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**COVER NOTE**

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From:	Secretariat General of the Council
To:	Coreper / Council
Subject:	Ex-ante coordination of major economic reform plans –report on the pilot exercise.

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Delegations will find attached a letter from the president of the Economic and Finance Committee to the president of the ECOFIN on the ex-ante coordination of major economic reform plans –report on the pilot exercise.

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Encl.: [...]



Brussels, 17 June 2014

ECFIN/EFC/2014/ARES/2153581

## Ex ante coordination of major economic reform plans –report on the pilot exercise

Dear Gikas,

Following up on the December 2012 **European Council** and the Commission Communication of March 2013, the EPC in July 2013 agreed on organising a pilot exercise on ex ante coordination (EAC) of major economic reforms plans.<sup>1</sup> The aim of the pilot exercise was to consider how such framework could be designed in practice. Following further discussions in the EPC on the pilot exercise and the reforms to be covered, it was agreed to undertake this pilot exercise at two occasions to ensure a critical mass of reforms and to involve both smaller and larger Member States.

The first pilot exercise was organised in the EPC on 20 November 2013 and the second round on 20 February 2014, covering in total ongoing reforms in 7 Member States. The EPC had very fruitful discussions focusing both on assessing the reforms as such and on identifying a number of issues and lessons that would be relevant in relation to the design of an EAC framework. Following each round of the pilot exercise, the EFC was debriefed on the discussion. I would like to report on the main thrust of the EPC and EFC discussions and some conclusions that can be drawn.

The reform areas covered in the pilot exercise were broad, and are not definitive of the reform areas which are appropriate for inclusion in an EAC framework. The areas considered in the pilot exercise included labour markets; product and services markets, energy generation and networks; and taxation:

- First, as regards labour market reforms, the Committee discussed the reforms in the Netherlands and Italy. The reform of employment protection legislation and unemployment and social assistance benefits in the Netherlands aims to simplify and streamline the employment protection legislation, so as to improve the balance between permanent and flexible employment, and better activate the unemployed by enhancing the design of the unemployment benefit scheme. In Italy the reform aims at enhancing Active Labour Market Policies starting with the implementation of a national Youth Guarantee Scheme with early intervention and activation of young unemployed.
- Second, reforms of the regulated professions and services in the Czech Republic and Spain were discussed. They aim at reducing the number of regulated professions and, in the case of Spain, reducing the regulatory costs and unifying the domestic market.

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<sup>1</sup> The *ex ante* coordination of major economic policy reforms is part of a broader agenda to improve the governance framework of EMU and is embedded in the Treaty on Stability, Coordination and Governance (TSCG) in the EMU. The Article 11 of TSCG stipulates that "[w]ith a view to benchmarking best practices and working towards a more closely coordinated economic policy, the Contracting Parties ensure that all major economic policy reforms that they plan to undertake will be discussed ex-ante and, where appropriate, coordinated among themselves."

- Third, for Germany, the aim of the reform of the Renewable Energy Resource Act is to overhaul the existing legislation to achieve an affordable and secure supply of electricity while increasing the share of renewables in the electricity supply.
- Fourth, an introduction of a minimum corporate income tax for large companies in Belgium was discussed. This reform affecting the tax structure aim at broadening the tax base and rectifying some negative side-effects of large notional interest deductions.
- Finally, the objective of the French “Responsibility Pact” is mainly to lower cost of labour for firms and to modernize business taxation in France.

The discussions, which were stimulated by comments from a discussant Member State and the Commission, provided useful insights on the policy choices, expected impact of the reforms, the state of the discussion at the national level, potential spillover effects of the reforms, possible lessons to be learnt from experiences of other Member States, as well as the extent to which these reforms supported the convergence process within the euro area and the EU.

The Committee identified a number of issues related to the reforms reviewed, for example possible improvements to be considered based on other Member States' experiences. The overall scope, complexity and pace of implementation were also discussed and showed important differences across the individual reforms. Further, the complementarity of reforms in product, services and labour markets was stressed.

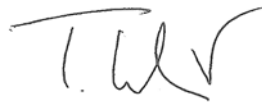
Based on the discussions, the Committee identified a number of issues relevant from the point of view of the design of the EAC framework, namely:

- The scope of ex ante coordination: in the pilot project a broad approach to reforms to be included was applied. This was generally deemed appropriate for the pilot but it was emphasised that EAC should apply to a rather limited number of major reform plans, and that the reforms discussed in the pilot project might not all be fully representative of the major reform plans which are appropriate for inclusion in the EAC framework. In this respect, plans for reforms with potentially large economic or political economy spillovers could be prime candidates in an EAC framework. Although spillover effects may be noticeable for certain taxation reforms, it was mentioned by some Members that taxation is a matter of national competence. At the same time, it was also noted that discussing reforms in the context of EAC would in itself not impinge on the national competence.
- The selection of specific reform plans that should be subject to ex ante coordination: there is no clear and objective definition of what constitutes such major reform plans for which EAC would be appropriate. The reforms to be covered could therefore be identified on the basis of certain characteristics to be agreed by Member States. The identification of relevant reform plans could also be based on the discussions of National Reform Plans in the context of the European Semester, or reforms presented in the context of Draft Budgetary Plans. Also, EAC could complement the European Semester by fostering reforms that the CSRs have identified as particularly urgent. The initial difficulties encountered with regard to Member States participating in the pilot exercise also point to important political sensitivities related to identifying reform plans and the appropriate timing for discussion, considering EAC and national legislative processes. This is also linked to the choice between a framework according to which Member State themselves identify relevant reforms to be discussed, or a framework where the reforms are identified together with other Member States and/or the Commission. Irrespectively of the framework, Members underlined that EAC would have to be voluntary. Some Member States also underlined that strengthened economic policy coordination and further measures to enhance the social dimension in the Euro area are voluntary for those outside the single currency and will be fully compatible with the Single Market in all aspects.

- The appropriate timing of ex ante coordination: for EAC to be meaningful, it is important that discussions take place on reform plans that are sufficiently concrete, i.e. on the basis of a concrete and specific government proposal, while at the same time there is an opportunity to feed into the national discussions and to influence the final design of reforms. The experience from the pilot exercise indicate that this "window of opportunity" for EAC appears to be rather narrow and suggest that discussion would normally have to take place in parallel with discussions at national level. As policy-making and decision processes in individual Member States follow their own timeline, this would call for flexibility in setting up the process and agreement with the Member State involved on the exact timing of the discussion. A fixed timetable would neither seem appropriate nor feasible.
- The value added of ex ante coordination with respect to other governance frameworks: bearing in mind that EAC of major reforms should aim at benchmarking best practices and working towards a more closely coordinated economic policy, Members agreed that EAC should aim at complementing, but not duplicating already existing governance frameworks. Nonetheless, as indicated above these other coordination exercises could be used to identify reform plans for further discussion. EAC would potentially be most useful in view of important economic spill-over effects. However, the size of economic spillovers depends on the type and magnitude of the reforms and may be difficult to estimate. More analytical work would be needed in this area. Whereas political economy spillovers can also be important, they could be even more difficult to identify and assess ex ante. The size of spillovers of the reforms covered in the pilot exercise varied, but were overall modest. While this may be linked to the timing of the pilot exercise, it suggests that large spillovers is not a frequent feature of reforms. At the same time it does not exclude that such spillovers may be important for specific reforms in the future. More generally it was considered that discussions on major reform plans are a useful benchmarking exercise for sharing of best practices, and help improve the overall design of planned reforms and contribute to reform convergence in Member States. It was however noted that the thematic reviews under the European semester already provide a framework for such discussions, although not explicitly of an ex ante nature.
- The appropriate format of discussion: for EAC to be meaningful, the discussions on a major economic reform plan need to be candid and based on sufficiently detailed and concrete reform plans. It also requires the open sharing of information and documentation. In this context, the quality and timeliness of inputs are crucial to ensure an in-depth discussion and for the overall outcome, while keeping the additional administrative burden on Member States presenting a major economic reform to a necessary minimum. The involvement of the Commission, as well as discussant Member States, is also essential, stressing the need for comprehensive information to be made available not only in the national language of the Member State. A preliminary technical assessment of the reforms by the Commission, together with enough time devoted to assessing and discussing each reform plan, would contribute to the overall quality and significance of the output.
- The output of ex ante coordination/reporting to Ecofin Ministers: the output and conclusions of the discussions of individual reforms may take different forms. One alternative would be to prepare a short report summarising the discussion and identifying the main issues to be discussed by the EFC and possibly by Ministers. This approach would provide a rather light framework, thereby underlining the non-binding nature of EAC. Alternatively, a draft opinion/recommendation could be prepared and adopted by Ministers, while avoiding any duplication with the CSRs. Although this would provide a more structured and formal assessment of the reform plans it was generally considered too intrusive. Irrespectively of the form, it would be important to ensure that the outcome of the exercise contributes to better coordination of policies and that the assessment feeds into ongoing discussions at national level in the finalisation of the reforms. Discussions at high level could, in particular where coordination challenges are important, support this aim. This would also suggest that the considerations of the Ecofin council on discussions on ex ante coordination should not be a "closed shop" discussion and that its views should be made publically available.

- To conclude, Members broadly agree on the desirability of early exchanges of views on major reforms. The pilot exercise helped us to identify a number of issues that may impact on the organisation of the discussions. As indicated above, these issues relate to the interaction between the EU-level discussions and finalisation of reforms at national level. The issues also relate to more practical aspects such as the identification of relevant reforms with potential important spill overs effects and timing issues. Overall, Members have emphasised that ex ante coordination has to be set up in such a way so as to deliver value added as compared with already existing frameworks. Members broadly favour a framework of voluntary participation and non-binding outcome. At the same time it was mentioned that the effectiveness of EAC would depend on to what extent the outcome of the discussions appropriately feeds in to the national discussions and the finalisation of reform plans.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'T. Wieser', with a stylized flourish at the end.

Thomas Wieser