



COMMISSION OF THE EUROPEAN COMMUNITIES

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COMMUNICATION FROM THE COMMISSION TO THE COUNCIL

**Establishment of an OECD EDRC examination of EC economic policies alongside to the
Euro Area Survey**

The issue

In this Communication, the Commission proposes elements for the reply to be given to the request of the Ambassadors of Australia, Canada, Japan, Korea, Mexico, Japan and the US (APEC) to the OECD to widen OECD EDRC Examinations of the Euro Area to include Community policies that have an impact on the EU's economic performance. The Commission proposes to give a positive reply to the APEC letter in the sense that the EC could accept the establishment of a distinct "EU 25 Review"¹, alongside the Euro Area Survey, and subject to the condition that it is done in a manner that would take duly into account the particularities of the EC, and serve our systemic interests.

The EC and the OECD EDRC review

The examination of the OECD Members' economy by the OECD's Economic Development and Review Committee (EDRC) is the cornerstone of the OECD's system of peer review and economic surveillance.

The main objectives of EDRC reviews are 1) to assess how authorities may improve economic performance and 2) to encourage the participating economies to strengthen their policies with a view to enhance economic efficiency and promote growth. The review leads to formal recommendations which are not binding upon Members, but constitute useful policy guidance and whose implementation can be followed up in subsequent reviews. Each OECD Member is reviewed with intervals ranging from 12 to 18 months (for the Euro Area : every 12 months).

For the time being, there is no genuine EDRC review for Community policies. Since 2001, the EDRC carries out a yearly self standing review of the Euro Area, because of the particular characteristics of the euro area economy. It focuses in particular on monetary and exchange rate policies, with other macroeconomic and structural policies being dealt with in so far as they have an impact on economic developments in the Euro Area as a whole (e.g. competition and environmental policy in 2003). All EC MS which are Member of the OECD are currently subject to individual EDRC examinations, in the context of which Community wide policies are often being addressed (due to their impact on that individual MS), though in a fragmented and repetitive manner. Those reviews rarely allow an identified representative of the EC to properly comment on such policies in a way that reflects their EC wide nature. See Annex 1 for a more detailed description of the EDRC process, including the one pertaining to the euro area.

This situation is unsatisfactory, both from an internal EC perspective and from the perspective of other OECD Members.

The "APEC request"

In a letter of October 2, 2003 to the EC Permanent Representative to the OECD, APEC Ambassadors to the OECD (see Annex 2) have called for a widening of future EDRC

¹ Although this review would only deal with Community policies, it is felt appropriate, for political reasons, to use the term "EU review", as this is how the EC/EU is increasingly referred to outside the EC/EU.

examinations of the euro area *“to include all EC policies and EU wide policies generally”*. The main objective of this request is to permit a review of the EC as a single entity, so as to provide parity of treatment with other OECD members, where all economic policies are open for examination. This letter has been discussed among the Commission and the Member States in Paris where a majority of Member States favoured a positive reply, and in the EFC in Brussels. **The Commission takes the view that the EC should give a positive answer to this request, and accept the conduct of an “EU 25 review”, provided a number of conditions are met.**

In particular, the Commission proposes that the EC accepts 1) that a **separate and distinct** EU 25 Review of EC structural and sectoral policies which have an impact on the EU 25 economy would be established; and 2) that the existing Euro Area Review would continue and should be limited to macro economic policy issues. The two exercises should be separated because 1) the Euro Area Review concerns 12 MS (all of which are OECD Members), while the EU 25 Review would concern all MS (not all of which being Member of the OECD) and 2) different modalities would apply in terms of representation. From the perspective of the APEC countries, this ought to make little if any difference as the wide review these countries have called for would be guaranteed.

Furthermore, the Commission takes the view that any comprehensive EDRC review would need to be carefully and appropriately designed and adapted to take duly into account the special legal, institutional and political character of the EC and of the policies concerned.

Benefits from an EU 25 Review

An EU 25 Review would hold a number of benefits as it would:

- Reinforce the profile and visibility of the EC as an economic entity in its own right; reflect EC competences more fully and accurately, and bestow upon the representation of the EC a well-defined and recognised role in the EDRC committee;
- Underline the openness and transparency of the EC, also in terms of being subjected to constructive and justified criticism;
- Address in a single forum Community wide policies otherwise being addressed in a very repetitive and fragmented manner in all individual MS EDRC reviews.
- Serve to correct misunderstandings on the part of other OECD members and/or the OECD secretariat as regards certain EC policies (or aspects of same).
- Allow the EC to voice legitimate criticism regarding policies of other OECD members reviewed in the EDRC, without any risk of being accused of not being subject to similar scrutiny;
- And constitute a practical example of the current Commission’s emphasis on identifying means and policies to strengthen our economic performance and competitiveness.

Procedural devices for an EU 25 Review

Establishing an EU 25 Review would have to take account of the uniqueness of the EC as a supranational organisation, and in particular the **division of competences between EC and**

MS, the rules on the external representation of the EC as well as the status of the EC in the OECD.

Several of the policies examined in the EDRC would be the subject of exclusive competence (e.g. trade, agriculture and fisheries), and others the subject of shared competence (e.g. environment). In this context it needs to be reminded that the EC is not a Member of the OECD, but has the status of “full participant” in the OECD. The Commission fully participates in the main institutions and subsidiaries as the representative of the EC (Point 2 of the Supplementary Protocol to the OECD Convention). Only in the context of the Euro Area EDRC review, the Euro Area is represented by a Joint Delegation of the Commission, the Presidency and the ECB. Given the considerable coordination which would be required at various levels for both the Euro Area Review and the EU 25 Review, the EU 25 Review should alternate with the Euro Area Review, i.e. each review would take place biennially².

The legal complexities and political implications arising from the fact that six EC MS are not Members of the OECD need also to be taken duly into account. An EDRC EU 25 review would apply to Community-wide policies of all 25 MS. However, at present, 6 of the (new) EC MS are not members of the OECD³. This means that the EDRC would examine policies that have been formulated and apply to *all* 25 countries, while a significant number of those MS are not represented. The Commission considers that these 6 MS should be granted ad hoc observer status in the EDRC.

Finally, while understanding that the very objective is to have a comprehensive review, the scope of the EU 25 Review must remain manageable and reasonable. The move towards a broader focus of EDRC reviews is understandable given the increasingly complex interrelationships between different economic and related policies in all OECD countries. However, one will have to ensure that an EU 25 Review would deal only with those Community wide policies which are of direct relevance to the objectives of the EDRC. Furthermore, the EU 25 Review should lead to the elimination of any direct review of the design and content of Community wide policies in the reviews of individual MS and should not overlap with the Euro Area Review (*i.e.* the “EU 25 Review” would not cover EMU matters). Likewise, it should not cover policies that are already undergoing similar reviews in other OECD bodies or in the EDRC itself.

A more exact mandate and modalities for any EU 25 Review will need to be elaborated with the OECD Secretariat and other OECD members.

In view of the above:

- The Commission would negotiate the conditions and modalities for any EU 25 review with the OECD Secretariat and other OECD members (while ensuring appropriate coordination with the MS).

² Given the differences in geometry of the euro area vs. the EU 25, as well as the difference in focus in terms of substance of the reviews, all parties would be best served with two separate and distinct reviews. From the perspective of the APEC countries, this ought to make little if any difference as the wide review these countries have called for would be guaranteed.

³ Cyprus, Estonia, Malta, Latvia, Lithuania and Slovenia.

- As regards the representation of the EC in EDRC reviews, the Commission should, in accordance with the rules on the external presentation of the EC, serve as the representative of the EC in the EU 25 Review, subject to appropriate coordination with the MS.
- The procedure inside the EDRC Review will follow the model of the Euro Area review. The EU 25 - as other EDRC examinees - would be examined on the basis of a written survey/report prepared by the OECD Secretariat. During the examination, the Commission would make a brief opening statement and note possible points of disagreement as regards the draft OECD Secretariat survey (after close coordination with the MS). All OECD members would then be in a position to pose oral questions to the examinee. Following the examination, the Chair would draw main conclusions for the major policy issues examined and their conclusions, adopted by consensus in the Committee, would guide the redrafting (if any) of the survey as well as the formal recommendations contained therein.
- Since this review will concern Community wide policies, other OECD Members should accept that the status of the EC should allow for equal treatment as compared to other examinees in EDRC reviews. Several possibilities could be explored. The Commission could be granted an “ad hoc” right to vote on behalf of the EC in the EDRC. The Commission could be elected into the EDRC as full member (as is, exceptionally, already the case in the OECD Development Assistance Committee) giving to the Community a right to vote. Or, it would have to be ensured that the EU Member State holding the presidency of the Council, after coordination with the Commission, would have the right to cast the relevant vote in EDRC on behalf of the EC. The Commission will explore the various options with the OECD Secretariat, the other OECD Members and the EC Member States.

Conclusion

On the basis of the above, the Commission takes the view that **an EU 25 review would hold clear benefits for the EC** which clearly outweigh possible drawbacks such as the increased work load for certain Commission services and the need for coordination. Therefore, the Commission proposes that the EC accepts that:

- A separate and distinct EU 25 review of EC structural and sectoral policies which have an impact on the EU 25 economy would be established.
- The existing Euro Area Survey would continue and should be limited to EMU matters and macro economic policy issues. There would be no overlaps between both surveys.

However, this acceptance would be **conditional to a number of necessary safeguards**, including proper negotiation of the mandate and modalities of any EU 25 review, and proper consideration of the *sui generis* nature of the EC, as well as of the need to ensure parity of treatment for those MS who are not currently OECD members. Most notably, this would mean that :

- The 6 EC Member States that are not currently members of the OECD would be granted observership status in the OECD.
- The EU 25 reviews should lead to the simultaneous elimination of any direct review of the design and content of Community wide policies in the reviews of individual MS.

- Given the considerable coordination which would be required at various levels for both the Euro Area Review and the EU 25 Review, the EU 25 Review should alternate with the Euro Area Review, i.e. each review would take place biennially.
- The Commission would have a clear mandate to negotiate the specification and modalities for any EU 25 review with the OECD Secretariat and other OECD members (while ensuring appropriate coordination with the MS).
- In accordance with the rules on the external representation of the EC, the Commission shall serve as the representative of the EC in the EU 25 Review, in close coordination with the MS.
- The examination procedure of the EU 25 Review will follow the same model as the Euro Area review and will be subject to the general consensus of the Committee;
- The European Community should be granted a status that allows for equality of treatment of the EC with regard to other examinees, which have a veto right in the EDRC.

If the above is agreeable to the Council the European Commission's Permanent Delegation to the OECD, to whom the APEC letter was addressed, will send a positive reply to the APEC Ambassadors, while pointing out to the conditions and modalities above.

On this basis, the modalities for an EU 25 Review, addressing e.g. scope, frequency, rights of EC non-OECD members, and other aspects will be elaborated with the OECD Secretariat, the Chair of the EDRC and the other OECD Members.

Annexes: 2

- 1) Background to the OECD's EDRC Reviews
- 2) APEC letter

ANNEX 1

Background to the OECD's EDRC Reviews

1. The nature of the EDRC review

The OECD's Economic and Development Review Committee (EDRC) carries out peer reviews of its Members' economic policies and is the cornerstone of the OECD country economic surveillance. The Committee gathers on average twenty times per year to full fledged examine economic policies of OECD member countries economic policies on the basis of a country report tabled by the OECD secretariat. In order to allow close and stable relations among peers, the Committee is made of permanent delegates (the Economic Counsellors of Permanent Delegations to the OECD). The Commission - DG ECFIN - sends on an ad hoc basis delegates, who join the EDRC Commission permanent delegate on the occasion of country examinations.

The EDRC peer review process is unique. Although EDRC country reports are written by the OECD secretariat (essentially by the Economics Department), they are signed off by all the 30 member countries, including the country under examination, and the Commission. Therefore they are the product of consensus among the OECD member countries plus the Commission and are released under the Committee's responsibility and not of the OECD secretariat, as it is normally the case for most other OECD country reviews. EDRC procedures imply that the examined country accepts the ownership of the report's contents and is put under a moral obligation to adopt measures to tackle the issues raised in the report. Currently 19 of the 25⁴ EU Member States are members of the OECD EDR and regularly subject to the EDRC exams.

Since 2001, the OECD EDRC also carries out a yearly self standing review of the euro area. Such a review was accepted by the Economic and Financial Committee (EFC) and its scope was clarified through an exchange of letters between the President of the EFC and the Head of the Economic Department of the OECD in 2000. The justification for such a specific review were the particular characteristics of the euro area economy with its single monetary/ex policy and degree of co-ordinating a fiscal policy and the potential for such a review to generate useful insights into the functioning of EMU. It was agreed by the OECD and the EU MS that, in light of the nature of the euro area, the focus of these reviews should be "*in particular on monetary and exchange rate policies*" with "*other macroeconomic and structural policies*" being "*dealt with in so far as they have an impact on economic developments in the euro area as a whole*". This scope allows for an assessment of structural policy aspects that are of particular importance for the economic performance of EMU, such as product and factor markets or the efficiency of welfare systems. Moreover, the regular in-depth chapter on a selected economic theme allows for its thorough analysis. The Commission, the ECB and the euro area Presidency are the responsible authorities representing the euro area in these examinations at the OECD, which requires a high degree of co-ordination in order to ensure an effective and unified representation.

⁴ The following EU Member States are currently not members of the OECD: Cyprus, Estonia, Latvia, Lithuania, Malta, and Slovenia).

2. The experience with euro area surveys

2004 marks the fourth edition of the euro area survey. These surveys are composed of general chapters in which monetary, budgetary and structural policies are reviewed and a “structural” chapter that deals with one specific community policy in greater depth. Last year this was competition policy.

Throughout the exercise, DG ECFIN coordinates closely with other Commission services concerned by the survey. The preparation of the OECD Secretariat draft for the survey starts with the OECD secretariat missions to the Commission. DG ECFIN consults other services on the answers to the OECD’s questionnaire and invites them to attend the meetings. In this way, DGs EMPL, MARKT, AGRI and TAXUD are often involved from the very start of the process. Other relevant Commission services are involved depending on the special topic of the year.

Following the draft survey prepared by the OECD Secretariat, DG ECFIN again liaises with other Commission services, and asks for their reactions and possible drafting amendments to the draft survey. These services’ views are also reflected in the draft Introductory Statement of the euro area delegation prepared by DG ECFIN. At this stage, DG ECFIN also coordinates the drafting amendments of Member States (via the EFC) for the draft survey and for the draft Introductory Statement.

For the EDRC examination meeting in Paris and for the subsequent drafting session, the Commission services concerned by the special topic are invited. Following these meetings, DG ECFIN coordinates with other Commission services, the Eurogroup Presidency and the ECB for the finalisation of the survey until the text is settled and accepted by the EDRC.

The experience gathered so far shows that the task of coordinating the different positions can be very heavy indeed. In 2003, the exercise started in January with the preparation of the OECD Secretariat missions to the Commission and was only concluded at the end of July, principally because of the difficulties involved in settling the final text of the special chapter on competition policies.

All in all, the current format of the OECD Euro area survey already implies quite heavy coordination costs. The expansion of the scope to cover the full range of Community policies will naturally further increase this coordination burden – by how much will depend upon the approach that would be taken in such an event. Obviously, the more detailed and lengthier the OECD analysis is, the heavier the coordination burden will be and the greater the risk that the process will be drawn out over time.

3. POLICIES THAT MAY BE SUBJECT TO ERC REVIEW

Policies that have an impact on economic performance can be grouped in four main categories: (1) macro-economic policies, (2) the common policies, such as trade, agriculture, (3) structural policies aimed at improved market functioning and (4) structural policies with a broader objective but which might have significant economic impact (environment, etc). Within the EU, policies mentioned under 1 and 3, and to a much smaller extent those

mentioned under 4, are subject to some economic co-ordination. This is not the case for common policies.

a. Macro-economic policies

Macro-economic (monetary, fiscal and exchange rate) policy issues, are already analysed in the framework of the euro area, where there is a well-oiled co-ordinating mechanisms : those policies are indeed debated and reviewed on a regular basis, internally (Eurogroup Working Group of the Economic and Financial Committee and Eurogroup).

b. Common policies

Subjects of exclusive competence, e.g. common policies such as trade, agriculture, fisheries and competition, are already partially touched upon in Member States' national EDRC reviews, as is the case for other OECD members such as the US. OECD members have not openly questioned the potential impact of such policy areas on the economic performance of their economies or the fact that those areas have been made the subject of EDRC review. The recent EDRC review of the US, for instance, did contain a section on trade.

In addition to this, common policies are frequently the subject of discussions and analysis in other parts of the OECD, e.g. in the case of trade in the regulatory reform exercise, in the case of agriculture in the Agricultural Committee and in the case of competition policy in the Competition Committee and via "peer reviews".

c. Structural policies aimed at improved market functioning

Structural reform policies, in particular those being subject to the Broad Economic Policy Guidelines such as labour, product and capital market reforms, and their link to macroeconomic performance have been discussed already in a fairly general way in the context of previous EDRC Reviews of the euro area. Where directly aimed at improving market functioning, these policies could obviously be said to have potentially important implications for overall macroeconomic performance. To this extent a broad discussion of them could be warranted. Problems arise however where the discussion of particular policies goes much further and becomes much more detailed than would be justified by their impact on macroeconomic performance, as has happened on a number of occasions during the euro area EDRC reviews. This should be restrained.

d. Other structural policies with a broader objective

The open-ended character of the OECD makes it difficult to ensure ex-ante that an EDRC review of EU policies would limit itself to a pre-agreed set of structural policies. This would mean that opening the scope of EDRC reviews to EU-wide policies more generally could lead to an examination of policies where shared competences exist, or of policies that are not being

examined in OECD Member countries EDRC reviews⁵.

It would be desirable, when agreeing on the scope and terms of the EU-wide review, to ensure as far as possible a prior identification of those structural policies with a broader objective that are to be reviewed.

⁵ For example, in a number of examinations, such as those of the National Treatment Instrument of the International Investment Declaration (not legally binding) or those under the OECD Codes for Capital Movements and Invisible Transactions (legally binding), EU MS policies are examined at national and European level, since EU policies are the ground for their policies.

ANNEX 2

The letter of the APEC Ambassadors

October 2, 2003

His Excellency Mr. John Maddison

Ambassador

European Commission's Permanent Delegation to the OECD

Dear Ambassador Maddison,

EDRC TREATMENT OF EC POLICIES

We are writing to you in your capacity as representative of the EC at the OECD to ask you to take up an issue on our behalf with the relevant authorities in the European Community.

Following the 1998 Canadian proposal, the Economic and Development Review Committee (EDRC) has conducted 3 formal reviews of the euro area. This has enabled the peer review processes of the OECD to play a constructive role in supporting ongoing economic reforms of euro area policies. These reviews, however, have not been able to address adequately a number of policies that are relevant to the economic performance of Europe. Nor are these policies effectively addressed in individual European country reports. This includes both a number of Common Policies that are implemented at the EC level as well as a range of directives that are established at the EC level, though implemented nationally.

This situation means there is not parity of treatment between EDRC examinations of EU countries, and those of non-European countries where all economic policies are open for examination. This situation is eroding the usefulness of the EDRC reviews and we believe is damaging the OECD's reputation.

We believe that this situation should be resolved for the 2004 examination. We ask that you take this issue up with the appropriate authorities to ensure that future OECD economic examinations of the euro area be widened to include all EC policies and EU wide policies generally. This would ensure that all economic policy areas in Europe are examined as appropriate putting these reviews on the same footing as examinations of non-EU countries.

While individual areas of EC policy can be looked at in the individual committees (for example the Trade Committee, the Agriculture Committee, and the Competition Committee) this is the case for all countries. However, only the EDRC provides the opportunity for a comprehensive review of all issues in a peer review process that analyses the interactions between different areas of policy and enables an overall assessment of economic performance and policy.

Meaningful assessment and coherent policy recommendations require an understanding of how all policies interact. This is certainly true with regard to the interactions of structural settings and macroeconomic policy instruments.

We do recognize that there are institutional complexities to such comprehensive treatment of economic policies in the EU. In our view, however, such institutional issues should not deter us from the goals of equity, knowledge sharing and constructive peer review that are so central to the work of the OECD.

We look forward to your early response to this increasingly important issue.

Sincerely,

Ian Forsyth
Ambassador to the OECD
Australia

Jocelyne Bourgon
Ambassador to the OECD
Canada

Seiichiro Noboru
Ambassador to the OECD
Japan

Kyung-tae Lee
Ambassador to the OECD
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Carlos Flores Alcocer
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Mexico

Adrian Macey
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cc: All Ambassadors to the OECD
Donald Johnston, Secretary General, OECD
Jean-Philippe Cotis, Head, Economics Department, OECD
Niels Thygesen, Chair, EDRC, OECD