament to do likewise, working to implement the 2003 inter-institutional agreement on better lawmaking with a view to bringing forward simplification proposals more quickly.

- v. Considering that SMEs are the backbone of Europe's economy and that they are the main source for growth and jobs, the principle of "Think Small First" must be applied systematically. Thus, all the measures mentioned above should continue to take account of the specific needs of SMEs.
- vi. The Council welcomes the Commission's announcement that it will fully incorporate the measurement of administrative costs into the impact assessment process and supports its work on reducing administrative burdens, while recognising the need to align this with work at Member State level on implementation of legislation. The Council also invites the Commission to continue to explore ways to improve Community-level consultation of stakeholders concerned.
- vii. The Council invites the Commission to launch an exercise to measure the administrative costs associated with EU rules in specific areas, including the need to give particular attention to SMEs, and to identify which costs flow directly from EU regulations and directives and which costs vary as a function of the manner in which Member States transpose EU rules. The Council invites the Commission, on this basis, to come forward with proposals for reducing these administrative costs as appropriate.
- viii. The Council invites the Member States to set up, by 2007, a one-stop-shop, or arrangements with equivalent effect, for setting up a company in a quick and simple way. The Council recommends that the Member States take adequate measures to cut the average time for setting up a business, if appropriate. The Council invites the Commission to support this by providing appropriate analysis in due time.

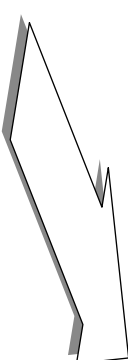

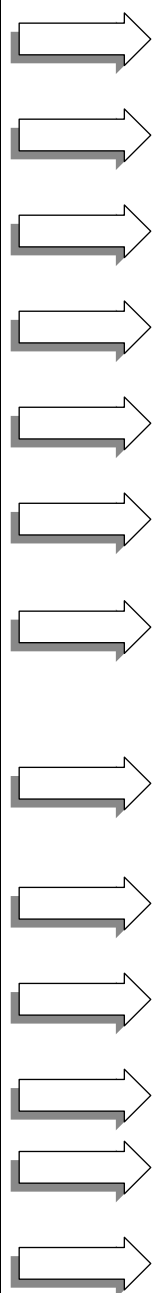
- **Promote a more entrepreneurial culture and create a supportive environment for SMEs**

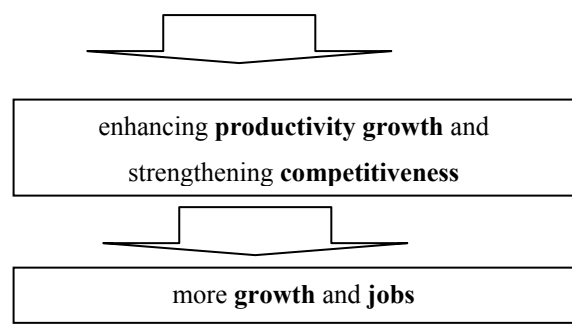
- i. The Council states that SMEs - due to their importance for growth and jobs in Europe - deserve special attention. Therefore measures to improve the business environment for SMEs and measures to encourage and enable more people, in particular women and young people, to become entrepreneurs should be explicitly mentioned in the national reform programmes as well as in their reporting. The reduction of administrative burdens would inter alia facilitate the granting of State Aids for SMEs, where this is justified. In this context the Commission's intention to increase the "de minimis"-amount and, more importantly, to provide for wider block exemptions, will play an important role.
- ii. The Council stresses the potential of the forthcoming Community programmes, in particular the 7th Research Framework Programme and the Competitiveness and Innovation Framework Programme (CIP) for SMEs, as well as the Structural Funds. Therefore sufficient financial resources for the 7th Research Framework Programme and CIP are needed. It must be ensured that SMEs are put in a position of fully benefiting from the programmes' added value.
- iii. The Council stresses the importance of improving SMEs' access to markets and therefore calls on Member States and the Commission to improve and simplify SMEs' access to public procurement markets and standardisation, and to support internationalisation of SMEs.
- iv. The Council invites the Commission and the Member States to continue to cut red tape, in accordance with better regulation actions. The "Think Small First" approach should be a guiding principle at Community as well as at national level and should be reflected in impact assessments. In addition, the Council stresses the importance of making SMEs access to Community programmes easier, and of screening forthcoming and existing legislation and of assessing the potential of specific provisions for reducing the burden on SMEs, where appropriate.

- v. Insufficient access to finance remains a significant barrier to growth for small and innovative enterprises. At Community level, funding sources will be made available through the financial instruments under the Competitiveness and Innovation Programme (CIP), especially in the form of guarantees, counter-guarantees and risk capital investments. In addition, the Council calls on Member States to fully utilise the potential of the structural funds.
- vi. The Council calls on Member States to foster entrepreneurial mindsets and skills among young people by making entrepreneurship education part of national school curricula, to reduce the burden of risk, to narrow the skills gap, and to promote women and young entrepreneurs. The Council acknowledges the importance of gender equality policies for economic growth and competitiveness, as reflected in the initiative for a European Pact for Gender Equality taken by a number of Member States.
- vii. Finally, the Council encourages the Commission and the Member States to strengthen the dialogue and consultation with SME stakeholders.

- **Expand, improve and link up European infrastructure**

The expansion, improvement and interconnection of infrastructure in Europe will help to improve the business environment and to complete the internal market. The Council encourages Member States to set the right incentives for infrastructure investment, thus developing modern transport infrastructure with a view to the appropriate modal balance, and to give priority to improving cross-border inter-connections in the context of the development and expansion of Trans-European networks. The Council stresses the importance of carrying out the Trans-European Networks projects in the fields of transport and energy which will boost growth and employment.

The challenges and priorities @ Community and Member States Level...	...translate into the following....	... key areas of action within the remit of the Competitiveness Councilwhich require the delivery of...	...concrete measures @ Community and Member States Level
<p>Against the background of globalisation, accelerated technological progress and demographic change,</p> <ul style="list-style-type: none"> the right knowledge, research and innovation policies, a proper business environment, in particular for SMEs global competitiveness of European enterprises and Europe's industrial base, a better functioning of the internal market, and more competitive markets, in particular in services and network industries <p>are key challenges.</p>	 	<p>fostering a Partnership for Research and Innovation</p> <p>improving the business potential, particularly for SMEs</p>		<p>7th Framework Programme for R&D</p> <p>Competitiveness and Innovation Programme</p> <p>3%-R&D-target</p> <p>OMC (Open Method of Coordination) for mutual learning and good practise in R&D</p> <p>stimulate an increase of private R&D-spending</p> <p>State Aid reform; incl. R&D and innovation aid framework</p> <p>effective intellectual property rights framework</p> <p>better regulation (including "Think Small First Principle"; Simplification Programme and impact assessment including re-enforced Competitiveness Testing)</p> <p>Services Framework Directive</p> <p>regulatory conditions that foster competition in network industries</p> <p>REACH</p> <p>recognise the role of public procurement for boosting demand for innovative products and services</p> <p>TEN projects</p>



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

Member State	2004 ⁵	Target for 2010 or other years ⁶	Remarks
Belgium	1,93	3,00	
Czech Republic	1,28	2,06	
Denmark	2,61	3,00	
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.

⁵ Source: Eurostat. Most values are provisional. The values for IT, LU and PT refer to 2003.

⁶ Source: National Reform Programmes, with European Commission estimates based on the targets provided by PT, SE.