THE EFFECTIVENESS OF THE EUROPEAN SEMESTER FROM A GOVERNANCE PERSPECTIVE
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The European Semester - Key operational information

- The European Semester is the key governance instrument of the EU Economic and Monetary Union;
- Created in 2010, the Semester is an annual cycle of key monitoring, reporting and enforcement for fiscal policy that engages Finance Ministries at Member State level and the EU Commission (most prominently the Secretariat General, DG ECFIN, DG EMPL and DG TAXUD).

Aims:
- To coordinate and synchronise the timing of the economic and fiscal policy reporting and evaluation between the European Commission and the EU Member States;
- To monitor, detect, prevent and correct problematic economic trends such as excessive government deficits or public debt levels, and
- To monitor and enforce the Europe 2020 strategy.

The 4 key features of the European Semester are:

1. The setting of EU law, guidelines and priorities for the next 12 month Semester cycle;
2. Establishing quantitative and qualitative indicators and benchmarks, tailored to the needs of Member States, but against which national progress can be measured;
3. Translating EU guidelines into national policies by setting specific targets and adopting specific measures, and
4. Periodic monitoring, reporting and evaluation between the EU Commission and Member States.

The European Semester combines different instruments in an overarching governance framework:

1. Fiscal surveillance, including debt and deficit commitments to enforce the Stability and Growth Pact;
2. Macroeconomic surveillance through the Macroeconomic Imbalance Procedure as its main instrument, and
3. Thematic surveillance through the Europe 2020 strategy for a smart sustainable and inclusive growth.

The different surveillance mechanisms are differently embedded and have different levels of enforceability:
- The Stability and Growth Pact / Macroeconomic surveillance targets are legally enforceable with penalties for failing to do so.
- The Europe 2020 targets are implemented through a “soft law” coordination process by the EU and Member States guided by a set of “Integrated Guidelines”.

In this document, we use the colour code blue for binding parts and green for non-binding parts to highlight the enforceability of the different instruments.
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1 Key messages from GBE’s work on the European Semester, & recommendations for stronger Energy Union governance

1. The European Semester now operates on three different levels, with different legal frameworks (hard and soft) as well as related planning and reporting processes. The three categories are: the Eurozone Member States, non-Eurozone Member States and so-called Programme Countries. ‘Programme countries’ are removed from the Semester process for the programme duration. Submissions to the Commission referencing the Semester need to be aware of this differentiation.

2. Hard law elements of the Semester relate primarily to core fiscal / budgetary matters. Potential sanctions issued by the Commission are binding in nature only against Eurozone Member States (MSs) in macroeconomic or fiscal difficulty. Soft law governs Europe 2020.

3. Energy matters were removed from the 2015 Semester recommendations, to be ‘covered’ under Energy Union, even though no governance process is yet agreed for Energy Union. This has created a governance gap until 2020 (save for full-blown legal action under Directives / Regulations), the length of this gap depending on when and how Energy Union governance materialises. In similar fashion, the governance of climate has been thrown into uncertainty – and this in the same period as the signing of the Paris Agreement. In response, GBE has urged Commission officials to allow permeability between Energy Union and the Semester so that key energy and climate shortfalls by Member States trigger inclusion in the Semester (a process addressed to Finance Ministers) – as well as being covered under Energy Union (engaging Energy Ministers).

4. The Semester operates behind closed doors, with little public participation in almost all Member States. It is important that this mistake is not repeated on Energy Union: public engagement needs to at the heart of the process at an early stage. At the same time, however, the Commission retains Semester Officers in Member State capitals and civil society representative can and do meet with these representatives. GBE has sought a contact list of desk officers in DG Ener and DG Clima linked to the Member State/s they work on, but this information has not been forthcoming to date. Moreover, far more meaningful engagement is required. Reflecting the need for fulsome interaction with civil society representatives by MS governments, Energy Union governance should aid with, and insist on, these structured dialogues in each MS.

5. A survey on the implementation of macroeconomic CSRs shows that between 2012 and 2014, only 5% were fully implemented. “Some progress” was made on 58%, and the remaining 37% saw “no progress”. This situation didn’t improve with the “streamlined Semester” approach in 2015. Member States fully/substantially implemented about 4% of 2015 Country Specific Recommendations. Some progress has been achieved on approximately 41% of the CSRs, while 48% of the recommendations have not been
implemented at all or only in a limited manner.¹ On CSRs relating to climate, energy and environment, there has been “some progress” made on 53% between 2012 and 2014”, with “no progress” on 46%; no such CSRs were fully implemented. Follow-up by the Commission appears to be a highly politicised process. Sometimes the Commission does re-state unmet recommendations; other times not: no pattern is apparent.

6. Throughout this document GBE suggests a number of ways climate, energy and resource use can be mainstreamed in the Semester and so elevated within Finance Ministries. The Commission now pursues the social goals of Europe 2020, e.g. combating poverty and social exclusion, under the Semester – showing the process has scope to adapt. GBE’s suggestions include additional indicators, implementing measures for the SDGs and reflecting articles of the Paris Agreement in the Semester process. The Commission is urged to consider these suggestions as useful steps to meet multiple goals.

7. Finally, there is a need to move against Member States (MSs) projected to miss their Effort Sharing Decision (ESD) climate target by 10 percentage points or more by 2020 (these countries are at moment Luxembourg and Ireland). The Commission can act here. Engaged stakeholders both inside and outside these Member States may also have a role to play so non-compliant Member States get back on track. The progress of four countries where renewables make up 5% or less of total energy consumption (Luxembourg and Malta, both on 4%, with the Netherlands and UK, both on 5%) will also require attention.

2 GBE’s approach

The aim of this paper is to explain the European Semester, to analyse its governance abilities and to develop and propose messages on how to advocate for the inclusion of low-carbon objectives related to climate and energy policy, as well as the enforcement of the Circular Economy Package (COM/2015/614).

The overall Semester framework integrates hard and soft law processes, including different planning and reporting processes. Theoretically, it offers an opportunity for persistent and diligent monitoring to bring the EU on track towards the achievement of its medium and long-term goals.

The European Semester changed significantly under the Juncker Commission but will remain the main instrument for macroeconomic ex-ante monitoring and reporting after 2020. Significantly, the Semester is handled by Finance Ministers at MS level. This goes a long way to explain why it is can be an important lever for a sustainable, low-carbon economy.

However, inconsistencies and sudden governance shifts (such as dropping climate and energy from the Semester in 2015 and shifting them towards the Energy Union framework which will not be operational for up to five years, with its governance still unclear), severely threatens the credibility of the policy cycle as an efficient mechanism to address shortfalls in the climate and energy policies of Member States.

Currently, there is no governance process outside the climate and energy directives and regulations to enforce the EU’s 2020 climate and energy targets. This governance gap delays important job and investment opportunities and puts sustainable growth on hold.

The European Semester as a blueprint for the Energy Union governance?

The Commission’s State of the Energy Union presented on 18 November 2015 states that "[t]he Energy Union needs a reliable and transparent governance process, anchored in legislation, to make sure that energy-related actions at European, regional, national and local level all contribute to the Energy Union's objectives".

Green Budget Europe has pressed the Commission to include key issues regarding climate and energy in Country-Specific Recommendations issued under the Semester in 2016. Moreover, GBE has urged the Commission to clarify that such key climate and energy issues can continue to be pursued with Finance Ministries through the Semester – in addition to Energy Union. The idea here is similar to that of an “alert threshold”: if a member state is not meeting key climate and energy goals, these challenges can and should also be addressed under Europe’s economic governance process.

On this basis, this paper aims to open a discussion on Energy Union governance design options by drawing conclusions from the hybrid planning & reporting processes behind the European Semester and the efficiency of the underlying enforcement mechanisms. We use the framework of Good Governance for this assessment and provide an advocacy tool towards the end of the document.

We make the case that the Semester should a) re-assume climate and energy policy until such time as the planned alternate governance process is operational and b) enable permeability so that key Energy Union recommendations are also communicated in the Semester.

This report reviews the European Semester itself and GBE’s work on it (chapters 1 to 4). In chapter 5 we examine its legal background – including an analysis of the Stability and Growth Pack and the Macroeconomic Imbalance Procedure. In chapter 6 and 7 we present the strengths and weaknesses of the European Semester. In chapters 8 and 9, the operation of the Semester is measured against good governance principles, namely transparency, legitimacy, accountability, policy coherence and effectiveness. Chapter 10 provides an outlook on the role of the European Semester in the coming months and years, especially in light of the Paris Agreement and the Sustainable Development Goals. Finally, in chapters 11, 12 and 13, we present our recommendations to strengthen the Semester.
3 The European Semester - Origin and outline

3.1 Economic and fiscal crisis and the need for the effective coordination of Economic and Monetary Governance

The economic and fiscal crises since 2007 have exposed shortcomings in economic governance and budgetary surveillance at EU level. Economic and budgetary policy planning in the EU took place through different processes, without a collective strategy for the EU economy as a whole or a comprehensive overview of the effort made at national level.

The substantial imbalances caused by the crises within individual EU MS created spillover effects between them. Given this increasing interdependence, it became clear that the EU needed a genuine and efficient coordination and surveillance tool for economic and budgetary policies, a governance process that would focus on countries’ existing fiscal position, but one also able to identify, at an early stage, challenges that may give rise to future economic and fiscal problems.

Different planning and reporting processes were thus integrated and synchronised in the overarching Semester framework; all Euro Area Member States submit their national budgets by 15 October to the European Commission for assessment, for example.

3.2 An out-dated economic development model, the Europe 2020 strategy and new hope for a “smart, sustainable and inclusive” model

Besides the urgent need for coordinated action against the multiple economic and fiscal crises, the EU became aware that it needed to replace the failed so-called “EU 2000 Lisbon Agenda on Competitiveness and Economic performance”\(^2\) also known as “Lisbon Agenda or Lisbon Strategy” with an economic strategy that delivers.

Hence, in June 2010 the “Europe 2020 Strategy” replaced the Lisbon Strategy. This Europe 2020 Strategy aims at progressing an integrated approach to economic, employment, environmental and social goals of the EU, aiming at becoming a “smart, sustainable and inclusive” economy that delivers high levels of employment, productivity and social inclusion by 2020.

The 5 headline targets for the EU to achieve by the end of the decade (see figure 1), include the 2008 climate and energy package: 20% GHG emissions reduction (1990 levels), a 20% increase in renewables and a 20% increase in energy efficiency. Furthermore, the targets cover employment (75% employment rate), education (reduce the early-school-drop-out rate below 10% and foster tertiary education), research and innovation, social inclusion and poverty reduction (lifting at least 20 million people out of poverty and social exclusion). Each EU Member State adopted its own national targets to support the achievement of the EU targets which are measured against a set of indicators. The Member States report on progress towards achieving their targets in their National Reform Programmes (see below) to the European Commission in April each year.

\(^2\) The “Lisbon Strategy” was the EU’s action and development plan between 2000 and 2010 which aimed to make the EU “the most competitive and dynamic knowledge-based economy in the world capable of sustainable economic growth with more and better jobs and greater social cohesion”. By 2010, most of its goals were not achieved.
In addition, seven “Flagship Initiatives” (e.g. the Resource-efficient Europe flagship initiative), provide a framework through which the EU and national authorities mutually reinforce their efforts in areas supporting the Europe 2020 priorities.

Overall, Europe 2020 seeks to better mobilise existing policies, including instruments and laws regarding the Single Market and financial governance.

**Figure 1: Europe 2020 strategy: Europe 2020 key priorities, EU overall headline targets & flagship initiatives**

<table>
<thead>
<tr>
<th>Smart Growth</th>
<th>Flagship Initiatives</th>
</tr>
</thead>
<tbody>
<tr>
<td>— 3% of GDP to be invested in the research and development (R&amp;D) sector.</td>
<td>— Innovation Union</td>
</tr>
<tr>
<td>— Reduce the rates of early school leaving to below 10%, and at least 40% of 30 to 34 year olds to have completed tertiary or equivalent education.</td>
<td>— Youth on the move</td>
</tr>
<tr>
<td></td>
<td>— A digital agenda for Europe</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Sustainable Growth</th>
<th>Flagship Initiatives</th>
</tr>
</thead>
<tbody>
<tr>
<td>— Reduce greenhouse gas emissions by 20% compared to 1990 levels.</td>
<td>— Resource efficient Europe</td>
</tr>
<tr>
<td>— Increase the share of renewables in final energy consumption to 20%.</td>
<td>— An industrial policy for the globalisation era</td>
</tr>
<tr>
<td>— 20% increase in energy efficiency.</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Inclusive Growth</th>
<th>Flagship Initiatives</th>
</tr>
</thead>
<tbody>
<tr>
<td>— 75% of 20 to 64 year old men and women to be employed.</td>
<td>— An agenda for new skills and jobs</td>
</tr>
<tr>
<td>— Reduce poverty by lifting at least 20 million people out of the risk of poverty and social exclusion.</td>
<td>— European platform against poverty and social exclusion</td>
</tr>
</tbody>
</table>

4 **Process and Timeline**

The European Semester established a clear common synchronised timetable for planning and reporting processes, according to which Member States receive EU-level advice and then submit their policy plans to be assessed at the EU level.

The European Semester starts in November with the publication of the Annual Growth Survey and ends in July with the endorsement of the Country-Specific Recommendations (CSRs). Then the national Semester starts with action at Member State level to implement the European Semester priorities until November. The key stages in the European semester are as follows:
The Commission’s Annual Growth Survey (AGS) (COM/2015/690) aims for a common understanding about the macroeconomic, fiscal and employment related priorities and for the implementation of the Europe 2020 strategy. These priorities for the year to come are to be taken into account in each EU country when they are preparing their National Reform Programmes. In the last two years, the AGS included three main priorities:

Textbox 1: The three priorities of the 2016 AGS

– Re-launching investment
(i) the progress made on mobilising private and public investments and the selection of the strategic projects under the Investment Plan for Europe need to be accompanied by an improved investment and regulatory environment at the national as well as the European level;
(ii) the Banking Union needs to be completed to reinforce financial stability in the Euro Area and beyond; work on the Capital Markets Union needs to be accelerated, so that companies have access to increased and more diversified sources of funding and the financial sector can fully support the real economy; stocks of debt holding back financing and investment decisions also need to be addressed;
(iii) Smart investments in Europe's human capital and performance-oriented reforms of education and training systems are part of the necessary efforts to restore jobs and sustainable growth.

To accelerate change in these areas and to boost the attractiveness of Member States for investment, this Annual Growth Survey is accompanied by country-specific information about key challenges to investment at national level.

– Pursuing structural reforms to modernise our economies
(i) reforms must be based on effective coordination between the Member States and aim at higher productivity and convergence towards best policies and outcomes;
(ii) labour market policies need to balance flexibility and security considerations; a particular focus should be on tackling youth and long term unemployment;
(iii) more integrated and competitive product and services markets should stimulate innovation and job creation.

The AGS is accompanied by a proposal for the funding for technical assistance offered by the Commission's Structural Reform Support Service, which, upon request from Member States, provides technical assistance to help them implement appropriate reforms.

– Responsible fiscal policies
(i) there is a need to continue to support growth- and equity-friendly fiscal consolidation in many countries;
(ii) tax systems need to address disincentives to employment creation and be made fairer and still more effective;
(iii) social protection systems should be modernised to efficiently respond to risks throughout the lifecycle while remaining fiscally sustainable in view of the upcoming demographic challenges.


A second document published with the AGS is the Joint Employment Report which assesses the social and employment situation in the EU.

In parallel, the European Commission comes out with the Alert-Mechanism Report (AMR). The Alert Mechanism Report is part of the Macroeconomic Imbalance Procedure (MIP) (see below). When difficulties are highlighted through this report, it triggers a response from the Commission which is reflected in the Country Specific Recommendations.

In 2016 for the first time, the Commission added three employment and social indicators on the activity rate, long-term and youth unemployment to the main scoreboard of the AMR. This is
one example of how political priorities can change aspects of Semester governance (see below for more detail).

Another important change in the Annual Growth Survey 2016 is that the EU Commission, for the first time, published a set of Euro-Area Country-Specific Recommendations. In previous years, the Euro-Area Country-Specific Recommendations came together with the Country-Specific Recommendations addressed to each Member State in May. The Euro-Area Country-Specific Recommendations focus, inter alia, on the need to support recovery and foster convergence, reforms which promote flexible and reliable labour contracts and to ‘maintain a broadly neutral fiscal stance in 2016.

With the early publication of the Euro-Area Country-Specific Recommendations right at the start of the European Semester, the EU Commission intends to divide the European Semester into two stages: a European and a national stage. This means that discussions and recommendations concerning the Euro Area as a whole take place first, starting in November, followed by country-specific discussions, so that common challenges are fully reflected in country-specific action. This should make it possible that common Euro Area challenges are fully reflected in country-specific actions for the individual Euro Area Member States.

Furthermore, in order to address the main weakness of the Semester, implementation of the Country Specific Recommendations (CSRs) and the application of Union law at Member State level, the EU Commission has adopted a proposal for a Regulation of the European Parliament and the Council establishing the Structural Reform Support Programme (SRSP). This financing instrument, which will be triggered upon request of a country, aims to provide assistance to Member State authorities to step up administrative / institutional capacity and to improve the implementation of Union legislation as well as assisting the efficient and effective use of Union funds.

Last but not least, social partners’ views from ETUC and European employers are also published.

Climate, energy and circular economy within the Annual Growth Survey

The Annual Growth Survey 2016 (AGS) marks a turning point in the priority-setting of the European Semester. Whereas in the previous growth surveys energy and climate targets still had standing among the Semester priorities, they have almost entirely disappeared from the latest document. The text also contains no reference to Environmental Tax Reform, Environmentally Harmful Subsidies or Renewable Energies and Energy Efficiency.

Through this approach, integrated guideline recommendations are consistently subordinated to recommendations relating to fiscal surveillance leading to the almost complete disappearance of Europe 2020 sustainability targets.

Table 1 shows that the European Semester is moving away from the Europe 2020 priorities of achieving the transition towards a sustainable low-carbon society. All climate and energy targets of the integrated guidelines, except the promotion of circular economy, have disappeared from the AGS.
Circular Economy is the only climate/environment related policy mentioned in the 2016 AGS: “Member State action is necessary to improve efficiency in the use of resources and bringing forward a much more circular economy. The circular economy approach aims to preserve and maintain the value of products, materials and resources in the economy for as long as possible, while minimising the creation of waste. A more circular economy and improving resource efficiency will contribute towards stimulating investments with both short-term and long-term benefits for the economy, environment and employment.” (COM/2015/690, p 13, accessed 02.02.2016).

Table 1: Climate and energy related policies in the AGS 2011-2016

<table>
<thead>
<tr>
<th>Environmentally Harmful Subsidies</th>
<th>Environmentally Tax Reform</th>
<th>Renewable Energies and Energy Efficiency</th>
<th>Circular Economy and Resource Efficiency</th>
</tr>
</thead>
</table>

Source: Green Budget Europe’s own assessment based on the 2011-2016 AGSs.

FEBRUARY: European Commission - Country Reports

In February, the European Commission publishes the Country Reports which is a comprehensive Member State by Member State analysis of progress towards the Stability and Growth Pact (SGP), compliance with the Macroeconomic Imbalance Procedure, progress towards the Europe 2020 targets and the implementation of the previous Country-Specific Recommendations.

The reports also provide policy orientations covering fiscal, macroeconomic and structural reforms, including Environmental Fiscal Reform proposals which are considered as “growth-friendly reform options”. In the context of the European Structural and Investment Funds, and related conditionality (programmes co-financed by European Structural and Investments funds must address all relevant country specific recommendations), and other European financing

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3 GBE is preparing a separate briefing on the Circular Economy
4 According to the European Commission, structural reforms aim at encouraging job creation, stimulating investment and improving productivity. This includes labour market reforms, in particular reforms that raise labour force participation, tax reforms, reforms raising competition in product markets and reforms aiming at stimulating competition in certain sectors.
tools (e.g., the European Fund for Strategic Investment, Horizon 2020), the Country Reports summarise the contribution of the EU Budget to structural change.

The 2016 Country Reports (COM/2016/95) found that 21 EU Member States have promising potential for a green tax shift (against 23 MSs in 2015, COM/2015/85), while 13 EU Member States would benefit from phasing-out environmentally harmful subsidies (against 11 in 2015). Action to develop a Circular Economy as mentioned in the Annual Growth Survey is seen as beneficial for 18 Member States in 2016 compared to 14 Member States in 2015.

On the issues of climate and energy, the 2016 Country Reports remain as comprehensive as those issued in 2015. However, this is only a monitoring exercise which does not automatically imply political action.

MARCH: European Council (Spring Council) meeting
The Heads of State give guidance on the Semester, i.e. by endorsing the AGS priorities and by inviting Member States to implement the Country-Specific Recommendations.

APRIL: Member States - Stability and Convergence Programmes and National Reform Programmes
In April, Member States submit their Stability Programmes in the case of euro countries, or Convergence Programmes in the case of non-euro countries, which relate to sound finances. Each Member State reports on progress towards their national EU 2020 Strategy targets, how the CSRs are being implemented, and how EU guidance has been taken into account (i.e. the priorities in the Annual Growth Survey, and how these will be translated into political action). The aim of the reports is to enable the Commission to assess if the countries are keeping to the budget rules set by the EU as part of the Growth and Stability Pact.

In parallel, Member States submit National Reform Programmes (NRPs), which relate to economic policy and the delivery of the national Europe 2020 targets. The Commission then assesses these programmes and proposes Country-Specific Recommendations (CSRs).

MAY: European Commission - Country-Specific Recommendations
In May, the European Commission publishes CSRs which recommend a set of actions for each Member State to take. The CSRs are based on an assessment of each country’s economic and social performance during the previous year, and a detailed analysis of the National Reform Programmes and Stability or Convergence Programmes and how far they are delivering the priorities laid out in the Annual Growth Survey.

JUNE/JULY: Member States - Endorsement of the CSRs
With the endorsement by the European Council in June and the approval by the Ecofin Council, the “national Semester” starts with the MS action to implement the recommendations.
JULY-NOVEMBER: Member States - Implementation of CSRs (National Semester)
The CSRs are to be taken into account in the policies of each country, in particular in their annual budgets and other national legislation. The implementation needs to be detailed in the following year’s National Reform Programme. Eurozone Members submit their draft budgetary plans by 15 October each year. With the next Annual Growth Survey in November the next European Semester cycle starts.

Table 2: Planning and reporting processes within the European Semester cycle

Source: Green Budget Europe
5 The legal background of the European Semester

The European Semester began its life as a purely intergovernmental process but rapidly developed into a highly regulated and highly innovative governance regime enshrined in EU legislation (“Two Pack” and “Six Pack” Directives and Regulations) and the Treaty through progressive phases of law making and Treaty amendment.

The framework for the Semester’s primary law is set out in articles 121 of the Treaty on the Functioning of the European Union (TFEU) which says that “EU countries must regard their economic policies as a matter of common concern and coordinate them within the Council.” Also relevant are Article 126 and 148 TFEU, while Europe 2020 is based on a Communication (COM/2010/2020).

5.1 The overall architecture

The European Semester is a form of the “Open Method of Coordination” (OMC). The Lisbon Strategy (see above) formally launched the OMC as an entirely new style of EU. As a “soft-law” method, it aims at promoting cooperation between EU countries for policy areas where the European Union cannot adopt European legislation, i.e., areas which remain the responsibility of national governments like pensions, social exclusion, health care, research or education. With the European Semester, the OMC also applies to the economic and financial field as a “process designed to facilitate an EU-supervised, but strongly decentralised approach to ‘steering’ (rather than instructing) national delivery of agreed objectives.”

5.2 The European Semester and a “three speed Europe”: Hard law and soft law elements and the consequences for enforceability

The European Semester is a “3-speed Europe” policy. It differentiates between Eurozone Member States, non-Eurozone Members and the Programme Countries, applying different levels of enforceability to each.

Country Specific Recommendations (CSRs) issued by the Commission in May and endorsed by the Head of States in June are politically binding for Eurozone and non-Eurozone Member States.

Hard law elements of the Semester relate to Stability and Growth Pact and the Macroeconomic Imbalance Procedure (see below) and thus coordinate primarily core fiscal macroeconomic matters, i.e. debt levels, current account balances, unemployment or housing market data. Potential fines apply only as a last resort and are levied only against Eurozone Member States in macroeconomic difficulty for repeated failure to take action, not on the imbalances themselves. This means that only Eurozone Countries could face sanctions under the so-called Excessive Deficit Procedure under the Stability and Growth Pact or the Excessive Imbalance Procedure under the Macroeconomic Imbalance Procedure (see below).

Please see here relevant legal (primary and secondary) texts and guidelines.

The interdependence of the Eurozone economies translates into one set of Eurozone Country-Specific Recommendations (CSRs) for the Eurozone as a whole.\(^7\) As mentioned above, since 2015, the Eurozone CSRs are published at the very beginning of the European Semester, in November of each year, together with the Annual Growth Survey, instead of publishing them in parallel with the CSRs issued for each Member State in May. The aim, in the words of the EU Commission is to “better integrate the Euro Area and national dimensions of the EU economic governance”.

Also mentioned above, only Eurozone Members submit their draft budgetary plans by 15 October each year. They are then assessed by the Commission by 30 November and discussed among Euro Area Finance Ministers. The European Commission has approved every budget presented to date.

**Non-Eurozone Members** also fall under the same framework of the Stability and Growth Pact and Macroeconomic Imbalance Procedure monitoring and reporting. However, non-compliance with these hard-law instruments will not lead potential sanctions as it could do for Eurozone Members.

EU Semester governance does not apply to Member States benefiting from financial assistance in support of their macroeconomic adjustment programmes.\(^8\) These so-called “**Programme Countries**” (currently Greece and Cyprus, with the latter leaving the macroeconomic adjustment programme in spring 2016) are removed from the Semester process for the programme duration in order to avoid duplication of procedures and reporting obligations.\(^9\) “**Programme Countries**” sign a “Memorandum of Understanding” with the EU Commission, the European Central Bank and the IMF that governs and coordinates fiscal and economic policy reforms during the programme period.

**Thematic surveillance through Europe 2020** is a soft-law process that applies to all 28 Member States. All Member States have committed to achieving the 5 Europe 2020 headline targets (hence, thematic surveillance) and have translated them into national targets. Integrated Guidelines, developed by the European Commission, aim at helping Member States to implement the 5 overarching targets of the Europe 2020 Strategy (see Figure 1 above). As well as macroeconomic guidelines, so-called “**employment guidelines**” underpin the employment, education, and poverty-reduction targets of Europe 2020. The Guidelines are adopted by the Council and are supposed to provide a basis for the National Reform Programmes elaborated annually by Member States under Europe 2020 and submitted to the European Commission by the end of April.

The aim of Europe 2020 to better mobilise relates for example to legislation concerning the European Structural and Investment Funds (ESI)\(^10\) introduced a policy and results orientation by

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\(^7\) See the 2016 Eurozone Country-Specific Recommendations (COM/2015/692).

\(^8\) European Financial Stabilisation Mechanism (EFSM) and the European Stability Mechanism (ESM) for Eurozone Member States and the Balance-of-Payments BoP for non-Eurozone Member States.

\(^9\) This approach has been established in Regulation (EU) No 472/2013 (OJ L 140, 27.5.2013, p. 1). It is also in line with the Commission proposal on a facility for providing financial assistance for Member States outside the Euro Area (COM(2012)336, 22.6.2012).
linking fund expenditure directly to the Commission’s Country-Specific Recommendations (CSRs) – all aimed to help achieve the Europe 2020 headline targets. Greater monitoring of Partnership Agreements and Programmes within the National Reform Programmes (NRPs) is used to pursue this goal. Sanctions under the Europe 2020 strategy could only apply when legal action is taken under other binding policies, i.e. there could be an infringement procedure (Art 260 TFEU) against EU Member States in the case of not meeting the binding 2008 climate and energy package which might lead to lump sum or penalty payments in line with the judgement of the Court of Justice. However, this would be in the context of the 2008 climate and energy package and not because of Europe 2020.

Figure 4: The hybrid legal architecture of the European Semester

5.3 The Stability and Growth Pact

Based primarily on Articles 121 and 126 of the Treaty on the Functioning of the European Union (TFEU), the Stability and Growth Pact (SGP) consists of fiscal monitoring of EU Member States by the European Commission and the Council of Ministers, and the issuing of a yearly recommendation for policy actions. The Stability and Growth Pact came into force in 1998 and introduced binding commitments on how EU Governments manage their deficits and debt. By doing so, the SGP aims to ensure sustainable public finances in all EU Member States in order to safeguard the stability of the Economic and Monetary Union (EMU). It was integrated into the European Semester process and has taken on a stronger role in the last number of years due to the economic crisis.

There are two key reference values aiming to secure the long-term stability of public finances, which, when breached, constitute criteria on the basis of which the opening of an Excessive Deficit Procedure (EDP) can be warranted:
The general government deficit must not exceed 3% of GDP
Public debt must not exceed 60% of GDP

The SGP consists of two main building blocks: the preventive arm and the corrective arm.

The preventive arm of the Stability and Growth Pact

Each EU Member State sets a budgetary target, known as a Medium-Term Budgetary Objective (MTO). The MTO is a budget balance, i.e. a nominal budget adjusted by the cyclical component and net of one-off and temporary measures which is revised every three years or in-between, in the event of a modification of the fiscal framework with a major impact on the sustainability of public finances.

The MTO aims to ensure the sustainability of public finances or rapid progress towards it while allowing room for budgetary manoeuvre, in particular for public investment. The MTO should be close to balance or in surplus.

Member States submit Stability (Eurozone Member States) or Convergence Programmes (non-Eurozone Member States) to the European Commission every spring, together with the National Reform Programmes. These reports give an overview on the progress towards the MTOs. The Commission and the Council assess whether Member States' have reached their MTOs or are on an appropriate adjustment path towards them. Consistency in Member States' plans with the policy guidelines adopted at the European level in the Annual Growth Survey is also examined.

On this basis, the European Commission gives advice on fiscal policy planning in the Country-Specific Recommendations in May before key decisions are taken on national budgets for the following year.
Figure 5: The preventive arm of the Stability and Growth Pact

Source: European Commission [website]
The corrective arm = Excessive Deficit Procedure

The Excessive Deficit Procedure (EDP) is the EU’s step by step procedure for correcting excessive deficit or debt levels. This allows the European Commission to enforce the deficit or debt levels to be corrected. If a Member State breaches the outlined maximum limit for government deficit or debt, the surveillance and request for corrective action will intensify through the opening of an Excessive Deficit Procedure (EDP). Countries that fail to respect the SGP’s preventive or corrective rules may ultimately face sanctions. For Member States sharing the euro currency, this could take the form of warnings and ultimately financial sanctions including fines of up to:

- 0.2 % of GDP, if they fail to abide by either the preventive or the corrective rules, or
- 0.5 % of GDP, if they repeatedly fail to abide by the corrective rules.

In addition, all Member States (except the United Kingdom), could see a suspension of commitments or payments from the EU’s Structural and investment funds (e.g. the European Regional Development Fund, the European Social Fund, the Cohesion Fund, the European Agricultural Fund for Rural Development and the European Maritime and Fisheries Fund).

5.4 The Macroeconomic Imbalance Procedure

The Macroeconomic Imbalance Procedure (MIP)\textsuperscript{11} is a parallel monitoring process to the Stability and Growth Pact. The MIP aims to identify potential macroeconomic imbalances, to prevent harmful macroeconomic risks and correct those imbalances that are already in place.

The rationale is that detecting potential macroeconomic harms early on does not only prevent a malfunctioning of the economy of an individual Member State but also of the Economic and Monetary Union, or of the Union as a whole.

The MIP is based on a scoreboard of indicators with indicative thresholds i.e. real estate bubbles, competitiveness, indebtedness, asset prices, adjustment or inter-linkages with the financial sector which is able to trigger action in case thresholds are not met. In the last instance, Eurozone Member States might face sanctions. The composition of the indicators changes over time.

The main headline indicators are accompanied by a set of auxiliary indicators to help interpret the main scoreboard indicators by

\textsuperscript{11} Please find here further information (accessed 01.02.2016).
providing additional information on aspects linked to the general macroeconomic situation, e.g. nominal and real convergence inside and outside the EU and the Euro Area, detailed data on the external liabilities, including foreign direct investment and net external debt, as well as social indicators like youth unemployment and poverty. The important difference between the main and the auxiliary indicators is that there are no thresholds for these auxiliary indicators. This means they are monitored but not enforceable.

One auxiliary indicator is the “net trade balance of energy products” which is defined as “the difference between exports to and imports from the rest of the world (intra-EU and extra-EU trade) of goods included in the SITC section 3 - Mineral fuels, lubricants and related materials. The MIP indicator is expressed as percentage of GDP (according to ESA2010 transmission programme)” (EUROSTAT, 2016).

In 2013, 6 indicators on social issues were included to the auxiliary indicator set. The European Commission justified this “upgrade” from the Europe 2020 strategy into the Macroeconomic Imbalance Procedure by the fact that it hoped to gain a better understanding of the labour market and social development and potential related risks.

In 2016, the European Commission added three of these “auxiliary” indicators to the list of core indicators which put them on the same level as the other macroeconomic indicators (see table 4 below for the list of the core and the auxiliary indicators).

In addition, the 2016 draft Joint Employment Report includes now a more detailed set of employment and social indicators in order to allow a broader understanding of the development.

The emphasis on social and labour market policies to the detriment of climate and energy policies within the European Semester cycles 2015 and 2016 mirrors the deliberate political decisions and priorities set in the so-called “5-Presidents report on the completion of the Economic and Monetary Union”, “Juncker’s 10 priorities” and the Annual Growth surveys 2015 and 2016 which, as said before, focus on growth, jobs and investment.

**The MIP process**

The MIP is embedded into the European Semester with a number of sequential steps:

**Start of the MIP: The Alert Mechanism Report (AMR)**

The Alert Mechanism Report (AMR)\(^{12}\) is published alongside the Annual Growth Survey which kicks-off the annual cycle of the European Semester. It is a screening tool, using the scoreboard of 14 headline indicators plus 25 auxiliary indicators (see tables 3 and 4 below), in order to identify Member States for which further analysis in the form of an in-depth review into the risks of potential imbalances deemed necessary.

As said above, the main headline indicators contain respective alert thresholds that cover the major areas of macroeconomic imbalances and adjustment issues presented in an annual Alert Mechanism Report (AMR). The auxiliary indicators come without indicative thresholds.

\(^{12}\) Please find the 2016 AMR [here](accessed 01.02.2016).
## Table 3: MIP Scoreboard of headline indicators

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Unit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current account balance (% of GDP)</td>
<td>3 year average</td>
</tr>
<tr>
<td>Net international investment position</td>
<td>% of GDP</td>
</tr>
<tr>
<td>Real effective exchange rate</td>
<td>3 years % change</td>
</tr>
<tr>
<td>Export market share (% of world exports)</td>
<td>5 years % change</td>
</tr>
<tr>
<td>Nominal unit labour cost index (2010=100)</td>
<td>3 years % change</td>
</tr>
<tr>
<td>House price index (2010=100), deflated</td>
<td>1 year % change</td>
</tr>
<tr>
<td>Private sector credit flow, consolidated</td>
<td>% of GDP</td>
</tr>
<tr>
<td>Private sector debt, consolidated</td>
<td>% of GDP</td>
</tr>
<tr>
<td>General government gross debt</td>
<td>% of GDP</td>
</tr>
<tr>
<td>Unemployment rate</td>
<td>3 year average</td>
</tr>
<tr>
<td>Total financial sector liabilities, non-consolidated</td>
<td>% change (1 year)</td>
</tr>
<tr>
<td>Activity rate (% of total population aged 15-64)</td>
<td>3 years change in p.p.</td>
</tr>
<tr>
<td>Long-term unemployment rate (% of active population aged 15-74)</td>
<td>3 years change in p.p.</td>
</tr>
<tr>
<td>Youth unemployment rate (% of active population aged 15-24)</td>
<td>3 years change in p.p.</td>
</tr>
</tbody>
</table>

Source: [Eurostat (2016)](accessed 10/02/2016)

## Table 4: MIP Scoreboard of auxiliary indicators

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Unit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real GDP</td>
<td>1 year % change</td>
</tr>
<tr>
<td>Gross fixed capital formation</td>
<td>% of GDP</td>
</tr>
<tr>
<td>Gross domestic expenditure on R&amp;D</td>
<td>% of GDP</td>
</tr>
<tr>
<td>Current plus capital account (Net lending-borrowing)</td>
<td>% of GDP</td>
</tr>
<tr>
<td>Net external debt</td>
<td>% of GDP</td>
</tr>
<tr>
<td>Foreign direct investment in the reporting economy - flows</td>
<td>% of GDP</td>
</tr>
<tr>
<td>Foreign direct investment in the reporting economy - stocks</td>
<td>% of GDP</td>
</tr>
<tr>
<td>Net trade balance of energy products</td>
<td>% of GDP</td>
</tr>
<tr>
<td>Real effective exchange rates – euro area trading partners</td>
<td>3 years % change</td>
</tr>
<tr>
<td>Export performance against advanced economies</td>
<td>5 years % change</td>
</tr>
<tr>
<td>Terms of trade</td>
<td>5 years % change</td>
</tr>
<tr>
<td>Export market share - in volume</td>
<td>1 year % change</td>
</tr>
<tr>
<td>Labour productivity</td>
<td>1 year % change</td>
</tr>
<tr>
<td>Nominal unit labour cost index (2010=100)</td>
<td>10 years % change</td>
</tr>
<tr>
<td>Unit labour cost performance relative to euro area</td>
<td>10 years % change</td>
</tr>
<tr>
<td>House price index (2010=100) - nominal</td>
<td>3 years % change</td>
</tr>
<tr>
<td>Residential construction</td>
<td>% of GDP</td>
</tr>
<tr>
<td>Private sector debt, non-consolidated</td>
<td>% of GDP</td>
</tr>
<tr>
<td>Financial sector leverage, non-consolidated</td>
<td>% debt to equity</td>
</tr>
<tr>
<td>Employment rate</td>
<td>1 year % change</td>
</tr>
<tr>
<td>Young people neither in employment nor in education and training</td>
<td>% of total population aged 15-24</td>
</tr>
<tr>
<td>People at risk of poverty or social exclusion</td>
<td>% of total population</td>
</tr>
<tr>
<td>People at risk of poverty after social transfers</td>
<td>% of total population</td>
</tr>
<tr>
<td>Severely materially deprived people</td>
<td>% of total population</td>
</tr>
<tr>
<td>People living in households with very low work intensity</td>
<td>% of total population aged 0-59</td>
</tr>
</tbody>
</table>

Source: [Eurostat (2016)](accessed 10.02.2016)
In-Depth Reviews (IDR)

Member States identified by the AMR are then given an In-Depth Review (IDR) by the Commission to assess how macroeconomic risks in the Member States are accumulating or winding down, and to conclude whether imbalances, or excessive imbalances exist.

The Commission publishes the IDRs alongside the Country Reports in February. In the 2016 Semester cycle, 18 countries\textsuperscript{13} are covered in an IDR. To prepare the IDRs, the Commission uses all pertinent statistics and all relevant data and hence a much wider set of data than in the macroeconomic scoreboard of the AMR.

On the basis of the analysis of the IDRs, the EU Commission will decide whether imbalances or excessive imbalances exist, and subsequently prepare the appropriate policy recommendations for each Member State. Depending on the results, a Member State might be falling under the “preventive arm” or the “corrective arm” of the MIP, triggering action.

Eurozone Member States might, as last resort, face an interest-bearing deposit or a fine after repeated non-compliance in case of repeated non-compliance under the Excessive Imbalance Procedure.

\textsuperscript{13} Austria, Belgium, Bulgaria, Estonia, Germany, France, Croatia, Italy, Hungary, Ireland, the Netherlands, Portugal, Romania, Spain, Slovenia, Finland, Sweden and the United Kingdom.
**Figure 7: Macroeconomic Imbalance Procedure**

**Alert Mechanism Report (the Commission, published in November):**
- presents a report based on the scoreboard and all relevant factors for each Member State
- AMR identifies countries and issues in need of an in-depth review

**Finance Ministers** discuss the AMR and contribute feedback for the Commission’s in-depth reviews

**In-depth reviews (the Commission, published in March):**
- assess whether imbalances and excessive imbalances exist in the Member States
- since 2015 the IDRs are published as a part of the Country Reports, produced for all Member States

**Unproblematic**
- The Commission will not propose any further steps
  - No Imbalance

**In the corrective arm**
- The Commission may recommend to the Council to open an Excessive Imbalance Procedure (EIP)
  - Excessive imbalances, which require specific monitoring and decisive policy action
  - Excessive imbalances, which require decisive policy action and the activation of the Excessive Imbalance Procedure (EIP)

**In the preventive**
- The Commission will come forward with an integrated package of recommendations under the European semester
  - Imbalances, which require monitoring and policy action
  - Imbalances, which require monitoring and decisive policy action
  - Imbalances, which require specific monitoring and decisive policy action

**Finance Ministers** discuss the Commission’s IDRs and decide on any recommendations for future action made by the Commission – monitoring or the possible launch of an EIP

**Member States** take Country Reports into account when developing their National Reform Programmes and taking national policy decisions

Source: European Commission (2016), Macroeconomic Imbalance Procedure. Frequently Asked Questions. (assessed 01/02/2016)
Figure 8: Overview: Hard and soft law components of the European Semester

Source: Green Budget Europe
6 Strengths of the European Semester

The main strength of the European Semester consists in establishing a clear framework for policy coordination that enables the EU Commission to anticipate economic imbalances and to take preventive as well as corrective measures.

Integration of different planning and reporting processes

In the pre-crisis context, budgetary cycles differed considerably between Member States which made it nearly impossible for the EU Commission to coordinate the interdependent economies. Today, Finance Ministers need to take the synchronised timetables for planning and reporting processes into consideration when establishing the national budgets.

As figure 11 shows, the planning and reporting processes linked to the three main legal instruments of the European Semester, namely, Stability and Growth Pact, Macroeconomic Imbalance Procedure and Europe 2020 all have their own timelines. The Medium-Term Objectives of the Stability and Growth Pact are set for 3 years, the Economic and Employment Guidelines for Europe 2020 run for 5 years and the MIP reporting cycle is one year.

Figure 9: Different timelines of planning and reporting requirements within the European Semester cycle

Source: Green Budget Europe
7 Weaknesses of the European Semester

The main weaknesses of the Semester are a missing ownership and thus a very low level of implementation at Member State level and a shift of priorities under the Juncker Commission.

“Streamlining” and “revamping” or how the Juncker Commission eliminated climate and energy from the European Semester

The Juncker Commission started its term with a substantial change regarding the European Semester.

From 2016 onwards and inspired by President Juncker’s “10 priority plan”, the new “streamlined European Semester” approach translates into

- A shift of energy-related policies to be ‘taken up via other policy processes’, namely the Energy Union whose objectives and governance are yet to be defined;
- Dropping almost all of the recommendations on environmentally harmful subsidies, environmental tax reform, promoting renewables, and energy efficiency, even though a wide range of initiatives across climate action, circular economy, waste, etc., depend for their effectiveness in large part on taxing / charging inefficient or profligate resource use;
- A reduced number of Country-Specific Recommendations (CSRs), only covering key priority issues of macroeconomic and social relevance;
- CSRs that need to deliver in a shorter period of 18 months - instead of a previous medium-term perspective until 2020, which makes CSRs related to tax reform less likely to be issued as tax reforms often take longer than only 18 months;
- An earlier publication of Commission Country Reports and the earlier release of draft Country-Specific Recommendations in May aiming at providing time for reflection and debate, and
- A stronger focus on employment and social performance, i.e. by shifting social indicators from the auxiliary to the main scoreboard of the MBI (see above).

In the so-called “5 Presidents report”, published in June 2015, Presidents Juncker (EU Commission), Tusk (European Council), Schulz (European Parliament), Draghi (European Central Bank), Dijsselbloem (Euro group) set out their ideas on how to complete the Economic and Monetary Union. They intend a two-stage process with the first stage including a “revamped” Semester that:

- Splits the Semester into two stages from 2016 on, with recommendations on the Euro-area as a whole issued in November at the start of the Semester cycle along with the Annual Growth Survey, and Country-Specific issues in mid-May when all EU Member States under the Semester receive Country-Specific Recommendations. The aim is to allow for enhanced coordination and stronger surveillance of economic policies and budgetary processes of all Euro Area Member States. However, there is also a need to monitor and analyse closely the aggregate climate, energy, social and fiscal situation and to consider this analysis in the formulation of national policies, and this not only for the Euro Area Member States.

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14 All EU Member States except the Programme Countries, supported by macroeconomic adjustment programmes (see above).
Sets the Annual Growth Survey (AGS) as the basis for this discussion and draws on a number of thematic reports, such as the Alert Mechanism Report for the MIP, the annual report of the European Systemic Risk Board, the Joint Employment and Social Report, as well as the views of a new European Fiscal Board and the new Euro Area system of Competitiveness Authorities;¹⁵

Suggests Plenary debates at European Parliament on the CSRs and before and after the Annual Growth Survey;

Suggests holding Member States accountable for the delivery of their commitments through periodic reporting on implementation, regular peer reviews or a ‘comply-or-explain’ approach. The Eurogroup should start already in Stage 1 to play a coordinating role in cross-examining performance, with increased focus on benchmarking and pursuing best practices. The MIP should be used to its full potential;

Intends enhanced dialogue with national stakeholders (governments, parliaments, social partners) and the European Parliament at key moments of the Semester process while it does not speak about involvement or even guidelines to do so;

Encourages Member States to involve national Parliaments and social partners more closely, e.g. in the formulation of National Reform Programmes while it seems to be open on how to realise this, and

Supports mechanisms to reforms through EU funds and technical assistance while this is not of an added value if climate and energy lie outside the process.

To prepare the transition from Stage 1 (no Treaty Change needed) to Stage 2, the Commission will present a White Paper in spring 2017 outlining the next steps needed, including legal measures to complete EMU in Stage 2.

¹⁵ For an overview of the institutions within the Economic and Monetary Union see here.
Figure 10: Suggestions of the 5 Presidents Report for the Euro Area


Low Rate of Implementation

The following analysis is based on the assessment reports of the European Parliament, in particular those conducted by the Directorate General for Internal Policies, DG IPOL.

When assessing the implementation of each CSR, they apply a so-called “traffic-light-approach” referring to the categorisation of each recommendation into one of the following three categories:

- **Red: “not implemented”**, i.e. no relevant policy actions with substantial effects were taken by the Member State's authorities in response to the recommendation or when they were

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16 For a list of examples of climate and energy related CSRs see Annex IV.

17 All figures in this chapter are based on data retrieved from the following two European Parliament documents, the first one for data on the 2011 and 2012 Semester assessment and the second one on the 2013 and 2014 assessment, they will be referred in-text as “EP and EC data”. They break down each CSR into concrete policy measures which are then individually assessed. Whenever a CSR yielded different assessment for its constituent policy measures, the CSR was marked with the “work in progress” assessment.


and

not clearly specified; mere promises made by governments to take actions only in the future also fall into this category.

- **Yellow**: "serious work in progress", i.e. when it was assessed that the Member State's authorities seriously started undertaking some policy actions to address the recommendation in question.
- **Green**: "fully implemented", i.e. when it was assessed that the Member State's authorities fully or nearly fully implemented the recommendation in question, including the effective application of legal acts.

In order to only assess the implementation of targets related to energy and climate, all CSRs without a clear sustainability focus were neglected¹⁸. The following analysis covers the period of 2011-2014.

When compared to MIP-CSRs (those related to the Macroeconomic Imbalance Procedure) implementation of energy and climate CSRs performs worse, especially in 2012 and 2014, while for 2013 the figures are relatively similar.

It is important to note that the number of environmental CSRs almost doubled from 2011 to 2012 from 14 to 24, remaining stable afterwards. Yet the sharp increase in CSRs apparently did not lead to a high rate of implementation failure. On the contrary, 2012 was the best performing year of the years analysed.

**Table 5: Comparison Implementation rates MIP- vs energy and climate CSRs 2012-2014**

<table>
<thead>
<tr>
<th>Implementation of MIP-CSRs in 2012-2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
</tr>
<tr>
<td><img src="example.png" alt="Pie chart" /></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Total MIP-CSRs</th>
<th>MSs subject to MIP</th>
</tr>
</thead>
<tbody>
<tr>
<td>36</td>
<td>11</td>
</tr>
<tr>
<td>56</td>
<td>13</td>
</tr>
<tr>
<td>66</td>
<td>14</td>
</tr>
</tbody>
</table>

**Implementation of ENVI-related CSRs 2012-2014**


¹⁸ The selection of environmental CSRs is based on the work of DG ENVI of the European Commission.
Country-Specific Recommendations are only politically binding by endorsement of the Heads of States. A survey on the implementation of macroeconomic CSRs shows that between 2012 and 2014, only 5% were fully implemented. “Some progress” was made on 58%, and the remaining 37% saw “no progress”. On CSRs relating to climate, energy and environment, 53% saw “some progress”, with “no progress” on 46%; no such CSRs were fully implemented. This situation didn’t improve with the “streamlined Semester” approach in 2015. Member States fully/substantially implemented about 4% of 2015 Country Specific Recommendations. Some progress has been achieved on approximately 41% of the CSRs, while 48% of the recommendations have not been implemented at all or only in a limited manner.\(^\text{19}\)

The binding instruments of the European Semester apply only for Eurozone Member States and sanctions do not relate to Country-Specific Recommendations but to the enforcement of the EDP and the EIP. However, instead of a strict application of the existing rules, the Commission tends to soften them, e.g. in 2015 for France in the context of the high deficit and the refugee crisis (see below).

From an environment and climate perspective, and regarding the 2016 process, three matters warrant attention. In 2015 Luxembourg was given a CSR to broaden its tax base by focusing “in particular on consumption, recurrent property taxation and environmental taxation”. It will be instructive to see if progress on this CSR is delivered, and if not, whether and how the Commission acts. Second, estimates show that two MSs (Belgium and Lux) are projected to miss their ESD climate target by 10 percentage points or more by 2020.

The Commission pursues the social goals of Europe 2020 (e.g. combating poverty and social exclusion) under the Semester, and therefore could equally pursue key Europe 2020 climate goals. An obvious starting point in 2016 would be acting against the above-mentioned MSs for

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being furthest behind on their ESD targets. GBE will be focusing on these areas in its Semester-related work in the months ahead.

**Decrease in energy and climate Country-Specific Recommendations**

Figure 5 shows the change of energy and climate policy recommendations over the period 2011 to 2015. In 2013, twenty-one countries received country-specific recommendations on Environmental Tax Reform (ETR), Circular economy or Energy efficiency and renewables. Two years later, Luxembourg was the only country left to be addressed to shift its taxation away from labour to pollution.

*Figure 11: Number of countries receiving energy and climate CSRs 2011-2015*

Source: Own illustration based on EP and EC data, see Annex 2 for more details.

Furthermore, four countries – Belgium, Spain, France and Lithuania – have received recommendations related to ETR on a yearly basis and were joined by the Czech Republic, Hungary, Italy and Latvia as of 2012\(^\text{20}\). While a few Member States made some progress, all of these countries did not advance the implementation of the ETR-related recommendations in 2014. GBE has urged the Commission to address the reluctance of Member States to advance sustainable tax reforms.

Although not explicitly mentioned as an environmental tax shift, the Annual Growth Survey\textsuperscript{21} for 2016 identifies the need to shift the general tax burden in the EU from labour to other sources of income, and the Eurogroup has committed to increasing efforts to use benchmarking in order to combat excessive labour tax wedges\textsuperscript{22}.

### 8 The European Semester as enforcement mechanism for climate and energy policies

As mentioned above, until 2015, the Commission used the Semester to pursue low-carbon policies and action to foster the energy transition (prior to the emergence of the Energy Union framework).

The 2015 European Semester cycle dropped climate and energy from the process and shifted them towards Energy Union framework which will not be operational until 2020, with its governance still unclear. This creates a governance gap which needs to be seen as delaying important job and investment opportunities and putting climate/energy action until 2020 on

hold. Legally, the Commission is empowered to pursue climate under the Semester: the reform agenda of Europe 2020 includes climate. The EU Commission already nudges Member States to undertake other elements of Europe 2020 reforms through the Semester, such as combatting social exclusion, for example. Currently, the European Commission projects that 3 Member State (Luxembourg, Ireland and Belgium) will miss their 2020 emissions targets by more than 10% (COM/2015/576).

Messages: Inconsistent priority setting, like dropping climate and energy, severely threatens the credibility of the policy cycle as an efficient mechanism to address shortfalls in the climate and energy policies on Member States. The societal costs of inaction on climate, energy and the environment will be high in the future. Inaction is locking Europe further into fossil fuel dependence, failing to tackle reliance on imported energy in the process.

Investors need certainty about future investments. Any watering down of environmental, climate or social CSRs towards a rhetoric of “still monitoring them” damages the integrity of the entire Semester process.

9 The operation of the Semester measured against good governance principles: transparency, legitimacy, accountability, policy coherence and effectiveness

Transparency

The Semester is a “closed door / top down” process dependent on a few influential decision-makers, mainly at the Secretariat General of the EU Commission. The EU Commission would not have streamlined the European Semester unless it believed it would not be successfully challenged. It is working on the basis that what it has done will go largely unnoticed, and will remain unchanged. This is the case as long as the European Parliament remains out of the decision-making process and as long as stakeholders are rarely consulted.

Legitimacy

The ‘guidance note’ on the National Reform Plans sent by the Commission to the Member States each year should be a key document to support stakeholder engagement at national level, but it is not accessible to stakeholders. To improve the situation, the EU should adopt more robust guidelines, as, for example under the OMC under the Lisbon Strategy. This could also include the provision for the recording of stakeholder views in the National Reform Programmes, e.g. set out in an annex, as in the case of France. The EU governance process is aiming to ensure better engagement by key stakeholders in cities and sub-national actors, regional and local government, potentially communities and consumers, so the more that can be done to enable a meaningful participation of stakeholders in the Semester processes at EU and/or national level the better. The EU Semester Alliance with its 3 national alliances is a good example of how cross-sectoral engagement can enhance the visibility and critical assessment of the European
Semester. The “streamlining” and “revamping” process foresee more stakeholder engagement: however, this would need to be much more formalised.

The process is mainly a top-down bureaucratic one. For example, the European Parliament is only involved through the “Economic Dialogue”, having only the right to invite the President of the European Commission to discuss the Annual Growth Survey. The European Parliament publishes own-initiative reports on the Annual Growth survey and the CSRs in the ECON and EMPL Committee but these documents are of no legal consequence. To date, a request to have a plenary debate on the Annual Growth Survey and the CSR publication has not been put into practice.

National Parliaments are hardly involved in the process, and national MPs have difficulties in understanding the importance of the process.

Stakeholder involvement was not foreseen at the outset of the process, but is now granted to varying extents by some MSs – presumably at their discretion.

**Accountability**

The Member States have no legally binding reporting mechanisms for the National Reform Programmes. The European Commission published guidelines for the NRP reporting.

The European Commission publishes all Semester related documents, i.e. Annual Growth Survey, Country Reports, National Reform Programmes, Stability and Convergence Programmes and the CSRs on its website.

Recommendations made in the context of an Excessive Deficit Procedure (EDP) and an Excessive Imbalance Procedure (EIP) are binding. Non-compliance with recommendations can lead to warnings, further recommendations and enhanced monitoring, and in the case of EDP and EIP requirements, non-compliance can lead to even financial sanctions but until now, the Commission hasn’t made use of this instrument (only taking some initial steps in the case of France). Instead, in January 2015, the Commission published a Communication on “making the best use of the flexibility within the existing rules of the Stability and Growth Pact” (COM/2015/12), to grant more fiscal leeway for public investment, and the implementation of major reforms.

**Policy Coherence**

Contrast the “Barroso Semester” which sought to progress the Europe 2020 strategy with a long-term perspective and the “Juncker streamlined Semester”, focusing on fewer CSRs to be delivered in 12-18 months, with uncertainty about Europe 2020. However, the national practice of policy-making is largely related to multi annual reform programmes, usually running over 4 or 5 years, with capital funding is decided at the outset.

The position regarding climate governance is uncertain and there is no logical follow through on implementation of recommendations: i.e. where recommendations are not acted upon by the MS but not repeated by the Commission, the reasons for the Commission’s discontinuity are unclear.
Table 7: Example of incoherent follow-up of CSRs

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>Assessment</th>
<th>2014</th>
</tr>
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<tbody>
<tr>
<td>Finland</td>
<td>CSR 5: “Improve overall energy efficiency”</td>
<td>Substantial progress</td>
<td>No assessment by EU Com as to whether the relevant work is partially or fully complete</td>
</tr>
<tr>
<td>Lithuania</td>
<td>CSR 6: “step up measures to improve the energy efficiency of buildings”</td>
<td>Some progress</td>
<td>CSR 6: “step up measures to improve the energy efficiency of buildings”</td>
</tr>
<tr>
<td>Slovakia</td>
<td>CSR 5: “Improve energy efficiency in particular in buildings and industry.”</td>
<td>Some progress</td>
<td>As with the first e.g., the issue is no longer addressed</td>
</tr>
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</table>


**Effectiveness**

National ownership is missing. This is one of the biggest challenges for the effectiveness of the process. As shown above, the implementation rate of the CSRs has been very low.

However, the European Commission announced more stakeholder involvement, including national Parliaments and social partners within the “streamlining and revamping” processes. The result of this needs to be seen in the coming years. Experiences from the EU Semester Alliance show that building national cross sectoral stakeholder alliances in the Member States, including thorough capacity-building to hold national government to account, can lead to a substantial attention in the Ministries of Finance and Environment. This includes media attention and a better involvement of national Parliaments.

Whilst the implementation rate of the political (not legally) binding CSRs is low, countries are likely to follow fiscal recommendations, especially if they are under Excessive Deficit Procedure but all score low in the implementation of recommendations in policy areas where vested interests tend to be concentrated (e.g. service market liberalisation).

Note that: the Commission’s Secretariat General controls the editing process of the CSRs and country reports; differences between DGs and clashes between the EU Commission and Member States can be hidden by dropping or changing draft CSRs. Led by the Ministries of Finance, other Ministries (i.e. Energy or Climate) are often excluded from the national Semester.
10 Will the Semester play a wider role?

10.1 The Paris Agreement and implications for the European Semester

The Paris Agreement from December 2015 is the first major multilateral deal on climate change which engages high, medium and low-income countries. It aims to avoid dangerous climate change by limiting global warming to well below 2°C – and pursue efforts to limit the temperature increase to 1.5°C above pre-industrial levels (Article 2).

In the same article 2, the Agreement commits to “making financial flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development”.

KEY MESSAGES Paris Agreement

Thorough action needs to follow now which means that the outdated jobs and growth agenda and Juncker’s 10 priorities need to be aligned with the EU’s own ambition regarding the Paris Agreement.23

Linking the Paris Agreement to the European Semester has considerable potential. The Semester should become a core tool to assess all financial flows in terms of contributing to decarbonisation, e.g. the use of the Cohesion and Structural Funds. A powerful option would be to introduce an indicator within the MIP and SGP: any financial flow needs to contribute to the “well below 2°C/1.5°C target” which means:

- A review of the existing indicators in the MIP scoreboard in light of their climate impact;
- Adding an indicator on climate action and resource efficiency to the scoreboard, and
- Making the European Semester a tool for divestment, e.g. by directing financial flows so as to accelerate a shift from these sectors into clean and sustainable energy systems.

10.2 The Sustainable Development Goals: A hook to transform the European Semester?

Heads of State and Government adopted 17 Sustainable Development Goals (SDGs) to be achieved by 2030 “for people, planet and prosperity”. The SDGs set out universally applicable quantitative objectives across the social, economic, and environmental dimensions of sustainable development, including a set of indicators and a monitoring framework.

The 2016 Annual Growth Survey (COM/2015/690) states: “next year the Commission will start a process for developing a longer term vision going beyond the horizon of the year 2020, also in the light of the new Sustainable Development Goals agreed by the United Nations for 2030. The lessons of the Europe 2020 review (...) will be taken into account in this exercise” (p 5). In addition to this, the EU Commission’s Annual Work Programme, COM(2015) 610, states that the EU Commission “will present a new approach to ensuring economic growth and social and environmental sustainability beyond the 2020 timeframe, taking into account the Europe 2020 review and the internal and external implementation of the United Nations Sustainable Development Goals.”

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23 See i.e. the EEB Report on “Juncker Commission Political Priorities Revisited” for inspiration.
The European Commission plans to present a report on how to implement the SDGs at EU level in June 2016. Karl Falkenberg, former Director General of DG Environment and now Senior Adviser for Sustainable Development at the EU in-house think-tank, the European Political Strategy Centre (EPSC) is responsible for this process. It seems as if there is a disagreement in the European Commission about the role of the SDGs within the EU policy framework. Some voices seem to prefer a review of the Europe 2020 strategy in light of the SDGs while other voices would like to use Europe 2020 to implement the SDGs. The latter seems a less ambitious solution.

Figure 12 below shows the 17 SDGs with those highlighted that play an important role within the EU climate and energy framework:

Figure 12: The 17 Sustainable Development Goals, agreed in September 2015


In truth, a complete overhaul of Juncker’s 10 priorities, with an overarching commitment to sustainable development is required and unless we address the challenges facing the climate, nature and wildlife, the EU, in common with all other regions of the world, will be unable to maintain medium and long term socio-economic welfare. A failure to align the Juncker priorities with the new global sustainable development agenda would either imply that they are already aligned with it, which is manifestly false, or that the EU is not serious about its international commitments.
11 Recommendations: Strengthening the European Semester

Given the macroeconomic magnitude of climate and energy, the European Semester needs to reintegrate these key policies. This should be done by mainstreaming low carbon energy transition through all pillars (Figure 14).

Figure 14: Mainstreaming low-carbon economy through all pillars of the Annual Growth Survey

Source: European Commission, adapted by Green Budget Europe

A legal enforcement mechanism for carbon budgets at EU level would be a very cost-effective way to achieve the EU’s low-carbon economy objective.

In addition, we suggest for Euro Area Member States, in the context of the “5-Presidents Report”, to add a report from the national environmental agencies, reporting on domestic progress towards climate and energy policy targets, related macroeconomic implications and making recommendations for the next Annual Growth Survey. Better focus of environment and fiscal issues is required. Monitoring of soil, air and resource use is also required at both Member State and EU level (see figure 15).

Country Reports should include these elements, including SDG implementation, and Member States would need to report on their progress and strategies within the National Reform Programmes. The Stability Programmes, linked to the Stability and Growth Pact, should include a report on how to implement the Paris agreement, especially the “financial flows” obligation.
Figure 14: Strengthening a low-carbon economy element for the Euro Area

Source: European Commission, adapted by Green Budget Europe

We also suggest to include indicators on climate, energy, resource efficiency (i.e. on material use, soil, water, and land use) and environment to the main scoreboard of indicators in the Macroeconomic Imbalance Procedure as suggested in figure 15 below. The main objective is to ensure that the MIP does not work against climate and energy policies by recognising their macroeconomic relevance.

There is another important aspect to mention. We suggest “permeability” between the Energy Union and the European Semester, once the Energy Union is in place. That means that if macroeconomic issues arise, e.g. serious climate/energy shortfalls, the European Semester needs to reflect this, e.g. in the Country-Specific Recommendations. The important point here is that Finance Ministries which are the main actors in the Semester need to engage with climate and energy deliverables. This would draw attention to Member States failing to pull their weight, as inaction undermines collective effort. This will be even more important after 2020 when the Semester is expected to stop monitoring the climate, renewable and energy efficiency delivery.
With its key focus on fiscal and structural reform matters as well as on investment, the Semester remains of vital importance to deliver a tax shift (from labour to pollution / emissions / non-renewables). Until now, the Commission under-used this important tool. It could raise ambition under the Energy Union (taxation and subsidy reform are mentioned under the Integrated Energy Market pillar) as a means to boost employment and investment on the one hand, and deliver benefits for climate, environment and resource use on the other. This is also in line with the Sustainable Development Goals for which the Commission announced a policy plan in 2017.

12 The European Semester as a facilitator for change for the 2030 climate and energy targets - Potential lobby activities to bring back climate (and energy?) policy

1. Influence the Annual Growth Surveys (AGS), published mid-November

The key rationale for every message should be the overall contribution to the macroeconomic and fiscal stability of the EU and for individual Member States. More specifically, it would be helpful to deliver robust data on how climate policy, Circular Economy and resource efficiency help to achieve the three main goals of the Annual Growth Survey: growth, jobs and investment.

Start in August and build preferably powerful alliances to bring your points to the attention of the Secretariat General, President Juncker and First Vice-President Timmermans, Vice-President Dombrovskis and the Cabinets for DG ECFIN, DG TAXUD, DG ENER, DG EMPL and MEPs as well as contact points in the national Ministries of Finance. It is important to point out that climate
policy, energy efficiency and the Circular Economy have an enormous potential for job creation, cost-efficient investments, elimination of unsustainable market distortions, while cutting emissions.

**Example tax policy:** All AGS identified several categories of tax policy challenges faced by EU Member States. These tax policy challenges concern the potential of Member States for making their tax structure more growth-friendly which means i.e. a tax shift from labour to environment and resource use, as well as improving tax governance and the design of their taxes in their efficiency and fairness dimensions.

EU Member States current fiscal systems are far from optimal. Labour taxes account for 53.3% of total tax revenue in the Eurozone Area (Eurostat, 2014). Eurozone Area taxes on environment declined from 5.98% in 2011 to 5.8% in 2013 (Eurostat, 2015). There is an enormous opportunity to realise the double dividend of an Environmental Fiscal Reform in order to consolidate national budgets in a cost-efficient way and to lower the persistent high unemployment rate of 10.8% in September 2015 (Eurostat, 2015a) and the excessive energy dependence of 53.2% EU-28 average (Eurostat, 2015 b).

**Example Circular Economy:** The Semester process should be a key tool to achieve the transition that is supposed to transform Europe into a more competitive resource-efficient economy. All Member States should re-orient their economies, noting the multiple benefits this will have for sustainable growth, quality jobs, energy security, health and environment.

Despite the announcement of First Vice President Timmermans that a new Circular Economy package, presented on 2 December 2015, would be more ambitious as its predecessor, the Communication (COM(2015)614/2) shows that the new Circular Economy package will have weaker targets for recycling and landfill than its predecessor. It lacks a clear enforcement mechanism and integration into the macro-economic policy coordination via the European Semester and emphasises waste management instead of prevention by smart design, more reuse and recycling.

While the slightly more comprehensive product side approach is a first step in the right direction, it lacks crucial elements that were present in the withdrawn proposal, such as a target to increase resource efficiency at EU level by 30% by 2030 compared with 2014 levels, and the monitoring of this in the context of the European Semester.

Binding targets on resource efficiency and measures on sustainable sourcing of raw materials are crucially needed to reduce the EU’s massive footprint. As long as circular economy does not

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contribute to an effective and absolute reduction of resource consumption, and as long as resource consumption is not integrated into the main tool to measure “jobs and growth” - the European Semester - it will not bring us on the path of sustainable development.

KEY MESSAGES Circular Economy

In December Vice-President Katainen called the Circular Economy a “global megatrend” with the “same magnitude as globalisation.” This is an encouraging message but it remains to be seen how the Circular Economy package (COM/2015/614) published in December 2015, will be integrated in Country Reports or National Reform Programmes, paving the way to use the Semester as an effective governance tool in future years.

The opportunities for an ambitious Circular Economy enforcement are:

- Resource productivity increase (30% by 2030) could create over two million jobs
- Overall savings potential of €630 billion per year for European industry
- Potential GDP boost by up to 3.9%
- A reduction of total annual GHG emissions by 2.4%

Source: COM/2014/398

2. Produce Alternative Country-Specific Recommendations

Start in October and contact Green Budget Europe if you wish to contribute to our CSR Report (see here for the “2016 Alternative CSR report”).

- Develop robust Country Specific Recommendations, including robust justifications on their growth, jobs and investment contribution. Thus far, a key challenge when making recommendations has been a lack of hard data on climate/economic/budgetary impacts. National governments are not very keen on supplying such data, for obvious reasons, and so far the EU-Commission has not been very entrepreneurial in acquiring them. Therefore, robust input is needed, and
- Gather intelligence on barriers to and needs for the implementation of the CSRs of the previous year.

3. Analyse Country Reports, published Mid-February

Given the streamlining approach since 2015 and as a consequence the dropping of climate and energy policies from the European Semester, i.e. by releasing less Country-Specific Recommendations, the Country Reports, published in Mid-February become a key instrument for advocacy.

Start in November to develop and propose specific climate/Circular Economy policy proposals for inclusion in the Country Reports by bringing the detail of national expertise to the European level. Commission officials and MEPs repeatedly confirmed that high quality data from national experts (like the network co-ordinated by Green Budget Europe) can bring an added value to the reporting process.
Lobby, the Secretariat General, Vice-President Dombrovskis and Cabinet, DG ECFIN, DG TAXUD, DG ENER, DG EMPL and MEPs European Semester Officers\(^{25}\) (ask GBE for an updated list) to raise awareness for the importance of ambitious climate and Circular Economy policies, i.e. organising events in the Member States from their budget.

GBE will inform you in October 2016 about our plans to produce a report for input into the Country Reports.

4. **Analyse the National Reform Programmes (to be submitted to the EU Commission by 15 April)**
   - By November: Get into contact with your Ministry of Finance to lobby for active stakeholder involvement in drafting the National Reform Programmes (NRPs);
   - Ask for the template for the NRPs and the guidelines issued by the European Commission in November and produce your own NRP;
   - Advocate for the integration of your contribution to the National Reform Programme as a shadow-report (see example France for “Contribution from Stakeholders”, and
   - After 15 April: the EU Commission publishes all NRPs on its dedicated website. Assess the NRPs to in order to track the climate/Circular Economy and overall quality of the report and send it to EG ECFIN, CLIMA and the Secretariat General

5. **Over the Year:**
   - Work with upcoming EU Presidencies towards a more ambitious climate/Circular Economy agenda i.e. by encouraging “Greening the European Semester Council conclusions”, joint meetings between Ministers of Finance and Environment/Climate;
   - Work with the EU Parliament to highlight the importance of Stakeholder involvement and the democratic deficit of the European Semester (i.e. hearing and individual meetings with rapporteurs, amendments of own-initiative reports);
   - Establish good working relations with the so-called ‘country desks’ for target countries in DG ECFIN, and – possibly together with national partners – feed-in concrete and specific recommendations for Member States explicitly targeted in the project (ask GBE for an updated contact list);
   - Lobby for a resource-efficiency indicator within the main scoreboard of the Macroeconomic Imbalance Procedure;
   - Bringing the Semester closer to EU citizens and involving Civil Society: So far the Semester remains a closed club with negotiations taking place mainly between the European Commission and the national governments only. The European Parliament and civil society organisations (CSOs) only play a marginal role despite the direct effect fiscal measures in general and austerity policies in particular exert on European citizens. The European Commission and national Governments need to ensure an adequate involvement of CSOs in the Semester as well as to grant a meaningful oversight to the European parliament and national parliaments to avoid a growing disconnection between the Union and its citizens. Emphasising the role of civil society organisations and ensure meaningful dialogue at all

\(^{25}\) European Semester Officers are EU Commission employees working in the Representations of the European Commission in the Member States Capitals to create a bridge between the Member States and the Commission.
stages of the policy making process at EU and national level. What is sought is effective civil dialogue at all government levels in the design, implementation and evaluation of National Reform Programmes (by MSs) as well as the Annual Growth Survey and Country-Specific Recommendations (by the Commission). Indicators, regular monitoring and reporting on progress regarding civil society engagement will also be needed, and

- Co-ordinate a roundtable between different key environmental NGOs: See the work of the cross-sectorial “EU Alliance for a democratic, social and sustainable European Semester” as an example at EU level.

13 Conclusions

With its key focus on fiscal matters, the Semester remains vital to deliver tax shift (from labour to pollution / emissions / non-renewables). This is why we should keep on emphasising the robust macroeconomic evidence of climate, energy and circular economy action as well as inaction in these fields.

Since 2015, the scope of the European Semester appears to be narrower with the emergence of Energy Union. This is a negative development in terms of the government hierarchy. The European Semester was and remains directed at Finance Ministers. Contrast with Energy Ministers, as planned under Energy Union, Ministers that do not control the purse strings. Therefore, it may become harder to ensure enhanced public investment in decarbonisation / energy transition.

Overall, this change heightens macroeconomic risk, especially after the Paris Agreement (viz. Art 2). The EU wants to retain its credibility as a global leader on climate and energy, and for that it needs to be able to spur compliance with its energy and climate targets. The EU can’t have a cohort of Member States at the back of the class compromising the efforts of all the countries that have really put their shoulder to the wheel on climate and energy. A good solution may be permeability between Energy Union and the Semester as GBE has suggested. This would highlight Member States failing to pull their weight, as inaction undermines collective effort.
Annex I: Timeline of the European Semester and Actions

<table>
<thead>
<tr>
<th>November</th>
<th>December</th>
<th>January</th>
<th>February</th>
<th>March</th>
<th>April</th>
<th>May</th>
<th>June</th>
<th>July</th>
<th>August</th>
<th>September</th>
<th>October</th>
</tr>
</thead>
<tbody>
<tr>
<td>European Commission</td>
<td>European Council / Council</td>
<td>Member States</td>
<td>European Parliament</td>
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<tr>
<td>Autumn Economic Forecasts</td>
<td>Council discusses opinions on draft budgetary plans</td>
<td>Member States adopt budgets</td>
<td>Dialogue on the Annual Growth Survey</td>
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<tr>
<td>Annual Growth Survey and related documents</td>
<td>Council adopts euro area recommendations and conclusions on AGA + AMI</td>
<td>Member States present their National Reform Programmes (economic policies) and Stability or Convergence Programmes (on budgetary policies)</td>
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<tr>
<td>Recommendations for the future</td>
<td>European Parliament adopts economic priorities based on AGA</td>
<td>Council discusses the CSFs</td>
<td>Dialogue on the proposals for CSFs</td>
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<tr>
<td>Bilateral meeting with Member States</td>
<td>Commission prepares country-specific recommendations for budgetary, economic and social policies</td>
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<td>Debate / resolution on the European Semester and the CSFs</td>
<td></td>
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<tr>
<td>Fact-finding missions to Member States</td>
<td></td>
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<td>Dialogue on the Annual Growth Survey</td>
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Annex II: Europe 2020: Benchmarks and Indicators for the thematic surveillance

In order to track and compare progress on the Europe 2020 targets of the Member States, the EU Commission selected a set of key indicators of the five headline targets. They are accompanied by thematic fiches, aiming at providing a comprehensive picture of the main policy themes and at facilitating cross-country comparisons. The following thematic fiches (see below) complement the more detailed Country reports of the European Commission:

- Active labour market policies [160 KB] [26 November 2015]
- Adequacy and sustainability of pensions [2 MB] [26 November 2015]
- Digital single market: broadband and e-communication [2 MB] [26 November 2015]
- Digital single market: digital skills and jobs [404 KB] [26 November 2015]
- Early leavers from education and training [186 KB] [26 November 2015]
- Effective justice systems [393 KB] [26 November 2015]
- Employment incentives [697 KB]
- Employment protection legislation [169 KB] [26 November 2015]
- Employment rate [319 KB] [26 November 2015]
- Fiscal Frameworks [382 KB] [26 November 2015]
- Health and health systems [838 KB]
- Industrial competitiveness policy [340 KB] [26 November 2015]
- Labour market participation of women [2 MB] [26 November 2015]
- Poverty and social exclusion [2 MB] [26 November 2015]
- Public employment services [347 KB] [26 November 2015]
- Public finances growth friendly expenditure [668 KB] [26 November 2015]
- Regulated professions [267 KB] [26 November 2015]
- Research and innovation [150 KB] [26 November 2015]
- Resource efficiency [2 MB] [26 November 2015]
- Services [629 KB] [26 November 2015]
- Skills for the labour market [483 KB] [26 November 2015]
- SME access to finance [441 KB] [26 November 2015]
- Taxation [577 KB] [26 November 2015]
- Tertiary education attainment [173 KB] [26 November 2015]
- Transport [360 KB] [26 November 2015]
Annex III: Examples of Country-Specific Recommendations (CSRs) related to climate and environment issued in 2014 as part of the European Semester and the assessment of their implementation in February 201526

(1) Emissions reductions

Belgium – CSR 6:

Ensure that the 2020 targets for reducing greenhouse gas emissions from non-ETS activities are met, in particular as regards buildings and transport. Make sure that the contribution of transport is aligned with the objective of reducing road congestion. Agree on a clear distribution of efforts and burdens between the federal and regional entities.

Assessment:

Limited Progress: The three regions and the federal government have made no further progress in discussions on how to distribute the effort needed in 2013-20 through an effort-sharing agreement. This should cover the distribution of the non-ETS emissions objective, of the renewable energy objective and of revenues from the auctioning of emission allowances (these are blocked on an account).

A mechanism for increasing regional bodies’ awareness of responsibility for climate protection has started in 2015. This involves determining a multiannual reference trajectory on the reduction of GHG emissions in the residential and tertiary building sector for each region. If a region meets (misses) its assigned objective, it receives a financial bonus (penalty) proportional to its distance to the trajectory. The mechanism would be funded by the (blocked) revenues from the auctioning of emission allowances.

(2) Energy efficiency

Czech Republic - CSR 6:

Accelerate the reform of regulated professions, focusing on the removal of unjustified and disproportionate requirements. Step up the efforts to improve energy efficiency in the economy.

Assessment:

Some progress has been made in stepping up the efforts to improve energy efficiency in the economy.

(3) Renewables
Malta - CSR 4:
Diversify the energy mix in the economy, including by increasing the share of energy produced from renewable sources.
Assessment:
Some progress: on diversifying the energy mix by completing the construction of the electricity interconnector to mainland Europe and taking first steps to shift electricity production away from oil as well as on measures to increase energy efficiency

(4) Green tax shift
Italy – CSR 2:
Further shift the tax burden from productive factors to consumption, property and the environment, in compliance with the budgetary targets. To this end, evaluate the effectiveness of the recent reduction in the labour tax wedge and ensure its financing for 2015, review the scope of direct tax expenditures and broaden the tax base, in particular on consumption. Ensure more effective environmental taxation, including in the area of excise duties, and remove environmentally harmful subsidies. Implement the enabling law for tax reform by March 2015, including by adopting the decrees leading to the reform of the cadastral system to ensure the effectiveness of the reform of immovable property taxation. Further improve tax compliance by enhancing the predictability of the tax system, simplifying procedures, improving tax debt recovery and modernising tax administration. Pursue the fight against tax evasion and take additional steps against the shadow economy and undeclared work.
Assessment:
Limited progress was made on tax expenditures, environmental taxation, and removal of environmentally harmful subsidies.

(5) Energy market reform
Germany – CSR 3:
Keep the overall costs of transforming the energy system to a minimum. In particular, monitor the impact of the Renewable Energy Act reform on the cost-effectiveness of the support system for renewable energies. Reinforce efforts to accelerate the expansion of the national and cross-border electricity and gas networks. Step up close energy policy coordination with neighbouring countries.
Assessment:
Some progress in policy coordination with neighbouring countries. Regular roundtable discussions on regional cooperation to promote the security of the electricity supply and renewable energies have been set up. A Green Paper on electricity market design aimed at
facilitating the decision on whether to introduce a national capacity remuneration mechanism has been published.

(6) Energy network / Grid strengthening

Poland – CSR 5:
Renew and extend energy generation capacity and improve efficiency in the whole energy chain. Speed up and extend the development of the electricity grid, including cross-border interconnections to neighbouring Member States, and develop the gas interconnector with Lithuania. Ensure effective implementation of railway investment projects without further delay and improve the administrative capacity in this sector. Accelerate efforts to increase fixed broadband coverage. Improve waste management.

Assessment:
Some progress in energy efficiency. Significant amount of funding is to concentrate on energy efficiency projects, in particular housing insulation through European Structural and Investment Funds.
Some progress in the development of cross border electric interconnections, especially with Lithuania (‘LitPolLink’ project nearly completed).
Limited progress on developing the gas interconnectors, in particular with Lithuania. The work on the southern gas interconnections with Czech Republic and Slovakia remains at the preparatory stage.

(7) Fossil fuel subsidies / Environmentally harmful subsidies

France – CSR 5:
Reduce the tax burden on labour and step up efforts to simplify and increase the efficiency of the tax system. To this end, starting in the 2015 budget, take measures to: remove inefficient personal and corporate income tax expenditures on the basis of recent assessments and the "Assises de la fiscalité" initiative while reducing the statutory rates; take additional measures to remove the debt bias in corporate taxation; broaden the tax base, in particular on consumption; phase out environmentally-harmful subsidies.

Assessment:
Limited progress has been made with the introduction of an increase in excise duties (EUR 0.02/l of diesel) as a first step to phasing out environmentally harmful subsidies, and some progress is planned on the carbon tax. Remaining preferential taxation regimes for fuels, particularly diesel and especially for certain categories of users still constitute substantial environmentally harmful subsidies.

(8) Resource efficiency / Circular Economy reform

Estonia - CSR 4:
Step up efforts to improve energy efficiency, in particular in residential and industrial buildings. Substantially strengthen environmental incentives for the transport sector to contribute to less resource-intensive mobility.
Assessment:

Limited progress on environmental incentives in the transport sector. The 2012-14 electromobility programme in transport has been implemented. The renewal of public transport fleets is ongoing. The joint venture to prepare and implement Rail Baltic has been established. Measures towards the 5-7 % biofuel mixing obligation for motor fuels and including financial support for producing and using bio-methane in transport have been announced, but have not been implemented so far. The shift towards increasing the share of alternative fuels will be encouraged through investment in pilot facilities. An energy-efficiency labelling scheme for cars has been prepared.

(9) Other factors / developments aiding EU climate and energy goals

Spain - CSR 8:

Implement at all government levels the recommendations of the committee for the reform of the public administration. Strengthen control mechanisms and increase the transparency of administrative decisions, in particular at regional and local levels. Complete and monitor closely the ongoing measures to fight against the shadow economy and undeclared work. Adopt pending reforms on the structure of the judiciary and on the judicial map and ensure implementation of adopted reforms.

Assessment:

Some progress in strengthening transparency of administrative decisions. The provisions on transparency and public access to information became effective in December 2014 at central government level; they will enter into force in December 2015 at sub-central government level. The following draft laws were in parliament at the time of writing: a draft organic law on the control of political parties' economic and financial activities, a draft law on the exercise of duties of senior officials in Spain's central administration and amendments to the Penal Code to criminalise illegal party funding and extend the statute.