



Northern Ireland  
Assembly

## Research and Information Service Briefing Paper

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# Key European Union Issues of Note to the Committee for Employment and Learning

## 1 Introduction

The following Briefing Note is a companion paper to NIAR 364-2012 which provides information on legislative and non-legislative initiatives laid out in the EU Commission Work Programme 2012.

This paper briefly discusses key issues in the EU which may be of note to the Committee for Employment and Learning.

## 2 Key Points

The key issues discussed are:

### **Overview of the current state of the EU:**

- The European Union is currently facing significant challenges with widespread financial difficulties affecting a number of Member States (MS), of which Greece is but the most prominent;

- EU Member States have signed a “Fiscal Pact” (January 2012) which introduces new rules that make it harder to break budget deficits. The UK and the Czech Republic abstained;
- The Eurozone jobless rate has risen significantly, with youth unemployment at an all-time high (over 22% in April 2012);<sup>1</sup>
- The UK entered back into recession – a double dip recession – which has not occurred since the 1970s
- There is increasing pressure on the Eurozone countries (the EU17) to adopt a stronger fiscal and economic union; and
- In order to meet the challenges created by the ongoing financial and economic difficulties, the European Commission has developed a number of strategies including the Innovation Union, the Fiscal Compact and Youth on the Move.

### **Unemployment:**

- One of the main concerns in the EU at the current moment in time is the increasing rates of unemployment;
- The unemployment rate across the EU has risen since 2007, with Greece and Spain seeing the largest rises. The UK unemployment rate has gone from 5.5% in March 2007 to 8.1% in March 2012;
- Youth unemployment in the UK has not reached the extreme levels seen in Spain (at 60.2% in Q1 2012) but it has seen an alarming rise, with the UK youth unemployment rate at 21.9%% in March 2012;
- The EU proposes tackling unemployment via a number of strategies, including:
  - The Agenda for New Skills and Jobs;
  - Youth on the Move; and
  - The Innovation Union.
- Northern Ireland has also launched a number of complementary strategies, including:
  - Pathways to Success;
  - The Northern Ireland Economic Strategy; and
  - Success through Skills.
- However, it should be noted that employment growth lags behind GDP growth. As the UK has slipped back into recession any strategies which are implemented in NI, the UK or Europe will only begin to see significant results in the medium to long term.

### **Financial governance:**

- The tightening up of financial governance across Europe will have an impact on all aspects of governance in Northern Ireland;

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<sup>1</sup> European Commission, Eurostat figures Youth Unemployment rates in April 2012

- The Six Pack and the Treaty on Stability, Coordination and Governance (TSCG) form the backbone of the EU's attempt to enact effective fiscal and economic governance across the Euro area Member States (27 MS);
- The Six Pack comprises five Regulations and one Directive (hence "Six Pack") and introduces a process of fiscal and macroeconomic surveillance with the intention of identifying any potential issues within a MS;
- The TSGC is only applicable to 25 of the 27 MS (the UK and the Czech Republic refused to sign the treaty);
- The TSGC includes provision aimed at reinforcing the implementation of the Stability and Growth Pact (SGP) through economic governance and reinforced surveillance and coordination of economic policies;
- There is concern that the UK's opt out of the Treaty may result in a two-tier Europe, with the UK marginalised in a number of areas such as coordination of taxes.

#### **Horizon 2020:**

- The key European Strategy for the growth of research and innovation is Innovation Union, one of the package of programmes launched under Europe 2020;
- The Innovation Union:
  - ...aims to improve conditions and access to finance for research and innovation in Europe, to ensure that innovative ideas can be turned into products and services that create growth and jobs*
- The Innovation Union has been in operation since 2010, with a new proposed finance mechanism, Horizon 2020, recently introduced to help implement the strategy;
- Horizon 2020 will run from 2014 – 2020 with a potential budget of €80 billion;
- Stimulating Innovation and Research & Development are key priorities in Northern Ireland's economic strategy; and
- It is important for opportunities for NI in this area to be emphasised and exploited, especially when considered against the European backdrop which holds a long term strategy regarding research and innovation across the EU.

### **3 Overview of the Current State of the EU**

The European Union is currently facing significant challenges with widespread financial difficulties affecting a number of MS, of which Greece is but the most prominent.

The Committee may wish to note the following events which have occurred in the last six months:<sup>2</sup>

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<sup>2</sup> BBC News, Timeline: The unfolding Eurozone Crisis, <http://www.bbc.co.uk/news/business-13856580>

- EU Member States have signed a “Fiscal Pact” (January 2012) which introduces new rules that make it harder to break budget deficits. The UK and the Czech Republic abstained;
- The EU jobless rate has risen significantly, with youth unemployment at an all-time high (over 22% in April 2012);<sup>3</sup>
- Borrowing costs across the EU have increased making it more difficult for MS to fund growth programmes and meet debt payment deadlines;
- The UK entered back into recession – a double dip recession – which has not occurred since the 1970s; and
- The financial and economic situation in a number of MS continues to deteriorate, with Greece, Spain, the Republic of Ireland and Italy all in danger of debt defaults. This situation remains fluid with a danger of contagion spreading across the EU bringing with it the threat of countries being forced to leave the Eurozone and causing further financial strife.

Importantly, there is increasing pressure on the Eurozone countries (the EU17)<sup>4</sup> to adopt a stronger fiscal and economic union. The International Monetary Fund is one of the international organisations calling for increased integration, and has stressed the need for long term structural reforms, such as reforming job markets to raise labour market participation, and short term support in the form of recapitalising weak banks, implementing fiscal consolidation and having a more accommodative monetary policy.<sup>5</sup>

As will be discussed below, the EU is currently taking some similar actions as those discussed by the IMF. However, it should be noted that many of these reforms may result in a “two-tier Europe”, with a closer fiscal and economic union between the EU17 countries and a more loose grouping of the ten Member States which have not signed up to the Euro. This would include the UK and, by extension, Northern Ireland.

In order to meet the challenges created by the ongoing financial and economic difficulties, the European Commission has developed a number of strategies which will impact on the work of the Committee for Employment and Learning (as discussed below).

In addition, on the 29 June, Eurozone leaders agreed a deal that would see the bailout fund directly supporting banks without adding to government debt and a joint banking supervisory body. It also provides a €120bn growth package that includes:<sup>6</sup>

- A 10bn-euro boost of capital for the European Investment Bank, expected to raise overall lending capacity by 60bn euros;
- Targeting 60bn euros of unused structural funds to help small enterprises and create youth employment; and

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3 European Commission, Eurostat figures Youth Unemployment rates in April 2012

4 Those Member States which use the Euro as their currency

5 International Monetary Fund, IMF urges Eurozone to make more determined, collective response to crisis

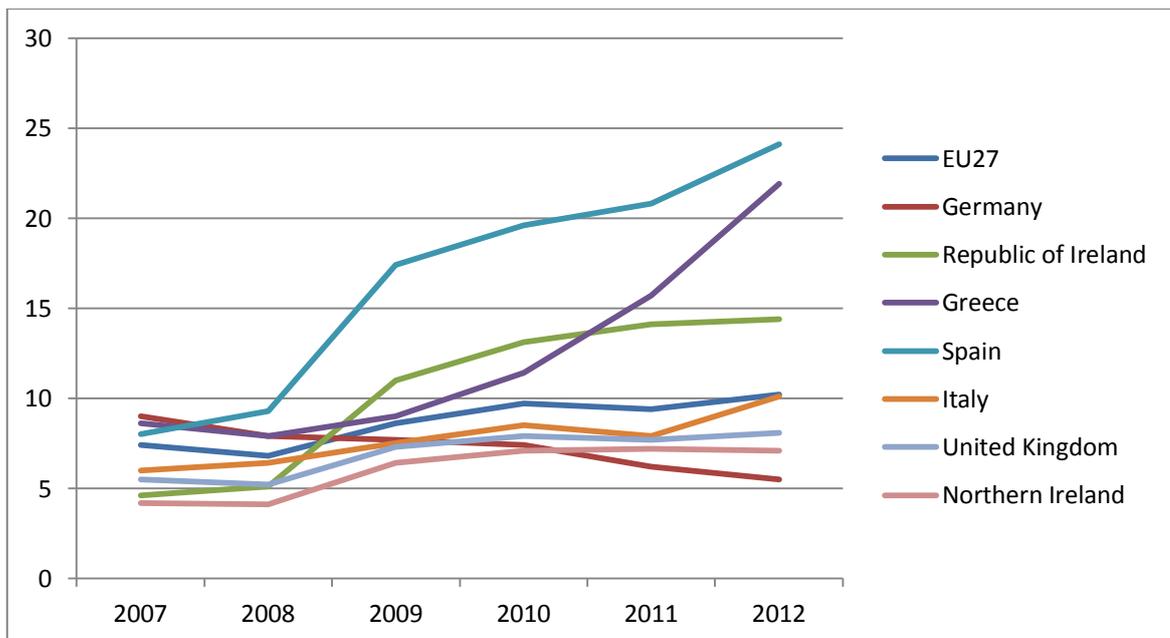
6 BBC News, 29 June 2012, Eurozone agrees on bank recapitalisation <http://www.bbc.co.uk/news/world-europe-18620965>

- A pilot launch of EU project bonds worth 4.5bn euros for infrastructure improvements, focusing on energy, transport and broadband.

#### 4 Unemployment

One of the main concerns in the EU at the current moment in time is the increasing rates of unemployment. The chart below details the unemployment rate for:

- The EU27;
- Northern Ireland;
- United Kingdom;
- Germany;
- The Republic of Ireland;
- Greece; and
- Spain.



**Table 1:** Unemployment rates in Europe 2007-2011<sup>7</sup>

Please note, the table above shows year on year unemployment levels for March of that year. Northern Ireland is an exception to this as only quarterly data was available. As such the February to April period was used.

As can be seen above, the unemployment rate across the EU has risen since 2007, with Greece and Spain seeing the largest rise. The UK unemployment rate has gone from 5.5% in March 2007 to 8.1% in March 2012. Northern Ireland has also seen a

<sup>7</sup> Eurostat and NOMIS [https://www.nomisweb.co.uk/reports/lmp/gor/2013265932/subreports/nrhi\\_time\\_series/report.aspx](https://www.nomisweb.co.uk/reports/lmp/gor/2013265932/subreports/nrhi_time_series/report.aspx)

rise in unemployment although not as severe as that of the UK with it sitting at 7.1% in February to April 2012.

Youth unemployment is also an area of concern in the Labour Market, with the number of those considered NEET (young people Not In Education, Employment or Training) rising across Europe. Youth unemployment in the UK has not reached the extreme levels seen in Spain (at 60.2% in Q1 2012) but it has seen an alarming rise, with the UK youth unemployment rate at 21.9%% in March 2012.

Unemployment is a symptom of the ongoing recession and financial difficulties and it can be expected to continue to be an issue for all European Governments, including Northern Ireland for a number of years.

The EU proposes tackling unemployment via a number of strategies, including:

- **The Agenda for New Skills and Jobs:** This strategy intends to meet the target of 75% employment across Europe by 2020. In order to do this it will improve flexibility in the labour market, equip people with appropriate skills and improve the conditions for job creation;<sup>8</sup>
- **Youth on the Move:** This is a comprehensive package of policy initiatives on education and employment for young people, including making education and training more relevant to young people, encouraging young people to travel and work in Europe to widen their horizons and skills, and encouraging EU countries to take measures simplifying the transition from education to work;<sup>9</sup> and
- **The Innovation Union:** aims to improve conditions and access to finance for research and innovation in Europe, to ensure that innovative ideas can be turned into products and services that create growth and jobs.<sup>10</sup>

Northern Ireland has also launched a number of complementary strategies, including:

- **Pathways to Success:** This strategy targets those identified as NEETs with the intention of bringing coherence to existing provision for this group and considering the need for new interventions to meet young people's needs in encouraging them to re-engage;<sup>11</sup>
- **The Northern Ireland Economic Strategy:** The Economic Strategy provides an action plan to develop growth and prosperity in NI, including increasing the number of people with qualifications in Science, Technology, Engineering and Maths, investing in skills development and encouraging business growth;<sup>12</sup>

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8 European Commission, Agenda for New Skills and Jobs, <http://ec.europa.eu/social/main.jsp?langId=en&catId=958>

9 European Commission, Youth on the Move, <http://ec.europa.eu/social/main.jsp?catId=950&langId=en>

10 European Commission, Innovation Union, [http://ec.europa.eu/research/innovation-union/index\\_en.cfm](http://ec.europa.eu/research/innovation-union/index_en.cfm)

11 Department for Employment and Learning, Pathways to Success <http://www.delni.gov.uk/neetstrategy>

12 Department for Enterprise, Trade and Investment, The Northern Ireland Economic Strategy, <http://www.northernireland.gov.uk/ni-economic-strategy-revised-130312.pdf>

- **Success through Skills:** Looks at the current skills base, examines the skills NI will need in future to grow the Northern Ireland economy and highlights areas for action.<sup>13</sup>

There are a number of strategies in place, both Europe wide and in Northern Ireland which tackle unemployment directly and indirectly such as by encouraging the skills development of individuals, business growth and increasing innovation.

However, it should be noted that employment growth lags behind GDP growth. As stated by the IMF:

*...across all recessions, it typically takes three quarters after output has started to recover for employment to start registering positive growth and an additional two quarters for the unemployment rate to peak.*<sup>14</sup>

As the UK has slipped back into recession any strategies which are implemented in NI, the UK or Europe will only begin to see significant results in the medium to long term.

## 5 Reform of Financial Governance: The 'Six Pack' – The Treaty on Stability, Coordination and Governance (TSCG)

Whilst financial governance does not fall under the remit of the Committee for Employment and Learning, the tightening up of financial governance across Europe will impact on regions and nations alike. As such, this section of the paper provides a brief introduction into the key reforms being made.

The Six Pack and the TSCG form the backbone of the EU's attempt to enact effective fiscal and economic governance across the Euro area Member States (27 MS).

The Six Pack comprises five Regulations and one Directive (hence "Six Pack") and introduces a process of fiscal and macroeconomic surveillance with the intention of identifying any potential issues within a MS.<sup>15</sup>

The Six Pack also adds extra weight to the powers of the Stability and Growth Pact (SGP) by applying a stricter application of fiscal rules established under it. Under the Six Pack the Excessive Deficit Procedure (EDP)<sup>16</sup> is reinforced in both its corrective and preventative elements.

The TSGC is only applicable to 25 of the 27 MS (the UK and the Czech Republic refused to sign the treaty), although it should be noted that it is binding only to Eurozone area states, with other MS bound to it if they adopt the Euro or earlier if they

13 Department for Employment and Learning, Success through Skills, <http://www.delni.gov.uk/index/successthroughskills.htm>

14 International Monetary Fund, World Economic Growth April 2010  
<http://www.imf.org/external/pubs/ft/weo/2010/01/pdf/text.pdf>

15 EU Commission, What are the main features of the "six-pack" and the Treaty on Stability, Coordination and Governance (TSCG)? [http://ec.europa.eu/economy\\_finance/articles/governance/2012-03-14\\_six\\_pack\\_en.htm](http://ec.europa.eu/economy_finance/articles/governance/2012-03-14_six_pack_en.htm)

16 Under the Stability and Growth Pact, MS cannot exceed a deficit to GDP ratio of 3% and a debt to GCP ratio of 60%. If this occurs they are subject to (and legally bound to under the SGP) an Excessive Deficit Procedure whereby MS must correct the deficit. An EDP involves several steps but can ultimately result in financial sanctions.

state their intention to do so (they can also select which provisions they wish to be bound by).

The fiscal part of the TSCG is referred to as the “Fiscal Compact”.

In brief, the key provisions of the Fiscal Compact are:<sup>17</sup>

- The budget of a country must be in balance or in surplus, which means that in structural terms – *i.e.* excluding one-off items and business cycle variations - the deficit cannot be higher than 0.5% of gross domestic product (GDP);
- Only countries which have debt to GDP ratios significantly below 60% can maintain a larger structural deficit, but this deficit is not to be more than 1% of GDP;
- If the budget is not in balance, automatic correction rules, to be written into national laws, will apply;
- The balanced budget rule must be written into national law, preferably a constitution, not more than one year from the day the fiscal compact enters into force (the Treaty must be ratified by January 2013 and will take effect once it is ratified by 12 of the 17 Eurozone countries).
- A Eurozone country which does not write the balanced budget rules into its national law, can be sanctioned in the European Court of Justice and, if it does not comply with the Court's ruling, can be fined 0.1% of its GDP;
- The agreement will enter into force once 12 Eurozone countries ratify it, or on January 1, 2013 whichever is soonest;
- A country with public debt higher than the EU limit of 60% of GDP must reduce it by 1/20<sup>th</sup> a year as a benchmark;
- Euro zone countries will co-ordinate national debt issuance plans in advance; and
- Only countries that have ratified the fiscal compact and written the balanced budget rule into national law will be eligible for Eurozone bailouts from the European Stability Mechanism.

Currently, only the Six Pack is applicable to the UK and Northern Ireland, with Prime Minister David Cameron having objected to some of the proposals under the Treaty including financial services regulations that would impact on the City of London and the use of EU institutions to enforce the treaty.<sup>18</sup> The Prime Minister also wished to establish safeguards for the UK, stating that:

*I made it clear that if the Eurozone countries wanted a treaty involving all 27 Members of the European Union we would insist on some safeguards for Britain to protect our own national interests.*<sup>19</sup>

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<sup>17</sup> The Scottish Parliament, European and External Relations Committee, 2012, Developments in the Eurozone and their implications for communications between the Scottish and UK Governments  
<http://www.scottish.parliament.uk/parliamentarybusiness/CurrentCommittees/51462.aspx#i>

<sup>18</sup> BBC News, 2 March 2012 Q&A: EU fiscal treaty to control eurozone budgets, <http://www.bbc.co.uk/news/world-europe-16057252>

<sup>19</sup> UK Government News, 12 December 2011, Prime Minister Cameron's Statement on the European Council

The safeguards were built around the Single Market and financial markets, including going further than European rules in regulating the banks.<sup>20</sup>

As mentioned previously in this paper, there is concern that the UK's opt out of the Treaty may result in a two-tier Europe, with the UK marginalised in a number of areas. As stated by the BBC:

*In the huge area of budget policy - including co-ordination on taxes - the UK could eventually end up isolated in the EU.*<sup>21</sup>

As a region of the UK this could have implications for Northern Ireland due to its heavy reliance on funding from a variety of EU programmes, such as the European Social Fund, Erasmus and INTERREG IVA.

In addition, a recent report by the Scottish Parliament identified that the UK veto of the Treaty had a number of negative aspects and was:

*...hindering a confident, united and unequivocal response to the crisis in the Eurozone.*<sup>22</sup>

It should be noted, however, that:

*...the UK, as a non-Contracting Party to the TSCG, actually remains in substantially the same position with respect to the provisions of the fiscal compact as non-eurozone Contracting Parties. The new obligations set out in the fiscal compact, and in particular the balanced budget rule, will only be applicable to such non-eurozone Contracting Parties if they declare an intention to be bound by these provisions. Further, the UK may decide at any point to accede to the TSCG, thereby placing itself in an identical position to any other non-eurozone Contracting Party. The UK may not then in practice be isolated on the margins of the EU simply because it has declined to participate in a compact designed principally to regulate fiscal policy among Euro-members.*<sup>23</sup>

## 6 Research and Innovation

A key area for both EU and NI strategy is Research and Innovation. The key European Strategy for the growth of research and innovation is Innovation Union, one of the package of programmes launched under Europe 2020.

The Innovation Union:

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<sup>20</sup> Ibid

<sup>21</sup> Ibid

<sup>22</sup> Scottish Parliament, <http://www.scottish.parliament.uk/parliamentarybusiness/CurrentCommittees/51462.aspx#i>

<sup>23</sup> UK Parliament, Foreign Affairs Select Committee, The Future of the European Union: UK Government Policy written evidence from Professor Michael Dougan, Chair in European Law, and Dr Michael Gordon, Lecturer in Public Law, Liverpool Law School, University of Liverpool

<http://www.publications.parliament.uk/pa/cm201213/cmselect/cmfaff/writev/futunion/feu15.htm>

*...aims to improve conditions and access to finance for research and innovation in Europe, to ensure that innovative ideas can be turned into products and services that create growth and jobs.<sup>24</sup>*

The Innovation Union has been in operation since 2010, with a new finance mechanism, Horizon 2020 due to be introduced in 2014.

Horizon 2020 will run from 2014 – 2020 with an estimated budget of €80 billion. One of the main focuses of Horizon 2020 is the simplification of the drawing down of funding, with only a single set of rules for accessing funds.

It is proposed that Horizon 2020 will be structured around three main blocks:<sup>25</sup>

- **Excellent science:** aimed at boosting excellence in the EU's science base. It will support a variety of programmes, including investment in Future and Emerging Technologies (FET) to open up new fields of research and innovation;
- **Industrial leadership:** aims to support investment in research and innovation in key enabling technologies and other industrial technologies. To facilitate access to risk finance for innovative companies and projects, and to provide Union wide support for innovation in small and medium-size enterprises.<sup>26</sup>
- **Societal challenges:** aims to address major societal concerns through the use of multidisciplinary research and innovation. A number of challenges have been identified, including:
  - Health, demographic change and well-being;
  - Food security, sustainable agriculture, marine and maritime research and the bio-economy; and
  - Inclusive, innovative and secure societies.<sup>27</sup>

The collaborative aspects which have been at the core of earlier framework programmes will remain a feature of Horizon 2020. This will be extended to include innovation.<sup>28</sup>

The proposed support for research and innovation under Horizon 2020 will:<sup>29</sup>

- Strengthen the EU's position in science with a dedicated budget of €24,598 million. This will provide a boost to top-level research in Europe, including an increase in funding of 77% for the very successful European Research Council (ERC);
- Strengthen industrial leadership in innovation €17,938 million. This includes major investment in key technologies, greater access to capital and support for SMEs; and

24 Europa, Press Release, State of the Innovation Union – Progress report issued by the European Commission, <http://europa.eu/rapid/pressReleasesAction.do?reference=MEMO/11/872>

25 RaISe, Horizon 2020, NIAR 445 -2012

26 Ibid

27 Ibid

28 Scottish Parliament Web pack Horizon 2020

29 Horizon 2020, [http://ec.europa.eu/research/horizon2020/index\\_en.cfm?pg=h2020](http://ec.europa.eu/research/horizon2020/index_en.cfm?pg=h2020)

- Provide €31,748 million to help address major concerns shared by all Europeans such as climate change, developing sustainable transport and mobility, making renewable energy more affordable, ensuring food safety and security, or coping with the challenge of an ageing population.

Stimulating Innovation and Research & Development are key priorities in Northern Ireland's economic strategy. The strategy notes that:

*NI's Universities and Further Education colleges are increasing the range and depth of their interaction with business, which is helping to underpin the commercialisation of the NI research base.<sup>30</sup>*

This is, of course, a long term objective, with a need to develop research capacity and the commercialisation of research (although both QUB and UU have internal units which focus on this).

The strategy will, amongst other things, provide £54m funding for University research and investing in collaborative HE/FE engagement with business and support Universities to establish eight spin-out companies.<sup>31</sup>

In addition, Horizon 2020 links in with the Programme for Government which has a target of supporting £300 million of investment by business in R&D, with at least 20% coming from SMEs.

There is a focus within the Economic Strategy and the Programme for Government on the development of the Northern Ireland Knowledge Economy. As such it is important for opportunities for NI in this area to be emphasised and exploited, especially when considered against the European backdrop which holds a long term strategy regarding research and innovation across the EU.

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30 Department for Enterprise, Trade and Investment, The Northern Ireland Economic Strategy, <http://www.northernireland.gov.uk/ni-economic-strategy-revised-130312.pdf>

31 Ibid