



Mr Manuel Pinho
Ministério da Economia e Inovação
Rua da Horta Seca
1200 – 221 Lisboa
Portugal

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Competitiveness Council, 22-23 November 2007

Dear President,

In my letter dated 24 September 2007, I expressed the view of European business that the Competitiveness Council must play a central role in the Lisbon strategy for growth and jobs. Hence, BUSINESSEUROPE fully supports the Council's objective of fostering a more integrated approach to competitiveness-enhancing policies. This will serve as an important contribution to the ongoing review of the Lisbon strategy for its last three-year cycle, both in its Community dimension and in the coordination of national reforms.

The Lisbon strategy has made progress since its overhaul in 2005, but challenges remain daunting. The strength of productivity growth is a source of disappointment, particularly in the more mature EU economies, and a lack of implementation in key reform areas is making prospects of a swift reversal unlikely.

A well functioning internal market and a more supportive business environment, conducive to innovation and SME development, are fundamental to realise Lisbon objectives. In this regard, I would like to emphasise our concern about delays in delivery of the innovation agenda agreed last December, which deserves higher priority. In addition, BUSINESSEUROPE awaits more concrete results of important better regulation initiatives and consider that better enforcement and implementation of the internal market at the national level are preconditions for the recently adopted Single Market Review to deliver positive results in the future. Otherwise, the business community fully supports the integration of ambitious SME policies in the upcoming three-year cycle of the Lisbon strategy and insists that the "think-small-first principle" should be rigorously applied to Community policies.



In the spirit of the Lisbon strategy, it is also fundamental that the implementation of EU's ambitious climate change commitments do not hamper the competitiveness and growth of European industries. EU's unilateral policies risk to be aggravated by an approach excessively focussed on renewable energies.

The Competitiveness Council should play a strong role in this debate and I am pleased to observe that the impact of climate change policies on the industrial development of energy intensive sectors is the centre of discussions during your dinner with Commissioner Verheugen on 21 November.

The first phase of the Emissions Trading Scheme has demonstrated that this instrument needs fundamental improvements to alleviate negative competitiveness impacts. In this context, we are greatly concerned by the idea of introducing a general system of auctioning for allocation of ETS allowances after 2012. This formula is one of those that would most increase direct and indirect costs for manufacturing industry.

You will find more detailed comments on specific items on the agenda of the meeting in the annex to this letter. I take this opportunity to thank you for your efforts to advance the competitiveness agenda during your six-month presidency, and for actively maintaining close relations with the business community.

Yours sincerely,

Ernest-Antoine Seillière

**BUSINESSEUROPE comments on items to be debated at the Competitiveness Council meeting on 22-23 November 2007:*****Mid-term review of modern SME policy***

Since 2005, the Commission has developed a more horizontal approach in favour of SMEs, building on two pillars: better implementation of the “think-small-first principle” in Community policies and integration of SME priorities in the growth and jobs strategy. BUSINESSEUROPE agrees with the Commission that this is the right way forward and that current basic SME policy orientations and priorities should be kept.

At the same time, the regulatory, administrative, fiscal and financial environment in Europe is not improving sufficiently to allow Europe to surpass or even equal the entrepreneurial potential of competitors elsewhere in the world.

Europe’s economic future will to a large extent depend on the growth and innovation capacity of SMEs. However, red tape, taxation, inflexible labour markets and over-regulation are still major obstacles to SME growth. The EU and Member States must address these issues and put a continued focus on creating a more favourable business environment for SMEs.

Better regulation

It should remain a priority to ensure that simplification, impact assessments and administrative cost reduction generate concrete results. The Council and European Parliament should improve working methods to ensure that simplification proposals are dealt with rapidly, and they should make better progress with respect to systematic impact assessments on amendments.

BUSINESSEUROPE strongly supports the 25% target for reducing administrative burdens by 2012, but this target is too narrowly linked to information obligations and should be supplemented by reduction targets for the substantially higher compliance and enforcement costs, also at national level.

Independence and earlier stakeholder involvement in the process of impact assessment and administrative burden reduction are essential to ensure that the right decisions for growth and jobs are taken.

Simplification of company law, accounting and auditing

In the context of Internal Market integration and in view of securing a more favourable legal framework for European companies, the Commission communication on the simplification of company law, accounting and auditing was a good initiative. This exercise should initially focus on a more principles-based revision of the existing legislation focusing on concrete and individual measures in order to reduce costs and other obstacles currently faced by EU companies. It is also essential that the principles of better regulation together with subsidiarity and proportionality are taken into consideration.

The simplification exercise should also include a discussion on instruments that would improve the development of business in the Internal Market. The European private



company statute, which should provide private European companies, in particular SMEs, with a legal form suited to their specific needs and size, would strongly contribute to the development of the Internal Market and at the same time would allow companies to benefit fully from it.

Enhancing the patent system in Europe

BUSINESSEUROPE welcomes the efforts of the Portuguese Presidency to lay the foundations for a unified and integrated patent jurisdiction system for Europe and has taken note of the Presidency working document "Towards an EU Patent Jurisdiction – Points for Discussion". The proposal to create a unified patent jurisdiction would have exclusive jurisdiction for disputes regarding infringement and validity of European patents and future Community patents. It is an absolute precondition however that the future system put in place improves significantly the situation compared with the current national divergent court systems. The cornerstone of the system will be the participation of both legally and technically qualified judges with wide experience of patent litigation, chosen on the basis of an appropriate selection and nomination mechanism, based exclusively on the qualification and experience of the candidates. Otherwise, the necessary legal certainty will be lacking and users will not have confidence in the new judicial system. BUSINESSEUROPE will continue working with the Presidency and the Commission on this key issue for business and will provide detailed comments with its views on the patent jurisdiction system.

Innovation

At its meeting last December the Competitiveness Council stressed that efficient support for innovation is an integral part of the Lisbon Process. Joint action at the European level was stressed as being vital. The Council defined nine strategic priorities for action at EU level, later confirmed by the European Council. Four of these strategic priority actions (*Creating a pro-active standard-setting policy, Making public procurement work for innovation, Helping innovation in regions, and Risk capital markets*) were pencilled in for discussion by the Competitiveness Council this November, but none of them is now on the agenda.

These delays raise concerns that boosting Europe's innovative capacity appears to be somewhat less of a priority than it should be. This would not be in line with the objective of growth and jobs, nor with meeting the ambitious targets in response to challenges that Europe is increasingly facing (climate change, energy dependency, etc.).

European Institute of Technology

Strengthening knowledge transfer and fostering more effective cooperation between academia, research institutes and business is key to bridging the innovation gap that exists between Europe and its competitors. The European Institute of Technology (EIT) proposed by the European Commission in October 2006 is one possible means of doing this. For it to truly contribute to bridging this gap it needs to create poles of excellence that directly contribute to more innovation and thereby more growth and jobs.

Its viability depends on it complementing existing innovation, research and education efforts, assignment of significant amounts of public funding both in the initial start-up phase and during its later life, and developing clear linkages with the thematic priorities and strategic research agendas of the European Technology Platforms. For it to be considered a success it will need to provide challenges and conditions that attract participation of business and researchers.

If EIT is to be successful, reforms on higher education (including university reform) and lifelong learning should continue to receive proper attention.

Joint Technology Initiatives

The Joint Technology Initiatives (JTIs) are a key element of the Seventh Research Framework Programme (FP7). Repeating what BUSINESSEUROPE has previously said, there still remains an urgent need to finalise the approval process for the JTIs. We would encourage the Council to stick to its intention stated last December that it would "*make a decision on those proposals as early as possible*". The JTIs are a key part of FP7's ultimate success. The sooner the JTIs are established and running the better for innovation in Europe.

From a business and industry perspective it is very important that the JTIs become the public-private partnerships (PPPs) that FP7 intended them to be. The Council has approved the Commission's proposal that the JTIs should be set up under Community law as Community bodies while at the same time existing as real PPPs with a shared responsibility of industry in their joint management. This combination will be a complex undertaking but active participation of industry in the JTIs is necessary so that they can evolve to become successful, workable examples of PPPs in the research, development and innovation domains.

Modernising universities

Although competence for education and skills rests predominantly with Member States, efforts are needed to increase Europe's skills performance. BUSINESSEUROPE supports recent EU and national initiatives to promote the need to develop structured partnerships between higher education and companies. In pursuit of increasing the relevance of education and training programmes to the labour market, and to try to enhance levels of funding in higher education, BUSINESSEUROPE largely agrees with the approach of the European Commission's communications in 2006 on the modernisation of universities and on increasing efficiency and equity in education and training systems. Future activities should continue to concentrate on three focal points: curricular development; continuing education and lifelong learning; and modernising governance structures within higher education institutions. Within the scope of the Bologna Process, BUSINESSEUROPE welcomes the setting-up of a new working group on employability intended mainly for the sharing and dissemination of best practices regarding a better alignment of labour market needs and the content/structure of higher education courses.