

José Manuel Barroso
President of the European Commission

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Dear Colleagues,

Our next meeting on 24/25 October will take place against the backdrop of more encouraging news on the economy. While the EU's economic problems are far from over, particularly when levels of unemployment are still so unacceptably high, there are clear signs of recovery. I believe that these are due in large part to the efforts made by Member States and the confidence of markets and our international partners in our ability to stay the course and complete the structural reforms that Europe needs. We all agree that we need to support growth as part of the recovery process and our meeting will devote some time to the contribution that innovation, the digital single market and services can provide.

Digital services and telecommunications are crucial drivers of growth and productivity across all sectors of our economies. However, we are not yet getting the most out of the potential for our single market in telecommunications and online and in these industries the EU is losing ground to our international competitors.

I am enclosing a short report from the Commission on the digital economy and how we can develop it as an input to our discussions in October. The report provides the background to the recent Commission initiatives to address key obstacles to the single market in telecommunications and to boost investments. They complement a number of important recent proposals on the completion of the Digital Single Market – such as the proposed measures to reduce the cost of deploying high-speed broadband networks and those on e-invoicing in public procurement, but also the 2012 proposal on electronic identification and trust services for electronic transactions in the internal market – that are currently being examined by the European Parliament and the Council and for which our aim should be to secure adoption by the end of the present legislature.

Improving the framework conditions for online services will also require the swift adoption of the Single Market Act proposals including on payment services, and a modernised copyright framework for the digital age, as well as the full implementation of the e-commerce Action Plan. And it is essential for European citizens' and businesses' confidence and trust in the on-line economy that our new data protection rules are part of this package. It is of decisive importance that the European Parliament and the Council intensify their efforts and get this new legislation adopted before the end of this parliamentary term.

To the Members of the European Council

Sustained investments in research and innovation are crucial for economic growth, competitiveness and job creation. There is evidence that R&D investment fuels productivity and thus growth. Member States that have continued to invest in research and innovation have fared better in the current crisis than those that have not. Good progress has been made in setting the policy framework for an Innovation Union but we need to accelerate the critical and structural reforms of our national Research and Innovation systems to achieve our aims for a European Research Area. An analysis of Europe's position in the global economy reveals a mixed picture:

- *Notwithstanding its world-class science base, Europe is engaged in a global competition for knowledge, research and innovation, and increasing disparities are noted in the research and innovation performance of Member States, with the less innovative countries as a group no longer catching-up with the most innovative countries.*
- *Business R&D expenditure in the EU is far below that of our main competitors despite the EU remaining an attractive location for Foreign Direct Investment in R&D. This largely reflects the more limited size and more traditional specialisation patterns of our firms. We could do much more to benefit from the scale the EU offers. The crisis has also taken its toll with a decrease in public spending on R&D in 2011.*
- *Even though Europe has reinforced its leadership in well-established production sectors, it is lagging behind in essential high-tech and fast-growing markets, including those linked to the technologies which tackle societal challenges. New European start-ups are growing more slowly than in our main competitors and fewer of them are joining the ranks of the world's largest firms.*

There are many ways to define and discuss innovation, many dimensions to the issue and several key indicators to look at. To help an open discussion, the Commission has finalised work on an innovation indicator. This responds to a request made at one of our meetings and will give us an additional way to measure performance in innovation.

The Commission has emphasised the urgent need for reform of national research systems to ensure greater efficiency whilst taking account of each Member States' strengths and national specificities. Such reforms will also generate greater competition and more cooperation across Europe, and are essential to complete the European Research Area by 2014.

A common approach at European Union level is essential. This is why we have successfully modernised and simplified our funding instrument with the adoption of a broad strategic framework for research and innovation, Horizon 2020: by focussing on excellence in research, on industrial leadership and competitiveness, as well as addressing societal challenges we expect its impact to be substantially increased. As a first step, six public-private partnerships and another four public-public partnerships on research and innovation were adopted by the Commission in July, amounting to EUR 22 billion investment in support of our growth and jobs strategy. The first work programme under Horizon 2020 which will be launched in December, covering 2014-2015, will represent another investment for growth, jobs and competitiveness, worth EUR 20 billion.

I am convinced that our efforts to make progress on innovation and the single market for electronic communications and online services, if sufficiently ambitious and coordinated, will pay off. I look forward to our discussion on the number of very concrete steps to take our policies further.

Yours sincerely,

A handwritten signature in black ink, consisting of a stylized 'J' followed by a long horizontal stroke that curves slightly upwards at the end.

José Manuel BARROSO