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Subject : Key Issues Paper (KIP) 2008
- contribution from the Competitiveness Council to the Spring European Council
- outcome of proceedings of the Competitiveness Council of 25 February 2008

1. On 12 December 2007, the Commission submitted to the Council its Strategic report on the renewed Lisbon strategy for growth and jobs entitled: "Launching the new cycle (2008-2010) - Keeping up the pace of change", together with the other components of the so-called "Lisbon package"¹. On 25 February 2008, the Competitiveness Council adopted the Key Issues Paper set out in Annex.
2. The Competitiveness Council hereby submits this Key Issues Paper as its contribution to the Spring European Council 2008.

¹ Doc. 16714/07 (Strategic report) + ADD 1 (Assessment of National Reform Programmes) + ADD 2 (companion document) + ADD 3 (recommendation Broad Economic Policy Guidelines) + ADD 4 (Cion. recommendation for Broad Economic Policy Guidelines and proposal for a Council Decision on the Employment Guidelines).

"Turning Challenges into Opportunities"

INTRODUCTION

The renewed Lisbon Strategy for Growth and Jobs has proved its worth in making an important contribution to the positive economic development of the EU during its first cycle. Building on strong economic growth in 2006 and 2007, the EU economy must press ahead with further internal reforms in order to maintain and improve its competitiveness on the world stage.

The second cycle of the renewed Lisbon Strategy for Growth and Jobs offers a fresh impetus to address the challenges of Globalisation and turn them into opportunities, maintaining the momentum and stepping up the implementation of reforms to further increase the growth and competitiveness of the European economy. Making the internal market fully function, benefiting to businesses and consumers remains an overarching objective in order to promote growth and jobs. The EU should build on its competitive advantages by focusing on human capital, creativity, innovation, entrepreneurship and quality, in order to develop high value added products and services so that EU companies can strengthen their position on global markets. At the same time, the EU should, in accordance with the December 2007 European Council declaration on globalisation², promote a flexible, open approach that will enable it to respond effectively to global challenges, including climate change and energy security.

THE LISBON STRATEGY WORKS – LET'S CONTINUE TO IMPLEMENT REFORMS

The Competitiveness Council

- Welcomes the Commission's Strategic report on the renewed Lisbon Strategy for Growth and Jobs to launch the new cycle for 2008-2010;

² Annex to doc. SN 300/12/07 REV 12.

- Shares the Commission's analysis that the current Integrated Guidelines remain valid for the next cycle of the renewed Lisbon Strategy for Growth and Jobs, thus ensuring the stable governance required for implementation;
- Underlines that the priority for Member States is to continue implementing structural reforms, with a particular focus on country-specific recommendations;
- Underlines the need for further joint and concurrent efforts at Community and Member State levels in line with the partnership approach and therefore welcomes the Commission's proposal for a new Community Lisbon Programme providing a strategic reform agenda for the Community part of the renewed Lisbon Strategy for Growth and Jobs;
- Refers in this Key Issues Paper to the Community level objectives and actions set out in the Commission's proposal for a Community Lisbon Programme 2008-2010, falling within its sphere of competence. On this basis, the Competitiveness Council has identified priority objectives and actions at the Community level with particular importance for growth and jobs, which are detailed in the boxes in the respective sections of the text. The Community level actions should complement facilitate and strengthen policy action at Member States level, respecting the principle of subsidiarity. As and when tabled, individual actions will be examined in detail and in line with the appropriate procedures
- Invites the European Council to strongly support these identified Community-level objectives. The institutions should annually assess the implementation of the Community Lisbon Programme in the context of the Spring European Council;
- Submits its recommendations on the Programme set out below.

RECOMMENDATIONS

In undertaking its key role in the re-launched Lisbon Strategy for Growth and Jobs the Competitiveness Council submits the following recommendations to the European Council for consideration at its session in March 2008. These recommendations include, in particular, items within two of the key areas identified by the Spring European Council 2006: investing more and more effectively in knowledge and innovation, and unlocking business potential, especially of SMEs. In addition, the Competitiveness Council submits recommendations on transforming Europe into a sustainable economy, and encouraging European success in the global market place.

A. Investing more and more effectively in knowledge, research and innovation

A.1. "Invest more and more effectively in Knowledge, Research and Innovation"

More and more effective investment should be made in research, innovation and higher education at all levels and the efforts to achieve the 3% R&D investment target should be reinforced. In their National Reform Programmes, Member States should set out how progress towards meeting national R&D investment targets will be achieved, and how their R&D strategies will contribute to realising the European Research Area. This should be underpinned by a systematic joint monitoring of progress and by mutual learning exercises. Member States and the Commission are invited to deepen their dialogue and expand their cooperation, in order to ensure **better governance**, coordinated implementation of actions and other relevant policies on a voluntary basis throughout the European Research Area.

- The Commission and Member States are encouraged to continue developing initiatives for **joint programming of research** in areas where this approach is appropriate, allowing a more strategic and better structured approach to the launch of new joint programmes and common calls for projects from the end of 2010; the Council welcomes the Commission's intention to present a communication on joint programming in 2008;

- The Commission and Member States should further advance coordinated and mutually complementary **international S&T cooperation strategies** in order to strengthen Europe's role as a global key actor in science, research and technology; the Council welcomes the Commission's intention to present a communication on international S&T cooperation in 2008;
- Rapid progress needs to be made on implementing the four agreed **Joint Technology Initiatives (JTIs)**. The proposal for a JTI on Fuel Cells and Hydrogen and the **Article-169 initiatives** AAL and Eurostars should be adopted before the summer of 2008, while the Council notes the Commission's intention to submit the remaining Article 169 Metrology initiative by the end of 2008 and the BONUS initiative in 2009 at the latest;
- Important new FP7 instruments such as the **European Research Council (ERC)** and the **Risk-Sharing Finance Facility (RSFF)**, should be promoted and may be further developed on the basis of the results of the mid-term evaluation foreseen in FP 7;
- In the framework of European space policy, both the **GALILEO programme** and the **GMES initiative** need to be implemented rapidly;
- **Research infrastructures** of pan-European interest need to be strengthened and further developed on the basis of scientific excellence, with funding from all available public and private resources (Member States, industry, EIB, Structural Funds, FP7, etc.), taking into account the need for capacity building throughout Europe. Member States are invited to develop their national strategies and plans for developing research infrastructures by the end of 2008, including identifying in which of the ESFRI Roadmap projects they intend to participate;
- Support for **innovative research-performing SMEs** should be increased, in particular through ensuring rapid adoption and implementation of the Eurostars programme and simplified funding schemes;

- The **European Institute for Innovation and Technology (EIT)** should be operational without delay, starting with the appointment of its governing board. The location of its seat should be agreed in 2008, and the first KICs should be selected in the course of 2009 and should be operational in 2010.

A.2 "The Fifth Freedom"

In order to succeed in the transition to a highly competitive knowledge economy, the European Union needs to create a "**fifth freedom**" - **the free movement of knowledge**. Member States and the Commission are invited to deepen their dialogue and expand their cooperation in order to further identify and remove obstacles to the cross-border mobility of knowledge.

- The Commission and Member States should take concrete steps to increase human resources for S&T and to **enhance the mobility and career prospects of researchers** through a coherent set of focussed measures taken in partnership ("European research career and mobility package"); this should also include the concept of "**family-friendly scientific careers**", to be developed on the basis of the spring 2008 Presidency initiatives. The Council welcomes the Commission's intention to present a communication on this in 2008.
- Member States should continue to put their full efforts into implementing **higher education reforms**, including modernising universities so that they can develop their full potential within the knowledge triangle; a stronger emphasis should be put on **life-long learning** and cross-border learning opportunities. A review of future skills requirements should be envisaged at European level as part of the follow up to the "New Skills for New Jobs" initiative;
- The European Union needs to continue to work for **significant increases in broadband penetration**. The Commission is invited to monitor the performance of the EU in the internet economy and report back in time for the 2009 European Council. The Commission is further invited to develop a strategy for e-science building on and strengthening e-infrastructures, so as to ensure the sustainability of European leadership in this field.

- A Community-wide voluntary framework for the management of intellectual property at public research institutions and universities is needed. The Commission is invited to present its **recommendation and Code of Practice on the Management of Intellectual Property ("IP Charter")** by public research organisations, with a view to their adoption in 2008 in order to **enhance knowledge exchange** between public research organisations and industry.

A.3. "Strengthen Europe's Innovation System"

Increasing the business-led innovation performance of the European economy is crucial in order to compete in the global market. The Council recognises the need to implement **the broad-based innovation strategy**, including **innovation in services, eco-innovation and non-technological innovation**, and welcomes progress achieved thus far. It is necessary for the EU to find solutions for a patent litigation system and a Community patent. To this end, work will continue building on the progress report submitted to the Competitiveness Council on 22 November 2007. The Council also considers urgent the promotion of an EU-wide market for venture capital for our most innovative firms, together with taking measures to improve investment readiness and early-stage financing of SMEs.

In addition:

- The Community and the Member States should better coordinate their efforts to **improve the framework conditions for innovation**, such as improved science-industry linkages and support services for innovation, including the framework concept for world-class innovation clusters and development of regional clusters and networks, which meet the needs of researchers and business;
- The **European lead markets strategy** set out in the Commission communication should be implemented in cooperation with Member States and stakeholders;

- **Procurement for innovation:** An increase in procurement of R&D and of public procurement of innovative products and services could lead to a greater use of innovation and innovative technology for public services and provide increased value for money. Member States are invited to define longer-term public sector challenges for which innovative solutions could be sought. The Council welcomes in this regard the presentation of the Commission communication on pre-commercial procurement;
- Furthermore, it is necessary to continue to support an integrated approach towards **European standardisation policy**.

B. Unlocking business potential, especially of SMEs

B.1 Single Market

The Council endorses the **need to improve the functioning of the Single Market** so that its untapped potential can deliver further tangible benefits for Europe's businesses, in particular SMEs, as well as citizens and consumers. It calls for speedy adoption of the "goods package", timely adoption of the electronic communications regulatory framework, effective implementation of the Services directive and strengthening competition in network industries and other key sectors showing signs of market malfunction. The Single Market needs to be strengthened so as to increase the EU's competitiveness in a global context.

In particular it is necessary to:

- Ensure **effective follow-up to the Commission's Single Market Review** by all actors concerned with the focus on actions needed to boost growth and jobs by removing remaining barriers to the four freedoms and to evaluate the implications of new initiatives on the four freedoms. An **evidence-based approach** using tools such as well-targeted market monitoring building on existing data and procedures, would ensure that action is targeted at genuine market malfunction;

- Improve the **legal and policy framework** in order to enhance legal certainty and to create a more consistent and clear regulatory environment allowing SMEs, in particular, to take full advantage of the opportunities of the Single Market, so that they can grow and operate across borders as they do in their domestic market;
- Due attention must be paid to the social dimension and to **services of general interest** respecting the division of competences between the European Union and the Member States;
- Improve the functioning of "**e-Single Market**" by putting in place cross-border interoperable solutions for electronic signature and e-authentication;
- Enhance **administrative and enforcement cooperation** in partnership between Member States administrations and between Member States and the Commission, thus helping to foster confidence of consumers and businesses;
- Strengthen **Single Market governance**, in particular through a modern flexible policy framework and a wide range of policy instruments;
- Achieve a **truly competitive, interconnected and single Europe-wide internal energy market** that will bring major benefits for competitiveness and EU consumers as well as increasing security of supply; in this context, achieving interconnection of isolated energy markets is an essential and urgent task.
- Complete, coherent and timely transposition and **implementation** of the **Services Directive** is an important ~~as a~~ step towards the creation of a genuine single market for services.

B.2 Better Regulation

Better regulation has to be a **joint endeavour between EU institutions and Member States**. It continues to be a key component of the competitiveness agenda and should be considered a high priority by each Council formation in its regulatory work. Efforts need to be stepped up to ensure that the better regulation initiative delivers real and substantial economic benefits to EU businesses, in particular SMEs, to citizens and the whole economy. Efforts should be maintained to ensure that work on achieving the **25% administrative burden reduction target for EU legislation by 2012**, in line with the conclusions of March 2007 European Council, remains on course, based on proportionate impact assessment for proposed measures. In particular, the Council gives high priority to fast-track actions as a means of delivering immediate benefits to business.

In addition:

The Council believes that more can be done to develop the capacity of the EU institutions on **impact assessment**. In this context, it welcomes the Commission's proposals to strengthen its impact assessment framework, including through a revision of the Guidelines and an enhanced role for the independent Impact Assessment Board, and looks forward to these contributing to real improvements in the quality of impact assessments. It calls upon the Commission to continue to pay close attention to administrative burden in its impact assessments. It underlines the importance of impact assessments as early as possible in the decision-making process, as well as the importance of systematic external stakeholder consultation throughout the development of impact assessments, particularly with a view to improving quantification of economic, social and environmental impacts, of applying the Think Small First principle and making use of international comparisons and benchmarks. Closer inter-institutional collaboration on impact assessment can make an important contribution towards better regulation policy outcomes. Following the 2008 Spring European Council, the three institutions will jointly review the inter-institutional "Common Approach" to impact assessment. In that context, the Council will give further consideration as to how it will fulfil its commitment to undertake impact assessments on substantive amendments to Commission legislative proposals;

- The Council calls for continued progress to implement the **Action Programme on Reducing Administrative Burdens**. The fast-track actions scheduled for 2007 should be finalised if possible by the 2008 Spring European Council. It welcomes the Commission's intention to adopt a second tranche of Fast Track Actions, on the basis of proportionate impact assessment where appropriate, and underlines that these should be agreed by all institutions as soon as possible. The Commission should continue to bring forward reduction proposals on an ongoing basis, as possibilities are identified in the 13 priority policy areas during the measurement phase. In this context the Council takes note of the progress already made on identifying administrative burdens in the area of company law and looks forward to proposals to address these. The Council welcomes the appointment of the High Level Group of independent stakeholders on administrative burdens ("Stoiber Group"). The Council expects the High Level Group of Independent Stakeholders on administrative burdens to make an important contribution to the Action Programme on Administrative Burdens. It will evaluate the progress made with the implementation of the Programme on the basis of the Commission's next "Strategic Evaluation of Better Regulation" in Spring 2009. In preparing proposals, close attention should also continue to be paid to the views of businesses, in particular SMEs. Member States that have not already done so should, where possible, set national targets to reduce administrative burdens or, otherwise, indicate their progress by the 2008 Spring European Council;

- **Simplification** proposals should contribute more to improving the competitive position of European businesses, while respecting the *acquis communautaire*. The economic benefits to business, consumers and the whole economy of simplification proposals should be maximised, as well as fully transparent. The Council will give priority to adopting the existing proposals. It will work closely with Parliament to speed up agreement on simplification proposals as envisaged in the 2003 Inter-Institutional Agreement on Better Lawmaking .

B.3 Improving Business Environment for SMEs

SMEs have the potential to contribute significantly to creating more growth and jobs in the EU. A **Small Business Act initiative**, setting out an integrated policy approach across the SME life cycle, underpinned by a strong evidence base and in line with better regulation and the Think Small First principle should be developed and adopted to further strengthen SMEs' competitiveness. In order to enable them to operate effectively in the internal market and internationally, SMEs need rules that are clear, simple and consistent. Where justified, exemptions for SMEs from the administrative requirements of EU legislation should be introduced following a screening of the *acquis communautaire* from an SME perspective .

In addition:

- Whilst the "**Think Small First**" principle is being increasingly integrated into the policy-making process, further efforts at Community and national level are needed in order to meet the specific needs of micro and small enterprises;
- The **entrepreneurial culture** as well as the appropriate **supportive environment for SMEs** should be further enhanced, including through education;
- The Community and the Member States should further contribute to creating conditions for **growth of SMEs**, and especially support research-performing and innovative SMEs with high growth potential, e.g. through a new European private company statute and by facilitating access to finance including through existing EU financial instruments, participation of innovative SMEs in clusters and public procurement and by promoting sustainable SME policy;
- Appropriate measures to improve SMEs' access to **skills**, including **e-skills**, and the **uptake of ICT** would additionally contribute to the attractiveness of the European economy;

C. Transforming Europe into a sustainable economy

An industrial policy needs to be developed which is **geared towards more sustainable production and consumption**, taking full advantage of the EU's potential in renewable energies and environmentally friendly, socially acceptable and competitive low-carbon and resource-efficient products, services and technologies. At the same time, industrial policy has to strengthen the international competitiveness of European enterprises by the promotion of favourable framework conditions for production and innovation in the EU. The EU's commitment to **reducing green house gas emissions** needs to be fulfilled in a cost-effective way, which enables European industry to remain competitive and continue to provide growth and jobs. In particular, the impact on energy-intensive industries exposed to international competition should be addressed and examined in greater detail.

In addition:

- The Competitiveness Council will play an active role in assessing the **Commission proposal on the Energy and Climate Change Package** and will make an appropriate contribution to the negotiations, to ensure emission reductions are achieved in a sustainable and economically competitive way;
- **The Action Plan on Sustainable Industrial Policy** should promote the creation of favourable market conditions for environmentally-friendly technologies, products and services and encourage the development of European lead markets in this area;
- The Action Plan should take into account the **impact on the international competitiveness of the EU energy-intensive industries**, which play an important role within the European value-added chain. Among other means, **global sectoral agreements** can be instrumental in reducing global carbon emissions while minimising distortions to international competition that could arise from different regulatory approaches.

D. Encourage European Success in the Global Marketplace

In the light of both the opportunities and challenges of increasing globalization, the EU will press for **increasingly open markets** which should lead to **reciprocal benefits**. A fully functioning internal market remains crucial for the European Union's external competitiveness.

In addition:

- Open markets contribute to growth and employment, and the EU must continue to play a leading role in improving the **multilateral trading system**, in particular striving for the successful conclusion of the **Doha Round**;
- The EU should seek to conclude ambitious **bilateral agreements** with **important trading partners** and further step up the efforts for integration with neighbouring and candidate countries through developing a common economic space;
- The EU should also upgrade its **strategic dialogues** with **key third countries** to develop mutually beneficial solutions, secure reliable access to energy, strategic raw materials, and promote high standards and regulatory convergence;
- The EU should build up and develop close and mutually **beneficial strategic partnerships with the world's emerging economic powers** and strengthen the existing close and fruitful economic relations with other important partners, e.g. through the Trans-Atlantic Economic Council;
- The EU should work with its major trading partners to improve the effectiveness of the **IPR enforcement system against counterfeiting**;
- Furthermore, **regulatory cooperation, convergence of standards, and equivalence of rules** should be further developed, in the mutual interest of the EU and its partners.

CONCLUSIONS

The Competitiveness Council has a key role to play in horizontal and integrated enhancement of competitiveness and growth policies at the Community and Member State level, notably by driving forward the Lisbon Strategy. As such, the Competitiveness Council will make a major contribution to defining the EU's positive response to the challenges and opportunities of Globalisation. The Council is committed to actively pursuing its mandate by taking the necessary legislative action on key priorities and by advancing the micro-economic and structural reform process, including through its contribution to the annual debate on the Lisbon Growth and Jobs strategy.
