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Subject : Key Issues Paper 2009 - contribution from the Competitiveness Council to the
Spring European Council

Delegations will find attached a draft Presidency text for a Key Issues Paper 2009 from the Competitiveness Council to the Spring European Council.

A draft annex on Council (ECOFIN and COCOM) views on the Commission's Implementation Report for the Community Lisbon Programme (CLP) 2008-2010 will be distributed next week.

Responding Proactively to the Economic Downturn

Introduction

1. Confronted with an international financial crisis and a severe economic downturn, the European Union is showing its determination to **act in a concerted and comprehensive manner** in order to restore confidence and the growth path, as demonstrated by the European Economic Recovery Plan agreed by the European Council in December 2008. This also reinforces the importance of the **Lisbon Package** submitted by the European Commission on 16 December 2008, which responds to the need to make appropriate proposals for preserving the competitiveness of the EU with a medium-term horizon.
2. In a manner that is coherent with our overall strategy and long-term goals to achieve sustainable growth and jobs concrete measures need to be undertaken in order to stave off the threat of a long-term recession and for the EU economy to emerge stronger and more competitive from it. **Rapid and determined actions are needed in particular along five axes**: dismantling barriers in the internal market, reducing administrative burdens, improving framework conditions for industry and innovation with special focus on SMEs, stepping up and improving the quality of investment into knowledge, education and research, and focussing on the external dimension of competitiveness.
3. In the context of the **European Economic Recovery Plan**, Member States should bring forward short-term measures in response to their specific circumstances and reflecting their different scope for action within a common and co-ordinated framework. Such actions should improve the framework conditions for business and be complementary to and consistent with the Lisbon Strategy structural reforms.

4. A clear commitment to continue to implement **structural reforms beyond 2010 (post-Lisbon)** is necessary in order to boost confidence among citizens and businesses. Achieving sustainable growth and jobs should remain the central challenge for the new strategy. In particular, the microeconomic elements of the Lisbon Strategy need to be brought together in a consolidated “Competitiveness Agenda”. Governance of the process should be streamlined, reporting burden for Member States should be kept as lean as possible and concrete "smart" (i.e. specific, measurable, achievable, relevant and timed) targets should be set and should take account of the diversity of Member States. Communication with citizens should also be improved.

Recommendations

I. A fully functioning Single Market without barriers

1. The Council endorses the need to achieve an open, operational and flexible Internal Market by **eliminating significant remaining barriers** to free movement. It calls for the effective follow-up of the Single Market Review. Clear and simple rules should be in line with the Better Regulation principles, properly designed, applied and enforced. All new measures, legislative or other, should facilitate access to the internal market, in particular when they generate new compliance costs. Those Member States who still have not achieved the 1% transposition target need to increase their efforts.
2. **Strengthening competition in the EU’s network industries** should be urgently pursued to improve market access and to ensure more competitive pricing and greater choice for the consumers. In the case of gas and electricity markets, greater competition would also lead to more efficient use of energy and enable the EU to respond more effectively to the challenges of climate change and energy security.

3. The implementation of the **Services Directive** offers a major opportunity to move towards a truly integrated Internal Market by removing obstacles to cross-border trade, facilitating market access for SMEs and widening choice for consumers. Member States should fully implement the Services Directive by the December 2009 deadline and allocate sufficient resources for this. Efforts should be stepped up in particular to finalise the review and modernisation of national legislation and to set up fully functional "Points of Single Contact". The Commission and the Member States are invited to make the necessary preparations to ensure in 2010 a useful and efficient process of "mutual evaluation" of national legislation.

4. Administrative cooperation is a key factor in building mutual trust and improving the application of the Internal Market rules. The **Internal Market Information System (IMI)** represents a key tool for overcoming the obstacles to effective cooperation between Member States administrations (such as language barriers, differences in the organization of public administration, etc.) as demonstrated by the successful pilot project on professional qualifications. Member States should ensure that sufficient resources are allocated for full application of the IMI in the framework of the Services Directive with particular emphasis placed on training and awareness-raising. Member States should also ensure that adequate resources are available for the implementation of the Goods Package and for the further development of information and problem solving tools such as SOLVIT.

5. The **EU internal market in retailing** is still not fully operational. The Council welcomes the intention of the Commission to adopt in 2009 a report on the functioning of this key sector with the view to solve market malfunctioning. The timely implementation of the Services Directive should significantly improve the current situation. Particular attention should be given to the proposed **Directive on Consumer Rights**, which should lead to improving the functioning of the internal market to the benefits of consumers and businesses, in particular SMEs. Focusing on eliminating factors that make business-to-consumers cross-border transactions more difficult is one of the key tools for boosting performance of the Internal Market.

6. **Five years after** the entry of ten new Member States, evidence shows that the EU as a whole benefits economically from enlargement. Remaining transitional arrangements creating market distortions should be eliminated.

II. Putting into effect the Action Programme on reduction of administrative burden

1. The need to regulate better in the interest of enhanced competitiveness is becoming ever more important in difficult economic times in which reduction of administrative costs may serve as one of the measures for facilitating the conditions for businesses, most importantly for SMEs. As the Action Programme on reduction of administrative burden has reached a decisive phase, the Council takes note of results on measurement of the administrative burdens imposed on businesses and welcomes the proposed extension of the Action Programme and **the detailed roadmap** of further steps presented by the Commission in its [Third Strategic Review of Better Regulation.]¹
2. The Council calls for this work to progress quickly and for enhanced Community efforts to achieve the agreed **25% reduction** (both reduction of the existing stock and incoming legislation) with impacts felt by business – across all key sectors – by 2012. In order to achieve this the Council invites the Commission to use a variety of methods, such as an indicative timetable and joint working between institutions for concrete reduction proposals, to establish targets for all base-line sectors and the contribution these will make to the overall 25% reduction and to facilitate action across all Member States.
3. The Council stresses the importance of periodical **progress monitoring of the Action Programme** so as to include the potential of administrative burdens of new proposals adopted outside the original scope of the Action Programme in the reduction exercise. As part of this monitoring, it therefore invites the Commission, within the framework of its strategic reviews, **to report annually** to the Spring European Council on changes of administrative burdens.

¹ *Submission expected by the Commission on January 28, 2009.*

III. Fostering the framework conditions for industry and innovation with special focus on SME competitiveness

1. Member States should improve the **framework conditions** for industry and facilitate business access to finance. They should continue to pursue the Lisbon Strategy structural reforms. Businesses need a stable, favourable and predictable regulatory environment and legal certainty, in particular in the area of new regulatory requirements, while providing for necessary flexibility for growth and jobs, the application of state aid rules and in Internal Market legislation.
2. In the aftermath of the credit crisis, ensuring the **access to finance for businesses**, especially SMEs, is a key priority. The Council welcomes the anti-crisis measures taken by the EIB Group², in particular the increased lending to SMEs and mid-caps. It emphasises the role that Member States can play in facilitating SME loans and loan guarantees, including through the use of Structural Funds.
3. The Council notes the need **for increased and more effective funding for investment and infrastructure** both in response to the short-term economic crisis and in order to increase medium-term productivity in the context of the Lisbon Strategy. It welcomes the proposals to simplify procedures and speed-up implementation of the Structural and Cohesion Funds and the proposal by the Commission to bring forward specific projects to modernise Europe's infrastructure.

² <http://www.eib.org/about/press/2008/2008-159-eib-directors-approve-anti-crisis-measures-for-2009-2010.htm>

4. Innovative and green technologies can be ways to promote global business competitiveness. Reducing the EU energy dependency, enhancing measures for improving **energy efficiency** and embarking on a cost-effective emissions reduction strategy should lead to increased competitiveness, growth and jobs creation. In this context, the Council takes note with interest the proposed private-public partnerships on Green Cars, European Energy-efficient Buildings, and Factories for the Future.
5. The Commission and Member States should work together in conjunction with businesses to promote the availability and quality of **skilled workers and vocational education and training**.
6. Implementation of the principles enshrined in the Small Business Act for Europe will help to restore confidence by putting the “Think Small First” principle, entrepreneurship and competitiveness at the forefront of the society. A swift implementation of the measures contained in the **Small Business Act Action Plan, adopted by the Competitiveness Council in December 2008**, is a key to help SMEs to cope with the present tough market conditions. The Commission and the Member States should report and highlight the implementation of SBA measures on the national level within their progress reports to National Reform Programmes. In this context, work on the European Private Company Statute should be actively pursued.
7. The central role of **innovation** for improving Europe's competitiveness in the global economy leads to the necessity to systematically encourage all forms of innovation. The output of the research and innovation process should better respond to the market and to user needs. The Commission's **Lead Market Initiative** is a promising means for unlocking the market potential of innovative goods and services in a targeted way. Efforts to create **a Community patent and a Patent Litigation System** must be intensified. At the same time, the Commission and the Council are invited to launch in-depth evaluation of the broad-based innovation strategy set up in 2006, encompassing the main technologies of the future (including inter alia Space technologies) and those relevant to sustainable development.

8. The **specific innovation needs**, constraints and opportunities of different types of SMEs need to be better targeted and addressed by appropriate policies at different levels. At the occasion of the planned mid-term review of the Competitiveness and Innovation Framework Programme (CIP) and the 7th Research Framework Programme, the Council invites the Commission to consider how SMEs could be assisted more effectively by these important European instruments. The Commission and the Council are also invited to search for the synergies to streamline R&D and innovation policies on European and national level, including more focusing and simplified access to the financial instruments on national and European level for the businesses, in particular for SMEs.
9. Work in view of the extension of **broadband networks** should be accelerated both at Member States and EU levels with the aim of providing access to poorly served and high cost areas where the market cannot deliver with a common indicative goal of 100% coverage of high speed internet by 2010.

IV. Stepping up and improving the quality investment into knowledge and research

1. **Higher investments in education, research and innovation** are a key factor for the sustainable long-term growth of a competitive European economy. We reemphasise the continuing relevance of the Barcelona 3% RTD investment target and of creating a favourable research climate in Europe. Member States should also consider ways to increase R&D investment by the private sector.
2. **Pan-European Cooperation within the "Knowledge Triangle"** needs to be developed to its full potential. To achieve this, Member States should encourage European universities, research institutions and industry to coordinate their efforts. At the same time, the free circulation of researchers, knowledge and technology should be ensured in order to establish the "fifth freedom" across the European Research Area (ERA). In this context, the intention of the Commission to launch a screening of relevant Community policies is welcomed.

3. The Commission and Member States are encouraged to discuss and decide the steps to be taken in order to ensure a better governance of ERA and fulfil its Vision for 2020. The Lisbon strategy and the Ljubljana process are aiming at the same target – more and better coordinated investments into knowledge and competitiveness. Therefore, optimal synergy between the Lisbon agenda and the Ljubljana process should be ensured. The five ERA initiatives (research infrastructures, joint programming, researchers’ partnership, international science and technology cooperation and knowledge sharing) should now be further developed and implemented.
4. Combination of resources from national budgets, Community programmes and structural funds should lead to the construction of **excellent research infrastructures** throughout Europe in full respect of the principles of subsidiarity and voluntariness. The implementation of the ESFRI Roadmap update should be actively pursued. The emergence of regional partner facilities should be considered. The legal framework of European Research Infrastructures should be adopted as soon as possible.
5. Member States are invited to identify major societal and economic challenges and to address them in their National Reform Programmes and in the framework of **joint programming**. On this basis, the first proposals for joint programming themes should be developed in partnership between all relevant stakeholders by the end of 2009.
6. Member States and the Commission are also invited to put in place the dedicated structure for their partnership in the area of **international scientific and technological cooperation with third countries** which will be an important contribution for the external dimension of ERA and the Lisbon process.
7. **Career perspectives and mobility of researchers** should be enhanced through identifying an optimal policy mix between national and community tools and further developing the skills of all researchers. Interest in research and innovation needs to be promoted in society, particularly among the young.

8. The pending proposals for **Article 169** initiatives need to be further developed in order to start the initiatives in due time. It is also crucial to maintain the momentum on the examination of the current EMRP proposal with a view to its swift adoption.

9. The **regional research and innovation basis** need to be broadened through concrete investment measures, in close coordination with innovation cluster policy. The European Institute for Innovation and Technology (EIT) should play an important role in this context. The process of selection and establishment of the first KICs of the EIT should be accomplished in due time to make KICs operational in early 2010. The complementary use of funding sources from Community programmes such as FP 7 and the CIP with interventions of the Structural Funds as well as contributions from private sources of investment needs to be further encouraged. The established 20% benchmark for research and innovation-related investments of the Structural Funds should be monitored within the Ljubljana and Lisbon processes.

10. In this context, a better system of **evaluation and monitoring** of all research and innovation activities needs to be developed. Special attention should be paid to the evaluation of results of national and Community R&D programmes in order to acquire the evidence for ensuring more efficient and effective investments in Research and Innovation. The final ex post evaluation of FP6 should be taken into account while preparing the methodology and terms of reference of FP7 interim evaluation. The lessons learned should be utilised in future Community, intergovernmental and national programs and initiatives.

V. External Dimension of Competitiveness

The **external dimension** of competitiveness remains of crucial importance. Open markets, both in the EU and globally, are key to ensure growth and jobs. Avoiding the trap of protectionism and overregulation, Europe needs to take full advantage of the realities of the emerging new international economic system, diversify relations and develop new opportunities for mutually beneficial partnerships around the globe. Approaches for achieving an ambitious and balanced result in the negotiations on the Doha Round should be explored with our global trading partners. Relations with the BRIC economies and other global actors should be intensified. The opportunities for strengthening the transatlantic partnership need to be explored and the Transatlantic Economic Council should be fully used to achieve progress. The potential for bilateral Free Trade Agreements should be energetically exploited. The Council welcomes the December 2008 Commission Communication on the external dimension of Lisbon, with a main focus on market access and guiding principles for international regulatory cooperation.
