



# **Lessons from the European Semester for effective 2030 governance for energy and climate**

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## Executive Summary

### The European Semester as a governance tool

The European Semester is a **key coordination vehicle** in EU policy. Its purpose is to support monitoring and ensuring overall progress towards the objectives of the Europe 2020 Strategy and the Economic and Monetary Union. It is organised as an annual policy cycle and includes iterative communication and cooperation processes between the European Commission and Member States, including the Council. There is, however, no mechanism at present for direct participation by the European Parliament or by public stakeholders.

The European Semester brings together several processes, including the Macroeconomic Imbalance Procedure and the Stability and Growth Pact, some of which are explicitly enshrined in legislation. It thus includes **governance elements of different levels of stringency and enforceability**, from political coordination procedures to reporting processes to the issuance of recommendations to actual fines for inaction (for Eurogroup members).

So far, the **Semester process shows a mixed record** in ensuring Member States deliver on their commitments. Especially delivery on country specific recommendations seems lacklustre, as the Commission has no powers to enforce actions on these. For a variety of reasons the regime of sanctions under the Macroeconomic Imbalance Procedure has not been activated so far – but other elements seem to be delivering (e.g. Member States cooperation in corrective arm of Excessive Deficit Procedure).

Climate and energy issues used to be integrated into the European Semester through their presence in the Europe 2020 Strategy, which led to country specific recommendations being adopted for many Member States in the past, indicating areas in need of improvement. However, since 2015 no more recommendations are being issued on these topics, as they are to be incorporated in **a new system to monitor the state of the Energy Union**.

### A “semester” for climate and energy governance: needs close follow-up and enforcement

While there are small elements of forward planning included in the current European Semester process, the more obvious connection is to *reporting and progress monitoring*. The European Semester provides elements that **could be employed to provide key functions for the 2030 governance** processes: it serves as a platform for 1) iterative communication and coordination; 2) continued monitoring on a yearly basis keeping a follow-up going; and 3) providing some power of oversight and intervention (to the Commission). Moreover, 4) Finance Ministers are involved which are a potentially more influential in political decisions at Member State’s level and with the ability to allocate budgets to actions.

Those elements would, however, not be sufficient. The following elements would need to be added to overcome some of the drawbacks of the European Semester for climate and energy (as part of a revision of the European Semester process beyond 2020 or in a separate process for climate and energy governance):

- 1) An indication of a lack of progress needs to trigger a process of that requires Member States to take additional action (in the form of recommendations or by producing an additional corrective action plan), and foresees a **dedicated follow-up** that monitors progress and holds Member States accountable for implementation;

- 2) Improve standing of climate and energy in macroeconomic and finance policy through **highlighting importance of decarbonisation in the Annual Growth Survey** and through the inclusion of at least one indicator in the MIP scoreboard; and
- 3) Creating **opportunities for involvement of the EU Parliament and of stakeholders**, both at EU and national level.

For the *planning* dimension of future energy and climate governance, the same iterative communication and cooperation processes could be applicable - and a joint platform for dialogue on planning and reporting might be more acceptable to Member States than separate procedures.

However, the European Semester cannot easily provide guidance on the extent to which the Commission should be empowered to evaluate the plans and issue recommendations or even mandate changes. What it can show is that **without some form of enforcement mechanism and follow-up, recommendations might not be implemented by Member States.**

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# 1 Background

This paper discusses the merits and drawbacks of the current European Semester as a governance tool for the Energy Union<sup>1</sup> and specifically planning and reporting (P&R) towards the achievement of climate and energy targets for 2030.

Detailed proposals for a new 2030 governance system with a streamlined system of P&R requirements and processes are currently being developed by the European Commission. As input to this process the Commission is consulting stakeholders on preferences for the future system and has commissioned two separate studies to identify streamlining potential to provide input to a proposal for a new legislative governance instrument. At the same time, it is also already engaged in an informal process with Member State representatives of developing so-called National Energy and Climate Plans (NECPs) as core documents for the future governance system. These plans would also be the vehicle through which Member States decide on and communicate their respective contributions to the EU's 2030 renewables and energy efficiency targets. They would largely replace existing sectoral plans, currently in use for energy efficiency and renewables, for example. Existing documentation by the Commission also makes reference to a "Semester" approach in the governance system, but few specifics are known at present.

As an input to the discussion on planning and reporting, IDDRI and Ecologic Institute elaborated, in 2015, the concept of a so-called modular approach for thinking about key elements that a future P&R system should contain. In this structure, consisting of three different elements, "Module 1" would serve as the "high level COM-MS interface" with focus on pledges and obligations highlighting key political commitments and ensuring accountability (Umpfenbach, 2015). In 2016, this concept was further refined and now distinguishes between different functions needed from the modules for the planning phase and the reporting phase respectively (Duwe et al., 2016).

This briefing builds on and applies this concept and looks into the role of the European Semester in this context. To do so it asks the following research questions:

- What are the merits and drawbacks of the European Semester governance model?
- What can the European Semester offer/accomplish with respect to "effective P&R"?
- What options do we see for using the Semester in a future 2030 governance model for climate and energy?

The briefing is mainly based on own analysis by Ecologic Institute from project work for DG CLIMA on the European Semester (Velten et al., 2014, Prahel et al., 2015), analysis by Ecologic Institute and IDDRI on the future 2030 governance options (Umpfenbach, 2015; Duwe et al., 2016) as well as on analysis by GBE of the European Semester (Adolf and Nix, 2016; Green Budget Europe, 2016).

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<sup>1</sup> The Energy Union includes five pillars: 1) Reduction of greenhouse gas emissions including renewable energies, 2) Energy efficiency, 3) a fully-integrated internal market, 4) Security of supply, and 5) research and innovation.

## 2 The European Semester governance model

### 2.1 What is the European Semester?

The European Semester<sup>2</sup> is the key economic governance tool to help achieve the so-called “Europe 2020 Strategy” targets. It connects processes established under the European Monetary Union (EMU), such as the Excessive Deficit Procedure (EDP) (helping implement the Stability and Growth Pact) and the Macroeconomic Imbalance Procedure (established in the wake of the Euro crisis in 2011). The European Semester is an annual policy cycle that is meant to facilitate the coordination of policy action between the EU and the Member States in an iterative process.

The European Semester is mainly a tool for monitoring and reporting and measuring progress with only a small forward-planning function. It also enables the European Commission to use recommendations as well as policy warnings and penalties related to macroeconomic imbalances introduced by the Lisbon treaty as a means of ensuring that Member States and the EU reach their respective targets and budget compliance.

The Semester is implemented on a yearly basis with fixed submission dates for key documents. A degree of transparency is assured through public availability of documents, but the Semester process has not had any direct stakeholder or public involvement.<sup>3</sup> The core documents and stages of the European Semester are provided in Table 1 with their timing and the responsible institution.

**Table 1 : Core documents of the European Semester**

When	Who	What
Nov	COM	<b>Annual Growth Survey (AGS)</b> : sets broad priorities for the year to come <b>Alert Mechanism Report (AMR)</b> : is the starting point of the Macroeconomic Imbalance Procedure (MIP) and identifies MS at risk based on an indicator scoreboard; In-Depth Reviews (IDR) are then carried out for MS deemed at risk of significant imbalances.
Feb	COM	<b>Country Reports (CRs)</b> : describe policies and measures and identify economic and social challenges in the MS; serve as a basis for discussions with MS – contains findings of the In-Depth Reviews. Excessive Imbalance Procedure (EIP) could be triggered for those MS deemed at risk following additional information from the IDR, which requires MS to provide <b>Corrective Action Plans</b> - with optional sanctioning (for Eurozone countries) in cases of non-compliance.
Apr	MS	<b>National Reform Programme (NRP)</b> : shows MS contribution to EU 2020 targets and priorities of AGS; describes existing policies and measures to achieve targets and addresses CSRs of last year. <b>Stability Programmes</b> (for Eurozone countries) or <b>Convergence Programmes</b>

<sup>2</sup> For more details on the European Semester please see European Commission (2013) or e.g. Adolf and Nix (2016).

<sup>3</sup> The European Commission has stated its intention to establish outreach to social stakeholders following a “revamping” of the Semester process (European Commission 2015c).

When	Who	What
		(for non-Euro countries) produced at the same time (under the Stability and Growth Pact). These contain a clear forward-looking (= planning) dimension of measures to deliver on national “medium term objectives” (MTOs).
May	COM	<b>Country Specific Recommendations (CSRs):</b> address main challenges in the MS with regard to the Europe 2020 Strategy targets and budget compliance

Source: own compilation based on EU Commission (2013)

As some of the underlying procedures are enshrined in legislation, but other elements of the European Semester are not, it includes governance elements of different levels of stringency and enforceability – also often referred to as “soft” and “hard” governance tools in political science literature<sup>4</sup>. However, this distinction can be confusing without very specific definitions – and does not necessarily contain an assessment of how effective they are in helping deliver outcomes. The core elements are:

- **Continuous exchange** between the Commission and Member States (through documents and actual meetings) to discuss the national challenges and priorities and related possible recommendations by the Commission. There are meetings of the different policy areas including meetings of DG CLIMA and DG ENER with respective national representatives.
- **The Commission can recommend actions to Member States** (including specific policies and measures) addressing the most challenging policy areas. If endorsed by the Council, Member States are urged to implement these “country specific recommendations” (CSRs).
- **The Commission can trigger corrective action and infringement procedures** with respect to macroeconomic surveillance for Member States in the EUR-Area based on a set of indicators and in-depth reviews (MIP with EIP as corrective arm).<sup>5</sup> There is, however, no such procedure for the other policy areas of the European Semester e.g. climate and energy.<sup>6</sup>

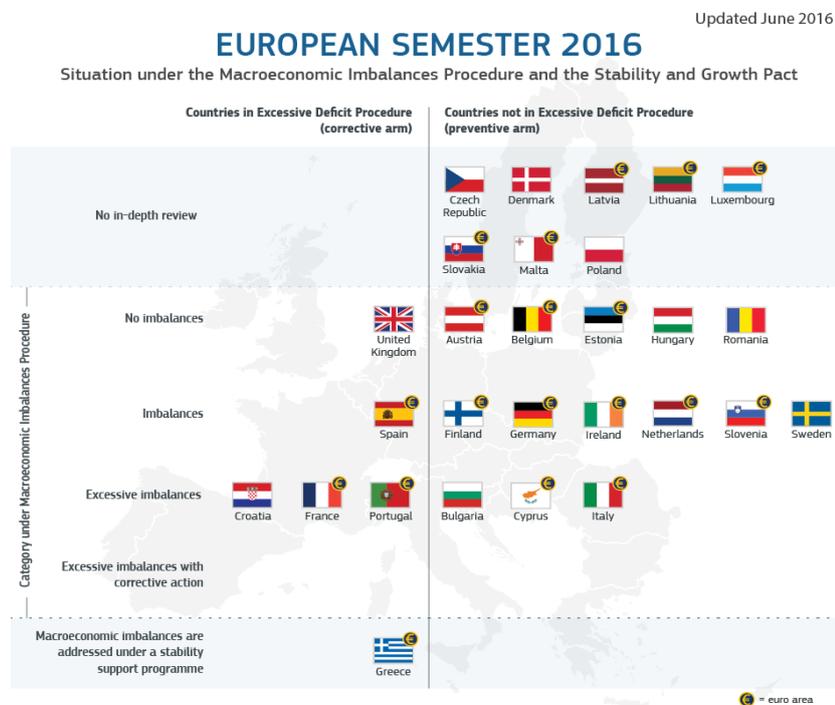
<sup>4</sup> Hard and soft tools refer to binding versus non-binding tools which the Commission can use for coordination of and intervention on Member States’ actions. The hard tools are based on legal frameworks and include enforcement procedures. Soft tools are a means of Open Method of Coordination (OMC). They cannot be enforced if a government is not acting but are “limited to peer review and public naming-and-shaming” (Barani, 2006).

<sup>5</sup> First step on starting the MIP is based on a set of indicators (scoreboard) covering the following three dimensions: “external imbalances and competitiveness”, “internal imbalances” and “employment”. For those MS violating the thresholds specified for each indicator the MIP involves an in-depth review (IDR) possibly followed by recommendations (form part of European Semester under preventive arm of the MIP) or if severe imbalances were identified the COM can start the EIP asking the MS for a corrective action plan (CAP). It includes policies and measures that will be implemented and/or adjusted by a specific deadline. The COM assesses the CAP implementation and if it is not deemed sufficient ask for corrections. If corrections are still not sufficient, a fine can be imposed. If actions are sufficient but excessive imbalances persist, the EIP remains for the Member States in the next year (European Commission, 2016). Legal basis are the Regulation (EU) No 1176/2011 on the prevention and correction of macroeconomic imbalances and Regulation (EU) No 1174/2011 on enforcement measures to correct excessive macroeconomic imbalances in the euro area.

<sup>6</sup> For climate and energy there is the possibility of starting an infringement procedure under existing binding legal frameworks: the climate and energy package includes i.a. binding 2020 targets for ESD emissions and RES; in addition, the different Directives set binding measures that need to be implemented by Member States.

With respect to the climate and energy dimension, the European Semester covers the 2020 climate and energy targets (headline targets of the EU 2020 strategy). Related information on progress towards them can therefore be found in the Country Reports (CRs) of the Commission as well as in the National Reform Programmes. Up to 2015, the Commission also included climate and energy aspects in its Annual Growth Survey and issued recommendations in the field of climate and energy. This is not the case anymore<sup>7</sup> due to a new focus on macroeconomic and social dimension (European Commission 2015a). The new focus also reduced coverage of climate and energy in the CRs. They concentrate now on general information regarding target achievement (in the executive summary and related “Overview Table” in Annex A) with some CRs still including individual paragraphs on policies and measures in the field of GHG emissions and/or the energy system. The National Reform Programmes of 2016 still include short descriptions of progress towards the 2020 climate and energy targets and related new policies and measures that are being implemented or planned.

**Figure 1: Commission representation of Member States categorisation resulting from analysis under MIP and EDP, showing level of discrepancy with goals under both procedures**



Source: European Commission website, Macroeconomic Imbalance Procedure, 2016

## 2.2 What are the merits and drawbacks?

Insights into the effectiveness of the European Semester relate largely to reporting and progress monitoring. These may provide valuable lessons also for the planning side of future governance.

<sup>7</sup> One recommendation with link to an environmental tax reform was issued for Luxembourg (Adolf and Nix, 2016).

**Table 2: Merits and drawbacks of the European Semester as a governance tool [for reporting]**

Merits	Drawbacks
A governance tool with both legally binding and non-binding (OMC) elements, based on high-level political commitment to the process (outlined in the Europe 2020 Strategy and adopted by the Council <sup>8</sup> ) – has potential for being effective, in principle	Ability to enforce compliance mixed – and experience questions effectiveness The legally binding governance tools only for macroeconomic objectives (as part of the European Semester)
Continuous iterative process with feedback loops and fixed in the political calendar of COM and MS	
Involvement of high political level, the Council. Engagement of finance ministers which are able to allocate budgets	No direct involvement of the EU Parliament; no involvement of public stakeholders in the process
Publicly available documents	Documents submitted by MS lack a binding template, which limits comparability; though the COM provides guidance and a template which is used by most of the MS
Country specific recommendations that are politically binding through Council endorsement	Only limited implementation of recommendations in the past even after reducing its overall number; no sufficient follow-up on their implementation <sup>9</sup>
Set of macroeconomic indicators with specific threshold for each indicator to start MIP – with specific process to improve on under-performance, through development of Corrective Action Plans (CAPs), which are evaluated and approved by Council and their implementation monitored – with dedicated fines for non-compliance for Eurozone countries	Only for the macroeconomic dimension – climate and energy not represented (A similar procedure exists for the 2020 national greenhouse gas emission targets under the Effort Sharing Decision (Art. 7 ESD) – and this has (in modified fashion) been integrated in the 2016 proposal for a new Effort Sharing system for 2030 targets)
MS have grown accustomed to the process, participation is satisfactory (e.g. NRPs arrive largely on time)	There are different views within the COM on priorities with respect to the country specific recommendations; internal compromises might reduce their level of stringency or specificity

Source: own compilation based on own analysis, Adolf and Nix (2016), European Commission (2013, 2016)

<sup>8</sup> Council conclusion, June 2010

<sup>9</sup> Measured effectiveness of issuing recommendations is low to medium: between 2012 and 2014 MS only fully implemented 5% of the macroeconomic CSRs and none of the CSRs related to climate, energy and environment; some progress could be found for 58% of the macroeconomic and 53% of CSRs related to climate, energy and environment; the rest was not implemented at all (Adolf and Nix, 2016 based on M. Hradiský et al., 2015). The implementation of issued CSRs seems not to improve in 2015 when the number and focus of CSRs had been reduced: MS with excessive imbalances fully/substantially implemented only 2 out of 28 recommendations (European Parliament, 2016).

### 3 What is the possible function of the Semester for 2030 governance of climate and energy

To answer this question, the experience of the European Semester has to be connected to what is required of an effective governance system under the Energy Union, to analyse how the mechanisms of the Semester could be usefully applied in this context.

Key questions in this context that are presently still unanswered are:

**Planning:** To what extent and how will the new national plans (NECPs), which contain national renewables and efficiency “targets” (= contributions), be discussed between the Commission and the Member State in question (and other Member States)?

What powers will the Commission have to assess and comment on the plans, requesting or even mandating changes – especially with regard to the national targets?

How can, in this context, the Commission ensure at this stage already that the national contributions will allow the EU to meet its overarching 2030 goals on these topics?

**Reporting:** The Commission foresees biennial reports by Member States and a mid-term review – while it intends to publish annual “State of the Energy Union” reports. It is currently unclear how these two types of reports would be connected (and how their timing gap would be addressed – in years without a MS report).

Further questions are:

- What (if any) interaction will take place between the Commission and Member States?
- What (if any) consequences might be derived from data showing a country is “off track” towards a target and compared to its original plan (e.g. via use of indicators)?
- How would the Commission be empowered to ensure that any such deviation from NECPs does not endanger achievement of the overall EU targets?

For which of these questions and processes might the Semester experience provide useful insights and mechanisms that that could be employed to organise the processes in question? Since the connection to the reporting dimension is more directly obvious, this will be considered first – planning will be considered in a second step.

#### 3.1 The European Semester in “2030 reporting”

The following elements from the existing European Semester system could be relevant to consider for reporting dimension in the 2030 governance system:

- The European Semester is directly conceived as a means of **facilitating interaction** between the Commission and Member States.
- The European Semester is organised as a process of **continued monitoring** of progress and **iterative communication** processes. The follow-up to the NECPs needs something to fill that function.
- The Semester is organised as an **annual cycle**, which squares with the Commission’s stated intention of producing annual “State of the Energy Union” reports. An annual interaction could help create a bridge to keep a follow-up going even without a full “biennial report”. It could constitute an interim report opportunity.
- The Semester specifically gives some (limited) **power of oversight to the Commission** and does not let Member States decide their actions only by themselves. It foresees the option for

improvement [*intervention*] by the Commission; for the Europe 2020 targets through issuing recommendations and for the macroeconomic dimension by starting an additional procedure with in-depth review, corrective action plans and checking of their implementation; even with the option for sanctions (to Eurozone member countries) if planned corrective action is not implemented;

The 2030 governance process clearly needs such a process of a “**check**” on the Member States’ reports, and as the bare minimum the means of issuing an assessment. Agreeing joint “**homework**” for the future and respective review of the implementation would be an important additional step, but still not sufficient to ensure the targets are met. Proper **sanctions** for non-compliance should always be on the table – but getting agreements on these may be politically difficult as renewable and energy efficiency targets are non-binding.

The problem with this dimension is that the corrective actions have thus far been limited to the macroeconomic issues and the soft measure of issuing recommendations has shown not to be too effective enough. The future governance system needs something stronger than the current Semester has available for climate and energy issues. Introducing an “**alert mechanism**” with a dedicated follow-up process, defined ex-ante, would be an improvement in this regard.

- The European Semester has **involvement of the finance ministries**, which are usually absent from climate and energy policy. They usually are important ministries within the range of national ministries – and a connection between performance on the Energy Union and actions including these Ministries could strengthen the importance of the process also for national governments.
- An area where the Semester is not a useful model is the issue of public transparency and stakeholder engagement – the new process would need a dedicated mechanism for it. It remains to be seen to what extent the EU Commission will take Article 192 and 194 of the Treaty on the Functioning of the European Union (TFEU) seriously in integrating a **dialogue with the stakeholder community** into the Energy Union discussions. An explicit role for the European Parliament would further enhance legitimacy and accountability.

In summary, the European Semester process contains elements that could fill important functions that are not currently clearly assigned yet in the process as envisaged and communicated by the European Commission for the 2030 governance system thus far. Its tools for “intervention” would need to be strengthened, though, becoming more akin to the mechanisms applied for macroeconomic issues, and a stakeholder dimension added.

### 3.2 The European Semester in “2030 planning”

The following elements from the existing European Semester system could be relevant to consider for the planning dimension in the 2030 governance system:

- The European Semester does not have a strong forward-looking planning component, but it exists in the form the annual Stability/Convergence Programmes, who need to spell out medium term actions planned to budgetary objectives. The annual National Reform Programmes also contain information on planned additional government policies. However, there is no process for these national programmes to be discussed or approved. For the planning dimension of the Energy Union, which foresees longer-term plans to be developed at the start of the process, it may be more relevant that the European Semester is set up as a

platform for **interaction between the Commission and Member States**. This could be used for the communication of and “negotiation” on the NECPs and thus the contributions/targets.

If it were clear that such a joint **platform** for EU(COM)–MS dialogue would then also be used for further reporting, setting up such a platform already **for the high-level interaction** (e.g Council involvement) on the draft NECPs might be more acceptable to Member States for this iterative process of finalising the national plans.

- What the European Semester cannot easily provide guidance on is the **extent to which the Commission should be empowered** to substantially evaluate the plans and issue recommendations or even mandate changes. This is a **highly political issue** – as the negotiations on the 2030 targets have shown. However, at the very least on the renewables target, which is binding at the EU level, the Commission could claim to have an obligation that justifies some degree of “intervention”. A process will be needed also for the energy efficiency target to ensure it is met collectively.
- A key question in this regard will be the timing of the processes in question and **if and when a legal basis** for the overall process could be established. At present, the drafting of NECPs (or rather: preparatory technical talks on the drafting) is proceeding in an informal fashion; the Commission is asking for draft reports by 2018. The new legal governance instrument is will be negotiated in parallel, not beforehand. The new **legal basis could then be applied instantly to a process of interaction** between the Commission and Member States on the draft plans in 2018, leading to an alignment of the two strands.

In summary, **a communication and coordination platform for reporting such as or similar to the European Semester could already be used to fill an important function during the planning phase**. It should empower the Commission to evaluate the plans and at least recommend or even mandate changes. However, the legal basis for this is also still in the negotiation phase and might not be in place by that time or might not include such “intervention power” of the Commission.

## 4 Two main options: reintegration or a new process?

Following on from the considerations for how insights from the European Semester experience could be relevant to the 2030 Energy Union governance system, the next question is how to realise them. The main options are explored here:

- Option 1a) a reintegration of recommendations for climate and energy into the existing European Semester,
- Option 1b) a reintegration into an adjusted European Semester
- Option 2) setting up a new, similar process, specifically for the Energy Union

### 4.1 Option 1a): Integrating recommendations for climate/energy back into the European Semester

Under this option, the European Semester will include country specific recommendations for the climate and energy dimension (again, as pre-2015). This option entails the merits but also the drawbacks of the European Semester already shown in Table 2.

An additional planning related interaction procedure would be required (independent of or connected to the Semester) as the European Semester is largely for reporting and does not include a mechanism for planning or target negotiations at present which would be akin to the NECPs. The following table details the advantages and disadvantages of using the existing Semester process.

**Table 3: Pros and cons of using the existing European Semester for climate and energy**

Pros	Cons
Procedures in place with both soft and hard elements based on high-level political commitment Includes 2020 climate and energy targets	Focus of the European Semester is on other objectives (climate/energy rather unimportant) Binding governance tools relate to macroeconomic objectives
Continuous iterative process with feedback loops and fixed in the political calendar of the COM and MS; MS have grown accustomed to the process	No direct involvement of the EU Parliament; no involvement of public stakeholders (unless this is addressed)
Country specific recommendations are politically binding through Council endorsement; Relatively easy to integrate climate/energy recommendations (again)	Not all MS will get recommendations in the field of climate and energy; Compromises within COM might reduce level of stringency or specificity of recommendations Only limited implementation of recommendations in the past; no sufficient follow-up
Set of macroeconomic indicators with specific threshold for each indicator to start MIP	Only for the macroeconomic and social dimension – climate and energy not represented
Finance ministers are a new (possibly higher) weight in political decisions at MS level	Their involvement so far has not touched energy and climate issues.
Publically available documents	Documents submitted by MS lack a binding template; not the same information available from all MS

## 4.2 Option 1b): the European Semester with significant improvements

This option would be Option 1 plus adjustments to the European Semester to overcome some of the problems (see cons of Option 1). Based on own ideas and GBE (2016) the following changes could improve the European Semester as such as well as the coverage of climate and energy and the mainstreaming of climate and energy into macroeconomic and finance policy:

General improvements:

- Implementation of a specific follow-up process on recommendations
- Some form of direct involvement of the EU Parliament.<sup>10</sup>
- Involve public stakeholders in the process of drafting documents including the country specific recommendations

Improvements specifically with respect to climate and energy:

- Inclusion of climate and energy (again) in the Annual Growth Survey to reflect importance of decarbonisation for the whole economy and related effects on redirecting financial flows towards low carbon investments (thus making a first step towards implementing Art.2 of the Paris Agreement) and restructuring tax systems to be more environmentally friendly
- Inclusion of at least one indicator related to climate and/or energy in the indicator set for the Macroeconomic Imbalance Procedure<sup>11</sup> to reflect that imbalances in the field of climate and energy also impact economic development and/or state budgets.

The Commission would have the option of a follow-up on imbalances with respect to climate and energy and Member States would have to describe climate and/or energy aspects in their macroeconomic outlook.

- Implementation of a trigger mechanism for climate and energy in the case of significant deviations: the procedure should include an own set of indicators with thresholds per indicator and lead to a separate follow-up for those Member States where significant deviations in the field of climate and energy are identified (such as the MIP with its indicator scoreboard for the macroeconomic dimension). For more information please see Option 2 below).

Regarding the mechanism triggered by an indication of insufficient progress, there is an element that could be borrowed from an existing piece of EU climate policy. The recently published proposal for a new Effort Sharing Regulation (the legislative basis for how to distribute the 2030 EU greenhouse gas (GHG) emission target for the sectors not covered by the EU Emissions Trading System (ETS) to Member States) contains a mechanism (Article 8 ESR) similar to one already included in the existing Effort Sharing Decision (Article 7 ESD) for the 2020 target, which requires Member States deemed not to making sufficient progress on their targets to lay out a Corrective Action Plan detailing how the

<sup>10</sup> The involvement and active participation of the European Parliament is key to ensure broader acceptance and greater legitimacy as well as political weight to the process and its oversight functions. However, we did not have the opportunity to look into specific options for EP integration in the work on this report. This is still an open research question that should be addressed in the near future.

<sup>11</sup> The Commission regularly reviews the scoreboard indicators according to Art. 4 of the Regulation (EU) No 1176/2011 of the European Parliament and of the Council of 16 November 2011 on the prevention and correction of macroeconomic imbalances and could include additional or substituting indicators (e.g. three new labour market indicators were added in 2015).

situation will be remedied. The Commission would be allowed to issue an opinion on this Plan. With the non-ETS GHG target included in the NECPs, application of this process could be broadened to the new 2030 plans as a whole.

### 4.3 Option 2): “Energy Union Semester” for planning and reporting

This option includes a new setup for both the planning and reporting phase (see e.g. Duwe et al., 2016). The setup should be applicable to both, as planning and reporting includes the same acting institutions (including the Commission, Member States, and possibly public stakeholders) as well as similar iterative communication and coordination procedures (although about different aspects).

This new platform could be the “Energy Union Semester” which uses similar documents and procedures as the European Semester but focuses solely on the climate and energy dimension. If implemented similar AND improved (akin to Option 1b)) to the Semester it could include the same merits while at the same time the new setup would eliminate some of the drawbacks.

**Table 4: Possible use of procedures and outputs from the existing Semester in an “Energy Union Semester”**

Energy Union Semester		European Semester	
Nov	COM: State of the Energy Union	COM: Annual Growth Survey & Alert Mechanism Report	Nov
	COM: Country Specific Analysis (including indicators) with specific progress indications and possible necessary actions (need for IDR?)	COM: Country Reports including Country Specific Recommendations	Feb May
Dec-Jan	In-depth Review for individual MS	In-Depth Reviews under Macroeconomic Imbalance Procedure	Dec-Jan
Feb	IDR results published in some form	Country Reports	Feb
April	MS response to IDR results (if applicable) and/or only National progress report (biennial as per current COM thinking – possibly annual useful as input to the Semester cycle)	National Reform Programme	Apr

Source: own compilation

However, it would not be as straight-forward to realise the mainstreaming of climate and energy aspects into macroeconomic and finance policy as these would be separate processes, and Ministries of Finance (engaged in the existing European Semester) would not likely be directly involved in a process happening under the Energy Union. This bears the risk that Member States do not take into account decarbonisation aspects when deciding on financial flows, public investments, tax systems and other macroeconomic and budgetary issues. In addition, this new setup will need time to be established and installed in the political calendar and the legal architecture is still quite unsure. Therefore, one could argue that the climate and energy dimension need to be considered in macroeconomic policy reporting even after 2020 and besides an “Energy Union Semester”.

A new, separate “Energy Union Semester” could be structured as follows:

### 1) Early Warning System

- The State of the Energy Union report (produced by the European Commission) allows for annual progress **reporting and frame setting** (similar function to the AGS and the ARM in the European Semester).
- It would allow an early warning of significant deviations from projected progress as per the NECPs: based on an indicator set (key and supporting indicators) a threshold could be defined which recommends the Member State be more specifically investigated with an in-depth review to establish the significance of the deviation from the NECP (similar to the “Alert Mechanism Report” under the “Macroeconomic Imbalance Procedure” in the European Semester). This indication could take place via short **country specific analyses** of each of the Member States with link to the indicator set. As a basis for this, the “National Factsheets on the State of the Energy Union”<sup>12</sup> could be used but they should be improved by adding an assessment of the main challenges in the country.
- Results of the State of the Energy Union report should be discussed between Commission and Member States (possibly in preparation also). This could be done at the level of the Council of Ministers, to allow for feedback and ensure buy-in to the results. Involvement of the European Parliament would serve a similar function.

### 2) A Second Look – getting to the bottom of the national context

- For those Member States where additional investigation into progress on the NECPs is deemed warranted, the Commission then undertakes an In-Depth Review (IDR), which aims to provide **additional context to the indications from the indicators**, and aims to understand underlying dynamics, to enable a more comprehensive picture of progress on the NECPs. It could look at additional indicators and would have the potential to look more specifically at dimensions such as the conditions for necessary investments. This process would be akin to the process under the Macroeconomic Imbalance Procedure.
- The IDR would need to come to conclusions on the level of additional action required by Member States (possibly in the form of categorising the extent of the deviation from projected progress). These could take the form of country-specific recommendations for actions – but for serious diversions would require Member States to produce more detailed responses.
- The IDR process should involve information from public stakeholders also.
- Results would need to be published early in the following calendar year, to allow for Member States to take in the findings.

### 3) Requirement for Member States to respond to the detailed findings on progress

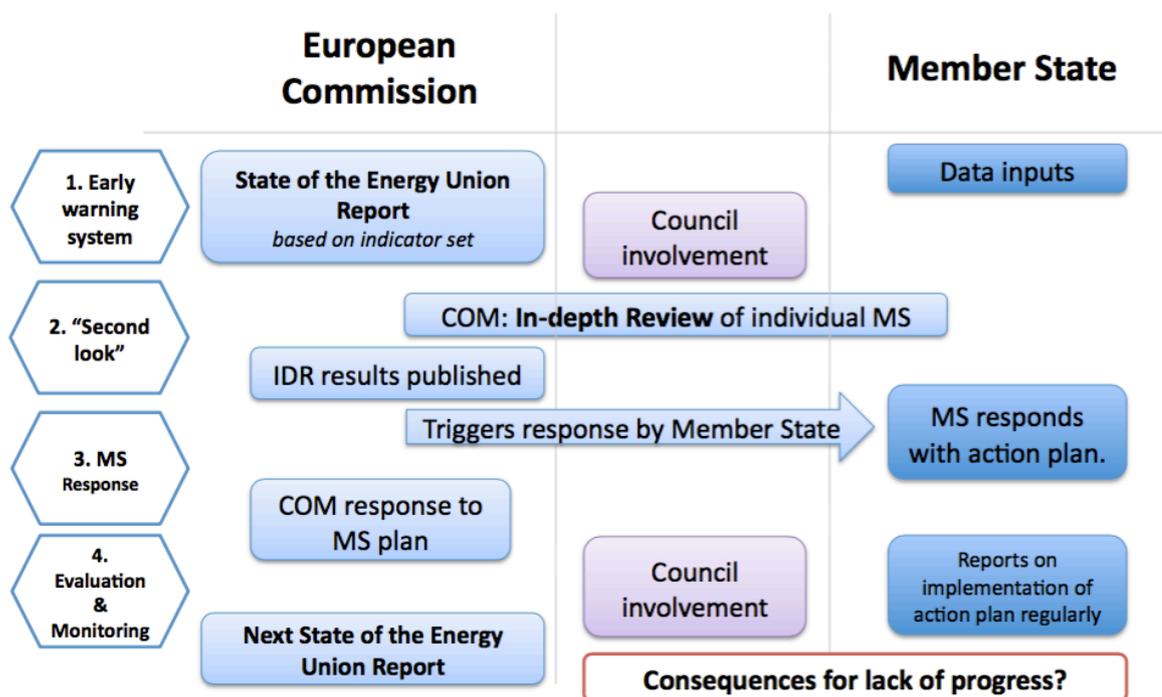
- Depending on the results of the In-Depth Review, Member States would be required to respond to the action request by the Commission, with different degrees of intensity. For less severe cases, a response detailing how recommendations will be taken up may be sufficient.

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<sup>12</sup> These factsheet were published in Nov 2015 as part of the “State of the Energy Union”-Report. They can be found here: [https://ec.europa.eu/priorities/publications/national-factsheets-state-energy-union\\_en](https://ec.europa.eu/priorities/publications/national-factsheets-state-energy-union_en)

- Member States deemed to be significantly deviating from projected progress would have to set up a **Corrective Action Plan** (akin to the process currently in place under the Effort Sharing Decision and foreseen for the 2030 Effort Sharing). The Plan describes through which new/revised policies and measures the imbalances will be resolved and by when these policies will be in place.
- The Commission would need a mandate to assess the adequacy of the plans. The issuance of an opinion (as under the ESD/ESR proposal), without the possibility to reject a plan or request improvements, may not be sufficient. This process could also involve the Council (as is the case in the Macroeconomic Imbalance Procedure) as the body to accept or reject Corrective Action Plans if necessary.

**Figure 2: Elements for an Energy Union Semester**



Source: own illustration based inter alia on discussions at internal workshop "Energy Union Governance Design", April 2016, involving other experts

#### 4) Monitoring and reporting on the additional action to be taken

- For the requirements for additional action (either in the form of recommendations or the request for an actual Corrective Action Plan) to be effective, they need a dedicated follow-up process. The current experience with the existing Semester demonstrates that.
- A key requirement must be thus that Member States need to describe their **progress** on recommendations or the policies and measures contained in the Corrective Action Plan.
- To fit with the annual cycle and the possible need to produce interim reporting on progress under this mechanism, and **alteration of a detailed report** (currently foreseen biennial reports) **and a short update** could be an effective arrangement. If only biennial reports were included, the reports on implementation of additional action by Member States (which have been deemed not to be making sufficient progress) would not have a "home" and would be either delayed in time or need to be made separately.
- The Commission **comments** on the implementation status of agreed policies and measures as part of it "State of the Energy Union". If implementation is deemed not sufficient, an enforcement mechanism should be in place, with consequences to ensure that Member

States are in compliance. The Macroeconomic Imbalance Procedure, for example, foresees fines for Eurogroup Member States not in compliance with the requirements (when under an Excessive Imbalance Procedure). Making the follow-up process part of the legal governance instrument and the requirements for Member States to implement their promised actions and report on progress binding would allow at least an infringement procedure to be started in case a Member State does not take sufficient action.

## 5 Conclusions

Many open questions remain for the future governance system of the EU's 2030 climate and energy targets. This paper analysed what if any possible lessons can be drawn from the experience with the European Semester to help provide possible answers, especially on key procedural issues in the implementation/progress monitoring phase.

There are indeed elements in the current Semester process that could be employed with added value in the future governance system – but there are also problems that should not be inherited.

Regarding implementation and *reporting* a Semester like process could serve as a platform for 1) iterative communication and coordination; 2) continued monitoring on a yearly basis keeping a follow-up going; and 3) providing some power of oversight and intervention to the Commission. As a plus, 4) Finance Ministers could be involved (if the process is the current Semester), which are a (possibly higher) weight in political decisions at Member State's level and with the ability to allocate budgets.

However, the following elements would need to be added to overcome some of the drawbacks of the European Semester for climate and energy: Better tools for effective governance including 1) early warning system that triggers an additional investigation (starting from a set of indicators with specific thresholds); 2) a separate, binding follow-up for those Member States where significant lack of progress in the field of climate and energy is identified; 3) arrangements for public transparency and distinct options for stakeholder engagement.

For target-setting and *planning* (where the current Semester is less pronounced), the same iterative communication and cooperation processes could be applicable and a platform for planning and reporting might be more acceptable to Member States than separate procedures. What the current experience can show is that without some form of intervention and follow-up, even recommendations might not be taken into account by Member States – so this would also need to be improved for the planning/target-setting process.

We looked at two options of for implementing these: 1) the European Semester as it stands today but with inclusion of recommendations in the field of climate and energy as well as including further-reaching improvements; and 2) a new “Energy Union Semester” which uses similar documents and procedures as the European Semester but focuses solely on the Energy Union objectives.

There are pros and cons to the two options. The first one, sticking with the existing process, would require changes but also allows for additional added value. It would need to be 1) issuing recommendations in the field of climate and energy again while implementing a dedicated follow-up on recommendations. It should 2) improve standing of climate and energy in macroeconomic and finance policy through highlighting importance of decarbonisation in the Annual Growth Survey and through the inclusion of at least one indicator in the MIP scoreboard; and 3) come up with a alert mechanism for climate and energy that triggers a separate follow-up for those Member States where

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significant deviations are identified (such as the MIP for macroeconomic dimension). In addition, 4) stakeholder inputs should be integrated.

This option may, however, be in contradiction to the Commission's perspective as it seems to be interested in setting up a separate process for the Energy Union – and as an indication of this desire has taken climate and energy issues out of the items which can receive country specific recommendations in the current European Semester.

Our second option, a new “Energy Union Semester”, was developed mainly for reporting but could at the beginning be used for the planning phase as the same acting institutions (including the Commission and Member States) are addressed. For setting up the implementation and reporting phase we tried to include the beneficial elements as given above: a continued monitoring on a yearly basis with iterative communication and coordination procedures between the Commission and Member States and stakeholder engagement plus a projected progress deviation mechanism which investigates the national context and can mandate dedicated follow-up by Member States.

However, Ministries of Finance would not likely be directly involved in a process happening under the Energy Union which bears the risk that Member States do not take into account decarbonisation aspects when deciding on financial flows, public investments, tax systems and other macroeconomic and budgetary issues.

For both options the question of what powers the Commission (or the Council) will hold is not answered yet. However, certainly with respect to the GHG target and the renewables target, which is binding at the EU level, the Commission could claim to have an obligation that justifies some degree of “intervention” in national plans and their implementation.

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