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NOTE

from: The Presidency
to: Permanent Representatives Committee (Part I) / Council (EPSCO)
Subject: Evaluation of the second European Semester and thematic surveillance
in employment and social policies

- Policy debate

Delegations will find attached a Presidency note on the above subject with a view to the policy debate at the EPSCO Council on 4 October 2012.

Evaluation of the second European Semester and thematic surveillance
in employment and social policies

Presidency steering note for the policy debate

The examination of the Country-specific Recommendations (CSRs) to Member States on their economic and employment policies is a crucial moment in the European Semester. These recommendations, adopted by the Council in July¹, are playing an increasing role in the reform agendas of Member States, in particular since the CSRs will influence the preparation of national draft budgets. The Euro Area Summit Statement of 29 June 2012 underlined the importance of the country-specific recommendations in relation to the utilisation of the EFSM/ESM.

Important issues of substance, governance and procedure emerged in the second European semester. An overall assessment is now taking place in the relevant Council configurations (*the Economic and Financial Committee (EFC) prepared an issues note for the July meeting of ECOFIN and an in-depth review of the European Semester is scheduled for the meeting on 9 October. The General Affairs Council² held a debate on 24 September*).

The Presidency considers it important that the EPSCO Council also provide input into this process, drawing lessons from the 2012 exercise with a view to improving next year's cycle. The objective is to ensure, in a comprehensive and consistent manner, that the EPSCO Council can contribute substantially to addressing all issues within its competence in the forthcoming cycles. The enhanced economic governance framework at EU level³ has put in place a more meticulous course of action, integrating existing processes with new instruments. There are many cross-cutting issues and different policy areas and competencies are overlapping, so new mechanisms need to be developed in order to manage the complexity and make the comprehensive nature of the exercise fully operational.

¹ OJ C 219, 24.7.2012

² 13439/12

³ Including the "Six-Pack" with the "comply or explain" rule

The added value of the exercise is heavily reliant on shared assessments of the challenges that lie ahead and convergence of approaches on how to tackle the problems. Further efforts are required to reach a shared understanding of the underlying analytical framework applied by the Commission so that Member States accept and implement the appropriate policy recommendations. In this respect the level of detail of the CSRs should also be reflected upon. Member States need flexibility to choose the implementation path that best suits their national situations, in particular in areas which remain under the Member States' competence. This work is mainly organised throughout the year in the multilateral surveillance and thematic reviews.

The integrated framework in which the recommendations are presented and the time constraints require enhanced cooperation and coordination from all actors at the various levels to ensure coherence and consistency of the results. The active involvement of all stakeholders is important and their role needs to be clear so that the work of the Semester can be carried out effectively.

The experience of the past semester indicates that there is a need to identify a more effective process that will lead to the formulation, justification and eventually the discussion/adoption of CSRs, whilst addressing the time constraints effectively so as to enhance the coordination and integration of the various policies. This includes discussions on EPSCO's position on the broader economic governance to make sure that the policies to be implemented at national level reflect jointly agreed priorities. Despite the fact that the Macroeconomic Imbalances Procedure (MIP) is to be considered in the ECOFIN Council, it will be important for the EPSCO Council to provide its views, as the flexible use of European Stability Mechanism (ESM) instruments will be made conditional on implementation of the CSRs.⁴ The consequences of excessive deficits⁵ will also impact on employment and social policies.

In this framework, both the Employment Committee and the Social Protection Committee have prepared an evaluation of the process and the issues at stake. Both committees are proposing improvements for consideration and endorsement by the EPSCO Council.

⁴ Euro-area Heads of State and Government statement of 29 June 2012.

⁵ Regulation 1174/2011, OJ L 306, of 16.11.2011

The contribution of the Employment Committee presents the areas where improvements can be made to the process for 2013, whilst making concrete proposals on how this could be carried out, with a specific reference to its own possible contribution. Its review process (multilateral and thematic) during the Semester enabled it to provide a genuine multilateral position on the Commission's proposals for CSRs and the amendments requested by Member States. EMCO intends to improve the review process, thereby enabling it to reach robust conclusions for the 2013 exercise.

In the light of the growing number of CSRs related to social protection and social inclusion, the contribution of the Social Protection Committee calls for a strengthened role of the SPC in the European Semester process. The increasing relevance of social policy issues mirrors the worsening social situation in the Union. The thematic and country surveillance carried out by the SPC will enable the Council to take account of the social priorities of Europe 2020 in its discussions in the framework of the European Semester.

Against this background, the Presidency would invite Ministers to focus in their interventions on the following policy issues:

(1) ***Managing cross-cutting issues and the complexity of the process:***

A number of important issues within EPSCO's policy remit are cross-cutting (*pensions, wage-setting mechanisms, tax wedge, employment protection legislation*). The decision to entrust ECOFIN with the finalisation of these issues during the previous Semester cycle was strongly challenged in the EPSCO Council in June.

Economic coordination is increasingly being strengthened and codified. At the same time the arrangements for social policy coordination at EU level are non-binding (social Open Method of Coordination (OMC)). This is resulting in a major imbalance in the overall coordination of economic, employment and social policy.

Question: **What concrete actions/measures need to be taken to ensure that EPSCO retains ownership of policy issues within its core areas of competence? More specifically, what cooperation channels with ECOFIN could be envisaged and which working methods could improve the process and outcome?**

(2) ***Implementation and results:***

CSRs are not an end in themselves, they are a means to bring forward positive transformations that will prepare Member States' economies for future challenges. Reforms advocated by the CSRs may require several measures for their implementation and, additionally, their effects may take time to materialise. The focus of the annual cycle should gradually be geared to ensuring the implementation of the measures towards positive economic and social outcomes.

Question: **How can CSRs be improved and what should be done to ensure better implementation and outcomes?**

(3) ***Timeframe and procedures:***

It is essential to address the time constraints correctly. The timeframe has again proved to be very challenging, in particular after the publication of the CSRs. This has an impact on the quality of the process, and in particular on proper consultation and coordination. Member States have found it difficult to examine their own CSRs, let alone those of the other Member States and the effective involvement of stakeholders in the process has been significantly impeded by the time limits. The multilateral character of the exercise cannot be fully ensured in just a few weeks' time.

Question: **What could be the alternatives to reorganising the annual cycle? To what extent could national requirements be better aligned, with a view to establishing a different rhythm and sequence for the exercise?**