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Subject :	Contribution of the Competitiveness Council to the Spring European Council 2005

The General Affairs and External Relations Council will find attached the contribution of the Competitiveness Council, adopted on 7 March 2005, to be forwarded to the European Council in view of its meeting on 22-23 March 2005.

MIDTERM REVIEW OF THE LISBON STRATEGY**Input from the Competitiveness Council to the Spring European Council 2005****Key Issues and Priorities**

The Competitiveness Council welcomes the Commission's communication to the Spring European Council, recommending to focus on growth and jobs through fewer and clearer priorities, which need to be identified and limited to a number of core areas, implemented through sharper policy instruments.

The Competitiveness Council has a key role to play in driving the new initiatives and structural reforms necessary to meet the Lisbon goals, by contributing to conditions which foster investment, innovation and greater competition, throughout the European Union. To this end, it will continue to pursue an integrated approach, taking into account all areas likely to have a substantial effect on competitiveness. The three dimensions of the Lisbon Strategy - the economic, the social and the environmental - are of equal importance and are mutually reinforcing if the potential for synergies is properly tapped. Structural change resulting from cohesion policy is also important in this context. The Competitiveness Council recognises the importance of sustainable development as an overarching principle of all policies.

In order to achieve sustainable development, the EU should give priority to growth and jobs through improved competitiveness. The Competitiveness Council therefore commits itself to implementing the following actions:

- **harnessing knowledge and innovation for growth by the realisation of the European Research Area and the Barcelona target and by the forthcoming 7th Framework Programme and the Competitiveness and Innovation Programme in order to increase and improve public and private investment in R&D, to optimise Europe's human capital and to promote and invest in new technologies and technology transfer throughout Europe.**
- **making Europe a more attractive place to invest and work by extending and deepening the internal market, in particular for services, improving European and national regulation, ensuring open and competitive markets, reinforcing the industrial base, promoting infrastructure development through the realisation of TEN priority projects, supporting SMEs and promoting entrepreneurship.**

- **pursuing actively the mandate from the European Council to ensure economic reform and the application of an integrated approach to competitiveness, by taking the necessary legislative action on the key priorities, and by driving forward the microeconomic and structural reform process on the basis of the EU Annual Progress/Strategic Report and by contributing to the Broad Economic Policy Guidelines (BEPGs).**

It is essential that the Community, Member States, Parliaments, and stakeholders take clear ownership and decisive action at their respective levels.

POLICY RECOMMENDATIONS IN KEY AREAS

KNOWLEDGE AND INNOVATION FOR GROWTH

In building the knowledge society to ensure the competitiveness of Europe, the successful realisation of the European research Area is crucial. It will be necessary to concentrate on the Barcelona target of investing 3% of GDP in R&D, of which two thirds should come from the private sector, the optimisation of Europe's human capital and the rapid adoption of the key Community programmes for contributing to these goals: the forthcoming 7th Framework Programme (FP 7) and Competitiveness and Innovation Programme (CIP). The following objectives will be pursued:

- Faster progress towards the target of 3% of GDP for R&D expenditure through better co-ordination across Member States and on the European level by the application of the Open Method of Co-ordination, on a voluntary basis, using CREST as a platform for co-ordination. In this context, the inclusion of national R&D spending targets in the national Lisbon Action Plans (see below) is to be welcomed.
- The emergence of a trans-European labour market for researchers through:
 - promoting mobility within Europe and with the outside world, intersectorial mobility and mobility between the public and private sectors; special attention should be paid to young people, the role of women in science and to science awareness in society at large;

- making career paths in R&D attractive and appealing in order to attract world-class European and third country researchers and innovators and to retain them in research careers;
- The timely adoption of FP 7 in 2006, ensuring continuity with FP 6¹, supporting the objectives of competitiveness and sustainable development and built on certain cross-cutting principles, in particular:
 - European added value and increasing coordination between national and European research efforts;
 - Promotion of excellence in European research, not least through new initiatives in investigator-driven basic and frontier research;
 - Promotion of technological innovation, as well as research and development for key technologies;
 - Facilitation of participation by all relevant parties, in particular SMEs;
 - Equal conditions for competing for access to funding;
 - Simplification, improvement and acceleration of administrative and financial procedures;
 - Increased synergies with the European Investment Bank in relation to the funding of EU R&D projects as well as with the Growth Initiative;
 - Coherence and synergy between the major lines of action of the programme and with relevant action lines foreseen in the forthcoming Competitiveness and Innovation Programme (CIP), education programmes and the structural funds.
- More favourable framework conditions, including possible fiscal measures at national level, for both public and private R&D, through the internal reform of public research centres and universities on a voluntary basis and the review of the existing State Aid Frameworks.

¹ Cf. Council conclusions of 24 September 2004 on the evaluation of the new instruments of the Sixth Framework Programme and on the future European Union policy to support research, doc. 12898/04 (Annex II).

- Ensuring the competitiveness of European enterprises and bridging the technological gap through better research cooperation and technology transfer between public research and private companies, achieved on the basis of best practice through public-private partnerships, poles of excellence and innovation.
- Carrying forward the preparatory work on the European Space Programme in close co-operation with the European Space Agency to tap the substantial innovation and industrial potential in these areas for the benefit of the European knowledge society as a whole.
- Specific attention should be given to Information and Communication Technologies (ICT), a key driver for growth. Therefore, information technology research, development of infrastructure, including broadband and space-based communications, content development and take-up of applications should be supported with the aim of reinforcing communication technologies and improving industrial competitiveness, and should ensure an information society open to all as well as overcoming the "digital divide". In this context, the Commission's forthcoming initiative "i2010-European Information Society" should also contribute to the further development of the information society in Europe.
- Encouraging the growth and competitiveness of SMEs, in particular young innovative and research-intensive SMEs, by increasing and facilitating their participation in R&D and by creating an optimal environment for the start-up and development of innovative projects for the market, covering all sectors of the economy.
- Support for research and innovation capacities throughout Europe, in particular for SMEs, should be reinforced through the FP7 and the future CIP, whose activities should be complementary and mutually supportive.
- Policy measures should support technological as well as non-technological innovation and its diffusion in all their dimensions (organisational, management, marketing, process, products, and services) and bring innovation closer to the market by promoting technology transfer to enterprises.

- New technologies -in the areas of sustainable resource use and energy efficiency, notably in eco-innovation and environmental technologies- should be promoted.
- The full development of the human potential of European youth will increase competitiveness, growth and employment. The Council considers that a number of measures envisaged in the project of a European Youth Pact will contribute to realising the objectives of the Lisbon strategy.
- Cohesion policy, notably through the structural funds, has an important role to play to support structural change, involving a forward-looking approach by encouraging innovation, as well as stimulating growth in general.

MAKING EUROPE A MORE ATTRACTIVE PLACE IN WHICH TO INVEST AND WORK

Increasing Europe's attractiveness for business to invest and work requires the right framework conditions, including the development of modern infrastructures throughout Europe. The Council calls on the Commission and the Member States within their respective competencies to:

- **Extend and deepen the internal market:** timely and correct implementation and enforcement of Community legislation is a prerequisite. Member States should be urged to reinforce their efforts, in line with their earlier commitments, to speed up the transposition of internal market directives into national legislation to meet the objectives already set by the European Council. Member States are also invited to screen existing domestic legislation for compatibility with EU rules in order to remove market barriers and open up competition in the internal market. To further develop the internal market, the Council identifies the following priority areas :
 - Services: the absence of a fully functioning internal market for services constitutes a considerable brake on the EU economy's potential for growth, competitiveness and job creation. The Council takes note of the Commission's intention, in order to build consensus on the Services Directive and to ensure the smooth discussion of this important proposal, to

work constructively with the European Parliament , the Council and other stakeholders in the run up to the adoption of the first reading by the Parliament, focusing particularly on concerns raised in such areas as the operation of the country of origin provisions and the potential impact for certain sectors.

- REACH: the examination of the proposal is to be pursued actively with a view to reaching an agreement on a flexible and workable system, which, whilst improving the protection of health and the environment, contributes to the competitiveness of European industry, paying particular attention to SMEs, and enhances its innovative capacity;
 - Professional qualifications: the Directive on the recognition of professional qualifications is crucial to remove obstacles to labour mobility;
 - Services of general interest: the provision of high quality services of general interest at affordable prices remains a priority. The Council looks forward to the follow-up of the Commission's White paper, noting that efficient services of general interest have a central role to play in an effective and dynamic economy;
 - Intellectual property: the completion of an effective legal framework at EU and international level for protecting intellectual property rights remains crucial.
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- **Improve the regulatory framework**: reducing the burden of regulation and costs for enterprises, in particular SMEs, is a key priority. The Council, therefore:
 - welcomes the Commission's intention to launch a new initiative on Better Regulation, to further develop its impact assessment instrument and continue with simplification;
 - recalls its commitment to a more systematic and continuous consideration and use of impact assessments and urges the implementation thereof;
 - undertakes to give priority attention to Commission proposals for simplification, as well as to establish further Council priorities, building on the 15 proposals already identified, while respecting the Community acquis;
 - calls for rapid progress on agreeing a common methodology for measuring the administrative burden with a view to its reduction, building on work already initiated in this field;
 - undertakes to intensify efforts to implement, together with Parliament and the Commission, the Interinstitutional Agreement on Better Lawmaking, including the development of a workable system for assessing the impact of Council amendments to legislative proposals.

The Council welcomes the proposed emphasis on better regulation at national level, underlining that better regulation initiatives should not become an administrative burden in themselves; it welcomes the Commission's intention to facilitate such an initiative.

- **Ensure open and competitive markets:** as a level-playing field, including in the area of intellectual property rights, in world markets for European companies is a key objective, open and competitive markets inside the European Union, as well as globally, are crucial for growth and prosperity. To this end, the completion of an ambitious agreement in the Doha Round of trade negotiations and the completion of bilateral and regional free trade agreements are particularly important. The EU should launch appropriate initiatives with the aim of increasing the convergence of regulations, standards, and administrative practices on the European and international level. The efforts aimed at widening the international participation in combating climate change are a priority in this respect. To this aim, the Council welcomes the Commission's recommendation that the EU explore options for a post-2012 strategy with key partners during 2005, before the upcoming negotiations.
- **Pursue a pro-active competition policy:** effective application of competition rules is essential to achieve well-functioning markets. The Commission is invited to pursue a pro-active competition policy for the purpose of removing obstacles to effective competition in key sectors. Member States should continue to reduce the overall levels of state aid and redirect it to horizontal objectives and identified market failures, as appropriate. In this context, the Council welcomes the Commission's intention to review inter alia R&D and innovation state aid rules and looks forward to the Commission's intention to come forward with its communication by summer 2005. In addition, the reform of regional aid should encourage a high level of investment and allow disparities to be reduced in line with the Lisbon objectives;
- **Reinforce the industrial base:** the Council stresses the importance of the Commission's sectoral analyses of obstacles to competition, innovation, and growth, including the cumulative impact of EU and national regulation touching specific sectors. Europe must create the conditions to enable industry to exploit its technological potential to enhance and sustain economic and technological leadership. The Council, therefore:

- stresses the need to develop innovation poles throughout Europe, at regional and local level, bringing together innovative small and medium sized enterprises, universities, research institutes and the necessary business and financial support;
 - calls for supporting industrial competitiveness by promoting the development of key technologies of common EU interest. In this context, the Commission proposal for setting up technology initiatives, based on public-private partnerships, should be addressed, taking into account national initiatives.
- **Promote entrepreneurship**, as a major driver of innovation and competitiveness and, in the light of the priorities of the Entrepreneurship Action Plan, improve the contribution of the European Charter for Small enterprises to meeting the Lisbon objectives.
 - **Facilitate access to finance, in particular for SMEs**: open and integrated financial markets will increase access to capital at lower cost, thereby stimulating the development of innovative SMEs. The Council underlines the role played, notably, by the European Investment Fund (EIF) favouring the access of SMEs to risk capital finance and guarantees. The EIF whose activities support the Lisbon objectives should receive the necessary financial means, in particular through the Programme for Competitiveness and Innovation (CIP), to reinforce and diversify its guarantee action, extend its activities to networks of "business angels" and increase its activity in the area of micro-enterprises.

A NEW GOVERNANCE¹

The importance for the Community, Member States and stakeholders to assume ownership of the necessary policy actions at their respective levels is paramount to its success. In the light of experience, the Council welcomes the measures proposed for better governance in the Commission's spring report, in particular in the following areas:

¹ The overall question of governance is being examined by other Council bodies.

1. STREAMLINING THE INSTRUMENTS

- **Lisbon policy-making cycle:** the current policy coordination process should be streamlined based on the integrated use of the instruments provided by the Treaty (Broad Economic Policy Guidelines - BEPGs - and Employment Guidelines).
- **National Action Programmes (NAPs):** the Council supports the concept of NAPs for implementation of the second phase of the Lisbon Strategy. NAPs should be developed as tools for achieving a high level of political support/commitment and as a means for communication with citizens, parliaments and social partners for reform. NAPs would integrate many of the existing reporting obligations of Member States under the Lisbon Strategy, thereby simplifying and streamlining them significantly.

2. ROLE AND RESPONSIBILITIES OF THE COMPETITIVENESS COUNCIL

- **Coreresponsibility of the Competitiveness Council:** the Competitiveness Council commits to pursue actively its mandate to ensure delivery of economic reform by taking the necessary legislative action on the key priorities identified above, by driving forward the microeconomic and structural reform process on the basis of the EU Annual Progress/Strategic Report and by contributing to the BEPGs.
- **Central role of the Competitiveness Council:** the Competitiveness Council must actively assume its horizontal role of enhancing competitiveness and growth, notably by being effectively consulted on any proposal considered likely to have substantial effects on competitiveness.