

**EUROPEAN UNION**

**Brussels, 1 February 2013**

**EUROPEAN RESEARCH AREA  
COMMITTEE**

**– Secretariat –**

**ERAC 1202/13**

**NOTE**

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From:	ERAC Working Group on the European Semester
To:	ERAC delegations
Subject:	ERAC opinion on the Annual Growth Survey 2013

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Delegations will find attached the ERAC opinion on the Annual Growth Survey 2013, which is an Annex to the Presidency note on "Research aspects of the European Semester/Annual Growth Survey" (doc. 5843/13).

## **1. Introduction**

Just like last year, the context of the Annual Growth Survey 2013 (AGS 2013) was set by the economic crisis. The economic situation is very fragile and although precise figures are still missing growth is expected to have contracted or at best been very weak during 2012. There is also uncertainty over the extent to which budgets for future-oriented investments have been safeguarded in 2012.

The AGS 2013 sets out 5 broad policy areas where action is needed to bring the EU back on a growth track. These areas are basically the same as last year. In this respect, the AGS 2013 builds on last year's AGS. As a consequence, most of ERAC's recommendations for last year's Survey are still valid for this year's AGS.

As far as research and innovation performance is concerned, overall EU R&D intensity has increased during the crisis from 1.87% in 2007 to 2.03% in 2011. Total public R&D expenditure has remained roughly unchanged in 2011 compared to 2010 (although a few Member States have raised their R&D budgets significantly<sup>1</sup>). Official figures for 2012 are still missing. European companies have stated their intent to continue to invest more in R&D than in other activities, revealing their awareness of the crucial importance of R&D investments for their competitiveness. However, as companies tend to allocate their global investments on the basis of growth prospects and their investments are also heavily dependent on public R&D investments, the steady increase in business R&D intensity in Europe that we have witnessed between 2007 and 2011 may actually slow down.

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<sup>1</sup> In particular the Czech Republic, Estonia and Slovenia.

According to ERAC's annual survey on public investment in R&D<sup>2</sup>, public sector research expenditure may also have been stable in 2012, with a number of Member States confirming their intention to prioritise research and innovation in their budgets, as recommended by the AGS 2012<sup>3</sup> and other policy reports. However, this commitment may weaken over time as the crisis continues. At this moment, it is not possible to give a precise figure to the combined result of R&D expenditure in the public and the private sector.

This is where enhanced economic policy coordination through the European Semester cycle can play a role. This process allows a number of questions to be raised, such as: To what extent have last year's recommendations been taken up? What has happened to research and innovation budgets and expenditures? To what extent have these budgets contributed to fuelling European growth, stabilising the economic and financial situation and spurring structural reforms?

The Commission's Annual Growth Survey helps to see where Europe is going in general, while National Reform Programmes include the policies Member States intend to develop in the context of the Europe 2020 strategy. With the help of more recent information on research and innovation performance and policies, the recommendations could have been adapted in the AGS.

ERAC wishes to comment on the priorities included in the AGS 2013, in particular those impacting on research and innovation. ERAC also wishes to monitor the implementation of priorities it has recommended in previous AGS opinions.

With this in mind, ERAC wants to draw the attention of the Competitiveness Council to a number of observations with a view to reinforcing the research and innovation dimension of EU and Member State policies in 2013 and it would like to recall the recommendations made in 2011 and 2012.

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<sup>2</sup> See: Note to ERAC Members: [. . .] Results of the ERAC 2012 questionnaire on R&D investments and policy measures by EU Member States and Associated States (Commission document C6/PV/20/09/2012 (revised version of the note of 14/08/2012).

<sup>3</sup> Communication from the Commission: Annual Growth Survey 2012 (doc. 17229/11 of 25 December 2011).

## 2. The European and the national context

A few introductory remarks should be made about research expenditure and research policies in Member States and at EU level before the present opinion will address the main messages of the AGS 2013 and ERAC's response.

- a) The most recent data on **R&D-expenditure** date from 2011. Compared to 2010, research expenditure increased in absolute terms. R&D intensity rose from 2,01% to 2,03% of GDP. However, only incidental evidence is available for 2012<sup>4</sup>. This makes it difficult to say anything meaningful about R&D expenditure in 2012 and progress towards the 3% target.
  
- b) 13 Countries have already published their **government research budgets** for 2012, with several large economies among them. The figures show that the total budgets of these governments together is slightly higher than in 2011 (however, the rise may not compensate inflation). **This shows that most countries are intent on safeguarding their futur-related investments**. If this trend will be confirmed when the remaining government budgets become available, it will be good news indeed.

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<sup>4</sup> In Belgium, Business Enterprise Research and Development (BERD) is expected to grow by 4% in 2012, which outnumbers inflation, but this picture may by no means be representative of the entire EU (one would have to check figures at national statistical offices in the EU to know what is going on elsewhere).

- c) At **European level**, 2012 saw preparations for Horizon 2020 taking off. The Commission also released a Communication including proposals for completing the European Research Area by 2014<sup>5</sup>. The Council adopted conclusions on the Commission's ERA Communication in December 2012<sup>6</sup>, "inviting Member States to identify the national reforms and actions needed to achieve the ERA in the context of the Innovation Union, and to present these reforms and their subsequent implementation when reporting on national ERA measures, where appropriate in the 2013 National Reform Programmes". The Council also considered that "achieving the ERA will require monitoring of ERA progress in close connection with the European Semester". It therefore invited the Commission "to develop a robust ERA monitoring mechanism (EMM), in close cooperation with the Member States, based on well-defined indicators for actions and monitoring of ERA policy reforms and their implementation. These indicators should be developed based as much as possible on existing indicators, in close coordination with the relevant process followed by EUROSTAT. Member States will be consulted on the whole process through ERAC". The preparation of the new innovation indicator was yet another important activity in 2012.
- d) Policy changes at **Member State level** still need to be examined. In 2012, more countries were given "country specific recommendations" (CSR) for research and innovation than in 2011. ERAC's Mutual Learning Exercise 2013 will look into these recommendations and assess the situation in Member States. The Commission has divided the CSRs into three categories: (1) efficiency of national science bases, (2) innovation strategies articulating supply-side and demand-side aspects, and (3) policies for high-growth innovative enterprises.

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<sup>5</sup> Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Region - A Reinforced European Research Area Partnership for Excellence and Growth (doc. 12848/12 of 23 July 2012).

<sup>6</sup> Council Conclusions on a Reinforced European Research Area Partnership for Excellence and Growth (doc. 17649/12 of 12 December 2012).

### 3. Main messages of the AGS 2013 and the link with research and innovation policies

This year's Annual Growth Survey has been heavily influenced by the on-going economic and financial crisis in the EU.

The AGS 2013 calls for policies that lay the ground for "future growth and enhanced competitiveness that will be smart, sustainable and inclusive" while ensuring smart fiscal consolidation which safeguards public funding for education, research, innovation and energy. This approach is very much underpinned by the awareness that Europe's credit worthiness largely depends on its capacity to pay back its loans on the basis of its future growth prospects.

The crucial challenge is "to be able to show that our policies are working, that they will deliver results over time and that they will be implemented fairly in terms of the impact on our societies".

The AGS 2013 mainly aims at giving *broad* guidance to Member States (contrary to the Country *Specific* Recommendations, which will be released later on in the current semester). This policy guidance is summarised as "restoring confidence, stabilise the economic and financial situation while carrying out structural reforms".

The AGS 2013 concludes that **the priorities identified in last year's Survey remain broadly valid and that efforts should again be concentrated on the following policy priorities:**

- Pursuing growth-friendly fiscal consolidation
- Restoring normal lending to the economy
- Promoting growth and competitiveness for today and tomorrow
- Tackling unemployment and the social consequences of the crisis
- Modernising public administration.

*Since the main messages of the AGS 2013 build on last year's AGS, ERAC's 2013 opinion also builds on last year's AGS opinion.*

Each of these policy priorities calls for broad action by national governments. In some cases, research and innovation are at the core of such policy action, although this is by no means always so.

- **Pursuing growth-friendly fiscal consolidation**

Over a period of only just a few years, the debt ratio has increased from an average of 60% in the Euro area to 90%. Government deficits were at an average of around 6% in 2010 and are expected to be around 3% in 2012 according to the AGS 2013. However, each Member State faces its own fiscal and economic situation. This is why the AGS 2013 advocates different efforts for different countries.

On the expenditure side of government budgets, the Commission reiterates the importance of investments in education, research and innovation (as well as energy). These areas should be prioritised and strengthened where possible and appropriate.

*ERAC welcomes the continued attention to safeguarding and – whenever possible – strengthening investments in research and innovation, including various forms of public support to research and innovation such as tax credits, public procurement, public-private partnerships, guarantees and counter-guarantees, support to venture capital, etc. This requires mobilising the full range of funding resources, including structural funds, Horizon 2020, COSME, etc. Hence the importance of reforms that lead to an appropriate policy mix including elements from the entire innovation cycle. ERAC emphasises that these efforts are crucial for progress towards the 3% R&D target, an aim which is firmly enshrined in the Europe 2020 strategy.*

*ERAC would like to emphasise that it is very difficult or perhaps even impossible at the present moment to monitor the extent to which future-oriented investments have been safeguarded or strengthened in government budgets. Final government budgets (in particular GBAORD<sup>7</sup>) are often published late and do not include elements such as R&D tax incentives, guarantees and counter-guarantees, support to venture capital or pre-commercial procurement.*

*ERAC calls on the Commission to take initiatives (with the support of ERAC's relevant Working Groups) to review and improve the annual ERAC survey of government research budgets so that they offer a better overview of research and innovation investments, including R&D incentives.*

*Finally, ERAC calls on Member States to provide the requested information to the Commission in as complete and timely a manner as possible.*

- **Restoring normal lending to the economy**

The AGS 2013 also focuses on the effects of the crisis on investors and lenders. It draws attention to severe funding problems for many borrowers as well as to the fragmentation of the financial system along national borders. The Survey summarises the measures taken so far to overcome these problems and lists a number of initiatives that can be initiated at national level.

**ERAC would like to point to the importance of effective instruments to leverage private financing for research and innovation, as well as measures to overcome barriers to the take-up of financing instruments by small and medium-sized enterprises.**

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<sup>7</sup> GBAORD: Government Budget Appropriations or Outlays for Research and Development.



- **Promoting growth and competitiveness for today and tomorrow**

The AGS 2013 also analyses the consequences of the crisis. Most traditional sectors are hit very hard by the crisis and many newer ones find it difficult to keep their position. The AGS insists that proper framework conditions need to be in place to stimulate innovation, increase the performance of education, improve the business environment and allow for tapping the potential of the green economy. Member States are invited to improve the implementation of the Services Directive and increase the performance of network industries. These framework conditions are crucial to research and innovation. The single market in general should continue to be developed, in particular in the field of research and innovation.

**ERAC welcomes the progress achieved in implementing the Innovation Union Flagship initiative and in putting in place the necessary policy framework for innovation at EU level. ERAC invites the Commission to complete the implementation of the Innovation Union Flagship and in this context it welcomes work on the new innovation indicator. ERAC will carefully analyse the policy implications of the results of the new indicator.**

**ERAC would also like to recall the importance of completing the European Research Area in order to improve the conditions for driving research investments, research excellence and innovation. In particular:**

- **Member States are invited to examine which national reforms and actions are needed to achieve ERA, as well as to adapt existing rules and regulations if necessary;**

- **The Commission is invited to give greater prominence to understanding the obstacles to the completion of ERA and to analyse both the results of the survey on ERA, as well as the survey itself. The Commission is also invited to interact with ERAC on the development of the ERA Monitoring Mechanism (EMM) and on the ERA progress reports that the Commission will prepare together with Member States and ERAC, the first one of which is due in September 2013.**<sup>8</sup>

**ERAC considers that the European Research and Innovation Observatory, which the Commission is in the process of setting up, should be designed in such a way as to contribute effectively to greater knowledge of national research and innovation systems and policies. The Observatory should also take account of existing monitoring mechanisms such as the Innovation Union Scoreboard and the measuring activities of EUROSTAT.**

**ERAC invites Member States to set up or use existing national foresight instruments in order to underpin priority setting, including those set up by the Commission in the context of the European Forum on Forward Looking Activities (EFFLA).**

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<sup>8</sup> See Council Conclusions on a Reinforced European Research Area Partnership for Excellence and Growth of 11 December 2012, Paragraph 31.

- **Tackling unemployment and the social consequences of the crisis**

The number of unemployed has risen dramatically. The EU unemployment rate stands at over 10%. The enormous differences between Member States that are hidden behind by this average are a particular cause for alarm. The AGS 2013 makes a number of recommendations for a job-rich recovery, including recommendations to increase the employment rate of young and of poor people.

**ERAC would also like to draw attention to the increasing risk of shortages of skilled labour, particularly in knowledge-intensive industries and activities, and to the role of research and innovation – in particular institutions for higher education – in meeting the demand for knowledge-intensive skills. The research and innovation system, which is equipped with means to popularise science with young people through awareness programmes, also supports promoting the take-up of science and maths subjects by young people in education, thus contributing to maintaining the pipeline of new researchers and innovation leaders.**

**ERAC stresses the importance of instruments that support commercialisation, technology start-ups etc. to create new high value-added jobs, such as through initiatives and measures aimed at reinforcing the links between universities and business and promoting networking and clustering among them.**

- **Modernising public administration**

The AGS 2013 notes that the squeeze on public finances creates a momentum for modernising public administration. This is generally in line with previous ERAC discussions relating to the completion of ERA and the modernisation of universities and research institutions<sup>9</sup>.

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<sup>9</sup> See for instance the ERAC Opinion on the Modernisation of Universities (doc. ERAC 1211/11 of 23 June 2011).

**ERAC draws attention to the importance of research for modernising public administration: research may strengthen evidence-based policy making and improve public service innovation.**

**ERAC welcomes initiatives taken to implement last year's recommendation on modernising universities and research institutions.**

**ERAC highlights the importance of efficiency and effectiveness of public investments in research and innovation. Particular attention should be given to developing more effective research funding systems in Member States.**

ERAC wishes to express its commitment to the implementation of Europe 2020 and will remain actively involved in the follow-up to the Annual Growth Survey 2013 and future European Semesters. The Committee will also look at the progress of policies it has recommended in its opinion. Member States will be invited to report on progress by the end of 2013.

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