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**NOTE**

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from :	Permanent Representatives' Committee
to :	Council
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Subject :	Communication from the Commission to the Council, the European Parliament, the European Economic and Social Committee and the Committee of the Regions "Putting knowledge into practice: A broad-based innovation strategy for the EU" – <b>Draft Council Conclusions: Strategic priorities for innovation action at EU level</b> – <b>Adoption</b>

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1. On 14 September 2006, the Commission submitted to the Council the communication cited above (doc.12940/06).

2. On 26 October, 15 and 16 November 2006, the Competitiveness and Growth Working Party discussed draft Council conclusions on the basis of a draft text elaborated by the Presidency, reaching a large degree of consensus on the text.
3. On 24 and 29 November 2006, the Permanent Representatives' Committee resolved the last outstanding issues, with the exception of Intellectual Property Rights (page 6 below) where substantial differences of opinion persist.
4. Thus, the Permanent Representatives' Committee recommends to the Council to:
  - conduct a policy debate among Ministers with a view of resolving the last remaining issue concerning the treatment of Intellectual Property Rights in the compromise text,
  - adopt the Council conclusions as set out in Annex to this document, with amendments to the text on page 6 as necessary.

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**DRAFT COUNCIL CONCLUSIONS ON  
A BROAD-BASED INNOVATION STRATEGY:  
STRATEGIC PRIORITIES FOR INNOVATION ACTION AT EU LEVEL<sup>1</sup>**

Innovation plays a critically important role in Europe's ability to respond effectively to the challenges and opportunities of the global economy as well as to other major challenges, such as climate change. All forms of innovation, including non-technological innovation must be taken into account. In this context, the Council recalls the request of the Spring European Council 2006 for the establishment of a broad-based innovation strategy, the conclusions of the report of the independent high-level expert group chaired by Esko Aho on "Creating an innovative Europe" of January 2006<sup>2</sup> and the consensus of Heads of State or Government reached in Lahti to take a strategic approach to innovation with a strong focus on a number of key actions. The Council welcomes the Commission Communication "Putting knowledge into practice: a broad-based innovation strategy for the EU"<sup>3</sup> and the Commission's Communication "An innovation-friendly, modern Europe"<sup>4</sup>.

The Council considers that:

- support for innovation is **an essential part of the Lisbon Strategy for Growth and Jobs**, and it merits an ongoing position on the EU's competitiveness agenda;

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<sup>1</sup> All delegations: general scrutiny reservation.

<sup>2</sup> [http://www.europa.eu.int/invest-in-research/action/2006\\_ahogroup\\_en.htm](http://www.europa.eu.int/invest-in-research/action/2006_ahogroup_en.htm).

<sup>3</sup> Doc. 12940/06 COMPET 239 RECH 219 EDUC 171 ECOFUN 293 SOC 411 ENV 468 ENER 211 TELECOM 81 MI 164 IND 64 MAP 13.

<sup>4</sup> Doc. 14065/06.

- public policies should be designed in a way that creates a strong incentive for innovation. Innovation policy should be best understood as **a set of instruments**. These aim at improving access to financing in support of innovation, at creating an innovation friendly regulatory environment and demand for innovation as well as at reinforcing the activities of institutions relevant for innovation, including the links between research institutions and industry;
- the role of general framework conditions for innovation is crucial, in particular for SMEs. A **Single Market, competition** and a **regulatory framework** based on clear and consistent rules constitute the prerequisites for a broad-based innovation strategy. A strong commitment to fully enforcing and developing the Single Market rules is therefore instrumental. This needs to be carefully followed up in the Commission's Single Market Review. Furthermore, the EU competition rules support innovation as they help increase firms' incentive to innovate. A full commitment to the implementation of the Better Regulation agenda is also required;
- within the framework of the Lisbon National Reform Programmes, the specific circumstances in Member States call for **comprehensive, yet tailored, innovation policy measures at national level**. These should cover, inter alia, education, research, entrepreneurship and promotion of innovation culture. In particular, education systems at all appropriate levels will have to respond to new challenges in ensuring that there is sufficient availability of key skills to support innovation;
- the Community financing in support of innovation (notably the Seventh Framework Programme for Research and the Competitiveness and Innovation Framework Programme (2007-2013)) and the specific innovation support initiatives (e.g. Europe INNOVA, PRO INNO Europe, including the initiative for a Cluster Alliance, i2010, etc.) financed by the Commission are important elements of the broad-based innovation strategy. The Council invites all Member States to actively engage with the work under these programmes in order to realise their full potential;

- innovation policy typically addresses horizontal issues, consisting of various public policies, thus requiring **effective governance**. The Commission is invited, in cooperation with all relevant bodies at all levels (EU, national, regional and local), to further strengthen the coherence and synergy of its different policies, stakeholder involvement as well as monitoring systems that contribute to fostering innovation, in particular with a view to avoiding overlaps and inconsistencies, notably by using the Open Method of Co-ordination (OMC);
- a common view on innovation enhances the Union's **external competitiveness** and helps position the Union as the global leader in terms of reaping the new opportunities brought by globalisation and technological change. Developing synergies between the Union and third countries in the field of innovation policy could also help improve a global level playing field;
- the newly adopted **Community Framework for State aid for R&D and innovation** should enable Member States to better target their existing support budgets to innovation activities in a coherent manner. This should make it easier for European enterprises to face globalised competition and avoid creating unnecessary bureaucratic burdens. Overall, the Commission will closely monitor the experience gained with the new framework;

#### The Council notes

- the publication of the Commission's Communication providing voluntary guidance on issues of transnational interest, including the design, use and evaluation of tax incentives for R&D, while fully recognising Member State competence for national tax policy.

#### **Strategic Priorities for innovation action at EU level**

In view of the above, the Council stresses that efficient support for innovation is an integral part of the Lisbon Process; thus joint action is required at European level. Therefore, implementation of a broad-based innovation strategy necessitates defining **the following strategic priorities** at EU level:

## [1. Intellectual Property Rights – IPR

An effective IPR framework at European level is essential for innovation. The Council therefore welcomes the Commission's intention to present, in the course of 2007, a comprehensive IPR Strategy. The Council stresses the need for such a strategy covering all forms of IPR and ensuring synergies with other policies. The IPR Strategy should address issues such as the structure and quality of the IPR system, awareness-raising, the balance between users and right holders as well as new challenges including new technology and business models in the service sector. The Council will discuss this issue in early 2008 at the latest.

The Council welcomes the Commission's intention to respond rapidly to the patent consultation which it carried out earlier this year in order to explore how to develop the patent system in Europe. It endorses the call for a patent system which is simpler, more cost-effective and which maintains the highest standards in the quality of examination and grant procedures, and recognises that establishing cost-effective dispute resolution with legal certainty is the priority. The Council therefore looks forward to the Commission's proposals, for the creation of a single European-wide patent jurisdiction system in its forthcoming Patent Communication and commits to responding to them rapidly. Subsequently, the Council also agrees, on this basis, to revisit the issue of Community Patent.

The Council furthermore invites the Commission to complete its assessment of the impact of copyright levies and discuss this with the Member States and the stakeholders. The Commission is invited, on this basis, to come forward with proposals for improvement by June 2007. The Council will discuss these issues in early 2008 at the latest.]<sup>5</sup>

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<sup>5</sup> All delegations: reservation or scrutiny reservation.

## **2. Creating a pro-active standard-setting policy**

Standards can be decisive for the commercial success, in helping to aggregate demand for innovation activity. Ensuring interoperability is also important in order to avoid increasing multiple standards that would further fragment the Single Market. The current European standardisation system has to adapt to the needs of fast-moving markets, especially, in services and high-technology products. The Union should also be more active in influencing global standardisation systems.

The Council stresses the need to enhance the European standard-setting systems. The Commission should work out by September 2007, based on on-going efforts and in consultation with the industry, including SMEs, and all other relevant stakeholders, proposals for action to be taken by appropriate bodies, for reforming and streamlining the system. Attention should be paid in particular to reassessing the working methods and the overall resources of the standardisation organisations as well as to analysing the role of standardisation in research and new fields of technology. The Council invites the Commission and Member States to investigate how to further integrate standardisation aspects into European and national RTD projects. The Commission is also invited to report on ways to reinforce the uptake of standards. The Council will return to this topic by November 2007 to take stock of progress, and decide on the next steps.

## **3. Making public procurement work for innovation**

The Council recognizes the great potential in making use of public procurement in stimulating innovation; in particular for SMEs that need an improved access to public procurement procedures. The key challenge is to create more awareness and put into use the new methods that have been brought about by the modernised and simplified EU's public procurement regulatory framework. The Council, therefore, looks forward to the Commission's guidance, expected by December 2006, on how the EU rules on public procurement can be used to stimulate innovation<sup>6</sup>.

The Council will return to this issue by November 2007 to discuss the Commission's response and to decide on eventual further action.

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<sup>6</sup> In the form of a specific handbook.

#### **4. Launching Joint Technology Initiatives (JTI's)**

The industry-led European Technology Platforms have been in existence since 2003, bringing together businesses, the research community and civil society as well as involving public authorities. To foster European co-operation on specific technologies further and with a view to establishing European leadership in future strategic technologies, it is now time to make progress on the launch of the Joint Technology Initiatives (JTI's) as described in the Seventh Research Framework Programme. This includes examples of areas where JTI's could have particular relevance: hydrogen and fuel cells, aeronautics and air transport, innovative medicines, nano-electronics, embedded computing systems and global monitoring for environment and security. The Commission is intending to submit a roadmap establishing the process that will lead to the presentation of JTI proposals.

The Council invites the Commission in this context to make, by February 2007, proposals for the setting up of Joint Technology Initiatives that have reached an appropriate stage of preparedness. The Council will undertake to make a decision on those proposals as early as possible. Proposals on other areas should follow as soon as possible. The Council also urges in this context industry to make appropriate commitments for financing of the JTI's while ensuring that participation in projects is open to a wide range of participants throughout Europe, in particular SMEs. The allocation of Community funding by the Joint Technology Initiatives will take place on the basis of the Framework Programme principles of excellence and competition.

## 5. Boosting innovation and growth in lead markets

The EU needs a focussed strategy to bring to market innovative products and services in promising areas. Lead markets can be a solution to this challenge: they are about creating conducive frameworks for innovation in specific areas of the economy where European firms could have a globally leading role, but where due to reasons related to e.g. burdensome regulation and systemic failures in policy and legislative coherence, this potential remains currently unrealised. A concerted and prospective approach to public intervention, involving, as appropriate, actions e.g. in the areas of product market regulation, standardisation, IPR and public procurement as well as removing legal obstacles could play an instrumental role. This could help strengthen the demand side of innovation thereby setting the right conditions for innovation-driven lead markets to emerge and develop in Europe.

The Council welcomes the Commission's intention to consult stakeholders on the barriers for lead markets. The Council invites the Commission to present during 2007 an initiative on lead markets, based on a broad stakeholder consultation for defining a valid approach for fostering emergence of markets with high economic and societal value. This would include identifying areas where concerted action through key policy instruments and framework conditions, coherent and coordinated policy making by relevant public authorities as well as enhanced cooperation between key stakeholders can speed up market development, without interfering with competitive forces. Potential for lead markets could be assessed, inter alia, in areas such as low carbon technologies, eco-innovation, e-health, intelligent transport systems, digital content, energy efficiency, bioenergy/biotechnology, nano-technology, satellite navigation and earth observation, security, ICT and marine technologies, including mineral resources. The Council will undertake to conclude the discussions on the initiative by February 2008.

## **6. Enhancing closer co-operation between higher education, research and business**

The Council stresses the vital role of higher education and lifelong learning in supporting innovation. The Council supports the conclusion of the Commission's Communication "Delivering on the Modernisation Agenda for Universities" that universities in Europe<sup>7</sup> must be reformed and modernised. It also agrees that the priority areas for reform are improving governance, developing new partnerships with business, increasing and diversifying sources of funding and extending opportunities for higher education and lifelong learning to support the innovation capacity of the labour force. The uptake of research results and the mobility of researchers, including more scholarships for S&T students, are important elements in the cooperation between research and business. The Council therefore considers knowledge transfer to be a strong feature of the Seventh Framework Programme and an important criterion for the overall evaluation of the programme.

**At EU level, the initiative for the European Institute of Technology has the potential to show the way for modern and effective co-operation among universities, research institutes and businesses. The Council welcomes the Commission's proposal on the establishment of the EIT. The Commission is invited to clarify the outstanding issues, in particular, the budgetary implications of establishing the EIT.** The Council will endeavour to conclude the discussions on the proposal in co-decision with the European Parliament in good time with a view to having the EIT operational as soon as possible in the context of the Lisbon process.

**The Council also invites the Commission to present the announced Communication on knowledge transfer, including guidelines for public authorities, public research centres and industry, aimed at enhancing knowledge transfer between the public and private sectors across Europe.**

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<sup>7</sup> The term "universities" includes other institutes of higher education in those Member States who recognise them.

## 7. Helping innovation in regions

Clustering can be an effective means to strengthen regional innovation by combining competences of industry, research and public authorities. Clusters can be further reinforced through cross-border/trans-national dialogue and sharing of information regarding the most appropriate tools, measures and experiences.

There is also great potential for programming interventions in European regional and cohesion policy programmes to support regional innovation. Programmes financed by the Structural Funds should be more effectively oriented to support research and innovation.

The Council welcomes the Commission's initiative of the European Cluster Alliance aiming at stimulating practical cooperation between regional governments. The Commission is in this context invited to prepare by April 2007 an analysis on how to promote the trans-national dimension of clusters.

The Council invites the Member States to commit themselves to the achievement of targets in line with the priorities set in the Financial Perspectives 2007-2013 for promoting competitiveness and creating jobs, in particular research and innovation as agreed for the new programming period of cohesion policy. The Commission is also invited to provide expert assistance on using structural funds for promoting innovation. The Council will return to these issues, and consider next steps by November 2007.

## **8. Developing a policy approach to innovation in services and to non-technological innovation**

It is acknowledged that existing EU or national innovation policy instruments do not always adequately take into account the overall importance and specific needs of the services sector, and they regularly fail to acknowledge the need for innovation also in public sector services. There is a need to take a comprehensive look at policies relevant for services and reassess their focus from the viewpoint of service-related and non-technological innovation. In the same way, the role of non-technological innovation is increasingly crucial when faced with strong competition in global markets, especially for SMEs. The Council invites the Commission to prepare by April 2007 an overall assessment on innovation in services evaluating e.g. the related needs for policy adjustments, where appropriate. The Commission is also invited to take into account the various forms of non-technological innovation. The Council will discuss the assessment by June 2007, and decide on eventual next steps.

## **9. Risk capital markets**

The Council, taking into account the recent Commission's Communication<sup>8</sup> and other relevant work done in this area<sup>9</sup>, invites the Commission to continue its efforts to improve businesses' access to appropriate innovation finance, inter alia, by identifying, in co-operation with the Member States, obstacles to cross-border investment by venture capital funds. The Commission is also invited to study further the conditions for early stage venture capital investment in the EU with a view to future policy initiatives for SMEs. The Commission should prepare a report on the cross-border obstacles and present it to the Council by November 2007. The Council will return to this issue to discuss the Commission's report, and consider next steps.

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<sup>8</sup> Doc. 11216/06 COMPET 189 MI 146 IND 58 ECOFIN 248 - "Financing SME Growth – Adding European Value" COM(2006) 349 final.

<sup>9</sup> Conclusions by ECOFIN on 10 October 2006 (13547/1/06 REV1).

## Implementation of the Strategic Priorities

The Council:

- invites the Commission to integrate these Strategic Priorities as part of the Community Lisbon Programme and to report on their progress as part of its Annual Progress Report, analysing in particular the complementarities between national and EU level action. In this context, special emphasis should be on systemic benchmarking of innovation policies at EU level against those followed elsewhere in the world, including of public funding measures for research, development and innovation;
- will regularly update these Strategic Priorities and monitor their implementation. To this end, it will hold an annual strategic debate on innovation on the basis of the Commission's Annual Progress Report and prepare a contribution to the Spring European Council;
- requests the Permanent Representatives Committee to assign one preparatory body with the co-ordinating task of regularly reviewing progress on innovation policies at EU and Member State level, and contribute to the necessary input for the above strategic debate;
- invites the Member States to continue their efforts on national innovation and research policy and reflect their actions in the national Progress Reports.

Finally, the Council agrees to submit the Strategic Priorities to the European Council for endorsement.