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From:	ERAC Secretariat
To:	ERAC (European Research Area and Innovation Committee)
Subject:	ERAC Plenary in Salzburg (Austria) on 17-18 September 2018 - Item 6 (Standing Information Point) SIP note: 2018 European Semester: outcomes as regards the research and innovation (R&I) aspects

Delegations will find attached the SIP note on "2018 European Semester: outcomes as regards the research and innovation (R&I) aspects" in relation to item 6 of the agenda of the ERAC plenary in Salzburg on 17-18 September.

2018 European Semester: outcomes as regards the research and innovation (R&I) aspects

1. General overview

Context: on 13 July 2018, the Council concluded this year's European Semester cycle by adopting the 2018 Country Specific Recommendations (CSRs)/Council Recommendations¹, based on the Commission proposals issued on 23 May 2018. The CSRs cover 27 Member States (all except Greece, which during the 2018 European Semester cycle was still subject to enhanced policy surveillance under the economic adjustment programme) and were accompanied by a chapeau Commission Communication².

The 2018 CSRs are more targeted and their number has been further streamlined. They focus on what can realistically be achieved over the next 12-18 months. The recommendations call on Member States to adopt a more forward-looking approach in order to achieve **sustainable, inclusive and long-term growth**, by using the currently favourable economic momentum. The recommendations stem from the analysis presented in the 2018 European Semester Country Reports published in March 2018.

In total, 13 CSRs address research and innovation. The recommendations resonate well with the recent Commission Communication '*A renewed agenda for Research and Innovation: Europe's chance to shape the future*'³, which stresses the importance of substantial investments in R&D and ensuring a more innovation-friendly and less risk-averse business environment to ensure long-term growth.

Progress with previous CSRs: evidence⁴ shows that Member States' track record in the **annual** implementation of the CSRs still falls short of expectations and progress remains uneven across policy areas. On the positive side, the **multiannual** assessment of recommendations is more positive, as since the start of the European Semester in 2011, Member States have either implemented fully or made some or substantial progress on more than two-thirds of the country-specific recommendations⁵.

Renewed dialogue with Member States and dedicated tools to increase ownership: the Commission made significant efforts to strengthen national ownership and implementation of the CSRs. The Commission has developed closer contacts with the Member States at all levels of the administration and at political level, including by engaging in an inclusive dialogue with social partners and stakeholders⁶. The Commission has also continued its practice of

¹ https://ec.europa.eu/info/publications/2018-european-semester-country-specific-recommendations-council-recommendations_en

² https://ec.europa.eu/info/publications/2018-european-semester-commission-communication-country-specific-recommendations_en

³ https://ec.europa.eu/info/publications/renewed-european-agenda-research-and-innovation-europes-chance-shape-its-future_en

⁴ https://ec.europa.eu/info/publications/2018-european-semester-commission-communication-country-specific-recommendations_en

⁵ This shows that important reforms are eventually carried out, although this takes time.

⁶ E.g. consultative meetings with national authorities and stakeholders after the publications of the country reports

consulting Member States on the analytical parts of the country reports prior to their publication. Besides technical support provided to Member States through since 2015, The Commission provides assistance and incentives to Member States in designing and implementing structural reforms through the **Horizon 2020 Policy Support Facility**⁷, its **Structural Reform Support Service**⁸ and in future also the **Reform Delivery Tool**, which will be operational under the new Multiannual Financial Framework 2021-2027.

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

- Europe's economy is growing at its fastest pace in a decade, with record employment and recovering investment. The general government deficit decreased in 2017 to 1.0 % of GDP in the EU and is expected to further decline. Growth in the next two years will slow slightly but remain robust;
- Member States should take full advantage of this positive economic outlook and continue the necessary structural reforms and sound fiscal policies. Reforms pertaining to **innovation, business environment, conditions for investment**, product and service market reforms and small- and medium-sized enterprises' access to finance are identified as key drivers for increasing Member States' growth potential;
- **Long-term challenges** such as making growth **more inclusive**, demographic trends, migration and climate change feature more prominently in this year's recommendations. The CSRs focus on societal challenges such as the provision of adequate skills, the effectiveness and adequacy of social safety nets and improved social dialogue, as laid down in the European Pillar of Social Rights proclaimed in November 2017;
- The overall objective of the 2018 CSRs is to encourage the Member States to **use the current favourable economic momentum** to further strengthen the resilience of their economies. The CSRs address challenges in a number of areas such as: public finances, taxation, the financial sector, labour market, education and social policies, sectoral policies to foster investment and productivity growth, the business environment and quality and efficiency of public administration. Research and innovation are an integral part of these challenges:
 - Productivity growth, business environment and digitalisation: investing in R&D and digitisation policies, supporting entrepreneurship and access to finance for young, innovative and fast growing companies whilst removing regulatory barriers will boost productivity growth;
 - Quality of investments: strengthen public and private R&D through increased and better targeted investments. In particular, foster closer collaboration between businesses and research institutions;

⁷ <https://rio.jrc.ec.europa.eu/en/policy-support-facility>

⁸ https://ec.europa.eu/info/departments/structural-reform-support-service_en

- Education: support the transition from lower-skilled to higher-skilled career opportunities and ensure an adequate supply of graduates in science, technology, engineering and mathematics.

2. The Country-Specific Recommendations addressing R&I

This year **13 Member States have received CSRs directly addressing research and innovation** (i.e. Belgium, Czech Republic, Germany, Estonia, Ireland, Spain, France, Italy, Lithuania, Netherlands, Poland, Slovakia and Portugal). All of these Member States but four (Italy, Poland, Slovakia and Poland) were also the subject of a recommendation in 2017. In addition, a recommendation to **Slovenia** also calls for the need to develop alternative sources of financing for fast-growing companies.

These 13 CSRs are preceded by well-reasoned recitals on R&I, which are based on the relevant sections of the Country Reports. Overall, **the scope** of the R&I CSRs is **wide**, ranging from the level and efficiency of R&D investments, the fragmentation of research systems and public-private cooperation up to framework conditions for innovation (skills, SMEs).

Whilst some Member States are subject to a CSR covering **one single R&I aspect** (e.g. level of R&D investment in Germany and the Netherlands, S&T human resources in Belgium and Portugal), other Member States have received CSRs covering several **interlinked R&I aspects** (e.g. fragmentation of the public system and innovation capacity in Slovakia, innovation and science-business linkages in Poland and France, etc.).

Overall, the CSRs issued cover the following priority areas:

- Increasing the **level of public and private R&D investment** is noted this year for Spain and Italy, in addition to Germany and the Netherlands (as already noted in the 2017 CSRs);
- Improving the **efficiency/quality of public R&D investments** is also noted for Spain, in addition to France, Lithuania, Slovakia;
- Supporting better science-business linkages is noted in **four Member States** (Ireland, France, Lithuania, Poland)
- Improving the supply of S&T human resources is noted in **two Member States** (Belgium, Portugal)
- Improving the innovation capacity, notably of SMEs, is noted in **six Member States** (Czech Republic, Estonia, Ireland, France, Poland, Slovakia)

Annex I provides an overview of the 2018 R&I CSRs for each country and the specific areas covered.

Annex I: 2018 Country Specific Recommendations for R&I

MS	CSR text	Level of public & private R&D investment	Efficiency/quality of public investments	S&T Human resources	Public-private cooperation	Innovation capacity, notably of SMEs
BE	Pursue the education and training reforms, including by fostering equity and increasing the proportion of graduates in science, technology, engineering and mathematics			x		
CZ	Remove the bottlenecks hampering research, development and innovation, in particular by increasing the innovation capacity of domestic firms					x
DE	While respecting the medium-term objective, use fiscal and structural policies to achieve a sustained upward trend in public and private investment, and in particular on education, research and innovation at all levels of government, notably at regional and municipal levels	x				
EE	Promote research and innovation, in particular by providing effective incentives for broadening the innovation base					x
IE	Foster the productivity growth of Irish firms, and of small and medium enterprises in particular, by stimulating research and innovation with targeted policies, more direct forms of funding and more strategic cooperation with foreign multinationals, public research centres and universities				x	x
ES	Increase public investment in research and innovation and systematically carry out evaluations of support policies in this area to ensure their effectiveness	x	x			
FR	Step up efforts to increase the performance of the innovation system notably by improving the efficiency of public support schemes and strengthening knowledge transfer between public research institutions and firms		x		x	x
IT	Foster research, innovation, digital skills and infrastructure through better-targeted investment	x				

MS	CSR text	Level of public & private R&D investment	Efficiency/quality of public investments	S&T Human resources	Public-private cooperation	Innovation capacity, notably of SMEs
LT	Stimulate productivity growth by improving the efficiency of public investment, ensuring efficient governmental coordination of research and innovation policy and tackling gaps and inefficiencies in public measures supporting science-industry cooperation		x		x	
NL	While respecting the medium-term objective, use fiscal and structural policies to raise public and private investment in research, development and innovation	x				
PL	Strengthen the innovative capacity of the economy, including by supporting closer collaboration between business and research institutions				x	x
SI ^[1]	<i>Develop alternative sources of financing for fast-growing companies</i>					x
SK	Reduce the fragmentation of the public research system and stimulate business innovation, including for small and medium-sized enterprises		x			x
PT	Improve higher education uptake, namely in science and technology fields			x		

Note:

[1]:CSR which is relevant for R&I policy