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From: Presidency

To: Permanent Representatives Committee/Council

Subject: European Semester 2016: Contribution to the European Council
(Brussels, 17-18 March 2016)

Delegations will find attached a Presidency steering note on the above mentioned subject, with a view to the Council (EPSCO) meeting on 7 March 2016.

Presidency steering note

EPSCO, 7 March

Introduction

Since the European Semester started in 2011, there have been regular adjustments in terms of the process, substance and bodies involved. Its increasing emphasis on labour market and social objectives is reflected in the annual country-specific recommendations (CSRs). This has also led to an intensification of monitoring and multilateral surveillance, including peer review. Behind this development is a widespread common understanding that a better balance is needed between economic/financial and social objectives.

On the EPSCO side, the implementation of employment and social policy-related CSRs is regularly monitored by the Employment Committee (EMCO) and Social Protection Committee (SPC).

Besides this 'technical reality', there is also a 'political reality' which makes it crucial to have a stronger focus on effective implementation of the CSRs. This other dimension is very relevant, given that political ownership is a necessary prerequisite for successfully addressing the shortcomings outlined in the CSRs. At the same time, it is a dimension that is rarely openly discussed by the direct stakeholders.

Positive peer pressure at political level should be strengthened, in particular by sharing best practices and allowing for frank and open discussions. Given the high share of policy areas in the annual CSR package which fall under EPSCO competence, EPSCO should become more active and focused in this regard. This policy debate aims to be instrumental in achieving that end.

Policy references

The main policy issues at stake can be found in EMCO's contribution (*see document 6151/16 + ADD1*), which reflects the results of its recent multilateral thematic review of **labour market segmentation and contractual arrangements**. In particular, the note highlights that the need for labour market policies to balance flexibility and security is not new, and that experience of reforms in the past decades has been mixed: some have been very successful, others have led to some undesirable consequences that need to be addressed.

Labour market segmentation has become a concern for policy makers. The Council has recommended that several Member States tackle labour market segmentation through reforms of employment protection legislation. In response to this challenge, far-reaching and comprehensive reforms have been enacted by a number of Member States in recent years, whilst others are currently in preparing to do the same.

Recently, increased attention has been paid to the opportunities of more flexible labour market conditions, whilst also acknowledging the challenges generated by new forms of employment (self-employed, casual work, on-call jobs, etc.). The main concern is that, rather than being a true opportunity to take advantage of more flexible and cheaper production technologies, unconventional work arrangements might hide traditional precarious low-paid jobs. Due to these emerging new forms of employment, the debate has been gradually shifting from two-tier labour markets to segmented labour markets. Low mobility and few transitions between the two labour markets imply that labour market segmentation is structural.

An important general point, made in the main conclusions of EMCO's multilateral surveillance exercise, is that Member States face a variety of situations. The EMCO review showed that significant progress has been made in addressing the challenges identified in the CSRs. In a number of cases, the political and legislative process (often very sensitive and requiring buy-in from many interested parties, not least social partners) is either complete or nearly complete. The challenge now is the successful implementation of those measures, followed by sufficiently robust monitoring and evaluation to allow for their fine-tuning.

It should be recognised, however, that implementation takes time and results cannot be expected immediately. Additionally, rather than concentrating on specific details of policy measures, more attention should be given to evaluating whether there is an appropriate overall balance between all the interacting factors which determine whether labour markets function, as this can be achieved in a variety of ways.

The EMCO review also highlighted a number of specific policy orientations. These are related to, *inter alia*, the importance of judicial enforcement to combat abuses and sham constructions, the use and effectiveness of fiscal incentives, the increase in the number of self-employed and their impact on social protection systems, and evaluation and monitoring practices.

Against this background, ministers are invited to address the following issues:

- Structural reforms often lead to a redistribution of collective wealth: some stand to gain, whilst others stand to lose. How can 'inclusive' structural reforms best be safeguarded? How can the politically unfavourable mismatch between the short-term negative consequences of reforms and electoral cycles be reconciled?
- Were the CSRs themselves conducive to implementation? Should ownership be increased by giving Member States more discretion to pursue their own preferred policy response, or should the CSRs rather be sufficiently specific to avoid 'reinterpretation' for the Member States' own benefit (and thus creating pressure for necessary, yet unpopular reforms)?
- What advice would you give as regards CSR implementation? Which factors contributed to successful CSR implementation in your country and what barriers did you have to overcome? Having successfully implemented a CSR in full, did it lead to the expected positive outcomes? If not, is this due to the time lag in producing results?

Organisation of the discussion

In their interventions ministers are invited to focus on implementation. Whilst building on the above elements, further input should concentrate on the political challenges, bottlenecks and successes that result from labour market segmentation and contractual arrangements. Given that not all Member States have received CSRs on the issues at stake, ministers can also react to CSR implementation in general terms (see above).

Regarding the order of interventions, after the Chair's introduction, the Commission and the EMCO and SPC chairs will present their contributions to the debate.

Three Member States (FR, IT, PL) will then present their recent reform efforts in the field, focusing on the political challenges they have encountered, such as issues related to, inter alia, how to deal with different stakeholders, diverging and vested interests, as well as other political considerations.

Following the discussion of these country-specific situations, all Member States wishing to react to the presentations given or to the issues for discussion presented at the end of this steering note will be given the opportunity to do so. Ministers may also comment on the 'nature' of CSRs or reflect on their own experiences with implementation.

In particular, ministers may address strategies for dealing with the 'winners and losers' of structural reforms coupled with, where relevant, any transitional arrangements and how to secure proper involvement of social partners. They may also address the difficulty of communicating and delivering such structural reforms, in particular when their short-term effects may not be conducive to growth.

Ministers are encouraged to engage in a frank and constructive manner when sharing their experiences. This will allow for a dynamic discussion with concrete results being shared for the benefit of all.

The Presidency will submit a summary report on the outcome of this and other European Semester-related discussions to the European Council (17-18 March).