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NOTE

from: Permanent Representatives Committee (Part I)
to: Council (EPSCO)

Subject: The 2014 Annual Growth Survey and Joint Employment Report: political
guidance on employment and social policies
- Draft Council Conclusions

Delegations will find attached the draft Council Conclusions, as finalised by the Employment and Social Protection Committees (EMCO and SPC).

These Conclusions were discussed by the Working Party on Social Questions at its meeting on 25 February 2014. They were also considered by the Permanent Representatives Committee, at its meeting on 28 February 2014. No changes were made to the text stemming from the EMCO and SPC committees.

The DE delegation maintains a reservation on the 4th bullet point of page 8 and on the second bullet point of page 9. The MT delegation maintains a general scrutiny reservation.

The Permanent Representatives Committee agreed to forward the draft Conclusions to the EPSCO Council for adoption at its meeting on 10 March 2014.

The 2014 Annual Growth Survey and Joint Employment Report: political guidance on employment and social policies

Draft Council conclusions

Economic forecasts confirm signs of a slow recovery, though modest and fragile. However the legacy of the crisis will continue to weigh on growth for a considerable time, through high levels of unemployment, falling household incomes and rising poverty and inequalities. The unemployment situation seems to have stabilised, but with more than 26.8 million jobseekers unable to find a job this represents a considerable drag on growth in the short term through weakened demand, and also threatens to undermine Europe's long-term competitiveness as people lose their skills and many young people struggle to get a foothold in the labour market and unemployment becomes increasingly structural in nature.

The number of people at risk of poverty or social exclusion in the EU reached the alarming figure of 25% of the total EU population. The Social Protection Performance Monitor (SPPM) shows that the depth of poverty, in-work poverty the growth in the share of jobless households, the severe material deprivation, and the share of children at risk of poverty or social exclusion and youth exclusion are among the main trends to watch driving living standards downward.

The Council of the European Union stresses that:

- In the context of transition towards economic and jobs recovery, the continuation of the policy priorities set out in the Commission's fourth Annual Growth Survey (AGS) is welcome as it ensures stability of the overall policy framework.

- The Joint Employment Report (JER) contains for the first time a Scoreboard of key employment and social indicators. It can help to underpin the contribution of the Council to the agenda set by the European Council regarding the reinforcement of the social dimension of the EMU within the current institutional framework, and can represent a valuable additional tool within Article 148 and the European Semester. Work should now continue to improve the scoreboard and refine its operational scope in time for the 2015 European Semester.
- The Council confirms the broad political objectives for social policies as adopted in its 2013 conclusions on "The Annual Growth Survey and the Joint Employment Report in the context of the European Semester: political guidance on employment and social policies"¹.
- On the basis of the AGS and the JER, and the strategic guidance provided by the European Council, the following orientations in the field of employment and social policies are important:

Deepening the European Semester

- Without a return to strong economic growth and the normalisation of credit flows, job creation is unlikely to improve significantly in the short-term and the context for furthering the necessary labour market reforms will become increasingly difficult. The most important factor in improving EU labour markets is to create more and better jobs. The Annual Growth Survey stresses that financial market fragmentation has led to divergent interest rates for loans to businesses and households across the EU. This also has profound implications for labour markets, as enterprises and in particular SMEs, face barriers for access to finance.

¹ See Council document 6462/13.

- Significant measures have been taken to reform labour markets and enhance their resilience, combat segmentation and promote labour market participation. Although the effects of such important reforms will take some time to be fully felt, some results are already visible and the extent of progress varies across policy areas and between Member States. A higher level of female labour market participation is an essential source for enhancing the EUs growth potential and to meet demographic challenges. Determined and ambitious implementation of agreed policies will support economic recovery and job creation in 2014 and 2015. Furthermore, the lessons of recent years suggest paying careful attention to the sequencing of reforms and exploiting the synergies between product and labour market reforms. Product market reform can help to bring about the full benefit of broad labour market reform. The deepening of the internal market is important in this regard.
- In a number of key areas, the implementation of the Council recommendations are positively progressing and impacting on public deficits, competitiveness and economic imbalances. However, these achievements need to translate into higher employment, better income and living conditions, with less unemployment, poverty and social exclusion. The reform momentum needs to be sustained including through robust multilateral examination of the implementation of the recommended actions. Further, full ownership of the reform process at national level and the involvement of social partners or other stake holders is crucial for the implementation of reforms.
- In the emerging recovery, social policy reforms need to be comprehensive involving both universal and targeted approaches while avoiding segmented social protection with differences in the levels of coverage, between women and men and in the quality of the protection along the life-course. While adequate social protection should be the key objective of these reforms, they should also promote activation and support the employability of young people and of older workers as well as the integration of people with disabilities in the labour market. This should generate social and economic returns through better inclusion and possible increased productivity.

Pursuing differentiated, growth-friendly fiscal consolidation and fighting the social consequences of the crisis

- The 2014 Annual Growth Survey highlighted the importance of generating growth and more and better jobs. The AGS also stresses that recent increases of poverty and social exclusion call for more measures to improve the design, composition and quality of the consolidation programmes and the influence of fiscal policy on growth, public sector effectiveness and efficiency and social equity.. This, combined with the protective, preventive and stabilising role of social protection, should help Member States and the Union halt the increase of poverty and social exclusion and increase the chances for moving closer to the EU headline target for promoting social inclusion.
- Reforms in the areas of health care should be pursued with the view to improve their accessibility, quality, effectiveness and sustainability. In their health systems reforms, Member States should take into account the Council conclusions on the 'Reflection process on modern, responsive and sustainable health systems' adopted by the Council on 10 December 2013.
- The Council, in its recommendations on pension policy in the framework of the 2013 Semester, recommended a wider menu of policy options focussing on rising the effective retirement age by aligning retirement age or pension benefits to changes in life expectancy. Whilst this remains valid, pension reforms should also consider - according to country specificities - the priorities of longer working lives and active ageing, extending contributory periods, balancing contributions and benefits in an appropriate and socially fair manner, and promoting adequate safe and sustainable public and private pension schemes.
- The Council underlines that growth and labour markets delivering higher employment rates are crucial for the success of pension and health care reforms.

Supporting Job creation and fighting unemployment:

- The Council reiterates the European Council conclusions that policy priority should be given to enhancing competitiveness, supporting job creation and fighting unemployment, particularly youth unemployment, including through the full implementation of the youth guarantee, and to the follow-up of reforms regarding the functioning of labour markets.

- Without prejudice to the competence of Member States, policies should focus in particular on:
 - *Addressing youth unemployment in all its forms:* The Employment Committee’s multilateral surveillance review of the implementation of the CSRs related to youth unemployment illustrated the importance of a timely implementation of the Youth Guarantee and the high political visibility of this issue. The review showed the importance of comprehensive and coordinated approaches involving a wide range of actors at national, regional and local level. This requires a balance of short-term measures to help the young, combined with longer-term structural reforms. Member States should continue to concentrate on putting in place their Youth Guarantee and addressing the considerable challenges faced in implementing such an approach, in terms of reaching all of the young not in education, training or employment, and addressing capacity constraints at all levels.

 - reinforcing tax and other incentives for job creation, whilst recognising the role they play in social security and the provision of services, there remains a good degree of room for redesigning tax systems by shifting the tax burden away from labour on to other tax bases less harmful to employment. This seems particularly important for the low paid, often including young workers.

 - extending working lives and increasing the labour market participation of all groups, in particular women;

- *Preventing and reducing inactivity, unemployment and particularly long-term unemployment*: by improving the efficiency of public employment services and effectiveness of activation measures, including investment in human capital
- continuing to modernise education and training systems, including life-long learning and vocational training, and addressing skills mismatches;
- ensuring that labour cost developments are consistent with productivity gains, the need to adjust external imbalances and reduce unemployment;
- increasing labour mobility. This includes professional mobility across the entire economy, and cross border mobility, paying attention to potential side effects.
- Balanced *reform to employment protection legislation* to help towards remedying persistent labour market segmentation in both the public and private sector.
- continued effort to *fight undeclared work*.

Generating ownership and improved governance

- To achieve this, it is essential to increase the level of commitment, ownership and implementation of policies and reforms, underpinned by strong democratic legitimacy and accountability at the level at which decisions are taken and implemented. Labour market reforms are complex and often politically sensitive. To be successful they require buy-in, consensus within government and in most cases and in line with national traditions, and respecting their autonomy, close interaction with Social Partners and other stakeholders.

CALLS UPON the MEMBER STATES:

- To reflect the priorities of the Annual Growth Survey and the Joint Employment Report in their National Reform Programmes and to implement policies to address the 2013 Country-specific recommendations.
- To consider the policy conclusions of the Social Protection Performance Monitor in-depth reviews and the results of the multilateral surveillance work of EMCO and the SPC in the design of their policies;

CALLS UPON the EMPLOYMENT COMMITTEE and the SOCIAL PROTECTION COMMITTEE, respectively:

- To continue their work on the scoreboard of employment and social indicators reinforcing its coherence with the Employment Performance Monitor and the Social Protection Performance Monitor.
- The Employment Committee to present to Council its views on the In-depth reviews carried out under the Macro-economic Imbalances Procedure;
- The Employment Committee to apply the revised working methods between the Committee and European Social Partner Secretariats in annex, building upon the Joint Declaration.
- The Council takes note of the contribution of the European Social Partners to the annual report on the Social situation in the European Union.

CALLS UPON the COMMISSION

- To deliver the package of proposed Country-specific recommendations in a timely manner by taking into account the lessons learned from the 2013 Semester in order to facilitate the working of the Council and deepen the multilateral examination of the proposed recommendations and avoid overly prescriptive recommendations on the implementation of reforms.
- To work with Member States to improve the timeliness of social and employment indicators.
- To ensure the close involvement of the Employment and Social Protection Committees in any possible further work on the development of the concept of partnerships based on a system of voluntary mutually agreed contractual arrangements and associated solidarity mechanisms.

SOCIAL PARTNER COOPERATION WITH EMCO: WORKING METHODS

Background:

Over the past few years, EMCO has sought to improve its engagement with the Social Partners as part of the committee's work to strengthen the coordination of employment policies within the European Semester. Furthermore a number of actors have stressed the importance of reinforced dialogue, and changes in other areas are progressing (Commission consultation on the AGS, Tripartite social summit etc.). As EU economic governance arrangements continue to advance, and add complexity, this requires an ever more important common understanding.

The Employment Committee has a particular role in this regard. Article 150 TFEU states that "In fulfilling its mandate, the Committee shall consult management and labour". The committee committed to improve consultation with social partners, stressed² the need to build on existing arrangements to ensure legitimacy and ownership at both national and European level.

The European Social Partners have expressed their views on ways to reinforce European economic governance. On 24 October 2013 they adopted their declaration on "Social Partner involvement in European Economic Governance". This declaration sets out ten key principles the European social partners highlight to guide their involvement in EU economic governance. It also includes a series of suggestions on how to improve existing processes to more effectively enable a strong contribution from them.

These working methods aim to formalise a number of steps to improve consultation under the European Semester between EMCO and the European Social Partners in accordance of the principles agreed by the Social Partners in their joint declaration. As the natural bridge between European and national level, joint work needs to balance the need for discussion on issues of EU wide importance with the opportunity to ensure country specific issues of importance are raised.

² In its contribution on the Social dimension of EMU.

Drawing inspiration from the Joint Declaration of the European Social Partners, EMCO and the European Social Partners share the following key principles guiding their work together:

- 1) **Efficiency:** There is no need for new structures/mechanisms to involve social partners in European economic governance. Improvements could nevertheless be obtained through a better functioning and coordination as well as in some cases through adapting existing structures/mechanisms.
- 2) **Quality:** A closer interaction between EMCO and the European Social Partners is important, but improved working relations are a question of quality not quantity.
- 3) **Timeliness:** Discussions should be at key moments in the European Semester calendar.
- 4) **Open and well prepared:** Debates should be open, unrestricted (in full session) and well prepared, on the basis of a Steering Note prepared by the EMCO Support Team.

All the 10 guiding principles of the Joint Declaration are relevant for EMCO's work. However principles 7-10 encompass particular proposals for cooperation in implementing and monitoring the European Semester. This set of working methods therefore establishes some mutual commitments in this regard. It explains general working methods.

Shared principles:

Principle 7: Involving social partners in the elaboration and implementation of policies affecting directly or indirectly employment and labour markets all along the different steps of the European semester is essential with the view of taking into account their position. Social partner consultations should be timely and meaningful, allowing the necessary analysis and proposals and fitting within decision making processes.

Principle 10: There needs to be a coherent process of consultation of national and/or European social partners by Governments at national level, and with the Commission/Council/Parliament at European level.

- **In order to ensure an effective contribution to the work of the committee, EMCO will consult European Social Partners at the following points:**

Point 1: Launching the Semester

In December / January: between the adoption of the AGS and the EPSCO Spring Council, to debate the content of the AGS and Joint Employment Report and receive views on:

- 1) Draft Council conclusions on the AGS (drafted together with the SPC)
- 2) The Joint Employment Report (based on the Commission draft), and particularly the "Key messages" for the JER, which are subsequently sent to the Spring European Council.

Prior to this: in spring each year the EMCO Steering Group will meet European Social Partner Secretariats to exchange experiences on the European Semester process and to review the working arrangements.

Point 2: Finalising the assessment of the implementation of the CSRs³

In May: prior to the finalisation of the draft EMCO "horizontal" opinion to EPSCO on the National Reform Programmes and the implementation of the CSRs from the previous year.

The CSR process is characterized by a high degree of continuity, and the EMCO judgment on them is based on the multilateral position established through its multilateral surveillance. This surveillance is wound up during the country review in May.

In the course of the Semester, and prior to the review at the latest, the European Social Partners will be given the opportunity to provide the Committee and each other with an opinion on the relevance and implementation of the CSRs, which could be on the basis of the opinions of their national affiliates and/or on specific annexes to the National Reform Programmes⁴, thereby guaranteeing a meaningful influence of the June discussion of the new CSRs. The Social Partners will also be invited to the introductory session to the country review.

³ EMCO takes note of the steps the Commission has taken to involve social partners in the bilateral discussions it organises with and in Member States in the course of the Semester.

⁴ In case Member States decide to add such annexes

Point 3: June discussion on the CSRs

In June: The EMCO Steering Group should meet with European Social Partner Secretariats for an initial reaction on the overall direction for the draft CSRs. This would not address country-specific issues.

The June committee phase is characterised by severe timing constraints⁵, not allowing for an elaborate consultation process. The entire committee phase is conducted over a very limited number of days (including all joint meetings with the SPC, EPC, EFC) before all country-specific opinions must be sent to the Council preparatory bodies. The meeting could therefore be envisaged immediately after the adoption of the Commission's proposals for CSRs and prior to the first committee negotiation.

Principle 8: A transparent monitoring of employment performances and progress towards the Europe 2020 targets needs to be organised. The European social partners should here be involved in setting the relevant benchmarking indicators.

EMCO, through its indicators Group, will discuss and take the views of the Social Partners on the Scoreboard as it is refined for use in the 2014 Joint Employment Report.

The EPSCO Council 9 December 2013 approved the scoreboard of employment and social indicators. The Council "noted that further work in refining the instrument and integrating it into the existing instruments of employment and social governance needs to continue in order to realise its full potential". Work within EMCO will now continue to improve the scoreboard and refine its operational scope. The social partners will be involved in this work.

Furthermore the EPM, adopted by Council twice yearly, is also a living tool continually under development. Social Partners will be periodically consulted in developing labour market indicators and updating the EPM. This process will start with a presentation by EMCO of the EPM to European Social Partner secretariats.

⁵ With possible supplementary constraints in the 2014 Semester.

The mid-term review of the Europe 2020 Strategy will take place throughout 2014 and early 2015. This is likely to address both progress towards the targets and potential revisions to the guidelines (BEPGS and the Employment Guidelines). EMCO will involve European Social Partners in these discussions and fix a procedure with them once the timing becomes clearer.

FURTHER ISSUES RELATED TO Social Partners' and EMCO'S WORK:

The Tripartite Social Summit for Growth and Employment (TSS):

The agenda of the March Tripartite Social Summit is expected to focus on the European Semester⁶. In consultation with the Council Presidency, which is expected to continue to work together with the Commission and the workers' and employers' cross-industry organisations on preparing the agenda for the Summit and is also expected to engage in preparatory meetings with Council, the Commission, the ETUC and BUSINESSEUROPE, EMCO will draft an independent discussion paper on Semester related themes and submit this to the EPSCO Council that formally prepares the March TSS.

Similarly EMCO can work with the Presidency to ensure that the main messages from its continuing engagement with the EU Social Partners on upcoming priorities and their feedback on the outcome of the previous European Semester process consultation may be shared with the EPSCO Council in advance of the October tripartite social summit. EMCO will work with the Council Presidency to make sure that a feedback of the discussions in the TSS can be given to the Committee, in order for it to take into account its results.

⁶ In this context, the specific theme for the March 2014 TSS has been set as “Rebuilding Confidence in Europe: Focus on Job Creation- Lessons Learned and Future Orientations”

Macro-economic dialogue:

EMCO commits itself to a stronger engagement in the Macro-Economic Dialogue, at both technical and political level. It will provide an input for the meeting at technical level and make sure that a feedback of the discussions will be given to the Committee.

Informal EPSCOs:

EMCO welcomes the opportunity that Informal EPSCO Councils have provided for the Chair of EMCO to participate at regular meetings of the troika of EU Presidencies with the secretariats of the EU Social Partners. The outcome of these discussions is subsequently presented to Ministers and recent innovations in the programming of the informal Council meetings have enabled EU Social Partners to participate in workshop type discussions on relevant policy issues.

The European Employment Strategy Mutual Learning Programme:

EMCO will work with the Commission to explore ways of more closely involving social partners in the Mutual Learning Programme.