



European Union

President of the European Council

President of the European Commission

Brussels, 22<sup>nd</sup> June 2010

Dear G20 colleagues,

We would like to communicate to you our thoughts on the key issues on the agenda of the G20 summit in Toronto, building on a discussion we had with our European colleagues last week.

The global recovery is progressing better than previously anticipated, albeit at different speeds, and the growth outlook has improved.

Securing strong and sustainable growth remains our priority. This requires restoring confidence. Given the major risks that late exit from extraordinary fiscal stimulus would entail for public accounts' sustainability, at the Toronto summit, the G20 should agree on a coordinated and differentiated exit strategy to ensure sustainable public finances. Even though the timing, sequencing and scope of exit measures have to be tailored to conditions prevailing in the individual G20 members, coordination between governments can help to take into account possible spill-over effects. Substantial consolidation starting at the latest in 2011 should be coupled with structural reforms to foster growth.

Europe is determined to ensure fiscal sustainability and achieve budgetary targets without delay. Member States will continue to adopt a differentiated speed in fiscal consolidation taking both fiscal and non-fiscal risks into account. Several European countries have recently strengthened and frontloaded budgetary consolidation. All European Union Member States are ready, if necessary, to take additional measures to accelerate fiscal consolidation. Priority will be given to growth-friendly budgetary consolidation strategies mainly focused on expenditure restraint, and on increasing the growth potential.

All major economies need to do their part to achieve the agreed objective of strong, sustainable and balanced growth. We strongly support the G20 framework for growth in which the euro area will play fully its role. There is a need for credible medium-term fiscal policy strategies to bring down deficit and debt ratios, greater exchange rate flexibility, as appropriate, and a sharper focus on pushing forward structural reforms that can increase labour utilisation and productivity, thereby also supporting domestic demand on a lasting basis and counteracting crisis-induced fall in potential growth. In this respect, we welcome China decision to proceed further with the reform of the RMB exchange rate regime and to resume the RMB exchange rate flexibility.

Fiscal consolidation strategies should go hand in hand with bold growth strategies. The European Union contribution to the rebalancing of global growth is reflected in our Europe 2020 strategy which sets out an ambitious programme for structural reform geared towards recovery and putting Europe on the path of sustainable growth, coupled with a coordinated fiscal exit strategy and an ambitious program for financial market reform. By promoting the mutually reinforcing aims of smart, sustainable and inclusive growth, the Europe 2020 strategy will help Europe recover from the crisis and come out stronger.

In Toronto, the G20 should reaffirm its commitment to reform financial markets in a consistent and coordinated manner on the whole range of actions agreed upon in Pittsburgh. The European Union has now in place a comprehensive reform agenda to fulfil the G20 commitments and to further reform financial services markets. We are also acting to restore the soundness and stability of the European financial system, and in this respect the European Council agreed that the results of the ongoing stress tests by the European banking supervisors will be disclosed at the latest in the second half of July.

We welcome the significant progress made in implementing the G20 commitments on better quality additional capital and new liquidity requirements, underlining that the objective to achieve international agreement on this issue before 2010 is well on track. Special attention should be given to the calibration and phasing in of the related measure taking into account the cumulative impact and macroeconomic effect of financial reforms. We must strive for a strengthened crisis management framework at a global level including effective resolution tools, financing arrangements and cross-border coordination. The European Union is deeply committed to put in place such measures within a European Union context.

On remuneration, we should ensure that the strict compensation standards we agreed upon last year are implemented in a uniform way. On OTC Derivatives, we fully support the on-going work towards increasing transparency and resiliency of these markets. To this aim, comprehensive legislative proposals for the EU will be released in September. On accounting standards, we recall the need to achieve global convergence on a set of high quality standards within the deadline agreed at Pittsburgh and the need to further improve the governance of International Accounting Standards Board. We also need to make further progress on improved corporate governance in financial institutions and rigorous enforcement of financial regulations including rules on market abuse. Finally, we also need to pursue our efforts on dealing with Non-Cooperative Jurisdictions, including public listing of non-compliant jurisdictions by the end of 2010 and, if necessary, application of counter measures.

We have an agreement at European level that Member States should introduce systems of levies or taxes on financial institutions, to ensure fair burden sharing and set incentives to contain systemic risk, as part of a credible crisis resolution framework. We consider that international work on levies and taxes on financial institutions should continue to maintain a world-wide level playing field. Also the introduction of a global financial transaction tax should be explored and developed further in that context.

We welcome the agreement on the capital increase and the governance reform for the World Bank Group in Washington and that the necessary capital increases of the Multilateral Development Banks (MDBs) are close to completion. In the IMF, quotas should be reviewed as part of a wider package of IMF governance issues, covering all elements agreed in Pittsburgh and Istanbul, and be completed as a single and comprehensive package by November 2010.

The European Union also remains determined to support the achievement of the Millennium Development Goals globally by 2015 and we believe that this is possible if all partners

demonstrate firm political commitment, implement necessary policy changes and take concrete actions aimed at increasing ownership by developing countries. We should also aim at improving the impact of policies; mobilising new and innovative sources of financing in order to secure predictable financing for development; and making more effective use of development resources. In the context of the international efforts, the European Union remains committed to achieve its development aid targets in line with the Monterrey and Johannesburg 2002 Summits.

We are keen to see the G20 drive a pro-active agenda on trade. Trade is central to any framework for strong, sustainable and balanced growth. Our meeting in Toronto must go beyond simply reaffirming our commitment to conclude the Doha Round. It must pave the way for real progress at our Seoul meeting. We should mandate our ministers to work towards that aim, especially in the areas where progress is still lagging behind. With regard to our common will to reject protectionist impulses, the EU looks to G20 leaders to renew and extend their pledge to avoid introducing new trade distortive measures, and to continue to implement their previous commitments to roll back existing measures.

Finally, we must continue to promote strong action on climate change by putting emphasis on green growth, working together towards a global and comprehensive legal agreement post-2012 agreement building on the Copenhagen Accord, delivering on the fast start financing and acting domestically to reach the 2 degrees Celsius objective. It is within this context that the European Union and its Member States are seeking a balanced set of concrete, action-oriented decisions in Cancun, will continue the implementation of their fast start commitments for 2010 and will report in a coordinated manner on progress achieved at the COP in the end of 2010. The European Union also supports the process to rationalise inefficient fossil fuel subsidies, which will improve energy efficiency, enhance energy security and contribute to the fight against climate change and to fiscal consolidation.

We are looking forward to successful meeting in Toronto.

Yours sincerely,

Herman Van Rompuy

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