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NOTE

From:	Luxembourg Presidency
To:	The High Level Working Group on Competitiveness and Growth
Subject:	Five Presidents' Report - creation of Competitiveness authorities

Delegations will find in Annex a note on "Five Presidents' Report" including a contribution from Italy on the "creation of Competitiveness Authorities" for the exchange of views at the meeting of the High Level Working Group on Competitiveness and Growth on 13 October 2015.

THE FIVE PRESIDENTS' REPORT

1. Background

In October 2014 the Euro Summit invited the President of the Commission in close cooperation with the Presidents of respectively the Euro Summit, the Eurogroup and the European Central Bank to prepare the next steps on better economic governance in the euro area.

In December 2014 the European Council reiterated this and confirmed that non-euro area Member States would also be involved in the process. The informal meeting of the Heads of State and Government on 12 February 2015 discussed this issue, looked at the origins of the financial and economic crisis and reviewed the measures taken since 2010 to strengthen the resilience of the Economic and Monetary Union (EMU). The Presidents of the four Institutions were subsequently expected to report to the June 2015 European Council. The President of the European Parliament was associated with the work. Member States were involved in the process of preparing the report through regular sherpa meetings, in addition to which discussions also took place in the ECOFIN preparatory bodies, the Eurogroup and the General Affairs Council.

2. The Five Presidents' Report

On 22 June 2015, the report on completing the EMU, the so-called Five Presidents' Report (5PR), was published under the personal responsibility of the Presidents. It sets out two preparatory and one final stage for completing the EMU.

Stage 1 (1 July 2015 - 30 June 2017):

- to boost competitiveness and structural convergence (including through the creation of a euro area system of Competitiveness Authorities; a strengthened implementation of the Macroeconomic Imbalance Procedure; a greater focus on employment and social performance; and stronger coordination of economic policies within a revamped European Semester),
- achieving responsible fiscal policies at national and euro area level (including a new advisory European Fiscal Board),
- completing the Financial Union (including the establishment of a bridge financing mechanism and significant progress towards a credible backstop for the SRF, an agreement on a European Deposit Insurance Scheme, a possible review of the effectiveness of the ESM direct recap instrument, progress towards a true level playing field for banks, and launching Capital Markets Union),
- and enhancing democratic accountability (including strengthening parliamentary control reinforcing the steer of the Eurogroup and step towards a consolidated external representation of the euro area).

In **stage 2**, more far-reaching actions are envisaged to make the convergence process more binding, through for example a set of commonly agreed benchmarks for convergence which would be of legal nature, paving the way for public risk sharing, for instance in a shock absorbing mechanism accompanied by an appropriate sharing of sovereignty (i.e. joint decision making on elements of national budgets) together with an appropriate strengthening of democratic accountability , which could ultimately be centralised in a euro area treasury.

In the **final stage** (at the latest by 2025): a deep and genuine EMU is expected.

To prepare the transition from Stage 1 to Stage 2, the Commission will present a White Paper in spring 2017 outlining the next steps needed.

3. **Work undertaken between June and October 2015**

On 25-26 June 2015, the European Council took note of the Report and invited the Council to rapidly examine it.

On 1 July 2015, the Commission discussed the 5PR and in particular the roadmap of actions to be taken immediately on the basis of existing Treaties, including two main strands of work, the first one including actions to accelerate the completion of the Banking Union and the second one including work to reinforce the economic governance framework of the EU.

At its informal meeting of 12 September 2015, the ECOFIN exchanged views on the issue of deepening the EMU in the context of the 5PR. This more in-depth discussion followed on an initial exchange of views by Finance Ministers at the July Eurogroup / ECOFIN meetings.

4. **Relevance of the Report for the Competitiveness Council**

As indicated in the 5PR itself, the Report "focuses on the euro area, as countries that share a currency face specific common challenges, interests and responsibilities. The process towards a deeper EMU is nonetheless open to all EU Members. It should be transparent and preserve the integrity of the Single Market in all its aspects. In fact, completing and fully exploiting the Single Market in goods and services, digital, energy and capital markets should be part of a stronger boost towards economic union, as well as more jobs and higher growth".

Therefore the 5PR is of direct relevance to the Competitiveness Council, which should examine it following the mandate given by the European Council of 25-26 June 2015.

As far as its first discussion on the 5PR is concerned, the HLG should mainly collect the initial reactions of its members on the parts of the Report that can be relevant for the Competitiveness Council and try to identify future work streams. The debate should inform, involve, raise awareness and ownership of the HLG so that it can be of benefit also for productive discussions among Ministries of Economy of Member States.

The HLG could examine in addition to the question of CAs issues addressed by the 5PR such as:

- how to increase productivity and to boost competitiveness and structural convergence,
- how to exploit the unused potential of the Single Market and to attract investment,
- and how to improve the implementation of Country Specific Recommendations on priority reforms in this respect.

Furthermore, as the Commission announced that in the second half of October it will adopt a package of 5 PR implementing measures (including the CAs) the debate could inform the Commission on Member States' views and positions and thus contribute to its internal preparatory work for this package.

ITALIAN PAPER ON FIVE PRESIDENTS' REPORT – CREATION OF COMPETITIVENESS AUTHORITIES

According to the Five Presidents' Report, as regards the economic union completion efforts, the creation of a euro area system of Competitiveness Authorities should be the first step to be undertaken in order to push forward structural convergence in the EU and growth reforms at national level.

The role, the mission and the competencies of such Authorities need to be well defined and pondered, because these new bodies are likely to introduce an additional layer in an already complex institutional architecture, where responsibilities sometimes overlap and accountability risks to prove blurred.

In such context, focusing on competitiveness is welcome. Nevertheless it implies intervening on several areas of policy making at different European and national institutional levels. Many policies today contribute to European competitiveness. Some of them are included in European standard procedures such as the Macroeconomic Imbalance Procedure, the European Semester and the Financial Union. Some are of exclusive EU competence, some others involve shared competence, and some others imply competence to support or coordinate actions under the main responsibility of Member States.

The Five Presidents' Report envisages that each Member State should establish an independent body in charge of “tracking performance and policies in the field of competitiveness”, thus contributing to prevent economic imbalances and divergent performance within Member States as well as “to increase the necessary ownership of reforms at national level”.

In this respect we can't avoid underlining how, at the EU level, we are not doing the best job in “tracking the performance” of EU policies on EU competitiveness. As a matter of fact the HLG has been established exactly to improve policymaking in this field by mainstreaming competitiveness in all policies taken into consideration by the COMP Council. Before expanding and deepening this “competitiveness mainstreaming” exercise at the national level it would be more logical to have it in full operational mode at the European level.

According to the Five Presidents' Report, national bodies would be therefore established by Member States, coordinated by the Commission and gathered in a euro area system of Competitiveness Authorities. They should also be democratically accountable and operationally independent. The Commission, on an annual basis, should take into account the outcome of this coordination effort when it takes decision on steps under the European Semester, with particular regard to the yearly analysis of its Annual Growth Survey and to the Macroeconomic Imbalance Procedure.

The aim of the system of Competitiveness Authorities should not be to harmonise practices and institutions in charge of wage formation across borders. Those processes vary widely within the EU and rightly reflect national preferences and legal traditions. However their mandate should concentrate on “assessing whether wages are evolving in line with productivity” and social actors “should use the opinions of the Authorities as guidance during wage setting negotiations”. It seems that the Authorities should focus on a concept of competitiveness that risks to boil down to wage moderation.

We believe that the establishment of such system of Authorities should ensure that the perspective of strengthening and mainstreaming competitiveness and productivity is not entirely reliant on fiscal consolidation policies and being part of a strong national effort on structural reforms and, at the same time, of a revamped European Semester.

Identifying the role, the competencies and the scope of action of those Authorities, implies the need to define the concept of competitiveness and the focus of their attention and concern. In order to do that we urgently need to come up with a clear definition of competitiveness, which is capable of being properly measured considering all factors affecting competitiveness at macroeconomic as well as at microeconomic level.

Defining and circumscribing competitiveness shows significant criticalities from the moment that, on the one hand, it relies on reference theoretical models and, on the other hand, it is permeable at the evolution of economic and social scenarios.

However, in the last ten years, the possibilities of a competitiveness analysis in advanced economies have hugely increased because of the progressive development and harmonization of the international statistical system.

Moreover, the current supply of official statistical information harmonized at the European level enables to adequately measure various “multidimensional” aspects of economic competitiveness. They include macroeconomic as well as microeconomic indicators. Such multidimensional definition of competitiveness should be agreed upon and shared among all Competitiveness Authorities. Properly defined competitiveness indicators could represent useful tools to measure, monitor and assess the evolution of productive systems’ competitiveness which is key for evidence based policymaking and assessment based on cost benefit/impact analysis of policy proposals and implementation.

In order to do this, we have to define competitiveness not only in relation to a narrow competitiveness perspective on wage costs but at the same time we should not consider all possible dimensions of a broad, vaguely defined, wide ranging concept of competitiveness. This means that such definition, by considering the microeconomic aspects which affects competitiveness at firm level, should not be only limited to macroeconomic costs like, for example, energy costs which should be addressed by policies under the Energy Union package or administrative costs, being this one taken into consideration by the better regulation initiative.

So focusing on a cost-oriented (lowering wage costs, administrative costs, energy costs) macroeconomic measure of competitiveness is not enough. Competitiveness factors’ analysis is more based today on microeconomic issues particularly related to enterprises characteristics and behaviour.

Among microeconomic dimension of competitiveness we can for example start to pay more and more attention to relevant factors which are key for firms’ competitiveness and which are strictly connected with firms characteristics, strategies, governance and efficiency.

Nowadays official statistics at firms’ level enable the measurement of a vast set of variables on crucial microeconomic aspects of firms’ competitiveness:

- Entrepreneurship and corporate governance: to analyse the enterprise ownership, governance structure and command and control mechanism.
- Human capital: as investment in high skilled resources, human capital valorisation and management.
- Relation between enterprises: cooperative and competitive relations among firms, supply chains structure, entrepreneurial ecosystem.
- Market size and structure: local, national and international competitive positioning, localisation of main competitors, productive diversification strategies, main competitiveness strategies.

- Innovation: products and process innovation, R&D expenditure, IP investments, patenting attitude.
 - Finance: sources of funding, corporate finance, and funding structure, banking and non-banking finances, private equity and venture capital.
 - Internationalisation: export propensity, integration in global supply chains.
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