



Council of the
European Union

055795/EU XXV. GP
Eingelangt am 13/02/15

Brussels, 13 February 2015
(OR. en)

6024/15

RECH 20
IND 17
COMPET 31
ECOFIN 104

NOTE

From:	Presidency
To:	Permanent Representatives Committee/Council
No. Cion doc.:	15985/14 ECOFIN 1088 SOC 823 POLGEN 171 EMPL 177 EDUC 335 ENV 933 RECH 458 ENER 479 FISC 208 TELECOM 221
Subject:	<i>Preparation of the Council ("Competitiveness") of 2-3 March 2015</i> Creating mutually enhancing and sustainable interrelations between actions fostering innovation and those unlocking Europe's potential for growth in the European Research Area a) Communication from the Commission on the "Annual Growth Survey 2015" b) Investment Plan for Europe in the research and innovation area - <i>Presentation by the Commission</i> - <i>Policy debate</i>

Introduction

In its Annual Growth Survey (AGS) for 2015, issued on 28 November 2014, the Commission outlines the main features of its new jobs and growth agenda. The AGS, together with the documents accompanying it, sets out the Jobs, Growth and Investment Package as a first priority in the Political Guidelines for this Commission.

In the AGS, the Commission recommends three main pillars for the EU's economic and social policy in 2015:

- A renewed commitment to structural reforms
- Pursuing fiscal responsibility
- A coordinated boost to investment

The Investment Plan for Europe, for its part, is to complement the efforts of the Member States in the context of the European Semester. It will be based on three mutually reinforcing strands:

- The mobilisation of additional investment over the next three years
- Targeted initiatives to make sure that this extra investment meets the needs of the real economy.
- Measures to provide greater regulatory predictability and to remove barriers to investment, making Europe more attractive and thereby multiplying the impact of the Plan.

Research and Innovation in the European Semester context

In the context of the structural reforms, the AGS underlines in particular the importance of ensuring the quality of investment in research and innovation at the EU level. Moreover, investment in R&I at national and regional level has a critical role to play in kick-starting sustainable growth. Member States are recommended to continue to prioritise public investment in research and innovation, ensuring its efficiency and leverage with regard to private investment. Member States are also encouraged to focus on the quality of R&I institutions, on their strategy development and policy-making processes, and on programmes. At the same time, there is a need to keep up the pace of reforms to ensure an investment-friendly environment, which is a necessary condition for business investment in R&I and for fast growing innovative SMEs.

The AGS also provides an orientation linking together reforms and investment. Through the European Semester process, Member States have already gained experience regarding improving the effectiveness of the use of public money. Progress has also been achieved in the approach to ERA, for example, in setting common reference levels for measuring quality of research systems and peer learning.

As to the Investment Plan, it recommends that the funding raised by the plan should be focused, among other things, on education, research and innovation as one of the areas where clear needs exist and where progress is expected to bring large economic and societal returns. The European Fund for Strategic Investments (EFSI) is thus to support strategic investments of European significance in this sense. The Commission notes that the seed capital for the EFSI which is taken from the Horizon 2020 programme to generate additional investments, is not money lost for innovation but will be used for investment in innovative projects with a higher leverage effect.

The Commission also invites Member States to increase significantly their use of innovative financial instruments in key investment areas, such as R&D support, through marking a specific percentage of the allocations made in their European Structural and Investment Fund Partnership Agreements to each of the key investment areas (5% in the field of support for Research, Development and Innovation).

Moreover, to reinforce the level-playing field and to eliminate barriers to investment in the Single Market, improving the framework conditions for jobs, growth and investment is an inherent dimension of the Investment Plan. Areas particularly relevant in the short- and medium term include boosting research and innovation, as EU competitiveness would benefit from fewer barriers to knowledge transfer, open access to scientific research and greater mobility of researchers.

The policy debate

Research and development, innovation and the digital economy have become main drivers of global growth and competitiveness. There is a need to bridge research and innovation through fostering networks without barriers and the full exploitation of the potential of national research and innovation systems. In this context, building strong links between the Innovation Union and the European Research Area is essential, including the optimal use of public investments in research. As acknowledged by the Council in its conclusions on Research and Innovation as sources of renewed growth of 5 December 2014¹, a well functioning ERA is necessary to increase the level of excellence of Europe's public research system and to maximise the return on public R&D investments.

In times of fiscal consolidation, infrastructure investment is constrained by the availability of public financing, which means that more private financing is needed². So far private sources of finance for infrastructure have not risen to the challenge, however. Especially in research and innovation projects, information about the value of a project is revealed only gradually. This can make it difficult for investors to correctly assess and efficiently monitor innovation projects, including their economic impact, and keep the private sector away.

However, Research Infrastructures (RIs) are a key asset for European science and innovation, both for the research community and the private sector. RIs play a key role in the ERA as they stimulate scientific creation, facilitate the networking of scientists and encourage the circulation of knowledge. In the knowledge economy, this also brings specific focus on e-infrastructures that encompass the needs of research and innovation communities. World-class RIs of pan-European interest are vital for increasing Europe's scientific leadership, but Member States do not individually have the capacity to develop such facilities. As the report of the Special Task Force on Investment in the EU notes, in the case of the next generation of European large-scale research infrastructures investment projects are often delayed or downsized as Member States' budgetary plans do not envisage funds for the construction and operational phase of the facilities.

¹ Doc. 16425/14

² European Investment Bank report on Investment and Investment Finance in Europe (2013)

Secondly, although some facilities dedicated to applied research could in principle be partly funded by private users, they are still almost exclusively financed by the public sector alone. The same seems to apply to innovation-oriented applied research in general. Therefore we urgently need to create more favourable conditions for private investment in research infrastructures and to reassess the framework conditions for private investments in research, including long term university – industry cooperation and state aid framework for research and innovation. To achieve this, a real dialogue with the private sector is needed, to build mutually beneficial projects and create long-term commitment.

Better quality of public R&I investment and increased private investment require also structural reforms. Whereas public research institutes and universities are important generators of the knowledge, human capital and skills that are also essential for business R&D, the public sector has also an important role to play in providing important framework conditions for innovation activities in the private sector. However, for all the players to fully play their role and to fully benefit from the potential created, structural and regulatory barriers must be addressed. The Investment Plan particularly mentions in this respect the issues of knowledge transfer, open access to scientific research and greater mobility of researchers, which are all also part of the ERA priorities.

European research is faced with the implications of globalisation of markets and industries, digitalisation and new technologies, as well as a need to address societal issues such as an ageing population or climate change. On the one hand, European universities and other research institutions find themselves competing on a global scale for students, researchers and industrial partners. In order to remain attractive, they will need to open up to business and international collaboration, which may also help leverage new funds. On the other hand, many companies are developing open innovation approaches to R&D, and have begun to treat public research as a strategic resource. Better mobility of researchers, not only between countries but also between academia and business, can help in these approaches through cross-fertilisation and availability of people that have knowledge from both the public and the private sides and from a transnational perspective.

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In the light of the overall context described above, the Presidency invites the Council (Competitiveness – Research part) on 3 March 2015 to address the following questions focusing on research and innovation, with a view to contributing to the European Semester exercise:

1. *The AGS 2015 stresses that Member States should focus on structural reforms of their R&I systems to improve the quality of R&I strategies, programmes and institutions and maximise the impact of R&I investments. Are there in your view particularly effective reforms which should be considered in this context?*
 2. *The Investment Plan highlights the transfer of knowledge, open access to results of scientific research and greater mobility of researchers as important elements to reinforce a level playing field and eliminate barriers to investment in R&I in Europe. What in your view is most needed to ensure an investment-friendly environment for business investment in R&I?*
 3. *The Investment Plan for Europe intends to support strategic investments of European significance in areas such as research and innovation. It will also support risk finance for SMEs and mid-cap companies across Europe. Against this backdrop, how can the benefits of the Investment Plan be maximised for R&I, including for sustainable Research Infrastructures and e-Infrastructures?*
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