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NOTE

From:	Presidency
To:	Permanent Representatives Committee/Council
Subject:	European Semester 2026 From Innovation to Quality Jobs: using AI to strengthen quality employment and workers' rights - <i>Exchange of views</i>

Delegations will find attached a Presidency steering note on the above subject, with a view to the exchange of views at the Council (EPSCO) on 9 March 2026.

Steering note for exchange of views on the**European Semester 2026: From Innovation to Quality Jobs: Using AI to Strengthen Quality
Employment and Workers' Rights.*****Context: The future labour market and the European Semester***

As demonstrated in recent reports, for many years, productivity growth across Europe has been lagging that of other regions. While structural and historical factors have played a role, in more recent years an important reason for the growing gap is that Europe has missed out on the digital transformation boom. Moreover, unless important reforms take place to enable more young companies to scale up and more young talent to stay in Europe, Europe will fall further behind.

To enable these important reforms, there is need of a more resilient labour market and a more dynamic investment environment. Economic research, including the work of Sir Christopher Pissarides on job matching and structural change, highlights that employment outcomes are not determined by technology alone, but they also depend on factors like the institutional structure of the economy, its human capital, and the capabilities that it offers for constructive collaboration between the public and private sectors. When one of these factors are not in place it puts barriers to the link between technology and productivity – barriers that are collectively known as frictions in the functioning of labour markets. Europe needs to act quickly to reduce these frictions. Artificial Intelligence, with its ever-increasing capabilities, opens new opportunities for productive investments and better use of human capital. Whether this process results in dynamic job creation with higher productivity or in job loss and further stagnation behind our competitors depends on how well we manage our digital ecosystem, the necessary institutional reforms, the upgrading of our skill systems and the speed at which workers can transition into new roles.

The effectiveness of investments in AI depends on the development of new skills and capabilities that enable people to work productively with AI systems. As highlighted in the Human Capital Recommendation¹, cultivating this mix of skills requires coordinated investment in vocational training, tertiary education and lifelong learning. At the same time, as AI systems become more capable and firms gain experience integrating them into their operations, labour-displacing effects may emerge, and productivity gains could accrue disproportionately to highly skilled workers, potentially widening income inequality. Addressing these dynamics calls for clear and coordinated institutional responses.

In this context, the Semester provides a framework for coordinating structural reforms that reduce labour market frictions, improve matching efficiency and support mobility, reskilling and job creation. By aligning fiscal-structural plans with employment and social priorities, the Semester can help ensure that innovation translates into sustainable and inclusive growth.

AI, work organisation and quality employment

The deployment of AI and other advanced digital technologies in the workplace cannot be assessed solely through the lens of productivity. Technological systems are embedded in organisational choices, human resources management models and broader business strategies. Economic theory suggests that productivity-enhancing innovation generates durable employment gains when accompanied by complementary investment in skills and supported by effective labour market institutions.

¹ Recommendation for a COUNCIL RECOMMENDATION on human capital in the European Union (ST 15278/25).

The EU legal framework provides important safeguards. The AI Act² establishes obligations for high-risk AI systems, including those used in recruitment, worker management and performance evaluation. The General Data Protection Regulation³ and the existing labour law acquis - including legislation on transparent and predictable working conditions, health and safety at work and work-life balance – further reinforce the EU rulebook in this area. Targeted legislative measures may still be necessary to ensure that workers are effectively protected, and everyone, including businesses, can benefit from the adoption of AI and other advanced digital technologies. Effective enforcement remains crucial to uphold the human-in-control principle, prevent algorithmic discrimination and maintain trust.

The creation of Quality jobs is an important priority highlighted in the Quality Jobs Roadmap⁴ presented by the European Commission in December 2025. When institutional frameworks allow for a fair sharing of gains, higher productivity can translate into better wages and improved working conditions. Without such frameworks, there is a risk that technological change will deepen inequalities and reinforce labour market segmentation. The challenge is therefore not whether to adopt technological innovations, including AI, but how to shape their development and use, so that they strengthen job quality, social cohesion, and European competitiveness.

² Regulation (EU) 2024/1689 of the European Parliament and of the Council of 13 June 2024 laying down harmonised rules on artificial intelligence and amending Regulations (EC) No 300/2008, (EU) No 167/2013, (EU) No 168/2013, (EU) 2018/858, (EU) 2018/1139 and (EU) 2019/2144 and Directives 2014/90/EU, (EU) 2016/797 and (EU) 2020/1828 (Artificial Intelligence Act)

³ Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data, and repealing Directive 95/46/EC (General Data Protection Regulation)

⁴ Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions, COM (2025) 944, 4 December 2025, Quality Jobs Roadmap

Future-proof skills, labour market intelligence and transitions

At the Informal Meeting of Employment and Social Affairs Ministers of 13 February under the Cyprus Presidency, Ministers underlined that the green and digital transitions are fundamentally reshaping occupational structures and skill requirements. Continuous upskilling and reskilling must become a permanent feature of European labour markets rather than an exceptional response to crisis.

AI can itself enhance labour market functioning. Advanced labour market intelligence tools improve forecasting of skill needs, identify bottlenecks and support targeted training policies. By improving the quality and timeliness of information, such tools reduce search frictions and accelerate transitions from declining sectors to expanding ones.

Yet, transitions rarely happen automatically. Evidence shows that workers displaced by technological change may face prolonged unemployment or lasting wage losses without adequate support. Active labour market policies, effective public employment services, and targeted social protection measures are therefore indispensable complements to innovation strategies.

Social dialogue and collective bargaining also play a key role in managing the technological transformation. They enable negotiated solutions at sectoral and company level, support responsible uses of algorithmic management and contribute to a fair distribution of productivity gains. Strong institutions reduce uncertainty and increase acceptance of change. This is also highlighted in the Opinion the Cyprus Presidency invited the EESC to draw up on *«Enhancing quality in employment and working conditions by introducing and promoting related tools (including AI) and strengthening social dialogue and collective bargaining»*.ⁱ

Upcoming initiatives and policy coherence

The upcoming Quality Jobs Act and the Fair Labour Mobility Package can help reduce labour market segmentation, strengthen enforcement and support upward convergence across Member States.

Policy coherence will be decisive. Industrial and innovation strategies must be aligned with employment reforms and skills policies. Measures that stimulate AI investment should be accompanied by initiatives that facilitate worker mobility, promote lifelong learning and safeguard fundamental rights. This integrated approach reflects both economic evidence and the core principles of the European social model.

Role of the EPSCO configuration within the European Semester

EPSCO Ministers have a central role in ensuring that employment and social considerations are fully integrated into the Semester. Through policy guidance, peer review and country-specific recommendations, EPSCO can shape reforms that enhance labour market dynamism while preserving fairness and cohesion.

In the 2026 Semester cycle, EPSCO has the opportunity to contribute and steer the debate towards a balanced approach in which innovation, AI deployment and competitiveness are aligned with quality employment, robust social dialogue and strong institutions. In doing so, Europe's technological transformation can strengthen not only economic performance, but also social cohesion and trust.

Questions for debate

1. How can the Semester better support reforms that reduce labour market frictions and improve matching efficiency in the context of AI-driven transformations?
 2. What additional measures are needed at national and EU level to ensure that AI adoption in the workplace strengthens workers' rights and fosters upward social convergence?
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ⁱ The exploratory Opinion, to be adopted by the EESC plenary on 18-19 March 2026, «underlines the central role of social dialogue and collective bargaining at all levels, as well as structured cooperation between the EU AI Office, the European Commission and the social partners, in ensuring that the deployment of AI contributes to a fair, inclusive and competitive digital transition, systematically taking into account the dimensions of gender, generations and vulnerability as well as the needs of SMEs»