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**NOTE**

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From: Presidency

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To: Permanent Representatives Committee/Council

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Subject: Preparation of the Council ("Competitiveness") of 29 February 2016  
European Semester: Implementation of country specific and other  
recommendations to tackle barriers to growth and investment in the  
services sector

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Delegations will find in annex a note from the Presidency on the above mentioned topic.

## **Best practice and challenges in the implementation of CSRs and other European Semester-related recommendations to tackle barriers to growth and investment in the services sector**

### *Introduction*

As of 2013, the European Union has found its way to a moderate but sustained economic recovery.<sup>1</sup> The European Semester, the instrument through which economic and budgetary policies in and between Member States are coordinated, has played a valuable role in this. European Semester-related publications, including the annual country reports, the Competitiveness and Trade Performance Monitor and the analysis of Member States' investment climates, contain detailed analyses of Member States' performance in important areas such as competitiveness, the labour market and (foreign) investments. These have resulted in many useful country specific recommendations (CSRs) and other Semester-related recommendations to tackle barriers hampering the single market and preventing Member States reaching their full economic potential.

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<sup>1</sup> European Commission, European Economic Forecast, Autumn 2015, Institutional Paper 011, November 2015, Brussels.

Despite the value of CSRs and other Semester-related recommendations, national implementation has so far been uneven and limited.<sup>2</sup> It is with reason that the recently announced Single Market Strategy<sup>3</sup> calls for a stronger focus on the national implementation of recommendations, particularly in the services sector. While the European Semester plays an increasingly important role to further national reforms required to improve the single market and create a more supportive business climate, it is essential that the matter of effective implementation receives more priority. This would make the European Semester a more powerful instrument in which outcomes and concrete contributions to the single market and Europe's wider economic and employment ambitions are more central. More thorough and effective national implementation would at the same time reinforce other initiatives, including the Single Market Strategy, the Digital Single Market and the Investment Plan for Europe. Accurate and timely implementation of recommendations would create a more supportive environment for investments.

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<sup>2</sup> Communication from the Commission to the European Parliament, the Council and the European Central Bank: On steps towards Completing Economic and Monetary Union (COM (2015) 600 Final), Brussels, 21 October 2015.

<sup>3</sup> European Commission, Staff Working Document: A Single Market Strategy for Europe - Analysis and Evidence Accompanying the document Upgrading the Single Market: more opportunities for people and business, SWD 2015 (202) Final, 28 October 2015, Brussels.

As stated in the Roadmap for the European Semester, the Presidency aims to address the progress and national implementation of the CSRs and other Semester-related recommendations with an integrated approach.<sup>4</sup> Due to the responsibility of the COMPET Council for developments in the real economy, a recurring thematic review in this forum could be of significant added value and complement-related discussions in EPSCO and ECOFIN Council. A focused review and discussion by way of sharing experiences and learning from challenges and best practice on a specific theme-related to competitiveness and investment barriers could result in a deeper and more comprehensive understanding of how reforms can be implemented by Member States. Such a discussion will also help in identifying particular challenges and issues which should be considered carefully when formulating or implementing recommendations. These could include budgetary scope, timing and phase-in periods of reforms, impact of other planned or recently introduced measures, and national socio-economic risks and developments. By addressing these issues, this discussion in the COMPET Council contributes to the wider objective of improving the design and functioning of the Semester and the aim of making it a more helpful tool for Member States. With regards to this objective, the discussion in the COMPET Council could also serve as useful input to identify the most relevant economic areas for future recommendations.

Following the discussion in the COMPET Council, the main messages will feed in to the Presidency's Synthesis Report on the European Semester which will feature on the agenda of the [General Affairs Council](#) on 14 March 2016 and the March [European Council](#).

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<sup>4</sup> General Secretariat of the Council, European Semester 2016 – Roadmap ([13677/15](#)), 10 November 2015, Brussels.

Despite the various CSRs and other Semester-related recommendations related to the single market, too many significant barriers still remain, notably in the area of the services sector, which constitutes approximately 74 percent of EU GDP.<sup>5</sup> Whereas the adoption and subsequent implementation of the Services Directive in 2006 has given an ambitious push to service delivery across Europe, the more recent impact on long-term growth of reforms adopted by mid-2014 was only estimated to be no higher than 0.1 percent.<sup>6</sup> The initial ambition to improve the functioning of services sectors in Member States seems not to have been maintained and, despite the number of services-related CSRs and other Semester-related recommendations, little progress has been made.<sup>7</sup> The remaining economic potential of additional reforms is however promising and estimated as high as up to 1.8 percent of EU GDP.

As there is sufficient evidence that further reforms and modernisation in the services sector could significantly contribute to future economic growth and employment, the question arises as to why national implementation of related recommendations and reforms has been so limited and uneven. What are the crucial elements blocking effective implementation and which lessons can be learnt from countries which have implemented recommended reforms in their services sectors successfully? While respecting national specificities and issues of national competence, the thematic review in the COMPET Council should help in highlighting best practice of how challenges, which often occur in various Member States, can be tackled, and resistance to reform can be overcome. In such exchanges it is important to both discuss the benefits, for example lower retail prices, more consumer choice or a better functioning labour market, as well as the efforts and economic and political challenges that are required to implement reforms.

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<sup>5</sup> European Commission, Staff Working Document: A Single Market Strategy for Europe - Analysis and Evidence Accompanying the document Upgrading the Single Market: more opportunities for people and business, SWD 2015 (202) Final, 28 October 2015, Brussels.

<sup>6</sup> Secretary-General of the European Commission, Commission Staff Working Document: A Single Market Strategy for Europe: Analysis and Evidence (13370/15), 28 October 2015, Brussels.

<sup>7</sup> European Commission, Monitor of Competitiveness and Trade Performance, Brussels, November 2015

The Commission contribution on the implementation of Semester-related recommendations for the services sector will illustrate the relevance of a thematic review by the COMPET Council of national best practice and implementation challenges. With this information in mind, the Presidency invites the COMPET Council to address the questions formulated below.

- 1) Why is the implementation rate of service sector-related recommendations limited? Which practical, institutional and political challenges do you experience in the implementation of recommendations and economic reforms in the services sector more broadly?
- 2) Which best practice and solutions have worked particularly well to facilitate effective and efficient national implementation of economic reforms and recommendations (e.g. gradual phase-in of reforms, inclusive dialogue with affected parties, presentation of integral reform packages)?
- 3) How can Member States' ownership and commitment to Semester-related recommendations in the services sector be increased to foster national implementation (e.g. timely exchange of views between Member States and Commission about recommendations, increased political discussions between Commission and Member States, more involvement of national parliaments)? What role can the COMPET Council play in identifying the most relevant focus areas for future CSRs and economic reforms?