This briefing sets out the background to the European Union’s Europe 2020 strategy for growth and jobs. It also describes the European Semester, a yearly cycle of economic policy coordination. It considers the European Semester as it stood at the end of the 2013 process following adoption of the country specific recommendations. As the 2014 European Semester progresses the briefing will be updated.
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EXECUTIVE SUMMARY

Europe 2020 is the European Union’s economic strategy for boosting economic growth and creating new jobs. The aim of Europe 2020 is to create economic growth which is smarter, more sustainable and socially inclusive.

Europe 2020 is underpinned by five targets covering employment, innovation, education, social inclusion and climate and energy. Efforts to make progress against the five targets are supported by the development of seven flagship initiatives which fit within the themes of smart, sustainable and inclusive growth.

Europe 2020 is largely Member State led through decisions and discussions at the European Council whilst in the Council of Ministers, national ministers responsible for the relevant policy areas (for example competitiveness, employment and education) discuss implementation of the National Reform Programmes in their area of competence. The European Commission’s role includes coordinating Member State actions, providing EU level assistance for specific measures.

Each Member State has translated the Europe 2020 targets into national targets and policies. Monitoring the performance of Member States against their targets is undertaken by the European Commission which has set up a yearly cycle of economic policy coordination called the European Semester.

The European Semester involves the European Commission undertaking a detailed analysis of EU Member States' programmes of economic, fiscal and structural reforms and providing them with recommendations for the next 12-18 months. Part of this coordination relates to the implementation of the Europe 2020 strategy.

The key elements of the European Semester which relate to the delivery of the Europe 2020 strategy are the publication of the Annual Growth Survey each November, Member States then produce their own National Reform Programmes outlining their efforts to help Europe achieve the aims of Europe 2020. Finally the Country Specific Recommendations are produced by the European Commission and adopted by the European Council include an analysis of the Member State’s National Reform Programme and an overall assessment of their efforts to help Europe achieve its aim of smart, sustainable and inclusive growth.
EUROPE 2020

BACKGROUND

At the European Council’s spring meeting in March 2000 in Lisbon, Member States agreed to a number of targets relating to economic growth and jobs, investing in the European social model and promoting sustainable development. The targets were collectively known as the Strategy for Growth and Jobs, or the ‘Lisbon strategy’. It was agreed that Member States would reflect these targets within their national policies, with the objective that each target would be achieved by 2010 and that the European Council would consider progress at each spring meeting.

In March 2004, the European Council asked Wim Kok, former Prime Minister of the Netherlands, to chair a high level group to review the EU’s progress. In its report, published in November 2004, the group stated that many of the targets were not on course for achievement by 2010, partly because of the downturn in the world economy and partly because the strategy had too many priorities, was too bureaucratic and because Member States had not shown enough political commitment to meeting the targets.

The European Council refined the number of target areas to focus more specifically on economic growth. The re-launched Lisbon Strategy focused on ten areas to improve Europe’s economy. The overall goals were to boost growth to 3%, create up to 20 million new jobs and increase investment in R+D to 3% of GDP, with a particular emphasis on increasing private sector investment. The economic downturn in 2008 made reaching the Lisbon Strategy targets by 2010 more difficult. An evaluation of the Lisbon Strategy by the European Commission concluded that:

“Overall, the Lisbon Strategy has had a positive impact on the EU even though its main targets (i.e. 70% employment rate, and 3% of GDP spent on R&D) will not be reached. The EU employment rate reached 66% in 2008 (from 62% in 2000) before it dropped back again as a result of the crisis. However the EU has failed to close the productivity growth gap with leading industrialised countries: total R&D expenditure in the EU expressed as a percentage of GDP only improved marginally (from 1.82% in 2000 to 1.9% in 2008). It would, however, be too simplistic to conclude that the strategy has failed because these targets were not met.” (European Commission 2010c)

The European Commission also concluded that the Lisbon Strategy helped build consensus on the reforms that the EU needs:

“In particular, the definition of four priority areas (research and innovation, investing in people/modernising labour markets, unlocking business potential, particularly of SMEs, and energy/climate change) was an important step forward in providing greater focus. In all Member States, these issues are now at the top of the political agenda, demonstrating the Lisbon Strategy’s ability to set the agenda for reform.” (European Commission 2010c)

However, the Commission concluded that whilst some progress had been made, the economic downturn which began in 2008 had shown that the Lisbon Strategy was not fit for purpose in monitoring financial markets and the fiscal and economic policies of Member States:

“The Lisbon Strategy focused on the right structural reforms. R&D and innovation, labour markets (flexicurity 1, skills and lifelong learning), the business environment and consolidation of public finances which are all crucial areas to preparing the EU for

1 Flexicurity is an integrated strategy for enhancing, at the same time, flexibility and security in the labour market.
globalisation and ageing and enhancing the EU’s prosperity. However, with the benefit of hindsight, it is clear that the strategy should have been organised better to focus more on critical elements which played a key role in the origin of the crisis, such as robust supervision and systemic risk in financial markets, speculative bubbles (e.g. in housing markets), and credit-driven consumerism which in some Member States, combined with wage increases outpacing productivity gains, fuelled high current account deficits. Macro-economic imbalances and competitiveness problems were at the root of the economic crisis, and were not adequately addressed in the surveillance of Member States’ economies carried out through the Stability and Growth Pact and the Lisbon Strategy, which tended to operate in parallel rather than complementing one other.” (European Commission 2010c)

THE DEVELOPMENT OF EUROPE 2020

The onset of the economic crisis led the European Commission (European Commission 2010) to propose a new ten year policy for economic and sustainable growth. This policy is known as Europe 2020 and was agreed by the then all 27 Member State Governments. Specifically Europe 2020 involves “enhanced coordination of economic policies which will focus on the key areas where action is needed to boost Europe’s potential for sustainable growth and competitiveness” thereby helping the EU economy to make a strong recovery from the global economic downturn. (European Commission 2010b) In addition, it should assist the EU economy in ensuring that it can continue to compete economically with the United States of America and rapidly growing economies such as China and India. According to the European Commission, if Europe 2020 is successful it will help the EU and the Member States deliver high levels of employment, productivity and social cohesion.

Perhaps learning from the failure of the Lisbon Strategy, Europe 2020 sets out to coordinate policies in areas where Member States have the primary responsibility to act. As a result the policy is largely Member State led through decisions and discussions at the European Council whilst in the Council of Ministers, national ministers responsible for the relevant policy areas (for example competitiveness, employment and education) discuss implementation of the National Reform Programmes in their area of competence. The European Commission’s role includes coordinating Member State actions, providing EU level assistance for specific measures (often in the form of European funding such as the European Structural and Investment Funds and Horizon 2020) and to monitor the performance of each Member State and provide a series of annual reports and recommendations on how performance against the headline targets can be improved.

Each Member State has translated the Europe 2020 targets into national targets and policies. Monitoring the performance of Member States against their targets is undertaken by the European Commission which has set up a yearly cycle of economic policy coordination called the European Semester.

THE EUROPE 2020 TARGETS

The EU has set five objectives - on employment, innovation, education, social inclusion and climate/energy - to be reached by 2020. The specific targets which have been agreed by all Member State Governments are:

- 75% of the population aged 20-64 should be employed
- 3% of the EU’s GDP should be invested in R&D
• Reduction of the greenhouse gas emissions by 20% compared to 1990
• Increase in the share of renewable energy sources in final energy consumption to 20% and; 20% increase in energy efficiency
• The share of early school leavers should be under 10% and at least 40% of 30-34 years old should have completed a tertiary or equivalent education
• Reduction of poverty by aiming to lift at least 20 million people (from an EU population of just over 500 million) out of the risk of poverty or exclusion.

THE EUROPE 2020 FLAGSHIP INITIATIVES

The European Commission has identified seven flagship initiatives which they believe will help boost growth and jobs and achieve the Europe 2020 targets (European Commission 2013d). Each of the initiatives requires coordinated work at both Member State and EU level. The seven initiatives are grouped under three top level headings of “smart growth”, “sustainable growth” and “inclusive growth”. The seven initiatives are:

Smart growth

• Digital agenda for Europe
• Innovation Union
• Youth on the move

Sustainable growth

• Resource efficient Europe
• An industrial policy for the globalisation era

Inclusive growth

• An agenda for new skills and jobs
• European platform against poverty

The Europe 2020 targets sit within the three top level headings. For instance, the targets for 75% employment, 3% of GDP for research and development and educational attainment sit under the smart growth heading. The 20/20/20 target related to energy is incorporated within resource efficient Europe and the target to reduce poverty is addressed in inclusive growth.
THE EUROPEAN SEMESTER

The European Semester is a yearly cycle of economic policy coordination. The European Semester involves the European Commission undertaking a detailed analysis of EU Member States’ programmes of economic, fiscal and structural reforms and providing them with recommendations for the next 12-18 months. Part of this coordination relates to the implementation of the Europe 2020 strategy for smart, sustainable and inclusive growth. (European Commission 2013g).

THE EUROPEAN SEMESTER TIMETABLE

The next section of the paper looks at the elements of the European Semester which relate directly to Europe 2020 and the EU actions to boost growth and jobs.

The Annual Growth Survey

The European Semester starts when the European Commission adopts its Annual Growth Survey which sets out EU priorities for the coming year including work to achieve the Europe 2020 targets.

The Annual Growth Survey is usually published by the European Commission in November. The Annual Growth Survey (AGS) takes stock of the economic and social situation in Europe and sets out broad policy priorities for the EU as a whole for the coming year. Specifically, the Annual Growth Survey assesses how the EU can make progress against the Europe 2020 targets to boost growth and jobs.

The Annual Growth Survey is considered by EU Heads of State and Government at the spring European Council usually held in March. At this meeting, the European Council will assess the priorities set out in the Annual Growth Survey and agree how Member States can make progress against the priorities both individually and collectively.

The National Reform Programmes

In April each year Member State Governments are required to submit their Europe 2020 National Reform Programmes (NRP). The National Reform Programme sets out each Member State Government’s policies and measures to sustain growth and jobs and to contribute to the EU’s efforts to reach the Europe 2020 targets.

Country Specific Recommendations

The six monthly cycle is concluded by the publication (usually in May or June) of the European Commission’s analyses of each Member State Government’s NRP. This analysis along with country-specific recommendations are peer reviewed by the appropriate Council of Ministers which is an important step in ensuring proper national ownership ahead of endorsement by the European Council (in June or July) before being formally adopted by the European Council and provided as policy advice to the relevant Member State Government to inform their draft budgets for the following year.
THE 2013 EUROPEAN SEMESTER

THE UK NATIONAL REFORM PROGRAMME FOR 2013

In the Foreword to the UK National Reform Programme for 2013, the UK Government states:

“The Government strongly supports the European Semester as a means for promoting growth and structural reform across the European Union (EU) as a whole. With the latest European Commission forecast predicting economic growth in the EU of just 0.1 per cent in 2013, a return to sustainable growth and competitiveness is more urgent than ever. Member States’ plans for reform and growth and their fiscal consolidation programmes are important tools to increase the EU’s productivity, economic dynamism and flexibility.” (UK Government 2013)

The UK’s NRP reports on progress in broad policy areas covered by five headline EU-level targets under the Europe 2020 Strategy, relating to employment, education, poverty reduction, research and innovation, and energy and climate change.

The UK NRP for 2013 also responded to the European Commission’s country-specific recommendations which were issued in June 2012. These included:

- Reduction of the fiscal deficit and prioritise growth enhancing expenditure.
- Address the destabilising impact of high and volatile house prices and high household debt by implementing a comprehensive housing reform programme to increase housing supply and alleviate problems of affordability.
- Continue to improve the employability of young people, in particular those not in education, employment or training, including by using the Youth Contract. Ensure that apprenticeship schemes are taken up by more young people, have a sufficient focus on advanced and higher-level skills, and involve more small and medium-sized businesses.
- Step up measures to facilitate the labour market integration of people from jobless households. Ensure that planned welfare reforms do not translate into increased child poverty.
- Further improve the availability of bank and non-bank financing to the private sector, in particular to SMEs. Support competition within the banking sector.
- Pursue a long-term strategy for improving the capacity and quality of the UK’s network infrastructure, including measures to address pressures in transport and energy networks.

The UK NRP set out in detail how it was taking action against each of the European Commission’s recommendations.

The UK NRP also outlined the UK Government’s approach to meeting the Europe 2020 targets. The UK Government has not adopted the exact targets highlighted by Europe 2020 and for both the employment and research and development target the UK has no comparable target.

For the targets on reducing poverty, school leaving and climate and energy the UK Government has adopted targets though they do not exactly mirror the Europe 2020 targets.
The Scottish Government’s National Reform Programme for 2013

The Scottish Government has been producing its own distinct National Reform Programme since 2011. The Scottish NRP is sent to the European Commission and is referenced in the UK NRP. According to the Scottish Government:

“The Scottish Government is strongly supportive of the ambitions and priorities of Europe 2020 and there is a significant degree of commonality with our Government Economic Strategy (GES). Central to both strategies is a focus on accelerating recovery and securing economic growth which is both environmentally and socially sustainable.” (Scottish Government 2013)

Scotland’s progress against each of the Europe 2020 targets

The Scottish National Reform Programme (SNRP) set out Scotland’s progress against each of the Europe 2020 targets along with information on the actions taking place to assist in Scotland meeting the targets. The next section reproduces the Scottish Government’s assessment of performance against each of the Europe 2020 targets as detailed in the Scottish National Reform Programme for 2013 (Scottish Government 2013).

75% of the EU population aged 20-64 should be employed

“As witnessed across many advanced economies, challenging economic conditions have continued to impact on labour market performance during 2012. Reflecting this, the Scottish employment rate, for the population aged 20-64, in the last quarter of 2012 (of 73.2%) was broadly unchanged from the rate in the last quarter of 2011 (of 73.3%).

The headline employment statistics for Scotland, produced by the Office for National Statistics, capture the population aged 16-64, with the latest statistics showing that the Scottish employment rate was 71.7% in the three month period December - February 2013 (above the UK rate of 71.4%).”

Raising the combined public and private levels in research and development to 3% of GDP

“The National Performance Framework includes a National Indicator to Increase Research and Development Spending in Scotland. This indicator compares Scotland's Gross Expenditure on Research and Development (GERD) as a percentage of GDP with the equivalent average figure for the EU27. In 2011, Scotland's Gross Expenditure on Research and Development (GERD) as a percentage of GDP was 1.56%. For the EU27, the comparable figure was 1.94%, thus representing a gap of 0.37 percentage points. This gap has slightly widened by 0.01 percentage points from 2010. GERD as a percentage of GDP in Scotland has increased since 2006.”

Transition to a low carbon economy to achieve:

- Reducing greenhouse gas emissions by 20% compared to 1990 levels (or by 30% if conditions are right);
- increasing the share of renewable energy sources in final energy consumption to 20%;
- and a 20% increase in energy efficiency
“Data from the Department of Energy and Climate Change (DECC) suggests that the Scottish Government has exceeded its 2011 target of 31% of electricity demand from renewables. In 2011, renewable electricity generation was equivalent to 36.3% of gross electricity consumption, compared to 24.2% in 2010 and 16.9% in 2006. This indicates a record level of renewable generation in Scotland in 2011. It also shows a return to the rising trend seen since 2003, with the exception of 2010. The lower level of renewable electricity generation experienced in 2010 was a result of a fall in hydro generation due to much lower rainfall in 2010.

Scotland is also on track to meet its renewable heat target of 11% of Scotland’s heat demand from renewables by 2020 with actual heat output in 2011 of 3.8% up from 2.8% in 2010.”

Improving education levels, in particular by:

- aiming to reduce the problem of early school leavers by reducing the rate of early school leavers to 10% from the current 15%; and

- increasing the share of the population aged 30-34 having completed tertiary or equivalent education to at least 40% by 2020

“The rate of early school leavers in Scotland was 13.0% in 2012 and the share of the population aged 30-34 having completed tertiary education in Scotland is 54.1% (2012).”

The number of Europeans living below the national poverty line should be reduced by 25%, lifting over 20 million people out of poverty.

“Progress in this area is measured through the Scottish Government's National Performance Framework (NPF), which includes measures relevant to poverty and inclusion.

The NPF includes the Reduce the proportion of individuals living in poverty National Indicator. This is measured in terms of the percentage of people living in relative poverty (below 60% of median income before housing costs). Performance in 2010-11 shows that 15% of the Scottish population were in relative poverty (before housing costs) - this is the lowest level seen in the last 10 years.”
EUROPEAN COMMISSION COUNTRY SPECIFIC RECOMMENDATIONS FOR THE UK IN 2013

At the end of May 2013, the European Commission published its specific recommendations for the United Kingdom (European Commission 2013h). The recommendations are suggested measures the UK should adopt over the next 18 months to assist in meeting the Europe 2020 targets and to boost growth and jobs.

The Commission has issued six country specific recommendations (CSRs) to the UK to help it improve its economic performance. The recommendations mirror closely the recommendations made by the Commission to the UK Government in 2012.

A summary of the Commission recommendations areas are reproduced below:

“Sustainable public finances

The UK has very high levels of government debt and a large fiscal deficit. To get public finances back on a sustainable footing, the UK should continue to prioritise the reduction of its debt and deficit, whilst balancing this with targeted growth-enhancing expenditure.

The housing market

The level of household debt in the UK is well above the euro area average. A housing shortage and lack of residential construction is also contributing to keeping house prices high. The UK should take measures to increase the housing supply and strengthen the rental market, whilst avoiding a return to imprudent mortgage lending.

Youth unemployment

Youth unemployment is over 2.5 times greater than the overall unemployment rate in the UK. The UK should improve the quality of vocational training on offer and reduce the number of young people without sufficient skills to enter the labour market.

Support to low income households

The UK has the second highest percentage of people living in households with a very low work intensity in the EU. The UK should ensure its tax-benefit system is both fair and offers clear work incentives. To allow more women, who wish to, to take up full-time work, the UK should improve the affordability and quality of childcare provision.

Access to finance for businesses

The UK is one of the most difficult countries in the EU for businesses to obtain bank credit, according to SMEs. The UK should take measures to encourage banks to lend to businesses, whilst avoiding excessive risk taking.

Investment in infrastructure

The UK needs to invest in its energy and transport infrastructure if it is to continue to meet the needs of the rest of the economy over the coming decade. In terms of contribution from renewable energy sources the UK is ranked 25th out of the 27 Member States in the EU and should make significant improvements when upgrading its energy infrastructure. With regard to transport, there is a significant gap between the investment needed to improve transport
infrastructure and finances committed. The UK should look to provide greater certainty in investment from both public and private sources.”

THE 2014 EUROPEAN SEMESTER

THE 2014 ANNUAL GROWTH SURVEY

The first stage of the European Semester for 2014 was the adoption by the European Commission of the *Annual Growth Survey for 2014* on 13 November 2013. According to the Commission, the priority for this year’s Annual Growth Survey (AGS) is sustaining the economic recovery which is underway through building growth and competitiveness.

The AGS outlined a need for greater ownership of the European Semester at Member State level and linked to this encourages Member State Governments to discuss the National Reform Programmes with “national parliaments and all relevant parties, notably social partners and sub-national actors”.

Whilst stressing that all Member States need to continue to tackle their fiscal deficits and overall debt levels, the European Commission has also suggested that:

“Member States need to find ways to protect or promote longer term investment in education, research, innovation, energy and climate action. Particular attention should also be paid to maintaining or reinforcing the coverage and effectiveness of employment services and active labour market policies, such as training for the unemployed and Youth Guarantee schemes.”
THE EUROPEAN COMMISSION’S WORK PROGRAMME

The European Commission’s annual work programme sets out the priorities for the following year in terms of both legislative and non-legislative proposals and initiatives. The Commission Work Programme is usually published in late October or early November each year.

In recent years the purpose of the Commission Work Programme has been to outline the measures (legislative and non-legislative) the Commission will propose to help the European Union achieve its aim of boosting growth and jobs. As such the Work Programme should complement the work being done to achieve Europe 2020 alongside the intergovernmental process wrapped up in the European Semester.

The European Commission Work Programme for 2014 was published on 22 October 2013. According to the European Commission’s press release:

“the European Commission puts a very strong focus on results: it identifies the priority growth-enhancing proposals to be completed in the months ahead; it focusses on the finalisation of the banking union, the single market and the digital agenda; and ensures that the new measures under the Multiannual Financial Framework for 2014-2020 swiftly become operational – in particular to combat youth unemployment…

…Growth and jobs remain the Commission's top priority in 2014, with a particular focus on combatting youth unemployment and facilitating access to financing.” (European Commission 2013e)

According to Jose Manuel Barroso, the European Commission President:

“The Commission will actively help the European Parliament and the Council completing work on all the important proposals that are still pending. We will work hard to accelerate implementation on the ground. We will ensure that new EU funding programmes are up and running on time. We will deepen cooperation with and between the Member States to deliver the Europe 2020 strategy through the European Semester.”

The European Commission Work Programme for 2014 places at the top of its agenda, legislative proposals designed to promote growth and jobs:

“Promoting growth and jobs will remain at the heart of the European Commission's work programme for 2014. These priorities will drive both the Commission's analysis of the reforms required at national level - where efforts to repair public finances, to reform the structure of the economy and to release growth-enhancing investment should continue unabated - and the initiatives proposed at European level to support economic recovery and job creation and tackle the social consequences of the crisis.” (European Commission 2013h)

The Work Programme also highlights the European Commission’s intention that the new programmes supported by the Multi-annual Financial Framework for 2014-2020 should support the priorities of Europe 2020 and lead to growth and jobs.
SOURCES


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