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NOTE

From: Presidency
To: Permanent Representatives Committee/Council
Subject: The social dimension of the internal market
- *Policy debate*

Delegations will find attached a Presidency steering note on the above subject, with a view to the policy debate at the EPSCO Council on 20 June 2024.

The social dimension of the internal market

Policy debate on the role of labour market and social policies in creating a sustainable Single Market for all

In April, acting upon an invitation from Spain, Belgium and the European Commission following the call by the European Council¹, former Italian Prime Minister Enrico Letta presented his report ‘Much more than a Market – Speed, Security, Solidarity – Empowering the Single Market to deliver a sustainable future and prosperity for all EU Citizens’² to the European Council. The current and future Council presidencies were then invited to take work forward on the recommendations in that report by the end of the year³.

The report sets out to renew the Single Market, taking stock of the evolutions since it was created and the challenges it is confronted with: ‘Today, more than thirty years after its inception, the Single Market continues to be a cornerstone of European integration and values, serving as a powerful catalyst for growth, prosperity and solidarity. However, the international scenario has profoundly changed, highlighting the need to develop a new Single Market.’ The report calls for an immediate boost to bring the Single Market up to par for the current context and prepare it for the future.

¹ <https://data.consilium.europa.eu/doc/document/ST-7-2023-INIT/en/pdf>.

² <https://www.consilium.europa.eu/media/ny3j24sm/much-more-than-a-market-report-by-enrico-letta.pdf>.

³ <https://www.consilium.europa.eu/media/m5jlwe0p/euco-conclusions-20240417-18-en.pdf>.

Policy interlinkages

Such a reinforced Single Market is essential, according to the report, to bring about the fair, green and digital transition that the EU needs and that will support its economic and social base:

‘Supporting the transition structurally is a fundamental objective within the European Union’s strategic framework. However, discussions must not only focus on the costs associated with this transition. It is crucial to recognise the extensive benefits that this transition offers to citizens, businesses, and workers alike. Investing in and financing this transition is not just a financial decision; it is arguably the most strategic choice the EU can make to secure a significant competitive advantage on the global stage, while preserving and developing the social standards that Europe proudly enjoys.’ This is very much in line with the La Hulpe Declaration on the Future of the European Pillar of Social Rights⁴, which emphasises the pursuit of a social Europe ‘with the aim of creating social and economic progress, ensuring equal opportunities for all, quality jobs and fair working conditions, reducing poverty and inequalities and fostering a just and fair transition to climate neutrality’.

The report, which should also be seen in the context of Mario Draghi’s forthcoming report on the future of the EU’s competitiveness, refers to the EU’s unique social market economy model and underlines the interlinkages between economic and social policies: ‘A strong social dimension in the EU Single Market promotes inclusive prosperity, ensuring fair opportunities, workers’ rights and social protection for all, while contributing to growth and competitiveness. It reinforces the European Union’s commitment to solidarity, reducing inequalities and promoting the well-being of all citizens, in line with the values of the European Pillar of Social Rights for a cohesive, people-centred Union.’ This is the same interlinkage highlighted in the proposed conclusions on the role of labour market, skills and social reforms and investments for resilient economies, which the Council is invited to approve and which underline the mutually reinforcing nature of people’s well-being and economic growth.

⁴ <https://belgian-presidency.consilium.europa.eu/media/bj0adazv/declaration-finale.pdf>.

Recommendations

The report finds that in order to strengthen the Single Market, the EU needs to ensure financing for upcoming challenges, such as the green and digital transition, and strong strategic autonomy, including strengthened defence. In this regard, it puts forward a number of specific recommendations, including the establishment of a ‘fifth freedom’ to enhance research, innovation and education and skills development, the realisation of a Savings and Investment Union (a rebranded Capital Markets Union) to retain European private savings and attract additional resources from abroad, a revised governance framework for state aid, measures to address tax fragmentation, and a more strategic use of public procurement.

The report further underlines the particular importance of SMEs for the Single Market, and proposes an EU Code of Business Law, providing businesses with a 28th regime for operating within the Single Market and comprising a systematic codification of the existing EU legal framework complemented with new European tools. Such a regime would also include employment law elements. The report also calls for the elimination of hindrances to the temporary cross-border provision of services.

The Letta report includes many proposals in the labour market and social domain. It gives a central place to the ‘freedom to stay’, complementing the ‘freedom to move’: ‘Free movement is a valuable asset, but it should be a choice, not a necessity.’ This requires policies to tackle regional imbalances, including through the provision of a strong EU cohesion policy and other funding instruments and technical assistance to regions stagnating, in decline and/or suffering from brain drain and depopulation. Moreover, the report calls for support mechanisms for EU citizens returning to their home countries after working abroad and puts forward a proposal to introduce a special EU regime for digital cross-border workers.

Linked to this, the report notes that ‘an important problem is housing affordability, which endangers the freedom to stay also in receiving areas, not just in the areas that face depopulation. Many cities and regions across the EU are facing a severe shortage of affordable housing.’ The report advocates a revision of the design and application of EU instruments and policies which have a direct or indirect effect on national housing markets, and the setting up of a Task Force on housing affordability.

To further facilitate labour mobility, Letta proposes reducing barriers by extending the system of automatic recognition of professional qualifications, reviewing the need for and extent of professional regulation, and simplifying the recognition of academic qualifications and boosting learning mobility. Furthermore, the report calls for improved coordination of social security and further digitalisation, as digitalisation has immense potential to promote fair mobility and simplify procedures. The report therefore proposes that all Member States fully implement the ‘Electronic Exchange of Social Security Information’ (EESSI) system and engage in ESSPASS pilot activities on the digitalisation of portable documents, including the European Health Insurance Card.

The report further proposes ensuring greater coherence in the implementation of the amended EU Posted Workers Directive to reduce administrative burden, to move towards a single electronic format for posting declarations, and to clarify the legal framework for the posting of third-country nationals, including those working through temporary work agencies or recruited via intermediaries⁵. Letta also calls for the European Labour Authority to be strengthened by endorsing the recommendations of the Belgian Presidency’s ‘Fair mobility in the EU and the role of the European Labour Authority⁶’ report. More generally, Letta advocates regulating subcontracting practices to prevent exploitation and to ensure compliance with labour and safety standards.

In the domain of health and safety at work, the report calls for more binding rules on mental health, including stress and burnout, and the risks associated with climate change, based on the guidelines of the European Agency for Safety and Health at Work (EU-OSHA)⁷. It recommends prioritising the collection of detailed statistics, particularly on the frequency and severity of incidents involving posted and mobile workers, in order to design evidence-based safety policies. It also calls for the introduction of procurement guidelines that make it possible to prioritise contractors who comply with occupational health and safety standards and who are in line with social responsibility clauses.

⁵ In line with paragraph 20 of the La Hulpe Declaration.

⁶ https://werk.belgie.be/sites/default/files/content/news/report_ela_eu2024be_0.pdf.

⁷ In line with paragraph 24 of the La Hulpe Declaration.

More generally, the report proposes strengthening health resilience, including through streamlined clinical trial legislation. It also points out that population ageing and fiscal tightening present significant challenges to the EU healthcare system, impacting both the supply and the demand sides of healthcare services. The report puts forward the need for more long-term care facilities, home care services, and specialised healthcare professionals trained to deal with the unique needs of elderly patients.

In line with the Val Duchesse Declaration⁸, the report acknowledges the fundamental role of social dialogue in the EU's architecture and calls for an ambitious transposition of the Minimum Wages Directive, and for the Council Recommendation on strengthening social dialogue in the EU and the future Pact for European Social Dialogue to be embedded into national practice. It also notes that the rules governing the Single Market must leave room for collective bargaining and local representative structures.

The report further recommends creating the right conditions for social economy actors to operate on the Single Market by facilitating their access to finance⁹. It proposes adapting to social enterprises the General Block Exemption Regulation for state aid, reassessing the rules on aid for the recruitment of disadvantaged workers, and allowing the strategic use of public procurement to support the social economy.

Enrico Letta further calls for constant investment in and a structured approach to services of general interest to guarantee that citizens can exert their fundamental rights and freedoms, and proposes creating an Action Plan for high-quality Services of General Interest¹⁰. The importance of these services should not be underestimated: on the basis of the methodology used in an earlier study by Cambridge Econometrics¹¹, the Belgian Federal Planning Bureau¹² estimated that Services of General Interest in the EU represent 28.4 % of total value added (EUR 3721 billion), 31.1 % of total employment (65.2 million workers) and 19.7 % of total investment (EUR 632.6 billion).

⁸ Tripartite Declaration for a Thriving European Social Dialogue:
<https://ec.europa.eu/social/BlobServlet?docId=27309&langId=en>.

⁹ See also paragraph 23 of the La Hulpe Declaration.

¹⁰ See also paragraph 31 of the La Hulpe Declaration.

¹¹ Mapping evolutions in Public Services in Europe: towards increased knowledge of industrial relations (May 2013).

¹² Statistical update on Services of General Interest (SGIs):
https://www.plan.be/uploaded/documents/202405230930470.REPORT_update_statistics_SGIs_13006.pdf.

Governance elements

The report also contains many governance-orientated recommendations that are highly relevant for policymakers in the employment and social domain. It notes that European data spaces in key sectors need to be developed to promote data sharing and use for the benefit of the economy and society. It calls for cybersecurity to be strengthened through regulations, standards and practices that protect critical infrastructure and citizens' data. Although there is no direct reference to the social domain (in contrast to the European Health Data Space), this call is very much in line with the proposed conclusions on the role of labour market, skills and social reforms and investments for resilient economies, which touch upon enhancing access to administrative data for policy evaluation and impact assessment purposes while ensuring the protection of personal data.

To further improve evidence-based policymaking and foster efficient public administrations, the Letta report proposes enhancing the Technical Support Instrument, which provides tailor-made expertise to support the reform and modernisation of public administrations at all levels, enabling them to better implement EU legislation and EU priorities. The report suggests promoting digitalisation and management modernisation within public administrations to adapt effectively to the digital and green transitions, and proposes a new facility – a Pact enhancing European administrations' cooperation and expertise (PEACE) – to enable public administrations to better deal with future shocks. Although not noted in the report, it seems that the well-established cooperation within the European Network of Public Employment Services (PES Network) could serve as a source of inspiration in this respect. To foster cross-border cooperation between administrations, Letta also proposes giving an EU legal basis to SOLVIT and ensuring operational stability and uniform procedures.

In light of the forthcoming enlargement of the Union, Enrico Letta's report proposes allowing candidate countries to enjoy Single Market benefits in areas where they can quickly be ready to live up to the *acquis*, while safeguarding the stability of both their economies and the Single Market and emphasising the importance of political integration based on shared values. He also proposes helping candidate countries to develop the administrative and institutional capacity to absorb and optimally use EU funds, and calls for candidate countries to be gradually integrated into EU structures in order to foster stronger connections between them and the Member States, help them feel valued, and cultivate a sense of a shared EU community. Finally, Letta advocates designing a robust system of safeguard clauses, transition periods and other tools in order to prevent and mitigate potential adverse effects of Single Market integration for both sides. This has clear relevance for the employment and social affairs domain, where lessons should be drawn from the experience of previous enlargements.

Against this background, Ministers are invited to address the following questions:

- 1. How do you assess the Letta report's proposals related to employment, skills and social policies, and to their governance?*
- 2. Which of the report's recommendations should be tackled as a matter of priority? What other elements pertaining to the employment, social and equality agenda do you consider most relevant from a sustainable and inclusive Single Market perspective?*