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NOTE

From:	Permanent Representatives Committee (Part 1)
To:	Council
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Subject:	Recommendation for a COUNCIL RECOMMENDATION on the economic policy of the euro area

Delegations will find attached the explanations of modifications on the employment and social aspects of the Commission Recommendation for a Council Recommendation on the economic policy of the euro area.

The Council is expected to, as a rule, follow the Recommendations and proposals of the Commission or explain its position publicly with a view to ensure greater transparency and accountability in the process of multilateral surveillance and the results of the Country Specific Recommendations in the context of the European Semester.¹

¹ Article 2-ab(2) of Regulation (EU) No. 1175/2011 of the European Parliament and the Council amending Council Regulation (EC) No. 1466/97 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies.

Explanatory note

- Accompanying document to the Council Recommendation
on the economic policy of the euro area -

Article 2-ab(2) of Regulation (EU) No. 1175/2011 of the European Parliament and the Council amending Council Regulation (EC) No. 1466/97 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies, which makes part of the section on "Economic dialogue", states that "*The Council is respected to, as a rule, follow the recommendations and proposals of the Commission or explain its position publicly*".

In respect of the "comply or explain rule", the Council hereby presents the following explanations to changes agreed to Commission Recommendation for a Council Recommendation on the economic policy of the euro area in the context of the 2016 European semester and on which the Commission is in disagreement.

On Recommendation 2, the Commission has proposed the following:

2. *Implement reforms that combine (i) flexible and reliable labour contracts that promote labour market transitions and avoid a two-tier labour market; (ii) comprehensive lifelong learning strategies; (iii) effective policies to help the unemployed re-enter the labour market, (iv) modern social protection systems that support those in need and provide incentives for labour market integration and, (v)*

Agreed text:

2. Implement reforms that combine (i) flexible and reliable labour contracts that promote job quality and smooth labour market transitions and avoid a two-tier labour market; (ii) comprehensive lifelong learning strategies; (iii) effective policies to help the unemployed re-enter the labour market, (iv) adequate and sustainable social protection systems that contribute effectively and efficiently throughout the lifecycle both to social inclusion and labour market integration and, (v).....

Explanation:

Regarding (i): The initial wording can be misleading by suggesting that contracts themselves should lead to transitions to other jobs (or even unemployment). The main goal of labour market reforms is to promote quality jobs, contributing to a stronger inclusion and supporting economic growth. This in turn also contributes to a stronger convergence of the EMU. The inclusive aspect should therefore be highlighted, which is also in line with adopted Council conclusions.

Regarding (iv): It is not appropriate to limit social protection on support for "those in need". It is a clear policy objective to achieve comprehensive social protection which encompasses all groups of society. In several conclusions the Council affirmed that social protection systems should ensure an adequate level of social protection.

It is also important to focus on the social protection of broad levels of the population and to take a preventative perspective. Men and women are exposed to various types of risks throughout their life span and risks vary from one cycle of life to another. There is no age where risks are not present and where social protection is not necessary.

In addition, the EPSCO Council of 9 March 2015 has endorsed the following key message of the joint report of the SPC and the Commission (*Financing arrangements and the effectiveness and efficiency of resources allocation*) which mentions that for the recovery, it is crucial to develop reform strategies that help secure that inclusive economic growth is underpinned by adequate and sustainable social protection systems. This requires that Member States should seek to raise the effectiveness and efficiency of their systems, including through social investment, which can be beneficial for people of all ages and reduce their need to rely on social protection in the longer run.