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COMMUNICATION FROM THE COMMISSION

A European initiative for growth

Investing in networks and knowledge for growth and employment

Interim Report to the European Council

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1. INTRODUCTION

In Thessaloniki, the European Council endorsed “*the Commission's intention to launch an initiative in cooperation with the European Investment Bank to support growth and integration by increasing overall investment and private sector involvement in TENs and major R&D projects*”. It called for this work to be taken forward under the Italian Presidency.

It did this against a background of stalled growth, weakened business and consumer confidence, subdued investment and signs of a cyclical rise in unemployment.

The Union remains poised on the edge of growth but something more is needed. The Lisbon Strategy sets the right roadmap for how to put Europe back on track towards strong sustained growth and greater cohesion. The structural reforms within that Strategy need to be implemented in their entirety with commitment, innovation and political resolve, in order for growth to resume on a sustainable basis.

The Commission, with its present proposal for an Initiative for Growth, highlights and promotes certain key elements within Lisbon and invites other European Institutions and the Member States to strive for its success. The Commission and the Member States’ governments must, in the current economic situation, give a strong signal of economic governance in order to boost confidence in the Union’s economic potential and consolidate economic growth. With this Initiative, they can also provide a further steer to the Lisbon Strategy through addressing current gaps in Europe’s physical and knowledge infrastructure, seeking for a selected push to investment, and improving the regulatory framework and public support in order to encourage businesses to innovate and invest.

The Commission sketched out the first contours of this Initiative for Growth early in July¹. The Commission’s paper sets out the financial, regulatory and other barriers which all too often hold back and delay investment, particularly private investment in Trans-European Networks (TENs) and in research, development and innovation.

The Commission proposes to boost private investment in support of networks and knowledge, by setting the appropriate Community regulatory framework, inviting Member States to pursue the invitation made in the new Broad Economic Policy Guidelines 2003² to continue refocusing their public expenditure without increasing the overall public budgets, and making the best use of existing Community funding in support of a common programme of specific growth- and job-enhancing investments in physical and human capital and knowledge.

Member States share the concerns inspiring the Commission’s Initiative and, since Thessaloniki, have started to prepare concrete proposals for action. Italy presented its ideas before the summer, focusing primarily on reinforcing transport links. France and Germany in a joint presentation in September have confirmed their commitment to the Lisbon reforms and identified ten investment projects, grouped around telecommunications and broadband networks, research and development, transport links and environmental development.

The challenge in front of us is to put the Union best poised to build its future. The European Initiative for Growth represents a partnership for investment in networks and knowledge and

¹ An initiative for growth: investing in Trans-European Networks and major R&D projects, SEC(2003) 813, 09.07.2003

² COM(2003) 170 final/2 of 24.07.2003

can therefore make a difference. It can allow the European Council and, crucially, businesses and citizens to send a vote of confidence in the long-term growth potential of an enlarged and integrated European Union. The Commission will also assess the longer term consequences of this Growth Initiative in terms of Union financing in the preparation of the next Financial Perspectives.

In this Interim Report, the Commission:

- recalls the scope, scale and potential impact of the investment required;
- reports on Progress seen on individual actions outlined in the July paper;
- sets out Recommendations for the October European Council.

2. THE SCOPE, SCALE AND IMPACT OF THE EUROPEAN INITIATIVE FOR GROWTH

2.1 Why focus on networks and knowledge?

The European Initiative for Growth focuses on key infrastructure investment areas that will facilitate and enhance the comprehensive package of economic, social and environmental reforms identified in the Lisbon Strategy. By mobilising investment within a stable macro-economic framework in two key Lisbon areas – networks and knowledge – the Union can send a powerful signal in support for the reforms underway. The main positive short-term effects on growth will come from its contribution to boosting confidence in European Union's potential. In the medium term, new investment will pay off in terms of gains in terms of production and transport time savings, improvements in quality, speeding up the rate of innovation, increased competition and greater scope for location choices. Finally, there will be a further positive impact in terms of cohesion in the enlarged Union, as countries and regions lacking adequate infrastructure or with limited access to knowledge and innovation are given the opportunity to participate in a really integrated, knowledge-driven, economic area.

A first analysis conducted by the Commission services with the help of econometric models suggests that the effect of raising public investment by one percent of GDP could initially lead to an increase in GDP by 0.6 percent, with that increasing to around one percent in the medium term if the effort can be maintained and favourable conditions were to persist³. As regards research and innovation, reaching the 3 % of GDP objective for R&D could result in an estimated gain of 0.5 percent of GDP and 400.000 additional jobs every year⁴.

- More integrated energy, telecoms and transport markets will translate into greater economic competitiveness, more and better jobs and also supports environmental goals, for example, by reducing congestion. Moving ahead with TEN-T suggests substantial gains for the Union's economy and for society, which in the long term could amount to an estimated 0.23 % growth in GDP. Losses due to congestion are estimated to be in the region of 0.5 %

³ Such simulations assume that there is no significant crowding out of alternative investment, and that the additional spending does not induce an increase of the public deficit. The financing of a significant amount of additional public investment through the deficit could trigger tighter monetary conditions and/or reduce consumption because consumers would anticipate a tax increase at a later period, which could reduce the positive effect of public investment on growth in the long run

⁴ Commission communication "Investing in research: an action plan for Europe", COM(2003) 226 of 30.04.2003

of GDP, the delay in investment in transport TENs cost the economy at least €8 billion each year measured in terms of cost of lost time and account for 2% of transport emissions.⁵

- Infrastructure investments offer a considerable potential to stimulate growth and job creation. GALILEO, which constitutes the first concrete element of a European space policy, is an example. A contribution from public funds in the order of €2 billion is set to generate a new market worth several hundred billions euros leading to the creation of several hundred thousands of new jobs.
- Broadband communications and the new services that such infrastructure makes possible will be a major source for job creation in industry and services, will give a thrust to accelerate technological innovation, and will be a physical backbone for the knowledge economy. Widespread availability of broadband infrastructure will also impact on growth by improving the performance of services that change the way companies and public administrations work.
- Promoting investment in research, development and innovation⁶ through a favourable regulatory, policy and financial framework at the Union and national level will strongly support the competitiveness of European industry and will contribute to sustained high growth and employment in line with the Lisbon strategy.

Developing these areas, however, must go hand in hand with pushing ahead with the whole of the Union's reform agenda. By focusing our efforts on clearly defined investment targets, we will help to ensure that results are achieved and improve the credibility of this effort.

2.2 Current levels of investment and scale of additional investment envisaged

This Interim Report provides a snapshot of current progress and needs in building up the comprehensive array of investment proposals and their financing that the Commission will present to the European Council in December.

2.2.1 Trans-European Transport Networks (TEN-T)

Since 1996 progress on implementing the TEN-T network has been unequal. Reasonable progress on completing national sections of TEN-T projects has been offset by delays affecting trans-national links and, particularly, cross-border sections, mainly for rail. While by 2010, almost all of TEN-road projects will have been completed, only around half of TEN-rail links will have been completed.

Drawing the lessons from previous initiatives on TENs, it appears that the main reasons for the delays (on average five years) observed for these projects and hence, their slow progress have been:

- The lack of coordination of structures, methods and instruments often leading to unequal progress and fragmentation of efforts, especially in the implementation of

⁵ NEA's study of Extended Impact Assessment of the proposal to modify the TEN-T Guidelines; 01.10.2003

⁶ While the Thessaloniki conclusions focused on "major R&D projects", the Commission believes the focus on knowledge to be broadened to encompass support for innovation and innovative companies. The third element in this initiative is now defined in terms of research, development and innovation

trans-frontier projects. The Commission proposes to remedy this by introducing the Declaration of European Interest and the notion of a “coordinator”⁷.

- The slow progress until recently in opening rail networks to competition which distracted investors from key priority projects.
- International network benefits have often been largely disregarded by national public investors as they were not compensated for them in form of an appropriate burden sharing. The German and French governments have also highlighted the problem by proposing to link up the two national high speed rail networks.

Following the work of the High Level Group chaired by Mr Van Miert, the Commission has brought forward a new proposal completing the list of priorities, both in terms of geographical coverage and in scope (“highways of the sea”, GALILEO). The overall level of investment required to realise these links amounts to €220 billion up to 2020, with 75% of this required between now and 2010 and 40% before 2006. This requires innovative financial solutions and political commitment that will allow private as well as public finances to be mobilised.

2.2.2 *Broadband and eTENS*

The European Union has established a goal of ensuring widespread access to broadband communications by 2005. There are currently about 17.5 million broadband connections across the European Union; twice as many as in July 2002.

In relation to 3G mobile services which provide a mobile link to high speed Internet the launch of services is still at an early stage⁸, reflecting the impact of economic uncertainty on the mobile sector over the last two years.

In the case of broadband, investment is primarily industry led in response to increasing market demand. Nevertheless, public authorities can play a role in stimulating both supply – particularly, in remote, rural or disadvantaged regions, and demand. The Structural Funds can play a role. Over the period 2000-2006 around €5.5 billion of support is available for information society goals.

In addition, the eEurope 2005 Action Plan and specific programmes promoting the development of new services and content are also playing a role in stimulating demand and the conditions for investment. The Growth Initiative specifically identified in this context the eTENS Programme, which has been refocused to better support the objectives of the eEurope 2005 Action Plan. It provides financial support (€400 million) over five years for deployment of potential new services and applications in areas from eHealth to eGovernment and eInclusion. It focuses on practical projects that can stimulate demand for broadband infrastructure and contents⁹. The German and French governments also highlight the need for digitalisation of terrestrial TV and radio broadcasting.

⁷ COM(2003)564 adopted on 01.10.2003

⁸ By August 2002 Member States had awarded a total of 62 3G licences. One operator was already providing 3G services and reported a total of 300 000 subscriptions in three Member States

⁹ eTENS supports up to half the costs of feasibility studies for such services and, in principle, up to 10% of the cost of deploying the necessary systems and infrastructure. This limit has, however, proved to

2.2.3 *Research and Development and Innovation*

The transition to a knowledge-driven economy is at the heart of the Lisbon strategy. However, despite positive initiatives in some Member States, measures to increase the volume of, and improve the environment for, research investment have been fragmented and sluggish. In some countries the proportion of public spending devoted to research has even decreased. This is notwithstanding the target set by the European Council in 2002 to raise investment in research and development to 3 % of GDP with two thirds of that investment to come from the private sector. Reaching the 3% target implies boosting public and private investment by 8% per year and creating over one million more science jobs.

Enhancing across the board the ability of European economies to invest in research must remain the focus of European policies and accompanying investments. While latest available figures (2001) show overall R&D investment in EU15 increasing slowly and approaching 2% of GDP, its highest level ever, the average annual growth rate of 1.3% remains far insufficient to meet the 3 % target. Furthermore, the R&D investment gap with the United States has continued to widen from €120 billion in 2000 to €140 billion in 2001. Major European firms also warn that most of their planned increases in R&D investment will be made outside the European Union, unless the conditions to support such investments drastically improve. The ability of SMEs to make an increased use of technology transfer and for small young research intensive enterprises to invest and innovate is also at stake. In this regard, the Commission will examine the need for public support to small young research intensive companies in relation to competition and state aid rules.

In terms of Community funding, while the Sixth Research Framework Programme provides €17.5 billion for research over four years, mobilising private investment that can be estimated at a similar amount, this represents on annual basis only around 7% of national public research spending and in the order of 5% of what industry spends. Furthermore, over the period 2000-2006, the Structural Funds have made available about €10 billion in support of activities related to research, technological development and innovation.

The European Initiative for Growth focuses more clearly on the research and technology needs of specific industrial sectors. This builds on experience of developing a strategic research agenda for aeronautics, , the railways and similar on-going initiatives in nanotechnologies and road transport. The first European Technology Platforms are bringing together key stakeholders to shape research and broader sector priorities for the coming decade and beyond. The recent European Partnership for a Hydrogen Economy, promoting the use of alternative energy production and distribution technologies and clean vehicles is a further example. They offer a framework for partnership and consensus building between public and private research, industry, policy makers, investors and citizens. They help build and implement coherent approaches for the development of key technology sectors by combining efficiently research with deployment, implementation and regulatory measures. This will help optimise return on investments, ensure Europe's mastering of the key technologies, support their best use in businesses and by governments.

low to encourage the use of Community support for the deployment phase of services and a proposal to raise that to 30% is currently before Council and the European Parliament

Promoting environmental technologies and in particular renewable energy is a major component in a strategy to combat climate change and meet the Gothenburg objectives. Many companies in the sector are held back by a weak capital basis. These weaknesses should be addressed to unlock further growth in a sector with high technology content and innovative potential.

3. TAKING THE GROWTH INITIATIVE FORWARD: DEVELOPMENTS SINCE JULY 2003

There have been a number of important policy developments in relation to the specific areas for action identified last July. Important first steps have been taken, but others should follow in line with the recommended timetable in Section 4.

3.1 Policy developments since July 2003

Trans-European Networks

- In July the Commission tabled a proposal to modify the **Eurovignette** system. Once adopted it should provide greater certainty for investors, while contributing to making transport more sustainable. It should also encourage private participation in road transport projects and would allow revenue raised from the system to be re-invested in the overall transport network. The proposal for a Directive on the interoperability of electronic road tolling systems¹⁰ together with the Galileo satellite radio navigation system will greatly reduce the inconveniences of tolls systems.
- The Commission has proposed a new modification to the **guidelines and financing rules for TEN-T projects**. This will confirm the priority projects for an enlarged European Union, will seek to ensure Community funding provides better incentives for investment by raising the maximum rate of assistance from 10 to 30% in the case of cross-frontier links, and ease the process of approving and co-ordinating projects in a cross-border context.
- Finally, the Commission is examining the possibility of developing a specific **Community Guarantee Facility** for TEN-T projects (see below).

Broadband and eTENS

- At the end of July the **new telecommunications regulatory framework came into force**, designed to boost competition and thereby create conditions for further investment. Effective application of the new framework will now be critical to improving the prospects for this sector.
- July also saw the publication of updated **Guidelines on the use of Structural Funds to support investment in broadband and other communication network infrastructures**. These are designed to help regions in evaluating and selecting possible investment projects in particular in the light of the forthcoming mid-term review of the Structural Funds programmes and the subsequent allocation of the performance reserve – amounting to 4% of each programmes total budget.
- At their informal meeting in Viterbo (3-5 September), Telecommunications Ministers confirmed that they would publish **national broadband strategies for rolling out** high speed Internet access **by end of year** as requested by the European Council.

¹⁰ COM(2003) 132 final of 23.4.2003

Research, Development and Innovation

- The Council endorsed the Commission **action plan “Investing in research”**¹¹ on 22 September and called on Member States to contribute to its prompt implementation.
- The Commission and the Member States have taken forward work to **benchmark progress towards the 3% target**, share experience and prepare reforms in a mutually consistent way, with a view to reach a first series of results by mid-2004.
- At the beginning of September, building on the experience of early European Technology Platforms, the Commission decided to launch a **European Partnership for a Hydrogen Economy** to develop a roadmap for this key fuel of the future¹². Further technology platforms are being set up in key areas of technology and a first progress report is in preparation.
- In the area of Space research, the Council reached an agreement on Sept. 22 on a **EU-ESA framework agreement** that will lay the basis for coordinated investment in this key sector.
- A Group of Personalities has been set up to establish a vision on a secure Europe and to give guidance on the orientation of future security research. A preparatory action on **European industrial potential in security-related research** will be launched in 2004. Work is well advanced in bringing forward first proposals from the beginning of 2004 with Community funding €65 million over three years.

3.2 Mobilising financing resources

The European Initiative for Growth identifies new and innovative proposals to mobilise available financial resources to match the Union’s political ambition as aimed at in the Lisbon Strategy of increasing the overall investment and private sector involvement in networks and knowledge (TENs transport and energy, broadband and eTENs as well as RDI). Currently savings affluence and the top-rating of the EIB loans in the world financial markets offer a unique opportunity to mobilise all the potential available to work. We will therefore gear the tack even more firmly towards building the Union’s future and commit to the efficient investment projects listed above, with a longer yield horizon and that lie at the very core of Europe’s current and future competitiveness and cohesion.

Particular progress has been made, together with the EIB, on how Community funding can be channelled in support of this initiative.

The Community budget contribution

The Initiative is inspired in an even more active role of public authorities at national and Community level. It exploits any further room of manoeuvre offered by public resources at Community level within the current Financial Perspectives in order to mobilise private funding for priority Community-wide investment projects. No overall increase within public budgets is sought. The Initiative offers guidance and a sound rationale for Member States to examine the scope for reallocating public spending to the priority investment projects.

¹¹ COM(2003) 226 of 30.04.2003

¹² The work of these Platforms is supported through the Research Framework Programme or might be structured around specially formed “Joint Undertakings”. The Advisory Council for Aeronautics Research in Europe brings together around 30 key actors and has a budget of €2.5 million over two years. The budget for the European Rail Research Advisory Council is just €800.000

The Community Budget and the European Initiative for Growth

- The **TEN-budget line** contributes with some €600 million yearly to fund up to 10 percent of total project costs.
- Over the current period, the **Structural Funds** are foreseen to support infrastructure investment (energy, transport and telecoms); research; technological development and innovation up to around €54 billion. Notably, the Cohesion Fund resources can mobilise up to €1.5 billion yearly for infrastructure investment in the four countries of Cohesion, in addition to the contribution of the European Regional and Development Fund (ERDF); €10 billion have been made available in support of activities related to research, technological development and innovation; and the European Social Fund (ESF) is providing €20 billion for ICT skills and €7 billion for entrepreneurship skills.
- The **6th Research Framework Programme** is devoting €17.5 billion over four years to supporting R&D investment in Europe. Its work programmes are currently being adapted to ensure that implementation supports the relevant actions of the Growth Initiative, notably the setting up of European technology platforms, within the broader orientations of the Programme.
- The Commission is considering to set up an innovative **Guarantee Facility to facilitate private sector funding in PPPs on TENs projects**. The Guarantee Facility would provide time-limited coverage for specific risks in the immediate post-construction phase that are currently insufficiently covered in the financial markets. Initial estimates show that resources allocated to this Facility could provide up to three times higher financial capacity. The new Guarantee Facility should partly be financed from the TENs budget appropriations and the payment of risk premia by beneficiary promoters as well as interest earned by the Guarantee Facility. The Facility should be matched by corresponding commitments by the Member States and could be complemented by EIB loans/guarantees. Action should also be taken to strengthen the application of PPP techniques in the field of research.

The role of the European Investment Bank Group

Support from the EIB has been identified by several governments as a key factor in ensuring the financial viability of longer-horizon investments, and particularly, in providing the glue that can help to mobilise private funding and structure public-private partnerships (PPPs). There are clear synergies between some policy initiatives announced in the Initiative and the work of the EIB. For example, it may be able to support the practical collaboration between different companies and organisations within the 6th Research Framework Programme, the European Technology Platforms, and to facilitate broadband deployment in areas where infrastructure is inadequate. Improvements to the regulatory framework for large-scale projects or for European scale venture capital funds may help to lower costs and risk, opening up new opportunities for the EIB Group to contribute.

The EIB has played a particular role in taking forward both Trans-European Networks and in supporting progress towards the Unions Lisbon goals. Over the last decade, it has provided €50 billion in loans for Trans-European Networks within the Union and a further €10 billion of loans have been approved for the accession countries. It has an established track record of assisting public-private partnership infrastructure projects through loans of more than €10 billion in recent years as well as guarantee and other support. A further €15 billion committed to Lisbon's knowledge objectives during the first phase of its i2i initiative.

It has made a clear commitment, within its existing planning, to make available around €50 billion up to the end of the decade to support TENs investment through a new Investment Facility and an additional €40 billion in support of research, development and innovation through the continuation of its Innovation 2010 Initiative in support of the transition to the

knowledge economy (including broadband and eTENS). These specific facilities would be complemented by its continuing support through guarantees and its Structured Finance Facility, as well as continuing support via the European Investment Fund to venture capital funds investing in innovative, high tech businesses in seed, start-up and development stages.

In addition, the EIB also finances investments with indirect RDI component, for example training activities. This is crucial for enabling the labour force to apply and develop innovation and new technologies. The EIB has provided significant lending (€1-1.5 billion per annum) over the last few years to education and training activities.

The EIB and the European Initiative for Growth

- **EIB** is prepared to commit €50 billion in loans under a TENS Investment Facility (TIF) in support of TENS priority projects.
- **EIB investments in research, development and innovation.** EIB has already committed €15.3 billion since its i2i initiative was launched in 2000. It intends to continue and develop those activities in support of Research, Development and Innovation (RDI) under its Innovation 2010 Initiative that also includes broadband and eTENS related applications as well as training. This will deliver up to an additional €40 billion by 2010 and offer a broader range of instruments better adapted to needs.
- EIB is prepared to reinforce its financing capacity under the **Structured Finance Facility (SFF)** that is of importance both for its support to TENS as well as to RDI.
- **Supporting innovation through risk capital.** EIF support for risk capital funds including the Community scheme “ETF start-up facility” represents €2.5 billion spread across 185 risk capital funds, supporting 1500 high technology businesses to the tune of €10 billion. The EIB is committed to earmark to the appropriate reserve an additional €500 million that will allow the EIF to raise its level of investment by around a further €1 billion under the Risk Capital Mandate.

Proposals to enhance action further

In addition to those ongoing commitments, a wide range of innovative financial proposals is being explored, namely:

- The possibility for the EIB to use (part of) its annual surpluses to fund reserves to strengthen the Structure Finance Facility (SFF) and to bear more risk sharing in priority investment projects. For example, an allocation to the SFF reserve in the order of €200 million allows for up to €1.3 billions in new SFF operations under the present capital allocation requirements. Moreover, EIB will review the key parameters on the SFF such as to increase its overall capacity, all while remaining within sound banking practices.
- The EIB could earmark a further €500 million in its reserves to enhance EIF’s potential for investment in venture capital. This would mean some €1 billion extra capacity. Moreover, the EIF will be allowed to also fund projects in development status beyond the seed and start-up phases.

- The EIF intends to be more active in venture capital and guarantee domains in spite of current market conditions. The EIF will reinforce its advisory and technical support to SMEs, covering the commercialisation of research and development, venture capital, guarantee schemes as well as micro-credits and generally, the establishment of financial engineering schemes. Moreover, the Fund is prepared to undertake a feasibility study of, and define the operational modalities of a new type of risk capital investment vehicle linking centres of excellence from different European countries and aimed at bridging the financing gap between research and early stage investment.
- The EIB intends to present a proposal for a specific instrument to meet the needs of mid-size companies' investment projects that exceed the global loan ceiling (€25 million). This would also benefit investment in RDI.
- The EIB intends to play a more active role and strengthen its institutional role in collaboration with Member States and private sector to share its extensive experience and expertise in the development of PPPs both at policy and project level where appropriate. Furthermore, it could play a role in developing securitisation financing mechanisms for infrastructure.
- The EIB and the Commission intend to explore further the scope for expansion of guarantees with the insurance industry and capital markets.
- The Commission intends to explore with the EIB Group suitable instruments to support increased equity investment in environmental technologies.

4. RECOMMENDATIONS FOR THE EUROPEAN COUNCIL

- (1) In view of the developments since the European Initiative for Growth was launched in July 2003, the Commission proposes the following recommendations ahead of the October European Council.

Recommendation 1: The European Council could endorse the scope and scale of the European Initiative for Growth as a means of strengthening the Union's commitment to growth, jobs and enhanced competitiveness.

- (2) Progress is rapidly needed on key pending proposals before Council and the European Parliament in order to identify the priorities for Trans-European Transport Networks, mainly rail projects, to maximise the impact of TENs funding for transport, energy and new communications services, to provide greater certainty for investment in transport projects, to make the regulatory framework for public procurement compatible with the needs of complex infrastructure projects such as TENs and to complete and improve the regulatory framework in other ways that will encourage R&D and innovation by making them more rewarding for the private sector.

Recommendation 2: The European Council could invite the Council and European Parliament before the Spring European Council 2004 to:

- adopt the proposed changes to financing regulations for Trans-European networks including eTENs;

- reach a common position on the new TEN-T Guidelines with a view to their adoption by the end of 2004;
- adopt the legislative package which modernises the public procurement *acquis* and which in particular will create the possibility for competitive dialogue between contracting authorities and bidders;
- adopt the Community patent Regulation.

Before June 2004

- adopt the proposal modifying the system for the Eurovignette;
- reach a common position on proposals on taxation in relation to parents and subsidiaries and in relation to mergers.

- (3) In order to maximise the potential impact of Community funding in attracting private financing towards investment, the Commission, the EIB and the Member States must reinforce their ongoing efforts while continuing to develop innovative solutions that can stimulate investment.

Recommendation 3: The European Council could invite:

a) The Member States to:

- include in their Reports on the implementation of the 2003 Broad Economic Policy Guidelines how they have pursued the objective of “(...) redirecting, i.e. while respecting overall budgetary constraints, public expenditure towards growth-enhancing investment in physical and human capital and knowledge”¹³;
- take advantage of the mid-term review of the programmes supported by the Structural Funds, and the allocation of the performance reserve in 2004, to reinforce the Lisbon related activities in favour of research and innovation. In this respect, the performance reserve for regions outside Objective 1 amounts to almost € 1 billion;
- implement national strategies to stimulate the roll out of broadband by increasing coverage in “underserved” areas, accelerating the provision of broadband to public administrations, schools and hospitals, stimulating government usage and the development of broadband-enabled services;
- step up the benchmarking, sharing of experience and preparation of mutually consistent reforms to progress towards the 3% of GDP target for R&D, in order to reach a first series of results by mid-2004.

b) The EIB Group to:

- speedily implement its part of the European Initiative for Growth and take the necessary decisions to adjust its financial instruments to the targeted sectors’ needs, within the limits of sound banking practices;

¹³ Recommendation 14 (p. 8 in COM (2003) 170 final/2 of 24.07.2003)

- strengthen the Bank’s capacity for financing investment and bear more risk in priority investment projects, including if necessary a significant increase of the SFF dedicated reserve;
 - exploit available room for manoeuvre within its current financial facilities to support national action for a rapid implementation of the priority projects identified in this Initiative;
 - strengthen the European Investment Fund’s potential for investment and, to that end, to take the necessary steps to raise its financing capacity by up to €1 billion and also fund projects in development status beyond seed and start-up phases;
 - introduce a specific instrument to meet the needs of mid-size companies’ investment projects that exceed the global loan ceiling (€25 million). This would also benefit investment in RDI;
 - explore all options and prepare proposals to bring forward a new range of innovative schemes in order to widen the array of tools available for supporting public and private investment in the venture capital and guarantee fields and, to that end, to reinforce its capacity to issue guarantees and to use its advisory services for structuring innovative SME financing schemes;
 - assess the feasibility of, and define the operational modalities of a new type of risk capital investment vehicle linking centres of excellence from different European countries and aimed at bridging the financing gap between research and early stage investment.
- (4) The Commission, the Council and the EIB too will work further to refine this initiative ahead of the December European Council and to move forward on those policy actions identified last July.

Recommendation 4: The European Council is invited to note the Commission’s intention to:

By December 2003

- report on the implementation of the European Initiative for Growth and develop a detailed roadmap for outstanding measures ahead of the December 2003 European Council;
- propose a preparatory action for security-related research with a budget of €65 million between 2004-2006;
- simplify the procedures related to State aid to SMEs including rules for aid to R&D, according to the draft Regulation currently in consultation and due for adoption by the end of 2003. The Commission will examine the need for public support to small young research intensive companies in relation to competition and state aid rules;
- propose a modification to existing company law to facilitate cross-border mergers.
- examine the feasibility of an innovative Guarantee Facility to support private sector funding in PPPs on TENs projects.

By June 2004

- publish a Green Paper on regulatory issues associated with public-private partnerships;
- develop proposals for a possible harmonised European fund structure to ensure tax transparency for risk capital operations;
- complete the process of launching a first wave of European Technology Platforms.

Annex 1 : A roadmap for knowledge and networks

By December 2003

- Simplification of procedures related to State aid to SMEs including rules for aid to R&D (Commission)
- Launch of a preparatory action for security-related research
- TENs proposals : priorities for transport networks and adjusted financing rules for transport and energy TENs.
- Proposals for changes to existing company law provisions to facilitate cross-border mergers
- Implementation of national broadband strategies
- Mid-term review of Structural Funds
- Review of initial progress by December European Council

By March 2004

- Political agreement on priority projects for Trans-European Transport Networks and on financing rules for transport, telecoms and energy TENs
- Final adoption of the pending measures on public procurement rules and on the Community Patent

By June 2004

- Final adoption of the proposals modifying the system for the Eurovignette
- Agreement on proposals on tax treatment of parents and subsidiary companies and of mergers
- Green Paper on public-private partnerships and public procurement law
- Commission proposals on a possible harmonised European fund structure to ensure tax transparency for risk capital operations
- Commission to complete setting up first wave of European Technology Platforms

By December 2004

- Final adoption of priority projects for Trans-European Transport Networks and on financing rules for transport, telecoms and energy TENs

In addition, the Commission will continue to work closely with the EIB to shape proposals for the European Initiative for Growth.

EIB/EIF Roadmap

April 2003 / June 2003: Board of Directors and Board of Governors approve launch of Innovation 2010 Initiative

October 2003: Proposal to Board of Directors concerning new allocation for Venture Capital operations (500 m) and for SFF Operations (250 m); subsequent proposal to Board of Governors

October 2003: Proposal to Board of Directors concerning launch of a specific instrument for mid-size companies' investment projects, notably in RDI; related working guidelines to be established with Commission

December 2003: Approval of EIB Corporate Operational Plan 2004-2006 (COP), including EIB contribution to Growth Initiative. TENs Investment Facility (TIF) formally launched. Innovation 2010 Initiative refocused in line with Growth Initiative.

December 2003: EIF to launch (with DG Research funding) the feasibility study / operational arrangements for a new type of risk capital vehicle for centres of excellence and bridging the gap between research and early stage investment. This could lead to implementation of pilot scheme mid-2004.

December 2003: Approval of EIF's COP, including proposals for new range of innovative schemes supporting public and private venture capital investments, on the model of the EIF-ERP Facility concluded in Germany, in order to boost investments in RDI. COP to include also proposals to enhance, in 2004, guarantees and advisory capacity for SME related business.

March 2004: Progress Report on the Growth Initiative, with measures put in place and first ongoing or identified operations (in view also of Spring European Council)

June 2004: Mid-term review of COP and of EIB contribution to Growth Initiative; Report to Board of Governors

December 2004: Approval of EIB Corporate Operational Plan 2005-2007, including possible adjustments to EIB contribution to Growth Initiative

Annex 2 : Summary of Actions / Indication of relevant EU resources

This table summarises the main actions in the Growth Initiative. It indicates, where applicable, relevant EU resources while bearing in mind that the key role in investing in networks and knowledge must be played by the private sector.

| ACTION | RELEVANT RESOURCES |
|---|---|
| Networks | |
| <i>Transport</i> Priority projects and updated financing rules | Total investment required up to 2020 €220 billion (€160 billion to 2010) <u>Current Community support</u> EU TENs-Transport €600 million p.a. EIB TENs Investment Facility (TIF) €50 billion 2004-2010 Cohesion Fund Possible €1.5 billion for infrastructure investment (2000-2006) |
| Eurovignette proposal | N/a |
| Galileo | EU TENs-Transport €550 million (2002-2005) 6 th R&D Framework Programme €100 million 2003-2006 |
| <i>Broadband and eTENs</i> eEurope 2005 Action Plan eTENs Financing Decision | Structural Fund support for broadband and other telecoms networks €5.5 billion (2000-2006) eTENs Programme €400 million (2000-2005) 6th RTD Framework Programme, €4 billion directed to Information Society Technologies (2000-2006) |
| <i>Action to facilitate cross-border projects</i> Tackling regulatory issues associated with public-private partnerships (Green Paper) Proposals for tax treatment of parents and subsidiaries and of mergers | N/a N/a |

| Knowledge | |
|---|--|
| <p>Research and Development</p> <p>European Technology Platforms in key sectors, for example, in aeronautics, hydrogen, nanotechnologies, etc.</p> <p>Support for start up and high tech SMEs</p> | <p>6th Research and Development Framework Programme €17.5 billion (2003-2006)</p> <p>Structural Fund support for research, technological development and innovation amounts to €10.5 billion (2000-2006)</p> <p>EIB i2i and Innovation 2010 Initiative +/- €50 billion (2000-2010)</p> <p>EIF support for risk capital funds, including the Community scheme ETF Start up facility €2.5 billion (to be increased by €1 billion)</p> |
| Innovation and research-related training | <p>European Social Fund €20 billion for ICT skills and €7 billion for entrepreneurship skills (2000-2006)</p> |
| Preparatory action for security-related research | <p>EU budget €65 million (2004-2006)</p> |
| Simplification of rules relating to State aid for Small and Medium-sized Businesses | N/a |
| Possible harmonised European risk capital fund structure | N/a |