

Proposal for a new COST Action

E51

Integrating Innovation and Development Policies for the Forest Sector

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DRAFT

**MEMORANDUM OF UNDERSTANDING
for the implementation of a European Concerted Research Action
designated as**

COST Action E51

‘Integrating Innovation and Development Policies for the Forest Sector’

The Signatories to this Memorandum of Understanding, declaring their common intention to participate in the concerted Action referred to above and described in the Technical Annex to the Memorandum, have reached the following understanding:

1. The Action will be carried out in accordance with the provisions of document COST 400/01 "Rules and Procedures for Implementing COST Actions", the contents of which the Signatories are fully aware of.
2. The main objective of this Action is to develop knowledge that enables integration of innovation and development policies for a more effective and sustainable development of the forest sector.
3. The economic dimension of the activities carried out under the Action has been estimated, on the basis of information available during the planning of the Action, at EUR 16 million at 2004 prices.
4. The Memorandum of Understanding will take effect by being signed by at least five Signatories.
5. The Memorandum of Understanding will remain in force for a period of four years, calculated from the date of first MEETING OF THE Management Committee, unless the duration of the Action is modified according to the provisions of Chapter 6 of the document referred to in Point 1 above.

Technical annex

Abstract

Innovation policies as well as entrepreneurship related policies are a key pillar of the EU "Lisbon Strategy", the economic development policy of the EU endorsed in March 2000. In a forest policy context, the MCPFE (Ministerial Conference on the Protection of Forests in Europe) has recently adopted the Vienna Resolution on the "Economic Viability of Sustainable Forest Management" calling for the strengthening of innovation and entrepreneurship in this sector. The main objective of this Action is to develop knowledge that enables integration of innovation and development policies for a more effective and sustainable development of the forest sector. The economic dimension of the Action activities is estimated at roughly Euro 16 million based on the participation of 18 countries in the preparation.

A. Background

Economists have for decades struggled with the need and are unable to explain how economies grow. The absence of a theoretical body to explain GDP growth within mainstream theories was painful, as economic growth is the driver of employment and income and it is a major factor of well-being. This in turn is basically the core objective of economic policy making. In the late 1980s and early 1990s innovation was identified as the key driving force behind economic growth. Since then, policy makers have increasingly turned their eyes on means to induce and support innovation.

Innovation policies as well as entrepreneurship related policies are a key pillar of the EU "Lisbon Strategy", the economic development policy of the EU endorsed in March 2000. On the EU-policy level, innovation is recognized as a crucial factor for the creation of economic growth and employment in the EU and for enhancing the development of rural regions. The European Union is trying to improve its competitiveness vis-à-vis other players in the global economy by increasing the innovation activities of the European enterprises. Similarly, innovation is one of the two explicit objectives of the EU 6th Framework Programme for Research, in addition to the creation of an innovation-focused European research area. In a forest policy context, the MCPFE (Ministerial Conference on the Protection of Forests in Europe) has recently adopted the Vienna Resolution on the "Economic Viability of Sustainable Forest Management" calling for the strengthening of innovation and entrepreneurship in this sector.

Rural development policies are a central policy area in EU and national policy making in relation to forests and rural development. Rural development policies are growing in importance for the forest sector due to the "decoupling" policy shift and the enlargement of the EU. EU member countries are requested to develop a national rural development implementation plan or programme. The tendency towards more productivity in sectors based in rural regions and the consequent reduced demand for human resources, as well as the attractiveness of cities and their environment, is already being strongly felt in some rural areas. The quality of life for people remaining in certain rural regions is threatened, while at the same time forest-based aspects have the potential for development. Forests have a high percentage of land cover in Europe, and they have a strong influence on the quality of the key part of the cultural landscape.

To complement the economic dimension of EU policies, and in support of the UNCED follow-up related work and processes on sustainable development the EU endorsed the Sustainable Development Strategy in Gothenburg in June 2001, which calls for a range of national follow-up

actions, including the development of a National Sustainability Strategy by EU member states. Forests produce a renewable resource, wood, and the long history of the awareness and application of the concept of sustainability in this sector is a potentially important role model for other contexts.

The third highly important development policy area is the EU Regional Development Policy and related national policies. In January 2001, the EU published a Communication called “The regions and the new economy: guidelines for the European Regional Development Fund (ERDF) innovative actions for the period 2000-2006”. Regions have been invited to propose programmes directly to the European Commission. Between 2000 and 2002 the EU funded RIS/RIS+ (Regional Innovation Strategies), and the RITTS projects (Regional Innovation and Technology Transfer Initiatives), together with the Innovating Regions in Europe (IRE). Between 2000 and 2002, nearly one in five European regions (30 in total) have received financing under the ERDF Innovative Actions for the development of a RIS/RIS+. However, it seems that very little of these funds have involved forestry or forest sector enterprises.

Forestry and forest industries in Europe has often developed in quite different directions. While the former has seen considerable environmental pressure and an increase in interest by society in recreation compared to the production of wood, many sectors in the forest industries in European countries have experienced labelling of their products, globalisation and industry concentration. In general, in all sectors, the number of jobs provided has declined and productivity has increased considerably. For quite a long time cost-cutting has been the main answer to economic viability, with the implementation of technological and organisational innovations. However, in recent years an awareness has risen across the industry that a main area of strategic competition is occurring vis-a-vis other substitute products, and in the field of product and service innovation.

While there is a general understanding of the importance of innovation as a concept and an activity in both business and policy circles, neither innovation processes are well understood, nor is it clear which kind of policies are most effective in encouraging innovation and how to integrate innovation policies in the wider policy setting. Thus, despite the strong political interest in innovation and innovation supporting policies, innovation related research still leaves many questions open. This is despite the fact that general innovation research has made considerable progress during the 1990s, with a shift from a linear understanding of innovation to a more complex systemic view (Edquist 2001). Not yet well developed is the link between the innovation system research approach and its large implication on economic policy (ibd.), and on the implementation of sectoral innovation policies. Entrepreneurship research, despite its recent strong political support, has considerably less research tradition and an even weaker body of theory or consistent empirical research results (Audretsch 2002).

In relation to innovation policies Edquist et al (1997) provide a taxonomy of innovation policy covering policies to strengthen the knowledge infrastructure, to create specific organisations to support innovation activities, to develop some basic institutions which affect interactive learning and policies to improve conditions for financing innovation. OECD (1997) links possible innovation system related policy responses to a range of possible systemic imperfections, such as informational failures, limited interaction between actors in innovation systems, institutional mismatches between (public) knowledge infrastructure and market needs or missing customer demand.

Many aspects of rural development have been covered by forestry related research in a range of projects (COST E3, COST E30, EFI FORTIS, EU MULTIFOR.RD). Sustainable forest management as a holistic concept for sustainable development has seen considerable efforts in operationalisation, including forest sector research, e.g. EU projects on life cycle analysis or the

IUFRO Task Force on SFM criteria and indicators. In the field of Social Sciences COST Action A12 has studied rural innovation.

Regional development policies and their relation to forestry or forest sector policies have not attracted as much attention as rural development so far. However, an important component in the future development of forest policies is to better embed and link them cross-sectorally.

A further but not yet adequately explored area of research is the link between the concepts of innovation and sustainability. This topic has attracted increasing attention over the recent decade outside the forest research community (see e.g. Rennings, 1997, Hübner, 2002). Innovation is also crucial for sustainable development. Sustainable development is usually understood to address a need for change in the use of resources, improvement of eco-systems and quality of life. Sustainable development related innovations concern a broad range of aspects, including products, processes and also institutional innovation. However, in terms of concrete EU, national or regional policies, the two policy areas seem to have not been tackled systematically by forest researchers.

In recent years several COST Actions and/or international research projects have addressed forest specific aspects of innovation, rural development or sustainable development/sustainable forest management. Innovation related aspects have been analysed in the context of the European Forest Institute (EFI) Regional Project Centre Innoforce (Rametsteiner et al., in print). The important area of innovations in forest services – without using the term innovation - were or are being addressed by EU research projects such as EU RES or covered through COST Actions or related proposals such as E39 (health and well-being) or E33 (recreation).

For the further development of knowledge, research networks and method development in the forest research community the COST Action strives to expand the network of researchers. Its aim is to include research specialists from general innovation research, rural development and regional development as well as sustainability research. Its set of analytical tools is enlarged by putting methodical emphasis on cross-sectoral research.

This Action is based on past and on-going research in the different policy fields addressed and it will contribute to and complement research done elsewhere on socio-economic aspects of innovation, sustainability and rural development by focusing on the policy research component. The Action adds a crucial component of policy research, namely the integration and co-ordination of development orientated policies and programmes relevant for forestry and the forest sector, including innovation policy. Their implementation has strong implications on the well-being of people living from forest related income. A better integration and co-ordination of these policies creates synergistic effects and better opportunities for the development of forestry and forest sector enterprises.

B. Objectives and benefits

The main objective of this Action is to develop knowledge that enables integration of innovation and development policies for a more effective and sustainable development of the forest sector.

Specific objectives are:

1. to collect/map/build a body of knowledge on existing EU as well as national strategies and programmes and their implementation mechanisms on: innovation and

- entrepreneurship, rural development, regional development and sustainable development policies,
2. to make an appraisal of effects (outcome and impacts) of these programmes on forestry and forest sector enterprises in regard to their support of innovation, start-up activity, employment creation and competitiveness
 3. to identify and analyse key issues in strengthening cross-sectoral policy integration and co-ordination in those key development programmes relevant for forestry and forest sector enterprises in rural areas in order to promote innovation:
 - for territory-based service provision (e.g. the provision of recreational forest services, nature conservation services, or protection against natural hazards)
 - in relation to cross-sectoral policy integration and co-ordination for vertical production chains (e.g. timber frame housing, bio-energy or other)
 4. to develop approaches, options and recommendations for a more coherent implementation of these policies in forestry and the forest sector, with a view to reinforce the development of the sector, especially in rural areas.

Expected scientific benefits:

The expected scientific benefits comprise:

- the build-up of a body of information and knowledge on the interrelatedness of the most important development policies that are key to forest sector development, and their implementation in the forest sector
- the establishment of a European network of researchers and experts that jointly cover the most important development policy areas
- the application and further development of the theoretical approach of systemic social science research, especially innovation system research, with a specific emphasis on the policy dimension
- the build-up of theoretical and methodical knowledge on comparative and cross-sectoral policy analysis in the policy areas covered

Expected economic and technical benefits

The economic and technical benefits include:

- higher competitiveness for forestry and forest sector enterprises, and the maintenance or creation of employment in rural areas through better information and access to policies that are key to forest sector development
- more cost-effective policy designs that better integrate forest and forest sector policies in existing development policies and higher coherence of related policies, instruments and implementation mechanisms to support innovation, especially more radical innovations
- higher rates of transfer of knowledge, and thus higher rates of diffusion of innovations, through an established pool of information on implementation tools and approaches for innovation policies from within and outside the forest sector (cross-sectorial knowledge transfer)

C. Scientific programme

In **Phase I** all participants work on Objective 1 and Objective 2.

Task 1: Analysis of relevant programmes and implementation: Task 1, related to Objective 1, is to collect/map/build a body of knowledge on existing EU and national strategies and programmes and their implementation mechanisms on: innovation, rural development, regional development and sustainable development policies section that are relevant for forestry and forest sector enterprises in rural areas. The result of this preparatory work should enable participants to become acquainted with the policies, programmes, implementation agencies, procedures and characteristics in different and often completely unrelated policy fields.

Methods applied: desk research, based on a common data collection protocol

Expected results: part I of country reports: forestry/forest sector relevant development programmes and their implementation characteristics

Task 2: Analysis of effects: Task 2, related to Objective 2, is to make an appraisal of effects of these programmes on forestry and forest sector enterprises, including on their support to innovation, start-up activity, employment creation and competitiveness. This work in phase 1 should allow the share of programme funds oriented to forestry and forest sector enterprises, to be determined how many projects are funded through existing development programmes, and their characteristics, including linkages to other development policies and programmes. Projects funded will be assessed with regard to whether and in how far these helped to create innovation, start-up activity, employment and competitiveness. Further, patterns/characteristics of projects that have had an impact on these dimensions should be identified. This work will be based on work done through the EU project EFFE “Evaluating Financing of Forestry in Europe” as well as evaluations undertaken in the context of the EU on rural and regional development programmes. Informational instruments will be appraised as to how far these support innovation oriented measures.

Methods applied: desk research, based on a common data collection protocol

Expected results: part II country reports and summary report on forestry/forest sector relevant development programmes and their implementation characteristics

Expected result of Phase I: summary report covering results of country reports part I and II

In **Phase II** participants work on Objective 3.

Task 3, related to Objective 3, will be grouped into two main focus areas within the COST Action reflecting different policy contexts (territory-based multifunctional forestry versus forestry related vertical production chains) and related policy integration/co-ordination issues. It is thus anticipated that the Action partners will be organised into two principal Working Groups. Each of the Working Groups will be asked to structure its work according to the following:

Working Group 1: Key issues in strengthening cross-sectoral policy integration/co-ordination for territory-based services

This Working Group will conduct an in-depth analysis of issues arising in territory-based service provision by forestry and how these are addressed by development programmes (innovation and entrepreneurship, rural, regional and sustainability programmes). This includes recreational

tourism and related policies, institutions and infrastructures, health and well-being related services, environmental and protective services, including carbon sequestration. The sectors to focus on and the list of priority issues will be elaborated by the participants, based on their expertise and knowledge collected in the course of Phase I. These issues should be analysed in order to identify possibilities and conditions for a better integration and co-ordination of programmes and an implementation that is geared towards the support firm-induced or network induced/generated innovations and start-ups in rural areas.

Methods applied: Desk research on institutions and policies in the selected sectors, workshops/focus group discussions with selected experts and policy makers from these sectors, in-depth case studies having a high potential for lessons to learn for policy integration. Case studies preferably should involve forestry and/or forest sector enterprises.

Expected results: Working Group report on key issues in strengthening cross-sectoral policy integration/co-ordination of development policies for territory-based service provision

Working Group 2: Key issues in strengthening cross-sectoral policy integration/co-ordination for the support of developing innovations in vertical production chains

This Working Group will mainly conduct an in-depth analysis of issues arising in vertical production chains in forestry and forest sector enterprises and how these are addressed by development programmes (innovation and entrepreneurship, rural, regional and sustainability programmes). Possible chains to study include e.g. timber frame housing, bio-energy provision, or non-wood products. It will be an integral task of this group to look beyond incremental improvement of current products but to explore the current existence, obstacles and possibilities to design policies that effectively encourage more radical innovations in wood as well as non-wood forest products by innovators/entrepreneurs. Such radical innovations may include those in pharmaceutical, medical contexts and by developing wood products for use in areas dominated by non-renewable materials, including aerospace. The sectors to focus on and the list of priority issues will be elaborated by the participants, based on their expertise and knowledge collected in the course of Phase I. These issues should be analysed in order to identify possibilities and conditions for a better integration and co-ordination of programmes and an implementation that is geared towards the support firm-induced or network induced/generated innovations and start-ups in rural areas.

Methods applied: Desk research on institutions and policies in the selected sectors, workshops/focus group discussions with selected experts and policy makers from these sectors, in-depth analysis of empirical examples of cases that have a high potential for lessons to learn for policy integration, preferably where forestry and/or small scale forest enterprises were involved.

Expected results: Working Group report on key issues in strengthening cross-sectoral policy integration/co-ordination for the development of innovations in vertical production chains

In **Phase III** participants will implement Objective 4

Task 4, related to Objective 4, is the formulation of approaches, options and recommendations for a better integration of these development policies and their coherent implementation. This will be undertaken jointly on the basis of the analysis and results of the Working Groups.

Methods applied: workshop and international conference

Expected results: summary publication for the COST Action

D. Organisation

One key pillar for conducting substantive research work as input to the tasks of the COST Action will be the EFI Project Centre Innoforce consortium that has entered its second phase. Its work plan for the period 2004-2008, focuses on further in-depth work on innovation and entrepreneurship in the forest sector.

The complementarity of these two components (COST Action and EFI PC) ensures and enables both a stable basis for research action on the ground by partners in the EFI PC that are willing to engage in the COST Action as well as the interaction, exchange of information, wider network building and dissemination of joint results through the COST Action. The complementary weaknesses of both approaches are thereby eliminated and the complementary strengths of the two approaches combined. In addition research institutions will be invited that currently undertake or have recently concluded research work in international consortia the other main policy fields: agriculture and rural development: MULTIAGRI, COST Action A12, RURAL-ETINET; regional development: RIS and RIS+, ENSURE network; sustainable development and innovation policy: BLUEPRINT network. Researchers or experts from these areas should comprise around 50% of all experts involved.

In addition to the Chair and the Management Committee the organisational structure will include the Working Groups, which in turn will be chaired by Co-ordinators. The Project Centre of the European Forest Research Institute (EFI) will be responsible for supporting the COST Action. It is also proposed to establish a Steering Committee consisting of the Chair, Vice-chair and the Co-ordinators of the Working Groups of the Action.

The activities of the COST Action will be organised around a series of meetings at which each Working Group will develop a theme for presentations, discussion and group work in Working Group meetings that are, if feasible and desirable, held in parallel to encourage formal and informal inter-Working Group interaction (see also Figure 1). If possible, such meetings will be scheduled back-to-back with relevant international conferences to make best use of the resources and knowledge exchange opportunities. In order to further strengthen the exchange of knowledge and to build up highly qualified young researchers, a Short Term Scientific Mission programme will be established.

E. Timetable

This COST Action is designed to be active over a period of four years. An initial time schedule for various activities is shown in Figure 1.

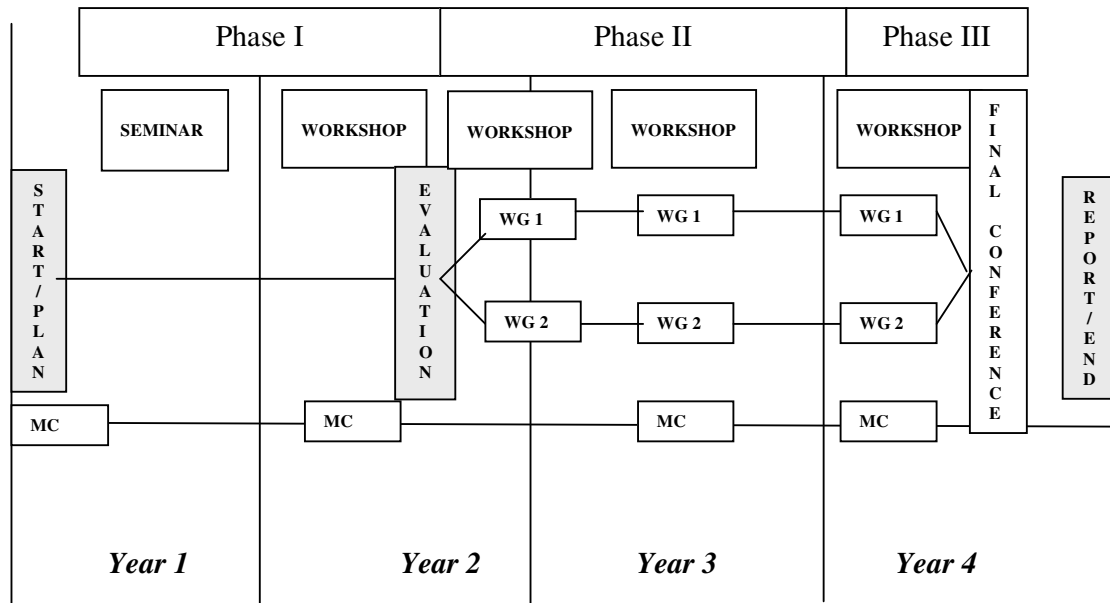


Figure 1: Organisation of work (WG=Working Group meetings, MC=Management Committee meeting)

In year 1 and the first half of year 2 all participating countries will conduct preparatory work related to objectives 1 and 2 which will then be consolidated after discussion in a workshop. Based on the results, the tasks for the Working Groups on objective 3 shall be decided in detail. The two Working Groups then work for about 1 ½ years, with one workshop per year before their results are consolidated and presented in a final conference in year 4.

F. Economic Dimension

The following COST countries have actively participated in the preparation of the Action or otherwise indicated their interest:

- Austria
- Bulgaria
- Croatia
- Czech Republic
- Estonia
- Finland
- Germany,
- Hungary,
- Italy
- Lithuania
- Norway
- Romania
- Serbia and Montenegro
- Slovakia
- Slovenia
- Sweden
- Switzerland
- United Kingdom

On the basis of national estimates provided by representatives of these countries the economic dimension of the activities to be carried out under the Action has been estimated, in 2004 prices, at roughly Euro 16 million. This estimate is valid under the assumption that all the countries mentioned above but no other countries will participate in the Action. Any departure from this will change the total cost accordingly.

G. Dissemination Plan

Dissemination and utilization of research results produced by the COST Action will be designed around two main pillars, a scientific exploitation (theory, methods) as well as a practical exploitation of results (through policy makers). The Management Committee will strive to set up effective dissemination mechanisms to publish the objectives, progress and results of the COST Action, between the participants as well as for a wider scientific community and the main user group, i.e. policy makers. For effective interaction between participants and the wider scientific community as well as the public, a web-based internet platform will be used as an effective dissemination tool during the active phase of the COST Action and, as far as feasible, beyond. This platform should inform about the COST Action as such, the objectives and topics covered, the work plan, progress made, events and general management arrangements.

a) Scientific exploitation and dissemination of results:

This will mainly be done through the writing of papers and the participation in the scientific debate in workshops organised by the COST Action, by active participants and through the encouragement of publishing results in scientific journals. A second important scientific distribution channel is workshop presentations. It is envisaged to set up a cross-sectoral network that links different research communities and their respective networks. It should thus not only be feasible to organize a broader and international scientific workshop on the topics covered but also to contribute input to conferences and workshops held by other organizations in the respective

communities (e.g. innovation research community, sustainable development research community). This should support the aim to publish scientific research results in various scientific journals, including peer reviewed papers.

b) Practical exploitation and dissemination of results:

It is intended to make all work done and presented in the course of the COST Action available to a wider public by posting papers and presentations in the internet after each major meeting of the Working Groups. The overall findings of the work will be published in the form of a summary publication. A conference will be held with policy makers both from relevant EU Commission services and from the participating countries. It is intended to co-organise a conference for forest policy makers in the follow-up of the 4th MCPFE Conference. The MCPFE work programme for the follow-up of the 4th Ministerial Conference in Vienna in 2003 has identified the need for a workshop on competitiveness, innovation and rural development and scheduled a respective event.

COST will be acknowledged in all specific or general dissemination activities and publications.

Additional information

1. Envisaged participating institutions and experts

The list of participating institutions will include most of the participants active in the EFI PC INNOFORCE (2004-2008) consortium listed below, as seen as appropriate by the individual partners. The consortium members are research institutions dealing with political science and economic questions in the forestry sector from the following countries:

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3 Supporting letter

Reference is made to a supporting letter from the Ministerial Conference on the Protection of Forests in Europe, Liaison Unit Warsaw, Polen, which concludes that the Action addresses main issues identified by European countries for the future sustainable development of the sector, and thus having a high potential to assist in the implementation of the commitments made by Signatory States and the European Community in Vienna Resolutions V1 and V2. The Liaison Unit Warsaw welcomes the Action and strongly supports the initiative to establish a COST Action with this topic and objective.