

**EUROPEAN RESEARCH AREA
COMMITTEE**

**– ERAC –
Secretariat**

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NOTE

To: ERAC delegations

Subject: ERAC opinion on the 2011 Annual Growth Survey

Delegations will find in the annex ERAC opinion on the 2011 Annual Growth Survey, as adopted by written procedure on 25 February 2011.

ERAC Opinion on the Commission's Annual Growth Survey

Introduction

As part of the Europe 2020 strategy for smart, sustainable and inclusive growth, the Commission on 12 January 2011 presented its first Annual Growth Survey (AGS) which marks the start of the European semester and is the main input for the Spring European Council meeting at the end of March. The ERAC has examined with great interest the AGS, particularly as regards the policy issues for which it is competent.

In order for the EU to emerge from the crisis and lay the foundation for sustainable growth, the AGS sets out the following broad policy orientations, accompanied by a list of 10 priority actions, namely:

- **Returning to macroeconomic stability** through implementing rigorous fiscal consolidation; correcting macroeconomic imbalances; and ensuring stability of the financial sector
- **Achieving higher levels of employment** through labour market reforms to attract more people to work; make pension systems more sustainable; get the unemployed back to work; and balance security and flexibility
- **Increasing the growth potential** through the frontloading of growth-enhancing measures aimed to tap the potential of the single market; attract private capital to finance growth; and create cost-effective access to energy.

On this basis, ERAC wishes to bring a number of observations to the attention of the (Competitiveness) Council with a view to further reinforcing the research and innovation dimensions of the AGS in line with the central role of innovation in Europe 2020.

Main messages and policy recommendations

Whilst the AGS rightly places strong emphasis on urgent fiscal consolidation and addressing macro-economic imbalances, ERAC is of the opinion that the EU's policy response must go beyond crisis management and short-term fiscal challenges. Indeed, research and innovation are critical growth drivers and given the relatively long lead times to reap the impacts of investments and reforms in this area, action must be taken now. Implementing growth-enhancing policies and addressing societal challenges will help raise the competitiveness of the EU and its Member States in the medium to longer term, which is necessary against a background of ever fiercer global competition. High levels of growth will also make fiscal consolidation and paying off accumulated debt easier.

In the context of a forward-looking, pro-growth agenda, ERAC would like to emphasise three specific messages fully consistent with the Annual Growth Survey and the implementation of the Stability and Growth Pact and the short term fiscal challenge:

- **The need for Member States to pursue smart fiscal consolidation by giving priority to growth-enhancing measures** : notably by protecting and where possible even enhancing investments in education, research and innovation knowledge in a counter-cyclical way. This message is fully in line with the request of the European Council in its conclusions of February 2011 to "give priority to growth-friendly expenditure in areas such as research and innovation, education and energy". Europe cannot afford to cut its investments in research and innovation while its main competitors (e.g. US, Japan, China, and South Korea) are developing ever more ambitious strategies and as its R&D intensity is already lower.

ERAC notes that there are several good examples of "smart" fiscal consolidation, which have been highlighted in the recent Mutual Learning Exercise at senior officials' level, organised under its auspices (see Annex).

ERAC stresses that raising the EU R&D intensity to 3% is one of the five priority objectives of the Europe 2020 strategy, and that achieving the objectives of the Europe 2020 strategy in terms of innovation and response to societal challenges will require a strong science base. Beyond growth-enhancing measures identified in the Annual Growth Survey, there is still a need to promote excellent research, from basic to applied. This dimension could be highlighted in future AGS.

In this context, ERAC notes that most Member States have already set provisional national R&D targets by 2020, agreed in the context of the Europe 2020 strategy, for which a credible path needs to be set out in the National Reform Programmes and reflected in Member States' Stability or Convergence Programmes. It also notes the costs of suspending research and development activities and the risks that as a result investments made over a longer period of time will be lost forever.

- **Increasing the efficiency and effectiveness of public funding which will in turn leverage private investment:** In times of budgetary constraints it is all the more important to increase the focus and maximise the impact of support measures, where necessary reallocating funding to the most effective ones. In the area of research and innovation, while competition between research teams is a necessity to stimulate excellence, there is considerable scope for reducing fragmentation at policy and programming level through combining forces, a stronger focus on key challenges and better co-ordination at EU level as well as for achieving a single market for researchers, knowledge and technology through a fully operational European Research Area. Moreover, there is significant potential for Member States to improve the performance of national research and innovation systems, so that each euro invested produces better returns, where possible leveraging greater private investment. In that context, the use of structural funds to support research and innovation should be improved. In the Innovation Union flagship, the Commission has identified, as part of the self-assessment tool, essential features of the best performing systems in the world, which Member States are encouraged to use to assess their own systems.

- **The need for both the EU and Member States to accelerate structural reforms:**

These should not only focus on reforms with important short-term fiscal impacts, as set out in the AGS (e.g. health, pensions, labour markets) but also on reforms which will increase Europe's future growth potential, notably in education, research, innovation, entrepreneurship, the functioning of the single market, and the business environment. Focus should be placed on a limited number of critical framework conditions, which are set out in annex I of the AGS, and which have been further highlighted in the conclusions of the 4 February European Council: enhancing access of SMEs to capital and creating an EU-wide venture capital market, faster setting of interoperable standards, robust and more affordable IPR which is better exploited, and more strategic use of public procurement. Specific attention should be given to tackling obstacles to the development of fast-growing innovative companies.

In the area of research and education, the key reforms should support an ambitious modernisation agenda for universities and public research organisations and create the conditions to compete worldwide for the best talents and to train the large quantity of highly skilled S&T personnel needed in a knowledge economy.

Follow-up at EU and national level

ERAC fully agrees with the message in the AGS that achieving the Europe 2020 objectives will require vigorous action both at EU and national levels.

- At EU level, the implementation of Innovation Union will need to be pursued vigorously and synergies between different policy areas fully exploited.
 - Creating favourable framework conditions for private investment in R&D and innovation will require enhanced coherence between different EU policies.
 - The preparation of a framework for the European Research Area, building on the ERA initiatives and their related groups, should contribute to accelerate the realisation of the “ERA vision 2020”

- The simplification of EU programmes is crucial for EU policy in research and innovation. The measures requested by the Council and the Parliament in 2010 should be considered a priority and fully implemented
- As regards the national level, effective ex-ante co-ordination will be necessary, involving different policy areas, to ensure an appropriate policy mix. In this regard, members of ERAC will work actively within their national structures to reinforce the National Reform Programmes in the area of research, development and innovation which are due by the end of April.

ERAC welcomes, in particular, the Mutual Learning Seminar at senior level on 26 January 2011, organised by the Commission, which provided useful insights in policy experiences of other Member States, and illustrated that many Member States have already designed or launched comprehensive reforms of their national policies for research and innovation in order to increase their R&D intensity and improve their innovation capacity. Such reforms will produce their full impact on a middle to long term perspective. Therefore, priority should be given to :

- monitoring and assessment of the effectiveness and impact of reforms measures already launched,
- identification of new concrete measures that would complement and reinforce existing ones.

Member States are invited to base the preparation of new initiatives on a comprehensive analysis of strengths and weaknesses of their research and innovation systems, drawing for example on the self-assessment tool proposed by the Commission in its “innovation union” communication and best practises from other Member States.

ERAC intends to remain actively involved in the implementation phase of the Europe 2020 strategy and the follow-up of the Annual Growth Survey.

ANNEX TO THE ANNEX

The present annex illustrates the ERAC opinion on the Annual Growth Report with some good practise examples from Member States. It is not intended to provide an exhaustive list of national measures contributing to the three main areas for reform identified in the ERAC opinion.

I. Good examples of "smart" fiscal consolidation

- Germany has committed to investing an additional 12 Bn€ in education and research over period 2009-2013.
- France will invest an additional 21,9 Bn€ in higher education and research under the “Investissements d’Avenir” initiative.
- Spain, in a general context of public budgets reduction (11,3% in average), has preserved the appropriations for R&D at the same levels as in 2010 and has increased in 300% the budget available for Innovation in the last 3 years to up of 3,15Bn€ for 2011.
- In a context where most UK Government Departments are facing significant expenditure cuts, the Government has announced a Settlement for Science and Research programmes of £4.6 bn per year for the next four years (2011-15). This is ring fenced across the four year period.
- In 2008 the Swedish government adopted a four year (2009-2012) Research and Innovation Bill (RDI) which saw the largest increase of Swedish public funded research ever. At the end of the four year period the increase is expected to be 20% compared with the 2008-level, bringing public spending well above the 1% target. The economic crisis has had no effect on the four-year plan for RDI- investments, that is, the government has continued to invest in accordance with the bill".

- Polish Government is going to spend more than euro 4.1 billion euro from Structural Funds from Financial Perspective 2007 – 2013 on research infrastructure, expansion and modernization of universities, research and development projects, on maintaining high education standards and on increasing the number of students taking up studies that will guarantee attractive jobs and are crucial for building a national economy based on innovation. Funding is available also for entrepreneurs to secure funds for developing cooperation with the research sector.
- Portugal has provided continuous growth of public funding to R&D over the last years (46% increase in the preceding four years, at constant prices) as well as fiscal incentives to private R&D, in spite of a very strict fiscal consolidation policy. Public appropriations for R&D in the 2011 budget exceed by 1% those of 2010. Total R&D expenditure in Portugal has reached 1, 71% of GDP in 2009 (more than 50% in the private sector);

II. Good examples of increasing the efficiency and effectiveness of public funding

- The creation and development of the first intergovernmental international research laboratory in the Iberian Peninsula has been achieved by the combined efforts of Portugal and Spain. The INL – International Iberian Nanotechnology Laboratory – is attracting researchers at world level. This is a partnership with investments in equal parts by both countries and a considerable share of European Structural Funds.
- In Ireland a major project is underway to improve the efficiency and effectiveness of public investment in R&D. The aims are to ensure targeted public investment in R&D in up to 20 “areas of opportunity” for Ireland with a view to ensuring the greatest alignment of R&D spend with strengths in the economy via realisation of opportunities for commercialisation through returns on IP and the creation or maintenance of jobs. The project began in October 2010 and is scheduled to end in October 2011. It is being driven by a high level Steering Group representative of key stakeholders. The intention on completion of the project is to take those proposals to Government for approval so that the future priority spendings on R&D (i.e. the greater part of the overall national public R&D Budget) can be shaped by reference to the identified priorities.

- Belgium increased significantly the tax credits in support of research. The present estimate is that they will reach the same amount as subsidies at Federal level (some 30% of total GBAORD). This has been achieved in a few years and will continue despite the difficult budgetary situation of 2011/2012.
- With the Hightech Strategy 2020, Germany has oriented its new innovation policy on five key challenges (climate/energy, health/nutrition, mobility, security and communication), has taken framework conditions for innovation more strongly into account and has improved cooperation and interaction between different policy areas. As a result, the public sector has strengthened its commitment to innovation, and the German government has successfully encouraged German companies to keep their engagement to innovation despite the crisis.

III. Good examples of structural reforms

An ‘Innovation Portugal’ Programme is being developed in collaboration with civil society, namely with COTEC Portugal (Innovation Association for Industry) and the Innovation Agency . Five thematic meetings between January-February with stakeholders (companies, universities, R&D centres, entrepreneurs, etc.), are aiming at :

- i. Creation of more favourable conditions for company investment in R&D and innovation, namely through policy measures aimed at improving access to funding, especially for SMEs, complementing the other support measures for private investment in R&D.
- ii. Reinforcement/readjustment of the policy regarding competitive clusters and hubs aimed at increasing the linkages between companies and research centres, as part of a strategy for developing knowledge clusters within those sectors of activity displaying greater export potential.
- iii. Dedication to eco-innovation, as an area capable of producing new products and jobs and generating innovation within the more traditional business sectors.

In Poland, massive reform of the research financial and organizational system entered into force on 1st October 2010. Main goals of the reform, introduced by six legal acts are:

- (a) implementation of a transparent science financing system with establishing two financing agencies The National Centre for Science and the National Center for Research and Development,
- (b) more efficient consumption of funds allocated in the state budget to science – implementation of mechanisms ensuring that only top quality scientific research is financed with the state budget funds, also according to the international standards,
- (c) concentration of funds on the units conducting the top-level R&D activity,
- (d) major growth of the budgetary funds for science spent by open calls for proposals,
- (e) implementation of a system of comprehensive evaluation of the quality of R&D activity of public research organizations performed by newly established Committee of evaluation of Scientific Units.

This is accompanied by deep reform of higher education system and career of researcher's schemes. This component of the reform is expected to enter into force by October 2011.

In Denmark there has been established an accreditation institution which ensures and documents the quality and relevance of higher education programmes and since 2008, the specific requirements for admission (i.e. requirements for subjects and levels) to university undergraduate programmes have been streamlined and tightened. The aim is to ensure a uniform and higher academic starting point and thereby decreasing the dropout rate.

Furthermore, with the Budget 2010, the Danish Government has set aside 6 billion DKK for a technological boost to the universities' laboratories. The appropriation will be used as a grant to replace buildings, meaning new buildings will replace outdated laboratory facilities, and for the recovery of existing laboratory facilities. The modernization is expected to stretch over the next 6-7 years. A Campus Law in Denmark which came into force on 1 July 2010 gives universities the opportunity to manage resources in order to build colleges, parks and to rent out facilities. The aim is to provide universities with tools to create even better study and research environments on campus.