



PARLIAMENT OF FINLAND

STATEMENT OF THE GRAND COMMITTEE 14/2010

*Draft
Unofficial translation*

The EU's Single Market and Competitiveness

To the Council of State

INTRODUCTION

Preliminary

The Eduskunta's Grand Committee received on 26 November 2010 a report from the Council of State¹ on the European Commission's communication "Towards a Single Market Act For a highly competitive social market economy 50 proposals for improving our work, business and exchanges with one another" (E 107/2010). The Government submitted a supplementary report on 25 February 2011.

On 11 February 2011 the Grand Committee received a Government report on the European Commission's communication "Annual Growth Survey: advancing the EU's comprehensive response to the crisis" (E 145/2010).

The Grand Committee received on 11 February 2011 a Government report on the proposed Growth Pact of the Euro states (E 146/2010). The report was supplemented on 1 March 2011, and on 7 March 2011 the Government provided a revised version of the draft Pact, dated 4 March 2011.

Preparation by sub-committee

This statement was prepared by the Grand Committee's working sub-committee.

¹ The Finnish government is officially known as the Council of State. For convenience, the colloquial term "Government" will be used in the body of the translation.

Expert testimony

The committee heard the expert testimony of:

- Ms Anni Sinnemäki, MP, Minister for Employment
- Mr Jukka Salovaara, Under-Secretary. of State for EU Matters, Prime Minister's Office
- Mr Raimo Luoma, Director General, Ministry of Labour and Commerce

Reference data

The Grand Committee has received written opinions on the Single Market Communication from the Commerce Committee and the Committee for Education and Culture.²

THE GOVERNMENT'S REPORTS

The Proposals

The Single Market Package (E 107/2010). The European Commission published a Communication on developing the Single Market on 27 October 2010. The Communication enumerates 50 proposals that constitute an action package to promote employment, entrepreneurship and trade in the Single Market. The Commission asked for comments on these proposals by 28 February 2011, after which the Commission will present its actual proposals. The Communication is closely linked to Mario Monti's report on a new Single Market strategy (E 41/2010).

The Growth Survey (E 145/2010). The European Commission published its Annual Growth Survey on 12 January 2011. This communication starts the European Semester. The Commission proposes ten measures linked to the Europe 2020 strategy that the Union and its member states should carry out during 2011 and 2012.

The Euro Competitiveness Pact (E 146/2010). The Chairpersons of the European Council and the European Commission transmitted the draft document "Enhanced Economic Policy Coordination in the Euro Area; Main Features and Concepts" to the member states on 25 February 2011. A revised version, dated 4 March 2011 is titled "A Pact for the Euro – Stronger Economic Policy Coordination for Competitiveness and Convergence". At the request of the Government, the Grand Committee issued a secrecy order in respect of the two draft documents. The document outlines a pact between the euro countries on economic policy that would be compatible with but more ambitious than the arrangements agreed or being agreed by the EU member states (EU 2020; European Semester; Growth and Stability

² The committee documents (TaVL 28/2010; and SiVL 21/2010) are available in Finnish, only.

Pact, etc.). A meeting of heads of state and government of the euro countries, convened by the European Council's chairperson for 11 March 2011, is meant to approve conclusions on the document.

The draft document proposes that the euro countries commit themselves to foster competitiveness particularly by coordinating wage and productivity developments; to foster employment particularly by making employment more attractive; to enhance the sustainability of public finances, particularly in respect of public debt and pension and benefit systems; and to promote financial stability. Each state will choose the measures needed to reach these goals.

The document further puts forward the following concrete measures:

- To promote competitiveness, a monitoring system for wage and productivity developments will be implemented. Particular attention will be paid to adjusting wage setting arrangements towards more decentralised bargaining and to indexation mechanisms and ensuring moderate wage settlements in the public sector.
- To promote productivity, attention will be paid to opening sheltered sectors. This includes retail sector working hours. Attention will also be paid to education, research and development, and to the legal and regulatory framework of business.
- To promote employment, the document proposes labour market reforms to support flexicurity, reduce undeclared work and to link benefits to accepting training or jobs. Taxes are to be shifted from labour to consumption. Measures are also proposed to facilitate the participation of second earners in the work force.
- To enhance the sustainability of public finances, particular attention is paid to the sustainability of pensions and social benefits, *int. al*, by aligning the effective retirement age with life expectancy, limiting early retirement schemes and using targeted incentives to employ older workers. The document also commits the euro countries to be more ambitious than other EU member states in implementing EU fiscal rules by translating these into binding national legislation, *e.g.*, as a "debt brake" or an expenditure rule.
- The document suggests that a common corporate tax base could be a way forward to ensure consistency in national tax systems without harmonising tax rates. The Commission intends to present a legislative proposal shortly.
- To ensure financial stability euro countries will commit themselves to EU norms.

The Government's Opinion

The Single Market Package (E 107/2010). The Government's supplementary letter of 25 February 2011 contains Finland's comments to the Commissions' proposals. The Government remarks that the Single Market strategy should pay more attention to long-term development, in addition to short-term priorities. The Commission's proposals correspond reasonably well with Finland's most important objectives. The Government's letter makes the Digital strategy a prime objective and contains comments on each of the Commission's 50 proposals.

The Growth Survey (E 145/2010). The Government sees, for reasons given in its report, the growth survey as a good basis for further development of the European semester and considers that the member states should commit themselves to the survey's proposals at the European Council on 25 – 25 March 2011.

The Euro Competitiveness Pact (E 146/2010). The Government considers that the objectives of the proposed pact are important and is favourably disposed to the proposed cooperation. The Government sees Finland as a forerunner in many of the proposed courses of action. The Government has during the preparations of the Euro summit strongly emphasised the role and importance of social partners and is satisfied that its views have been taken into account.

OPINIONS OF THE GRAND COMMITTEE

Justifications

The Single Market Package

The Government's report on the Single Market Package describes the Commission's prolonged preparations for a new Single Market Act. The name chosen by the Commission for its action plan refers to the Single European Act that was adopted at the Luxemburg summit in 1985 and provided for the creation of the Single Market by 1992. The Grand Committee notes that the present action plan falls short of the level of ambition of the 1985 Act.

The single market created in 1985 revolutionised the economic system of the European Union by creating free movement of goods, services, capital and people. The Single Market was not fully implemented, however: it is still cumbersome to buy goods from another country on-line and it is still difficult for small and medium sized businesses to get access to new markets. The Grand Committee considers that implementing the Single Market and its four freedoms is of prime importance for economic growth and competitiveness in the European Union and its member states. The Committee hopes that the

Commission will soon put forward concrete proposals for the scrutiny of the member states. The consultation period having ended, the Committee limits itself to a few general remarks.

A large part of the Commission's 50 proposals concern implementing measures that have already been decided or propose future proposals or studies. The Committee will expect the Commission's actual proposal to be more concrete. The Committee also feels justified in hoping that the Commission will demonstrate leadership in putting forward proposals that it is willing to defend even without advance certainty of success. The European Union urgently needs answers to the challenges of climate change and financing long-term investments.

The Committee agrees with the Government's priorities for developing the Single Market. The Committee agrees in particular that the Digital Single Market is of primary importance.

Concerning the management of intellectual property, the Culture Committee and the Commerce Committee have raised issues within their respective fields that concern balancing the special cultural needs of a small linguistic and cultural area with the - also nationally important - economic growth potential created by rapidly emerging technologies. The Grand Committee considers it important that the sector committees' justified but divergent views of the national interest can be reconciled before the Commission's preliminary and general proposals become concrete. The Grand Committee hopes that the Government gives priority to examining this question with a view to submitting to the new Eduskunta to be elected in April a comprehensive proposal, in line with the views of the sector committees, for a national policy on intellectual property management in the European Single Market.

The Growth Survey

The Grand Committee agrees with the Government that the Commission's growth survey is a good basis for further preparations. The Committee notes that the intention is for the member states to receive later this Spring recommendations concerning measures to implement the EU 2020 strategy that are mainly within national competence. Before this, the member states need to put forward their concrete plans and the European level needs to make progress on identifying flagship projects and key policies.

The Grand Committee agrees with the Government's opinion that it would be important for new measures to be agreed on early. The Committee remarks in this context also that active and even bold initiatives are expected of the Commission. The Committee further remarks that even if financial stability is acutely important now and for the near future, stability alone does not create growth and competitiveness. Both the EU 2020 strategy and the Internal Market Strategy will require major investments. One of the pivotal questions for the Commission's forthcoming proposal will be how to

reconcile the growth strategies' requirements for capital investment with fiscal balance in the member states.

The Competitiveness Pact

The Grand Committee finds the proposed euro competitiveness pact difficult to assess with the usual political terminology. It may aid understanding to note what the document at any rate is not. The document is not a legally binding agreement already because such agreements cannot be made by a meeting of euro country heads of state and government. The document does not meet the Lisbon Treaty's or the Vienna Convention's requirements for a valid international agreement. As far as could be ascertained, the document has also not been presented to any member state parliament other than the Eduskunta. The content of the document would seem to require parliamentary input in several member states. The English word "Pact" used for the document allows for very different interpretations of how binding an arrangement is intended. A meeting of heads of state and government of the euro countries also has no recognised institutional status. The role of the chairman of the European Council in convening and chairing the meeting should be understood as a practical and incidental arrangement subject to the sufferance of the participants.

The Grand Committee considers that the document should be understood above all as the draft conclusions of an *ad hoc* meeting that have been given a particularly grand appearance. As the document has a clear link to the agenda of the European Council of 24 – 25 March 2011, it would seem natural to understand the document and the euro summit as a normal attempt by a group of member states to influence the official European Council.

The document commits the euro countries to promote competitiveness, employment, fiscal sustainability and financial stability. The pact limits itself to measures that are mainly within member states' competence. However, the euro countries will agree yearly common and individual targets. Member states will retain the competence to decide how to reach these targets but will submit to monitoring by the other euro countries.

The headline objectives of the pact document are of themselves coincidental with EU objectives for growth, competitiveness and macroeconomic stability. The pact document does, however, commit the heads of state and government to certain concrete measures and indicators that have not been decided at the EU level and are controversial, to say the least, in several member states. These measures include a shift from centralised to more localised wage bargaining, a shift from wage taxation to consumption taxes and raising the effective retirement age. Special mention must be made of the proposal that member states introduce binding national legislation to ensure commitment to European fiscal

stability rules – in practice this may be understood as a more advanced version of the requirement for constitutional balanced budget rules.

The Grand Committee notes, like the Government, that the objectives of the pact document are important, and unproblematic for Finland in as far as they coincide with practices already in place in Finland. The Committee further notes, however, that the concrete measures proposed for reaching these objectives are not easily reconciled with the goal of a social Europe that was only recently confirmed in the Lisbon Treaty. In joining the European Union, Finland and the other member states have committed themselves to detailed rules for preparing and deciding on legal obligations; these rules are there to ensure the transparency and democratic legitimacy of the Union's policies. The proposal now under scrutiny does not, in the view of the Committee, meet the standards of transparent and democratic decision-making that apply to all EU member states.

Conversely, the document presented to the euro countries could be understood as an attempt to create the impression of political resolve in a situation where the conditions are lacking for real decisions to promote growth and competitiveness. If so, the document would not be binding of itself, but it would be invoked within individual member states as evidence of an alleged European political will.

The Grand Committee is of the opinion that, at the meeting of euro country heads of state and government, Finland should underline our country's commitment to the community method of European decision-making.

Economic policy formulation in the European Union

Macroeconomic policy has been unusually strongly visible on the Grand Committee's agenda since the start of the second Barroso Commission, and coincidentally, the Lisbon Treaty. The numerous individual Commission documents form three separate but related entities: (1) financial market stabilisation; (2) EU budget reform, including agriculture and cohesion policy reform; and (3) a new growth and competitiveness initiative to replace the ill-starred Lisbon strategy.

The Committee considers it a fair general observation on the Barroso II Commission's time in office that the Commission has produced a relative abundance of draft sketches for future initiatives but rather few concrete legislative proposals. The exception is financial stability, where the crisis has compelled fast decision-making. The Grand Committee considers that, after somewhat more than a year, one could have expected the Commission to deliver a larger number of more concrete proposals. This is because the EU's poor economic growth and competitiveness and deteriorating employment ratios call for urgent decisions – and making these decisions will need considerable time even after they have been

proposed by the Commission. The Committee recalls that the original 1985 Single European Act was created after a process of many years, largely because the Commission of the time was prepared to put forward even radical proposals. It is difficult to avoid the impression that the current Commission's cautious policy of ascertaining in advance the ultimate approval of its proposals does not demonstrate the kind of leadership-by-initiative that is one of the Commission's most important treaty-based duties.

One may also observe in European economic policymaking a worrying tendency to bypass the methods for preparing and making decisions that have been put in the Treaties to ensure, on the one hand, the democratic legitimacy of the Union but, on the other hand, also the genuine commitment of member states to EU decisions. It is the job of the European Council to give political guidelines to the Council of Ministers and other Institutions. The outcome of the community procedure is decisions that are genuinely effective in relation (and hopefully beneficial) to the member states and their citizens. The procedure also includes preparation of European Council meetings by the General Affairs Council – which is meant to ensure that member states are committed to the decisions of the European Council, but has unfortunately become almost a mere formality. When the European Council acts in isolation from the Lisbon Treaty's procedures, its conclusions are no more than declarations that do not lead to further action and do not in reality affect the actions of the member states.

Statement

As its statement, the Grand Committee pronounces,

that the Council of State should take the above into consideration.

Helsinki, 10 March 2011

The following members took part in the approval of this statement:

chair	Erkki Tuomioja /sd ³
vice-chair	Eero Akaan-Penttilä /kok
vice-chair	Antti Kaikkonen /kesk
members:	Sirpa Asko-Seljavaara /kok
	Timo Juurikkala /vihr
	Pietari Jääskeläinen /ps
	Kyösti Karjula /kesk
	Ulla Karvo /kok
	Timo Kaunisto /kesk
	Matti Kauppila /vas
	Kimmo Kiljunen /sd
	Miapetra Kumpula-Natri /sd

³ Party group abbreviations: sd = Social Democratic Party; kok= National Coalition Party; kesk= Finnish Centre; vihr = Greens; ps = True Finns Party; vas = Left Alliance; r = Swedish People's Party; kd = Christian Democrats

Markku Laukkanen /kesk
Håkan Nordman /r
Sari Palm /kd
Kari Rajamäki /sd
Kimmo Sasi /kok
Jouko Skinnari /sd (partly)
Esko-Juhani Tennilä /vas
Tuulikki Ukkola /kok

Substitute members:

Pekka Haavisto /vihr
Timo Kalli /kesk
Krista Kiuru /sd (partly)
Johannes Koskinen /sd
Sari Sarkomaa /kok
Seppo Särkiniemi /kesk

Committee counsel Peter Saramo and Anna Sorto served as clerks.

DISSENTING OPINION I

Justifications

We do not accept the view of the majority of the Committee, because it supports the proposals by the EU leaders to shift wage bargaining to the local level, raise the retirement age and increase indirect taxes. The statement also allows a doubling of Finland's share of the temporary stabilisation system, which we also cannot support.

Proposal

On the basis of the above, we submit

that the Grand Committee should not accept the Government's position.

Helsinki, 10 March 2011

Esko-Juhani Tennil /vas
Matti Kauppila /vas

Pietari Jääskeläinen /ps

DISSENTING OPINION II

Justifications

The Grand Committee cannot approve the competitiveness pact of the euro countries, which includes:

- a monitoring system for wages and productivity developments that puts an emphasis on increasing local wage bargaining and interference in wage policy;
- the opening of sheltered sectors, including working hour arrangements in the retail sector;
- labour market restructuring that promotes flexicurity;
- shifting the focus of taxation from labour to consumption taxes; and
- reducing pensions and social benefits among other things by linking retirement age to life expectancy, and limiting early retirement schemes.

Opinion

On the basis of the above, we submit

that the Grand Committee should take the above into consideration when forming its opinion of the proposals.

Helsinki, 10 March 2011

Kimmo Kiljunen /sd
Kari Rajamäki /sd
Jouko Skinnari /sd
Johannes Koskinen /sd
Miapetra Kumpula /sd

Krista Kiuru /sd
Sari Palm /kd
Erkki Tuomioja /sd