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European Union

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NOTE

From: Presidency
To: The High Level Working Group on Competitiveness and Growth

Subject: European Semester: thematic discussion on best practice for removing national barriers on the Single Market.
Discussion paper for the High Level Working Group on Competitiveness and Growth.

Delegations will find in Annex a Note by the Presidency in view of the meeting of the High Level Working Group on Competitiveness and Growth on 4 July 2016, on the European Semester: thematic discussion on best practice for removing national barriers on the Single Market.

European Semester: thematic discussions on CSRs and other relevant recommendations**Topic: research and innovation***Introduction*

In the COMPET Council of 29 February, Ministers held a debate on challenges for implementing CSRs in the area of the Single Market. This debate was prepared by this High Level Group, as part of the HLG work program. Ministers asked the HLG to follow up on their discussion by having regular thematic discussions to share best practice on the implementation of CSRs and other relevant recommendations under the remit of the COMPET Council. Therefore, a new standing item is introduced in the HLG on exploring challenges and barriers to implementing CSRs and other relevant recommendations. The aim of these discussions is to share best practice on relevant policies across Member States to strengthen the functioning of the Single Market and to tackle barriers to growth and investment. These discussions help identify particular challenges and issues which should be considered carefully when formulating and implementing recommendations. These could include budgetary scope, timing and phase-in periods of reforms, impact of other planned or recently introduced measures, and national socio-economic risks and developments.

There are a number of themes under the European Semester that are relevant to the competitiveness mandate of the COMPET Council. Potential thematic topics that allow for a focused and lively exchange of views in the HLG include e.g. research and innovation, growth-friendly regulatory framework, access to finance, workforce skill development, public procurement, and evidence-based policy making. The first topic selected for the thematic discussion in HLG is research and innovation, where a number of Member States have received CSRs and which impacts on the competitiveness of the EU. With global competition intensifying, research and innovation are essential to maintain Europe's competitiveness.

The experiences of our discussions so far and on 4 July will be taken into account for the selection and the structure of future discussions, in close cooperation with the Commission. Moreover, the Trio Presidency in consultation with the Commission will evaluate these discussions by the end of the Slovak Presidency. The results will be presented in the HLG together with a proposal for a potential follow-up.

Focus area: Research and innovation

The recovery from the 2008-09 global financial crisis continues to be uneven and slow, raising concerns that the global economy may be trapped in an era of modest growth. Central banks all over the world are easing monetary policies to boost growth and stimulate inflation. The IMF and OECD are calling on governments to invest more in growth-stimulating policy areas like research and innovation.¹ R&D expenditure is widely seen as a key driver of (productivity) growth.

¹ IMF (2016), 'Advance Copy Chapter 2; Acting Now, Acting Together' and OESO (2016), '2016 Ministerial Council Statement'.

But despite the importance of research and innovation, many countries face difficulties in strengthening performance in this area (see Figure 1). Even with new market opportunities offered by globalisation, new technologies, and rising education levels in the labour force, many countries see little improvement in productivity performance in recent years.

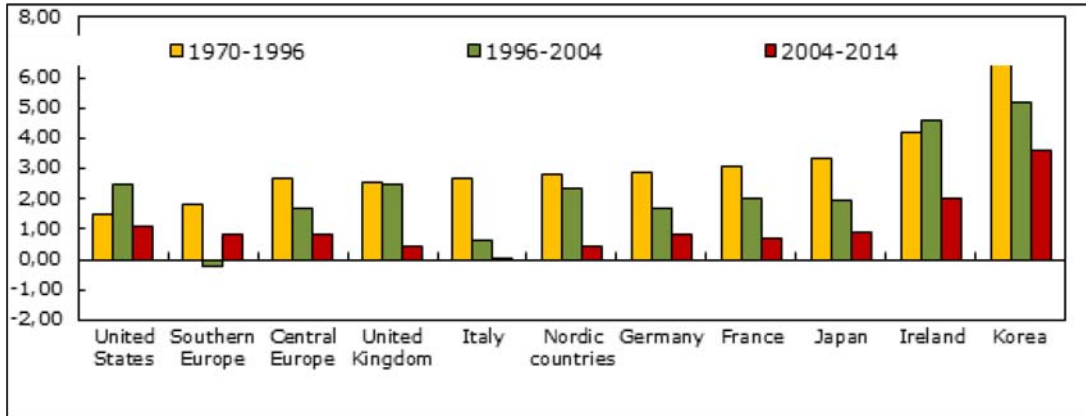


Figure 1: Growth in productivity in advanced economies since 1970²

In addition, countries in the EU face a slowdown in productivity growth. This is a worrisome trend as productivity growth is increasingly important for sustainable economic growth as a result of the demographic and consumption challenges arising from an ageing population. Moreover, such global societal challenges (e.g. climate change) are forecast to have vast economic, environmental, and social costs – and significantly shift global patterns of consumption and production away from Europe³. Research and innovation can provide solutions to these economic and societal issues. By developing new products, processes, and business models in these fields, the EU can address these societal challenges while generating a global competitive edge.

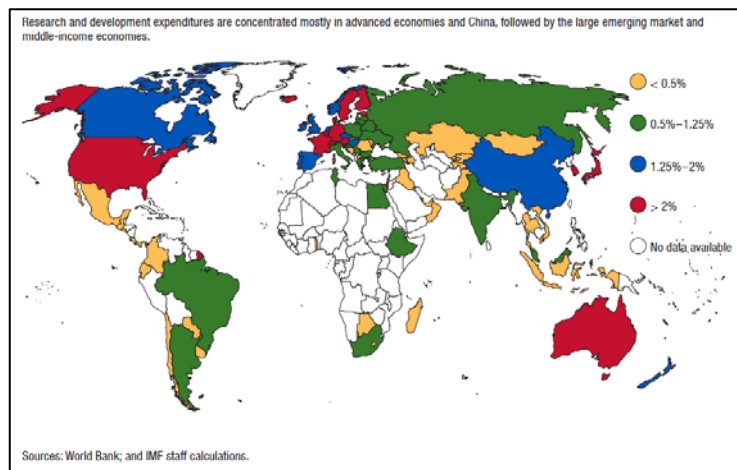


Figure 2: Total R&D spending as a percentage of GDP, 2011-15

² OECD productivity statistics (2016).

³ <http://www.mckinsey.com/global-themes/urbanization/urban-world-the-global-consumers-to-watch>

For example, societal challenges constitute major global growth markets – to develop solutions to mitigate and adapt to these trends.

Europe is struggling to compete in terms of R&D performance, investment, and policy. In 2014, Member States spent altogether €284 billion were spent on R&D in the EU: this represents 2.03% of EU's GDP, i.e. a status quo in relation to the 2013 figures, far from the 3 percent target and significantly lower than the United States (2.81 percent in 2012), Japan (3.47 percent in 2013) and South Korea (4.15 per cent in 2013)⁴. China's overall R&D spending is already on par with the European Union and is accelerating. In particular, the European Union lags behind in business investments in research and innovation.

It goes without saying that it is important to unlock investment in R&D. But promoting R&D by setting targets may not be enough. Research and innovation take place in complex ecosystems which need various complex elements to perform optimally. It requires policy action and structural reforms across a broad range of domains, from R&D funding and entrepreneurship and education, to product, financial, and labour market regulation. Moreover, the relevant policy challenges differ widely across countries. Some nations need to increase the overall quality of their public science base, where others need to increase the linkages between the science and business sectors or put in place innovation-friendly framework conditions. In exchanging views on research and innovation policy, it is important to note that the policy mix should be adapted to local requirements.

⁴ Eurostat (2015), 'First estimates of R&D expenditure 2014' (<http://ec.europa.eu/eurostat/documents/2995521/7092226/9-30112015-AP-EN.pdf/29eeaa3d-29c8-496d-9302-77056be6d586>) and Breugel (2016), 'The European Union's growing innovation divide'.

Research and innovation in the context of the European Semester

Research and innovation are at the heart of the European growth strategy. Progress is monitored throughout the European Semester and encouraged by CSRs. In addition, the Horizon 2020 Policy Support Facility was launched in 2015 to support Member States' reform efforts. It aims to help Member States to improve the design, implementation and evaluation of their R & I policies through high-level experts' advice and assistance⁵, and has carried out a number of activities⁶.

In the 2016 Country Reports⁷, the Commission identified three key policy challenges⁸:

- the quality of the public research and innovation system;
- unlocking private investments through public-private cooperation; and
- creating an investment-friendly environment.

The 2016 CSRs show that there is still room for improvement in research and innovation, with 13 countries with relevant CSRs (see annex 1). Identified challenges are:

- improving the quality and efficiency of the public research and innovation systems;
- linking academia and enterprises;
- unlocking private and public investment; and
- boosting the countries' innovation capacity.

⁵ For European Semester country-based information see <https://rio.jrc.ec.europa.eu/en>.

⁶ These include country peer reviews of Spain, Bulgaria and Hungary, mutual learning exercises around R&D tax incentives or the evaluation of business R&D grants, and specific activities to support particular policy reforms such as the establishment of a monitoring system to track Malta's the implementation of its national R&I strategy.

⁷ A report presenting the R&I contents of the 2016 Semester Country Reports is available at the PSF-RIO page: <https://rio.jrc.ec.europa.eu/en/library/research-innovation-2016-european-semester-country-reports>.

⁸ European Commission (2016), 'European Semester Thematic Fiche: Research and Innovation'.

Questions for discussion:

- What are the main barriers and impediments for addressing the identified challenges in the Country Specific Recommendations mentioned above?
- Which research and innovation policies have proven successful in addressing these identified challenges? What was the impact on growth and competitiveness?
- In addition to the national challenges, how can European policies contribute to more extensive and effective R&D policies?

Annex 1 2016 CSRs on research and innovation

Country	R&D related CSR	R&D related subpart
Netherlands	CSR 1	Prioritise public expenditure towards supporting more investment in research and development.
Belgium	CSR 3	Boost the capacity to innovate, notably by fostering investment in knowledge-based capital
Czech Republic	CSR 3	Strengthen governance in the R&D system and facilitate the links between academia and enterprises
Germany	CSR 1	Achieve a sustained upward trend in public investment, especially in infrastructure, education, research and innovation
	CSR 2	Review the regulatory framework for venture capital
Denmark	CSR 2	Incentivise the cooperation between businesses and universities
Estonia	CSR 2	Promote private investment in research, development and innovation, including by strengthening cooperation between academia and businesses.
Spain	CSR 3	Take further measures to improve the labour market relevance of tertiary education, including by providing incentives for cooperation between universities, firms and research. Increase performance-based funding of public research bodies and universities and foster R&I investment by the private sector.
France	CSR 4	Take steps to simplify and improve the efficiency of innovation policy schemes
Ireland	CSR 1	Enhance the quality of expenditure, particularly (...) by prioritising government capital expenditure in R&D (...)
Lithuania	CSR 3	Take measures to strengthen productivity and improve the adoption and absorption of new technology across the economy. Improve the coordination of innovation policies and encourage private investment, inter alia by developing alternative means of financing.
Luxemburg	CSR 2	Remove barriers to investment and innovation that limit economic development in the business services sector.
Latvia	CSR 3	Pursue the consolidation of research institutions and provide incentives for private investment in innovation
Portugal	CSR 5	Incentivise cooperation between universities and the business sector