



**COUNCIL OF
THE EUROPEAN UNION**

Brussels, 15 October 2012

13390/12

LIMITE

CO EUR-PREP 31

NOTE

from: General Secretariat of the Council
to: Council

Subject: European Council (18-19 October 2012)
- Draft conclusions

In accordance with Article 2(3)(a) of the Council's Rules of Procedure, delegations will find attached the draft conclusions prepared by the President of the European Council, in close cooperation with the member of the European Council representing the Member State holding the six-monthly Presidency of the Council and with the President of the Commission.

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I. ECONOMIC POLICY

1. The European economy is facing difficult challenges. It is therefore essential for the European Union to make every effort rapidly to implement the measures agreed over recent months to relaunch growth, investment and employment, restore confidence and make Europe more competitive as a location for production and investment.

Compact for Growth and Jobs

2. The European Council remains determined to stimulate growth and jobs, in the context of the Europe 2020 Strategy. The Compact for Growth and Jobs, decided last June, constitutes the overall framework for action at national, euro and EU levels, mobilising all levers, instruments and policies. All the commitments it outlines must be fully and rapidly delivered. Significant progress has been achieved so far, as shown in the letter from the President of the European Council of 8 October 2012 as well as in the reports from the Presidency and the Commission. However, greater efforts are required in certain areas, as set out below.

- (a) Investing in growth: significant progress is being made in implementing the EUR 120 billion financing package of the Compact. In particular, in the coming weeks the EIB is expected to adopt its EUR 10 billion capital increase with the aim of strengthening its capital basis as well as increasing its overall lending capacity by EUR 60 billion. This should in turn lead to additional investment of up to EUR 180 billion over the next three years. Work is under way to ensure that the EUR 55 billion of Structural Funds are mobilised quickly and efficiently; the Commission will continue to help Member States to re-programme the Structural Funds to focus them better on growth and jobs. The Project Bonds pilot phase is being implemented with EUR 100 million already authorised and the remaining EUR 130 million to be mobilised early next year, which in total should leverage investment of up to EUR 4.5 billion in the pilot phase. Reiterating that the EU's budget must be a catalyst for growth and jobs, the European Council will devote a special meeting in November to reaching agreement on the next Multiannual Financial Framework and thus ensure that it is adopted by the end of the year. Recalling the need to pursue differentiated growth-friendly fiscal consolidation, the European Council looks forward to the Commission's report on the quality of public spending and the scope for possible action within the boundaries of the EU and national fiscal frameworks.
- (b) Deepening the Single Market: progress has been made on the Single Market Act I, but more efforts are required to complete work on the outstanding proposals including on accounting, professional qualifications, public procurement and venture capital funds. The Commission's new communication on the Single Market Act II sets out 12 further key actions which should contribute much to European growth, employment and social cohesion. The European Council welcomes the Commission's intention to present all key SMA II proposals by spring 2013 and calls for their rapid examination in order to allow their adoption by the end of the current parliamentary cycle at the latest. It is also important to follow up on the Commission's communication on implementation of the Services Directive and Single Market governance.

- (c) Connecting Europe: the future Connecting Europe Facility will constitute an important instrument to promote growth through investment in transport, energy and ICT links. In the field of transport, eliminating regulatory barriers and tackling bottlenecks and missing cross-border links is essential in order to guarantee the efficient operation of the Single Market and promote competitiveness and growth. . Recalling the need to complete the internal energy market fully by 2014 in accordance with the agreed deadlines and to ensure that no Member State remains isolated from the European gas and electricity networks after 2015, the European Council calls for rapid agreement on the proposal on energy TENs and looks forward to the forthcoming Commission communication and Action Plan to address the prevailing challenges.
- (d) Achieving a fully functioning Digital Single Market by 2015: this could generate an additional growth of 4% over the period up to 2020. The European Council therefore calls for work to be accelerated on the proposals on e-signature and collective rights management and looks forward to the forthcoming proposals on reducing the cost of the deployment of high speed broadband and on e-invoicing. The forthcoming mid-term review of the Digital Agenda should be used to identify areas where more work needs to be done. It is necessary to modernise Europe's copyright regime to facilitate access to content while upholding intellectual property rights and encouraging creativity and cultural diversity.
- (e) Promoting research and innovation: it is important to ensure that research and innovation are translated into competitive gains. The European Council calls for rapid progress on the proposed new programmes for research and innovation (Horizon 2020) and for the competitiveness of enterprises and SMEs (COSME), stressing the importance of excellence in EU research and innovation policies while ensuring broad access to participants in all Member States. It reiterates the need to finalise the European Research Area by the end of 2014 and stresses the importance of an integrated approach to key enabling technologies.

- (f) Enhancing the competitiveness of industry: the Commission communication on a new EU industrial policy stresses the importance of strengthening industrial competitiveness to underpin growth and jobs, whilst improving energy and resource efficiency. It is particularly important for European industries to maintain and develop their technological lead and to facilitate investment in the early stages of new key technologies.

- (g) Creating the right regulatory framework for growth: it is particularly important to reduce the overall regulatory burden at EU and national levels, with a specific focus on SMEs and micro-enterprises, including by facilitating their access to funding. The European Council looks forward to the Commission communication expected in December, which will take stock of progress and signal further action to be taken by the end of the current parliamentary cycle at the latest, including the follow up on the top 10 most burdensome pieces of legislation for SMEs.

- (h) Developing a tax policy for growth: work and discussions should be carried forward on the proposals on energy taxation, on the common consolidated corporate tax base and on the revision of the savings tax Directive, and to reaching rapid agreement on the negotiating directives for savings taxation agreements with third countries. The European Council looks forward to the Commission communication to be submitted before the end of the year on good governance in relation to tax havens and aggressive tax planning. The European Council notes the requests from a number of Member States for enhanced cooperation to be launched on a Financial Transactions Tax which the Commission intends to examine quickly with a view to next steps, as soon as the conditions have been met.

- (i) Boosting employment and social inclusion: work in this area remains a priority of the utmost importance. The Council is invited to pursue its work on the different elements of the Employment Package and to ensure rapid progress on the proposals relating to the acquisition and preservation of cross-border pension rights for EU workers and the enforcement of the posted workers Directive. The European Council looks forward to the forthcoming communication on education and skills and to the Youth Employment package, including initiatives to develop youth guarantee schemes and quality traineeships and apprenticeships as well as to improve the mobility of young people. Labour mobility throughout the EU should be facilitated. The European Council stresses the importance of further developing the EURES job vacancies portal and underlines the need to increase and broaden the participation of employment services across Member States. Member States' vocational training schemes play a particular role in addressing youth unemployment. It is also important to promote the reactivation of older workers. Member States should step up efforts to tackle the social consequences of the crisis and to fight poverty and social exclusion in line with the objectives of the Europe 2020 objectives.
- (j) Implementing the Europe 2020 Strategy: the European Council recalls the need for determined implementation of the 2012 Country Specific Recommendations. It invites the Presidency to submit a "synthesis report" on the lessons learned from the 2012 European Semester process and calls for a number of improvements to be made for the 2013 exercise - more emphasis on specific guidance and implementation; new modalities to enhance Member States' ownership of the process, particularly through deeper and more continuous dialogue; building of a genuine partnership with the European Parliament, national parliaments and social partners; and a stronger linkage between the work of relevant Council formations. Underlining the need for thorough preparation of the 2013 European Semester, the European Council looks forward to the early submission by the Commission of its Annual Growth Survey and the Alert Mechanism Report at the end of November, and invites the incoming Presidency to submit a roadmap on the organisation of work for the 2013 European Semester.

- (k) Harnessing the potential of trade: stressing the fact that an ambitious trade agenda could lead in the medium term to an overall increase of 2 % in growth and the creation of over 2 million jobs, the European Council calls for an agreement to be reached on the negotiating directives for a Free Trade Agreement (FTA) with Japan and for the finalisation of FTA negotiations with Canada and Singapore in the coming months. It looks forward to the final report of the EU-US High Level Working Group and commits to working towards the goal of launching in 2013 of negotiations on a comprehensive transatlantic trade and investment agreement. It will return in greater depth to EU/US relations and to the contribution trade can make to the growth agenda in February 2013. It also calls for progress to be made in opening or advancing negotiations on Deep and Comprehensive Free Trade Agreements with the EU's neighbouring partners which are ready.

Completing EMU

3. In the light of the fundamental challenges facing it, the Economic and Monetary Union needs to be strengthened to ensure economic and social welfare as well as stability and sustained prosperity.
4. Following the interim report presented by the President of the European Council in close collaboration with the Presidents of the Commission, the Eurogroup and the European Central Bank (ECB), the European Council looks forward to a specific and time-bound roadmap to be presented at its December 2012 meeting, so that it can move ahead on the essential building blocks on which a genuine EMU should be based.
5. The process towards deeper economic and monetary union should build on the EU's institutional and legal framework and be characterised by openness and transparency towards Member States which do not use the single currency and by respect for the integrity of the Single Market.

Integrated financial framework

6. We need to move towards an integrated financial framework, open to the extent possible to all Member States wishing to participate. In this context, the European Council invites the legislators to proceed with work on the legislative proposals on the Single Supervisory Mechanism (SSM) as a matter of priority, with the objective of completing it by the end of the year. In this respect, fully respecting the integrity of the Single Market is crucial.
7. There is a need to ensure a clear separation between ECB monetary policy and supervision functions, and the equitable treatment and representation of both euro and non-euro area Member States participating in the SSM. The appropriate accountability and transparency of the SSM needs to be ensured, particularly vis-à-vis the European Parliament, the Council and national parliaments. It should be based on the highest standards for bank supervision and the ECB should be able to use the effective powers conferred on it by the legislation as soon as it comes into force, subject to appropriate operational phasing-in arrangements.
8. It is important to ensure a level playing field between those Member States which take part in the SSM and those which do not, in full respect of the integrity of the single market in financial services. An acceptable and balanced solution is needed regarding voting modalities and decisions under the European Banking Authority (EBA) Regulation, that ensures non-discriminatory and effective decision-making within the Single Market. The EBA must retain its existing powers and responsibilities.
9. The European Council calls for the rapid adoption of the provisions relating to the harmonisation of national resolution and deposit guarantee frameworks, including the national funds, based on the existing legislative proposals on bank recovery and resolution and on national deposit guarantee schemes. The European Council calls for the rapid conclusion of the single rule book, including agreement on the proposals on bank capital requirements (CRR/CRD IV) by the end of the year.

10. In all these matters, it is important to ensure an appropriate balance between home and host countries.
11. The European Council welcomes the Commission's intention to propose a single resolution mechanism once the existing Recovery and Resolution Directive and the Deposit Guarantee Scheme Directive have been adopted.
12. The Eurogroup will draw up the exact operational criteria that will guide direct bank recapitalisations by the European Stability Mechanism (ESM), in full respect of the 29 June 2012 euro area Summit statement.

Integrated budgetary and economic policy frameworks and democratic legitimacy and accountability

13. The European Council invites the legislators to find an agreement with a view to adopting the "two-pack" by the end of 2012 at the latest. This is a key piece of legislation necessary for the reinforcement of the new economic governance in the EU, alongside the reinforced Stability and Growth Pact, the Treaty on Stability, Coordination and Governance (TSCG) and the "six-pack". It calls on national authorities and European institutions to implement all of these fully in accordance with their roles under the Treaties.
14. For the euro area, the objective is to move towards an integrated budgetary framework. In that context, further mechanisms to prevent unsustainable budgetary developments, as well as mechanisms for fiscal solidarity, including via an appropriate fiscal capacity, should be explored. Such mechanisms would be specific to the euro area while ensuring the necessary convergence with the Member States that will join the euro in the future, building on the EU's institutional and legal framework. Their exploration will be separate from and unrelated to current negotiations on the next Multiannual Financial Framework.

15. The smooth functioning of EMU calls for stronger and sustainable economic growth, employment and social cohesion and requires stronger coordination, convergence and enforcement of economic policy. In this respect, the idea of the euro area Member States entering into individual arrangements of a contractual nature with the EU institutions on the reforms they commit to undertake and on their implementation should be explored. Such arrangements could be linked to the reforms identified in the country-specific recommendations adopted by the Council and build on EU procedures.
16. Governance within the euro area should be further improved, building on the euro area Summit statement of 26 October 2011 and in line with the TSCG. The Commission will present by the end of the year a proposal on how to implement Article 11 of the TSCG on ensuring that all planned major economic policy reforms are discussed ex ante and, where appropriate, coordinated within the framework of the EU's economic governance.
17. Strong mechanisms for democratic legitimacy and accountability are necessary. One of the guiding principles in this context is to ensure that democratic control and accountability take place at the level at which decisions are taken. In this spirit, ways to ensure a debate in the context of the European Semester, both within the European Parliament and national parliaments, should be explored. A number of concrete steps to increase the level of cooperation between national parliaments and the European Parliament can also be taken, building on Article 13 of the TSCG and Protocol 1 to the TFEU. Enhancing the role of the social partners should also be explored.

II. STRATEGIC PARTNERS

18. The European Council held an exchange of views on the EU's relations with its strategic partners. It called for the full implementation of the internal arrangements agreed in September 2010 to improve the EU's external relations.

III. OTHER ITEMS

p.m. possible text on [...]
