



2018

Annual Activity Report

**Directorate-General
for Internal Market,
Industry,
Entrepreneurship and
Small and Medium-
sized Enterprises**

(DG GROW)



ANNUAL ACTIVITY REPORT

Directorate-General for
Internal Market, Industry,
Entrepreneurship and
Small and Medium-sized
Enterprises



Foreword of the Director-General

DG GROW helps to create the conditions for European Businesses to be globally competitive, and to continue to create jobs in Europe. An effective EU single market is a key part of a successful industry policy and crucial for consumer welfare.

In 2018, we worked with other Commission services to align the programmes for the next long term budget 2021-2027 to the industry policy orientation adopted in 2017. The new research programme Horizon Europe will support EU industry to be a global leader in innovation, digitisation and decarbonisation. For this to become a reality, industry needs investment, which the future InvestEU Programme will help to mobilise. The next generation Cohesion Policy will be another major investment instrument to modernise EU's industry and to help SMEs. In all these programmes competitiveness aspects are centre stage.

DG GROW developed the breakthrough new Defence Programme where the EU budget will be used to support collaborative defence projects. It will act as a catalyst to generate value for money, economies of scale, less duplication and better interoperability. The programme will provide a key contribution to European strategic autonomy.

The new Space Programme will bring together all existing and new space activities. It will ensure investment, encourage scientific and technical progress and support the competitiveness and innovation capacity of the European space industry, in particular for SMEs, start-ups and innovative businesses.

The future Single Market Programme unites six predecessor programmes and will help achieve better delivery of the Single Market and provide statistics to underpin all EU policies.

In 2018, DG GROW has prepared more than 180 legislative acts. All of them intend to ensure the free flow of goods and services in the Single Market.

Excellent progress has been made in progressing and closing this extensive legislative agenda, at the same time as continuing the substantial effort on implementation of existing rules and programmes.

These achievements were made possible by the hard work of the dedicated and motivated colleagues in DG GROW.

Timo Pesonen

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THE DIRECTORATE-GENERAL IN BRIEF

Mission of the Directorate-General

DG GROW works to create opportunities for all – European businesses & citizens.

Extended Mission Statement

"Every European citizen should benefit from a dynamic and sustainable economy, characterised by a favourable entrepreneurial climate and respect for core European values like cultural diversity, social cohesion and protection of the environment.

Working together at the European level allows us to make the best out of the opportunities and challenges arising from an increasingly digitalised global and rapidly changing world.

A vibrant economy will create ample job opportunities for a well-trained and well-skilled European workforce and offer to the consumer products and services that are safe, affordable, of good quality and produced under environmentally and socially sound conditions.

DG GROW is well placed to foster opportunities and welfare for all, allowing citizens, entrepreneurs, small and large businesses as well as their employees to reap the full benefits from a large, integrated and globally competitive single market.

Our aim is to help entrepreneurs with great business ideas obtain the necessary support to start up, grow and thrive. We want to also help them find opportunities for their innovative products and services in the global economy beyond the EU's borders."

Environment under which the Directorate-General operates

The general environment, in which DG GROW operates, in both executing budget and achieving objectives, is characterised by a great number of challenges. Given that the majority of the DG GROW budget is managed indirectly via entrusted entities, the Directorate-General has also to rely on external control systems.

In addition to the inherent risks related to the direct and indirect spending modes, DG GROW has to take into account other risks related to factors which could not necessarily be directly influenced by the Directorate-General and could develop despite our efforts made in mitigation, e.g. highly technical aspects of certain activities; non-occurrence of circumstances, which are an underlying assumption for an activity or extraordinary events or circumstances beyond the control of DG GROW.

Structure

In line with the organisation established in the Management Plan of the Directorate-General, 836 establishment posts were assigned to DG GROW at end-2018 and 155 external staff (excluding blue book trainees, interimaies and service providers).

The administrative structure of the Directorate-General is organised in four main strands, composed of 11 directorates and 46 units.

The activities under the first strand cover three directorates and report directly to the Director-General:

- Competitiveness and European Semester,
- Single Market Policy, Regulation and Implementation,
- Resources.

The second strand, directly reporting to a deputy Director-General, included directorates leading in:

- Industrial Transformation and Advanced Value Chains,
- Consumer, Environmental and Health Technologies in the Single Market and
- Innovation and Advanced Manufacturing.

The third strand, directly reporting to a second deputy Director-General, included directorates leading in:

- Modernisation of the Single Market,
- Single Market for Public Administrations,
- COSME Programme.

The fourth strand, directly accountable to a third deputy Director-General, included the Space Programmes directorates:

- Space Policy, Copernicus and Defence and
- EU Satellite Navigation Programmes.

The **accountability chain** established in DG GROW relies on input from other entities¹ to allow the achievement of the DG GROW's policy and operational objectives:

- With the executive agencies, REA² and EASME³, the Directorate-General steered the implementation of Horizon 2020 and COSME.
- With the support of decentralised agencies, the Directorate-General led the successful implementation of for example: the regulation on Registration, Evaluation, Authorisation and Restriction of Chemicals (REACH), the European satellite navigation and Copernicus programmes. [Annex 8](#) shows the complete list of agencies.
- With the support of international organisations, DG GROW is paving the way for the establishment of a European capacity for earth observation, a satellite navigation system and is monitoring EU programmes and supporting SMEs through dedicated financial instruments. [Annex 6](#) shows international organisations.

Regarding the budget, [Annex 3](#) shows the payment execution of DG GROW for 2018. The detailed distribution of the payments appropriations in 2018 is included in Section 2.

¹ The reader is referred to section 2.1.1.1.

² Research Executive Agency

³ Executive Agency for SMEs

EXECUTIVE SUMMARY

The Annual Activity Report is a management report of the Director-General of GROW to the College of Commissioners. Annual Activity Reports are the main instrument of management accountability within the Commission and constitute the basis on which the College takes political responsibility for its decisions as well as for the coordinating, executive and management functions it exercises, as laid down in the Treaties⁴.

The budget year 2018 was the fifth year of the 2014-2020 MFF with the major spending programmes COSME, Galileo, Copernicus and part of Horizon 2020 managed by DG GROW being at full implementation speed.

Regarding the Commission's prerogative on the operation and development of the Internal Market, the budgets related to goods, services and the internal market information tools were consolidated in DG GROW and mainly implemented through procurement contracts for studies and technical assistance.

In 2018, DG GROW together with the executive Agency EASME and the Research Executive Agency (REA), achieved 100%⁵ budget execution in commitments and 100%⁶ in payments. DG GROW was working on several budget lines shared with other Directorates-Generals such as DG ENV, DG DIGIT and DG SANTE.

1.16 % of payments were made outside legal deadlines.

Main overall time-based efficiency indicators for the DG's transactions (all management modes and types of expenditure taken together)	DG results for the reporting year
Time to pay (average net payment time - TTP)	15.5 days
Percentage of payments on time	98.8 % on time
Average days of suspension	49 days
Percentage of payments suspended	8.5 %

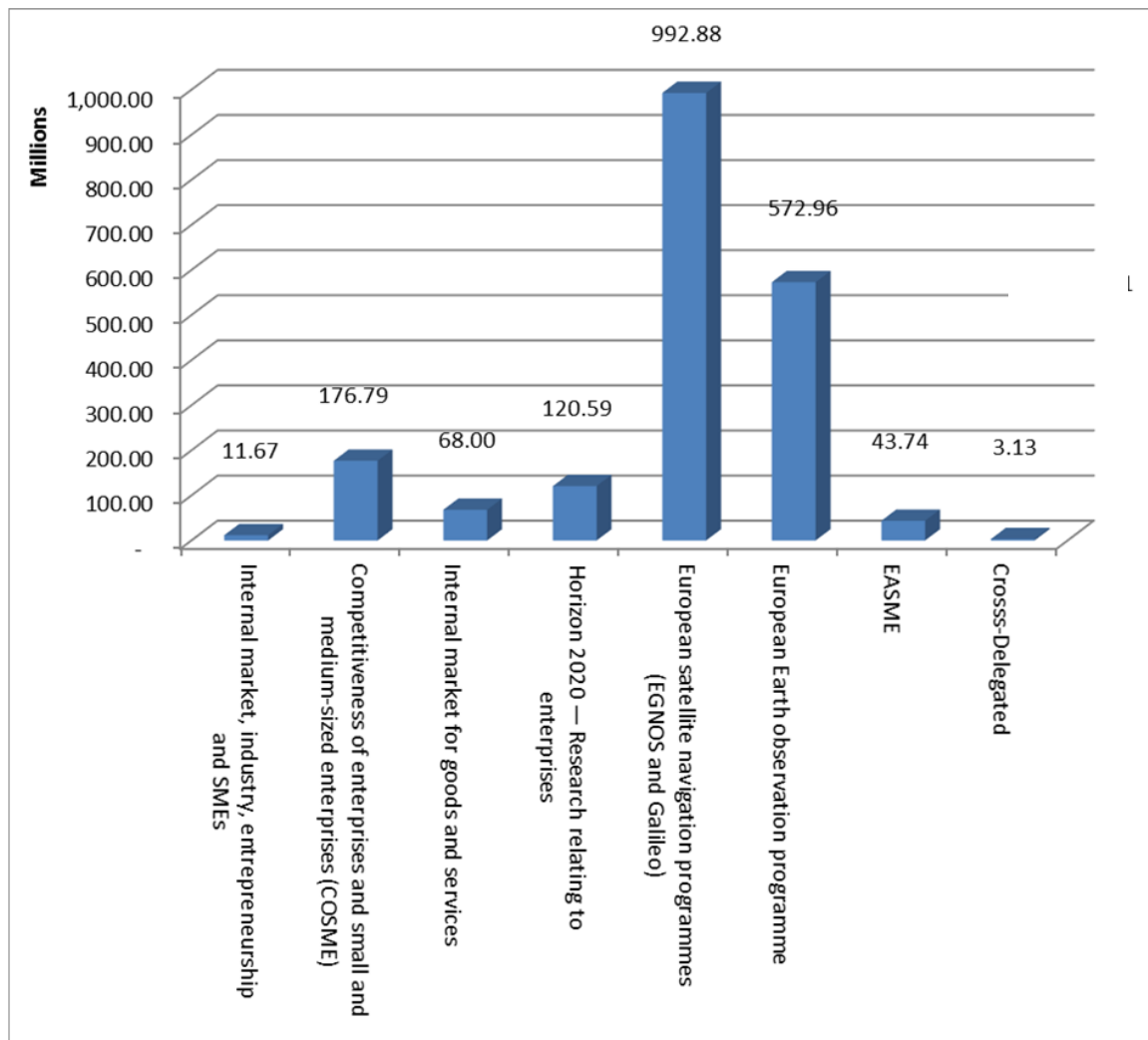
The following graph gives an overview of the payments outturn per Activity Based Budget (ABB) chapter for the 'Enterprise and Industry' policy area, including the administrative expenditure of 'Environment', 'Research and innovation' and 'Maritime affairs and fisheries' policy areas and the single market policy and free movement of services:

Total amount paid in 2018, i.e. EUR 1.990 billion.

⁴ Article 17(1) of the Treaty on European Union.

⁵ Based on the final voted budget appropriations (C1) for the 2018 exercise.

⁶ Based on the final voted budget appropriations (C1) for the 2018 exercise.



a) Key results and progress towards the achievement of general and specific objectives of the Directorate-General (executive summary of section 1)

In 2018, DG GROW worked mainly towards the achievement of two priorities of the Juncker Commission: "A New Boost for Jobs, Growth and Investment" and "A deeper and fairer Internal Market with a strengthened industrial base". DG GROW was also involved in the implementation of three other political priorities: "Digital Single Market" and "A Stronger Global Actor" and "A balanced and progressive trade policy to harness globalisation". The impact and result indicators were established in the DG GROW Strategic Plan 2016-2020, the planning of outputs in the Management Plan for 2018.

Strategic Plan: [click here to get access](#)

Management Plan: [click here to get access](#)



Priority 4: A deeper and fairer Internal Market with a strengthened industrial base

A strengthened industrial base:

Impact indicator:

 Gross value added of EU industry in GDP : 17.4%, stagnating

A deeper and fairer market:

Impact indicators:

✓ Intra-EU trade in goods and services combined: 33% of GDP (2017), slightly increasing

DG GROW 2018 result indicators:

✓ Access on TRIS, TBT, SOLVIT : increasing, target 2020 achieved
 - Degree of regulatory restrictions in services: indicator is being revised, no data available yet
 ✓ Duration of infringement procedures in key areas under GROW's responsibility: 15.5 months, target achieved

New initiatives:

- retail establishments
- SPCs

Implementation: Industrial Strategy

to modernise EU industry

Continuous work:

- Single Market Service Centre
- Enforcement
- Better Regulation/REFIT

Sectoral legislation

to ensure a level playing field and that safe products circulate in the Single Market

Implementation of packages:

- Services
 - Compliance
 - Public Procurement
 - Intellectual Property
 - Goods
- for a deeper and fairer Single Market

Priority 9: A Stronger Global Actor

DEFENCE: DG GROW in the lead of developing a joint European approach to defence industries, research and capabilities.

DG GROW 2018 result indicators:

Percentage of collaborative defence equipment procurement expenditure: Latest available figures show that the percentage went significantly down in 2012 (19%) and 2013 (15.9%) and started going back to previous levels in 2014.

New programme after 2020: European Defence Fund

(will be dedicated to research in innovative defence technologies)

European Defence Industrial Development Programme

creates incentives for Member States to cooperate on development and acquisition of defence equipment

Priority 2: A Connected Digital Single Market**Impact indicator:**

✓ DESI – Digital Economy and Society Index : 54 in 2018, slowly increasing

DG GROW 2018 result indicators:

✓ Share of outbound parcels in the total CEP market to EU and non-EU destinations

2017 data: 12.9% compared to 12.3% in 2016, increasing.

Geo-blocking

ensures EU consumers no discrimination when buying products in the Single Market

Cross-border parcel delivery services

will make parcel delivery prices more transparent

***Priority 6 " A balanced and progressive trade policy to harness globalisation"**

DG GROW contributes to this priority, DG GROW is involved in different dialogues with our main trading partners and is thus part of EU economic diplomacy. The Directorate-General also works to ensure elimination or reduction of barriers inhibiting EU enterprises to access markets in third countries, by Participating in negotiations.

b) Key Performance Indicators (KPIs)

The KPIs were chosen from the result indicators in the DG GROW Strategic Plan 2016-2020. These are considered as the most relevant to illustrate the performance of the Directorate-General.

Number of firms benefiting from debt financing		
Baseline	Milestone	Target
2013 As of 31 December 2013, EUR 16.1 billion in financing mobilised, reaching 312,000 Small and Medium Enterprises (SMEs) under SME Guarantee facility of the 2007-2013 Competitiveness and Innovation Framework Programme (CIP)	2017 Financing mobilised from guarantees ranging from EUR 7 billion to EUR 10.5 billion; number of firms reached ranging from 108,000 to 161,000 under the current COSME programme	2020 Financing mobilised from guarantees ranging from EUR 14 billion to EUR 21 billion; number of firms reached ranging from 220,000 to 330,000 under the current COSME programme
Latest known result at 30/09/2018: In the course of 2018 (data as of 30/09/2018) additional 106,000 SMEs received EUR 7.5 billion. On an accumulated basis, a total of 381,000 Small and Medium Enterprises (SMEs) received EUR 20.3 billion of financing since the launch of the programme. Thanks to a reinforcement of COSME Loan Guarantee Facility resources from the SME window of EFSI (top-up of EUR 550 million) it was possible to achieve the targets set for the overall programming period (2013 – 2020) already in the course of 2018.		
Percentage of the Directorate-General's primary regulatory acquis covered by retrospective evaluation findings and Fitness Checks not older than five years		
2014 Between 2010 and 2014, 42 of 140 of the primary regulatory items under the responsibility of DG GROW were covered by evaluations or Fitness checks = 30%	2018 Annual positive trend compared to baseline	2020 Positive trend compared to interim milestone
Latest known result at 31/12/2018: Between 2014 and 2018, 35 of 122 of the primary regulatory items under the responsibility of DG GROW have been subject to finalised evaluations or Fitness Checks. This represents a share of 29%, which is an increase from the 22% reported in the last Annual Activity Report (27 of 121). However, the milestone of achieving a positive trend in terms of percent covered could not be achieved compared to the baseline (30%). This is partly because a number of evaluations planned to be finalised in 2018 had to be postponed to 2019 due to their complexity. Note that the number of primary legislation changes as legislation is being repealed or merged, for example from 140 in 2014 to 120 at the end of 2018.		
Cumulative number of operational satellites (Galileo and Copernicus)		
Galileo: Baseline 2013: 4	12 by 2015	30 by 2020
Copernicus: Baseline 2014: 1	2 by 2015	8 by 2020
Latest known result at 31/12/2018: Galileo: The fully deployed Galileo system will consist of 24 operational satellites plus six in-orbit spares. At the end of 2018, there are 26 Galileo satellites in orbit and all of them are providing services. 22 of them are fully operational for all services. Copernicus: Following the successful launch of 1 further satellite in 2018, 7 Copernicus Sentinels deliver data to more than 200,000 registered users, while the six services are all operational (including Climate Change that was planned for 2019). More than 12 million data products are published and the users download has reached a volume of more than 112 PetaBytes.		
Duration of infringement procedures in areas under DG GROW's responsibility		
24.4 months on average by end 2014	21 months on average by end 2016	18 months on average by end 2017
Latest known result at 01/12/2018: 15.5 months (down from 26.5 months in December 2017). Thus, DG GROW has achieved the 2017 target of 18 months. Nevertheless, the very considerable decrease in the average duration of infringement procedures in 2018 is mainly due to the high number of new procedures initiated (104 for the period 1.12.2017-1.12.2018 compared to 35 for the period 1.12.2016-1.12.2017).		
Result indicator relating to Internal Control: Multiannual residual error rates per Activity Based Budgeting (ABB) chapters and/or per distinct control system Sources: Grow control results		
2018	2019	2020-2022

High residual error rates for FP7 (2.98%) and CIP (5.50%). All other Activity based Budgeting (ABB) are below materiality.	Multiannual residual error rate per Activity Based Budgeting (ABB) chapters and/or per distinct control system as close as possible to or below the materiality level, <u>except</u> for Competitiveness and Innovation Framework Programme (CIP) and research expenditure, where: (i) the multiannual residual error rate for FP7 is expected to remain slightly above the materiality level since Directorates-Generals cannot greatly extend their controls without adversely affecting the other objectives of the research programme; (ii) the multiannual residual error rate for CIP is expected to remain above the materiality level, detailed desk checks of the last final payments being foreseen in order to clean the relevant expenditure.	Multiannual residual error rate at the end of the lifecycle of the expenditure programmes is below the materiality level.
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c) Key conclusions on financial management and internal control (executive summary of section 2.1)

In accordance with the governance statement of the European Commission, (the staff of) DG GROW conducts its operations in compliance with the applicable laws and regulations, working in an open and transparent manner and meeting the expected high level of professional and ethical standards.

The Commission has adopted a set of internal control principles, based on international good practice, aimed to ensure the achievement of policy and operational objectives. The financial regulation requires that the organisational structure and the internal control systems used for the implementation of the budget are set up in accordance with these standards. DG GROW has assessed the internal control systems during the reporting year and has concluded that the internal control principles are implemented and function as intended. Please refer to AAR section 2.1.3 for further details.

In addition, DG GROW has systematically examined the available control results and indicators, including those aimed to supervise entities to which it has entrusted budget implementation tasks, as well as the observations and recommendations issued by internal auditors and the European Court of Auditors. These elements have been assessed to determine their impact on the management's assurance as regards the achievement of control objectives. Please refer to Section 2.1 for further details.

In conclusion, management has reasonable assurance that, overall, suitable controls are in place and working as intended; risks are being appropriately monitored and mitigated; and necessary improvements and reinforcements are being implemented. The Director General, in her capacity as Authorising Officer by Delegation has signed the Declaration of Assurance, qualified by a reservation on the CIP and FP7 programmes implemented by DG GROW.

d) Information to the Commissioner

In the context of the regular meetings during the year between the DG and the Commissioner on management matters, the main elements of this report and assurance declaration, including the reservations envisaged, have been brought to the attention of Commissioner Bieńkowska.

1. KEY RESULTS AND PROGRESS TOWARDS THE ACHIEVEMENT OF GENERAL AND SPECIFIC OBJECTIVES OF THE DIRECTORATE-GENERAL

DG GROW is primarily committed to achieving two Commission priorities, *"A New Boost for Jobs, Growth and Investment"* (Priority 1) and *"A deeper and fairer Internal Market with a strengthened industrial base"* (Priority 4). DG GROW contributes to other priorities: *"Digital Single Market"* (priority 2), *"A Stronger Global Actor"* (Priority 9) and *"A balanced and progressive trade policy to harness globalisation"* (Priority 6).

Priority 1 - A New Boost for Jobs, Growth and Investment

The Directorate-General measures progress towards achieving the goals of this priority by two impact indicators. DG GROW's activities have an effect on these indicators, but other factors are substantially more influential, notably the general economic situation and national policies. Those indicators are:

- Increase the employment rate of the population aged 20-64 from 69.2% in 2014 to at least 75% in 2020. The latest figure for 2017 was 72.2%, slightly up from 71.1% in 2016, pointing to a relatively stable economy for these past years.

DG GROW contributes to achieving the goal through the COSME programme providing loans and support for enterprises, in particular SMEs, so that they grow and create jobs. Galileo and Copernicus support job creation, as they provide economic opportunities in highly innovative areas. The policy actions of DG GROW foster structural reforms and the modernisation of the EU economy.

- Increase the percentage of EU GDP invested in R&D (combined public and private investment) from 2.01% in 2012 to 3.0% in 2020: Latest available data for 2017 is 2.07%, slightly up from 2.03% in 2016. This means that there is practically no change since 2012.

The specific programmes on space research, raw materials and innovation and SMEs under Horizon 2020 as well as the innovation-related actions under COSME and policy actions on innovation help to achieve the target.

A. Programmes

Supporting the investment into Small and Medium Enterprises (SMEs), innovation and high performing technologies are the focus of the spending programmes under the responsibility of DG GROW. This investment is already leading to more growth and jobs. These programmes are:

- The programme for the Competitiveness of Enterprises and Small and Medium-sized Enterprises (COSME) (EUR 2.3 billion for 2014-2020);
- Satellite Navigation (Galileo/EGNOS) (EUR 7.1 billion for 2014-2020);
- Global Earth Observation (Copernicus) (EUR 4.3 billion for 2014-2020);
- Research and Innovation (Horizon 2020), including activities for space, raw materials, and innovation in SMEs (EUR 3.6 billion for 2014-2020);

1. Competitiveness of Enterprises and SMEs (COSME)

Financial Instruments to support SME access to finance

Two financial instruments have been established under COSME: the Loan Guarantee Facility (LGF) and the Equity Facility for Growth (EFG). Both are available since August 2014 through open calls for expression of interest published by the European Investment Fund (EIF). These instruments are managed by the EIF. They facilitate access to loans and equity finance for riskier SMEs, which otherwise would not have been able to get the financing they need.

Since 2015, as part of the Investment Plan of the Commission, funding opportunities under the COSME LGF have been enhanced with the support of the European Fund for Strategic Investments (EFSI). The initial front-loading mechanism of EUR 500 million was converted in 2017 into a permanent top-up of the COSME LGF budget by EUR 550 million from the EFSI guarantee. Thanks to the EFSI support, the LGF was able in 2018 to make available much more financing to riskier SMEs than what would have been possible under COSME alone. Especially start-ups and smaller SMEs which find it hardest to access finance due to their perceived higher risk or lack of sufficient collateral benefit from the enhanced LGF.

In the course of 2018, the EIF signed 36 agreements for loan guarantees for a total volume of EUR 387 million, out of which 33 agreements were jointly backed by the EFSI and the LGF. As of 30 September 2018, more than 381,000 SMEs in 27 countries already received financing for more than EUR 20 billion under the enhanced LGF.

Signing agreements for the EFG took longer, as equity entails more complex due diligence and fund-raising processes. At the end of 2018, the EIF has invested through the EFG in 14 funds, for a total amount of EUR 163.5 million. Of these, five were multi-stage funds combined with the InnovFin Equity Facility for Early Stage set up under Horizon 2020.

Erasmus for Young Entrepreneurs

Erasmus for Young Entrepreneurs (EYE) holds annual calls for proposals. Not all projects that passed the evaluation could be funded over the last years because of budget constraints. Between 2014 and 2018, around 40 million have been allocated to EYE. It is implemented by a network of 194 local intermediary organisations in 37 countries (out of 39 participating). In 2018, EYE has already reached the level of 7,000 exchanges between new and experienced entrepreneurs since the start of the programme.

The COSME interim evaluation confirmed the relevance of EYE: new entrepreneurs participating in the programme during 2014-2016 have created about 250 new companies and over 1,000 new jobs. 58% of experienced entrepreneurs have seen an increase in turnover and 41% increased employment. In case of the experienced entrepreneurs, EYE is linked to EUR 203 million in additional turnover and over 1,100 new jobs.

DG GROW's impact indicator:

As at 30 September 2018, more than 381,000 SMEs have received EUR 20.3 billion of financing by the COSME LGF, enhanced through additional risk-sharing capacity from the EFSI SME window 2020 target: achieved.

DG GROW's impact indicator:

Exchanges between new and experienced entrepreneurs and resulting creation of companies under COSME: The interim milestones for 2017 (5,500 exchanges and 1,600 jobs created) has been exceeded (7,000 exchanges up to 2018 and 2,100 jobs up to 2016).

EYE IN NUMBERS

Since 2009...

10 Erasmus for Young Entrepreneurs 2009 - 2019



Applications

22K

New and host entrepreneurs applied for the programme



Acceptance

19K

Host and new entrepreneurs have been accepted in the programme



Exchanges

7K

Exchanges between new and host entrepreneurs took place



Countries

39

28 EU countries
11 additional COSME programme countries:
Albania, Armenia, Bosnia and Herzegovina, FYROM, Iceland, Kosovo, Moldova, Montenegro, Serbia, Turkey and Ukraine

In April 2018, the implementation of 24-months EYE Global pilot project started. The aim is to test the geographical extension of the EYE to new destinations outside Europe. The pilot project should allow about 120 European new entrepreneurs to match with experienced entrepreneurs overseas. By the end of 2018, 75 host entrepreneurs from USA, 2 from Israel and 14 from Singapore have applied and about 10 matches have been executed, Singapore being the most popular destination so far.

The Enterprise Europe Network (EEN)

About two thirds of the COSME budget for access to markets is devoted to the Enterprise Europe Network (EEN), which helps Small and Medium Enterprises (SMEs) to internationalise mainly through advisory services and by finding business, technology and innovation partners abroad. The EEN serves about 250.000 SMEs every year. Its services are available to SMEs in all regions of the EU and 10 COSME associated countries. The EEN is present in 69 countries with 607 partner organisations.

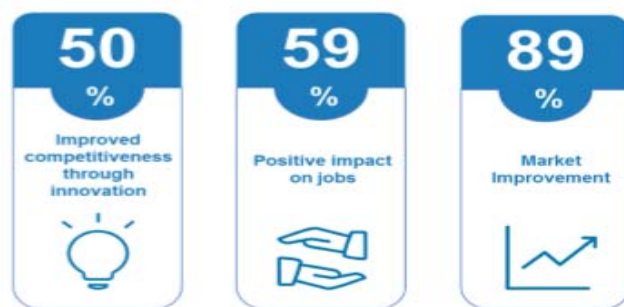
The Enterprise Europe Network kept its focus on increasing a positive impact on SMEs. Network services helped 4,408 SMEs in 2018, consisting of 2,611 international partnership agreements facilitated by EEN between SMEs. The renewed Network advisory support services helped 1,796 SMEs improve their competitiveness and innovation. 'EEN Scale-Up Advisors' were put in place, as set out in the Commission's 'Start-up and Scale-up Initiative' with the implementation of a specific action covering 56 EU regions, helping scale-ups overcome the barriers to growth.

DG GROW's impact indicator:

SME receiving business and innovation support services to increase their competitiveness in the Single Market and beyond via the EEN supported by COSME: interim milestone for 2017 was 475.000 SMEs receiving support services from the EEN. The EEN serves ca. 250,000 SMEs each year. This is because of a new method for calculating this indicator.

The analysis of SMEs' expected impact shows that nearly 89% of them expect their market situation to improve thanks to Network support. Close to one in two SMEs feels its competitiveness will improve thanks to improvements in innovation achieved with Network help. Nearly 6 out of 10 SMEs estimated that Network services will help them preserve or create jobs.

Based on the positive results of its first two years under COSME and on its 10 years of experience with providing support to SMEs, the EEN is preparing the implementation of its new strategic vision to adapt its services to changing business needs and to further increase the positive impact on SMEs.



Improving Framework Conditions for Competitiveness

COSME contributed to improving the framework conditions for the competitiveness of EU enterprises, especially SMEs, in a number of ways:

In the context of the "Cluster Go international" Initiative, COSME enabled the establishment of 25 EU cluster partnerships in 2018 supporting 134 clusters in Europe to go international for the benefit of their SMEs. This initiative encourages clusters and SMEs, which are part of them, to access global value chains and find strategic partners beyond Europe. Nine European Strategic Cluster Partnerships for smart specialisation and investments were established in 2018. These partnerships gather 57 clusters across Europe and reach out to over 6,000 SMEs. The European Cluster Collaboration Platform (ECCP) has developed into a leading hub for facilitating cluster collaboration at EU and global level. It gathers more than 930 cluster organisations, reaching out to about 100,000 SMEs. With the facilitation of over 1,100 international matchmaking meetings between clusters in 2018, where the ECCP took part, it has become a key EU instrument in supporting SME internationalisation.

COSME funded the exchange of best practice in the adaptation of the EU tourism industry to challenges and emerging global trends focusing on SMEs. Two key initiatives marked the tourism policy in 2018: a) with more than 150 actions, the EU-China Tourism Year initiated stronger cooperation between tourism stakeholders and businesses in the EU and China and stimulated increased Chinese arrivals to the EU by 4% in the first eight months of 2018; b) the selection of the first two European Capitals of Smart Tourism 2019 – Helsinki and Lyon - started a new action championing excellence and innovation in tourism among European cities. Work on skills forecast was initiated under the Blueprint for Skills Cooperation in tourism. Based on an analysis of challenges and opportunities of digitalisation in tourism, 15 webinars on digital, online marketing and e-management skills were offered to tourism SMEs. Regional seminars on digitalisation in tourism began in December 2018. In the European Tourism Forum in October and the European Tourism Day in November over 400 stakeholders discussed challenges and future trends in tourism in light of the renewed Industrial Policy Strategy.

In addition, COSME supported

- the setting up of the SME Conflict Minerals Due Diligence Support System to build capacity of SME to deal with sourcing risks and increase their competitiveness in global value chains;
- the EU-Japan Centre to intensify business exchanges with Japan; and
- the Intellectual Property Rights (IPR) Helpdesk, which offers free-of-charge support on IP matters to beneficiaries of EU-funded research projects and EU SMEs involved in transnational partnership agreements.

Evaluation of COSME

The external support study for the COSME Interim Evaluation covering 2014-2016 found that the programme is on track to reach the objectives provided for the legal basis. COSME is highly relevant in addressing economic growth and creating employment. The strength of the programme lies in the use of intermediary organisations (financial intermediaries, Enterprise Europe Network Members, intermediary organisations for Erasmus for Young Entrepreneurs and cluster organisations). COSME uses the proximity of these intermediaries to SMEs and facilitates the integration of the COSME services with services provided by these national and regional intermediaries. The feedback from beneficiaries is generally positive with a substantial majority reporting a good cost-benefit ratio of their participation. The European dimension is the added value of COSME.

The external study made proposals to improve the performance of COSME: At programme level, the fragmentation of the budget into many small actions should be reduced to improve efficiency and cost-effectiveness. Availability of monitoring data should be provided centrally to strategically guide implementation.

According to the external study, the following actions are the most successful:

- The COSME Loan Guarantee Facility reaches some 12,000 new SMEs every month, with 381,000 SMEs (50% are start-ups and 90% micro firms) supported by the end of September 2018. It has a high leverage effect turning 1 euro of the EU budget into 30 euros of financing SMEs.
- The Enterprise Europe Network (EEN) provides advisory services to some 250,000 SMEs every year. An external evaluation found in 2015 that SMEs receiving EEN services have growth rates of 3.1% higher than non-EEN supported SMEs.
- The Cluster Go International action reaches 3,800 SMEs per EUR 1 million invested. The European Cluster Collaboration Platform gathers more than 930 cluster organisations with an average of 100 SMEs per cluster, reaching out to about 100,000 SMEs across Europe.
- The SME Performance Review and SME Envoy network provide economic information, knowledge sharing, benchmarking and exchange of good practices.

The external study was used for the preparation of the proposals of COSME successor programmes for 2021-2027, i.e.: the new InvestEU Programme in the scope covering financial instruments and the new Single Market Programme in the scope of advisory services (see 5. below).

Start-up/Scale-up (ESCALAR)

ESCALAR (European Scale-Up Action for Risk Capital) is meant to double the investment capacity of venture capital funds active in scale-up financing in Europe through quasi-equity financing, financed by private investors (e.g. pension funds) but guaranteed under European Fund for Strategic Investments (EFSI).

In 2018, the implementation of ESCALAR was prepared. As ESCALAR is – at least for Europe – a brand new approach, stakeholder meetings have been organised, regular meetings with the European Investment Fund (EIF) and market tests. Contacts have been organised with the United States Small Business Administration to learn from the US experience.

The European Investment Fund will realise due diligence in interested funds. The European Investment Bank will assure financing, through bond issuing after the pilot phase. Thanks to these features, scale-up financing will be improved without further aggravating the public character of the European VC-landscape (today 39% of VC capital

is public). A first call for projects will be launched in 2019.

2. European Satellite Navigation: Galileo



UseGalileo.eu is a site that lists all Galileo-enabled devices in all EU languages.

Galileo is the EU's Global Navigation Satellite System. Since 2016 Galileo has been providing positioning, navigation and timing services to more than 500 million users. It is a civilian system under civilian control. It ensures Europe's independence from other satellite navigation systems and its strategic autonomy. This will help boost the European job market, ensure a more secure Union and support emerging technologies. Galileo consists of a satellite constellation and the ground infrastructure to control the satellites.

Galileo Service Provision

Since the declaration of Galileo Initial Services in December 2016, three services (Open Service, Public Regulated Service and Search and Rescue Service) were continuously provided throughout 2018. The performance of these services in terms of availability and accuracy exceeded the targets. The detailed performance reports of Galileo services are publicly available on the GNSS Service Centre web site.

In 2018, the Commission took a decisive step with regard to the provision of Galileo Commercial service. The Commercial Service High Accuracy (so-called High Accuracy Service) will offer a 20cm positioning accuracy and will be provided free. This will foster the development of emerging technologies such as automated connected cars thus boosting the competitiveness of EU car industry. The implementation of this service will be gradual, aiming at delivering an initial service over Europe by the end of 2020.

The fully deployed Galileo system will consist of 24 operational satellites plus six in-orbit spares. At the end of 2018, there are 26 Galileo satellites in orbit and all of them are providing services. 22 of them are fully operational for all services.. The two satellites that were launched in the wrong orbit in August 2014 have undergone in-depth tests and a set of modifications of their on-board software will be uploaded in the first half of 2019 in order to allow their operational use by the end of 2019. The ground infrastructure was upgraded, integrating cyber-security features, which resulted into excellent performances of the system. The advancement of the space and ground infrastructures will lead to new functionalities and service improvements in 2019. This will prepare the Full Operational Capability stage of Galileo.

In 2018, these actions were carried out to ensure the Full Operational Capability by 2020:

- Space infrastructure: launch of the public procurement for additional (so-called transition) satellites in May 2018; successful in-orbit testing and integration of four satellites launched in 2017; successful launch of four satellites in July 2018;
- Ground infrastructure: decision to re-locate the back-up site of the Galileo Security Monitoring Centre to Madrid (Spain) in January 2018; inauguration of the Galileo Reference Centre in Noordwijk (Netherlands) in May 2018 to independently monitor the service continuity and performance; finalisation of public procurements for maintenance and upgrade of the Galileo ground infrastructure.

Following a System delta Critical Design Review in 2016, several Work Plans have progressed in 2018, including the industrial work plan regarding Galileo for Safety of Life, consolidation and definition of testing activities of the Open Service Navigation Message Authentication, work plans for definition of two new services: the High Accuracy Service and the Commercial Authentication Service.

Regarding security, key actions included measures to improve cyber security, to obtain and maintain security accreditation for operations and for site infrastructure and development of operational concepts and procedures for the Public Regulated Service.

To ensure the continuity of services beyond 2020, the elaboration of the High Level Document (e-HLD) has continued describing the evolution of Galileo, its services and high-level objectives for security. This document will be finalised in 2019.

DG GROW's impact indicator:

Cumulative number of operational satellites and services provided: 26 satellites are in orbit. 22 satellites are operational and by the end of 2019, 24 satellites will be operational plus six in-orbit spares. The initial services started in December 2016.

EGNOS service provision

EGNOS, the European Geostationary Navigation Overlay Service, is a regional satellite navigation system. It monitors and corrects open signals of the United States Global Positioning System (GPS) and in the future Galileo. It consists of several transponders installed on geostationary satellites and a network of ground stations. By improving the accuracy and reliability of GPS over Europe, EGNOS allows users in Europe to use GPS signals, for instance, for safety-critical applications such as operating aircraft. It allows users in Europe and beyond to determine their position to around 1 metre.

The quality of the EGNOS services, which was one of the priorities in 2018, was successfully ensured. In order to guarantee the continuity of services beyond 2020, the development of a major EGNOS release version has continued in 2018.

EGNOS was designed for aviation, and aviation continues to be a key segment. EGNOS increases accuracy and integrity, improving accessibility, efficiency and safety to operators, pilots and airports across Europe. EGNOS allows lateral and angular vertical guidance during the final approach of a plane without requiring visual contact with the ground until a height down to only 200 feet above the runway. At the end of 2018, there are 315 EGNOS-enabled airports in 23 countries in Europe. Thus, the objective of an annual increase in the number of airports has been achieved for each consecutive year since 2014. The figures are. 2014: 129 airports, 2015: 173, 2016: 230, 2017: 251.

Market Uptake

The market uptake of Galileo and EGNOS boomed in 2018: More than 500 million Galileo-enabled devices are on the market and the majority of smartphone producers have included and enabled Galileo on their chipsets.

An important step was the decision of the United States Federal Communications Commission (FCC) in November 2018. This decision granted Galileo a waiver for the FCC licence requirements so that devices in the United States may access specific signals transmitted from Galileo. The use of Galileo in combination with GPS will open the U.S. mass market for Galileo, and U.S. consumers will benefit from improved availability, reliability, and resiliency of the Galileo services. Galileo is the first non-US Global satellite navigation system, which is allowed in the United States.

A key achievement is the use of satellite signals for locating people calling the EU-wide emergency number 112. In December 2018, the Commission adopted a Delegated Act to locate more precisely people in emergencies and increase the effectiveness of relief operations. Under the new EU rules, all smartphones sold in the EU will be enabled to send the precise location of the person calling 112. The location will be determined using signals from Global Navigation Satellite Systems, including Galileo (outside buildings) and Wi-Fi signals (indoors). Location information based on Galileo provides an accuracy of only a few meters in contrast to the current technology using the nearest cell tower where the accuracy varies from 2 km to 10 km. In March 2018, a similar system was introduced for all new car models called eCall. This system automatically calls 112 in the event of a serious accident and communicates the location to emergency services using satellite positioning. Emergency response times can be accelerated by 40% in urban areas and 50% in the countryside.

A major step in enhancing the market uptake of EGNOS was the adoption of measures laying down airspace usage requirements and operating procedures for performance-based navigation. The Galileo/EGNOS Regulation requires the publication of LPV procedures (Localizer Performance with Vertical guidance) delivered by EGNOS in all European instrument runway ends before January 2024.

International

Negotiations with the United States and Norway for access to the Public Regulated Service continued. Progress was made with regard to the extension of EGNOS to European Neighbourhood Policy countries (ENP South). The Commission approved EUR 9 million to provide the EGNOS Safety of Life signal in the ENP South countries by the end of 2025.

The agreement between the EU and the Agency for Aerial Navigation Safety in Africa and Madagascar (ASECNA) on the development of satellite navigation and the provision of associated services in ASECNA's area of competence for the benefit of civil aviation entered into force on 1 November 2018.

Concerning frequency and spectrum management activities, the preparations for the 2019 World Radio Communication Conference continued. The Commission assessed the issue of radio amateurs' interference in the E6 band and a way forward has been proposed.

The first European Radio Navigation Plan (ERNP) was published and during 2018. The key deliverable in 2019 is the ERNP Implementation plan.

3. European earth observation: Copernicus



Artist impression of the Copernicus satellite Sentinel-5P in orbit.

The objective of Copernicus is to provide an independent European access to earth observation data.

The Copernicus Sentinels

In April 2018, the satellite Sentinel-3B joined the Copernicus constellation. With seven satellites in orbit, the deployment of the Sentinels is almost complete for the present programme cycle. The assembly and testing of Sentinel 1, 2 and 3 new Units (C and D) was launched in view of future launches from 2022 on.

The seven Copernicus satellites now in orbit are producing high quality, free, and open observation data every day reaching more than 200,000 registered users. More than 12 million data products are published and the users' download volume has reached more than 112 Petabytes. These amounts create opportunities but also logistical challenges. In 2018, the Copernicus Data and Information Access Services (DIAS) based on innovative business models became operational and contributes to a better access to Copernicus data and information.

Six Copernicus Services

Copernicus Emergency Management Service (CEMS): The CEMS Mapping component was activated over 86 times (+30% compared to 2017) in the last 12 months to assist authorities in emergency preparedness and immediate response activities, as well as for post-disaster recovery. Disasters covered include wildfires, storms, floods and volcanic eruptions in and outside Europe, earthquakes in Haiti, Indonesia and Papua New Guinea, as well as ground subsidence in Vietnam. The CEMS monitors and provides early warnings for floods, fires and droughts to European and international organisations.

Copernicus Marine Environment Monitoring Service (CMEMS): The service supplies products relevant to "Blue Growth" and marine environmental monitoring and climate. The number of users regularly accessing the service has reached nearly 15 000. In 2018, all products benefit from Sentinel 3A and the integration of Sentinel 3B is on the way. The annual update of the Copernicus Ocean State Report highlights changes in the marine environment due to climate change, a valuable EU milestone and important contribution to the Sustainable Development Goals (SDGs).

Copernicus Land Monitoring Service (CLMS) is providing information for policy development, implementation and monitoring. The pan-European and local land

DG GROW's impact indicator:

Cumulative number of operational satellites and services provided: The deployment of satellites is on track with 1 additional satellite in 2018 bringing the total number to 7. Thus, Copernicus is close to the target of 8 by 2020. All services are operational as foreseen.

component comprises products like the Corine Land Cover and EU-DEM (Digital Elevation Models), high resolution layers on imperviousness, forest, grassland, wetness-water and small woody features, as well as urban areas, riparian zones and Nature 2000 sites. The CLMS is preparing jointly with the CMEMS for a coastal zone monitoring information product. At global level, the service delivers variables covering vegetation, agriculture, energy, cryosphere and water cycles and domains. The next generation Corine Land Cover product (CLC+) is being prepared. The CLC+ will support the LULUCF (Land Use, Land-Use Change and Forestry) reporting obligations. The Global component delivers over 20 variables supporting the monitoring of water, energy, vegetation and cryosphere.

Copernicus Atmosphere Monitoring Service (CAMS): This service informs about the air quality. CAMS provides data on atmospheric composition by monitoring and forecasting greenhouse gases, reactive gases, ozone, aerosols, etc. It delivers information useful to develop applications for air pollution, health, solar energy, greenhouse gases and climate change. In 2018, the assimilation of Sentinel 5P observations brings the CAMS global forecasting system closer to independent observations. Pollen forecast, stratospheric ozone monitoring and deposition products are CAMS key products. The “use case” programme, introduced in 2016, for supporting the development and marketing phase of innovative ideas based on CAMS data continues with 14 use cases around Europe. There is an estimated audience of 18.8 million people for the daily Euronews air quality bulletins and the Copernicus Climate Change Service (C3S) monthly climate updates.

Copernicus Climate Change Service (C3S): The service has initiated its transition to an operational phase in summer 2018. It has become an important and recognised climate information resource for international bodies, while continuing to grow its user base. At the end of 2018, 256 entities from 24 countries and international organisations are contributing to this European effort. C3S was the first to confirm 2018 as being the fourth warmest on record. Many sectoral applications are benefitting from the Service including agriculture, forestry, health, energy, water management, tourism and biodiversity. One example is the development of a windstorm catalogue for the insurance industry. C3S publishes monthly climate bulletins, the annual European State of the Climate and key indicators of climate change.

Copernicus Security Service (CSS): Civilian security is the prime goal, but the service is also available to defence users and missions. As an exception to the Copernicus open data policy, CSS products are restricted to authorised users. Some examples of use in 2018 include: 1) detection of migrants at sea and on EU external land borders; 2) provision of images to the Spanish Navy for safe navigation through sea ice in the Antarctic, to French authorities for monitoring purposes following the collision of two vessels north of Corsica, to a global maritime law enforcement operation ‘30 Days at Sea’ coordinated by Interpol at the request of the German Waterways Police, to Maritime Analysis and Operation Centre – Narcotics (MAOC-N) supporting an operation resulting in the seizure of a large quantity of drugs being transported from the Caribbean to Europe.

Market Development

Copernicus now has over 200,000 users. This number has been doubling every year since the launch of the first Sentinel in 2014. The Commission has developed a series of measures to support this trend and maximize the benefits of the programme.

A communication campaign raised awareness about Copernicus. A series of events promoted Copernicus: the 20th Anniversary of the Baveno Manifesto which initiated the predecessor programme of Copernicus, a high-level conference on EU Space for Business, and the annual Copernicus Ecosystem Days. The EU Space Week 2018 in Marseille highlighted the Space programmes and gathered more than 1,000 attendees over 4 days. Eight Copernicus Info Sessions were organised with Member States, as well as workshops with industry and users. The use of Copernicus was promoted inside the Commission with the support of the Joint Research Centre.

The Copernicus Relays and Academy networks, launched by the Commission in 2017 helped to increase awareness of Copernicus. These two networks gather 84 Relays and 141 Academy members, who act as Copernicus ambassadors at local level. They have organized more than 300 events over 2018, reaching more than 100,000 potential users. The Copernicus Support Office, dedicated to animating the Academy and Relays networks, operates a helpdesk open to anyone interested in the programme. It handled more than 1,700 enquiries in 2018 and supported more than 600 events across Europe.

The Copernicus start-up programme supports entrepreneurs from the business idea to full commercialisation. It includes 20 Copernicus Hackathons every year to stimulate ideas based on Copernicus. The Copernicus Masters are the "Space Oscars", a competition of start-ups that develop applications based on Copernicus. In 2018, the Commission financed six challenges in the Masters, with cash prizes. The Copernicus Accelerator is a one-year coaching programme, providing 50 start-ups every year with a personal mentor and intense business courses. The Commission finances every year the incubation of the best 20 start-ups in Europe, through the Copernicus Incubation Programme.

Copernicus also provided support to universities and research, notably through the Copernicus Skills programme. An ERASMUS+ sectoral skills alliance for earth observation was created, in 2017, with multiple universities and research centres developed curriculum material based on Copernicus. A summer course on Copernicus was organised with KIC Climate Change. The Commission continues to finance post-doc scholarships in partnership with the KIC raw material. The Copernicus "Research and User Support" service portal provides online training and technical support to users in Europe. In 2018 under Horizon 2020, 17 calls with relevance to Copernicus were launched, for a total budget of EUR 239 million.

The Commission is working with the Copernicus Entrusted Entities (ESA, EUMETSAT and the Copernicus services) to develop coordinated actions. All Entrusted Entities are now reporting on the same set of user indicators and organise an annual user satisfaction survey. The Commission has signed a User Uptake Framework Partnership Agreement with Member States. To approach new non-space specialists as suggested by the mid-term evaluation in 2017, a Task Force was set up to reach the cultural heritage experts.

International Cooperation

Cooperation arrangements have been concluded with the United States, Australia, Brazil, Chile, Colombia, the African Union Commission, India, Serbia and Ukraine. Negotiations are ongoing with Argentina, Indonesia and with the United Nations Environment programme (UNEP). With Japan, New Zealand, Singapore, Thailand, Vietnam, as well as the Food and Agriculture Organisation (FAO) and the World Meteorology Organisation (WMO) initial discussions are starting. Two workshops were organised for Ukraine and ASEAN countries promoting Copernicus.

In 2018, the European Commission took over the chair of the Committee for Earth Observation Satellites (CEOS). A global CO₂ monitoring initiative was launched in this multilateral framework and leadership in other key areas was provided: data distribution, access and exchange; standardisation and better response to user needs. The European Commission is now recognised as a major space player and Copernicus is regarded as the global benchmark for earth observation.

4. Horizon 2020: research relating to enterprises

The main objective of Horizon 2020 is to build a Europe based on knowledge and innovation by leveraging additional research, development and innovation funding and contributing to attaining R&D targets. DG GROW focuses on promoting a higher participation of the private sector and of SMEs and more close-to-market research in Horizon 2020 as a lever to increase business investment in research and innovation.

DG GROW is responsible for three areas: raw materials, SME and innovation, as well as space research including EU Space Surveillance and Tracking and GOVSATCOM. The Directorate-General also promotes crosscutting objectives in other programme areas, while not being directly in charge (e.g. SME instrument, Key Enabling Technologies).

Space Research

Space research is managed by DG GROW through externalisation to executive agencies (Research Executive Agency and Executive Agency for SMEs), but also to the GNSS Agency and the European Space Agency (ESA). The total budget under Horizon is EUR 1.5 billion for 2014-2020.

In 2018, the implementation of the Space work programme resulted in 38 new grant agreements in the areas of earth observation, space technology and science bringing the project portfolio to 177.

In the area of Galileo/EGNOS downstream applications, there was no call for proposals in 2018. Thus, the project portfolio has still 58 projects. The evolution of Global Navigation technologies and infrastructure delegated to the European Space Agency (ESA) under indirect management is well underway.

By the end of 2018, 15 patent applications from space research projects were introduced, which equals 0.2 patents per 10 million spent. As there is a time lag between the end of a project and the application for a patent, the 2020 target of 3 applications per 10 million spent may still be achieved.

During 2018, the Executive Agency for SMEs concluded 9 new grant agreements for phase 1 projects (feasibility studies) bringing the total to 71 phase 1 projects. It concluded four new phase 2 projects (R&D and business plan development) leading to a total of 26 phase 2 projects. The focus of the projects is on innovative Space technologies earth observation, as well as satellite navigation services and applications.

Highlights of DG GROW's work in 2018 include the roll out of projects on earth observation, space robotics and electric propulsion. The Horizon prize "Low Cost Space Launch" was initiated in June 2018. Projects developing critical space technologies were launched, as was preparatory work for the realisation of recurrent in-orbit demonstration and validation opportunities. The Directorate-General started the pilot project initiated by the European Parliament called JTI (Joint Technology Initiatives) Space, which will define the opportunities and challenges of a Public-Private-Partnership in space research.

DG GROW carried out preparatory work for the launch of the InnovFin Space Equity Pilot (ISEP) in 2019 for a total budget of EUR 50 million. The pilot will invest in the risk capital funds focused on innovative space SMEs and small midcaps.

The new work programme 2018-2020 was adopted in October 2017 and updated in July 2018, the first calls opened in October 2017, deadline for submission was March 2018. The 2019 calls opened in October 2018 with a deadline in March 2019. DG GROW organised information days across Member States.

The Directorate-General launched studies looking at how research can be better coupled with policy, for example studies on the standardisation/certification needs for the upstream and downstream of the EU Space sector, and on the mapping, analysis and characterization of Space Hubs in the EU.

Space Surveillance and Tracking

The EU Space Surveillance and Tracking (EU SST) framework was established in 2014 to protect European and national space infrastructures from space debris. The EU SST started to deliver initial services in July 2016. At the end of 2018, the EU SST had 49

user organisations representing 16 EU Member States and 123 registered spacecraft.

The Member States participating in EU SST, France, Germany, Italy, Spain and the United Kingdom, are integrated in a consortium. This consortium implements the sensor, processing and service actions to deliver the SST services. It cooperates with the European Union Satellite Centre (SATCEN), which has the role of a front desk. Following an assessment by the Commission, Poland, Portugal and Romania joined the consortium in December 2018.

In May 2018, the Commission published a report on the implementation of the SST support framework. It found that the activities were on track in achieving the results planned for 2014-2020. The report concluded that implementation needs to be stepped up and that the EU SST needs to be more effective. The SST Consortium took steps in this direction during 2018, such as improvements in the service delivery.

In 2018, EU SST implemented EU grants in three main areas: EU SST service provision (1SST), the networking of assets and coordination of actions (2SST), and the upgrade of existing, and development of new assets (3SST). The 1SST for 2016-17 grant on the delivery of SST services due to end by 31 December 2018 was extended until 29 March 2019. The call for proposals for 1SST 2018-20 was issued in November 2018 with a budget of EUR 25.8 million. The 2-3SST 2016-2017 grant will be ongoing until September 2020. The next call will be issued in 2019.

GOVSATCOM

The European Parliament and the Council have consistently called for an EU action on secure satellite communications. DG GROW started preparatory activities in 2018. A network of future users will be funded under Horizon 2020. The EUR 10 million Preparatory Action funded by the European Parliament will finance more actions in 2019-2020.

DG GROW prepared the Commission proposal for a new governmental satellite Communications initiative as part of the new, integrated EU Space Programme in June 2018. The aim is to provide greater support for national and European space capacities and capabilities used by public authorities, which could also provide synergies between space, security and defence.

SMEs and Innovation

Ensuring the involvement of SMEs has been a priority in Horizon 2020. The aim is that SMEs receive, over the whole programme, at least 20 % of the combined budgets of the "Societal challenges" and "Leadership in enabling and industrial technologies". 6.2% of funds are allocated through the SME Instrument designed for highly innovative smaller companies (target of 7%). This SME Instrument supports close-to-market activities giving a boost to breakthrough innovation. After four years, more than 24% of the funding goes to SMEs, well above the target of 20%.

There were 54,250 eligible proposals to the SME Instrument since the start of the programme in 2014 with an average success rate of 7.0% (compared to 13.5% overall for Horizon 2020). 57% of funded companies are microenterprises and 51% are start-ups with less than 6 years on the market. The overall EU contribution allocated up to the end of 2018 through the SME Instrument is EUR 1.57 billion to 3,821 grants. In 2018, the SME Instrument has become a central pillar of the European Innovation Council (EIC) pilot that focuses even more on market-creating innovation, with in addition a wide range of other business acceleration services and facilitated access to risk finance.

Horizon 2020 includes actions to develop a more performant SME Innovation ecosystem. These actions have attracted many proposals and initial budgets were increased to meet the demand. For instance, the budget for 'Block chain and distributed ledger technologies

for SMEs' was increased to fund three high-quality proposals instead of one as initially foreseen. The budget for 'Cluster facilitated projects for new industrial value chains' was increased to meet the high demand as in previous years. Many innovation agencies applied to the new pilot action using Randomised control trials to investigate and develop a broad range of new or significantly improved SME innovation support schemes.

Also funded under Horizon, the Enterprise Europe Network (EEN) helps SMEs to enhance their innovation management capacity. Out of 250.000 SMEs served per year, provides in-depth innovation management capacity assessments for around 3,150 SMEs per year. It also provides valued Key Account Management services to facilitate coaching services to beneficiaries of the European Innovation Council Pilot. These services were extended in 2018 from 1247 beneficiaries of the SME Instrument to additionally 18 SMEs participating in the Fast Track to Innovation and FET Open projects.

DG GROW's cluster initiatives show that clusters are an effective tool to support specialised SMEs and connect ecosystems across the EU. The impact monitoring for the first nine cluster projects for new industrial value chains (2016-2017) showed that the projects reached out to over 2,800 SMEs supporting 449 SMEs. Overall, the initiative is on track to support at least 2,000 SMEs by 2020, e.g. through innovation vouchers, prizes and coaching.

Raw Materials

Horizon 2020 includes a dedicated part on the challenges related to the sustainable supply of non-energy, non-agricultural raw materials, with a total funding of around EUR 600 million. Horizon 2020 contributes to the implementation of both the Raw Materials policy and the Strategic Implementation Plan of the European Innovation Partnership (EIP) on Raw Materials. These actions aim to maximise the positive impacts of the EIP on Raw Materials, including innovative pilot actions, finding substitutes for critical raw materials, creating an innovation-friendly regulatory framework, and developing an international cooperation strategy.

In the first five years of the programme (2014-2018), 66 projects with over 1,024 participations from 50 countries, with only Latvia missing from the EU member states, and 666 different organisations, have been selected in the topic of raw materials, with a funding of over EUR 365 million. 54% of the participating entities are private for-profit, representing more than 44% in terms of participations and funding received, with SME participation on 23%. Focusing on 2018, 10 projects were selected with a total contribution of over EUR 61 million. 92% of the budget in the Work Programme 2018 was allocated to activities potentially generating patents.

The highlights include the Platirus project, which has been nominated among the final four of the Innovation Radar Prize 2018 in the category "Best Early Stage Innovation". The nominated innovation, i.e. the platinum group metals recovery technique has the potential to be applied for recovery of high-impact elements such as cobalt (Li-ion batteries) and rare earths (magnets for efficient motors).

5. Preparation of the new programmes for 2021-2027

Proposal for a Single Market Programme

The COSME programme except for the Financial Instruments will be integrated in a new programme, called the Single Market Programme for 2021-2027. The Financial Instruments from COSME will be integrated in a new fund, called InvestEU, bringing EU financing in the form of loans and guarantees under one roof. The Commission proposed EUR 15.2 billion for the InvestEU Fund. This will allow the EU budget to provide a EUR 38 billion guarantee to support strategic projects in the EU. By crowding in private and

public investments, the Commission expects the InvestEU Fund to trigger more than EUR 650 billion in additional investment across the EU over the 7-year period. The Commission adopted the Invest EU Fund and the Single Market Programme in June 2018.

The new Single Market Programme brings together activities financed under six predecessor programmes in the areas of competitiveness of enterprises, consumer protection, customers and end-users in financial services, policy making in financial services, food chain regulation and European Statistics. The programme includes actions previously financed under several Commission budget lines supporting the development and enforcement of the Union law, in areas such as internal market for goods and services, public procurement, company law, financial services, free movement of capital, market surveillance, standardisation and development of the internal market governance tools, or new actions concerning competition policy. All of these activities are united by shared objectives to regulate, implement, facilitate, enforce and protect various activities and actors within the internal market; and to preserve an internal market that continues to function without interruption. In addition, the programme establishes the financial framework for providing high-quality, comparable and reliable European Statistics to underpin the design, monitoring and evaluation of all of the Union policies

Based on the principles of continuity, budgetary flexibility and the EU value added, the Single Market Programme brings together numerous actions, which were previously separated, under one coherent framework to allow for more efficiencies and synergies as well as to strengthen the governance of the internal market. The Commission proposed a budget of EUR 4.088 billion for 2021-2027.

In 2018, DG GROW led the preparation of the proposal together with six other Directorates-General, i.e.: DG FISMA, DG TAXUD, DG SANTE, DG JUST, DG COMP and DG ESTAT. DG GROW was the main contact point for horizontal services, i.e. Legal Services, Secretariat General and DG BUDG.

The proposal is in the inter-institutional process. On 29 November 2018, the Council has agreed on a partial general approach. In the European Parliament, the amended proposal was approved in a plenary first reading on 12 February 2019. Considering the lack of a mandate for further negotiations, the file will now pass on to the next legislature.

Proposal for a Space Programme

DG GROW developed the proposal for a new, integrated EU Space Programme, which the Commission adopted in June 2018. It brings together the current programmes Galileo/EGNOS, Copernicus, SST and GOVSATCOM into one coherent Space Programme covering all individual space components.

The Commission proposed EUR 16 billion as the budget for 2021 to 2027.

The European Space Programme has the following objectives:

- to provide high quality and up-to-date and, where appropriate, secure space-related data, information and services.
- to maximise the socio-economic benefits, including by promoting the widest possible use of the data, information and services provided by Programme;
- to enhance the security of the Union and its Member States, its freedom of action and its strategic autonomy, in particular in terms of technologies and evidence-based decision-making;
- to promote the role of the EU as a leading global actor in the space sector strengthening its role in tackling international challenges and supporting global initiatives, including climate change and sustainable development.

The proposal for the new Space Programme is in the inter-institutional process. On 26 February 2019, the co-legislators reached a partial agreement on the proposal paving the way for its adoption.

Proposal for a research Programme: Horizon Europe

In May 2018, the Commission proposed a EUR 100 billion research and innovation programme called Horizon Europe for 2021-2027. The main objective is to deliver scientific, economic and societal impact to foster competitiveness, including in its industry, deliver on the EU strategic priorities, and contribute to tackling global challenges, including the Sustainable Development Goals. In the drafting process of the proposal and in the on-going inter-institutional negotiations, DG GROW ensured that Horizon Europe supports industry to become the leader in innovation, digitisation and decarbonisation by investing in key enabling technologies.

According to the new rules, there will be no more budget lines per Directorate-General, but rather per priority. The Digital and Industry Cluster of Pillar II (on Global challenges and Industrial competitiveness) is co-chaired by DG RTD, DG GROW and DG CNECT. It is allocated 15 billion EUR in the Commission proposal. It brings together activities on digital, key enabling, clean and space technologies. This Cluster includes two key areas, raw material and space research, which DG GROW manages under the current Horizon 2020 programme.

Innovation in Small and Medium Enterprises, the third area that DG GROW currently co-manages with DG RTD, will be part of a new third pillar on Open Innovation. The part on the European Innovation Council will support all forms of innovation with a focus on breakthrough, market-creating innovation. The European innovation ecosystems will focus on encouraging cooperation and networking among national and local innovation ecosystems. The Enterprise Europe Network will continue to play a key role by providing mentoring, coaching and other services.

The proposal is in the inter-institutional process. It has reached the trilogue phase, where negotiations are still on going.

Proposal for a European Defence Fund (EDF) (see Priority 6 below)

In June 2018, the Commission presented its Proposal for a Regulation establishing the European Defence Fund (EDF) for the period 2021-2027. The European Defence Fund is intended to foster the competitiveness and innovativeness of the European defence technological and industrial base thereby contributing to the EU's strategic autonomy. It aims to trigger cooperative programmes that would not happen without an EU contribution and, by supporting research and development, to provide incentives for more cooperation in Europe at each stage of the industrial cycle.

The European Defence Fund will cover both research and development activities. This allows for an integrated, mutually reinforcing support, avoiding the risk of research results being lost in the absence of continued support for the further development and testing of the technology. This will strengthen the uptake of products and technologies that are supported through Union funding.

The Commission proposed a budget of EUR 13 billion for 2021-2027, of which EUR 4.1 billion for research actions and EUR 8.9 billion for development actions.

The proposal is in the inter-institutional process. The last stage of the negotiations among the institutions gave very positive signals for a swift adoption.

B. Policies

European Semester to foster investments and structural reforms

DG GROW is a core Directorate-General working on the European Semester. The Directorate-General steers the process and discussions leading to the adoption of the European Semester. In its areas of competence, it contributes to draft the Annual Growth Survey, the 28 European Semester country reports, the country-specific recommendations and the communications underpinning the European Semester packages.

Together with the cluster of Directorates-General working on microeconomic policy issues, DG GROW has promoted a more coherent approach to “structural reforms” in the country reports, streamlining the shift from a “crisis-legacy” approach to a stronger focus on the long-term growth potential, innovation, productivity and competitiveness.

To support the analysis in the European Semester, for selected countries (Germany, France, Italy, Spain and Netherlands), the Directorate-General has completed in 2018 studies to investigate topics that are relevant for their competitiveness – not exhaustive examples are public procurement (ES, IT, DE), access to finance (all), R&D (IT, DE, FR), business dynamics (ES, FR). The performance of the Single Market for goods was also investigated, while two other studies were initiated for retail as well as logistics and wholesale. Productivity issues at firm level were studied for Hungary and Ireland. Key findings were discussed in ad-hoc seminars, streamlined into the country reports and will provide evidence to propose possibly country specific recommendations to the Member States.

Europe's economy is entering its sixth year of uninterrupted growth. Real convergence has resumed, with higher growth rates recorded in Member States with lower levels of GDP per capita. The unemployment rate has recently dropped to 6.8%, back to pre-crisis level. Long-term unemployment and youth unemployment are also declining. On the back of improved labour market conditions, the number of people at risk of poverty or social exclusion dropped for the first time below pre-crisis levels. However, the growth of the economy is not benefitting all citizens and countries in the same manner and remains vulnerable to global instability and medium to long-term challenges.

The keys to a prosperous future remain:

- 1.** delivering high-quality investment;
- 2.** focusing on reforms that increase productivity growth, inclusiveness and institutional quality; and
- 3.** continuing to ensure macro-financial stability and sound public finances.

This is crucial at this juncture of the business cycle when some lead indicators suggest a downturn of the economic situation at global level.

Policy actions to support SMEs

In 2018, DG GROW continued to work for a better environment for Small and Medium Enterprises.

The Commission's prime expert group on Small and Medium Enterprises policy, the SME Envoy Network, met four times discussing SME policy and pushing forward the principles of the Small Business Act. Commissioner Bieńkowska presented the Annual Report of the Envoys network to the Competitiveness Council in November 2018.

In 2018, the SME Performance Review continued to be the Commission's main vehicle for economic analysis of SME issues. It includes the Annual Report on European SMEs and the Small Business Act country fact sheets. These documents provide the latest statistical

data and policy information on SME performance, guide policy making and feed into the European Semester Country Reports.

The 2018 SME Assembly in Graz gathered around 600 high-level representatives, successful entrepreneurs and policy makers discussing the SME situation in Europe and the best support initiatives for entrepreneurs.

The Start-up and Scale-up initiative (SUI) implementation continued through the monitoring of activities of all involved Directorates-General, and channelling relevant developments to interested stakeholders (such as VAT simplification package to SME Envoys Network and or the establishment of the European Innovation Council to entrepreneurs).

Three of the highlighted COSME projects supporting the SUI include:

- The pilot project on matchmaking start-ups and mid-size companies helps more traditional companies to innovate and grow through collaboration with start-ups.
- The project "Ideas from Europe" aligns stakeholders to investigate the conditions under which innovative business solutions can be successful and scale up.
- A new project aiming at "Fostering collaboration through mapping, analysing and interlinking of European Entrepreneurial Regions" has started in Q4 and will provide the necessary reach out to the regional level in delivering on the SUI.

In 2018, the television network Euronews distributed 24 episodes of the magazine Business Planet. They inform about the Small Business Act for Europe and best practices in SME policy. Entrepreneurs get information on how to get financing and on networks for innovating or developing on the international stage.

Work continued on the evaluation of the recommendation of the SME Definition, which stems from 2003. The Commission is assessing whether the definition remains fit for purpose or needs an update to keep up with the evolution of the main economic indicators and developments in the business environment.

DG GROW put a stronger emphasis to ensure that SMEs are paid on time. Further steps were taken in the infringement procedures for alleged violation of the Late Payment Directive: the first Court referral under the Directive was introduced in February, and for another case, a reasoned opinion was issued.

On B2B transactions, a study to assess the effectiveness of voluntary and binding measures to foster timely payments was completed in June. The Own Initiative Report of the European Parliament on the Directive made extensive references to this study.

Support industrial transformation

The Directorate-General focused on the uptake of advanced technologies by industry. The Digital Transformation Monitor and annual scoreboard of May 2018 monitored emerging technological trends and their uptake by EU industry and SMEs, such as big data analytics, robotics, additive manufacturing, Internet of Things, etc. DG GROW merged the Digital Transformation and Key Enabling Technologies Observatory to cover broadly the uptake of the most important tech for industry, including Artificial Intelligence.

DG GROW's Digital Cities Challenge (DCC) helped over 41 cities in 17 countries leverage Advanced Technologies to develop innovation ecosystems for smart growth, modernise businesses, create better jobs and become better places to live. The participating cities get leading policy advice and coaching from high-level international experts, exchange best practices in City Academies, learn through peer reviews and create synergies for

future investment projects. In the DCC Mayors summit, the political leaders of the cities signed a Declaration of cooperation for smart growth and digital transformation.

The Big Data pilots launched in 2018 will explore the innovation potential and innovative business models created by sharing data between data-producing/controlling entities and third-party businesses, notably SMEs. Two areas are in focus: health, where it aims to use data regarding diabetes from healthcare providers, and automotive, where it looks into sharing in-vehicle data produced by connected vehicles. This will help inform future industrial policy, e.g. on the establishment of EU industrial data spaces.

Starting in January 2017, Watify was an awareness-raising campaign supporting European businesses in their digital transformation and their adoption of advanced technologies. Until its end in June 2018, the campaign presented digitally transformed businesses at over 200 events. It reached almost 100,000 people via social media/website/visitors at events, with very positive feedback from businesses.

The second edition of the Raw Materials Scoreboard published in 2018 highlighted the increasing importance of raw materials for the competitiveness of Europe's industry, innovation and the transition to a low-carbon, circular economy.

Promote Artificial Intelligence (AI)

The Directorate-General co-lead the Communication on Artificial Intelligence for Europe adopted in April 2018, together with DG CNECT and DG JUST. DG GROW highlighted the industrial dimension of AI and its uptake by industry and SMEs.

The Directorate-General launched a project to explore the most critical industrial applications of AI, that are creating the highest added value for the EU, and to analyse how to roll them out successfully, e.g. in areas such as healthcare, pharmaceutical, chemicals, space, or transport. DG GROW supports and facilitates investments in AI through the Smart Specialisation Platform on Industrial Modernisation, via a 2018 partnership focusing on Human-Machine Interface and Human-AI interactions. This partnership will develop joint investment projects focusing on industrial research, e.g. patent exploitation, and identify funding opportunities, in collaboration with other industrial and academia partners.

Encourage the Circular Economy

DG GROW is responsible for a number of actions announced in the Commission Circular Economy Action Plan of 2015, which included 54 measures ranging from funding to support measures and legislative proposals. Building on this Action Plan, the Commission adopted the Circular Economy package in early 2018. With the additional measures in the package, ca. 85% of the Circular Economy Action Plan is now delivered or ongoing. A further package is expected for early 2019. It may include a deliverable exploring the potential for greater circularity in the EU's product policy and an implementation report looking at the whole Action Plan, drawing some lessons from its implementation three years on and exploring some areas for increased synergy.

Deliverables on the Circular Economy with DG GROW participation:

The Directorate-General prepared the Commission proposal for a Regulation on the marking available on the market of CE marked fertilising products of 2016, which is the first deliverable of the Circular Economy Action Plan. DG GROW supported the inter-institutional process in 2018. In November 2018, the European Parliament and the Council reached an informal agreement paving the way for the adoption of the new Regulation.

In January 2018, the Commission adopted the European Strategy for Plastics in a Circular Economy. DG GROW implements several actions on standardisation, eco-design

and life cycle assessment of alternative feedstock for plastics production. The Directorate-General followed initiatives by industry to reduce microplastics pollution, in particular from textiles and tyres. The Strategy sets a target of 10 million tons of recycled plastics to find their way into new products in the EU by 2025. DG GROW has led the campaign calling on industry to submit voluntary pledges to use more recycled plastics. In response to that call, companies and business organisations submitted 70 pledges. If industry delivers the pledges, the EU market for recycled plastics will increase by at least 60% by 2025, up to more than 6 million tons compared to ca. 3.5 in 2015. To build on the momentum and stepping up the ambitions up to 10 million tons, the Commission has announced the creation of a Circular Plastics Alliance in December 2018. The Commission will also adopt an assessment report on the pledges in spring 2019.

The Directorate-General was in the co-lead of preparing the Commission Communication and Staff Working Document of January 2018 identifying options to address the interface between chemical, product and waste legislation.

The work on the Eco-design and Energy Labelling policy framework will lead to a package of measures in the first semester 2019. It will likely include around 17 implementing measures of which three are from DG GROW: one stemming from obligations in the existing Regulation (power transformers), as well as two newly regulated products (welding equipment and enterprise servers). Most of these measures will incorporate circular economy requirements on top of energy efficiency ones.

Foster the low-carbon economy

In November 2018, the Commission presented its Strategy for a prosperous, modern, competitive and climate-neutral economy by 2050. The strategy shows how Europe can lead the way to climate neutrality by investing into realistic technological solutions, empowering citizens, and aligning action in key areas such as industrial policy, finance, or research, while ensuring social fairness for a just transition.

DG GROW contributed to reinforcing the industrial competitiveness aspects of this strategic vision, in particular for the energy intensive industries and for the automotive, construction, buildings and raw materials sectors. This transition will require huge investments and affect all economic sectors and value chains in Europe. The challenge was to keep an integrated and cost-effective approach between the different policy objectives (competitiveness, trade, competition, and sustainability) and across sectors (power supply, buildings and construction, transport, mobility, manufacturing, food and agriculture, recycling, etc.).

In February 2018, the Commission organised an annual Industry Day and established the High Level Industrial Roundtable 'Industry 2030' and a Strategic Forum on Important Projects of Common Interest to provide feedback, in particular for the strategic value chains. Low carbon challenges had a strong focus in these fora.

The High Level Group on Energy-Intensive Industries produced a vision on their move towards carbon-neutrality in September 2018. It presents the innovation, investment and social challenges and asks for a predictable enabling legislative framework over several political cycles so that industry has the confidence to invest in low-emission technology in Europe. This joint contribution of 11 energy-intensive industries was recognised in the Commission long-term vision for emissions reduction.

In November 2018, DG GROW organised the annual Raw Material Week, where the enabling role of raw materials in the transition to the low-carbon industry was discussed with stakeholders. A report on energy prices and costs was adopted in January 2019.

The European Resource Efficiency Knowledge Center (EREK) continued its expansion, with 45 environmental partners through most European Regions.

Promote the Collaborative Economy

During 2018, DG GROW consulted with public authorities in Member States and stakeholders to promote the correct application of EU law in line with the Commission Communication setting out a European agenda for the collaborative economy. Discussions focussed on the short-term accommodation sector.

The DG published a series of studies in the context of monitoring the development of the collaborative economy:

- One study assessed the regulations in Member States affecting the collaborative economy in the short-term accommodation sector.
- A further study assessed the business environment in the collaborative economy in EU countries across six themes (accommodation, transport, finance, public administration, business support and alignment). It developed a 'Collaborative Economy Index' to measure and benchmark the openness of regulatory environments and the supportiveness of administrative actions.
- A third study measured the size of the collaborative economy in Europe in transport, accommodation, finance and online skills sectors. The size was estimated at EUR 26.5 billion (0.17% of EU GDP in 2016) and provides work for 394,000 people (0.15% of EU employment).

The Commission undertook a second Flash Eurobarometer survey on the use of services offered via collaborative platforms. The survey covered all Member States and showed that nearly a quarter of Europeans have used services offered via collaborative platforms, in particular in the accommodation and transport sectors, and that a large majority of those who have used these services would recommend them to others. One quarter of EU citizens either have provided services via platforms or would consider doing so.

In 2018, DG GROW organised the High Level conference Collaborative economy: opportunities, challenges, policies to take stock of policy, regulatory and market developments since the adoption of the Communication on the collaborative economy in June 2016. Over 250 participants from public authorities, stakeholders and academia discussed opportunities, challenges and policy solutions. Commissioner Bieńkowska gave the opening address.

Promote the creative economy

The Directorate-General is developing a regular dialogue with cultural and creative sectors in the context of the renewed Industrial Policy Strategy, to identify policy needs and underpin a comprehensive policy framework at EU level. The dialogue is organised through workshops which will take place in 2019 and 2020, with the aim to investigate how creative sectors generate innovations that make a positive impact in other sectors and help boosting the competitiveness of the economy.

Strengthen the Social Economy

DG GROW launched in July 2018 a study to collect best practices on the cooperation between traditional and social economy enterprises and organised a High Level conference on the topic. DG GROW began research on the interactions between the social economy, new technologies and digitalisation. To promote social public procurement, the Directorate-General started a series of awareness raising events in Member States in 2018 and updated the guide on social procurement, including best practices.

The European Social Economy regions project started in 2018 with more than 30 regions and local authorities participating. The aim is to build networks between stakeholders and to raise awareness about social economy at regional and local level. The outcome of the

regional debates in 2018, the way forward and best practices were discussed during the "European week of regions and cities" and the "Global Social Economy Forum".

The renewed expert group "Social Economy and Social Enterprise" will assist the Commission in the elaboration of measures to strengthen the social economy and the social enterprises ecosystem in Member States and internationally.

Corporate Social Responsibility

The Directorate-General analysed the work of the current Commission in the field of Corporate Social Responsibility (CSR) and Responsible Business Conduct, including Business and Human Rights. Discussing CSR policy with third countries is also part of the mandate of the Directorate-General. The EU-Japan Working Group on Corporate Social Responsibility met for the fifth time in 2018 with DG GROW in the lead.

Priority 4 - A Deeper and Fairer Internal Market with a Strengthened Industrial Base

DG GROW measures progress towards achieving this priority by the following main impact indicators that are currently under review.

- Increase of the gross value added of EU industry in Gross Domestic Product (GDP). The target is 20% by 2020: The share of industry has slowly increased from the 2014 baseline of 17.1%, to 17.4% in 2016 and 17.6% in 2017, which is still far from the target. The new Industrial Policy Strategy of September 2017 is designed to address the situation.
- Increase the intra-EU trade in goods (percentage of GDP) from 20.3% in 2014: As of the latest known value in 2015, this figure has remained stable with 20.2%. Many DG GROW actions are intended to increase trade in the Single Market, for example the implementation of the legislation in the Goods Package.
- Increase the intra-EU trade in services from 6.3% of GDP in 2014. As from the latest known value, this share has increased slightly to 6.6% in 2015. DG GROW implements actions to increase EU cross-border services, namely the measures in the Services Package and the Public Procurement Package.
- The situation on the last two indicators is not satisfactory as the last available date separate for goods and services refer to 2015. Nevertheless, data combining goods and services were published in the Communication The Single Market: Europe's best asset in a changing world of November 2018. According to these data, the intra-Union trade in goods and services has grown from 27% relative to the size of the Union Gross Domestic Product in 2004 to 33% in 2017, albeit the trade in services remains more limited and much below potential.

The Directorate-general uses specific objectives and their indicators to measure progress: the duration of infringement procedures and the views of stakeholders in the database on technical barriers to trade notifications. A third indicator, degree of restrictiveness, is currently being revised, no recent data are available. For the available results, see [Annex 12](#).

A. Industrial Policy Strategy

The Commission Communication Investing in a smart, innovative and sustainable Industry – A Renewed EU Industrial Policy Strategy of September 2017 outlined the priorities and key actions for strengthening Europe's industrial base. This includes a

deeper and fairer Single Market, upgrading industry for the digital age, building on Europe's leadership in a low-carbon and circular economy, investing in infrastructure and new technologies to drive industrial transformation, supporting industrial innovation on the ground, promoting open and rules-based trade and empowering regions and cities to address challenges. The implementation of the strategy requires a joint commitment from industry as well as all relevant European, national and regional stakeholders.

In 2018, the Council adopted conclusions on a longer-term strategy, showing agreement on the industrial policy priorities as identified by the Commission. The Council adopted conclusions on industrial policy governance. The various Council conclusions call for a longer-term industrial policy strategy, which should be in place by the beginning of the next EU institutional cycle.

In the context of the renewed industrial policy strategy, the Commission established the following fora to monitor progress of the strategy identify the need for further action and facilitate collaboration and joint investments.

- DG GROW organises annual EU Industry Days to discuss with stakeholders the implementation and monitoring of the industrial policy strategy and to identify further action. The second Industry Days 2018 gathered over 1,000 participants from across the EU and across industrial sectors.
- The Commission established in 2018 the Industry 2030 High-Level Industrial Roundtable, to develop recommendations on the future of EU industrial policy strategy until 2030. Its focus is on managing the industrial transformation, maintaining global competitiveness, building on values and social inclusion. The Roundtable is expected to deliver its final report in June 2019.
- The Commission has set up the Strategic Forum for Important Projects of Common European Interest (Strategic Forum) to foster cooperation with Member States and industry on the key strategic value chains that use advanced technologies. This complements the reflections of the High-Level Industrial Roundtable "Industry 2030" on a longer-term industrial policy strategy. In its final report by 2019, the Strategic Forum will make recommendations for each selected key strategic value chain in the form of action plans for EU, Member States, regions, industry and other stakeholders.
- The Commission has established in 2017 a Smart Specialisation Platform on Industrial Modernisation to maximise the impact of industrial modernisation efforts on the regional level and facilitate inter-regional investments in innovation. So far, the Commission has facilitated 18 inter-regional partnerships involving more than 60 regions. These partnerships are in the process of preparing joint or coordinated investment pipelines. These bottom-up inter-regional partnerships could contribute to the actions on key strategic value chains.

The Commission has prepared in cooperation with the Council's High-Level Group on Competitiveness and Growth a set of industrial policy indicators to monitor progress.

B. Single Market

1. Policies for a better functioning Single Market

The Single Market: Europe's best asset in a changing world

Marking the 25th anniversary of the Single Market, the Commission adopted a Communication in November 2018 presenting a fresh assessment of the situation in the Single Market and calling on Member States to renew their political commitment to the

Single Market.

The Communication recalled that over the last 25 years, the Single Market has made Europe one of the most attractive places to live and to do business. Its four freedoms – the free movement of people, goods, services and capital – have helped improve the citizens' prosperity and strengthen the EU's competitiveness. To exploit its full potential in the digital era and ensure sustainable growth of the economy, the Single Market needs to function properly and constantly evolve in a rapidly changing world. However, today deeper integration requires more political courage and commitment than 25 years ago and greater efforts to close the gap between rhetoric and delivery.

1.1. New DG GROW initiatives in 2018

Best practices to facilitate retail establishment

The Communication A European retail sector fit for the 21st century of April 2018 sets out best practices to support and guide Member States to create a more open, integrated and competitive retail sector through ensuring supportive regulatory frameworks. The aim is to facilitate retail establishment and reduce restrictions to daily operations of shops. The guide for revitalising and modernising the small retail sector published together with the Communication aims at helping to adopt new approaches to promote the vitality of city centres.

Supplementary Protection Certificate (SPC)

The EU has strong intellectual property rights in place to protect the innovation capacity of Europe's pharmaceutical industry. To improve the system, DG GROW prepared an amendment to the Regulation on the supplementary protection certificate (SPC) for medicinal products, which the Commission adopted in May 2018. It proposes the so-called 'export manufacturing waiver' to the SPCs, whereby EU companies will be entitled to manufacture a generic version of an SPC-protected medicine during the term of the certificate, if done exclusively for exporting to a non-EU market where protection has expired or never existed. The extension of the patent protection will remove a major competitive disadvantage of EU manufacturers because it will better protect their investment in the required lengthy clinical trials. On 14 February 2019, in the second and final trilogue, co-legislators found a political agreement on the Regulation on the SPC manufacturing waiver, in line with the Commission mandate.

1.2. Follow-up of 2017 initiatives

Services Package (adopted by the Commission in January 2017)

DG GROW prepared the Commission proposal to introduce a European services e-card, which aims to reduce administrative burden and increase legal certainty for providers of business and construction services in Europe. In March 2018, the European Parliament Committee on Internal Market and Consumer Protection voted not to adopt a report on the proposal. Since then, the file has not progressed in the inter-institutional process.

Based on a Commission proposal, the European Parliament and the Council adopted in June 2018 the Directive on a proportionality test before adoption of new regulation of professions. It clarifies that Member States should conduct a proportionality test before adopting or amending national rules on professional services. It will ensure compliance with legislation and a coherent approach across Europe.

The Commission proposal for an improved notification of draft national laws on services aims at making existing Single Market rules on services work better on the ground. The inter-institutional negotiations on open questions is still on-going.

Compliance Package (adopted by the Commission in May 2017)

In October 2018, the European Parliament and the Council adopted the Regulation establishing a single digital gateway. The gateway will address many obstacles in the Single Market. The gateway will facilitate online access to information on administrative procedures and assistance services that citizens and businesses need to get active in another EU country. To prepare the implementation of the gateway, DG GROW launched three studies in 2018: one to determine the interoperability requirements, the second to establish the IT tools needed and the third one to define the requirements for an EU level generic form generator, which could help Member States digitalising their procedures.

In 2017, DG GROW had prepared the Commission proposal for a Single Market Information Tool. The idea is to allow the Commission, in targeted cases, to source readily available data (such as cost structure, pricing policy or product volumes) in cases of serious difficulties with the application of EU laws. During the inter-institutional discussions, the Council decided not to pursue further the proposal. The European Parliament Committee proposed an amendment changing the legal basis of the proposal to exclude the European Parliament from the decision-making on this file. This amendment has not yet been tabled for a plenary vote. The Commission has been defending its choice of the legal basis.

In 2018, the Directorate-General and the SOLVIT centres, worked on the implementation of the Commission SOLVIT Action Plan, namely by:

- Better positioning of SOLVIT within the enforcement policy of the Commission, encouraging transfers of complaints about misapplications of EU law to SOLVIT;
- Systematically using SOLVIT to detect obstacles in the Single Market;
- Reinforcing SOLVIT centres' capacity to handle business related problems through advanced legal trainings on free movement of goods;
- Closer monitoring on case handling quality by SOLVIT centres, also taking into account feedback from applicants;
- Reinforcing cooperation with other networks;
- Enabling access to the SOLVIT database to authorised 'SOLVIT partners' to ensure more effective cooperation with the SOLVIT network.

Public Procurement Package

DG GROW monitored Member States' developments for a strategic approach to procurement policies, focusing on six priorities: uptake of innovative, green and social criteria in public contracts, professionalisation of public buyers, better access of SMEs to procurement markets in the EU and by EU companies in third countries, more transparency, integrity and quality of procurement data, digitisation of procurement processes, and more cooperation among public buyers across the EU.

DG GROW set up a helpdesk to answer questions at an early stage of a project with a value over EUR 250 million. For projects of high importance or with a value above EUR 500 million, authorities can ask the Commission to check the entire procurement plan.

The Commission recommends that Member States ensure that public buyers have the skills and knowledge needed to comply with the procurement rules. The Directorate-General set up in 2018 an on-line e-competence centre to facilitate the exchange of good practices.

Based on the targeted consultation, DG GROW prepared a guidance for setting-up a strategy on innovation procurement and innovation-friendly procurement tools. The guidance is available in all EU languages. The Directorate-General worked on an update of the guidance on social public procurement also based on a stakeholder consultation. The updated guidance will be published in 2019.

Intellectual Property Package (adopted by the Commission in November 2017)

DG GROW had prepared the Commission Intellectual Property (IP) Package to improve the enforcement of the IP rights and to step up the fight against counterfeiting and piracy. 2018 saw the implementation of this package: In the context of the industry-led initiatives, five new signatories joined the Memorandum of Understanding on the sale of counterfeit goods via the Internet, which aims to limit the offer of counterfeit products on e-commerce platforms. Representatives of the advertising industry signed a new Memorandum of Understanding in June 2018 to limit advertising on websites and mobile applications that infringe copyright or disseminate counterfeit goods on commercial scale.

The Directorate-General explores further industry-led initiatives involving the transport and shipping industry. The idea is to avoid that their services are used by commercial-scale counterfeiters to channel fake goods into the EU. Further industry-led work should involve the providers of payment services, a business service often vital for the functioning of IP-infringing online offers.

DG GROW was implementing the Communication setting out the EU approach to Standard Essential Patents: It launched the group of experts on licensing and valuation of standard essential patents in 2018. The group will deepen the expertise on industry practices relating to the licensing of standard essential patents in the context of the digitalisation of the economy, the sound valuation of intellectual property and the determination of fair, reasonable and non-discriminatory licensing terms.

Goods Package (adopted by the Commission in December 2017)

DG GROW prepared the Commission proposal for a Regulation on rules and procedures for compliance with and enforcement of EU harmonisation legislation on products and helped advance the negotiations of it in 2018. It tackles a structural weakness in the Single Market for goods: Despite far-reaching safety rules, there are still too many unsafe and illicit products on the market. The European Parliament adopted its report on the proposal in September 2018 and the Council adopted a General Approach in November 2018. The three Institutions reached an informal agreement in February 2019.

Another weakness of the Single Market relates to products that do not fall under harmonised EU product safety rules, for example furniture, tableware or certain construction products. Such products may be considered safe in one Member State, but may face market access restrictions in another. This problem is tackled by the proposal for a Regulation on the mutual recognition of goods lawfully marketed in another Member State. The three Institutions reached an informal agreement in November. The European Parliament and the Council will formally approve it early 2019.

1.3. Continuous work in 2018

Enforcement of EU law

In line with the Communication on EU law: Better Results through Better Application of December 2016, DG GROW focussed on the most important and systemic breaches of EU legislation in 2018. Complainants were re-directed to more appropriate mechanisms at EU (i.e. SOLVIT) or national level, in individual cases of incorrect application not raising issues of wider principle where there is insufficient evidence of a general practice. DG GROW has also explored further areas where enforcement could have a meaningful impact, support the Commission's policies and open up new areas for the Single Market and/or provide a new shift in the current way of thinking. Finally, DG GROW has been using other compliance tools besides complaints handling, i.e. bilateral compliance meetings with Member States to strengthen the partnership and identify issues of transposition and non-compliance.

However, in some cases the Commission initiated infringement procedures. In line with the Communication on EU law, despite the effectiveness of the EU Pilot problem-solving mechanism in certain cases, the Commission decided to launch infringement procedures

without relying on the EU Pilot. Delays in transposing new directives (the number of which varies from one year to another) may also be a source of new infringement procedures. These facts resulted in an increase of new infringement procedures on legislation under DG GROW responsibility to 104 in 2018 compared to 35 in 2017. In 2018, the Directorate-General launched infringement proceedings on the non-compliance of national legislation to Directives with a transposition deadline in 2016 (e.g. the Professional Qualifications Directive, Public Procurement Directives).

These infringement procedures are part of the enforcement policy to ensure an effective respect of EU rules. A short duration of such procedures assures legal certainty for all involved. With an average duration of 15.5 months at the end of 2018, DG GROW has finally achieved its final target set for 2017 of 18 months duration for an infringement procedure compared to 26.5 months at the end of 2017. The considerable decrease in the duration in 2018 is due to the high number of new procedures initiated in the year.

Better Regulation and REFIT

In 2018, DG GROW continued to apply the principles of Better Regulation to its legislative work. These principles foresee that EU actions are based on evidence and understanding of the impacts, that citizens and stakeholders can contribute throughout the policy and law-making process and that regulatory burdens on businesses, citizens or public administrations are kept to a minimum.

Impact assessments of legislative proposals and evaluations of legislation and programmes are essential for Better Regulation. In 2018, DG GROW submitted seven impact assessments to the Regulatory Scrutiny Board, an independent group of Commission officials and experts from outside the Commission. Six of these passed the Board on first submission (=86%), which is an indicator of progress made by the Directorate-General in applying Better Regulation practices.

DG GROW is a major contributor to the Regulatory Fitness (REFIT) programme of the Commission. Evaluations and Fitness Checks assess if EU laws are fit for purpose. Between 2014 and 2018, 35 of 122 (= 29%) of the primary regulatory items under the responsibility of the Directorate-General have been subject to finalised evaluations or Fitness Checks. A positive upward trend could not be achieved compared to the 30% baseline of 2015. This may be due to the changing number of primary regulatory items (121 in 2017 compared with 142 in 2015) as legislation is constantly repealed or merged.

The EU laws under DG GROW responsibility are screened by the REFIT Platform, which consists of stakeholders and Member States and advises the Commission on how to reduce administrative burden. Between 2015 and 2018, the Platform issued 14 opinions on laws under DG GROW responsibility. For example, the Platform in 2018 recommended that the Commission looks into new test methods for metallic alloys in order to improve the implementation of the Regulation on the Classification, Labelling and Packaging of Massive Metal Mixtures. This recommendation is followed-up by DG GROW in the development of a new test method and of guidance to clarify the Regulation.

The REFIT programme aims at generating concrete reductions of administrative burden for citizens and businesses without compromising the objectives of environmental and social protection. For example, the digital single gateway adopted by the legislator in October 2018 (see above in the section on the compliance package) could save companies more than EUR 11 billion per year and boost cross-border activity according to the impact assessment.

Single Market Service Centre

In 2018, DG GROW continued to manage a number of services of direct benefit to citizens and enterprises ensuring that the Single Market works well in practice.

- The [Your Europe portal](#) informs citizens and businesses about their rights in the Single Market and explains EU rules in 23 languages. It works as a hub, providing access to several assistance services. Your Europe registered 24,106,932 visits to the portal in 2018, a total of 20% increase to the visits in 2017.
- The Your Europe Advice service provides free of charge personal advice to citizens and businesses on their EU rights in the Single Market. Your Europe Advice has registered 23,030 enquiries, out of which 19,206 proved to be eligible.
- SOLVIT helps solving citizens' and businesses' problems when national authorities in other Member States deny their EU rights. In 2018 SOLVIT closed 2295 cases, out of which 115 business-related cases. In 2017, it was slightly lower (2077 cases, out of which 76 business cases).
- The Internal Market Information System (IMI) is an on-line tool for public authorities to exchange information in 15 policy areas. In 2018, 37,000 requests were sent, involving more than 8,500 registered authorities with more than 2,000 users and exchanged information about 26,000 cases. Authorities issued almost 2,000 European Professional Cards (EPCs), 80% more than in 2017.
- The Single Market Scoreboard gives an overview of the practical management of the Single Market covering the results achieved and conclusions drawn. There were 59,534 visits to the Scoreboard in 2018.

2. Ensuring safe and competitive products and sectors

In 2018, DG GROW continued to ensure that safe products circulate in the EU in the following sectors:

Automotive

DG GROW continued to build a policy and legislative framework for the EU to ensure that cars, and other vehicles, meet the highest standards of safety and manufacturing excellence. DG GROW has led the Commission's efforts to ensure the sector can take advantage of technological developments to meet demands for greater connectivity, automation and contribution to the climate and public health goals.

The Directorate-General prepared the proposal for a revision of the General Safety Regulation, which was adopted by the Commission in May 2018. The new safety measures have a high potential to save lives on EU roads. They include new features to protect car occupants as well as pedestrians and cyclists, and focus on high-tech accident avoidance technologies and elimination of blind spots around trucks. The proposal is a trailblazer for increased automation of vehicles and autonomous driving.

DG GROW drafted the proposal for a Regulation complementing EU type-approval legislation with regard to the UK withdrawal from the EU (Brexit preparedness). The aim is to facilitate business continuity and compliance with EU type approval legislation for manufacturers of vehicle and of non-road mobile machinery faced with the regulatory implications of the withdrawal of the United Kingdom from the European Union.

The Directorate-General has completed all the major changes required for clean and efficient cars, trucks, motorcycles, non-road mobile machinery and agricultural and forestry tractors by finalising amendments to Commission emissions regulations in 2018. The new Framework Regulation on vehicle approval and market surveillance of May 2018 was a response to failures of the approval and surveillance system identified by the "Dieselgate". It introduces: a) new rules on market surveillance by Member States and the Commission, including possible fines on non-compliant economic operators; b) provisions on more transparency and access to type-approval documents and vehicle on-board diagnostics information and repair and maintenance information; c) updated rules

on the assessment of technical services.

DG GROW prepared main elements of the Commission strategy on automated and connected mobility of May 2018 setting the pace for the transformation of mobility. The Directorate-General will implement some measures, such as the development of vehicle approval rules on cyber security, a new concept for vehicle safety assessment and the future policy options for data access.

DG GROW supported the transformation towards e-mobility. Given that batteries represent 40% of the cost of an electric vehicle, it is imperative that Europe develops a sustainable and competitive battery value chain. The Directorate-General was at the core of developing and implementing the European Strategic Action Plan for Batteries of May 2018. The Plan supports strategic investments in the batteries value chain from raw materials, manufacturing of battery materials and battery cells, battery modules/packs and recycling. This will equip the automotive industry with a very important technology and will serve other industries (e.g. energy storage). Among the envisaged actions, the mapping of battery raw materials available in Europe and the identification of bottlenecks to secure EU supply delivered first results in 2018.

Chemicals

Directorate-Generals GROW and Environment are jointly responsible for implementing the Regulation on the Registration, Evaluation, Authorisation and Restriction of Chemicals (REACH). The European Chemicals Agency (ECHA) in Helsinki receives and evaluates individual registrations of chemicals.

The second evaluation of REACH, called the REACH review, was published in March 2018. It concluded that there is currently no need to change the enacting terms of REACH, however it identified 16 actions to improve the implementation of REACH in cooperation with the European Chemicals Agency, Member States and industry. Among other, actions proposed aimed to address non-compliance of registration dossiers.

In 2018, work continued on implementing REACH. The fees and charges payable to ECHA were revised with regard to fees for authorisation applications and charges for authorisation reviews, in line with experience gained. Also, 26 authorisation decisions and 6 restrictions were adopted under REACH.

The Fitness Check of the most relevant EU chemicals legislation (excluding REACH) looks into the EU chemicals legislation (40+ pieces of legislation) to see if it remains fit for purpose in terms of meeting its objectives, namely a high level of protection of human health and the environment and enhancing the functioning of the internal market. The Fitness Check is planned to be finalised in 2019.

The main findings of the support study for the evaluation of the Detergents Regulation of November 2018 were presented to the Detergents Working Group in December. DG GROW will publish the Staff Working Document on this evaluation in 2019.

The support study for the evaluation on the EU legislation on illicit drug precursors has started in 2018 and is planned to be finalised by 2019.

Radio equipment

In 2018, DG GROW prepared the Commission Report on the operation of the Radio Equipment Directive to the European Parliament and Council. Preparatory work was done on three Delegated Acts, which will be proposed to the next Commission:

- Delegated Act on Reconfigurable Radio System (the upload of software into radio equipment): The objective is to mandate requirements for software and hardware

manufacturers to ensure that the upload of software into radio equipment does not compromise its compliance.

- Delegated Act on Internet-connected radio equipment and wearable radio equipment: The objective is to create mandatory requirements for manufacturers of Internet-connected radio equipment and wearable radio equipment to ensure data protection and privacy of users and prevention of frauds.
- Delegated Act on Common chargers for mobile telephones and other compatible devices: The objective is to limit fragmentation of the charging solutions. An impact assessment study was launched in the fourth quarter of 2018 to provide support to the feasibility of the implementation of the common charger solution.

Construction products

The Directorate-General continued to implement the Construction Products Regulation focussing on harmonised standards. These standards assess the performance of construction products and enable Member States to ensure the safety of construction works. In 2018, DG GROW worked with the European Standardisation Organisation to improve the acceptability of standards submitted by that Organisation for citation in the Official Journal.

The review of the Regulation was launched in 2016 to ensure effectiveness and efficiency as a follow-up to the 2016 implementation report and to three REFIT Platform opinions. The Commission has engaged in a public consultation and carried out various studies in support of the evaluation of the Construction Products Regulation, which is scheduled for adoption in 2019. Both the implementation report and the evaluation are part of the analysis for a potential revision the next Commission. The Fitness Check on the EU legislation on the construction sector is planned to be finalised in 2019.

To boost the competitiveness of the construction sector ("Construction 2020"), particular attention was given to the digitalisation of the sector, transport infrastructure maintenance, the Blueprint for skills in construction, the management of life-cycle information ('logbook') and the assessment of buildings' environmental performance ('Level(s)'), principles on buildings' design for deconstruction, durability and adaptability, and the internationalisation of construction SMEs.

Toys safety

In 2018, DG GROW continued to strengthen limit values for hazardous chemicals in toys, notably those that are carcinogenic, mutagenic or toxic. Adoption of such limit values by the Commission is foreseen for 2019. DG GROW also started the evaluation of the performance of the Toy Safety Directive 2009/48/EC, including a public consultation.

Metrology

In 2018, the DG started to work on adapting the Units of Measurement Directive to technical progress. Based on the scientific advancements under the aegis of the Conference on Weights and Measures, the overhaul of the metric system was finalised in 2018. In the past, metric units of measurements used to be linked to physical objects, e.g. the meter used to be linked to a prototype metal alloy bar. Now, all units are defined in terms of constants found in nature, e.g. the meter is linked to the speed of light.

Biosimiliars

As a follow-up to the Process on Corporate Responsibility, DG GROW and the European Medicines Agency (EMA) organised a multi-stakeholder event on biosimilar medicinal products, in 3 September 2018. It was the fourth conference of its kind and focussed on the uptake of biosimiliars in the different Member States, the role this product group

could play in healthcare, and the factors determining its use in public healthcare. The objective is to provide a platform to promote the exchange of knowledge and best practices in the use of biosimilars. Representatives of public authorities, patients' organisations, healthcare professionals, and pharmaceutical companies attended.

Light industries (Textiles, Clothing, Footwear and Leather)

In order to support the adequate application of Regulation on textile fibres names and related labelling, the Commission initiated, in 2017, work to establish technical guidelines for EU textile laboratories. The Commission launched targeted support to boost the innovative capacity of the textile, clothing, leather and footwear industries, with the aim is to bridge the gap between research and industry and facilitate innovation and technology uptake. Under the Blueprint for sectoral cooperation on skills, work continued on skills development in cooperation with industry, training and education actors.

Cosmetics

In 2018, the Commission adopted three Implementing Regulations modifying annexes of the Cosmetics Regulation as regards the following substances: MBBT nano (UV-filter), Tagetes (fragrance) and o-Phenylphenol (preservative).

In July 2018, the Commission published the annual report on the development, validation and legal acceptance of methods alternative to animal testing in the field of cosmetics.

In November 2018, the Commission published a Report reviewing the Cosmetics Regulation with regards to substances with endocrine-disrupting properties.

In December 2018, four favourable comitology votes took place regarding Implementing Regulations on Phenylene bis-diphenyltriazine (UV-filter), 2-chloro-p-phenylenediamine (hair dye), Climbazole (preservative) and the Omnibus Regulation on substances which are carcinogenic, mutagenic, or toxic for reproduction (CMR), which will be adopted in 2019.

Medical Devices

Following the adoption of the two new Regulations on medical devices and in-vitro diagnostic medical devices, DG GROW focussed in 2018 on providing information, setting up structures, developing implementing acts and guidance required for the application of the new legislation. The compliance by tight deadlines with the new legal requirements, which aim at ensuring a stronger protection of citizens' health in an extremely innovative sector, was a challenge for authorities and economic operators. The new Medical Devices Coordination Group, chaired by the Commission and including national authorities, steers the overall implementation process.

Food

The Commission has continued addressing the issue of different food compositions. The High Level Forum for a Better Functioning Food Supply Chain (HLF) discussed the issue and developed draft policy recommendations. The HLF has monitored the progress of the Pan-European testing campaign managed by the Joint Research Centre (JRC). The Directorate-General has signed the Administrative Arrangement with the JRC on the implementation of the EP Pilot Project 'assessing the differences in quality of products sold in the internal market'.

The Commission acted within the framework of the HLF on the elimination of barriers in the Single Market for food, increasing the uptake of digital solutions in the sector, enhancing the transparency of food prices and assessing the phenomenon of private labels. The HLF has developed a draft final report that contains relevant policy recommendations in those areas.

Machinery

The Commission adopted the evaluation of the Machinery Directive and initiated the preparation of a possible revision. The objective of the revision is to address the problems indicated by the evaluation of the Directive and potentially make legislative changes to address challenges posed by digitisation, e.g. Artificial Intelligence and Internet of Things. This initiative will be proposed to the next Commission.

Road circulation of mobile machinery

Preparatory work continued for a new initiative on harmonising road circulation requirements and approval procedures for mobile machinery. This included a workshop with Member States and stakeholders as well as preparations for a study on cost-benefits in support of the Impact Assessment. The objective is to close the remaining gap in the Single Market for non-road mobile machinery.

Standardisation

In November 2018, the Commission presented an action plan to enhance efficiency, transparency and legal certainty in the development of harmonised European standards for a fully functioning Single Market. The plan includes four actions:

- eliminate the backlog of harmonised standards not yet cited in the Official Journal;
- streamline the procedures for publishing these standards in the Official Journal;
- provide a guidance document for implementing the Standardisation Regulation;
- reinforce the system of consultants for assessments of harmonised standards.

Contributing to priority 9 - A Stronger Global Actor

The lack of co-operation between Member States is a competitive disadvantage for the European defence industry vis-a-vis its international counterparts. This lack constitutes a significant impediment for the implementation of the Common Security and Defence Policy, whose aim is to make Europe a stronger global actor.

In order to measure progress towards the objective of closer co-operation in European defence, DG GROW uses the indicator percentage of collaborative defence equipment procurement expenditure. The percentage is measured as a share of the total defence equipment procurement by the Member States. In 2015, only 16% of defence equipment was procured through European collaborative procurement, far away from the collective benchmark of 35% agreed in the framework of the European Defence Agency (EDA).

European Defence Industrial Development Programme (EDIDP)

The Regulation establishing the European Defence Industrial Development Programme (EDIDP) was adopted by the European Parliament and the Council on 18 July 2018. It is a biannual programme with a budget of EUR 500 million in total for 2019 and 2020. The aim is to support the EU defence industry in the development of prototypes and in the acquisition of defence equipment and technology through co-financing from the EU budget and practical support from the Commission.

The programme will help creating a collaborative approach between defence industrial players of the Member States. The financial contribution of the EU should unlock development projects which otherwise would not be started considering their financing needs or the technological risks involved and should lead to additional collaborative defence development projects.

Member States may for example jointly invest in developing drone technology or satellite communication, or bulk buy helicopters to reduce costs. Only collaborative projects will be eligible, and a proportion of the overall budget will be earmarked for projects involving cross-border participation of SMEs. The increased cooperation is expected to reduce duplications, dispersions and create economies of scale. This will eventually lead to lower unit costs, benefiting the Member States and having a positive effect on exports.

The first calls for proposals will be launched at the beginning of 2019.

Proposal for a European Defence Fund (EDF)

DG GROW prepared the Proposal for a Regulation of the European Parliament and of the Council establishing the European Defence Fund (EDF) for 2021-2027, which the Commission adopted on 18 June 2018. It is currently discussed in the European Parliament and the Council. See above section 1.5. Preparation of the new programmes for 2021-2027.

The research aspect of the Fund is already delivering. Starting in 2017, the EU for the first time offers grants for collaborative research in innovative defence technologies and products, fully and directly funded from the EU budget. The projects will focus on priority areas agreed by Member States, and could typically include electronics, metamaterials, encrypted software or robotics. This will be financed with EUR 90 million until the end of 2019, with EUR 25 million and EUR 40 million allocated for 2017 and 2018 respectively. In 2018, 5 projects were running in the areas of unmanned systems in a naval environment, force protection and soldiers systems, and technology foresight studies. In 2018, two calls were launched with focus on critical defence technologies for electronic components and laser effectors, and a call for a stocktaking exercise on military components and systems which are subject to third-country export controls.

Contributing to Priority 2 - A Connected Digital Single Market

The Directorate-General measures progress towards achieving this priority by this impact indicator:

- Aggregate score in Digital Economy and Society Index (DESI) EU-28: DESI is a composite index summarising relevant indicators on Europe's digital performance. From the 2015 baseline of 45, the score grew to 54 in 2018, which points to an increased uptake of digitalisation in Europe.

DG GROW contributes to this indicator by implementing actions of the Digital Single Market Strategy of May 2015 and the e-commerce package of May 2016. Two actions under DG GROW responsibility are noteworthy: geo-blocking and parcel delivery. The aim is to enhance the cross-border market in the digital economy.

The Directorate-General uses the following specific objective and its indicator to measure progress:

- To increase the total international parcel flow – Indicator: Share of outbound parcels in the total courier, express and parcel market to EU and non-EU destinations: Latest known results are for 2017, i.e. 12.9 % covering 27 member states (except Sweden). This represents a substantial rise compared to the 2014 baseline of 8.5 % and points to an increase of cross-border activities.

Restrict unjustified geo-blocking

The European Parliament and the Council adopted the Regulation against unjustified geo-blocking in February 2018. DG GROW prepared actions to facilitate the smooth application of the new rules by 3 December 2018, e.g. a guidance document for stakeholders. The Directorate-General monitored the implementation of these measures by Member States, in particular the identification of responsible bodies and measures for their enforcement. DG GROW contributed to the preparation of the first short-term review.

Make parcel tariffs more transparent

The Regulation on cross-border parcel delivery services entered into force on 22 May 2018. For a smooth implementation, DG GROW prepared a Commission Implementing Act in 2018 specifying the type of information that parcel delivery service providers have to submit to national regulatory authorities. The Directorate-General prepared the Commission guidance on the methodology for the tariff assessments. To facilitate the data collection, the Directorate-General developed an online tool. 2019 will be the first year of collecting data, including certain cross-border tariffs, and the Commission will assess those tariffs to check if they are appropriate and affordable.

Contributing to Priority 6 - A balanced and progressive trade policy to harness globalisation

Through participation in international trade negotiations, DG GROW worked to ensure elimination or reduction of barriers for EU enterprises to access markets for goods, services and to public procurement in third countries. In 2018, the Directorate-General mainly contributed to the implementation of CETA with Canada; the trade (FTA) and political (cooperation pillar) negotiations with Mercosur, Mexico, Chile, Indonesia, Australia and New Zealand; the negotiations for a Deep and Comprehensive Free Trade Area with Tunisia; the Investment Agreement with China and the Association Agreement(s) with Andorra, Monaco and San Marino. DG GROW participated in meetings of the Executive Working Group set up by Presidents Juncker and Trump.

DG GROW held regulatory and industrial dialogues with China, Japan, South Korea and Taiwan to create/enhance a relationship of trust with the EU's main trading partners fostering a level-playing field and a predictable business environment. Commissioner Bieńkowska met the Prime Minister of the Ukraine and opened the second plenary session of the High Level Industrial and Regulatory Dialogue with Ukraine. DG GROW also organised the first industrial dialogue with Iran.

DG GROW supported DG NEAR in the enlargement process on five crucial EU Acquis chapters: Free Movement of Goods, Establishment and Services, Public Procurement, Intellectual Property Law, Enterprise and Industrial Policy. The Directorate-General provided contributions and expertise in the context of the enlargement package and the technical subcommittees with the countries' authorities, in order to help them align with the EU Acquis in the above-mentioned areas. DG GROW contributed to the drafting and implementation of the new Western Balkans Strategy issued in February 2018.

DG GROW co-chaired the Platform on "Economic Development and Market Opportunities" of the Eastern Partnership covering a variety of policies and involving eight Directorates-Generals, the six partner countries and business stakeholders. DG GROW also contributed in the Business panel – supporting structural reforms and SME development in Eastern Partner countries – and monitored the implementation of the Association Agreement with Deep and Comprehensive Free Trade Areas with Ukraine, Georgia and Moldova.

The Directorate-General continued to coordinate under the Union for the Mediterranean umbrella a regional industrial cooperation process with eight neighbour countries

(Morocco, Algeria, Tunisia, Egypt, Palestine, Israel, Lebanon, and Jordan). This process aims at an increased convergence of industrial policies and improvement of the business climate, development of SMEs, clusters and entrepreneurship, networking of business and business support organisations, facilitation of trade of industrial products and sharing of good practices.

DG GROW has ensured that EU industries and SMEs interests are taken into account in the trade defence instruments proceedings (anti-dumping or anti-subsidy measures).

DG GROW played a key role in developing the EU economic diplomacy and organised regular meetings with EU business organisations and national trade promotion organisations. Those meetings contribute to more EU visibility and policy impact in third countries, identifying new economic opportunities for EU companies and promoting EU interests whilst eliminating trade barriers in third countries. The Directorate-General worked with stakeholders on ways to improve the implementation of existing free trade agreements.

The Directorate-General following the inter-institutional process for adoption of the proposal for the screening of foreign direct investments in Europe.

DG GROW is participating in the Global Forum on Steel Excess Capacity (GFSEC). In September 2018, the GFSEC Ministerial meeting agreed to suggest further capacity reductions in 2019, monitor capacity expansions and finalise the important review exercise on subsidies. The first Forum meeting under the Japanese presidency that took place in Tokyo in December 2018 delivered in line with these commitments.

The Directorate-General organised various country visits of Commissioner Bieńkowska in 2018:

- In China, the Commissioner opened the 13th EU-China Business and Technology Fair in Chengdu.
- In Australia and New Zealand, the Commissioner chaired the event "Connecting EU and Australian space industry" which brought together Australian and European industry to discuss opportunities to develop satellite applications.
- In the context of the Africa Investment Forum in Johannesburg, the Commissioner participated in the launch of the EU-Africa High-Level Platform on sustainable energy investments in Africa.

2. ORGANISATIONAL MANAGEMENT AND INTERNAL CONTROL

This section explains *how* the Directorate-General delivered the achievements described in the previous section. It is divided into two subsections.

The first subsection reports the control results and all other relevant information that support management's assurance on the achievement of the financial management and internal control objectives⁷. It includes any additional information necessary to establish that the available evidence is reliable, complete and comprehensive; appropriately covering all activities, programmes and management modes relevant to the Directorate-General.

The second subsection deals with the other components of organisational management: human resources, better regulation principles, information management and external communication.

2.1 Financial management and internal control

Assurance is an objective examination of evidence for the purpose of providing an assessment of the effectiveness of risk management, control and governance processes.

This examination is carried out by management, who monitors the functioning of the internal control systems on a continuous basis, and by internal and external auditors. Its results are explicitly documented and reported to the Director-General. The reports produced are:

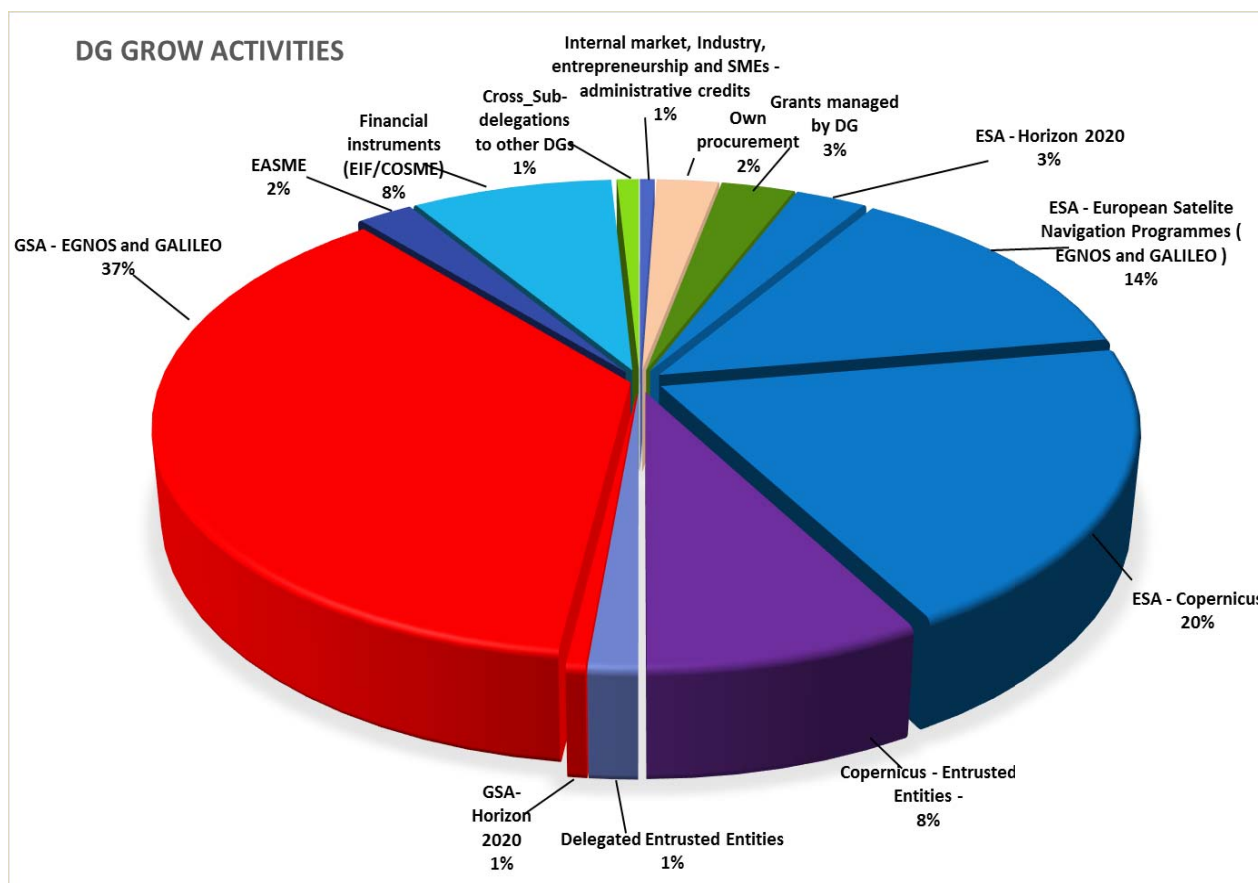
- the Authorising Officer by Sub-delegation (AOSD) reports submitted by the Directors, which include the outcome of internal control monitoring within each Directorate;
- the reports from Authorising Officers in other Directorates-General managing budget appropriations in cross-delegation;
- the reports on control results from entrusted entities in indirect management as well as the result of the Commission supervisory controls on the activities of these bodies;
- the contribution of the Director in charge of the Risk Management and Internal Control at DG GROW;
- the results of ex-ante and ex-post controls;
- the reports on recorded exceptions, non-compliance events and any cases of 'confirmation of instructions' (Art 92.3 FR);
- the analysis of reported weaknesses and exceptions of the internal control;
- the opinion, the observations and the recommendations reported by the Internal Audit Service (IAS);
- the observations and the recommendations reported by the European Court of Auditors (ECA).

These reports result from a systematic analysis of the evidence available. This approach provides sufficient guarantees as to the completeness and reliability of the information reported and results in a complete coverage of the budget delegated to DG GROW.

⁷ Art 36.2 FR: a) effectiveness, efficiency and economy of operations; b) reliability of reporting; c) safeguarding of assets and information; d) prevention, detection, correction and follow-up of fraud and irregularities; and e) adequate management of risks relating to the legality and regularity of underlying transactions

This section reports the control results and other relevant elements that support management's assurance. It is structured into (a) Control results, (b) Audit observations and recommendations, (c) Effectiveness of the internal control system, and resulting in (d) Conclusions on the impact as regards assurance.

DG GROW transactions are carried out under both the direct and indirect management modes. The following chart gives an overview of the types of payments made in 2018⁸:



⁸ This chart represents the outturn on payment appropriations made in 2018, i.e. € 1 989 million, including the administrative expenditure and expenditure under cross-delegation executed by other DGs. The reader is referred to Table 2 in Annex 3.

2.1.1 Control results

This section reports and assesses the elements identified by management that support the assurance on the achievement of the internal control objectives⁹. The Directorate-General's assurance building and materiality criteria are outlined in the Annual Activity Report [Annex 4](#). [Annex 5](#) outlines the main risks together with the control processes aimed to mitigate them and the indicators used to measure the performance of the control systems.

The following table shows that in 2018, the largest part of DG GROW expenditure was delegated to the European Space Agency (ESA) for the implementation of the GNSS (Galileo and EGNOS) and Copernicus space programmes, and to GNSS Supervisory Agency (GSA) in the area of GNSS exploitation activities.

During the 2014-2020 Multi-annual Financial Framework, DG GROW continued the implementation of actions through delegation agreements.

DG GROW implements its other expenditure under direct management, e.g. Competitiveness and Innovation Framework Programme (CIP), Standardisation and research legacy, EASME subsidy^[1], its own procurements, and other grants.

Activity	Entrusted entity	Payments 2018	% GROW	Main ICO indicator
Direct management	Grants		31,531,543.16	1.58%
		EASME	43,735,630.00	2.20%
	Procurement			Overall cost of control; No Olaf cases; clean opinion on accounts
			49,299,529.33	2.48%
	Crossdelegations		17,546,781.87	0.88%
Indirect management	Grant	ECHA	26,584,412.00	1.34%
	Delegation Agreements	ESA	716,360,996.00	36.00%
		GSA	744,999,972.92	37.44%
		MERCATOR	30,184,854.45	1.52%
		ECMWF	45,311,499.92	2.28%
		EUMETSAT	41,387,000.00	2.08%
		FRONTEX AND EMSA	16,523,000.00	0.83%
		EDA	28,475,275.00	1.43%
		EEA	19,830,000.00	1.00%
		SATCEN -EAS	6,279,000.00	0.32%
		EIF	160,084,578.00	8.05%
Administrative expenses			11,636,803.50	0.58%
Total			1,989,770,876.15	

DG GROW does not have to disclose any case of 'confirmation of instructions' (new FR art 92.3), nor any case of financing not linked to costs (new FR art 125.3), nor any case cases of flat rates >7% for indirect costs (new FR art 181.6) or cases of "Derogations from the principle of non-retroactivity [of grants] pursuant to Art 193 FR" (new FR art 193.2).

⁹ 1) Effectiveness, efficiency and economy of operations; 2) reliability of reporting; 3) safeguarding of assets and information; 4) prevention, detection, correction and follow-up of fraud and irregularities; and 5) adequate management of the risks relating to the legality and regularity of the underlying transactions, taking into account the multiannual character of programmes as well as the nature of the payments (FR Art 36.2). The 2nd and/or 3rd Internal Control Objective(s) (ICO) only when applicable, given the DG's activities.

^[1] It covers the Agency's expenditure on staff and administration incurred as a result of the Agency's role in the management of measures forming part of the Competitiveness of Enterprises and small and medium-sized enterprises programme (COSME).

Concerning the list of signed Financial Framework Partnerships >4 years (new FR art 130.4) we refer to annex 3 table 10.

2.1.1.1 Effectiveness = the control results and benefits

- **Legality and regularity of the transactions**

DG GROW has set up internal control processes aimed to ensure the adequate management of the risks relating to the legality and regularity of the underlying transactions, taking into account the multiannual character of programmes as well as the nature of the payments concerned.

The control objective is to ensure that the residual error rate or the risk of error does not exceed 2 % cumulatively by the end of the programme implementation or annually, depending from the distinct control system, as determined in the materiality criteria in [Annex 4](#).

For the 2018 reporting year, the cross sub-delegated Authorising Officers by Delegation (AODs), GSA and Executive Agencies have reported reasonable assurance on the delegated budget managed by them on behalf of DG GROW.

No serious control issues were signalled by these services. From the monitoring and supervision work done, which includes regular contacts and monitoring of relevant management reports and audit reports, there are no indications that their reporting would not be reliable.

With regard to the European Space Agency (ESA), the Commission has reasonable assurance (see [Annex 6](#) "DG GROW supervision of the funds entrusted to ESA") that the control mechanisms supporting the Agency's financial reporting about the implementation of the space component of the Copernicus programme and about the implementation of the EU satellite navigation programmes (EGNOS and Galileo) is reliable..

In 2018, DG GROW continued the application of its monitoring and control strategy towards ESA and continued auditing all financial reports provided by the Agency.

The asset management fee paid for the fund management of the Financial Instruments capital is set up and monitored according to the relevant Service Level Agreement and Delegation Agreement.

The performance of the Directorate-General in terms of supervision of the control-effectiveness is considered adequate.

Consequently, in view of the residual responsibility as "Parent Directorate-General" for the indirect management via external entities, it could be concluded that there are no control weaknesses affecting assurance in terms of the 3 Internal Control Principles (except for the indirect management of grants under the Research Framework programme (FP7) implemented by external entities).

Regarding the EU funds managed directly by the Directorate-General via grants and procurement, including the administrative related expenditures, it could be equally concluded that there are no major control weaknesses affecting assurance , except for the direct management of grants under the Research Framework programme (FP7) and the Competitiveness and Innovation Framework Programme (CIP). Although the residual amounts at risk on closure are very low (respectively EUR 6.515 for FP7 and EUR 104.356 for CIP), DG GROW maintains as explained further the existing reservations.

In the context of the protection of the European Union's budget, at the Commission's corporate level, the Directorate-General's estimated overall amounts at risk and their estimated future corrections are consolidated.

For DG GROW, the estimated overall amount at risk at payment¹⁰ for the 2018 expenditure is EUR 20.276 million. This is the AOD's best, conservative estimation of the amount of *relevant expenditure*¹¹ during the year (EUR 3 647 million) not in conformity with the applicable contractual and regulatory provisions at the time the payment is made¹².

This expenditure will be subsequently subject to ex-post controls and a sizeable proportion of the underlying error will be detected and corrected in successive years. The conservatively estimated future corrections¹³ for the 2018 expenditure are EUR 2.039 million.

This is the amount of errors that DG GROW conservatively estimates to identify and correct from controls that it will implement in successive years.

The difference between the amount at risk and the estimated future corrections leads to an estimated overall amount at risk at closure of EUR 18.237 million.

Because of the importance of the amounts paid related to the EGNOS, Galileo and Copernicus programmes, DG GROW decided to fix the error rate at 0.5%, even if the audits performed by DG GROW and finalised in 2018 on the space audited entities revealed lower error rates or absence of errors, except for Eumetsat and EEA, since these audits are carried out before the clearing of the costs. Although material errors were detected during the ex-post audits at Eumetsat and EEA, the residual error rate is zero as errors will be corrected in the next period.

For activities delegated to agencies and other grants, an error rate range of 0.5 % is applied. The reason for this is that these payments concern either pre-financings (not considered risk-prone) or payments where the error rate is estimated to be below the materiality threshold, as ex-ante desk checks have been performed.

The DG will implement results from ex-post audits based on cost-effectiveness considerations, including with the respective recovery actions to ensure a further reduction of the residual error rate.

Considering the overall annual expenditure, it can be concluded that the internal control systems provide reasonable assurance¹⁴. The reader is referred to the conclusion as regards assurance in the section 2.1.4.

The table on the following page shows the estimated overall amount at risk.

The table above shows that 99,50% of the expenditure implemented in DG GROW in 2018 is considered as complying with all the legality and regularity requirements. The remaining 0.50% is the part of the expenditure impacted by the risk that the underlying transactions were not compliant with the legal or contractual provisions.

¹⁰ In order to calculate the weighted average error rate (AER), the detected or equivalent error rates have been used; see note 6 to the table.

¹¹ "relevant expenditure" during the year; see note 5 to the table.

¹² "payments made" or equivalent; see note 2 to the table.

¹³ This estimate is based on past performance, namely on the average recoveries and financial corrections (ARC) implemented since 2009 and applied to the payments of the year.

¹⁴ related to control effectiveness as regards legality and regularity of the payments made in 2018 by DG GROW

	Program	Entrusted Entity	Scope: Payments made in 2018	New Prefinancings [a]	Clearing pre-financing [b]	Relevant expenditure [c]	Average Error rate (range in %) [d]	Estimated overall amount at risk at payment	Average Recoveries and Corrections [e]	Estimated future corrections	Estimated overall amount at risk at closure [f]
			As per AAR annex 3 and ABAC DWH BO reports	As per ABAC DWH BO reports	As per ABAC DWH BO reports	(2)-(3)+(4)	Detected or estimated	(range in C) = (5) x (6)		(5)x (8)	(7)-(9)
		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Administrative credits	DG GROW ADMIN		11,636,803.50	598,183.40		11,038,620.10	0.50%	55,193.10	0.50%	55,193.10	0.00
Own Procurement	Own procurement		49,299,529.33	4,263,095.20	3,824,038.43	48,860,472.56	0.50%	244,302.36	0.50%	244,302.36	0.00
	Standardisation		20,439,979.19	10,015,107.11	10,500,149.86	20,025,021.94	0.95%	190,237.71	0.80%	160,200.18	30,037.53
Grants	CIP grants		804,383.91		892,470.87	1,696,854.78	6.95%	117,931.41	0.80%	13,574.84	104,356.57
	Research grants	FP7	218,638.95			218,638.95	5.26%	11,500.41	2.28%	4,984.97	6,515.44
	Other grants	Other(1)	10,287,180.06	2,782,077.98	9,940,535.24	17,445,637.32	0.50%	87,228.19	0.50%	87,228.19	0.00
Delegated to entrusted entities	International organisations	ESA Copernicus	389,970,000.00	389,970,000.00	1,191,947,508.14	1,191,947,508.14	0.50%	5,959,737.54	0.00%	0.00	5,959,737.54
		ESA GNSS Galileo	269,780,194.05	269,780,194.05	1,202,953,112.49	1,202,953,112.49	0.50%	6,014,765.56	0.00%	0.00	6,014,765.56
		ESA GNSS Egnos			10,564,645.50	10,564,645.50	0.50%	52,823.23	0.00%	0.00	52,823.23
		ESA Horizon 2020	56,392,163.00	56,392,163.00	11,590,215.91	11,590,215.91	0.50%	57,951.08	0.00%	0.00	57,951.08
		MERCATOR (Copernicus)	30,184,854.45	30,184,854.45	40,546,329.02	40,546,329.02	0.50%	202,731.65	0.00%	0.00	202,731.65
		ECMWF (Copernicus)	45,311,499.92	45,311,499.92	41,836,911.59	41,836,911.59	0.50%	209,184.56	0.00%	0.00	209,184.56
	Agencies	BUMETSAT (Copernicus)	41,387,000.00	41,387,000.00	27,093,932.25	27,093,932.25	2.50%	677,348.31	0.00%	0.00	677,348.31
		GSA	744,999,972.92	744,999,972.92	702,802,160.43	702,802,160.43	0.58%	4,076,252.53	0.00%	0.00	4,076,252.53
		GSA FP7			3,058,892.96	3,058,892.96	5.26%	160,897.77	2.28%	69,742.76	91,155.01
		FRONTEX AND EMSA	16,523,000.00	16,523,000.00	12,568,605.97	12,568,605.97	0.50%	62,843.03	0.00%	0.00	62,843.03
		EDA	28,475,275.00	28,475,275.00	2,229,196.73	2,229,196.73	0.50%	11,145.98	0.00%	0.00	11,145.98
		EEA	19,830,000.00	19,830,000.00	18,110,743.41	18,110,743.41	3.70%	670,097.51	0.00%	0.00	670,097.51
		SATCEN -EAS	6,279,000.00	6,279,000.00	1,969,701.31	1,969,701.31	0.50%	9,848.51	0.00%	0.00	9,848.51
		ECHA	26,584,412.00	26,584,412.00	61,765,624.84	61,765,624.84	0.50%	308,828.12	0.50%	308,828.12	0.00
		Executive Agency	43,735,630.00	43,735,630.00	41,392,069.83	41,392,069.83	0.50%	206,960.35	0.50%	206,960.35	0.00
		EASME									
Specialised Union body	COSME	EIF	160,084,578.00			160,084,578.00	0.50%	800,422.89	0.50%	800,422.89	0.00
Other	Sub-delegations	Cross_Sub-delegations to JRC	14,413,892.66			14,413,892.66	0.50%	72,069.46	0.80%	72,069.46	0.00
		Delegated to JUST and SANCO	3,132,889.21			3,132,889.21	0.50%	15,664.45	0.80%	15,664.45	0.00
Total			1,989,770,876.15	1,738,011,465.03	3,395,586,844.78	3,647,346,255.90	0.55%	20,275,965.69		2,039,171.66	18,236,794.03
											0.50%

[1] Several heterogeneous grants related to space programmes, internal market, COSME 2014-2020, pilot projects and preparatory actions.

[2] Payments made or equivalent, such as after the expenditure is registered in the Commission's accounting system, after the expenditure is accepted or after the pre-financing is cleared. In any case, this means after the preventive (ex-ante) control measures have already been implemented earlier in the cycle. In all cases of Co-Delegations (Internal Rules Article 3), the "payments made" are covered by the Delegated DGs. In the case of Cross-SubDelegations (Internal Rules Article 12), they remain with the Delegating DGs.

[a] New PF actually paid by out the DG itself during the FY (i.e. excluding any PF received as transfer from another DG)/The "Pre-financing" is covered as in the context of note 2.5.1 to the Commission (provisional) annual accounts (i.e. excluding the "Other advances to Member States" (note 2.5.2) which is covered on a pure payment-made basis).

"Pre-financings paid/cleared" are always covered by the Delegated DGs, even in the case of Cross-SubDelegations.

[b] PF actually having been cleared during the FY (i.e. their 'delta' in FY actuals, not their 'cut-off' based estimated 'consumption')

[c] For the purpose of equivalence with the ECA's scope of the EC funds with potential exposure to L&R errors (see the ECA's AR methodological Annex 1.1 point 15), also our concept of "relevant exposure" includes the payments made, subtracts the new pre-financing paid out [8 adds the retentions made], and adds the previous pre-financing actually cleared [8 subtracts the retentions (partially) released and any deductions of expenditure made by MS in the annual accounts] during the FY. This is a separate and hybrid concept, intentionally combining elements from the budgetary accounting and from the general ledger accounting

[d] Although detected error rates for international organisations was near to zero we used 0.5% as a conservative estimate.

[e] Even though based on the 7 years historic average of recoveries and financial corrections (ARC), which is the best available indication of the corrective capacity of the ex-post control systems implemented by the DG over the past years, the ADD has adjusted this historic average. Any coding errors, ex-ante elements, one-off events, (partially) cancelled or waived Recovery Orders, other factors from the past years that would no longer be relevant for current programmes (e.g. higher ex-post corrections of previously higher errors in earlier generations of grant programmes) have been adjusted in order to come to the best but conservative estimate of the expected corrective capacity average to be applied to the reporting year's relevant expenditure for the current programmes in order to get the related estimated future corrections. This includes considering that the ex-post future corrections would be 0.0% for DA with International organisations and Decentralised agencies involved in the Space programmes as we perform the clearing of the prefinancing after audits or desk checks. The historic average of recoveries and financial corrections (ARC) received from the central services is 0.8%. However, further to ECA/IAS recommendations, DG GROW adjusted this value for grant management expenditure and used as best estimate the difference between overall representative detected error rate and the residual error rate.

[f] amount at risk put as "zero" if negative subtraction

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DG GROW has entrusted the majority of its budget implementation to international organisations, executive agencies and decentralised agencies. In all these cases, the Directorate-General's supervision arrangements are based on the principle of intensive controlling of the relevant entity and where applicable participation in the entities' steering committees.

In the frame of the on-going 2014-2020 Multi-annual Financial Framework, DG GROW renewed its mandate to existing entrusted entities.

(A) International Organisations

European Space Agency (ESA)

In 2018, the second biggest part of DG GROW expenditure was delegated to the European Space Agency (ESA) for the implementation of the GNSS (Galileo and EGNOS) and Copernicus space programmes.

The elements that support the assurance on the achievement of the control effectiveness as regards legality and regularity are of two types:

- ESA's control results and/or assurance:
 - *Opinion of the external auditor*

The ESA's external Audit Commission gave an unqualified opinion on the Agency's 2012, 2013, 2014, 2015, 2016 and 2017 financial statements, as ESA made significant improvements and achieved full compliance with the International Public Sector Accounting Standards (IPSAS).
 - *Statement of Internal Control of the Director-General*

A Statement of Internal Control has been produced by ESA's Director-General confirming that the internal control system in place during 2018 provides reasonable assurance of achieving its operation, reporting and compliance objectives.
 - *Reporting quality control at ESA*

In order to minimise any potential errors in the Annual Financial Reports submitted to the European Commission, the Agency developed a quality control on its reporting. All reports are verified by the Agency's Compliance Office before submission. Following several audits performed by the European Commission and the European Court of Auditors, the quality of the reports was significantly enhanced.
- Authorising Officers by Delegation's own control results on the ESA's operations:
 - *Results of the audits of the 2018 reports*

The DG GROW ex-post audit team continued to audit all annual financial reports (AFRs) submitted by ESA.

The samples chosen by the auditors are not statistically representative. They were chosen using different sampling methods ((i) stratified per cost segments/category and selection based on the value of transaction and/or risky profile, or ii) full scope per cost segment/category). The detected error rate is calculated as a comparison between the errors and the audited portion of the AIR.

DG GROW Annual Activity Report 2018

In 2018, the ex-post audit team of DG GROW performed an audit on the Copernicus/GMES programme (2017 financial reports). It did not reveal any error. A sample of 54 items out of 234 (for a value of EUR 345.171.100), representing 51% of the total value claimed, was verified and no errors were found (no error detected).

One ex-post audit was also performed on the GNSS programme (2017 FOC reports). A sample of 60 items out of 185 (for a value of EUR 293.848.687), representing 81% of the total value claimed, was verified and no errors were found (no error detected).

Another ex-post audit on the GNSS programme (EGNOS financial report 2016) was finalised in 2018. All submitted costs (value EUR 10.564.645) were verified and minor errors were found (0.5% error detected).

We refer to [Annex 6](#) for more detailed information.

- Implementation of corrections

The results of the previous financial audits are being implemented. These corrections are made at the time of the annual clearing of pre-financing payments to ESA. It can be concluded that the residual error rate is below the 2% materiality threshold.

- Monitoring

Errors detected in the Annual Financial Reports have no impact on the legality and regularity of the amounts paid to ESA, because amounts paid depend both on costs declared and on cash-flows forecasts. In the framework of the regular working arrangement and top level meetings between DG GROW and ESA, the Directorate-General closely monitored ESA's progress with the implementation of the programmes and the related reporting. In order to improve the financial supervision of entrusted Space entities regarding the financial use of European Union funds, the role of the Unit GROW.02 has been reinforced as from 2017. This Unit coordinates the financial management of the Space programmes within the Directorate-General.

For procurement, the European Commission is represented by ESA who acts as its procurement agent by delegation. The Relevant Control System Template (RCS) for indirect management in [Annex 5](#) demonstrates how the control system in place in the Directorate-General addresses the risks related to this type of expenditure.

In addition, an ex-ante assessment was finalised early 2014, covering the pillars identified in Article 154.4 of the EU Financial Regulation.

Transfers of funds to ESA are based on annual and quarterly reports submitted by ESA together with forecasts of cash-flow needs for the next period, all of which are checked before payments are made. In addition, on a yearly basis, all costs reported by ESA are verified by means of on-the-spot checks. In view of the multiannual perspective, the annual implementation reports of ESA for 2018 are due in 2019 and will only be considered for the clearing of the related pre-financing once the ex-post audit will be finalised. They will be covered in the Annual Activity Report for 2019.

Although the audited samples of financial transactions are not statistically representative, DG GROW considers that the error rates detected by its ex-post audits are a reliable indicator for the legality and regularity of the non-audited transactions.

In order to mitigate the risk that the actual error rate, which is very low, could be higher

on the non-audited part than on the audited one, DG GROW decided to apply a conservative approach and to declare an error rate of 0.5% for the budget delegated to ESA.

Other international organisations, e.g. ECMWF, MERCATOR and EUMETSAT

The elements that support the assurance on the achievement of the control effectiveness as regards legality and regularity are mostly the same as explained under ESA.

In 2018, pre-financing payments were made to these international organisations under the respective delegation agreements followed by implementation reports. As a consequence, assurance by the entrusted entities has been provided either following dedicated audits carried out by DG GROW or in the form of a management declaration, stating that the information is properly presented, accurate and complete, and that the funds are used for the purpose identified in the agreement. These declarations ascertain that the controls provide the necessary guarantees concerning legality and regularity.

The control strategy of DG GROW aims at auditing every two years the financial reports of these international organisations. In 2018, the ex-post audit team of the Directorate-General finalised an audit at **Mercator** on the Copernicus programme (2016 financial report). It did not reveal material errors. A sample of 24 items out of 89 (for a value of EUR 7.891.719), representing 41% of the total value claimed, was verified and only limited errors were found (detected error rate of 0.11%).

In 2018, the ex-post team conducted an audit at **ECMWF**. A sample of 155 items (for a value of EUR 20.810.268), representing 50% of the total value claimed, was verified and no errors were found.

The ex-post audit team of DG GROW also conducted an audit at **Eumetsat** on the Copernicus programme in 2018. The audit report was finalised begin 2019. A sample of 126 items (for a value of EUR 15.439.819), representing 55% of the total value claimed, was verified and a material error was found (detected error rate of 2.5%). As the total amount will be corrected in the next period, residual error rate is zero and no reservation is to be issued.

Although the audited samples of financial transactions are not statistically representative, DG GROW considers that the error rates detected by its ex-post audits, are a reliable indicator for the non-audited transactions. Furthermore, based on its monitoring and supervision, the Directorate-General considers that the level of error remains relatively stable over the years. Therefore, the error rates detected previously on the 2017 costs for the non-audited international organisations in 2018, can be used as an reliable indicator for the error rate in 2018. In order to mitigate the risk that the actual error rate could be higher on the non-audited part than on the audited one, DG GROW decided to apply a conservative approach and to declare an error rate of 0.5% for the budget delegated to the other international organisations than ESA (except for Eumetsat where the detected error rate of 2.5% was applied).

The cost of controls is highly outweighed by their benefits. The European space programmes are major industrial programmes of significant size and complexity. It is the first time that the EU, in particular the Commission, implements such programmes. In its capacity of programme manager, the European Commission is responsible for the management and coordination of these programmes and bears the overall responsibility for their implementation and operation to schedule, cost and performance. Furthermore, the European Commission owns the assets of the Copernicus and GNSS programmes on behalf of the EU. Considering the above responsibilities, the European Commission implemented controls at governance, technical, operational and financial levels. Acting as programme manager it applies control mechanisms to ensure that the technical and security requirements are fully respected.

(B) EU Agencies

Decentralised Agencies

Besides the above delegation agreements, similar agreements have been concluded with the **GNSS Supervisory Agency (GSA)** in the area of GNSS exploitation activities. DG GROW also delegates to GSA the implementation of FP7 and Horizon 2020 funds. In 2018 this constitutes the biggest part of DG GROW expenditure. Although DG GROW remains ultimately accountable for the legality and regularity of these expenditures, it is the responsibility of GSA to set up the appropriate controls to provide the necessary assurance to its parent Directorate-General. GSA is audited annually by the European Court of Auditors (ECA).

Notwithstanding the fact that the GSA's beneficiaries' inherent risk profile appears lower than the average among the European Commission Research Family (5.26% detected error rate), DG GROW calculated the amount at risk based on this average on the FP7 GSA payments (including clearings).

In March 2018, the GSA submitted to DG GROW the results from the audited Annual Implementation Reports for 2017 on the exploitation of GALILEO and EGNOS programmes and on the implementation of HORIZON 2020. According to the external auditor's opinion, (i) the financial information is, in all material respects, properly presented, complete and accurate; (ii) the expenditure was used for its intended purpose and (iii) accounted for in compliance with the respective contractual obligations.

In addition, as further substantiated through audits on the management control system put in place by the GSA for the implementation of the Delegation Agreements on the exploitation of GALILEO and EGNOS programmes and the implementation of the Horizon 2020 and based on the respective management Declarations of Assurance, which were submitted in February 2019 by the GSA, DG GROW has the necessary guarantees concerning the legality and regularity of the related underlying transactions.

Ex-post audits were performed in December 2017 and September 2018 at GSA on respectively the 2016 and 2017 annual reports for Galileo and Egnos. For the Galileo 2016 AIR figures, a sample of 38 items (for a value of EUR 19.460.573), representing 99% of the total value claimed, was verified and material errors were found (4.42% detected error rate). For the Egnos 2016 AIR figures, a sample of 85 items (for a value of EUR 61.169.180), representing 62% of the total value claimed, was verified and material errors were found (2.45% detected error rate). For the Galileo 2017 AIR figures, a sample of 41 items (for a value of EUR 259.542.683), representing 60% of the total value claimed, was verified and minor errors were found (0.01% detected error rate). For the Egnos 2017 AIR figures, a sample of 30 items (for a value of EUR 94.611.874), representing 91% of the total value claimed, was verified and minor errors were found (0.49% detected error rate). The cumulative detected error rate for GSA over 2017 and 2018 is 0.58%.

Ex-post audits were performed in 2018 at Satcen, EMSA and Frontex on the 2017 Copernicus programme costs. An audit was also performed at EEA on the 2016 AIR figures.

At **Satcen**, for the 2017 AIR figures, the total value of the requested costs (EUR 1.969.701) was verified and no errors were found. At **EMSA**, for the 2017 AIR figures, the total value of the approved costs (EUR 6.077.566) was verified and only minor errors were found (0.02% detected error rate). At **EEA**, for the 2016 AIR figures, a sample of 52 items (for a value of EUR 4.598.079), representing 94% of the total value claimed, was verified and material errors were found (3.7% detected error rate). An audit was also performed at **Frontex** as well but the final audit report has not been issued yet.

The supervision of these agencies (Satcen, EEA, Frontex, EMSA, EDA) is described in detail in [Annex 8](#), together with that of the European Chemicals Agency (ECHA), of which DG GROW is also parent Directorate-General.

Based on the declarations of assurance provided by the Executive Directors of these decentralised agencies and the results of the performed ex-post audits, DG GROW considers the implementation of the delegated funds to be legal and regular.

Executive Agencies

In the policy domain of the Directorate-General, the programme management is supported by two executive agencies: the Executive Agency for Small and Medium-sized Enterprises (EASME) and the Research Executive Agency (REA). These two agencies respectively manage the former Multiannual Financial Framework (MFF) legacy actions under the Entrepreneurship and Innovation Programme (EIP) and the Space Themes of the Seventh Framework Programme for Research (FP7) as well as parts of the MFF programmes COSME and Horizon 2020.

DG GROW only supervises the control systems¹⁵ of these agencies in the context of their direct delegations as Authorising Officers by Delegation (AOD). Both agencies performed their ex-post audits in the context of a common audit strategy. The executive agencies' control results are either in line with those within the policy family or are slightly modified to correspond to the different profile of its sub-population of beneficiaries. EASME and REA produce their own AARs. EASME's 2018 Annual Activity Report contains three reservations - one on the Intelligent Energy Europe II 2007-2013, on budget delegated by DG ENER, one on Competitiveness Innovation Programme Eco Innovation and one for the material residual error rate on the COSME programme (the first audits, although not representative of the whole population yet, revealed an average detected error rate of 5.49%). The REA made reservations in two areas of their operational budget, i.e. 'FP7 Cooperation Specific Programme – Space and Security themes' and 'FP7 Capacities Specific Programme – Research for the benefit of SMEs', which is in line with the reservation made by DG GROW, namely the reservation on the accuracy of FP7 grant cost claims.

In its capacity of parent DG, DG GROW contributes to EASME's operating budget, together with other parent DGs. The consumption of this operating budget is duly monitored, and after the final closure of EASME's accounts, any surplus will be recovered pro-rata by the agency's parent DG.

The supervision of the Executive Agencies continued throughout 2018. The preparation of the Annual Activity Reports of these Agencies was coordinated and reviewed by the Directorate-General and by the Steering Committees of the Agencies.

Overall, DG GROW considers that its supervision of Executive Agencies is effective and appropriate.

(C) Specialised Union bodies

In line with the Financial and Administrative Framework Agreement (FAFA) between the EU and the European Investment Fund, the COSME Delegation Agreement (DA) entrusts budget implementation of the COSME financial instruments to the European Investment Fund (**EIF**). The DA covers the implementation of the two financial instruments under

¹⁵ The control systems of the Executive Agencies are similar to those of their parent DGs.

COSME, i.e. the Loan Guarantee Facility (LGF) and the Equity Facility for GROW (EFG).

A pillar assessment of the EIF was carried out in 2015, providing reasonable assurance to the Commission that the EIF meets the requirements of Article 154 of the FR and confirming that the EIF can be entrusted with budget implementation tasks under indirect management.

Controls during the implementation of the COSME financial instruments relate to the selection of financial intermediaries, fund allocation between the LGF and the EFG, remuneration of the EIF, assessment of the effectiveness and efficiency of the internal control systems as well as the follow-up of any observations by internal or external auditors. The respective LGF and/or EFG steering committees ensure that the policy objectives are met and will regularly review the progress of implementation. The reader is referred to [Annex 5](#) Relevant Control System template (RCS) on Financial Instruments for details on the control strategy.

Moreover, DG GROW performs audits on the COSME programme. In 2018 one audit was performed together with EIF and no finding was reported.

Based on the management Declarations of Assurance on both financial instruments and the respective reports on audits and controls, which were submitted by the EIF in February 2019, DG GROW has a reasonable assurance in all material aspects that the EU funds transferred to EIF are used for the intended purposes, including regarding legality and regularity. This reasonable assurance is further substantiated by the audit assignment carried out by DG GROW as outlined in section 2.1.4. In March 2019, the EIF will submit to DG GROW the results from the audited Financial Statements for 2018 of both LGF and EFG. According to the external auditor's opinion, the Financial Statements 2017 (2018 figures not audited yet) of both LGF and EFG were prepared in all material respects in accordance with the respective accounting rules. Based on the audited financial statements provided for the COSME financial instruments and as further substantiated through the risk and performance report provided by the EIF for the assets under management, the Authorizing Officer by Delegation (AOD) has the assurance that the balance on the respective fiduciary accounts for the LGF and the EFG, including the treasury assets, are managed in accordance with the Delegation Agreement.

DG GROW also considers that the operational and financial reporting requirements set out in the COSME Delegation Agreement provide sufficient and relevant information and figures to ensure sound and efficient management of the policy aspects of these financial instruments.

(d) Procurement

Procurement under direct management represents 2.48 % of the total 2018 DG GROW expenditure. The payments made in 2018 on own procurement amount to EUR 49.29M.

The Relevant Control System template (RCS) n°3 for procurement in [Annex 5](#) demonstrates how the control system in place in the Directorate-General addresses the risks related to this type of expenditure.

In 2018, 26 contracts with a value exceeding EUR 60.000 were awarded directly by DG GROW, representing a total contract value of EUR 21.7 million. The reader is referred to [Annex 3](#), tables 11 and 12. 1.5 % of this amount was awarded following a negotiated procedure without prior publication.

The contracts awarded in 2018, mentioned above, do not include, however, contracts signed by the European Space Agency (ESA) in the name and on behalf of the Commission under ESA Delegation Agreements. As mentioned in Section 2.1.1.1, the

GNSS programme is executed principally by ESA as delegated procurement agent, signing contracts on behalf and in the name of the Commission, under indirect management.

The risks related to public procurement are effectively mitigated by means of independent ex-ante verifications. Those verifications represent a second layer of control performed by the Financial Resources and Internal Control Unit beyond the ex-ante controls carried out by each operational unit. Tender documents need approval by the independent experts of the Financial Resources and Internal Control Unit before they are allowed to be published. Tenders are evaluated by evaluation committees, as foreseen by the Financial Regulation. The absence of conflicts of interest of the evaluators is ensured. Evaluation reports also need approval by the independent experts of the Financial Resources and Internal Control unit before the authorising officer takes the award decision. For high value procurements above EUR 10 million, an ad hoc committee of DG GROW senior officials (the Ad-hoc Committee) examines the evaluation report before the award decision can be taken. All procedures are documented in detail in the GROW Manual of Budgetary and Financial Procedures. Before any payment is completed, the timely execution of the contract is checked and a financial verification is performed. All errors detected are corrected. Materiality is defined as 2 % of the payment appropriations of the Activity Based Budgeting (ABB) activity. For the contracts signed by ESA on behalf of the Commission tender documents are not checked ex-ante, but there is an ex-ante assessment of the acquisition plan, which is subject to the approval of the Ad-Hoc Committee.

The procurement procedures applied in DG GROW involve a number of specific controls, which are fully in line with the applicable regulatory requirements. The benefit of these specific controls provides assurance on legality and regularity, transparency, equal treatment and proportionality of the public procurement and mitigates the risk of reputational damage.

Given the low error rate there are no indications that a higher level of checks and controls would produce any supplementary benefits.

(e) Grants directly managed by DG GROW

DG GROW has set up internal control processes aimed to ensure the adequate management of the risks relating to the legality and regularity of the underlying transactions, taking into account the multiannual character of programmes as well as the nature of the payments concerned.

In 2018, DG GROW budget was implemented through direct grants under several heterogeneous grants related to internal market (ECHA 0.34%), Research and pilot projects and preparatory actions, etc...(0.5 %), Competitiveness and Innovation Framework Programme(CIP) (0.047 %), Standardisation (1.03 %).

Whereas, DG GROW applies consistently controls to all grants in line with its procedures, the available ex post controls for grants were dedicated to the grant payments, which have greater portion of the budget managed by the DG or with the highest risk: respectively standardisation and CIP grants.

The ex-post Audit Team finalised 3 audits (1 planned in 2017 and 2 in 2018) on the Standardisation programme, reaching reasonable audit coverage. In general, audits have a strong deterrent effect within the programmes, as the beneficiaries are aware of the possibility to be selected for an in-depth financial verification.

Key DG indicators on control <u>effectiveness</u>	DG results for the reporting year
Value of errors detected in cost claims through targeted risk-based in-depth <i>ex ante</i> desk checks to EU contributions before being paid by the DG to beneficiaries.	€ 293.905
Percentage of the errors value detected in comparison to the total value of cost claims being desk-checked	2.1 %
Value of corrections to cost claims implemented by means of recovery ¹⁶	€ 5.184 via recoveries
Number of ex-post audits finalised in 2018:	14
Key DG indicators on control <u>effectiveness</u>	Multiannual Results
<u>FP7 Research grants</u>	
Representative Error Rate from the common research audit sample (CRaS) ¹⁷ :	5.26 %
DG GROW Residual Error Rate (RER) ¹⁸ :	2.98 %
<u>Other grants</u>	
<u>% of population covered:</u>	
CIP:	21 %
Standardisation:	24 %
<u>€ value coverage:</u>	
CIP:	€ 30 million
Standardisation:	€ 43 million
<u>Most Likely Error Rates:</u>	
CIP:	
<i>Cumulative detected error rate from non risk-based audits:</i>	6.95 %
<i>Residual error rate:</i>	5.50 %
Standardisation:	0.95 %

FP7 Grants

The Seventh Research Framework Programme (FP7) is implemented mainly through direct management, which implies direct financial contributions through co-financed grants signed with external parties, i.e. research organisations, companies. In 2018, EUR 0.218 million was paid as final payments in relation to grant agreements signed prior 2017.

¹⁶ Recovery is recuperating of debts, i.e. money, towards the EU.

¹⁷ The representative error rate is the error rate derived solely from the results of audits on a representative sample of beneficiaries, extended by a statistical method to the overall population. This error rate provides an estimate of the level of error in FP7 at the time of the audits, however, indicates (i) neither the follow-up as corrections undertaken by the Commission after audits (ii) nor the net final financial impact of errors. This error rate is calculated for FP7 as a whole.

¹⁸ The residual error rate, on a multi-annual basis, is the extended level of error remaining after corrections undertaken by Commission services following the carried out audits. The calculation of the residual error rate is shown in Annex 4.

Since 2012, a Common Representative audit sample (CRaS) is used by the Research family DGs to identify the common errors across the whole of FP7 operations. The results of the CRaS sample indicate a common **representative error rate** amounting to 5.26 %¹⁹, whereas the residual error rate is 2.98²⁰ %. These results already include the partial results of the third and last Common Representative Audit Sample (launched in 2016). They are concordant with the general expectation that the Common Representative Error Rate resulting from audits of FP7 will be around 5% at the end of the programme.

Details on the Research services' common control strategy and on the expected evolution of the common representative error rate can be found in the AAR of DG RTD for 2018.

For FP7, the materiality is assessed in accordance with Annex 4 of this AAR. The objective is to ensure that the estimated residual risk of error is less than 2% cumulative by the end of the programme implementation. As a consequence, although the residual amount at risk on closure is EUR 6.515, DG GROW, in accordance with the other members of the Research family DGs and central services, maintains its reservation on FP7 expenditure for 2018.

Standardisation

As part of its political objectives in the area of **standardisation**, the European Commission concludes operating and action grants with European standardisation organisations (ESO) which function in a monopoly situation, e.g.: European Committee for Standardisation (CEN), European Committee for Electrotechnical Standardisation (CENELEC) and European Telecommunications Standards Institute (ETSI).

Assurance on the claimed cost is obtained by performing audits every year. The sample audited (34 standardisations agreements) was chosen using different sampling methods, i.e. value-targeted, requests from operational units (risk-based), judgmental sample (targeting grants which were not audited in previous years). Most of them were value based. Since December 2015, the ex-post auditors of DG GROW use the following twofold sampling approach for the audited grant: i) a minimum sample of 30 items per cost category within the audited project, ii) a risk based sample by consulting the operational units in order to gather specific financial risks. This sample is not statistically representative but mostly value based. If majors errors are encountered the sample is extended.

The calculation of the error rate is based on the cumulative detected error rates without taking into account the results of the risk/request based audits.

In 2018, three audits, based on requests of the operational units were performed. Only a minor error of 0.68% was detected in one of them. These audits brings the total number

¹⁹ This is the error rate derived solely from the results of the CRS, extrapolated to the overall population and calculated for each FP as a whole. This error rate provides an estimate of the level of error in the given framework programme at the time of the audits, but does not factor in the follow-up and corrections/recoveries undertaken by Commission services after the audit, nor does it provide information on the net final financial impact of errors. It is based on cost statements for which the audit is completed.

²⁰ The residual error rate, on a multi-annual basis, is the extrapolated level of error remaining after corrections/recoveries undertaken by Commission services following the audits that have been made. The calculation of the residual error rate, as shown in Annex 4, is based on the following assumptions: (1) all errors detected will be corrected; (2) all non-audited expenditure subject to extension of audit findings is clean from systematic material errors so that the residual error rate can be estimated to be equal to the non-systematic error rate. The residual error rate develops over time and depends on the assumptions set out above. It remains an estimate as long as not all cost claims have been received and not all cases of extension of audit findings have been fully implemented yet.

of audited standardisation agreements to 37 (2009-2018).

The total adjustments, based on the value-targeted sample of 31 out of 37 audited agreements, show a detected cumulative average error of 0,95 %. The error is immaterial compared to the materiality threshold of 2%. The low error rate is a result of, on the one hand, the correct application of the Framework Partnership Agreement (FPA) provisions, which clearly define eligible costs, and on the other hand, the application of the related control strategy.

Based on the results of the performed ex-post audits (low cumulative detected error rate), combined with the ex-ante controls performed before final payment, management considers to have a reasonable assurance on the total amount of cost paid.

Competitiveness and Innovation Framework Programme (CIP) grants

In 2018, DG GROW also made payments under grant agreements with beneficiaries in the area of Competitiveness and Innovation Framework Programme (CIP), which ran from 2007-2013 and is currently phasing out.

Although the beneficiaries and the terms of the grant agreement provisions under the different strands of the CIP are not fully homogeneous, typical errors concern personnel – *in-house consultants, owner manager costs* – and subcontracting.

Therefore, DG GROW performs preventively in-depth ex-ante controls in order to obtain further reasonable assurance for high degree of confidence that information is valid and unaltered. Consequently, these controls aim at achieving error-free payments for grants, i.e. to reduce the error rates below the materiality threshold of 2 %. Main pillars of the dedicated ex-ante controls are (i) detailed financial statement, i.e. breakdown of all cost categories and justification of their calculations, submitted by beneficiaries and (ii) judgemental sampling of declared costs from all cost categories for verification against supporting documents.

Based on the results of a non-representative sample of audits performed between 2010 and 2017 (no audits performed in 2018 as programme is coming to its end) and excluding targeted risk-based audits, the indicative detected error rate is 6.95 %. Though this error rate is rather high, corrections were consistently made during the years following ex-post controls. As a result, it is at least a 21 % cleaned amount of total payments executed to the audited entities between 2008 and 2018, without taking into account the in-depth ex-ante controls. Thus, the ex-post controls bring down the above indicative detected error to the cumulative residual level of 5.50 %.

Even if not representative, the detected and residual error rates calculated over the last years do not decrease significantly. However, similar measures decided to lower the error rate for FP7 have already been applied for the CIP and considering that the need to balance legality and regularity with other objectives, such as the attractiveness of the programme, cost of control, less administrative burden, etc., is already met, additional controls might not be appropriate.

DG GROW expects that the residual error rate is not likely to decrease under the materiality threshold at the end of the programme. As a consequence, although the residual amount at risk on closure is very low (EUR 114.537), DG GROW maintains the existing reservation for 2018 since the multiannual residual error rate is still above the materiality threshold of 2%.

(f) Cross Sub-delegations

0.88 % of the amounts paid in 2018 from DG GROW budget lines were authorised under co- and cross sub-delegation to other DGs.

The amounts cross-subdelegated relate to services for which the Commission as a whole has decided to use the available Commission services: Pay Masters' Office (PMO), Publications Office (OP), DG for Informatics (DIGIT), DG Human Resources (HR) and Security and Secretariat-General (SecGen) of the European Commission. Given that these Commission services duly report on these costs in the same manner as the relevant Authorising Officers by delegation, such payments are mentioned but not reported in detail in this AAR.

The Director-General of GROW remains ultimately accountable for the amounts sub-delegated, i.e. EUR 17.4 million, to other Commission services, even though the legality and regularity of the transactions implementing this budget is ensured by the management and internal control systems put in place by the Authorising Officers to whom the funds were sub-delegated.

For 2018, the reports received by DG GROW from the DGs to which it sub-delegated funds provided reasonable assurance on the regularity and legality of transactions.

- **Fraud prevention and detection**

DG GROW has developed and implemented its own Anti-Fraud Strategy (AFS) since 2011, elaborated on the basis of the methodology provided by OLAF. This methodology was revised at the end of 2017 and adopted in February 2018.

The Anti-Fraud Strategy is an essential element in the development of a strong anti-fraud culture within the Directorate-General. It draws on existing best practices and uses existing procedures and tools as much as possible so as to avoid any new or additional burden for the services.

DG GROW puts a strong emphasis on fraud prevention by encouraging proportionate and targeted preventive ex-ante controls.

In 2018, an important effort has been made in raising awareness about fraud prevention: in collaboration with Human Resources and OLAF, three trainings were organized for staff and management on statutory obligations relating to ethics and integrity and on management of breaches, the new Anti-Fraud Strategy has been advertised on DG GROW Intranet (GROWnet, including a video from senior management) and we regularly inform staff members about best practices.

Since 2013, the fraud risk assessment is integrated in the annual risk assessment exercise. As the Directorate-General externalised the majority of its budget implementation, the AFS has been re-targeted towards the supervision of the implementation of anti-fraud strategies by the DG GROW's entrusted entities.

In principle, the controls aimed at preventing and detecting fraud are similar to those intended to ensure the legality and regularity of the transactions.

No case was transferred in 2018 to OLAF.

DG GROW is an active member of OLAF's Fraud Prevention and Detection Network (FPDNet) and of the Research Directorate-General family's Fraud and Irregularities in Research Committee (FAIR).

- **Other control objectives: safeguarding of assets and information, reliability of reporting**

Reliability of reporting

DG GROW delegates the most of its budget implementation to other entities. In addition to preliminary controls performed by DG GROW prior to delegating budget to these entities, it also relies on the declarations of assurance provided by its entrusted entities. These consist of signed declarations by the managing directors of these entities, providing assurance on the overall sound financial management of the delegated resources whilst highlighting key issues and describing the efficient functioning, cost-effectiveness and benefits of the entities internal control systems.

As a result of the efforts deployed by the DG in the past, the reliability of the financial data provided by the delegated bodies under the space programmes in 2018 is considered reliable. All controls performed by DG GROW on ex-ante and ex-post level revealed no material misstatements on the accounts presented by the delegated bodies under the space programmes managed by DG GROW.

Valuation and Safeguarding of assets and information

The total asset value on the Balance sheet at end 2018 is EUR 8,422 million. The non-current assets cover EUR 6,673 million of intangible assets, property plant and equipment and long-term pre-financing. Furthermore, EUR 1,749 million of current assets consists predominantly of pre-financing managed and controlled in the context of the DG's direct and indirect management, and the EUR 331 million cash and cash equivalents located on the accounts of EIF.

Regarding property, plant and equipment, the EGNOS, Galileo and Copernicus assets represent the most important position on the balance sheet of DG GROW. The accounting treatment of these assets is a complex task requiring tailored procedures and systems to ensure proper valuation and control.

With regard to Copernicus, one satellite (Sentinel-3B) was launched in 2018. By end of 2018, 7 operational Sentinels are in orbit and other 12 satellites and instruments are being developed. The gross value of the operational satellites is EUR 2,116 million. The Sentinels that have not been launched yet are considered as assets under construction until their future launch and in-orbit commissioning. Their value is EUR 1,207 million.

By end of 2018, 22 Galileo satellites had passed in-orbit testing and had started to incur depreciation cost. Their gross book value is EUR 1,857 million. The four satellites that were launched in July 2018 will remain in Asset under Construction until their future validation and commissioning in 2019. Together with the rest of the satellites that are currently under construction, their total value is EUR 606 million. The gross book value of the Galileo Ground Segment in 2018 is EUR 1,838 million.

During 2018 the controls performed on the data provided by ESA and GSA for the valuation of the space assets were maintained. Specific workshops on the operational stages of asset development were organised to discuss per programme the costs to be capitalised and the stages of operational development. A detailed reconciliation was made with the contractual milestones and their acceptance, allowing in-depth analysis of the data provided by the space delegated bodies.

In 2018, with the assistance of DG BUDG, DG GROW further developed and implemented the Asset Under Construction module in ABAC SAM, thus completing the last phase of using fully automated accounting for space programmes. The manual space accounts have been emptied, and the depreciation costs are calculated by ABAC SAM.

For Egnos, 8 sites have been subject to on-the-spot physical inspections by DG GROW and GSA, covering RIMs sites and assets deployed on the premises of some industrial suppliers. The results of these inspections allow reasonable assurance as to the existence and safeguarding of the assets. A new 3-year inspection programme covering 2018-2019-2020 has been issued to lay the basis for the assurance of the asset valuation for Egnos.

In 2018, a first physical inspection of the Galileo assets was performed by DG GROW at the ESA site in Redu, BE. It was concluded that further improvement in the quality of the inventory data is needed.

- **Conclusion on control effectiveness**

DG GROW has systematically examined the available control results and indicators, including those aimed to supervise entities to which it has entrusted budget implementation tasks, as well as the observations and recommendations issued by internal auditors and the European Court of Auditors. These elements have been assessed to determine their impact on the management's assurance as regards the achievement of the various internal control objectives mentioned above.

For FP7, as the estimated residual error rate of the financial operations under FP7 is above 2%, which is the materiality criterion for this programme, DG GROW, in accordance with the other members of the Research Family, maintains a reservation for FP7 expenditure.

For the financial operations under CIP, the results show that the residual error rate is also above 2%. As the 2% residual error rate target will not be attained, a reservation on CIP is also maintained for the reporting period.

From DG GROW's own monitoring and supervision work, which includes regular contacts/representation or at least desk reviews of relevant management reports and audit reports, DG GROW has not identified any other issues which could impact the management's assurance and there are no indications that the reporting would not be reliable or complete.

Based on the above, in conclusion, DG GROW's senior management has reasonable assurance that, overall, suitable controls are in place and working as intended.

2.1.1.2 *Efficiency = Time to...indicators and other efficiency indicators*

Information related to efficiency and cost-effectiveness of controls provided further below is based on the best available information. DG GROW manages a large portfolio of heterogeneous activities in various domains, involving different ways of financial intervention. In view of this operations' array, the information on effectiveness, efficiency and cost-effectiveness of controls is presented to eloquently cover an activity by merging and generalising the information for several sub-activities.

Based on an assessment of the most relevant key indicators and control results, DG GROW has assessed the cost-effectiveness and the efficiency of the control system and reached a positive conclusion.

The following indicators demonstrate the efficiency of the internal control system in relation to **entrusted entities**:

Key DG indicator on control <u>efficiency</u>	DG results for the reporting year
Average time to entrust	N/A, no new contribution agreements signed

The following indicators demonstrate the efficiency of the internal control system in relation to **procurement**:

Key DG indicators on efficiency	DG results for the reporting year
Complaints received from unsuccessful economic providers	0
Number of new cases received by the Ombudsman in 2017 relating to procurement procedures	0
Number of legal proceedings initiated by contractors or economic providers against the Commission relating to procurement procedures	0
Number of instances of overriding of controls in relation to procurement procedures	3
Past due critical and/or very important audit recommendations	0

Key DG indicators on control <u>efficiency</u>	DG results for the reporting year
Average time to publication of selection results	96.59 days
Coverage of first level ex ante controls	100 % of all commitments and payments, 100 % of all tender documents and evaluation reports
Coverage of second level ex ante controls	100 % of all tender documents and evaluation reports
Number of positive / suspensive / negative opinions issued on the launch and evaluation of procurement procedures	89/18/0

The following indicators demonstrate the efficiency of the internal control system in relation to **grant management**:

Common control efficiency indicators	DG results for the reporting year
Average time to grant ²¹ (Art. 194.2 FR) (TTG)	16.13 days
Average time to inform applicants of the outcome of the evaluation of the application (Art. 194.2 FR) (TTI)	107.38 days

The above indicators show that the majority of the calls for the year were performed as planned. As a result of the externalisation, however, the number of calls for proposals launched by DG GROW in 2018 was very limited.

In 2018, DG GROW received one complaint from an unsuccessful call applicant regarding the evaluation of the proposals. An answer was provided to the beneficiary and no further action is to be expected. The Ombudsman did not receive any complaint and there were no legal proceedings initiated in this respect. This provides a good indication of the robustness of the grant award process within the Directorate-General.

Key DG indicators on control <u>efficiency</u>	DG results for the reporting year
Average days of suspension	33 days
Percentage of payments suspended in comparison to all payments executed	32 %

2.1.1.3 *Economy = the cost of control*

Following the Commission central services' guidance, the cost of the controls at Commission level is assessed by the cost of the different control stages. The overall assessment for each management mode is obtained from the ratio between all those costs and the total amount paid in the year for related management mode.

The corporate methodology for the estimation²², assessment and reporting on the cost-effectiveness of controls was revisited in September 2018 and applied first time in the 2018 annual reporting.

DG GROW Internal costs are an estimate, and may include some overstatements.

The Full Time Equivalents (FTEs) used for the calculation have been delivered by the different direct orates of DG GROW and the average FTEs costs used are the average FTEs costs communicated by DG BUDG which include building and other administrative

²¹ The Financial Regulation which entered into application on 2 August 2018 set out time limits for time to grant. The time to grant is split in (i) average time to publication of selection results targeted at 6 months and (ii) the average time from the publication till the signature of grant agreements targeted at 3 months (FR 194.2). These targets were already applicable in the previous FR.

²² Ares(2018)4917637

cost and ICT costs.

We refer to annex 10 table 2 on costs of control at Commission level for a complete overview.

The cost of control for assets are not reported separately as they are included in the supervision costs of entrusted entities.

Direct management

The following indicators demonstrate the cost of control of the internal control system in relation to the **procurements directly implemented by DG GROW**:

Common indicators on <u>cost of control</u>	results for the reporting year
Percentage of overall cost of control of procurement process in comparison to total expenditure <u>executed</u> during the year	8.59 % ²³
Overall cost of control of procurement process	€ 6.583.443
Percentage of costs of control related to the contracting and subsequent monitoring of the execution in comparison to the all procurement payments <u>executed</u>	4.64 %
Average number of running contracts (excl. experts) per procurement control full time equivalent	13.08

The procurement procedures applied in DG GROW involve a number of specific controls, which effectively contribute to assure excellence in the quality of the selected tenders and in the quality of the delivered goods and services. Given the significant overall value of procurement managed by DG GROW under direct and indirect management, the Directorate-general is of the opinion that the level of efficiency and cost-effectiveness of the controls operated is adequate.

The following indicators demonstrate the cost of controls of the internal control system in relation to the **grants managed directly by DG GROW**:

Common indicators on <u>cost of control</u>	DG results for the reporting year
Percentage of overall cost of control of grant process in comparison to the total expenditure executed ²⁴ during	11.52 %

²³ The result of this indicator might be perceived by the reader as rather elevated; however, the reader should also consider the following three facts. Firstly, the respective costs are legally necessary to reassure adequate level of controls, namely, to address legality and regularity requirements, especially in the context of the FP7 and CIP reservations. In addition, the amount of the funds directly managed by GROW, i.e. the denominator of the indicators, is relatively low to the overall budget for 2018. Last, but not least, GROW do not enjoy economies of scale as for example other Research DGs dealing exclusively and predominantly with direct management. As a result, it would be clearly demonstrated that the costs of GROW for direct management are, in fact, rather modest, especially in comparison with the criteria for entrusted entities for example as per Annex 5.

²⁴ From the expenditure is excluded the amount delegated or subject to a distinct discharge report.

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the year	
Overall cost of control of grant process	€ 3.658.704
Percentage of costs of control related to the evaluation and selection procedure in comparison to the total value of grants contracted	4.60 %
Percentage of costs of control related to the contracting and subsequent monitoring of the execution in comparison to the all grant payments executed	7 %

Key DG indicators on cost of <u>control</u>	DG results for the reporting year
Average number of ongoing grant agreements managed per full time equivalent	8.95
Average value of ongoing grant agreements managed per full time equivalent	€ 8.687 million
Average project management costs per ongoing grant agreement	€ 14,814
Total costs of ex post audits	€ 95,346

The ex-ante and ex-post controls significantly reduced errors in the beneficiaries' cost claims. In terms of costs, it should be considered that a significant part of them is related to the legal requirements for performing payments, namely to ensure a minimum set of controls for each transaction. In addition, the evaluation of the proposals provides assurance that only the most excellent projects, which will best contribute to the achievement of the policy objectives of the call for proposals, are selected within the respective legal framework. The ex-post controls for FP7 are carried out by the Common Audit Service (CAS) of the Research family. No figures are available on the audits performed for DG GROW (minor impact as only very few left to audit).

Given that the overall cost of management and control of grants is 11.52 % of the grants value concerned, this is considered to be cost-effective, both overall and also when taking into account the relative low number and size of the grants to be processed. The increase compared with last year 9.96%) is mostly explained by the fact that new agreements had to be signed with standardisation organisations in 2018.

Further controls would not add significant value to the quality of the delivered results. Therefore, DG GROW does not intend to increase them, as this would adversely affect the other objectives of the programmes – attractiveness, reduction of administrative burden, etc. – and the overall result would be less cost-effective.

Indirect management

The following indicators demonstrate the cost of control of the internal control system in relation to **International Organisations**:

Common indicators on <u>cost of control</u>	DG results for the reporting year
Percentage of overall cost of control of supervision process in comparison to the total <u>annual</u> amount delegated excluding any remuneration paid	0.32 %
Overall cost of control of supervision process	€ 2.310.909
Percentage of cost of remuneration fees paid to entrusted entities in comparison to the total annual amount delegated excluding any remuneration paid	15.91 %
Remuneration fees paid to international organisations	€ 114.123.319

Key DG indicators on <u>cost of control</u>	DG results for the reporting year
Percentage of costs of control related to the establishment or prolongation in comparison to the total annual amount delegated	0.25 %
Percentage of costs of control related to the reporting and subsequent monitoring of the execution in comparison to all payments executed	0.03 %
Total costs of ex post audits	€ 254.257

In terms of supervision of those entities as described below, the control cost is relatively limited. Overall, the cost of monitoring and supervision controls of ESA and other international organisations, for the implementation of the space programmes represents 0.32 % (European Commission staff costs) of the total annual amount delegated. The cost of controls is highly outweighed by their benefits. The European space programmes are major industrial programmes of significant size and complexity. It is the first time that the EU, in particular the Commission, implements such programmes. In its capacity of programme manager, the European Commission is responsible for the management and coordination of these programmes and bears the overall responsibility for their implementation and operation to schedule, cost and performance. Furthermore, the European Commission owns the assets of the Copernicus and GNSS programmes on behalf of the EU. Considering the above responsibilities, the European Commission implemented controls at governance, technical, operational and financial levels. Acting as programme manager it applies control mechanisms to ensure that the technical and security requirements are fully respected.

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The following indicators demonstrate the efficiency and the cost-effectiveness of the internal control system in relation to **EU agencies**:

Common indicators on <u>cost of control</u>	DG results for the reporting year
Percentage of overall cost of control of supervision process in comparison to the total annual amount delegated excluding any remuneration paid	3.88 %
Overall cost of control of supervision process	€ 29.412.880
Percentage of cost of remuneration fees paid to entrusted entities in comparison to the total annual amount delegated excluding any remuneration paid	11.28 %
Remuneration fees paid to EU agencies	€ 85.417.878

Key DG indicators on <u>cost of control</u>	DG results for the reporting year
Percentage of costs of control related to the establishment or prolongation in comparison to the total annual amount delegated	0.40 %
Percentage of costs of control related to the contracting and subsequent monitoring of the execution in comparison to the all payments executed	0.01 %
Total costs of ex post audits	€ 95.346

The following indicators demonstrate the cost of control of the internal control system in relation to **all the entrusted entities**:

Common indicators on <u>cost of control</u>	DG results for the reporting year
Percentage of overall cost of control of supervision process in comparison to the total <u>annual</u> amount delegated excluding any remuneration paid	2.15 %
Overall cost of control of supervision process	€ 31.723.789
Total costs of ex-post audits	€ 349.603
Total internal cost of control	€ 32.073.392

Indirect management of the financial instruments

The following indicators demonstrate the cost of control of the internal control system in relation to the European Investment Fund (EIF):

Common indicators on <u>cost of control</u>	DG results for the reporting year
Percentage of overall cost of control of supervision process in comparison to the total annual amount delegated excluding any remuneration paid	2.16 %
Overall cost of control of supervision process	€ 5.210.953
Percentage of cost of remuneration fees paid to entrusted entities in comparison to the total annual amount delegated excluding any remuneration paid	4.63 %
remuneration fees paid to EIF	€ 11.172.294

Key DG indicators on <u>cost of control</u>	DG results for the reporting year
Percentage of costs of control related to the set-up, design and designation in comparison to the total annual amount delegated	0.05%
Percentage of costs of control related to the implementation by DG GROW via financial intermediaries in comparison to all payments executed	0.07%

2.1.1.4 Conclusion on the cost-effectiveness of controls

Based on the most relevant key indicators and control results, DG GROW has assessed the effectiveness, efficiency and economy of the control system and reached a positive conclusion on the cost-effectiveness of controls.

DG GROW has a stable control environment and its control strategy is consistent to previous years. Overall, DG GROW has good performance indicators (especially time to pay) and acceptable error rates among all its programmes. The overall cost of control can be considered acceptable given the fact that no economy of scale can be obtained for the management of direct grants and procurement.

DG GROW is of the opinion that the current control system represents a good balance between the invested efforts (internal control costs and remuneration fees), the obtained error rates (effectiveness of controls) and delivery of objectives (efficiency).

Consequently, the control strategy will be maintained.

2.1.2 Audit observations and recommendations

This section assesses the observations, opinions and conclusions reported by auditors in their reports as well as the opinion of the Internal Auditor on the state of control, which could have a material impact on the achievement of the internal control objectives, and therefore on assurance, together with any management measures taken in response to the audit recommendations. The Directorate-General is audited by both internal and external independent auditors: the Internal Audit Service (IAS) of the European Commission and the European Court of Auditors (ECA).

The Directorate-General has not received any critical recommendations arising from the IAS audits. The Director General is informed on the conclusions and the main recommendations stemming from the work of the internal and external auditors. The timely implementation of all recommendations is ensured by a regular monitoring, performed by the Unit Financial Resources and Internal Control during the year.

Based on the assessment of the risks underlying the auditors' observations combined with the management measures taken in response, the management of DG GROW is confident that the recommendations issued do not raise any material assurance implications. Therefore, the current state of play does not lead to any assurance related concerns.

There is still one open recommendation from the European Parliament resolutions on the 2014 discharge. It concerns the supervision of the correct transposition of the 2014 Public Procurement Directives into national law (ref: 2014/PAR/0437). The recommendation is partially implemented as two Member States have still not transposed the Directive at the end of 2018.

Internal Audit Service (IAS)

In 2018, the IAS carried out the following assignments (no very important recommendations were addressed to DG GROW):

- *"Audit on Supervision of project management and payment for Galileo in DG GROW"*: The IAS concluded that DG GROW has put in place adequately designed and effective internal controls and a control strategy for supervising the Galileo programme implemented by ESA and GSA.
- *"Audit on the Supervision of the Implementation of the Copernicus Programme in DG GROW - Phase 2: Management of the Cooperation and Coordination between the Different Implementing Entities"*: The IAS concluded that DG GROW has defined an adequate supervision strategy to reinforce the control of the entrusted entities and of the overall programme implementation. The IAS also concluded that the arrangements regarding the management of the cooperation and coordination between the different implementing entities by DG GROW, including the coordination of the contributions to the annual work programme, are adequate, and DG GROW's organisational structure supports the delivery of the new services.
- *"Audit on the adequacy of DG GROW's preparation and supervision of the parts of the COSME programme delegated to EASME"*: The IAS concluded that DG GROW's processes for preparing and supervising the parts of the COSME programme delegated to EASME ensure their efficient and effective implementation by the agency.
- *"Multi-DG Audit on Intellectual Property Rights (IPR) supporting activities"*: The IAS concluded that although the Commission has designed adequate governance, risk management and control processes for the Intellectual Property-related activities, there are currently two very important weaknesses in their implementation at corporate level. In particular in the identification and classification of Intellectual Property (IP) assets, and in IP clauses attached to

software contracts and the establishment of a corporate software policy for the development and distribution of software owned by the Commission. JRC is the lead DG for the action plan. One important recommendation is addressed to DG GROW. Action plan has still to be submitted.

- *"Multi-DG Audit on (Connecting Europe Facility) CEF Telecom governance": The IAS concluded that the governance structure, as initially set up, is no longer adapted to the current complexity of the programme and to the future developments under the Digital Europe Programme (as outlined in the proposal for the next multiannual financial framework) and this situation may also affect its effective implementation at programme level.. DG CONNECT is the lead DG to implement the action plans. DG GROW proposed an action plan for the important recommendation under its responsibility.*

In its contribution to the 2018 AAR process of DG GROW, IAS concluded that the internal control systems in place for the audited processes are effective.

Two very important recommendations have been sent for review to IAS but their review is still pending at year end. It concerns the audits on "IT Governance and Portfolio Management in DG GROW", and "The production process and the quality of statistics not produced by DG ESTAT". For the latter, DG GROW set up a quality framework for statistics and data produced and/or outsourced by DG GROW. The framework is explained in the guidelines which were circulated to the entire Directorate-General in December 2018 and are accessible at a newly created page on GROWNet specifically dedicated to data and statistical activity of DG GROW. The guidelines entered into force as of December 7th 2018 and they address all four recommendations of the IAS audit.

All the other very important recommendations have been closed in 2018.

European Court of Auditors (ECA)

ECA's Annual Report 2017

On 4 October 2018, the Court presented its Annual Report on the execution of the Commission's 2017 budget. The assessment of the legality and regularity of DG GROW transactions and the effectiveness of its supervisory and control systems are treated in Chapter 5 - *Competitiveness for growth and jobs* - of the Court's Report. The Court indicated that the level of error in spending was material: the testing of transactions produced an estimated overall level of error of 4.2 %.

ECA Statement of Assurance (DAS) 2017

Out of 10 transactions audited, the Court reported findings on 2:

- One Eco Innovation grant agreement (EASME), resulting in an error rate of 16,9% following an incorrect hourly rate for personnel costs and over claimed trainee costs. The ECA classified the error as non-detectable.
- One H2020 grant agreement (EASME) resulting in an unquantifiable error related to weaknesses in the personnel cost calculation and supervisory system.

Implementation of ECA recommendations

All recommendations where DG GROW is the lead Directorate-General resulting from Special Reports of the Court of Auditors prior to 2017 have been implemented or partially implemented. The only exception is a recommendation concerning the revision of the

ECHA's founding regulation.²⁵

ECA Special Reports

DG GROW was involved in the following Special Reports published in 2018:

- Special report on Project durability/Productive investments on business
- Special report on Better regulation
- Special Report on Free Movement of Workers
- Special Report on Air pollution
- Special Report on Demonstrating carbon capture and storage and innovative renewables

As a conclusion, DG GROW is of the opinion that none of the present open or ready for review audit recommendations have an impact on the provided assurance.

²⁵ ECHA's regulation will be reviewed in 2022.

2.1.3 Assessment of the effectiveness of the internal control systems

The Commission has adopted an Internal Control Framework, based on international good practice, aimed to ensure the achievement of policy and operational objectives. In addition, as regards financial management, compliance with the internal control framework is a compulsory requirement.

DG GROW has put in place the organisational structure and the internal control systems suited to the achievement of the policy and control objectives, in accordance with the standards and having due regard to the risks associated with the environment in which it operates.

DG GROW annually²⁶ assesses the **effectiveness of its internal control system**, including the internal control processes in place at the level of its implementing bodies in accordance with the applicable Commission guidance. The assessment relies on extensive monitoring throughout the reporting year, supported by various information sources such as: an assessment of the functioning of the components and principles of the internal control framework set up by the DG; an assessment of audit findings and the implementation of recommendations; a register of detected exceptions, non-compliance events and internal control weaknesses, identified both by the management and by auditors in their audit reports; management assurance declarations outlining the control environment and any control issue; and regular risk assessment. The opinion of the IAS was duly taken into account. Taken into account all these elements, no issues were raised that may impact assurance. The FP7 and CIP reservations were maintained by DG GROW in 2018, as residual error rates are above 2% materiality level. This has however no impact on the effectiveness of the current internal control system. Based on these elements the Director in charge of Risk Management and Internal Control reported on the state of internal control and provided her recommendation to the Director-General.

Concerning the overall state of the internal control system, the DG complies with the three assessment criteria for effectiveness, i.e. (a) staff has the required knowledge and skills, (b) systems and procedures are designed and implemented to manage the key risks effectively, and (c) there are no instances of ineffective controls that have exposed the DG to its key risks.

The **functioning of the internal control systems** has closely been monitored throughout the year by the systematic registration of exceptions and non-compliances with the rules and procedures, and of internal control weaknesses. The underlying causes behind these exceptions and weaknesses were analysed and mitigated if necessary. All related audit recommendations were either successfully implemented as reaffirmed by auditors in their follow-ups, are ready for review or are currently under implementation, mitigating any significant risks.

Further enhancing the effectiveness of the DG GROW control arrangements in place by inter alia taking into account any control weaknesses reported and exceptions recorded, is an on-going effort in line with the principle of continuous improvement of management procedures, while taking into account the cost-effectiveness and risk differentiation of controls.

For the achievement of its objectives DG GROW largely relies on executive and regulatory agencies, as well as on a close cooperation with various partners and international organisations, in particular with the European Space Agency and the European

²⁶ "State of the internal control at DG GROW for 2018" report to be finalised in March 2019.

Investment Fund. With the further externalisation of budget implementation, DG GROW focuses more on policy making and supervision and less on direct project management.

As a consequence, the DG main inherent risk endangering the achievement of its political objectives lies in the supervision of these entrusted entities. In view of the Space programmes, the Commission acting as a programme manager has the overall responsibility for the successfully building of Galileo and Copernicus systems, which by definition bear important inherent risk due to their complexity and technological uncertainties. Irrespectively of this risky environment, the DG is committed to deliver and correct any challenge in this respect.

As mentioned above, one of the main inherent risks concerns supervision of externalised activities of the DG implemented by regulatory, executive and decentralised agencies. In this context, there might be reputational risks linked to sensitive matters²⁷. However, this does not have per se an impact on the declaration of assurance of DG GROW for 2018. It shall be duly reported if the risk materialises.

As a result of the effective and timely implementation of mitigation measures, none of the prominent risks for the reporting year materialised. It is worth mentioning that DG GROW enhances, as a continuous effort, the management of the available resources so to ensure smooth achievement of objectives. In this context, as of January 2016, the general principle was to put in place designated cells for financial initiation in each Directorate with a central verification counterweight in the Financial Resources and Internal Control Unit (GROW.R1):

- for the Directorates A, B, C, D, F, H, these financial cells are staffed with financial agents together with a Budgetary Correspondent for the budgetary coordination;
- for Directorates R, E, G and Unit 01, due to the limited number of financial transactions, the financial initiation was centralised in Unit GROW.R1 allowing for economies of scale and improved quality of the transactions;
- for Directorates I and J (Space), the Unit GROW.02 is in charge of the financial coordination and the initiation of all the financial transactions (as from 2017).

In conclusion, DG GROW has assessed its internal control system during the reporting year and has concluded that it is effective and that the components and principles are present and functioning as intended.

²⁷ The compliance with the Commission's Guidelines on the prevention and management of conflicts of interest in EU decentralised agencies, is closely monitored. For example, ECHA participates to the exchange of good practises organised by DG SANTE's task force with the agencies.

2.1.4 Conclusions on the impact as regards assurance

This section reviews the assessment of the elements reported above, in Sections 2.1.1 till 2.1.3, the sub-conclusions above and draws the overall conclusion supporting the declaration of assurance and whether it should be qualified with reservations.

The information reported in Section 2 results from a systematic analysis of the evidence available. This approach provides sufficient guarantees as to the completeness and reliability of the information reported and results in a comprehensive coverage of the budget delegated to the Director-General of DG GROW.

For financial operations managed by the DG in 2018 under FP7 and CIP, the materiality criterion is that the estimated residual risk of error is less than 2 % cumulative by the end of the programme's implementation. Since the residual error rate for the Common Representative audit Sample (CRaS) is material at the end of 2018, DG GROW, in accordance with the other members of the Research Family and central services, maintains its reservation on FP7 expenditure for 2017, even though this reservation has nearly no impact on DG GROW's FP7 activity.

Similarly, based on its own ex-post controls and according to the audit results, DG GROW, in accordance with central services, maintains for 2018 its reservation on CIP grants since the residual error rate is above the materiality threshold of 2 %.

Except for the FP7 and CIP reservations, management has reasonable assurance that overall suitable controls are in place and work as intended, risks are being mitigated and/or monitored. FP7 and CIP programmes are ending and thus increasing controls at this stage would have almost no impact on the residual error rate and is therefore considered not to be cost-effective.

Based on all the available evidence, management has reasonable assurance that overall suitable controls are in place and work as intended, risks are being mitigated and/or monitored, and improvements and reinforcements are being implemented.

The lessons learned from the indicators of ex-ante and ex-post controls together with the strengths and weaknesses highlighted in the audits conducted in 2018 lead to the conclusion that DG GROW has reasonable assurance²⁸ that its internal control system is adequately designed and works as intended.

Overall Conclusion

In conclusion, management has reasonable assurance that, overall, suitable controls are in place and working as intended; risks are being appropriately monitored and mitigated; and necessary improvements and reinforcements are being implemented. The Director General, in her capacity as Authorising Officer by Delegation has signed the Declaration of Assurance, qualified by a reservation concerning the legacy programmes FP7 and CIP.

In 2018, DG GROW has managed the resources for which it was responsible to the best effect for the intended purposes, in line with the Financial Regulation and according to the principles of sound financial management, legality and regularity.

The internal control system in the DG is in place, and it functions effectively to the extent that it enables the Director-General to give her assurance on the resources used. With the help of the internal control system, weaknesses could be detected and corrective measures put in place.

²⁸ Even an effective internal control system, no matter how well designed and operated, has inherent limitations – including the possibility of the circumvention or overriding of controls – and therefore can provide only *reasonable assurance* to management regarding the achievement of the business objectives and not *absolute assurance*.

2.1.5 Declaration of Assurance and reservations

Declaration of Assurance

I, the undersigned, Timo Pesonen,

Director-General for Internal Market, Industry, Entrepreneurship and SMEs

In my capacity as authorising officer by delegation

Declare that the information contained in this report gives a true and fair view²⁹.

State that I have reasonable assurance that the resources assigned to the activities described in this report have been used for their intended purpose and in accordance with the principles of sound financial management, and that the control procedures put in place give the necessary guarantees concerning the legality and regularity of the underlying transactions.

This reasonable assurance is based on my own judgement and on the information at my disposal, such as the results of the self-assessment, ex-post controls, the work of the Internal Audit Service and the lessons learnt from the reports of the Court of Auditors for years prior to the year of this declaration.

Confirm that I am not aware of anything not reported here which could harm the interests of the institution.

However the following reservations should be noted:

- 1) Reservation concerning the rate of the residual error with regard to the accuracy of cost claims in the 7th Research Framework Programme 2007-2013 (FP7).
- 2) Reservation concerning the rate of the residual error with regard to the accuracy of cost claims in the Competitiveness and Innovation Framework Programme 2007-2013 (CIP).

Brussels, 29 March 2019

e-Signed

Timo Pesonen

Director-General of DG for Internal Market, Industry, Entrepreneurship and SMEs

²⁹ True and fair in this context means a reliable, complete and correct view on the state of affairs in the DG/Executive Agency.

Reservation 1

DG	Internal Market, Industry, Entrepreneurship and SMEs
Title of the reservation, including its scope	Reservation concerning the rate of the residual error with regard to the accuracy of cost claims in the 7th Research Framework Programme 2007-2013 (FP7) .
Domain	Research, direct management of grants under the 7 th Research Framework Programme (FP7).
Programme in which the reservation is made and total (annual) amount of this programme	02 04 – "Horizon 2020 - Research relating to enterprises", in particular Article 02 04 51 'Completion of previous research framework programmes – Seventh Framework Programme – EC (2007 to 2013)' : € 120,593 million as outturn on payments made in 2018 for AAB 02 04, of which € 0.218 million within Article 02 04 51, where € 0.2 million as FP7 grants .
Reason for the reservation	At the end of 2018, the residual error rate is not below the materiality threshold foreseen for the multi-annual period.
Materiality criterion/criteria	The materiality criterion is the cumulative residual error rate, i.e. the level of errors that remain undetected and uncorrected, by the end of the management cycle. The control objective is to ensure that the residual error rate on the overall population is below 2 % at the end of the management cycle. As long as the residual error rate is not below 2 % at the end of a reporting year within the FP's management lifecycle, a reservation would be made.
Quantification of the impact (= "actual exposure")	The maximum impact is calculated by multiplying the residual error rate in favour of the Commission, i.e. 2.98%, by the sum of FP7 relevant expenditure based on cost statements actually processed in 2018, i.e. € 0.218 million final payments executed by DG GROW + € 3.058 million cleared pre-financing GSA. Hence, the sum of FP7 relevant expenditure based on cost statements actually processed in 2018 results in € 3.276 million. This yields € 0.098 million as maximum potential <u>impact</u> on FP7 relevant expenditure during 2018 based on the 2.98 % residual error rate for FP7.
Impact on the assurance	Legality and regularity of the affected transactions, i.e. only payments made against cost claims, interim payments and payments of balance. The assurance is affected by the above quantified maximum potential <u>impact</u> , which represents 0.01 % of the relevant expenditure made by DG GROW in 2018.
Responsibility for the weakness	The main reason for errors is : - the complexity of the eligibility rules as laid down in the basic acts decided by the Legislative Authorities, based on the reimbursement of actual eligible costs declared by the beneficiaries; - the fact that there are many thousands of beneficiaries making claims, and not all can be fully controlled. The different control provisions set out by the Commission services, along with the audit certificates on financial statements and ex-post audits, can mitigate these risks to a certain extent, but can never be carried out on 100% of the cost claims received.
Responsibility for the corrective action	The possibilities to simplify the FP7 rules have been exhausted. The programme is now in its final stage of implementation: the total amount paid per year will be decreasing, and therefore the financial impact too. Audits may continue at a low level in case of the identification of potential irregularities in projects. However, no further actions are programmed.

Reservation 2

DG	Internal Market, Industry, Entrepreneurship and SMEs
Title of the reservation, including its scope	Reservation concerning the rate of the residual error with regard to the accuracy of cost claims in the Competitiveness and Innovation Framework Programme 2007-2013 (CIP) .
Domain	COSME and Research, direct management of grants under the Competitiveness and Innovation Framework Programme 2007-2013 (CIP).
Programme in which the reservation is made and total (annual) amount of this programme	02 02 – "Competitiveness of enterprises and small and medium-sized enterprises (Cosme)" and 02 04 – "Horizon 2020 - Research relating to enterprises", in particular Article 02 02 51 'Completion of former activities in the competitiveness and entrepreneurship domain' : € 176,788 million as outturn on payments made in 2018 for AAB 02 02 for DG GROW, of which € 0.081 million within Article 02 02 51 as CIP grants . and Article 02 04 53 'Completion of Competitiveness and Innovation Framework Programme – Innovation part (2007-2013)' : € 120.593 million as outturn on payments made in 2017 for AAB 02 04 for DG GROW, of which € 0.804 million within Article 02 04 53 as CIP grants .
Reason for the reservation	At the end of 2018, the residual error rate is not below the materiality threshold foreseen for the multi-annual period.
Materiality criterion/criteria	The materiality criterion is the cumulative residual error rate, i.e. the level of errors that remain undetected and uncorrected, by the end of the management cycle. The control objective is to ensure that the residual error rate on the overall population is below 2 % at the end of the management cycle. As long as the residual error rate is not below 2 % at the end of a reporting year within the CIP management lifecycle, a reservation would be made.
Quantification of the impact (= "actual exposure")	The residual error rate for 2018 is 5.50 %. The maximum impact is calculated by multiplying the residual error rate in favour of the Commission, i.e. 5.50 %, by the CIP relevant expenditure (payments and clearings) based on cost statements actually processed in 2018, i.e. € 1.696 million. This yields € 0.093 million as maximum potential <u>impact</u> on CIP payments during 2018 based on the 5.50% residual error rate for CIP.
Impact on the assurance	Legality and regularity of the affected transactions, i.e. only payments made against cost claims, interim payments and payments of balance. The assurance is affected by the above quantified maximum potential <u>impact</u> , which represents 0.04% of the relevant expenditure made by DG GROW in 2018.

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Responsibility for the weakness	The responsibility for the weakness lays within the Legislative Authorities for the complexity of the underlying rules as laid down in the basic acts, the Commission services for the management and control systems in place, and the beneficiaries for the correctness of cost claims and audit certificates. Within these limits the remedial action of the DG GROW is carried out through audit campaigns and the full and timely implementation of audit results as well as by better informing the beneficiaries and in-depth ex-ante checks.
Responsibility for the corrective action	The main corrective actions consist of in-depth ex-ante and ex-post controls and the performance of targeted audits in case of identified specific risks. The remaining scope to further reduce the CIP residual error will be addressed in particular through continuing control in 2019.

2.2. Other organisational management dimensions

2.2.1 Human resource management

		2018				
		Target	1st quarter	2nd quarter	3rd quarter	4th quarter
STAFFING	# Officials					
	AD		516	514	515	510
	AST+SC		255	249	250	250
	%TA2b	<3%	0,7%	1,3%	1,9%	2,6%
	AD/AST ratio		2,0	2,1	2,1	2,0
	Ratio of statutory staff working > 65		0,0%	0,2%	0,2%	0,1%
	# External staff (excluded SLB)					
	Contract agents		112	109	108	111
	Interimaires		18	16	17	14
	ENDs		40	42	42	43
	IntraMuros		14	16	15	17
	ExtraMuros		46	47	44	47
	Local Staff		1	1	1	1
	Total External Staff		231	231	227	233
	External staff / Total staff		23,1%	23,2%	22,9%	23,5%
	NEPT (statutory code=STA)		3	2	0	2
	Vacant jobs					
	Vacancy rate	<5%	5,5%	6,5%	6,5%	6,9%
	Management		3	3	2	1
	AD		27	29	28	35
	AST+SC		16	22	24	22
	Sensitive posts and functions					
	Managers on the same post > 5 years		8	8	8	11
	- of which > 7 years	0	1	2	3	3
MOBILITY	Internal mobility (cumulative)					
	AD		17	39	55	87
	AST		7	20	29	36
	External mobility (cumulative)					
	AD arriving		14	28	45	51
	- of which laureates		1	2	6	7
	AD leaving		18	34	50	61
	Net balance		-4	-6	-5	-10
	AST arriving		11	19	28	36
	- of which laureates		0	0	0	1

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	AST leaving		11	25	32	40
	Net balance		0	-6	-4	-4
	Staff on the same post > 5 years	reduce	196	189	191	191
	AD		118	117	120	121
	AST		78	72	71	70
RIGHTS & OBLIGATIONS	Sickness absence					
	Average number of absence days (cumulative)		2,8	5,4	8	11,3
	Average number of absence days (per trimester)		2,8	2,6	2,6	3,3
	Part time					
	% statutory staff working part time		9,1%	9,8%	10,6%	10,3%
	AD		5,4%	6,6%	7,6%	7,5%
	AST		16,5%	16,5%	16,8%	16,0%
	Telework					
	% statutory staff teleworking		14,5%	14,8%	14,5%	15,4%
	AD		11,6%	11,7%	11,1%	11,6%
	AST		20,4%	21,3%	21,6%	23,2%
	Ethics					
	Ethics requests received		22	22	18	13
	- of which approved		14	18	13	8
EQUAL OPPORTUNITIES	% AD women (excl. mgmt)		42,7%	42,2%	42,4%	43,1%
	% women on newly recruited AD staff (cumulative)		0,0%	0,0%	16,7%	28,6%
	% women in DHoU functions		40,5%	40,0%	39,5%	43,9%
	% women of newly appointed DHoUs (cumulative)		100,0%	100,0%	100,0%	85,7%
	% women in middle management jobs	40%	40,0%	44,2%	42,2%	42,2%
	% women of newly appointed middle managers (cumulative)		0,0%	100,0%	60,0%	60,0%
	% women in senior management jobs		28,6%	28,6%	33,3%	33,3%
LEARNING AND DEVELOPMENT	Average number of training days (cumulative)	>7.5/year	0,2	0,5	0,7	1,0
	% of absenteeism to training actions		21,7%	28,6%	25,0%	31,5%

Target as set in management plan

Information on the main objectives, measures and outputs indicated as priorities in the GROW Management Plan 2018 can be found in annex 2.

2.2.2 Better Regulation

In 2018, DG GROW continued to apply the principles of Better Regulation to its legislative work. These principles foresee that EU actions are based on evidence and understanding of the impacts, that citizens and stakeholders can contribute throughout the policy and law-making process and that regulatory burdens on businesses, citizens or public administrations are kept to a minimum.

Impact assessments of legislative proposals are essential for evidence-based decision-making. In 2018, DG GROW submitted seven impact assessments to the Regulatory Scrutiny Board, an independent group of Commission officials and experts from outside the Commission. Six of these passed the Board on first submission (=86%), which is an indicator of progress made by the Directorate-General in applying Better Regulation practices.

DG GROW is a major contributor to the Regulatory Fitness (REFIT) programme of the Commission. Evaluations and Fitness Checks assess if EU laws are fit for purpose. Between 2014 and 2018, 35 of 122 (= 29%) of the primary regulatory items under the responsibility of the Directorate-General have been subject to finalised evaluations or Fitness Checks. Five evaluations were finalised in 2018 (see Annex 9). Thus, a positive upward trend could not be achieved compared to the 30% baseline of 2015. This may be due to the changing number of primary regulatory items (121 in 2017 compared with 142 in 2015) as legislation is constantly repealed or merged.

The EU laws under DG GROW responsibility are also screened by the REFIT Platform, which consists of stakeholders and Member States officials and advises the Commission on how to reduce administrative burden. Between 2015 and 2018, the Platform issued 14 opinions on laws under DG GROW responsibility. For example, the Platform in 2018 recommended that the Commission looks into new test methods for metallic alloys in order to improve the implementation of the Regulation on the Classification, Labelling and Packaging of Massive Metal Mixtures. This recommendation is followed-up by the Directorate-General in the development of a new test method and of guidance to clarify the Regulation.

The REFIT programme aims at generating concrete reductions of administrative burden for citizens and businesses without compromising the objectives of environmental and social protection. For example, the digital single gateway adopted by the legislator in October 2018 (see above in the section on the compliance package) could save companies more than EUR 11 billion per year and boost cross-border activity according to the impact assessment.

2.2.3 Information management aspects

Access to Documents

The access to documents team of the Directorate-General ensures coordination and uniform implementation of the access to documents rules (Regulation 1049/2001 on public access to documents and relevant case law). To this end, the access to documents team provides all necessary advice and guidelines to the line Units. In 2018, the access to documents team processed 443 requests for access to documents. The overall number of 73 requests was received by DG GROW but then reassigned to other Directorates-Generals since the scope of those requests did not fall under the competence of the Directorate-General. DG GROW registered a 10% increase in access to documents request as compared to 2017. It should be underlined that year 2018 was marked not only by an increase of requests but also by a significant increase in the number of voluminous requests and requests requiring coordination with other Directorates-Generals of the Commission. The number of initial requests handled by DG GROW that

were subject to confirmatory applications with the Secretary General was 17. The Directorate-General also participated in five Ombudsman investigations linked to access to documents issues.

Personal Data Protection

In preparation for the revised rules on personal data protection in EU Institutions, GROW Data Protection Coordinator (DPC) conducted a mapping of personal data processing activities in DG GROW between July and December 2018, which showed the following situation:

- 43 notified personal data processing activities were registered in the DPO-2 database.
- 5 notifications were deleted and 25 notifications were newly created or updated.
- 6 information systems processing personal data needed to be recorded.
- 6 notifications might need to be erased after confirmation that no personal data is processed anymore.
- 21 information systems managed in DG GROW were checked and it was confirmed that they were not processing personal data.
- There were no processing activities implying risks that would require to draw up a Data Protection Impact Assessment.
- There were no transfers of personal data outside the Commission or restrictions to rights of data subjects.
- There was one possible case of joint controllership operations with the Research & Innovation family Directorates-General, Agencies and Joint Undertakings in relation to the management of research projects via the "Funding and Tenders Portal". GROW DPC was appointed as member in the CSC Executive Committee group tasked to develop a draft agreement on the matter.

The mapping also served to:

- Update DG GROW inventory of personal data processing operations.
- Assess and ensure compliance with general personal data protection principles, in particular as regards recording of processing activities, informing data subjects via privacy statements, lawfulness, data minimisation and storage limitation.
- Nominate contact points for personal data protection in every DG GROW Unit, at a lower level than Heads of Unit (Controllers), with the role to cooperate with GROW DPC in ensuring awareness on, and implementation of, personal data processing rules within their Units.

Following the application of the new data protection rules as from 11 December 2018, 10 legacy notifications were transferred to records into DPMS and were under revision by the responsible Controllers.

To raise awareness on new personal data protection rules within DG GROW, GROW DPC organised three information sessions addressed to the whole Directorate-General, one for Senior management, one for Heads of Unit and one for other DG GROW staff processing personal data. Relevant information was distributed after the meetings. Other 2 information sessions were provided to Units responsible for communication and international affairs. Targeted advice was provided for some other units or concerning implementation questions, via GROW DATA PROTECTION COORDINATOR mailbox or bilateral meetings.

GROW DPC also prepared in 2018 a draft DG GROW Personal Data Protection Action Plan

aimed at supporting the quick and smooth implementation of the new Internal Data Protection Regulation, and of the Commission Action Plan, in DG GROW. This Action Plan presented the main elements of the new regulatory framework, described the responsibilities of different actors in DG GROW and concrete actions to be undertaken in the short and medium term.

The Directorate-General consulted the European Data Protection supervisor concerning two draft delegated and implementing acts related to firearms, with a satisfactory result.

Briefings

Already in 2017, all briefings were handled in the electronic tool for managing briefings in the Commission (BASIS). Thus, the target has been achieved. In 2018, DG GROW continued to have one of the highest number of briefings requests across the Commission (ranking 2nd). It continued to organise trainings to promote the efficient use of the internal briefings/speeches procedures, the use of mini-briefings and the new mobile feature: "basis on the go" to cope with the high internal and external workload.

Internal Communication

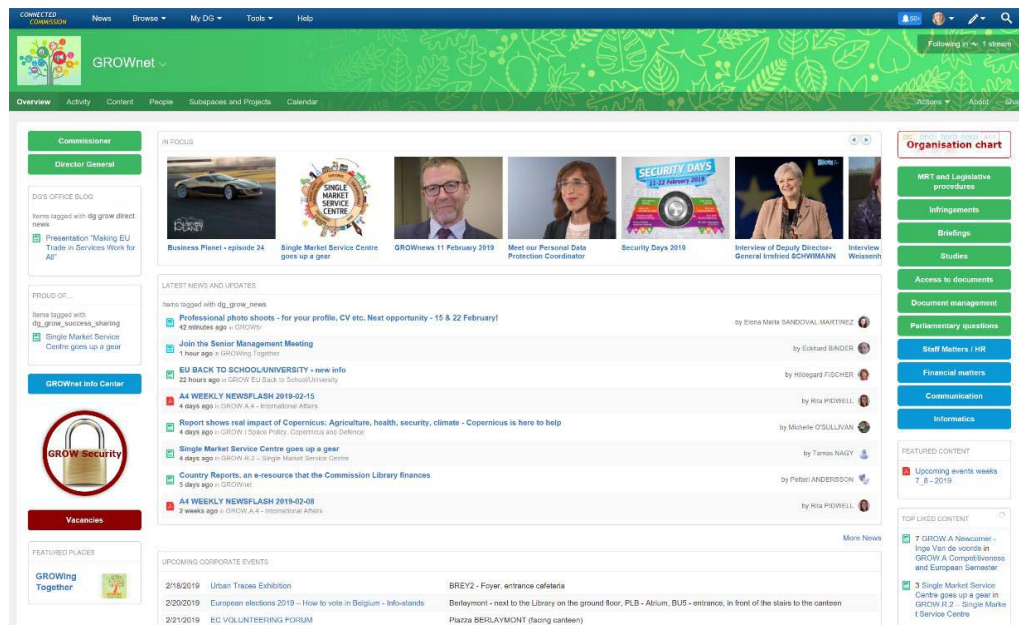
In line with the Communication to the Commission "Synergies and Efficiencies in the Commission - New Ways of Working", the role of internal communication is to strengthen community of DG GROW and contribute to its efficiency and effectiveness through a number of instruments. It serves namely as a channel for disseminating important and relevant information to DG GROW staff and thus for facilitating greater operational efficiency. Internal communication of the Directorate-General is based on an existing collaborative network GROWnet, internal audiovisual service GROWtv, and a number of processes with other involved subjects, namely HR Business Correspondent, training correspondent and others.

One of the key objectives of internal communication in DG GROW is to support central services (HR) with our own dissemination and distributions tools in order to multiply the messages across the Directorate-General. To name a few initiatives, in 2018 we participated to Career Days, Fit@Work, volunteering week and the shoe box campaign. We continue promoting the internal networks of colleagues, which serve as a platform for an exchange of information and informal gathering.

Internal communication also organises events, which aim to strengthen DG GROW community. Those events are mainly for DG GROW staff, however, spouses and other family members are welcome to join.

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GROWnet



GROWnet was launched on 2 May 2017 as part of a Commission-internal interactive CONNECTED platform. The implementation of GROWnet promotes a cultural change towards a more transparent and open working environment.

The platform facilitates internal communication and knowledge sharing across the Directorate-General and the Commission as a whole. It also contributes to the creation of Directorate-General institutional memory, supports collaborative working methods and cross-silo collaboration as well as talent management.

The platform is based on user engagement. It constitutes the main tool for internal communication. One its key objectives is to ensure a smooth stream of information flow and to provide staff with a flexible and an interactive platform to communicate. Regular updates on issues relevant for all staff are being published on GROWnet, this includes: weekly debriefings from the management meetings, interviews with members of the management and updates on main policy files.

Commission en Direct

GROW Internal Communication team is in regular contact with the Commission en Direct. This channel allows us to raise awareness about DG GROW policies and best practices beyond our Directorate-General. For example, in November and December 2018, 4 articles about DG GROW staff were published in Commission en Direct. These stories were also shared on GROWnet.

GROWtv

Through this audio-visual service and together with internal communication team, GROWtv creates video content that is disseminated among DG GROW staff, accessible also to colleagues from the entire Commission. GROWtv supports business units of the Directorate-General in case of need for services such as interviews, recording of events and video messages. For internal communication purposes, beside the requests based on DG GROW Units' actual needs, GROWtv produces regular GROWnews debrief from Management Meetings on weekly basis (42 episodes finalised and distributed in 2018). Other video production was linked to GROWing Together initiative for which 8 videos finalised in 2018 and also internal events videos from trainings and other occasions. In case key messages can be also linked to external communication, the content can be also

distributed on DG GROW YouTube channel.

GROWtv beside being a valuable support for internal communication purposes also produces videos for DG GROW external communication teams.

2.2.4 External communication activities

DG GROW aligning with the corporate approach

In 2018, the Directorate-General streamlined its corporate communication activities around the Commission's corporate campaigns (#InvestEU, #EUandME, #EUProtects). To do so more effectively, DG GROW brought down its communication priorities from five in 2017 towards three in 2018 (Industrial policy, Single Market 25th anniversary and SMEs policy). All of DG GROW's communication actions fall under these priorities and all flagship events were progressively branded and/or promoted under one of the corporate campaign's logos.

DG GROW communication actions

To illustrate, DG GROW's Social media campaign on the 25th anniversary of the Single Market (5 million reach and 3,000 engagements on DG GROW accounts) was, in coordination with DG COMM, designed to kick off the #EUandME corporate campaign. COMM actively promoted the campaign on social media and, vice versa, The Directorate-General actively promotes corporate campaigns. This type of mutual support and promotion has been increasing throughout 2018 with DG COMM co-promoting more DG GROW events of corporate relevance.



The European Industry Day promoted under #InvestEU had a reach of 245 303 (+49% from 2017) and 9,220 participations of which 8,267 online (+73% from 2017).



Other examples such as the Circular Economy Conference, European Space Week, Cluster Week, SME Week, Raw Materials Week and others are also following the path to be flagged under corporate campaigns. 'Your Europe' has become the Commission's third most visited Web portal, the Multiannual EU Open for Business campaign has been successfully promoting business development and internationalisation via EU funding instruments and the regular 'Business Planet' episodes produced by 'Euronews' reached 8.3 million viewers just in the third quarter of 2018.



Media and press outreach

As regards media, DG GROW produced over 100 interviews or articles, handled on average two journalist questions per working day, prepared 60 daily news items, 20 press releases and 150 Lines to take. DG GROW is part of the Mythbuster's network and produced two Eurobarometers (Collaborative economy and SME's, resource efficiency and green markets).



Evaluating Communication action

DG COMM's new methodology to evaluate communication actions has been implemented in DG GROW in the second half of 2018. The first significant evaluation results thereof should thus kick in by end 2019.

2.2.5 Inter-institutional Relations

In 2018, DG GROW continued its close relations with the other European institutions. In the table gives an overview on this work:

HANDLING OF COUNCIL AND EUROPEAN PARLIAMENT RELATIONS WORK IN NUMBERS

Preparation of 4 Competitiveness and 3 Defence Councils	Preparation of and participation at 400 Committees meetings and 15 plenary debates
 7 Other Council formations 4 High level groups 10 Working parties Weekly COREPER Dealing with 881 parliamentary questions	 Following up to 44 other parliamentary debates 58 Bilateral and informal PARLIAMENT meetings
Number of Trilogues in 2018: 23	

HANDLING OF OTHER INTERINSTITUTIONAL RELATIONS WORK IN NUMBERS

44 Comitology committees	43 European Ombudsman complaints	167 petitions dealt with
National parliaments: leading on 33 opinions, associated on 1	European Economic and Social Committee: leading on 23 opinions, associated on 5	Committee of Regions: leading on 6 opinions, associated on 9
315 interest groups (CIRCABC)		