EUROPEAN COMMISSION
ENTERPRISE AND INDUSTRY DIRECTORATE-GENERAL

Brussels, 20 November 2013
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MINUTES OF THE ENTERPRISE POLICY GROUP DIRECTORS GENERAL MEETING OF 20 NOVEMBER 2013

1. INTRODUCTION AND UPCOMING COMMISSION INITIATIVES ON COMPETITIVENESS

Mr. Petschke, Director in DG ENTR, replaced Mr. Calleja in the morning session since he was in COREPER. Mr. Petschke welcomed the participants and briefly presented the main topics for discussion. The agenda was adopted without changes.

The EPG meetings in 2014 will take place on 19 March 2014 and 18 June 2014. The joint EPG/SME Envoys meeting will take place on 25-26 November 2014.

Mr. Petschke went on to inform the Members about upcoming Commission initiatives with an impact on competitiveness. Since the last EPG meeting on 20 September, the Commission has adopted its work programme for 2014. The message for next year is that the Commission will mainly deliver on pending work. Growth and jobs will remain the main political priorities, which imply the continuation of efforts to boost competitiveness.

DG ENTR will make a key contribution on industrial policy before the February European Council, and present its vision for the Internal Market for products. The objective is to feed the discussion on modern competitiveness policies.

Furthermore, the Commission will continue its work on the following files:

- Present an action plan on defence, based on the outcome of the December European Council.
- Continue to work on quality and transparency in the tourism sector.
- Reinforce economic governance and developing the European Semester.
- Simplify legislation. DG ENTR has been very active in this field through the instruments of competitiveness proofing and cumulative cost assessments. DG ENTR will also apply these instruments to other Commission proposals.

- Launch of the new financial programmes. DG ENTR is responsible for the space programmes, Galileo, EGNOS and Copernicus, for a part of the research and innovation programme (Horizon 2020), and for the programme for the competitiveness of enterprises and SMEs (COSME).

- Businesses need a stable financial environment and sufficient access to finance. To this end, the Commission will focus on completing the banking union and getting its proposals related to financial regulation and institutions adopted by the legislator. It will pursue its works related to long term financing of the economy.

- Provide businesses with good micro-economic framework conditions. This implies to complete the Internal Market and chart out new frontiers on the digital agenda. The trade agenda, in particular negotiations on a Transatlantic Trade and Investment Partnership, and the new climate and energy framework, are also of great importance. Other initiatives deserve to be mentioned, such as the modernisation of state aid rules or proposals to tackle the gender pay gap.

2014 will be a pivotal year when the Commission starts to elaborate on future priorities and proposals. Suggestions and ideas from all stakeholders, in particular Member States, are most welcome to feed into our reflection. So please use the opportunity to send your suggestions and ideas directly to the EPG secretariat.

2. INDUSTRIAL POLICY - THE IMPLEMENTATION OF INDUSTRIAL POLICY

In general there is agreement between all parties that industrial competitiveness is key for Europe and that Europe needs to have a good healthy industrial base. There is broad support for the priorities set out by the Commission and Member States are committed to implement.

The momentum for industrial policy is now and the Commission and Member States need to work together to ensure that the February European Council delivers a strong political message ensuring European industry that it is worth investing in Europe.

Mr. Petschke, Director in DG ENTR, stated that industrial competitiveness starts with improving the industrial strategy at European and national level. Therefore, industrial policy aims at increasing the importance of industry in the economy of the EU.

As concerns obstacles to modernisation, the Commission will intensify the work done under the European Semester process to help Member States step up the implementation of reforms that can improve competitiveness performance. It is of utmost importance that Member States adopt the same approach. Only this way can we ensure the effectiveness of policy efforts to increase competitiveness throughout the EU.

In most of the relevant policy areas, (finance, skills, innovation) EU action alone is not enough to achieve the change needed. Member States have the main responsibility and instruments in the area of employment and education policies, so joint efforts and commitments are needed.

The industrial policy aims at increasing the importance of industry in the economy of the EU. The Commission would like industry to account for approximately 20% of GDP by 2020. This was the share of industry in EU GDP until the mid-1990s, when Europe was catching up with the USA in competitiveness terms.

Good progress has been made in the rolling out and implementation of the actions and the Commission will suggest new actions for improved implementation. For instance, the priority action lines will connect with the smart specialisation of the regions. The suggestion is that the task forces for the six priority actions will create "Smart Specialisation platforms". that will help regions in the rolling out of their programmes.

A similar philosophy is behind the increased emphasis on access to markets. This policy must reach out to the regions as implementation will be seen on the ground. Improving and upgrading the Enterprise Europe Network may be a way of providing more active support for small companies and helping them to integrate in value chains, in Europe and beyond.

Focus is also on access to finance. Help is needed to channel loans to where they are needed most, notably to SMEs.

The suggested approach is a necessary continuation of the work as it picks up policy implementation and makes it more efficient by mainstreaming competitiveness aspects in all policy areas, improving the involvement of Member States and regions, and suggesting some concrete actions.

The main message is a need for improved co-operation. The successful implementation of the proposed measures will depend on the capacity to co-ordinate policies across EU, national and regional authorities, as well as on our ability to use synergies between Community policies. Competitiveness promotion must permeate all relevant policy areas, be it programming of Structural Funds, modernized State aid rules, or environmental regulations.

The Commission will play its role with regards to the February European Council by bringing to the table a strong contribution in January, but nothing will be possible without the active support of Member States and industry. Good co-operation needs to be established and this will certainly require Member States industry and other stakeholders to team up with the Commission.

On energy prices the aim must be to make the necessary competitiveness strategy fit with the upcoming concrete proposals for the energy and climate framework 2030. There is a clear trend of widening the energy prices gap between the EU and other parts of the world. There is no doubt that a swift response is needed to address this trend. Therefore, a coherent EU energy policy and a better co-ordination of national policies should be put in place as soon as possible

The energy infrastructures need to be updated. The approach must focus on cost-efficiency, technology neutrality, harmonisation and co-ordination between Member States. Completion of the internal energy market will certainly be essential, especially for the gas pipelines and the electricity grids.

As concerns gas, Europe needs to consider diversification of supply sources. As concerns electricity prices, the cost of electricity production is deeply influenced by regulations. Furthermore, infrastructure, support schemes, state-aid levels, as well as taxation, affect prices. Harmonization at EU level is needed in order to avoid distortions of the internal market and loss of international competitiveness.

The Emission Trading Scheme also plays a major role. Any differential of the EU regulatory framework in comparison with other regions of the world can have a huge impact in terms of electricity prices and competitiveness gaps.

Industrial Policy: Views of the European Parliament

Mr. Bütikofer, Member of European Parliament, presented the views of the European Parliament on industrial policy. Mr Bütikofer stated that it is good that industrial policy is in focus, more than in the previous years which is thanks to the work of VP Tajani. Europe has to focus on a coherent industrial policy that promotes competitiveness by pursuing sustainability. The European approach has to be coherent and draw on experience and expertise. Raw materials are an area where we can learn from each other on both negative and positive elements. Some Member States are doing their own partnerships with third countries and so is the Commission but a more coordinated approach could be more effective. Governance is an important question when it comes to industrial policy and both the EPG and the Competitiveness Council can serve as a good platform for coordination. Industrial policy is of horizontal nature and therefore it has to be coordinated with many other ministers in order to ensure a strong industrial policy.

Implementation of the industrial policy can be done via instruments such as the European Semester.

Another vehicle to implement industrial policy is the regions of Europe since they are closest to the actual industry. Europe needs to support the regions in order to ensure regional platforms. Many regions are working on the same issues and having common platforms could serve as a gateway for helping each other and promoting efforts. An integrated approach can also help establish trans-border clusters or European value chains.

Industrial competitiveness has to be combined with sustainability and drive innovation and efficiency. The Parliaments report supports such an approach and it will be voted through next week. Europe needs innovative firms since it is where the European strength is. Europe needs to transform manufacturing in order to compete.

The European Competitiveness report from 2013 stressed that Europe is not growing in the manufacturing sector.

Energy price is a core issue. Energy policy discussions should not be reduced to discussions on energy prices and shale gas. Attention has to be put on infrastructure. Shale gas will be much more expensive in the EU than in the US and the shale gas boom in the US cannot be transferred to Europe. Europe needs to focus on its strength which is innovation. Europe needs long term policies on industry.

Finally Mr Bütikofer quoted President Obama "We cannot cede to other nations the technology that will power new jobs and new industries, we must claim its promise." This should also be the European focus.

Industrial Policy: Views of European Business

Mr. Marcus J. Beyrer, Director General of BUSINESSEUROPE, presented industry's view on industrial policy. Mr Beyrer underlined that the EPG is the right place to have discussions on industrial policy. Industry organisations have spent the past years underlining the importance of industry in Europe but due to the crisis this message has become a lot easier to pass and now everyone agrees at all levels that industry matters and that Europe cannot survive without industry. But there is still a big gap between political intentions and reality. Europe has to be reindustrialised and the European Council has a role to play. The February Council needs to deliver a positive message to European industry so that investments in industry will incline and take place within Europe and not outside Europe.

Europe has to address intelligent value changes. Europe has to aim at being the most innovative continent in the world but it will not be easy. Europe needs a consistent programme with a framework that allows European industry to change. Focus has to be on governance and the right priorities have to be set. Europe, including Member States, still has a silo approach where the initiatives are not properly coordinated and there is also a tendency to over regulate. Apart from impact assessment, competiveness proofing is not enough and more instruments are needed.

Regarding energy Europe cannot only focus on infrastructure but also on energy prices since it has a negative impact on industrial investment. European industry is committed to achieving the targets set out for energy but Europe needs to have specific concrete targets that are realistic. The targets also have to be adaptable following what happens in the rest of the world. The global and European targets have to match. Europe cannot lead on its own as no one will follow. The limits for the ambitiousness of Europe have been reached.

Europe has to look outside the European Union since growth will take place outside Europe. Therefore focus has to be on other growth markets since this is the only growth opportunity for European business.

Shale gas is making the US move towards energy independence. Europe is missing out on these opportunities.

Besides energy prices, the massive issue for European business is access to finance. Therefore the approach on using structural funds is heavily supported. The banking union is the key point to overcome European fragmentation.

Europe has a skills gap and European businesses have to be involved in filling this gap. Member States have a lot to do since one massive problem is the taxation on the labour market and the flexibility of the labour market.

On raw materials a coordinated European approach is needed and Greenland was mentioned as an example.

The European Council in February needs to deliver a clear message and it should support having the 20% target. Europe needs to show industry that it is worth investing in industry. BUSINESSEUROPE are organising a high level conference before the Council and will inform the public on its position before the European Council.

Exchange of views

Members agreed that industry is vital for the European economy and for the competitiveness of the European Union. Member States need to put in force national policies that complement the European policy.

The Competitiveness Council has a role to play and the role of the Council should be strengthened. Members also agree that the February European Council has a very important role but the preparations for the Council have to be done carefully in coordination with Member States. The EPG is the right forum for good coordination between the Commission and Member States and Member States warmly welcome the input from stakeholders and industry in the discussions. The PG should continue as a platform for exchanging good practices. Also, the COMPCRO HLG should be used actively to prepare discussions for the Competitiveness Council.

In general, the Member States agreed with the priorities for industrial policy as set out by the Commission. The policy should focus on the general framework conditions for industry and remain a horizontal policy. Member States' industrial policy is not always coherent with European industrial policy since Member States will focus on areas where they have a competitive advantage. Member States are therefore pleased that the European industrial policy does not only focus on specific sectors.

Europe needs to focus on competitiveness and keep it in mind when developing new policies. Meanwhile, Member States should ensure correct implementation and avoid gold plating. The Commission's work programme for 2014 could be more ambitious when it comes to industrial competitiveness. All European policies have to be coherent.

Some Members showed clear support for having a 20% GDP target. Industrial policy should be linked closer to the annual growth survey so that industry is monitored.

One Member mentioned that focus should be on the full value chain including SMEs. SMEs should be recognised as an important contributor to growth, also in industry. European clusters also have an important role to play. Reindustrialisation is a costly affair and has to be carried out carefully. Some Members stressed that restructuring can be achieved if state aid is an option and the state aid framework should be streamlined and support the right sorts of investment. Other Members did not agree that state aid is the right tool.

Rebalancing of the economy is a general priority for Member States but services and manufacturing have to be looked at together as they both play an important role in the real economy. Europe needs a dialogue on the topic to underline that industrial policy does not only deal with heavy industry.

Access to finance remains a problem for European industry and businesses in general and it has to remain a key priority for both Member States and Europe. The European Investment Fund should be mobilised to ensure funding for start-ups in particular. Europe should continue looking into new types of funding.

The climate framework 2030 needs to be looked at in coherence with the industrial policy. Energy prices are an area where there are different philosophies and common ground has to be found. Energy prices are a problem for European industry and it is costing Europe industry since it is much cheaper in other markets such as the US. Cost efficiency is an issue as is energy efficiency to help Europe use as little energy as possible. Energy intensive industries are counting on a European solution otherwise they will leave Europe. As Europe needs steel, chemicals, etc to have other innovative industries, energy intensive industries are a must. Europe needs a policy that deals with shale gas so that the union has a clear programme. Green and clean technologies should also remain a European priority.

A key driver for European growth is innovation and all European policies should endorse innovation. One Member mentioned that their national policy focuses on a range of top sectors and horizontal themes such as innovation and innovation contracts are being made between knowledge institutes and industry. Focus is also on skills and on attracting technical skills in the work force. Horizon 2020 and all other innovation instruments should be used to achieve European innovation.

Third markets should be in focus. Europe needs to focus on what goes on in other areas and learn from other economies' experiences. Trade and competitiveness is clearly connected and Europe has to connect to global supply chains where there is a huge potential. But Europe should not forget the Single Market and encourage investments within Europe.

The digital agenda should remain an industrial focus point since Europe has a clear competitive advantage when it comes to being digital and technological.

Finally, the banking union was mentioned as another key element for European growth.

The forthcoming Greek Presidency informed the EPG that the COMPCRO HLG will meet and discuss industrial policy on 9 February 2014. Furthermore, Competitiveness Councils will take place on 20-21 February 2014 and 26-27 May 2014. The Informal Competitiveness Council will take place on 12-13 May 2014.

Closing remarks:

Mr Bütikofer underlined the importance of paying attention to coherence with the industrial policy when negotiating trade agreements. Regions should not be forgotten and they should be given a real role in the industrial policy. There is no such thing as free co2 emissions! Quote XX needs to be taken into account since climate policy and economic policy is very closely linked. Europe should not underestimate its strengths, also when it comes to energy prices. On access to finance the EU should work closer together and learn from good practices in the different Member States since some Member States have better policies for access to finance than others.

Mr Beyrer stressed that the silo approach in both the Commission and the Member States has to be changed and giving a stronger role to the Competitiveness Council and the preparatory bodies could be a solution. Exchanges of good practices are necessary since we need to learn from each other. Services and manufacturing are interlinked but Europe needs a strong manufacturing core. Europe needs data to underline the importance of this issue and Eurostat should be asked to produce the statistics so that the policies can be shaped to fit the actual needs. On co2 emissions Europe cannot do it alone, it has to be a global decision.

3. COMPETIIVENESS, ENERGY AND CLIMATE POLICIES – INFORMATION FROM THE COMMISSION

Mr Lowe presented a number of future priorities for the EU energy policy, notably regarding new energy sources and energy efficiency. He highlighted the potential of the internal market for energy to put downward pressure on energy prices and ensure greater security of supply. Important efforts (e.g. research, investment) would be necessary to improve the energy system and infrastructure.

Mr Delbeke reported about the stakeholder consultation on the 2030 climate framework and described the global context where major trading partners and emerging economies were taking action to fight against climate change, promote renewables and increase energy efficiency. He also informed about the upcoming review of the list of sectors at risk of "carbon leakage".

The discussion focused on energy prices (impacts on energy intensive and other manufacturing sectors, differentials within the EU), on the articulation between the EU climate and energy framework and international negotiations, and on shale gas.

Mr. Calleja underlined that the climate and energy framework, together with industrial policy, would be the last significant initiative by this Commission. Reaching 2030 targets would require a deep transformation of the economy, which should generate growth and jobs. In the short term, energy price differentials between the EU and its major trading partners were widening.

<u>A Competitive, sustainable and secure energy system</u>

Mr. Philip Lowe, Director General in DG ENERGY, indicated that there was a consensus among Member States and scientists on the need for further action to fight climate change. The energy roadmap would include several possible scenarios for the future (e.g. energy mix, fossil fuels prices), but there were some **"no regret" options**:

- **Renewables**. They would develop and would not remain a niche market. Production costs would significantly go down by 2020 (at least for solar and on-shore wind). National subsidies had been in line with the policy on renewables by allowing their take-off. However, they should decrease when production costs would go down, in order to remain proportionate and not distort the EU market in the long term.

- **Energy efficiency**. EU industry was more energy efficient than its competitors. But to reach 2020 targets, planned measures by Member States would need to be doubled. Besides, energy efficiency would not suffice to offset the competitiveness gap, as China and the US were catching up.

- **Energy system and infrastructure**. Huge efforts would be needed to integrate renewables (e.g. smart grids, storage, interconnections, demand management). There was still much to do on infrastructure for gas (interconnections). A bigger network would lead to more trade of energy between Member States and greater security of supply, but its management would be challenging. Research was notably necessary on smart systems and infrastructure.

- **Internal Market for energy** (at least electricity and gas). This was crucial to put downward pressure on energy prices in Europe. Wholesale prices were converging in Europe, in particular when there was market coupling, but retail price differentials were still significant.

- **Additional energy supply**. New supply could come from abroad (e.g. Southern corridor, coal imports) or from domestic sources (e.g. off shore wind, advanced solar, sustainable biomass and biofuels, gas in RO and BG, unconventional gas – for the latter, there should some guidance or regulation at EU level)

As regards **binding targets**, Mr Lowe stated that although criticised, targets had the merit of predictability for all stakeholders and investors. Mid-term targets were needed. A single target on GHG may be envisaged to provide flexibility to Member States on how to reach it. National targets on renewables could have side effects (e.g. not proportionate subsidies, less trade between MS).

As regards **energy prices**, fossil fuel prices (oil, coal) would continue increasing in the next 15 years (due to growing demand in Asia). Due to conversion and transport costs, gas would remain a regional market, and gas prices would remain high in Europe.

<u>2030 Climate and Energy framework</u>

Mr. Jos Delbeke, Director General in DG CLIMA, stated that there had been good progress towards the 2020 target on GHG. When preparing the new framework, competitiveness issues had been taken into account, notably as regards energy prices and cost-efficiency of policy measures. Gold-plating of EU rules at national level should be avoided, but flexibility in implementation at national level was important to ensure cost-efficiency. Further support to investment was being investigated (e.g. new role of the EIB, new support schemes for energy intensive sectors). The take-up by companies of new technologies and of results of applied research was important too. EU's major trading partners and several emerging economies were now taking significant action to fight climate change and promote renewables. The US had introduced some strict climate regulation. China was heavily promoting renewables and reforestation and introducing a carbon market that would cover one fifth of its population and GDP. It was not proven so far that "carbon leakage" had occurred due to EU climate policy, as free allowances and oversupply of allowances had driven the carbon price down. Direct carbon costs were now low. The issue of investment relocation would be further investigated and a new list of sectors at risk of "carbon leakage" would be prepared in 2014 (for 2015-2019).

<u>Exchange of views:</u>.

There was some discussion about the **impact of energy prices on energy intensive industries and other manufacturing sectors** (e.g. automotive, aeronautics, consumer goods). Mr Lowe underlined that investments required from industry to comply with energy efficiency and CO2 requirements partly contributed to increased energy costs (beside fossil fuel prices and taxation and levies). This could justify national aids, provided these would remain *proportionate*. Mr Delbeke informed about the review of the list of sectors at risk of "carbon leakage". He added that, in the future, the Commission would have to define more precisely what energy intensive sectors are. He was in favour of concentrating free allowances and other support on those (few) sectors which really needed it, to avoid scattering of resources.

Energy price differentials within the EU were also discussed. Mr Lowe underlined that differentials were reducing at wholesale level but were still significant at retail level, notably due to differences in the national regulatory frameworks (e.g. transposition of directives and network codes). The framework for investment in electricity generation (subsidies) was also different from one Member State to another and not always predictable.

There was some discussion about whether EU targets should be set before the **upcoming international negotiation on climate**. Mr Delbeke underlined that the EU framework would also make the EU more resilient to high energy prices and less dependent, irrespective of whether there would be a global agreement. He also stressed that action in the US, China and emerging economies such as Brazil, Indonesia or South Africa is likely to take place even in the absence of a global agreement. Mr Lowe also noted that in case the rest of the world would not take sufficient action, the EU framework could be reviewed.

There was some discussion about **shale gas**. Mr Lowe explained that several EU regulations on chemicals (REACH), water quality, and other environmental aspects would be applicable to the exploitation of shale gas. A framework at EU level was necessary, the question being whether it should be regulatory or guidance.

4. ANNUAL GROWTH SURVEY 2014

Mr Servoz presented the priorities of the Annual Growth Survey. He highlighted the need to pursue structural reforms in order to ensure that the current improvement of the economic situation would not only be temporary but a lasting recovery. He underlined the potential of the Single Market, including for services and network industries, the need for productive investment, as well as the need for further reforms on access to finance and the business environment.

Mr Darvas focused on the Euro Area and stressed that the European Semester was focusing on fiscal consolidation and structural reforms to foster adjustment between national economies. He underlined that the European Semester should also address the adjustment between current-account surpluses and deficits, demand management and investment, as well as the financial sector.

Mr. Calleja informed the Members that the Commission adopted the Annual Growth Survey 2014 (AGS) on 13 November 2013. The European Semester was playing an increasingly big role in European politics and therefore the AGS was presented in the EPG for the first time. In addition Mr Zsolt Darvas had been invited to give a reaction from the outside to the AGS.

The autumn 2013 economic package - presentation of the Annual Growth Survey

Mr. Michel Servoz, Deputy Secretary General, presented the 2014 Annual Growth Survey.

This year, the Annual Growth Survey was accompanied by the Alert Mechanism Report, the Joint Employment Report and the Single Market Integration Report.

The AGS 2014 was setting out 5 priorities, namely:

- Pursuing differentiated, growth friendly fiscal consolidation

- Restoring lending to the economy

- Promoting growth and competitiveness for today and tomorrow

- Tackling unemployment and the social consequences of the crisis

- Modernising public administration.

These priorities had remained the same since 3 years, but the content of the AGS was adapted each year. This year, there had been a greater emphasis on competitiveness and growth.

Europe was seeing signs of recovery. But structural reforms should be pursued to ensure that the current improvement would not just be temporary but a lasting recovery. Some progress had been made on the business environment, competition in products and services markets, and access to finance for SMEs. But more efforts were needed to fully implement country specific recommendations.

Employment would take more time than GDP to improve, and unemployment was still very high in many Member States. The Single Market had a huge potential to foster growth, but transposition of existing Directives would not suffice to exploit it fully. In particular, network industries (ICT, energy, transport) and services markets were still regulated in a disproportionate manner in several Member States. Deficits had been reduced overall, but servicing the debt was still the main public expenditure in several Member States. At the same time, Member States were not spending enough on productive investment such as research, education and infrastructures. The few Member States who had fiscal space should use it. Access to credit for SMEs remained uneven between Member States, both in terms of credit supply and interest rates. The business environment would also deserve further improvement, notably as regards public administration, start-up conditions and time needed for contract enforcement.

Stronger ownership of the European Semester at national level, including greater involvement of stakeholders, is needed to facilitate implementation of reforms.

In 2014, the Commission would be preparing a review of the Europe 2020 strategy.

<u>The European Semester and the 2014 Annual Growth Survey: The missing items</u>

Mr. Zsolt Darvas from the Bruegel Thinktank, first underlined the diverging growth potentials between the US and the EU. This divergence had increased since the crisis (2007-2008) and the recovery was quicker in the US. This divergence was mainly due to different macro-economic and monetary policies, but also to less flexible economies and less cross-country adjustment capacity in the EU. Euro exit fears had also deterred investment and executive power was more fragmented in the EU.

Mr Darvas underlined that the EU had put a stronger focus on fiscal consolidation than the US since 2010. Public investment had decreased more in the Euro area than in the US, Canada, Switzerland or Japan. But the gap had been widening in the Euro Area between vulnerable Member States ("South"), who had experienced a severe drop in public investment, private consumption and equipment investment, and the others ("North"). Germany, in particular, had remained a net exporter in the Euro Area, also due to low domestic demand. Therefore, the Euro Area had heavily (if not only) relied on structural reforms to foster adjustment between Member States.

Mr Darvas stated that despite recent reforms, the global competitiveness of Italy, Spain, and Greece had deteriorated since 2008 (source: Global Competitiveness Report, World Economic Forum). This was notably due to insufficient flexibility on labour markets. At the same time, Germany had improved its "labour market efficiency" thanks to "efficient use of talent". Mr Darvas concluded that structural reforms and migration had not sufficed so far to achieve intra-euro rebalancing. He also said that efforts on productivity and labour costs in vulnerable Member States were not likely to correct the competitiveness gap with the "North" (in particular Germany) in the short to mid-term. He added that, in the absence of an increase in the cost of labour in the "North" and given the low inflationary environment of the euro-area, the "South" would need deflation to adjust, which would worsen debt sustainability.

Mr Darvas noted that the adjustment of current-account surpluses and deficits as well as the financial sector (e.g. national "ring-fencing") were dealt with in the euro-area recommendations but not in the context of the European Semester (country specific recommendations). He added that demand management and investment were addressed neither in euro-area recommendations nor in the European Semester. He also wondered whether fiscal consolidation was the priority for the euro area at the moment.

Exchange of views:

Members agreed with the priorities set out in the AGS.

One Member suggested that the country specific recommendations should have a longer duration than 1 year as implementation was taking time (e.g. budgetary constraints, need for political support). Another Member suggested putting more focus on industrial policy in the European Semester cycle.

It was also asked whether the European Semester gave the right policy advice or not and what was missing. Mr. Darvas stressed that it was not a yes or no question since the AGS delivered valuable input, including on labour markets, competition in services, the business environment etc. The current fiscal framework did not allow much but it needed to be discussed what the ideal fiscal terms would be and this should be reflected in the country specific recommendations. Investment was also missing. For example investment was not mentioned in the 2013 country specific recommendations for Germany and it was missing in a lot of other Member States recommendations too.

5. CONCLUSION

The Commission thanked the Members for a good and constructive meeting. It was agreed that the EPG would continue to put focus on all issues relating to competitiveness, including climate and energy as well as competition policies.