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under the auspices of Pavel Kysilka
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Dear readers,

The situation in Greece seems to begin overwriting the history of the course of European integration. It opens topics that have so far been taboo to talk about and brings about a notion that European integration may not necessarily be a straightforward process ending just in harmonization, unification and the adoption of common policies and rules of the game but that loosening or disintegrating tendencies are also possible.

This is especially true in a moment when some of the original, well-meant principles and rules the EU is based on are being broken flagrantly and chronically or when political interest and excess ambition and enthusiasm suppress the austere criterion of objective, factual readiness in an area (the most obvious parallel of this can be seen in the eurozone, the actual membership of which reflects much more political ambitions than economic and monetary qualifications).

It is then necessary to take some time out to clarify and define the destination and the course of the next section of the path or even take a few steps back to prevent the large group of Member States from finding themselves to have reached a dead end and entangled in an even worse situation or even an impasse.

The results of the October European Council summit for Greece took rather radical shapes, reflecting an already apparent loss of patience by some Member States as well as creditor financial institutions. The initial bankruptcy with a human face, which was reached as the main conclusion at the July summit of the same Council, had become significantly harsher during the three months. The agreement to write off 50% of Greek liabilities held by financial institutions is indeed a radical solution that will also significantly accelerate the course of events in the forthcoming days. The events will necessarily be associated with a need to deal with the lost investments of those institutions – writing them off, increasing the capital, then imposing stricter rules for the availability of money to their clients – all of these are certainly steps that are rather unfavourable to the stagnating or even declining trend of real economic recovery. So unfavourable that the German chancellor is beginning to talk openly about the freshly started decade as a 'lost' decade during which most European countries simply will not be on any kind of economic offensive.

At the same time the French president does not mince his words at all. It can be admitted that both of these actions mean putting down the rose-tinted glasses and coming clean in favour of a healthier future development in European integration. Building this process on unhealthy foundations would mean driving into more cul-de-sacs.

Petr Zahradník

The Czech government has decided not to link the vote on the Lisbon Treaty opt-out with Croatia's Treaty of Accession to the EU. An extraordinary EU summit approved a set of measures to fight the debt crisis in the eurozone. The key point is probably an agreement with banks to voluntarily write off 50% of Greece's debt with private investors.

POLITICS

Government not to link vote on Lisbon Treaty opt-out with Croatia accession treaty

The Czech government is backtracking on **a joint vote on the Czech opt-out from the Lisbon Treaty**, negotiated by President Vaclav Klaus, and Croatia's accession treaty, as PM Petr Necas said after a cabinet meeting where Foreign Affairs Minister Karel Schwarzenberg presented the opinion of the European Union Legal Service he had requested from Brussels.

The Prime Minister came up with the idea of linking the votes on the two documents in the Czech Parliament in the summer. This came as a bit of a shock, for example even for the Croatian ambassador in Prague, since Czech political parties do not have any problem with Zagreb's accession to the European Union but the opt-out from the EU Charter of Fundamental Rights, which is part of the Treaty of Lisbon, has long **been opposed by the largest opposition party, Social Democrats** (CSSD). And they are in the majority in the Senate.

The Czech opt-out from the Lisbon Treaty **was negotiated by President Vaclav Klaus** in fear of Sudeten Germans to whom the Charter grants a right under which they could appeal to European courts to reclaim property confiscated from their families based on Benes Decrees after the Second World War.

However, Social Democrats argue that if the opt-out, the ratification of which was given provisional approval by Brussels the week before last, is adopted, Czech citizens **will get lower level of legal protection** than citizens of other EU member states.

The Croatia accession treaty will be signed still during Polish presidency, **according to the latest information on the 19th of this December**. Once it is signed, it should undergo a ratification round in all of the EU27. The Croats will also hold a referendum on their membership of the EU.

The Czech opt-out from the EU Charter of Fundamental Rights, which is part of the Lisbon Treaty, has no connection with Croatia's accession to the Union. **Therefore the decision not to link the two votes is correct.**

http://racek.vlada.cz/usneseni/usneseni_webtest.nsf/web/cs?Open&2011&10-25

ECONOMY AND EURO

EU summit agrees to write off half of Greece's debt

The leaders of Member States and institutions, together with European banks, agreed **to write off half of Greece's debt** at the Brussels summit meeting held on 26 October. This should bring Greece's debt down to about 120% of the Greek GDP by 2020. Greece's debt to supranational institutions (EU, IMF and ECB) will not be reduced.

The EU27 also agreed on a more specific outline for the recapitalization of European banks, **increasing their capital adequacy**, i.e. the minimum amount of capital a bank must maintain because of the volume and level of risk of its trading, to 9%. Banks have time by the middle of the next year. However, it remains uncertain how much money will be needed to fulfil this task, as the increase in additional banking capital will have several steps – banks will get some of the resources from private investors, some from governments and, if necessary, also from the European Financial Stability Facility (EFSF). The proposal also envisages that banks that will have to undergo recapitalization will limit remunerations and bonuses paid out to their managers.

The European Banking Authority estimates that large European banks will have **to increase their capital by EUR 106bn** to meet Brussels' nine-percent requirement – Greek banks are lacking about EUR 30bn, Spanish banking houses will have to gather more than EUR 26bn, Italian ones almost 15bn and French ones EUR 8.8bn.

Czech banks' capital adequacy averages above the limit, **somewhere about 13%**, said Czech PM Petr Necas.

The Brussels summit also came to an agreement on enhancing the efficiency of the EFSF, in particular by leveraging its capacity to over a trillion euros – i.e. four or more times the current volume, which is EUR 440bn. Member States' guarantees will not be increased.

The agreed measures are probably the maximum of what can be negotiated at the moment. Nevertheless, warding off

the imminent stage of debt crisis will require help from the world's other large economies (USA and BRICS countries) and probably also **a greater involvement of the ECB.**
http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/CS/ec/125670.pdf

Slovakia ratifies EFSF reform at second go

At its second go on 13 October, the Slovakian Parliament endorsed the agreement on the strengthening of the **European Financial Stability Facility (EFSF),** approved by the summit held in Brussels in July. Slovakia was the last country of the 17-member eurozone to decide on the reform of the rescue fund.

In the first vote, Slovak MPs rejected strengthening the facility, also toppling the government of PM Iveta Radicova, who linked the vote on the facility **with a vote of confidence in the coalition government.**

Agreement was relatively easy to achieve as Robert Fico, chairman of the opposition party Smer, had said in advance that he was willing to vote in favour of strengthening the EFSF in exchange for a pledge to call an early election. **The election will be held in Slovakia on 10 March next year**. By that time the country will probably be led by Ms Radicova. The euro rescue fund had been given the green light and the appropriate implementing act had been approved by the leaders of the three coalition right-wing parties (SDKU-DS, KDH, Most-Hid) and the chairman of the strongest opposition party, Smer-Social Democrats, namely ex-PM Robert Fico, before the second vote.

In any case, **the second strongest coalition party, i.e. Freedom and Solidarity** (SaS) led by Robert Sulik, the biggest opponent to providing aid to the indebted eurozone countries from Slovakia's treasury, **will leave the government.** MPs have 'punished' Sulik by removing him from the position of the Speaker of the Parliament. He will be replaced by the current deputy speaker, Pavol Hrusovsky.

EFSF, **the eurozone rescue fund**, will expand its capacity by increasing the guarantees of member states, as well as get new powers. It will newly be able to provide 'preventive' loans to countries that are not outright troubled by a debt crisis yet but fall out of favour with the financial markets due to the state of their public finances, intervene in the secondary bond market or participate in bank recapitalization.

http://www.nrsr.sk/web/Default.aspx?sid=udalosti/udalost&MasterID=51344

ENTERPRISE

Commission: Legislative uncertainty prevents Czech Republic's economic growth

The document published by the European executive as part of its traditional annual report on EU competitiveness is intended by Brussels to serve as a basis **for better coordination of policies within the European semester** and the Europe 2020 economic strategy.

The Commission calls upon the Member States' governments in this time of fragile economic growth in the EU and high risks resulting from the situation on the financial markets and increasing prices of energy and raw materials to focus the more on improving the competitiveness of their economies, which should come close to the level **corresponding to their participation in the eurozone and the EU's internal market**.

Today's debt crisis is caused, among other things, by the different levels of competitiveness of individual Member States. The future of the monetary union thus also depends on how Europe **manages to converge the competitiveness of its economies**.

The European Commission's report acknowledges that in terms of competitiveness **Europe can be divided into at least two blocks** – the more competitive northwest and the less competitive southeast. It sees marked differences between the two blocks especially in above-average labour productivity in countries such as the Netherlands, Ireland or Finland and below-average labour productivity in countries such as Romania or Bulgaria but also the Czech Republic or Slovakia.

According to the Commission, Europe as a whole **lags behind the developed world** (USA, Japan) in the number of innovative start-ups and commercialisation of R&D results. There is also untapped potential in a more efficient use of raw materials according to Brussels.

Recommendation for the Czech Republic

According to the EU document, the Czech Republic should promote collaboration between scientists and the private sector as well as private investment into research and innovation.

The Commission recommends supporting measures that improve energy efficiency. It rates the Czech Republic as one of the EU's most energy-intensive economies, which means that rising energy prices may easily affect its competitiveness.

The executive also sees significant reserves in the improvement of the entrepreneurial environment. It

The European Commission presented its proposal for a reform of the Common Agricultural Policy. The reform includes controversial aid ceilings for large agricultural businesses. The European Commission's regular enlargement package shows that no enlargement can be expected in the European Union except for Croatia. The Eastern Partnership project gets a blow. At its historically second summit, representatives from some countries refused to sign a declaration criticising Belarus.

believes the main problem consists in legislative uncertainty, which results to a great extent from the fact that politics in the Czech Republic is not based on assessment of the expected impacts of adopted legislation.

http://ec.europa.eu/enterprise/policies/industrial-competitiveness/industrial-policy/index_en.htm

AGRICULTURE AND FISHERY

CAP reform criticised in EU

In late October the European Commission presented its **proposal for a reform of the Common Agricultural Policy** (CAP) after 2013.

The CAP reform has already been commented by some Member States. For example, the UK believes the reforms **need to be more radical** and the French criticise 'greening', which they think is too complex and does not reflect the economic reality.

The most discussed items of the proposal for the new Common Agriculture Policy:

Greening:

According to the European Commission's proposal, **30% of direct payments should be conditional on meeting three requirements:**

- maintaining permanent crops,
- rotating crops on cultivated land (rotating at least three kinds of crop; the farmer must grow at least two of them on 5% of the cultivated area and the third one on an area not greater than 70%),
- leaving at least 7% of the **agricultural area fallow** (e.g. field edges, tree stands, fallow land, landscape features, biotopes or afforested areas).

Payment distribution:

- Aid should henceforth be provided **only to active farmers**, not to those that are not actively pursuing any agricultural activity. However, the definition of such farmers is problematic, including those whose receipts from non-agricultural activities account for 95% of their annual receipts.
- Another change consists in the introduction of payment ceilings for large farms – the maximum amount of aid should be EUR 300,000 according to the Commission's proposal.

Transfers between Pillar I and Pillar II:

- Another part of the proposal allows states with a level of direct payments below 90% of the EU average to transfer up to 5% of resources from regional development funds to Pillar I (direct payments). Furthermore, all Member States of the EU would be able to transfer up to 10% of the amount allocated for direct payments to regional development funds (Common Agriculture Policy – Pillar II).
- While 100% of payments within the first pillar of the CAP should be funded from the common European budget, regional development payments should be co-financed by the individual Member State. Measures that can be financed by regional development money should be defined at the level of the European Union. They should also partly include environmental measures.

Sugar quotas:

- The Commission's proposal also envisages termination of the scheme of sugar quotas and minimum prices as of 30 September 2015. Import duties should be decreased at the same time.

Impact of Payment Ceilings on the Czech Republic and its farms

Aid ceilings, persistently fought against by our negotiators, should apply to only a few large businesses in the Czech Republic.

Tomas Doucha of the Institute of Agricultural Economics and Information said that for the purposes of capping, the amount of direct payments would not include amounts allocated for 'greening' and furthermore the cost of hired staff (de facto their super-gross wage) would be deducted from it. Considering the high share of labour at Czech farms, an overwhelming majority of farms should avoid the ceilings. The reduction in aid would thus affect only a few farms, e.g. those that managed large areas of grassland of up to 10,000 hectares, with 100 hectares per employee. He said such farms could for instance be found in the border regions of the Czech Republic.

Overall, farmers should not be deprived of the funds they loose due to the ceilings. The amount should be transferred to the second pillar of the Common Agricultural Policy – regional development.

Shortly after the European Commission's proposal was published, payment capping was also criticised by representatives from the Agricultural Chamber of the Czech Republic and the Agricultural Association of the Czech Republic.

http://ec.europa.eu/agriculture/cap-post-2013/legal-proposals/index_en.htm

ENLARGEMENT

EU bets on Montenegro to revive enlargement

The European Commission published the annual assessment of the countries (Enlargement Package) that strive for membership of the European Union. Besides Croatia, which will sign the accession treaty in this December, **Montenegro is a favourite**. Other hot favourites, namely Serbia and Macedonia, still have great obstacles to overcome.

Serbia

The candidate status is within the grasp of Serbia, which applied for membership of the EU in December 2009. The **Commission commended Belgrade for reforms carried out in the judiciary**, rule of law and the protection of human rights and especially for the capture and handover of Ratko Mladic, former Bosnian Serb Army commander, and Goran Hadzic, former Croatian Serb leader, who are charged with war crimes by the international community. The only obstacle to be overcome before accession talks with Serbia can be opened is the unsettled relationship with Kosovo, its former province that proclaimed independence unilaterally in 2008.

Macedonia

In the case of Macedonia, which has been trying to obtain membership of the EU since 2005, the Commission noted especially **the long-term dispute between Greece and Macedonia over the name of the latter**. The name of the Republic of Macedonia, used by Skopje at the domestic level, is not approved of by Greece because it refers to Greece's province of the same name located in the north of the country. Both Greece and Macedonia make historic claims to the area.

Montenegro

Having enjoyed the candidate status since last December, **Montenegro** has become the most promising country that Brussels expects to enliven the sluggish enlargement process. According to Stefan Fule, Commissioner for Enlargement, Montenegro has managed to meet all conditions required for the opening of accession talks, **with nothing preventing their start now.**

The Commission also commented on other candidate countries, Island and Turkey, and potential candidates, **Albania, Bosnia and Herzegovina and Kosovo**. However, it did not see any significantly new developments in their cases.

The only country to enlarge the EU at an early date is Croatia, for which the Accession Treaty envisages the date of 1 July 2013. This is conditional **on a favourable vote in Croatia's referendum**, though. However, that is not certain at all due to bad news on the debt crisis and fear of a price increase (due to harmonization of VAT rules).

http://europa.eu/rapid/pressReleasesAction.do?reference=IP/11/1182
http://ec.europa.eu/enlargement/pdf/key_documents/2011/package/strategy_paper_2011_en.pdf

EXTERNAL RELATIONS

Eastern Partnership summit overshadowed by diplomatic 'fiasco'

Representatives from countries located east of the EU border (Ukraine, Moldavia, Georgia, Armenia and Azerbaijan) attending the second summit meeting of the Eastern Partnership **refused to sign a declaration** condemning non-observance of fundamental human rights, freedom of speech and media independence in Belarus. Only the EU Member States attached their signatures to the text.

Belarus, governed for almost twenty years by the authoritarian regime of President Alexander Lukashenko, has recently been criticised especially because of its actions targeted at protesters against the results of last December's rigged presidential election and **imprisonment of political opponents.**

The Belarusian delegation refused to participate in the summit of the Eastern Partnership, the European Commission's initiative whose main objective is to improve 'neighbourly' relations between the EU and its eastern partners.

Poland's PM Donald Tusk and President of the European Council Herman Van Rompuy had **a meeting with representatives of the Belarusian opposition**. However, its leader Anatoly Lebedko was arrested by the Belarusian police after returning from Warsaw.

In spite of the fact that the main Polish opposition party talks about a failure of the Polish presidency and a diplomatic fiasco due to the five partner countries' refusal to sign the declaration, all participants in the Warsaw summit expressed their support for a declaration in which the European Union repeatedly undertook to **assist the Eastern Partnership countries in the integration process**. However, it made the aid conditional on 'real progress' in the reform process.

The European Parliament's committee supported a proposal for a revision of the waste electrical and electronic equipment directive. The European Commission published a package of legislative proposals regulating the EU Cohesion Policy after 2013. The proposal envisages a budget of EUR 336 billion; almost half of the amount is intended to aid Europe's less developed regions.

The motivation for the partner countries' domestic reforms is especially the vision of concluding agreements on a simplified visa regime with the European Union. So far, action plans for visa liberalization have only been **signed with Ukraine and Moldavia**. European Commission President José Manuel Barroso promised that the Eastern Partnership could look forward to a greater budget. The initiative now has almost two billion euro at its disposal.
http://pl2011.eu/en/content/eastern-partnership-summit-ends-warsaw

ENVIRONMENT

EU tackles e-waste

In the second reading vote, the European Parliament's Environment Committee backed up a proposal for a revision **of the waste electrical and electronic equipment directive** of 2003. The report was passed by 52 votes with 1 MEP against and 5 abstentions.

Since only **33% of e-waste** (containing hazardous substances such as arsenic, mercury, lead and chromium) **is currently recycled in the EU**, MEPs want the Member States to annually process 85% of generated e-waste by 2016.

The Council of EU Ministers has previously supported the European Commission's original proposal, which envisages **a 65% target for annual e-waste collection**. Member States have also requested that the period for its collection be prolonged to eight years after the directive comes into force and two-year transitional periods be introduced for some countries. Nevertheless, Ministers agree with MEPs that the new rules should apply to all e-waste with just a few exceptions (e.g. fixed installations, large machinery or military equipment and machinery).

The e-waste situation is grave in the EU. According to the European Commission's estimate, **each European generates 17-20 kg of e-waste per year**. Its content of hazardous substances requires strict separation of e-waste from municipal and mixed waste.

E-waste is often illegally exported to third countries to be disposed of under completely unsatisfactory conditions. Therefore MEPs require that consumers should be allowed **to return smaller waste electrical or electronic equipment** (such as light bulbs or mobile phones) **to smaller electronic goods shops** – whether or not the goods were purchased there. The European Parliament has also proposed that about 5% of e-waste should be used in the production of new electrical or electronic products.

MEPs' plenary vote on the draft revised directive is planned **for next January.**

http://www.europarl.europa.eu/cs/pressroom/content/20111003IPR28083/html/Tackling-the-EU's-e-waste-mountain

INFORMATION SOCIETY

EU launches first two Galileo satellites

The European Space Agency (ESA) **has launched the first two operational satellites of Europe's Galileo navigation system**. The satellites were lofted into the Earth's orbit from the European Space Centre located in Kourou in French Guiana. The two satellites joined research satellites named Giove-A and Giove-B, which have been in space since 2005 and 2008, respectively, testing system components.

The whole system should consist of thirty such satellites, orbiting **at about 23,000 kilometres above the Earth's surface**. The European Commission estimates that Galileo will not be fully operational until 2019.

According to Carlo Corazza, the Commission's spokesperson for European space policy, **two satellites will** be launched **into space every quarter** starting next year in order to have 24 of them in space by 2014 or early 2015 (Galileo needs at least 18 satellites to operate). The European satellite navigation project, whose administration was relocated from Brussels to Prague, was originally planned to be finished by 2010. The delay is caused by disputes within the international consortium and the growing costs of system implementation.

The European Union expects its autonomous navigation system to reduce its dependence on the US' widespread GPS system, in particular. However, Brussels emphasises its intention is not to come up with a competitive project but rather a system that would cooperate with GPS. In 2004 an agreement was signed with the US to ensure compatibility between the two systems. This means that devices manufactured in the future **will be able to receive both Galileo and GPS signals.** Furthermore, work is in progress on making the system able to utilise the satellites of the Russian Glonass system as well as the navigation currently developed by China and India.

Galileo's advantages include accuracy and flexibility, as Galileo uses a **higher number of frequencies**. Another of the system's advantages should be the European satellites' ability to not only send but also receive signals, which can be very useful for example during search and rescue operations for informing the people being rescued that help is coming.

http://www.esa.int/esaNA/SEM167GURTG_index_0.html

REGIONAL POLICY

Draft cohesion policy envisages sanctions for states in debt

The European Commission has published a package of regulations on the European funds **for 2014-2020. According to the new plan**, the Commission could suspend the flow of European funds into states that do not respect the fiscal rules or are continuously breaching the conditions of the Stability and Growth Pact. The package **amounting to 336 billion euro** includes other new proposals in addition.

In order to improve effectiveness, the European Commission proposes unification of rules for all five funds – the European Regional Development Fund (ERDF), the European Social Fund (ESF), the Cohesion Fund, the European Agricultural Fund for Rural Development (EAFRD) and the European Maritime and Fisheries Fund (EMFF).

Along with this simplification, three new categories of regions should be formed:

- **less developed regions** (with per capita GDP below 75% of the EU average),
- **transition regions** (with per capita GDP between 75% and 90% of the EU average),
- **more developed regions** (with per capita GDP above 90% of the EU average).

Propsal on EU Cohesion Policy 2014 – 2020
(billion EUR)

Less developed regions	162,6
Transition regions	38,9
More developed regions	53,1
European Territorial Cooperation	11,7
Cohesion Fund	68,7
Outermost regions and sparsely populated areas	0,926
Connecting Europe Facility	*40,0*)*
European Social Fund	*84,0**)*

*Source: European Commission, *)additional budget 10 billion eurofrom Choesion Fund; **) within the above allocation to less, transition and more developed regions*

With this categorization, the European Funds will become available to the more developed Member States rather than just the poorest ones. While an overwhelming majority of resources should still flow **into lagging countries** and regions, transitional regions will be able to draw on the funds to invest in innovation, improvement of energy efficiency, social cohesion and competitiveness.

The European Commission believes the future cohesion policy should be tied more tightly with the EU's Europe 2020 strategy, focusing **on just a few priorities**. While the more developed regions will be able to use the European Funds to support innovation, SME development, energy efficiency and renewables, the less developed regions can also invest in other areas (employment, education, combating poverty). However, **at least half of the resources** will have to go into the same group of priorities as in the more developed regions.

However, the Commission's current proposal is raising doubts in the Czech Republic.

In the case of the less developed regions (i.e. regions with per capita GDP below 75% of the EU average, which are all regions of the Czech Republic except Prague), at least 50% of the total ERDF allocation should be **invested in three priorities** (research, development and innovation; SME competitiveness support; switch to a low-carbon economy). In addition, 6% should go into the switch to a low-carbon economy alone.

As for **Prague**, which falls into in the category of more developed regions (with per capita GDP above 90% of the EU average), even 80% of all ERDF resources should go into the three above-mentioned priorities and 20% should go into low-carbon economy.

The crucial question is how much resources will be allocated to the Czech Republic from the 2014-2020 cohesion policy at all. As it is nearing the European Union average, **it is clear that it will be less than today**. We would not be surprised to see an allocation lower by 20-30%.

http://ec.europa.eu/regional_policy/what/future/proposals_2014_2020_en.cfm

Commission wants to increase investment in infrastructure using project bonds

The European Commission has presented a plan that it believes will increase Member States' investments in key infrastructures – **transport, energy and digital networks**. The new fund named the 'Connecting Europe Facility' (and identified as an infrastructure fund) should **have EUR 50 billion at its disposal** – 40 billion will be allocated to infrastructure development directly from the

EU budget and additional 10 billion for transport projects will be provided by the Cohesion Fund.

Since investment in key infrastructure should be in line with the objectives of the Europe 2020 economic strategy, Brussels believes transport should be more environmentally friendly. The European Commission also wishes to promote high-speed broadband connection and **more widespread use of renewable energy sources.**

Transport projects have been **allocated a total of EUR 31.7 billion** in the Facility, investments in trans-European energy infrastructure can count on EUR 9.1 billion and support for high-speed broadband networks and pan-European digital services will be able to take advantage of investments **amounting to EUR 9.2 billion.**

As Europe is currently undergoing an economic recession, the European Commission realizes that financing large and costly infrastructure projects can be difficult for investors, enterprises and governments. That is why it has been considering **the introduction of 'project bonds'** for some time; they would be issued by large enterprises but guaranteed by the European Commission together with the European Investment Bank (EIB).

If the proposal for their introduction passes the European Parliament and is approved by the EU's Member States, project bonds should become common practice in the next budget period starting in 2014. **A yearlong pilot phase** will start January 2012, giving access to EUR 230 million. The European Commission expects to mobilise investments of up to EUR 4.6 billion from the private sector.

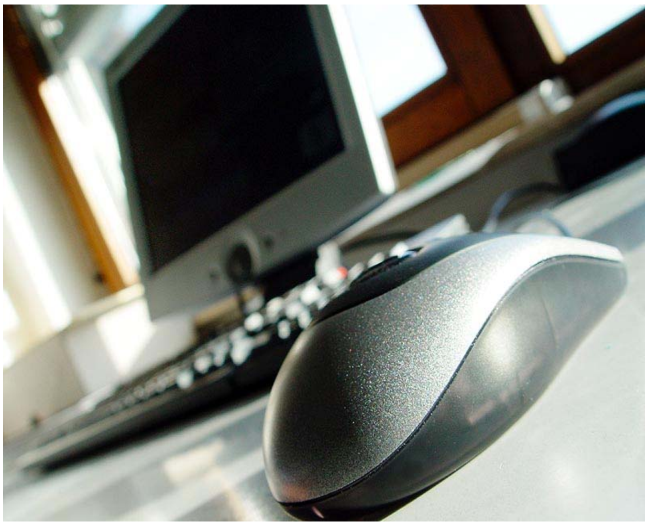
http://europa.eu/rapid/pressReleasesAction.do?reference=IP/11/1200

HEALTH AND CONSUMER PROTECTION

Internet purchases in EU to be facilitated by European law

The European Commission has presented a proposal for the introduction of a '28th Legal Regime', which would regulate relations between sellers and consumers. According to Viviane Reding, Vice-President of the European Commission responsible for Justice and Internal Affairs, **the introduction of a common sales law** will create a separate and complete set of rules, which will be especially beneficial for sales of goods over the internet.

The European Commission rests **this opinion on a feasibility study** it has had prepared as a basis it is now using to justify its new legislative proposal. According to the European Commission, the study shows that consumers are discouraged from making purchases in other Member States of the European Union (including purchases over the internet) mainly by two issues: fear of an unknown legal environment and costs associated with two different legal systems.



However, **representatives of entrepreneurs and consumer associations** do not see where the European Commission's conclusions come from. According to them, cross-border purchases over the internet are hindered by something completely different, namely a language barrier or different national VAT regimes.

If the proposal the European Commission is going to present now is endorsed, the existing 27 national legal systems **regulating contractual relations between sellers and customers** will be complemented by a 28th system – the EU system. Businesses would then be able to choose whether their sales activities will be governed by the national law or the EU law.

One of the aspects of the new legal system should be a **greater emphasis on consumer protection within the European Union**. If they are not satisfied with delivered goods or provided services, consumers would be able to choose from several remedies available, including contract termination. This results from the working draft of the proposal of the European Commission.

http://ec.europa.eu/commission_2010-2014/reding/multimedia/news/2011/10/20111011_en.htm

A number of events that did not fit into the above commented section occurred in October. In response to the financial crisis, the European Commission presented a proposal for a revision of the Markets in Financial Instruments Directive (MiFID) in this month. There was also a related Eurobarometer survey. Half of the respondents answered that helping countries facing serious difficulties is desirable (this answer was given by 37% of Czech respondents).

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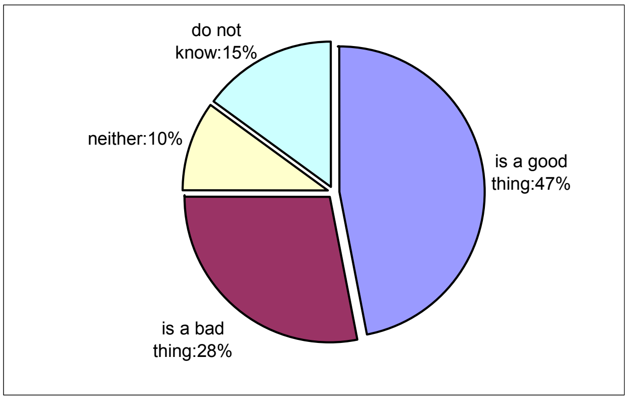
The annual financial report is out: what the EU budget helped to achieve in 2010: http://europa.eu/rapid/pressReleasesAction.do?reference=IP/11/1140

Eurobarometer: What Europeans think of agriculture and the CAP: http://ec.europa.eu/public_opinion/archives/ebs/ebs_368_en.pdf
http://europa.eu/rapid/pressReleasesAction.do?reference=IP/11/1136

Putting an upper limit on the direct payments...



Source: Eurobarometer

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The proportion of unsuccessful loan applications by SMEs has risen with the economic crisis: http://ec.europa.eu/enterprise/newsroom/cf/itemlongdetail.cfm?displayType=news&tpa_id=135&item_id=5456

5 OCTOBER

EU and Brazil step up cooperation in education and culture: http://ec.europa.eu/culture/news/20111004-eu-and-brazil-cooperation_en.htm

Accidents involving dangerous substances: more inspections, better information: http://www.europarl.europa.eu/en/headlines/content/20110930STO27994/html/Accidents-involving-dangerous-substances-more-inspections-better-information

SMEs: Commission report notes economic climate threatens performance: http://ec.europa.eu/enterprise/newsroom/cf/itemlongdetail.cfm?item_id=5463

6 OCTOBER

Budget 2012: figures now available: http://www.europarl.europa.eu/en/pressroom/content/20111003IPR28087/html/Budget-2012-figures-now-available

7 OCTOBER

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10 OCTOBER

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11 OCTOBER

New framework for monitoring of energy markets adopted: http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/trans/124995.pdf

Better protection of consumer rights in distance (including on-line) and off-premises purchases: http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/intm/124997.pdf

Common European Sales Law to boost trade and expand consumer choice: http://ec.europa.eu/justice/contract/files/common_sales_law/i11_1175_cs.pdf

12 OCTOBER

New investigatory powers for MEPs: http://www.europarl.europa.eu/en/pressroom/content/20111010IPR28833/html/New-investigatory-powers-for-MEPs

More efficient and secure visa system goes live: http://europa.eu/rapid/pressReleasesAction.do?reference=IP/11/1169

13 OCTOBER

MEPs favour recommendation to give Serbia official EU candidate status and back new enlargement strategy: http://www.europarl.europa.eu/en/pressroom/content/20111

012IPR29014/html/MEPs-favour-recommendation-to-give-Serbia-official-EU-candidate-status

14 OCTOBER

Parliament calls for VAT reforms to target fraud, help small firms and NGOs and promote green products: http://www.europarl.europa.eu/en/pressroom/content/20111012IPR29115/html/MEPs-call-for-VAT-reforms-to-target-fraud-and-help-small-firms-and-green-goods

European Commission and EIB welcome adoption of new mandate for lending outside the EU: http://europa.eu/rapid/pressReleasesAction.do?reference=IP/11/1179

17 OCTOBER

Commission to recover € 214 million of CAP expenditure from the Member States: http://europa.eu/rapid/pressReleasesAction.do?reference=IP/11/1191

18 OCTOBER

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19 OCTOBER

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Crack down on short selling and sovereign debt speculation: http://www.europarl.europa.eu/cs/pressroom/content/20111018IPR29720/html/Crack-down-on-short-selling-and-sovereign-debt-speculation

Cross-border recognition of professional skills needs to be faster and safer, says Internal Market Committee: http://www.europarl.europa.eu/cs/pressroom/content/20111017IPR29452/html/Cross-border-recognition-of-professional-skills-needs-to-be-faster-and-safer

20 OCTOBER

Future EU industrial strategy for the European security sector: http://ec.europa.eu/enterprise/newsroom/cf/itemlongdetail.cfm?item_id=5510

21 OCTOBER

New rules for more efficient, resilient and transparent financial markets in Europe: http://europa.eu/rapid/pressReleasesAction.do?reference=IP/11/1219

European Commission seeks criminal sanctions for insider dealing and market manipulation to improve deterrence and market integrity: http://europa.eu/rapid/pressReleasesAction.do?reference=IP/11/1218

24 OCTOBER

Parliament: Discussion on future of EU financing (2014-2020) in full swing: http://www.europarl.europa.eu/cs/pressroom/content/20111021IPR29994/html/Discussion-on-future-of-EU-financing-(2014-2020)-in-full-swing

EU consumers rate poorly financial services and fuel markets: http://europa.eu/rapid/pressReleasesAction.do?reference=IP/11/1221

25 OCTOBER

European Week for Safety and Health at Work puts spotlight on safe maintenance: http://osha.europa.eu/en/teaser/european_week_safety_health_work_puts_spotlight_safe_maintenance

26 OCTOBER

Public procurement rules should be simpler, more inclusive and more flexible:http://www.europarl.europa.eu/en/pressroom/content/20111025IPR30224/html/Public-procurement-rules-should-be-simpler-more-inclusive-and-more-flexible

Corporate Social Responsibility: a new definition, a new agenda for action: http://ec.europa.eu/enterprise/newsroom/cf/itemlongdetail.cfm?item_id=5511

27 OCTOBER

Climate summit: EU should champion Kyoto Protocol, says Environment Committee: http://www.europarl.europa.eu/en/pressroom/content/20111024IPR30159/html/Climate-summit-EU-should-champion-Kyoto-Protocol

Proposal for transparency requirements for listed companies: http://ec.europa.eu/enterprise/newsroom/cf/itemlongdetail.cfm?displayType=news&tpa_id=0&item_id=5534

28 OCTOBER

The Arab Spring wins Sakharov Prize 2011: http://www.europarl.europa.eu/en/headlines/content/20111021STO30027/html/The-Arab-Spring-wins-Sakharov-Prize-2011

31 OCTOBER

Digital Agenda: encouraging digitisation of EU culture to help boost growth: http://europa.eu/rapid/pressReleasesAction.do?reference=IP/11/1292

A number of meetings of the EU's key decision-making bodies will be held in November. The Council of the European Union will most often meet in its Finance Ministers formation – Ecofin. The main topics will include a detailed elaboration of the October European Council's decision on the combat against the debt crisis. The European Union's budget for 2012 will be on the agenda of the meeting held on 18 November.

Meeting of the key EU institutions

7 Nov 2011	**Brussels, Belgium**	- Eurogroup
8 Nov 2011	**Brussels, Belgium**	- Economic and Financial Affairs Council (ECOFIN)
14 Nov 2011	**Brussels, Belgium**	- Foreign Affairs Council
14–15 Nov 2011	**Brussels, Belgium**	- Agriculture and Fisheries Council
14–17 Nov 2011	**Strasbourg, France**	- EP Plenary Session
15 Nov 2011	**Brussels, Belgium**	- General Affairs Council
18 Nov 2011	**Brussels, Belgium**	- Economic and Financial Affairs Council (ECOFIN)
22 Nov 2011	**Brussels, Belgium**	- General Affairs Council
24 Nov 2011	**Brussels, Belgium**	- Transport, Telecommunications & Energy Council
25 Nov 2011	**Poznań, Poland**	- Informal meeting of Ministers for regional policy, territorial and urban development
28–29 Nov 2011	**Brussels, Belgium**	- Education, Youth, Culture & Sport Council
29 Nov 2011	**Brussels, Belgium**	- Eurogroup
30 Nov 2011	**Brussels, Belgium**	- Economic & Financial Affairs Council (ECOFIN)
30 Nov 2011	**Luxembourg, Luxembourg**	- Foreign Affairs Council

Source: 1 Novemeber 2011, http://europa.eu/

Economic discussions in the past months have resulted in defining fundamental measures to help recovery and prevent any future symptoms of crisis in the EU's economies and financial systems. Besides the actions that have become known as the Six-Pack Measures, a rather high number of other steps were taken at the EU level to help stabilize the EU's economic environment. Today's main topic provides a comprehensive overview and discussion of them.

ECONOMIC MEASURES ADOPTED AT EU LEVEL IN CONNECTION WITH ECONOMIC AND FINANCIAL CRISIS

SIX-PACK MEASURES

The six legal documents include:

A Regulation amending the legislative underpinning of the preventive part of the Stability and Growth Pact (Regulation 1466/97)

The preventive part of the Stability and Growth Pact is meant to ensure that EU Member States follow prudent fiscal policies in good times to build up the necessary buffer for bad times. To break off with past complacency in good economic times, the monitoring of public finances will be based on the new concept of prudent fiscal policy-making that should ensure convergence towards the Medium-Term Objective. The European Commission may issue a warning in case of significant deviation from prudent fiscal policy for the euro area Member States.

A Regulation amending the legislative underpinning of the corrective part of the Stability and Growth Pact (Regulation 1467/97)

The corrective part of the Stability and Growth Pact is meant to avoid gross errors in budgetary policies. The regulation is amended so that debt developments are followed more closely and put on an equal footing with deficit developments as regards decisions linked to the excessive deficit procedure. Member States whose debt exceed 60% of GDP should take steps to reduce it at a satisfactory pace, defined as a reduction of 1/20 of the difference with the 60% threshold over the last three years.

A Regulation on the effective enforcement of budgetary surveillance in the euro area

Changes in both the preventive and corrective part of the Stability and Growth Pact are backed up by a new set of gradual financial sanctions for euro-area Member States. As to the preventive part, an interest-bearing deposit should be the consequence of significant deviations from prudent fiscal policy making. In the corrective part, a non-interest bearing deposit amounting to 0.2% of GDP would apply upon a decision to place a country in excessive deficit. This would be converted into a fine in the event of non-compliance with the recommendation to correct the excessive deficit.

Interests earned on deposits and fines will be distributed among euro-area Member States neither in excessive deficit nor in excessive imbalance. The changes are devised so that they should facilitate the eventual move to a system of enforcement linked to the EU budget as foreseen in the Commission communication of 30 June 2010.

A New Directive on requirements for the budgetary framework of the Member States

Since fiscal policy-making and responsibility are dominated by the Member State, it is essential that the objectives of the Stability and Growth Pact are reflected in the national budgetary frameworks, i.e. the set of elements and tools that form the basis of national fiscal governance (accounting systems, statistics, forecasting practices, fiscal rules, budgetary procedures and fiscal relations with other entities). The directive sets out minimum requirements to be followed by Member States.

A New Regulation on the prevention and correction of macroeconomic imbalances

The Excessive Imbalance Procedure is a new element of the EU's economic surveillance framework. It comprises a regular assessment of the risks of imbalances based on an overview of economic indicators and their trends. For Member States with severe imbalances or imbalances that put at risk the functioning of EMU, the EU Council may adopt recommendations and open an excessive imbalance procedure. A Member State under an excessive imbalance procedure would have to present a corrective action plan that will be vetted by the EU Council, which will set deadlines for corrective action. Repeated failure to take corrective action will expose the euro area Member State concerned to sanctions (see next point).

A Regulation on enforcement measures to correct excessive macroeconomic imbalances in the euro area

Like in the fiscal field, if a euro-area Member State repeatedly fails to act on the EU Council's recommendations to address excessive imbalances, it will have to pay a yearly fine equal to 0.1% of its GDP. The fine can only be stopped by a qualified majority vote, with only euro-area Member States voting.

OTHER MEASURES ADOPTED

Besides measures associated solely or dominantly with correcting fiscal policies and adopting preventive tools to reduce future susceptibility to crisis, other crucial steps have been taken during the past period of nearly two years; giving an overview of them is useful also because those measures represent a significant exogenous factor underlying the Multiannual Financial Framework as well as the future cohesion policy after 2013. Generally specified, the measures can be represented as three key areas:

1. Reinforcing common economic agenda and closer EU surveillance

A common framework is essential for the EU to tackle its economic challenges and return to a stronger growth path. In the past, the lack of a clear system of economic governance between Member States led to imbalances and lost opportunities, and made the EU more vulnerable when the crisis hit. To establish conditions limiting the susceptibility and vulnerability, the Commission proposed the Europe 2020 strategy, which was endorsed by the European Council in June 2010. The common economic agenda strategy brings together:

- a common economic agenda;
- a stronger EU surveillance framework; and
- its monitoring using a synchronized model.

1.1. Economic priorities for the EU have been agreed

The Europe 2020 strategy is the EU's common economic agenda. It sets out clear priorities and targets at EU and national level to boost Europe's dynamic growth over this decade. The Annual Growth Survey sets priority actions for the next eighteen months, which are translated into national targets and measures tailored to the needs of each Member State. The Euro+Pact sets additional commitments for the countries taking part.

The Europe 2020 strategy is the EU's common economic agenda, a plan to move beyond the crisis and boost smart, sustainable and inclusive growth over this decade. It deals both with short-term challenges linked to the crisis and the need for structural reforms and measures enhancing economic growth and development that are needed to help Europe and its economy recover from the crisis and be more resilient to economic shocks. Europe 2020 is based on a simple and effective delivery mechanism, made up of targets, concrete priority actions and monitoring. It consists of:

Five targets for 2020

Five targets have been set for 2020 to focus efforts on areas critical for the EU's future in terms of its competitiveness: employment, innovation, climate and energy, education and social inclusion. These targets have been agreed for the EU as a whole and have also now been translated into national targets by each Member State:

- 75% of the population aged 20-64 should be employed
- 3% of the EU's GDP should be invested in Research & Development
- The EU should reduce its CO^2 emissions by 20%, increase its energy efficiency by 20% and raise the share of renewable energies in overall energy consumption to 20%
- The share of early school leavers should be under 10% and at least 40% of the younger generation should have a degree or diploma
- 20 million fewer people should be at risk of poverty

Seven flagship initiatives

In order to drive progress towards the Europe 2020 goals, the Commission has come forward with a set of these seven flagship initiatives:

- A Digital Agenda for Europe
- Innovation Union
- Youth on the Move
- Resource Efficient Europe
- An Industrial Policy for a Globalisation Era
- An Agenda for New Skills and Jobs
- The European Platform Against Poverty

The adoption of the Single Market Act is a further example of the Commission's action to support Europe 2020.

Ten concrete priorities for 2011

In January 2011, the Commission further detailed the expected future development in its Annual Growth Survey by setting out more immediate actions for the next eighteen months:

Three priorities to guarantee macro-economic stability:

1. putting public finances in order;
2. taking action where there are large deficits (or surpluses) on the current account of the balance of payments;
3. ensuring the stability of the financial sector;

An example: in 2011, all Member States are implementing fiscal consolidation plans, which set strict deficit targets to be met as of this year and which will help the Member States bring their budget deficits below 3% of GDP within an agreed timeframe.

Four priorities to enhance structural reforms:

1. helping people get back to work or find new jobs by making work more financially attractive;
2. urgently reforming pension systems;
3. making sure that unemployment benefits provide an incentive to work;
4. better balancing flexibility and security in the labour market;

This does not mean abandoning the common European social model; it means bringing in those who are currently excluded from the labour market.

Three priorities to frontload measures that boost growth:

1. abolishing barriers that still hamper the Single Market;
2. increasing investment in energy, transport and IT infrastructures, partially through innovative financing (including, for example, EU project bonds);
3. creating cost-efficient access to energy;

Speeding up growth will also help to accelerate fiscal consolidation and support structural reforms.

A complementary agenda with additional reform measures and tools – called the Euro+ Pact – has been agreed among euro area Member States, as a reflection of their deeper interdependence, as well as six non-euro area Member States that have chosen to sign up (Bulgaria, Denmark, Latvia, Lithuania, Poland and Romania); the only EU Member States remaining outside are the Czech Republic as well as the United Kingdom, Sweden and Hungary. The Euro+ Pact focuses on four areas:

- competitiveness;
- employment;
- sustainability of public finances;
- reinforcing financial stability.

The Pact was endorsed at the 2011 Spring European Council on 24/25 March 2011. All 23 signatories are committed to implementing the reforms the Pact details; the remaining four Member States are free to decide whether and when they sign up. The Euro+ Pact is fully embedded in the new European Economic Governance framework and the commitments taken therein are included in the National Reform Programmes of the concerned Member States.

Competitiveness-enhancing measures are part of one integrated delivery mechanism ensuring that EU commitments are effectively implemented at the level of national states and the reforms they implement. Member States are committed to:

- Setting national targets to be met and achieved by 2020, committing themselves to contribute to the overall EU effort. This commitment was made in 2010 and their implementation has been underway since 2011. The Commission is monitoring the fulfilment of the commitments;
- Spelling out in their National Reform Programmes and Stability or Convergence Programmes the measures they intend to take domestically to contribute to the achievement of the overall EU targets. This should cover both the Annual Growth Survey and the key areas included in the Euro+ Pact. The Member States send their National Reform Programmes and Stability or Convergence Programmes to the European Commission on a regular basis;
- Translating these measures into concrete economy policy actions through their budgets, laws and other activities, approved and adopted at the level of the national legislatures and executives.

1.2. Tighter EU surveillance of economic and fiscal policies is being implemented

The Commission has proposed giving the EU better, more functional tools to prevent unsustainable development of public finances and major competitiveness imbalances between Member States. The system includes sanctions applicable to euro area countries not respecting the rules, which face better enforceable fines.

Over the past few years, the EU has not been able to fulfil and respect key, crucial, long (or rather permanently) applicable goals it set itself on economic and fiscal policies, partly because of a surveillance mechanism that was not stringent enough. To address this, on 29 September 2010 the Commission presented six legislative proposals (the so-called Six-Pack; see above). The Parliament and the Council gave their agreement to the package in June 2011. The package of these proposals has three main objectives:

a) Stronger preventive action through a reinforced Stability and Growth Pact

Member States must avoid excessive public deficits (beyond 3% of GDP) and excessive debt (beyond 60% of GDP), so as not to put fiscal sustainability at risk. These rules are

enshrined in the Treaties and detailed in the Stability and Growth Pact.

This is achieved both through surveillance of national budgets and surveillance and coordination of economic policies (based on Article 121 of the Treaty). To this effect, each year Member States set out the structural reforms and other activities needed to achieve and maintain fiscal sustainability in their Stability or Convergence Programmes.

The new system for achieving this objective introduces three key changes:

- **greater transparency** – Member States should ensure that their fiscal frameworks reflect the EU budgetary framework at all administrative levels (national, regional and local). This means bringing all elements – such as national public accounting systems, statistics and forecasting practices – into line with EU standards, allowing for more clarity and peer pressure;
- **stricter rules** – Member States with unsustainable public finances will be required to make significant progress towards medium-term budgetary objectives to respect the 3% deficit criterion. Expenditure growth should be linked to the mid-term GDP growth rate, so that any extra revenue leads to increased savings rather than higher expenditure. A faster adjustment path towards the mid-term budgetary objective will be expected from countries with a debt ratio above 60%, countries with a strongly rising debt level or countries facing risks to long-term sustainability;
- **better enforcement** – failure to respect the agreed principles will make the concerned Member State liable to a warning from the Commission, even in the preventive phase. In case of a persistent and/or particularly serious failure to respect the rules, the Commission will draft a recommendation to the Member State to take corrective action. The recommendation will be adopted by the Council unless a qualified majority of Member States vote against it (the so-called reverse qualified majority voting procedure). For euro area Member States, the recommendation will be backed by an enforcement mechanism (based on Article 136 of the Treaty) in the form of an interest-bearing deposit amounting to 0.2% of GDP. This preventive arm of the Stability and Growth Pact has been further strengthened by the Euro+ Pact, with euro area and the six other Member States committed to translating EU fiscal rules as set out in the Stability and Growth Pact into national legislation through a specific national legal vehicle of their choice. This should have a sufficiently strong binding and durable nature (e.g. a constitutional or framework law).

b) Stronger corrective action through a reinforced Stability and Growth Pact

When Member States do not respect the thresholds laid down in the Treaty, the Excessive Deficit Procedure is triggered. However, the current fiscal situation in almost all Member States, and the sovereign debt problems in some, show that the existing Excessive Deficit Procedure was not effective. The European Commission has proposed giving teeth to the Stability and Growth Pact through better enforcement and the ability to fine Member States (as outlined above). The two key changes are:

- **stricter rules** – debt reduction will now be a criterion in the assessment of public finances. Member States with debt in excess of 60% of GDP must reduce the amount by which their debt exceeds the threshold by at least 1/20 per year over three years. If they do not, they will be placed in an Excessive Deficit Procedure. All relevant factors should be taken into account, as outlined in the European Commission proposal, when assessing the satisfactory pace of debt reduction;
- **better enforcement** – a non-interest-bearing deposit of 0.2% of GDP will be requested from a euro area Member State that is placed in an Excessive Deficit Procedure. The Commission will draft a recommendation to the Member State to take corrective action. The recommendation will be adopted by the Council unless a qualified majority of Member States vote against it (the so-called reverse qualified majority voting procedure again; see above). In case of non-compliance with the initial recommendation for corrective action, this non-interest-bearing deposit will be converted into a fine. The fine will be increased in case of repeated non-respect of the recommendations.

c) Reducing macro-economic and competitiveness imbalances

Over the past decade, Member States have made divergent economic choices, leading to competitiveness gaps and to major macroeconomic imbalances within the EU. A new surveillance mechanism will be set up to identify and correct such issues much earlier. It will rely on the following new elements:

- **Clear alert system** – based on a scoreboard of external and internal indicators (around ten) to detect imbalances emerging in different parts of the economy. The composition of indicators may evolve over time. Thresholds will be identified and announced. The assessment of such indicators will not be mechanical but will be done by the Commission based on in-depth reviews, Stability and Convergence Programmes and National Reform Programmes;

- **Stricter rules** – a new Excessive Imbalance Procedure will now be created, based on Article 121 of the Treaty. This mirrors the Excessive Deficit Procedure for public finances. If the European Commission considers that macroeconomic imbalances (or the risk thereof) exist, it will propose that the Council open an Excessive Imbalance Procedure and recommend that the Member State concerned adopt a corrective action plan with a clear roadmap of implementing measures and a deadline. Progress made will be reviewed on a regular basis;
- **Better enforcement** – for euro area countries, the enforcement mechanisms will include both fines (0.1% of GDP) and non-financial measures in case the imbalances are not corrected.

1.3. Economic priorities and budgetary policy priorities will be discussed on a coordinated basis at the same time every year:

The new coordination device to monitor commitments at EU level is called the European Semester. Over the first half of each year, discussions take place both on the EU's economic agenda, on the basis of the Annual Growth Survey presented by the European Commission in January (2011 is the first year this procedure is followed), and on Member States' priorities, presented in their national programmes in the spring. Country-specific recommendations are issued in June, giving time for these to be incorporated into national budgets and economic policies for the following year.

In the past, the EU Institutions looked at economic policy in the spring and fiscal frameworks in the autumn, with the implementation by Member States of commitments made at EU level only reviewed retrospectively.

Basically, decisions on economic objectives were made without necessarily knowing how much money could be mobilised. From now on, Member States and the Commission discuss structural reforms, growth-enhancing measures and fiscal surveillance at the same time. Beginning this year, these discussions will occur at EU level every year from January to June and are called the European Semester.

How does the European Semester work?

- **January: steer by the European Commission** – the Commission will launch each cycle by presenting its Annual Growth Survey (AGS) in January, with a clear assessment of the EU economic situation and guidance for further priority actions to be delivered at both EU and national levels. The Survey will encompass three economic policy components: macro-economic and fiscal policy, structural reforms and growth-enhancing measures;
- **March: political endorsement by the European Council** – the Spring European Council will discuss and endorse this menu for economic reform and fiscal policy in one single set of conclusions. Heads of State and Government will thus take ownership of this common economic agenda and budgetary surveillance framework, and will be committed to proper implementation in their respective countries;
- **April/May: presentation of national programmes** – Member States will then submit to the Commission and their peers their National Reform Programmes and Stability (for euro area countries) or Convergence (for non-euro area countries) Programmes. The National Reform Programmes set out Member States' agendas for structural reform and measures to boost growth and jobs and move towards the achievement of the Europe 2020 targets. They also include the short-term commitments made under the Euro+ Pact by the countries that have signed up to it. The Stability and Convergence Programmes on the other hand set out national plans for sound and sustainable public finances. The synchronisation of the preparation of these two programmes will ensure the streamlining of processes and reflect the virtuous course and/or upturn in the development of public finances and structural reform;
- **June: recommendations by the European Commission** – after due assessment of these national reports, the Commission will present in June draft country-specific recommendations to the EU Council, flagging the progress and shortcomings of each Member State in delivering the agreed actions. The June European Council will discuss these recommendations, and the EU Council will subsequently adopt them. Member States will take into account the guidance received from the EU Council when drawing up their budgets for the following year. Draft budgets will continue to be sent from governments to national parliaments for debate in the second half of the year, since they continue to exercise fully their right to decide on the budget. Thus, the new framework in no way represents a limit to the sovereignty of national parliaments.

	European Commission	EU Council	European Parliament	European Council	Member States
January	Annual Growth Survey (AGS) presented				
February		AGS debated ahead of European Council	AGS debated ahead of European Council		
March				Endorsement of reform priorities for EU and Member States	
April					National Reform Programmes (NRPs) and Stability / Convergence Programmes (SCPs) sent to Commission
May	Assessment of NRPs and SCPs				
June	Recommendations to Member States based on NRPs and SCPs			Debate and endorsement of recommendations to Member States	
July		Recommendations to Member States formally adopted			
Throughout the year	Peer review of Member States' compliance with recommendations including consideration of possible further enforcement measures (Excessive Deficit Procedure / Excessive Imbalance Procedure)				
Autumn	Governments present draft budgets to national parliaments for debate in line with established national practice				

2. Safeguarding the stability of the euro area

In 2010, the EU responded to the sovereign debt crisis by setting up temporary support mechanisms, which will be replaced by the permanent European Stability Mechanism (ESM) in 2013. These support measures are helping to safeguard the financial stability of the euro area. They are conditional on rigorous fiscal consolidation and reform programmes, and are developed in close cooperation with the International Monetary Fund (IMF).

The economic crisis has put great pressure on public finances, increasing levels of deficits and public debt in all Member States. Three non-euro area Member States have been granted financial assistance (through the balance of payments corrective mechanism) by the EU, IMF and World Bank, in exchange for agreeing to implement programmes of fiscal consolidation and structural reforms:

- The first was agreed with Hungary, which received disbursements of €5.5bn between October 2008 and November 2010.
- A second programme was approved for Latvia in January 2009, in exchange for assistance of up to €7.5bn.
- And a third programme was agreed with Romania for €5bn in May 2009.

The Romanian and Latvian programmes are currently ongoing.

To guarantee the stability of the euro area as a whole and assist individual Member States in financial difficulties and/or under serious market pressure, temporary mechanisms have been set up as a backstop of last resort. An agreement has also been reached on a permanent mechanism to be put in place as of 1 July 2013.

Financial assistance can be provided to a euro area Member State which requests it, subject to strong conditionality reflected in an economic adjustment programme to be negotiated by the Commission and the IMF, in liaison with the European Central Bank (ECB). With such mechanisms, the Commission has the capacity to act to defend the euro, even in the most stressed scenarios. They are a clear reflection of the common interest and solidarity within the euro area, as well as the individual responsibility of each Member State of the EU before its peers.

Mechanism of bilateral loans (for Greece)

An ad hoc mechanism was set up on 2 May 2010 to face the imminent threat of Greek insolvency. The euro area Member States agreed to provide, together with the IMF, €110bn of financial assistance to Greece in the form of bilateral loans, with specific interest rates, for a period of three years. These loans were made conditional on a strict fiscal consolidation programme, and were discussed with the Commission, the ECB and the IMF. The Commission monitors progress through quarterly missions and reports to Finance Ministers.

The agreement of 11 March 2011 aligned the maturities of both the future and already disbursed tranches of the loans to Greece with those of the loan to Ireland (seven-and-a-half years on average). Furthermore, it was decided to reduce the pricing of both the future and already disbursed tranches of the loans of the Greek facility by 100 basis points.

Due to Greece's difficulty to meet the conditions, this situation was fundamentally changed by the Council's decision to further loosen up the timeframe for providing financial resources to Greece, which was modified by a more radical approach, consisting in a significant write-off of a major portion of Greece's debts, at the end of October.

Temporary mechanisms worth up to €500bn (2010-2013)

In the face of persistent pressure on the sovereign debt markets, the euro area Member States and the Commission decided on 10 May 2010 to set up two temporary financial backstop mechanisms worth up to €500bn to support any other euro area countries which could need financial support. These are the European Financial Stabilisation Mechanism (EFSM), based on guarantees from the EU budget up to €60bn, and the European Financial Stability Facility (EFSF), an inter-governmental body providing up to €440bn in guarantees from the euro area Member States. The IMF decided to complement these mechanisms with a potential financial support to euro area countries of up to €250bn.

In November 2010, Ireland requested €85bn in assistance from these newly set up mechanisms, following a sharp deterioration in its fiscal position due to extraordinary banking problems. A programme was negotiated by the Commission, the IMF and the European Central Bank. The United Kingdom, Denmark and Sweden decided to complement this assistance mechanism with bilateral loans.

In light of the Irish experience and in order to face any other request before 2013, the 24-25 March European Council further improved key elements of these temporary mechanisms. The pricing of the EFSF's loans (and subsequently those of the EFSM) has been lowered to better take into account the debt sustainability of the assisted countries, while remaining above the funding costs of the facility, in line with the IMF's pricing principles.

The EFSF's scope of activities has also been made more flexible: it may, as an exception, intervene in the primary debt market (i.e. buying newly issued sovereign bonds) in the context of a programme with strict conditionality. Finally, the agreed lending capacity of the EFSF of €440bn will be made fully effective, as recommended by the Commission.

In May 2011, financial assistance of €78bn was also granted to Portugal to enable the country to deal with its financing difficulties. Two thirds of the assistance will come from EU sources: €26bn from the EFSF and €26bn from the EFSM, with the remaining €26bn provided by the IMF. The assistance will be disbursed over three years, conditional on the outcome of quarterly assessments of Portugal's implementation of the agreed programme, comprising an ambitious fiscal adjustment, a wide range of reforms to enhance growth and competitiveness and measures to reinforce the stability of the financial sector.

European Stability Mechanism (as of 1 July 2013)

In the autumn of 2010, euro area Member States decided to set up a permanent mechanism, enshrined in the Treaty, as a structural response to any future request for financial assistance beyond 2013.

The ESM will provide a permanent crisis resolution framework and will assume the role of both the EFSF and the EFSM in providing external financial assistance to euro area Member States from 1 July 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. Non-euro area Member States may

decide to participate in operations conducted by the ESM on an ad hoc basis.

The terms of the ESM, including its governance, capital structure and repartition, location, instruments and IMF involvement, were agreed by the euro area summit on 11 March 2011 and confirmed by the European Council two weeks later. The ESM will have an effective lending capacity of €500bn (a total subscribed capital of €700bn, from which €80bn will be in the form of paid-in capital and €620bn in a combination of committed callable capital and of guarantees from euro area Member States).

The Treaty on the Functioning of the EU (Article 136) will be amended to set up the ESM. After the Commission and the European Parliament gave their positive opinions, the European Council agreed on this change in February and March 2011, paving the way for national ratifications.

3. Repairing the financial sector

The EU has established new rules and agencies to address comprehensively defined problems that may be faced by the financial sector earlier and make sure all financial players are properly regulated and supervised. Further work is carried out, including the more systematic and rigorous bank stress tests taking place regularly.

Since the outbreak of the financial crisis in 2008, EU action has focused on filling in the gaps in financial sector regulation and strengthening the supervision of this sector, with a view to improving stability, transparency and confidence.

- A new financial supervision architecture with real teeth was set up in January 2011 with a European Systemic Risk Board (ESRB) to ensure that macro-economic risks are detected sufficiently early. This is complemented by three sectoral European supervisory authorities:
    - the European Banking Authority (London),
    - the European Insurance and Occupational Pensions Authority (Frankfurt),
    - the European Securities and Markets Authority (Paris).
- Strengthened rules on capital requirements for banks, investment firms and insurance companies are being defined: a fourth revision of the Capital Requirements Directive for banks and investment firms, and a Solvency II Directive for insurance companies (this enters into force in 2013). Better risk management in financial institutions will be facilitated by existing and new rules on governing remuneration and bonuses in financial institutions and reducing incentives for short-term risk-taking. A global approach is being implemented to ensure that no financial actor, market or product escapes appropriate regulation and effective supervision. Action has already been taken to create a framework for hedge funds and private equity and some rules governing credit rating agencies. More initiatives are under negotiation or coming up in the near future, including on derivatives, short-selling, financial markets and market abuse.
- It is also essential to move away from the current state of moral hazard where banks de facto rely on governments to step in if they face serious difficulties. That is why the Commission will propose in the next few months a comprehensive framework for the resolution of failing banks – to ensure that banks can fail, in an orderly manner, and that taxpayers don't have to pay when there are difficulties.

In parallel, work is ongoing to ensure the viability of the banking sector and overcome the crisis.

- Bank stress tests are one of the supervisory tools used at EU level to detect potential weaknesses and prevent bankruptcy or system failure. The tests assess the overall resilience of the EU banking sector and individual banks' solvency in the face of hypothetical adverse events. This work is led by the European Banking Authority. The other stakeholders are the ECB, the Commission, and national supervisors, who are responsible for conducting the tests at national levels.
- Two rounds of stress tests have been conducted since 2008. The European Banking Authority started a new round of stress tests on a broad sample of EU banks in March. A rigorous peer review and quality control were carried out and the results were published in June 2011. Full transparency regarding banks' exposures must be ensured. Any banks identified as vulnerable and possibly undercapitalised under the stress test are expected to take the necessary action. Member States will release, ahead of the publication of the new stress test results, specific remedial plans for the restructuring of vulnerable institutions, including potential market-based solutions such as direct financing on the markets or asset sales, but also solid frameworks for the recapitalisation of individual institutions and the acceleration of bank restructuring where needed, within the framework of EU state aid rules. The stress scenarios, developed by the European Banking Authority in close collaboration with the ECB, the ESRB and the Commission, are rigorous and address market concerns regarding the degree of severity and the scope of the test. As to sovereign risk, shocks will be applied to exposures in banks' trading books.
- Separately, the European Banking Authority is carrying out a review of banks' funding structures and the liquidity of their portfolios.

The statistical window in a tabular form shows important macroeconomic indicators from all member states and the EU as a whole. It includes economic performance indicators (per capita GDP as compared to the EU average, GDP growth, unemployment rate), external economic stability indicators (current account to GDP), fiscal stability indicators (public budget to GDP, public debt to GDP), and pricing indicators (annual inflation based on HICP, base price level).

Key macroeconomic indicators

	GDP growth y-on-y			Current account to GDP*			Unemployment rate			Inflation y-on-y average		
in %	2008	2009	2010	2008	2009	2010	VII-11	VIII-11	IX-11	VII-11	VIII-11	IX-11
Belgium	1.0	-2.8	2.2	-1.8	0.4	1.4	6.9	6.8	6.7	4.0	3.4	3.4
Bulgaria	6.2	-5.5	0.2	-23.0	-8.9	-1.0	11.5	11.7	11.9	3.4	3.1	2.9
CR	2.5	-4.1	2.3	-0.7	-3.2	-3.8	6.8	6.7	6.6	1.9	2.1	2.1
Denmark	-1.1	-5.2	2.1	2.7	3.6	5.5	7.1	7.1	7.1	3.0	2.4	2.4
Germany	1.0	-4.7	3.6	6.2	5.6	5.7	5.9	5.9	n/a	2.6	2.5	2.9
Estonia	-5.1	-13.9	3.1	-9.7	4.5	3.6	n/a	n/a	n/a	5.3	5.6	5.4
Ireland	-3.5	-7.6	-1.0	-5.6	-3.0	-0.7	14.5	14.4	14.2	1.0	1.0	1.3
Greece	1.0	-2.0	-4.5	-14.7	-11.0	-10.5	17.6	n/a	n/a	2.1	1.4	2.9
Spain	0.9	-3.7	-0.1	-9.6	-5.2	-4.5	21.8	22.2	22.6	3.0	2.7	3.0
France	-0.1	-2.7	1.5	-1.9	-1.9	-2.1	9.8	9.9	9.9	2.1	2.4	2.4
Italy	-1.3	-5.2	1.3	-2.9	-2.1	-3.3	8.2	8.0	8.3	2.1	2.3	3.6
Cyprus	3.6	-1.7	1.0	n/a	n/a	-7.7	7.3	7.5	7.8	3.5	2.7	2.5
Latvia	-4.2	-18.0	-0.3	-13.1	8.6	3.6	n/a	n/a	n/a	4.2	4.6	4.5
Lithuania	2.9	-14.7	1.3	-13.1	4.3	1.8	n/a	n/a	n/a	4.6	4.4	4.7
Luxembourg	1.4	-3.6	3.5	5.3	6.9	7.8	4.8	4.8	4.8	3.2	3.7	3.8
Hungary	0.8	-6.7	1.2	-7.3	0.4	2.1	10.6	10.3	9.9	3.1	3.5	3.7
Malta	5.3	-3.4	3.7	-7.3	-6.9	-4.1	6.7	6.6	6.6	2.2	2.3	2.7
Netherlands	1.9	-3.9	1.8	4.4	4.9	7.7	4.3	4.4	4.5	2.9	2.8	3.0
Austria	2.2	-3.9	2.0	4.9	3.1	2.7	3.7	3.7	3.9	3.8	3.7	4.0
Poland	5.1	1.7	3.8	-4.8	-2.2	-3.4	9.4	9.4	9.4	3.6	4.0	3.5
Portugal	0.0	-2.5	1.3	-12.6	-10.9	-9.9	12.4	12.4	12.5	3.0	2.8	3.5
Romania	7.3	-7.1	-1.3	-11.6	-4.2	-4.1	7.3	7.3	7.5	4.9	4.3	3.5
Slovenia	3.7	-8.1	1.2	-6.7	-1.5	-1.1	7.9	7.8	8.0	1.1	1.2	2.3
Slovakia	5.8	-4.8	4.0	-6.2	-3.2	-3.4	13.3	13.4	13.5	3.8	4.1	4.4
Finland	0.9	-8.2	3.1	2.9	2.3	3.1	7.8	7.8	7.8	3.7	3.5	3.5
Sweden	-0.6	-5.3	5.7	8.8	7.0	6.3	7.3	7.4	7.2	1.6	1.6	1.5
UK	-0.1	-4.9	1.3	-1.5	-1.7	-2.5	8.1	n/a	n/a	4.4	4.5	n/a
EU	0.5	-4.2	1.8	-2.0	-0.9	-0.8	9.6	9.6	9.7	2.9	2.9	3.3

	Public budget to GDP*			Public debt to GDP			GDP per capita to Ø EU			Price level to Ø EU		
in %	2008	2009	2010	2008	2009	2010	2007	2008	2009	2007	2008	2009
Belgium	-1.3	-5.9	-4.1	89.6	96.2	96.8	116.0	115.0	116.0	108.3	111.1	113.9
Bulgaria	1.7	-4.7	-3.2	13.7	14.6	16.2	40.0	44.0	n/a	46.2	50.2	52.7
CR	-2.7	-5.9	-4.7	30.0	35.3	38.5	80.0	81.0	82.0	62.4	72.8	70.6
Denmark	3.2	-2.7	-2.7	34.5	41.8	43.6	123.0	123.0	121.0	137.4	141.2	144.6
Germany	0.1	-3.0	-3.3	66.3	73.5	83.2	116.0	116.0	116.0	101.9	103.8	106.4
Estonia	-2.8	-1.7	0.1	4.6	7.2	6.6	69.0	68.0	64.0	73.1	78.0	75.1
Ireland	-7.3	-14.3	-32.4	44.4	65.6	96.2	147.0	133.0	127.0	124.5	127.6	125.0
Greece	-9.8	-15.4	-10.5	110.7	127.1	142.8	91.0	93.0	93.0	90.7	94.0	97.4
Spain	-4.2	-11.1	-9.2	39.8	53.3	60.1	105.0	103.0	103.0	92.8	95.4	97.4
France	-3.3	-7.5	-7.0	67.7	78.3	81.7	108.0	107.0	108.0	108.1	110.8	114.3
Italy	-2.7	-5.4	-4.6	106.3	116.1	119.0	104.0	104.0	104.0	102.9	105.6	106.5
Cyprus	0.9	-6.0	-5.3	48.3	58.0	60.8	93.0	97.0	98.0	88.1	90.5	91.2
Latvia	-4.2	-9.7	-7.7	19.7	36.7	44.7	56.0	56.0	52.0	66.6	72.6	74.8
Lithuania	-3.3	-9.5	-7.1	15.6	29.5	38.2	59.0	61.0	55.0	60.0	64.7	67.8
Luxembourg	3.0	-0.9	-1.7	13.6	14.6	18.4	275.0	280.0	271.0	115.3	119.1	121.3
Hungary	-3.7	-4.5	-4.2	72.3	78.4	80.1	62.0	64.0	65.0	66.7	68.1	65.5
Malta	-4.5	-3.7	-3.6	61.5	67.6	68.0	77.0	78.0	81.0	75.5	78.8	81.4
Netherlands	0.6	-5.5	-5.4	58.2	60.8	62.7	132.0	134.0	131.0	101.9	104.0	108.5
Austria	-0.9	-4.1	-4.6	63.8	69.6	72.3	123.0	124.0	124.0	102.2	105.1	107.9
Poland	-3.7	-7.3	-7.9	47.1	50.9	55.0	54.0	56.0	61.0	62.0	69.1	58.6
Portugal	-3.5	-10.1	-9.1	71.6	83.0	93.0	78.0	78.0	80.0	85.7	87.0	89.3
Romania	-5.7	-8.5	-6.4	13.4	23.6	30.8	42.0	47.0	46.0	63.8	60.9	57.5
Slovenia	-1.8	-6.0	-5.6	21.9	35.2	38.0	88.0	91.0	88.0	79.0	82.3	85.5
Slovakia	-2.1	-8.0	-7.9	27.8	35.4	41.0	68.0	72.0	73.0	63.2	70.2	73.7
Finland	4.2	-2.6	-2.5	34.1	43.8	48.4	117.0	118.0	113.0	119.9	124.3	126.4
Sweden	2.2	-0.7	0.0	38.8	42.8	39.8	125.0	122.0	118.0	115.7	114.5	107.0
UK	-5.0	-11.4	-10.4	54.4	69.6	80.0	116.0	115.0	112.0	112.6	100.1	92.7
EU	-2.4	-6.8	-6.4	62.3	74.4	80.0	100.0	100.0	100.0	100.0	100.0	100.0

*Source: Eurostat, *) net balance, GDP per capita according to PPP*