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COMMUNICATION FROM THE COMMISSION

Annual Growth Survey 2012

INTRODUCTION

The Autumn forecasts for 2011-2013 published by the Commission on 10 November 2011 show that economic recovery has come to a standstill and that low levels of confidence are adversely affecting investment and consumption. This lack of confidence is due to the negative feedback between the sovereign debt crisis and the situation in the financial sector together with a slowdown in the global economy. The impact has been particularly acute in the Euro area. As a result, GDP is likely to stagnate in the coming year and overall growth in the EU is forecast to be as low as 0.6% for 2012. Unemployment levels are likely to remain high at around 10% in 2012 and into 2013, exacerbating the social impact of the crisis.

Without a convincing response to the crisis in the Euro area the economic outlook for the whole of the EU will deteriorate rapidly. The growth prospects of all Member States, whether they are currently in the Euro area or not, depend on dealing decisively with the sovereign debt crisis and demonstrating that the Euro is a stable and strong currency whose members are determined and capable of implementing sound economic policies. Given the risk aversion in financial markets, these issues are not yet settled. This prolonged period of uncertainty needs to come to an end. As the decisions of the European Council and the Euro area Summits have repeatedly shown, and most recently on 26/27 October 2011, EU leaders are prepared to do whatever it takes to resolve the current crisis – even to the point of considering the need for further Treaty change. While understandable and necessary, too much political time and energy is being spent on emergency measures and not enough time is being devoted to implementing the policy changes that will bring our economies back to higher growth levels.

THE EUROPEAN SEMESTER: PROGRESS ONE YEAR ON

The first Annual Growth Survey focused on priority actions in three main areas: fiscal consolidation and enhancing macroeconomic stability, labour market reforms for higher employment, and growth enhancing measures. These priorities were taken into account by Member States in their Europe 2020 National Reform Programmes and their Stability or Convergence Programmes, and translated into country-specific recommendations endorsed by the European Council in June.

In addition, in March 2011, the member countries of the Euro area and six non Euro area Member States agreed on the "Euro Plus Pact" which requires these countries to make voluntary commitments in the areas of competitiveness, employment, sustainable public finances and financial stability, going beyond what has been agreed at EU level. Their national commitments are integrated in the National Reform and Stability or Convergence Programmes and assessed within the framework of the European semester.

While still too early to make an overall assessment, in the area of fiscal consolidation progress is being made. Deteriorating cyclical conditions will increase the challenge in this area. On labour market reforms, progress can be seen in the area of active labour market policies, skills, life-long learning and education. Reforms of the wage-setting system remain contentious and progress can be observed only in a few countries. Some growth-enhancing structural reforms were initiated in the areas of research, development and innovation, in transport and in energy. However, in the areas of competition, services and network industries, most bottlenecks remain unaddressed.

The Annual Growth Survey for 2012[1] *launches the 2012 European semester of economic governance. It is the basis for building the necessary common understanding about the priorities for action at national and EU level for the next twelve months, which should then feed into national economic and budgetary decisions, taking up the EU country-specific recommendations and where relevant the commitments made under the Euro Plus Pact. The social partners will have an important role to play in implementing some of these recommendations. The Commission will provide a detailed assessment of the implementation by Member States of the country-specific recommendations and the Euro Plus Pact commitments in the country-by-country analysis it will present to the June European Council.*

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[1] A more detailed assessment of the economic situation and of the employment situation is contained in annexes to this Communication.

The upcoming European semester will be the first to be implemented as part of the recently strengthened economic governance of the Euro area and the wider EU.[2] The "six pack" of legislation will significantly strengthen the Stability and Growth Pact and extend fiscal surveillance. For the first time there will be a procedure for monitoring and correcting macroeconomic imbalances: the Excessive Imbalance Procedure. The Commission has just tabled new proposals[3] designed to strengthen further the surveillance of Euro area Member State budgetary policies, in particular for those Euro area Member States with serious difficulties with regard to financial stability or subject to an excessive deficit procedure. The new governance framework will deliver stronger integration and discipline.

This year's Annual Growth Survey puts a strong emphasis on the need for implementation. Now that agreement has been reached on a new way of doing economic governance, further recognising the interdependence between Member State economies, the top priority must be to implement what has already been agreed with a clear emphasis on growth enhancing actions. The sequence and coherence of action – also across the EU – is crucial to success as is the capacity to exert leadership in the conduct of change and to demonstrate the fairness of what is being done.

In spite of the urgency of the situation, progress by Member States in implementing the guidance of the 2011 Annual Growth Survey is below expectations. There is not yet full ownership, at national level, of the radical changes which have been decided in terms of future economic governance. There is sometimes a disconnection between what is decided at EU level and the length of time it takes to come through in national policy decisions. To remedy this, a sense of urgency needs to accompany the next European semester, with rapid and demonstrable follow through by Member States of EU level guidance. An implementation gap also exists at EU level, where decisions already agreed are not fully or well implemented by Member States, even in areas of core importance like the Internal Market, and where proposals with an important growth impact are still awaiting co-decision, or where funds available to Member States under the EU structural funds are not used.

The focus needs to be simultaneously on reform measures having a short term growth effect, and on the right growth model in the medium-term. Financial markets are assessing the sustainability of Member States' government debt on the basis of long-term growth prospects, on their ability to take far reaching decisions on structural reform and their commitment to improve competitiveness.

For 2012, the Commission considers that efforts at national and EU level should concentrate on the following five priorities:

- Pursuing differentiated growth-friendly fiscal consolidation
- Restoring normal lending to the economy
- Promoting growth and competitiveness for today and tomorrow
- Tackling unemployment and the social consequences of the crisis
- Modernising public administration

[2] See also COM (2011) 669 of 12 October 2011 – A roadmap to stability and growth.
[3] COM (2011) 821/2 and COM(2011)819 of 23.11.11.

1. PURSUING DIFFERENTIATED GROWTH-FRIENDLY FISCAL CONSOLIDATION

Determined fiscal consolidation is a means to an end: it is essential to restoring macro-financial stability as a basis for growth and to securing the future of the European social model. Government debt levels have increased markedly – by 20 percentage points on average over 2007-2010 as a result of the crisis – and are expected to reach 85% of GDP in the EU and 90% in the Euro area by 2012.

In line with the agreed EU approach, significant steps have been taken to consolidate public finances, and, based on unchanged policies, public deficits are set to decline to just above 3% of GDP on average in the EU in 2013. The pace of consolidation is thus globally commensurate with the efforts required, provided commitments are followed through.

Member States are not all in the same situation so differentiated strategies should be pursued within the common framework, taking account of country-specific fiscal and macro-financial risks. In particular:

- Member States benefitting from financial assistance programmes and those under close market scrutiny should continue to meet agreed budgetary targets in spite of possibly changing macro-economic conditions.

- Member States with a significant adjustment gap under excessive deficit procedure, or a high deficit should step up their consolidation efforts. Possible limited downwards revisions of the main macro-economic scenario should not result in delays in the correction of excessive deficits.

- In Member States which do not have an excessive deficit, and that are on an appropriate adjustment path towards their medium-term objectives, budgetary policy can play its counter-cyclical and stabilising role, as long as medium-term fiscal sustainability is not put at risk.

- While there is good progress on the overall objective of fiscal consolidation, the distributional impact of the reforms requires closer monitoring to avoid the risk of neglecting certain growth items and of compounding existing social difficulties.

On the expenditure side, Member States should keep public expenditure growth below the rate of medium-term trend GDP growth. The Commission considers that Member States should give particular attention to the following:

- Prioritising growth-friendly expenditure, such as education, research, innovation and energy which are an investment in future growth, and ensuring the efficiency of such spending. First evidence shows very different patterns across Member States. Particular attention should also be paid to maintaining or reinforcing the coverage and effectiveness of employment services and active labour market policies such as training schemes for unemployed persons.

- Pursuing the reform and modernisation of pension systems, respecting national traditions of social dialogue to ensure the financial sustainability and adequacy of pensions, by aligning the retirement age with increasing life expectancy, restricting access to early retirement schemes, supporting longer working lives, equalising the pensionable age between men and women and supporting the development of complementary private savings to enhance retirement incomes. This modernisation should be coupled with a reform of health systems aiming at cost-efficiency and sustainability.

To take better account of the need to integrate tax policy this year's Annual Growth Survey contains a new annex on growth-friendly tax policies in Member States and better tax coordination in the EU[4] which is also of particular relevance to the Euro Plus Pact. In order to improve the contribution of the revenue side to fiscal consolidation, more attention is needed in the design and structure of the tax systems to make them more effective, efficient and fairer, while also taking into account that Member States may need to increase taxes. Tax reforms are already taking place in many Member States. They should take account of the following:

- There is scope for broadening the tax base of certain taxes and thus increasing revenue or reducing distortively high tax rates. For instance, deductions and exemptions from the standard tax base often create economic distortions and lower the efficiency of the tax system. This is particularly the case for VAT exemptions and reduced rates but it is also relevant for corporate and personal income tax. Phasing out some hidden tax subsidies could help to widen the tax base. In particular, environmentally harmful subsidies should be eliminated.

- Greater efforts should be made to shift taxation away from labour towards taxation which is less detrimental to growth: for example, increasing consumption, environmental, wealth (for example, high value property) taxation can help to alleviate the tax burden on labour thus making hiring more attractive. Particular attention should be paid to the needs of the most vulnerable groups in any tax shifts.

- In several Member States, improving the efficiency of tax collection and tackling tax evasion can increase government revenue. A more effective application of tax rules in all areas of taxation will help in this respect. Measures to encourage moves from informal or undeclared work to regular employment should be reinforced.

- New sources of national revenues such as the auctioning of CO2 emission allowances and spectrum auctioning will start to become available and could be used to support expenditure in growth-friendly areas[5] including green growth, given the commitment to devote a substantial share of these new resources to combating climate change.

- In order to maximise the impact of their tax reforms, Member States should co-ordinate their efforts through enhanced dialogue at EU level. Progress should be made on the proposals announced by the Commission in its last Annual Growth Survey – for a common consolidated corporate tax base, for a financial

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4 This report responds to the invitation of the European Council on 24 June 2011 to the Commission to report on progress made in the structured discussions on tax policy in the context of the Euro Plus Pact.

5 The annual revenue from auctioning ETS allowances is estimated to be at least €11 billion from 2013.

transaction tax and for energy taxation – which are now on the table of the European legislator.

2. RESTORING NORMAL LENDING TO THE ECONOMY

A healthy financial system and, in particular, a robust banking sector support growth. The bank excesses leading up to the crisis have resulted in a widespread fragility in the sector and now risk acting as a brake on economic recovery. Restoring investor confidence will require a strengthening of banks capital positions and measures to support banks access to funding, and will help to sever the link between the sovereign crisis and the financial sector.

A major overhaul of regulation and supervision of the financial sector is underway and many of the new decisions are already being implemented. The objective is to address the weakness in the current regulatory and supervisory framework and enable more normal lending patterns to business and to private households, without the excessive risk taking of the pre-crisis period.

In a short-term perspective, the Commission considers that priority should be given to:

- Strengthening of the capital positions of systemic banks where required in order to reflect heightened risks in the sovereign debt markets. Measures in this regard will be based on the proposal of the European Banking Authority. It will be critical to ensure that banks strengthen their capital ratios primarily by increasing their capital positions, and not by unduly restricting lending to the real economy. In addition, banks should respect agreed rules on bonuses and pay.

- Facilitating bank access to term funding by implementing temporary measures (e.g. public guarantees) so as to limit the impact of banking sector reform on the flow of credit to the real economy, avoiding the risk of further tightening credit conditions. Both capitalisation (in cases where this can only be achieved through public resources) and the provision of public guarantees should be done in a way that is fully consistent with state aid rules.

- Creating a specific regime adapted for SME growth markets allowing them to be more visible to investors and subjecting SMEs to proportionate listing requirements. Prudential rules should also be reviewed to ensure that they do not unduly penalise lending to SMEs.

- Working with the European Investment Bank to maintain and increase its SME loan activity at a sustained pace, while developing synergies with the European Investment Fund through risk-sharing operations, and the establishment of a fund-of-funds[6] to provide capital to funds that targets investments in more than one Member State.

- Developing a new European venture capital regime that will enable EU venture capital funds to market their funds and raise capital on a pan-European basis

[6] This would consist of a collective investment vehicle at European level managed by the EIB to invest in other funds at national level rather than investing in shares, bonds, etc.

across the Single Market. Passporting rights will be granted on the basis of a single registration in the home Member State, and conditioned on the respect of simplified reporting obligations and adapted organisation and conduct of business rules.

- Completing the implementation of a new regulatory framework for EU financial markets in accordance with G20 commitments and strengthening the new EU-level arrangements for financial supervision.

3. PROMOTING GROWTH AND COMPETITIVENESS FOR TODAY AND TOMORROW

Fiscal consolidation and financial repair are needed but are not sufficient in themselves to deliver growth. Given the need for fiscal consolidation, structural reforms must play a key role in enhancing the overall efficiency and adjustment capacity of the EU economy. While the growth enhancing effects of structural reforms deliver their results gradually over time, creating a perspective of improved growth can have a positive short term effect on growth by improving confidence and help all Member States, in particular those under market pressure.

Most of the growth levers are in the hands of the Member States, as highlighted in the recommendations made under the European semester. For instance, national reforms in the areas of services, network industries and the public sector should be accelerated to increase the EU's growth potential. An emphasis on resource efficiency, for example in areas such as energy efficiency and reducing waste, can improve competitiveness, create new jobs and help our environment. Reforms which improve the business environment and competitiveness should also be a priority.

Long before the current crisis overall EU performance has been weaker than key competitors. In spite of some progress in terms of employment, the EU has been lagging behind notably in terms of productivity, and this productivity gap is widening. There are many factors to explain such a gap. But there are two specific obstacles for the EU in comparison to a number of other major competitors: first, the Europe-wide market is still too fragmented and does not allow firms to grow and enjoy the same economies of scale; second, several framework conditions – from access to finance to innovation capacities or regulatory obstacles – are less conducive for firms to create and invest.

Without the necessary structural reforms, medium term projections point to the EU remaining stuck in slow growth. Specific priority areas for reform in each Member State have been identified in the EU country-specific recommendations. The EU level can support and complement national actions, for example, through the Single Market Act proposed by the Commission and endorsed by the European Parliament and the European Council. A number of growth levers could deliver rapid results during 2012, if pursued both individually by each Member State and as part of EU wide action.

Three examples of growth potential

- The EU digital single market can be built by:
  - Developing an EU market for secure mobile and on-line payment systems, while improving data protection rules and promoting the use of public sector information.

- Making more radio spectrum available, in particular to the fast-growing mobile data market. At the same time, investments need to be encouraged in high-speed broadband connections.

- Reducing the costs and improving the quality of delivery of goods and services bought online including through delivering a sufficient level of consumer protection.

- Eliminating sales restrictions based on nationality or residence. The Commission will contribute to this by issuing guidelines on the implementation of Article 20 of the Service Directive.

- Developing on-line dispute resolution systems to provide fast and reliable arbitration to consumers and businesses in case of dispute.

- Using the power of ICT to deliver smart energy and transport systems linking all corners of the EU. Smart electricity grids, high levels of energy efficiency and widespread use of renewable energy made possible through sophisticated use of ICTs and world-class logistics servicing the Internal Market are essential components of a modern, competitive economy and crucial for EU development in the coming years.

- A real internal market for services

  - In many Member States, awareness of economic operators about the possibilities offered by the Services Directive is limited. The "points of single contact", which help businesses to obtain relevant information and complete formalities, do not yet exist in some. The Commission is taking measures to ensure enforcement by those Member States which have not yet transposed the Directive. Sectoral performance tests will be conducted, and follow-up measures will be adopted by the end of 2012 to ensure full implementation.

  - Enhancing competition and competitiveness in the retail sector, reducing barriers for the entry and exit of firms, and eliminating unjustified restrictions for business and professional services, legal professions, accounting or technical advice, health and social sectors.

  - Removing technical, administrative and societal barriers to innovative technologies and production processes, including in the take up of key enabling technologies.

- The external growth dimension:

  - Tapping into the potential of external trade: 90% of global growth in the coming years will come from outside the EU. A lot can be done to help EU firms, in particular SMEs[7], tap into this growth. Already during the crisis, trade helped cushion the shock: one quarter of EU growth in 2010

[7] See COM (2011) 702 Small business, big world – a new partnership to help small business seize global opportunities

came through trade with non-EU partners. Recently concluded trade agreements with Neighbourhood countries, and the recent free-trade agreement with South Korea offer many potential benefits that can come from exploiting the new opportunities it offers, and these should be adequately publicised to businesses.

Mobilising the EU budget for growth and competitiveness

- In current circumstances of fiscal restraint the room for a fiscal stimulus is severely limited. However, it is possible to use existing resources to produce a stronger impact on growth and competitiveness. For the period 2007-2013, a budget of € 347 billion is available for investments in the Member States under cohesion policy. In some, EU funds can represent as much as 4% of GDP. After a slow start, both commitments and payments are now picking up – but unevenly across the EU. Using the potential of the EU structural Funds can and must be part of a new growth focus:

  – There is still considerable room for using or re-programming available funds to boost growth and competitiveness and to implement the country specific recommendations of the first European semester. There are many examples of successful schemes – for instance schemes to support apprenticeships for young people with the help of the European Social Fund or energy efficiency investment programmes for households and firms – which have an immediate impact. Such programmes are a very effective and smart way to create local jobs, especially now the construction sector is struggling.

  – For Member States receiving financial assistance programmes, the Commission has proposed to increase the co-financing rates in order to make sure that necessary investments take place now despite severely constrained national budgets. The Commission urges the European Parliament and the Council to adopt these proposals by the end of 2011.

  – To help build the necessary infrastructure in terms of transport, energy and ICT, the Commission has also proposed the use of project bonds to stimulate private financing of key infrastructure projects which can generate income flows. A pilot phase of project bonds has been tabled to make a link between the current and future budgets of the EU and to bring forward in time the financing of some of these key projects.

A targeted programme to fast track growth

To support these efforts, the Commission has identified a series of EU-level decisions which, if taken quickly, could give an immediate boost to growth[8]. These involve:

- Getting more out of what has already been agreed at EU level.

[8] These include the 12 actions of the Single Market Act which the European Parliament and the Council have already agreed to fast track

- Accelerating adoption of what is pending before the European Parliament and the Council.

- Fast tracking certain future proposals that the Commission will make in the coming months.

Details are set out in the attached annex and the Commission looks forward to discussing a fast tracked growth package with the European Parliament and the Council in the near future.

4. TACKLING UNEMPLOYMENT AND THE SOCIAL CONSEQUENCES OF THE CRISIS

The social impact of the crisis is far-reaching. While the EU was able to create millions of jobs and increase the number of people in work since the mid-1990s, progress has stopped since 2008. Unemployment has increased significantly as a result, with 23 million people unemployed in the EU today.

The crisis is precipitating major shifts across the economy, with business undergoing fast restructuring, many persons moving in and out of employment and working conditions being adjusted to changing environments. With job prospects deteriorating, a significant share of the population may not manage such transitions. The share of long-term unemployed has increased, with risks of falling permanently outside the labour force. The implementation of balanced flexicurity policies can help workers to move across jobs and labour market situations. At the same time, the effect of demographic ageing is now accelerating the withdrawal of experienced workers from the labour market and the prospect of a stagnating/diminishing working age population is imminent in several Member States.

The scope and pace of these changes create the risk of a structural mismatch between the supply and demand for labour which will hinder recovery and long-term growth. While unemployment has been reaching high levels, the number of unfilled vacancies has also been increasing since mid-2009. This situation results from inadequate wage conditions, lack of adequate skills or limited geographic mobility.

Already before the crisis, performance of Member States in terms of participation of all age groups in employment, as well as in terms of education, training and lifelong learning, varied widely and the overall EU average was falling behind in international comparison.

Mobilising labour for growth:

To create jobs and ensure a job-rich recovery, the Commission considers that Member States should give particular priority to the following:

- Moving forward with the agreed recommendations on revising wage-setting mechanisms, in conformity with national social dialogue practices, to better reflect productivity developments, and adapting unemployment benefits further, combined with more effective activation and appropriate training and support schemes, to facilitate the return to work.

- Enhancing labour mobility by removing remaining legal obstacles, by facilitating the recognition of professional qualifications and experience, by strengthening cooperation between public employment services, and by reviewing the functioning of housing markets and the provision of transport infrastructure.

- Restricting access to early retirement schemes and other early exit pathways while supporting longer working lives by providing better access to life-long learning, adapting work places to a more diverse workforce, and developing employment opportunities for older workers, including through incentives.

- Promoting business creation and self-employment, including social entrepreneurship, by improving the quality of support systems, and promoting entrepreneurial skills.

- Developing initiatives that facilitate the development of sectors with the highest employment potential, including in the low-carbon, resource-efficient economy ("green jobs"), health and social sectors ("white jobs") and in the digital economy.

Supporting employment especially of young people:

A particular focus is needed on young people. Between 2008 and 2010, the total number of young (under 25) unemployed in the EU increased by one million – making it one of the groups that have been worst affected by the crisis. EU-wide unemployment rate has increased to over 20%, with peaks of more than 40% in some Member States. This group also faces other structural challenges, hindering their integration into the labour market. For instance, 40% of young employed persons work on temporary contracts. Moreover, one out of seven (14.4%) currently leaves the education system with no more than lower secondary education and participates in no further education and training.

In these circumstances, the Commission considers that Member States should give priority to:

- Identifying the most urgent needs and proposing concrete actions, targeting in particular young people who are not in employment, education or training, as well as commitments to promote quality apprenticeships and traineeship contracts and entrepreneurial skills. Particular attention should be paid to a vocational training dimension in tertiary education systems and getting work experience.

- Engaging with social partners to implement commitments to promote quality apprenticeships and traineeship contracts, especially in sectors with bottlenecks in filling vacancies, so that young people gain real work experience and quickly enter the job market.

- Reforming employment protection legislation in consultation with social partners, reducing the excessive rigidities of permanent contracts and providing protection and easier access to the labour market to those left outside, in particular young people.

- Further adapting education and training systems to reflect labour market conditions and skills demand, while reinforcing their efficiency and quality, and focusing on sectors and occupations that experience the most pronounced skills or labour shortages – for instance, the number of IT graduates has not increased since 2008 and if this persists, the EU may lack 700 000 IT professionals by 2015.

- Reviewing the quality and funding of the universities and considering measures such as the introduction of tuition fees for tertiary education, accompanied by student loan and scholarship schemes, or alternative sources of funding, including the use of public funds to leverage private investment.

Protecting the vulnerable:

In addition to economic realities, the social tissue of the EU is being put to the test. The crisis has disproportionately hit those who were already vulnerable and has created new categories of people at risk of poverty. There are also clear signs of increases in the number of people at risk of income poverty, notably child poverty, and social exclusion, with acute health problems and homelessness in the most extreme cases. People with no or limited links to the labour market – such as pensioners or vulnerable people dependent on social benefits, for instance single parents – are also exposed to changes affecting the calculation and eligibility of their source of income.

The Commission considers that Member States should give priority to:

- Further improving the effectiveness of social protection systems and making sure that social automatic stabilisers can play their role as appropriate, avoiding precipitate withdrawals of past extensions of coverage and eligibility until jobs growth substantially resume.

- The implementation of active inclusion strategies encompassing labour market activation measures, and adequate and affordable social services to prevent marginalisation of vulnerable groups.

- Ensuring access to services supporting integration in the labour market and in society, including by ensuring access to a basic payment account, electricity supply to vulnerable customers and access to affordable housing.

5. MODERNISING PUBLIC ADMINISTRATION

The quality of public administration at EU, national, regional and local level is a determining element of competitiveness, and an important productivity factor. The on-going pressure on public finances is driving major changes and restructuring of the public sector. What is a challenge must be turned into an opportunity. Although public sector reform cannot be achieved overnight there is a need to give it a new impetus under current circumstances.

The interdependence and complexity of administering the EU's multilevel governance structures has shown, particularly under the pressure of the crisis, that there is room for improvement. Member States need well-performing administrations to be able to play their full role in the EU, to meet their obligations and to ensure that their citizens can benefit fully from the advantages of EU membership. The successful implementation of EU policies in important areas from customs control to the quality of statistics relies on the capacity of each Member State to deliver agreed results. The persistent implementation gap in the application of EU legislation, or in the use of structural funds, is in many cases the result of a poor administrative capacity.

In many Member States, there is scope for increasing the efficiency in the delivery of public services as well as the transparency and quality of public administration and the judiciary. In particular, there is a need to enhance the performance of the civil justice system so that claims can be settled in a reasonable time frame – undue delay is costly for businesses and often means they are unable to take advantage of new business opportunities. In this context the Commission has indicated its intention to propose to improve the effectiveness of cross border insolvency rules. Another area where different policy objectives need to be reconciled is the issuance of planning permits – here the Commission has recently proposed a new Regulation on Guidelines for Trans-European Energy Infrastructure[9]. These are just a few examples – it is clear that addressing these and other existing problems would allow reconciling the aims of fiscal consolidation and improving competitiveness and growth prospects.

The Commission has been promoting a smart regulation agenda, designed to ensure that the EU has high quality regulation where it needs it, and only takes action where the EU level delivers better results than at national level in full respect of the subsidiarity principle. An integral part of this agenda is the drive to simplify existing EU legislation and to keep it under constant review so that it is always up to date and fit for purpose. Equally important is the Commission's programme to reduce administrative burden and red tape – the Commission has already surpassed the 25% reduction target by delivering proposals to reduce administrative burden by 31% if the co legislator adopts its proposals. The Commission has just proposed[10] a new regime for micro and small enterprises, basically exempting them from new EU regulations unless a convincing case can be made for including them. Even where SMEs are covered by new regulation the possibility of lighter regimes will be explored. The constant improvement in consultation of stakeholders, evidence-based impact assessments and a focus on implementation on the ground of EU legislation will continue to be central to the Commission's agenda.

The Commission considers that Member States should give priority to:

- Improving their business environments by minimising administrative burdens, including by avoiding "gold plating" when transposing EU legislation and by reducing unnecessary regulations and permits, and introducing simpler and quicker procedures, in particular in their judicial systems. In its proposal on exempting micro enterprises from new regulations, the Commission has announced it will keep a scoreboard of its proposals to reduce administrative burden as they go through co-decision and national transposition so that it can highlight cases where the legislator adds burdens during the process.

- Ensuring that exchanges between administrations and enterprises as well as citizens can be done digitally, in order to increase administrative efficiency, transparency and the quality of service. Online public services can be particularly beneficial for SMEs and should be adapted to their needs.

[9] COM (2011) 658 of 19.10.2011

[10] COM (2011) 803 of 23.11.2011

- Facilitating the creation of new businesses by implementing the commitment in the Small Business Act to reduce the time for starting up of a company to 3 days. The twenty five Member States that have not already done so should make the changes needed to meet this target by the end of 2012.

- Where absorption rates of EU structural funds is low, building administrative capacity, including the necessary expertise and continuity of management, to ensure speedier disbursement of unused funds on growth-enhancing projects and using available technical assistance for this purpose.

6. CONCLUSION

The EU economy is now going through the most challenging times in its history. The focus of the 2012 Annual Growth Survey is on implementation of the priorities agreed as part of the new economic governance and the Europe 2020 strategy. It takes account of the need to adjust the level of ambition and priorities to a worsening economic context. The Commission invites:

- The European Council to take note of this Annual Growth Survey and to task Council formations to consider it and report to the Spring European Council so that the March European Council can adopt appropriate guidance for the 2012 European semester.

- The Member States to reflect the guidance agreed by the Spring European Council in their next Stability and Convergence Programmes and their National Reform Programmes in the spring 2012. These will be examined by the Commission when it issues new or updated country-specific recommendations next year, taking into account the degree of implementation of the 2011 recommendations, including the commitments made under the Euro Plus Pact.

- The Member States to step up implementation of their Stability and Convergence Programmes, their National Reform Programmes and the 2011 country-specific recommendations.

- The European Parliament and the European Council to agree to fast track the list of proposals attached to this Communication with a view to adopting them by the end of 2012.

Annex: EU-level specific proposals
with substantial growth potential and indicative timeline

I. GETTING MORE OUT OF WHAT HAS ALREADY BEEN AGREED AT EU LEVEL

- **Full implementation of the Services directive**

  ACTION REQUIRED:

  - All Member States to transpose by end 2011 (implementation report by end of 2011/early 2012)
  - All single points of contact to be in place by end 2011
  - Ongoing performance check of the directive to be published in Q2 2012 and follow up measures to be adopted before the end of 2012
  - Commission to propose implementing guidelines based on art. 20 of the directive to eliminate sales restrictions based on nationality or residence in first semester 2012

- **Completion of the integrated market for energy** which would give consumers choice between suppliers and make markets fully accessible for energy providers.

  ACTION REQUIRED:

  - All Member States to transpose second and third energy package without delay (the transposition deadline was mid-2011)
  - Council and Parliament to swiftly adopt the Regulation on guidelines for trans-European energy infrastructure
  - Commission to propose first set of implementation guidelines and network codes in 2012 (announced by the third package) with a view to completing work by 2014

- **Implementation of the late payments directive should be advanced from March 2013 to March 2012, in order to help SMEs**

  ACTION REQUIRED: all Member States to anticipate the date, de facto if not de jure

- **Full implementation of the Free Trade Agreement with Korea**

  ACTION REQUIRED:

  - Campaigns in each Member State to advertise the opportunities opening up in Korea during 2012

- Monitoring by the Commission of implementation and report on improved market access by end 2012

II. ACCELERATING ADOPTION OF WHAT IS PENDING BEFORE THE COUNCIL AND EUROPEAN PARLIAMENT

- **<u>The proposed unitary European patent</u> protection valid in 25 Member States would lead to an estimated 80% reduction in costs for companies (SMA proposal).**

  ACTION REQUIRED:

  - Political agreement on the unitary patent by Ministers of 25 Member States by end 2011

  - Adoption of the implementing regulations and agreement at political level/signature of the UPC Agreement following the European Parliament vote in February 2012.

- **<u>Agreement on the revision of the Roaming regulation,</u> which will create more opportunities for businesses and lower prices for consumers**

  ACTION REQUIRED: Council and EP to agree Commission proposal (COM (2011) 402) in first semester 2012 (current regulation expires on 30 June 2012)

- **<u>The pending revisions of the directives on annual accounts</u> would simplify reporting requirements in particular through exemptions for micro enterprises and burden reduction for small enterprises**

  ACTION REQUIRED:

  - Political agreement on Commission proposal on Accounting of micro-entities (COM (2009)35 COD) by end of 2011

  - Adoption of the proposal on the revision of the Accounting directives (COM (2011) 684) by the end of 2012 (SMA proposal)

- **<u>Increasing co-financing rates for Structural Funds</u> in programme countries as proposed would enable the rapid mobilisation of EU funds in support of growth.**

  ACTION REQUIRED: adoption of Commission proposal (COM (2011) 482) by end 2011

- **<u>The proposed energy savings directive</u> would promote more efficient use of energy**

  ACTION REQUIRED:

  - Adoption of the Directive by Council and European Parliament during the first semester 2012

- All Member States to set their efficiency targets and submit first reports by end 2012 (after adoption of the directive)

- **Concluding the further trade agreements which are underway with key strategic partners**

  ACTION REQUIRED:

  - Subject to the position of partners, aim to conclude negotiations with India and Ukraine by the time of the next Summits with these countries

  - Subject to the position of partners, aim to conclude negotiations with Canada, Singapore and Malaysia during 2012 at the latest

  - Finalise formally in early 2012 the agreements with Peru and Colombia, on which negotiations have already concluded

- **Revision of the legislation on the European standardisation system (ICTs and services) (SMA proposal)**

  ACTION REQUIRED: Council and EP to agree Commission proposal (COM (2011) 315) by the end of 2012

- **Agreement on the proposals on savings tax**

  ACTION REQUIRED: conclude the already advanced discussion in Council on the Savings tax proposal (COM (2008) 727) before the end of 2011.

- **Giving the Commission the mandate to negotiate targeted tax agreements for the whole EU with third countries to effectively fight tax evasion whilst avoiding double taxation**

  ACTION REQUIRED:

  - Agree negotiating directives by March 2012

  - Agree anti fraud agreement with Lichtenstein by end 2011

  - Proposal from the Commission to tackle tax heavens by end 2012

- **Adopting the optional Common European Sales Law**

  ACTION REQUIRED: Council and EP to agree Commission proposal (COM (2011) 636) by end 2012

III. FAST-TRACK FUTURE PROPOSALS THAT THE COMMISSION WILL PROPOSE IN THE COMING MONTHS, INCLUDING:

- **The twelve proposals of the Single Market Act, notably:**

- Facilitating access to venture capital across Europe through an EU passport – Commission proposal on 30 Nov 2011, agreement by Council and EP by end 2012

- Providing a common legal base for mutual recognition of e-authentication and electronic signature across borders – Commission proposal 2nd Qt 2012, agreement by Council and EP by end 2012

- Revising the public procurement framework to provide simpler rules and more efficient procedures – Commission proposal on 13 Dec 2011, agreement by Council and EP by end 2012

- Legislation modernising the system for recognising professional qualifications

ACTION REQUIRED: Council and European Parliament to adopt by end 2012

- Other proposals:

- **A Youth Opportunities initiative** to boost youth employment, in particular access to a first job, apprenticeships and internships

  ACTION REQUIRED: Commission proposal by end 2011, agreement by Council and EP by end June 2012

- **Collective rights management** – to enable the emergence of a single market for online music and to modernize the management of copyright in the EU

  ACTION REQUIRED: Commission proposal first quarter 2012, agreement by Council and EP by end 2012

- **Proposal on on-line payments** to improve trust and competition, two issues of concern today

  ACTION REQUIRED: Commission to present concrete proposals in 2012 to address the issues identified in the Green paper (planned for adoption end 2011)