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NOTE

From:	Presidency
To:	The High Level Working Group on Competitiveness and Growth
Subject:	Presidency discussion paper on European Semester: thematic review on skills

Delegations will find in Annex a Presidency discussion paper on European Semester: thematic review on skills in view of the meeting of the High Level Working Group on Competitiveness and Growth on 10 November 2016.

European Semester: thematic review on skills

Skills and competitiveness

Skills undoubtedly are the main resource of the European economies and a key determinant of growth, jobs and productivity. Countries with higher international competitiveness rankings[1] tend to have a more skilled workforce. Moreover, the skill composition of the workforce is clearly correlated with labour productivity levels. Taking into account demographic ageing, future economic growth will have to be based more on productivity improvements than on employment growth. This requires better matched skills, a better allocation and deployment of existing skills and further re-skilling and up-skilling of the EU workforce.

Skill compositions of the workforce and their relation to growth and productivity vary considerably across countries and sectors. Countries with similar skill compositions of their workforce actually display very different productivity growth records, partly reflecting differences in inter alia capital formation. In addition, despite continued improvements in qualification and skill levels of our populations, we are observing a global decline in productivity growth rates, paired with persistently high unemployment rates in several Member States notably among young people. **Member States need to pursue policies that help translate higher qualifications and skills, reduce skills mismatch and improve the allocation and deployment of existing skills into higher productivity and improved competitiveness.**

Structural change, skill mismatches, polarisation and future skill needs

Skill-biased technological change[2] **remains a major driver of structural change and has a key impact on future patterns of production, consumption and employment.** It fosters new business models and new forms of work and leads to significant changes in the skill needs of employers as well as in the delivery of education, training and skill acquisition. While not new, the acceleration of technological disruption and the speed of new technological developments are unprecedented.

These trends have a significant impact on business and labour markets. There are increasing mismatches between employees' and jobseekers' skills and business needs. This represents both a

1 World Economic Forum (2016), The Human Capital Report.

2 'Skill-biased technological change' refers to technological change and related shifts in production technology that favour high-skilled over low-skilled labour. As a consequence, the relative demand for high-skilled labour increases.

misallocation of resources and a loss of investment in education and training. In several Member States, digital skills and entrepreneurial skills are not sufficiently developed yet in increasing demand. A too large number of Europeans also still have low basic literacy and numeracy skills.

According to the European Centre for the Development of Vocational Training (CEDEFOP),[3] the five **occupations for which there is a critical shortage** with important implications for the national economies are: ICT professionals; medical doctors; science, technology, engineering and mathematics (STEM) professionals; nurses and midwives; and teachers.

Moreover, we observe **increasing polarisation both in job creation and skill supply**. Such polarisation affects productivity and growth as well as social protection systems. Several studies have tried to estimate the number of tasks and **jobs at risk of computerisation, automation and robotisation**, with estimates of up to 45% of all workers in some countries and sectors.

According to the CEDEFOP skills forecasts 2015-2025, **future skill needs in the EU will further concentrate in high-skilled occupations and job opportunities will grow for high-skilled only**, while stagnating for medium-skill levels and declining severely for low-skilled.[4] These trends are expected to impact employment, occupations and qualifications in all sectors across the EU but in different ways, encouraging **employment growth in business services in particular** which will account for 30% of all jobs in the EU by 2025. Employment is expected to continue to fall in manufacturing and in non-market services, mainly public administration and defence, while growing in education and health and social services. Business and other market services are the only sector for which net employment gains are expected not only for high-skilled but also for medium-skilled categories.[5]

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3 CEDEFOP (2016), *Skill shortage and surplus in Europe*, CEDEFOP Briefing Note, November 2016

4 CEDEFOP (2015), *Cedefop Sskills forecasts*, June 2015

5 CEDEFOP (2016), *European sectoral trends: the next decade*, May 2016

While it is clear that fundamental changes are taking place in the world of business and work, the overall impacts of new technologies remain unclear and the scope of automation very controversial. **The final impacts will depend on choices based on a good understanding and anticipation of, and adaptability to the changes yet to come.** This involves better matched skills as well as the continued development of skills of the existing work force by life-long learning.

New Skills Agenda for Europe – strengthening human capital, employability and competitiveness

The new Skills Agenda for Europe is the EU's key strategy to reply to these challenges. It provides the key strategic framework for boosting the skills needed for a competitive economy and focusses on **three objectives**: (1) developing and upgrading skills, both basic and higher skills, of transversal or specialised nature; (2) improving transparency and recognition of skills and qualifications; and (3) generating better and more timely information about labour markets' skill needs.

A number of actions put forward by the Skills Agenda are of particular relevance to industry, policy makers and social partners In particular:

- promoting the development of flexible, future-proof vocational education and training systems;
- upskilling the workforce, notably through the proposal for a Skills Guarantee;
- validating skills acquired and facilitating recognition across companies, sectors and countries;
- supporting the skills profiling and validation of refugees for an easier integration in the labour market;
- better anticipating future skill needs, including through the set-up of sectorial blueprints in key sectors of the economy and of national and local coalitions for digital jobs and skills.

Implementation of the agenda requires a shared commitment of all relevant stakeholders, including business, social partners, education and training providers, national, regional and local authorities and civil society at large.

Given its overall importance for national economies and for the EU overall, the Commission regularly assesses the education and skill performances of the EU Member States and of selected sectors also in the context of the European Semester. The analysis covers a wide range of topics, ranging from basic skills and early school leaving, digital skills, quality of vocational training and apprenticeships, up-skilling of adults to cooperation between education & training providers and business and analysis of skill mismatches. The analysis places skills in a wider framework, including with regard to their role for macroeconomic and sectoral performance as well as for employment and social inclusion. In 2016, skill related issues were assessed along these lines in all 27 country reports.

Since 2011, more than 130 country-specific recommendations related to education, training and skills were issued covering all Member States. The number of CSRs was relatively stable over time, peaking at almost 30 recommendations for up to 23 Member States in 2013/14. In 2016, 20 Member States are subject to a CSR related to education, training, and skills, covering areas as diverse as: early school leaving, low basic skills and teachers (CZ, FR, HR, LT, MT, RO, SI, SK); vulnerable groups, including migrants and Roma (AT, BE; BG, CZ, HU, RO, SK); higher education, including cooperation with businesses (CZ, DK, EE, ES, PT); skills mismatches and labour market relevance of education (ES, FI, FR, LT, PL, UK); quality of vocational education and training, including apprenticeships and work-based learning (BE, ES, FR, LV, UK); adult learning (HR, LT, MT, SI and SK).

A significant yet comparatively small number of CSRs addresses skill mismatches and skills anticipation. Around a fifth of all CSRs in the area of education, training and skills recommend addressing skill shortages and mismatches or increasing labour-market relevance of education and training. Their effective implementation needs to be assessed in a multiannual perspective . This could also strengthen the synergies between structural reforms across different policy areas.

The continuous focus of the European Semester on education, training and skills has led to a more effective take-up of skills related issues also in the Structural Funds. For the period 2014-2020, more than € 27 billion of the European Social Fund have been allocated in this area. In addition, other EU funds and programmes such as the Regional Development Fund (ERDF), EFSI and Erasmus+ can also contribute to skills development.

Questions for discussion

1. *What have been the experiences at national or sub-national level so far on skills anticipation and skills management? Which stakeholders are involved and how is ownership ensured? What are the key lessons learnt?*

2. *How should our action improve public policies to develop skills (e.g. formal education)? And how can it incentivise other private stakeholders to contribute to the development of skills (e.g.do member states have policies supporting non-formal learning on the workplace)?*

3. *Have the country-specific recommendations on education, training and skills supported Member States effectively in responding to the challenges of new technology and the new world of work? How could in your view the European Semester better foster synergies between skills and productivity? Which skills related issues do you consider particularly relevant that have not found sufficient attention in the European Semester? How can skills related issues be considered in economic and industrial policies?*