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NOTE

From:	Employment Committee and Social Protection Committee
To:	Delegations
Subject:	Opinion of the Employment Committee and the Social Protection Committee on the proposal by Belgium and Spain for the introduction of a Social Imbalances Procedure in the European Semester

Delegations will find attached the opinion of the Employment Committee and the Social Protection Committee on the proposal by Belgium and Spain for the introduction of a Social Imbalances Procedure in the European Semester. The opinion was adopted in accordance with the rules of procedure of the preparatory Committees at their joint meeting on 16 May 2022.

The Employment Committee

The Social Protection Committee

Opinion of the Employment Committee and the Social Protection Committee on the proposal by Belgium and Spain for the introduction of a Social Imbalances Procedure in the European Semester

Introduction

1. At the October 2021 meeting of the Employment and Social Affairs Council (EPSCO), Belgium and Spain launched an initiative to further strengthen the social dimension of the European Semester through the introduction of a Social Imbalances Procedure (SIP). Following the initial positive reactions from several Ministers during the policy debate on the future of the Semester, in accordance with Art. 150 and 160 of the Treaty on the Functioning of the European Union, on 27 January 2022 the Presidency of the EU invited the Employment Committee (EMCO) and the Social Protection Committee (SPC) to prepare an opinion on the possible modalities for setting up such a mechanism in the Semester while limiting the additional administrative burden.

2. The two Committees held exploratory exchanges of views on 7 February and 8 March. Belgium and Spain presented technical papers outlining their proposal and, upon Member States' request, clarified several aspects related to the functioning and intended outcomes of the proposed SIP. In these preliminary discussions, Member States underlined the importance of clearly determining the value added of introducing a SIP without overburdening the

Semester and by relying on existing instruments, as well as the need to define the concept of "social imbalance".[1]

[1] While this Opinion is relying on the terminology used in the Belgo-Spanish proposal, EMCO and SPC are open to further reflections on the adequacy of the term "social imbalances", including in relation to a possible change to "social divergences".

3. Following the discussion and agreement on 8 March, the Chairs of the Committees mandated the EMCO Indicators Group (IG) and the SPC Indicators Sub-Group (ISG) to develop a clearer understanding of how to possibly identify a social imbalance from a technical point of view and to address all other technical issues contained in the Presidency's mandate. In particular, the sub-groups were invited to explore suitable options on the possible indicators that could be used and on possible methodologies and mechanisms to trigger the procedure, without prejudging the political considerations on the proposal to introduce a SIP.

4. To ensure a transparent and well-structured process in the limited time available, the Committees also agreed to an ambitious roadmap outlining the steps to fulfil the Presidency's mandate (Annex 1), including via a series of ad-hoc thematic discussions held between 18 March and 16 May and structured in a way to provide indications on all the points raised by the Presidency (Annex 2). In recognition of the interlinkages with the Macroeconomic Imbalance Procedure (MIP) referred to in the mandate, and the need to discuss economic, social and employment policies in a holistic manner, delegates also agreed to exchanging views with the Economic Policy Committee (EPC).

Outcome of the discussions

<u>Items 2 and 4 in Presidency's mandate: Integration in the European Semester and general organisation</u>

5. EMCO and SPC have examined the proposal of Belgium and Spain for the introduction of a SIP in the European Semester via the employment policy coordination framework set out in Art. 148 TFEU and without the need for specific additional legislation. The Committees broadly welcome the intended objective to maintain a balanced representation of the employment, social, economic and fiscal dimensions of the European Semester, by reinforcing the role of EPSCO in its governance.

6. The discussions showed that Member States' views are divided on the value added of a possible SIP. While some Member States support the SIP proposal and regard its possible introduction as an opportunity to ensure a stronger role of EPSCO in the Semester, a number of other Member States questioned its value added in terms of how a SIP would meaningfully differ from existing instruments and emphasised the need to develop a definition of "social imbalance". Concerns were also raised about possible additional administrative burden a SIP may impose on Member States. These Member States call for further analysis and political guidance to determine whether the benefits of introducing a SIP would outweigh the costs of possible additional administrative requirements. A few Member States also cast doubts on the feasibility of using Art. 148 TFEU as the legal basis for a SIP and would like to receive legal advice on the matter.

7. Should a political agreement on introducing a SIP be reached, a number of Member States are in favour of setting up a mechanism broadly in line with the Belgo-Spanish proposal, although with some important caveats related to its timeframe.[2] In this sense, there is broad support in EMCO and SPC that first the Commission could analyse the risk of social imbalances via its proposal for the Joint Employment Report in the context of the Semester Autumn Package. As for the final country-specific analyses, several Member States agree with the Belgo-Spanish proposal of a possible introduction in the Country Reports, under the assumption that their publication resumes in the future as part of a Semester Winter Package. In light of their later publication in the 2022 Semester cycle and the uncertainty surrounding the approach that will be adopted in future cycles, there seems to be a general consensus in EMCO and SPC on alternatively including such final country-specific analysis on social imbalances risks in the Joint Employment Report, along the discussions and negotiations in the Committees that lead to the finalisation of the report by the March EPSCO.

[2] According to the original proposal by Belgium and Spain, the Commission would conduct a first screening of the Member States at risk of social imbalances in its proposal for the Joint Employment Report, presented as part of the Autumn Package. The country-specific analyses would then be carried out by the Commission in dedicated "Social In-Depth Reviews" within the Country Reports, with publication in February, as part of the Winter Package, rather than in Spring as the case in the 2022 Semester cycle. In light of this important element, EMCO and SPC discussed possible alternative scenarios depending on the future design of the post-2022 Semester cycle.

8. If a SIP is introduced as proposed by Belgium and Spain, there is widespread consensus among the Member States on the need to have preparatory discussions in EMCO and SPC on such country-specific analysis of risks of social imbalances. This is meant to ensure strong national ownership and facilitate the preparation of the EPSCO position on the risk of social imbalances identified by the Commission in the Semester Autumn Package. According to the SIP proponents, such final discussion at Ministerial level – that would be envisaged for the March EPSCO meeting – could be one of the key elements determining a stronger role of EPSCO within the Semester governance. Accordingly, the inclusion of the analysis of social imbalances as part of the Joint Employment Report or alternatively in the Country Reports (if published at the beginning of the year) would not alter the current Semester timeline in EPSCO.

9. To optimise the preparatory work in the Committees and avoid possible overlaps, EMCO and SPC are also of the opinion that the discussions in the Committees on social imbalances risks could be streamlined through the integration with the multilateral surveillance activities carried out by the EPSCO Committees pursuant to the Treaty, in order to assess the implementation of past Country-Specific Recommendations (CSRs) in the employment, skills and social policy domains. This would allow the Commission and the Member States to qualitatively assess possible risks of social imbalances also in light of past employment and social CSRs and related policy responses, thus taking fully into account all relevant national specificities in this respect and taking advantage of the existing processes within the Committees.

10. The Committees highlight the importance of defining the interactions between a possible SIP and the MIP, as also outlined by Belgium and Spain in their technical papers, as well as the relevance of identifying potential risks in the employment and social domains early on. It is welcome that a possible SIP would only be a "preventive" mechanism with no "corrective" dimension, as the two processes are not equivalent due to the different legal bases. It would be essential to ensure consistency in the analyses and interpretation of the respective results of a possible SIP and the MIP, including in light of the presence of labour market headline indicators and social auxiliary indicators in the MIP Scoreboard, the differences in methodology between the MIP Scoreboard and the Social Scoreboard, as well as the possible revision of the MIP in the context of the ongoing Economic Governance Review. The possible presence of the same labour market indicators in the two processes has to be taken into account as it remains important to have coherent conclusions.

Items 1 and 3 in Presidency's mandate: mobilization of indicators, triggering the procedure and taking into account national specificities

11. Without prejudice to the outcome of the discussions in EMCO and SPC, the indicator groups of the two Committees examined the technical aspects of the SIP proposal and the related issues referred to in the Presidency's mandate, such as the use of indicators and the criteria that could determine the triggering mechanism. Their expertise was also mobilised to provide a clearer understanding of how to define a "social imbalance" (as a constitutive element of the Belgo-Spanish proposal) from a technical perspective and what main dimensions this could encompass. Although the discussions on a possible definition of "social imbalance" were not conclusive, the majority of Member States in IG and ISG generally supported the need to adopt a broad understanding of the concept, rather than developing a too narrow definition. As a starting point, some Member States supported a general definition along the following lines: "*Any state or trend severely affecting, or having the potential to severely affect in an adverse way, the labour market and/or the social situation in a Member State or the Union as a whole*", although with some reservations over including the reference to the Union as a whole and with the understanding that further conceptual and analytical work is needed to converge towards an agreed definition.

12. To some degree, it is acknowledged that social imbalances could be based on the policy framework of the European Pillar of Social Rights and the Social Scoreboard headline indicators agreed in the EPSCO Committees. Accordingly, the indicator groups have discussed whether social imbalances should be defined on the basis of all the Social Scoreboard headline indicators, a narrower set of those, or eventually a broader set of indicators. Should a SIP be introduced, Member States in IG and ISG would tend to support a pragmatic and manageable approach, by initially using the full set of the Social Scoreboard headline indicators and reassessing this choice later on. The timeliness of the Social Scoreboard headline indicators is generally deemed adequate for an initial screening of social imbalances, as data delays are not generally worse than in other domains and in light of the strong improvements under way regarding the availability of EU-SILC data.

13. Should a SIP be introduced, Member States in the subgroups would tend to support the identification of social imbalances on the basis of: (a) both the levels and changes of all the indicators that would be part of a SIP; (b) a relative benchmark (such as comparing results to a reference based on the EU average, rather than comparing to an absolute reference); and (c) all agreed indicators weighted equally. Member States in IG and ISG would also broadly support a triggering mechanism that takes into account further quantitative and qualitative considerations when assessing whether a Member State would be considered as experiencing a social imbalance, rather than applying a strict rules-based mechanism. In particular, a first step could examine if there is a potential risk based on an assessment of the scores of the Social Scoreboard, while in a second step additional data and qualitative information would be taken into account to confirm whether there is actually an imbalance.[3]

[3] Other issues that could be addressed in the future include reviewing the appropriate reference period to use when looking at changes (e.g. several years instead of year-to-year to avoid effect of fluctuations) and the need to test the possible approaches to see what results they would provide. Further issues raised by some delegations as not having been adequately addressed during the discussion to date (though not explicitly mentioned in the mandate) are whether there is a need to cover other dimensions beyond strictly the labour market and social ones, to explore the severity of imbalances, and/or to examine the need for caveats on the indicators to be used in the SIP.

14. In light of the new 2030 EU headline targets on employment, adult learning and poverty reduction welcomed by EU leaders, further discussions were deemed necessary to determine whether the assessment of progress towards the targets should play a role in a possible SIP. Some Member States in the indicator groups were of the opinion that the 2030 targets should represent a special benchmark in a possible SIP to match the political commitment, while others expressed themselves against this option. Similarly, at this stage there were no common views on whether to give a special role to the assessment of progress towards the 2030 national targets in light of the different levels of ambition across Member States. Nonetheless, there was general support that, in the case where national targets would be included, they could be used in the second step of the analysis.

Item 5 in Presidency's mandate: Results and follow-up of the procedure

15. The proposal by Belgium and Spain suggests that following the identification of social imbalances by the Commission, the preparatory discussions in EMCO and SPC and the final agreement at Ministerial level in the March EPSCO, at the end of the process the Council – on proposals by the Commission as part of the traditional Semester Spring Package – could adopt CSRs aimed at addressing the social imbalances identified. In particular, in their proposal Belgium and Spain referred to the possibility that such future "SIP-related" recommendations could allow for a stronger prioritisation among employment and social challenges.

16. Several Member States argued against an explicit association of the SIP to CSRs in the employment and social domains, while a few suggested that recommendations linked to the results of the SIP should contain appropriate references in the legal text. In any case, should a SIP be agreed upon, Member States broadly agree that the procedure should be a framework for the underlying multilateral analysis and discussions of employment and social challenges in the Semester, in line with the legal basis of the Treaty and the political commitment towards the implementation of the European Pillar of Social Rights.

17. In light of Art. 148 TFEU, the Commission has the right to propose recommendations to address relevant employment and social challenges. Employment and social CSRs stemming from a possible SIP should be lifted based on the existing Semester practice for all recommendations, with the Commission deciding if structural challenges have been adequately addressed and whether to propose similar CSRs in consecutive Semester cycles.

Conclusions

18. On 16 May 2022, EMCO and SPC concluded their examination on the proposal by Belgium and Spain for introducing a Social Imbalances Procedure in the European Semester, following the mandate received by the Presidency to provide this Opinion by mid-May 2022. The views expressed by Member States in relation to the proposal by Belgium and Spain should be understood as preliminary, without prejudice to a possible political agreement among Ministers.

19. EMCO and SPC broadly welcome the objective to maintain a balanced representation of the employment, social, economic and fiscal dimensions of the European Semester by reinforcing the role of EPSCO in its governance. While some convergence was expressed on defining the structure of a possible SIP on the basis of existing instruments – most notably the Joint Employment Report, the Social Scoreboard, the Country Reports, possibly the Country-Specific Recommendations and the multilateral surveillance activities in the Committees – a number of important issues related to the value added and the possible administrative burden of the proposal and its possible ramifications remain open and warrant further considerations. In particular, at this stage Member States remain divided on whether a SIP would meaningfully improve the analysis and monitoring of employment and social outcomes.

20. In this context, with a view to study more closely the possible functioning of a SIP, several EMCO and SPC delegates supported the suggestion by a few Member States to initiate a pilot where Member States could participate on a voluntary basis. Before a possible SIP could be implemented, several Member States in both the Committees and their indicator groups have expressed the need for further work towards a possible definition of the concept of "social imbalances", as well as on the use of indicators and the possible triggering mechanism. Several Member States consider whether to give the 2030 EU and national headline targets a special role in the procedure to be both a political and technical issue to be carefully assessed in light of their importance to steer progress in the employment and social domains in the years to come.

21. Finally, while Member States broadly welcome that the proposal presented by Belgium and Spain would not significantly alter the timeline of the European Semester, further discussions should duly account for the ongoing and forthcoming reflections on the future of the Semester, in particular in light of the important changes implemented in 2020 and 2021 and the uncertainty regarding the structure of future Semester cycles and the conclusion of the Economic Governance Review. In this context, the Committees remain committed to support EPSCO and future Presidencies on possible future discussions on the SIP proposal, if needed, and to further strengthen their collaboration with other advisory committees of the Council and the European Commission in line with their respective Treaty-based mandates.

Annex 1 – Roadmap of SIP discussions in EMCO and SPC

Date	Step	Outcomes
27.01	Mandate from the Presidency	Mandate to prepare an Opinion by May 2022 sent to the EMCO and SPC Chairs.
Phase 1 – Preliminary exchanges and planning		
07.02	EMCO - SPC meeting	First exchange of views: Presentation of the BE-ES proposal and the mandate.
08.03	EMCO - SPC meeting	Second exchange of views: Discussion on the added value of the proposal, concept of "social imbalance" and use of existing instruments; Discussion on mandate IG/ISG on technical elements.
Written consultation on the mandate to IG/ISG		
16.03	Written mandate to IG and ISG	Letter from EMCO and SPC Chairs to IG and ISG: Explanation of mandate; Invitation to present outcomes of technical discussions in EMCO-SPC.
18.03	IG - ISG meeting	Presentation on the SIP initiative by BE and ES; Presentation of foreseen schedule for discussions in the IG and ISG.
Phase 2 – Discussions and drafting of the chapters of the Opinion		
30.03	IG - ISG meeting	Initial discussions on: Definition of "social imbalance" from a technical perspective; **(a)** Mobilisation of indicators.
01.04	EMCO - SPC meeting	Discussions on options on: **(b)** Integration in the European Semester; **(d)** Organisation of discussions.
Written procedure on chapters (b) and (d)		
08.04	IG - ISG meeting	Final discussion on: Definition of "social imbalance" from a technical perspective; **(a)** Mobilisation of indicators. Initial discussion on options and criteria on: **- (c)** Triggering the procedure and taking into account national specificities.

27.04	IG - ISG meeting	Final discussion of options and criteria on: **(c)** Triggering the procedure and taking into account national specificities; How can we neutralise the "delay" effect in triggering the procedure, due to the a posteriori publication of statistics, and allow the procedure to be in line with the social situation of a Member State.
Phase 3 – Final agreement and drafting of the Opinion		
04.05	EMCO - SPC meeting	Presentation on: Technical work on **(a)** and **(c)** done by the EMCO IG and SPC ISG; Discussion on options on: (**e**) Results and follow-up of the social imbalance procedure.
Written procedure on chapters (a), (c) and (e).		
11.05	Chairs' attendance to EPC meeting	Exchange of views with EPC.
16.05	EMCO - SPC meeting	Finalisation of draft Opinion and adoption.

Annex 2 – Extract from the Presidency's mandate on the issues to be answered by the EPSCO advisory Committees

1. Mobilisation of indicators: The procedure requires the use of a number of indicators. Should the indicators of the social scoreboard form the basis of this procedure? Should all of these indicators be mobilised, or just some of them? How can we neutralise the "delay" effect in triggering the procedure, due to the a posteriori publication of statistics, and allow the procedure to be in line with the social situation of a Member State?

2. Integration into the European Semester: The proposed procedure is based on coordination with existing tools, in particular with the procedure on macroeconomic imbalances, the joint employment report and country recommendations. What would be the conditions for such coordination? In this context, how do the Committees view the presence of social indicators within the macroeconomic imbalance procedure? What consequences should be anticipated in the discussions with the ECOFIN filière, and how can we ensure that the work is consistent with this filière?

3. Triggering the procedure and taking into account national specificities: The proposal assumes that criteria will be established jointly by the Commission and the Committees in order to set the thresholds for triggering the procedure. In this context, what could be the criteria leading to the triggering of the procedure? How could national situations be taken into account?

4. Organisation of discussions: According to the proposal, the Commission would be responsible for identifying countries at risk of social imbalance and for drawing up, in the context of country reports, an in-depth social analysis for the Member States concerned. A Commission communication would then draw up a draft list of countries in imbalance, which the Council would have to validate. What would be the respective roles of the Committees, the Commission, the Member States and the Council in this context?

5. Results and follow-up of the social imbalance procedure: For those Member States that would actually be recognised as being in a situation of social imbalance, the country recommendations would include recommendations explicitly aimed at correcting the imbalance. On the basis of what discussions could these recommendations be established, given the possible interactions with the work carried out under the "National Recovery and Resilience Programmes"? How would the recommendations and the imbalance procedure be lifted?