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NOTE

from: General Secretariat of the Council

to Council

Subject: European Council (27-28 June 2013)

- Draft conclusions

In accordance with Article 2(3)(a) of the Council's Rules of Procedure, delegations will find attached the draft conclusions prepared by the President of the European Council, in close cooperation with the member of the European Council representing the Member State holding the six-monthly Presidency of the Council and with the President of the Commission.



Against the background of a weak short-term economic outlook, youth unemployment has reached unprecedented levels in several Member States, with huge human and social costs. Urgent action must be taken.

Today, the European Council agreed on a comprehensive approach to combat youth unemployment, building on the following concrete measures: speeding up and frontloading of the Youth Employment Initiative; speeding up implementation of the Youth Guarantee; increased youth mobility and involvement of the social partners. The European Council also discussed ways to boost investment and improve access to credit. It called for the mobilisation of European resources including that of the EIB; and launched a new "Investment Plan" to support SMEs and boost the financing of the economy.

Financial stability is improving, but further actions by the EU and its Member States are needed to put Europe firmly back on the track of sustained growth and jobs. Sound public finances and policies supporting sustainable growth and jobs are mutually reinforcing. At the same time, more determined efforts are required at all levels to carry forward structural reforms and boost competitiveness and employment. In this context, the European Council endorsed country-specific recommendations to guide Member States' policies and budgets, thus concluding the 2013 European semester.

The European Council also assessed progress towards the banking union, which is crucial for financial stability and the smooth functioning of the EMU. Finally, the European Council set out the next steps in the reinforcement of the EMU architecture and called for work to continue on all these issues in the run up to December European Council.

The European Council warmly welcomed Croatia as a member of the European Union as of 1 July 2013. It also congratulated Latvia on fulfilling the convergence criteria of the Treaty, thus allowing it to adopt the euro on 1 January 2014.

[p.m. enlargement]

I. YOUTH EMPLOYMENT

1. Combating youth unemployment is a particular and immediate priority, considering the unacceptably high number of young Europeans who are unemployed. All efforts must be mobilised around the shared objective of getting young people who are not in education, employment or training back to work or into education or training within four months, as set out in the Council's recommendation on the "Youth Guarantee". Building on the Commission's communication on youth employment, determined and immediate action is required at both national and EU level.

2. The EU will mobilise all available instruments in support of youth employment. The European Council agrees on a comprehensive approach based on the following concrete measures:

(a) in implementing the Structural Funds, particular focus will be given to youth employment, including by reprogramming unspent funds where appropriate. The Commission and the Member States will exploit all possibilities offered by the European Social Fund (ESF), which is the main financial tool at EU level to this purpose, including through supporting the creation of new jobs for young workers. Where appropriate, the Member States will improve their administrative capacity, using enhanced technical assistance from the Commission and building on best practices;

(b) all the necessary preparations will be made for the Youth Employment Initiative (YEI) to be fully operational by January 2014, allowing for first disbursements to beneficiaries in EU regions experiencing youth unemployment rates above 25% to be made. The European Council calls upon the co-legislators to ensure that regions which surpass this threshold in 2013 are also eligible for funding from the initiative. In order for the Youth Employment Initiative to play its full role, the disbursement of the EUR 6 billion allocated to it should take place during the first two years of the next Multiannual Financial period. Furthermore, margins left available below the MFF ceilings for the years 2014-2016 will be used to constitute a "global margin for commitments" to fund in particular measures to fight youth unemployment. Member States benefitting from the YEI should adopt a plan for the implementation of the "Youth Guarantee" before the end of the year. Other Member States are encouraged to adopt similar plans in 2014. The Commission will report in 2016 on the implementation of the "Youth Guarantee" and on the operation of the YEI.

(c) new efforts will be made to promote the mobility of young job-seekers, including by strengthening the "Your First EURES Job" programme. Member States are encouraged to use part of their ESF allocations to support cross-border mobility schemes. The "Erasmus +" programme, which also fosters cross-border vocational training, must be fully operational from January 2014. The agreement between the

European Parliament and the Council on the recognition of professional qualifications is particularly welcome. The Commission proposals leading to the creation of a network of public employment services should be rapidly examined. More efforts are required, notably on the proposal relating to the preservation of supplementary pension rights, which is to be adopted during the current parliamentary term.

(d) high quality apprenticeships and work-based learning will be promoted, notably through the European Alliance for Apprenticeships to be launched in July. The Quality Framework for Traineeships should be put into place in early 2014;

(e) the social partners need to be fully involved and actively engaged in these efforts. The European Council welcomes the "Framework of Actions on Youth Employment" agreed by the social partners on 11 June 2013.

3. At national level, where most of the competences related to employment lie, Member States are taking measures to modernise vocational and education systems, strengthen the cooperation between education and business to facilitate the transition from school to work, improve the integration of low-skilled young people into the labour market, address skills mismatches and promote apprenticeships and traineeships in key economic sectors, as well as entrepreneurship and start-ups. A number of Member States have already presented ambitious plans to support youth employment. But more work must be done. In particular, Member States with high youth unemployment should step up active labour market measures. It is important to pay due attention to the labour market participation of groups of young people facing specific challenges, linked to poverty, disability, belonging to an ethnic minority or migrant status. While recognising Member States' competences in this area, the European Council recalled the importance of shifting taxation away from labour as a means of increasing employability and boosting job creation and competitiveness. The European Council called for increased sharing of best national practices; in this respect, it welcomed the upcoming Berlin Conference

II. GROWTH, COMPETITIVENESS AND JOBS

European Semester

4. Following an in-depth exchange of views, the European Council concluded the 2013 European semester by endorsing the country-specific recommendations. Member States will now translate the recommendations into their forthcoming decisions on budgets, structural reforms and employment and social policies. The Council and the Commission will closely monitor their implementation.

5. Promoting growth and fiscal consolidation are mutually reinforcing. Sound public finances are crucial in order for public authorities to retain their capacity to support sustainable growth and jobs. In this respect, the European Council welcomes the abrogation of the excessive deficit procedure for several Member States. It recalls the possibilities offered by the EU's existing fiscal framework to balance productive investment needs with fiscal discipline objectives in the preventive arm of the Stability and Growth Pact. In addition, as provided for in the EU fiscal framework, the pace of fiscal consolidation may be adjusted to respond to economic conditions. At the same time, Member States should accelerate their structural reforms. This will underpin efforts for a rebalancing of the EU economy, help restore competitiveness and address the social consequences of the crisis.

A new Investment Plan for Europe

6. In the present economic context it is crucial to restore normal lending to the economy and to facilitate the financing of investment. Given the importance of SMEs for the economy, especially as regards job creation, measures to support SME financing will be a priority. This is particularly important in countries with high youth unemployment and where new investments are needed to promote growth and jobs. It is also important to promote entrepreneurship and self employment. The European Council accordingly agreed on the launch of a new "Investment Plan".

7. The EU's Multiannual Financial Framework (MFF) for the coming seven years will play a crucial role in this regard, by acting as a catalyst for growth and jobs across Europe and leveraging productive and human capital investments [*p.m. latest state of play*]. The European Council stressed the importance of:

- a) adopting before the end of the year the different EU programmes which support the achievement of the Europe 2020 Strategy;
- b) Member States working with the Commission with a view to concluding their partnership agreements and operational programmes as soon as possible;
- c) rapidly implementing the Structural Funds as well as the programmes for the competitiveness of enterprises and SMEs (COSME) and for research and innovation (Horizon 2020), which have a particular importance in the context of supporting SMEs.;
- d) accelerating the implementation of the projects bonds pilot phase. The Commission intends to present its assessment by the end of 2013.

8. The European Council welcomed the report from the Commission and the EIB on the financing of the economy. It agreed on the following measures and welcomed the intention of the Commission and the EIB to implement them as a matter of priority and to report back ahead of its October 2013 meeting:

- (a) stepping up efforts by the EIB to support lending to the economy by making full use of the recent increase of EUR 10 billion in its capital. The European Council calls on the EIB to implement its plan to increase its lending activity in the EU by 50% over 2013-2015. To this effect, the EIB has already identified new lending opportunities of more than EUR 150 billion across a set of critical priorities such as innovation and skills, SME access to finance, resources efficiency and strategic infrastructures;
- (b) expansion of joint risk-sharing financial instruments between the European Commission and the EIB to leverage private sector and capital markets investments in SMEs. These initiatives should ensure that public support significantly expands the volume of new loans to SMEs across the EU. The Council will specify in July the parameters for the design of such instruments by ensuring economies of scale, portfolio diversification and high leverage effects. The necessary preparations should be made to allow these instruments to begin operating in January 2014;

- (c) expansion of the mandate of the European Investment Fund with a view to increasing its credit enhancement capacity;
- (d) gradual expansion of the EIB's trade finance schemes to favour SME business across the Union;
- (e) contribution from the EIB to the fight against youth unemployment through its "Jobs for Youth" initiative and its "Investment in Skills" programme, which should be implemented without delay;
- (f) strengthening of the cooperation between national development banks and the European Investment Bank to increase opportunities for co-lending and exchanges of best practices.

Implementing the Compact for Growth and Jobs

9. One year ago, the European Council agreed a Compact for Growth and Jobs, a package of fast-acting growth measures underpinned by financing of EUR 120 billion. While good progress has been made in delivering on these measures, some of which are already bearing fruit, more efforts are required. EU institutions and Member States should do their utmost to ensure that all the elements of the Compact are rapidly implemented, as set out in previous European Council conclusions, in particular as regards the Single Market, innovation, the digital agenda, services, energy and tax. The European Council looks forward to an updated progress report on the Compact in December 2013 building on a regular review by the Council.

10. As agreed last March, the European Council will monitor closely the implementation of the guidelines it sets to boost economic growth and promote competitiveness, in particular by holding regular thematic discussions. In this context, the European Council held a first exchange of views on two key issues:

(a) The vital importance of a strong European industrial base as an essential building block of EU's growth and competitiveness agenda. The European Council called for a broad horizontal and coherent approach for a modern European industrial policy accompanying structural change and economic renewal. It welcomed the Commission Action Plan for a competitive and sustainable steel industry. With a view to the February 2014 European Council, it looked forward to further inputs from the Commission in line with the March and May 2013 European Council conclusions. The incoming Presidency is invited to take preparatory work forward within the Council;

(b) the European Council welcomed the Commission communication on the top ten most burdensome regulations and looks forward to the full range of proposals due in the autumn to reduce the overall burden of regulation, resulting from the "Regulatory Fitness" programme, as well as continuing efforts to make EU and national regulation more efficient, consistent and simple. It will return to these issues in the light of those proposals.

11. Recalling the role to be played by trade in boosting growth and jobs, the European Council welcomed the launch of negotiations on a transatlantic trade and investment partnership with the United States.

III. COMPLETING THE ECONOMIC AND MONETARY UNION

12. Since the presentation last December of the report "Towards a genuine EMU" work has been advancing on the four key building blocks to strengthen the architecture of the EMU. Concrete new steps towards strengthening economic governance will need to be accompanied by further steps towards stronger democratic legitimacy and accountability at the level at which decisions are taken and implemented. This process will build on the EU's institutional framework and will be open and transparent towards Member States not using the single currency.

13. In the short run, the key priority is to complete the banking union in line with the European Council conclusions of December 2012 and March 2013. This is key to ensuring

financial stability, reducing financial fragmentation and restoring normal lending to the economy. The European Council recalled that it is imperative to break the vicious circle between banks and sovereigns and underlined the following points:

(a) the new rules on capital requirements for banks (CRR/CRD) and the new Single Supervisory Mechanism (SSM) will have a key role in ensuring the stability of the banking sector;

(b) in the transition towards the SSM, the balance sheet assessment to be conducted by the ECB, comprising an asset quality review and subsequently a stress test is particularly important to complete the process of strengthening bank balance sheets, where needed. In this context, Member States taking part in the SSM are committed to putting into place comprehensive plans and credible backstops for possible restructuring and recapitalisation needs that would arise from this exercise;

(c) the Eurogroup has agreed on the main features of the operational framework for direct bank recapitalisation by the European Stability Mechanism (ESM). The instrument for ESM direct bank recapitalisation should be fully operational at the latest when the results of the balance sheet assessment are released, in line with the June 2012 euro area summit statement;

(d) [*p.m. proposals for a Recovery and Resolution Directive and for a Deposit Guarantee Scheme Directive, in light of outcome of June ECOFIN*];

(e) a fully effective SSM requires a Single Resolution Mechanism (SRM) for banks covered by the SSM, with strong resolution powers, allowing quick, effective and coherent decision-making at central level. It should include appropriate funding arrangements, based on contributions by the financial sector itself, and an appropriate and effective backstop which should be fiscally neutral over the medium term. The integrity of the Single Market will be fully respected and a level playing-field between all EU Member States will be ensured, including via a fair balance between home and host Member States. The European Council looks forward to the Commission's proposal establishing an SRM with a view to reaching agreement in the Council by the end of the

year so that it can be adopted before the end of the current parliamentary term. The Commission intends to adopt revised state aid rules for the financial sector in the summer of 2013 with a view to ensuring a level playing-field in resolution decisions involving public support.

14. Work must be pursued on all the building blocks of a reinforced EMU, as they are closely interrelated:

(a) it is necessary to put into place a more effective framework for the coordination of economic policies in line with Article 11 of the Treaty on Stability, Coordination and Governance. Following its communication of 20 March, the Commission intends to present a proposal on the *ex ante* coordination of major economic reforms in the autumn;

(b) while there is a degree of convergence around the key principles underpinning the concepts of mutually agreed contracts and associated solidarity mechanisms, further work is required on these issues in the coming months, drawing in particular on the forthcoming Commission communication on economic policy coordination;

(c) the social dimension of the EMU should be strengthened. As a first step, it is important to better monitor and take into account the social and labour market situation within EMU, notably by using appropriate social and employment indicators within the European semester. It is also important to ensure better coordination of employment and social policies. The role of the social partners and social dialogue, including at national level, is also key. The Commission will present a communication on the social dimension of the EMU shortly.

15. The European Council will return to these issues in October 2013. It will look in particular at indicators and policy areas to be taken into account in the framework of a strengthened economic policy coordination and at the social dimension of EMU. The discussion will be continued in December 2013, in particular with the objective to agree on the main features of contractual arrangements and of associated solidarity mechanisms.

16. The European Council discussed Latvia's application to adopt the euro. It congratulated Latvia on the convergence it has achieved, based on sound economic, fiscal and financial policies, and welcomed its fulfilment of all the convergence criteria as set out in the Treaty. It welcomed the Commission's proposal that Latvia adopt the euro on 1 January 2014.

IV. OTHER ITEMS

17. [*p.m. enlargement*]

18. The European Council will hold a discussion at its June 2014 meeting to define strategic guidelines for legislative and operational planning in the area of freedom, security and justice (pursuant to Article 68 TFEU). In preparation for that meeting, the incoming Presidencies are invited to begin a process of reflection within the Council. The Commission is invited to present appropriate contributions to this process.

19. The European Council held a discussion on the EU's relations with its strategic partners.

ANNEX

DOCUMENTS ENDORSED BY THE EUROPEAN COUNCIL

- Council report of 25 June 2013 on the 2013 Country Specific Recommendations
- Conclusions adopted by the Council on 25 June 2013 on enlargement
- Conclusions adopted by the Council on 28 May 2013 on the annual report on EU Official Development Assistance
- Conclusions adopted by the Council on 25 June 2013 on "The Overarching Post-2015 Agenda"
- Action Plan for the implementation of the Maritime Strategy for the Atlantic Ocean area endorsed by the Council on 25 June 2013