

MONDAY 22 FEBRUARY 2010

---

Present

Bradshaw, L  
Freeman, L (Chairman)  
James of Blackheath, L  
Plumb, L  
Rowe-Beddoe, L  
Ryder of Wensum, L  
Walpole, L

---

Witness: **Ian Pearson**, a Member of the House of Commons, Economic Secretary, HM Treasury, examined.

**Chairman:** Good morning, and very warm welcome to Ian Pearson, the Economic Secretary to the Treasury. Thank you very much for coming. Sub-Committee B of the Select Committee on the European Union is interested in EU 2020 Strategy. We are very grateful to you for coming along to answer questions. Would you like to make an opening statement or comment?

**Ian Pearson:** Let me say a few words by way of introduction, my Lord Chairman. I very much welcome this inquiry. We are talking about the strategic direction for Europe for the next decade, and I think it is entirely right and appropriate that the Commons and the Lords should take an active part in scrutinising that. It may not be an official document that we have so far, but there will be an official Communication very shortly, and it will certainly influence EU policy for the next decade, so it is perfectly right that we should discuss this. I note from the exchange of letters that we had that there is quite a significant degree of agreement in terms of policy, and that perhaps we might talk about some of the more process-based issues here today. I would not want to lose sight of the policy questions though because I think these are critically important to Europe. If you look at the figures, EU growth is

expected to recover in 2010 to around 0.7 per cent, and around 1.6 per cent in 2011. That still looks to me pretty anaemic compared with some of the other faster growing parts of the world. Unemployment rates are running at around 10 per cent, and there remains, I think, a clear imperative for Europe to have a strong sense of strategic direction when it comes to identifying areas for jobs and growth for the future. I hope that Europe 2020, as we are calling it, offers the opportunity to do that. As you are aware, through our own EU Compact for Jobs and Growth we tried to suggest a way forward and a practical delivery method to achieve this, and I am happy to answer questions on that.

**Q1 Chairman:** We will follow the sequence of questions that we have given you notice of. Frankly, we find this helpful not only so that we can follow the sequence of thought that has gone into the questioning, but also helpful to you and your officials. I would ask colleagues, if they have supplementaries, if you would not mind, if they would step in after the first question in the sequence has been asked.

**Ian Pearson:** I am very happy to take any sorts of questions. I think it is very useful to have advance notice of the areas that you want to cover in particular, and I am very keen to have a free-flowing discussion, and if it moves in different directions, then that is fine by me.

**Chairman:** Conversely, if there is anything that you think you should add that is not directly relevant to the question that is being put but can be brigaded with the question, please contribute. Shall we start with Lord Rowe-Beddoe.

**Q2 Lord Rowe-Beddoe:** Minister, do you think that the Europe 2020 Strategy – as you now call it - should have a greater political profile nationally within the United Kingdom; and, if so, how would you plan to achieve this?

**Ian Pearson:** Yes, I definitely think it should do at a national level here in the United Kingdom, and indeed in other Member States. I think the key issue – which undoubtedly you

will want to get into in some detail – is how we hold countries to account in terms of making their reform commitments and implementing them, while doing that in a way that does not infringe on national sovereignty. This is going to be the crucial issue for the successor to Lisbon. We are all, I think, quite familiar with some of the drawbacks of Lisbon. It was a fine strategy in many ways. There were some areas where we as a Government and I personally would have had disagreements with some of the targets that they were proposing, but it was definitely going in the right direction. But it was not backed up by concrete actions in all Member States. The issue is, how do we achieve fundamental reform both to the EU budget and to the situation of other Member States so that we have a genuinely jobs and growth-facing Europe for the future, which is vital if we are going to ensure the competitiveness of the EU economy. What we are suggesting through our compact for jobs and growth is that we can raise the profile in three ways: first through measurable national targets, secondly through Member States agreeing to public benchmarking, and thirdly through agreeing to greater stakeholder input into both setting targets in the first place and monitoring the progress. We already, to a significant extent, do that in the United Kingdom, but that is certainly not the case in other countries, and we think that sort of impetus will be beneficial.

**Q3 Lord Rowe-Beattie:** Obviously the question of if it is going to work everybody has really got to do it - and it comes perhaps a little later on in the discussion - the question of how we get ourselves, first of all, to ensure it happens but to influence others in the European Union to do the same seems to me to be a very important but yet still missing part of the jigsaw.

**Ian Pearson:** I think it is perhaps the most important question because I do get the sense that there is a growing agreement on key areas of policy. Perhaps we can come on to those, but, as I indicated earlier, I think they are really important. Each Member State having the

political will to implement the reforms necessary to achieve those policy objectives is the crucial issue. I do not believe personally that having legally binding targets is likely to work in this area. I think most Member States would just say that they were not prepared to agree to this, so I do not think it is politically feasible. I am not sure it would be ultimately that desirable either. I can see why people looking at Lisbon and how Lisbon was or was not implemented would want to say, “We have got to design something that is better and that gives us a stronger likelihood that this will be delivered on”. I do not think that the corollary or natural implication of that - that we need a strong Commission agreeing and negotiating binding targets for each Member State, and the Commission then holds it to account - seems to me to be the right way forward. Indeed, as you know, that is not the Government’s position. We think that what we should be doing is trying to up the profile of the successor to Lisbon and make sure that other Member States take a similarly rigorous attitude to setting targets, to benchmarking, to involving stakeholders, all those things that are mentioned in there. You will be aware that we have talked about having an annual economic summit as a way of raising that profile, and I think that would be a good way actually of drawing greater attention to this. I would also like to think that increasingly Member States in Europe are going to recognise that if they do not take some of these reforms then there are going to be severe economic consequences in the long term vis-à-vis Europe’s competitive position with China, India and other fast-growing economies; so I think there is a pressing economic logic for undertaking these reforms. I simply do not agree that hard-wiring targets into a legally binding framework would be the best way of trying to get all Member States to implement the successor to Lisbon once it is agreed.

**Q4 Lord Ryder of Wensum:** Minister, good afternoon. Having enjoyed doing the same job as you 20-odd years ago I cast an exceedingly envious eye over the impressive array of advisers that you have brought with you this afternoon: if only I had had as many, I would not

have made as many errors as I did! My question follows on direct from my colleague, Lord Rowe-Beddoe, and, indeed, it is a very, very simple one: what should be the principal objectives of 2020?

***Ian Pearson:*** First, let me say it is always good to be well briefed, and I do have an excellent team of officials who advise me on these matters. I really do believe that the UK performs extremely strongly when it comes to debates on the future direction of European policy because we have a top-flight team of people who undertake and rigorously analyse the issues. It has always been one of the UK's strengths, and I am sure you will be pleased to know it continues to be a great asset to us. In terms of what we think the policy objectives should be of Europe 2020, I suppose I would like at a high level to highlight four of them. First is better and smarter regulation. We all know that a significant amount of regulation affecting all Member States comes from Europe rather than from national regulators. Second is the deepening of the single market. It is a huge asset to us: 500 million people, 20 per cent of the world economy. Lots of jobs in the UK are dependent on that single market, but it can still be deepened further and I think it is in our strategic interests to see that happening. Third is a reformed EU budget, a long-cherished ambition for us in the United Kingdom, but we, as you know, have had fundamental disagreements with the way in which the EU budget has been structured for a long time. We do not think it has been facing the Lisbon agenda sufficiently by any stretch of the imagination. We can go into that in more detail if you like. The fourth thing that I would highlight would be more effectively using other sorts of finance that are available. By that I particularly have in mind the European Investment Bank where we think that it can have a bigger role in the future, and we mentioned that in our compact document as well. Those four areas are obviously key to what we want to see in terms of policy objectives. Below that I think we can also identify some key priorities in terms of what we might call

more functional areas focusing on protecting recovery, growth and jobs, which we can go into as well, but which I think you are very familiar with.

**Lord Ryder of Wensum:** That is very clear. Thank you very much.

**Q5 Lord Bradshaw:** You have said, Minister, that you are not in favour of targets.

*Ian Pearson:* No.

**Q6 Lord Bradshaw:** You have articulated a number of key aims that you would hold before us for us and other Member States. Do you believe that these are going to be translated into national targets among those states?

*Ian Pearson:* That is certainly what we want to see. Perhaps I can ---

**Q7 Lord Bradshaw:** I understand that you would like to see; is it going to happen?

*Ian Pearson:* That will depend on the final outcome of negotiations. I obviously cannot pre-empt that. What I can say is that as far as the UK is concerned, we are absolutely committed to having an ambitious agenda that focuses on jobs and growth and upping the profile of Europe 2020 as a way of holding Member States to account for its delivery. I would like to think that in some of the areas, like deepening the single market, by reforming the EU budget where there are lots of vested interests – I think, again, there are some compelling economic arguments about why there needs to be budget reform, and on things like greater use of the European Investment Bank, again I would like to see that – I feel optimistic that we can really see some improvement. When it comes to other Member States undertaking reform programmes, obviously that is a matter for other Member States, but I would hope that we can agree at an EU level a series of target areas that Member States will then look to set their own targets; and if we can get agreement on basically a higher level of benchmarking then I think

that can go some way to ensuring that at least that aspect of it can have a reasonable prospect of success as well. I do not know if that helps!

**Q8 Lord Bradshaw:** I certainly agree with you about the Investment Bank. I still think the Committee is concerned about impact assessments, despite fine words on the subject, and we would like to see that translated into fact because there are still an awful lot of things trickling through the system which increase costs. The other question is are we trying to create a coalition of like-minded states around us to try to force the agenda through?

**Ian Pearson:** It has always been the case that the UK looks to work with other like-minded states. As you will be aware, on the EU budget we regularly work with what is sometimes called a budget-disciplined group in terms of the reform agenda. We want to continue to work with those who see things as we do. I think there is some emerging agreement about what Europe 2020 should look like in terms of commitments. As I say, I am optimistic in some of the areas. I would highlight – as I always would do – budget reform as being an area where it is very difficult to get change. From my experience as a Government Minister over the last nine years, a lot of which has involved interface with Europe, I am very well aware of the fact that there are some entrenched interests there, and getting fundamental budget reform, which is in Europe's best interests – and we have been advocating for a long time – is still very difficult, but we have to work with those who see the world of the future the way we do to try and get that reform through. As I said, in that other area as well sometimes I think when we talk about the future jobs and growth agenda we get sidetracked by just focusing on the EU budget. It is partly about that, but it is also about what other Member States do and it is about how we can collectively, as Member States, up our game to ensure that we have a more competitive Europe. As you know, that is why participation rates in these sorts of policy areas were part of the Lisbon agenda, and it is sensible that they are part of a successor to Lisbon as well.

**Q9 Chairman:** Can I just add to one point following on Lord Bradshaw. We hope to publish our report on impact assessments and better regulation on 9 March, and the Committee is going to discuss whether we might have a rather enterprising and unique presentation of that - and certainly, if we can, a debate on the floor of our house - but to invite representatives from the Treasury and other ministries to attend a presentation of the report. Our clerk will be writing to your private office to perhaps invite some of your officials to hear the result of our deliberations. I think it would be useful to have that not only to explain what our key conclusions have been over these past four and a half months but also to seek some initial responses.

**Ian Pearson:** I would be very happy for officials to engage in this. The area of impact assessments has been something where we have regularly pushed as well.

**Q10 Chairman:** Yes.

**Ian Pearson:** We would be very interested to hear the outcome of your deliberations.

**Chairman:** I am sure it will be night-time reading for you and your officials!

**Q11 Lord Plumb:** Minister, the next question deals with the strategy for completion of the single market in 2020. Like Lord Ryder, 20 years ago I had a good team working for me in a rather different place, so all three places are covered: your team, Lord Ryder's team of some time ago; and the single market created the greatest excitement in the European Parliament at that time than anything else that had happened. We were all talking freely about the importance of people, goods, services and capital moving freely through the markets, and I did not think that 20 years on from then, and ten years on from now, we would be talking about the possibility of its completion. Is it going to take that long? Is it a matter of difference between all countries, yet the philosophy of most countries seems to me to be, "Let us get on with it; let us make a single market if we are going to have a Europe at all, and

where are the problems”? Capital has been one of the issues, of course, because of different currency values over the many years, but people, goods, services, do they move freely or will they ever move freely?

*Ian Pearson:* I do not have a crystal ball so I cannot tell you when it is going to be completed.

**Q12 Lord Plumb:** You were still at Warwick University when we are talking about, of course, I think!

*Ian Pearson:* Indeed. I think I was probably doing my doctorate at the time. What I want to say in response is that great strides have been made over the years, but, again, there are a lot of us who have felt frustrated that we have not moved further and faster in recent years. I am not making a point against my own Government obviously in that, but just to recognise that energy market reform, financial services reform, have been hugely difficult to negotiate. In many ways that is not surprising because there are differences of views as well in getting those vested interests in these sorts of areas. The fundamental fact remains that a Europe of 500 million people, as I indicated before, 20 per cent of the world’s economy within a single trading area, is hugely important. The fact that we have not completed it in its entirety is a matter to me of regret, that progress has not been faster, but I think there are still opportunities to do more in the future. Some of those, again, are reflected in the compact paper. We talk about completion of the online single market, and that is not something that when I was at Warwick University I had ever thought about because I was doing my PhD on an Amstrad word processor, which just shows how things change. It is always going to be the fact that there will be new challenges for every generation as a result of the way the markets change. I would not want to underestimate what has been achieved so far. As far as the United Kingdom is concerned, we remain resolute in wanting to press for further improvements and reform so that we have a fully comprehensive single market when it comes to goods, services and capital.

**Q13 Lord Plumb:** Presumably the recession will make it even more difficult.

*Ian Pearson:* I do not think it necessarily makes it more difficult. The discussions we have had over the last 18 months to two years at a European level, as you are aware, have been largely focused on the European economic recovery plan and what short-term measures we need to put in place to make sure that we have a competitive economy. We have seen, as part of the process of responding to the global financial crisis, a loosening of the State Aid rules, and there is clearly an issue about when those State Aid rules are re-applied. We think the end of this calendar year is the right time when we ought to be moving back to rigorous enforcement of State Aid disciplines because that is an important part of ensuring that we have a free and single market.

**Chairman:** That leads on very conveniently to Lord Walpole who will ask the next question.

**Q14 Lord Walpole:** You have really answered the first bit, which is how to overcome short-term challenges linked to the current financial crisis and at the same time pressing ahead with the structural changes; and what you think the role of the Stability and Growth Pact is. I was just thinking as you were answering Lord Plumb that they do not all play cricket, do they; and they do not even all play rugger, do they? I suppose you could find a little commonality in football! I am a little concerned if the EU enlarges any more everyone who joins later will have to accept what is going to be agreed, will they not?

*Ian Pearson:* Yes, anybody who joins the European Union has to abide by the rules and treaties of the European Union.

**Q15 Lord Walpole:** Which are now being thought out.

*Ian Pearson:* Which are always being discussed, but there is a framework of law that exists there at the moment. I think Turkey has a very good football team at the moment. I think it is probably some way off being accepted as a member of the European Union but I would not

want to close Europe's doors to further enlargement. As you will be aware, it has certainly been the UK's policy that we ought to be making overtures to Turkey providing that it meets the criteria for membership. That is perhaps a slight digression. If I might go back to the general point that you make, the first thing I want to say is that we should not undersell ourselves not just in the United Kingdom but in Europe in terms of some of our fundamental strengths. We are a big trading bloc. We do have, by and large, a sophisticated workforce. We have a strong consumer base, as I mentioned. We have pretty much, but not completely, a single market. We have a high quality of life in many Member States, and pretty much we have good governance as well. There are many strengths in the European Union economy, but if we are going to maintain and increase our prosperity and well-being, as I indicated earlier, we have got to tackle and seize some of the challenges that are there at the moment and some of the opportunities that are in the global economy. That is why we need to address the building blocks of growth and unlock more capital. Again, I would go back to saying that we want to encourage more private investment to ease the burden on public finances. We want again to see a broadening of the potential workforce, which comes back to the point I was making about participation rates. I think there is an issue of productivity as well. If you look at the figures comparing Europe with the United States over the last ten years, we have fallen slightly further behind and we need to do something about that. With regard to the role of the Stability and Growth Pact, I think that is a useful monitoring mechanism. It is a good discipline to have. Again, I would have a fundamental disagreement with the idea of trying to tie in other reforms on to it. I do not think that would be a sensible course of action for us to adopt, and it is certainly not the UK's policy. What we would like to do, as we have said in our compact for growth and jobs, is see annual reports submitted by Member States aligned to those of the Lisbon Strategy, and on financial services to the European Systemic Risk Board, and for that to feed in to an annual summit of EU leaders. Again, this is a new idea that I

hope can find favour because it seems to me to be an excellent way of raising the profile of Europe 2020 as a document.

**Lord Walpole:** That is very helpful. Thank you.

**Q16 Lord James of Blackheath:** Minister, I think it is very interesting to hear you say that the emphasis on future countries joining Europe is that they should abide by the rules. What about the ones that have joined already abiding by the rules? I think that brings us into the substance of question six because you have said in your letter that the Government is ready to support and lead calls for a strong and effective governance structure in the new strategy, but could you explain how you intend to achieve this aim as it is evident from what is put in the letter that you are re-proposing the open co-ordination method, a method that has been deemed to be at the root of the lack of success of the Lisbon Strategy? Can I tack two little sub-questions to that? What about the extent to which major strategies like 2020 renewable energy targets are not yet fully bought into by a number of Member States; so how can the totality of Europe possibly achieve its target if you have got waywardness in that respect at this moment, and what can be done centrally to do something about it? For example, why is Europe not centrally building a smart grid to which everybody can interrelate and which would drive a better impetus for everybody in Europe to participate properly?

**Ian Pearson:** Let me start off, if I may, by addressing the point about playing by the rules, and then I will get on to your points with regard to the open method of co-ordination and energy markets. I think it is frequently said in the United Kingdom that we abide by the rules but lots of other countries do not. I have always wanted to challenge people when they say, “they are not playing by the rules”, and say, “give me examples and we will take it up”. Certainly, the European Commission takes up instances where the rules are not being followed properly through its infraction proceedings. We are not perfect in the United Kingdom: we have EU infraction proceedings against us in some areas, and other Member

States do as well. It is always open to debate about whether the spirit of the rules is followed in all cases by all countries in all circumstances. It is clear that not everything can be monitored. The Committee will be aware of the reports that get produced on an annual basis in terms of the Court of Auditors' report on the EU budget where the most recent report showed that some progress had been made, but there were still too many cases where payments had been made that were not supported by the evidence. There is no doubt in my mind that there is more that can be done in this sort of area, but I would not want to suggest for a moment that there is a systemic problem because I am not sure that there necessarily is. As far as the open method of co-ordination is concerned, what I want to say here - and I recognise where the Committee is coming from in its analysis, it is saying that OMC is essentially quite weak as a method and it did not really work in terms of ensuring implementation of Lisbon, therefore it is not likely to work in terms of implementing its successor - is that I think that there is a problem in that open method of co-ordination can mean different things to different people and has done in the past. Essentially, in our view, it involves three different purposes: mutual learning, policy co-ordination and peer pressure. Equally, there have probably been three weaknesses with this method of co-ordination, I think. Sometimes those objectives have been confused and there has been a failure to distinguish significantly between the different elements of learning, policy co-ordination and peer pressure. Secondly, I think they have tended to operate in silos, and, thirdly, they have been probably too focused on technical exchanges without the necessary political buy-in. That is why our analysis has led us to think that what we need to do, particularly when it comes to policy co-ordination and peer pressure, is to up the game, so it is not just about officials at a technical level meeting but there can be real buy-in at a senior level. Again, I get back to the point I was making on an annual economic summit, which would be the heads of government, which, as I have indicated, has a number of attractions. In terms of your last

point in regard to energy markets in particular, again I have a lot of sympathy with what you say. It has been a long time trying to liberalise energy markets in Europe, and that has raised a number of issues. It is true that we have legally binding carbon reduction targets that all Member States have agreed to. It is fair to say, as I think you are suggesting, that there are not the mechanisms in place at the level of rigour there needs to be to ensure that Member States will be complying with them. There are some measurement systems that are quite clear, but in terms of what the policy response might be to enable an outside observer to have confidence that a Member State was going to hit those targets, I do not think that is there at the moment. Again, it is more likely to come through peer pressure and raising the profile of these issues.

**Q17 Lord James of Blackheath:** Can I just close my questions by asking you this then: if we imagine Europe to be one massive commercial conglomerate and every nation a subsidiary within that conglomerate, and you found that some parts of it were not performing to the group strategy, you would intervene in order to bring them up to the level of the others at that time. Are you satisfied, from the Government's point of view, that there is enough to make sure that everybody is pulling their weight together to make it happen for the good of the complete conglomerate?

**Ian Pearson:** Well, Europe is not a conglomerate in that sense and has not been set up with that objective in mind.

**Q18 Lord James of Blackheath:** It often behaves as one.

**Ian Pearson:** That is the fundamental difference. There are those that actually want to see a very strong central European function, setting binding targets on all Member States, which it will enforce from the centre, which would be your conglomerate model with your head office. That is not the Europe that we have, and it is not the Europe that the UK believes should

develop, so we have always resisted calls for greater centralisation and central control. We do think that in lots of the areas that we are talking about there are important issues of national sovereignty and I do not think other Member States, and certainly we in the United Kingdom, would want to give away sovereignty in these sorts of areas. We do, however, at the same time – and I think the financial crisis demonstrates this – see the importance of greater co-ordination. The real challenge is how we can have that greater co-ordination and ensure that others operate in similar ways without infringing national sovereignty.

**Q19 Lord James of Blackheath:** I think those are very wise words with which I would entirely agree; my only concern is that we are in a world of the lowest common denominators prevailing – with success – such as Greece.

*Ian Pearson:* I remember talking to a leading expert in this who said that Europe will never become a super power; it has no ambitions to become a super power because it is structured so it cannot be. Whether it is a lowest common denominator or not, I am not so certain that it is necessarily. What we want to try and do is to ensure that Europe has a winning economic strategy.

**Q20 Lord James of Blackheath:** I asked the question, and you have answered now. Thank you.

*Ian Pearson:* I never think the lowest denominator as a strategy is likely to succeed.

**Lord James of Blackheath:** It is fascinating. Thank you.

**Q21 Lord Rowe-Beddoe:** This is continuing, Minister, along the same thread. In your letter you say that sanctions - obviously coming back to the governance issue of how we are going to monitor that we do what we say we are going to do - are unlikely to serve as genuine

incentives for reform. Do you think that perhaps we can do it with carrots? Is that a sensible way of ensuring this happens?

**Ian Pearson:** Well, that might be a sensible way forward. The reason why I say that sanctions are unlikely to serve as a genuine incentive is really because I do not think there is any political prospect that they are likely to be agreed and negotiated in the first instance. I do not see Member States willingly wanting to hard-wire structural reforms into a sanctions regime and then be fined for not meeting any particular targets that have been set and agreed. Taking away structural funds – money, for instance, or something – is not something that any Member State would be likely to be willing to want to agree to, so I do not think sanctions themselves would work. When it comes to incentives, I suppose they could take two forms: political incentives or budgetary incentives. You could perhaps conceive of a budgetary incentive whereby if you hit your indicators you might be able – I think this has been floated as an idea – to access extra funding at a preferential rate. I think there are probably a lot of complications surrounding that as a proposal. It is not something that I would immediately want to suggest is likely to be pursued. The other sorts of incentives, political incentives, are that we should not underestimate the effect of being seen to be doing a good job. Most politicians like to be seen to be doing a good job and to meet targets and benchmarks that are set so they can demonstrate that to their home audience. I think that is quite a strong incentive for them. Again, I get back to the point that the more we have a greater profile for this, the more there is a political incentive in actually achieving the targets, and that is the sort of direction I think we ought to be pushing in forthcoming discussions over the next couple of months.

**Q22 Lord Rowe-Beedoe:** If I can go back to the first question I asked: how do we get that political profile? I am sort of deafened by the silence really.

**Ian Pearson:** Well, if we can have an annual economic summit that has at least as much if not a far bigger profile than Davos that really seizes Europe's attention. If we could have agreed four or five key areas where there should be targets and Member States have agreed to those and set their individual targets, and if we can have an annual summit and in between as well monitor and review progress, then I think that starts to build an impetus that Member States will want to be seen to be achieving those targets, and they can help to drive policy in those countries.

**Q23 Lord Rowe-Beddoe:** It comes back to being seen to be doing a good job.

**Ian Pearson:** We all like to do a good job. I think most of us like to be seen to be doing a good job as well, and if you are in politics being seen to be doing a good job is generally regarded as being helpful; so I think we are working with the sort of political grain here, which gives me some reason for optimism as to what other Member States might want to agree with us.

**Q24 Lord Bradshaw:** From what you have said, you would like to see the EU budget reformed, and in a way in which it supports the priorities of the 2020 Strategy. How do you think we should go about trying to increase the proportion of the budget spent on research and innovation?

**Ian Pearson:** I speak as a former science and innovation minister on these matters, and I would certainly want to see budget reform in a way that supports jobs and growth, and I do think in general terms greater investment in research and innovation supports that objective. I have never myself been convinced that a three per cent target right across Europe is the right one. All the research that I did and got officials to do indicated to me quite clearly that focusing on an input measure, which is what R&D is, and just having a blanket figure right across Europe did not seem to be very sensible. The performance of individual Member

States said more about the structure of their economies than it did about whether they were investing an optimal level of money in R&D. In general I support the focus on research and on innovation particularly, which is not necessarily just about men and women in lab coats undertaking experiments; it is about something a lot more broad than that. I think under this current financial perspective to 2013 we will have seen something like a 75 per cent increase in the programme. I still think it is at a lower level than it should be if we are going to face the economic realities of competing in the global economy. Again, I think we need to be realistic about reform. The other thing I would want to say as well – and it is not particularly novel – is the amount of expenditure that is devoted to the Common Agricultural Policy and that pillar does not strike me, and has never struck the UK Government, as at all sensible given the challenges of Lisbon and the challenges that we are discussing when it comes to Europe 2020, so fundamental re-orientation of the budget remains a key objective for us. We did achieve, as you know, in 2005, a commitment to a budget review, and there was a leaked document around Christmas time in terms of the Commission's then initial views. We still want to see a budget review during this financial perspective, and we will continue to discuss that with other Member States. It is, I think, vital that as part of our discussions on Europe 2020, EU budget reform should be on the table. I would again stress the point that we should also be talking about regulation, about use of other financial instruments like the European Investment Bank, and we should also be talking about further work on the single market.

**Q25 Chairman:** Can I take the last two questions, and, indeed, after I have put them to you ask colleagues if they have got any supplementaries. Could you tell us, if you would, the outcome of the 11 February informal meeting which the President, Mr Van Rompuy, called? In particular can you comment – you have just made a passing reference to this – on the five objectives that you talked about and also the intriguing incentive which we understand was made, which was presumably linked to achieving certain of these objectives, i.e. access to the

EIB on presumably preferential terms, at least in terms of the priority given to consideration of loans from the EIB?

***Ian Pearson:*** Let me say a few words in response to that and then take up anything more in following questions. Events in Greece dominated much of the discussion at the Informal Ministerial Council, but our view was that it was an invaluable opportunity for leaders to discuss the outline of the 2020 Strategy. Commission President Barroso detailed his emerging ideas for the new strategy, focusing on thematic policy priorities. The President, as you mentioned, also outlined his idea for the governance of the strategy. He argued, “A new joint strategy will only make a difference if we make sure it is taken up by the relevant political and economic actors and integrate it into EU and national decision-making. In the past there has been a lack of ownership, of monitoring and of reinforcement. There has also been a lack of focus. That has changed”. The Prime Minister spoke to our governance ideas about an annual economic summit, and I understand there was some support for that, to agree on future actions at a national and community level to ensure that our economy remains on course to meet the objectives, focusing on the compact document that we published. We believe that, as I indicated, the idea of an annual economic summit had some support. Our assessment would be that Member States agree on many of the policy priorities for the new strategy, and I think a lot of those are quite closely aligned with the Compact paper. However, there remain vested interests, particularly, as I indicated previously, on the EU budget. In terms of President Van Rompuy’s proposal, he suggested that the EU should limit itself to a number of quantitative targets, and I think he suggested four potential targets to consider: R&D expenditure, participation rates in labour markets, tertiary education, and poverty reduction. As I have indicated, I and the Government have some queries about R&D expenditure as a crude target, though recognising that it is an important area, and it may be that more can be done on that. Participation rates are a familiar target, and, again, an

important area for Europe to address. Tertiary education and poverty reduction targets are interesting ideas that we will want to consider. I do not think it has been explored in a huge amount of detail so far as to what is meant by this. We would certainly be open to further discussions about these. What we say in our compact is very clear about the need to focus on jobs and growth and investment and we want to continue to push that very strongly. You will be aware of the targets that we have been suggesting, which include taking action to secure our long-term growth potential, increasing participation rates but also raising labour and capital productivity, which we see as an important issue. With regard to the final thing that you mentioned, which is about incentives, and I alluded to that earlier, I do not think it is entirely clear here what incentives in this context might refer to, whether it is political or budgetary incentives. Certainly, there needs to be further discussions on these. I can see some potential difficulties in wanting to give cash hand-outs to Member States who hit particular targets that have been agreed. It strikes me that it could involve an awful lot of bureaucracy and a lot of wrangling and contentious debate, but I certainly would not want to rule anything out because we are at a very early stage of discussing what might be feasible in this area. It is right to say that we would want to look to mechanisms that will maximise the chances of a successful implementation of the 2020 Strategy, and whether that is financial incentives, whether it is just political kudos if you get it right and political embarrassment if you get it wrong, which is where I have been suggesting that a lot of our focus should be, or whether it is through mechanisms that I am not aware of at this stage, is still an open question we will want to continue to debate.

**Q26 Chairman:** The last question: do you think that because of the economic and fiscal crises in each of the European members of the European Union that has blown off course this talk of 2020, or were the authors already cognisant of the problems that we are currently facing?

**Ian Pearson:** We have been living through a global financial crisis that is different from anything in my lifetime certainly, and on the figures for the first time we have seen a downturn in the world economy in 60 years. Rightly, that has taken up a lot of time at heads of state level and in the Commission in determining what an appropriate policy response should be. I do not think, however, that has detracted from the widespread recognition that we need a successor to Lisbon as a strategy. My sense of where other Member States are at the moment is that they remain very strongly focused on making sure their economies are in the best possible shape that they can be, having had this major financial and economic shock, and also they are saying, “What does the future look like; where is the future growth going to be coming from in my country and in the EU economy?” I think they recognise that Lisbon was pointing in the right direction, but was not followed as assiduously as it should have been by many Member States. The question is how we take that consensus in terms of where we are now and what the failings perceived of Lisbon have been, and how we then articulate and enforce a future strategy. As I say, that is the big challenge. There is a limit to how far we can go on the enforcement side, and how far we should go, as I have been at pains to highlight. That sums up where I think the debate is over the next couple of months.

**Q27 Chairman:** Minister, thank you very much indeed. May I thank you and also your officials for the very calm, clear and reasoned contribution you have made. It is very refreshing to have such a not only thoughtful but extremely interesting discussion. Thank you very much indeed. The hearing and the Committee are concluded.

**Ian Pearson:** Thanks very much for your time. I enjoyed it.