



MEETING OF CHAIRPERSONS OF COMMITTEES ON EMPLOYMENT, RESEARCH AND INNOVATION

Session III – Research: an engine for growth

Concept note

Europe's position in the world economy is rapidly changing. By 2050, Europe's [share of world GDP](#) could be much less than its current 22.9% (2012 figure).

The European Union still accounts for [the largest share of worldwide exports](#), equal to 15.5%.

As stated by the European Commission in its communication of last June, [Research and innovation as sources of renewed growth](#), Europe is well placed to capture the next growth opportunities. With the largest internal market in the world it is home to many of the world's leading innovative companies, and has a leading position in many fields of knowledge and key technologies such as health, food, renewable energies, environmental technologies and transport. It has an invaluable capital stemming from its highly educated workforce and its leading talent in cultural and creative industries. However, efforts are still required to ensure the smooth functioning of its single market, to improve the framework conditions for businesses to innovate, and to speed up investments in breakthrough technologies in fast-growing areas.

According to the Commission, to reap the benefits from these advantages in terms of economic prosperity and quality of life, governments across Europe need to take an active stance in supporting growth enhancing policies, notably research and innovation.

As to funding for research, the [Innovation Union](#) – one of the flagship initiatives of the [Europe 2020](#) strategy – has set a target of spending 3% of GDP on research and development for the Member States (1% in public funding, 2% in private investment) by 2020, with the goal of creating 3.7 million jobs and increasing annual GDP by about €800 billion. In the [communication](#) “State of the Innovation Union 2012 – Accelerating change”, presented on 21 March 2013, the Commission reported that public and private investment in R&D grew until 2011 (to 2.03% of GDP) but subsequently declined.

In line with the Europe 2020 strategy, one of the EU's goals is to create the necessary conditions to make EU industry competitive, creating jobs and supporting growth. One of the levers for achieving this goal involves exploiting the industrial potential of innovation and research policies most effectively.

For that purpose, one of the three pillars of [Horizon 2020](#) – the main EU programme for financing research and innovation, with over €77 billion in seven years budgeted (from 2014 to 2020) – is so-called "**Industrial Leadership**", the general goal of which (with €17 billion in funding allocated) is to make Europe a more attractive location to invest in research and innovation, provide more investment in key industrial technologies, maximize the growth potential of European companies by providing them with adequate levels of finance and help innovative European SMEs to grow into world-leading companies.

Furthermore, the approach of using public-private partnerships based upon a contractual agreement between the Commission and industrial partners aimed at offsetting the high risk for private actors of investing in research and to "*join forces with the private sector [...] to achieve results that one country or company is less likely to achieve alone*", is itself an innovation under the Horizon 2020 programme.

The data show that many of the recent productivity improvements are the result of innovation and that, on average, the countries that invested most heavily in research and development prior to and during the crisis are those that have demonstrated the greatest resilience during the recession.

In recent years companies have begun to invest in a wider range of intangible goods (also going beyond the traditional research and development sector), specifically in data, software, patents, design, new organizational processes and specific entrepreneurial expertise. This is referred to as knowledge-based capital (KBC).

Investments by companies in KBC help stimulate growth and productivity, as shown in studies conducted for the European Union and the United States: investments by companies in KBC have contributed 20% to 34% to the average increase in workplace productivity (OECD).

Based on the foregoing, it is necessary to consider:

- a) whether the policies implemented by the European Union are appropriate for promoting research activities, focusing especially on those that can serve as lever to foster European competitiveness and growth;
- b) what solutions and experiences have been found – including in the form of incentives and subsidies – to be best suited to encouraging an increase in the share of GDP allocated to research and development;
- c) within the context of the various national experiences, which research projects and programmes have been most effective in terms of generating returns and reutilisation by the productive sector;
- d) what role should public finance play in allocating adequate returns to be used for research and what measures can be taken to foster public-private partnerships with greater involvement of private-sector capital.