



EUROPEAN COUNCIL

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COVER NOTE

from : General Secretariat of the Council

to : Delegations

Subject : **EUROPEAN COUNCIL
14/15 March 2013**

CONCLUSIONS

Delegations will find attached the conclusions of the European Council (14/15 March 2013).

Over recent years we have done much to respond to the pressing challenges posed by the financial and sovereign debt crisis, with the aim of paving the way for a return to sustainable job-creating growth and moving towards enhanced economic governance at both EU and euro area levels. Much has been accomplished, despite some remaining uncertainties in the financial markets. However, the stagnation of economic activity forecast for 2013 and the unacceptably high levels of unemployment emphasise how crucial it is to accelerate efforts to support growth as a matter of priority while pursuing growth-friendly fiscal consolidation. The European Council had a comprehensive discussion on the economic and social situation and set the orientations for the economic policy of the Member States and the European Union in 2013. The focus should be on the implementation of decisions taken, in particular as regards the Compact for Growth and Jobs. Particular priority must be given to supporting youth employment and promoting growth and competitiveness. The European Council will return in June to the assessment of policies being defined at national level to implement these priorities as well as to the implementation of the Compact for Growth and Jobs. It agreed that over the coming months it would discuss specific themes with a high potential for delivering growth and jobs. It also took stock of ongoing work on deepening the Economic and Monetary Union (EMU) with a view to its meeting in June.

I. ECONOMIC AND SOCIAL POLICY

European Semester: promoting competitiveness, growth and jobs, in particular for the young

1. As agreed last December, Member States and the European Union are taking determined action to promote competitiveness, growth and jobs in accordance with the following priorities set out in the Annual Growth Survey:
 - (a) pursuing differentiated, growth-friendly fiscal consolidation;
 - (b) restoring normal lending to the economy;
 - (c) promoting growth and competitiveness;
 - (d) tackling unemployment and the social consequences of the crisis;
 - (e) modernising public administration.

2. Implementation continues to be the key. Determined action is required to underpin the strong political commitment to promote growth and jobs and to respond to fiscal, macroeconomic and structural challenges. All of this should be reflected in Member States' National Reform Programmes and Stability and Convergence Programmes, taking full account of the discussions held in the Council in the framework of the European Semester on the Commission's Annual Growth Survey as set out in the Presidency Synthesis Report and in the relevant Council conclusions,¹ as well as of the analysis provided by the Commission in the context of the macroeconomic imbalances procedure, including in the Alert Mechanism Report.
3. Substantial progress is being made towards structurally balanced budgets and that progress must continue. The European Council stresses in particular the necessity of differentiated growth-friendly fiscal consolidation, while recalling the possibilities offered by the existing fiscal rules of the Stability and Growth Pact (SGP) and the Treaty on Stability, Coordination and Governance (TSCG).
4. There should be an appropriate mix of expenditure and revenue measures at the level of the Member States, including short-term targeted measures to boost growth and support job-creation, particularly for the young, and prioritising growth-friendly investment. In this connection, the European Council recalls that while fully respecting the SGP, the possibilities offered by the EU's existing fiscal framework to balance productive public investment needs with fiscal discipline objectives can be exploited in the preventive arm of the SGP.

¹ Council conclusions of 12 February 2013 on the Annual Growth Survey and on the Alert Mechanism Report, Council conclusions of 15 February 2013 on education, Council conclusions of 28 February 2013 on political guidance on employment and social policies and Council conclusions of 5 March 2013 on quality of public expenditure.

5. Fiscal consolidation and restoring financial stability need to go hand-in-hand with well-designed structural reforms aimed at promoting sustainable growth, employment and competitiveness and the correction of macroeconomic imbalances. In this context, the European Council recalls the importance of shifting taxation away from labour, where appropriate and recognising Member States' competences in this area, as a means of contributing to increasing employability and competitiveness.

6. In the context of challenging fiscal consolidation it is important to ensure that everybody pays their share of taxes. Renewed efforts are therefore needed to improve the efficiency of tax collection and to tackle tax evasion, including through savings taxations agreements with third countries and rapid progress in tackling the problem of VAT fraud. Close cooperation with the OECD and the G20 is needed to develop internationally agreed standards for the prevention of base erosion and profit shifting. To this end the EU will coordinate its positions. Work should advance on pending tax files such as the proposals on energy taxation, on the common consolidated corporate tax base and on the revision of the Savings Tax Directive. The European Council notes that the work on the enhanced cooperation on a financial transaction tax is advancing.

7. As regards action taken at EU level, the guidelines decided by the European Council over recent months, particularly in the Compact for Growth and Jobs, must continue to be fully and urgently implemented, exploiting in particular the potential of a green economy to promote growth and competitiveness. The recent increase in the EIB capital by EUR 10 billion will allow the Bank to lend an additional EUR 60 billion in support to growth and jobs, and together with the European Investment Fund, this will help catalyse projects worth up to EUR 180 billion in 2013-2015. The European Council will assess the implementation of the Compact in June, with a particular emphasis on measures aimed at creating jobs and on boosting the financing of the economy for fast-acting growth measures. In this respect, the Commission, together with the EIB, will report in June on the possibilities and on the targeted priorities that should be identified, in particular as regards infrastructure, energy and resource efficiency, digital economy, research and innovation and SMEs.

8. It is urgent to complete and implement the framework for better economic governance. The new legislation on fiscal and macroeconomic surveillance (the "six-pack", the "two-pack" and the TSCG) must be used to the full. In particular, all necessary preparatory work must be carried out to ensure that these new rules are effectively applied from the beginning of the national budgetary cycles in 2013.

9. The European Council today gives specific emphasis to the following issues:
- (a) addressing unemployment is the most important social challenge facing us. Active employment, social and labour market policies therefore require special priority and attention in the present context and a particular priority must be given to promoting youth employment. Education and training systems need to perform better, ensuring that young people are equipped with the right skills and linking the worlds of work and education more effectively. Following the agreement reached at the February 2013 European Council on the Youth Employment Initiative, the Commission has put forward proposals, in the context of the ongoing negotiations on the European Social Fund Regulation, for the technical adjustments which will enable the Initiative to become fully operational as of 1 January 2014. In the meantime, Member States can make use of funding available from all relevant structural funds in the current programming period to contribute to the fight against youth unemployment. In this connection the European Council welcomes the Commission's efforts to build further on the work with Member States with the highest youth unemployment levels. The agreement reached at the Council on 28 February on the Youth Guarantee will help ensure that all young people under the age of 25 receive a good quality offer of employment, continued education, apprenticeship or traineeship within four months of becoming unemployed or leaving formal education, and should be rapidly implemented, including through the support of the Youth Employment Initiative. Work must also continue more generally further to the Employment package, including as regards bringing significantly more women into work, reducing long term unemployment and ensuring full participation of older workers. It is crucial to tackle the social consequences of the crisis and fight poverty and social exclusion;

- (b) the Single Market continues to be a key driver for growth and jobs. In this context, the European Council invites the Member States to take full account of the recommendations in the Commission's report on the state of integration of the Single Market and welcomes the Commission's intention to integrate such reporting into future Annual Growth Surveys. The rapid conclusion of the work on all Single Market Act I proposals is an essential priority, particularly as regards key files such as accounting, professional qualifications, public procurement, posting of workers and e-identification/e-signature, with the aim of boosting competitiveness, deepening the Single Market and removing unjustified barriers. The Commission will present the remaining Single Market Act II proposals without delay with a view to their rapid examination so that they can be adopted before the end of this legislature. It is also urgent to improve implementation of all Single Market legislation, including the Services Directive, in particular through rigorous peer review and swift action to remove unjustified barriers. The European Council will continue to keep all these issues under regular review;

- (c) Further action is required to reduce the overall burden of regulation at EU and national levels, while always taking account of the need for proper protection of consumers and employees. The Member States and the Commission should take work forward on smart regulation in the light of the Commission's recent communications, with a specific emphasis on the needs of SMEs. Member States will pay particular attention to avoiding additional burdens in the implementation of EU legislation. The European Council welcomes the Commission's recent report on the most burdensome regulations for SMEs and looks forward to receiving initial concrete proposals to implement its findings by June. The Commission will monitor progress through the SME Scoreboard. It will also ensure swift and effective implementation of its "regulatory fitness" ("REFIT") programme, notably by rapidly identifying the regulatory areas and pieces of legislation with the greatest potential for simplifying rules and reducing regulatory cost. The European Council looks forward to receiving the first proposals for simplification and reducing the regulatory burden in the autumn. The European Council notes that, as part of its annual work programme, the Commission puts forward a list of pending proposals to be withdrawn. In order to reduce the burden of regulation and foster competitiveness, it encourages the Commission to use the "REFIT" programme to identify and propose in the autumn the withdrawal of regulations that are no longer of use and to pursue the consolidation of existing legislation as part of its simplification work.

10. The European Council will hold, over the coming months, a series of thematic discussions on sectoral and structural aspects that are key to economic growth and European competitiveness. Such discussions will also feed into a debate next year on the Europe 2020 Strategy and the review of progress towards its headline targets. With a view to these discussions, it calls for preparatory work to be conducted giving priority to the following issues:
- (a) energy (May 2013): work is ongoing on the completion of the Internal Energy Market and on interconnections with European energy markets. No EU Member State should remain isolated from the European gas and electricity networks after 2015. Europe needs investment in modern energy infrastructure and the challenge of high energy prices which hamper competitiveness needs to be tackled;
 - (b) innovation (October 2013): the European Council looks forward to the presentation by the Commission of its European Research Area progress report as well as its communication on the "State of the Innovation Union 2012", including the single innovation indicator, in time for its discussions;
 - (c) digital agenda and other services (October 2013): the European Council notes the Commission's intention to report well before October on the state of play and the remaining obstacles to be tackled so as to ensure the completion of a fully functioning Digital Single Market by 2015, as well as concrete measures to establish the single market in Information and Communications Technology as early as possible;
 - (d) defence (December 2013): in this context, the European Council will also look at ways to develop a more integrated, innovative and competitive European defence technological and industrial base;

- (e) industrial competitiveness and policy (June 2013 and February 2014): stressing the importance of making Europe more competitive as a place of production and investment, the European Council looks forward to the follow up to the Commission's recent communications on industrial policy and on specific industrial sectors as well as to the timely presentation of the Commission's further input for this discussion: the report on European competitiveness, the report on the implementation of industrial policy priorities and the conclusions of the review of the single market for industrial products.

Deepening EMU

11. The European Council took stock of the ongoing work on the four strands identified in its conclusions of December 2012 on the deepening of EMU. Any new steps towards strengthening economic governance will need to be accompanied by further steps towards stronger legitimacy and accountability.
12. Progress towards a more integrated financial framework is urgently needed to restore normal lending, improve competitiveness and help bring about the necessary economic adjustments. Further to the progress achieved on the new rules for banks' capital requirements, the remaining outstanding technical issues must be rapidly finalised in order to allow final agreement to be reached by the end of the month. Concluding the legislative process on the Single Supervisory Mechanism (SSM) within the coming weeks is a priority.

13. The European Council recalls that it is imperative to break the vicious circle between banks and sovereigns. As agreed in December 2012, an operational framework, including the definition of legacy assets, should be agreed as soon as possible in the first semester of 2013, so that when an effective single supervisory mechanism is established, the European Stability Mechanism will, following a regular decision, have the possibility to recapitalise banks directly. Agreement must be reached on the Bank Recovery and Resolution Directive and Deposit Guarantee Scheme Directive before June 2013, ensuring a fair balance between home and host countries. The Commission intends to submit by summer 2013 a legislative proposal on a Single Resolution Mechanism for countries participating in the SSM, to be examined as a matter of priority with the intention of adopting it during the current parliamentary cycle. It should ensure an effective framework for resolving financial institutions while protecting taxpayers in the context of banking crises, be based on contributions from the financial sector itself and include appropriate and effective backstop arrangements, in line with its conclusions of December 2012. The integrity of the Single Market will be fully respected and a level playing field will be ensured between Member States which take part in the SSM and those which do not.
14. The European Council takes note of the adoption of the rules for the organisation of the proceedings of the euro summits and welcomes the fact that these rules are intended to improve the quality of governance of the euro area while preserving the integrity of the European Union as a whole as recognised in particular by the relevant provisions of the TSCG.²

II. OTHER ITEMS

15. The European Council held an exchange of views on the EU's relations with its strategic partners.

² The Netherlands entered a parliamentary reserve on this point.