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From:	ERAC Secretariat
To:	ERAC (European Research Area and Innovation Committee)
Subject:	ERAC plenary 16 June 2017 - agenda item 5 (Standing Information Point) 2017 European Semester: outcomes as regards the R&I aspects

ERAC Members will find attached the SIP Note (2017 European Semester: outcomes as regards the R&I aspects) relating to item 5 on the agenda of the ERAC plenary on 16 June 2017 in Brussels.

ERAC - Standing Information Point
2017 European Semester: outcomes as regards the R&I aspects

34th Plenary meeting
Standing Information Point
Brussels, 16 June 2017

1. General overview

On 22 May 2017, the Commission issued its proposals for country-specific recommendations (CSRs) for 27 Member States (all except Greece, currently under a stability support programme) in the context of the European Semester process, along with an overarching Communication.

The overall number of CSRs has been further reduced compared to last year, with an increased focus on a limited number of key priority issues of macro-economic and social relevance. The recommendations focus on what to achieve, instead of prescribing how to achieve it, in order to guide Member States while leaving the necessary room for manoeuvre. This is part of the streamlining of the Semester process, aimed at fostering national ownership, accountability and implementation.

The overarching Communication lays the ground for this year's CSRs, starting from an analysis of the present economic situation:

- Both the EU and euro area grew by almost 2% in 2016. Next to domestic drivers, growing economic output has been benefitting from the support of improvement in world trade and the euro's relatively favourable exchange rate.

- However, these positive developments are still burdened by weak underlying productivity and persistent inequalities and disparities across countries. To strengthen the positive trends and convergence within the EU, economies need to be more competitive, resilient, inclusive and innovative. This is the goal of the CSRs.

- In this context, the 2016 CSRs focus on further encouraging structural reforms to boost recovery and raise the long-term growth potential of EU economies. Overall, the Member States made limited to some progress in addressing the issues identified in the 2016 CSRs. The pace of progress needs to accelerate to make full use of the opportunity offered by the nascent economic recovery and deliver on the reforms.

- Structural reforms and investments in research and innovation are stressed as essential to reinvigorate productivity, increase competitiveness and increase the growth potential of European economies. Reforms promoting innovation, research and innovation capacities are notably required in catching-up economies to help them to shift towards specialising in knowledge-intensive industries.

- The overall objective of the 2017 CSRs is to deliver more jobs and faster growth, while taking account of social fairness considerations. The CSRs address challenges in

(i) labour market, (ii) social protection systems and inequality, (iii) education, (iv) financial sector, (v) investment and business environment and (vi) public finance.

- Research and innovation feature as part of these main challenges:

  - Investments and business environment: “*The rate of public investments in education, infrastructure and research and innovation should grow in those countries where there is room to increase public expenditure*."

  - Education: "*Better skills are essential for improving people’s prospects in the labour market and sustaining innovation and productivity growth. (…) Investing in skills and supporting transitions from lower-skilled to higher-skilled employment and career opportunities is also crucial to mastering technological progress, sustaining productivity growth and addressing ageing*"

  - Public finance: "*Within the existing rules of the Stability and Growth Pact, euro area Member States that have fiscal scope are therefore recommended to use it to support domestic demand, notably investment in infrastructure, research and innovation*."

2. The Country-Specific Recommendations (CSRs) addressing R&I

This year **9 Member States received CSRs directly addressing research and innovation issues** (i.e. Belgium, the Czech Republic, Germany, Estonia, Spain, France, Ireland, Luxembourg, the Netherlands). A recommendation to Lithuania also directly concerns the prioritisation of public spending, including for research and innovation.

These CSRs are preceded by well-reasoned Recitals on R&I, based on the relevant sections of the Country Reports. All of the countries object of a recommendation on R&I were also the object of a recommendation in 2016. The R&I-related CSRs confirm the substance of last year’s recommendations (Belgium, Germany, Estonia, France, Ireland, Luxembourg, the Netherlands) and add a different angle for a limited number of cases (Spain, the Czech Republic and Lithuania). This wide coverage of R&I confirms the increased weight of research and innovation as long-term drivers of productivity, economic growth and inclusiveness.

Four CSRs concern **the overall level of public investment in support of R&D and innovation**. Two of these (Germany and the Netherlands) focus on **the need to increase public R&D investments** in close link with their available fiscal space. This is in line with the global orientation set in the overarching Communication accompanying the CSRs ("*The rate of public investments in education, infrastructure and research and innovation should grow in those countries where there is room to increase public expenditure.* "). Two additional CSRs (Ireland and Spain) stress the need to **better prioritise public funding towards support of research and innovation**.

In addition to these four CSRs on public investments, Lithuania is recommended to strengthen the links between public investments and the country’s strategic objectives, which include – as notably recalled in the Recitals – research and innovation.

Four other CSRs concern **key issues in the national R&I system**: the **governance** across government levels (Spain)**,** the **efficiency** of public support schemes (France)**,** the **quality of R&D** (Czech Republic) and the need to **strengthen science-business cooperation** (Estonia)**.**

Finally, two CSRs focus on **the overall innovation capacity of the economy**, by highlighting the importance of measures to increase private investment in innovation in order to favour diversification (Luxembourg) and foster better economic performance in lower-productivity sectors, notably by ensuring better innovation diffusion (Belgium). The need to promote private investment in R&I is also an important aspect of the CSRs for Estonia and Spain.

Annex I: 2017 Country Specific Recommendations for Research and Innovation

Belgium

"Foster investment in knowledge-based capital, notably with measures to increase digital technologies adoption, and innovation diffusion." (CSR 3)

Czech Republic

"Remove obstacles to growth, in particular by streamlining procedures for granting building permits and further reducing the administrative burden on businesses, by rolling out key e-government services, by **improving the quality of R&D** and by fostering employment of underrepresented groups (CSR 2)

Estonia

"Promote private investment in research, development and innovation, including by strengthening cooperation between academia and businesses." (CSR 2)

France

"**Simplify and improve the efficiency of public support schemes for innovation**" (CSR 4)

Germany

"**Accelerate public investment at all levels of government, especially in education, research and innovation, and address capacity and planning constraints for infrastructure investments.**" (CSR 1)

Ireland

"**Better target government expenditure, by prioritising public investment in transport, water services, and innovation in particular in support of SMEs".**(CSR 2)

Lithuania

"Take measures to strengthen productivity by improving the efficiency of public investment and strengthening its linkage with the country's strategic objectives." (CSR 3)

Luxembourg

"Strengthen the diversification of the economy, including by removing barriers to investment and innovation." (CSR 1)

The Netherlands

"**Use fiscal policy to support domestic demand, including investment in research and development.**" (CSR 1)

Spain

"**Ensure adequate and sustained investment in research and innovation and strengthen its governance across government levels.**" (CSR 3)