

Interparliamentary Conference on Stability, Economic Coordination and Governance in the EU

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Background Paper

Session 2: Investment, innovation and education as drivers for a more competitive Europe

At the beginning of May this year, the European Commission presented its proposal for the Multiannual Financial Framework (MFF) from 2021 to 2027 under the title "A Union that Protects, Empowers and Defends". Commitments are expected to rise to 1,279 billion euros, or 1.11% of economic output (currently 1.03%). In this context, the EU has to meet two challenges: the fact that security and stability play an increasingly important role in an unstable world and the financial gap caused by Brexit. The Commission intends to conclude negotiations on this issue before the next elections to the European Parliament in the spring of 2019.

In the areas of investment, research, innovation and competitiveness, some new priorities will be set in the MFF 2021-2027, including the European research programme Horizon Europe and a new European Innovation Council.

Under the reformed Connecting Europe facility, the Union will continue to invest in trans-European transport, digital and energy networks.

The new "Digital Europe" programme is designed to fill the current investment deficit in the digital sector and to shape and promote the digitisation of European society and the economy. Building on the European Strategic Investment Fund, the Commission proposes a new, fully integrated investment fund, InvestEU, to encourage the mobilisation of private investment.

In addition to InvestEU and other EU funds, the EU proposes new budgetary instruments, a reform assistance programme and a reform implementation instrument to promote economic convergence, financial stability, job creation and investment.

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Points for discussion:

- Does the new MFF set the right priorities to boost EU competitiveness?
- Can the MFF's research and innovation priorities strengthen the Union's global scientific leadership?
- What is the EIB's role in financing innovative companies, including SMEs?

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New budgetary instruments

As announced in its roadmap to **deepen Europe's Economic and Monetary Union** presented on 6 December 2017, the European Commission proposes new budgetary instruments within the Union framework in the interest of a stable euro area and to promote convergence. These new instruments will complement other EU funds such as the European Structural and Investment Funds or InvestEU and, like these, promote economic convergence, financial stability, the creation of jobs and investment.

A new, strong **Reform Support Programme** will provide technical and financial support for reforms at national level with an overall budget of €25 billion. Although this new programme will be implemented separately from the future European Structural and Investment Funds, it will complement them. It will include a **Reform Delivery Tool** that will provide *all* Member States with financial incentives to implement the key reforms identified during the European Semester. It will focus on those reforms that can contribute most to strengthening the resilience of domestic economies and have positive spillover effects on other Member States. This includes reforms in areas such as product and labour markets, education, tax systems, capital market developments, reforms to improve the business environment, investment in human capital and public administration reforms.

Another component of this new programme will be a special **Convergence Facility**. Under this Facility, non-euro area Member States wishing to adopt the single currency will be provided support for the duration of the next Multiannual Financial Framework. The appropriations for the Convergence Facility will be transferred to the Reform Delivery Tool if an eligible Member State has not taken the necessary steps to apply for assistance under the Convergence Facility by the end of 2023. Participation will be voluntary for all three components of the reform assistance programme, and Member States will retain full control over the implementation of the reform.

A new **European Investment Stabilisation Function** will complement existing instruments at national and European level to cushion large asymmetric macroeconomic shocks within the euro area. The recent crisis has shown that the automatic stabilisers at national level may not be sufficient to absorb large asymmetric shocks and the investment cuts frequently associated with such shocks. The proposal is to guarantee back-to-back loans of up to €30 billion through the EU budget in addition to the existing mechanisms. These loans will only be available to Member States that meet strict requirements in terms of sound budgetary and economic policies. In order to provide national budgets with the resources necessary for a stable level of investment, the European Investment Stabilization Function will also grant interest subsidies. These subsidies are to be financed by contributions from euro area Member States in the form of a percentage of their monetary income (*seigniorage*).

In the course of time, the European Investment Stabilisation Function could be complemented by additional sources of funding not financed from the EU budget, such as an insurance mechanism financed by voluntary contributions from Member States; tasks could also be transferred to the European Stability Mechanism and the future European Monetary Fund in this context. The European Investment Stabilisation Function shall also be open to non-euro area Member States if they contribute to its financing according to the key for subscriptions to the European Central Bank's capital.

Innovation, research and education in the new MFF

The new European research programme **Horizon Europe** will help Europe to remain a world leader in research and innovation. As highlighted in the report of the High Level Group chaired by Pascal Lamy, research investments will enable the Union to remain competitive with other developed and emerging economies, to secure the future prosperity of its citizens and to maintain its unique social model. The new programme builds on the successful Horizon 2020 programme and continues to support cutting-edge research, but focuses more on innovation, for example through the development of prototypes, the use of intangible assets and knowledge and technology transfer. A new **European Innovation Council** will be the central

go-to institution for promising and disruptive innovators in order to make Europe a pioneer in market-creating innovation.

Building on the success of the European Strategic Investment Fund in mobilising private investment across Europe, the Commission proposes a new, fully integrated investment fund called **InvestEU**. In this way, relatively limited public funds can be used to attract substantial private funds for urgently needed investments. With the European Investment Bank as the main implementing partner and other partners such as national development banks, InvestEU will bring together all centrally managed financing instruments within the EU in a single, streamlined structure, thereby reducing overlaps, simplifying access and reducing bureaucracy. With a contribution of €15.2 billion from the EU budget, InvestEU should mobilise more than €650 billion in additional investments across Europe.

Cross-border infrastructure forms the backbone of the internal market and ensures that goods, services, businesses and citizens can move freely across borders. Under the reformed **Connecting Europe Facility**, the Union will continue to invest in trans-European networks in the fields of transport, digital services and energy. The future programme will make better use of synergies between transport, energy and digital infrastructure, for instance by developing infrastructure for alternative fuel or sustainable and intelligent networks for the digital internal market and the energy union. Based on the achievements of the current programming period, part of the Cohesion Fund (€11.3 billion) will be transferred to the Connecting Europe Facility, where it will benefit transport projects with high European added value.

In order to bridge the current digital investment gap, the Commission proposes to establish a new **Digital Europe** Programme to shape and support the digital transformation of Europe's society and economy. Technological change and digitalisation are changing our industries, societies, jobs and careers, as well as our education and welfare systems. By supporting strategic projects in frontline areas such as artificial intelligence, supercomputers, cybersecurity or industrial digitalisation, and investing in digital skills, the new programme will help to complete the Digital Single Market, a key priority of the Union. The Commission proposes a combined increase of 64% in research, innovation and digital investment under direct management in the next Financial Framework. These investments will be complemented by research, innovation and digital projects supported by the European Structural and Investment Funds.