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Subject: *Preparation of the Council ("Competitiveness") of 20-21 February 2014*  
European Semester 2014 - Research and innovation aspects  
Communication from the Commission on the Annual Growth Survey 2014  
— Policy debate

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**Introduction**

1. The Annual Growth Survey (AGS) for 2014, adopted by the European Commission on 13 November 2013, launches the 2014 European Semester for economic policy coordination, which ensures that Member States align their budgetary and economic policies with the Stability and Growth Pact and the Europe 2020 strategy. It is the basis for building a common understanding about the priorities for action at the national and EU level as the Union seeks to return to a path of sustainable growth and job creation.

The AGS should feed into national economic and budgetary decisions, which Member States will set out in Stability and Convergence Programmes (under the Stability and Growth Pact) and national reform programmes (under the Europe 2020 strategy) in April 2014. These programmes will form the basis for the European Commission's proposals for Country Specific Recommendations (CSRs) in May 2014.

2. While maintaining the same medium term priorities as last year, the Commission is proposing to adapt their implementation to the changing economic and social circumstances. The EU and its Member States should thus pursue – and in some cases reinforce – their focus on making progress in the following five priority areas, with varying degrees of emphasis:
  - i) Pursuing differentiated, growth-friendly fiscal consolidation;
  - ii) Restoring lending to the economy;
  - iii) Promoting growth and competitiveness for today and tomorrow;
  - iv) Tackling unemployment and the social consequences of the crisis;
  - v) Modernising public administration.
3. The economic forecasts recently published by the Commission confirm signs of a slow recovery in the EU. After five years of very limited or negative growth, the EU has experienced positive growth in the second quarter of 2013. The recovery is expected to continue and to become more robust in 2014. The biggest challenge now is to keep up the pace of reform to improve competitiveness and secure a lasting recovery.

### **Research and Innovation**

4. One of the key findings in the AGS 2014 is that European research and innovation are held back by fragmentation and inadequate framework conditions. In particular, it notes the inability to translate research progress and results into innovative goods and services so as to enhance growth. To this end accelerating the modernization of national research systems in line with the objectives of the European Research Area is identified as a priority. Thus it is important to mobilize all the available funding opportunities presented in Horizon 2020, COSME and the Structural Funds so as to supplement funding from national sources.

Furthermore, the implementation of frameworks such as the Union Framework for State aid for Research, Development and Innovation as well as the General Block Exemption Regulation should, in principle, be seen to alleviate bureaucratic barriers to achieve this objective.

5. Moreover, the AGS 2014 stresses that the Member States should find ways to promote or, in certain cases, protect longer-term investment in growth-enhancing expenditure such as in education, research and innovation. This kind of investment must be combined, particularly in countries heavily stricken by the fiscal crisis, with policies that are also designed to bring about structural changes in the public sector thus also affecting the way that research and innovation policies are managed. It should be noted that, in the current economic climate, investments in longer term goals such as education, research and innovation are often hindered by the need to tackle immediate societal needs such as the fight against poverty or youth employment, even though such longer term investments will themselves also address these and other societal needs.
6. These issues were also acknowledged by the [European Council](#) which, in its conclusions from October 2013, noted that "it is important to accelerate structural reforms of national systems and to strengthen progress monitoring based on robust data provided by Member States" and drew attention to a number of areas hindering Europe's ability to translate research progress into innovative goods and services, pointing out that "the main reasons for this commercialisation gap are: difficulties in accessing finance, market barriers and excessive red tape". Finally, the Council noted the benefits of innovation clusters and called for "a better-coordinated use of tools such as grants, pre-commercial public procurement and venture capital, and an integrated approach from research and innovation to market deployment."

7. The European Research Area and Innovation Committee (ERAC), adopted its opinion on the AGS on 31 January 2014<sup>1</sup>. The headline conclusions of the opinion on the AGS Priorities in the Research and Innovation field are annexed to this note. Moreover, discussions at the ERAC meeting on 12 December 2013 showed a wide range of policy initiatives being undertaken in the Member States, with a particular focus on actions aimed at enhancing innovation potential, improving knowledge transfer and strengthening the links between research and economic growth. The 2014 ERAC Mutual Learning seminar will focus on policies to improve the efficiency of national research and innovation systems and to support high growth innovative enterprises.
8. In the light of the overall context described above and in the annex, the Presidency invites the Council (Competitiveness – Research part) on 21 February 2014 to address the following questions focusing on research and innovation, with a view to contributing to the European Semester exercise:
- In order to maximize the benefits of research and innovation activities for the society, there is a need for tighter integration of research and innovation objectives in many related policies at Union and national levels. How can this be adequately planned and what underpinning measures can be taken also in the context of the European semester?
  - To foster the exploitation of market-oriented research as well as transferring of research and innovation results into the market, what would be the most important priorities and measures that could be undertaken at European, national and regional levels?
  - Given the need to ensure adequate balance of long-term investment in research and innovation with the immediate societal expectations, what forward-looking measures can be taken at European, national and regional levels?

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<sup>1</sup> Doc. 1203/14

ERAC Headline Conclusions on the AGS Priorities in the Research and Innovation field

"Invest"

- Bearing in mind the 3% target for 2020, welcome continuing focus on maintaining or increasing the level of research and innovation funding year on year, but need to ensure maximum quality of research and impact of expenditure.
- Member States should therefore be prepared to look for imaginative ways of supporting innovation going beyond "traditional" approaches; these might include the strategic use of public procurement or developing venture capital instruments.

"Transform"

- Important to support fast growing innovative SMEs but the role of bigger firms in promoting growth is also crucial.
- An innovation-friendly business environment is therefore essential.
- Implementation of smart specialization strategies is strongly recommended.

"Reform"

- There is a need to pursue continued reforms at national level linked to the ERA in order to meet the European Council's objectives in this field.
- Much is already being done at national level to improve the effectiveness of national systems, to align them with societal challenges and strengthen links with private sector.
- Focus areas to support growth and competitiveness are knowledge transfer and promoting an innovation-friendly regulatory and business environment.
- Public sector innovation is also an important support tool to meet societal challenges.