



EUROPEAN COUNCIL

Brussels, 28 June 2013

**EUCO 104/1/13
REV 1**

**CO EUR 9
CONCL 6**

COVER NOTE

from : General Secretariat of the Council

to : Delegations

Subject : **EUROPEAN COUNCIL
27/28 JUNE 2013**

CONCLUSIONS

Delegations will find attached the conclusions of the European Council (27/28 June 2013).

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 the 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.

The European Council endorsed the Council's conclusions and recommendations on enlargement and the stabilisation and association process.

I. YOUTH EMPLOYMENT

1. Combating youth unemployment is a particular and immediate objective, 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 one of the main financial tools at EU level for 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 the first disbursements to beneficiaries in EU regions experiencing youth unemployment rates above 25% to be made.¹ In order for the YEI 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 Framework.² Furthermore, margins left available below the MFF ceilings for the years 2014-2017 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 to tackle youth unemployment, including through 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;

¹ Considering that in Slovenia, youth unemployment has increased by more than 30% in 2012, the region of Eastern Slovenia, where youth unemployment in 2012 is more than 20%, will also benefit from the YEI.

² This will be done without negative effect on the goals set by the European Council in May 2013 as regards energy policy.

- (c) the EIB will contribute to the fight against youth unemployment through its "Jobs for Youth" initiative and its "Investment in Skills" programme, which should be implemented without delay;
- (d) 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;
- (e) 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;
- (f) 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 should advance with their reforms. 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 vulnerable young people facing specific challenges. While recognising Member States' competences in this area, the European Council recalled the importance of shifting taxation away from labour, including by reducing social contributions, as appropriate, 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 generally 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, while promoting full national ownership and preserving social dialogue. The Council and the Commission will closely monitor their implementation. The Council will regularly discuss and assess the economic situation in Europe.

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 as well as the efforts of those which are expected to meet their fiscal targets. It recalls the possibilities offered by the EU's existing fiscal framework to balance productive public investment needs with fiscal discipline objectives in the preventive arm of the Stability and Growth Pact. For some Member States, the pace of fiscal consolidation has been adjusted to respond to economic conditions, as provided for in the EU fiscal framework. 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 European Council welcomed the agreement reached on the EU's Multiannual Financial Framework (MFF) for the coming seven years. It thanked the negotiators of the European Parliament, the Council and the Commission for their work and tireless efforts which enabled this deal to be made today. The MFF will play a crucial role in supporting the economy, by acting as a catalyst for growth and jobs across Europe and leveraging productive and human capital investments. The European Council called for the rapid formal adoption of the MFF Regulation and the associated Interinstitutional Agreement. In this connection the European Council also welcomed the agreements reached on new programmes such as ERASMUS, COSME, Horizon 2020 and the Employment and Social Innovation programme. 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 project 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 present a comprehensive report on their implementation ahead of its October 2013 meeting, with quantitative objectives, instruments and a timetable:
- (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 at least 40% 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 the volume of new loans to SMEs across the EU is expanded, respecting the principles of financial soundness and transparency as well as the MFF ceilings. The Council, in consultation with the Commission and the EIB, will specify without delay the parameters for the design of such instruments co-financed by the Structural Funds, aiming at high leverage effects. The necessary preparations should be made to allow these instruments to begin operating in January 2014;
- (c) increasing the EIF's credit enhancement capacity;
- (d) gradual expansion of the EIB's trade finance schemes to favour SME business across the Union, especially in programme countries;
- (e) strengthening of the cooperation between national development banks and the EIB to increase opportunities for co-lending and exchanges of best practices;
- (f) developing alternative sources of financing in close cooperation with Member States.

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 the 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) recalling its conclusions of March 2013, the European Council welcomed the Commission communication on the top ten most burdensome regulations as an initial contribution. It looked forward to receiving ahead of its October 2013 meeting a detailed work programme comprising further and, where appropriate, new concrete proposals to reduce the overall burden of regulation and foster competitiveness, while always taking account of the need for the proper protection of consumers and employees. It called for continued efforts to make EU and national regulation more efficient, consistent and simple. It will return to these issues in the light of those proposals.

Looking to its thematic discussions in October 2013 to give renewed impulse in the fields of innovation, digital single market and services, the European Council invited the Commission to present its report on the peer review of the Services Directive as well as on the Licenses for Europe process ahead of that meeting.

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, in full respect of the integrity of the single market, while ensuring a level playing field between EU Member States, including via a fair balance between home and host Member States. It 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, a balance sheet assessment will be conducted, comprising an asset quality review and subsequently a stress test. In this context, Member States taking part in the SSM will make all appropriate arrangements, including the establishment of national backstops, ahead of the completion of 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). Work should continue 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;
 - (d) the European Council welcomed the agreement reached in Council on the draft directive establishing a framework for the recovery and resolution of banks and invited the Council and Parliament to start negotiations with the aim of adopting the directive before the end of the year. It also called for the adoption before the end of the year of the proposal for a Deposit Guarantee Scheme;
 - (e) a fully effective SSM requires a Single Resolution Mechanism (SRM) for banks covered by the SSM. 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 and with the principle of subsidiarity. 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 are convergences 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, while fully respecting national competences. 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. Following close consultations with the Member States, the European Council will return to all 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, with the objective of taking decisions on these issues, in particular on the main features of contractual arrangements and of associated solidarity mechanisms. Any such measures would be voluntary for those outside the single currency and be fully compatible with the Single Market in all aspects.
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. The European Council expressed its sympathy with those affected by the disastrous floods that have hit Central Europe this month. Appropriate financial resources (e.g. Solidarity Fund, Structural Funds, Cohesion Fund) should be mobilised in order to support to the extent possible immediate relief and reconstruction efforts, as well as future preventive actions, in the most affected regions and Member States. It invited the Commission to react rapidly and constructively to requests presented by the affected Member States to ensure that support from EU funds for the most affected regions and Member States can be implemented without delay.

18. In February 2013 the European Council recognised the particular impact of the economic crisis on a number of Member States within the euro-area which had had a direct impact on their level of prosperity. To address this situation a number of additional allocations were made from the Structural Funds. At that time the macro economic assistance programme for Cyprus had not been decided. The government of Cyprus has since addressed a request for additional assistance. The European Council invited the European Parliament and the Council to examine the opportunities provided by the flexibilities in the MFF, including the Flexibility Instrument, to address the particularly difficult situation of Cyprus, in the context of the annual budgetary procedure.

19. On enlargement, the European Council endorsed the Council's conclusions and recommendations of 25 June 2013. It decided to open accession negotiations with Serbia. The first intergovernmental conference will be held in January 2014 at the very latest. Prior to this, the negotiating framework will be adopted by the Council and confirmed by the European Council at its usual session on enlargement.

20. The Decisions authorising the opening of negotiations on a Stabilisation and Association Agreement between the European Union and Kosovo have been adopted*.

 21. 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.
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* This designation is without prejudice to positions on status, and is in line with UNSCR 1244/1999 and the ICJ Opinion on the Kosovo declaration of independence.

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

