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Subject: Europe 2020 strategy: Mid-term review and Communication from the Commission on “Research and Innovation as sources of renewed growth”
- Policy debate

Delegations will find attached a Presidency paper with a view to the Policy debate on Europe 2020 strategy: Mid-term review and Communication from the Commission on “Research and Innovation as sources of renewed growth”.

Europe 2020 strategy: Mid-term review and Communication from the Commission on “Research and Innovation as sources of renewed growth”.

EUROPE 2020: SMART, SUSTAINABLE AND INCLUSIVE ECONOMY

The Europe 2020 Strategy builds on the lessons drawn from the Lisbon Strategy for growth and jobs which was adopted in 2000 as the EU’s medium to long-term growth strategy. It is also the starting point for the European Semester that has since become the overall framework for coordination and convergence of Member States’ policies.

In March 2014, the European Commission launched the first steps towards a Mid-Term Review of the Europe 2020 strategy through a Communication, ‘Taking Stock of the EU 2020 strategy for smart, sustainable and inclusive growth’¹, followed by a public consultation launched in May 2014 and aimed at bringing together evidence on the Strategy’s progress so far from all interested stakeholders.

According to the Commission, the main aim is to draw lessons from the first four years of the strategy and to ensure it acts as an effective tool for jobs and growth in the post-economic crisis period. As the EU’s main growth strategy, it intends to make the EU a smart (through investments in education, research and innovation), sustainable (through a move towards a low-carbon economy) and inclusive (emphasis on job creation and poverty reduction) economy.

Recognising that Europe 2020 is pivotal to bringing together different EU policies, the Italian Presidency wishes to work with Member States to support the Commission’s Europe 2020 Mid-Term Review.

¹ Doc. 6713/14

This is intended to complement and add value to the existing and on-going work of the European Commission and Member States. This initiative was launched by the Presidency at the **General Affairs Council** in July 2014. We support a gradual, inclusive approach which seeks the views of Member States.

Practically, the Presidency will do this through the organisation of debates in several Council formations, targeting a wider range of sectors/policies which are not currently foreseen in the Europe 2020 Strategy. The Strategy adopted five headline targets in 2010 on employment, education, social inclusion, research and development and climate/energy, but the review is now an opportunity to assess these priorities and the potential of other policy areas.

The intended outcome is to produce a summary in December in the **General Affairs Council**, as a contribution to the **European Council**, to be possibly conveyed to the European Commission ahead of its proposals for the Mid-Term Review in Spring 2015.

I. THE INNOVATION UNION AND ITS PROGRESS

Since its launch in 2010, the Innovation Union flagship initiative has played a central role in the overall context of the Europe 2020 Strategy.

As a comprehensive strategy, the Innovation Union has addressed and continues to address a wide range of elements that impact Europe's innovation eco-system and is succeeding in changing it: framework conditions in the EU research landscape are being improved, Europe's knowledge base is being strengthened via more streamlined EU Framework Programmes (e.g. FP7 and Horizon 2020), European Regional Development Funds focus on smart specialization strategies, progress is made towards the completion of the European Research Area and support for innovation skills development is ongoing, amongst other achievements.

Some important gaps remain and need to be filled in order to turn Europe into a more innovative society. The experience gained in the first years of implementation of the Innovation Union could help in identifying better responses to Europe's innovation-related issues.

The latest Innovation Union Scoreboard shows that the EU has managed to close almost half of its innovation performance gap with the US and Japan, whereas the gap with South Korea is widening and China is quickly catching up. As a consequence, we cannot stop paying the necessary attention to Europe's innovation performance.

Within this context, it should be also underlined that not all citizens and firms are on an equal footing with regards to innovation capacities and access to the benefits of innovation. Improving the inclusiveness of innovation appears to be increasingly important.

Moreover, the benefits derived from the development of smart specialisation strategies for research and innovation could be multiplied, promoting complementarities across regions and European value chains, contributing to reduce the European innovation's divide.

Substantial progress has been made in delivering on each of the Innovation Union blocks and related commitments. However, the full accomplishment of the ambitious Innovation Union goals requires the continuous mobilisation of key stakeholders as well as the mainstreaming of innovation in key European, national and regional policies to strengthen the broader innovation eco-system and put in place the right framework conditions, as well as deepen the Single Market for innovation, to stimulate Europe's companies to innovate globally.

To this end, the mainstreaming of innovation in key European, national and regional policies to strengthen the broader innovation eco-system and put in place the right framework conditions is envisaged, as well as the deepening of the Single Market for innovation, to stimulate Europe's companies to innovate and be more competitive at global level.

Investments in research and innovation have to be preserved and where possible increased, complemented by far reaching reforms of education, research and innovation systems and enhanced coordination and alignment of common priorities and actions.

II. A NEW POLITICAL AND ECONOMIC LANDSCAPE WITH R&I AS SOURCES OF RENEWED GROWTH

The recent EU political and economic landscape has been deeply changed by the recent and severe economic crisis. Several Member States have begun to put in place structural reforms, in line with the indication of the Annual Growth Survey and its Country Specific Recommendations. At the same time the perception, especially among younger generations, that the European Union, because of a heavy bureaucracy and a complex decision making process, is too far from the citizen's problems (e.g. the unacceptable level of unemployment), is widely spread.

In this scenario, innovation is becoming more central to our economy and to our society. Investing in a new generation of high-value and high-quality goods and services is critical to reduce unemployment. New growth and employment opportunities should come from providing new products and services derived from technological breakthroughs, research and innovation. Such new opportunities can be the key to create resilient jobs in knowledge intensive activities. This may also help the perception that the European Union is taking fully effective actions to tackle the issues of more growth and more jobs.

Evidence shows that much of recent productivity gains come not only from wage adjustments but also from innovation and that the countries that invested more in research and innovation have been the most resilient during the economic crisis and also those where the investment was more efficient.

Research and innovation have therefore, more than ever to be considered essential to re-launch Europe's competitiveness and its ability to create jobs and to tackle societal challenges, bringing Europe back to its growth path.

However, investments in research and innovation may be the first ones suffering cuts as it is already happening in different Member States

Against this backdrop, a Commission Communication on "Research and Innovation as sources of renewed growth"², jointly prepared by the Vice-President for Economic and Financial Affairs and the Commissioner for Research, Science and Innovation, was issued on 10 June 2014.

The Communication explores how the potential of research and innovation as drivers of renewed growth can be maximised through raising the quality of investments within Member States' growth friendly fiscal consolidation strategies.

The goals of the Communication are framed in the context of the Europe 2020 strategy, in line with the European Semester, from the Annual Growth Survey to the Country Specific Recommendations.

In this respect, the Communication invites Member States to prioritize growth-enhancing expenditure, in particular on R&I, and conduct reforms to increase the quality, efficiency and impact of public R&I spending, focusing on 3 priority axes for reform: (1) the quality of strategy development and policy-making processes; (2) the quality of programmes, focusing the resources and funding mechanisms; and (3) the quality of R&I performing institutions.

Moreover, with the launch of Horizon 2020, the Union budget for 2014-2020 has shifted towards R&I and other growth enhancing measures, including the use of European Structural and Investment Funds for research and innovation.

Evidence shows that EU funds are crucial as Member States still infrequently cooperate in joint actions amongst themselves and Commission's incentives are fundamental to guarantee the creation of European added-value and get Member States on board.

However, such additional investments from the Union budget must complement, and not substitute for, investments by Member States both from public and private sources. National and regional cooperation has to be further facilitated also through increasing the quality of spending and the interoperability between national systems. For this, national reforms may be needed as well as additional financial measures at national and European level.

² Doc. 10897/14

In accordance with these analyses, the Italian Presidency believes that three areas of attention deserve further scrutiny:

1. First, there is a widespread need of structural reforms within Member States and the EU, to positively affect the quality, efficiency and impact of any R&I spending at strategy, programming and institutional level. However these reforms have to be accompanied by growth friendly measures and investments to promote the Research area at national and EU level;
2. Second, resources should be allocated in a smart way, reducing fragmentation and unnecessary duplication within a genuine European Research Area, increasing the interoperability between national systems as well as aligning research priorities and agendas to common societal challenges and other relevant sectoral policies (industry, education, etc.), and ensuring an integrated and improved-based approach to policy making and budgetary decisions;
3. Third, developing a human resource base equipped with innovation skills and embedding science and innovation more strongly in society are critical conditions to maximize the Innovation Union impact and create resilient knowledge-intensive jobs for the future. In this respect the fragmentation of actions and responsibilities in the education value chain needs to be convincingly tackled.

The mid-term review of the Europe 2020 strategy is a significant political challenge. The important progress on the Innovation Union flagship as well as the momentum created by the Commission Communication on "Research and Innovation as sources of renewed growth" offer a unique opportunity to rethink R&I policies and investments in Europe, creating a true innovation ecosystem and putting research and innovation at the forefront towards full economic recovery while adding to the policy mix aiming at a better welfare for EU citizens.

III. QUESTIONS FOR THE POLICY DEBATE

In light of the overall context described above, the Presidency invites the Council (Competitiveness – Research part) on 26 September 2014 to address the following questions, with a view to contributing to the Europe 2020 mid-term review exercise:

1. Do Ministers think that the Europe 2020 strategy has made a difference and has been implemented effectively at EU, national and local levels? What were the main hurdles? How can we improve the effectiveness of policy measures to achieve the 2020 targets? Is there a need for simplification/streamlining of the process/methods and how?
2. In the area of Research and Innovation, how can the EU 2020 Strategy be made more effective in terms of promoting economic growth? What policies and/or instruments should be emphasized or activated to this end in particular to spur growth-related investments promoting research and innovation, including joint programming? How education policies, in general, and in particular those aimed at enhancing entrepreneurship and innovation skills, could contribute to this effort?
