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MINUTES

of the 1917th meeting of the Commission

held in Brussels

(Berlaymont)

on Sunday 9 May 2010

(afternoon)

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Single sitting: Sunday 9 May 2010 (afternoon)

The sitting opened at 13.10 with Mr BARROSO, President, in the chair.

It was attended by:

Mr BARROSO	President
Baroness ASHTON	High Representative/Vice- President
Mr ALMUNIA	Vice-President
Ms KROES	Vice-President
Mr TAJANI	Vice-President
Mr ŠEFČOVIČ	Vice-President
Mr REHN	
Ms VASSILIOU	
Mr ŠEMETA	
Mr DALLI	
Ms GEOGHEGAN-QUINN	
Ms DAMANAKI	
Ms HEDEGAARD	
Mr FÜLE	
Mr ANDOR	

The following members attended by videoconference:

Mr POTOČNIK
Mr BARNIER
Mr LEWANDOWSKI
Ms GEORGIEVA
Mr HAHN

Absent:

Ms REDING

Vice-President

Mr KALLAS

Vice-President

Mr PIEBALGS

Mr DE GUCHT

Mr OETTINGER

Ms MALMSTRÖM

Mr CIOLOŞ

The following also sat in:

Mr LAITENBERGER	Chef de cabinet to the PRESIDENT
Mr ROMERO REQUENA	Director-General, Legal Service
Mr DOENS	Head of the Commission Spokesperson Service
Ms AHRENKILDE HANSEN	Commission Spokeswoman
Ms RISO	Deputy Chef de cabinet to Mr REHN
Mr BUTI	Director-General, Economic and Financial Affairs DG

Secretary: Ms DAY, Secretary-General, assisted by Mr AYET PUIGARNAU, Director in the Secretariat-General.

1. AGENDA

The PRESIDENT announced the agenda item for today's meeting and explained why it had been called. The Commission took note of this information.

2. PROPOSAL FOR A COUNCIL REGULATION ESTABLISHING A EUROPEAN FINANCIAL STABILISATION MECHANISM (COM(2010)2010)

The PRESIDENT introduced the proposal for a Council Regulation establishing a European Financial Stabilisation Mechanism, which was being submitted to the Commission for adoption so that it could be examined at that day's extraordinary Council meeting (Economic and Financial Affairs).

He stressed the exceptional nature of the meeting of the euro-area Heads of State or Government held on the evening of Friday 7 May. It had initially been called solely to discuss the financial support to be provided to Greece, but the rapid worsening of the situation on the European financial markets over the week had revealed the need for urgent measures to stabilise and protect the euro.

He also mentioned the calls for action received over the past few days from the main international partners, who were alarmed at the fall of the European stock markets.

The objectives agreed on by the euro-area Heads of State or Government on 7 May were the stepping-up of fiscal consolidation efforts by the Member States, the strengthening of European economic governance, continued implementation of the programme of reforms in the regulation and supervision of the financial markets and, most importantly, the request to the Commission to propose the establishment of a European stabilisation mechanism to preserve financial stability in Europe.

The PRESIDENT emphasised the urgency of this request, since the Council wished to adopt the proposal before the markets reopened on Monday 10 May.

He then outlined the proposed mechanism, which would be based on Article 122(2) of the Treaty on the Functioning of the European Union, designed to provide a response to exceptional circumstances, and would apply only to the euro-area Member States.

Briefly describing the proposed technical arrangements, he explained that they might be modified during the discussion at the Economic and Financial Affairs Council and that the Commission would have to authorise Mr REHN and himself accordingly.

Mr REHN placed the proposal in the context of a very serious and dangerous situation on the financial markets, in particular as regards sovereign debt and the risks to the stability and integrity of the euro. There had been intensive telephone contacts in the last 36 hours with the G7 partners, who had expressed great concern at the situation on the European financial markets.

The risk was a systemic one stemming from a combination of market distrust of certain Member States' ability to guarantee their financing for structural reasons, and opportunistic speculative attacks on the sovereign debt market.

Two things were needed to stop this dangerous deterioration of the financial markets: a firm commitment to restoring the stability of public finances as soon as possible, and an announcement of immediate measures to check the fall of the markets. The European Central Bank would also be announcing extraordinary measures on Monday 10 May, while emphasizing the independence of the Bank regarding her decisions.

The technical arrangements for the proposed mechanism combined EU financial assistance with the Member States' guarantee system, in line with the commitment of the euro-area Heads of State or Government in their statement of 7 May to use the "full range of means available to ensure the stability of the euro area".

The Commission held an in-depth exchange of views, during which the following issues were raised:

- general support for the proposal, which was essential to halt the rapid deterioration of the situation on the financial markets, and praise for the departments which had drawn it up under very tight time constraints;
- the importance of the proposed mechanism, which would supplement the measures taken by the European Union in its own right with a system of guarantees from the euro-area Member States, thereby mobilising the appropriate critical mass;
- requests for clarification of the figures contained in the proposal, and the need to provide for sufficient assistance to meet the needs of the Member States requesting it when the time came; the extent to which the two sources of financing proposed were complementary to each other;
- the technical simplicity of the proposal but also the complexity of implementing certain aspects of it, given the diversity of the national procedures needed to activate the proposed mechanism; in view of the length of the procedure required to activate the mechanism, the case for providing also for a transitional mechanism should it be needed;
- requests for clarifications as to whether the International Monetary Fund (IMF) was associated with the discussions that had led to the proposal for such a mechanism, and whether complementary use could be made of its instruments;
- the need to enhance the role of the European Central Bank, while fully respecting her independence.
- the way in which the measures taken by the European Union in recent weeks were influencing market confidence, and the importance, from this point of view, of obtaining an immediate agreement at the Council on the proposed mechanism;
- the need to link the mechanism with the multiannual financial framework and to make available in the coming years the necessary resources for the financial stability support mechanism; the importance in this respect of involving the

Commission Member with responsibility for the budget and financial programming in establishing the repayment arrangements and schedules upstream of signing the loan agreements under the stabilisation and balance-of-payments support mechanisms;

- requests for clarification of the equivalence and relationship between the mechanisms applicable in the euro and non-euro Member States, and with respect to the financial support mechanism for Greece; the importance of continuing to ensure that non-euro Member States could have recourse to the balance-of-payments support mechanism, particularly given the increased risk of the crisis spreading to countries whose currencies were tied to the euro at a fixed exchange rate;
- the need to introduce restructuring measures for the Member States concerned, in addition to the financial stabilisation mechanism, and to work towards restoring a "virtuous circle" of economic growth;
- given the speculation observed on the markets, a reminder that regulators needed to be mobilised, and the importance of coordinating investigations at European level and imposing firm penalties;
- the usefulness, in the context of presenting this mechanism, of a reminder of the need for increased coordination of economic and budget policies, and the case therefore for speeding up the process of financial market surveillance and regulation;
- the concern to take account also of the broader dimension of the neighbourhood policy and to work on a coordinated strategy to ensure predictability and a spirit of partnership with the neighbouring countries.

Mr REHN replied to the various comments, agreeing that it would be useful to supplement the mechanism by mobilising IMF financial support instruments where necessary. In the case of the specific European measure, the planned amount took account of the current financial framework and of the need to preserve the EU's financial viability. As for how euro and non-euro countries would be treated, this

mechanism did not call into question but rather complemented the balance-of-payments mechanism devised for non-euro countries and the financial support mechanism set up for Greece. The Commission must ensure the highest level of confidentiality as regards the content of the proposal for a Regulation until the outcome of the Economic and Financial Affairs Council was known.

The PRESIDENT emphasised the vital need to keep the proposal confidential. There was already a specific mechanism for Member States which had not joined the euro, which was currently being deployed in several countries. As regards the amount of aid envisaged, combining the two sources of financing proposed would, where necessary, cover the needs of Member States in difficulty. A considerable amount of aid had in fact been granted to a euro area Member State, and it was therefore necessary to make available other financing arrangements in order to be able to intervene in the event of a comparable crisis in another Member State.

The PRESIDENT ended by thanking all the Commission Members for contributing to this historic decision, congratulating Mr REHN and his departments in particular for their work.

He then concluded the discussion, noting the Commission's support for the proposal for a Regulation and its agreement on making the following amendments to the English version of document COM(2010)2010:

– **Article 3 (pages 2 and 3) reads as follows:**

*"Article 3
Guarantees*

1. *Loans and credit lines above the ceiling referred to in Article 2 (2) shall benefit from the joint and pro-rata guarantee of the euro-area Member States.*
2. *Each euro area Member State shall guarantee the amounts above the ceiling referred to in paragraph 1 according to its share in the paid-up capital of the European Central Bank.*

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3. *In the cases covered by this Article, the Commission may rely on the services of the national debt offices of the euro area Member States, which offices shall be at the disposal of the Commission to this end.*
4. *A Member State receiving a financial support decided by the Council under the present Regulation shall not provide a guarantee. The guarantee to be provided by the other Member States shall be recalculated accordingly.*
5. *Member States shall take the measures necessary to ensure that the guarantee is provided within ten days following the Council decision taken in accordance with Article 4."*

– **The third and fourth paragraphs of Article 4 (page 3) read as follows:**

- " 3. *The decision to grant a loan shall contain:*
- (a) the amount, the average maturity, the pricing formula, the maximum number of instalments, the availability period of the Union financial assistance and the other detailed rules needed for the implementation of the assistance, including for the implementation of the guarantee referred to in Article 3;*
 - (b) the general economic policy conditions which are attached to the Union financial assistance with a view to re-establishing a sound economic or financial situation in the Member State concerned and to restoring its capacity to finance itself on the financial markets;*
 - (c) an approval of the adjustment programme prepared by the beneficiary Member State to meet the economic conditions attached to the Union financial assistance.*
4. *The decision to grant a credit line shall contain:*
- (a) the amount, the fee for the availability of the credit line, the pricing formula applicable for the release of funds and the availability period of the Union financial assistance and the other detailed rules needed for the implementation of the assistance, including for the implementation of the guarantee referred to in Article 3;*
 - (b) the general economic policy conditions which are attached to the Union financial assistance with a view to re-establishing a sound economic or financial situation in the Member State concerned;*
 - (c) an approval of the adjustment programme prepared by the beneficiary Member State to meet the economic conditions attached to the Union financial assistance."*

– **The eighth paragraph of Article 4 (page 4) reads as follows:**

" 8. *If a financing outside the Union subject to economic policy conditions is envisaged, notably from the IMF, the Member State concerned shall first consult the Commission. The Commission shall examine the possibilities available under the Union financial assistance facility and the compatibility of the envisaged economic policy conditions with the commitments taken by the Member State concerned for the implementation of the Council recommendations and Council decisions adopted on the basis of Article 121, Article 126 and Article 136 of the Treaty. It shall inform the Economic and Financial Committee.*"

– **The first paragraph of Article 6 (page 4) reads as follows:**

" 1. *The Member State concerned shall inform the Commission in advance of its intention to draw down funds from its credit line. Detailed rules shall be laid down in the decision referred to in Article 4(4).*"

The Commission adopted, with the above amendments, the proposal for a Council Regulation establishing a European financial stabilisation mechanism, set out in document COM(2010)2010, for transmission to the Council.

The Commission also decided to empower Mr REHN, Member of the Commission with responsibility for Economic and Monetary Affairs, to accept, in agreement with the PRESIDENT, amendments to the proposal which would make it possible to obtain an agreement at the Council without altering the main objective of the Regulation.

The Commission also took note of the fact that the Member of the Commission with responsibility for financial programming and the budget would become involved in establishing the repayment arrangements and schedules upstream of signing the loan agreements under the stabilisation and balance-of-payments support mechanisms.

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The meeting closed at 14.44.