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EUROPE 2020 – MID-TERM REVIEW ENSURING DELIVERY

The European Union is again at a cross-road. The economic recovery is losing momentum and uncertainty is building up. This situation requires effective action from EU and national policy-makers. With the beginning of a new European political cycle, there is a window of opportunity to re-define the priorities for the Union and step up the actions to achieve them.

The mid-term review of the Europe 2020 strategy is an important part of this reflection. This review must be used to revive the objective of driving **EU policies and national reforms towards growth and jobs** and to ensure that **results are delivered**.

For the EU to get back on its feet and generate the needed growth and jobs, a **new impetus must be given to competitiveness**. Determining factors to improve Europe's competitiveness, develop a well-functioning business environment, raise prosperity, and make it an attractive place for investment need to be given much greater prevalence by EU and national policy-makers.

As the umbrella strategy for growth and jobs in the EU, the Europe 2020 review must identify the key policy frameworks to be mobilised and properly articulate them to **ensure coherence of policy objectives**.

Monitoring and assessing progress in key areas should therefore become an essential feature of this strategy. At national level, Europe 2020 strategy must give an impulse to growth-enhancing **implementation of structural reforms**, as part of the European Semester, and ensure that existing **barriers to single market integration are lifted**. Moreover, Europe 2020 should monitor progress in improving **competitiveness in different areas, reporting to the EU Council each year**.

With a new approach to the Europe 2020 strategy, aligned with a wider reflexion on the priorities for the upcoming EU political cycle, including the new European Commission, it will be possible to leverage the strengths of the EU – which is the world largest market, with highly skilled people and companies of great potential – and at long last, develop a competitive Europe that delivers the promise so often repeated of growth and jobs.



COMPETITIVENESS FOR GROWTH AND JOBS

EU's growth, already weaker than in other developed economies before the crisis, remains sluggish, while the US and others have already recovered the ground lost in the past years. Recent weak output data, together with low inflation and geopolitical tensions, raises fears of stagnation in Europe.

Moreover, unemployment remains persistently high and co-exists with a significant number of unfilled vacancies. Since 2008, Europe lost around 6 million jobs, in comparison with 1 million jobs in Japan and the US. Currently, over 26 million people are unemployed in the EU, of which 5 million below 25 years old.

These numbers reflect the scale and urgency of the growth and jobs problem. With most member states at hand with high public debts, growth and job creation generated by the private sector will be of utmost importance.

Successful companies can pull the economy along. But in order to succeed, **companies must be allowed to develop their full potential.** Excessive costs and unnecessary regulatory and administrative burdens that stall their competitiveness have to be addressed.

Europe is losing ground in an ever more competitive global environment where emerging economies are rapidly developing. The EU's share of worldwide Foreign Direct Investment flows fell to 24% in 2012 compared to 40% in 2000.

Competitiveness must be placed at the centre of policy-making if Europe wants to improve the business environment and develop a strong and innovative industrial base and the related highly performing services.

There are a number of areas where EU action is fundamental. It must foster investment for growth and jobs, put in place a coherent re-industrialisation strategy, develop competitive energy and climate policies, complete its single market, regain leadership in research and innovation, provide affordable access to finance, make our labour markets more dynamic, further improve the functioning of the EMU, and pursue an ambitious international trade agenda.

Without resolute action in these areas, it will not be possible for Europe to turn the corner of the crisis and break the spiral of slow growth and high unemployment.



ENSURING COHERENCE OF POLICY OBJECTIVES

The revised Europe 2020 strategy must be adapted to the new reality of the European Union in the aftermath of the crisis and reflect the ambitions for Europe's place in the new global order.

Europe 2020 has already achieved some important progress. The introduction of EU and national objectives helped increasing focus in the defined course of action, and the link with the European Semester strengthened the EU economic governance and the commitment to the structural reform agenda.

However, outcomes lagged far behind the objectives set. While the crisis played an important part on this failure, the design of Europe 2020 strategy also presented a number of flaws from the start.

The weakness of Europe 2020 strategy derives from its inconsistencies. It included contradictory targets, and tended to randomly pull together independently developed policy areas and "flagship" initiatives, failing to clearly prioritise growth and job creation.

The 20-20-20 targets of the energy and climate package for instance, include overlapping objectives and do not pay sufficient attention to the energy price competitiveness and security of supply, which are key issues for growth in Europe. The flagship "an agenda for new skills and jobs" lacked a much-needed sense of urgency, and failed to address the need for external flexibility for companies to create jobs.

A reflexion concerning the priorities of the European Union for the next five years will take place with the new Europe Commission. The review of Europe 2020 must be at the heart of the process to define the agenda of the EU during the new policy cycle.

As the umbrella strategy for growth and jobs in the EU, the **Europe 2020 review must identify the key policy frameworks to be mobilised and properly articulate them to ensure coherence of policy objectives.** Its role must be to make sure different pieces of the EU puzzle fit together, leading to greater harmony across the spectrum of EU policies.

The mid-term review of the Multiannual Financial Framework in 2016 should ensure that the EU budget properly reflects the priorities of the Union, and that means allocated to growth, jobs and competitiveness programmes are strengthened.



ENSURING PROGRESS FOR TANGIBLE RESULTS

Action at EU level can either support or hinder national policies on issues of EU competence. To achieve growth and jobs, progress is needed in those areas where the EU can and should bring real added value, according to a bold and coherent strategy focused on stimulating entrepreneurship, reinforcing business environment, investment climate and competitiveness.

The national component of the strategy is however fundamental to ensure a proper and effective implementation. This also requires Member States to use their national abilities and advantages to the full rather than trying to replicate approaches that are unsuitable for their specific national context.

The Europe 2020 strategy must monitor and assess progress in terms of structural reforms, single market integration, and industrial competitiveness in a way that provides a real impetus to implementation and delivery of results.

The **European Semester** is proving of crucial importance to take forward structural reforms at national level and raise the prominence of the reform agenda. It provides an adequate framework to monitor and evaluate national reforms; to understand spill overs and externalities of different member states' policies; and to coordinate action in key areas. It also helps ensuring greater alignment between reform programmes and the objectives of growth and jobs.

But while the launch of the European Semester was a step forward, there is still a clear implementation gap of reforms. BUSINESSEUROPE members consider that while the 2013 country-specific recommendations (CSRs) generally focus on the right issues, only around 23% of the recommendations assessed were properly implemented. This scenario is broadly confirmed by the Commission's own assessment. Only when an effective implementation of reforms is taken forward, will it be possible to start delivering growth and jobs.

The review of Europe 2020 strategy must continue closely linked to the European Semester for a focused and streamlined process of economic policy coordination, and to achieve greater convergence between Member States. The competitiveness component of the National Reform Programmes and the CSRs, with a strong focus on growth, investment, and industrial progress should be strengthened. Moreover, to reinforce national ownership and improve commitment towards implementing the CSRs, EU institutions and member states must be collectively responsible for the strategy's success and be held accountable for their individual contributions.



In terms of the **single market**, it is fundamental to proceed with the annual reports on the state of single market integration, as part of the Annual Growth Survey. However, it is important to maintain consistent reporting, based on key parameters such as the compliance deficit (number of directives transposed where an infringement proceeding for non-conformity has been initiated) and on high quality annual data that allows a proper identification of progress in the different areas. This should be complemented by vigorous enforcement by the Commission when needed.

The Europe 2020 strategy must also be a key contributor to real **competitiveness mainstreaming** in all EU policies. The European Commission must ensure that competitiveness is systematically prioritised in all the policy initiatives it proposes and will have to adapt its governance accordingly. In the context of Europe 2020, progress must be monitored annually at the EU Council, based on reports from the European Commission and the Competitiveness Council.

GETTING THE DETAILS RIGHT

As pointed out before, a number of flaws in the conception of this strategy have hold back results. It is important to get the design of the new Europe 2020 strategy right in its different aspects, including when it comes to indicators, flagship initiatives and social partners' involvement.

SETTING THE RIGHT INDICATORS TO REACH THE TARGETS OF GROWTH AND JOBS

The Europe 2020 strategy will succeed if it delivers growth and jobs. These must be the only targets of this strategy. The **75% employment rate target** remains fully adequate and it should be complemented by an ambitious and realistic numerical **target on growth**.

A few, relevant indicators can help monitor progress in areas of key importance to reach these targets. Any selected indicators should be straightforward, directly impact on growth and jobs, and provide a good indication of progress, underlining the right direction of reform and helping to raise awareness of the strategy.

The **3% of GDP spending on research and innovation** remains a very important indicator, which contributes to reaching the growth and jobs targets. Further progress will be required as the latest data shows that many Member States are not on track to reach this indicator. Beyond a strict quantitative approach, more attention should also be paid to quality and efficiency of spending.



The relevance of some of the remaining indicators is however less straightforward, or even detrimental to the strategy:

- The 20-20-20 targets for **energy and climate package**, as mentioned before, include overlapping objectives and do not pay sufficient attention to the energy price competitiveness and security of supply, issues which are key for growth in Europe. These targets should be replaced by a single greenhouse gas emission one, and eventually complemented by energy cost competitiveness and energy security indicators, aligned with the discussions taking place concerning the future targets for energy and climate policy.
- The difficulty to reach the **poverty** indicator is linked to the difficulty to have growth and to reach the employment target, as it is primarily resulting from high and persistent levels of unemployment and rising numbers of jobless households. Focus should therefore remain of increasing employment and growth in Europe.
- The indicator of having at least 40% of 30-34 year olds completing **third level education** concentrates too much on qualifications and not enough on learning outcomes and employability. It should be complemented by a more qualitative approach that would take account of learning outcomes.

Some other possible indicators that could be usefully included are the increase in share of industry to at least 20% of EU GDP, a reduction of administrative burdens, as well as smart and responsible investment, coined as a percentage of GDP.

The ongoing discussion of resource productivity target on the other hand, should not be included on the Europe 2020 as it would, once more, interfere with existing climate and energy indicators, in addition to the proposed methodology that is flawed, not providing an indication of efficiency.

Overall, the selection of indicators should undergo an impact assessment to ensure consistency of objectives and analyse their impact on competitiveness.

National contributions to targets and indicators that take account of the different realities of member states are an important aspect of the current Europe 2020 strategy and this should be maintained. This is particularly important in the aftermath of the crisis that resulted in great divergence across member states. Some improvements could be however foreseen:

- To be relevant, national targets and indicators should combine a realistic appraisal of a given country's situation and the required effort to reach them.



- National contributions need to be updated regularly, though with a realistic approach, in particular when Member States have met them, to ensure that they continuously play a role in mobilising political will for reforms.
- Moreover, in order to raise awareness and respect of national indicators, member states should explain a failure to attain the indicators set. The idea to set intermediate indicators in this exercise could be further explored.

ELIMINATING DUPLICATION AND INCONSISTENCIES

The concept of flagship initiatives is difficult to grasp and even more to explain to citizens and entrepreneurs. These flagships are placed together under Europe 2020, disconnected from their broader policy field, which inevitably provides an incomplete picture of the extent of the effort required to reach growth and jobs. Moreover, the actions set in several flagships were sometimes even contrary to the objectives of Europe 2020 strategy. We have identified a number of important inconsistencies and shortcomings with various initiatives:

- As mentioned, EU's approach to energy and climate policy so far put the competitiveness of European companies at stake and failed to address the important issue of energy security. A resource-efficiency and low carbon economy can be enhanced through increased competitiveness of European business. As it will require an enormous public and private sector effort, more should be done to foster adequate levels of investment. Not only are the numerical indicators incongruous, as they have not been complemented by others ensuring cost competitiveness and energy security.
- The skills and jobs flagship did not address the important issue of external flexibility for companies to create jobs. Moreover, other actions such as the guiding principles to promote enabling conditions for job creation, of fundamental importance, were never done. Although in 2012 BUSINESSEUROPE welcomed the emphasis put on job creation in the employment package, this was not enough to trigger the necessary reforms. As a result Europe is moving away from reaching the employment rate target of 75% by 2020.
- The flagship against poverty and social exclusion failed to be a strategic agenda, rather focusing on specific topics. We do however welcome the Social Investment Package focusing on the need for social protection systems to deliver more with less or stable resources.



- “Youth on the move” had several proposals initiated, but the youth employment initiative and the youth guarantee were taken over as the main priorities. While the youth employment initiative is welcome, it cannot be limited to establishing youth guarantee schemes and must be flanked by long term structural reforms. Otherwise, it will not solve the youth unemployment problem.
- One of the aims of the Digital Agenda flagship was to provide a stable legal framework that stimulates investments in an open and competitive high speed internet infrastructure and in related services. This was not fully accomplished, and significant barriers remain in the digital single market. Moreover, while the use of personal data is key for the development of the digital single market, the proposed EU regulation on data protection does not strike the right balance between protecting personal data and enabling their free movement in the digital single market, and may put significant burdens on business with the risk to hamper the development of the digital economy – and not only – in Europe.

The new Europe 2020 must discard all these inconsistencies and ensure full coherence of policy objectives in the different areas. As mentioned, it should also focus its action on propelling structural reforms, single market integration, and industrial competitiveness.

AN EFFECTIVE INVOLVEMENT OF SOCIAL PARTNERS

Social partners play an important role in helping to identify and address gaps and inadequacies in labour market policies. The importance of an effective involvement of EU social partners is recognised and incentivised in the Europe 2020 strategy and this feature should continue. Involvement of social partners must take place in the stage of consultation, but also when assessing and monitoring the effect of different measures.

However, social partner’s involvement still greatly varies from country to country. In Finland, tight deadlines meant that social partners were informed of the government’s position rather than meaningfully consulted. Sweden and Poland, while more positive about the process, remains uncertain about the actual influence of social partners on national implementation decisions. Feedback from Czech Republic, Germany, Latvia and Ireland on the other hand, are broadly positive.

As explained in the EU level social partners’ joint declaration concerning European social partner involvement in the economic governance, it is important that social partners are consulted at appropriate stages of the European semester giving them enough time for serious and professional contributions. It is also important the social



partners' views on the implementation of CSRs are adequately taken into account. The consultation of social partners must not, however, result in delays in the adoption and implementation of the necessary structural reforms in the Member States.

An effective involvement of stakeholders at large can also be very important for a successful outcome in specific areas. However, when too many stakeholders – often with little representation – are brought into the discussion, it makes it impossible to reach consensus and one can also undermine the role of social partners. This is for instance the case in Denmark, where hearings in the large 'EU 2020 Stakeholder Committee' does not suffice as a forum for in-depth and detailed consultation of stakeholders.

FINAL REMARKS

This paper presents the main elements BUSINESSEUROPE wanted to bring to the attention of the European Commission in replying to its consultation in the context of the review of the Europe 2020 strategy.

The reflection on how to ensure greater consistency in EU policies and greater synergies between national and European level growth enhancing reform initiatives is a permanent preoccupation in BUSINESSEUROPE work. We look forward to continue contributing to this important debate.