



Bilag 1

Under the overarching theme of "Investing in excellence and innovation", the competitiveness ministers will discuss in Graz the issue of how the European Union can best meet the challenges of an increasingly competitive global marketplace. Strategic policies and concrete measures at both European and Member State level are needed.

The research ministers will begin the meeting by considering how research at the Community level, such as the 7th Framework Programme, should best be funded and targeted at strengthening Europe's competitiveness. A short report will be given on the main findings of the "European Conference on Security Research" (20-21 February 2006) and the conference on GMES (19-20 April 2006).

The economics ministers will consider how the EU can increase its competitiveness and exploit the opportunities that arise from globalisation ("The opportunity of globalisation"). In this context the Commission will outline new developments in State aid law. The Council will also discuss the importance of clusters for EU competitiveness. To round off the informal meeting, the ministers will discuss the completion of the internal market for services in the light of the Spring European Council's call to boost European growth and to facilitate job creation.



Blag 2

Innovation and the Competitiveness Challenge: A European response

Globalisation offers a number of opportunities and challenges for European companies, citizens and consumers. The expansion of the global workforce, the growth of global trade, increased interdependence between countries and regions, competition from emerging economies and the development of new markets are all key features of the modern world. These developments have significant implications, as the pressures of globalisation mean European enterprises must strengthen their competitiveness, and policy makers must develop a favourable business environment.

Companies can now operate complex multinational supply chains, increasing productivity and allowing for improved efficiency and cost savings. The challenge for the EU is therefore to maximise competitive advantages on European and at national and regional levels, so as to attract increasingly mobile capital and expertise.

Promoting innovation is at the centre of the Lisbon strategy as a key driver of European competitiveness, and remains a focus of the European response to globalisation. This paper and Ministerial discussion at the informal Competitiveness Council will focus on two elements of European activity in this area:

- Encouraging the formation of clusters at national and European level
- Better targeted state aids policy, specifically:
 - Revised guidelines for state aids for Research and Innovation
 - Revised guidelines for improving access to risk capital for start-ups and SMEs

Fostering cluster development in Europe

Clusters and innovation poles, which can be defined as concentrations of networked, independent firms and research entities, provide a particularly fertile ground for innovation. Increased interaction with co-operation partners creates synergies and potentially raises the innovative capacity of companies. Clustered systems often represent regional or sectoral poles of competence that allow the demand and supply of research to reach a critical mass. They can also improve communication between researchers and companies and encourage specialisation in areas of comparative advantage.

Clusters offer the potential to build new and strong enterprises and sectors upon existing or newly created industrial and research strengths, bringing together different actors. Competitive clusters also attract investment from inside and outside Europe, while companies in clusters can benefit from economies of scale. This offers a way



for small and medium sized enterprises (SMEs) to obtain the critical mass needed to enter new markets and to gain better access to external research facilities.

Strong, innovative clusters cannot be built from scratch. Cluster policies aim at leveraging existing regional strengths and assets into the development of new markets and industries. Many Member States have recently adopted specific actions in support of clusters or announced them in their National Reform Programmes. In the Communication on the Community Strategic Guidelines 2007-2013 adopted in July 2005¹, cluster development and business services in support of clusters are mentioned among the main activities boosting competitiveness and innovation in European regions. Member States can use European Regional Development and Social Funds (ERDF, ESF) to create and further develop clusters in their regions.

World class clustered networks often cannot be built at regional or national level alone. In comparison with other regions, European clusters are often considered too small and insufficiently strategically oriented. Although predominantly driven by Member States and regions, a European dimension should be added to cluster policies to enable clusters to reach critical mass and encourage greater openness. Efficient cluster management can also contribute to internationalising clusters and thus foster trans-national cooperation of innovative firms in Europe, which in turn can reduce duplication and enable improved specialisation.

Europe does not lack entrepreneurial spirit or new ideas, particularly among its SMEs but European companies are often not growing fast enough for new world market leaders to emerge from Europe. At European level², the added value of clusters and innovation poles can be supported in various ways:

- A mapping of clusters in all Member States and Candidate Countries: A pan-European database of clusters, as planned by the Commission, will help regional and national policy makers to better design their cluster policies and to learn from each other.
- Developing trans-national cluster initiatives: This is the objective of the new PRO-INNO Europe initiative, which will bring together a number of top-level innovation agencies in Europe to prepare for joint cluster policies. Based on this common approach, the creation of a European Cluster Alliance could further link regions and Member States and strengthen the political commitment for future cooperation.
- Supporting cooperation between clusters and cluster support services: Cluster management is a relatively young profession aimed at bringing together

¹ Cohesion Policy in Support of Growth and Jobs: Community Strategic Guidelines, 2007-2013 - COM(2005) 0299

² The Commission will submit in October 2006 a **Communication on "Fostering innovation through cluster development: the European approach"** to the Council, European Parliament and Committee of Regions, which will further develop the concept of clusters and propose specific actions at European level in their support. This communication will complement the national strategies to foster cluster development in Europe, as described in the National Reform Programmes



players from different fields (industry, academia, financial investors, public authorities, etc.) in a strategic manner. There is therefore still much to be learned from best practice examples between Member States or regions. For example, the Europe INNOVA initiative offers a platform for the exchange of good cluster management practice.

- European Technology Platforms (ETPs)³: the leading research institutes, companies, SME representatives and user groups throughout Europe have started to pool their competences within 29 ETP stakeholder groups, each responsible for a technological sector. These aim to develop a medium term vision for policy making at national, regional and Community level, distilling medium and long-term opportunities and corresponding concrete measures.
- The co-ordination of national research funding programmes in the ERA-Net instrument: Along similar thematic priorities to those of the ETPs, this initiative groups national funding instruments into Europe-wide thematic funding networks, which help to put measures relevant to transnational R&D into practice and may also encourage the emergence of trans-national technological clusters.

³ The Austrian Presidency will organize a major conference on the ETP-topic on 4-5 May 2006. Further details under: <http://www.bit.or.at/technologyplatforms/>



Less and Better State Aid for Growth and Jobs: New rules on Research, Development and Innovation, and Risk Capital

For research and innovation

Brägel 3

In the "State aid action plan" from June 2005⁴ the Commission stresses that Europe's future economic development depends on its ability to create high-value, innovative and research-based sectors capable of competing with the best in the world. In Europe, private companies are often particularly reluctant to make substantial investment in high risk, innovative projects. State Aid for such projects may therefore be an appropriate measure to compensate for the unfavourable risk factors linked to innovation. The Commission proposed additional rules within the state aid frameworks to promote innovation⁵.

The next step is the presentation of the draft for a new Community Framework for State Aid for Research and Development and Innovation⁶. The aim of the revision is to create additional possibilities to support innovation that go beyond the criteria laid down in the existing framework. The new R&D&I State Aid - framework will also cover new possibilities to promote the "Start up" for young innovative enterprises with R&D activities. The revision also includes new possibilities to promote innovative clusters, which could be used to foster the development of clusters in Europe by providing investment aid for the creation of specific facilities in support of clusters as well as providing aid for better animating and managing cluster activities.

The draft for a new R&D&I State Aid framework takes specific account of the global dimension of competitiveness. The so called "matching clause" shall allow for higher levels of State Aid in situations where third countries would provide higher aid amounts to their companies.

To improve access to risk capital

The broader issue of access to risk capital - and the brake this imposes on European growth of innovative firms - was addressed in the Aho report *Creating an Innovative Europe*. A genuine single market in risk capital could offer the specialisation and scale needed to manage risk effectively and provide sufficient returns, while market failures to provide sufficient risk capital for start-ups and SMEs, the relatively small amount of risk capital available and the low average amount invested⁷, all mean that Community⁸ and other public funds may also have a necessary role to play in developing this market. Reorienting State Aid policies to enable this could help

⁴ State Aid Action Plan, 7.6. 2005, COM (2005) 107 final

⁵ Consultation Document on State Aid for Innovation, 21.9.2005, COM (2005) 436 final

⁶ The Commission will present a draft for a new Community Framework for State Aid for Research and Development and Innovation and a draft for a new notice on amended State Aid rules in the field of risk capital measures. The documents will be decided by the EC in 2006, following consultation with Member States.

⁷ For example, average investment in a technology company in Europe is one sixth of that in the US.

⁸ Such as the Competitiveness and Innovation Programme



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create a competitive environment particularly addressed to the needs of small and medium-sized enterprises.

The draft EC notice on amended State Aid rules in the field of risk capital measures will support the initial and early stages of enterprises by enabling flexible instruments to compensate market deficits of newly founded and growing firms. Such instruments may help reduce the financial gap that often inhibits the implementation of innovative ideas. Any efforts to further developing the conditions for risk capital both at the EU and the MS level should have a positive impact on the overall competitiveness of small and medium-sized enterprises in a dynamic economy.



Neelie Kroes

European Commissioner for Competition Policy

“Less and better state aid for growth and jobs – the new rules on research, development and innovation, and risk capital”

Check Against Delivery
Seul le texte prononcé fait foi
Es gilt das gesprochene Wort

Informal Competitiveness Council

Graz, 21st April 2006

Let me start by thanking you, Martin, and the Austrian Presidency, for so warmly welcoming us here in Graz. You are right to have launched a debate on what is probably the most topical – and pressing – issue on Europe's political agenda: the opportunity of globalization.

Europe has a choice to make: we can either embrace the challenges of globalization – globalization as opportunity. Or we can try to avoid global competition – globalization as a poor excuse for postponing the necessary economic reforms and closing ourselves off from competition.

Protectionism is a dangerous road. It may deliver short term political gain. But in the medium term it is companies that face strong competition at home that are more likely to become successful on a global scale.

State aid is a tool that can be put to good and bad uses. State aid can be used to embrace globalization by better targeting public funds towards growth and jobs in open and competitive markets – supporting economic reform to deliver long-term competitiveness. But State aid can also be abused to protect national players, keep inefficient firms afloat, distort competition and artificially maintain costly, fragmented markets. The Spring European Council has reaffirmed our joint commitment to choosing the right track for State aids policy: making Europe attractive for future investment, while maintaining the aim of less and better targeted aid.

What does this mean for your policy choices? You can – and I think, should - invest more in R&D and Innovation and Risk Capital as a percentage of your total State aid budgets. You can - and I think, should - use more economics to target State aid on the right projects. The objective of the new State aid rules for R&D and Innovation and Risk Capital is just that: to help you reach these two objectives.

Globalisation

In research and development, innovation and risk capital, the EU has structural deficiencies compared to its main trading partners. Only 1.9% of Europe's GDP is spent on R&D. That compares to 2.5% in the US and 3% in Japan. There are only 3 European universities among the world's top 50 (40 are in the US). We only produce 5.7 researchers per 1000 workers. In the US it's 8, in Japan over 9. And what is worse is that the researchers we do develop are often quickly attracted to migrate elsewhere, on the other side of the Atlantic.

EU risk capital is 3 times lower than in the US. NASDAQ lists far more companies and has a higher market capitalisation than Euronext¹. Only 6 EU Member States rank among the top 20 in the growth Competitiveness Index of the World Economic Forum.

I could go on, but you know the story as well as I...

We also all know that State aid can not replace the structural reforms Europe badly needs – and it should certainly not delay them. All studies show that investment location decisions – including R&D investments - are primarily based on structural factors. We should not therefore waste our hopes on State aid as some sort of 'magic wand' to attract investments.

¹ approximately 3,200 companies with a combined market capitalisation of US\$3.6 trillion for Nasdaq, against barely around 1400 companies and less than US\$ 2 trillion for Euronext.

Take the example of Israel, which allegedly uses State aid to steal 'our' investments. Israel spends 4.8% of its GDP on R&D. Last year it invested 1.3 billion in risk capital - more than any EU Member State. There is a clear lesson to be learned here.

The EU must tackle structural deficiencies first. Above all, that means completing our internal market, removing the remaining cross-border barriers to trade. Liberalisation of European markets in sectors such as transport and financial services has helped strengthen our competitiveness, by bringing prices down and promoting enterprising and efficient economic activity. That process needs to continue.

But we also need to tackle other structural deficiencies. I'm thinking of higher education; the quality of universities; R&D infrastructures; the protection of Intellectual Property Rights; and the general business environment, which means better regulation.

Finally, I am aware that risk-taking is difficult and business failure sometimes still carries an often undeserved stigma. This means that we also need to change our mindsets – we need to develop a mentality which allows and encourages young entrepreneurs to take managed risks, otherwise we will be simply unable to release the enormous potential that is out there.

The State aid package

But as part of a comprehensive structural innovation policy, State aid can be a good complement to address those market failures which prevent the Union from reaching its full potential.

The new rules on Research, Development and Innovation (which we have sent to your experts yesterday) seek just that. They maintain the very high aid intensities for fundamental and industrial research. There will be a new category of experimental development, substantially broadened to include innovation activities.

The bonus system will be simplified, with more incentives for collaboration, and better rules will be introduced for public-private partnerships and not-for-profit research institutes. All this should help SMEs – like our Austrian hosts, we truly 'think small first'! – but also large companies too. It'll help them to invest more in research and development, unleash their full potential and face competition in a global economy.

As for Risk Capital, we propose a new safe-harbour threshold of 1.5 M€ per target SME, a 50% increase compared to today. But we will need to ensure that such funds respect a market logic. Private investors should take part, and investment decisions should aim at maximising investors' profits.

Most importantly, there will be ground-breaking new rules on support for innovation. I cannot present them all here. They include:

- aid for young innovative start-ups;
- aid to SMEs for advisory and support services, or for the loan of qualified personnel;
- aid for process and organisational innovation in services; and
- last, but not least, aid for innovation clusters.

Of course, we all know that clusters cannot be 'built', and that it is difficult to make them work from scratch. But a small State aid boost may go a long way to make companies large or small, public and private universities and research institutes group together, collaborate, interact and network. So this is what we propose.

In drawing up these proposals, we have for the first time applied the refined economic approach set out in the State Aid Action Plan, to explain the foundation of our proposals. We've applied this to defining the market failures our proposals address; the incentives they provide; but also the distortions of competition and trade they seek to avoid. This will also serve to improve the Commission's scrutiny, and help us focus on the most distortive cases, as requested by several European Councils.

This does not mean that our rules will be unpredictable, overly burdensome or needlessly bureaucratic. We want to broaden the existing Block Exemption to some State aid measures for R&D, and possibly innovation activities. Standard cases will be subject to standard assessment. And high aid amounts or otherwise problematic cases subject to detailed assessment, on the basis of criteria spelled out in our draft to ensure full transparency and predictability of our analysis.

The data required will be easily available – the very studies any well-run company would carry out before embarking on a large R&D or Innovation project. All this will ensure speedy case assessment and guarantee the necessary flexibility of our rules to adapt to ever changing realities.

Conclusion

Ministers, dear friends,

Globalization is an opportunity. We need to embrace this opportunity head on, by taking the necessary structural measures to create the right innovation climate in Europe. In this context, the new package of State aid rules for R&D and Innovation and Risk capital will allow you to use State aid - not as a defensive tool to protect national players or failing firms - but as a complementary weapon in your arsenal for growth and jobs.

In keeping with our firm commitment to our joint partnership for growth and jobs, the Commission wants to design the best and most appropriate framework conditions. We now hope for your input – and your support. But even more than that, we hope that you will use this new framework to best effect, for the benefit of European competitiveness on the global market.

Thank you.



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Österreich 2006 - Präsidentschaft der Europäischen Union
Austria 2006 - Presidency of the European Union
Autriche 2006 - Présidence de l'Union européenne

Bičaj 5

Informal Meeting of Competitiveness Ministers – press conference

>>> The 7th framework programme is the biggest programme to support research Europe has ever seen.

>>> We want to obtain agreement on the 7th framework programme (content + budget) among the Member States during the Austrian Presidency by the end of June 2006.

>>> Today's meeting has laid the foundation for this.

Agreement on the total EU budget was reached on 4 April.

Total budget: 864 billion euros.

- This means there is a budget of more than 54.5 billion euros available for the 7th research framework programme (2007-2013). *Annual budget: 7.8 billion euros*
- Compared with the 6th framework programme (2003-2006) this is an increase of 60%. *Approx. 4.8 billion euros per year; total 19.2 billion euros*
- At today's Competitiveness Informal Commissioner Potocnik presented his ideas on how the budget should be divided between the different research themes.

The 7th framework programme basically has 4 pillars:

COOPERATION (Support for transnational research projects in nine thematic areas)	32.2 billion euros
IDEAS (Support for basic research by the European Research Council)	7.5 billion euros
PEOPLE (Support for training and mobility of researchers)	4.6 billion euros
CAPACITIES (Support for research infrastructures, research for the benefit of SMEs)	4.2 billion euros



Discussion has shown:

- There will be more money for research in all areas.
- The new European Research Council is not in doubt and will have adequate funding (proposal: average of one billion euros per year).
- Support for SMEs is a particular issue. For example, at least 15% of the budget for cooperation activities is earmarked for SMEs, equivalent to around 4.8 billion euros
- Slim, non-bureaucratic administration.

Austria:

Austria has joined the ranks of the TOP 5 in Europe regarding investment in research.

Austria has the highest rate of growth in research investment among the leading EU research countries.

- Research spending as a ratio of GDP increased from 1.88% in 1999 to 2.35% in 2005. The current estimate by the Austrian Statistical Office for 2006 puts research spending at 2.43%.
- Austria is therefore well above the EU average of 1.9%.

6th EU Research Framework Programme (2003-2006)

- Austria receives back more in research funding than it pays in.
- Return rate 114% (status March 2006)

Austria's share of the annual returns has continually improved in the last few years.

	4th framework programme (1995 – 1998)	5th framework programme (1999 – 2002)	current 6th framework programme (2003 – 2006)*
Returns in million €	194	292	304
Return rate	70%	104%	114%

*Status March

Austria's share of the EU budget is approx. 2.19%.

Austria's researchers have received 2.5% of the returnable funding paid out so far from the 6th EU Framework Research Programme, amounting to 304 million euros.

>>> The return rate therefore stands at around 114%.

>>> In total, Austria has received 790 million euros from the framework programmes since 1995.