



**COUNCIL OF
THE EUROPEAN UNION**

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NOTE

from:	General Secretariat of the Council
to:	Committee of Permanent Representatives
Subject:	European Council (18-19 October 2012) - Draft guidelines for the conclusions ¹

With a view to the forthcoming meeting of the European Council, delegations will find below the state of progress regarding the various topics on its agenda. Where possible, first indications are given on the elements the President of the European Council intends to include in the draft of the conclusions.

Member States are invited to give their reactions, to help guide the preparations of the draft European Council conclusions which will be submitted next week.

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¹ pursuant to Art. 3(1) 3rd subparagraph of the EC's rules of procedure

I. ECONOMIC POLICY

Compact for Growth and Jobs

Heads of State or government decided on 29 June 2012 on a "Compact for Growth and Jobs" aimed at relaunching growth, investment and employment and making Europe more competitive. The forthcoming European Council will review progress in the implementation of the Compact.

Concerning the state of play of the priority measures in the SMA I, the Presidency will prepare a factual non-paper that will be discussed in Coreper I on 3 October. This will be followed by a discussion in the COMPET Council on 11 October, both as regards the assessment of SMA I implementation and the presentation of the new communication on SMA II which the Commission will present on 3 October.

The President of the European Council will provide his assessment of the situation in a letter to the members of the European Council about a week before the European Council, identifying those issues where further impetus is required. This letter may also address some of the other elements of the Growth Compact mentioned below.

In this respect, it should be noted the COMPET Council of 10 October will discuss the European Research Area; the ECOFIN Council on 9 October will discuss the state of play on the Financial Transactions Tax; the EPSCO Council on 4 October will, responding to the Employment Package, hold a policy debate on the employment situation in Europe and will adopt conclusions on youth employment.

In the preparation of the draft conclusions, the following elements could serve as guidelines:

- (a) **Single Market Act I**: emphasise the need to intensify work on the priority measures in the light of the deadlines set by the European Council; if necessary highlight some of the areas that require further work (Accounting Directive, Professional Qualifications Directive, Public Procurement Directive ...);
- (b) **Single Market Act II**: welcome the Commission's intention to present all specific proposals of the SMA II by 31 March 2013 and call for their adoption by the end of the current parliamentary cycle at the latest;

- (c) **Digital Single Market**: continue action to achieve a well-functioning Digital Single Market by 2015; invite co-legislators to speed up negotiations on the proposal on e-signature and to prioritize their efforts on collective rights management by collecting societies;
- (d) **Regulatory burden**: Commission to signal further actions in its "Communication on further steps in smart regulation" to reduce the overall regulatory burden at EU and national levels with specific focus on SMEs and micro-enterprises;
- (e) **Research and Innovation**: co-legislators to make progress on Horizon 2020 and COSME in view of timely adoption in 2013 and reiterate the need to finalise the ERA by the end of 2014 in order to achieve a genuine single market for knowledge, research and innovation; stress the importance of an integrated approach to key enabling technologies;
- (f) **Trade**: be informed by the Commission of the state of play concerning ongoing negotiations and agree to have a more substantial discussion on the EU's trade policy in February 2013; call for rapid agreement to be reached on the negotiating guidelines for a FTA with Japan; call for finalisation of FTA negotiations with Canada, Singapore and India in the coming months;
- (g) **Financing of the economy**: invite the EIB Board of Governors to accelerate procedures for the adoption of the capital increase agreed in June, in order for the decision to become effective by the end of the year; welcome the adoption of the pilot phase of the project bond initiative;
- (h) **Financial Transactions Tax**: p.m.

- (i) **Fight against tax fraud and evasion**: call to step up efforts in particular in relation to savings taxation;
- recall the need for determined implementation of the Country Specific Recommendations; underline the need for a thorough preparation of the 2013 European Semester and look forward to the early presentation by the Commission of its Annual Growth Survey in at the end of November; welcome ongoing work in the Council on lessons learnt from the 2012 exercise and invite Presidency to present a "synthesis report" in December; call for improvements to be made already for the 2013 exercise; in particular stress the need for more emphasis on implementation of the policy advice, modalities for deeper and more continuous dialogue, better articulation between the work of relevant Council formations and better planning and coordination;

Completing EMU

Further to the bilaterals conducted by the Cabinet of the President of the European Council during the week of 17 September, the Head of Cabinet of the President of the EC briefed Coreper at a lunch on 1st October with a view to the meeting of Sherpas, EFC members and Permanent Representatives on 4 October. Both the Eurogroup on 8 October and ECOFIN on 9 October will be asked to exchange views on the issues related to the integrated financial framework. The interim report by the four Presidents will be sent to delegations on 12 October. The usual preparations for the EC meeting will take place within Coreper and the GAC. In addition, the President of the European Council will hold a video-conference with GAC Ministers over lunch on 16 October on preparations for the European Council; this will also allow delegations to make comments on the interim report.

Regarding the Commission proposals of 12 September on the banking supervisory package, the Presidency has established an Ad Hoc Working Party which will meet intensively over the coming weeks in order to meet the deadline set last June. Close close contact will be kept with the European Parliament. Work is in the meanwhile also advancing on the proposals on Deposit Guarantee Schemes, on CRD, and on a framework for the recovery and resolution.

In its conclusions, the European Council could cover the following points:

- **following the interim report presented by the President of the European Council in close collaboration with the other 3 presidents, look forward to the final report and precise roadmap to be presented at the December EC and resting on the essential building blocks on which a genuine EMU should be based;**

1. Integrated financial framework

a) Single supervisory mechanism (SSM) and other legislative proposals

- **call on the legislators to accelerate work on the legislative proposals on the SSM as a matter of priority by the end of the year in line with the June 2012 Euro Summit declaration;**
- **stress the need to ensure a clear separation between ECB monetary policy and supervision functions, the need to ensure fair treatment and representation of both euro and non-euro area Member States participating in the SSM as well as a level-playing field between those which take part in the SSM and those which do not and the integrity of the single market for financial services;**
- **state the need to ensure the appropriate accountability and transparency for the ECB supervisory function, notably vis-à-vis the European Parliament;**
- **state that an acceptable and balanced solution should be sought regarding the voting modalities and decisions under the EBA regulation that ensures non-discriminatory and effective decision-making within the single market; stress the need for EBA to retain its existing powers and responsibilities;**

- call for the rapid adoption of the existing legislative proposals on bank recovery and resolution, national deposit guarantee schemes, which are crucial elements of the single rule book; also call for the rapid conclusion of work on the Capital Requirements Regulation and Directive 4. The provisions related to the harmonisation of national resolution and deposit guarantee frameworks, are particularly important. The provisions related to mandatory lending between national funds in the existing proposals should be considered separately;
- commit to move towards a fully-fledged integrated financial framework for the Euro area. In particular, this would require the Commission to propose, after the existing Recovery and Resolution Directive and the Deposit Guarantee Scheme Directive have been adopted, a common resolution authority to be set up alongside the single supervisory mechanism;

b) Direct bank recapitalisation

- call on the Eurogroup to agree on the exact operational criteria that will guide direct bank recapitalisations by the ESM in full respect of the 29 June Euro Area summit Statement;

2. Integrated budgetary and economic policy frameworks and democratic legitimacy and accountability

- call on the legislators to adopt the "two-pack" by end-2012. 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". Call on national authorities and European Institutions to implement them fully;

- for the Euro area, beyond the current steps to reinforce economic governance, evolving towards an integrated budgetary framework is necessary to ensure sound budgetary policies at the national and European levels that contribute to sustainable growth and ensure macroeconomic stability. 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;
- the smooth functioning of EMU requires stronger coordination, convergence and enforcement in the areas of economic policy. In this context, the idea for the Euro area Member States to enter into individual contractual arrangements with the European level on the reforms they commit to undertake and their implementation should be explored;
- in the context of a renewed EMU with a more binding economic policy framework, one should explore the possibility of supporting Member States' reform efforts with limited, temporary, flexible and targeted financial incentives;
- 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;
- 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 are effected at the level at which the decisions are taken.

II. STRATEGIC PARTNERS

The European Council will focus its attention to the European Union's relations with China, assessing the outcome of the 20 September EU/China Summit and discussing the future of bilateral relations notably in the context of the change in the Chinese leadership. The Head de Cabinet of the President of the European Council will explain in more detail to the members of COREPER how the President intends to frame the discussion.

There will be no written conclusions for this point. The idea is rather to have an open and political exchange of views. This does not exclude some oral conclusions if necessary, for instance on the implementation of the internal arrangements to improve the EU's external relations agreed at the September 2010 European Council meeting.

III. OTHER ITEMS

The 15 October FAC will discuss the situation in Syria. In the light of that discussion, if it appears that there are elements for the EC conclusions which would present a real added value, a brief text will be included in the draft which will issue shortly after the GAC.
