



EUROPEAN COMMISSION

SECRETARIAT-GENERAL

PV(2013) 2049 final

Brussels, 19 June 2013

MINUTES

of the 2049th meeting of the Commission

held in Brussels

(Berlaymont)

on Wednesday 5 June 2013

(morning and afternoon)

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PV(2013) 2049 final

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Single sitting: Wednesday 5 June 2013 (morning and afternoon)

The sitting opened at 9.06 with Mr BARROSO, President, in the chair. It was adjourned at 11.16 and resumed at 15.27.

Present:

Mr BARROSO	President	
Baroness ASHTON	High Representative/ Vice-President	
Ms REDING	Vice-President	Items 1 to 12 (in part)
Mr ALMUNIA	Vice-President	Items 8 to 12 (in part)
Mr KALLAS	Vice-President	
Ms KROES	Vice-President	
Mr TAJANI	Vice-President	
Mr ŠEFČOVIČ	Vice-President	Items 1 to 12 (in part)
Mr REHN	Vice-President	Items 1 to 12 (in part)
Mr POTOČNIK	Member	
Mr PIEBALGS	Member	
Mr BARNIER	Member	
Ms VASSILIOU	Member	Items 1 to 12 (in part)
Mr ŠEMETA	Member	
Mr DE GUCHT	Member	Items 9 to 12 (in part)
Ms GEOGHEGAN-QUINN	Member	Items 1 to 12 (in part)
Mr LEWANDOWSKI	Member	Items 1 to 12 (in part)
Ms DAMANAKI	Member	
Ms GEORGIEVA	Member	Items 1 to 12 (in part)
Mr OETTINGER	Member	Items 1 to 12 (in part)
Mr HAHN	Member	
Ms HEDEGAARD	Member	Items 1 to 12 (in part)
Mr FÜLE	Member	
Mr ANDOR	Member	
Ms MALMSTRÖM	Member	
Mr CIOLOŞ	Member	Items 8 to 12 (in part)

Absent:

Mr BORG

Member

The following sat in to represent absent Member- of the Commission:

Ms DARMANIN Chef de cabinet to Mr BORG

The following also sat in:

Mr LAITENBERGER	Chef de cabinet to the PRESIDENT	
Mr ROMERO REQUENA	Director-General, Legal Service	
Mr PAULGER	Director-General, DG Communication	Items 1 to 12 (in part)
Mr DOENS	Head of the Commission Spokesperson Service	
Ms AHRENKILDE HANSEN	Commission Spokeswoman	
Mr THEBAULT	Head of the Bureau of European Policy Advisers	Items 8 (in part) to 12 (in part)
Ms SUTTON	A member of the PRESIDENT's staff	
Ms HOFFMANN	Deputy Chef de cabinet to Ms REDING	Item 12 (in part)
Mr MARTÍNEZ MONGAY	Chef de cabinet to Mr ALMUNIA	Items 1 to 12 (in part)
Ms JAROSZ-FRIIS	A member of Mr ALMUNIA's staff	Item 12 (in part)
Mr BIERVERT	Deputy Chef de cabinet to Mr ŠEFČOVIČ	Item 12 (in part)
Mr PESONEN	Chef de cabinet to Mr REHN	Item 12 (in part)
Mr RITTER	A member of Mr REHN's staff	Items 1 to 12 (in part)
Mr GUERSENT	Chef de cabinet to Mr BARNIER	
Mr HILL	Deputy Chef de cabinet to Ms VASSILIOU	Item 12 (in part)
Mr SUTHERLAND	A member of Ms GEOGHEGAN-QUINN's staff	Item 12 (in part)
Ms HRISTCHEVA	Deputy Chef de cabinet to Ms GEORGIEVA	Item 12 (in part)
Ms JENSEN	Deputy Chef de cabinet to Ms HEDEGAARD	Item 12 (in part)

Mr FAULL

Director-General, DG Internal Market
and Services

Ms CALVIÑO

Deputy Director-General, DG Internal
Market and Services

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

1. AGENDAS

(OJ(2013) 2049/FINAL; SEC(2013) 307/2)

The Commission took note of that day's agenda and of the tentative agendas for forthcoming meetings.

2. WEEKLY MEETING OF CHEFS DE CABINET

(RCC(2013) 2049)

The Commission considered the Secretary-General's report on the weekly meeting of Chefs de cabinet held on Monday 3 June.

3. MINUTES OF 2048TH MEETING (29 MAY)

The Commission held over approval of the minutes of its 2048th meeting for a later date.

4. INTERINSTITUTIONAL RELATIONS

(RCC(2013) 72)

The Commission took note of the record of the meeting of the Interinstitutional Relations Group held on Friday 31 May (RCC(2013) 72).

It paid particular attention to the following points.

4.1. LEGISLATIVE MATTERS

i) Ordinary legislative procedure

(point 1.2 of the IRG record)

Dossiers at Parliament first reading

- Multiannual Financial Framework 2014-2020 – Connecting Europe Facility (Regulation) – RIQUET / AYALA SENDER / VÁLEAN report – 2011/0302 (COD)

The Commission approved the line set out in SI(2013) 297 and /2.

- Data protection package – Protection of individuals with regard to the processing of personal data by competent authorities for the purposes of prevention, investigation, detection or prosecution of criminal offences or the execution of criminal penalties, and the free movement of such data (Directive) / Protection of individuals with regard to the processing of personal data and the free movement of such data (Regulation) – DROUTSAS / ALBRECHT reports – 2012/0010 (COD) / 2012/0011 (COD)

The Commission approved the line set out in SI(2013) 255/2 and /3.

- Amendment of Regulation (EC) 273/2004 on drug precursors (Regulation) – HEDH report – 2012/0261 (COD)

The Commission approved the line set out in SI(2013) 290.

- New Legislative Framework Alignment Package (Implementation of the Goods Package) – Harmonisation of the laws of the Member States (Directives – recast) – ROITHOVÁ reports – 2011/0350 to 2011/0357 (COD)

The Commission approved the line set out in SI(2013) 292/2.

- Amendment of Regulation (EC) No 223/2009 on European statistics (Regulation) – HOANG NGOC report – 2012/0084 (COD)

The Commission approved the line set out in SI(2013) 291.

- Amendment of Regulation (EC) 443/2009 to define the modalities for reaching the 2020 target to reduce CO2 emissions from new passenger cars (Regulation) – ULMER report – 2012/0190 (COD)

The Commission approved the line set out in SI(2013) 289/2.

- Amendment of Directive 2006/66/EC on batteries and accumulators and waste batteries and accumulators as regards the placing on the market of portable batteries and accumulators containing cadmium intended for use in cordless power tools (Directive) – PANAYOTOV report – 2012/0066 (COD)

The Commission approved the line set out in SI(2013) 293 and /2.

- Flag State responsibilities for the enforcement of Council Directive 2009/13/EC implementing the Agreement concluded by the European Community Shipowners' Associations (ECSA) and the European Transport Workers' Federation (ETF) on the Maritime Labour Convention, 2006, and amending Directive 1999/63/EC (Directive) – BERÈS report – 2012/0065 (COD)

The Commission approved the line set out in SI(2013) 298/2.

ii) Preparation of Parliament's June part-session

(point 1.3 of the IRG record)

Ordinary legislative procedure – 1st reading

- Use of Passenger Name Record data for the prevention, detection, investigation and prosecution of terrorist offences and serious crime (Directive) – KIRKHOPE report – 2011/0023 (COD)

The Commission approved the line set out in SP(2013) 376/2.

- Minimum health and safety requirements regarding the exposure of workers to the risks arising from physical agents (electromagnetic fields) (20th individual Directive within the meaning of Article 16(1) of Directive 89/391/EEC) – MORIN-CHARTIER report – 2011/0152 (COD)

The Commission approved the line set out in SP(2013) 377.

- Fund for European Aid to the Most Deprived (Regulation) – COSTELLO report – 2012/0295 (COD)

The Commission approved the line set out in SP(2013) 378 and /2.

- Amendment of Council Regulation (EC) 1005/2008 establishing a Community system to prevent, deter and eliminate illegal, unreported and unregulated fishing (Regulation) – ROMEVA I RUEDA report – 2012/0162 (COD)

The Commission approved the line set out in SP(2013) 379 and /2.

- Amendment of Council Regulation (EC) 1342/2008 establishing a long-term plan for cod stocks and the fisheries exploiting those stocks (alignment of the Regulation on the Treaty on the Functioning of the European Union) (Regulation) – DODDS report – 2012/0013 (COD)

The Commission approved the line set out in SP(2013) 380 and /2.

- Amendment of Council Regulation (EC) 1342/2008 establishing a long-term plan for cod stocks and the fisheries exploiting those stocks (Regulation) – DODDS report – 2012/0236 (COD)

The Commission approved the line set out in SP(2013) 381 and /2.

- Amendment of certain legislative acts in the domain of agricultural and fishery statistics (Regulation) – DE CASTRO report – 2012/0343 (COD)

The Commission approved the line set out in SP(2013) 382 and /2.

- Amendment of Directive 2003/98/EC on the re-use of public sector information (Directive) – KALFIN report – 2011/0430 (COD)

The Commission took note of the compromise texts in SP(2013) 383, further to note SI(2013) 144/2, which it had already approved on 27 March.

- Serious cross-border threats to health (Decision) – PARGNEAUX report – 2011/0421 (COD)

The Commission took note of the compromise texts in SP(2013) 384, further to note SI(2013) 235 and /2, which it had already approved on 8 May.

Special non-legislative procedure

- Conclusion of the interim agreement with a view to an Economic Partnership Agreement between the European Community and its Members States, of the one part, and the Central Africa Party, of the other part (Council Decision) – MARTIN report – 2008/0139 (NLE)

The Commission approved the line set out in SP(2013) 386.

4.2. RELATIONS WITH THE EUROPEAN COUNCIL AND THE COUNCIL

iii) Programming of Council business

(SI(2013) 302)

The Commission took note of the information in SI(2013) 302 on the Council meetings between 6 and 19 June.

5. MONITORING THE APPLICATION OF EUROPEAN UNION LAW

STATE AID – INDIVIDUAL CASES

(SEC(2013) 319/2)

The Commission adopted the decisions in SEC(2013) 319/2.

6. WRITTEN PROCEDURES, EMPOWERMENT AND DELEGATION OF POWERS

6.1. WRITTEN PROCEDURES APPROVED

(SEC(2013) 308 ET SEQ.)

The Commission took note of the Secretariat-General's memoranda recording decisions adopted between 27 and 31 May.

6.2. EMPOWERMENT

(SEC(2013) 309 ET SEQ.)

The Commission took note of the Secretariat-General's memoranda recording decisions adopted between 27 and 31 May.

6.3. DELEGATION AND SUBDELEGATION OF POWERS

(SEC(2013) 310 ET SEQ.)

The Commission took note of the Secretariat-General's memoranda recording decisions adopted under the delegation and subdelegation procedure between 27 and 31 May, as archived in e-Greffe.

6.4. SENSITIVE WRITTEN PROCEDURES

(SEC(2013) 311 AND /2)

The Commission took note of the sensitive written procedures for which the time limit expired between 3 and 7 June and of the finalisation written procedures initiated following the weekly meeting of Chefs de cabinet on 3 June.

7. ADMINISTRATIVE AND BUDGETARY MATTERS

(SEC(2013) 312/2)

ADMINISTRATIVE MATTERS

(PERS(2013) 89 AND /2)

7.1. BUREAU OF EUROPEAN POLICY ADVISERS – ADAPTATION OF THE COMMUNICATION ON THE REVISION OF THE BUREAU'S TASKS AND AMENDMENT OF ITS ORGANISATION CHART

Having noted the information under point 1 of PERS(2013) 89, the Commission took note of the replacement of the last sentence under point 3, second paragraph, first indent of the communication SEC(2010) 258 of 9 March 2010 by the following: *‘However, the functions of Head of BEPA and Deputy Head of BEPA may also be filled by the appointment or transfer of an official.’*.

7.2. DG ENLARGMENT / SECRETARIAT-GENERAL – LEAVE ON PERSONAL GROUNDS OF AN AD16 OFFICIAL, APPOINTMENT OF AN AD15 DIRECTOR-GENERAL, REINSTATEMENT AND TRANSFER IN THE INTEREST OF THE SERVICE OF AN AD15 OFFICIAL AND ABOLITION OF A HORS CLASSE ADVISER POST

On a proposal from Mr ŠEFČOVIČ, in agreement with the PRESIDENT and Mr FÜLE, the Commission decided:

- to take note of the decision to grant unpaid leave on personal grounds from 1 July 2013 to Mr Stefano SANNINO (an AD16 official and currently Director-General of the Directorate-General for Enlargement) under Article 40 of the Staff Regulations;
- to fill the post of Director-General of the Directorate-General for Enlargement by transferring in the interest of the service Mr Christian DANIELSSON (an AD15 official and currently Deputy Secretary-General in the Secretariat-General) pursuant to Article 7 of the Staff Regulations; this decision would take effect on 1 October 2013;
- to reinstate Mr Henrik HOLOLEI (an AD15 official) in his post of *Hors Classe* Adviser at the Directorate-General for Enlargement at the end of his secondment to the post of Chef de cabinet to Mr KALLAS and on the same date to transfer him in the interest of the service to the vacant post of Deputy Secretary-General in the Secretariat-General pursuant to Article 7 of the Staff Regulations; these decisions would take effect on 16 November 2013;
- to abolish the post of *Hors Classe* Adviser at the Directorate-General for Enlargement, a post made vacant by the transfer of its holder, Mr Henrik HOLOLEI; this decision would take effect on 16 November 2013.

7.3. BUREAU OF EUROPEAN POLICY ADVISERS – APPOINTMENT OF AN AD15 DEPUTY HEAD OF BUREAU

On a proposal from Mr ŠEFČOVIČ, in agreement with the PRESIDENT, the Commission decided to fill the post of Deputy Head of the Bureau of European Policy Advisers by transferring in the interest of the service Ms María Angeles BENÍTEZ SALAS (an AD15 official and currently Director of the Directorate ‘Sustainability and quality of agriculture and rural development’ in the Directorate-General for Agriculture and Rural Development) pursuant to Article 7 of the Staff Regulations.

This decision would take effect on 1 July 2013.

7.4. PUBLICATIONS OFFICE – APPOINTMENT OF AN AD14/15 DIRECTOR

(PERS(2012) 117 TO /5)

The Commission had before it applications under Article 29(1)(a)(i) and (iii) and (1)(b) of the Staff Regulations for the post of Director of the Directorate ‘Core Business Services’ in the Publications Office in Luxembourg (PERS(2012) 117 and /2).

It took note of the opinions of the Consultative Committee on Appointments of 19 March and 18 April 2013 (PERS(2012) 117/3 to /5).

The Commission proceeded to compare the applicants’ qualifications for the post. It also considered their ability, efficiency and conduct in the service. On a proposal from Mr ŠEFČOVIČ, in agreement with the PRESIDENT and Ms REDING, it then decided to appoint Mr Kurt KÖNIG to the vacant post.

This decision would take effect on 16 June 2013.

7.5. PUBLICATIONS OFFICE – APPOINTMENT OF AN AD14/15 DIRECTOR

(PERS(2012) 116 TO /4)

The Commission had before it applications under Article 29(1)(a)(i) and (iii) and (1)(b) of the Staff Regulations for the post of Director of the Directorate ‘Dissemination and Reuse’ in the Publications Office in Luxembourg (PERS(2012) 116 and /2).

It took note of the opinions of the Consultative Committee on Appointments of 12 March and 18 April 2013 (PERS(2012) 116/3 and /4).

The Commission proceeded to compare the applicants’ qualifications for the post. It also considered their ability, efficiency and conduct in the service. On a proposal from Mr ŠEFČOVIČ, in agreement with the PRESIDENT and Ms REDING, it then decided to appoint Mr António CARNEIRO to the vacant post.

This decision would take effect on 16 June 2013.

**7.6. DG HUMAN RESOURCES AND SECURITY – APPROVAL OF A LIST OF CANDIDATES FOR A HEAD OF EUROPEAN UNION DELEGATION POST
(PERS(2013) 91)**

The Commission took note of the information in point 5 of PERS(2013) 89 and, on a proposal from Mr ŠEFČOVIČ, in agreement with the PRESIDENT, decided to approve the list of candidates for the AD9-14/AD12 post of Head of the EU Delegation in Angola in PERS(2013) 91, which would serve as a basis for the competent authority of the European External Action Service to make a final appointment.

This decision would take effect immediately.

**8. COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT, THE COUNCIL AND THE COURT OF AUDITORS — SYNTHESIS OF THE COMMISSION’S MANAGEMENT ACHIEVEMENTS IN 2012
(COM(2013) 334 TO /3; RCC(2013) 73)**

The PRESIDENT presented the Communication on the synthesis of the management achievements in 2012, which was being tabled for approval by the Commission that day. Under the Financial Regulation the Commission was required to produce such a synthesis every year for transmission to the discharge authority and the Court of Auditors. This Communication covered the work carried out in 2012 and incorporated the assurances and reservations made by the Directors-General and Heads of Service in their Annual Activity Reports. He noted that these reservations were also systematically discussed in a dialogue between the Directors-General and the Members of the Commission responsible, in accordance with the applicable rules. He reminded the Members that each of them was responsible for

regularly monitoring the implementation of the action plans drawn up by their departments in relation to the reservations expressed.

By adopting this synthesis report and hence triggering the discharge procedure, the Commission was fully assuming its political responsibility for the management of its departments and making an important political statement. For that reason the Commission had made a commitment to the European Parliament to discuss this Communication at one of its meetings even if a consensus had already emerged on the proposed text.

He asked the Commission Members to be ready to give well-informed answers to any questions which Parliament might ask on certain aspects of the 2012 management results featuring in either the Communication itself or the Annual Activity Reports of their Directors-General or Heads of Service.

Mr ŠEMETA pointed out that the synthesis report gave Commission departments important policy guidelines in many specific areas while at the same time providing significant input for the annual report of the European Court of Auditors and hence for the last discharge procedure of the present Commission's term of office.

He noted that the 2012 synthesis report laid particular emphasis on performance management and reporting, enabling the Commission to demonstrate the sound management underpinning the measures it took, combining optimum cost-effectiveness with maximum European added value. He then took up the case made in the synthesis report for continuing to defend the Commission's proposals to simplify rules and processes in the next Multiannual Financial Framework and reminding the Council and Parliament that this was a prerequisite for achieving a lasting improvement in the error rate in future.

Mr ŠEMETA then turned to the important section of the report devoted to action by the Commission to protect the European Union budget. He mentioned here the major efforts made by the Commission to prevent and correct errors, which, regrettably, were not fully reflected in the Court of Auditors' analyses or its estimate of the error rate because of the different methodologies applied by the two

institutions. He explained that the Court's audit methodology, based on an annual audit, failed to take full account of the multiannual nature of Commission programmes, which could give the mistaken and regrettable impression that the Union budget was inadequately protected, whereas other sources clearly showed the considerable amounts recovered by the Commission or corrected by the Member States.

He said that, together with Mr HAHN and Mr ANDOR, he had recently sent a letter to the Court of Auditors asking it to take into consideration, when establishing the annual error rate, certain measures implemented by the Commission to safeguard the Union budget in connection with the Structural Funds. He noted that the question of protecting the Union budget would be on the agenda of the annual meeting between the College of Commissioners and the Court of Auditors on 19 June and hoped to see a constructive dialogue emerge on this issue.

Lastly, Mr ŠEMETA stressed the special political importance of this year's synthesis report, as it was the last of the current Commission's term of office and would be presented just a few months before the European Parliament elections. He urged all Members of the Commission to take collective ownership of the discharge procedure and actively defend the report.

A discussion ensued which covered the following points: the need to pursue active dialogue with the European Court of Auditors; the importance of holding tripartite meetings with the Member States in relation to areas of shared responsibility; the case for introducing, as part of the reform of the common agricultural policy, an instrument that would allow ex ante payments to be suspended in the event of systemic problems in a Member State, along the lines of the existing mechanisms for the cohesion funds; the effect of the new methodology adopted by the Court to calculate the estimated error rate; the risk that the Commission's efforts to protect the Union budget might not be fully appreciated; a desire to arrive at an approach that was satisfactory to all parties involved and the need to take interinstitutional aspects into account in the context of discharge.

In reply to these comments, Mr ŠEMETA said that the Court's new methodology had a relatively marginal effect on the reported error rate. Nevertheless, he acknowledged that it made it harder to show that the overall goal of reducing the error rate compared with the previous year had been achieved. Highlighting the political background to this issue, he called on the Members of the Commission to prepare themselves for questions that might be put to them and to play an active part in the contradictory procedure relating to the Court's analysis of the Commission's management achievements for 2012.

Winding up the discussion, the PRESIDENT stressed the importance of the synthesis report, by which the Commission assumed political responsibility and which presented a transparent picture of the progress achieved in improving management and internal control. He took the opportunity to congratulate Mr ŠEMETA and his departments on their work.

The PRESIDENT also mentioned the annual meeting between the Commission and the Court of Auditors to be held on Wednesday 19 June. He asked all the Members of the Commission to attend this meeting in order to underline just how important it was for the Commission. Three topics were on the agenda for the meeting, which would take the form of a plenary session followed by a working lunch, namely: (i) management and evaluation – the synthesis report and the evaluation report; (ii) the Court's priorities and its annual report for 2012; and (iii) the next Multiannual Financial Framework.

At the end of this discussion, the Commission:

- approved the Communication in COM(2013) 334/3, for transmission to the European Parliament, the Council and the European Court of Auditors and, for information, to the national parliaments;
- took note of the fact that each Member of the Commission had been made aware of the Annual Activity Report and declaration presented by his or her Director(s)-General or Head(s) of Service, and that a reference to this dialogue was specifically mentioned in each Annual Activity Report;

- took note of the fact that the declarations of assurance contained in the Annual Activity Reports did not cover the Cabinets and their expenditure;
- authorised Mr ŠEMETA, Member of the Commission with responsibility for audit and anti-fraud measures, to present this synthesis report to the discharge authority.

9. PROPOSAL FOR A COUNCIL REGULATION AMENDING REGULATION (EC) 974/98 AS REGARDS THE INTRODUCTION OF THE EURO IN LATVIA

(COM(2013) 337; RCC(2013) 74)

10. PROPOSAL FOR A COUNCIL DECISION ON THE ADOPTION BY LATVIA OF THE EURO ON 1 JANUARY 2014

(COM(2013) 345; RCC(2013) 74)

11. REPORT FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT AND THE COUNCIL – CONVERGENCE REPORT 2013 (PREPARED IN ACCORDANCE WITH ARTICLE 140(1) OF THE TREATY ON THE FUNCTIONING OF THE EUROPEAN UNION AT THE REQUEST OF LATVIA)

(COM(2013) 341; SWD(2013) 196; RCC(2013) 74)

Mr REHN underlined the importance for Latvia and for the European Union of the adoption that day by the Commission of proposals paving the way for this Member State to become the 18th to introduce the euro as its currency, based on the convergence report drawn up by the Commission and the conclusions of the European Central Bank. He described the sequence of steps in the process that would follow: a meeting of the Eurogroup on 20 June, the European Council on 27 and 28 June and the part-session of the European Parliament at the beginning of

July, culminating in the formal adoption of the legislative proposals by the Economic and Finance Council on 9 July.

He referred to the path Latvia had followed to reach the point where it now fulfilled the convergence criteria for adopting the euro: inflation rate, fiscal deficit, government debt, exchange rate stability, convergence of long-term interest rates and legal framework which complied with the obligations arising from the Treaties. He listed the additional factors that had been examined by the Commission to check the sustainable convergence of the Latvian economy, such as the external trade balance, the integration of its markets with the euro-area economy and the introduction of financial supervision instruments. In relation to this last point, he said that Latvia had considerably reinforced its financial stability framework and would have to submit to even stricter supervision standards once it had entered the euro area.

Mr REHN was pleased that the prospect of Latvia adopting the single currency would send out a very strong signal to that region of the Union, the euro area and, more generally, the world markets. He highlighted the powerful effect that this signal would have in terms of the pursuit of European monetary integration, the integrity of the euro area and the concrete results of the substantial reforms carried out. He congratulated the Latvian authorities and people on successfully overcoming the serious economic crisis which had affected the country in 2008 and on managing to implement tough reforms to strengthen the resistance and adjustment capacity of the national economy.

A brief discussion ensued, during which the Commission raised the following points: the strong political and symbolic nature of that day's proposal both for Latvia and for the Union; the considerable work accomplished by the Latvian authorities and people to achieve this, involving sometimes painful corrective measures to deal with the serious crisis they had had to cope with some years previously, and then efforts to get the country back on the path to growth and to equip it with a sustainable macroeconomic framework; the support which the Commission and the European Central Bank had given to Latvia in the course of these reforms, and the fundamental role played by the political and financial

solidarity shown by the European Union; the encouraging message this proposal sent out to other Member States; the need from now on to steer efforts towards inclusive growth and the suggestion that the Union's ability to provide a solution should be underlined.

The PRESIDENT joined Mr REHN in expressing his sincere congratulations to the Latvian authorities and people for their unwavering determination. He also thanked all those in the Commission who had contributed to the proposal put forward that day. He hailed the historic significance of this proposal which would result in Latvia adopting the euro on 1 January 2014.

The Commission:

- adopted the proposal for a Council Regulation in COM(2013) 337, for transmission to the Council and the European Central Bank and, for information, to the European Parliament and national parliaments;
- adopted the proposal for a Council Decision in COM(2013) 345, for transmission to Parliament and the Council and, for information, to the European Central Bank and the national parliaments;
- approved the communication in COM(2013) 341, for transmission to Parliament and the Council and, for information, to the European Central Bank and the national parliaments, together with the staff working document distributed as SWD(2013) 196, the contents of which were noted.

12. PREPARATORY DEBATE ON THE LEGISLATIVE PROPOSAL ON THE SINGLE RESOLUTION MECHANISM (SEC(2013) 334/2; RCC(2013) 76)

The PRESIDENT launched the preparatory debate by stressing the importance of the Single Resolution Mechanism in the structure of the banking union, as recognised in the Commission's communications of June and September 2012 on

this subject and the Blueprint for a Deep and Genuine Economic and Monetary Union (EMU) of November 2012. Support for the Mechanism was also to be found in the conclusions of several European Councils. This was a necessary complement to the Single Supervisory Mechanism and could be created under the framework of the current Treaties.

He explained that the aim of the debate that day was to contribute to the preparation of the legislative proposal which the Commission would present before the European Council on 27 and 28 June. He therefore wanted to consult the Members of the Commission on the issues that would be crucial for finalising this complex and politically sensitive proposal, which would have to convince the markets and instil confidence in the European Union's ability to make the changes required to deepen and stabilise EMU.

Meticulous attention would have to be paid to the political fine-tuning of the proposal, which he believed needed to be both ambitious and realistic to secure its adoption by the co-legislators before the elections to the European Parliament in June 2014. This deadline was crucial if the Single Resolution Mechanism was to be in place when the Single Supervisory Mechanism came into effect.

The PRESIDENT highlighted the three main discussion points mentioned in the background note sent to the Members of the Commission and examined the day before at a preparatory meeting of Chefs de cabinet. These were (i) the decision-making process and institutional structure of the future resolution mechanism, (ii) the process for triggering resolution and (iii) the European bank resolution fund.

Given the complexity of the legal and technical aspects of these questions, but also the Commission's undertaking to present the legislative proposal before the end of June, he hoped for an in-depth exchange of views leading to a strong, collective position on these core elements.

Mr BARNIER welcomed the preparatory debate on the central question of completing the banking union by means of the Single Resolution Mechanism. This would mark a turning point in the process of integration within the Economic and

Monetary Union and the European Union in general.

Using PowerPoint documents he set out the main points of the day's debate. He began by sketching the background and specifically the Commission's proposals in June 2012 for the first stage of banking union in the form of the Single Supervisory Mechanism. This would be coming into force soon and placed the European Central Bank (ECB) in charge of supervising all the banks in the euro area.

Bank resolution went hand in hand with supervision in the sense that together they ensured the integrity and effectiveness of the banking union, because resolution allowed national authorities to deal with the case of a bank placed under ECB supervision that was facing serious financial difficulties. In order to be able to meet the challenges posed by cross-border banking crises, particularly in the euro area, the mechanism had to be centralised to ensure more rapid decision-making and backed by financial resources that were both adequate and capable of instant deployment. It must also apply the same rules as the authorities outside the banking union in order to preserve the integrity of the internal market, and must be open to all.

Mr BARNIER explained that bank resolution was an alternative to a rescue financed from public resources or a straightforward failure. It used preventive and corrective mechanisms to safeguard the banking functions essential to the real economy while at the same time placing the burden of any rescue on banks and their investors rather than taxpayers, by guaranteeing all deposits of less than EUR 100 000. On the prevention side, the banks and the authorities would have to draw up recovery and resolution plans specifying the measures to be taken in the event of a crisis, and the authorities would have the power to intervene before a bank failure. As regards resolution itself, he referred to ways of restructuring banks - by selling them, separating good assets from hived-off bad assets, setting up bridge banks and organising a rescue by the shareholders and creditors. Resolution funds, to be financed 'ex ante' by the banking sector, would be set up to cover the bail-in. The scope of the Single Resolution Mechanism would not necessarily be confined to the euro area, because it would be closely tied to the Single Supervisory Mechanism in the sense that countries that were members of the latter would have to join the

former.

The Single Resolution Mechanism would have to be centralised and to cover all banks in order to break the link between sovereign risk and the banking system. Its distinguishing features were (i) decision-making that was swift, legally-sound, effective in times of crisis and carried political weight; (ii) decisions that were European but involved the Member States concerned, given the consequences for national economies; and (iii) funding that was fiscally neutral over the medium term, with the requirement that any external funding would have to be exceptional and recovered from the banks in the medium term. The mechanism could be introduced without any amendment to the Treaties, using as its legal base Article 114 of the Treaty on the Functioning of the European Union, because of its fiscal neutrality.

Mr BARNIER then turned to the aspects of the Single Resolution Mechanism that were the subject of that day's discussion, putting a number of ideas to the Members of the Commission for consideration at this stage. He described the mechanism as resting on three pillars, a central resolution body, a single resolution fund and the Commission. The ECB, as the bank supervisory authority, would be closely associated with the mechanism, particularly by virtue of its power to declare a bank to be on the brink of failure and to cooperate in the preparation of resolution measures. The national authorities would also be involved in decision-making and would play a key role in the preparation and practical implementation of the resolution plans.

As for who would have the power to make the final decision about putting a bank into resolution, he said that this could only be a European Union institution, since such a decision assumed an element of judgement in interpreting European law. In his view, the Commission was the only body capable of playing this role with the necessary speed and objectivity, especially since it had acquired, over the course of the crisis, substantial experience in bank restructuring through its monitoring of state aid.

He then turned to the tasks that were likely to be assigned to the 'central resolution

body' that would assist the Commission by devising and proposing resolution measures on a case-by-case basis. This body would be responsible for coordinating the preparatory work of national resolution authorities, and would be able to finalise effective decisions and oversee their implementation by national authorities. The Member States concerned would be represented on this body, on a basis which had yet to be determined. He added that the body in question would in all likelihood need a staff of around 150 and that it would be entirely funded by fees paid by banks.

On a final note, Mr BARNIER referred to the financing of the resolution regime by a single resolution fund paid for by the banking sector, and not the taxpayer, and managed by the 'central resolution body' outside the EU budgetary framework. He explained that this fund was not intended to cover banks' losses, which were to be borne by their shareholders and the creditors engaged in rescuing them. The fund was meant to provide medium-term financial support where necessary to ensure the success of the resolution process and the sustainability of core activities. In his view, a single fund would give rise to economies of scale and would help to break the link between sovereign debt and the banking system more effectively than a network of funds.

Mr REHN confirmed his whole-hearted support for the comments made, emphasising that the Single Resolution Mechanism was an essential complement to the Single Supervisory Mechanism, with a view to achieving banking union, which was vital to reverse the process of fragmentation in Europe's financial markets and to ensure the proper functioning of EMU. He stressed the need to set up the Single Resolution Mechanism in order to be able to place failing banks of systemic importance into resolution.

On the question of how to achieve centralised decision-making at European level, he agreed with Mr BARNIER on the role that would be played by the Commission, which was the institution best placed to take a final decision on putting a bank into resolution. Mr REHN emphasised that the major objective of the resolution fund was to ensure that the banking sector bore part of the costs involved in the resolution of credit institutions of systemic importance, given that the purpose of the

resolution measure itself was to protect the banking system. He added that this fund would constitute an additional layer of protection with respect to bail-ins by shareholders and creditors to avoid having to turn to taxpayers once again to save banks. While he admitted that the use of public funds could not be entirely ruled out when setting up the new fund, he pointed out that national funds and, if necessary, the European Stability Mechanism (ESM) might act as safety nets. He noted that the ESM already provided the possibility for indirect recapitalisation and that guidelines on direct recapitalisation were at the final stage of the drafting process, although it would take more time for them to be adopted.

Referring to the Franco-German proposal to merge the Single Resolution Mechanism with the ESM, Mr REHN warned against this suggestion, since it would remove European economic governance from within the framework of the Treaties and put it on an intergovernmental basis. He emphasised that the Commission had to engage actively in this debate to defend the Community method.

Having noted that the European Union could not wait for banking union to be completed before addressing the shortage of lending and monetary policy transmission, he touched on the measures launched to enhance access to capital market funding and to support the supply of loans to small and medium-sized enterprises (SMEs). In his view, it was just as important to ensure the complete recovery of the banking system, since the bottlenecks in funding SMEs also stemmed from its weaknesses. On this point, he mentioned the proposal for a recommendation on the euro area that had been drawn up within the framework of the European Semester. He pointed out the importance accorded in the proposal to the fact that the European Central Bank, by virtue of the supervisory powers it exercised under the Single Supervisory Mechanism, carried out a strict examination of the quality of banks' assets, in parallel with the stress tests conducted by the European Banking Authority. To conclude, he emphasised the idea of achieving banking union for the future, while noting how important it was to ensure that banks resumed their lending activities immediately.

Mr ALMUNIA underscored the importance of setting up the banking resolution mechanism without waiting for the possibility of amendments to the Treaties.

With respect to the proposal outlined in the background note, he made a number of comments, beginning with the need to define clearly who would have the power to decide to trigger resolution. He noted that the text of the note used the same term – decision – both with respect to a European institution, in this case the Commission, and with respect to the central resolution body. He also wondered what the composition of the body would be, and who would represent the Commission on it.

As for the directive on bank recovery and resolution, currently at the interinstitutional negotiation stage and due to be approved by the Council (Economic and Financial Affairs) at the end of the month, he noted the differences in views expressed in the debate over the authority in charge of triggering resolution, the timeframe and the conditions to be fulfilled. Warning against excessive flexibility on these issues, he emphasised the principle of equal treatment between Member States, in particular within the euro area.

He subsequently distributed a graph to Members of the Commission illustrating the possible interactions and overlaps between the activities of the future central resolution body and state aid monitoring activities. He stressed that the Commission had to be able to examine whether resolution constituted state aid and preserve that faculty as an exclusive competence.

Finally, Mr ALMUNIA returned to the review of the quality of banking assets raised by Mr REHN, stating that this operation would show what was required in terms of recapitalisation and whether it might be necessary to inject public money. He therefore suggested that the Commission should take action to increase checks on state aid to banks before the Single Resolution Mechanism was introduced. He announced that he was currently preparing new guidelines in this area, in consultation with the ECB and the Member States, for presentation to the College before the end of July.

The Commission then began a wide-ranging discussion, in which the following aspects were highlighted:

- broad support for the underlying principles of the Single Resolution

Mechanism, the proposed structure of the decision-making process, the role of both the Commission and the central European resolution body, the process for triggering resolution and the single bank resolution fund; approval of the balanced and realistic approach to drawing up this mechanism; the widely-acknowledged importance of a balanced distribution of tasks between Europe and the national authorities;

- the observation that only the Commission could take on the task of resolution authority, given that without a change to the Treaties no new entity could be created to fulfil that role; questions as to the need for and advisability of creating a new authority, in this instance the central resolution body;
- the importance of securing the Member States' support for the proposed timetable, which meant the Commission would have to consider carefully the fine-tuning of the proposal for a resolution, taking into account the political realities at national and European level;
- against this background and with an eye to the deepening of EMU in general, remarks on the tensions not only between the intergovernmental approach and the Community method, but also between initiatives from the large Member States and from strong European institutions with a responsibility to consider the European general interest, including the interests of the smaller Member States – all these were key issues for the future of Europe;
- for that reason, communication of the future proposal should focus on its key objective - which was also that of the banking union - of restoring the primacy of political considerations in introducing appropriate regulation and effective monitoring in response to certain operational flaws in the financial system; the need to prove to the public, in the light of past experience of rescuing or restructuring European banks, and given the growing interdependence of the Member States, that the systemic risks posed by the activities of the banks could not be tackled satisfactorily at national level and that decisions must be taken at European level;

- the case for retaining the Commission's right to trigger a resolution on its own initiative, if necessary without notification by the ECB or without a proposal from the central resolution body; mention from others of the risk that this complete autonomy of action might entail for the Commission;
- the need to carefully define the tasks of the central resolution body to ensure that the decision to trigger a resolution measure would ultimately lie with the Commission; on the other hand, the importance of a central resolution body that had real powers and could make the stability of the financial system its central focus, and that was not merely a coordinating body for participating Member States, hence the need for a permanent structure with its own management and highly qualified staff;
- calls for more details of the composition of the executive board of the central resolution body, and in particular on the concept of 'Member States directly concerned' by a particular resolution, which would be allowed to send representatives; similarly, questions as to how the position of a Member State directly concerned would be taken into account if it opposed the resolution measures proposed by the Commission;
- along similar lines, questions about ways of ensuring appropriate participation by non-euro Member States when a resolution was triggered in the case of a cross-border banking group;
- requests for more information about the transition period that would culminate in the setting up of the single resolution fund, the step-by-step approach of this transition, the size of the fund and the conditions under which banks would contribute;
- the need to explain how the political objective of a deeper EMU and various aspects of it – in this case the establishment of the Single Resolution Mechanism – went hand-in-hand with the need for the process and the players involved to possess democratic legitimacy; in this connection, the possibility of setting up a system with provision for reporting to Parliament; similarly, the

advantages of a pre-appointment hearing before Parliament for people who might be called upon to become permanent members of the executive board;

- questions regarding guarantees on deposits up to a €100 000 threshold when it came to participation in the cost of resolution;
- a number of questions on the ability of the Single Resolution Mechanism to sever definitively the link between sovereign debt and the banks, given that the banks held large numbers of instruments of sovereign debt.

Mr BARNIER thanked the speakers, praising the two-phase approach which enabled the Members of the Commission, during this preparatory debate, to comment on the fundamental principles of the future single resolution mechanism before the presentation of the legislative proposal.

He recalled that the Commission had made the reform of financial supervision a priority issue and had made every effort to ensure that Europe would be the first region in the world to learn from the financial crisis. By strengthening financial regulation, the Commission had sought to address the inability of a financial system fragmented along national borders to effectively monitor banks operating throughout the single market. Building on the principle that prevention will always be less costly than repair, Mr BARNIER stressed that the resolution mechanism would bring predictability in terms of applicable rules and that it would comprise the requisite correction tools to avoid disorderly failures.

As regards the usefulness of setting up a new body to prepare resolution measures and propose them to the Commission, he pointed out that such work meant bringing together all the Member States and stakeholders involved in a specific case, which could not be done within the Commission's decision-making structures.

Mr BARNIER outlined once again the main principles of the proposed resolution mechanism and stressed that effective decision-making should be its key feature. Among the conditions to be met in order to avoid disorderly rescue operations, he cited proper capitalisation of banks, strict supervision and appropriate bail-in structures, all based on clearly defined rules. He added that this framework would

reassure taxpayers that they would not be called upon to bail out ailing banks. In this context, he recalled that the proposal for a directive on bank recovery and resolution included provisions on the ranking of creditors in the event of resolution, the management of situations involving cross-border banking groups and relations between country of origin and host country.

He also referred to the treatment of depositors, noting that the resolution mechanism would not affect deposits of less than €100 000 since such deposits were covered throughout the European Union by national deposit guarantee schemes. As for deposits exceeding this threshold, he was convinced of the merits of a system that afforded depositors a privileged ranking, meaning that they would only be asked to pay after all other creditors.

Returning to issues related to the creation of a resolution fund, he stated that in the Member States where there were no such funds, banks would be required to contribute directly and in the Member States where such funds were in place, money would be transferred from them into the central fund.

Mr BARNIER concluded by expressing his conviction that the mechanism was well-balanced. He said he was anxious to present a realistic legislative proposal that would contribute to the general European interest, strengthen the internal market and deepen economic and monetary union.

The PRESIDENT thanked the Members of the Commission for their active participation in the debate and for supporting the general policy presented by Mr BARNIER, in close collaboration with Mr ALMUNIA, Mr REHN and himself. He saw here confirmation of a willingness to move forward and create a single bank resolution mechanism firmly rooted in the existing Treaties and the Community method.

He welcomed the fact that the proposal's balance between ambition and credibility had been well received, and highlighted its compatibility with the fundamental principles of the Commission's autonomy in its decision-making process, the integrity of the single market and the guarantee of equality between Member States.

The PRESIDENT then summarised the discussion on the three issues listed in the background note. Regarding (i) the decision-making process and the proposed institutional set-up, he emphasised the idea of appropriate Member State involvement in view of the significance of bank resolution for national economies.

Regarding (ii) the process for triggering resolution, he noted that the suggested solution would enable the Commission to remain autonomous, including when monitoring state aid. He added that upstream coordination between the single resolution mechanism and the Commission would ensure the continuation of two separate but coordinated procedures. With regard to the actual decision to trigger resolution, he stressed that the Commission would pay close attention to the recommendations of the single resolution mechanism, but would retain its discretion so that it could take the decision itself if for any reason the persons responsible for the single resolution mechanism were reluctant to do so. While acknowledging that this new role would also lead to the Commission taking on new responsibilities and running new risks, both in terms of competences and at a political level, he pointed out that the Commission had *de facto* taken on the role of resolution authority in its expeditious collective decision-making on state aid control during the crisis.

Lastly, regarding (iii) the resolution fund, which was seen as an essential component of the new system, he recalled that to achieve the objective of breaking the link between banks and taxpayers, it was important for the banks themselves to finance resolutions and for safety nets to be set up through private funding.

On a more political level, the PRESIDENT invited the Commission to view the recent Franco-German declaration as confirmation of a possible agreement on a single bank resolution mechanism without the need to amend the Treaties. He suggested taking advantage of this momentum to explain the European rationale of the Commission's approach.

He concluded by stating that the clear guidelines that had emerged from today's debate would enable the departments, under the authority of Mr BARNIER, to finalise the legislative proposal, which would be presented to the Commission for adoption in a few weeks' time.

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The meeting closed at 16.27.