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From: Presidency

To: Permanent Representatives Committee/Council

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Subject: *Preparation of the Council ("Competitiveness") of 26-27 September 2013*  
Innovation Union and the European Research Area (ERA)

- (a) Communication from the Commission on "State of the Innovation Union 2012 - Accelerating change"
- (b) Communication from the Commission on "Measuring innovation output in Europe: towards a new indicator"
- (c) (poss.) First progress report on the European Research Area
  - Presentation by the Commission
  - Policy debate

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Delegations will find in annex a Presidency note on "Innovation Union and the European Research Area (ERA)" with a view to the Policy debate at the Competitiveness Council.

Europe is gradually emerging from the crisis. However, it is still some way from achieving a sustainable model of growth. There is widespread agreement among economists that research and innovation are critical to fuel the growth, competitiveness and job creation that Europe needs. We must learn from the lessons of the crisis and build a more resilient economy, capable of generating deep and lasting competitiveness.

An assessment of Europe's research and innovation performance during the economic recession reveals a mixed picture.

First, business R&D expenditure in the EU is still far below that of our main competitors despite the EU remaining an attractive location for Foreign Direct Investment in R&D. Public R&D budgets increased faster than GDP in a majority of Member States since 2008, but the exceptional length and harshness of the crisis has led to their decrease in 2011.

Second, and notwithstanding its boundary conditions for innovation and its world-class science and technological base, Europe seems to need an additional impulse, notably to achieve the European Research Area (ERA).

Third, increasing disparities are noted in the research and innovation performance of Member States, with the less innovative countries as a group no longer catching-up with the most innovative countries, as illustrated in particular by the Innovation Union Scoreboard 2013 and the new indicator of innovation output presented by the European Commission.

Fourth, new enterprises founded in Europe are growing more slowly than in the US or emerging countries and fewer of them are joining the ranks of the world's largest firms, despite the fact that SMEs are the back-bone of the European economy. Although Europe has reinforced its leadership in well-established production sectors, it is lagging behind in essential high-tech and fast-growing markets, including those linked to the technologies which tackle societal challenges.

Finally, in the face of the renewed momentum for the modernisation of public administrations, public sector innovation happens often through serendipity rather than through deliberate and strategic efforts.

## **1. THE STATE OF THE INNOVATION UNION**

In the light of the opportunities raised by this assessment, the report on the State of the Innovation Union 2012 notes significant progress towards setting the policy framework for an Innovation Union in various areas, accelerating thus the development and uptake of innovations for societal challenges.

Key areas where progress is recorded include the contribution of a set of Single Market measures to the creation of a more innovation-friendly business environment in the EU. Those comprise the unitary patent, faster standard-setting, modernised EU procurement rules and a European passport for venture capital funds. The pooling of resources and the concentration of demand and supply-side measures on key societal challenges through European Innovation Partnerships in the areas of active and healthy ageing, water, raw materials, sustainable agriculture and smart cities, is also an area where progress has been observed.

The report highlights other initiatives relevant for tapping into new sources of growth. Innovation in and through the public sector deserves particular attention, given the weight of the public sector and the relevance of modern public administrations to enable Member States to deliver better and more efficient public services to their citizens while contributing to new growth and jobs opportunities. The first European Public Sector Innovation Scoreboard highlights that innovative public services are crucial to boost business performance and growth, and establishes a measurement framework to drive public sector innovation.

Finally, the report emphasises preparations towards the future EU research and innovation programme, Horizon 2020, which covers the entire value creation, placing greater emphasis on innovation. The report also notes progress on EU financial instruments for SMEs through Horizon 2020 and the Programme for the Competitiveness of Enterprises and SMEs, COSME.

## **2. PROGRESS ON ERA**

The achievements noted above are seeds for growth and jobs. However, despite a strong science base and technology leadership in strategic sectors, efforts are still needed at EU and national level to improve its research and innovation performance and start bringing results.

In this context, progress and achievements have to be analysed in the five ERA priority areas: more effective national research systems; optimal transnational co-operation and competition; an open labour market for researchers; gender equality and gender mainstreaming in research; and optimal circulation, access to and transfer of scientific knowledge.

Such an analysis is likely to show that advancements in ERA would benefit from the acceleration of structural reforms of the national R&D and innovation systems to increase their efficiency, effectiveness and excellence, and from a reinforced partnership between Member States, research organisations and the Commission.

Areas for progress to advance in ERA may include the relevance of fostering competition and international peer-review in research funding decisions, the facilitation of transnational research cooperation through improved cross-border programme interoperability and alignment of national research programmes, and the removal of barriers for the mobility of researchers and the development and transnational access to research infrastructures.

In addition, issues such as the role of open, transparent and merit-based recruitment practices, the obstacles preventing access to national grants and their portability, and the wider uptake of the innovative doctoral training principles as well as comprehensive national strategies of structural change to overcome gender gaps in research institutions and programmes are also relevant.

Lastly, the need to make progress on open access to publications and data, digital ERA and knowledge transfer strategies has to be underlined.

### 3. THE INDICATOR OF INNOVATION OUTPUT

The Europe 2020 strategy for smart, sustainable and inclusive growth is underpinned by five headline indicators. One of these is to improve the conditions for R&D, with the aim of raising combined public and private investment levels for R&D to 3% of GDP. To complement this R&D intensity indicator, the European Council gave the Commission the mandate to develop a single innovation indicator.

The Commission proposed on 13 September 2013, an indicator to measure performance in innovation output, and therefore the extent to which ideas stemming from innovative sectors carry an economic added value and are capable of reaching the market, providing thus better jobs and increased competitiveness in Europe.

Its aim, as reflected in the Communication, is to support policy-makers in establishing new or reinforced actions to remove bottlenecks that prevent innovators from translating ideas into products and services that can be successful on the market.

The new indicator complements the Innovation Union Scoreboard, which includes a broad set of 24 measures, covering innovation inputs, throughputs and outputs. The proposed indicator zooms in exclusively on innovation output by monitoring a focussed set of dimensions, including the contribution of fast-growing firms to job creation.

Innovation output can be captured by more than one measure. The proposed indicator focuses on four policy-relevant components:

1. Technological innovation as measured by patents, showing the ability of an economy to transform inventions into successful marketable technologies.
2. Employment in knowledge-intensive activities, capturing how a highly skilled labour force contributes to the production of innovative goods and services.
3. Competitiveness of knowledge-intensive goods and services, reflecting the capacity of a country to reach global markets with its innovations;

4. Employment in fast-growing firms of innovative sectors, providing an indication of the capacity of a country to transform rapidly its economy to respond to new needs and to take advantage of emerging demand.

Responding to the request of the European Council to develop a tool to benchmark national innovation policies and performance, the proposed indicator shows an innovation gap in the EU, with significant differences between EU countries. The top performers in the EU share a number of strengths, including highly skilled labour forces and a business environment that encourages fast growing innovative firms, resulting in a high level of patenting, competitive exports and high employment growth.

A comparison with some non-EU countries shows that the EU as a whole performs well. Switzerland and Japan have a clear performance lead, but the EU is more or less even with the United States on innovation output. However, the aim for the EU should be to become and remain an innovation leader.

### **Questions for the Ministerial debate**

- The report on the State of the Innovation Union 2012 underlines that public sector innovation is not approached systematically in Europe, despite its large potential to generate innovations and growth. What are in your view the most efficient ways of encouraging innovation in and through the public sector?
- Regarding the advancement in ERA, it is crucial to increase the efficiency and effectiveness of national R&D systems to underpin Europe's world-class science base. For this purpose, what are the most critical means and measures to overcome existing barriers and would you consider an integrated national approach to the whole innovation system, opening up of the national R&D programmes etc.?
- In the context of the new innovation indicator, which are in your view the key measures to support the creation and development of fast-growing enterprises in innovative sectors?