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COVER NOTE

From:	The Presidency
To:	Permanent Representatives Committee (Part 2) / Council (ECOFIN)
Subject:	Presidency Note on Europe 2020 Review

Delegations will find attached a Presidency note on Europe 2020 Review, with a view to the Council (ECOFIN) meeting on 8 July 2014.

Italian Presidency of the Council of the European Union

italia2014.eu

Issues for discussion

Review of the Europe 2020 Strategy

(Ecofin, Brussels, 8 July 2014)

In the Communication "Taking Stock of EU 2020", the Commission notes the "mixed progress" in achieving the Europe 2020 goals. The protracted economic crisis has played a major role in hampering progress towards the achievement of Europe 2020 targets; only the climate change and energy indicators are likely to be reached given current efforts and slower growth. A major cause is that in many EU countries, economic crisis together with fiscal consolidation has resulted in reduced investment, including towards achieving the Europe 2020 targets. Though there has been great improvement, the current macroeconomic context, characterised by relatively low growth prospects and now very low inflation, may still not be very favourable for investment. Low investment in turn depresses growth prospects and may make structural reforms more difficult to implement or, where implemented, less effective.

While acknowledging that the economic crisis has negatively impacted on our collective and individual capacity to achieve a number of Europe 2020 targets, the current situation calls for renewed efforts by Member States and the EU as a whole to implement structural reforms focusing on strengthening productivity and competitiveness for greater growth and employment. In Europe we need to think collectively on how to strengthen the strategy so as to realign our priorities on growth, employment, productivity and social cohesion. To this end, the following questions for discussion could serve to initiate debate:

- Do Ministers think that the Europe 2020 strategy has made a difference and has been implemented effectively at EU, national and local levels? What are the main hurdles? How can we improve the effectiveness of policy measures to achieve the 2020 targets?

- How do Ministers think implementation of the (revised) Strategy can be improved through the European Semester? What should be the role of a revised Strategy within the multi-dimensional economic governance? Is there a need for simplification/streamlining of the process/methods and, if so, how?

- How can the EU 2020 Strategy be made more effective in terms of promoting economic growth? What areas and/or instruments should be emphasised or activated to this end (including financial instruments), ensuring there is a proper alignment between objectives and instruments to achieve them?

- In the national context, the coordination between policy objectives takes place in the budgetary process. In view of this practice, how can this coordination be ensured in the Europe 2020?

Background Note of the Italian Presidency

Review of the Europe 2020 Strategy

(Ecofin, Brussels, 8 July 2014)

Overview of the Europe 2020 strategy

The Europe 2020 strategy is based on the Lisbon Strategy for growth and jobs which was adopted in 2000, renewed in 2005 and still in place up to 2010. The current Strategy outlines “a vision of Europe’s social market economy for the 21st century” aimed to “turn the EU into a smart, sustainable and inclusive economy delivering high levels of employment, productivity and social cohesion”. Europe 2020 is an effort based on three mutually reinforcing attributes for growth: 1) **smart** (through investments in education, research and innovation); 2) **sustainable** (through a move towards a low-carbon economy); and 3) **inclusive** (by emphasizing job creation and poverty reduction).

The Strategy sets out five interrelated and exemplary headline targets intended to be “representative”, but not exhaustive, of the EU priorities in the areas of employment, R&D, climate change and energy, education and the fight against poverty and social exclusion. The Strategy also sets out seven flagship initiatives at the EU level that include specific work programmes in important areas for growth (Skills and Jobs, Youth, Innovation, Digital Agenda, Industrial Policy, Resource Efficiency, Fight against Poverty and Social Exclusion). National targets reflect the different starting points and capacities of individual Member-states.

The Europe 2020 strategy was intended to be the medium- to long-term growth strategy in the EU. It was also the starting point for the European semester that has become the overall framework for coordination and convergence of Member States’ policies.

Assessment of Europe 2020

In many EU countries, economic crisis together with fiscal consolidation has resulted in reduced investment towards achieving the Europe 2020 targets. Emerging from a deep recession, many EU countries find themselves having to cope with an economic situation characterised by still relatively low growth and high debt, increased poverty, a still recovering financial sector and an industrial sector lagging in competitiveness and modernisation.

In the Communication "Taking Stock of EU 2020", the Commission notes the "mixed progress" in achieving the Europe 2020 goals. For example, the seemingly satisfactory progress in reducing the drop out and educational attainment rates is attributable in large part to increased demand for education resulting from the reduction in employment opportunities. On the whole, the protracted economic crisis has played a major role in hampering progress towards the achievement of Europe 2020 targets; only the climate change and energy indicators are likely to be reached given current efforts and slower growth.

Most worrisome is the performance on social targets, with an expected failure to reach the employment target and an increase in the population facing poverty and social exclusion. It should be noted that the at-risk-of-poverty indicator may underestimate the social costs of the crisis, as this category is defined to include those earning below 60 per cent of median income. As median incomes fell during the crisis, the poverty line automatically shifted downwards, as well.

The crisis has also meant falling resources dedicated to research and innovation. The fragmentation of markets has been exacerbated and a major restructuring of economic activity has occurred in nearly all EU countries.

Review of Europe 2020

Given current economic conditions, the review of the Europe 2020 strategy can be seen as an important opportunity to refocus our policies on fostering growth. It could also be useful to reflect upon the overall approach to structural reforms and to which extent they could provide further impetus to growth at both the national and EU level.

With the phasing out of the crisis, attention needs to be focused on the main economic, environmental and social challenges facing the EU, to increase growth, jobs, competitiveness and sustainability. The consequences of the crisis must be duly taken into account; employment and social cohesion targets and relative flagship initiatives may need to be updated to reflect current challenges. Significant drivers of growth and employment may need to become a more integral part of the Strategy. Finally, governance and communication of the Strategy could be made more effective; the latter needs to be targeted not just to policy makers but made accessibile to all stakeholders, including the general public that has learned to associate the European Union with fiscal constraint but not necessarily with greater growth and employment opportunities.

The governance of Europe 2020

The effort towards a renewed commitment for growth should involve the ECOFIN and EPSCO Council formations from the very beginning, since they play a key role in the implementation of the Strategy. A redefinition of the overall governance of the process might be necessary. Indeed, it seems that the governance structure of the Strategy has not necessarily led to an alignment between national policies and EU objectives and attention to the EU wide framework has sometimes suffered from insufficient attention to potentially positive spill-over effects of reforms among EU countries. Furthermore, attention to short term actions to face the crisis has made it difficult to focus on long term objectives to boost growth.

Greater accountability of Member States through strengthened peer pressure and benchmarking of policies could be needed; to this end, ways to better integrate the Strategy into the European Semester, as it has evolved, could be taken into account.

The European Semester, initially focused on the objectives and targets of the EU growth strategy (and related bottlenecks), is now the main forum to enforce governance procedures related to the Stability and Growth Pact and the Macroeconomic Imbalances Procedure. As a result, attention to growth aspects beyond national fiscal and imbalance concerns has been reduced. The rebalancing of priorities at the EU level toward growth and employment may thus require a rebalancing of the European Semester as well. Indeed, the review to begin later this year of governance structures related to the so-called Six Pack and Two Pack may serve to reinforce the position of the Europe 2020 Strategy.

Possible areas for further development under Europe 2020

While it is clear that the strengthening of the Europe 2020 targets would benefit all EU countries, these effects are not highlighted nor have the overall benefits of reaching the Europe 2020 targets been estimated at EU level.

Moreover, it could be noted that the Europe 2020 Strategy ignores issues related to the integration and regulation of financial markets and does not directly incorporate Single Market considerations. In the area of finance, potential growth could be enhanced if economic agents were able to make their choices without unjustified credit constraints and credit could be allocated competitively to agents, irrespective of their location/nationality, based entirely on their capacity to produce wealth and cash flows upon which credit can be safely repaid. This is the best way to ensure that productive projects, including long-term ones, can be effectively pursued while protecting savers and investors. Of course this requires a complex, integrated and effective financial system involving both the private sector, through financial markets and intermediaries, and the public sector, through supervisors and regulators.

The EU Single Market is not directly contemplated in the Europe 2020 targets and initiatives (with one notable exception being the Digital Agenda flagship). Rather, the Single Market is considered as a "tool" that can promote the objectives of Europe 2020 and integrate existing initiatives. Deepening the Single Market, particularly in services, networks and the digital economy, could greatly improve growth potential and increase employment opportunities and would have positive impacts on economic growth and employment opportunities.

The Single Digital Market, currently included in the Digital Agenda as a headline initiative under the Smart Growth priority, could be updated. Given the even greater role of the digital economy since the original conception of Europe 2020, this area could potentially be included among Europe 2020 targets. Alternatively, the Digital Agenda initiative could be expanded to become part of a broader initiative to integrate markets in network industries.

Finally, it may be useful to remember that the Europe 2020 Strategy is tailored on the EU28 as a whole, but an appropriate effort from each Member State is essential to reaching its goals.

Annex: Europe 2020 Background

Target[1]	Flagship	EU-Wide Status (2012)	Expected EU-Wide Status (2020)	IT Status (2012)
Employment: at least 75% of working age population (ages 20-64) **<u>IT Target</u>: 67-69%**	**Innovation Union** **Digital agenda for Europe** **Youth on the move** **Agenda for new skills and jobs**	**68.4%**	**Expected 72% (74% if national targets met)**	**61%**
Investments in R&D: 3% of GDP **<u>IT Target</u>: 1.53%**		**2.06%**	**2.6% at best**	**1.27%**
School drop-out rates (<10%); **Completing tertiary education** (at least 40% of 30-34 year olds) **<u>IT Targets:</u>** **Drop-out rate: 16%** **University graduates: 26-27%**		**Drop-out rate: 12.7%** **University graduates: 35.7%**	**Drop-out rate:** "Target Broadly Achievable" **University graduates:** "Target Likely to be met"	**Drop-out rate: 17.6%** **University graduates: 21.7%**
Reducing GHG (by 20%, or 30% "if conditions are right"); **Increased Renewables Share** (to 20%) **Energy Efficiency** (+20%) **<u>IT Targets:</u>** **GHG: - 13%** **Renewables: 17%** **Energy Efficiency: 158.0 mTOE**	**Resource-efficient Europe** **An industrial policy for the globalisation era**	**GHG reduced by 18%** **Renewables: 14.4%** **Energy Efficiency:** primary consumption fell**;** energy intensity increased	**GHG: - 24%** **Renewables: 21%** **Energy Efficiency:** on target (not specified)	**GHG: -4.7%** **Renewables: 13.5%** **Energy Efficiency: 155.2 mTOE**
Poverty and Social Exclusion: 20 million lifted from at-risk group	**European platform against poverty**	**Increased from 2009:** 114 million to 124 million	No evidence of a "quick-fix solution"	**Poverty <u>increased</u> by___3.4 million (from 14.8m in 2010 to 18.2m).**

[1] In addition to the summary provided in the Stocktaking Communication, Eurostat prepares an annual report on Europe 2020 progress. http://epp.eurostat.ec.europa.eu/cache/ITY_OFFPUB/KS-02-13-238/EN/KS-02-13-238-EN.PDF

IT Target: Poverty reduced by 2.2m				