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OUTCOME OF PROCEEDINGS

From:	General Secretariat of the Council
To:	Delegations
Subject:	Council Conclusions on tackling bottlenecks to investment identified under the Third Pillar of the Investment Plan

Delegations will find attached the Council conclusions as adopted by the Council at its 3506th meeting held on 6 December 2016 in Brussels.

Council Conclusions

On tackling bottlenecks to investment identified under the Third Pillar of the Investment Plan

The Council (ECOFIN) adopted the following conclusions:

A number of positive developments in the EU since the global economic and financial crisis signal the resilience and recovery of the European economy. All Member States' economies are growing again, investment has started to pick up and 8 million new jobs have been created since 2013. However, since the global economic and financial crisis, the level of investment in the EU has fallen substantially. Economic recovery, job creation, long-term growth and competitiveness are being hampered as a result. In this context the Investment Plan for Europe presented in November 2014 aims to address this low investment via three mutually reinforcing pillars: mobilising private finance for investment; targeted initiatives to ensure investment reaches the real economy and improving the investment environment by removing sector specific and other barriers to investment.

Under the first pillar, the European Fund for Strategic Investment (EFSI) is expected to have already mobilised total investment of 154bn euros. The European investment Advisory Hub, which constitutes the second pillar, together with the European Investment Project Portal, has been active since September 2015 and has been providing advice to projects in a majority of the Member States. Furthermore, the Council RECOGNISES aggregate demand as a driver of investment and CONSIDERS that in order to unlock the full potential of the opportunities provided by the Investment Plan, and to mobilise its full multiplier effect, relevant and appropriate measures including structural reforms to remove barriers to investment under the so-called "third pillar" of the plan are critical. This requires implementing an ambitious agenda to further strengthen the Single Market, providing greater regulatory predictability and removing remaining bottlenecks to investment through combined actions at EU and at Member State level. Against this background, the Council WELCOMES the work conducted by the Economic Policy Committee, in cooperation with services of the Commission and the European Investment Bank to identify bottlenecks to investment.

The Council STRESSES that completing the Single Market is essential for the delivery and success of the objectives of the Investment Plan for Europe. Europe needs a regulatory environment which is predictable, reduces administrative burdens and encourages investment and needs to actively work to achieve these conditions. Favourable framework conditions for businesses across the Single Market are essential to unlock the full potential of investment. To this end the Council WELCOMES the Commission´s efforts to improve Europe´s investment environment and facilitate the financing of the real economy and CALLS on the Commission to continue with these efforts in the context of the Energy Union, the Capital Markets Union, the Single Market Strategy for Goods and Services, the Digital Single Market Strategy, the Better Regulation Agenda, as well as the Circular Economy package. The Council NOTES the Commission's legislative proposal amending Directive 2012/30/EU on insolvency procedures which will be assessed as a matter of priority.

The Council STRESSES that further progress towards increasing investment in Europe, and the success of the Investment Plan are strongly contingent on the implementation of structural reforms to address bottlenecks to investment identified under the third pillar but, as noted by Council in July 2016, progress on improving the investment environment has been insufficient so far.

In light of the work carried out so far, the Council HIGHLIGHTS the following specific bottlenecks to investment:

- The most frequent barriers to investment are for example related to an unfavourable business environment, inefficiencies in public administration, frequent changes to regulation, market size and structure, and high sector-specific administrative and regulatory burdens. In some countries, access to finance particularly for SMEs, complex taxation systems and/or a high level of capital taxation, distortions in product and labour markets, and weaknesses in research and innovation frameworks can also hinder investment.

- **Investment in Network Industries:** Investment in sectors of transport, energy, and telecoms combined has constituted on average around 3% of GDP for the EU 28. Whilst often of a sector specific nature, there are substantial and growing synergies between networks across sectors which are shaping market dynamics through new uses for infrastructure and demanding changes in business models. In the energy sector, new services rely on fast precise telecommunication leading operators to invest in broadband infrastructure. In the transport sector, new services are being developed relying on quality electricity infrastructure and advanced telecoms.

- Whilst this varies across the EU, important bottlenecks hampering investment include a lack of interconnection of networks across the EU, complexity and heavy burden within the regulatory framework, lengthy permit procedures, the lack of competitive tendering often limiting the full benefit of public procurement, and time overruns due to unnecessary lengthy legal and administrative procedures.

- **In energy markets**, consistent price signals are important for a market based and efficient allocation of investment. Any public intervention should aim to minimise regulatory distortions and address misaligned incentives. Instruments to support the transition to the low carbon economy need to be designed to ensure environmental, social and fiscal sustainability over time.

- **Investment into Energy efficiency and residential investment in renewable energy:** households may face specific constraints leading to sub-optimal investment decisions for the long term. These can include a lack of awareness of the true costs and returns to investment as they are not matched over time. Households may also face a limited access to finance, with a need for affordable financing products to incentivise consumers, particularly low-income households for example through large scale or pooling solutions while also respecting their risk profiles. Investments are typically small and often only considered as part of periodic renovation projects. In the case of rental markets, incentives may be split between building owners and renters.

- **Investment for the Digital Economy:** investment in digital physical infrastructure is key in order for the EU to benefit from the wave of innovation brought by the expansion of the digital economy and to continue being competitive. However, important bottlenecks hamper investment. Deployment costs for very high capacity broadband networks are high and sometimes not commercially viable in less densely populated areas. Directive 2014/61/EU, which aims to help reduce those costs, still has to be fully transposed and implemented in most Member States. Quicker and more efficient administrative procedures would also help to reduce costs. Markets are often national which keeps costs high and may hamper the realisation of economies of scale. Uncertainty about the short-term uptake of very high capacity broadband implies low expected earnings compared to investment costs and acts as a brake on investment. In some countries, other obstacles than those linked to the physical infrastructure also exist, such as a lack of trust in security of digital systems and insufficient digital skills among layers of the population.

- **The use of Public Private Partnerships (PPPS):** Public Private Partnerships can, when used appropriately, represent a facilitator for specific kinds of investment and offer an alternative way to deliver public assets and services. As long-term contractual obligations they however require strong and stable commitment from public and private sector partners and are a potential source of risk to public finances. Their use is often hampered by unfavourable framework conditions including a lack of administrative resources, unstable and ineffective regulatory framework and a lack of political commitment for longer-term investments. In certain circumstances EU funds may contribute to funding PPPs, and the recent changes in the regulations should facilitate the blending of EU funds and PPPs.

- **Insolvency Frameworks:** Well-functioning insolvency frameworks benefit economic growth and financial stability. Clear rules for cross-border procedures may contribute to cross-border investment, as well as reduced differences in insolvency systems across countries. Insolvency regimes differ significantly across the EU, with the length and cost of procedures, their predictability and transparency, second chances for entrepreneurs and consumers, and the possibility of restructuring debt all varying.

- Important bottlenecks created by inefficient insolvency frameworks may include low recovery rates for claimholders, including secured creditors, the possible use of creditor priority ranking, and a lack of effective and efficient restructuring procedures. Adequate flanking policies that would help reap the benefits of effective insolvency frameworks include the resolution of Non Performing Loans including via the creation of a secondary market, at the national level, and adequate tax and prudential policies to ensure effective offloading of bad debt.

- There remains considerable potential to further promote **synergies and complementarities between EU financial instruments** to support blending of funds for infrastructure projects. Regulatory complexities and administrative bottlenecks for the use of EU funds can be reduced through the key principles of simplification and standardisation of process, combination of instruments, and pooling of resources irrespective of their origin.

The Council TAKES NOTE of the bottlenecks to investment identified by this work and INVITES the Commission to consider these findings into further draft recommendations in the framework of the European Semester and INVITES Member States to fully implement the 2016 Council Country Specific Recommendations issued under the European Semester and particularly those identifying investment bottlenecks.

The Council HIGHLIGHTS the need to continue the work on identifying the barriers to investment and INVITES the Economic Policy Committee to continue its thematic work to identify further investment bottlenecks and best policy practices to address them. Furthermore, the Council INVITES the European Investment Bank to complement the work of the Economic Policy Committee through its findings on barriers and bottlenecks to investment identified when carrying out its market-based activities, notably under the Investment Plan for Europe.