



**COUNCIL OF
THE EUROPEAN UNION**



Council Conclusions

A fresh impetus for competitiveness and innovation of the European Economy

*2871st COMPETITIVENESS
(INTERNAL MARKET, INDUSTRY and RESEARCH) Council meeting
Brussels, 29 and 30 May 2008*

The Council adopted the following conclusions:

" 1. GENERAL INTRODUCTION

THE COUNCIL OF THE EUROPEAN UNION,

RECALLING

- The Conclusions of the December 2006 Competitiveness Council on a broad-based innovation strategy ;
- The Integrated Conclusions of November 2007 Competitiveness Council ;
- The Conclusions of the 2008 Spring European Council ;

HAVING REGARD TO

- The Communication from the Commission on the mid-term review of industrial policy of July 2007 ;
- The Communication from the Commission on strategic report on the renewed Lisbon strategy for growth and jobs: launching the new cycle (2008-2010) ;
- The Communication from the Commission on the mid-term review of modern SME policy of October 2007 ;

P R E S S

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- The Communication from the Commission on a Single Market for 21st century Europe of November 2007 ;
- The European Innovation Scoreboard 2007;

WELCOMES

- The Communication from the Commission on "A lead market initiative for Europe" of December 2007 ;
- The Communication from the Commission on "Removing obstacles to cross-border investments by venture capital funds" of December 2007 ;
- The Communication from the Commission "Towards an increased contribution from standardization to innovation in Europe" of March 2008 ;
- The Communication from the Commission on "Pre-commercial Procurement: Driving innovation to ensure sustainable high quality public services in Europe" of December 2007 ;
- The Communication from the Commission on the Competitiveness of the Metals Industries of February 2008 ;
- The Communication from the Commission on Innovative and Sustainable Forest-based Industries in the EU of February 2008;
- The Communication from the Commission on "A strategy for a stronger and more competitive European defence industry" of December 2007 ;

STRESSES that

- The goal of making the EU a more dynamic and competitive knowledge-based safe and sustainable low carbon economy remains essential to achieving sustainable growth with more and better jobs and greater social cohesion.
- Competitive markets play an important role in stimulating development and adaptation of innovative products, services, technologies and production and management methods.

Further efforts are needed for creating conditions for growth and internationalisation of SMEs, including the improvement and full use of the innovative capacity of SMEs. This issue is of the utmost importance for European enterprises, as shown by the high level of participation to the open consultation launched by the Commission on a "Small Business Act for Europe". In this respect the Council welcomes the intention of the Commission to present a "Small Business Act for Europe" ;

- Developing an innovation-driven economy and ensuring a fully functioning Internal Market, including, as appropriate, through mutual recognition, harmonisation and non-legislative tools are crucial for higher productivity and global competitiveness.
- Europe must seek to develop innovation-friendly financial markets in a more targeted way, decisively facilitating innovations;
- European standardisation should play an important role in support of innovation and competitiveness; **UNDERLINES** the need to increase efforts in developing and using standards in the context of key initiatives for innovation such as Lead Markets; **NOTES** that this subject requires further consideration in the near future by the Council;
- There is a need for better integrated policies contributing to European competitiveness in response to globalisation, environmental and energy challenges and in the light of advances in science and technologies;
- Promoting the external dimension of competitiveness by removing remaining global barriers to trade encourages the innovative potential of European business and industry;

CALLS for a new impetus to competitiveness and innovation in the following areas:

2. INNOVATION

THE COUNCIL

- UNDERLINES the central role of innovation to Europe's ability and skills to respond effectively to the challenges and opportunities of the global economy;
- ACKNOWLEDGES the importance of encouraging all forms of innovation — technological as well as non-technological — in particular those that bring innovation closer to market needs and respond better to user needs;
- STRESSES the necessity to be more specific and better targeted when addressing the needs of the whole range of SMEs;
- RECOGNISES the importance of cluster policy in terms of fostering innovation and excellence and addressing the specific needs of SMEs, including innovative enterprises with a high growth potential;
- NOTES the need to continue to reduce the innovation gap with main trading partners and to improve innovation efficiencies in the EU, as well as further convergence in European innovation performance and the need to sustain this trend;
- INVITES Member States, the Commission and regions to coordinate their efforts to improve framework conditions for innovation, such as science-industry linkages and support services for innovation, including encouraging the growth of world class innovation clusters, and innovation clusters of regional importance and to ensure better governance of relevant policies throughout the European Union;
- UNDERLINES that existing instruments at the EU, national and regional level including structural funds play an important role in promoting innovation;
- WELCOMES the public-private partnerships in R&D and innovation that have been and will be created, notably the Joint Technology Initiatives and the Knowledge and Innovation Communities of the European Institute of Innovation and Technology;

2.1. CONCERNING THE LEAD MARKET INITIATIVE FOR EUROPE, THE COUNCIL

1. WELCOMES the Lead Market Initiative as a means to unlock market potential for innovative goods and services by removing obstacles to innovation in view of enabling European enterprises to enter new and fast growing global markets as lead producers whilst at the same time benefiting European consumers in areas of particularly high economic, societal and environmental benefits. RECOGNISES that this initiative could make a significant contribution to bridging the gap between the generation of promising new products, services and technologies and their market success by creating conditions that facilitate the expression of demand, thus reducing costs and facilitating “first mover advantage” internationally.
2. BELIEVES that by building on and respecting the diversity of markets and innovation strategies in Member States, priority should be given to measures that maximise the potential of the single market and increase competition to drive innovation and private investment. The Lead Market Initiative has the potential to speed up market development, strengthen comparative advantages and reward the best performers without interfering with competitive forces, increase the predictability for industry about the long term direction of regulation, while at the same time removing excessive burden on business. By adopting a technologically neutral perspective and avoiding the ‘picking of winners’, the Lead Market Initiative should promote competitiveness.

3. NOTES that six markets have been identified on the basis of a broad stakeholder consultation for the initial stage, i.e. eHealth, sustainable construction, protective textiles, recycling, bio-based products and renewable energies, and that the Lead Market Initiative may in future be applied to other markets suitable for actions within this initiative as well, following thorough evaluation, stakeholder consultation and closely involving the Council. These markets are highly innovative, respond to customers' needs in broad market segments, have a strong technological and industrial base in Europe and depend heavily on the creation of favourable framework conditions.
4. CALLS ON the Commission and Member States, to take urgent and coordinated action through ambitious action plans where appropriate, and through the development of adequate and effective coordination structures, bearing in mind that the six identified markets have the potential to become Lead Markets. INVITES MEMBER STATES to encourage business and other stakeholders, as well as relevant procurement authorities, to participate in actions contributing to the speedy implementation of the Lead Market Initiative.
5. WELCOMES the Commission's intention to review relevant legislation, as indicated in the lead market action plans. In addition, the Commission should facilitate the sharing of best practices between procuring authorities in order to help accelerating this process, as well as address requests to European standardisation bodies for issuing standards needed for the quick take-off of the six markets.
6. INVITES THE COMMISSION, in cooperation with Member States and stakeholders, to implement the Lead Market Initiative in each of the six markets, to perform a review of the Lead Market Initiative by the end of 2009, and to set up appropriate governance arrangements for the lead markets;
7. INVITES THE COMMISSION to exploit synergies between the Lead Market Initiative and other related Community actions and policy instruments such as the Seventh RTD Framework Programme, the Competitiveness and Innovation Framework Programme (CIP), the Environmental Technologies Action Plan, and the Strategic Energy Technologies (SET) Plan;
8. INVITES MEMBER STATES to also exploit synergies in the use of existing national and regional instruments or actions in order to create the right framework to foster lead markets.

2.2. CONCERNING CROSS-BORDER VENTURE CAPITAL FUNDS, THE COUNCIL

1. STRESSES that creating conditions for reducing fragmentation of European venture capital (hereafter: VC) across the single market can contribute to overcome the equity gap and increase the flow of early-stage capital for innovative SMEs in order to finance growth, quick market entry, exploiting new technologies and competing globally.
2. NOTES that the stage of development and maturity of VC markets varies in the EU and that different conditions along with divergent national approaches and fragmented markets make funds structuring across multiple borders complex and costly.
3. RECOGNISES that working increasingly towards a common understanding of the key features of VC funds and their investors is crucial. On this basis, the mutual recognition of national frameworks is a promising initial step towards the gradual creation of an EU-wide

framework, resulting in lower operating costs, higher legal certainty, less administrative complexities and shorter procedures. CONSIDERS that Member States already share certain common basic requirements for operating in VC funds, building upon mutually acceptable levels of supervision and trust. INVITES Member States to make progress towards a mutual recognition of national frameworks.

4. INVITES the Commission and Member States to work together in overcoming obstacles to cross-border VC investment and WELCOMES that the Commission will study ways of assisting in the process of mutual recognition and promote exchange of good practices at all levels by supporting platforms and networks.
5. RECOGNISES the significant benefits of developing a more integrated and competitive VC market in Europe, and the contribution a regime for cross-border private placement in the EU could make to facilitating cross-border VC fund raising. ENCOURAGES the Commission to also consider VC funds when preparing its forthcoming Communication on private placement.
6. RECOGNISES the importance of clarity and certainty in the field of taxation for the development of a dynamic EU-wide VC market, with a view to identifying and eliminating double taxation and legal or administrative uncertainty within national jurisdictions, and SUPPORTS the efforts of the expert group on removing tax obstacles for this type of investments which is expected to report by the end of 2008.

2.3. CONCERNING PRE-COMMERCIAL PROCUREMENT, THE COUNCIL

1. RECOGNISES the potential of pre-commercial procurement to improve the quality and efficiency of public services, as well as to contribute to strengthening the research and development efforts, innovation capacity and competitiveness of European businesses.
2. ACKNOWLEDGES that pre-commercial procurement should help maximise the benefits for procurers and suppliers through risk-benefit sharing, fair competition and development of innovations in phases.
3. INVITES Member States and the Commission to encourage public authorities at all levels to implement pre-commercial procurement when innovative solutions are needed to address the mid-to-long term challenges of the public sector. NOTES that pre-commercial public procurement can make a contribution to the success of the Lead Market Initiative;
4. INVITES the Commission to provide a set of non-legislative actions to implement this approach in due time such as developing the knowledge of and experience sharing on pre-commercial procurement between relevant stakeholders, through support to networking between procurers, further analysis, awareness raising and communication of best practices, as well as through mechanisms for more intensive dialogue between procurers and research and innovation authorities.

3. INDUSTRIAL POLICY

THE COUNCIL

3.1. CONCERNING THE NEED TO IMPLEMENT MEASURES TO FIGHT CLIMATE CHANGE WHILE PRESERVING THE COMPETITIVENESS OF INDUSTRY

- RECOGNISES that in global context of competitive markets, the risk of industry investment shifting to countries where there are no carbon constraints or costs imposed that may result from the lack of such restrictions (carbon leakage) is a concern in certain sectors such as energy intensive industries particularly exposed to international competition that needs to be analysed and addressed urgently in the new ETS Directive so that if international negotiations fail, appropriate measures can be implemented. An ambitious international agreement remains the best way of addressing the issue.
- RECALLS the objective of securing an ambitious, global and comprehensive post-2012 agreement on climate change at Copenhagen in 2009 consistent with the EU's "two degrees Celsius" objective, committing other industrialized countries to adopt comparable measures as taken within the EU and committing developing countries to contribute adequately.
- RECOGNISES that the Commission's climate change and energy legislative package 2008 presents important challenges and opportunities to the competitiveness of European industry, and that prevention of carbon leakage is essential to the achievement of key environmental and competitiveness goals.

3.2. CONCERNING COMPETITIVENESS IN METALS INDUSTRIES AND FOREST-BASED INDUSTRIES, THE COUNCIL

1. ACKNOWLEDGES the importance of competitive metals industries and forest-based industries, in terms of their contribution to the competitiveness in Europe throughout the value chain. RECOGNISES that all sectors covered by the Emission Trading Scheme will be analysed in order to determine whether they are exposed to a significant risk of carbon leakage, in the context of the climate change and energy package. Without prejudice to the outcome of this analysis, metals industries and forest-based industries are among the candidates which may be defined as energy intensive industries, particularly exposed to the international competition.
2. STRESSES that availability and efficient use of a wide diversity of raw materials is a key element for competitiveness of these industries. INVITES the Commission to put in practice all the actions to encourage a sustainable supply of strategic materials to the metals-industries and forest-based industries, including through promotion of recycling, eliminating distortions in trade, namely through endeavouring to remove all tariff and non-tariff barriers, greater use of recovered and secondary raw materials and increased mobilisation of wood in line with sustainable management of forests. Policies should ensure that problems of competing uses of wood are addressed and will not lead to distortions of the Community market;
3. RECOGNISES that metals are almost fully and indefinitely recyclable and as such in terms of sustainable development very important. Recycling of metals and other products produced by the metals industry is both environment-friendly and cost effective activity as a result of energy savings and efficient use of resources.

4. RECOGNISES the strategic role that forests and forest-based industries play in a sustainable society and that ongoing promotion of this role must be supported. Forests have a crucial role in limiting future climate change. In addition, they have an important function as producers of raw materials that store carbon and substitute other non-renewable raw materials without prejudice to their role as a resource provider for forest-based industries. Production, use and trade of timber, which is legally and sustainably produced, can play a supporting role for achieving climate protection aims.
5. RECOGNISES that metals industries and forest-based industries generally face fierce competition on global markets and RECOGNIZES, within our commitment to an open global trading system, and pressing for increased opening up of international markets which should lead to reciprocal benefits, strong enforcement of IPR rules, the importance of creating a level playing field and the importance of transparent and effective trade defence instruments in global trade for the European enterprises concerned. It ENCOURAGES the Commission to continue with efforts to implement a market access strategy coherent with its jobs and growth and sustainable development objectives.
6. INVITES the Commission to take advantage of appropriate research and innovation instruments in order to enhance the capabilities of the metal industries and of the forest based industries to innovate, both at the product and production process level.
7. INVITES the Commission to take into account the specific needs of SMEs in these sectors;
8. INVITES the Commission and Member States to continue to pursue actively discussions with industry and with third countries on the question of sectoral approaches, so as to encourage the taking of effective measures to reduce greenhouse gas emissions, thereby also addressing carbon leakage.

3.3. CONCERNING THE DEFENCE INDUSTRIES, THE COUNCIL

1. RECOGNISES the importance of improving the competitiveness of the European defence industries by ensuring a dynamic and strong European Defence Technological and Industrial Base (EDTIB).
2. AGREES that it is necessary to ensure that Member States' defence capability needs can be addressed cost-effectively by a more competitive European defence industry while maintaining essential security interests, security of supply, innovation and responsiveness.
3. RECALLS that reducing barriers to competition and enhancing cooperation among Member States in accordance with the special characteristics of defence markets, could contribute to the efficient development of the defence capabilities needed and is thus a precondition for the creation of a European defence industry that is competitive at international level.
4. UNDERLINES the importance of ensuring a level playing field and fair competition for defence industry goods without prejudice to Article 296 of the Treaty.

5. RECOGNISES the importance of establishing common standards in order to facilitate more effective defence markets.
6. RECOGNISES that SMEs play an important role in the European defence sector, and are also of great importance offering their innovative potential as subcontractors to the cross-border supply chains.
7. ENCOURAGES Member States, the Commission and the European Defence Agency to continue to work together to ensure that the full potential of the European defence market is realised so that European industries are in the best position to meet the challenges and opportunities presented by the rapidly evolving defence and security sector.
8. EMPHASIZES the importance of the European Code of Conduct for Arms Exports to third countries and its full implementation, and all of its criteria.

4. CONCLUDING REMARKS

- STRESSES the need for Europe to benefit from the challenges of globalisation and the development towards a low carbon economy inter alia by further integrating innovation into industrial policy.
- STRESSES the need to further implement the broad-based innovation strategy while at the same time remaining sufficiently flexible to respond to a changing environment, and to continue the progressive shift in emphasis from technology push to demand- and user- driven innovation. Particular emphasis needs to be put in this context to developing the innovation participation of SMEs, who form the backbone of the European economy.
- UNDERLINES the need to continue to address sector-specific issues while continuing with the agreed horizontal approach in industrial policy and CALLS on the Commission to report on the progress achieved;
- UNDERLINES the conclusions of the Spring European Council 2008 that the ambitious targets proposed by the Commission to reduce greenhouse gas emissions by 2020 in the EU will affect certain energy-intensive sectors particularly exposed to international competition which may increase the risk of carbon leakage;
- UNDERTAKES to regularly review the progress of discussions on the Commission's proposals on climate change and energy legislative package, the negotiations aiming at an international agreement and' progress on global sectoral approaches, in view of assessing the consequences of the foreseen measures on the competitiveness of European enterprises. "