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Subject: The European semester – ways forward

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Delegations will find attached a discussion note prepared by the Economic and Financial Committee and the Committee of Permanent Representatives (Part 2) on the European semester.

Encl.:

## The European semester – ways forward

Building on the outcome of the first exchange of views on the 2012 European semester process among Ministers at the Ecofin meeting on 10 July, this note discusses some areas for further improvement and proposals to be considered in the preparation and planning of the forthcoming 2013 European semester.

### 1. Areas for further improvement

Overall, the outcome of the 2012 European Semester was considered satisfactory. The integrated approach to surveillance<sup>1</sup> has translated into more concrete, focused and coherent policy advice. The enhanced EU economic governance framework has also generally implied that the process carries more weight than in the past. At the same time, however, the process has become more cumbersome and the time constraints applying to the review process provide very little time for in-depth discussions on substance at the time that the recommendations were adopted.

First, bringing together the surveillance of various procedures (Europe 2020, SGP and MIP) covering rather complex policy areas at one single point in time during the year is very challenging for all parties involved (the Commission, Member States and the Committees). The limited time available during the second phase of the European semester, between the adoption of horizontal macro-fiscal guidance in early March and the endorsement of country-specific recommendations by the European Council in late June, is a major challenge. While there is very little leeway for speeding up the various steps of the process, further efforts need to be made to use in full the limited leeway that may exist and to use the time more efficiently.

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<sup>1</sup> The European semester brings together the surveillance of three main stands of economic surveillance in to one process: public finances under the SGP, structural policies on the basis of the Integrated guidelines (BEPGs and employment guidelines) and macroeconomic imbalances under the new Macroeconomic Imbalances Procedure. The outcome of surveillance is presented in the format of one integrated set of Commission recommendations for country-specific recommendations to be adopted by the Council. The SGP and the corrective arm of the MIP – not yet applied – may lead to recommendation outside this set of recommendations, but both procedures remain consistent with the European semester process.

Second, while the enhanced EU economic governance framework (the "six pack"), including the new "comply or explain rule"<sup>1</sup>, has led to a more stringent process than in the past by providing a stronger role for the Commission, the implementation of the rule needs to be further discussed to ensure that the integrity of the European semester process is not put at risk. An appropriate balance needs to be established between the stronger role of the Commission and the need for an open and continuous dialogue with Member States and to take into account Member States' expertise, thereby contributing to fostering political ownership of policy advice both at national level and in the Council as a whole. The application of the rule and its implications on the review process also need to be clear to all before the review process starts and the rule needs to be applied consistently across committees. While voting is not a common feature at committee level and ideally should be avoided, the rules for identifying (qualified) majority positions need to be clarified to ensure an efficient conduct of the review and acceptance.

Third, the "comply or explain rule" has also contributed to more peer pressure in committee discussions by increasing the collective responsibility of the Council for changing and adopting recommendations in disagreement with the Commission. However, for peer pressure to be effective and fulfil its purpose, it is fundamental to promote a convergence of views on the underlying assessments of challenges, analytical frameworks and on the appropriate policy responses. Without shared understandings the review process will risk continuing as a largely bilateral exercise between the Commission and each Member State. In view of both the time constraints applying to the review process and the sheer number of Member States, it is however not realistic to expect sufficiently in-depth discussions on the basis of the Commission assessments in June. The review exercise of individual countries or in specific policy areas (so called thematic reviews) therefore needs to take place earlier (and possibly be spread out throughout the year) and involve the relevant experts. This would also seem to be relevant for follow-up on policy advice as both the implementation of advice and its monitoring have been recognised as weak elements in the past.

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<sup>1</sup> Article 2ab)(2) of Regulation 1466/97 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies, which makes part of the section on "Economic dialogue", states that "*The Council is respected to, as a rule, follow the recommendations and proposals of the Commission or explain its position publicly*".

Fourth, as a result of the integrated framework in which the policy advice is provided, the overall consistency and coherence of the advice has been enhanced. The recommendations have also become more focused and concrete, by putting more emphasis on actions to be taken. However, the integrated nature of the European Semester has added to the complexity of the process given the involvement of different stakeholders. The indication of the instrument to which the recommendations are linked (i.e. opinion under the SGP and the preventive arm of the MIP) has helped the attribution of recommendations between the various committees involved and has contributed to focus the discussions. However, there is still room for further improvement, including by providing a clearer division of labour between Committees, the prioritisation of policy advice and establishing a clearer and more stable link between individual recommendations and the legal base.

Further attention also has to be paid to the level of prescriptiveness of recommendations, ensuring that they remain concrete enough to give clear guidance and facilitate follow-up but at the same time allowing Member States to decide on which policy means will be used. The role of national governments and the right to make their own policy choices will have to be respected.

## **2. Proposals for enhancing the European semester process**

### **a) Addressing time constraints**

In the short term, 5 to 10 additional working days could be attributed to the review process in Committees and Council if all parties make serious efforts and agree on the following:

- Taking into account the early adoption of horizontal macro-fiscal guidance on the basis of the AGS (February), Member States should make all efforts to speed up the process with preparing their SCPs and NRPs, aiming at submitting these by mid-April. In particular, NRPs could be prepared and submitted at an earlier stage.

- The Commission could take concrete steps to speed up its internal procedures for assessing SCPs and NRPs aiming to adopt assessments and publish policy advice one week earlier than in 2012, while ensuring the quality of the assessments.
- The European Council meeting in June should take place as late as possible (for 2013 on 28-29 June) allowing for the Ecofin meeting to take place late the 3<sup>rd</sup> week (for 2013 on 20-21 June). The EFC meeting should be scheduled so as to provide sufficient time for dialogue and the identification of possible compromises after the preparatory discussions.
- Whereas the sharing of draft documents may be difficult for confidentiality reasons, a pragmatic approach to the sharing of analytical underpinnings at an early stage would be helpful. Consolidating the outcome of bilateral contacts, supported by a reporting grid would also ensure a continuous and structured flow of information throughout the process.
- While respecting the integrated approach to policy advice, the Commission should present the analysis underlying the Macroeconomic Imbalances Procedure (i.e. IDRs) at an earlier stage, as a rule in March. Considering the rather complex macroeconomic and policy issues involved, an early discussion would be beneficial both for Member States and the Commission, by providing more time for discussion on substance and a possibility for Member States to address the issues more explicitly in the forthcoming SCPs and NRPs. An early discussion of the technical analysis in the IDR and possible policy responses, would also support the Commission in preparing policy recommendations and facilitate the decision on whether or not to apply the corrective arm of the procedure (i.e. the EIP procedure). It would also contribute to a more focused and effective discussion during the review exercise.

In the longer term, it may also be appropriate to consider to:

- Advance the date for the fiscal notifications, while ensuring the quality and reliability of data.
- Request Eurostat to speed up the validation of fiscal notifications.
- Postpone the European Council meeting by one week to the first week of July.

#### **b) More efficient use of time**

With a view to use the available time more efficiently during the second phase of the European semester, notably during the review process, the following could be considered:

- More bilateral contacts and structured discussions between the Commission and individual Member States: a) discussion on emerging NRPs and SCPs in early April; b) Commission missions to Member States, including for the preparation of IDRs and c) a discussion on SWDs analysis and legal documents in late May. The latter discussion should aim at clarifying the Commission assessment and policy advice as well as to clear up possible misunderstandings and purely factual issues. This should allow focussing the discussions in June on substantial policy issues.
- A more structured written procedure on the basis of the legal documents prepared by the Commission: a) Member States should show restraint as regards the number of proposed amendments, clearly classify amendments (technical, factual or policy related) and also prioritise their proposed amendments according to political relevance. To provide a basis for an informed discussion at Committee level and for "the comply or explain note", proposed amendments should be clearly argued and include supporting evidence. Proposed amendments that are not accompanied with underlying motivations and reasoning would be ignored in the review process; b) the Commission should provide written responses to the proposed amendments, but not compromise proposals; and c) the Secretariat would on the basis of the written comments prepare a list of issues to be discussed for each Member State during the review process. A more structured written procedure will however require sufficient time.

- On the basis of the bilateral contacts and the written procedure, a few horizontal issues related to fiscal and structural issues may warrant particular attention in the Committees before the discussion of country-specific issues.
- The division of labour between committees should be clearly established ex ante in order to avoid that issues are discussed at several occasions. Ex-ante contacts of the Chairmen should be organised to discuss and agree on work attributions and planning.
- The aim should be to settle as many as possible issues at preparatory level (EPC and EFCA). As a rule, issues settled in preparatory committee (i.e. a solution/compromise is found that is acceptable to the Committee and the Commission) should not be reopened by the parent committee.

### **c) Ensuring strong economic governance and Member State ownership**

To achieve a balance between the stronger role of the Commission, on the one hand, and stimulate an open on-going dialogue between the Commission and Member States and ensure ownership, on the other hand, the following should be considered:

- The Secretariat should clarify and communicate the rules of procedure applying to the review process ahead of the start of the review process, including how the "comply or explain rule" will be implemented. The rules of procedure should take into account information from the Commission on the approach to be taken during the process. While explicit voting should be avoided at committee level, the rules of procedure should be consistent with the QMV rule applicable in the Council.
- The Commission officials participating in the discussions should have a clear mandate to agree on factual and technical changes to CSRs and recitals.

- While ensuring that policy advice is not watered down, Commission officials should also have a mandate to agree in principle on adjusting, rephrasing and streamlining of policy advice. As a rule, these agreements should be confirmed by the Commission in the EFC (or EMCO – as appropriate). Likewise, Member State representatives should have a clear mandate to agree on compromises during the review process.
- The EFC would confirm compromises reached and discuss any open issues on content that remain unsettled after the preparatory committees. To this end, it could be envisaged that the EFC devote more time to the discussions of key outstanding issues than in the past.

#### **d) Ensuring efficient peer pressure**

To stimulate more discussion on substance and thereby ensure effective peer pressure in Committees the following should be considered:

- On a yearly basis, a work programme for thematic reviews should be established. Considering the work load of the Committees and the Council the aim should be to organise two thematic reviews per semester. The main outcome of the thematic reviews should be reported to the Council.
- Member States' budgetary policies should be discussed in the relevant committees in detail following the spring and the autumn forecast, on the basis of a Commission note.
- Existing gaps in analytical frameworks (e.g. to assess structural policies and reforms) should be closed. Current work within the remits of the Economic Policy Committee underpinning the Macroeconomic Imbalances Procedure should be prioritised. Further work to establish analytical frameworks for reforms in product and services markets could also be developed.
- As regards the Macroeconomic Imbalances Procedure, in-depth reviews should be presented at an earlier stage to provide a basis for both multilateral and bilateral discussion between Member States and the Commission before formal decisions are taken and policy advice is presented.



- Regular and structured discussion on rebalancing and its nature would seem particularly relevant for the euro area. Such a discussion appears appropriate both in the context of the annual Alert Mechanism Report in the autumn and the May package. This discussion would also contribute to the recommendations for the euro area as a whole. The appropriate timing would however need to be considered further in cooperation with the Commission.
- To further reduce the work load of the main committees and to streamline thematic reviews, the EPC Country Review Working Group could be revived. Depending on the specific themes to be reviewed, the working group could invite members or representatives from other committees (i.e. EFC Alternates), including under other Council formations (e.g. EMCO).

#### **e) Further enhancing country-specific recommendations**

With a view to further enhance the country-specific recommendations the following should be considered:

- While recognising the importance of cross-country consistency, recommendations could become even more country-specific and even more concrete by taking into account country-specific policy elements and country-specific challenges as well as by specifying timelines for implementation. To this end national policy choices could be better taken into account in certain cases, while at the same time ensuring that the policy challenge appropriately addressed. The latter may on the one hand complicate the review process, by increasing the political stakes, but on the other hand facilitate the assessment of implementation. For euro area Member States the definition of timelines is particularly relevant as the respect of their country-specific recommendations is a precondition for the use of several ESM stabilisation instruments.
- While recommendations should be concrete, they should leave appropriate room for Member States to choose relevant policy means. To this end, the Commission should consider clearly indicating in the recommendations both the goal to be achieved and the recommended policy actions to ensure this. Where possible, alternative policy actions could be identified. Should this not be appropriate, the Commission background analysis should clearly explain why one specific policy response is desired.

- The possibility of further specifying legal base could be considered with a view to streamlining the review process. To this end it may be discussed how a clearer link between recommendations and the legal base could be established and how the distribution of responsibilities between preparatory committees and be facilitated. It could also be considered to group together recommendations according to legal instrument/base in the legal documents.
- The legal base for specific recommendations should be maintained over time and not be changed from one year to another if there are no compelling reasons supporting such a change, e.g. as a rule, recommendations addressing fiscal and long-term sustainability issues should be addressed under the SGP; recommendations addressing longer-term structural policies, product market functioning and integration and growth potential should be addressed under the integrated guidelines, and recommendations directly linked to the correction of macroeconomic imbalances should be addressed under the MIP (preventive arm).
- To facilitate the review process, issues addressed under the employment guidelines should also be clearly identified, including notably, education and skills, ALMPs, poverty reduction and other social issues. As far as possible, these issues should not be mixed with other policies in one and the same recommendation.
- To ensure sufficient political focus and also taking into consideration Member States' capacity to implement important policies, the number of recommendations should be kept limited. Judging on the basis of past exercises, there would seem to be little reason to have more than 6-7 recommendations for each Member State. Prioritising the policy actions to be undertaken could i.a. happen through the setting of clear timelines.
- Possible changes to recommendations agreed by the Committees should aim at increasing the concreteness or country-specific elements of recommendations.

## Issues for discussion

- *With a view to addressing the existing time constraints and use the time available more efficiently, do Members agree on the broad proposals identified and do Members consider that they can be realistically implemented?*
  - *Do Members agree that the broad proposals put forward in the note would contribute to ensuring strong Economic governance by achieving a better balance between the stronger role of the Commission, on the one hand, and stimulate an open an on-going dialogue between the Commission and Member States, including more national and Council ownership, on the other hand? Are there other proposals that should be explored?*
  - *To stimulate discussion on substance and thereby ensure effective peer pressure in the Committees, do Members consider it possible to establish a longer-term work programme for thematic reviews beyond the themes already being pursued? Under the MIP, do Members agree with the broad proposals outlined and do members have specific ideas on how to schedule the relevant discussions on the IDR and AMR on country-specific and more horizontal issues?*
  - *To ensure a sufficient level of concreteness of recommendations, do Members consider important to further develop the country-specific aspects of recommendations and how could this be reconciled both with ensuring cross-country consistency and also leaving more room for policy choices to be taken at national level? How do Member States perceive the need for a reference to a legal base/instrument for each recommendation?*
  - *Do Members agree that the EFC should focus on discussing open issues on content that remain unsettled after the preparatory committees? How could the role of the EFC in multilateral surveillance be further enhanced, also in order to facilitate a substantial policy-relevant debate at the Ministerial level?*
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