The European Council in 2011
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by the President of the European Council, Herman Van Rompuy

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The European Council, December 2011, welcoming Croatia as 28th member of the Union
In the past year, the sovereign debt crisis in the eurozone became even more intense. This is the most serious test that the European Union has faced since long. Over these twelve months, European leaders from all 27 member states took major decisions, individually and jointly, to bring this storm to rest. We were united by the sheer determination to overcome the euro crisis. We are aware that there is no quick fix and that the path will be long and arduous. Yet we remain convinced that it is necessary to safeguard the achievements of sixty years of European integration and to lay the foundations for the future.

*The European Council in 2011* covers the institution’s activities in 2011, the second year of my mandate as its president. The stability of the eurozone and the state of our economies required our full attention. So did the changing geopolitical landscape around us, not least as a result of the Arab spring.

The European Council brings the Union’s highest executive leaders around the table: the 27 Heads of State or Government of the member states, the President of the Commission, and the President of the European Council. Together we establish political priorities, we set the Union’s strategic course and we take responsibility in crisis situations.

In the course of 2011 we welcomed new colleagues, and said goodbye to former ones, after government changes in Ireland, Finland, Portugal, Denmark, Greece, Italy and Belgium. Some of these changes were related to the public debt crisis. Colleagues from two countries agreed to hold anticipated parliamentary elections to preserve the financial stability of the eurozone: in order to help restore market confidence in Spain, and in Slovakia to honour a pledge to contribute to a stronger firewall. These are all signs of how European and national politics are now woven together ever more tightly.

The Lisbon Treaty requires a minimum of four European Council meetings to be held each year. Circumstances have required us to work more closely together. In 2011, there were five formal European Council meetings, an extraordinary one, one informal meeting of the European Council members, as well as four separate summits of the Heads of State or Government of the eurozone, which I also chaired.

From the table of the Union’s leaders I can testify that, even if we have sometimes frank discussions, there is a strong and fundamental political will to work as equals, to help each other and to move forward as a Union, respecting fully each other’s situation. All along our aim has been to establish the right balance between collective solidarity and individual responsibility in safeguarding the common European good, be it the single currency, the internal market or a common border. Dealing with the tension between unity and diversity remains the daily bread of our Union.
The stability of the eurozone

Safeguarding the eurozone's financial stability was again the overriding objective during most of this year's meetings. All along we had a double duty: taking emergency action, such as the setting up and improving of rescue funds, while also putting together, step-by-step, a new economic governance to avoid future problems. Our efforts were a year-long quest for convergence, discipline and integration – from the 1st of January, when we welcomed Estonia as the 17th member of the monetary union, until the end of December, when we defined how to enshrine stricter rules for the eurozone in a new fiscal stability union.

All colleagues have taken responsibility over the difficult decisions we have collectively taken. Tough budgetary measures and economic reforms were adopted throughout Europe, in particular in the countries undergoing adjustment programmes – Greece, Ireland and Portugal – and in countries facing market pressure, such as Spain and Italy. Whether defending these austerity measures at home or convincing reluctant parliaments and public opinions to step in with considerable loans to other member states, it required political courage and statesmanship.

The public debt crisis, which began as a further chapter in the global financial and economic crisis of 2008-2009, has hit us hard for two reasons. Firstly, it has brought to the surface structural weaknesses in some European economies, such as unsustainable levels of public or private debt or declining competitiveness. That is why we gave priority to boosting structural growth and jobs. Secondly, the crisis has revealed systemic shortcomings within the Economic and Monetary Union itself. Beyond the immediate actions to safeguard the eurozone's financial stability, we have therefore focused on restoring the euro's structural credibility. To achieve this aim, raising expectations of a solve-it-all-summit is not helpful. The work will take further time and more meetings in the year ahead.

Stopping contagion

Looking back at the past twelve months, the major shift seems to have occurred in the course of the summer, with August as the watershed. Indeed, in the first half of the year we worked with a prudent confidence on improving the toolbox we had agreed upon in principle at the end of 2010. In the second half of the year however, deteriorating market conditions forced us to re-think our response in view of the crisis' depth.

In a series of meetings in February, March and June 2011, we developed and adopted a comprehensive package of economic measures. This entailed stricter budgetary and macro-economic surveillance, more effective rescue mechanisms, reforms for growth and competitiveness, debt relief and financial sector repair.

By early July, worsening conditions in some of the most exposed economies, in particular Greece, required us to prove that the eurozone as such could deal with the risk of financial contagion. From a series of national debt crises the situation was evolving into a systemic concern, threatening the stability of the eurozone as a whole. I convened a meeting of euro area leaders on 21 July, which proved key. We agreed on a second assistance programme for Greece, to be financed by EU member states and the IMF, exceptionally including a voluntary private sector involvement. We also agreed on measures to stop contagion, in particular by making the EFSF rescue fund more effective.
The immediate reaction to the summit’s outcome was positive, reassuring markets over the eurozone’s resilience. However, in early August the crisis intensified, following a misunderstanding and fear that the private sector involvement for Greece might set a precedent for other euro countries. Some doubts also crept in about the implementation of the package. These proved unfounded in the end: all 17 national parliaments duly approved it within three months – an impressive feat by political standards, even if it is slow by market standards! Yet the harm was done. Market volatility began to grow, interest rates for one of the eurozone’s largest economies began to rise dramatically, and this during the very days when brinkmanship in the American Congress about a potential US default fuelled market uncertainty. Moreover, the economic growth was also slowing down sharply worldwide. All these problems fed each other.

In a series of meetings in October we had to take further decisions on the by now familiar fronts where action was needed: the Greek debt sustainability, the firewall against contagion, the banking sector, economic growth. Moreover, individual member states such as Italy committed to major efforts to consolidate their budgets and improve competitiveness, which helped to restore confidence.

In December, during our last meeting in 2011, we agreed major steps to bring the eurozone into safer waters. We further developed and defined our short-term stabilisation tools, for instance providing additional resources to the IMF and reviewing our approach to private sector involvement in the ESM treaty, strictly aligning it with IMF principles and practices. In this respect, Greece will remain a unique case. We also had a more fundamental discussion on the systemic response to give to the euro crisis, resulting in a “fiscal compact”. Indeed, in October the leaders of the euro area had asked me to prepare a report and roadmap on how to strengthen the economic union. In the long night of 8 to 9 December, colleagues and I gathered to decide the course of action. We quickly agreed on the aim, but as happens in the EU – built after all on treaties, protocols, laws – choosing the legal means proved more delicate. In the end, we decided that in order to improve their budgetary behaviour and economic policy coordination, eurozone members will sign a separate agreement. All future euro members indicated their intention to participate in this effort: in itself this is the best vote of confidence in the future of the single currency.

**Discipline and convergence**

Sound national budgets are essential to safeguard the stability of the monetary union. This is why in the course of 2011 the Union strengthened its budgetary rules and surveillance mechanisms. The European Council gave a decisive impetus to this work, closely following the legislative work in this field which we had put into motion the year before, and opening a new avenue in order to go further. If we had had all the current tools at our disposal right at the start of the crisis, a lot of harm could have been avoided.

First of all, the basic budgetary rules themselves will be decisively strengthened as a result of the fiscal compact. Eurozone countries commit to balanced budgets, with a maximum structural deficit of 0.5 percent, going beyond current engagements. They will transpose this new fiscal rule into their national legislation before the end of 2012, preferably at constitutional or equivalent level. There is no better constraint than self-constraint.
A matter of common concern

The crisis has brought about a new way of looking at each other’s performance: a stronger sense of common responsibility. In this respect, the reform in economic governance is multifaceted. It is the overall combination of institutional pressure, peer pressure and market pressure which will prevent us from getting into such difficulties again.

The pressure which European political leaders put on each other has become much more intense. Not just because of the new institutional set-up, but also as a result of events. In preserving the stability of the eurozone as a whole, leaders protect jobs and growth in their own country; those whose countries would have to step in with loans paid for by their tax-payers have strong motives to exercise a strong peer surveillance. Phone calls between leaders on the debts of their countries take place on a near daily basis: a very concrete translation of the abstract notion of “interdependence”! The scrutiny of the public and the press has also played a remarkable role in keeping all of us alert.

All in all, we have achieved much in twenty months. With the further steps currently under discussion, the Union is giving itself the means to live up to the key principle it enshrined in the Treaties exactly twenty years ago, in Maastricht: "Member States shall regard their economic policies as a matter of common concern". In 2012, we will further examine a deepening of our economic union, a subject on which I will report to the March European Council. In my view it is important to show that we do not only punish those who do not respect the rules but also link our policies. We must demonstrate that the euro is more than a currency: an irreversible project, a common destiny.

Furthermore, in order to reinforce compliance with the rules, institutional pressure has been stepped up. Sanctions become quasi-automatic, both correctively and preventively. Participants to the fiscal compact agreed that, in case they breach the deficit rule, a self-defined automatic adjustment will apply. In addition, draft budgetary plans will be examined at an earlier stage by the Commission.

Finally, financial support for countries under an assistance programme is subject to a strict macro-economic conditionality, as is currently the case for Greece, Ireland and Portugal. The Commission will take on a stronger role in monitoring the process and in enforcing measures.

Even if sound budgets are a necessary condition to prevent a crisis, some countries have learnt the hard way that they are not sufficient. This is why as of 2012 the Union will closely monitor not only public debt and deficits, as foreseen in the Stability and Growth Pact, but also risks of asset bubbles or trade imbalances. Moreover, all major economic policy reforms which have a potential impact on other members of the euro area will be examined by the Commission.

Countries sharing one currency cannot afford economic divergences as have occurred in the past. Increasing upward convergence was the driving idea behind the so-called "Euro Plus Pact" that we set-up in March. Twenty-three member states took voluntary commitments to work in the same direction in areas such as labour market reforms, pensions and social benefits, or private debts of banks and households. These structural reforms will be instrumental in putting Europe back on the path towards sustainable and job-creating growth.

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Members of the European Council talking to the press
People in Europe are increasingly worried about their jobs, their savings and the future of their children. The Union needs to be responsive to these concerns. As we address the immediate effects of the crisis, we have also put in place a strategy for growth and jobs for the next decade.

Long-term measures can have a positive short-term impact too, certainly when the key to overcoming the crisis is regaining credibility. A perspective of sustained economic growth can do much to bring back confidence, create jobs and absorb debt.

As the fiscal situation in many member states is tight, stimulating growth through deficit spending is not the solution. Yet we can still do much. We have encouraged that the national and European budgets give priority to expenditure on areas which lead to more growth, we have pushed for structural economic reforms in each member state and we have decided to deepen the internal market as a means to increase competitiveness. It is our conviction that all three approaches can yield huge results.

In March and June, in the context of the first European Semester, the new framework for economic policy coordination, we assessed each other’s progress not only in terms of deficit and debt reduction, but also in terms of growth inducing reforms. The Commission gave uncompromising assessments and put strong recommendations on the table, which the European leaders personally pledged to implement.

The October European Council worked on boosting our common growth agenda. We decided to accelerate those measures in the Single Market Act which will create jobs and growth in the short to medium term, for instance by making it easier for small and medium size enterprises to get credit and to hire employees. The digital single market has a special place. We also agreed that all EU central funding, to the extent possible, must be focused on growth-related measures. This should be applied to the current budget where still possible (2007-2013) and certainly become a guiding principle in the Union’s upcoming seven-year budget (2014-2020). We will carry on our work on these issues at our March meeting next year, on the basis of the Commission’s annual growth survey and a contribution by the incoming Danish Presidency.

Energy and innovation

Innovation and energy are both key to future growth and prosperity. These twin themes touch upon the great societal challenges of our times: attractive jobs, healthy aging, a green and low-carbon economy, secure energy supply. That is why I decided we should have a debate on these issues in February. On both energy and innovation we gave a strong strategic impulse and we took important decisions, with concrete deadlines. On venture capital: with proposals within twelve months. On a single research area: to be in place by 2014. On an integrated energy market: fully functioning by 2014. On connecting gas and electricity networks between all member states: operational by 2015. Taking a long-term view is also essential, and this is why we called for the elaboration of a low carbon 2050 strategy, to provide the framework for our action in the fields of energy and climate change.

In the immediate aftermath of the tragic events of Fukushima in Japan, nuclear safety stood out as a major concern. At the March European Council, we made a clear commitment that the highest safety standards should be implemented (and continuously improved)
in the Union and in our neighbourhood. As a result, an ambitious programme of nuclear “stress tests” was developed and rolled out, in Europe and partner countries, to ensure the safety of nuclear plants.

Restoring growth, a global responsibility

All leaders are fully aware that Europe is living a moment of truth. The financial crisis has accelerated some long-term trends. Global economic power is shifting - to the emerging countries, to the Pacific. In that respect, “business as usual” would consign us to a gradual relative decline. Yet rising levels of prosperity around the world are also an opportunity. We can improve our trade performance and attract more foreign investment. Free trade agreements play a role here. In our quest for growth, we should focus our efforts to engage the growth of those partners whose markets are expanding at a significant pace. This is why in our October meeting we also discussed how to use these relations more strategically.

We are aware that people in other economies look at us, since our problems may affect their jobs, pensions or savings. We likewise expect the other major economies to take responsibility for their own internal challenges. It is in their interest that the European Union and the eurozone in particular put those difficulties behind them. But it is equally also in Europe’s interest that the US stabilises its public debt situation, or that China stimulates its domestic demand and make its exchange rate more flexible. Each has to bring their house in order. This has been a constant theme in all international meetings.
The President of the European Council addressing the UN General Assembly, 22 September 2011
The Union in the world

Arab world – spring and beyond

The uprisings in the Arab world of 2011 marked for us the most momentous geopolitical shift since the end of the Cold War. History on the move, right at Europe's southern borders. The protesters’ aspirations were familiar to young men and women all over the world: jobs and justice, a say in their country’s politics, social justice, a hope for a better life. From the outset, we were determined to use whatever is within our means to secure a positive outcome of these dramatic changes, to help to turn this ‘Arab spring’ into a truly new beginning.

Whilst there were positive and negative developments across the region, in February events in Libya became particularly worrisome. A leader shooting at his own people, a country close to civil war, a humanitarian crisis looming, right across the Mediterranean. We could not stand idly by while a massacre was about to take place. I convened an extraordinary European Council on Libya on 11 March 2011 – there were only three such emergency meetings in the past ten years: after 9/11, the Iraq war and the Georgia war. We agreed unanimously that the safety of the Libyan people had to be ensured by all necessary means. We also formulated the three conditions that allowed the UN Security Council, a few days later, to pass the landmark Resolution 1973 on the protection of the people of Libya. This then provided the basis for the international community to act, with regional support and European countries in the lead.

All countries in the region face tremendous challenges: reconciliation, political transition, reconstruction. Reforms are underway from Morocco and Tunisia to Egypt and Jordan. We stand ready to support their steps towards democratic transformation and economic reforms. This is why the Union offered a new Partnership for democracy and shared prosperity to the countries in the region.

Unfortunately the Arab spring has not resulted only in happy outcomes. The violence in Yemen still is a cause of concern. The unacceptable situation in Syria in particular prompted us to call on the international community to join its efforts in imposing tough sanctions.

The Arab world is in motion. These developments will take time. It is not by toppling a dictator that a democracy is born. Nor is it by organising free elections that unemployment will disappear. We are talking about transitions. The European Union therefore offers long-term support to ensure that the aspirations of the Arab people are truly met.

On this side of the Mediterranean

In looking to our neighbours to the South, we do not forget those to the East. The second Eastern Partnership Summit held in Warsaw on 29-30 September was testimony to our will to remain actively engaged with countries like Moldova, Ukraine and Georgia and to advance their political association and economic integration with the European Union. We made clear that for each of the six "Eastern Partners" the pace and depth of this process will depend on the upholding of the democratic principles and rule of law.

An agreement at the June European Council paved the way for the signing in December of Croatia’s Treaty of Accession to the European Union. Its entry as 28th member state in 2013 seals the European destiny of the countries in the Western Balkans. Not only did we officially open the door for the Croatians, but we also made clear that we would not close it behind
 Acting globally

The European Council will continue to play its role in setting the Union’s strategic compass. We discussed foreign affairs at almost all of our meetings – ranging from preparing European positions for upcoming bilateral or multilateral summits like the G8 or the G20, to discussing matters of common concern such as the Iranian nuclear programme or climate change. In doing so, we strive to engage our strategic partners, in particular the United States, Russia, as well as China (a country to which I paid an official visit in May) and the other emerging economies. We supported Japan in its efforts to overcome the triple disaster in March of an earthquake, a tsunami and a nuclear accident.

All in all, the European Union is making progress on the international stage. Breakthroughs have been made, like the newly acquired enhanced status at the United Nations, which gave me the privilege of addressing for the first time the UN General Assembly on behalf of the European Union in September this year. Setting precedents, step by step, this is how Europe has always made progress, in this area as in others.

In June, we discussed the question of migration. I had identified the topic nine months earlier but it had gained a sense of urgency in the wake of the Arab spring. Effective management of our external borders is also essential to the free movement of persons within our borders, a cardinal achievement of European integration. In order to be able to better respond to crisis situations, we decided to introduce a safeguard to the Schengen mechanism. In order not to undermine the fundamental right of free movement it shall only be applicable under strict conditions. We also agreed that a successful migration policy starts outside Europe’s borders. Therefore the new partnerships with our neighbours include also migration, mobility and security aspects. The best way to reduce the pressure on our borders is by helping young people to build a future in their own country.

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Summits and meetings with third countries
During 2011, many observers of European politics were struck by the fact that the speed of the markets is not the same as the speed of democracy. Markets indeed have the luxury of moving at a click of a mouse. Democratic processes often take long months to achieve a result. This temporal conflict has proved a major challenge. All the more so since, within political time, there are three aspects to be distinguished. The time of parliamentary democracies, determined by legislative procedures, by votes, by the need to get a majority. The time of public opinion, which has to experience a change in reality to be convinced. And the time of implementation, of executing the measures once they are agreed: this is vital too, for instance for structural reforms. In that respect the request for speedier EU decision-making is sometimes...

In a world of flux and volatility, stable political institutions can bring certainty and continuity and help us shape our destiny. The Union’s institutions are quite young – the oldest ones will turn sixty next year, which is nothing compared to century-old parliaments, councils and courts in many member states. But they share the same aspiration: channelling change, absorbing shocks, setting out new directions.

However, to play this role, institutions need a life and a time of their own. The European Council, a formal institution since the Lisbon Treaty, is no exception. Thanks to the new continuity of my function it is better equipped to steer change, to give orientations or quite practically to follow-up earlier decisions.

A time to every purpose

First semester of 2011, Hungary chairs the Council of ministers of the EU
just not credible. It takes time to tie many interests and sensitivities together in a solid decision acceptable to all. When one designs a new house, should it be ready within a week? Time is the politician’s cement.

As the institution’s first permanent president, I have established from the start good working relations with all other European institutions. In 2011, the personal trust developed through these quasi-permanent contacts proved essential. This has been the case with European Commission President José Manuel Barroso, with the Eurogroup President Jean-Claude Juncker, with High Representative Catherine Ashton and with Jerzy Buzek, President of the European Parliament. It has also been a pleasure to work with the two rotating Council Presidencies of 2011 – first with Hungarian Prime Minister Viktor Orban, and then with Polish Prime Minister Donald Tusk: both bringing élan and a European spirit to the negotiating tables. I also visited practically all members of the European Council in their capitals. In constant dialogue, the 27 Heads of State or Government also seem to meet each other ever more frequently outside Brussels, partly as a consequence of our ongoing work on the eurozone. Furthermore, the European Council nominated Mario Draghi President of the European Central Bank; he entered office in November and we are confident he will be as reliable a guide as his predecessor Jean-Claude Trichet.

Faced with challenges affecting the material and symbolic heart of the Union, the euro, all worked in a spirit of cooperation, respect and a sense of shared
responsibility. Take the coming-about of the stronger budgetary and macro-economic surveillance and discipline. Following the taskforce which the March 2010 European Council asked me to chair, the Commission made its legislative proposals, which the European Parliament and the Council of ministers discussed intensely (the latter under three Council Presidencies). The final bone of contention between the legislators concerned the ‘reversed majority vote’, which had become the symbol of more automatic decision-making. This obstacle was cleared at the July 2011 euro summit, when all eurozone leaders recognised the importance of credible compliance. The measures have entered into force on 13 December 2011 and are as of now helping to prevent future turmoil.

In the course of the year, we have also developed the eurozone’s institutional set-up. We decided to have more regular euro summit meetings, at least twice a year and not only in periods of tensions. These meetings will be chaired by a Euro Summit President, to be elected by euro area leaders at the same time as the 27 elect the President of the European Council. The existing administrative structures supporting the work of the euro Finance Ministers have also been strengthened. Much has been said about the relationship between the members of the eurozone and the others. My reasoning is simple. It is natural that those who share a common currency – which by the way in the Union is the norm and not the exception – need to take some common decisions. Indeed, problems arose because the interdependence between them was underestimated. However, it is also important to safeguard the integrity of the single market among the 27. This gives the Union cohesion and is the very basis of our prosperity and our role in the world. So we must keep the links between the two types of configurations, and any intermediate forms, as close as possible. It will require some creativity now and then, but together much is possible in a spirit of trust.
Meetings between European Heads of State or Government across Europe
The world is changing rapidly and so is Europe's place within it. Slow economic and demographic global trends are accelerating, becoming more visible and concrete, confronting us with new challenges.

In facing them, we can draw confidence from the political will we mustered in the past year: a series of major decisions to safeguard our currency and our prosperity, a relentless focus on creating jobs and growth, standing up for our values in the world. We can draw confidence, too, from the courage and resilience which the Europeans have shown in a period where hardship and austerity take their toll: young people urging for change, graduates starting businesses, citizens showing solidarity and a sense of the public good.

In 2012, the European Council will continue to deal with the urgent and the important, acting in a spirit of compromise and responsibility. The stakes are high.

The Union's more than 500 million citizens live on the most prosperous and social, the most free and secure continent on earth. The decisions taken by political leaders and by Europeans themselves will determine our future prosperity - and indeed the fate of our social and economic model. A civilisation of human dignity, a continent of unity in diversity.

The key for the future is to harness the forces of change. It is the ultimate raison d'être of this institution. In view of the sixty year old history of the Union's unique endeavour – and whichever path we will find or forge – I am confident that, in dealing with the inner tensions and the outer pressure, Europe will continue to reinvent itself, for the better.

Herman Van Rompuy
Conclusions of the European Council and statements by Heads of State or Government

European Council – 4 February 2011
Extraordinary European Council – 11 March 2011
Statement by the Heads of State or Government of the euro area – 11 March 2011
European Council – 24-25 March 2011
Statement by the Heads of State or Government of the euro area – 21 July 2011
European Council – 23 October 2011
Statement by the Heads of State or Government of the European Union – 26 October 2011
Statement by the Heads of State or Government of the euro area – 26 October 2011
Statement by the Heads of State or Government of the euro area – 9 December 2011
European Council – 9 December 2011
Towards a Stronger Economic Union:
Interim Report to the European Council – 6 December 2011
EUROPEAN COUNCIL — 4 FEBRUARY 2011

CONCLUSIONS

1. Beyond the immediate action required to tackle the most pressing challenges posed by the economic and financial crisis, it is important to continue laying solid foundations for a sustainable and job-creating growth. This is the purpose of the Europe 2020 Strategy for jobs and growth adopted last June. Today, the European Council focused on two sectors – energy and innovation – which are key to Europe’s future growth and prosperity. It agreed on a number of priority actions whose implementation will contribute much to enhancing growth and job creation as well as promoting Europe’s competitiveness.

I. ENERGY

2. Safe, secure, sustainable and affordable energy contributing to European competitiveness remains a priority for Europe. Action at the EU level can and must bring added value to that objective. Over the years, a lot of work has been carried out on the main strands of an EU energy policy, including the setting of ambitious energy and climate change objectives and the adoption of comprehensive legislation supporting these objectives. Today’s meeting of the European Council underlined the EU’s commitment to these goals through a number of operational conclusions, as set out below.

3. The EU needs a fully functioning, interconnected and integrated internal energy market. Legislation on the internal energy market must therefore be speedily and fully implemented by Member States in full respect of the agreed deadlines. Council and European Parliament are invited to work towards the early adoption of the Commission’s proposal for a Regulation on energy markets integrity and transparency.

4. The internal market should be completed by 2014 so as to allow gas and electricity to flow freely. This requires in particular that in cooperation with ACER national regulators and transmission systems operators step up their work on market coupling and guidelines and on network codes applicable across European networks. Member States, in liaison with European standardization bodies and industry, are invited to accelerate work with a view to adopting technical standards for electric vehicle charging systems by mid-2011 and for smart grids and meters by the end of 2012. The Commission will regularly report on the functioning of the internal energy market, paying particular attention to consumers including the more vulnerable ones in line with the Council conclusions of 3 December 2010.

5. Major efforts are needed to modernise and expand Europe’s energy infrastructure and to interconnect networks across borders, in line with the priorities identified by the Commission communication on energy infrastructure. This is crucial to ensure that solidarity between Member States will become operational, that alternative supply/transit routes and sources of energy will materialise and that renewables will develop and compete with traditional sources. It is important to streamline and improve authorisation procedures, while respecting national competences and procedures, for the building of new infrastructure; the European Council looks forward to the forthcoming proposal from the Commission in that respect. The various initiatives undertaken by Member States to integrate markets and networks at a regional level as well as those outlined in the Commission communication contribute to the objective and deserve support. No EU Member State should remain isolated from the European gas and electricity networks after 2015 or see its energy security jeopardized by lack of the appropriate connections.

6. The bulk of the important financing costs for infrastructure investments will have to be delivered by the market, with costs recovered through tariffs. It is vital to promote a regulatory framework attractive to investment. Particular attention should be given to the setting of tariffs in a transparent and non-discriminatory manner at levels consistent with financing needs and to the appropriate cost allocation for cross-border investments, enhancing competition and competitiveness and taking account of the impact on consumers. However, some projects that would be justified from a security of supply/solidarity perspective, but are unable to attract enough market-based finance, may require some limited public finance to leverage private funding. Such projects should be selected on the basis of clear and transparent criteria. The Commission is invited to report by June 2011 to the Council on figures on the investments likely to be needed, on suggestions on how to respond to financing requirements and on how to address possible obstacles to infrastructure investment.

7. In order to further enhance its security of supply, Europe’s potential for sustainable extraction and use of conventional and unconventional (shale gas and oil shale) fossil fuel resources should be assessed.

8. Investments in energy efficiency enhance competitiveness and support security of energy supply and sustainability at low cost. The 2020 20% energy efficiency target as agreed by the June 2010 European Council, which is presently not on track, must be delivered. This requires determined action to tap the considerable potential for higher energy savings of buildings, transport and products and processes. As of 1 January 2012, all Member States should include energy efficiency standards taking account of the EU headline target in public procurement for relevant public buildings and services. The Council is invited to promptly examine the upcoming Commission
11. There is a need for better coordination of EU and Member States' activities with a view to ensuring consistency and coherence in the EU’s external relations with key producer, transit, and consumer countries. The Commission is invited to submit by June 2011 a communication on security of supply and international cooperation aimed at further improving the consistency and coherence of the EU’s external action in the field of energy. The Member States are invited to inform from 1 January 2012 the Commission on all their new and existing bilateral energy agreements with third countries; the Commission will make this information available to all other Member States in an appropriate form, having regard to the need for protection of commercially sensitive information. The High Representative is invited to take fully account of the energy security dimension in her work. Energy security should also be fully reflected in the EU’s neighbourhood policy.

12. The EU should take initiatives in line with the Treaties in the relevant international fora and develop mutually beneficial energy partnerships with key players and around strategic corridors, covering a wide range of issues, including regulatory approaches, on all subjects of common interest, such as energy security, safe and sustainable low carbon technologies, energy efficiency, the investment environment and maintaining and promoting the highest standards for nuclear safety. It should encourage neighbouring countries to embrace its relevant internal energy market rules, notably by extending and deepening the Energy Community Treaty and promoting regional cooperation initiatives. In the context of the Energy Strategy 2020 it should also develop measures as necessary to ensure a level playing field for EU power producers vis-à-vis producers outside the European Economic Area. Europe needs to diversify its routes and sources of supply. The Commission is accordingly invited to continue its efforts to facilitate the development of strategic corridors for the transport of large volumes of gas such as the Southern Corridor.

13. Work should be taken forward as early as possible to develop a reliable, transparent and rules-based partnership with Russia in areas of common interest in the field of energy and as part of the negotiations on the post-Partnership and Cooperation Agreement process and in the light of on-going work on the Partnership for Modernization and the Energy Dialogue.

14. The EU will cooperate with third countries in order to address the volatility of energy prices and will take this work forward within the G20.

15. The European Council looked forward to the elaboration of a low carbon 2050 strategy providing the framework for the longer term action in the energy and other related sectors. Reaching the EU objective, in the context of necessary reductions according to the IPCC by developed countries as a group, of reducing greenhouse gas emissions by 80-95% by 2050 compared to 1990 as agreed in October 2009 will require a revolution in energy systems, which must start now. Due consideration should be given to fixing intermediary stages towards reaching the 2050 objective. The European Council will keep developments under review on a regular basis.

II. INNOVATION

16. Investment in education, research, technology and innovation is a key driver of growth, and innovative ideas that can be turned into new marketable products and services help create growth and quality jobs. The European Council called for the implementation of a strategic and integrated approach to boosting innovation and taking full advantage of Europe’s intellectual capital, to the benefit of citizens, companies - in particular SMEs - and researchers. It will monitor progress in the framework of the follow up to the Europe 2020 Strategy.

17. In this connection, the European Council noted the trends and developments revealed by the current Commission innovation scoreboard. It invited the Commission to quickly develop a single integrated indicator to allow a better monitoring of progress in innovation. It will keep developments concerning the above under review.

18. Innovation contributes to tackling the most critical societal challenges we are facing. Europe’s expertise and resources must be mobilized in a coherent manner and synergies between the EU and the Member States must be fostered in order to ensure that innovations with a societal benefit get to the market quicker. Joint programming should be developed. The launch of the pilot Innovation Partnership on active and healthy ageing is an important step in that context. Regular monitoring by the Council will be necessary in order to reach long term objectives as well as concrete goals to be fixed year by year. The Council will take the necessary political decisions on future Innovation Partnerships before they are launched.

19. Europe needs a unified research area to attract talent and investment. Remaining gaps must therefore be addressed rapidly and the European Research Area
completed by 2014 to create a genuine single market for knowledge, research and innovation. In particular, efforts should be made to improve the mobility and career prospects of researchers, the mobility of graduate students and the attractiveness of Europe for foreign researchers. Furthermore, information about publicly financed R&D should be better disseminated, whilst respecting intellectual property rights, notably through the establishment of an inventory of EU-funded R&D, linked to similar inventories of R&D programmes funded at national level.

20. Private investment in innovative products and services should be encouraged, in particular by improving framework conditions. In this regard, the Commission is invited to:
− make proposals to accelerate, simplify and modernize standardization procedures, notably to allow standards developed by industry to be turned into European standards under certain conditions;
− provide guidance on the application of the Directives on public procurement; more generally public procurement should be better geared to creating greater demand for innovative goods and services;
− conduct a mid-term review of the relevant State aid frameworks during 2011;
− explore options for setting up an intellectual property rights valorisation instrument at the European level, in particular to ease SMEs’ access to the knowledge market and to report back to the Council by the end of 2011.

21. The Commission is invited to make rapid progress in key areas of the digital economy to ensure the creation of the Digital Single Market by 2015, including the promotion and protection of creativity; the development of e-commerce and the availability of public sector information.

22. Every effort should be pursued to lift remaining legal and administrative obstacles to the cross-border operation of venture capital. The Commission is invited to present proposals by the end of 2011:
− for putting in place an EU-wide venture capital scheme building on the EIF and other relevant financial institutions and in cooperation with national operators;
− for scaling up the Risk Sharing Finance Facility;
− and for assessing how best to meet the needs of fast growing innovative companies through a market-based approach. In this connection the Commission is also invited to explore the feasibility of a Small Business Innovation Research Scheme.

23. In conducting fiscal consolidation, Member States should give priority to sustainable growth-friendly expenditure in areas such as research and innovation, education and energy.

24. Such efforts should be coupled with clear reform measures aimed at boosting the effectiveness of Member States’ research and innovation systems. At national level, Member States recall their willingness to devote at least 50% of ETS revenue to finance climate-related action, including innovative projects. They should also improve the use of existing Structural Funds allocated to research and innovation projects.

25. It is crucial that EU instruments aimed at fostering R&I are simplified in order to facilitate their take-up by the best scientists and the most innovative companies, in particular by agreeing between the relevant institutions a new balance between trust and control and between risk taking and risk avoidance. The Commission is invited to make proposals by the end of the year, ensuring that the full range of research and innovation financing instruments work together within a common strategic framework. The development of financing mechanisms adequate for the financing of major European projects that are important drivers for research and innovation should be explored. It is more than ever crucial to improve the efficiency of public expenditure at national and EU levels. In this connection, the simplification of the financial regulation should be adopted by the end of the year in order to ensure effective delivery mechanisms for EU policies.

III. ECONOMIC SITUATION

26. The European Council reviewed the economic situation and noted that the overall economic outlook is improving although important challenges still remain. It agreed on the way forward to the March European Council.

27. The European Council called on the Council to reach in March a general approach on the Commission’s legislative proposals on economic governance, ensuring full implementation of the recommendations of the Task Force, so as to reach a final agreement with the EP by the end of June. This will allow strengthening the Stability and Growth Pact and implementing a new macroeconomic framework.

28. It called on the European Banking Authority and other relevant authorities to conduct ambitious stress tests and on Member States to ensure that concrete plans, compliant with EU State aid rules, are in place to deal with any bank that demonstrates vulnerabilities in the stress tests.

29. In the context of the European Semester and on the basis of the Annual Growth Survey presented by the Commission, the March European Council will identify the priorities for structural reforms and fiscal consolidation for the next round of stability and convergence programmes as well as in the EU’s areas of competence, including the single market. On this basis, and steered by the Europe 2020 integrated guidelines, Member States are invited to submit in April their
national reform programmes as well as their stability or convergence programmes.

30. The March European Council will also adopt the final decision on the limited treaty change to set up the European Stability Mechanism.

31. The European Council welcomed the attached Statement by the Heads of State or government of the euro area and the EU institutions.

IV. EXTERNAL RELATIONS

32. The European Council adopted a declaration on Egypt and the region (annex II).

33. The European Council emphasised that developments in the Mediterranean region make it even more urgent to respect previous peace agreements and to achieve rapid progress in the Middle East Peace Process. It expressed the expectation that the Quartet meeting on 5 February 2011 in Munich will make a substantive contribution to this process.

34. The European Council endorsed the conclusions on Belarus adopted by the Foreign Affairs Council on 31 January, including the decision to impose restrictive measures. The European Union reiterates its strong commitment to strengthening its engagement with Belarusian civil society. The European Union remains committed to its policy of critical engagement, including through dialogue and the Eastern Partnership, conditional on the respect for the principles of democracy, the rule of law and human rights. The Foreign Affairs Council will regularly re-examine the situation in Belarus and stand ready to consider further targeted measures in all areas as appropriate.

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ANNEX I

STATEMENT BY THE HEADS OF STATE OR GOVERNMENT OF THE EURO AREA AND THE EU INSTITUTIONS

Following their December 2010 Statement, and reiterating their readiness to do whatever is required to ensure the stability of the euro area as a whole, the Heads of State or government of the euro area and the EU institutions reviewed progress in the implementation of the comprehensive strategy to preserve financial stability and ensure that the euro area will emerge stronger from the crisis.

This strategy includes the legislative package on economic governance, the stress tests and the financial sector repair, and the implementation of the European semester. In addition, they agreed on the following steps as part of the global package to be finalized in March:

- Continued successful implementation of existing programmes with Greece and Ireland.
- Assessment by the Commission, in liaison with the ECB, of progress made in euro area Member States in the implementation of measures taken to strengthen fiscal positions and growth prospects.
- Concrete proposals by the Eurogroup on the strengthening of the EFSF so as to ensure the necessary effectiveness to provide adequate support.
- Finalization under the chairmanship of the President of the Eurogroup of the operational features of the European Stability Mechanism in line with the mandate agreed upon in December.

Building on the new economic governance framework, Heads of State or government will take further steps to achieve a new quality of economic policy coordination in the euro area to improve competitiveness, thereby leading to a higher degree of convergence, without undermining the single market. Non-euro members will be invited to participate in the coordination. The President of the European Council will undertake consultations with the Heads of State or government of the euro area Member States and report back, identifying concrete ways forward in line with the Treaty. To this effect, he will closely cooperate with the President of the Commission. He will ensure that the Heads of State or government of the interested non-euro area Member States are duly involved in the process.

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ANNEX II

DECLARATION ON EGYPT AND THE REGION

The European Council is following with utmost concern the deteriorating situation in Egypt. It condemned in the strongest terms the violence and all those who use and encourage violence. It emphasised the right of all citizens to demonstrate freely and peacefully, under due protection from law enforcement authorities. Any attempt to restrict the free flow of information, including aggression and intimidation directed against journalists and human rights defenders, is unacceptable.

The European Council called on the Egyptian authorities to meet the aspirations of the Egyptian people with political reform not repression. All parties should show restraint and avoid further violence and begin an orderly transition to a broad-based government. The European Council underlined that this transition process must start now. The basis for the EU’s relationship with Egypt must be the principles set out in the Association Agreement and the commitments made.

The European Council saluted the peaceful and dignified expression by the Tunisian and Egyptian people of their legitimate, democratic, economic and social aspirations which are in accordance with the values the European Union promotes for itself and throughout the world. The European Council emphasised that the citizens’ democratic aspirations should be addressed through dialogue and political reform with full respect
for human rights and fundamental freedoms, and through free and fair elections. It called on all parties to engage in a meaningful dialogue to that end.

The European Union is determined to lend its full support to the transition processes towards democratic governance, pluralism, improved opportunities for economic prosperity and social inclusion, and strengthened regional stability. The European Council is committed to a new partnership involving more effective support in the future to those countries which are pursuing political and economic reforms including through the European Neighbourhood Policy and the Union for the Mediterranean.

In this context, the European Council

- invited the High Representative within the framework of this partnership to develop a package of measures aimed at lending European Union support to the transition and transformation processes (strengthening democratic institutions, promoting democratic governance and social justice, and assisting the preparation and conduct of free and fair elections); and to link the European Neighbourhood Policy and Union for the Mediterranean more to these objectives; and

- invited the High Representative and the Commission to adapt rapidly the instruments of the European Union, to make humanitarian aid available and to propose measures and projects to stimulate cooperation, exchange and investment in the region with the aim of promoting economic and social development, including advanced status for Tunisia.

- asked the High Representative to convey our message on her forthcoming visit to Tunisia and Egypt;
1. The European Council met today in an extraordinary session to discuss developments in Libya and the Southern Neighbourhood region and set the political direction and priorities for future EU policy and action.

2. Democratic uprisings are bringing dramatic changes to the Southern Neighbourhood, creating a new hope and opportunity to build a future based on democracy, pluralism, the rule of law, human rights, and social justice. Progress and democracy go hand in hand. The European Council salutes the courage demonstrated by the people of the region and reaffirms that it is for them to decide their future, through peaceful and democratic means.

3. All countries in the region need to undertake or accelerate political and economic reforms. The European Union will support all steps towards democratic transformation, political systems that allow for peaceful change, growth and prosperity, and a more proportionate distribution of the benefits of economic performance. In this context, the European Council warmly welcomes the announcement by the King of Morocco of the establishment of a consultative committee to prepare a revision of the constitution, to be submitted to the approval of the Moroccan people. Progress by partners towards transformation will drive EU support. Developing strong democratic institutions being one of the key objectives, increased parliamentary links between Europe and the region are of paramount importance.

4. Concerning Tunisia, the European Council welcomes the announcement that elections for a constituent assembly will be held on 24 July 2011. In close consultation with the Tunisian authorities, the EU is ready to provide the necessary support in this regard, including through advanced status for Tunisia. As soon as the Tunisian authorities are ready, the EU is willing to offer support with tackling the economic and social challenges faced by Tunisia. The European Union will remain engaged in the long term, with the aim of promoting economic and social development. The solidarity shown by the Tunisian people with the people fleeing from Libya deserves the highest praise and support.

5. The European Council supports the democratic transition in Egypt. It welcomes the timely delivery of the first proposals for amending the constitution and encourages the Egyptian authorities to continue in their commitment to political reform and to create an environment for thorough democratic transition, including by lifting the state of emergency. The European Union is ready to mobilise its full support in line with the priorities of the Egyptian people and has started a dialogue with the recently appointed Egyptian government.

6. The situation in Libya remains a cause for grave concern. We express our strong solidarity with the Libyan people and the victims. We firmly condemn the violent repression the Libyan regime applies against its citizens and the gross and systematic violation of human rights. We welcome UN Security Council Resolution 1970 and the referral of the situation in Libya to the International Criminal Court. The use of force, especially with military means, against civilians is unacceptable and must stop immediately. The safety of the people must be ensured by all necessary means. The European Council expresses its deep concern about attacks against civilians, including from the air. In order to protect the civilian population, Member States will examine all necessary options, provided that there is a demonstrable need, a clear legal basis and support from the region. Those responsible will be held accountable and face grave consequences. We will work with the United Nations, the Arab League, the African Union and our international partners to respond to the crisis. We call for the rapid holding of a summit between the Arab League, the African Union and the European Union.

7. Colonel Kadhafi must relinquish power immediately. His regime has lost all legitimacy and is no longer an interlocutor for the EU. The European Union has adopted restrictive measures against the country’s leadership and against entities holding sizeable assets controlled by the regime, and stands ready to adopt further sanctions.

8. The objective is for Libya to rapidly embark on an orderly transition to democracy through a broad-based dialogue. The European Union welcomes and encourages the interim transitional national council based in Benghazi, which it considers a political interlocutor. The European Union has adopted restrictive measures against the country’s leadership and against entities holding sizeable assets controlled by the regime, and stands ready to adopt further sanctions.

9. The humanitarian emergency in Libya and at its borders is reaching worrying proportions, aggravated by the massive migration movements resulting from the events. Ensuring the safe evacuation of EU citizens and other nationals wishing to flee the fighting remains a priority. The European Union and the Member States have mobilised humanitarian aid and are committed to further assist people in Libya and people crossing its borders, in close cooperation with the United Nations High Commissioner for Refugees, the Office for the Coordination of Humanitarian Affairs, the International Organisation for Migration, the International Committee of the Red Cross / International Federation of Red Cross and Red Crescent Societies and non-governmental organisations. The European Union calls on all parties concerned to allow humanitarian agencies and operators access to any zone where aid is needed and stands ready to support their work. To this end, the European Union...
will enhance its coordination in order to provide coherent and effective use of assets and capabilities, in line with humanitarian principles.

10. The Member States most directly concerned by migratory movements require our concrete solidarity. The EU and the Member States stand ready to provide the necessary support as the situation evolves. The EU, in particular through the Frontex Hermes 2011 operation, will continue to monitor closely the impact of events on migratory movements both within and from the region. In particular, Member States are urged to provide further human and technical resources to Frontex, as required. The Commission is invited to make additional resources available. The European Council calls for rapid agreement to be reached on the regulation enhancing the agency’s capabilities.

11. The European Union will consult with the countries of the region concerned on financial and technical support to improve the control and management of borders and measures to facilitate the return of migrants to their countries of origin. The European Council invites the JHA Council to meet without delay. Furthermore, the Council, in cooperation with the Commission, is invited to submit, before the June European Council, a plan for the development of capacities to manage migration and refugee flows.

12. A comprehensive approach to migration should be promoted, consistent with the EU’s Global Approach. In this context, the European Union must also respond to the challenge of mobility and promote people-to-people contacts, using such instruments as mobility partnerships with all partners sufficiently advanced in their reform processes and cooperating in the fight against human trafficking and irregular immigration. The Commission is invited to make proposals to encourage exchanges between European and South Mediterranean youth.

13. On a more general level, existing partnership and assistance programmes will be rapidly reviewed, in close cooperation with our partners in the region, in order to better target present needs. In this context, the Commission and the High Representative should give priority to country-focused and performance-based approaches.

14. Looking to the medium term, the European Council calls for a new partnership with the region, in line with its declaration of 4 February 2011. In this context, it broadly welcomes the joint communication from the Commission and the High Representative proposing a Partnership for Democracy and Shared Prosperity with the Southern Mediterranean, based on a differentiated and incentive-based approach bringing together all EU instruments. Such a partnership should also be founded on deeper economic integration, broader market access and political cooperation. It calls on the Council to rapidly examine the proposals contained in the communication and in particular the conditions under which the EU’s support to its partners could be enhanced. It looks forward to their forthcoming communication on the European Neighbourhood Policy.

15. It will also be crucial to provide the countries with the means to rebuild and modernise their economies. Economic development and job prospects, especially for youth, are of paramount importance to stabilise democracy. The Council should urgently agree on pending proposals on pan-Euro-Mediterranean rules of origin, and the Commission is invited to present proposals on further means to enhance trade and foreign direct investment in the region in the short, medium and long term. It is also urgent to revitalise the tourism sector in the region. The Council should rapidly consider the Commission’s proposals on European Investment Bank refloows and look at further possibilities to increase the EIB’s overall financial support capacity. Coordination with other international financial institutions is important.

16. Drawing the lessons from what has happened, the European Union also stands ready to review the missions of the Union for the Mediterranean, with the objective of promoting democracy and fostering stability in the region. A new push should be given to concrete measures and projects so as to strengthen democratic institutions and freedom of expression, including unhindered access to the internet, reinforce civil societies, support the economy, reduce poverty and address social injustice.

17. The European Union is conscious of the wider political and economic impact of these events on the wider region and calls for reactivating the Middle East Peace Process.
Statement by the Heads of State or Government of the Euro area — 11 March 2011

The Heads of State or Government of the Euro area adopted the following conclusions:

1. The Pact for the Euro which establishes a stronger economic policy coordination for competitiveness and convergence (attached) has been endorsed. This Pact will be presented to the European Council of 24/25 March 2011 with a view for non-euro area Member States to indicate whether they intend to participate in the Pact. At the same time Euro area Member States shall indicate first measures they pledge to implement under the Pact for the next year.

2. The Heads of State or Government of the Euro area assessed progress made since the European Council of 4 February 2011 on the comprehensive response to the crisis, with a view to completing this package for the 24/25 March European Council.

3. They welcome the progress made in the implementation of the on-going IMF/EU programs in Greece and Ireland, and the strong commitments by
   - Greece to rigorously continue structural reforms, increase capacity building for their implementation, fully and speedily complete the € 50 bn privatization and real estate development programme it has announced and to introduce a strict and stable fiscal framework with the strongest possible legal basis to be decided by the Greek government;
   - Ireland to introduce a strict and stable fiscal framework, with the strongest possible legal basis, and to stick to fiscal targets through expenditures decreases and revenue increases as foreseen in the programme.

4. Following their statement of 4 February concerning the assessment by the Commission, in liaison with the ECB, of the implementation of measures taken to strengthen fiscal positions and growth prospects, they welcome progress made in a number of countries. In particular, Heads of State or Government, the President of the Commission and the President of the ECB welcome and support the package of far-reaching measures announced today by Portugal concerning fiscal, financial and structural reforms.

5. The Heads of State or Government of the Euro area invite Ministers of Finances to complete their work on the ESM and the EFSF in time for the European Council of 24/25 March 2011. This work should strictly adhere to and fully implement the European Council conclusions of December 2010 and the Eurogroup statement of 28 November 2010, which define the key features of the ESM (see annex II). The following conclusions have been drawn from the discussion:
   - Financing capacity
     The ESM will have an overall effective lending capacity of 500 billion euros. During the transition from EFSF to ESM, the consolidated lending capacity will not exceed this amount. The ESM effective lending capacity will be ensured by establishing the appropriate mix between paid-in capital, callable capital and guarantees. A timetable for the gradual paying in of capital will be established, fully respecting national parliamentary procedures.
     Until the entry into force of the ESM, the agreed lending capacity of 440 billions euros of the EFSF will be made fully effective.
     • Instruments
       The Heads of State or Government recall that the ESM will provide financial assistance when requested by a Euro area member and when such intervention is deemed indispensable to safeguard the stability of the Euro area as a whole. Any decision to that effect will be taken by unanimity on the basis of a debt sustainability analysis of the Member State concerned conducted by the Commission and the IMF, in liaison with the ECB. Financial assistance will be subject to strict conditionality under a macro-economic adjustment programme.
       Financial assistance from the ESM and EFSF will take the form of loans. However, to maximize the cost efficiency of their support, the ESM and the EFSF may also, as an exception, intervene in the debt primary market in the context of a programme with strict conditionality.
     • Financial conditions
       Pricing of the EFSF should be lowered to better take into account debt sustainability of the recipient countries, while remaining above the funding costs of the facility, with an adequate mark up for risk, and in line with the IMF pricing principles. The same principles will apply to the ESM.

6. Against this background and in view of the commitments undertaken by Greece in the context of its adjustment programme, the interest rate on its loans will be adjusted by 100 basis points. Moreover, the maturity for all the programme loans to Greece will be increased to 7.5 years, in line with the IMF. Finance Ministers will specify modalities of implementation of these decisions.

7. All Member States will ensure that concrete plans, compliant with EU State aid rules, are in place to deal with any bank that demonstrates vulnerabilities in the stress tests that will be completed by the summer.

8. The Heads of State or Government call on Finance Ministers to finalize their work on the Commission six legislative proposals on economic governance and to reach, before the end of March, a general approach
ensuring full implementation of the recommendations of the Task Force. In this context, they agree that the setting up of a numerical benchmark of 1/20 for debt reduction, to be assessed taking into account all relevant factors, as outlined in the Commission proposal, should be fully part of this package. They all support the adoption of the draft directive on national fiscal framework. In deciding on the steps in the SGP the Council is expected to, as a rule, follow the recommendations of the Commission or explain its position in writing.

8. The Heads of State or Government agree that the introduction of a financial transaction tax should be explored and developed further at the Euro area, EU and international levels.

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ANNEX I

A PACT FOR THE EURO
STRONGER ECONOMIC POLICY
COORDINATION FOR COMPETITIVENESS
AND CONVERGENCE

Euro area Heads of State and Government have decided to adopt a Pact for the Euro to strengthen the economic pillar of the monetary union, achieve a new quality of economic policy coordination in the Euro area, improve competitiveness, thereby leading to a higher degree of convergence. This Pact focuses primarily on areas that fall under national competence and are key for increasing competitiveness and avoiding harmful imbalances. Competitiveness is essential to help the EU grow faster and more sustainably in the medium and long term, to produce higher levels of income for citizens, and to preserve our social models. Non-euro area Member States are invited to participate on a voluntary basis.

This renewed effort for stronger economic policy coordination for competitiveness and convergence rests on four guiding rules:

a. It will be in line with and strengthen the existing economic governance in the EU, while providing added value. It will be consistent with and build on existing instruments (EU 2020, European Semester, Integrated Guidelines, Stability and Growth Pact and new macro-economic surveillance framework). It will involve a special effort going beyond what already exists and include concrete commitments and actions that are more ambitious than those already agreed, and accompanied with a timetable for implementation. These new commitments will thereafter be included in the National Reform and Stability Programmes and be subject to the regular surveillance framework, with a strong central role for the Commission in the monitoring of the implementation of the commitments, and the involvement of all the relevant formations of the Council and the Eurogroup. The European Parliament will play its full role in line with its competences. Social partners will be fully involved at the EU level through the Tripartite Social Summit.

b. It will be focused, action oriented, and cover priority policy areas that are essential for fostering competitiveness and convergence. It will concentrate on actions where the competence lies with the Member States. In the chosen policy areas common objectives will be agreed upon at the Heads of State or Government level. Participating Member States will pursue these objectives with their own policy-mix, taking into account their specific challenges.

c. Each year, concrete national commitments will be undertaken by each Head of State or Government. In doing so, Member States will take into account best practices and benchmark against the best performers, within Europe and vis-à-vis other strategic partners.

The implementation of commitments and progress towards the common policy objectives will be monitored politically by the Heads of State or Government of the Euro area and participating countries on a yearly basis, on the basis of a report by the Commission. In addition, Member States commit to consult their partners on each major economic reform having potential spill-over effects before its adoption.

d. Euro area Member States are fully committed to the completion of the Single Market which is key to enhancing the competitiveness in the EU and the Euro area. This process will be fully in line with the treaty. The Pact will fully respect the integrity of the Single Market.

Our goals

Euro area Member States undertake to take all necessary measures to pursue the following objectives:

- Foster competitiveness
- Foster employment
- Contribute further to the sustainability of public finances
- Reinforce financial stability.

Each participating Member State will present the specific measures it will take to reach these goals. If a Member State can show that action is not needed on one or the other areas, it will not include it. The choice of the specific policy actions necessary to achieve the common objectives remains the responsibility of each country, but particular attention will be paid to the set of possible measures mentioned below.

Concrete policy commitments and monitoring

Progress towards the common objectives above will be politically monitored by the Heads of State or Government on the basis of a series of indicators covering competitiveness, employment, fiscal sustainability and financial stability. Countries facing major challenges in any of these areas will be identified and will have to commit to addressing these challenges in a given timeframe.
a. Foster competitiveness

Progress will be assessed on the basis of wage and productivity developments and competitiveness adjustment needs. To assess whether wages are evolving in line with productivity, unit labour costs (ULC) will be monitored over a period of time, by comparing with developments in other Euro area countries and in the main comparable trading partners. For each country, ULCs will be assessed for the economy as a whole and for each major sector (manufacturing; services; as well as tradable and non-tradable sectors). Large and sustained increases may lead to the erosion of competitiveness, especially if combined with a widening current account deficit and declining market shares for exports. Action to raise competitiveness is required in both all countries, but particular attention will be paid to those facing major challenges in this respect. To ensure that growth is balanced and widespread in the whole Euro area, specific instruments and common initiatives will be envisaged to foster productivity in regions lagging behind.

Each country will be responsible for the specific policy actions it chooses to foster competitiveness, but the following reforms will be given particular attention:

(i) respecting national traditions of social dialogue and industrial relations, measures to ensure costs developments in line with productivity, such as:

- review the wage setting arrangements, and, where necessary, the degree of centralisation in the bargaining process, and the indexation mechanisms, while maintaining the autonomy of the social partners in the collective bargaining process;
- ensure that wages settlements in the public sector support the competitiveness efforts in the private sector (bearing in mind the important signalling effect of public sector wages).

(ii) measures to increase productivity, such as:

- further opening of sheltered sectors by measures taken at the national level to remove unjustified restrictions on professional services and the retail sector, to foster competition and efficiency, in full respect of the Community acquis;
- specific efforts to improve education systems and promote R&D, innovation and infrastructure;
- measures to improve the business environment, particularly for SMEs, notably by removing red tape and improving the regulatory framework (e.g. bankruptcy laws, commercial code).

b. Foster employment

A well functioning labour market is key for the competitiveness of the Euro area. Progress will be assessed on the basis of the following indicators: long term and youth unemployment rates, and labour participation rates.

Each country will be responsible for the specific policy actions it chooses to foster employment, but the following reforms will be given particular attention:

- labour market reforms to promote "flexicurity", reduce undeclared work and increase labour participation;
- life long learning;
- tax reforms, such as lowering taxes on labour to make work pay while preserving overall tax revenues, and taking measures to facilitate the participation of second earners in the work force.

c. Enhance the sustainability of public finances

In order to secure the full implementation of the Stability and Growth Pact, the highest attention will be paid to:

- Sustainability of pensions, health care and social benefits

This will be assessed notably on the basis of the sustainability gap indicators1. These indicators measure whether debt levels are sustainable based on current policies, notably pensions schemes, health care and benefit systems, and taking into account demographic factors.

Reforms necessary to ensure the sustainability and adequacy of pensions and social benefits could include:

- aligning the pension system to the national demographic situation, for example by aligning the effective retirement age with life expectancy or by increasing participation rates;
- limiting early retirement schemes and using targeted incentives to employ older workers (notably in the age tranche above 55).

National fiscal rules

Euro area Member States commit to translating EU fiscal rules as set out in the Stability and Growth Pact into national legislation. Member States will retain the choice of the specific national legal vehicle to be used, but will make sure that it has a sufficiently strong binding and durable nature (e.g. constitution or framework law). The exact formulation of the rule will also be decided by each country (e.g. it could take the form of a "debt brake", rule related to the primary balance or an expenditure rule), but it should ensure fiscal discipline at both national and sub-national levels. The Commission will have the opportunity, in full respect of the prerogatives of national parliaments, to be consulted on the precise fiscal rule before its adoption so as to ensure it is compatible with, and supportive of, the EU rules.

d. Reinforce financial stability

A strong financial sector is key for the overall stability of the Euro area. A comprehensive reform of the EU framework for financial sector supervision and regulation has been launched.

In this context, Member States commit to putting in place national legislation for banking resolution, in full respect of the Community acquis. Strict bank stress tests, coordinated at EU level, will be undertaken on a regular basis. In addition, the President of the ESRB and the President of the Eurogroup will be invited to regularly inform Heads of State or Government on

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issues related to macro-financial stability and macroeconomic developments in the Euro area requiring specific action. In particular, for each Member State, the level of private debt for banks, households and non-financial firms will be closely monitored.

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In addition to the issues mentioned above, attention will be paid to tax policy coordination.

Direct taxation remains a national competence. Pragmatic coordination of tax policies is a necessary element of a stronger economic policy coordination in the Euro area to support fiscal consolidation and economic growth. In this context, Member States commit to engage in structured discussions on tax policy issues, notably to ensure the exchange of best practices, avoidance of harmful practices and proposals to fight against fraud and tax evasion.

Developing a common corporate tax base could be a revenue neutral way forward to ensure consistency among national tax systems while respecting national tax strategies, and to contribute to fiscal sustainability and the competitiveness of European businesses.

The Commission intends to present a legislative proposal on a common consolidated corporate tax base in the coming weeks.

Concrete yearly commitments

In order to demonstrate a real commitment for change and ensure the necessary political impetus to reach our common objectives, each year Member States of the Euro area will agree at the highest level on a set of concrete actions to be achieved within 12 months. The selection of the specific policy measures to be implemented will remain the responsibility of each country, but the choice will be guided by considering in particular the issues mentioned above. These commitments will also be reflected in the National Reform Programmes and Stability Programmes submitted each year which will be assessed by the Commission, the Council, and the Eurogroup in the context of the European Semester.

Next steps

The Pact will be formally adopted at the EC on 24 March by Euro area Member States and those Member States non participating in the euro which wish so. Those MS in a position to do so should announce already on 24 March the concrete commitments to be achieved in the next 12 months. In any event, concrete commitments should be included in the National Reform and Stability Programmes to be submitted in April and will be presented to the June European Council.

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ANNEX II

GENERAL FEATURES OF THE FUTURE MECHANISM EUROGROUP STATEMENT OF 28 NOVEMBER 2010

“The recent events have demonstrated that financial distress in one Member State can rapidly threaten macro-financial stability of the EU as a whole through various contagion channels. This is particularly true for the Euro area where the economies, and the financial sectors in particular, are closely intertwined.

Throughout the current crisis, Euro area Member States have demonstrated their determination to take decisive and coordinated action to safeguard financial stability in the Euro area as a whole, if needed and return growth to a sustainable path. In particular, the European Financial Stability Facility (EFSF) has been set up to provide for swift and effective liquidity assistance, together with the European Financial Stabilisation Mechanism (EFSM) and the International Monetary Fund, and on the basis of stringent programmes of economic and fiscal policy adjustments to be implemented by the affected Member State and ensuring debt sustainability.

On 28 - 29 October the European Council agreed on the need to set up a permanent crisis mechanism to safeguard the financial stability of the Euro area as a whole. Eurogroup Ministers agreed that this European Stability Mechanism (ESM) will be based on the European Financial Stability Facility capable of providing financial assistance packages to Euro area Member States under strict conditionality functioning according to the rules of the current EFSF.

The ESM will complement the new framework of reinforced economic governance, aiming at an effective and rigorous economic surveillance, which will focus on prevention and will substantially reduce the probability of a crisis arising in the future. Rules will be adapted to provide for a case by case participation of private sector creditors, fully consistent with IMF policies. In all cases, in order to protect taxpayers’ money, and to send a clear signal to private creditors that their claims are subordinated to those of the official sector, an ESM loan will enjoy preferred creditor status, junior only to the IMF loan.

Assistance provided to a Euro area Member State will be based on a stringent programme of economic and fiscal adjustment and on a rigorous debt sustainability analysis conducted by the European Commission and the IMF, in liaison with the ECB.

On this basis, the Eurogroup Ministers will take a unanimous decision on providing assistance.

For countries considered solvent, on the basis of the debt sustainability analysis conducted by the Commission and the IMF, in liaison with the ECB, the private sector creditors would be encouraged to maintain their exposure according to international rules and fully in line with the IMF practices. In the unexpected event that a country would appear to be insolvent, the Member State has to negotiate a comprehensive restructuring plan with its private sector creditors, in line with IMF practices with a view to restoring debt sustainability. If debt sustainability...
can be reached through these measures, the ESM may provide liquidity assistance.

In order to facilitate this process, standardized and identical collective action clauses (CACs) will be included, in such a way as to preserve market liquidity, in the terms and conditions of all new Euro area government bonds starting in June 2013. Those CACs would be consistent with those common under UK and US law after the G10 report on CACs, including aggregation clauses allowing all debt securities issued by a Member State to be considered together in negotiations. This would enable the creditors to pass a qualified majority decision agreeing a legally binding change to the terms of payment (standstill, extension of the maturity, interest-rate cut and/or haircut) in the event that the debtor is unable to pay.

Member States will strive to lengthen the maturities of their new bond emissions in the medium-term to avoid refinancing peaks.

The overall effectiveness of this framework will be evaluated in 2016 by the Commission, in liaison with the ECB.

We restate that any private sector involvement based on these terms and conditions would not be effective before mid-2013.

President of the European Council Herman Van Rompuy has indicated that his proposal on limited treaty change to the European Council at its next meeting will reflect today’s decision.
We express our deepest condolences for the large-scale loss of life in Japan and our solidarity with the Japanese people and government. The thoughts of EU citizens are with the many thousands of bereaved families and the hundreds of thousands of people who now have to rebuild their lives and communities. We commend the swift and decisive action taken by the Japanese authorities. Recalling the enduring friendship and close political and economic relations that link the EU to Japan, we are determined to stand by Japan as it strives to overcome the challenges it faces.

* * *

Over recent months, Europe has gone through a serious financial crisis. Although economic recovery in Europe is now on track, risks remain and we must continue our determined action. We adopted today a comprehensive package of measures which should allow us to turn the corner of the financial crisis and continue our path towards sustainable growth. This package will strengthen the economic governance of the European Union and ensure the lasting stability of the euro area as a whole. We also agreed robust action at the EU level to stimulate growth by strengthening the Single Market, reducing the overall burden of regulation and promoting trade with third countries. We discussed the grave situation in Libya, expressing our satisfaction after the adoption of UNSCR 1973 and underlining our determination to contribute to its implementation. Regarding the Southern Neighbourhood, we reiterated our determination to develop a new partnership with the region and called for a rapid implementation of the orientations set on 11 March 2011; we agreed on first concrete steps to support the countries of the Southern Neighbourhood in the short term. Finally, we discussed the lessons to be drawn from the events that occurred in Japan, notably as regards nuclear safety.

* * *

1. **ECONOMIC POLICY**

1. The European Council today adopted a comprehensive package of measures to respond to the crisis, preserve financial stability and lay the ground for smart, sustainable, socially inclusive and job-creating growth. This will strengthen the economic governance and competitiveness of the euro area and of the European Union.

**Implementing the European Semester: Europe 2020, fiscal consolidation and structural reform**

2. Within the new framework of the European semester, the European Council endorsed the priorities for fiscal consolidation and structural reform. It underscored the need to give priority to restoring sound budgets and fiscal sustainability, reducing unemployment through labour market reforms and making new efforts to enhance growth. All Member States will translate these priorities into concrete measures to be included in their Stability or Convergence Programmes and National Reform Programmes. On this basis, the Commission will present its proposals for country-specific opinions and recommendations in good time for their adoption before the June European Council.

3. In particular, Member States will present multi-annual consolidation plans including specific deficit, revenue and expenditure targets, the strategy envisaged to reach these targets and a timeline for its implementation. Fiscal policies for 2012 should aim to restore confidence by bringing debt trends back onto a sustainable path and ensuring that deficits are brought back below 3% of GDP in the timeframe agreed upon by the Council. This requires in most cases an annual structural adjustment well above 0.5% of GDP. Consolidation should be frontloaded in Member States facing very large structural deficits or very high or rapidly increasing levels of public debt.

4. Fiscal consolidation efforts must be complemented by growth-enhancing structural reforms. To that end, Member States emphasise their commitment to the Europe 2020 Strategy. In particular, they will implement measures in order to:
   - make work more attractive;
   - help the unemployed get back to work;
   - combat poverty and promote social inclusion;
   - invest in education and training;
   - balance security and flexibility;
   - reform pension systems;
   - attract private capital to finance growth;
   - boost research and innovation;
   - and allow cost-effective access to energy and step up energy efficiency policies.

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1 In line with the Council’s conclusions of 15 February and 7 March 2011 and further to the Commission’s Annual Growth Survey. See also the Presidency’s synthesis report of 16 March 2011.
5. Member States will set out the main measures required to move towards the Europe 2020 headline targets as agreed in June 2010. They will also present policy measures to correct harmful and persistent macroeconomic imbalances and improve competitiveness.

6. In implementing these policies, and in order to ensure wide ownership, close cooperation will be maintained with the European Parliament and the other EU institutions and advisory bodies (ESC, CoR), with the full involvement of national parliaments, social partners, regions and other stakeholders.

7. The Single Market has a key role to play in delivering growth and employment and promote competitiveness. The European Council welcomes the Commission’s intention to present the Single Market Act and invites the European Parliament and the Council to adopt by the end of 2012 a first set of priority measures to bring a new impetus to the Single Market. Particular emphasis should be laid on measures which create growth and jobs and bring tangible results to citizens and businesses. Emphasis should also be put on completing the Digital Single Market. The overall regulatory burden, in particular for SMEs, should be reduced at both European and national levels. The Commission will report on this issue by the summer.

The European Council also welcomed the intention of the Commission to propose ways of exempting micro-enterprises from certain future regulations. On the basis of the Commission’s communication ‘Towards a better functioning single market for services’, the European Council calls on Member States to fully implement the services Directive and on the Commission and Member States to take further actions where necessary to improve the internal market for services.

8. The external dimension of the Single Market is also important and the focus should be on promoting free, fair and open trade, with a focus on concluding the WTO Doha Round and Free Trade Agreements in 2011 in line with the conclusions of the 16 September 2010 European Council. Work should be rapidly taken forward, following the Commission report setting out priorities for dismantling barriers to trade in third countries.

Strengthening governance

9. The package of six legislative proposals on economic governance is key to ensuring enhanced fiscal discipline and avoiding excessive macroeconomic imbalances. It includes a reform of the Stability and Growth Pact aimed at enhancing the surveillance of fiscal policies and applying enforcement measures more consistently and at an earlier stage, new provisions on national fiscal frameworks and a new surveillance of macroeconomic imbalances.

10. The European Council welcomes the general approach reached on the proposals in the Council, opening the way for negotiations with the European Parliament. It called for work to be taken forward with a view to their adoption in June 2011.

Providing a new quality of economic policy coordination: the Euro Plus Pact

11. The Euro Plus Pact as agreed by the euro area Heads of State or government and joined by Bulgaria, Denmark, Latvia, Lithuania, Poland, Romania (see Annex I) will further strengthen the economic pillar of EMU and achieve a new quality of economic policy coordination, with the objective of improving competitiveness and thereby leading to a higher degree of convergence reinforcing our social market economy. The Pact remains open for other Member States to join. The Pact will fully respect the integrity of the Single Market.

12. The Member States that have signed up to the Pact are committed, on the basis of the indicators and principles it contains, to announce a set of concrete actions to be achieved within the next twelve months. A number of Member States have already announced first commitments. All participating Member States will present their commitments as soon as possible and in any event in time for their inclusion in their Stability or Convergence Programmes and National Reform Programmes to be submitted in April and for their assessment at the June European Council.

Restoring the health of the banking sector

13. The European Banking Authority and relevant authorities are carrying out stress tests. The European Council underlines the importance of the peer review process to be conducted in close cooperation with national supervisors, the European Systemic Risk Board, the Commission and the European Central Bank in order to increase the consistency and quality of the results. A high level of disclosure for banks will be ensured, including on sovereign debt holdings.

14. Member States will prepare, ahead of the publication of the results, specific and ambitious strategies for the restructuring of vulnerable institutions, including private sector solutions (direct financing from the market or asset sales) but also a solid framework in line with State aid rules for the provision of government support in case of need.

15. As agreed by the European Council in June 2010, the introduction of a global financial transaction tax should be explored and developed further. The European Council notes the intention of the Commission to produce a report on taxation of the financial sector by autumn 2011 at the latest.

Strengthening the stability mechanisms of the euro area

16. Recalling the importance of ensuring financial stability in the euro area, the European Council adopted the decision amending the TFEU with regard to the setting up of the European Stability Mechanism. It calls for the rapid launch of national approval procedures with a view to its entry into force on 1 January 2013.

17. The European Council welcomes the decisions taken by the euro area Heads of State or government on 11 March and endorses the features of the ESM (see Annex II). The preparation of the ESM treaty and the amendments to the
EFSF agreement, to ensure its EUR 440 billion effective lending capacity, will be finalised so as to allow signature of both agreements at the same time before the end of June 2011.

II. LIBYA / SOUTHERN NEIGHBOURHOOD

18. The European Council discussed the situation in Libya and endorsed the conclusions adopted by the Foreign Affairs Council on 21 March. Recalling its March 11 Declaration, the European Council expressed its satisfaction after the adoption of UN Security Council Resolution 1973, which expresses the principle of the responsibility to protect, and underlined its determination to contribute to its implementation. It also welcomed the Paris Summit of 19 March as a decisive contribution to its implementation. It condemned the continued defiance by the Libyan regime of UN Security Council Resolutions 1970 and 1973, and the violent and brutal repression the regime continues to inflict upon its own citizens. It noted that the actions taken in conformity with the mandate from the Security Council significantly contributed to protecting civilians and civilian-populated areas under threat of attack and helped to save lives of civilians. When the civilian populations are safe and secure from the threat of attack and the objectives of UNSCR 1973 are met, military operations will come to an end.

The European Council emphasised the key role of Arab countries, and particularly the Arab League, in actively supporting the implementation of UNSCR 1973, and in finding a political solution to the crisis.

19. In line with UNSCR 1973, the European Union, together with the League of Arab States, the United Nations and the African Union, will intensify its efforts to find a solution to the crisis which responds to the legitimate demands of the Libyan people. The European Council reiterated its call on Colonel Kadhafi to relinquish power immediately in order to allow Libya to rapidly embark on an orderly and Libyan-led transition to democracy through a broad-based dialogue, also taking into consideration the need to ensure Libya’s sovereignty and territorial integrity. The EU stands ready to help foster this dialogue, including with the National Transition Council, and to assist a new Libya economically and in the building of its new institutions, in cooperation with the United Nations, the Arab League, the African Union and others.

20. The European Union has acted swiftly to implement the sanctions imposed by UNSC resolutions 1970 and 1973, including the designation of additional persons and entities in the EU autonomous list of persons and entities subject to restrictive measures. The European Union stands ready to initiate and adopt further sanctions, including measures to ensure that oil and gas revenues do not reach the Kadhafi regime. Member States will take similar proposals to the UNSC.

21. The humanitarian situation in Libya and on its borders remains a source of serious concern. The EU will continue to provide humanitarian assistance to all those affected, in close cooperation with all the humanitarian agencies and NGOs involved. The EU has stepped up and will continue its planning on support for humanitarian assistance / civil protection operations, including by maritime means.

22. The European Council noted with satisfaction the smooth conduct of the referendum on constitutional amendments held in Egypt on 19 March as a significant step towards a more open and democratic political system.

23. Noting that the situation in each country is different, the European Council expressed its utmost concern at the situation in Syria, Yemen and Bahrain, strongly condemned the escalation of violence and the use of force against demonstrators, and urged all parties concerned to engage in meaningful and constructive dialogue without delay or preconditions. It endorsed the conclusions adopted by the Foreign Affairs Council on 21 March.

24. Work should be rapidly taken forward to develop a new partnership with the region, in line with the European Council’s declaration of 11 March 2011. This partnership will be founded on deeper economic integration, broader market access and closer political cooperation, and will follow a differentiated and performance-based approach. As first steps in the implementation of the 11 March package, and on the basis of the joint Commission/High Representative communication, the European Council calls for rapid progress to be made along the following lines:

- the EU and its Member States will step up their humanitarian assistance;
- ongoing aid programmes in the Southern Mediterranean countries will be screened and refocused, where possible in dialogue with the countries concerned;
- the ceiling for EIB operations for Mediterranean countries undertaking political reform should be increased by EUR 1 billion, without reducing operations in the EU’s Eastern neighbours;
- EBRD shareholders should consider the possible extension of the Bank’s activities to countries in the Southern Neighbourhood;
- the proposals on pan-Euro-Mediterranean rules of origin should be adopted without delay and the Commission is invited to present proposals on further means to enhance trade and foreign direct investment in the region in the short, medium and long term.

25. The European Council welcomes the recent visit of the Presidency and the Commission to Egypt as part of a first phase of consultations to promote a comprehensive approach to migration between the countries of the Southern Neighbourhood region and the European Union. In this context the European Council invites the Commission to present its proposals on the Global Approach to Migration as well as on the Mobility Partnership well in advance of the June European Council.
26. The European Council also looks forward to the presentation by the Commission of a Plan for the development of capacities to manage migration and refugee flows in advance of the June European Council. Agreement should be reached by June 2011 on the regulation enhancing the capabilities of Frontex. In the meantime the Commission will make additional resources available in support to the agency’s 2011 Hermes and Poseidon operations and Member States are invited to provide further human and technical resources. The EU and its Member States stand ready to demonstrate their concrete solidarity to Member States most directly concerned by migratory movements and provide the necessary support as the situation evolves.

III. JAPAN

27. The European Union will support Japan as it strives to overcome the challenges it faces after the earthquake and the tsunami that struck it with such tragic consequences.

28. Following an initial request from the Japanese government, it is mobilising relief supplies for the affected population. It stands ready to provide further support if requested. More generally, the EU is interested in developing its cooperation with Japan on disaster relief.

29. The European Union commends the swift and decisive action taken by the Japanese authorities in response to disorder on financial markets. It welcomes the action taken by the G7 on the yen. It stands ready to cooperate fully with Japan to address the economic and financial consequences of these events, including in the framework of the G8 and the G20.

30. Looking to the future, the European Council reiterates the strategic importance of the EU/Japan relationship. The forthcoming summit must be used to strengthen this relationship and bring forward our common agenda, including through the potential launch of negotiations for a free trade agreement on the basis that Japan is willing to tackle inter alia the issue of non-tariff barriers and restrictions on public procurement.

31. In this connection, the European Council stresses the need to fully draw the lessons from these events, and to provide all necessary information to the public. Recalling that the energy mix is the competence of Member States, it calls for work to be taken forward as a matter of priority on the following aspects:

- the safety of all EU nuclear plants should be reviewed, on the basis of a comprehensive and transparent risk and safety assessment (‘stress tests’), the European Nuclear Safety Regulatory Group (ENSREG) and the Commission are invited to develop as soon as possible the scope and modalities of these tests in a coordinated framework in the light of lessons learned from the accident in Japan and with the full involvement of Member States, making full use of available expertise (notably from the Western European Nuclear Regulators Association); the assessments will be conducted by independent national authorities and through peer review; their outcome and any necessary subsequent measures that will be taken should be shared with the Commission and within the ENSREG and should be made public; the European Council will assess initial findings by the end of 2011, on the basis of a report from the Commission;

- the priority of ensuring the safety of nuclear plants obviously cannot stop at our borders; the EU will request that similar ‘stress tests’ be carried out in the neighbouring countries and worldwide, regarding both existing and planned plants; in this regard full use should be made of relevant international organisations;

- the highest standards for nuclear safety should be implemented and continuously improved in the EU and promoted internationally;

- the Commission will review the existing legal and regulatory framework for the safety of nuclear installations and will propose by the end of 2011 any improvements that may be necessary. Member States should ensure the full implementation of the Directive on the safety of nuclear installations. The proposed Directive on the management of spent fuel and radioactive waste should be adopted as soon as possible. The Commission is invited to reflect on how to promote nuclear safety in neighbouring countries;

- consequences for the world and for the EU need to be closely monitored, paying particular attention to the volatility of energy and commodity prices, in particular in the context of the G20.

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ANNEX I

THE EURO PLUS PACT
STRONGER ECONOMIC POLICY
COORDINATION FOR COMPETITIVENESS AND CONVERGENCE

This Pact has been agreed by the euro area Heads of State or government and joined by Bulgaria, Denmark, Latvia, Lithuania, Poland, Romania to strengthen the economic pillar of the monetary union, achieve a new quality of economic policy coordination, improve competitiveness, thereby leading to a higher degree of convergence. This Pact focuses primarily on areas that fall under national competence and are key for increasing competitiveness and avoiding harmful imbalances. Competitiveness is essential to help the EU grow faster and more sustainably in the medium and long term, to produce higher levels of income for citizens, and to preserve our social models. Other Member States are invited to participate on a voluntary basis. This renewed effort for stronger economic policy coordination for competitiveness and convergence rests on four guiding rules:
Our goals

Participating Member States undertake to take all necessary measures to pursue the following objectives:

- Foster competitiveness
- Foster employment
- Contribute further to the sustainability of public finances
- Reinforce financial stability.

Each participating Member State will present the specific measures it will take to reach these goals. If a Member State can show that action is not needed on one or the other areas, it will not include it. The choice of the specific policy actions necessary to achieve the common objectives remains the responsibility of each country, but particular attention will be paid to the set of possible measures mentioned below.

Concrete policy commitments and monitoring

Progress towards the common objectives above will be politically monitored by the Heads of State or Government on the basis of a series of indicators covering competitiveness, employment, fiscal sustainability and financial stability. Countries facing major challenges in any of these areas will be identified and will have to commit to addressing these challenges in a given timeframe.

a. Foster competitiveness

Progress will be assessed on the basis of wage and productivity developments and competitiveness adjustment needs. To assess whether wages are evolving in line with productivity, unit labour costs (ULC) will be monitored over a period of time, by comparing with developments in other euro area countries and in the main comparable trading partners. For each country, ULCs will be assessed for the economy as a whole and for each major sector (manufacturing; services; as well as tradable and non-tradable sectors). Large and sustained increases may lead to the erosion of competitiveness, especially if combined with a widening current account deficit and declining market shares for exports. Action to raise competitiveness is required in both all countries, but particular attention will be paid to those facing major challenges in this respect. To ensure that growth is balanced and widespread in the whole euro area, specific instruments and common initiatives will be envisaged to foster productivity in regions lagging behind.

Each country will be responsible for the specific policy actions it chooses to foster competitiveness, but the following reforms will be given particular attention:

(i) respecting national traditions of social dialogue and industrial relations, measures to ensure costs developments in line with productivity, such as:
   - review the wage setting arrangements, and, where necessary, the degree of centralisation in the bargaining process, and the indexation mechanisms, while maintaining the autonomy of the social partners in the collective bargaining process;
   - ensure that wages settlements in the public sector support the competitiveness efforts in the private sector (bearing in mind the important signalling effect of public sector wages).

(ii) measures to increase productivity, such as:
   - further opening of sheltered sectors by measures taken at the national level to remove unjustified restrictions on professional services and the retail sector, to foster competition and efficiency, in full respect of the Community acquis;
   - specific efforts to improve education systems and promote R&D, innovation and infrastructure;
b. Foster employment
A well-functioning labour market is key for the competitiveness of the euro area. Progress will be assessed on the basis of the following indicators: long-term and youth unemployment rates, and labour participation rates.

Each country will be responsible for the specific policy actions it chooses to foster employment, but the following reforms will be given particular attention:

- labour market reforms to promote “flexicurity”, reduce undeclared work and increase labour participation;
- life-long learning;
- tax reforms, such as lowering taxes on labour to make work pay while preserving overall tax revenues, and taking measures to facilitate the participation of second earners in the work force.

c. Enhance the sustainability of public finances
In order to secure the full implementation of the Stability and Growth Pact, the highest attention will be paid to:

- Sustainability of pensions, health care and social benefits
This will be assessed notably on the basis of the sustainability gap indicators\(^1\). These indicators measure whether debt levels are sustainable based on current policies, notably pensions schemes, health care and benefit systems, and taking into account demographic factors.

Reforms necessary to ensure the sustainability and adequacy of pensions and social benefits could include:

- aligning the pension system to the national demographic situation, for example by aligning the effective retirement age with life expectancy or by increasing participation rates;
- limiting early retirement schemes and using targeted incentives to employ older workers (notably in the age tranche above 55).

- National fiscal rules
Participating Member States commit to translating EU fiscal rules as set out in the Stability and Growth Pact into national legislation. Member States will retain the choice of the specific national legal vehicle to be used, but will make sure that it has a sufficiently strong binding and durable nature (e.g. constitution or framework law). The exact formulation of the rule will also be decided by each country (e.g. it could take the form of a “debt brake”, rule related to the primary balance or an expenditure rule), but it should ensure fiscal discipline at both national and sub-national levels. The Commission will have the opportunity, in full respect of the prerogatives of national parliaments, to be consulted on the precise fiscal rule before its adoption so as to ensure it is compatible with, and supportive of, the EU rules.

d. Reinforce financial stability
A strong financial sector is key for the overall stability of the euro area. A comprehensive reform of the EU framework for financial sector supervision and regulation has been launched.

In this context, Member States commit to putting in place national legislation for banking resolution, in full respect of the Community acquis. Strict bank stress tests, coordinated at EU level, will be undertaken on a regular basis. In addition, the President of the ESRB and the President of the Eurogroup will be invited to regularly inform Heads of State or Government on issues related to macro-financial stability and macroeconomic developments in the euro area requiring specific action. In particular, for each Member State, the level of private debt for banks, households and non-financial firms will be closely monitored.

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In addition to the issues mentioned above, attention will be paid to tax policy coordination.

Direct taxation remains a national competence. Pragmatic coordination of tax policies is a necessary element of a stronger economic policy coordination in the euro area to support fiscal consolidation and economic growth. In this context, Member States commit to engage in structured discussions on tax policy issues, notably to ensure the exchange of best practices, avoidance of harmful practices and proposals to fight against fraud and tax evasion.

Developing a common corporate tax base could be a revenue neutral way forward to ensure consistency among national tax systems while respecting national tax strategies, and to contribute to fiscal sustainability and the competitiveness of European businesses.

The Commission has presented a legislative proposal on a common consolidated corporate tax base.

Concrete yearly commitments
In order to demonstrate a real commitment for change and ensure the necessary political impetus to reach our common objectives, each year participating Member States will agree at the highest level on a set of concrete actions to be achieved within 12 months. The selection of the specific policy measures to be implemented will remain the responsibility of each country, but the choice will be guided by considering in particular the issues mentioned above. These commitments will also be reflected in the National Reform Programmes and Stability Programmes submitted each year which will be assessed by the Commission, the Council, and the Eurogroup in the context of the European Semester.

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\(^{1}\) The sustainability gap are indicators agreed by the Commission and Member States to assess fiscal sustainability.
The European Council has decided to add to Article 136 of the Treaty the following paragraph:

“...if indispensable to safeguard the stability of the euro area as a whole. The granting of any required financial assistance under the mechanism will be made subject to strict conditionality.”

Further to this decision, the European Council has agreed on the need for euro-area Member States to establish a permanent stability mechanism: the European Stability Mechanism (ESM). The ESM will be activated by mutual agreement, if indispensable to safeguarding the financial stability of the euro area as a whole. The ESM will assume the role of the European Financial Stability Facility (EFSF) and the European Financial Stabilisation Mechanism (EFSM) in providing external financial assistance to euro-area Member States after June 2013.

Access to ESM financial assistance will be provided on the basis of strict policy conditionality under a macro-economic adjustment programme and a rigorous analysis of public-debt sustainability, which will be conducted by the Commission together with the IMF and in liaison with the ECB. The beneficiary Member State will be required to put in place an appropriate form of private-sector involvement, according to the specific circumstances and in a manner fully consistent with IMF practices.

The ESM will have an effective lending capacity of € 500 billion. The adequacy of the lending capacity will be reviewed on a regular basis and at least every five years. The ESM will seek to supplement its lending capacity through the participation of the IMF in financial assistance operations, while non-euro area Member States may also participate on an ad hoc basis.

The remainder of this term sheet sets out the key structural features of the ESM:

**Institutional form**

The ESM will be established by a treaty among the euro-area Member States as an intergovernmental organisation under public international law and will be located in Luxembourg. The statute of the ESM will be set out in an annex to the treaty.

**Function and funding strategy**

The function of the ESM will be to mobilise funding and provide financial assistance, under strict conditionality, to the benefit of euro-area Member States, which are experiencing or are threatened by severe financing problems, in order to safeguard the financial stability of the euro area as a whole.

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The function of the ESM will be to mobilise funding and provide financial assistance, under strict conditionality, to the benefit of euro-area Member States, which are experiencing or are threatened by severe financing problems, in order to safeguard the financial stability of the euro area as a whole.

The Member States of the euro area will give to the ESM the financial sanctions received under the Stability and Growth Pact and the Macroeconomic Imbalances procedures. Such sanctions will form part of the paid-in capital.

The ESM will use an appropriate funding strategy so as to ensure access to broad funding sources and enable it to extend financial assistance packages to Member States under all market conditions. Any associated risk will be contained through adequate asset and liability management.

**Governance**

The ESM will have a Board of Governors consisting of the Ministers of Finance of the euro-area Member States (as voting members), with the European Commissioner for Economic and Monetary Affairs and the President of the ECB as observers. The Board of Governors will elect a Chairperson from among its voting members.

The Board of Governors will be the highest decision-making body of the ESM and will take the following major decisions by mutual agreement:

- the granting of financial assistance;
- the terms and conditions of financial assistance;
- the lending capacity of the ESM;
- changes to the menu of instruments.

All other decisions by the Board of Governors will be taken by qualified majority, unless stated otherwise.

The ESM will have a Board of Directors, which will carry out specific tasks as delegated by the Board of Governors. Each euro-area Member state will appoint one Director and one alternate Director. In addition, the Commission and the ECB will each nominate an observer and an alternate to the Board of Directors. All decisions by the Board of Directors will be taken by qualified majority, unless otherwise stated.

Voting weights within the Board of Governors and the Board of Directors will be proportional to the Member States’ respective subscriptions to the capital of the ESM. A qualified majority is defined as 80 percent of the votes.

The Board of Governors will appoint a Managing Director responsible for the day-to-day management of the ESM. The Managing Director will chair the Board of Directors.

**Capital structure**

The ESM will aim to obtain and maintain the highest credit rating from the major credit rating agencies.

The ESM will have a total subscribed capital of € 700 billion. Of this amount, € 80 billion will be in the form of paid-in capital provided by the euro-area Member States being phased in from July 2013 in five equal annual instalments. In addition, the ESM will also dispose of a combination of committed callable capital and of guarantees from euro area Member States to a total amount of € 620 billion. During the transitional phase from 2013 to 2017, Member States commit to accelerate, in the unlikely event that this is needed, the provision of appropriate instruments...
in order to maintain a minimum 15 percent ratio between paid-in capital and the outstanding amount of ESM issuances.

The contribution key of each Member State in the total subscribed capital of the ESM will be based on the paid-in capital key of the ECB as annexed. By ratifying the Treaty establishing the ESM, Member States legally commit to provide their contribution to the total subscribed capital.

The Board of Governors will decide by mutual agreement when adapting the amount of total subscribed capital or when calling capital, except in the specific cases described below. First, the Board of Directors can decide, by simple majority, to restore -by calling in capital- the level of paid-in capital in the event that the amount of paid-in capital is reduced by the absorption of losses. Second, an on-demand guarantee procedure will be put in place that allows calling in capital automatically from the shareholders of the ESM if needed to avoid a payment shortfall to the creditors of the ESM. The liability of each shareholder will in all circumstances be limited to its share in the subscribed capital.

Any contribution to subscribed capital by a Member State joining the ESM after July 2013 will be made according to the same terms applied for the original contributions. The practical implications for the overall amount of subscribed capital and the distribution of capital among the Member States will be decided by the Board of Governors by mutual agreement.

As long as the ESM has not been activated and provided that the effective lending capacity is not less than 500 billion, the proceeds from the investment of the ESM paid-in capital will be returned to the Member States, after deductions for operational costs. Following the first activation of the ESM, the proceeds from the investment of ESM capital and financial assistance activity will be retained within the ESM. However, in the event that paid-in capital exceeds the level required to maintain the lending capacity of the ESM, the Board of Directors can decide, by simple majority to distribute a dividend to the euro-area Member States based on the contribution key.

**Instruments**

If indispensable to safeguard the stability of the euro area as a whole, in line with the amendment to Article 136 of the Treaty, the ESM will provide financial assistance subject to strict conditionality under a macro-economic adjustment programme, commensurate with the severity of the imbalances of the Member State. It will be provided through loans. However, it may intervene, as an exception, in debt primary markets on the basis of a macro-economic adjustment programme with strict conditionality and if agreed by the Board of Governors by mutual agreement.

- **ESM stability support (ESS)**

The ESM can grant short-term or medium term stability support to a euro-area Member State, which is experiencing severe financing problems. Access to an ESS will imply a macroeconomic adjustment programme with adequate policy conditionality commensurate with the severity of the underlying imbalances in the beneficiary Member State. The length of the programme and maturity of the loans will depend on the nature of the imbalances and the prospects of the beneficiary Member States regaining access to financial markets within the time that ESM resources are available.

- **Primary market support facility**

The ESM can purchase the bonds of a Member State, which is experiencing severe financing problems, on the primary market, with the objective of maximizing the cost efficiency of the support. Conditions and modalities under which bond purchasing would be conducted will be specified in the Decision on the terms and conditions of financial assistance.

The Board of Governors may review the instruments at the ESM’s disposal and may decide to make changes to the menu of instruments.

**IMF involvement**

The ESM will cooperate very closely with the IMF in providing financial assistance. In all circumstances, active participation of the IMF will be sought, both on the technical and the financial level. The debt sustainability analysis will be jointly conducted by the Commission and the IMF, in liaison with the ECB. The policy conditions attached to a joint ESM/IMF assistance will be negotiated jointly by the Commission and the IMF, in liaison with the ECB.

**Activation of financial assistance, programme monitoring and follow-up**

Financial assistance from the ESM will in all cases be activated on a request from a Member State to the other Members States of the euro area. The Eurogroup will inform the Council that a request for activation of support has been made. On receipt of such a request, the Board of Governors will ask the Commission to assess, in liaison with the ECB, the existence of a risk to the financial stability of the euro area as a whole and to undertake a rigorous analysis of the sustainability of the public debt of the Member State concerned, together with the IMF and in liaison with the ECB. The subsequent steps in the activation of ESM financial assistance will be as follows:

- If an ESS is requested, the Commission, together with the IMF and in liaison with the ECB, will assess the actual financing needs of the beneficiary Member State and the nature of the required private sector

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1. The vote of the Member State whose default is at the origin of the loss to be covered is suspended for this decision.
2. As a consequence of joining the euro area, a Member State shall become a member of the ESM with full rights and obligations.
3. It is however understood that any IMF involvement will be consistent with its mandate under the Articles of Agreement and by applicable decision and policies of the IMF Board.
involvement, which should be consistent with IMF practices.

- On the basis of this assessment, the Board of Governors will mandate the Commission to negotiate, together with the IMF and in liaison with the ECB, a macro-economic adjustment programme with the Member State concerned, detailed in a MoU.
- The Commission will propose to the Council a decision endorsing the macro-economic adjustment programme. The Board of Governors will decide on the granting of financial assistance and the terms and conditions under which assistance is provided. When the programme has been adopted by the Council, the Commission will sign the MoU on behalf of the euro area Member States subject to prior mutual agreement by the Board of Governors. The Board of Directors will then approve the financial assistance agreement which would contain the technical aspects of the financial assistance to be provided.
- The Commission, together with the IMF and in liaison with the ECB, will be responsible for monitoring compliance with the policy conditionality required by a macroeconomic adjustment programme. It will report to the Council and to the Board of Directors. On the basis of this report, the Board of Directors will decide by mutual agreement on the disbursement of the new tranches of the loan.
- After discussion in the Board of Governors, the Council can decide, on a proposal by the Commission, to implement post-programme surveillance, which can be maintained for as long as a specified amount of the financial assistance has not been repaid.

Consistency with the EU multilateral surveillance framework

Approval by the EU Member States will be sought to allow the euro-area Member States to task the Commission, together with the IMF and in liaison with the ECB, the analysis of the debt sustainability of the Member State requesting financial support, the preparation of the adjustment programme accompanying the financial assistance, as well as with the monitoring of its implementation.

While the Board of Governors has the autonomy to decide on the existence and modalities of financial assistance under an intergovernmental framework, the policy conditionality established under an enhanced surveillance or a macroeconomic adjustment programme should be consistent with the EU surveillance framework and must guarantee the respect of EU procedures. To this end, the Commission intends to propose a Regulation clarifying the necessary procedural steps under Article 136 of the Treaty in order to enshrine the policy conditionality in Council decisions and ensure consistency with the EU multilateral surveillance framework. The Council and the Commission will inform the European Parliament on a regular basis about the establishment and the operations of the ESM.

Pricing

The Board of Governors will decide on the pricing structure for financial assistance to a beneficiary Member State. The ESM will be able to lend at a fixed or variable rate. The pricing of the ESM will be in line with IMF pricing principles and, while remaining above the funding costs of ESM, will include an adequate mark up for risks.

The following pricing structure will apply to ESM loans:

1) ESM funding cost
2) A charge of 200 bps applied on the entire loans
3) A surcharge of 100 bps for loan amounts outstanding after 3 years.

For fixed rate loans with maturities above 3 years, the margin will be a weighted average of the charge of 200 bps for the first 3 years and 200 bps plus 100 bps for the following years.

The pricing structure will be defined in the pricing policy of the ESM, which will be reviewed periodically.

Private sector involvement

1. Modalities for involving the private sector

An adequate and proportionate form of private-sector involvement will be expected on a case by case basis where financial assistance is received by the beneficiary State. The nature and extent of this involvement will be determined on a case-by-case basis and will depend on the outcome of a debt sustainability analysis, in line with IMF practice¹, and on potential implications for euro-area financial stability.

a) If, on the basis of a sustainability analysis, it is concluded that a macro-economic adjustment programme can realistically restore the public debt to a sustainable path, the beneficiary Member State will take initiatives aimed at encouraging the main private investors to maintain their exposures (e.g. a "Vienna Initiative" approach). The Commission, the IMF, the ECB and the EBA will be closely involved in monitoring the implementation of such initiatives.

b) If, on the basis of a sustainability analysis, it is concluded that a macro-economic programme cannot realistically restore the public debt to a sustainable path, the beneficiary Member State will be required to engage in active negotiations in good faith with its creditors to secure their direct involvement in restoring debt sustainability. The granting of the financial assistance will be contingent on the Member State having a credible plan and demonstrating sufficient commitment to ensure

¹ In line with the IMF, debt is considered sustainable when a borrower is expected to be able to continue servicing its debts without an unrealistically large correction to its income and expenditure. This judgement determines the availability and the appropriate scale of financing.
adequate and proportionate private sector involvement. Progress in the implementation of the plan will be monitored under the programme and will be taken into account in the decision on disbursements.

In negotiating with creditors, the beneficiary Member State will adhere to the following principles:

- **Proportionality:** the Member State will seek solutions proportionate to its debt sustainability problem.
- **Transparency:** the Member State concerned will engage in an open dialogue with creditors and share relevant information with them on a timely basis.
- **Fairness:** the Member State will consult creditors on the design of any rescheduling or restructuring of public debt with a view to reaching negotiated solutions. Measures reducing the net present value of the debt will be considered only when other options are unlikely to deliver the expected results.
- **Cross-border co-ordination:** the risk of contagion and potential spill over effects on other Member States and third countries will be duly taken into account in the design of measures to involve the private sector. The measures taken will be accompanied with a proper communication by the Member State concerned aimed at preserving the financial stability of the Euro Area as a whole.

2. Collective Action Clauses

Collective Action Clauses (CACs) will be included in all new euro area government securities, with maturity above one year, from July 2013. The objective of such CACs will be to facilitate agreement between the sovereign and its private-sector creditors in the context of private sector involvement. The inclusion of CACs in a bond will not imply a higher probability of default or of debt restructuring relating to that bond. Accordingly, the creditor status of sovereign debt will not be affected by the inclusion of CACs.

The main features of the CACs will be consistent with those commonly used in the US and the UK markets since the G10 report on CACs. CACs will be introduced in a way which preserves a level playing field among euro area Member States. This implies the use of identical and standardised clauses for all euro area Member States, harmonised in the terms and conditions of securities issued by the Members States. Their basis will be consistent with the CACs that are common in New York and English law.

CACs will include an aggregation clause, enabling a super majority of bondholders across multiple bond issues subject to such a clause and subject to the law of a single jurisdiction to include a majority action clause where the needed majority of creditors for the restructuring would not be attained within a single bond issue. Appropriate representation will be put in place. Most important issues – the reserve matters – (e.g. key payment terms, conversion or exchange of bonds) will be decided with a larger majority than non-reserve matters. Appropriate quorum requirements will apply. Changes agreed by the relevant majorities are binding on all bondholders.

An appropriate disenfranchisement clause will apply to ensure a proper voting process. Appropriate clauses to prevent disruptive legal action will be considered.

CACs will be introduced in a standardised manner, which ensures that their legal impact is identical in all euro-area jurisdictions and so preserves a level playing field among euro-area Member States. The euro area Member States will adopt the necessary measures to give effect to the CACs.

Euro area Member States will be allowed to continue to “tap” outstanding debt without CACs under pre-determined conditions after June 2013 in order to preserve the necessary liquidity of old bonds and to give sufficient time to euro area Member States to create, in an orderly fashion, new bonds on all benchmark maturities. The detailed legal arrangements for including CACs in euro-area government securities will be decided on the basis of work to be undertaken by the EFC Sub-Committee on EU Sovereign Debt Markets, following appropriate consultation with market participants and other stakeholders, and be finalised by the end of 2011.

3. Preferred Creditor Status of the ESM

Like the IMF, the ESM will provide financial assistance to a Member State when its regular access to market financing is impaired. Reflecting this, Heads of State or Government have stated that the ESM will enjoy preferred creditor status in a similar fashion to the IMF, while accepting preferred creditor status of IMF over ESM.

This shall be effective as of 1 July 2013 without prejudice to the terms and conditions of any other agreement provided under the EFSF and the Greek facility.

Transitional arrangements between EFSF and ESM

As originally foreseen, the EFSF will remain in place after June 2013 so as to administer the outstanding bonds. It will remain operational until it has received full payment of the financing granted to the Member States and has repaid its liabilities under the financial instruments issued and any obligations to reimburse guarantors. Undisbursed and unfunded portions of existing loan facilities should be transferred to the ESM (e.g. payment and financing of instalments that would become due only after the entry into force of ESM). The consolidated EFSF and ESM lending shall not exceed € 500 bn.

To ensure a smooth transition from the EFSF to the ESM, the CEO of the EFSF will be tasked with the practical preparation of the establishment of the ESM. He will regularly report on the progress made to the Eurogroup Working Group.

Participation of the non euro area Member States

Non euro area Member States can participate on an ad hoc basis alongside the ESM in financial assistance operations for euro area Member States. If non-euro area Member States participate in such operations, they will be represented in the relevant meetings of the ESM boards that will decide on the granting and the monitoring of the assistance. They will have access to all relevant information in a timely manner and be appropriately consulted.

The euro area Member States will support equivalent creditor status of the ESM and that of other Member States lending bilaterally alongside the ESM.
**ANNEX:**

**ESM contribution key based on the ECB key**

<table>
<thead>
<tr>
<th>Country</th>
<th>ISO</th>
<th>ESM key</th>
</tr>
</thead>
<tbody>
<tr>
<td>Austria</td>
<td>AT</td>
<td>2.783</td>
</tr>
<tr>
<td>Belgium</td>
<td>BE</td>
<td>3.477</td>
</tr>
<tr>
<td>Cyprus</td>
<td>CY</td>
<td>0.196</td>
</tr>
<tr>
<td>Estonia</td>
<td>EE</td>
<td>0.186</td>
</tr>
<tr>
<td>Finland</td>
<td>FI</td>
<td>1.797</td>
</tr>
<tr>
<td>France</td>
<td>FR</td>
<td>20.386</td>
</tr>
<tr>
<td>Germany</td>
<td>DE</td>
<td>27.146</td>
</tr>
<tr>
<td>Greece</td>
<td>EL</td>
<td>2.817</td>
</tr>
<tr>
<td>Ireland</td>
<td>IE</td>
<td>1.592</td>
</tr>
<tr>
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</tr>
<tr>
<td>Luxembourg</td>
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</tr>
<tr>
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</tr>
<tr>
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</tr>
<tr>
<td>Portugal</td>
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</tr>
<tr>
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</tr>
<tr>
<td>Slovenia</td>
<td>SI</td>
<td>0.428</td>
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<tr>
<td>Spain</td>
<td>ES</td>
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</tr>
<tr>
<td><strong>Total</strong></td>
<td>EA17</td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

**Notes:**

The ESM key is based on the ECB capital contribution key.

Member States with a GDP per capita of less than 75% of the EU average will benefit from a temporary correction for a period of 12 years after their entry in the euro area.

This temporary correction will be three quarters of the difference between GNI and ECB capital shares (effectively comprising of 75% of GNI share and 25% of ECB capital share) as follows: $\text{ESM share} = \text{ECB key share} - 0.75(\text{ECB key share} - \text{GNI share})$

The downwards compensation on those countries is redistributed among all the other countries according to their ECB key share.

GNI and GDP per capita in 2010.

**Sources:** ECB, Ameco and DG ECFIN calculations.

With regard to the relationship between the ESM and third parties, the applicable governing law and jurisdiction will be dealt with by the legal and contractual documentation which will then be put in place between the ESM and those third parties.
The European Council welcomed the near completion of the implementation of the comprehensive package of measures it agreed last March to put Europe back on the path towards sustainable and job-creating growth and strengthen economic governance. It welcomed in particular the agreement reached on the future ESM and the amended EFSF as well as the substantial progress made on the legislative proposals on economic governance. It concluded the first European semester by collectively assessing Member States’ programmes on the basis of the Commission’s evaluation and by endorsing the country-specific recommendations to be taken into account in upcoming national decisions on budgets and structural reforms. In this context it noted the pledge of Member States taking part in the Euro Plus Pact to enhance the ambition and precision of their commitments in next year’s exercise. The European Council assessed the situation of those Member States with an adjustment programme. Regarding Greece, the euro area Heads of State or Government agreed on a way forward and called on their Finance Ministers to complete work to allow the necessary decisions to be taken by early July.

After an extensive debate, the European Council set orientations for the development of the EU’s migration policy, as regards the governance of the Schengen area, the control of external borders, the development of partnerships with the countries of the Southern Neighbourhood and the completion of the Common European Asylum System by 2012.

The European Council agreed that the accession negotiations with Croatia should be concluded by the end of June 2011, thus confirming its strong commitment in terms of the enlargement perspective of the Western Balkans.

The European Council discussed developments in its Southern Neighbourhood and adopted a separate Declaration on this subject.

* * *

1. **ECONOMIC POLICY**

1. This European Council marks the conclusion of the first European semester, allowing for a collective EU assessment of national measures envisaged by Member States. In the light of this first experience, the European Council considers that the European semester can become an effective governance method to support EU and national policy-making in an integrated, transparent and timely manner. The simultaneous presentation of Stability and Convergence Programmes and National Reform Programmes enables the EU to assess national growth and fiscal strategies together and to address possible risks, imbalances or trade-offs.

2. Based on the assessment provided by the Commission, the European Council discussed the policies and measures presented by Member States. These constitute a good starting point for sustaining Europe’s recovery, for addressing fiscal challenges and for driving more ambitious reforms at national level. The European Council notes the clear determination of all Member States to do everything that is required to fully implement the Stability and Growth Pact. Member States have made good progress in defining action to attain the headline targets and goals of the Europe 2020 Strategy for jobs and sustainable growth. Some of the targets are on track but others (concerning employment, energy efficiency, R&D, poverty and tertiary education) require additional efforts. Priority should also be given to ensuring a sound macroeconomic environment, restoring fiscal sustainability, correcting macroeconomic imbalances and strengthening the financial sector.

3. The European Council endorses the country-specific recommendations approved by the Council and invites all Member States to reflect them in their national decisions as regards their budgets and structural reforms and to address the shortcomings revealed by this exercise.

4. National efforts must be supported by action at European Union level, particularly with the aim of unlocking Europe’s full potential for economic growth and job creation. In this context, work should accelerate to deliver the Europe 2020 flagship initiatives and the Single Market Act, focusing on the priorities identified by the Council on 30 May 2011. In particular, the regulatory burden on SMEs needs to be further reduced and where appropriate micro-enterprises should be exempted from certain future regulations or at least be subject to a lighter regime. In this context, the European Council welcomes the commitment of the Commission to assess the impact of future regulations on micro-enterprises and to screen the acquis to identify existing obligations from which micro-enterprises could be excluded. It agreed to return to these issues at its December 2011 meeting. The Commission is also invited to prepare a roadmap on the completion of the digital Single Market by 2015. The Commission is invited
to report in October 2011 on these growth-enhancing areas with a view to progress being achieved by the time of the Spring 2012 European Council.

5. Member States participating in the Euro Plus Pact have presented commitments representing over 100 separate measures in total\(^1\). These commitments constitute a good first step towards achieving the objectives of the Pact and must now be implemented at the national level. Heads of State or Government will return to some themes of the Pact in December 2011 before the launch of the next European semester.

6. In preparing their next commitments, participating Member States will ensure:

- a broader scope: the commitments should focus more on frontloading growth-enhancing reforms to foster competitiveness, for instance in network industries and the service sector, and more attention should be paid to the reinforcement of financial stability;
- a more concrete approach: Member States should strive to make their future commitments as specific and measurable as possible, giving details on how and when commitments will be met, in order to render progress measurable over time and facilitate benchmarking with other Member States as well as Europe’s strategic partners;
- a higher degree of ambition: Member States should announce where forward-looking reform projects have been initiated as a reaction to the Pact and take account of best practices;
- pragmatic coordination of tax policies: the Commission and the Finance Ministers of the participating Member States are invited to report back by December 2011 on progress made in their structured discussions on tax policy issues, notably to ensure the exchanges of best practices, avoidance of harmful practices, and proposals to fight fraud and tax evasion. In line with the Pact, the Commission has made a proposal on a common consolidated corporate tax base.

7. Progress made by Member States in implementing the Council’s country-specific recommendations and their commitments under the Pact will be assessed by the European Council in March 2012 on the basis of the Annual Growth Survey of the Commission.

8. The conclusion of the Doha Development Round would substantially boost economic growth and promote competitiveness. The European Council reiterates the EU’s commitment to advance the process of trade liberalization and rule-making to strengthen the multilateral system, and its readiness to explore all negotiating options to bring the Doha Round to a conclusion including with regard to the priorities of least developed countries in line with the Doha mandate.

9. The comprehensive package approved by the European Council last March has now been almost fully implemented. Agreement has been reached on the European Stability Mechanism Treaty and on the amendment to the EFSF. Member States should take all steps required to ensure the ratification of the ESM Treaty by the end of 2012 and for the rapid entry into force of the amended EFSF. The legislative work on the package for the strengthening of economic governance has progressed substantially and its adoption at first reading is within reach. Stress tests are being conducted in the banking sector. It is of key importance that they are fully credible and transparent and concluded in full compliance with the methodology and guidelines issued by the European Banking Authority and that all participants ensure the highest quality of the outcome. All necessary measures fully consistent with international standards must be rapidly taken to address any possible banking vulnerabilities brought to light by these stress tests.

10. The European Council welcomes the progress made in Ireland in the implementation of its reform programme, which is well on track. It also welcomes the strong commitment by the newly elected Portuguese government to fully implement its programme of reforms. Building on a cross-party consensus on the need to reform, strict implementation of those programmes will ensure debt sustainability and will support the return of Ireland and Portugal to the financial markets.

11. Euro area Heads of State or Government reiterate their commitment to do whatever is necessary to ensure the financial stability of the euro area as a whole.

12. The recovery in the euro area is well on track and has reached a sustainable path of solid growth. The euro is based on sound fundamentals, and we are deeply satisfied with the track record of price stability achieved since the inception of the euro.

13. As regards Greece, the European Council recognises the considerable progress achieved over the last year, particularly in the area of fiscal consolidation. It welcomes the Greek government’s continued strong commitment to implementing the adjustment programme.

14. The European Council calls on the national authorities to continue implementing with resolve the necessary adjustment efforts to put the country on a sustainable path. A comprehensive reform package agreed upon with the Commission, in liaison with the ECB and the IMF, and adoption by the Greek Parliament of the key laws on the fiscal strategy and privatization must be finalized as a matter of urgency in the coming days. Following the request by the Greek government announced by the Greek Prime Minister, this will provide the basis for setting up the main parameters of a new programme jointly supported by its euro area partners and the IMF, in line with current practices, and at the same time for allowing disbursement in time to meet Greece’s financing needs in July.

\(^1\) See EUCO 24/11.
15. The euro area Heads of State or Government agree that required additional funding will be financed through both official and private sources. They endorse the approach decided by the Eurogroup on 20 June as regards the pursuit of voluntary private sector involvement in the form of informal and voluntary roll-overs of existing Greek debt at maturity for a substantial reduction of the required year-by-year funding within the programme while avoiding a selective default.

16. The euro area Heads of State or Government call on Finance Ministers to complete work on outstanding elements to allow the necessary decisions to be taken by early July.

17. The European Council calls on all political parties in Greece to support the programme’s main objectives and key policy measures to ensure a rigorous and expeditious implementation. Given the length, magnitude and nature of required reforms in Greece, national unity is a prerequisite for success.

18. The European Council welcomes the Commission’s intention to enhance the synergies between the loan programme and the EU funds. The European Council supports all efforts to increase Greece’s capacity to absorb EU funds in order to stimulate growth and employment. This can be done by refocusing them on improving competitiveness and employment creation. Moreover, the European Council welcomes and supports the preparation by the Commission, together with the Member States, of a comprehensive programme of technical assistance to Greece.

19. Heads of State or Government are conscious of the efforts that the adjustment measures entail for the Greek citizens, and are convinced that these sacrifices are indispensable for economic recovery and will contribute to the future stability and welfare of the country.

II. MIGRATION

20. The free movement of persons, as established in the Treaty, is one of the most tangible and successful achievements of European integration as well as being a fundamental freedom. Political guidance and cooperation in the Schengen area need to be further strengthened, enhancing mutual trust between Member States, which are equally responsible for guaranteeing that all Schengen rules are applied effectively in accordance with the agreed common standards and with fundamental principles and norms. Europe’s external borders must be effectively and consistently managed, on the basis of common responsibility, solidarity and increased practical cooperation.

21. In line with the Council conclusions of 9/10 June 2011, the enforcement of common rules, in particular through the Schengen evaluation system, should be further improved and deepened so as to be able to give an efficient response to future challenges. An effective and reliable monitoring and evaluation system is necessary to ensure that this is the case. The future Schengen evaluation system will provide for the strengthening, adaptation and extension of the criteria based on the EU acquis. The evaluation should be EU-based and involve experts from the Member States, the Commission and competent agencies. The Commission is invited to regularly report on the results of evaluations and where necessary propose measures to respond to any deficiencies which are identified.

22. A mechanism should be introduced in order to respond to exceptional circumstances putting the overall functioning of Schengen cooperation at risk, without jeopardising the principle of free movement of persons. It should comprise a series of measures to be applied in a gradual, differentiated and coordinated manner in order to assist a Member State facing heavy pressure at the external borders. These could include inspection visits and technical and financial support, as well as assistance, coordination and intervention from Frontex. As a very last resort, in the framework of this mechanism, a safeguard clause could be introduced to allow the exceptional reintroduction of internal border controls in a truly critical situation where a Member State is no longer able to comply with its obligations under the Schengen rules. Such a measure would be taken on the basis of specified objective criteria and a common assessment, for a strictly limited scope and period of time, taking into account the need to be able to react in urgent cases. This will not affect the rights of persons entitled to freedom of movement under the Treaties.

The Commission is invited to submit a proposal for such a mechanism in September.

23. Responsibility for the control and surveillance of the external borders lies with the Member States which, in performing this function, are also acting in the common interest of all Member States. In order to ensure that Europe’s external borders are effectively managed and that the same standards apply everywhere, all relevant instruments must be used in an optimal manner and be adapted where necessary. The European Border Surveillance System will be further developed as a matter of priority in order to become operational by 2013 and allow Member States’ authorities carrying out border surveillance activities to share operational information and improve cooperation.

24. These efforts will also be strengthened by pushing forward rapidly with work on ‘smart borders’, to ensure that new technologies are harnessed to meet the challenges of border control. In particular, an entry/exit system and a registered travellers’ programme should be introduced. The European Council welcomes the agreement reached on the agency for the operational management of large-scale IT systems in the area of freedom, security and justice.

25. The functioning of Frontex and other agencies needs to be continuously monitored to ensure their continued efficiency in assisting Member States in managing
26. Noting the difficult situation currently faced by some Member States, the European Council reaffirms the need for genuine and practical solidarity towards the Member States most affected by migratory flows. The EU and Member States will continue to provide the necessary operational and financial support as the situation evolves, building on the measures agreed by the Council on 11 April 2011. The necessary funds and technical and human resources will be provided in order to continue and, where required, step up activities in support of those Member States. The European Council welcomes the extension of the pilot project on a voluntary basis for beneficiaries of international protection in Malta. It looks forward to the Commission communication on intra-EU solidarity later this year.

27. A consistent and strategic policy is required to manage mobility in a secure environment. The objective must be to address the root causes of migration at a structural level. To that end, and in the framework of the European Neighbourhood Policy, partnerships will be developed with the countries of the Southern and Eastern Neighbourhood.

28. As a first step, as proposed in the Commission’s recent communication, a wide-ranging structured dialogue on migration, mobility and security will be established with those countries, with the aim of delivering tangible benefits for them as well as for the European Union. Such dialogues should begin as a matter of urgency with partner countries willing and able to engage constructively on these matters. Mobility Partnerships will be differentiated according to partner countries’ individual merits; be agreed with each partner country separately; be conditional on efforts and progress made in all areas (migration, readmission, mobility and security); and include an efficient monitoring mechanism. Ways should be sought to increase the share of funding devoted to those areas, within the existing envelopes.

29. The Commission is invited to present its evaluation of the Global Approach to Migration, setting the path towards a more consistent, systematic and strategic policy framework for our relations with all relevant third countries, and including concrete proposals for the development of the Union’s key partnerships, giving priority to the Union’s neighbourhood as a whole.

30. Recent developments have put European asylum policy under strain. Safe and efficient asylum procedures are needed for people in need of protection. This requires in turn that the EU acquis in this field be fully applied. It is crucial that the Common European Asylum System (CEAS) be completed by 2012, based on high protection standards combined with fair and effective procedures capable of preventing abuses and allowing for rapid examination of asylum applications in order to ensure the sustainability of the system. The recent presentation by the Commission of modified proposals relating to the asylum procedures directive and to the reception conditions directive should provide a new basis for negotiations to begin on two important building blocks of the CEAS. Changes should not, as a result, encourage the submission of unfounded claims or increase overall costs for Member States. These negotiations should now be taken forward with diligence on the basis of a balanced overall approach encompassing all proposals on the table in order to meet the key objectives set out above.

III. CROATIA

31. The European Council commends Croatia for its intensive efforts, which have allowed accession negotiations to reach their final stage. The ongoing examination of the remaining negotiating chapters by the Council is being conducted in full respect of strict conditionality and in line with the negotiating framework. In the light of the progress made and the Commission’s positive assessment, the European Council invited the Council to take all necessary decisions for the conclusion of the accession negotiations with Croatia by the end of June 2011 on the basis of the draft common positions recently presented by the Commission, with a view to the signing of the Accession Treaty before the end of the year. Croatia should continue its reform efforts with the same vigour, in particular as regards the judiciary and fundamental rights, so as to be able to assume fully the obligations of membership from the date of accession. Monitoring up to accession of these reform efforts will give the necessary assurance to Croatia and current Member States. The Council, acting by qualified majority on a proposal from the Commission, may take all appropriate measures.

32. These developments bring a new momentum to the European perspective of the Western Balkans, provided these countries continue on the path of reform. The European Council will return to this matter at its December 2011 meeting. In this context, it welcomes the arrest and transfer to the Hague Tribunal of Ratko Mladic, which constitutes a positive step for international justice as well as for Serbia’s EU perspective.

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1. The European Council confirms the principles and objectives defined in its declaration and conclusions on the Southern Neighbourhood adopted on 11 March 2011 and 25 March 2011, respectively. It welcomes the Joint Communication by the High Representative and the European Commission on a new response to a changing Neighbourhood, issued on 25 May 2011. It fully endorses the Council conclusions on the European Neighbourhood Policy adopted on 20 June 2011, and calls for rapid progress in the implementation of concrete measures in line with the principles and objectives agreed by the Council.

2. The European Council welcomes the G8 support for the democratic transformation of Europe’s Southern neighbourhood. It underlines once again the importance of the Union for the Mediterranean, and the importance of rapidly launching concrete and significant projects within the framework of the UfM.

3. The European Council welcomes the steps which are currently being taken towards a democratic transformation in the region, particularly in Egypt and in Tunisia. It praises the announcement of the main elements of the new Constitution in Morocco, welcomes the renewed commitment to political reforms, including a review of the Constitution, in Jordan, and takes positive note of the lifting of the state of emergency and planned constitutional reform in Algeria. It underlines the need for inclusiveness and dialogue in the reform process, and will closely follow the implementation of these reforms.

4. The European Council confirms its full support for UN Security Council Resolutions 1970 and 1973 on Libya and for the efforts Member States of the EU are taking for their implementation. It fully endorses the Council conclusions on Libya adopted on 20 June 2011, and reiterates its call to Kadhaït to relinquish power immediately. Libya’s democratic transformation remains a primary interest of the European Union. The European Council stresses the essential role played by the Transitional National Council (TNC) in this process as a representative of the aspirations of the Libyan people.

5. The European Council condemns in the strongest possible terms the ongoing repression and unacceptable and shocking violence the Syrian regime continues to apply against its own citizens. It notes with grave concern reports of Syrian military activity close to the Turkish border at Khirbet al-Jouz and reiterates previous calls for maximum restraint. By choosing a path of repression instead of fulfilling its own promises on broad reforms, the regime is calling its legitimacy into question. Those responsible for crimes and violence against civilians shall be held accountable. Endorsing the conclusions on Syria adopted by the Council on 20 June 2011, the European Council welcomes the adoption of new sanctions. It also lends its full support to diplomatic efforts aimed at ensuring that the UN Security Council can assume its responsibility and give adequate response to the situation in Syria.

6. The European Council remains concerned about the situation in Yemen and urges all parties to stop violence, respect human rights and abide by a permanent cease-fire, and welcomes the commitment of the Vice-President to this end. It reiterates the urgency of an orderly and inclusive transition in line with the Gulf Cooperation Council initiative. The European Council is concerned about the process surrounding the trials and sentencing of opposition members in Bahrain. It encourages Bahrain to ensure full respect for human rights and fundamental freedoms.

ANNEX

DECLARATION ON THE SOUTHERN NEIGHBOURHOOD

1. The European Council confirms the principles and objectives defined in its declaration and conclusions on the Southern Neighbourhood adopted on 11 March 2011 and 25 March 2011, respectively. It welcomes the Joint Communication by the High Representative and the European Commission on a new response to a changing Neighbourhood, issued on 25 May 2011. It fully endorses the Council conclusions on the European Neighbourhood Policy adopted on 20 June 2011, and calls for rapid progress in the implementation of concrete measures in line with the principles and objectives agreed by the Council.
7. The European Council notes that the situation in Gaza remains of concern. Humanitarian assistance delivered to the population in Gaza should be in accordance with the relevant framework and decisions of the UN and should take care not to endanger human lives.

8. Fundamental changes across the Arab world highlight the need for progress on the Middle East Peace Process and to overcome the current stalemate, while respecting previous agreements and obligations. The European Council calls on all parties to engage urgently in negotiations. Only the resumption of direct negotiations could provide a realistic chance of improving the situation on the ground, thus leading to a lasting and comprehensive solution. Stressing the central role of the Quartet, the European Council commends the efforts in this regard by EU Member States and the High Representative, and welcomes President Obama’s recent proposals, in line with previous EU positions. It fully supports the High Representative’s call for the Quartet to create a credible perspective for the re-launching of the peace process as a matter of urgency. The European Council calls on all parties to abstain from unilateral actions that are not conducive to a comprehensive solution. It also supports the initiative to call a Conference in Paris to provide economic support for the construction of the Palestinian State in the framework of a re-launched peace process. The European Council expresses its grave concern on the fate of Gilad Shalit held prisoner by Hamas in clear contravention to universal international humanitarian law. On the fifth anniversary of his capture, the European Council demands Gilad Shalit’s immediate release.
We reaffirm our commitment to the euro and to do whatever is needed to ensure the financial stability of the euro area as a whole and its Member States. We also reaffirm our determination to reinforce convergence, competitiveness and governance in the euro area. Since the beginning of the sovereign debt crisis, important measures have been taken to stabilize the euro area, reform the rules and develop new stabilization tools. The recovery in the euro area is well on track and the euro is based on sound economic fundamentals. But the challenges at hand have shown the need for more far reaching measures. Today, we agreed on the following measures:

Greece:

1. We welcome the measures undertaken by the Greek government to stabilize public finances and reform the economy as well as the new package of measures including privatization recently adopted by the Greek Parliament. These are unprecedented, but necessary, efforts to bring the Greek economy back on a sustainable growth path. We are conscious of the efforts that the adjustment measures entail for the Greek citizens, and are convinced that these sacrifices are indispensable for economic recovery and will contribute to the future stability and welfare of the country.

2. We agree to support a new programme for Greece and, together with the IMF and the voluntary contribution of the private sector, to fully cover the financing gap. The total official financing will amount to an estimated 109 billion euro. This programme will be designed, notably through lower interest rates and extended maturities, to decisively improve the debt sustainability and refinancing profile of Greece. We call on the IMF to continue to contribute to the financing of the new Greek programme. We intend to use the EFSF as the financing vehicle for the next disbursement. We will monitor very closely the strict implementation of the programme based on the regular assessment by the Commission in liaison with the ECB and the IMF.

3. We have decided to lengthen the maturity of future EFSF loans to Greece to the maximum extent possible from the current 7.5 years to a minimum of 15 years and up to 30 years with a grace period of 10 years. In this context, we will ensure adequate post programme monitoring. We will provide EFSF loans at lending rates equivalent to those of the Balance of Payments facility (currently approx. 3.5%), close to, without going below, the EFSF funding cost. We also decided to extend substantially the maturities of the existing Greek facility. This will be accompanied by a mechanism which ensures appropriate incentives to implement the programme.

4. We call for a comprehensive strategy for growth and investment in Greece. We welcome the Commission’s decision to create a Task Force which will work with the Greek authorities to target the structural funds on competitiveness and growth, job creation and training. We will mobilise EU funds and institutions such as the EIB towards this goal and relaunch the Greek economy. Member States and the Commission will immediately mobilize all resources necessary in order to provide exceptional technical assistance to help Greece implement its reforms. The Commission will report on progress in this respect in October.

5. The financial sector has indicated its willingness to support Greece on a voluntary basis through a menu of options further strengthening overall sustainability. The net contribution of the private sector is estimated at 37 billion euro\(^1\). Credit enhancement will be provided to underpin the quality of collateral so as to allow its continued use for access to Eurosystem liquidity operations by Greek banks. We will provide adequate resources to recapitalise Greek banks if needed.

Private sector involvement:

6. As far as our general approach to private sector involvement in the euro area is concerned, we would like to make it clear that Greece requires an exceptional and unique solution.

7. All other euro countries solemnly reaffirm their inflexible determination to honour fully their own individual sovereign signature and all their commitments to sustainable fiscal conditions and structural reforms. The euro area Heads of State or Government fully support this determination as the credibility of all their sovereign signatures is a decisive element for ensuring financial stability in the euro area as a whole.

Stabilization tools:

8. To improve the effectiveness of the EFSF and of the ESM and address contagion, we agree to increase their flexibility linked to appropriate conditionality, allowing them to:
   - act on the basis of a precautionary programme;
   - finance recapitalisation of financial institutions through loans to governments including in non programme countries;

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\(^1\) Taking into account the cost of credit enhancement for the period 2011-2014. In addition, a debt buy back programme will contribute to 12.6 billion euro, bringing the total to 50 billion euro. For the period 2011-2019, the total net contribution of the private sector involvement is estimated at 106 billion euro.
– intervene in the secondary markets on the basis of an ECB analysis recognizing the existence of exceptional financial market circumstances and risks to financial stability and on the basis of a decision by mutual agreement of the EFSF/ESM Member States, to avoid contagion.

We will initiate the necessary procedures for the implementation of these decisions as soon as possible.

9. Where appropriate, a collateral arrangement will be put in place so as to cover the risk arising to euro area Member States from their guarantees to the EFSF.

Fiscal consolidation and growth in the euro area:

10. We are determined to continue to provide support to countries under programmes until they have regained market access, provided they successfully implement those programmes. We welcome Ireland and Portugal’s resolve to strictly implement their programmes and reiterate our strong commitment to the success of these programmes. The EFSF lending rates and maturities we agreed upon for Greece will be applied also for Portugal and Ireland. In this context, we note Ireland’s willingness to participate constructively in the discussions on the Common Consolidated Corporate Tax Base draft directive (CCCTB) and in the structured discussions on tax policy issues in the framework of the Euro+Pact framework.

11. All euro area Member States will adhere strictly to the agreed fiscal targets, improve competitiveness and address macro-economic imbalances. Public deficits in all countries except those under a programme will be brought below 3% by 2013 at the latest. In this context, we welcome the budgetary package recently presented by the Italian government which will enable it to bring the deficit below 3% in 2012 and to achieve balance budget in 2014. We also welcome the ambitious reforms undertaken by Spain in the fiscal, financial and structural area. As a follow up to the results of bank stress tests, Member States will provide backstops to banks as appropriate.

12. We will implement the recommendations adopted in June for reforms that will enhance our growth. We invite the Commission and the EIB to enhance the synergies between loan programmes and EU funds in all countries under EU/IMF assistance. We support all efforts to improve their capacity to absorb EU funds in order to stimulate growth and employment, including through a temporary increase in co-financing rates.

Economic governance:

13. We call for the rapid finalization of the legislative package on the strengthening of the Stability and Growth Pact and the new macro economic surveillance. Euro area members will fully support the Polish Presidency in order to reach agreement with the European Parliament on voting rules in the preventive arm of the Pact.

14. We commit to introduce by the end of 2012 national fiscal frameworks as foreseen in the fiscal frameworks directive.

15. We agree that reliance on external credit ratings in the EU regulatory framework should be reduced, taking into account the Commission's recent proposals in that direction, and we look forward to the Commission proposals on credit ratings agencies.

16. We invite the President of the European Council, in close consultation with the President of the Commission and the President of the Eurogroup, to make concrete proposals by October on how to improve working methods and enhance crisis management in the euro area.
In addition to addressing the immediate challenges posed by the financial crisis, it is essential to intensify efforts to secure sustainable and job-creating growth. Budgetary consolidation and debt reduction are of crucial importance to ensure the sustainability of public finances and restore confidence. At the same time, determined action is required already to strengthen the economy in the short run. It is therefore crucial for the European Union to implement all aspects of the Europe 2020 strategy. The Member States will accelerate structural reforms in line with the recommendations made in the context of the European semester. Within this framework, the European Council today identified a number of priorities which should be fast-tracked because of their significant impact on jobs and growth in the short to medium term. It also called for a stronger focus to be placed on the growth-enhancing aspects of the European Union’s external policies in order to maximise their contribution to growth in Europe and to shape the conditions to attract more foreign investment. The European Council set the Union's position for the G20 Summit, giving top priority to maintaining financial stability and restoring growth. It also discussed the preparations for the Durban conference on climate change, stressing the need to take ambitious steps towards a global and comprehensive legally-binding framework for the post-2012 period.

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1. ECONOMIC POLICY

a) The Single Market has a key role to play in delivering growth and employment. All efforts should be made to ensure agreement by the end of 2012 on the 12 priority proposals set out in the Single Market Act, giving utmost priority to those which can bring the most benefits to growth and jobs. The full implementation of the Services Directive will also deliver significant economic gains; Member States should complete its implementation by the end of this year and ensure that the single points of contact are fully operational and that economic operators are fully informed of the new opportunities it offers. The Commission will report on this issue by the end of 2011.

b) The European Council invites the Commission to swiftly present the roadmap on the completion of the Digital Single Market by 2015, giving priority to proposals aimed at promoting a fully integrated Digital Single Market through the facilitation of e-commerce and cross-border use of online services. Particular attention should be paid to ensuring rapid progress in achieving the broadband coverage objectives set out in the Digital Agenda, facilitating secure electronic identification and authentication and modernising Europe’s copyright regime with a view to ensuring the EU’s competitive edge and unleashing possibilities for new business models, while ensuring a high level of protection of intellectual property rights and taking into account cultural diversity. The European Council calls for swift agreement on the Radio Spectrum Policy programme.

c) Momentum should be maintained in implementing the 2007 Action Programme for the reduction of administrative burdens in order to meet the objective of a 25% reduction by 2012; more rapid progress should be made regarding annual accounts, company law, taxation and customs. The European Council calls for the swift adoption of the simplification proposals pending before Council and Parliament. The Commission is invited to make further efforts to reduce the overall regulatory burden, in particular for SMEs, including by proposing concrete working methods within the context of the Smart Regulation agenda. It has committed to assess the impact of future regulations on micro-enterprises and to screen the acquis to identify existing obligations from which micro-enterprises could be exempted. The European Council looks forward to the Commission’s forthcoming report in order to return to these issues at its December 2011 meeting.

d) Member States will ensure that the country-specific recommendations are fully reflected in national decisions as regards budgetary policy and structural reforms, given their crucial importance for ensuring sustainable public finances and creating jobs and growth. In support of this, the European Council calls for steps to be taken by the Council, working with the Commission, to ensure that all actions at the European Union level fully support economic growth and job creation.

2. Energy, including energy efficiency, and research and innovation are key areas for the promotion of growth. The European Council will assess progress made in those areas in December 2011 and in March 2012 respectively, further to the concrete orientations set in February 2011. It calls for the swift implementation of those measures which will have a direct impact on growth.
3. Since the crisis has increased pressure on national budgets, it is important to optimise the use of available resources, in particular in countries implementing an adjustment programme. The European Council calls for the adoption before the end of the year of the proposals to temporarily increase co-financing rates for EU funds, accompanied by a targeting of those funds on growth, competitiveness and employment. The EIB is invited to examine in close cooperation with the Commission the possibilities of further contributing to boosting investment in Europe, including for countries implementing an adjustment programme.

4. The European Union now has more powerful tools to enhance its economic governance and to ensure that the required measures are taken to pull Europe out of the crisis: the Europe 2020 strategy continues to guide the Union and the Member States in promoting the delivery of growth-enhancing structural reforms; the European semester will help ensure that they remain on track in implementing these reforms in a coordinated manner; and the Euro Plus Pact will achieve a new quality of economic policy coordination amongst the participating Member States. The package of six legislative acts on economic governance agreed last month will allow a much higher degree of surveillance and coordination, necessary to ensure sustainable public finances and avoid the accumulation of excessive imbalances. The European Council emphasises its determination to implement this new framework in order to ensure that it is fully and effectively applied. In this context, we welcome the intention of the Commission to strengthen, in the Commission, the role of the competent Commissioner for closer monitoring and additional enforcement.

5. The next European semester should be as ambitious as possible and draw fully on the lessons of the past. The European Council welcomes the Commission’s intention to bring forward its Annual Growth Survey to December 2011, which will allow the Council to prepare the Spring 2012 European Council thoroughly. Heads of State or Government will return to some themes of the Euro Plus Pact in December 2011; they will also be informed of progress made in structured discussions on tax policy coordination issues. Legislative work on the Commission proposals for a common consolidated corporate tax base is ongoing. The European Council takes note of the Commission proposal for a financial transaction tax.

6. Strengthening financial regulation remains a key priority at the EU and the global level. Much has been achieved since 2008 with the reform of our regulatory and supervisory framework, but efforts need to be maintained to address the weaknesses of the financial system and prevent future crises. The European Council welcomes the agreement reached on short selling and calls for the speedy adoption of other important legislative proposals such as those relating to OTC derivatives and deposit guarantee schemes by the end of this year, and those on capital requirements by summer 2012. It welcomes the proposals on markets in financial instruments and market abuse and looks forward to the proposals the Commission will make on credit rating agencies and bank crisis management and resolution.

The European Council welcomes the progress made by the Council (ECOFIN) on measures for the banking sector and invites the Council to finalise this work at its meeting on 26 October. These measures will be an essential component of a broader package, whose other elements will be agreed by the Euro Summit of 26 October.

7. The President reported to the European Council on the state of preparations regarding the Euro Summit of 23 and 26 October. The European Council agreed on the need for coherence of the activities of the euro area and the European Union, with due respect for the integrity of the European Union as a whole and its operation at 27. In this context, the European Commission has responsibility ensuring compliance by all 27 Member States with EU legislation, including that relating to the internal market, and to safeguard a level playing field among all Member States, including those not participating in the euro. The President of the Euro Summit will be designated by the Heads of State or Government of the euro area at the same time as the European Council elects its President and for the same term of office. Pending the next such election, the current President of the European Council will chair the Euro Summit meetings. The President of the Euro Summit will keep the non-euro-area Member States fully informed of the preparation and outcome of the Summits. The European Council notes the intention of the Heads of State or Government of the euro area to reflect on further strengthening of economic convergence within the euro area and on improving fiscal discipline and deepening economic union, including exploring the possibility of limited Treaty changes. The European Council recalls that any Treaty change must be agreed on by the 27 Member States. The European Council will return to the issue in December on the basis of a report by the President of the European Council in close collaboration with the President of the Commission and the President of the Eurogroup.

8. As regards the external aspects of economic policy, Europe will continue to promote free, fair and open trade whilst at the same time asserting its interests, in a spirit of reciprocity and mutual benefit in relation to the world’s largest economies. The European Union can take a number of measures in its external relations that can contribute to boosting its growth potential, both in the short and longer term:

a) Whilst strengthening and widening the multilateral system and concluding the WTO Doha Round remain crucial objectives given their expected benefits in terms of growth and job creation, renewed emphasis should be given to bilateral and regional agreements, particularly with strategic partners and those whose markets are expanding at a significant pace. Such efforts should in particular be geared to the removal of trade barriers,
better market access, appropriate investment conditions, the protection of intellectual property, access to raw materials and the opening up of public procurement markets. Concerning the latter, the European Council looks forward to the forthcoming Commission proposal for an EU instrument.

b) The Union should capitalise on the special relationships it enjoys with its neighbouring regions to foster closer economic ties and open up new trade and investment opportunities, including by pursuing, where appropriate, deep and comprehensive free trade agreements. Promoting a more business-friendly environment throughout the EU neighbourhood is an essential investment in wider regional prosperity. The Union should pursue the integration of specific sectors which have a significant impact on growth and employment, such as energy and aviation.

c) The Union should also seek to reap full benefits from a regulatory environment applied in an expanding economic space and take the lead in the setting of standards. It should develop a comprehensive investment policy, aimed at achieving effective two-way investment liberalisation and protection as an integral part of the Union’s overall common commercial policy. It should also ensure increased coherence between the external aspects of sectoral policies such as energy, transport and visas, within the overall balance of its economic interests and foreign policy objectives.

9. Work will be taken forward on these issues as a matter of priority, with the required resources and instruments being devoted to that end. The Commission is invited to report on progress achieved by next Spring. Whenever required, EU summits with third countries and regions will be more focused on settling outstanding issues in agreements under negotiation with them.

II. G20

10. The European Council discussed the preparations for the Cannes G20 Summit. It confirmed the orientations agreed by the Council in preparation for the G20 Finance, Agriculture, Employment and Development ministerial meetings.

11. Determined action is necessary to maintain financial stability, restore confidence and support growth and job creation. The G20 should approve an ambitious action plan containing specific commitments and measures from all G20 countries to respond to the serious challenges emanating from the current economic slowdown and to ensure strong, sustainable and balanced growth while implementing credible fiscal consolidation.

12. The Cannes Summit should also achieve real progress on the following:

a) reforming the international monetary system (IMS), in particular by reinforcing surveillance and crisis management tools and better coordinating economic and monetary policies; sound macroeconomic policies should be the first line in responding to capital flow shocks and the G20 should continue to promote open capital markets and avoid financial protectionism; further progress is expected on a criteria-based path to broaden the special drawing rights basket, as a contribution to the evolution of the IMS, based on the existing criteria. The G20 should ensure that the IMF has adequate resources to fulfil its systemic responsibilities and should explore possible contributions to the IMF from countries with a large external surplus.

b) strengthening the regulation and supervision of the financial sector by ensuring the full and consistent implementation of past commitments, which implies the timely and consistent implementation of Basel II, II-5 and III, the reform of OTC derivatives, and remuneration principles and standards. Progress is needed on achieving internationally consistent frameworks for all systemically important financial institutions, on identifying and publicly listing non-cooperative jurisdictions, on the convergence of accounting standards, on strengthening the regulation of the shadow banking system, on combating the existence of tax havens and on reducing overreliance on credit ratings. To keep pace with ambitious financial reform, the Financial Stability Board’s institutional footing, resources and governance will be strengthened. The introduction of a global financial transaction tax should be explored and developed further; tackling the excessive volatility of commodity prices, notably by enhancing transparency in commodity markets and improving the functioning and regulation of derivative markets; the G20 Action Plan on food price volatility and agriculture constitutes an important further step towards providing an internationally coordinated response to the food security challenge;

c) advancing international trade liberalisation and resisting protectionism, in particular by agreeing a credible plan as a basis for concluding the Doha Development Round and considering innovative approaches to strengthen the multilateral trading system;

d) promoting global recovery and sustainable and inclusive growth by supporting an active WTO negotiating agenda, including for the least developed countries, and by fully implementing the G20 Development Agenda through concrete measures; the social dimension of globalisation should also be enhanced;

e) advancing international trade liberalisation and resisting protectionism, in particular by agreeing a credible plan as a basis for concluding the Doha Development Round and considering innovative approaches to strengthen the multilateral trading system;

f) combating climate change, in particular by mobilising sources for climate change finance.

III. CLIMATE CHANGE

13. The European Council endorses the conclusions of the Council of 4 and 10 October 2011, which outline the EU position for the Durban conference on climate change in detail. It underlines that an ambitious international regime to combat climate change is crucial if we are to achieve the agreed objective of an increase in global temperatures of no more than 2°C. The European Union will work
14. The European Council welcomes the ongoing work of the High-level Panel on Global Sustainability, established by the UNSG, to find new effective ways to promote global sustainable development.

15. Europe remains committed to supporting the democratic transformation of its Southern Neighbourhood through the European Neighbourhood Policy. Democratic transition and economic development in the whole region remain essential for the establishment of democracy, fully respecting the rule of law and human and civil rights. The rapid launch of specific projects within the Union for the Mediterranean can contribute much to this process.

16. The death of Muammar Gaddafi marks the end of an era of despotism and repression, from which the Libyan people have suffered for too long. Today Libya can turn a page in its history, pursue national reconciliation, and embrace a new democratic future. The European Council pays tribute to the courage and determination of the people of Libya. It looks forward to the formation of an inclusive and broad-based government, to the launch of a democratic, peaceful and transparent transition that reaches out to all Libyans and to the preparation of free and fair elections in accordance with the Constitutional Declaration by the National Transitional Council. It reaffirms the commitment of the European Union to support the emergence of a democratic Libya. The European Council reiterates its support for a democratic, pluralist and stable Egypt as a key partner to the European Union for the Mediterranean.

17. The European Council fully endorses the Council conclusions on Syria adopted on 10 October. The Syrian people must be able to define the future of their country without the fear of repression. The European Council welcomes the efforts of the political opposition to establish a united platform. The creation of the Syrian National Council is a positive step forward. It remains gravely concerned about the current situation in Syria and stresses its strong support for the Syrian people as they express their legitimate aspirations to live in freedom and dignity. It condemns in the strongest terms the ongoing brutal repression led by the Syrian regime against its population as well as the widespread human rights violations. President Assad must step aside to allow a political transition to take place in Syria. The EU has decided to adopt restrictive measures, aimed at those responsible for or associated with the violent repression and those who support or benefit from the regime, not at the civilian population. The EU will impose further and more comprehensive measures against the regime as long as the repression of the civilian population continues. The European Council urges all members of the UN Security Council to assume their responsibilities in relation to the situation in Syria.

18. The European Council welcomes the reinforcement of EU restrictive measures against Iran in response to unacceptable human rights violations and the adoption of restrictive measures against five individuals following the foiled plot to assassinate the Ambassador of the Kingdom of Saudi Arabia to the United States. It urges Iran to respect all obligations under international law. It expresses its continued concern over the expansion of Iran’s nuclear and missile programmes, in violation of UNSC and IAEA Resolutions, as well as its lack of cooperation with the IAEA in addressing outstanding issues, including those pointing to possible military dimensions to its nuclear programme.

We urge Iran to enter into constructive and substantive talks with the 5+1 in a way to arrive at a comprehensive, negotiated, long-term solution of the nuclear question in order to avoid possible further restrictive measures. At the same time the European Council invites the Foreign Affairs Council to prepare new restrictive measures to be decided upon and to be implemented at the appropriate moment in the event that Iran continues not to cooperate seriously nor to meet its obligations. It endorses the statement delivered by the High Representative on 21 September. It reiterates the commitment of the European Union to work for a diplomatic solution of this issue.

19. The European Council welcomes the second Eastern Partnership Summit, held in Warsaw on 29-30 September, and welcomes the intention of the High Representative and the European Commission to propose a roadmap that would list the objectives, instruments and actions with a view to the next Eastern Partnership Summit in the second half of 2013. The pace and depth of these countries’ political association and economic integration with the EU will depend on their upholding of the democratic principles and rule of law which are the basis of the Partnership.

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ANNEX

EUROPEAN COUNCIL STATEMENT

The European Council welcomes with great satisfaction the announcement of the cessation of ETA’s terrorist activity made on 20 October. This is undoubtedly the victory of democracy and freedom in Spain and throughout the Union, and in this respect the European Council wishes to express its appreciation to the Government, political parties, security forces, the law enforcement authorities and the whole of Spanish society for their steadfastness and determination in the long struggle against terrorist violence. Recognition is also due to the invaluable European cooperation and solidarity received, with special thanks to the people and Government of France. And we retain a very special memory for the victims of this violence, a memory that must endure so that such violence, which should never have occurred, may never return.
Statement by the Heads of State or Government of the European Union — 26 October 2011

At today’s meeting, in line with paragraph 7 of the European Council conclusions of 23 October concerning relations between the EU and the Euro area, the members of the European Council were informed by President Van Rompuy about the state of preparations of the Euro Summit that will take place later in the day. They discussed the situation and underlined their common resolve to do their utmost to overcome the crisis and to help face in a spirit of solidarity the challenges confronting the European Union and the Euro area.

They welcomed the consensus on measures to restore confidence in the banking sector reached by the Council (ECOFIN) on 22 October. On this basis, they agreed the text annexed to this statement subject to agreement on the measures indicated in this text forming part of a broader package, including the decisions to be taken by today’s meeting of the Euro Summit. The Council (ECOFIN) will finalise the work and adopt the necessary follow up measures.

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ANNEX

CONSENSUS ON BANKING PACKAGE

1. Measures for restoring confidence in the banking sector (banking package) are urgently needed and are necessary in the context of strengthening prudential control of the EU banking sector. These measures should address:
   a. The need to ensure the medium-term funding of banks, in order to avoid a credit crunch and to safeguard the flow of credit to the real economy, and to coordinate measures to achieve this.
   b. The need to enhance the quality and quantity of capital of banks to withstand shocks and to demonstrate this enhancement in a reliable and harmonised way.

Term funding

2. Guarantees on bank liabilities would be required to provide more direct support for banks in accessing term funding (short-term funding being available at the ECB and relevant national central banks), where appropriate. This is also an essential part of the strategy to limit deleveraging actions.

3. A simple repetition of the 2008 experience with full national discretion in the setting-up of liquidity schemes may not provide a satisfactory solution under current market conditions. Therefore a truly coordinated approach at EU-level is needed regarding entry criteria, pricing and conditions. The Commission should urgently explore together with the EBA, EIB, ECB the options for achieving this objective and report to the EFC.

4. Capital target: There is broad agreement on requiring a significantly higher capital ratio of 9% of the highest quality capital and after accounting for market valuation of sovereign debt exposures, both as of 30 September 2011, to create a temporary buffer, which is justified by the exceptional circumstances. This quantitative capital target will have to be attained by 30 June 2012, based on plans agreed with national supervisors and coordinated by EBA. This prudent valuation would not affect the relevant financial reporting rules. National supervisory authorities, under the auspices of the EBA, must ensure that banks’ plans to strengthen capital do not lead to excessive deleveraging, including maintaining the credit flow to the real economy and taking into account current exposure levels of the group including their subsidiaries in all Member States, cognisant of the need to avoid undue pressure on credit extension in host countries or on sovereign debt markets.

5. Financing of capital increase: Banks should first use private sources of capital, including through restructuring and conversion of debt to equity instruments. Banks should be subject to constraints regarding the distribution of dividends and bonus payments until the target has been attained. If necessary, national governments should provide support, and if this support is not available, recapitalisation should be funded via a loan from the EFSF in the case of Eurozone countries.

State Aid

6. Any form of public support, whether at a national or EU-level, will be subject to the conditionality of the current special state aid crisis framework, which the Commission has indicated will be applied with the necessary proportionality in view of the systemic character of the crisis.
Statement by the Heads of State or Government of the Euro area — 26 October 2011

1. Over the last three years, we have taken unprecedented steps to combat the effects of the world-wide financial crisis, both in the European Union as such and within the euro area. The strategy we have put into place encompasses determined efforts to ensure fiscal consolidation, support to countries in difficulty, and a strengthening of euro area governance leading to deeper economic integration among us and an ambitious agenda for growth. At our 21 July meeting we took a set of major decisions. The ratification by all 17 Member States of the euro area of the measures related to the EFSF significantly strengthens our capacity to react to the crisis. Agreement by all three institutions on a strong legislative package within the EU structures on better economic governance represents another major achievement. The introduction of the European Semester has fundamentally changed the way our fiscal and economic policies are co-ordinated at European level, with co-ordination at EU level now taking place before national decisions are taken. The euro continues to rest on solid fundamentals.

Sustainable public finances and structural reforms for growth

3. The European Union must improve its growth and employment outlook, as outlined in the growth agenda agreed by the European Council on 23 October 2011. We reiterate our full commitment to implement the country specific recommendations made under the first European Semester and on focusing public spending on growth areas.

4. All Member States of the euro area are fully determined to continue their policy of fiscal consolidation and structural reforms. A particular effort will be required of those Member States who are experiencing tensions in sovereign debt markets.

5. We welcome the important steps taken by Spain to reduce its budget deficit, restructure its banking sector and reform product and labour markets, as well as the adoption of a constitutional balanced budget amendment. Strictly implementing budgetary adjustment as planned is key, including at regional level, to fulfil the commitments of the stability and growth Pact and the strengthening of the fiscal framework by developing lower level legislation to make the constitutional amendment fully operative. Further action is needed to increase growth so as to reduce the unacceptable high level of unemployment.

6. We welcome Italy’s plans for growth enhancing structural reforms and the fiscal consolidation strategy, as set out in the letter sent to the Presidents of the European Council and the Commission and call on Italy to present as a matter of urgency an ambitious timetable for these reforms. We commend Italy’s commitment to achieve a balanced budget by 2013 and a structural budget surplus in 2014, bringing about a reduction in gross government debt to 113% of GDP in 2014, as well as the foreseen introduction of a balanced budget rule in the constitution by mid 2012.

Italy will now implement the proposed structural reforms to increase competitiveness by cutting red tape, abolishing minimum tariffs in professional services and further liberalising local public services and utilities. We note Italy’s commitment to reform labour legislation and in particular the dismissal rules and procedures and to review the currently fragmented unemployment benefit system by the end of 2011, taking into account the budgetary constraints. We take note of the plan to increase the retirement age to 67 years by 2026 and recommend the definition by the end of the year of the process to achieve this objective.

We support Italy’s intention to review structural funds programs by reprioritising projects and focussing on education, employment, digital agenda and railways/networks with the aim of improving the conditions to enhance growth and tackle the regional divide.

We invite the Commission to provide a detailed assessment of the measures and to monitor their implementation, and the Italian authorities to provide in a timely way all the information necessary for such an assessment.

Countries under adjustment programme

7. We reiterate our determination to continue providing support to all countries under programmes until they have regained market access, provided they fully implement those programmes.

8. Concerning the programme countries, we are pleased with the progress made by Ireland in the full implementation of its adjustment programme which is delivering positive results. Portugal is also making good progress with its programme and is determined to continue undertaking measures to underpin fiscal sustainability and improve competitiveness. We invite both countries to keep up their efforts, to stick to the
9. We welcome the decision by the Eurogroup on the disbursement of the 6th tranche of the EU-IMF support programme for Greece. We look forward to the conclusion of a sustainable and credible new EU-IMF multianual programme by the end of the year.

10. The mechanisms for the monitoring of implementation of the Greek programme must be strengthened, as requested by the Greek government. The ownership of the programme is Greek and its implementation is the responsibility of the Greek authorities. In the context of the new programme, the Commission, in cooperation with the other Troika partners, will establish for the duration of the programme a monitoring capacity on the ground, including with the involvement of national experts, to work in close and continuous cooperation with the Greek government and the Troika to advise and offer assistance in order to ensure the timely and full implementation of the reforms. It will assist the Troika in assessing the conformity of measures which will be taken by the Greek government within the commitments of the programme. This new role will be laid down in the Memorandum of Understanding. To facilitate the efficient use of the sizeable official loans for the recapitalization of Greek banks, the governance of the Hellenic Financial Stability Fund (HFSF) will be strengthened in agreement with the Greek government and the Troika.

11. We fully support the Task Force on technical assistance set up by the Commission.

12. The Private Sector Involvement (PSI) has a vital role in establishing the sustainability of the Greek debt. Therefore we welcome the current discussion between Greece and its private investors to find a solution for a deeper PSI. Together with an ambitious reform programme for the Greek economy, the PSI should secure the decline of the Greek debt to GDP ratio with an objective of reaching 120% by 2020. To this end we invite Greece, private investors and all parties concerned to develop a voluntary bond exchange with a nominal discount of 50% on notional Greek debt held by private investors. The Euro zone Member States would contribute to the PSI package up to 30 bn euro. On that basis, the official sector stands ready to provide additional programme financing of up to 100 bn euro until 2014, including the required recapitalisation of Greek banks. The new programme should be agreed by the end of 2011 and the exchange of bonds should be implemented at the beginning of 2012. We call on the IMF to continue to advise and offer assistance in order to ensure the proper functioning of the new Greek programme.

13. Greece commits future cash flows from project Helios or other privatisation revenue in excess of those already included in the adjustment programme to further reduce indebtedness of the Hellenic Republic by up to 15 billion euros with the aim of restoring the lending capacity of the EFSF.

14. Credit enhancement will be provided to underpin the quality of collateral so as to allow its continued use for access to Eurosystem liquidity operations by Greek banks.

15. As far as our general approach to private sector involvement in the euro area is concerned, we reiterate our decision taken on 21 July 2011 that Greece requires an exceptional and unique solution.

16. All other euro area Member States solemnly reaffirm their inflexible determination to honour fully their own individual sovereign signature and all their commitments to sustainable fiscal conditions and structural reforms. The euro area Heads of State or Government fully support this determination as the credibility of all their sovereign signatures is a decisive element for ensuring financial stability in the euro area as a whole.

**Stabilisation mechanisms**

17. The ratification process of the revised EFSF has now been completed in all euro area Member States and the Eurogroup has agreed on the implementing guidelines on primary and secondary market interventions, precautionary arrangements and bank recapitalisation. The decisions we took concerning the EFSF on 21 July are thus fully operational. All tools available will be used in an effective way to ensure financial stability in the euro area. As stated in the implementing guidelines, strict conditionality will apply in case of new (precautionary) programmes in line with IMF practices. The Commission will carry out enhanced surveillance of the Member States concerned and report regularly to the Eurogroup.

18. We agree that the capacity of the extended EFSF shall be used with a view to maximizing the available resources in the following framework:

- the objective is to support market access for euro area Member States faced with market pressures and to ensure the proper functioning of the euro area sovereign debt market, while fully preserving the high credit standing of the EFSF. These measures are needed to ensure financial stability and provide sufficient ringfencing to fight contagion;
- this will be done without extending the guarantees underpinning the facility and within the rules of the Treaty and the terms and conditions of the current framework agreement, operating in the context of the agreed instruments, and entailing appropriate conditionality and surveillance.

19. We agree on two basic options to leverage the resources of the EFSF:

- providing credit enhancement to new debt issued by Member States, thus reducing the funding cost. Purchasing this risk insurance would be offered to private investors as an option when buying bonds in the primary market;
- maximising the funding arrangements of the EFSF with a combination of resources from private and public financial institutions and investors, which can be arranged through Special Purpose Vehicles. This will enlarge the amount of resources available to extend
loans, for bank recapitalization and for buying bonds in the primary and secondary markets.

20. The EFSF will have the flexibility to use these two options simultaneously, deploying them depending on the specific objective pursued and on market circumstances. The leverage effect of each option will vary, depending on their specific features and market conditions, but could be up to four or five.

21. We call on the Eurogroup to finalise the terms and conditions for the implementation of these modalities in November, in the form of guidelines and in line with the draft terms and conditions prepared by the EFSF.

22. In addition, further enhancement of the EFSF resources can be achieved by cooperating even more closely with the IMF. The Eurogroup, the Commission and the EFSF will work on all possible options.

Banking system

23. We welcome the agreement reached today by the members of the European Council on bank recapitalisation and funding (see Annex 2).

Economic and fiscal coordination and surveillance

24. The legislative package on economic governance strengthens economic and fiscal policy coordination and surveillance. After it enters into force in January 2012, it will be strictly implemented as part of the European Semester. We call for rigorous surveillance by the Commission and the Council, including through peer pressure, and the active use of the existing and new instruments available. We also recall our commitments made in the framework of the Euro Plus Pact.

25. Being part of a monetary union has far reaching implications and implies a much closer coordination and surveillance to ensure stability and sustainability of the whole area. The current crisis shows the need to address this much more effectively. Therefore, while strengthening our crisis tools within the euro area, we will make further progress in integrating economic and fiscal policies by reinforcing coordination, surveillance and discipline. We will develop the necessary policies to support the functioning of the single currency area.

26. More specifically, building on the legislative package just adopted, the European Semester and the Euro Plus Pact, we commit to implement the following additional measures at the national level:
   a. adoption by each euro area Member State of rules on balanced budget in structural terms translating the Stability and Growth Pact into national legislation, preferably at constitutional level or equivalent, by the end of 2012;
   b. reinforcement of national fiscal frameworks beyond the Directive on requirements for budgetary frameworks of the Member States. In particular, national budgets should be based on independent growth forecasts;
   c. invitation to national parliaments to take into account recommendations adopted at the EU level on the conduct of economic and budgetary policies;
   d. consultation of the Commission and other euro area Member States before the adoption of any major fiscal or economic policy reform plans with potential spillover effects, so as to give the possibility for an assessment of possible impact for the euro area as a whole;
   e. commitment to stick to the recommendations of the Commission and the relevant Commissioner regarding the implementation of the Stability and Growth Pact.

27. We also agree that closer monitoring and additional enforcement are warranted along the following lines:
   a. for euro area Member States in excessive deficit procedure, the Commission and the Council will be enabled to examine national draft budgets and adopt an opinion on them before their adoption by the relevant national parliaments. In addition, the Commission will monitor budget execution and, if necessary, suggest amendments in the course of the year;
   b. in the case of slippages of an adjustment programme closer monitoring and coordination of programme implementation will take place.

28. We look forward to the Commission’s forthcoming proposal on closer monitoring to the Council and the European Parliament under Article 136 of the TFEU. In this context, we welcome the intention of the Commission to strengthen, in the Commission, the role of the competent Commissioner for closer monitoring and additional enforcement.

29. We will further strengthen the economic pillar of the Economic and Monetary Union and better coordinate macro- and micro-economic policies. Building on the Euro Plus Pact, we will improve competitiveness, thereby achieving further convergence of policies to promote growth and employment. Pragmatic coordination of tax policies in the euro area is a necessary element of stronger economic policy coordination to support fiscal consolidation and economic growth. Legislative work on the Commission proposals for a Common Consolidated Corporate Tax Base and for a Financial Transaction Tax is ongoing.

Governance structure of the euro area

30. To deal more effectively with the challenges at hand and ensure closer integration, the governance structure for the euro area will be strengthened, while preserving the integrity of the European Union as a whole.

31. We will thus meet regularly - at least twice a year - at our level, in Euro Summits, to provide strategic orientations on the economic and fiscal policies in the euro area. This will allow to better take into account the euro area dimension in our domestic policies.
32. The Eurogroup will, together with the Commission and the ECB, remain at the core of the daily management of the euro area. It will play a central role in the implementation by the euro area Member States of the European Semester. It will rely on a stronger preparatory structure.

33. More detailed arrangements are presented in Annex 1 to this paper.

Further integration

34. The euro is at the core of our European project. We will strengthen the economic union to make it commensurate with the monetary union.

35. We ask the President of the European Council, in close collaboration with the President of the Commission and the President of the Eurogroup, to identify possible steps to reach this end. The focus will be on further strengthening economic convergence within the euro area, improving fiscal discipline and deepening economic union, including exploring the possibility of limited Treaty changes. An interim report will be presented in December 2011 so as to agree on first orientations. It will include a roadmap on how to proceed in full respect of the prerogatives of the institutions. A report on how to implement the agreed measures will be finalised by March 2012.

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ANNEX I

TEN MEASURES TO IMPROVE THE GOVERNANCE OF THE EURO AREA

There is a need to strengthen economic policy coordination and surveillance within the euro area, to improve the effectiveness of decision making and to ensure more consistent communication. To this end, the following ten measures will be taken, while fully respecting the integrity of the EU as a whole:

1. There will be regular Euro Summit meetings bringing together the Heads of State or government (HoSG) of the euro area and the President of the Commission. These meetings will take place at least twice a year, at key moments of the annual economic governance circle; they will if possible take place after European Council meetings. Additional meetings can be called by the President of the Euro Summit if necessary. Euro Summits will define strategic orientations for the conduct of economic policies and for improved competitiveness and increased convergence in the euro area. The President of the Euro Summit will ensure the preparation of the Euro Summit, in close cooperation with the President of the Commission.

2. The President of the Euro Summit will be designated by the HoSG of the euro area at the same time the European Council elects its President and for the same term of office. Pending the next such election, the current President of the European Council will chair the Euro Summit meetings.

3. The President of the Euro Summit will keep the non euro area Member States closely informed of the preparation and outcome of the Summits. The President will also inform the European Parliament of the outcome of the Euro Summits.

4. As is presently the case, the Eurogroup will ensure ever closer coordination of the economic policies and promoting financial stability. Whilst respecting the powers of the EU institutions in that respect, it promotes strengthened surveillance of Member States’ economic and fiscal policies as far as the euro area is concerned. It will also prepare the Euro Summit meetings and ensure their follow up.

5. The President of the Eurogroup is elected in line with Protocol n°14 annexed to the Treaties. A decision on whether he/she should be elected among Members of the Eurogroup or be a full-time President based in Brussels will be taken at the time of the expiry of the mandate of the current incumbent. The President of the Euro Summit will be consulted on the Eurogroup work plan and may invite the President of the Eurogroup to convene a meeting of the Eurogroup, notably to prepare Eurosummits or to follow up on its orientations. Clear lines of responsibility and reporting between the Euro Summit, the Eurogroup and the preparatory bodies will be established.

6. The President of the Euro Summit, the President of the Commission and the President of the Eurogroup will meet regularly, at least once a month. The President of the ECB may be invited to participate. The Presidents of the supervisory agencies and the EFSF CEO / ESM Managing Director may be invited on an ad hoc basis.

7. Work at the preparatory level will continue to be carried out by the Eurogroup Working Group (EWG), drawing on expertise provided by the Commission. The EWG also prepares Eurogroup meetings. It should benefit from a more permanent sub-group consisting of alternates/officials representative of the Finance Ministers, meeting more frequently, working under the authority of the President of the EWG.

8. The EWG will be chaired by a full-time Brussels-based President. In principle, he/she will be elected at the same time as the chair of the Economic and Financial Committee.

9. The existing administrative structures (i.e. the Council General Secretariat and the EFC Secretariat) will be strengthened and co-operate in a well coordinated way to provide adequate support to the Euro Summit President and the President of the Eurogroup, under the guidance of the President of the EFC / EWG. External expertise will be drawn upon as appropriate, on an ad hoc basis.

10. Clear rules and mechanisms will be set up to improve communication and ensure more consistent messages.
The President of the Euro Summit and the President of the Eurogroup shall have a special responsibility in this respect. The President of the Euro Summit together with the President of the Commission shall be responsible for communicating the decisions of the Euro Summit and the President of the Eurogroup together with the ECFIN Commissioner shall be responsible for communicating the decisions of the Eurogroup.

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ANNEX 2

CONSENSUS ON BANKING PACKAGE

1. Measures for restoring confidence in the banking sector (banking package) are urgently needed and are necessary in the context of strengthening prudential control of the EU banking sector. These measures should address:
   a. The need to ensure the medium-term funding of banks, in order to avoid a credit crunch and to safeguard the flow of credit to the real economy, and to coordinate measures to achieve this.
   b. The need to enhance the quality and quantity of capital of banks to withstand shocks and to demonstrate this enhancement in a reliable and harmonised way.

Term funding

2. Guarantees on bank liabilities would be required to provide more direct support for banks in accessing term funding (short-term funding being available at the ECB and relevant national central banks), where appropriate. This is also an essential part of the strategy to limit deleveraging actions.

3. A simple repetition of the 2008 experience with full national discretion in the setting-up of liquidity schemes may not provide a satisfactory solution under current market conditions. Therefore a truly coordinated approach at EU-level is needed regarding entry criteria, pricing and conditions. The Commission should urgently explore together with the EBA, EIB, ECB the options for achieving this objective and report to the EFC.

Capitalisation of banks

4. Capital target: There is broad agreement on requiring a significantly higher capital ratio of 9% of the highest quality capital and after accounting for market valuation of sovereign debt exposures, both as of 30 September 2011, to create a temporary buffer, which is justified by the exceptional circumstances. This quantitative capital target will have to be attained by 30 June 2012, based on plans agreed with national supervisors and coordinated by EBA. This prudent valuation would not affect the relevant financial reporting rules. National supervisory authorities, under the auspices of the EBA, must ensure that banks’ plans to strengthen capital do not lead to excessive deleveraging, including maintaining the credit flow to the real economy and taking into account current exposure levels of the group including their subsidiaries in all Member States, cognisant of the need to avoid undue pressure on credit extension in host countries or on sovereign debt markets.

5. Financing of capital increase: Banks should first use private sources of capital, including through restructuring and conversion of debt to equity instruments. Banks should be subject to constraints regarding the distribution of dividends and bonus payments until the target has been attained. If necessary, national governments should provide support, and if this support is not available, recapitalisation should be funded via a loan from the EFSF in the case of Eurozone countries.

State Aid

6. Any form of public support, whether at a national or EU-level, will be subject to the conditionality of the current special state aid crisis framework, which the Commission has indicated will be applied with the necessary proportionality in view of the systemic character of the crisis.
The European Union and the euro area have done much over the past 18 months to improve economic governance and adopt new measures in response to the sovereign debt crisis. However, market tensions in the euro area have increased, and we need to step up our efforts to address the current challenges. Today we agreed to move towards a stronger economic union. This implies action in two directions:

- a new fiscal compact and strengthened economic policy coordination;
- the development of our stabilisation tools to face short term challenges.

* * *

A reinforced architecture for Economic and Monetary Union

1. The stability and integrity of the Economic and Monetary Union and of the European Union as a whole require the swift and vigorous implementation of the measures already agreed as well as further qualitative moves towards a genuine ‘fiscal stability union’ in the euro area. Alongside the single currency, a strong economic pillar is indispensable. It will rest on an enhanced governance to foster fiscal discipline and deeper integration in the internal market as well as stronger growth, enhanced competitiveness and social cohesion. To achieve this objective, we will build on and enhance what has been achieved in the past 18 months: the enhanced Stability and Growth Pact, the implementation of the European Semester starting this month, the new macro-economic imbalances procedure, and the Euro Plus Pact.

2. With this overriding objective in mind, and fully determined to overcome together the current difficulties, we agreed today on a new ‘fiscal compact’ and on significantly stronger coordination of economic policies in areas of common interest.

3. This will require a new deal between euro area Member States to be enshrined in common, ambitious rules that translate their strong political commitment into a new legal framework.

A new fiscal compact

4. We commit to establishing a new fiscal rule, containing the following elements:
   - General government budgets shall be balanced or in surplus; this principle shall be deemed respected if, as a rule, the annual structural deficit does not exceed 0.5% of nominal GDP.
   - Such a rule will also be introduced in Member States’ national legal systems at constitutional or equivalent level. The rule will contain an automatic correction mechanism that shall be triggered in the event of deviation. It will be defined by each Member State on the basis of principles proposed by the Commission. We recognise the jurisdiction of the Court of Justice to verify the transposition of this rule at national level.
   - Member States shall converge towards their specific reference level, according to a calendar proposed by the Commission.
   - Member States in Excessive Deficit Procedure shall submit to the Commission and the Council for endorsement, an economic partnership programme detailing the necessary structural reforms to ensure an effectively durable correction of excessive deficits. The implementation of the programme, and the yearly budgetary plans consistent with it, will be monitored by the Commission and the Council.
   - A mechanism will be put in place for the ex ante reporting by Member States of their national debt issuance plans.

5. The rules governing the Excessive Deficit Procedure (Article 126 of the TFEU) will be reinforced for euro area Member States. As soon as a Member State is recognised to be in breach of the 3% ceiling by the Commission, there will be automatic consequences unless a qualified majority of euro area Member States is opposed. Steps and sanctions proposed or recommended by the Commission will be adopted unless a qualified majority of the euro area Member States is opposed. The specification of the debt criterion in terms of a numerical benchmark for debt reduction (1/20 rule) for Member States with a government debt in excess of 60% needs to be enshrined in the new provisions.

6. We will examine swiftly the new rules proposed by the Commission on 23 November 2011 on (i) the monitoring and assessment of draft budgetary plans and the correction of excessive deficit in euro area Member States and (ii) the strengthening of economic and budgetary surveillance of Member States experiencing or threatened with serious difficulties with respect to their financial stability in the euro area. We call on the Council and the European Parliament to rapidly examine these regulations so that they will be in force for the next budget cycle. Under this
new legal framework, the Commission will in particular examine the key parameters of the fiscal stance in the draft budgetary plans and will, if needed, adopt an opinion on these plans. If the Commission identifies particularly serious non-compliance with the Stability and Growth Pact, it will request a revised draft budgetary plan.

7. For the longer term, we will continue to work on how to further deepen fiscal integration so as to better reflect our degree of interdependence. These issues will be part of the report of the President of the European Council in cooperation with the President of the Commission and the President of the Eurogroup in March 2012. They will also report on the relations between the EU and the euro area.

Stronger policy coordination and governance

8. We agree to make more active use of enhanced cooperation on matters which are essential for the smooth functioning of the euro area, without undermining the internal market.

9. We are committed to working towards a common economic policy. A procedure will be established to ensure that all major economic policy reforms planned by euro area Member States will be discussed and coordinated at the level of the euro area, with a view to benchmarking best practices.

10. Euro area governance will be reinforced as agreed at the Euro Summit of 26 October. In particular, regular Euro Summits will be held at least twice a year.

Strengthening the stabilisation tools

11. Longer term reforms such as the ones set out above must be combined with immediate action to forcefully address current market tensions.

12. The European Financial Stability Facility (EFSF) leveraging will be rapidly deployed, through the two concrete options agreed upon by the Eurogroup on 29 November. We welcome the readiness of the ECB to act as an agent for the EFSF in its market operations.

13. We agree on an acceleration of the entry into force of the European Stability Mechanism (ESM) treaty. The Treaty will enter into force as soon as Member States representing 90% of the capital commitments have ratified it. Our common objective is for the ESM to enter into force in July 2012.

14. Concerning financial resources, we agree on the following:
   • the EFSF will remain active in financing programmes that have started until mid-2013 as provided for in the Framework Agreement; it will continue to ensure the financing of the on-going programmes as needed;
   • we will reassess the adequacy of the overall ceiling of the EFSF/ESM of EUR 500 billion (USD 670 billion) in March 2012;
   • during the phasing in of the paid-in capital, we stand ready to accelerate payments of capital in order to maintain a minimum 15% ratio between paid-in capital and the outstanding amount of ESM issuances and to ensure a combined effective lending capacity of EUR 500 billion;
   • euro area and other Member States will consider, and confirm within 10 days, the provision of additional resources for the IMF of up to EUR 200 billion (USD 270 billion), in the form of bilateral loans, to ensure that the IMF has adequate resources to deal with the crisis. We are looking forward to parallel contributions from the international community.

15. We agree on the following adjustments to the ESM Treaty to make it more effective:
   • Concerning the involvement of the private sector, we will strictly adhere to the well established IMF principles and practices. This will be unambiguously reflected in the preamble of the treaty. We clearly reaffirm that the decisions taken on 21 July and 26/27 October concerning Greek debt are unique and exceptional; standardised and identical Collective Action Clauses will be included, in such a way as to preserve market liquidity, in the terms and conditions of all new euro government bonds.
   • In order to ensure that the ESM is in a position to take the necessary decisions in all circumstances, voting rules in the ESM will be changed to include an emergency procedure. The mutual agreement rule will be replaced by a qualified majority of 85% in case the Commission and the ECB conclude that an urgent decision related to financial assistance is needed when the financial and economic sustainability of the euro area is threatened.1

16. We welcome the measures taken by Italy; we also welcome the commitment of the new Greek government, and of the parties supporting it, to fully implement its programme, as well as the significant progress achieved by Ireland and Portugal in implementing their programmes.

Some of the measures described above can be decided through secondary legislation. The euro area Heads of State or Government consider that the other measures should be contained in primary legislation. Considering the absence of unanimity among the EU Member States, they decided to adopt them through an international agreement to be signed in March or at an earlier date. The objective remains to incorporate these provisions into the treaties of the Union as soon as possible. The Heads of State or Government of Bulgaria, Czech Republic, Denmark, Hungary, Latvia, Lithuania, Poland, Romania and Sweden indicated the possibility to take part in this process after consulting their Parliaments where appropriate.

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1 Subject to confirmation by Finnish parliament.
EUROPEAN COUNCIL — 9 DECEMBER 2011

CONCLUSIONS

Much has been achieved over the past 18 months to improve our economic governance and tackle the economic and financial crisis. We have taken important decisions, as set out in these conclusions, which need to be swiftly and vigorously implemented.

We agreed that the measures with the most potential to boost growth and jobs should be given priority. The Member States taking part in the Euro Plus Pact agreed to take more specific and measurable commitments and in particular to advance work as regards employment.

We set orientations for the further development of its energy policy, as regards completing the internal market, enhancing energy efficiency, developing infrastructure, ensuring coherence in the EU’s external relations, and enhancing nuclear safety and security.

In addition, the European Council welcomed the signing of the Accession Treaty with Croatia and took decisions on the EU’s enlargement process regarding Serbia and Montenegro.

* * *

1. ECONOMIC POLICY

1. Recognising the worsening economic and financial situation, the European Council discussed ongoing efforts to lift Europe out of the crisis. The European Union’s new economic governance, as set out in paragraph 3, must be fully implemented with a view to building confidence in the strength of the European economy. Structural reforms and fiscal consolidation efforts must continue to lay the ground for a return to sustainable growth and thus help improve confidence in the short run. Measures are also required to help restore normal lending to the economy whilst avoiding both excessive risk-taking and excessive deleveraging as agreed on 26 October 2011.

2. Recalling the key priority areas for growth it identified in October 2011, in particular, the Single Market Act, the Digital Single Market and the reduction of overall regulatory burden for SMEs and microenterprises, the European Council stressed the need to swiftly adopt the measures with the most potential to boost growth and jobs. It therefore supports the principle of a fast-track programme and invites the Council and the European Parliament to give particular priority to the speedy examination of the proposals identified by the Commission, including in its Annual Growth Survey, as having substantial growth potential. It endorses the actions proposed by the Commission in its report on minimising regulatory burdens for SMEs.

3. The 2012 Annual Growth Survey constitutes an excellent basis for the launch of the next European Semester, which will be the first to see the recently strengthened economic governance being implemented, including the new procedure for monitoring and correcting macroeconomic imbalances. The Spring European Council will review progress and adopt the required guidance. There is an urgent need to focus on implementation, especially in the light of uneven progress made this year in progressing towards the targets set in the Europe 2020 Strategy and in implementing the country-specific recommendations.

4. The Heads of State or Government of the Member States taking part in the Euro Plus Pact reviewed progress made in implementing their commitments at national level. They agreed on the need to more thoroughly assess, in March 2012, national efforts to reach the objectives of the Pact. They also agreed to take more specific and measurable commitments in each of the areas covered by the Pact and to report on progress in their National Reform Programmes. The new economic governance must be supplemented by an improved monitoring of employment and social policies, particularly those which can have an impact on macro-economic stability and economic growth, in line with the Council conclusions of 1 December.

5. Informed by the report of the President of the Council (EPSCO) and by the Annual Growth Survey, the Heads of State or Government held an initial exchange of views on best practices as regards their employment policies and agreed on the particular need to fully mobilise labour for growth. While structural reforms must be vigorously pursued, targeted measures are urgently needed at both national and European level for the most vulnerable groups, in particular the young unemployed. Enhanced activation policies should be complemented by efforts to upgrade skills, notably by adjusting education and training systems to labour market needs. Promoting employment and business opportunities for those entering the labour market as well as considering new balanced flexicurity policies could significantly contribute to improving labour market prospects for young people.
6. They welcomed the reports from the Finance Ministers of the participating Member States and from the Commission on progress made in structured discussions on the coordination of tax policy issues. This work will be pursued in line with the Euro Plus Pact, focusing on areas where more ambitious activities can be envisaged. Particular attention should be paid to how tax policy can support economic policy coordination and contribute to fiscal consolidation and growth. The Finance Ministers and the Commission will report on progress in June 2012.

II. ENERGY

7. The Presidency’s report demonstrates that important progress has been made in pursuing the orientations set by the February 2011 European Council on completing the internal market by 2014, enhancing energy efficiency, developing infrastructure and ensuring consistency and coherence in the EU’s external relations. In this context, the European Council welcomes the agreement of the Memorandum of Understanding on North-South Interconnections in Central-Eastern Europe. In particular, the following points require urgent progress:

- full and speedy implementation of the internal market legislation by Member States in full respect of the agreed deadlines;
- no EU Member State should remain isolated from the European gas and electricity networks after 2015 or see its energy security jeopardized by lack of the appropriate connections;
- early agreement on the proposal on energy efficiency, which should establish an ambitious and flexible framework in line with the 20% target for 2020 as agreed by the June 2010 European Council;
- early agreement on the proposal on energy infrastructure;
- implementation of the Council conclusions of 24 November 2011 for enhanced coherence and coordination of EU external energy policy ensuring i.a. that agreements with key supplier and transit countries are fully consistent with EU Internal Market legislation;
- agreement on the low carbon 2050 strategy and thorough consideration of the forthcoming energy roadmap 2050 which will provide a detailed analysis on long term action in the energy sector and other related sectors.

8. Progress has been made on the safety review of EU nuclear power plants. The credibility of the EU nuclear safety system will be further enhanced by the continued development of the nuclear regulatory framework. Work on nuclear security in the EU will be pursued on the basis of the interim report on nuclear security.

9. Recalling its conclusions of March 2011, the European Council calls for:

- full and timely implementation of the Directives on nuclear safety and on responsible and safe management of spent fuel and radioactive waste;
- continued priority to be given to the extensive review of nuclear safety, taking account of the Commission communication of 23 November, and to the delivery of the final report on the stress tests by June 2012;
- intensified efforts to associate all EU neighbouring countries fully with the safety stress test process and to improve the nuclear safety framework both in the EU and internationally;
- continued work on nuclear security measures in the EU and its neighbourhood and delivery of the final report by June 2012.

III. ENLARGEMENT

10. The European Council endorses the Council conclusions of 5 December 2011 on Enlargement and the Stabilisation and Association Process and recalls its conclusions of December 2006 which form the basis for a renewed consensus on enlargement.

11. Today’s signature of the Accession Treaty with Croatia marks an important moment for European integration. Pending the successful conclusion of ratification procedures, the European Council looks forward to welcoming Croatia as a new member as of 1 July 2013. Croatia will now participate in the proceedings of the European Council, the Council and its preparatory bodies as active observer.

12. The European Council welcomes the Commission’s assessment on the good progress made by Montenegro, which has achieved overall satisfactory results. With a view to opening accession negotiations with Montenegro in June 2012, the European Council tasks the Council to examine Montenegro’s progress in the implementation of reforms, with particular focus on the area of rule of law and fundamental rights, especially the fight against corruption and organised crime, on the basis of a report to be presented by the Commission in the first half of 2012. It invites the Commission to present without delay a proposal for a framework for negotiations with Montenegro in line with its December 2006 conclusions and established practice, also incorporating the new approach proposed by the Commission as regards the chapters on the judiciary and fundamental rights, and justice, freedom and security. The Commission is, in this respect, also invited to initiate the process of analytical examination of the acquis communautaire with Montenegro on the above-mentioned chapters.

13. The European Council notes the considerable progress Serbia has made towards fulfilling the political criteria set by the Copenhagen European Council and the Stabilisation and Association Process requirements and that a fully satisfactory level in its co-operation with ICTY was reached. It welcomes that Serbia has re-engaged in the Belgrade-Pristina dialogue and is moving forward
with implementation of agreements in good faith, and the Agreement on IBM. With a view to granting Serbia the status of Candidate country, the European Council tasks the Council to examine and confirm that Serbia has continued to show credible commitment and achieved further progress in moving forward with the implementation in good faith of agreements reached in the dialogue including on IBM, has reached an agreement on inclusive regional cooperation and has actively cooperated to enable EULEX and KFOR to execute their mandates. In the light of its examination, the Council will take the decision in February 2012 on granting Serbia candidate status, to be confirmed by the March European Council.

IV. OTHER ITEMS

14. Recalling the Council conclusions of 5 December on enlargement, with regard to Turkish statements and threats, the European Council expresses serious concern and calls for full respect of the role of the Presidency of the Council, which is a fundamental institutional feature of the EU provided for in the Treaty.

15. Recalling its discussions of June and October 2011, the European Council notes that all legal conditions have been met for the decision on Bulgaria’s and Romania’s accession to the Schengen area to be taken. It calls on the Council to adopt this decision as soon as possible. If necessary, the European Council will return to this issue at its March 2012 meeting.

16. Recalling its conclusions of 23 October 2011 and endorsing the Council conclusions of 1 December, the European Council reiterates its serious and deepening concerns over the nature of Iran’s nuclear programme, as reflected in the latest IAEA report, and the failure of Iran to meet its international obligations. The European Council welcomes the agreement reached at the Council to designate 180 new entities and individuals directly linked to the nuclear programme. It invites the Council to proceed with its work related to extending the scope of EU restrictive measures and broadening existing sanctions by examining additional measures against Iran as a matter of priority and to adopt these measures no later than by its next session. The European Council reaffirms the longstanding commitment of the European Union to work for a diplomatic solution of the Iranian nuclear issue in accordance with the dual track approach.

17. The European Council stands united in condemning the attacks on the UK Government’s diplomatic compounds in Iran, and deplores the Iranian Government’s failure to meet its international responsibilities to protect diplomatic staff and property under the Vienna Convention.

18. The European Council remains deeply concerned by the continued use of military force by the Syrian regime and the repression of the Syrian people. Endorsing the Council conclusions of 1 December 2011, the European Council confirms its support to the efforts of the League of Arab States and calls on the Syrian regime to comply fully with the Arab Plan of Action. It re-emphasizes the urgent need for all members of the UN Security Council to assume their responsibilities in relation to the situation in Syria.

19. The European Council welcomes the results of the International Afghanistan Conference held in Bonn on 5 December 2011, and reaffirms its commitment to a consistent long-term engagement of the European Union for Afghanistan beyond 2014.

20. The European Council welcomes the intensive preparatory work carried out during this semester on the future Multiannual Financial Framework and takes note of the report submitted by the Presidency. It calls on the incoming Presidency to press ahead with the work aimed at developing a basis for the final stage of negotiations, to be discussed at the European Council in June 2012. It reiterates its invitation to the institutions to cooperate to ensure the adoption of the Multiannual Financial Framework by the end of 2012.
Towards a Stronger Economic Union:  
Interim Report to the European Council – 6 December 2011

The Euro Summit on 26 October 2011 tasked the President of the European Council, in close collaboration with the President of the Commission and the President of the Eurogroup, to identify possible steps to make the economic union commensurate with the monetary union with the following focus: further strengthening economic convergence, improving budgetary discipline and deepening economic union within the euro area. The present report takes stock of what has been achieved so far, which is often underestimated, and sets out the way forward. It takes into account the bilateral consultations that took place with all EU Member States in the preparatory process.

1) In reaction to the sovereign debt crisis, significant changes in governance have taken place in the last year and a half, with the creation of the EFSF, agreement on a future ESM, the decisions on budgetary surveillance and coordination of economic policies as well as on a more extended governance structure for the euro area taken by the October Euro Summit, and the package of six legislative acts on economic governance adopted on 16 November. Implementation of this package will start in December. Meanwhile, the Commission submitted on 23 November a new set of proposals to transform into legislation the orientations agreed upon in October concerning (i) the monitoring and assessment of draft budgetary plans and the correction of excessive deficit in euro area Member States and (ii) the strengthening of economic and budgetary surveillance of Member States experiencing or threatened with serious difficulties with respect to their financial stability in the euro area.

2) The stability and integrity of the Economic and Monetary Union requires both the swift and vigorous implementation of the measures already agreed and further qualitative moves towards a genuine ‘fiscal union’. This will entail significantly stronger coordination of economic policies and a higher degree of surveillance and discipline in the conduct of national policies. Longer term structural changes in the way policies are conducted in the euro area are important also to deal with short term uncertainties and to restore credibility and confidence.

3) This must be done while preserving the integrity of the EU and the coherence between the euro area and the EU as a whole; the EU institutions have an important role to play in guaranteeing the unity of the Union as a whole.

ECONOMIC COORDINATION AND CONVERGENCE IN THE EURO AREA

4) The crisis has shown that diverging macro-economic trends may adversely affect the whole euro area. While there can be no one-size-fits-all rule, a higher degree of coordination and integration is needed so as to avoid unsustainable trends. In a monetary union with an integrated financial sector, inter-dependence and spill-over effects are very high.

5) The measures already adopted include an excessive imbalances procedure set up in the legislative package on economic governance. It contains an early warning system based on a scoreboard of economic indicators (including labour costs, credit growth, current account, export market shares and housing prices) and a corrective arm with possible sanctions in case of repeated failure by a Member State to take action to address imbalances. In parallel, euro area Member States have taken on additional commitments within the framework of the Euro Plus Pact in four areas that are key for convergence: competitiveness; employment; sustainability of public finances; financial stability. These new instruments must now be implemented forcefully. At the same time, there is a need to further strengthen the system.

6) Against this background, the following additional measures should be considered:

   a) The October Euro Summit agreed on ex ante examination at the euro area level of all major economic reform plans with potential spill-over effects. This agreement should be made fully operational, via a specific procedure to be set up, notably involving a discussion within the Eurogroup on the basis of an analysis by the Commission;

   b) The lack of implementation of country specific recommendations for the euro area Member States adopted on the basis of Articles 121(2) and 148(4) TFEU and related to reforms that are indispensable for the smooth functioning of the monetary union, should be subject to financial sanctions. Clear criteria for ex-ante identification of the recommendations that could be subject to sanctions should be defined in the secondary legislation. Specific attention should be paid to euro area Member States with competitiveness problems and/or high unemployment.

These measures can be taken within the current Treaty framework, on the basis of Article 136 TFUE.

BUDGETARY DISCIPLINE

7) The legislative package on economic governance adopted on 16 November represents a major strengthening of
budgetary discipline. The new mechanisms are based both on recommendations and sanctions. The scope for sanctions for euro area Member States has been enlarged (they can be triggered not only in the corrective arm of the Pact, but also in the preventive arm) and decision making has been accelerated and simplified so as to increase automaticity. The Commission’s legislative proposals issued on 23 November will further strengthen discipline and compliance in the euro area.

8) The combined effect of all these measures will be very significant. However, moving the euro area towards a true economic union requires additional steps in terms of integration, towards a “new fiscal compact”. To restore market confidence in the euro area and to ensure the political sustainability of solidarity mechanisms, it is crucial to enhance the credibility of our budgetary rules (deficit and debt levels) and to ensure full compliance. This is likely to require a change in primary law.

9) Two avenues are possible in this respect, while not being mutually exclusive:
   a) A substantial revision of Protocol N°12 to the Treaty, combined with further reforms through secondary legislation.
   b) Amendments to the Treaty through a revision procedure based on Article 48 TEU.

Revision of Protocol N°12 and secondary legislation

10) The obligation for euro area Member States to reach and maintain a balanced budget over the economic cycle could be introduced in Protocol (N°12) on the excessive deficit procedure, as a means to ensuring that excessive deficits are avoided and that debt is brought down below 60%. A resolved convergence towards balanced budgets from current positions should be envisaged for euro area Member States in line with a calendar established with the Commission. In addition, the Protocol would also include the obligation for euro area Member States to include such a rule in their national legal systems, preferably at constitutional or equivalent level. The Court of Justice would have jurisdiction to control the transposition of this rule at national level. This rule should be complemented with an automatic correction mechanism (for example automatic reductions in expenditures, increases in taxes or a combination of both), to be specified by each Member State, in case of deviation. Euro area Member States should report ex-ante on their national debt issuance and a centralized recording and monitoring of all general government debt issuance at euro area level should be undertaken.

11) This could be complemented with further reinforcement of the excessive deficit procedure for euro area Member States to be introduced through secondary legislation on the basis of Article 136 TFUE. This would allow for a higher degree of precision of the measures to be adopted by the Member States, in close partnership with the Commission, which could review and endorse the programme put forward by the Member State. The overall objectives set out in a Commission or Council act could be binding as to the results to be achieved.

12) Changes to Protocol N°12 can be introduced by a unanimous decision of the Council on a proposal from the Commission after consultation of the European Parliament and the European Central Bank. This decision does not require ratification at national level. This procedure could therefore lead to rapid and significant changes.

Treaty amendments through Article 48 TEU

13) Another avenue to be pursued either in parallel or subsequently would be to undertake a revision of the TFUE articles related to Economic and Monetary Union, through the revision procedure set out in Article 48 of the Treaty on European Union. Such a revision could consist in a modification or replacement of Article 136 and/or a revision of Protocol N°14 on the Eurogroup.

14) This procedure would be more time-consuming and subject to ratification in all Member States, but it would allow more fundamental changes in the budgetary framework, such as:
   - a modification of the excessive deficit procedure (Article 126) for euro area Member States, notably by reinforcing its automaticity, both in the triggering and in the decision-making process by extending the recourse to reverse qualified majority voting;
   - an enhanced role for the EU institutions, with a higher intrusiveness in the case of lack of implementation.

For euro area Member States in an excessive deficit procedure, there could be the possibility for the Commission and the Council (Eurogroup) to request changes in a draft budget before it is submitted to the national parliament if the budgetary stance is not in line with the agreed plans. In the case of euro area Member States that are under an assistance programme and persistently fail to meet the conditionality, the Commission could receive exceptional powers, such as ex-ante approval of all major economic reforms;
   - the integration into a revised Protocol N°14 of the changes agreed upon in the euro area governance.

ECONOMIC UNION

15) Two additional steps, closely related to progress to be made in economic convergence and budgetary discipline, could also be considered:
   - Recourse to enhanced cooperation, with the participation of all euro area Member States, focusing on areas which are essential for the smooth functioning of the euro area such as the functioning of labour markets, sustainability of pensions and social security systems, as well as pragmatic tax coordination measures. Steps toward further financial integration in the euro area should also be considered.
   - In the context of a possible Treaty change, a similar
mechanism to that which already exists in the area of Freedom, Security and Justice could be introduced to accelerate the recourse to enhanced cooperation. Such developments must not undermine the internal market.

- Opening up the possibility, in a longer term perspective, of moving towards common debt issuance in a staged and criteria-based process, for example starting with the pooling of some funding instruments. Any steps towards that end would have to be commensurate with a robust framework for budgetary discipline and economic competitiveness to avoid moral hazard and foster responsibility and compliance. This would also require more intrusive control of the national budgetary stance by the EU. Such a process would underline the irreversibility of the euro, give a long term prospect for the funding issue, and reinforce the role of the euro as a global reserve currency. At the same time, it would in fact also be a very powerful mechanism for budgetary discipline.

STRENGTHENING THE EXISTING CRISIS MECHANISMS

16) Longer term reforms such as the ones set out above must be combined with immediate action to forcefully address current market tensions.

17) First, there is a need to complete the implementation of the substantial measures that have already been decided. This entails:

- rapid agreement, ideally by March 2012, between the European Parliament and the Council on the two Commission proposals tabled on 23 November; possibly reinforced in line with the changes to Protocol N°12 outlined above;
- rapid deployment of the EFSF leveraging, through the two concrete options agreed upon by the Eurogroup on 29 November.

18) Second, the ESM treaty should be finalised and ratified rapidly, while adjusting it to make it more effective through:

- stating unambiguously, with regard to PSI, the commitment strictly to adhere to well established IMF principles and practices, and clearly reaffirming that the decision taken on 21 July concerning Greek debt is unique and exceptional. This is key to restore market confidence in sovereign debt markets;
- bringing the ESM decision making procedures more in line with mechanisms in place in the IMF (unanimity being restricted to a limited number of decisions);
- introducing the possibility for the ESM to directly recapitalise banking institutions and to have itself the necessary features of a credit institution;
- the possibility to review the clause that limits the consolidation of the ESM and the EFSF lending capacity to EUR 500 billion to give the ESM its full lending capacity according to the phasing in of its capital.

19) Finally, there is a need to ensure that the IMF has sufficient resources to deal with the crisis through the provision of additional means, as was done in 2009, in particular through bilateral loans.
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