



**COUNCIL OF
THE EUROPEAN UNION**

Brussels, 16 March 2011

**7745/1/11
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REVISED PRESIDENCY NOTE

to: COREPER / COUNCIL

Subject: Implementation of the European Semester
- Synthesis report

Delegations will find attached the synthesis report prepared by the Presidency, summarising the discussions and the main political messages of the different Council formations in relation to the Annual Growth Survey, in the framework of the European Semester. The report together with the ECOFIN and EPSCO Council conclusions, will be submitted to the Spring European Council on 24/25 March 2011, which is expected to give guidance to the Member States for the finalisation of their Stability and Convergence Programmes and National Reform Programmes in April. This report is accompanied by a Commission report (see Annex) on the bilateral discussions with Member States carried out during February and March. The Hungarian Presidency's aim is to close the first European Semester by the time of the European Council in June 2011.

PRESIDENCY SYNTHESIS REPORT

Introduction/Background

The **Europe 2020 Strategy** was launched by the European Council in June 2010 with the aim to enable the Union to emerge stronger from the global economic and financial crisis by means of a coordinated and comprehensive programme of reforms underpinned by a long-term vision, and to turn its economy towards smart, sustainable and inclusive growth. The European Council confirmed five headline targets, gave its political endorsement to the Europe 2020 Integrated Guidelines¹ for economic and employment policies and asked Member States to implement the policy priorities of Europe 2020 on national level. On this basis, the Commission developed and presented seven flagship initiatives, addressing specific issues and containing measures dedicated to specific policy areas, that are closely intertwined and mutually supportive. Member States have been asked to finalise their national targets in the light of the EU headline targets, taking into account their relative starting points and national circumstances. They have already submitted the draft National Reform Programmes (hereinafter NRPs) in November 2010. The Commission has analysed the draft NRPs and presented the conclusions in the first Annual Growth Survey.

The **Annual Growth Survey**² (hereinafter AGS) presented by the Commission on 12 January 2011 marks the start of the first ‘**European Semester**’ and initiates a new cycle of economic governance in the European Union. The AGS is drawn up by the Commission each year following a thorough analysis and assessment of the main economic challenges facing the EU. It charts the direction, through 10 priority actions, including for the macro-economic level, for structural reforms in the labour market and for complementary growth-enhancing measures, to which Europe should be heading over the coming years (2011-2012), focusing particularly on areas such as macro-economic stability, fiscal consolidation, structural reforms and growth-enhancing measures. It brings together various policy recommendations required to strengthen recovery in the short term, to help Europe maintain its international competitiveness and to achieve the Europe 2020 objectives.

¹ Broad Economic Policy Guidelines of the Member States and of the Union (2010/410/EU);
Employment Guidelines (2010/707/EU)

² Doc. 18066/10 - (COM(2011) 11 final)

At its 4 February meeting the European Council recalled that "Member States are invited to submit in April their National Reform Programmes as well as their Stability or Convergence Programmes". Further to these conclusions a series of bilateral meetings between the Commission and each Member States were organised with the aim of discussing the content of the NRPs in order to finalise the process by mid to end April.

Economic and financial affairs

On 15 February 2011 the Ecofin Council adopted conclusions on "European Semester: macroeconomic and fiscal guidance", which reaffirm that the **most urgent task** for the EU is to **restore confidence by** preventing unsustainable debt, disruption of financial market and low economic growth, **through** ensuring sustainability of public finance, correcting harmful macro-economic imbalances, advancing financial repair and boosting potential economic growth. Providing policy guidance to the Member States and setting priorities for the short-term (2011/2012) on how to tackle macroeconomic and fiscal challenges the conclusions of the Ecofin Council underline that the **main focus** of Stability and Convergence Programmes, and National Reform Programmes **should be** on implementing rigorous fiscal consolidation promoting employment growth and accelerating growth-enhancing structural reforms. Taking into account the Europe 2020 Integrated Guidelines and the new integrated surveillance framework the Council invites Member States to present comprehensive response with concrete, detailed and ambitious measures to both fiscal and macro-structural challenges including bottlenecks to growth.

To bolster the abovementioned objectives, the Commission is encouraged to propose ambitious and determined country-specific recommendations and to present proposals for actions at EU level and for the euro area.

In order to encourage the **implementation of rigorous fiscal consolidation**, the Council agreed that it is of utmost importance to ensure government debt sustainability, through credible and detailed consolidation plans, in addition to pension, health care and labour market reforms. It emphasises that in Member States facing very large structural budget deficits or very high or rapidly increasing levels of public debt, fiscal consolidation should be frontloaded. Where economic growth or revenues turn out to be higher than expected, fiscal consolidation should be further accelerated. Furthermore, it underlines that the growth of expenditures net of discretionary revenue measures should be kept clearly below the medium-term rate of potential GDP growth. Where taxes need to be increased – while recognising that taxation issues fall within the scope of the powers of Member States – preference should be given to raising indirect taxes and to the broadening of tax bases. Unjustified tax expenditures and subsidies should be eliminated.

In relation of **correcting the macroeconomic imbalances**, the Council calls for urgent actions needed to correct harmful and persistent macroeconomic imbalances – especially large current account deficits –, and to improve the competitiveness of the concerned Member States. In parallel, Member States with large current account surpluses should pursue measures aimed at implementing structural reforms conducive to strengthening potential growth and thereby also underpinning domestic demand.

To **ensure the stability of the financial sector**, the Council stresses that the restructuring of banks should be accelerated, and, taking into account the need to safeguard financial stability, the gradual withdrawal of public financial support to the bank sector should be continued.

In connection with **structural reforms concerning growth and job creation**, the Council emphasises the importance of complementing fiscal consolidation efforts with well-designed growth-enhancing and resource-efficient structural reforms.

Member States shared the view that a truly integrated **Single Market** has the potential for enhancing competitiveness of the European economy, thus policy actions related to the Single Market featured prominently during the discussion, both in the Ecofin and the Competitiveness Council. Further deepening of the Single Market and in particular prioritising the various policy proposals put forward by the Single Market Act is a high priority. Focus should be given to promoting the well functioning and integration of markets, notably services market, with the full implementation of the Services Directive. Addressing obstacles to cross-border e-commerce was similarly emphasised as indispensable for deepening the internal market. In addition, Member States also called for a rapid and interoperable standard setting, especially for newly emerging sectors. The regime for recognising professional qualifications should be simplified to facilitate the free movement of citizens and workers.

Both the Ecofin and the EPSCO Councils highlighted that Member States should ensure that fiscal consolidation should be accompanied by reforms aimed at creating **sustainable and adequate pensions system**, by increasing effective retirement and exit ages, reducing early retirement schemes and adapting pension rights to developments in life expectancy. Pension entitlements should be linked more closely to paid contributions.

EPSCO Council

At the EPSCO Council on 7 of March Member States acknowledged that stability and fiscal consolidation are prerequisites for setting Europe on a long term and sustainable growth path. A jobless growth needs to be avoided and the Council stressed therefore the importance of strengthening efficient job-centred policies and - at the same time - social aspects should also be taken into consideration. A balanced, integrated approach of different economic, employment and social policy areas and the successful implementation of the new, reinforced economic policy co-ordination are essential in order to deliver on the employment, competitiveness and social inclusion goals of the strategy.

In terms of the **employment headline target**³, Member States recalled that the targets indicated in the draft NRPs in 2010 are realistic and express ambition, but the collective estimated outcome would fall short of the EU ambition by 2-3 percentage points. There is a general consensus that a sufficient level of ambition will still be needed to reach the EU employment target, but it is also emphasised that due account should be taken of the Member States' different starting positions.

In this context, the EPSCO Council adopted the **European Pact for Gender Equality (2011-2020)**⁴ and invited the European Council to endorse it. Ministers acknowledged that it is essential to encourage women's involvement in the labour market, as outlined in the Commission's progress report on equality between women and men in 2010.

Labour market policies should promote skills, create incentives to work and reduce labour market exclusion, in particular of vulnerable groups. Both the Ecofin and the EPSCO Council underlined that focus needs to be on making work more attractive and getting the unemployed back to work. Comprehensive flexicurity policies, flexible work arrangements, better reconciliation of work and family life and child care facilities should aim at facilitating labour market participation and promote hours worked.

At the same time however it was underlined that labour market policies alone are not enough to reach a break-through in respect of employment levels. Measures to improve labour supply should be accompanied by activities that boost the demand side of the labour market.

Tax and benefit systems should work as incentives for employment. Where possible, taxes should be shifted away from labour in order to stimulate labour utilisation and promote job creation. Tackling undeclared work may also contribute to increase employment, therefore several Member States underlined the need for specific measures at national and EU level in order to transform it into regular employment and reducing exclusion. Unemployment benefits should be reviewed to ensure that they provide incentives to work while limiting long-term unemployment. Active labour market policies such as training and support to job search have an essential role to play in this context.

³ aiming to raise to 75% the employment rate for women and men aged 20-64.

⁴ Doc. 7370/11.

Member States should implement the Employment Guidelines in a way that **labour costs developments** evolve in line with local economic and labour market conditions, medium term labour productivity trends, while respecting the national practices as regard the role of the social partners. For the future, it could prove useful to examine, how wage determination at national level could reflect productivity developments and can contribute in the mid-term to preventing and rectifying the macro-economic imbalances and enhancing competitiveness.

The significant mismatches between the supply and the demand side of the labour market and the lack of work experience is also an important obstacle that especially young people face when looking for employment. Therefore, both the EPSCO and the Education Council emphasised that **adaptation of education and training systems to labour market needs**, modernisation of vocational training systems, adequate anticipation of future skills needs and measures which combine training with work can prove successful in reducing youth unemployment.

Concerning the **social inclusion headline target**⁵, while Member States were urged to set out ambitious and well-defined national targets for fighting against poverty and social exclusion based on their own starting points, based on the preliminary national measures indicated in the draft NRPs, these targets fall short of the EU ambitions.

It was widely acknowledged that the structural reforms need to be accelerated in the present time of fiscal consolidation, among them the **reforms of social protection systems**; nevertheless, adequacy should also be taken into account beside sustainability during this process. It should be ensured that the advantages of recovery are widely shared among all groups. Improving the employability of the most vulnerable is essential both for enhancing the social inclusion and for reaching the employment target. Therefore access to labour market should be combined by adequate income support and individual-based supporting services, according to the active inclusion approach. In order to fight poverty efficiently, it is key to break the intergenerational transmission of poverty and to tackle child poverty.

⁵ aiming to lift at least 20 million people out of the risk of poverty and exclusion.

The effective use of structural funds and in particular the European Social Fund may largely contribute to the necessary structural reforms aimed at moving towards the Europe 2020 targets. In relation to the future use of the funds, further simplification and improved efficiency are needed to increase effectiveness.

Competitiveness Council

Ministers at Competitiveness Council held on 10 March 2011 expressed broad support for the AGS and the proposed ten priority actions. There was a consensus that an orderly fiscal consolidation and maintaining macroeconomic stability are prerequisites for economic growth and improving the competitiveness of the European economy. Nevertheless, the overall objectives of the Europe 2020 Strategy cannot be achieved without a **globally competitive European industry** itself and addressing the structural bottlenecks and weaknesses hindering smart, sustainable and inclusive growth. Measures that concentrate on industrial competitiveness as one of the long term structural challenges on both EU and Member States' level should therefore be integrated in the final NRPs.

Both the Competitiveness and the Epsco Councils emphasised the significant role of **general framework conditions** in competitiveness and stressed the need to improve the business environment. In particular, smart regulation, reduction of administrative burden and improving regulatory framework for competition are areas where Member States intend to take measures. Progress in these areas will be particularly beneficial for SMEs.

It was generally agreed that **access to finance** is a broad and structural problem with particular relevance for the SME sector and the innovative capacity of Europe. Member States stressed the need for developing appropriate instruments at national and European level that facilitate access to finance.

Recognizing the openness of the European economy and the emerging **global challenges**, only a globally competitive industry is able to contribute to the recovery from the crisis. In order to address these challenges in a timely manner, the external dimension of the European industry policy has to receive adequate attention.

Further to the necessity to address the various aspects of **industrial competitiveness** in the draft NRPs, the regular monitoring of Member States' competitiveness performance and measures was considered a useful exercise, as well as the exchange of good practices. The Competitiveness Council in cooperation with the Commission should play a prominent role in this regard. Ministers effectively reached a broad consensus that actions to address industrial competitiveness are necessary not only at Member States' but also at EU level, and highlighted the importance of the implementation of the Europe 2020 Strategy's flagship initiatives.

The Europe 2020 Strategy specified the objective to increase **R&D** expenditures of EU to reach 3% of GDP by 2020. The compilation of all provisional national targets indicates an aggregated level of 2.7 or 2.8% of GDP, which is below the expected target of 3% GDP invested in R&D. Nevertheless, even with the current budgetary constraints, a number of Member States have taken significant efforts to maintain or increase their public investment in research, innovation and education, recognising that these investments will promote future growth.

In line with recommendations stated in the Integrated Guidelines and AGS, research Ministers at the Competitiveness Council held on 9 March 2011 concluded that in order to achieve the Europe 2020 objectives there is an urgent need for increasing the efficiency and effectiveness of public funding which will leverage private investment in research and innovation. Both EU and Member States need to accelerate structural reforms in order to increase Europe's future growth potential in research, innovation and education, entrepreneurship and business environment. These reforms should foster excellence and smart specialisation, reinforce cooperation between universities, research institutes, public and private stakeholders, as well as support development of infrastructures and networks. It was generally agreed that simplification of research funding should be continued in order to facilitate cross-border cooperation, knowledge transfer, building on synergies and achieving greater value.

Taking into account their European added-value, national research and innovation policies should exploit synergies with Union funds. In addition, innovation should be integrated and promoted in all relevant policies both at EU and national level.

It has been well-recognised that the private investment in research and innovation should be increased. Member States and the Union should improve framework conditions with regard to the business environment with measures to facilitate access of SMEs to private finance, promote innovation-friendly markets and regulations, provide efficient and more affordable IPRand support faster setting of interoperable standards and more strategic use of public procurement.

Effective public research and innovation policies will produce their full impact on a middle to long term perspective and if they are based on a clear vision, concrete actions and commitments. Therefore, progress should be regularly reviewed at high political level.

Education Council

At the meeting of the Education, Youth, Culture and Sport Council on 14 February 2011, ministers underlined that **education policies** have a role to lay down foundations for structural reforms and complement growth-enhancing measures. As well as implementing short-term measures to achieve economic recovery and stability, Member States acknowledged the need to give priority to investment in growth-enhancing policies such as education and training, which require more time to show a return, but which will secure long-term growth and competitiveness. More efficient and targeted investment at both national and European level is required to continue the process of reforming and improving education and training systems, by equipping citizens with the skills and competences which the economy needs and by fostering creativity, innovation and entrepreneurship.

On the basis of preliminary figures provided in the draft NRPs, the EU will have difficulties in meeting the headline targets⁶ for education. Greater attention to the design of reform trajectories and a higher level of ambition will be required when the NRP's are finalised if the EU headline targets are to be met. Considerable efforts are needed to combat early school leaving, notably by promoting quality and equity in education and by developing early intervention policies. As for the second target, ensuring a modern, efficiently funded and well-performing tertiary education sector which will attract first-rate students and researchers is essential for strengthening Europe's innovative capacity and enhancing competitiveness.

According to the Employment Guidelines and the AGS promoting innovation and growth also requires an appropriated supply of skilled and trained workforce; furthermore, highly skilled population is also essential to stem the challenges of demographic change and social inclusion in Europe. Investing in quality education, training and lifelong learning is therefore a key dimension for smart, sustainable and inclusive growth. In order to contribute to flexicurity strategies and to boosting employability, particularly among young people and disadvantaged groups, greater efforts are required to increase the labour market relevance of education and training by promoting targeted skills development policies. Measures are also needed to strengthen opportunities for lifelong learning and mobility, to improve the attractiveness and relevance of vocational education and training, as well as to ensure smoother transitions between the worlds of education, training and employment, notably through effective career guidance, work placements and apprenticeships. Improving Europe's competitiveness and stimulating growth through innovation call for a more highly qualified workforce and closer interaction between the three sides of the knowledge triangle (education, research, innovation).

⁶ improving education levels, in particular by aiming to reduce school drop-out rates to less than 10% and by increasing the share of 30-34 years old having completed tertiary or equivalent education to at least 40%.

TTE Council (Energy)

On 28 February the Council (TTE - Energy) held an exchange of views focused mainly on progress in relation to greater energy efficiency and wider use of renewable energy sources, the two energy-related objectives⁷ enshrined in the EU headline targets for the Europe 2020 strategy.

In relation to **energy efficiency**, there was broad agreement with the Commission's view that policies need to be stepped up in order for the EU to meet its objectives, while taking due account of national circumstances and starting points. Measuring and monitoring of energy efficiency gains at EU level requires a coherent methodology which needs to be defined.

Investments in energy efficiency can make a positive contribution to economic growth and European competitiveness, and help to reduce dependency from fossil fuel imports and to combat climate change.

Referring to the Council conclusions on the Energy 2020 strategy adopted at the same meeting of the TTE Council (6207/1/11), there was broad agreement that buildings, transport including electric mobility and industry represent sectors with a large energy-saving potential which needs to be fully exploited. The public sector should lead by example, whereby energy-efficient solutions in transport, public services and procurement must be sought. Fuller use of instruments such as eco-design and energy labelling is called for. The positive role of ambitious national objectives that could be included in National Reform Programmes and national Energy Efficiency Action Plans to provide political impetus for energy efficiency measures, the importance of making full use of cost-efficient market mechanisms and appropriate incentives, and the need to empower consumers through information and awareness-raising were particularly highlighted.

⁷ increasing the share of renewables in final energy consumption to 20%; and moving towards a 20% increase in energy efficiency.

As for **renewable energy**, delegations took note of the Commission's assessment that the 2020 objectives can be met and even exceeded if Member States fully implement their National Renewable Energy Action Plans, financing instruments are improved and cooperation among Member States is strengthened. Attention was drawn to the need for continued and consistent support schemes for energy from renewable sources and for effectively addressing any barriers to the wider deployment of renewables. In order to support the integration of renewables into the market, considerable efforts will be required to develop in particular smart grids and the use of smart meters. Greater uptake of renewable energy should be further helped by promoting technologies that underpin the move towards a low carbon economy, such as through implementation of the SET Plan. Strengthening the market for renewables will be facilitated through full implementation of existing legislation, including for the internal energy market, and by making full use of the possibilities offered by exchange of best practice and cooperation mechanisms among Member States.

Environment Council

The current cycle of the European Semester offers a unique opportunity for the Environment Council to integrate **environment and climate policies** into other areas, in order to contribute to the promotion of sustainable, resource efficient and low-carbon economy in line with the objectives of the Europe 2020 Strategy.

Resource efficiency and reducing greenhouse⁸ gas emissions (GHG) contribute to the achievement of economic and social development goals, decarbonisation of economies and the widespread integration of environmental policies help the improvement of the quality of life and bring new job opportunities. National Reform Programmes prepared by the Member States play a key role in achieving a greener, more resource efficient and sustainable European Union. Various EU-level initiatives and tools are to be mobilised as well.

⁸ greenhouse gas emissions 20% (or even 30%, if a satisfactory international agreement can be achieved to follow Kyoto) lower than 1990, 20% increase in energy efficiency.

Preliminary assessment of the NRPs shows that efforts should be stepped up in order to meet the climate related target of the Europe 2020 Strategy. Full implementation of the climate and energy package, including all measures foreseen for the EU Emissions Trading System is required.

To provide political impetus for environmental and resource efficiency measures, ambitious national objectives within NRPs, the importance of an integrated approach, the sectoral and regional differentiation and the need to empower consumers through information and awareness-raising were particularly highlighted. At Environment Council meeting held on 14 March 2011, the Ministers emphasised the need to ensure coherence with the EU Sustainable Development Strategy.

Actions in the area of fiscal policy, in particular phasing out of environmentally harmful subsidies are essential for the transition towards a resource efficient and low-carbon economy. The transitional process and the mainstreaming of the environmental and climate policy can be further helped by providing the necessary private and public financial resources in terms of the preparations of the next multi-annual financial framework and the reform of the relevant policies.

There was a broad agreement that the Commission should develop an ambitious Roadmap for Resource Efficient Europe as soon as possible, in which the medium and long term objectives are defined with an aim to absolutely decouple resource use from economic growth. It is important to give a broad interpretation to resource-efficiency, encompassing all natural resources.

Further steps towards deliver the Europe 2020 Strategy

As a preliminary exercise, in November 2010 most Member States set their national targets in their draft NRPs, either in preliminary or final form. The ambitions were promising but at the same time realistic, therefore significant efforts are still needed in order to achieve the expected results in relation to the EU 2020 headline targets. Generally it can be stated, looking at the provisional national targets and figures available, that the level of ambition still focuses more on short-term than long-term reforms; consequently Member States still have some way to meet the EU headline targets. Recognising the difficulty that the target-setting of the strategy takes place in the middle of economic consolidation efforts after the recent economic crisis, raising the level of ambition means challenges for many Member States at the time of fiscal consolidation. The Commission proposes to make a mid-term review in 2014.

By mid to end April 2011 Member States will draw up the Stability and Convergence Programmes and National Reform Programmes, setting out in detail the actions they will take under the new strategy, with a particular emphasis on meeting the national targets.

Based on the AGS and the discussion in the various Council formations, summarised by this Synthesis Report, the Spring European Council on 24-25 March will identify the common economic challenges and give strategic guidance on policies. Taking this guidance into account, mid-April or at latest end of April all Member States will prepare their medium term budgetary strategies in their Stability or Convergence Programmes, as well as set out the measures needed to move towards EU headline targets in their NRPs. In June, before the end of the Hungarian Presidency, in the closing stage the Council - based on the Commission's assessment - will subsequently provide country-specific recommendations which help the Member States to prepare their budgets for the following year.
