



**COUNCIL OF
THE EUROPEAN UNION**

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NOTE

from: General Secretariat of the Council
to: Permanent Representatives Committee

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, particularly with the continuing sovereign debt crisis and the slowdown of the world economy. It is therefore essential for the European Union to devote all efforts to implementing rapidly the measures agreed over the past 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 Compact for Growth and Jobs decided last June remains the coherent 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 upon. Important progress has been achieved so far, as evidenced in the letter from the President of the European Council of 8 October 2012 as well as in the report from the Presidency on the implementation of the conclusions of the June European Council. However, stronger efforts are required in certain areas, as set out below.

- (a) Investing in growth: important progress is being made in implementing the EUR 120 billion financing package of the Compact. In particular, the EIB is expected to adopt in the coming weeks its EUR 10 billion capital increase and to rapidly set up its new Growth and Jobs Facility which should provide EUR 60 billion leading to additional investment of up to EUR 180 billion. Work is being conducted to ensure that the EUR 55 billion Structural Funds budget for 2013 is mobilised quickly and efficiently; the Commission will continue to help Member States to reprogramme Structural Funds to better focus them on growth and jobs. The Project Bonds pilot phase is being implemented with EUR 110 million already authorised and the remaining EUR 120 million to be mobilised early next year, which in total should generate investments of up to EUR 4.5 billion. 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 in a timely manner.
- (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 would 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.

- (c) Connecting Europe: the future Connection Europe Facility will constitute an important instrument to promote growth through investment in transport, energy and ICT links. Achieving a fully functioning Digital Single Market could bring up to an additional 4% of GDP growth over the period by the year 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 to reduce the cost in the deployment of high speed broadband as well as on e-invoicing. The upcoming mid-term review of the Digital Agenda should be used to identify areas where more work needs to be done, for instance as regards the tax framework for e-commerce, cloud computing and e-Government. Recalling the need to fully complete the internal energy market 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 obstacles.
- (d) Promoting research and innovation: 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). Reiterating the need to finalise the European Research Area by the end of 2014, the European Council stresses the importance of an integrated approach to key enabling technologies. The Commission's communication on a new EU industrial policy stresses the importance of strengthening industrial competitiveness to underpin growth and jobs. It is particularly important for European industries to maintain their technological leads and to facilitate investment in the early stages of new key technologies.

- (e) Creating the right regulatory framework for growth: stressing the importance of reducing the overall regulatory burden at EU and national levels with a specific focus on SMEs and micro-enterprises, the European Council looks forward to the Commission's communication expected in December, which will take stock of progress and signal further action to be taken including the follow up on the top 10 most burdensome pieces of legislation for SMEs.

- (f) Developing a tax policy for growth: stronger efforts are required in this area, notably with a view to carrying forward work and discussions on the proposals on energy taxation, on the common consolidated corporate tax base and on the revision of the savings tax Directive; and 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 presented before the end of the year on good governance in relation to tax havens and aggressive tax planning. The European Council notes the request from some Member States to launch an enhanced cooperation on a Financial Transactions Tax and the willingness of the Commission to make a proposal as soon as the conditions are met.

- (g) 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 ensure rapid progress on the proposals relating to the acquisition and preservation of cross-border pension rights for EU workers and to the enforcement of posted workers' rights. The European Council looks forward to the forthcoming communication on skills and to the Youth Employment package, including initiatives for developing youth guarantee schemes and quality traineeships and apprenticeships as well as for improving the mobility of young people. It stresses the importance of further developing EURES accordingly and underlines the need to increase and broaden the participation of employment services across Member States.

- (h) Boosting the implementation of the Europe 2020 Strategy: the European Council recalls the need for a determined implementation of the 2012 Country Specific Recommendations. It invites the Presidency to present 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 the implementation of the policy advice; new modalities to enhance Member States' ownership of the process, notably through a deeper and more continuous dialogue; a stronger articulation between the work of relevant Council formations; and a better planning and coordination. Underlining the need for a thorough preparation of the 2013 European Semester, the European Council looks forward to the early presentation by the Commission of its Annual Growth Survey at the end of November and invites the incoming Presidency to present a roadmap on the organisation of work for the 2013 European Semester.
- (i) Harnessing the potential of trade: stressing the fact that an ambitious trade agenda could lead in the medium term to a gain of 2% GDP growth and the creation of over 2 million jobs, the European Council calls for rapid agreement to be reached on the negotiating directives for a FTA with Japan, for the finalisation of FTA negotiations with Canada and Singapore in the coming months and for the acceleration of the procedure for opening DCFTA negotiations with the EU's Southern Mediterranean partners. It looks forward to the final report of the EU-US High Level Working Group. It will revert more substantially to EU/US relations and the contribution trade can make to the growth agenda in February 2013.

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 the final report and precise roadmap to be presented at its December 2012 meeting, in order to 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 be characterised by openness and transparency towards Member States which do not use the single currency and by respect of the integrity of the Single Market.

Integrated financial framework

6. The European Council invites the legislators to proceed with the 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 a fair treatment and representation of both euro and non-euro area Member States participating in the SSM. The appropriate accountability and transparency for the ECB supervisory function need to be ensured, notably vis-à-vis the European Parliament. The SSM should rest on the highest standards for bank supervision and the ECB should be able to use the powers conferred on it by the legislation as soon as it comes into force. The establishment of the SSM should be subject to appropriate 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 should be sought regarding the 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 existing legislative proposals on bank recovery and resolution and on national deposit guarantee schemes. The provisions related to the harmonisation of national resolution and deposit guarantee frameworks, including the national funds, are particularly important. The European Council calls on the legislators to consider separately the provisions related to mandatory lending between national funds. It also 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. The euro area needs to move towards an integrated financial framework. In particular, the European Council welcomes the Commission's intention to propose notably a single resolution authority once the existing Recovery and Resolution Directive and the Deposit Guarantee Scheme Directive have been adopted.
11. The Eurogroup will elaborate 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

12. 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 SGP, the Treaty on Stability, Coordination and Governance and the "six-pack". It also calls on national authorities and European institutions to implement these fully.
13. For the euro area, the objective is to move towards an integrated budgetary framework. In that context, mechanisms to prevent unsustainable budgetary developments, as well as mechanisms for fiscal solidarity, e.g. via an appropriate fiscal capacity, should be explored. Such mechanisms would be specific to the euro area and therefore not be covered by the Multiannual Financial Framework.
14. The smooth functioning of EMU for stronger and sustainable economic growth, employment and social cohesion requires stronger coordination, convergence and enforcement of economic policy. In this respect, the idea for the euro area Member States to enter into individual arrangements of a contractual nature at the European level on the reforms they commit to undertake and on their implementation should be explored.
15. 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 Treaty on Stability, Coordination and Governance.

16. 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 the decisions are taken. In this spirit, ways to ensure a debate in the European parliament and in national parliaments on the Country Specific Recommendations adopted in the context of the European semester should be explored. The role of the social partners should also be enhanced.

II. STRATEGIC PARTNERS

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 Syria
