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From: Presidency
On: 22 September 2014
To: Permanent Representatives Committee/Council

Subject: State of play in the orientations set out by the European Council in the area of Jobs, Growth and Competitiveness

This note sets out the state of play on the main orientations set out in the conclusions of the European Council since June 2012 in the area of jobs, growth and competitiveness, which is the first priority area of the Strategic Agenda adopted in June 2014. It aims to provide the Council with an overview of progress achieved on relevant policies and to serve as a basis for discussion on further steps required in this area.

The discussion will be focused on the following questions:

- 1. What is the assessment of the ministers regarding the progress undertaken so far?*
- 2. Is there scope to improve the follow-up, both at national and European levels, and how?*

Economic policy coordination

1. The annual process of the European semester represents the main forum for the coordination of economic policies, at the level of the EU and of the euro area. Its scope has been extended and its tools enhanced over the past years - including through the adoption of the "six-pack" and "two-pack". In the framework of work for the deepening of the EMU, relevant indicators and policy areas for coordination of national reforms have been discussed since autumn 2013 and pilot exercises of coordination of policy reforms have taken place at the level of the EPC since autumn 2013. The degree of implementation of CSRs at national level remains uneven. Structural reforms must therefore continue and be further encouraged in order to lay the right foundation for sustainable growth and job creation.
2. The ongoing mid-term review of the Europe 2020 Strategy and the review of the economic governance architecture expected from the Commission by the end of the year will be an opportunity to draw upon lessons learned and ensure we have an effective post-crisis strategy for growth and jobs in Europe.

Investment

3. The Strategic Agenda adopted by the European Council in June 2014 underscored that the Union needs bold steps to foster growth, increase investments, create more and better jobs and encourage reforms for competitive-ness. A clear consensus on concerted and decisive actions to enhance investment at EU level is emerging, most recently at informal ECOFIN meeting on 13 September.

4. A series of measures at EU level have already been taken as part of the Compact for Growth and Jobs at the European Council launched in June 2012, in order to support the financing of the economy and increase the flow of credit. The EIB is playing a central role in this area, in particular following its EUR 10 billion capital increase (in force since 1 January 2013). This has allowed the EIB to increase its lending activity in the EU by 49% over 2013-2015, compared to lending that was planned in the EU before the capital increase, under the umbrella of the Growth and Employment Facility. The EIB is also rolling out a Trade Finance Initiative for SMEs, prioritising vulnerable countries; it is already in place in Greece, Cyprus and Portugal. The European Investment Fund's authorised capital has been increased from EUR 3 billion to EUR 4.5 billion as of 15 July 2014.

The SME initiative, aimed at enhancing the risk profile of EIB lending by means of the national structural funds allocations together with funding from COSME and Horizon 2020, is being implemented only by Malta and Spain at this stage.

The project bonds pilot phase is currently being implemented. Recent reports to the Council and the European Parliament indicate that, with an overall EU budget contribution to the pilot phase of EUR 230 million, four concrete transactions have been concluded to date in UK, DE, FR and BE (compared to the target 5-7 operations by end 2016), with a total EUR 146 million of the EU budget contribution used to date.

Synergies between the EIB Group and national development banks have increased opportunities for co-lending.

5. A series of options to promote investments have been put forward, involving EU budget, EIB and Member States. The President-elect of the Commission Juncker has announced that the new Commission will launch an ambitious Jobs, Growth and Investment Package worth EUR 300 billion. Ministers at the informal ECOFIN have agreed on setting up a Project Identification Task Force co-chaired by the Commission and the EIB. The Competitiveness Council have also discussed the promotion of an industrial competitiveness agenda at national and EU level on 25 September. As reaffirmed by the European Affairs Ministers at the informal meeting in Milan on 28-29 August, the General Affairs Council can thus play a useful role, by ensuring that a coherent and comprehensive answer at EU level is undertaken, while keeping the attention on the social dimension and the European citizens' perception of the EU integration as a tool of growth and jobs.

Employment

6. Employment has featured prominently in the recent orientations of the European Council, and work at institutional level has progressed accordingly. Several legislative and non-legislative instruments have been proposed by the Commission and adopted, including the Youth Employment Initiative, the Youth Guarantee, the creation of a network of public employment services, the posted workers Directive and the cross-border portability of supplementary pension rights. The modernised EURES regulation is currently under negotiation. Financial assistance regarding the implementation of Youth Guarantee, via the Youth Employment Initiative (EUR 6 billion), is fully operational since January, and a report on its functioning is expected from the Commission in 2016.

7. Given the scope of Union competence in this policy area, action at national level plays a key role. It must also be highlighted that employment recovery largely depends on the EU economy finally embarking on a job-rich growth path. In order to allow for an increased coordination of national employment and social policies, and to better take into account the social dimension of the EMU, a scoreboard of employment and social indicators has been designed for use within the multilateral surveillance process of the European Semester. In this context, the Employment Committee (EMCO) and the Social Protection Committee (SPC) are carrying out annual multilateral reviews on the implementation of major policy reforms.

Financial services

8. The European Council has kept a close eye on the regulation of the Union's financial sector throughout the period and gave a number of orientations in this area. New rules for banks' capital requirements and new state aid rules for the financial sector have been adopted mid-2013, and significant efforts have been undertaken for the completion of the banking union. The single supervisory mechanism, the bank recovery and resolution Directive, the deposit guarantee schemes and the single resolution mechanism have been adopted. The ECB has completed the asset quality review prior to the start of operation of the single supervisory mechanism, and the results of ongoing stress tests conducted with the European Banking Authority are expected in October.

9. Work continues in this area, with trilogues starting on the third anti-money laundering Directive (the European Council had called for its adoption by the end of 2013) and on long-term investment funds (part of SMA II). The Council has started the examination of the Commission proposals resulting from the Liikanen report on banking structural reform .

Digital Single Market

10. The objective of completing the digital single market by 2015 has been repeatedly stated by the European Council. The most recent digital agenda scoreboard by the Commission shows that progress has been achieved across the board, but large performance gaps remain towards the 2015 targets. Several key legislative and non-legislative measures, noted by the European Council, have been adopted in this area recently, including e-identification, e-invoicing, measures reducing the cost of the deployment of high-speed broadband (all part of the SMA I and II packages), collective rights management, roaming and spectrum.

11. Some of the priorities identified by the European Council in its conclusions are still pending. The examination of the Connected Continent package continues at the level of the Council. The Commission is undertaking a review of the copyright regime. The data protection package is being examined so that negotiations with the EP may be launched.

Internal Market

12. Work has been completed on the SMA I package; while the deadline set by the European Council (end of 2012) could not be kept in all cases, the relevant priority measures have been adopted. As regards the SMA II package, for which the European Council had called for adoption prior to the completion of the previous EP term, some of the relevant legislative proposals are still pending - including the fourth railway package, the product safety package, long term investment funds, payment services and insolvency proceedings.

13. In the services sector, the European Council has requested yearly reports on progress at national level, including in individual sectors, and a work plan for reporting has been presented by the Commission in March 2014. As called for by the European Council, work continues with a focus on sectoral performance checks, electronic points of single contact, peer review and regulated professions. Following the adoption of the Directive on the mutual recognition of professional qualifications as part of SMA I , in October 2013 the Commission presented a Communication on evaluating national regulations on access to professions.

Smart Regulation

14. Work has also progressed as regards better regulation and the reduction of regulatory and administrative burden, under the close and constant guidance of the European Council who agreed to revert to this issue each year as part of the European Semester. Following the December 2012 Communication on EU Regulatory Fitness (REFIT), the Commission has presented regular reports including on the "top ten" most burdensome regulations for SMEs, as well as lists of pending proposals which it intends to withdraw or regulatory instruments it proposes to repeal. The Council (COMPET) has regularly addressed these in its conclusions. In June 2014, the Commission presented a scoreboard on REFIT actions, reporting on the state of play and progress made. Conclusions on this issue will be adopted by the Council (COMPET) in December.

Innovation and industry

15. As part of the growth agenda, the European Council has also focused on research and innovation, as well as on industrial policy - both of which are flagship initiatives of the EU 2020 Strategy and, as such, the subject of in-depth reflection in in the context of the ongoing discussions on the mid-term review of the Europe 2020 Strategy.

16. As called for by the European Council, the unitary patent system has been set up and the ratification of the UPC agreement is ongoing in participating Member States. As part of the sectoral legislation for the new Multiannual Financial Framework, the legislation underpinning Horizon 2020 and COSME has been adopted. A single indicator for innovation has been proposed by the Commission and examined by the Council. Work is also ongoing for the finalisation of the European Research Area (called for by the European Council by 2014).

17. As a follow-up to the Communication on industrial renaissance, the March 2014 European Council has invited the Commission to issue a roadmap for its implementation early in 2015. Work is being pursued in a number of other aspects prioritised by the European Council, such as key enabling technologies. A large number of joint technology initiatives (187 proposals) have been agreed as called for by the October 2013 EC. Concrete efforts are also being made by Member States, the Commission, the EEAS and the EDA, to create a more integrated, innovative and competitive European Defence Technological and Industrial Base (EDTIB), with the aim of improving the availability of required civilian and military capabilities, as regards the development of a credible and effective CSDP. This will also bring benefits in terms of growth, jobs and innovation to the broader European industrial sector, in line with the conclusions agreed by the December 2013 EC. Moreover, Discussions are ongoing in the Council to examine how it can best contribute to the mainstreaming of industrial competitiveness as called for by the European Council in March 2014.

Taxation

18. The impetus provided by orientations of the European Council has facilitated the adoption of a number of instruments in the area of taxation recently: the anti-fraud VAT package (quick reaction mechanism and reverse charge mechanism), one part of the parent-subsidiary Directive, and notably the Directive on savings taxation. In the latter field, negotiations with third countries are progressing.

19. Several other instruments are still pending, such as the Financial Transaction Tax and Common Consolidated Corporate Tax Base (CCCTB) proposals or energy taxation. Work is ongoing on the administrative cooperation Directive (mandatory automatic exchange of information in the field of taxation), with a view to its adoption before the end of this year, as requested by the European Council, following the publication of the OECD global standard in July 2014. An expert group on the taxation of the digital economy has been set up by the Commission, as agreed by the European Council in October 2013, and presented its report at the end of May.

20. A significant amount of non-legislative work noted by the European Council is also ongoing in this area, including the follow-up to the Commission's action plan to improve fight against tax fraud and tax evasion, the follow-up to the Commission's recommendations on aggressive tax planning and profit shifting, as well as the strengthening of the code of conduct on business taxation.

Trade

21. The European Council has repeatedly emphasized in its conclusions, as well as in the Compact for Growth and Jobs, the importance of trade as a lever for growth. As called for by the European Council, regular reports on trade and investment barriers are presented by the Commission each year in March (the fourth one in 2014). Work is ongoing on the implementation of the agreement reached at the 9th WTO Ministerial conference and on the definition of a work programme on the remaining issues of the Doha Development Agenda. Negotiations are progressing on bilateral agreements, including with strategic partners and neighbouring countries.

22. In particular, following the report of the EU-US high level working group, negotiating directives were adopted in June 2013 and the negotiations were launched later the same month for a Transatlantic Trade and Investment Partnership. The European Council called for the conclusion of negotiations by 2015. FTA negotiations are ongoing with Japan and India, and have been finalised with Canada and Singapore. Negotiations for an investment agreement are underway with China. A series of other bilateral agreements were signed in 2012-2013, including Colombia, Peru, Central America. Negotiations are progressing on Economic Partnership Agreements with ACP countries.

23. The AA/DCFTA with Ukraine was signed in March (AA) and June (DCFTA) this year, albeit the entry into force of the DCFTA is expected to be deferred until end 2015. The DCFTAs with Moldova and Georgia were also signed in June. Ratification is ongoing. Negotiations for a DCFTA with Morocco were launched in March 2013.

24. As a result of Russia's actions to destabilise eastern Ukraine, the EU has imposed economic sanctions against Russia. Russia has itself imposed an import ban on certain EU agricultural products.

25. In March 2012, the Commission submitted a proposal on access to public procurement markets in third countries and the European Council called for its rapid examination as early as October 2012. Discussions on this instrument continue, with strong divergences remaining among Member States.

