



European
Commission



General Report

on the Activities
of the European Union

2011



General Report on the Activities of the European Union — 2011

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FOREWORD

2011 was a year in which European resolve to respond to crises has been put to the test once again. The European Union has been faced with a series of challenges that have needed immediate and sustained responses — from addressing the ongoing economic and financial crisis, to responding to the uprisings in north Africa and the Middle East, to leading global negotiations on climate change, international trade and development.



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The European Union has taken important steps towards deeper integration. We are more interdependent than ever before. This brings us great benefits, but also great responsibilities. The crisis has shown that we must do much more to assume these fully. This is now even better understood by all of us in the EU. In 2011, the overall orientation of our discussions and decisions has been about stronger rather than weaker ties — a more united and a more deeply integrated European Union.

The year was dominated by the financial and economic crisis. This crisis has spread beyond the financial and economic realms. It has raised decisive questions over the political determination of, and the confidence in, the euro area. Confidence can be lost in a day. It takes much longer to regain it. That is why a truly comprehensive response is required.

Over the last year, we have continued the fundamental reform of the economic polices of the Union. Bold mechanisms for economic convergence, budgetary oversight and sanctions have been put in place, and more are being prepared. We have continued to work on strengthening the firewalls and firepower to help any country in the euro area that encounters difficulties. And for the longer term, we are exploring the possibilities of the joint issuance of bonds in the euro area as a natural consequence of greater convergence and as a key factor in maintaining confidence in our currency union.

This approach has been matched by the Commission's work in favour of creating structural conditions for future growth. Spending our way out of the crisis would be spending our way into new indebtedness, and that is a road we cannot take. However, the Commission has presented proposals for structural reforms, combined with targeted investments, to make our economies more competitive and foster growth on a strong and sustainable basis. To underpin this approach, we have strengthened the liquidity and lending capacity of our banks in the short term, while introducing the world's strongest regulation and supervision of our financial sector so as to avoid similar problems in the future. We have also assisted three euro area Member States in difficulties with adjustment programmes, and have taken particular measures to help Greece meet its commitments. A special task force has been created to provide technical and administrative assistance to the country and make sure that structural funds are used to the full to enhance competitiveness, boost growth and tackle unemployment.

The Commission has also looked beyond the current crisis and put on the table a proposal for an ambitious and responsible budget for the period 2014–20, a budget that will bring real benefits to Europe's citizens and businesses.

The year 2011 will be remembered in the history books as the year when people took to the streets in north Africa and the Middle East to demand democracy and change. The European Union reacted immediately — first with a new strategy for the southern Mediterranean and then with a major overhaul of the manner in which the European neighbourhood policy is implemented. The European Union has acted to help all those that have fought for freedom, democracy and prosperity.

The European Union also responded immediately to those in need throughout the world, with swift assistance following the earthquake, tsunami and nuclear disaster in Japan, and the major humanitarian effort in the drought-stricken Horn of Africa.

Over the last year, the European Union has worked tirelessly to keep the fight against climate change high on the political agenda. The Durban package agreed in December gives room for optimism on delivering a clear roadmap towards a binding decision. The European Union has also continued to push for the conclusion of a world trade deal, while in parallel negotiating bilateral trade agreements.

In 2011, the European Union has shown that the current crisis does not affect our commitment towards those who aspire to join our Union. After successfully completing the negotiation process, Croatia is now set to become our 28th Member State, giving the best proof that a strong and credible enlargement policy is in Europe's fundamental interest.

The 2011 General Report gives a detailed overview of the activities of the European Union over the last twelve months. It has been quite a ride — bumpy, but moving forward — for a cause that today's European leaders have the privilege to protect and strengthen. I hope the General Report provides the point of reference for the steps we have taken to return Europe to the path of prosperity and solidarity.



José Manuel Barroso



Chapter 1

Strengthening economic governance in the European Union

The European Union confronted substantial challenges throughout 2011 and made major progress in addressing them.

The dominant theme for the year in review was how best to get to grips with the challenges of boosting growth, restoring financial stability and solving the sovereign debt crisis. The Union's institutions worked relentlessly on a broad range of measures and ideas to help resolve the crisis. Indeed, significant progress was made in improving the system of economic governance in the Union.

A major legislative package (the so-called 'six-pack') was enacted to strengthen the Stability and Growth Pact as well as national budgetary frameworks, and to prevent and correct macroeconomic imbalances. Due to the breadth of the crisis further legislative measures related to fiscal surveillance were proposed by the Commission in November.

Work continued unabated to strengthen the financial backstops for euro area countries, while a debate was launched on the feasibility of introducing stability bonds.

The programmes of financial assistance to Greece, Ireland and Portugal, in addition to balance of payments assistance for the non-euro area Member States, Latvia and Romania, continued. Particular challenges were encountered in Greece for which the European Council approved a second programme in October 2011. Following the expiry of EU assistance, a post-programme surveillance framework was put in place for Hungary with semi-annual review missions.

Strengthening of the legislative and supervisory aspects of the financial sector continued at European level, while restructuring of banking continued in many Member States. Proposals for a financial transaction tax were brought forward by the European Commission.

Reinforcing Europe's economic agenda

A stronger and more sustainable system of economic governance was introduced in the European Union over the course of the year. While new legislation to bolster it was discussed, and ultimately approved in the Parliament and the Council, the Commission launched the process of greater EU-level management and organisation of Member States' macroeconomic and budgetary policies. In 2012, this process will be underpinned by rigorous new legislation that will allow for financial sanctions to be applied to any euro area Member State which does not comply. Coupled with credible and effective stabilisation measures, this new approach to economic governance is designed to provide a framework for more effective macroeconomic responsibility in the EU as a whole, while at the same time underpinning the common currency.

Annual Growth Survey — Launch of the first European semester

KEY MEASURES OF THE ANNUAL GROWTH SURVEY 2011

It defined three main priorities and proposed 10 actions, which were to be agreed by the European Council.

The three priorities were:

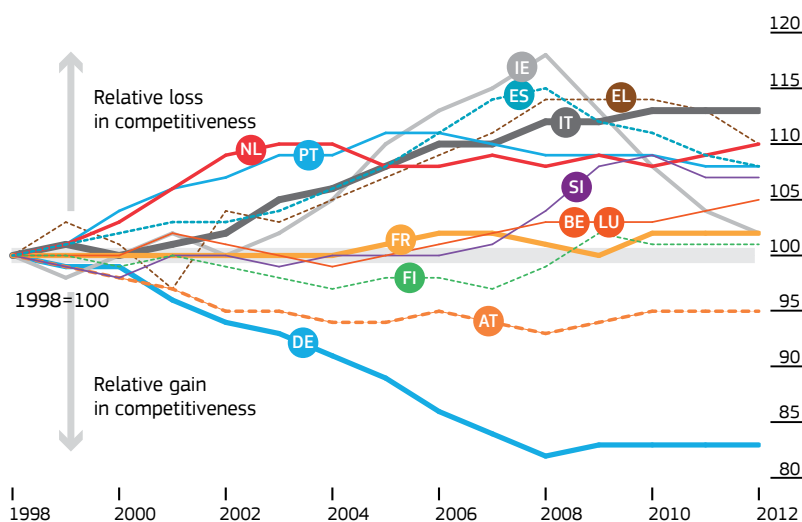
- (1) macroeconomic stability, particularly fiscal consolidation and stability of the financial sector;
- (2) labour market reforms, particularly creating job opportunities;
- (3) growth-enhancing measures, from the single market to trade and a common energy policy.

The European Commission adopted the first Annual Growth Survey⁽¹⁾ on 12 January. Setting out Commission views about challenges and priorities for action for the upcoming year, it marked the beginning of the first European semester — the new six-month cycle of *ex ante* coordination of the Member States' macroeconomic, budgetary and structural policies. The European semester is the framework in which the Europe 2020 strategy for smart, sustainable and inclusive growth is implemented (see Chapter 2). It is a major innovation in terms of governance of the interdependent economies of the Union as a whole, by strengthening the EU dimension of national budgetary and economic policy-making.

Correcting macroeconomic imbalances is a key condition for growth and is particularly relevant for the euro area. Structural reforms also serve to enhance growth, and to prevent or correct imbalances. In the absence of the introduction of adequate action in these areas, potential growth is likely to remain weak, at around 1.5 %, in the coming decade, compared with 1.8 % between 2001 and 2010.

INTRA-EURO AREA PRICE COMPETITIVENESS

Internal imbalances remain a challenge. Evolution of competitiveness against the rest of the euro area shows strong divergences.



The priorities identified by the Commission as well as its proposals for 10 actions between 2011 and 2012 were endorsed by the European Council in March.

Ten concrete priorities for 2011

Macroeconomic stability:

1. putting Member State public finances in order,
2. taking action to tackle current account deficits or surpluses,
3. ensuring the stability of the financial sector.

Labour market reforms:

4. helping people get back to work or find new jobs by making work more financially attractive,
5. reforming pension systems,
6. making sure that unemployment benefits provide an incentive to work,
7. better balance between flexibility and security in the labour market.

Measures that boost growth:

8. abolishing barriers that still hamper the single market,
 9. increasing investment in energy, transport and IT infrastructures, partially through innovative financing (including EU project bonds),
 10. creating cost-efficient access to energy.
-



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*Towards a stronger
European economic
governance.*

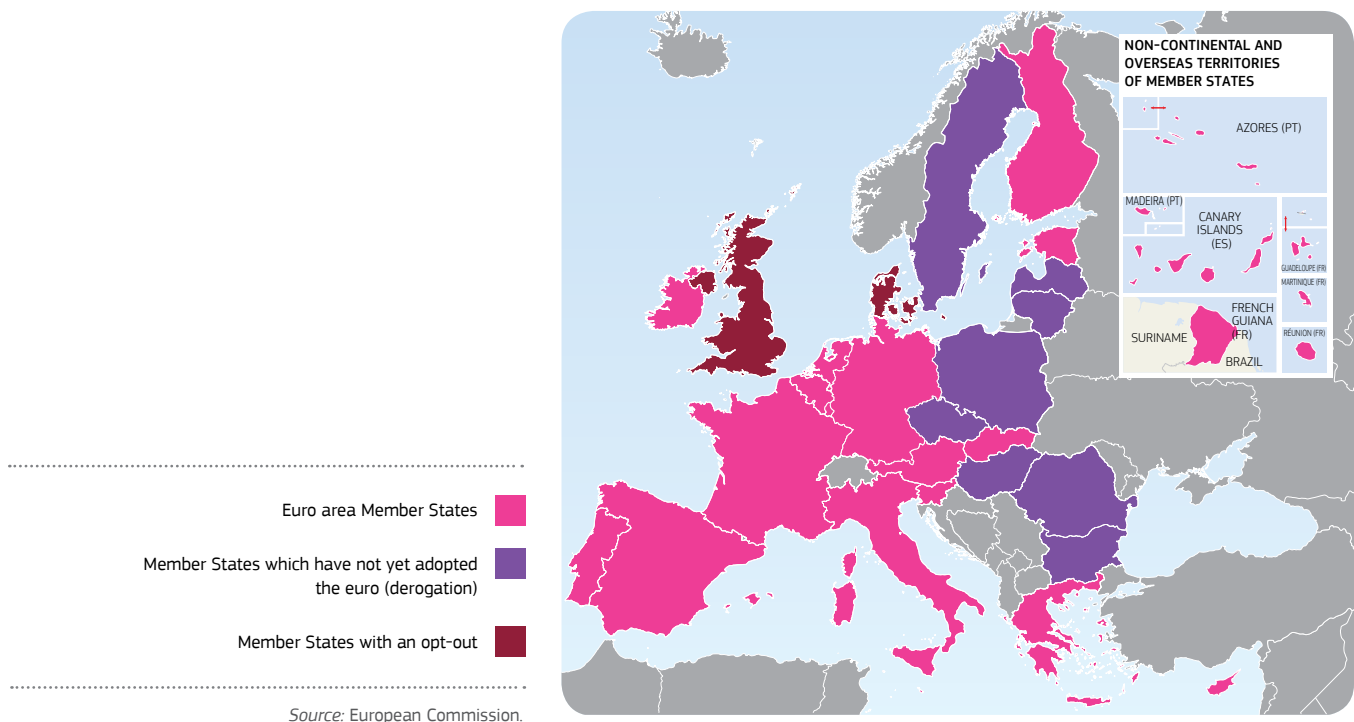
The Euro Plus Pact

Following the proposals set out in the Annual Growth Survey, in March the euro area Heads of State or Government agreed on the Euro Plus Pact⁽²⁾. Six non-euro area Member States, Bulgaria, Denmark, Latvia, Lithuania, Poland and Romania joined the Pact. It aims at strengthening high level political commitments, focusing on fostering competitiveness and convergence of the euro area. Thereby it targets four areas: competitiveness, employment, sustainability of public finances and reinforcing financial stability.

All 23 signatories are committed to implementing the reforms with the Pact being fully embedded in the European semester⁽³⁾. The remaining four Member States are free to sign up if they wish.

WHO IS IN THE EURO AREA?

The euro area consists of those Member States of the European Union that have adopted the euro as their currency. Today, around 330 million citizens in 17 countries live in the euro area.



From Annual Growth Survey to country-specific recommendations

After endorsement by the European Council at the end of June, the Council effectively concluded the first European semester by adopting country-specific recommendations⁽⁴⁾ for each Member State. Member States are expected to implement this country-specific guidance in their national policies and budgets.

The recommendations cover a broad range of issues including the state of public finances, the ability of the banking sector to sustain the economy, reforms of pension systems, measures to support job creation and help the unemployed return to work, education and innovation challenges.

They are based on draft recommendations and in-depth technical assessment by the Commission: (1) of the economic and budgetary situation in each Member State and (2) on whether the measures proposed by the Member States in their national reform programmes, stability or convergence programmes, as well as Euro Plus Pact commitments for those concerned, match their specific challenges. This assessment was made against the backdrop of priorities identified by the Commission in the Annual Growth Survey in January 2011 and as endorsed by the European Council in its conclusions of March 2011.

Implementation of the recommendations will be monitored closely by the Commission. The Commission will keep the Council informed of its findings. A formal assessment of each Member State's performance will take place in spring 2012 and the Commission will present the 2012 country-specific recommendations and accompanying analysis again in May.

What was the nature of the 2011 country-specific recommendations?

Macroeconomic stability

More effort needed to:

- ▶ reform the structure of tax systems and protect growth-enhancing expenditure items;
- ▶ specify the fiscal measures that will lead to a reduction in budget deficits;
- ▶ strengthen their regulatory framework for mortgages and reduce over-indebtedness of private households.

Structural reforms

More effort needed to:

- ▶ improve the business environment by reducing excessive regulatory constraints, making it easier to start a business and facilitating access to finance, especially for SMEs;
- ▶ foster competition in the services sector by fully implementing the services directive and enhancing competition and regulatory frameworks in network industries;
- ▶ promote R & D and innovation by providing incentives for private R & D investments and better matching R & D and innovation with business needs.

Labour markets

More effort needed to:

- ▶ boost labour force participation by increasing the retirement age, reducing early retirement schemes and improving accessibility of childcare;
- ▶ combat structural unemployment and integrate vulnerable groups by reducing payroll taxes and better targeting active labour market policies;
- ▶ reduce youth unemployment and early school leaving by reforming labour contracts where necessary and improving the links between education and employment;
- ▶ ensure that wages develop in line with productivity growth.



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Viviane Reding, Commission Vice-President responsible for Justice, Fundamental Rights and Citizenship, stressed that the crisis was not the end of Europe but the beginning of a stronger, more united Europe (6).

Second European semester for 2012 launched

To maintain momentum in the process, the Commission adopted the 2012 Annual Growth Survey⁽⁶⁾ in November 2011. The Annual Growth Survey identified also the key labour market reforms for Member States, based on the analytical work in the draft joint employment report⁽⁷⁾ that is part of the Commission package to launch the European semester.

The Annual Growth Survey sets out what the Commission believes must be the EU's priorities for the next 12 months in terms of budgetary policies and structural reforms. The 2012 survey is thus the starting point for the second European semester of economic governance. The national reform programmes (on structural reforms) and stability or convergence programmes (on budgetary policies) which Member States will submit in the spring, and the new or updated country-specific recommendations which the Commission will present in May, should all be consistent with the policy priorities put forward in the survey for 2012 and the guidance provided by the spring European Council. For the first time, the new surveillance tools agreed as part of the 'six-pack' will also be used within the framework of the European semester.

Key priorities of the Annual Growth Survey 2012

The 2012 Annual Growth Survey puts a strong emphasis on the need for implementing what has already been agreed with a clear emphasis on growth enhancing actions.

The Commission considers that efforts at national and EU level should concentrate on the following five priorities:

- ▶ Pursuing differentiated growth-friendly fiscal consolidation
 - ▶ Restoring normal lending to the economy
 - ▶ Promoting growth and competitiveness for today and tomorrow
 - ▶ Tackling unemployment and the social consequences of the crisis
 - ▶ Modernising public administration
-

Safeguarding the stability of the euro area

The stability of the common currency was the subject of very significant work by all institutions and the Member States over the course of the year. Particularly so far as the euro area was concerned; in essence what was at issue was the development of a stability union as a complement to a union of solidarity and responsibility. Great strides were undertaken — often in the most difficult of financial, economic and political circumstances — to provide the temporary and permanent foundations for such a union of stability.

Tighter EU surveillance of economic and fiscal policies

In order to strengthen economic governance in the European Union, the Commission in 2010 presented six proposals⁽⁹⁾ (the so-called six-pack) for adoption by the European Parliament and the Council. Four of the proposals aim to strengthen the Stability and Growth Pact and budgetary frameworks, while the remaining two focus on preventing and correcting macroeconomic imbalances. Following extensive discussions by the European legislator, the package, voted upon by the Parliament on 28 September and adopted⁽⁹⁾ by the Council on 8 November, entered into force on 13 December 2011.



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The package has three main objectives:

- ▶ 1st objective: stronger preventive and corrective action through a reinforced Stability and Growth Pact and deeper fiscal coordination. This is achieved by better surveillance of national budgets with, inter alia, much more attention on debt reduction, and the introduction of minimum requirements for national budgetary frameworks. The new system provides for greater transparency, with stricter rules and better enforcement.
- ▶ 2nd objective: preventing and correcting macroeconomic imbalances. A new surveillance mechanism is established to identify and correct imbalances much earlier, including through the use of a scoreboard of indicators.
- ▶ 3rd objective: strengthening enforcement. Both the Stability and Growth Pact and the new imbalances procedure are backed up by the possibility to impose progressive financial sanctions on euro area Member States, ranging from an interest-bearing deposit to fines. In addition, enforcement is strengthened by the expanded use of 'reverse qualified majority' voting. This means that if the Commission makes a recommendation or a proposal to the Council, it is considered adopted unless a qualified majority of Member States votes against it.

The euro has built bridges across its 17 Member States and stands as a global currency.

While this new legislative package will underpin a more coherent system of economic governance in Europe, including for the euro area, the scale and depth of the crisis prompted the Commission to propose further legislative reform late in 2011.

Further strengthening economic and budgetary surveillance in the euro area

In November, the Commission made proposals for a further two regulations to strengthen surveillance for the euro area and build on what has already been agreed in the 'six-pack' set of legislative measures. Given the deeper interdependence of the euro area countries, clearly demonstrated by the ongoing crisis, the Commission proposed to enhance both the coordination and the surveillance of budgetary processes for all euro area Member States and especially those with excessive budget deficits, experiencing or at serious risk of financial instability, or under a financial assistance programme.

The proposed regulation strengthening surveillance of budgetary policies in euro area Member States would require these countries to present their draft budgets at the same time each year and give the Commission the right to assess and, if necessary, issue an opinion on them. The Commission could request that these drafts be revised, should it consider them to be seriously non-compliant with the policy obligations laid down in the Stability and Growth Pact. All of this would be done publicly to ensure full transparency. The draft also proposes closer monitoring and reporting requirements for euro area countries in excessive deficit procedure, to apply on an ongoing basis throughout the budgetary cycle. In addition, euro area Member States would be required to establish independent fiscal councils and to base their budgets on independent forecasts.

The proposed regulation strengthening economic and fiscal surveillance of euro area countries facing or threatened with serious financial instability, would ensure that the surveillance of these Member States under a financial assistance programme, or facing a serious threat of financial instability, is robust, follows clear procedures and is embedded in EU law. The Commission would be able to decide whether a Member State experiencing severe difficulties with regard to its financial stability should be subject to enhanced surveillance. The Council would be able to issue a recommendation to such Member States to request corrective action.

EFSF and EFSM continued

The economic crisis has put great pressure on public finances, increasing levels of deficits and public debt in all Member States. Moreover, the evolution of sovereign debt has become a matter of serious concern since 2010 and has closed access for some euro area Member States to sustainable sovereign debt financing on markets.

To guarantee the stability of the euro area as a whole and assist individual Member States in financial difficulties and/or under serious market pressure, two temporary crisis resolution mechanisms, with a cumulative lending capacity of €500 billion were established in 2010. Ireland and Portugal benefited from financial assistance from these mechanisms over the course of 2011, while Greece benefited from a bilateral loan arrangement established for it. This was a clear reflection of the common interest and solidarity within the euro area. The European Central Bank played a significant role in providing market liquidity during the year (for details see Chapter 5).

In 2011, it was agreed to make the lending capacity of the European Financial Stability Facility (EFSF) of €440 billion fully effective. Combined with the maximum amount of €60 billion available through the European Financial Stabilisation Mechanism (EFSM), the total effective lending capacity of European firewalls was thus €500 billion. In July 2011, Heads of State or Government furthermore decided to increase the flexibility and effectiveness of the EFSF by lowering lending rates to better address debt sustainability of beneficiary Member States and increasing maturities.

Later in the year, guidelines for several new instruments were also agreed to for the EFSF (which will also apply for the future permanent mechanism, the ESM). These new instruments mean the EFSF will be able to enter into precautionary programmes (via precautionary credit lines), provide loans for the purpose of recapitalising financial institutions, and enter into primary and secondary market interventions. EFSF terms of reference were established and endorsed for two options to maximise its resources; although some work remains to be done before they are fully operational and some technical and legal procedures still need to be concluded. These options foresee either issuing partial protection certificates at the time of new bond issuances, or to pool public and private resources into one or multiple co-investment fund(s).



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Lastly, Heads of State or Government agreed to most changes made to the revised ESM Treaty, and have set a new goal of having the permanent European Stability Mechanism (ESM) — which will replace the EFSF — to enter into force in July 2012, one year earlier than originally intended. In line with the Commission's Annual Growth Survey of January 2011, this comprehensive approach and all additional measures should ensure that the European Union and, more specifically, the euro area have adequate firewalls in place to address the current crisis and remain prepared in case of future crises.

*Signature of the Treaty
establishing the European
Stability Mechanism (ESM)
on 11 July 2011.*

Greece

The 2010 euro area Member States/IMF assistance programme for Greece of €110 billion had to be supplemented by a second programme for Athens involving additional public financing, plus a substantial contribution from private sector bondholders. At the EU summit on 26 October, euro area Member States committed to provide additional financing of up to €100 billion for the second programme. In addition, it was agreed that private investors would contribute through a voluntary bond exchange with a nominal discount of 50 % on their holdings of Greek debt. The euro area Member States would contribute up to €30 billion for the debt rescheduling. The objective is to secure a reduction in Greek debt from currently around 160 % to 120 % of GDP by 2020.

OVERVIEW OF DISBURSEMENTS, BILLION €

Disbursements	Euro area	IMF	Total
May 2010	14.5	5.5	20.0
September 2010	6.5	2.5	9.0
Dec 10/Jan 11	6.5	2.5	9.0
March 2011	10.9	4.1	15.0
July 2011	8.7	3.3	12.0
December 2011	5.8	2.2	8.0
Total	52.9	20.1	73.0

Greek Task force

As agreed with the Greek authorities, a Commission task force was created and started work in September. Its purpose is to provide Greece with the technical assistance it needs to deliver on the EU/IMF adjustment programme and accelerate the absorption of EU funds. It works on specific projects jointly identified with Greece and focusses on economic growth, competitiveness and employment. It is to provide quarterly progress reports to the Greek authorities and to the European Commission.

Assistance packages for Ireland and Portugal

Ireland and Portugal receive financial support as part of assistance packages, jointly provided by the EU (EFSM — European Financial Stabilisation Mechanism), EFSF (European Financial Stability Facility) and the IMF (International Monetary Fund).

Ireland

Financial support is provided on the basis of a programme which the Commission and the IMF, in liaison with the ECB, negotiated in November 2010 with the Irish authorities.

The EU/EFSF/IMF assistance programme for Ireland amounts to up to €85 billion over three years, including a €17.5 billion contribution from the Irish Treasury and National Pension Reserve Fund as well as bilateral loans from the UK, Sweden and Denmark.

OVERVIEW OF DISBURSEMENTS, BILLION €

Disbursements	EU (EFSM)	EFSF	IMF (*)
January 2011	5.0		5.62
February 2011		3.3	
March 2011	3.4		
May 2011	3.0		1.58
September 2011	2.0		1.48
October 2011	0.5		
November 2011		3.0	
December 2011			3.91
Total	13.9	6.3	12.59(**)

(*) Euro equivalents to SDR (Special Drawing Rights) at date of disbursement.

(**) Total amount in Special Drawing Rights (SDR) €11.05 bn; euro equivalent in exchange rate as of 15 December 2011: €13.07 bn.

Portugal

Financial support is provided on the basis of an agreement on an economic adjustment programme which the Commission and the IMF, in liaison with the ECB negotiated in May 2011 with the Portuguese authorities.

This EU/EFSF/IMF assistance programme for Portugal amounts to up to €78 billion over three years.

OVERVIEW OF DISBURSEMENTS, BILLION €

Disbursements	EU (EFSM)	EFSF	IMF (*)	Total
May 2011	1.75		6.45	8.2
June 2011	4.75	5.8		10.55
September 2011	5.0		3.98	8.98
September 2011	2.0			2.0
October 2011	0.6			0.6
December 2011			2.90	2.90
Total	14.1	5.8	13.33(**)	33.23

(*) Euro equivalents to SDR (Special Drawing Rights) at date of disbursement.

(**) Total amount in Special Drawing Rights (SDR) €11.503 billion; euro equivalent in exchange rate as of 19 December 2011: €13.6 billion.

A permanent mechanism — the European Stability Mechanism (ESM)

Agreement has also been reached in 2011 on a permanent crisis resolution framework with the intention of it coming into effect in mid-2013. However, following renegotiations during the course of the year, it was agreed to advance the mechanism to mid-2012, in order to establish a stronger and more efficient firewall.

On 11 July 2011, finance ministers of the 17 euro area countries signed the Treaty establishing the European Stability Mechanism⁽¹⁰⁾ (ESM). The ESM will assume the tasks currently fulfilled by the temporary mechanisms — the European Financial Stability Facility (EFSF) and the European Financial Stabilisation Mechanism (EFSM). Further work on updating the treaty was still ongoing in December 2011, combined with the December European Council decision to advance the ESM to mid-2012.

A HIGHER LENDING VOLUME

The European Stability Mechanism will have an effective lending capacity of €500 billion: a total subscribed capital of €700 billion, of which €80 billion will be in the form of paid-in capital and €620 billion in committed callable capital, all from euro area Member States.

Access to ESM financial assistance, including the provision of loans, will be subject to strict policy conditionality under a macroeconomic adjustment programme and a rigorous analysis of public debt sustainability, conducted by the Commission together with the International Monetary Fund, in liaison with the European Central Bank.

Concerted efforts against the crisis

The EU leaders met repeatedly over the year either in the framework of the European Council or the Eurogroup, with major summits on 11 March, 21 July, 23 October and 26 October, and 8–9 December. They reaffirmed their commitment to the euro and to do whatever was needed to ensure the financial stability of the euro area and its Member States.

They agreed upon the development of new stabilisation tools for the euro area to improve the effectiveness of the EFSF and of the ESM and address the risk of contagion.

As turbulence on financial markets continued, budgetary consolidation and debt reduction remained crucially important in order to ensure the sustainability of public finances and restore confidence. The EU leaders agreed on urgent areas of action which had been proposed by the Commission in its roadmap for stability and growth⁽¹¹⁾: the Greece issues; stronger euro area governance; further recapitalised European banks; and growth-enhancing policies.

There was also full commitment by all Member States to implement the country-specific recommendations made under the first European semester and on focussing public expenditure on growth areas.

In October, Commissioner Rehn was appointed as Vice-President of the Commission with specific responsibility for economic and monetary affairs and the euro, with a strengthened role of coordination, surveillance and enforcement of economic governance in the euro area.



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Olli Rehn (right) was appointed as Commission Vice-President responsible for Economic and monetary affairs and the Euro. Here, with Jean-Claude Juncker, President of the Eurogroup.

In December the European Council discussed further strengthening of fiscal policy coordination, on the basis of proposals presented by the President of the European Council Herman Van Rompuy, the President of the European Commission José Manuel Barroso and the President of the Eurogroup Jean-Claude Juncker. There was no unanimous agreement, the UK dissenting. However agreement⁽¹²⁾ could be reached by the euro area Member States and other Member States, subject to national parliaments being consulted, on a 'fiscal compact' in the form of an intergovernmental treaty that would set tighter budget rules and strengthen economic coordination. The target is to reach a final agreement on the new treaty by March 2012.



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Focus on growth and jobs

All 27 EU governments agreed to speed up priority growth and job measures. These include completing the integration of the EU's energy markets, the development of a more connected infrastructure, and achieving better energy efficiency. For more details on growth enhancing measures, please refer to Chapter 2.

Crucial meeting of the European leaders in December.

Euro stability bonds

As part of the drive towards a more stable euro area governance, the Commission, answering a request of the European Parliament, made a contribution to structure the debate on eurobonds by publishing a Green Paper on stability bonds⁽¹³⁾ at the end of November to have a broad debate and public consultation on the issues raised. It analyses the potential benefits and challenges of three approaches to the joint issuance of debt in the euro area. The paper sets out the likely effects of each of these approaches on Member States' funding costs, European financial integration, financial market stability and the global attractiveness of EU financial markets. It also considers the risks of moral hazard posed by each approach, as well as its implications in terms of treaty change. Stability bonds are seen by some as a potentially highly effective long-term response to the sovereign debt crisis, while others are concerned that they would remove the market incentive for fiscal discipline and encourage moral hazard. The Commission makes clear that any move towards introducing stability bonds would only be feasible and desirable if there were a simultaneous strengthening of budgetary discipline. The extent of this strengthening needs to be commensurate with the ambition of the approach chosen.

The Green Paper finds that the common issuance of stability bonds would have significant potential benefits, namely:

- ▶ the prospect of stability bonds could potentially quickly alleviate the current sovereign debt crisis, as the high-yield Member States could benefit from the stronger creditworthiness of the low-yield Member States;
- ▶ they would make the euro area financial system more resilient to future adverse shocks and so reinforce financial stability;
- ▶ they would improve the effectiveness of euro area monetary policy;

- ▶ they would promote efficiency in the euro area sovereign bond market and in the broader euro area financial system;
- ▶ they would facilitate portfolio investment in the euro and foster a more balanced global financial system.

Using the euro

Ten years of the euro in our pockets

The date 1 January 2002 marked the introduction of euro notes and coins in the European Union, ushering in an unprecedented alignment of monetary policies and closer cooperation between countries of the euro area. The 332 million people who use the euro no longer have to pay extra costs to exchange currencies and there is more transparency in cross-border transactions, enabling consumers to compare prices between one euro area country and another.

ANDORRA READY TO ISSUE ITS OWN EURO COINS

As a result of a monetary agreement concluded in mid-2011 between Andorra and the European Union, the principality will be able to use the euro as its official currency and issue its own euro coins. The Principality of Andorra, with no official currency, had heretofore been using the euro as a de facto currency, without official legal status.

Estonia as 17th euro area country

On 1 January, Estonia adopted the euro as its official currency and the changeover went smoothly and according to plan. The previous national currency — the kroon — was phased out during a transitional two-week dual circulation period when both currencies had legal tender status in the state.

Euro area citizens and residents have voted for the winning design for a new euro coin that will be issued by all euro area countries in January 2012 to commemorate 10 years of euro banknotes and coins.

Normally each euro area Member State issues euro coins with a national design on one side. This is the third time that all euro area countries will issue a coin with a common commemorative design. The first time was in 2007 in order to celebrate the 50th anniversary of the signing of the Treaty of Rome and the second time was in 2009 to celebrate the 10th anniversary of the economic and monetary union. Some 90 million coins marking 10 years of the euro are likely to be put into circulation in 2012.

Almost 35 000 people voted in the online competition to select the winning design from a choice of five, which had been preselected by a professional jury following a design competition among citizens from the whole euro area.

The winning design symbolises the way in which the euro has evolved as a global player in the last 10 years and its importance in ordinary people's lives (represented by the people in the design), trade (the ship), industry (the factory) and energy (wind turbines).



© Sven Hoppe/Reporters/DPA

Ten years of the euro in our pockets — a new commemorative €2 coin was struck to mark the occasion.

Financial services — New supervisory architecture in action

The financial crisis highlighted only too clearly the limits and sometimes the failings of Europe's supervision system. The accumulation of excessive risk was not detected. Surveillance and supervision were not effective in time. Coordination between national authorities was far from optimal when transnational financial institutions faced problems, despite these institutions being more and more numerous. The Union's response to these serious challenges was the introduction of a completely new supervisory architecture tailored to the transnational nature of financial transactions. In addition a raft of new measures dealing with credit rating agencies, bank capital and reform of the audit sector were proposed by the Commission.

New supervisory authorities

The three new European authorities for the supervision of financial activities — for banks, markets and insurances and pensions respectively — commenced operations in January 2011, a few days after the launch of the European Systemic Risk Board. The date 1 January 2011, therefore, marked a major turning point for the European financial sector.

This new framework is at the core of ongoing financial reforms. It is the foundation on which all other reforms are based — for example those for credit rating agencies, hedge funds, derivatives and stress tests. Together, these measures are designed to underpin the financial system, enhance consumer protection and restore confidence among European citizens.

The European Systemic Risk Board is monitoring the entire financial sector, to identify potential problems that could precipitate a crisis in the future. It is working in close cooperation with the new European Supervisory Authorities. In addition to coordination and monitoring of national authorities, these new authorities will work with others across the world to ensure better global supervision.

Stress tests on banks

The results of the first stress tests carried out by the new European Banking Authority (EBA) on 90 banks in 21 countries were unveiled in mid-July.

The EU-wide stress tests undertaken by the EBA were more rigorous than those conducted previously. In particular, the definition of capital was stricter, the scenarios used were more severe, and for the first time, a thorough peer-review exercise was undertaken to ensure coherence and consistency of results.

Further recapitalisation for the banks participating in the 2011 EU-wide stress tests (excluding a subset of small cross-border banks) and medium-term funding guarantees was agreed by the euro area summit in October. These measures were triggered by the strains placed on such banks by their holdings of European sovereign debt. At the beginning of December the European Banking Authority (EBA) published a formal recommendation, and final figures, related to banks' recapitalisation needs, to address the current situation in the EU by restoring stability and confidence in the markets.

THREE NEW EUROPEAN AUTHORITIES TO SUPERVISE FINANCIAL ACTIVITIES

The European Banking Authority, the European Securities and Markets Authority, and the European Insurance and Occupational Pensions Authority were set up to detect problems early and to act in time. They started work on 1 January 2011.

Stronger and more responsible banks in Europe

Banks have been at the centre of the financial crisis the global economy has been facing since 2007. Crisis-related losses incurred by European banks between 2007 and 2010 are estimated as some €1 trillion or 8 % of EU GDP. Serious lessons have been learned from the crisis and the mistakes of the past should not repeat themselves. To this end, the European Commission initiated proposals⁽¹⁴⁾ in July 2011 to change the behaviour of the 8 000 banks that operate in Europe, notably in relation to prudential regulation and supervision, as a result of the endorsement by the G20 in November 2010 of the so-called 'Basel III' Agreement reached between international regulators in September 2010. The overarching goal of the legislative package (the so-called Capital Requirements Regulation and Directive — CRR/CRD IV) is to strengthen the resilience of the EU banking sector while ensuring that banks continue to finance economic activity and growth.



© John Foxx/Stockbyte/Getty Images

Rigorous stress tests on banks demonstrated the need for significant recapitalisation.

Once adopted by the Parliament and the Council, banks will have to hold more, better quality capital, as well as more liquid assets and avoid excessive lending. The objective is for banks to better withstand financial shocks and longer-term liquidity tensions, while being supervised to a much tougher and consistent set of standards. Overall, it is estimated that the new prudential rules will mean that the Union's banks will have to find some €460 billion of additional capital until the end of the decade. This is a relatively small price to pay for a much more secure banking system.

Financial transaction tax

In September 2011, the Commission presented a proposal for a financial transaction tax⁽¹⁵⁾ (FTT) for all 27 EU Member States, which requires adoption by the Council. The tax would be levied on all transactions on financial instruments between financial institutions when at least one party to the transaction is located in the EU. The exchange of shares and bonds would be taxed at a rate of 0.1 % and derivative contracts, at a rate of 0.01 %. This could raise approximately €57 billion every year. It is proposed that the tax should come into effect from 1 January 2014.

The Commission has proposed a new tax on financial transactions for two reasons:

- ▶ First, to ensure that the financial sector makes a fair contribution at a time of fiscal consolidation in the Member States and to help tackling common challenges. The financial sector played a role in the origins of the economic crisis. Governments and European citizens have borne the cost of massive taxpayer-funded bailouts to support the financial sector. Furthermore, the sector is currently under-taxed by comparison to other sectors. The proposal would generate significant additional tax revenue from the financial sector to contribute to public finances.

► Second, a coordinated framework at EU level would help to strengthen the single market. Currently, 10 Member States have a form of financial transaction tax in place. The proposal would introduce new minimum tax rates and harmonise different existing taxes on financial transactions in the EU. This would help to reduce competitive distortions in the single market, discourage risky trading activities and complement regulatory measures aimed at avoiding future crises. The introduction of a financial transaction tax would give rise to certain risks, such as the incidence of the tax (i.e. who bears the final burden of the tax), relocation of financial institutions to other countries, economic distortions and potential loss of competitiveness. In order to mitigate these risks, the Commission's proposal provides for low tax rates (differentiated per product group), a very wide tax base, by taxing all transactions among financial institutions when the tax residence of one of the institutions is in the EU, and harmonised scope.

A financial transaction tax at EU level would strengthen the EU's position to promote common rules for the introduction of such a tax at global level, notably through the G20. The matter was discussed at the November G20 meeting in Cannes.

NEW REVENUE FOR THE EU BUDGET

The revenues of the financial transaction tax, if adopted, would be shared between the EU and the Member States. Part of the tax could be used as an EU own resource which would partly reduce national contributions.

State aid to the financial sector

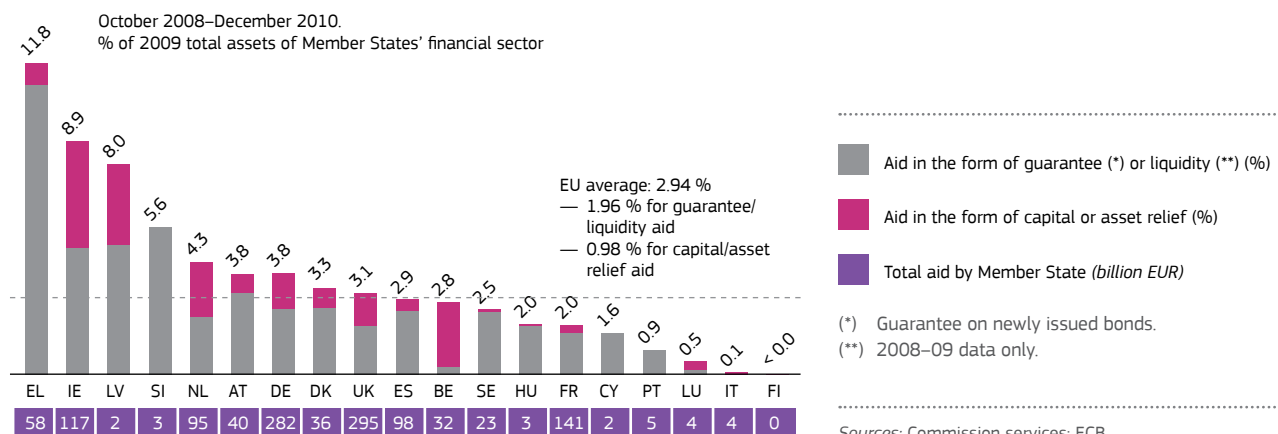
One role of the Commission is to control that state aid is not granted in any form whatsoever which distorts or threatens to distort competition by favouring certain firms or the production of certain goods, in so far as it affects trade between Member States.

Member States granted huge sums of money to banks caught in the financial and economic crisis. The Commission ensured that this was done under strict conditions and led to the restructuring of many financial institutions, for a healthier, and more transparent financial sector.

In October, the Commission published an analysis⁽¹⁶⁾ of the effects of the temporary state aid rules adopted in the context of the crisis from September 2008 until end 2010. It demonstrated that state aid control has proven to be an essential coordination tool to ensure the effectiveness of Member States' rescue packages, and is also bound to have contributed to their sustainability in terms of public finance.

USED AID TO THE FINANCIAL SECTOR AS A SHARE OF THE SIZE OF THE BANKING SECTOR

Member States used more than 10 % of EU GDP in state aid to restore financial stability and normal functioning of financial markets, including EU companies' continued access to credit.



Sources: Commission services; ECB.

State aid control has been effective in mitigating distortions of competition arising from the crisis aid. Also, state aid control has forced the financial sector both to restructure and to share the burden of its rescue with the taxpayers. Banks must remunerate and eventually repay the aid they received. The Commission has required tough measures from banks that received large amounts of aid, such as divestments and deleveraging, to ensure their long-term viability without state aid.

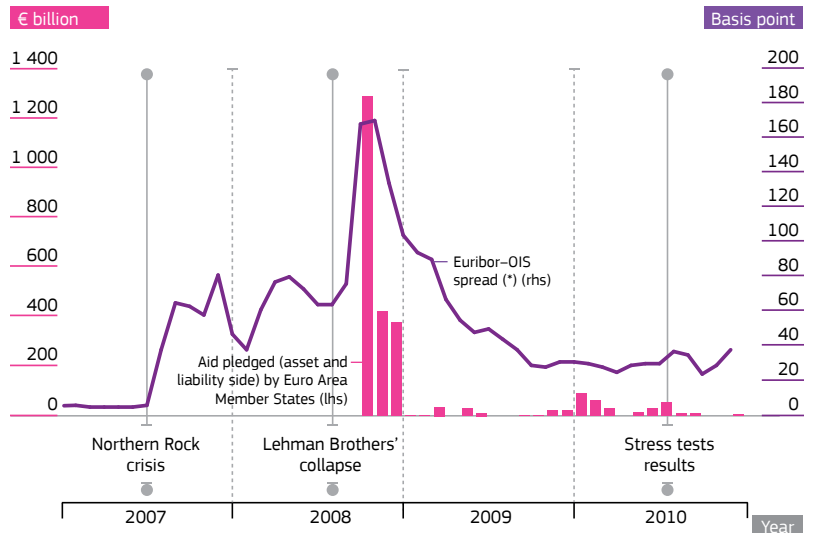
EVOLUTION OF EURIBOR-OIS SPREAD AND OF STATE AID SUPPORT TO THE FINANCIAL SECTOR PLEDGED BY EURO AREA MEMBER STATES

State aid has been effective in reducing financial instability

Euribor-OIS spread (*) measures the confidence of banking institutions in their counterparts — a high spread indicates a low level of confidence. It is an indirect indicator of the health of the banking system.

(*) Spread between Euribor (interbank market rate) and OIS (overnight rate swap index)

Source: Ecwin, Commission services.



The temporary framework of aid to the real economy complemented the framework for a swift and coordinated response during the crisis. Whilst its take-up has been limited, it has been a useful safety net allowing for an emergency response tailored to tackling the difficulties stemming from financial turmoil.

THE TEMPORARY STATE AID RULES ON SUPPORT TO THE FINANCIAL SECTOR

Between October 2008 and July 2009, the Commission published, in four communications, the basic principles that it would apply to state guarantees for bank liabilities, recapitalisations, and impaired asset relief and restructuring aid.

Overall, aid granted by Member States throughout the reference period (October 2008 to December 2010) amounted to €1 240 billion, or 10.5 % of EU GDP and 2.9 % of total assets of the EU financial sector.

On 1 December the Commission updated and prolonged the temporary state aid rules concerning financial institutions during the crisis. The main provisions consist in explaining how to ensure that the state is adequately remunerated if Member States decide to recapitalise their banks using instruments, such as ordinary shares, for which the remuneration is not fixed in advance. This extension was decided because of the tensions in sovereign debt markets that have put banks in the Union under renewed pressure. The rules will help put in place the package agreed by the European Council in October to restore confidence and to continue the necessary restructuring of the sector. They will apply as long as required by market conditions.

FINANCIAL REGULATION PROGRAMME OF THE EUROPEAN COMMISSION IN RESPONSE TO THE FINANCIAL CRISIS AND TO G20 COMMITMENTS

REFORMS PROPOSED BY THE EUROPEAN COMMISSION, BOTH ADOPTED AND IN THE PROCESS OF BEING ADOPTED BY THE EUROPEAN PARLIAMENT AND THE COUNCIL			
	BANKS AND INSURANCE UNDERTAKINGS	FINANCIAL MARKETS	CONSUMERS
July 2010	Directive CRD III: new rules on remuneration, prudential requirements and governance of financial institutions		Revision of the directive on deposit guarantee schemes (*)
			Revision of the directive on investor compensation schemes
September 2010	Introduction of the European systemic risk board and the European supervisory authorities for banking, securities and markets, and insurance (*)		
		Regulation on over-the-counter derivatives (*)	
		Regulation on short selling and certain aspects of credit default swaps (**)	
October 2010		Directive on hedge funds and private equity	
December 2010	Credit rating agency reforms (part 2) (*)		SEPA regulation (single euro payment area)
March 2011			Directive on mortgage credit
July 2011	Revision of the capital requirements directive for banks (CRD IV) (*)		Recommendation on access to a basic bank account
October 2011		Revision of the markets in financial instruments directive (Mifid) and new measures on market abuse (*)	
	Review of the accounting directives and the transparency directive		
November 2011	Credit rating agency reforms (part 3) (*)		
		Reform of the audit sector	
December 2011		Proposal for a venture capital regime	

Proposals adopted by the European Union.

Commission proposals being discussed in the Parliament and the Council.

(*) http://ec.europa.eu/internal_market/finances/policy/map_reform_en.htm

(**) G20 proposals.

Short-selling and credit default swaps

The agreement by the Parliament and the Council represented a significant step towards greater transparency, stability and responsibility in short-selling transactions and sovereign credit default swap (CDS) markets. Upon the entry into force of this regulation⁽¹⁷⁾, regulators will be able to respond in a more coordinated and effective way when short-selling poses a risk to the stability of markets.



A financial transaction tax would mean a levy on all transactions between financial institutions.

Financial markets and stock exchanges

The Commission tabled proposals⁽¹⁸⁾ to revise the markets in financial instruments directive (Mifid), which aim to make financial markets more efficient and transparent, in particular by improving the oversight of less regulated markets and by addressing the issue of excessive price volatility in commodity derivatives markets. The Commission also proposed a regulation⁽¹⁹⁾ on market abuse and a directive⁽²⁰⁾ to ensure effective criminal law sanctions at European level for insider dealing and market manipulation. These proposals draw lessons from the recent financial crises, and propose to give effect to the G20 agreement at the 2009 Pittsburgh summit.

Credit rating agencies

Two proposals⁽²¹⁾ for the tighter regulation of credit rating agencies (CRAs) were adopted by the Commission in mid-November 2011. CRAs are major players in today's financial markets, with rating actions having a direct impact on the actions of investors, borrowers, issuers and governments. For example, a corporate downgrade can have consequences on the capital a bank must hold and a downgrade of sovereign debt makes a country's borrowing more expensive. Despite the adoption of European legislation on credit rating agencies in 2009 and 2010, recent developments in the context of the euro debt crisis have shown the existing regulatory framework to be insufficient.

The four main goals of the proposed draft directive and draft regulation on CRAs are:

- ▶ to ensure that financial institutions do not blindly rely only on credit ratings for their investments;
- ▶ more transparent and more frequent sovereign debt ratings;
- ▶ more diversity and stricter independence of credit rating agencies to eliminate conflicts of interest;
- ▶ to make CRAs more accountable for the ratings they provide.



Michel Barnier, Commissioner for the Internal Market and Services, pioneered a raft of new measures to strengthen regulations of the financial sector.

Audit reform

The Commission adopted at the end of November two proposals⁽²²⁾ aiming to enhance the quality of statutory audits in the EU and restore confidence in audited financial statements, in particular those of banks, insurers and large listed companies. The proposals will clarify the role of the auditors and introduce more stringent rules to strengthen the independence of auditors as well as to promote greater diversity in the current highly concentrated audit market. Furthermore, the Commission is also proposing to create a single market allowing auditors to exercise their profession freely and easily across Europe, once licensed in one Member State. There are also proposals for a strengthened and more coordinated approach to the supervision of auditors in the EU.

ENDNOTES

- (1) http://ec.europa.eu/europe2020/tools/monitoring/annual_growth_survey_2011/index_en.htm
- (2) <http://www.european-council.europa.eu/home-page/highlights/pact-for-the-stability-of-the-euro-area.aspx?lang=en>
- (3) http://ec.europa.eu/europe2020/pdf/euro_plus_pact_presentation_december_2011_en.pdf
- (4) http://ec.europa.eu/europe2020/tools/monitoring/recommendations_2011/index_en.htm
- (5) <http://europa.eu/rapid/pressReleasesAction.do?reference=SPEECH/11/566&format=HTML&aged=1&language=EN&guiLanguage=en>
- (6) Commission communication — Annual Growth Survey 2012 (COMM(2011) 815).
- (7) Annual Growth Survey — Annex 3 — Draft joint employment report (COM(2011) 11).
- (8) http://ec.europa.eu/economy_finance/economic_governance/index_en.htm
- (9) http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ecofin/124882.pdf
- (10) Treaty establishing the European Stability Mechanism (ESM), <http://www.european-council.europa.eu/media/582311/05-tesm2.en12.pdf>
- (11) Commission communication — A roadmap to stability and growth (COM(2011) 669).
- (12) http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ec/126658.pdf
- (13) Green Paper on the feasibility of introducing stability bonds (COM(2011) 818).
- (14) Proposal for a directive on the access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms (COM(2011) 453) and proposal for a regulation on prudential requirements for credit institutions and investment firms (COM(2011) 452).
- (15) Proposal for a directive on a common system of financial transaction tax (COM(2011) 594).
- (16) Commission document — The effects of temporary state aid rules adopted in the context of the financial and economic crisis (SEC(2011) 1126).
- (17) Proposal for a regulation on short-selling and certain aspects of credit default swaps (COM(2010) 482).
- (18) Proposal for a directive on markets in financial instruments (COM(2011) 656).
- (19) Proposal for a regulation on insider dealing and market manipulation (market abuse) (COM(2011) 651).
- (20) Proposal for a directive on criminal sanctions for insider dealing and market manipulation (COM(2011) 654).
- (21) Proposal for a regulation on credit rating agencies (COM(2011) 747) and Proposal for a directive on the coordination of laws, regulations and administrative provisions relating to undertakings of collective investment in transferable securities and on Alternative Investment Funds Managers in respect of the excessive reliance on credit ratings (COM(2011) 746).
- (22) Proposal for a regulation on specific requirements regarding statutory audit of public-interest entities (COM(2011) 779) and Proposal for a directive on statutory audits of annual accounts and consolidated accounts (COM(2011) 778).



Chapter 2

Stronger growth



The Europe 2020 strategy is the EU's common economic agenda for growth over the next 10 years. It sets out clear targets and priorities at European and national level to boost Europe's growth over the next decade. The strategy deals both with short-term challenges linked to the crisis and the need for structural reforms through growth-enhancing measures needed to make Europe's economy fit for the future. It is monitored in the context of the European semester described in Chapter 1.

The single market is a core element of the Europe 2020 strategy. Boosting its potential will drive Europe's economy, further support the growth agenda, spur more efficient services and industry, open new opportunities for international trade, and lead to more and better employment opportunities.

All of the Union's actions are supported by its budget — now more focussed than ever on the growth agenda — while the new multiannual budget proposals for 2014 to 2020 are geared to leverage the maximum value added from European policies.

EU policies for growth — Europe 2020

The Europe 2020 strategy⁽¹⁾ consists of five targets for 2020 — to catalyse efforts by the end of the decade in critical areas for the EU's future: employment, innovation, climate/energy, education and social inclusion. The targets are agreed for the EU as a whole and were translated into national targets by each Member State in their national reform programmes:

- ▶ 75 % of the population aged 20–64 should be employed.
- ▶ 3 % of the EU's GDP should be invested in research and development.
- ▶ The EU should reduce its greenhouse emissions by at least 20 % compared to 1990 levels, or by 30 % if the conditions are right, increase its energy efficiency by 20 % and raise the share of renewable energies in overall energy consumption to 20 %.
- ▶ The share of early school leavers should be under 10 % and at least 40 % of the younger generation should have a higher education degree or diploma.
- ▶ 20 million fewer people should be at risk of poverty or social exclusion.

The Europe 2020 strategy is supplemented by seven flagship initiatives combining actions at the EU and at Member States levels on key issues linked to the priorities of the Europe 2020 strategy and aiming at supporting the achievements of the targets: Youth on the move, An agenda for new skills and jobs, Platform against Poverty and Social Exclusion, The Innovation Union, The digital agenda, An industrial policy for the globalisation era and Resource efficiency.

The full range of social and economic policies are being utilised to achieve the maximum from the growth agenda. These range from improving the functioning of the labour market, to the EU's potential for greater innovation, to improving resource efficiency, to improving educational attainment and to helping alleviate poverty and social exclusion.

Europe 2020 — Education and training

Promoting innovation and growth requires the availability of a skilled and trained workforce. A well educated and trained population is also necessary to address the challenges of demographic change and social inclusion in Europe. For these reasons investing in quality education, lifelong learning and training is essential for the realisation of the growth objectives of the Europe 2020 strategy.

Pre-school education

Education and care systems for children below the compulsory school age vary in different countries; Member States are cooperating to develop 'pre-primary' or 'pre-school' provision across the EU. In February 2011, the Commission set out the key issues for future European cooperation in early childhood education and care with the aim of improving access and quality of services from birth to the start of compulsory schooling, as laid down in the communication '[Early Childhood Education and Care: providing all our children with the best start for the world of tomorrow](#)'⁽²⁾. In May 2011 EU education ministers endorsed these plans and launched a process of policy cooperation at European level.

Early school leaving

Tackling early school leaving is a complex problem and cannot be solved by education policies alone. Yet, reducing the share of early school leavers across Europe by just 1 percentage point would create nearly half a million additional qualified young people each year. The Council supported the Commission's action plan in this area to promote efficient strategies to reduce early school leaving that address education, youth and social policies. They should include prevention, intervention and compensation measures. Member States committed to drawing up comprehensive strategies, taking account of national, regional and local circumstances, and integrating them into their national reform programmes.



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New higher education reform strategy

As part of the Youth on the move initiative, the European Commission published a reform strategy in September 2011 to boost graduate numbers, improve teaching quality and maximise what higher education can do to help the EU economy emerge stronger from the crisis⁽³⁾. The strategy identifies priority areas where EU countries need to do more to achieve shared education objectives and sets out how the European Union can support their modernisation policies. EU-level initiatives will include a multi-dimensional university ranking which will better inform students about the courses which are best for them and an 'Erasmus for Masters' loan guarantee scheme for students taking a full master's degree course in another EU country.

*Androulla Vassiliou,
Commissioner for
Education, Culture,
Multilingualism and Youth,
at WorldSkills London
2011, the world's largest
international skills
competition.*

Erasmus for all

A new programme — 'Erasmus for All' — was proposed by the Commission in November. It would allow up to 5 million people to receive EU grants to study, train or volunteer abroad between 2014 and 2020, nearly twice as many as currently.

Youth on the move

Youth on the move⁽⁴⁾ has set out how the EU can reach the Europe 2020 targets through action in three areas at national and European level:

- ▶ Improving education and training systems at all levels;
- ▶ Stronger policy efforts for improving youth employment;
- ▶ More EU youth mobility for learning purposes and on the labour markets.

For each of these areas, Youth on the move has a rich agenda ranging from concrete recommendations addressed to the Member States, new legislative initiatives, support for better information tools for young people and stronger involvement of the business sector.

During the course of the year, several specific initiatives were developed including 'Your first EURES Job' action to match young people to job vacancies, the 'Youth on the move' information campaign with the active involvement of national and regional authorities and the business sector, and the 'Youth at Work' awareness raising action building contacts between young people and small and medium-size enterprises (SMEs) to encourage demand among SME employers for young people.

The growing problem of youth unemployment calls for a partnership approach, between Member States and the Commission, and between them and the social partners. That is why the Commission proposed a 'Youth Opportunities Initiative' (5). This initiative builds on the two strands of EU action: fully mobilising EU financial support and strengthening the review of national policies and performances. Member States and the EU will combine their efforts in making a greater use of the European Social Fund for youth employment measures, in supporting the transition from school to work and in supporting mobility of young people in the labour market.



Youth on the move — Partnership between the Member States and the Commission to leverage greater use of the European Social Fund to support youth jobs measures was underlined by President Barroso and László Andor, Commissioner for Employment, Social Affairs and Inclusion.

The Commission emphasised that better use needed to be made of existing funds that are not yet committed: €30 billion of the European Social Fund is still not committed to projects which could help Member States to create larger scale support schemes for young people. In addition, €1.3 million of technical support will be provided through the European Social Fund to increase the number of apprenticeship schemes.

An agenda for new skills and jobs

Policy actions to address labour market challenges continue to be developed under the flagship 'An agenda for new skills and jobs'. Work is progressing well on the 13 key measures such as the EU skills panorama aimed at improving transparency for jobseekers, workers, companies and/or public institutions by providing updated forecasting of skills supply and labour market needs up to 2020, as well as on sectoral initiatives foreseen under the flagship such as the action plan on health workforce.

Free movement of workers

Professionally qualified workers need greater capacity to avail of their right to free movement and obtain employment. While progress has been made, the single market would benefit from greater mobility of such workers. To this end, the Commission carried out a major consultation on how to modernise the professional qualifications directive(6). Based on the consultation, proposals to amend the directive were tabled by the Commission by end year.

Europe 2020 — Social inclusion

The Europe 2020 growth strategy has made reducing poverty a target for the first time. EU leaders have pledged to bring at least 20 million people out of poverty and exclusion by 2020. There are many challenges to be met: to promote active inclusion in society and the labour market, to tackle financial exclusion and over-indebtedness, to eradicate child poverty, to provide decent housing for everyone, and to overcome discrimination and boost the prospects of persons with disabilities, ethnic minorities, immigrants and other vulnerable groups.

Combat against poverty and social exclusion

With more than 80 million people in the EU at risk of poverty — including 20 million children and 8 % of the working population — the European Platform against Poverty and Social Exclusion set out actions to reach the EU target of reducing poverty and social exclusion by at least 20 million by 2020 as part of the [Europe 2020 strategy](#).

Although [combating poverty and social exclusion](#) is mainly the responsibility of national governments, the EU can play a coordinating role by: identifying best practices and promoting mutual learning, setting up EU-wide rules and making funding available, in particular from the ESF.

Key actions to achieve this are:

- ▶ improved access to work, social security, essential services (health care, housing, etc.) and education;
- ▶ better use of EU funds to support social inclusion and combat discrimination;
- ▶ social innovation to find smart solutions, especially in terms of more effective and efficient social support;
- ▶ new partnerships between the public and the private sector.

The First Annual Convention of the European Platform against Poverty and Social Exclusion was organised on 17–18 October in Kraków, reviewing progress made towards the poverty and social exclusion reduction targets.

Integration of Roma EU citizens

The European Council⁽⁷⁾ endorsed the Commission proposal for an EU Framework for National Roma Integration Strategies⁽⁸⁾. Many of the estimated 10 to 12 million Roma in Europe face prejudice, intolerance, discrimination and social exclusion in their daily lives. They are marginalised and live in very poor socio-economic conditions. The Europe 2020 strategy for growth leaves no room for the persistent economic and social marginalisation of what constitutes Europe's largest minority. The new framework will help guide national Roma policies and mobilise funds that are available at EU level to support inclusion efforts, particularly as regards access to education, jobs, health care and housing.

EU co-funded Roma stories project wins digital media award

A European Union co-funded project aimed at countering Roma stereotypes through film won a prestigious award from the US-based Society of Professional Journalists. The 'Colourful but Colourblind' project brought together Roma and non-Roma journalists to produce a series of 25 short films telling the stories of Roma communities living in central and eastern Europe. The aim was to encourage a more balanced coverage of Roma issues and a greater participation of Roma journalists in mainstream media operations.



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*László Andor,
Commissioner for
Employment, Social Affairs
and Inclusion, presented
EC proposals for cohesion
policy 2014–20.*

European Social Fund and social dimension of EU cohesion policy — promoting employment in the EU

The European Social Fund (ESF) is the Union's main financial instrument to improve employment opportunities, skills, promote education and lifelong learning, enhance social inclusion, and combat poverty⁽⁹⁾. It is a key element of the Europe 2020 strategy for growth and jobs targeted at improving the lives of EU citizens by giving them better skills and better job prospects. Around 10 million final beneficiaries are supported by the ESF every year, increasing their chances of finding a job or keeping their current job. Many ESF projects target groups that are facing particular challenges, such as young people, older workers, women or minorities⁽¹⁰⁾. Over the period 2007–13 more than €75 billion is available to national and regional authorities for investment in people, in line with policy priorities agreed at EU level.

Putting people first is an important part of the European Commission's effort to exit from the crisis. The ESF is one of the EU's Structural Funds that function as the financial levers which translate EU policies into a reality on the ground for millions of citizens, helping them to find employment and contribute to a job-rich recovery⁽¹¹⁾, with two examples below.

Work Factory (Sweden)

The ESF project implemented in Åmål, Sweden, from 2008 to 2010, focussed on getting young unemployed people into work, studies or training. It targeted youngsters between the ages of 16 and 25, who had to be on state welfare or municipal support.

In the 20–24 year-old age bracket, unemployment was 18 % in Åmål in 2010, making 'Work Factory' a valuable and necessary project. The success rate, measured by how many participants became able to support themselves financially and not rely on benefits, was high, reaching approximately 60 %. Of these, 38 % found work, 13 % started studying and 8 % received vocational training.

QUALI-FORM-IDE (Belgium)

The ambitious objectives of this ESF-funded project include improving the quality of training, increasing the employment rate, and promoting social cohesion in Belgium's French-speaking region. The project plays an integral part in efforts to raise employment to the EU target rate of 70 %, and enables 12.5 % of the population to take up training each year.

Specifically in the context of this project, public employment service Forem heads a network including nine skills centres and three 'open' training centres around Wallonia and parts of Brussels. The centres equip workers for locally-based jobs in industries such as logistics, painting, tourism, catering and park maintenance. A mid-term evaluation found a 70 % success rate in meeting targets.

Europe 2020 — Research, development and innovation

The Innovation Union

The Europe 2020 strategy has The Innovation Union at its core, focussing on the toughest challenges of our era, particularly health and the ageing population, climate change, energy and food security, and the need for greater resource efficiency.



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The Innovation Union aims to forge even better links between research and innovation and job creation which is vital if Europe is to recover quickly from the current economic crisis. Each euro invested in EU research leads to an increase in industry added value of between €7 and €14, while 3 % of EU GDP on research and development by 2020 could create 3.7 million jobs and increase annual GDP by close to €800 billion by 2025.

Over the course of the first year since its launch, The Innovation Union has reached a number of key milestones. In February 2011, the European Council placed The Innovation Union at the top of the political agenda⁽¹²⁾. Also in February, the Commission adopted measures to make participation in the current EU research framework programme (FP7) more attractive and more accessible to the best researchers and most innovative companies⁽¹³⁾. At the same time, the 2010 edition of the European Innovation Scoreboard was published⁽¹⁴⁾, marking the debut of the new Innovation Union Scoreboard (IUS) providing a better picture of the EU's overall situation.

In June, the Commission launched the 'smart specialisation platform' to support regions and Member States in better defining their research and innovation strategies⁽¹⁵⁾. As there is no 'one-size-fits-all' policy solution, the new facility will help regions to assess their specific research and innovation strengths and weaknesses and build on their competitive advantage.

Máire Geoghegan-Quinn, Commissioner for Research, Innovation and Science, proposed a new €80 billion research and innovation fund — Horizon 2020 — a key component in the MFF package.

In July, the European Commission announced nearly €7 billion to kick-start innovation through research with the new calls for proposals under the EU's seventh framework programme for research (FP7). This was the European Commission's biggest ever such funding package, under the FP7, and the first one since the launch of The Innovation Union.

THE EU PATENT

On 13 April 2011 the European Commission tabled a package of two legislative proposals, under enhanced cooperation, that will radically reduce the cost of patents in Europe by up to 80 %⁽¹⁷⁾. Once adopted these would apply to 25 Member States, with major cost savings designed to boost Europe's innovation capacity.

The main focus of the calls was the integration of research with innovation to tackle societal challenges and create sustainable jobs and growth by giving Europe a lead in the key technology markets of the future. Special attention will be given to small and medium-sized enterprises (SMEs) via a package of close to €1 billion.

On 5 and 6 December President Barroso opened the first edition of the Innovation Convention featuring top level speakers and gathering more than 1 200 participants. During the event, the European Commission and the European Investment Bank Group launched a new guarantee facility for innovative SMEs to help them access finance from banks. It is expected to unlock a further €6 billion of loans until the end of 2013, including up to €1.2 billion for SMEs and up to €300 million for research infrastructure.

Horizon 2020

On 30 November the Commission adopted Horizon 2020 — the framework programme for research and innovation⁽¹⁶⁾ from 2014 to 2020, a €80 billion package for research and innovation funding, as a part of the drive to create sustainable growth and new jobs in Europe.

Horizon 2020 will provide major simplification through a single set of rules. It will combine all research and innovation funding currently provided through the [framework programmes for research and technical development](#), the innovation-related activities of the competitiveness and innovation framework programme (CIP) and the European Institute of Innovation and Technology (EIT).

The proposed support for research and innovation under Horizon 2020 will strengthen the EU's position in science with a dedicated budget of around €24.6 billion to boost top-level research in Europe, including an increase in funding of 77 % for the European Research Council (ERC). An investment of some €18 billion will help to strengthen industrial leadership in innovation, with emphasis on key technologies, greater access to capital and support for SMEs. The programme will also provide in the area of €31.7 billion to help address major concerns shared by all Europeans such as climate change, developing sustainable transport and mobility, making renewable energy more affordable, ensuring food safety and security, and coping with the challenge of an ageing population.

Horizon 2020 will tackle societal challenges by helping to bridge the gap between research and the market by, for example, helping innovative enterprise to develop their technological breakthroughs into viable products with real commercial potential. This market-driven approach will include creating partnerships with the private sector and Member States to bring together the resources needed. Horizon 2020 will be complemented by further measures to complete and further develop the European Research Area with the aim of breaking down barriers and creating a genuine single market for knowledge, research and innovation.

Information and communications technology (ICT)

Improving Europe's investment in ICT research and development — through better funding, and better coordination — is right at the heart of The digital agenda. In 2011, new ICT projects were launched for a total funding of around €850 million and several calls for proposals were published for an additional €950 million funding to be made available in 2012.



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Neelie Kroes, Commission Vice-President responsible for Digital Agenda, underlined the need to think beyond the present at the 2011 'Future and Emerging Technologies'.

The European Commission launched in May a new flagship action in the area of research into future and emerging technologies (FET). The aim will be to deliver major breakthroughs in information and communication technologies (ICT), with the potential to provide solutions to some of society's biggest challenges. Six contenders will compete for one year, after which two proposals will be selected for long-term funding over 10 years, each with a total budget of up to €1 billion overall.

Two Joint Technology Initiatives (Artemis and ENIAC) received continuing support as well as three public-private partnerships (PPP) launched in collaboration with other themes/Directorates-General as part of the European Economic Recovery package (2008). These PPPs aim to increase the investment in industry-led research and innovation and to align research agendas in the areas of green cars, European energy-efficient buildings and factories of the future.

The [Future Internet Public-Private Partnership \(FI-PPP\)](#)⁽¹⁹⁾ research and innovation programme was launched in May 2011 to advance Europe's competitiveness in future Internet technologies and systems supporting smart services and applications. The partnership will support innovation in Europe and help businesses and governments to develop new Internet solutions based on complex online data to smarten up infrastructure and business processes.

Europe 2020 — Resource efficiency

The Europe 2020 flagship initiative for a resource-efficient Europe launched in January 2011⁽²⁰⁾ stressed the need for an urgent and significant transition for consumers and producers in all relevant areas such as energy, transport, climate, environment, agriculture, fisheries and regional policy. It underlined the necessity to conduct a comprehensive analysis of synergies and trade-offs in order to identify the most appropriate policy instruments ensuring notably that prices reflect the true costs to society and that consumers have access to better information for their choices.

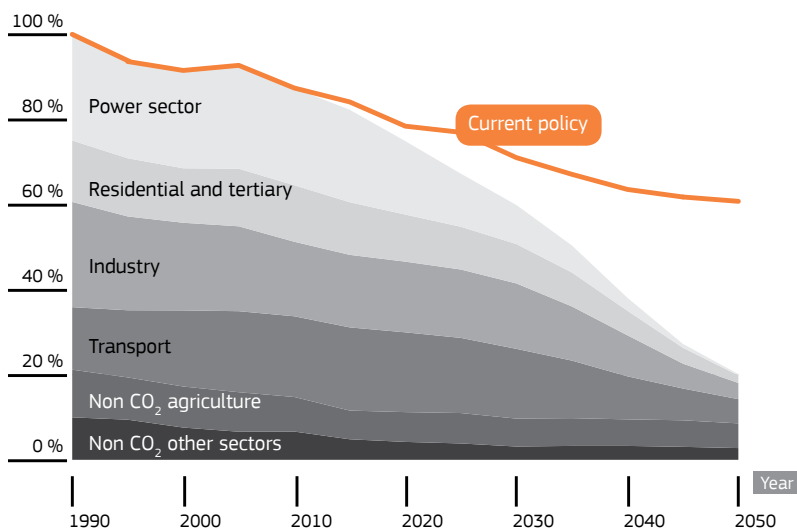
The flagship initiative ensures long-term policy coherence through four inter-linked roadmaps based on joint analysis and specifying the transition needed until 2050, i.e. the [roadmap for moving to a competitive low-carbon economy in 2050](#), the White Paper on the future of transport, the roadmap towards a resource-efficient Europe and the 2050 energy roadmap. A key theme is to ensure that all policies support resource-efficiency objectives.

Resource efficiency roadmaps

- ▶ The roadmap for moving to a competitive low-carbon economy in 2050, published by the Commission in March together with the energy efficiency plan, set out a pathway and milestones to enable Europe to make the low carbon transition in the most cost-effective way. These foresee emission reductions, to be achieved through domestic measures alone, of 40 % below 1990 levels by 2030, 60 % by 2040 and 80 % by 2050. The roadmap will allow the EU to maintain leadership in the global shift to a low-carbon future and maximise the benefits for the European economy in terms of strengthening our energy security and stimulating technological innovation, economic growth and job creation. The Commission's analysis shows that the additional investment required would be largely or fully recovered through reductions in imported energy.

LOW CARBON ECONOMY ROADMAP

Ambitious targets have been set for mid-century for low carbon economic activities and households alike



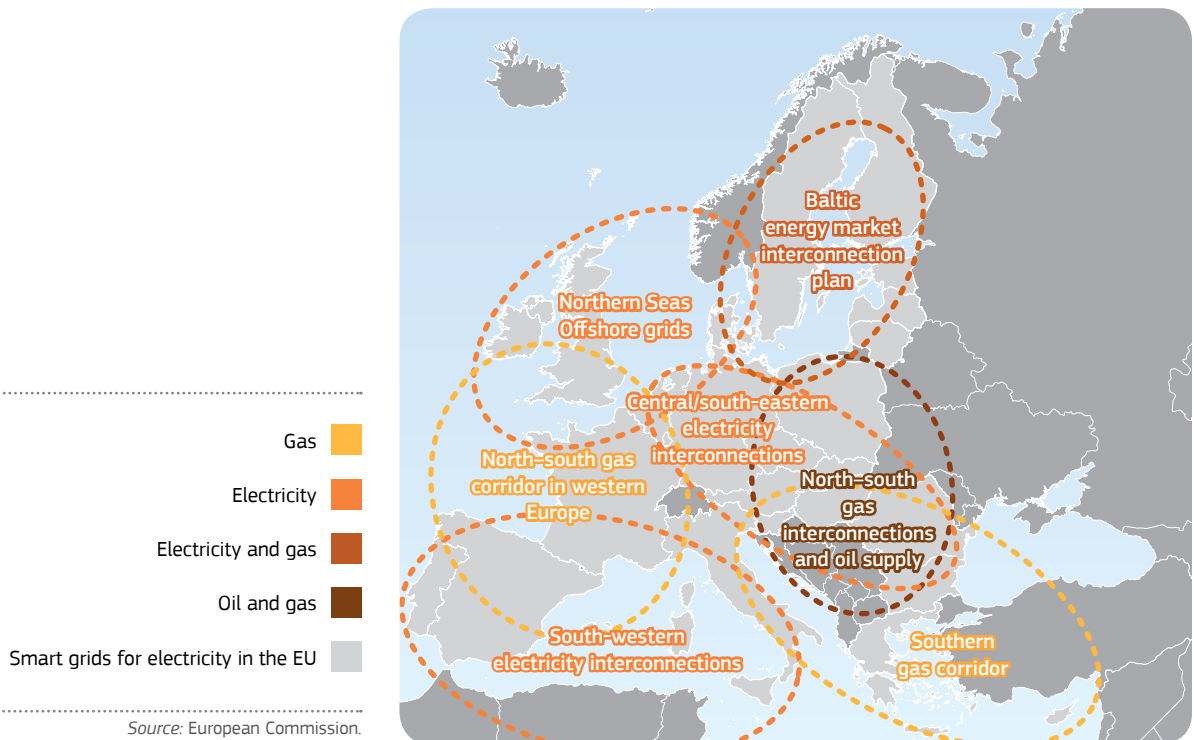
SUPPORTING RESOURCE EFFICIENCY

In April, the European Commission presented its proposal to overhaul the outdated rules on the taxation of energy products in the European Union⁽²²⁾. The new draft rules aim to restructure the way energy products are taxed to remove current imbalances and take into account both their CO₂ emissions and energy content. They also aim at promoting energy efficiency and consumption of more environmentally friendly products and avoiding distortions of competition in the single market.

- ▶ In March 2011 the European Commission adopted a White Paper⁽²¹⁾ which sets out the roadmap to a single European transport area. It contains 40 concrete initiatives for the next decade to build a competitive and resource-efficient transport system that will increase mobility, remove major barriers in key areas and boost growth and employment. At the same time, the proposals will dramatically reduce Europe's dependence on imported oil and cut carbon emissions in transport by 60 % by 2050.
- ▶ In September 2011, the Commission published a roadmap towards a resource-efficient Europe⁽²³⁾ that describes the tools and actions to transform the EU economy into one that uses key natural resources more efficiently. The roadmap builds upon and complements the other initiatives under the resource efficiency flagship. The roadmap provides a framework in which future actions can be designed and implemented coherently. It sets out a vision for the structural and technological change needed up to 2050, with milestones to be reached by 2020.
- ▶ The energy roadmap for 2050 published in December⁽²⁴⁾ is the new long-term framework providing guidelines on how to achieve a low-carbon economy by 2050, as set out by the Commission earlier in the year. Decarbonisation of our economy translates into a CO₂-emission-free electricity sector. Electrification of road transport will also have major benefits.

ENERGY INFRASTRUCTURE PRIORITIES BY 2020

Geographical priorities have been according to the different energy sources



Emissions Trading System

The Commission continued preparations for the timely implementation of the revised Emissions Trading System, with the third trading period starting on 1 January 2013⁽²⁵⁾. In particular an important step was taken on 26 September for the aviation industry to join other economic sectors in the fight against climate change. Aviation will become part of the EU's Emissions Trading System from 2012. The Commission published the benchmark values which will be used to allocate greenhouse gas emission allowances free of charge to more than 900 aircraft operators. Publication of the benchmark values enables airlines to calculate their free allocation of allowances up to 2020.

The Parliament and the Council agreed upon a new directive on road use charges for heavy goods vehicles ('Eurovignette')⁽²⁷⁾. The new European framework law, which is a revision of the 'Eurovignette' directive of 1999, aims at reducing pollution from road freight transport and making traffic flow smoother by levying tolls that factor in the cost of air and noise pollution due to traffic and help avoid road congestion.

EU macro-regional strategies supporting more efficient use of resources

The first progress report on the EU Strategy for the Baltic Sea Region (focusing on four challenges: environmental concerns, prosperity, accessibility and security) demonstrated that the strategy facilitated new projects and gave momentum to existing ones. Moreover, the strategy's integrated approach encouraged better policy development and the alignment of funding and resources, resulting in a better implementation of the EU's overall objectives under Europe 2020. Similar results are expected for the EU Strategy for the Danube Region which started implementation in 2011. Some 200 priority actions are expected to contribute to developing the area's economic potential and improving environmental conditions.

Industrial competitiveness key to economic recovery

As an integral part of the Union's growth strategy, industry must feature centre stage if Europe is to remain a global economic leader. This was the core message of the communication on 'An integrated industrial policy for the globalisation era' adopted by the European Commission last year⁽²⁸⁾. This flagship initiative of the Europe 2020 strategy, set out a strategy that aims to boost growth and jobs by maintaining and supporting a strong, diversified and competitive industrial base in Europe offering well paid jobs while becoming less carbon intensive.

'European industry is in good shape and ready to compete.' This was the main conclusion on the presentation of the Commission's industrial competitiveness report in October 2011.

Industry's output declined by 23 % as a consequence of the financial crisis in 2008. However, European manufacturing has picked up better than expected. Manufacturing output is now some 14 % higher than its trough in early 2009 but still 9 % below its peak in early 2008 (see figure) and jobs in industry and industry-related services are still 11 % below the 2008 peak.

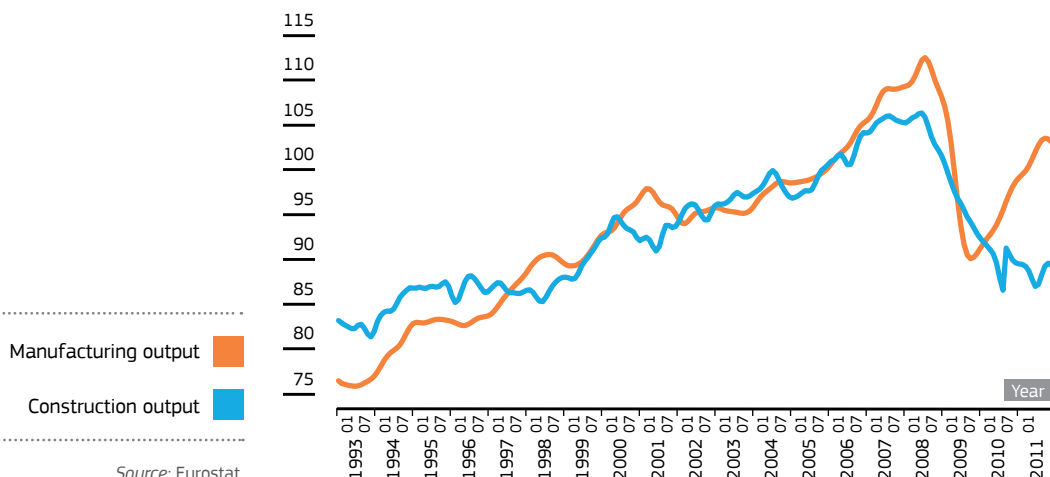
EUROPEAN ENERGY EFFICIENCY FUND (EEE-F)

On 1 July 2011, the Commission launched the EEE-F which will allocate some €146 million towards a new financial facility dedicated to projects in energy efficiency and renewable energies⁽²⁶⁾.

EU-27 PRODUCTION INDICES 1993–2011 (TREND ADJUSTED)

Production outputs show a divergent trend between manufacturing and construction over the past decade

Index (2005 = 100)



Source: Eurostat.

The main results of the competitiveness reports

- ▶ **Labour productivity:** The productivity rate is above the EU average in Ireland, the Netherlands, Austria, Finland, Belgium, Luxembourg and Sweden whilst it is below the average in Slovakia, Poland, Slovenia, Cyprus, Hungary, Czech Republic, Portugal, Estonia, Lithuania, Romania, Latvia, and Bulgaria.
- ▶ **The EU has less young innovative firms:** EU companies have a poorer performance in terms of the applications and commercialisation of research and innovation relative to the US and Japan. The share of innovating companies among all companies is especially high in Luxembourg, Germany, Belgium and Portugal, whilst it is low in Hungary, Poland, Latvia and Lithuania.
- ▶ **Industry is increasingly intertwined with services:** In particular knowledge-intensive business services are increasingly used as direct and indirect inputs by industry, accounting for up to 9 % of EU-12 and 18 % of EU-15 exports.
- ▶ **EU industry is improving raw material efficiency:** It is increasingly using recycles and innovative substitute materials, but accessibility and affordability of non-energy raw materials are crucial for the competitiveness of several raw-material-intensive manufacturing industries in the EU.
- ▶ **Industrial efficiency:** The EU is leading the way in many instances, generally ahead of the US and closing the gap on Japan. However, there are significant differences in performance across Member States and industrial sectors in the EU.
- ▶ **Business-friendliness of government regulation:** The group of countries where regulation is less burdensome for companies includes Luxembourg, Finland, Estonia, Cyprus, Denmark and Sweden, whilst companies complain most in Belgium, Portugal, Greece, Hungary and Italy.

European industry needs access to critical raw materials

Excessive volatility of prices on all major commodity markets is happening at a time when the competitiveness of European industry crucially depends on efficient and secure access to raw materials. Raw materials are vital for the EU's economy and particularly crucial for the development of modern environmentally friendly technologies such as electric cars and photovoltaic. These price fluctuations, which are often the result of protectionist measures, increase inflation and distort global raw material markets. This in turn has a negative effect on numerous European sectors from the agricultural industry to the car industry. In response to these challenges, the European Commission presented an integrated strategic vision to tackle challenges on raw materials in February 2011⁽²⁹⁾. The Commission proposes actions to improve the regulation, functioning and transparency of financial and commodity markets.



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Common standards to boost competitiveness

Critical to Europe's competitiveness is the faster development of common industry standards that will leverage cost savings and benefits to businesses and consumers alike. To achieve this aim the Commission proposed a series of legislative and non-legislative measures to develop more and faster standards⁽³⁰⁾.

The most important steps in the Commission's proposal are the following:

- ▶ Europe will push for more international standards in those economic sectors where Europe is a global leader;
- ▶ more market-driven European standards for services should be developed giving companies commercial advantages;
- ▶ to propose an easy and fast way to recognise the increasingly important ICT standards;
- ▶ the Commission will enhance its cooperation with the leading standardisation organisations in Europe (i.e. CEN, Cenelec and ETSI) so that their standards will be available more rapidly;
- ▶ European standards will be drafted with the help of organisations representing those most affected, or most concerned — consumers, small businesses, environmental and social organisations.

The new standard for a universal mobile phone charger to fit all models is a perfect example of the significant value of European standards for our daily lives (see Chapter 3).

*Antonio Tajani,
Commission Vice-President
responsible for Industry
and Entrepreneurship, with
a miniature of the
European satellite Envisat.*

A VAT REFORM WHICH SHOULD HELP BOOST GROWTH BY CUTTING COSTS FOR BUSINESS

The Commission adopted a communication⁽³²⁾ on the future of VAT on 6 December which sets out the fundamental characteristics that must underlie the new VAT regime, and priority actions needed to create a simpler, more efficient and more robust VAT system in the EU.

Three overriding objectives shape the vision for the new VAT system; first, VAT must be made more workable for businesses; second, VAT must be made more efficient in supporting Member States' fiscal consolidation efforts and sustainable economic growth; third, the huge revenue losses that occur today due to uncollected VAT and fraud need to be stopped.

*Johannes Hahn,
Commissioner for Regional
Policy, in Italy. An effective
regional policy is essential
for competitiveness and
raising standards.*

Common Consolidated Corporate Tax Base (CCCTB) — cutting costs — boosting competitiveness

The tax-related costs that businesses bear when they operate cross border in Europe, including having to deal with up to 27 different tax systems, are significant. Current evidence estimates compliance costs at 2 % to 4 % of corporate income tax revenues. Moreover, these costs weigh more heavily on SMEs, discouraging them from expanding across borders. It is clear that there is a need for a common system to address this significant issue.

During 2011, the Commission set out its long awaited proposals⁽³¹⁾ for the creation of a common set of rules in the EU to calculate the corporate tax base of businesses operating in the internal market. The new system is geared to making life easier for companies: to reduce compliance costs, and to exploit the economies of scale of Europe's internal market for growth and jobs. Contrary to many suggestions, the proposal has nothing to do with harmonising tax rates — corporate tax rates will continue to be set by Member States.

The CCCTB proposes the first ever common EU set of rules for calculating the corporate tax base of businesses operating in the internal market. The companies that decide to enter into the system will calculate their taxable profits according to these rules. This system will be optional: it will be up to the companies to sign up or not to the system. It also means the possibility for a cross-border firm to file a single, consolidated tax return with one administration for their entire activity within the EU.



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WINNER OF REGIOSTARS AWARD 2011 IN THE CATEGORY 'ECONOMIC COMPETITIVENESS — ANTICIPATING ECONOMIC CHANGE'

System management for innovative platforms — SLIM: The SLIM project promoted cluster development by linking clusters, universities and regional authorities to stimulate innovation in the companies involved. It was implemented in the regions of Dalarna, Gävleborg and Värmland in northern central Sweden. The companies were encouraged to intensify and widen their networking in order to develop new products and services and increase employment. Research on the performance of the companies and communication of the results was an important element of the project.

EU cohesion/regional policy contributes to increased growth and solidarity in regions

Cohesion policy is a structural medium/long-term investment policy for developing regional economies. It is a solidarity policy, reducing regional disparities, with funding heavily concentrated on the poorer regions, helping them to catch up. As an investment and solidarity policy, by investing notably but not exclusively in poorer regions, it improves the overall growth and employment prospects across the Union.

Cohesion policy is the main source of EU investment for the Europe 2020 strategy and makes a significant contribution to growth and prosperity. Through its strong principle of partnership and decentralised implementation system cohesion policy has great potential to promote the integration of the strategy in policy and funding decisions at regional and local level. By involving all regions the policy helps to mobilise regional and local actors, thereby creating a wider ownership of the objectives and targets of the EU priorities, which is a precondition for successful implementation.

An open and fair internal market

The single market is the core economic driving force of the European Union. Its further development is essential; in part to address the current economic crisis, but also to further generate growth and employment. Its development potential has not yet been fully exploited, despite the progress made since its creation in 1992.

The Single Market Act

The single market must take further steps to lay the foundations for new, greener and more inclusive growth and the Single Market Act⁽³³⁾ adopted by the Commission in April, contains 12 key areas to revitalise and renew the single market.



© Simon Smith/Verita/Getty Images

These 12 drivers for growth, competitiveness and social progress include workers' mobility, financing for SMEs, consumer protection, as well as digital content, taxation and trans-European networks. They aim to make life easier for all market players: businesses, citizens, consumers and workers. The Commission has proposed that the Union should adopt a key action for each lever by the end of 2012. The Council has explicitly endorsed the Single Market Act and adopted conclusions⁽³⁴⁾ giving support to the 12 priority actions put forward by the Commission and it has committed to their adoption by the end of 2012. The Commission will also deliver on a host of parallel policy initiatives also set out in the Single Market Act. The top priority will be nonetheless to deliver the 12 key actions by the end of 2012.

The Single Market in action.

Key proposals from the Single Market Act are described throughout this chapter. The table below provides an overview of the key actions.

Key actions	Date of proposal	Objective
Legislation to amend the directive on energy taxation	13 April 2011	The new rules aim to restructure the way energy products are taxed to remove current imbalances and take into account both their CO ₂ emissions and energy content.
Legislation establishing a unitary patent in the EU	13 April 2011	Once adopted holders of European patents can apply for unitary patent protection for the territory of 25 Member States at the European Patent Office. This will radically reduce the cost of patents in Europe by up to 80 %.
Revision of legislation on a European standard system	1 June 2011	To strengthen the system of standard-setting in Europe and to implement the commitments of the Europe 2020 flagships.
TENS guidelines + Legislation on energy infrastructure	19 October 2011	The European Commission unveiled its proposal for a regulation on 'Guidelines for trans-European energy infrastructure'. This proposal aims at ensuring that strategic energy networks and storage facilities are completed by 2020. The Commission adopted a package for a new transport infrastructure policy. It comprises a proposal for the revision of the TEN-T guidelines and a proposal for a Connecting Europe Facility .
Package of measures to support entrepreneurship and responsible business	25 October 2011	The Social Business Initiative action plan will help this emerging sector to fulfil its unexploited potential. This is complemented by an ambitious strategy for corporate social responsibility to generate a higher level of trust and consumer confidence and improve companies' contribution to society's well-being.
New measures to stimulate funding for social businesses	7 December 2011	A new 'European Social Entrepreneurship Funds' label will be introduced so that investors can easily identify funds that focus on investing in European social businesses.
Simplification of directive on accounting standards	25 October 2011	By proposing to amend the accounting directives, the Commission aims to reduce the administrative burden for small companies. Simplifying the preparation of financial statements would also make these more comparable, clearer and easier to understand. Potential cost savings for SMEs are estimated at €1.7 billion per year.
Legislation on alternative dispute resolution	29 November 2011	The European Commission adopted legislative proposals to ensure that all EU consumers can solve their problems in a simple, quick and inexpensive way, without going to court. For consumers shopping online from another EU country, the Commission wants to create an EU-wide web-based platform, to provide consumers and businesses with a single point of entry for resolving contractual disputes.
Legislative initiative facilitating access to venture capital across Europe	7 December 2011	The Commission presented a strategy to promote better access to finance for SMEs with an EU action plan which includes increasing financial support from the EU budget and the European Investment Bank and a proposal for a regulation setting uniform rules for the marketing of venture capital funds.
Modernising the legislation on the recognition of professional qualifications	19 December 2011	Simplifying rules for the mobility of professionals within the EU by offering a European professional card to all interested professions which would allow easier and faster recognition of qualifications. This would also clarify the framework for consumers, by inviting Member States to review the scope of their regulated professions and by addressing public concerns about language skills and the lack of effective alerts about professional malpractice, notably in the health sector.
Revision of the legislative framework for public procurement	20 December 2011	The revision of the public procurement directives is part of an overall programme to thoroughly modernise public tendering in the European Union. This programme also includes a directive on concessions.
Legislation on e-authentication and revision of the directive on the electronic signature	2012	Europe needs legislation to guarantee mutual recognition of electronic identification and authentication across its territory, and a revision of the e-signature directive to permit safe and unobstructed electronic interaction.
Legislation on the posted workers directive + clarification of how to exercise fundamental social rights	2012	The goal is to strengthen social cohesion by ensuring a clarification of how fundamental social rights are exercised and the legal framework for services of general economic interest. This is to be achieved by clarifying the rules for workers posted to another Member State; by recognising the value of services of general economic interest, and more broadly the notion of public service in EU law.

Single Market Forum

The first Single Market Forum was held in Kraków, Poland in October. It brought together around 1 200 citizens, businesses, consumers, representatives of the Member States (including at regional and local level), national parliaments, stakeholders, journalists and European institutions. All participants were invited to share their experiences and ideas on the functioning of the single market. More information to be found at the following link: http://ec.europa.eu/internal_market/top_layer/simfo_2011/index_en.htm.

The Kraków forum opened on Monday, 3 October, with the presentation of the five winning real-life stories from citizens and businesses. These stories, selected in the framework of the EU-wide competition 'Tell us your story', aimed at highlighting challenges faced by citizens and businesses in the European Union's single market.

Enforcing transparency in the single market

Changes to the existing transparency directive were proposed on 25 October 2010⁽³⁵⁾. This directive contains a notification gap: holdings of certain types of financial instruments that can be used to acquire an economic interest in listed companies, without actually acquiring shares, are not currently covered by the directive's rules for disclosure. This can lead to secret stake-building in listed companies. There are several reported examples of such behaviour, such as the recent 'LVMH'/Hermès case. Louis Vuitton Moët Hennessy ('LVMH') announced in October 2010 that it had built a 17.1 % stake in Hermès International at a purported 50 % discount by using cash-settled equity swaps, without any previous disclosure of its holdings of such instruments. Consequently, LVMH acquired significant interest in Hermès, without Hermès and the market being aware. This created an information asymmetry with possible incorrect market pricing of the underlying Hermès shares.

Economic recovery bolstered by small and medium-sized enterprises (SMEs)

The SME performance report for 2010, published in October 2011, noted that SMEs were in the process of recovering from the 2008/2009 recession. The number of SMEs in the EU remained at the 2009 level with a total of 20.8 million. The combined gross value added (GVA) of SMEs grew in 2010 by 3.4 % (plus an estimated growth of 3.7 % in 2011) after a decline of 6.4 % in 2009. Hence, the downward slide of the number of employees that started in 2009 (- 2.7 %) slowed down in 2010 to - 0.9 %.

In February 2011, the Commission presented a Small Business Act (SBA) review⁽³⁶⁾ to reflect the latest economic developments, to align the SBA with the priorities of the Europe 2020 strategy and continuously improve the business environment for SMEs. The review proposed further action in a number of priority areas: improved access to finance to invest and grow, smart regulation to enable SMEs to concentrate on core business, making full use of the single market and helping SMEs face the challenges of globalisation and climate change.

Further progress achieved in 2011:

- ▶ Funding has been provided under the SBA to more than 110 000 SMEs so far, with 200 000 planned to benefit from the specific SME bank loan guarantees and venture capital schemes by 2012.
- ▶ A new network of Member States' SME envoys was inaugurated in May 2011. These advocates will check the correct application of the EU law on SMEs and ensure that policies at national, regional and local level are enterprise friendly. Simplification of accounting rules for SMEs is also part of the agenda for reducing the administrative burden and costs. In this regard, the primary objective of the Commission's proposal is to simplify the preparation of financial statements for small companies.



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The Union supports entrepreneurial culture and competitiveness in SMEs.

SME WEEK 2011

The Commission coordinated the SME Week from 3 to 9 October to boost SMEs and to promote entrepreneurship. More than 1 250 events were held throughout the Union.

Boosting venture capital for small and medium-sized enterprises in Europe

Venture capital forms an important source of finance for innovative small and medium-sized enterprises (SMEs), especially for those at the beginning of their activities. Despite the benefit of bringing equity finance into companies, venture capital funds have remained underexploited and cross-border activity in this sector is low. As a result, young and innovative companies continue to depend on short-term bank loans. But in the context of the current crisis, such loans are proving hard to get. To remedy this situation, the Commission proposed a regulation on uniform rules covering the marketing of venture capital funds. The approach is simple: once the uniform requirements defined in the proposal are fulfilled, all venture capital fund managers can raise capital under the designation 'European Venture Capital Fund' across the EU. By introducing a single rulebook, venture capital funds are to become bigger and more diversified, while SMEs will have a more competitive edge in the global marketplace.

The first full year's operation of the European Progress Microfinance Facility for employment and social inclusion saw 14 microfinance providers offering microloans with the support of the facility. Over the next eight years it is anticipated that a total microloan volume of €500 million will be generated across the Union.

In early December, the Commission proposed extra support for small companies using Structural Funds. This measure is of particular importance in times when credit is not easily available for enterprises. Up to €5 billion can be used to leverage additional private funding⁽³⁷⁾.

SME support towards 2020

Promoting access to finance and encouraging an entrepreneurial culture, including the creation of new enterprises were the principal aims of the new financial support programme, tabled by the European Commission at the end of 2011⁽³⁸⁾.

With a budget of €2.5 billion over the period 2014–20, the Programme for the Competitiveness of enterprises and SMEs targets in particular entrepreneurs, principally SMEs, citizens who want to become self-employed and Member States' authorities, which will be better assisted in their efforts to elaborate and implement effective policy reform.

Proposal to support SMEs in markets outside the EU

Currently, only 13 % of EU SMEs are internationally active outside the EU through trade, investment, outsourcing or other forms of cooperation with foreign partners. EU businesses in markets outside the EU face many challenges, from access to basic market information to detailed issues such as adjusting to new technical regulations and standards, managing technology transfer and protecting their intellectual property rights. To address these challenges the Commission set out proposals⁽³⁹⁾ at the end of 2011 aimed at creating a new partnership between SMEs and businesses worldwide — 'Small Business, Big World'.

Fight against cartels and other anticompetitive practices in the single market

In 2011, the Commission continued to fight anticompetitive behaviour so as to ensure that competition is not distorted in the single market and that firms do not engage in anticompetitive practices that would harm consumers by artificially increasing prices or reducing choice. The Commission fined several major cartels in markets close to consumers, such as detergents, bananas, refrigeration compressors, and CRT glass tubes used in TVs and computer screens. Fighting cartels is and will remain a priority for the Commission. In addition to the fines levied — that ultimately go into the EU budget — the Commission estimates that its action against cartels saves customers billions of euros each year.

The Commission was generally successful in defending its decisions against anticompetitive practices before the European courts. In the much publicised case about the use in one Member State of satellite decoders from another Member State, the Court of Justice held that agreements maintaining divisions between national markets are liable to frustrate the Treaty's objective of ensuring market integration and must be considered as restrictions of competition.

The European Commission ensures that fair competition is safeguarded in the single market

Washing powder cartel

On 13 April the European Commission fined Procter & Gamble and Unilever a total of €315.2 million for operating a cartel together with Henkel in the market for household laundry powder detergents in eight European Union countries. The fine on the two companies included a 10 % reduction for acknowledging the facts and enabling a swift conclusion of the investigation. Henkel got immunity for revealing the cartel to the Commission. The three companies are the leading producers of washing powder in Europe. The cartel had aimed at stabilising market positions and at coordinating prices in violation of EU and EEA antitrust rules (Article 101 of the EU Treaty and Article 53 of the EEA agreement).

Banana cartel

In October, the Commission concluded that Chiquita and Pacific Fruit Groups, two of the main importers and sellers of bananas in the EU, had operated an illegal price fixing cartel in southern Europe from July 2004 to April 2005. During this period they fixed weekly sales prices and exchanged price information in relation to their respective brands. By doing so, they directly harmed consumers in the countries such as Italy, Portugal and Greece. Pacific Fruit was fined €8 919 000, while Chiquita received immunity from fines for providing the Commission with useful information on the cartel. This was the second anti-cartel decision in the banana sector adopted by the Commission. The first decision concerned Germany and seven other northern EU countries.

TelePolska case

The Commission has been particularly vigilant to ensure that anticompetitive behaviour does not raise obstacles to innovation and growth in key sectors of the economy, such as telecom markets. It sanctioned the telecoms operator Telekomunikacja Polska S.A. for abusing its dominant position in Poland and imposed a fine of €127 554 194. Poland has one of the lowest broadband penetration rates in Europe and the operator deliberately abused its dominant position by limiting competition on the broadband markets and by placing obstacles in the way of alternative operators from 2005 to 2009. As a consequence, consumers suffered from lower connection speeds, and monthly prices per advertised Mbit/s were much higher than those in other Member States.



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*Joaquín Almunia,
Commission Vice-President
responsible for
Competition policy,
pursued a rigorous policy
against cartels and
anti-competition behaviour
by companies in the single
market.*

The Court of Justice of the European Union watches over the fairness of the internal market

The Court of Justice ruled that Spanish legislation making the opening of new large retail establishments conditional on economic considerations, such as impact on the existing retail trade, or the market share of the undertaking concerned running counter to the Treaty provisions governing freedom of establishment⁽⁴⁰⁾.



© European Union/G. Fessy

The Court of Justice of the European Union oversees internal market rules.

As far as broadcasting is concerned the Court believes that a system of licences for the broadcasting of football matches which grants broadcasters territorial exclusivity on a Member State basis and which prohibits television viewers from watching the broadcasts with a decoder card in other Member States is contrary to EU law⁽⁴¹⁾. Likewise the General Court has ruled that a Member State may, in certain circumstances, prohibit the exclusive broadcast of all World Cup and EURO football matches on pay television, in order to allow the general public to follow those events on free television⁽⁴²⁾. The Court considered that the fact that no payment is made does not mean that the intentional nature of surreptitious advertising can be ruled out⁽⁴³⁾.

As regards liberal professions, the Court ruled that Member States may not reserve access to the profession of notary to their own nationals⁽⁴⁴⁾. However, the Court ruled that Italian legislation imposing maximum tariffs for lawyers is in line with the fundamental freedoms of the internal market⁽⁴⁵⁾. The Court considered that French legislation may not totally prohibit canvassing by qualified accountants, as it would run counter to Directive 2006/123/EC on services in the internal market⁽⁴⁶⁾.

In the field of competition, among other rulings, the Court ruled that the Commission alone is empowered to make a finding that there has been no abuse on the EU's internal market⁽⁴⁷⁾. The Court also confirmed that the Italian subsidies for the purchase of digital terrestrial decoders in 2004 and 2005 constitute state aid which is incompatible with the common market⁽⁴⁸⁾.

Justice for Growth in the single market

One of the key objectives of the European Union is to offer its citizens a European area of justice without internal borders. A European area of justice will facilitate cross-border business, strengthen the single market and stimulate economic growth. The Commission is working to clarify the legal framework within which EU businesses operate. Moreover, the Commission has been involved in the monitoring of judicial reforms for Greece and Portugal.

Common European Sales Law

In October, the Commission proposed an optional Common European Sales Law⁽⁴⁹⁾ to help break down barriers to cross-border trade and give consumers more choice and a high level of protection. The existing differences between the sales contract regimes in the Member States make selling abroad complicated and costly, especially for small firms. Traders who are dissuaded from cross-border transactions due to contract law obstacles forgo at least €26 billion in intra-EU trade every year. Meanwhile, 500 million consumers in Europe lose out on greater choice and lower prices because fewer firms make cross-border offers, particularly in smaller national markets.

The proposed Common European Sales Law is geared to facilitating trade by offering a single set of rules for cross-border sales contracts in all Member States. If traders offer their products on the basis of the Common European Sales Law, consumers would have the option of choosing a user-friendly European contract with a high level of protection.

Cross-border debt recovery

Some 1 million small businesses face problems with cross-border debts and up to €600 million a year in debt is unnecessarily written off because businesses find it too daunting to pursue expensive, confusing lawsuits in other countries. The regulation⁽⁵⁰⁾ proposed by the Commission in July 2011 would establish a new European Account Preservation Order. This would allow creditors to preserve the amount owed in a debtor's bank account. It would be available to the creditor as an alternative to national orders. The European procedure would be issued without the prior hearing of the debtor, allowing for a 'surprise effect'. Banks would be obliged to implement the order immediately by preserving a specific amount. Debtors would have to be notified immediately after the measure takes effect to prepare their defence.





*Dacian Cioloș,
Commissioner for
Agriculture and Rural
Development, at a farm
near Braine-l'Alleud,
Belgium.*

Common agriculture policy and European fisheries policy

The common agriculture policy (CAP) in action 2011 — The European Commission proposes a new partnership between Europe and farmers

Agriculture plays a key role in the European economy and its diversity is reflective of the Union itself. Some 84 % of the Union's territory is devoted to agriculture and forestry.

The CAP has been a policy evolving with the times. Several major reforms were undertaken to shift market support to production support, and then to producers support, whereas now the European Union is preparing a new reform to increase not only the economic competitiveness of agricultural and rural Europe, but also its sustainability in the long run.

A cornerstone of the internal market

The CAP has proved its value in ensuring the functioning of the single market in the field of the agro-food sector while applying agreed European common standards such as food safety and animal welfare within a context of increasing competitive pressure. It helps the development of a competitive and balanced European agriculture from an environmental and territorial point of view, which contributes positively to the competitiveness of the EU food supply chain and trade, and enhances the cohesion of rural areas by encouraging initiatives favouring their economic and social growth.

On 14 July 2011, the European Commission launched a debate on the future of promotion and information schemes for EU agricultural products. With the publication of a Green Paper on these issues, the Commission is looking at how to shape a more targeted and more ambitious strategy for the future, which will make better known to consumers — both in the EU and outside — the quality, traditions and added value of European agricultural and food products.

The paper raises a series of multifaceted questions and invites all stakeholders — consumers, producers, distributors and official authorities to give their comments and suggestions. On the basis of these responses, the Commission will draft a communication for publication in 2012, which should then lead to legislative proposals.

Unlocking the vitality of rural Europe

In addition to exceptional crisis measures, such as private storage aid for pig meat in January 2011 and emergency aid for vegetables producers in July 2011, the combination of the CAP instruments — both EU-wide support instruments and targeted rural development policy measures — provides a significant contribution towards further cohesion and solidarity between Member States and regions and helps unlock the potential vitality of the farm sector and rural areas across the EU: economically, environmentally and socially.

A new CAP for Europe 2020

Fifty years after its establishment, the CAP is evolving again. The overarching objective for the future CAP should be sustainable competitiveness to achieve an economically viable food production sector, in tandem with sustainable management of the EU's natural land-based resources.

The future CAP should recognise the impact of this policy on more than half of the EU territory and all EU consumers, and its strategic importance for food security and safety, the environment, climate change and territorial balance. This would also enable the CAP to enhance its contribution to the Europe 2020 strategy through smart, sustainable and inclusive growth.

A new partnership between Europe and its farmers

Based on this approach and on extensive consultations with all interested players, from farmers to consumers, the European Commission proposed in October 2011 that the common agricultural policy should be reformed for the period post 2013⁽⁵¹⁾. The nature of the reform proposed involves a new balance being established through a genuine partnership between society as a whole, which offers the financial resources through public policy, and farmers, who produce the food we eat, keep rural areas alive while preserving the ecosystems. The key aims of this reform are:

- ▶ to ensure that the competitiveness of the European farming sector safeguards our food security;
- ▶ to lay down the foundations for long-term competitiveness that is both environmentally and economically sustainable;
- ▶ to keep the rural economy alive; and
- ▶ to simplify the CAP.

The 10 key points of the proposed CAP reform

1. Better targeted income support in order to stimulate growth and employment
 2. More responsive crisis toolkit
 3. A 'Green' payment for preserving long-term productivity and ecosystems
 4. Additional investment in research and innovation
 5. A more competitive and balanced food chain
 6. Encouraging agri-environmental initiatives
 7. Facilitating the establishment of young farmers
 8. Stimulating rural employment and entrepreneurship
 9. Better addressing fragile areas
 10. A simpler and more efficient CAP
-



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Proposals on agriculture: a new partnership between Europe and farmers.

European fisheries policy

The common fisheries policy has come a long way since its creation in 1982. What began as a set of tools to preserve traditional fishing patterns and defuse tension between a few nations is now a complex legal and scientific framework, which seeks to protect a key natural resource. It is now due for reform once again. In addition, a new maritime policy seeks to respond in an integrated manner to all the challenges that European seas face today: from pollution to environment protection, from coastal development to job creation, from border control to surveillance.

Common fisheries policy — urgent reform is needed

Europe's fisheries policy is in urgent need of reform. Vessels are catching more fish than can be safely reproduced, thus exhausting individual fish stocks and threatening the marine ecosystem. Today, three out of four stocks are overfished: 82 % of Mediterranean stocks and 63 % of Atlantic stocks. The current system is not, therefore, working in favour of sustainability.

'Business as usual' is not a realistic option. According to modelling exercises, if no reform takes place, only 8 stocks out of 136 will be at sustainable levels in 2022. In other words, if structural changes are not made to the way business is now done, one fish stock after another will disappear.

Reform of the common fisheries policy

The Commission's proposals set out a fundamental change of fisheries management in Europe⁽⁵²⁾. The plans will secure both fish stocks and fishermen's livelihood for the future while putting an end to overfishing and depletion of fish stocks. The reform will introduce a decentralised approach to science-based fisheries management by region and sea basin, and introduce better governance standards in the EU and on the international level through sustainable fisheries agreements.

Sustainability and long-term solutions are the key points of the Commission's proposals to the European Parliament and the Council, which contain the following elements:

- ▶ All fish stocks will have to be brought to sustainable levels ('Maximum Sustainable Yield — MSY') by 2015, which is in line with the commitments the EU has undertaken internationally.
- ▶ An ecosystem approach will be adopted for all fisheries, with long-term management plans based on the best available scientific advice.
- ▶ The waste of food resources and the resulting future economic losses caused by throwing unwanted fish back into the sea, a practice known as 'discarding', will be phased out. Fishermen will be obliged to land all the fish of the stocks concerned that they catch.
- ▶ Clear targets and time frames to stop overfishing would be introduced; a system of individual transferable fishing concessions for trawlers and all vessels of more than 12m in length; support measures for small-scale fisheries; improved data collection; and strategies to promote sustainable aquaculture in Europe.

In addition, the Commission proposed a financial instrument to accompany the CFP reform. This new fund, the European Maritime and Fisheries Fund (EMFF), will focus on people, helping them to embrace the reform of fisheries. It will focus on fisheries communities, where it will create new jobs and boost growth. And it will focus on sustainability, reversing the decline of the fisheries sector of recent times. The EMFF is structured around four main pillars: fisheries, aquaculture, sustainable development of fishing areas and integrated maritime policy.

The poster for the Commission's campaign to promote sustainably caught fish.



The EU 'zero tolerance' campaign against illegal fishing gets tougher

Getting away with fishing illegally will become much more difficult now that the EU's new system for fisheries control is fully operational. The EU has adopted detailed rules⁽⁵³⁾ on how to carry out controls throughout the market chain 'from net to plate'.

The new system ensures traceability throughout the whole chain from the time when the fish is caught until it reaches the consumer. Member States' authorities can spot wrongdoings at any point in the market chain, and trace them back to the culprit. Inspections will be done in the same way all over Europe. Data are collected and cross-checked electronically. And once the product reaches the stores, the consumer will know it has been fished legally.

If someone breaks the law, they will face equally severe sanctions, no matter where they are and regardless of their nationality. And if they are repeatedly caught fishing illegally, thanks to a new point system they will end up losing their licence.



© AFP Photo/Thierry Charlier

A boost to maritime economy in the Atlantic region

A new maritime strategy for growth and jobs in the Atlantic Ocean area⁽⁵⁴⁾ contributes to the Europe 2020 strategy.

The region has high potential for wind, wave and tidal energy. By 2020 around 20 % of Europe's offshore wind capacity could be located in the Atlantic. Seabed mining could help meet the EU's demand for raw materials. Offshore aquaculture is a promising sector, and one third of all the fish caught by the EU's fishing fleet is landed in the Atlantic ports.

The current actions need to be streamlined and reinforced through efficient use of existing and future EU funds. So the Commission calls on stakeholders to join a series of workshops and discussion groups — the 'Atlantic Forum', to help design concrete projects for the action plan, to be implemented in 2013. The new strategy is developed under the EU's integrated maritime policy and follows similar ones for the Baltic, the Arctic and the Mediterranean areas.

*Maria Damanaki,
Commissioner for Maritime
Affairs and Fisheries, after
a news conference on
fisheries policy for the
future, in July 2011.*

Budget

EU financial programming and budget in 2011

In 2011, not only was the EU budget 2011 implemented, but the budgets of 2010 and 2009 went through the different stages of assessment and evaluation. Furthermore, a core activity was the preparation of the budget for 2012. Apart from the annual budgetary procedure this year brought a significant event, with the presentation of the new multiannual plan in the form of the proposal for the multiannual financial framework for the years 2014–20.

Implementation of EU budget 2011

The 2011 budget reflected the growth- and innovation-oriented goals of the Europe 2020 strategy. At the same time it had to take account of important constraints, reflecting the adverse economic situation in many Member States. This compromise approach presented significant challenges for budget management throughout the year in order to ensure that appropriate levels of funding were available to allow for the correct and effective implementation of the European Union's programmes. Thus in the course of the year, the 2011 budget had to be amended seven times adding some €200 million to the initial voted budget.



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*Janusz Lewandowski,
Commissioner for Financial
Programming and
Budget presents the draft
budget 2012.*

Evaluation of EU budget 2010 and discharge of EU budget 2009

An evaluation of the preceding budgetary exercises took place in 2011 completing the budgetary financial management cycle. On 10 May 2011 the European Parliament granted a discharge to the European Commission for the 2009 budget. This concluded a period when both arms of the budgetary authority (the European Parliament and the Council) as well as the Court of Auditors scrutinised the 2009 budget implementation.

On 10 November 2011 the Court of Auditors published its annual report on the implementation of the budget concerning the financial year 2010. For the fourth year, the annual accounts of the European Union, as prepared and consolidated by the Commission, received a clean bill of health and the overall most likely error rate in respect of the payments stayed once again below 4 %. This meant that the vast majority (at least 96 %) of total payments made in 2010 were free from quantifiable error.

The EU budget 2012 for 500 million Europeans, for growth and employment

The 2012 budget was approved on 1 December 2011 and represents a delicate balancing act combining austerity and growth boosting measures for 500 million Europeans. Its key objective is to fully support the European economy and EU citizens in challenging times. The overall provision for payments in 2012 comes to €129.1 billion, an increase of 1.86 % over the previous year, while provision for legal budgetary commitments comes to €147.2 billion, a 3.8 % increase ⁽⁵⁵⁾.

The budget 2012 sought to be in tune with the current austerity climate at national level. The Commission made a particular effort and opted for almost a freeze of its administrative expenditure for 2012, i.e. a 0.2 % increase compared to the 2011 budget. This has been achieved by significantly reducing expenditure linked to buildings, information and communication technology, studies, publications, missions, conferences and meetings. Furthermore, as in previous years the Commission has not requested any additional new posts. Administrative costs were also kept in check by the other institutions.

Underpinning economic growth and cohesion in the Union of 27 through concerted efforts and investments, the 2012 budget foresees some €67.5 billion for sustainable growth to help Member States increase their investments whereas some €62.2 billion is dedicated to the Europe 2020 growth priorities, an increase of 4.5 % on the previous year.

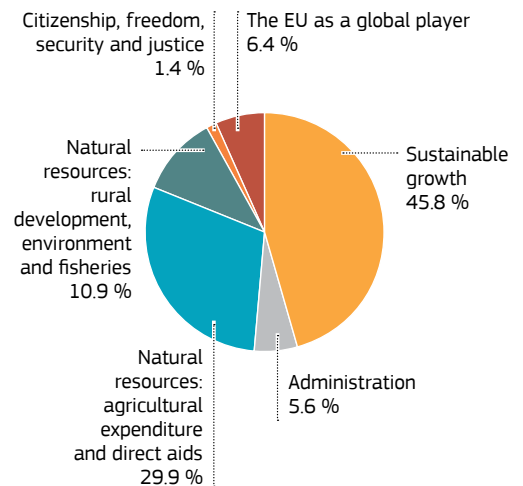
Citizens are at the centre of European policy and their safety was a high priority for the EU. The 2012 budget foresaw a 10.9 % increase in the area of citizenship, freedom, security and justice with actions focussing on the interests and needs of citizens. Furthermore, under the Europe 2020 initiatives actions for youth amounted to €1.4 billion, and a digital agenda for Europe to €2.4 billion.

The proposal for the new Multiannual Financial Framework (MFF) 2014–20

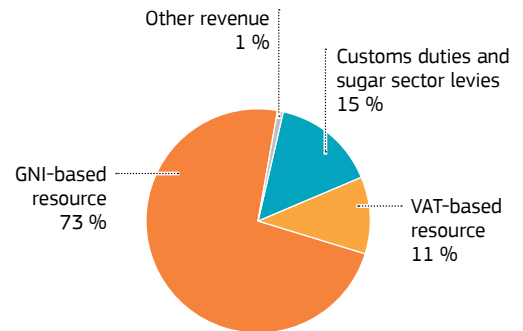
The Commission published its proposals in June for the Union's next Multiannual Financial Framework for the seven-year period from 2014 to 2020 ⁽⁵⁶⁾ with prices expressed in 2011 values. It proposes priorities and ceilings for future expenditure as well as a modification of the revenue side and a simplification of the correction mechanisms. The technical term is a 'multiannual financial framework' but the term 'budget' is used here for simplification.

The EU's budget is a budget that is ambitious and at the same time realistic and that is designed to give value for money to European citizens, enterprises and governments. The European budget is relatively small (one fiftieth of Member States' budgets), but can make a big impact. The Commission's proposal is designed to respond to today's concerns and tomorrow's needs, and focusses on where funding at EU level can provide true added value.

BUDGET 2012 — EXPENDITURE



BUDGET 2012 — REVENUE



The budget is geared towards investment in the 27 Member States on common challenges: boosting growth and creating jobs across the EU, making Europe safer, and increasing Europe's influence in the world. It does not seek to fund what national budgets could finance themselves, but focusses on where European funding brings real added value. It funds what would not be funded or what would be more expensive to fund from national budgets.

The 2014 to 2020 budget proposals are focussed on Europe's main common challenges and an indicative selection is set out beneath.

Boosting jobs and growth across the European Union

The crisis may have touched some countries more than others, but it has also removed any doubt that Europe's economies are now interdependent to a degree never seen before. That is why everyone has a stake in boosting a job-rich recovery and strengthening the economic fundamentals in each and every one of the Member States.



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New infrastructure links in Europe will help strengthen the internal market.

Connecting Europe

- ▶ The new budget will create an infrastructure fund ('Connecting Europe Facility') worth €40 billion (3.9 % of the budget). This is further completed by €10 billion from the Cohesion Fund to reach €50 billion (4.88 % of the budget).
- ▶ It will strengthen the internal market by linking up Europe in energy networks, transport corridors for freight and passenger traffic, as well as information and communication technology networks. An indicative list of strategic axes forms part of the proposal.
- ▶ The need and value-added of EU funding is evident: the market will deliver most of the investments needed, but persistent gaps remain which neither the market will fill nor the Member States will finance. These are nevertheless crucial to equip the internal market with the infrastructure it needs to connect the centre and the periphery to the benefit of all regions.
- ▶ Working with the EIB, an important leveraging effect to generate new sources of finance from the private sector, will be sought, via the fund. In particular, the Commission will promote the use of EU project bonds as a means of bringing forward the realisation of these important projects.

Investing in growth and jobs in Europe's regions

- ▶ The budget proposes to allocate €376 billion for the instruments of cohesion policy, including the €40 billion Connecting Europe Facility (36.7 % of the budget).
- ▶ The European Union is responding to an economic crisis that affects the whole of Europe. Tackling imbalances and weaknesses that affect specific regions and populations will ultimately have a positive impact for all countries: this part of the budget continues to help poorer Member States and regions to develop and provide opportunities to the most vulnerable across the EU. Some support will also be provided to more developed regions as there are important challenges that concern all Member States such as global competition in the knowledge-based economy and the shift towards the low-carbon economy. All this also boosts the internal market whose size delivers markets and economies of scale to all parts of the EU, rich and poor, big and small.
- ▶ To make sure these growth-enhancing results are delivered better than before, the use of the Structural Funds is reviewed. The following are proposed:
 - A clear link to Europe's targets for 2020 and the Member States' national reform programmes and the country-specific recommendations (through 'partnership contracts');
 - Stronger conditionality and a focus on results, including through the creation of a performance reserve to be allocated after a mid-term review;
 - A reinforced European Social Fund to support measures related to labour market policy, education, training, social inclusion, adaptability of workers, enterprises and entrepreneurs and administrative capacity;
 - An approach that ensures that the left hand knows what the right hand does through a Common Strategic Framework that will cover the ERDF, ESF, Cohesion Fund, European Agricultural Fund for Rural Development and the European Maritime and Fisheries Fund;
 - The European Globalisation Fund will step in to support those who fall victim to significant redundancies linked to global economic developments.

Investing in Europe's talent and skills

The budget proposes an increase in funding levels by some 70 % in education to €15.2 billion and some 45 % in research and innovation to €80 billion.



© Corbis

*Fostering international
cooperation and excellence
in research.*

In education:

- ▶ Focus on developing skills and transnational mobility, in line with the main successes of the current Lifelong Learning Programme (LLP), Erasmus Mundus and Youth programmes. The Commission will propose to develop, with the involvement of the EIB, an innovative programme to provide guarantees for mobile masters students.
- ▶ All existing programmes will be brought together in a single integrated programme on education, training and youth.
- ▶ Through the European Social Fund, EU support will be increased for all levels of formal education and training (school, higher, vocational, adult) as well as informal and non-formal education and training activities and adaptability of companies. .

In research and innovation:

- ▶ Added value will be delivered by encouraging researchers to cooperate across national boundaries, developing European poles of excellence promoting competition in research and stimulating large technological initiatives.
- ▶ The funding will focus on what matters: excellence in the science base, tackling societal challenges and boosting competitiveness.
- ▶ It will be simplified by bringing all research funding together within one Common Strategic Framework.
- ▶ It will create a powerful leverage effect on private funding, for instance following the successful example of the Risk Sharing Finance Facility.

Making Europe safer for its citizens

Several challenges the EU faces are cross-border by definition. In the open economic space that is the basis for Europe's strength, where people, goods, services and capital can circulate freely, safety and security are provided by establishing common ground rules and by pooling funding to address challenges at EU level. This includes creating a genuine European area of justice and protecting fundamental rights.

Justice, rights and citizenship

Two programmes will be running in the 2014–20 period: the Justice Programme and the Rights and Citizenship Programme. The total proposed budget amounts to €803 million. The objective is to add value to the creation of a genuine area of justice by promoting judicial cooperation in civil and criminal matters, fostering access to justice and supporting and complementing Member States' initiatives to prevent drug demand and reduce supply and by promoting and supporting the effective implementation of a Europe of rights.

Safer EU

- ▶ Recent events, like the migratory flows following the Arab spring, illustrate how important it is for the EU to be able to react quickly and effectively to rapidly evolving crisis situations.
- ▶ The Commission aims to increase the funding available for Home Affairs and is proposing an overall Home Affairs budget of €8.3 billion. The structure of funds will be simplified and reduced to two.
- ▶ A new Asylum and Migration fund with an overall budget of €3.4 billion will focus on people flows and the integrated management of migration and will support actions in relation to asylum and migration, the integration of third-country nationals and return management.
- ▶ A new Internal Security fund worth €4.1 billion will support the implementation of the Internal Security Strategy and a coherent and comprehensive approach to law enforcement cooperation, including the management of the Union's external borders.

Safer environment

- ▶ As recent incidents have shown, environmental problems do not stop at borders. Likewise, the fight against climate change needs cross-border action.
- ▶ The objectives in these policy areas can only be achieved if other policies fully integrate with them. For example, climate action and environmental objectives need to be implemented via actions under cohesion funding, research and innovation, agriculture and external cooperation. A safe environment and tackling climate change will be in all areas of the budget. The Commission intends to increase the proportion of the budget related to climate mainstreaming to at least 20 %, with contributions from different policy fields subject to impact assessment evidence. A euro can boost energy efficiency and the fight against climate change, strengthen cohesion, promote social targets, increase employment and reduce poverty at the same time.



© iStockphoto.com/Andrew Johnson

*Protecting the environment
is central to EU policies.*

- ▶ Conversely, building a resource-efficient, low-carbon and climate-resilient economy will boost growth and enhance Europe's competitiveness, create more and greener jobs, strengthen energy security and bring health benefits. The EU budget will facilitate investments in high cost-effective and eco-innovative projects in energy, resource efficiency and climate mitigation where Member States have a low investment capacity or where EU money is needed to leverage private financing, such as the deployment of low-carbon technologies. Investing in these areas will give Europe a first mover advantage globally and also increase overall productivity and contribute to reduce the EU's energy bill.

Sustainable development and safer food

- ▶ Agriculture remains at the heart of the EU budget. It is a true common European policy of strategic importance where more than 70 % of the funding is no longer national, so spending at European level largely replaces national spending, which is not the case for other policies and which explains why it represents a large proportion of the EU budget. It costs about 30 cents per day per citizen.
- ▶ It supports Europe's food safety, food security and rural development. In a world where demand for food will continue to rise (global demand for food is expected to increase 70 % by 2050 according to FAO), Europe needs an agricultural sector that produces healthy food in a way that respects the environment and that supports a balanced territorial development through a vibrant rural economy.
- ▶ The CAP will be modernised to enhance those goals: direct payments (pillar 1) will become greener and more equitably distributed by making 30 % of direct payments conditional on greening, by introducing a maximum ceiling for large agricultural holdings and by adjusting direct support per hectare to increase the levels paid to farmers in certain new Member States.
- ▶ Rural development (pillar 2) will become more focussed on competitiveness and innovation and on environment by including it in the 'partnership contracts' to ensure it delivers on the Europe 2020 targets.



© Phovoir

Civil protection

Civil protection assistance (responding to natural and human-made disasters inside and outside the EU) will increase from 0.01 % to €455 million (0.04 % of the budget). This is an expression of solidarity with the victims and generally the first concrete response by the Union to crisis situations. It includes funding for the creation of a European Emergency Response Capacity, building on voluntary pooling of Member States civil protection assets, so as to generate enhanced cost-effectiveness through coordinated availability of civil protection assets.

Safe and healthy food is a key priority.

Making Europe count in the world

At a time when the world order is changing rapidly and emerging economies like China, India, and Brazil are asserting their influence, Europe must be an active partner to shape global action. To pull its weight on the global scale and defend its interests and values, Europe needs to pool its resources and act in a unified way. A budget of €70 billion (for the whole period — an increase of some 20 % compared to the previous period — serves that purpose.

Investing in Europe's neighbourhood

- ▶ The recent events in North Africa have once again demonstrated how intertwined the future of the neighbourhood is with that of Europe and how events in the neighbourhood have an impact on the whole of the EU.
- ▶ The EU's external relations budget will focus on its neighbourhood, to the east and to the south, and provide incentives for political and economic reforms on a 'more for more' basis anchored in our shared values via the European Neighbourhood Instrument.

Being strategic with our key partners

- ▶ We will discontinue funding of programmes in rapidly emerging countries and instead create a new partnership instrument to support ad hoc cooperation with all third countries (non-developing and developing) in those cases where funding can contribute to strengthening the EU's partnerships around the world on issues that are of global concern, such as climate change, unmanaged migration and regional instabilities. This will allow Europe to support the projection of Europe's policies abroad, promote its values and interests and finance joint activities of common interest with individual countries.

Helping other countries in need

- ▶ Europe is committed to increasing development aid to 0.7 % of GNI by 2015. Pooling money at the EU level increases the impact on the ground, while it also improves donor coordination and governance.
- ▶ Focus will be placed on the countries most in need under a single Development Cooperation Instrument, targeting poverty eradication and the achievement of the Millennium Development Goals (MDGs).
- ▶ The new budget also strengthens EU humanitarian aid to address the global increase in disasters, other humanitarian emergencies, and forgotten crises.

Together with the proposals on expenditure, the Multiannual Financial Framework proposed for 2014-20 puts forward innovative changes on revenue

The current financing system is too complex. Therefore, this proposal seeks to make the revenue side simpler and fairer.

- ▶ Reducing Member States contributions by introducing new EU own resources. The next EU budget will reduce Member States' contributions because it will be financed through a new mix of revenues with new own resources, closely linked to common European challenges. The Commission is proposing a new EU own resource system based on a financial transaction tax (described in Chapter 1) within the EU and a new EU VAT resource replacing the existing one. Every euro collected via these new own resources would be mirrored in a reduction of national contributions of Member States, so that the overall national burden would remain the same.
- ▶ The Commission is also proposing to radically simplify the existing correction mechanisms for a limited number of Member States.

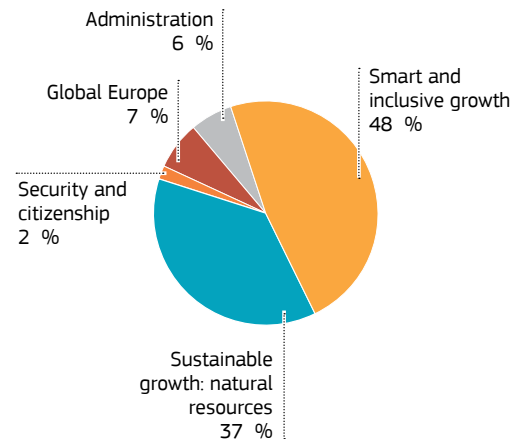
Future rules to implement the budget and the various programmes will focus on results.

- ▶ Member States receive EU funding to help them deliver on commonly agreed EU goals. It is not about input but about results. Therefore, this budget proposal has been redesigned to ensure that the funding delivers results on the key policy priorities. Major hallmarks of the next set of financial programmes and instruments will be a focus on results, increased use of conditionality and the simplification of delivery.

Results will be clearly related to the implementation of the Europe 2020 growth strategy and the achievement of its targets.

- ▶ **Conditionality:** In order to sharpen the focus on output and results rather than on inputs or amounts, stronger conditionality will be introduced into programmes and instruments. This is particularly relevant in the large spending blocs of cohesion policy and agriculture, where Member States and beneficiaries will be required to demonstrate that the funding received is being used to further the achievement of EU policy priorities.
- ▶ **Leveraging investment:** the impact of EU funding can be magnified if it is used to leverage funding and financing from the private sector. This should enable financing for a greater number of strategic investments. Experience in working with the European Investment Bank group and international financial institutions has been positive and will be built upon in the future.
- ▶ **Simplification:** to obtain better results, current funding rules need to be simplified, since they have reached a complexity that hampers implementation and control.
- ▶ Where possible, existing programmes will be merged (home affairs, education/culture) and/or redesigned (research, cohesion) to ensure integrated programming and a single set of mechanism for implementation, reporting and control.
- ▶ Further externalisation to the existing executive agencies will be explored, especially for the continuation of smaller programmes.
- ▶ **Flexibility:** to be able to react to unforeseen events or shifting priorities, the future budget should allow easier decision-making.

MULTIANNUAL FINANCIAL FRAMEWORK 2014-20



- ▶ Getting more value for money from the EU institutions. Some 94% of the European budget goes to citizens, companies, farmers, cities and regions. The Commission is proposing to make savings across all EU institutions and bodies.

The table at the end of this section shows the detail of what is proposed, together with a comparison between the current and new programming periods.

For full details of all of the Commission's proposals see http://ec.europa.eu/budget/reform/commission-proposals-for-the-multiannual-financial-framework-2014-2020/index_en.htm

2014-20 MULTIANNUAL FINANCIAL FRAMEWORK

(million EUR — 2011 prices)

COMMITMENT APPROPRIATIONS	2014	2015	2016	2017	2018	2019	2020	Total 2014-20
1. Smart and Inclusive Growth	64 696	66 580	68 133	69 956	71 596	73 768	76 179	490 908
of which: Economic, social and territorial cohesion	50 468	51 543	52 542	53 609	54 798	55 955	57 105	376 020
2. Sustainable Growth: Natural Resources	57 386	56 527	55 702	54 861	53 837	52 829	51 784	382 927
of which: Market related expenditure and direct payments	42 244	41 623	41 029	40 420	39 618	38 831	38 060	281 825
3. Security and citizenship	2 532	2 571	2 609	2 648	2 687	2 726	2 763	18 535
4. Global Europe	9 400	9 645	9 845	9 960	10 150	10 380	10 620	70 000
5. Administration	8 542	8 679	8 796	8 943	9 073	9 225	9 371	62 629
of which: Administrative expenditure of the institutions	6 967	7 039	7 108	7 191	7 288	7 385	7 485	50 464
TOTAL COMMITMENT APPROPRIATIONS	142 556	144 002	145 085	146 368	147 344	148 928	150 718	1 025 000
as a percentage of GNI	1.08%	1.07%	1.06%	1.06%	1.05%	1.04%	1.03%	1.05%
TOTAL PAYMENT APPROPRIATIONS	133 851	141 278	135 516	138 396	142 247	142 916	137 994	972 198
as a percentage of GNI	1.01%	1.05%	0.99%	1.00%	1.01%	1.00%	0.94%	1.00%

ENDNOTES

- (¹) Commission communication — Europe 2020 — A strategy for smart, sustainable and inclusive growth (COM(2010) 2020).
- (²) Commission communication — Early childhood education and care: Providing all our children with the best start for the world of tomorrow (COM(2011) 66).
- (³) Commission communication — Supporting growth and jobs — An agenda for the modernisation of Europe's higher education systems (COM(2011) 567).
- (⁴) <http://ec.europa.eu/social/main.jsp?catId=950&langId=en>
- (⁵) <http://europa.eu/rapid/pressReleasesAction.do?reference=IP/11/1568&format=HTML&aged=0&language=EN&guiLanguage=en>
http://ec.europa.eu/commission_2010-2014/president/news/speeches-statements/2011/12/20111220_speeches_1_en.htm
- (⁶) Green Paper — Modernising the professional qualifications directive (COM(2011) 367).
- (⁷) European Council conclusions of 23–24 June 2011.
- (⁸) Commission communication — An EU framework for national Roma integration strategies up to 2020 (COM(2011) 173).
- (⁹) <http://ec.europa.eu/esf/home.jsp?langId=en>
- (¹⁰) <http://ec.europa.eu/esf/main.jsp?catId=67&langId=en&newsId=7889>
- (¹¹) <http://ec.europa.eu/esf/main.jsp?catId=466&langId=en>
- (¹²) http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ec/119175.pdf
- (¹³) http://ec.europa.eu/research/csfri/pdf/com_2011_0048_csf_green_paper_en.pdf
- (¹⁴) http://ec.europa.eu/research/innovation-union/pdf/iu-scoreboard-2010_en.pdf
- (¹⁵) <http://ipts.jrc.ec.europa.eu/activities/research-and-innovation/s3platform.cfm>
- (¹⁶) http://ec.europa.eu/research/horizon2020/pdf/proposals/communication_from_the_commission_-_horizon_2020_-_the_framework_programme_for_research_and_innovation.pdf
- (¹⁷) Proposal for a regulation implementing enhanced cooperation in the area of the creation of unitary patent protection (COM(2011) 215) and Proposal for a regulation implementing enhanced cooperation in the area of the creation of unitary patent protection with regard to the applicable translation arrangements (COM(2011) 216).
- (¹⁸) http://ec.europa.eu/digital-agenda/scoreboard/index_en.htm
- (¹⁹) <http://www.fi-ppp.eu>
- (²⁰) Commission communication — A resource-efficient Europe — Flagship initiative under the Europe 2020 Strategy (COM(2011) 21).
- (²¹) White paper — Roadmap to a single European transport area — Towards a competitive and resource-efficient transport system (COM(2011) 144).
- (²²) Proposal for a directive restructuring the Community framework for the taxation of energy products and electricity (COM(2011) 169).
- (²³) Commission communication — Roadmap to a resource-efficient Europe (COM(2011) 571).
- (²⁴) Commission communication — Energy Roadmap 2050 (COM(2011) 885).
- (²⁵) Commission Decision 2011/278/EU determining transitional Union-wide rules for harmonised free allocation of emission allowances (OJ L 130, 17.5.2011).
- (²⁶) http://ec.europa.eu/energy/eepreeef/eeef_en.htm
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- (²⁹) Commission communication — Tackling the challenges in commodity markets and on raw materials (COM(2011) 25).
- (³⁰) Commission communication — A strategic vision for European standards: Moving forward to enhance and accelerate the sustainable growth of the European economy by 2020 (COM(2011) 311). Proposal for a regulation on European standardisation (COM(2011) 315).
- (³¹) Proposal for a Council directive on a common consolidated corporate tax base (CCCTB) (COM(2011) 121).
- (³²) Commission communication on the future of VAT — Towards a simpler, more robust and efficient VAT system tailored to the single market (COM(2011) 851).
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- (³⁴) Council conclusions on the priorities for relaunching the Single Market — 3094th Competitiveness (Internal Market, Industry, Research and Space) Brussels, 30–31 May 2011.
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- (³⁶) Commission communication — Review of the 'Small Business Act' for Europe (COM(2011) 78).
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- (³⁸) Proposal for a regulation on European venture capital funds (COM(2011) 860).
Proposal for a regulation establishing a programme for the competitiveness of enterprises and small and medium-sized enterprises (2014–20) (COM(2011) 834).
- (³⁹) Commission communication 'Small Business, Big World — a new partnership to help SMEs seize global opportunities' (COM(2011) 702).
- (⁴⁰) Court of Justice ruling of 24.3.2011 in Case C-400/08 *Commission v Spain*.
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- (⁴⁵) Court of Justice ruling of 29.3.2011 in Case C-565/08 *Commission v Italy*.
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- (⁵⁰) Proposal for a regulation creating a European account preservation order to facilitate cross-border debt recovery in civil and commercial matters (COM(2011) 445).
- (⁵¹) http://ec.europa.eu/agriculture/cap-post-2013/legal-proposals/index_en.htm
- (⁵²) <http://ec.europa.eu/fisheries/reform/>
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- (⁵⁵) All figures concerning EU budget 2012 reflect the budget as adopted on 1 December 2011.
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Chapter 3

A stronger focus on EU citizens



In today's Europe, free movement is of increasing importance. Millions of citizens are involved in activities that span borders — in their private lives, through their work or studies, or as consumers. The European Union seeks to offer practical solutions to cross-border problems for both citizens and business: for citizens to feel at ease about living, travelling and working in another Member State and to trust that the rights they have as EU citizens are protected and enforced no matter where in the EU they happen to be; and for businesses the EU helps them make full use of the opportunities provided by the single market.

The Union has an ambitious programme for setting EU-wide standards so that people can rely on the same, basic level of justice — for example if they fall victim to crime — and enjoy non-discriminatory treatment anywhere in Europe. The Lisbon Treaty offers new opportunities for judicial cooperation in criminal and civil matters and tasks the EU with facilitating access to justice across the EU. It also provides for the promotion of equality between women and men and non-discrimination based on racial or ethnic origin, religion or belief, disability, age or sexual orientation in all EU policies and activities.

Equally, a forward-looking legal immigration and integration policy is crucial to enhancing the EU's competitiveness and social cohesion, enriching society and creating opportunities. Illegal migration and trafficking in human beings need to be addressed effectively and in a comprehensive way. At the same time, the EU must continue to show solidarity with those in need of international protection, with the introduction of a more efficient Common European Asylum System.

A host of other policies seek to ease the lives of citizens throughout the Union, from food safety to environmental safety to involving citizens in the democratic life of the Union.

Fundamental rights and citizenship

The EU's justice, fundamental rights, citizenship and equality policies are based on the EU's fundamental values and principles, including democracy, freedom, tolerance, non-discrimination and the rule of law. The policies support the creation of a pan-European area of law, rights and justice, for the benefit of all citizens of the EU.

European Union Charter of Fundamental Rights

In 2011 the Commission published the first annual report on the application of the charter.

The charter became legally binding upon the entry into force of the EU's Lisbon Treaty. The annual report⁽¹⁾ is part of the Commission's strategy to ensure that fundamental rights are effectively implemented.

'To make the charter work in practice, people need to know their rights and how to apply them so that justice can be done,' said Viviane Reding, Vice-President and Commissioner responsible for Justice, Fundamental Rights and Citizenship.

The report highlighted the fact that a majority of citizens complaining to the institutions do not understand that the charter complements, but does not replace, national constitutional systems or the system of fundamental rights protection guaranteed by the European Convention on Human Rights and Fundamental Freedoms. This is supported by a survey by the European Ombudsman which found that 72 % of people in the EU did not feel well informed about the Charter of Fundamental Rights. In 2010, the Commission received more than 4 000 letters from the general public regarding fundamental rights. Approximately three quarters of these concerned cases outside the remit of EU law. This reflects a frequent misunderstanding about the purpose of the charter and the situations where the charter applies or does not apply.

The Commission will continue to ensure the effective implementation of the Charter of Fundamental Rights of the European Union and be vigilant in ensuring that the charter is upheld in all proposals for EU legislation, in all amendments introduced by the European Parliament and the Council, as well as by Member States when they implement EU laws. The Council⁽²⁾ welcomed this report as an opportunity for an annual interinstitutional exchange of views on the application of the charter.



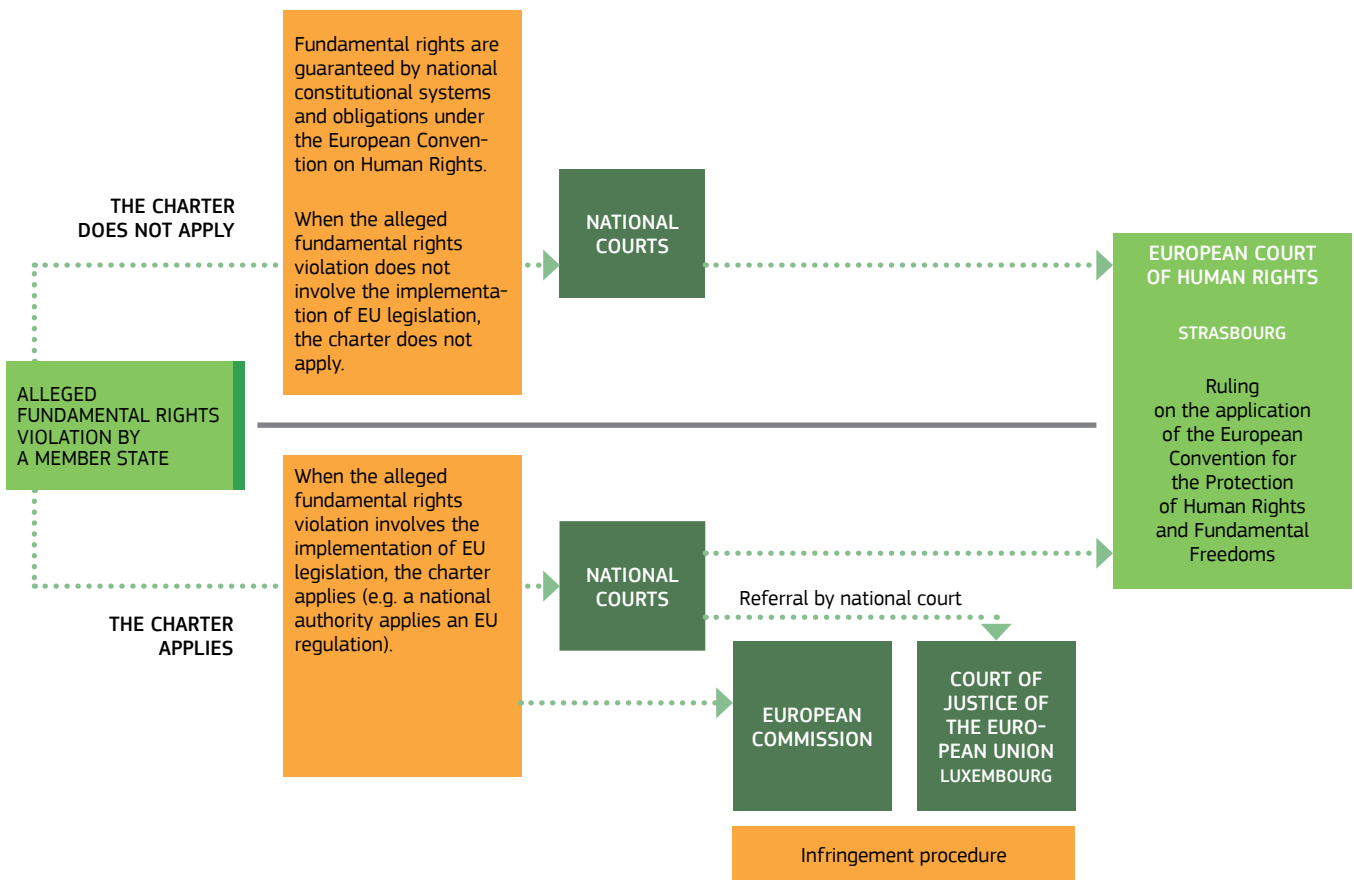
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*Viviane Reding,
Commission Vice-President
responsible for Justice,
Fundamental Rights and
Citizenship, in Schengen,
the town which lent its
name to the Union's free
movement provisions.*

When the charter applies and when it does not:

EU CHARTER OF FUNDAMENTAL RIGHTS

Where does it apply and where to go in case of violation?



What were the biggest issues in fundamental rights?

The report identifies personal data protection, access to justice, integration of the Roma and equality as the top concerns raised by the public and others in the past year.

Accession to the European Convention on Human Rights (ECHR)

Accession of the EU to the European Convention for the Protection of Human Rights and Fundamental Freedoms (ECHR) became possible with the entry into force of the Lisbon Treaty, which imposes an obligation on the EU institutions and on Member States to undertake all necessary steps in order to achieve that objective. An accession agreement needs to be concluded between the EU and the existing contracting parties to the convention, that is the 47 Member States of the Council of Europe. Significant progress towards accession has been made during the year. A draft accession agreement has been elaborated at technical level with experts from the Member States of the Council of Europe acting in their personal capacity. Some aspects of this draft agreement will have to be fine-tuned in negotiations with state representatives. This exercise is under preparation within the Council.

European Law Institute and judicial training

The European Law Institute was established in Vienna in mid-2011 as an important contributor to the EU's wider goal of building a European area of justice. The institute, an independent non-profit organisation, will help improve legal consistency in Europe by providing practical advice to policymakers and authorities.

The initiative to create a European Law Institute — promoted by the Commission in its action plan for delivering an area of freedom, security and justice for Europe's citizens — draws inspiration from the American Law Institute, a non-governmental body that played a crucial role in developing the Uniform Commercial Code, which facilitates sales and other commercial transactions across the United States' 50 states.

The European Law Institute will, among other things, evaluate and stimulate the development of EU law, legal policy, and practice; make suggestions for the further development of the body of EU law and for the enhancement of EU law implementation by the Member States; and provide a forum for jurists — academics, judges, lawyers and other legal professionals — from different legal traditions to hold discussions.

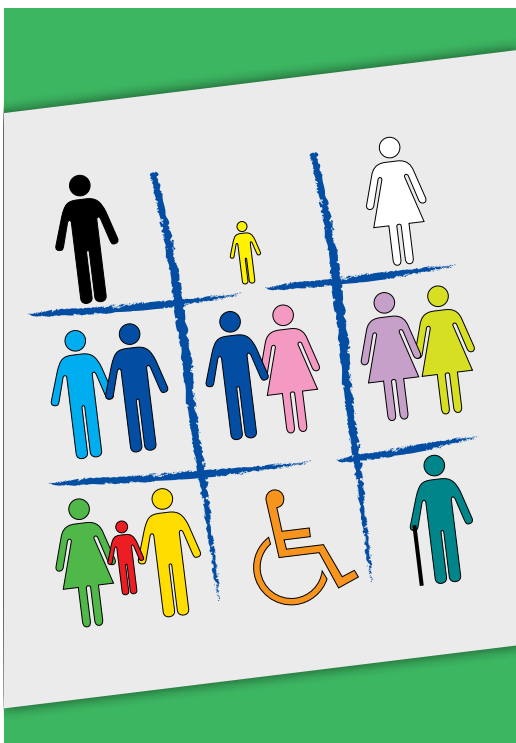
In a parallel development, the European Commission has called on national governments, councils for the judiciary, professional bodies and judicial training institutions both at EU and national level to commit to integrating EU law into their training programmes and to increasing the volume of courses and participants. The aim is to equip legal practitioners to apply European law — as part of their role as judges and lawyers at national level. This will also help to build mutual trust between Europe's different legal systems and improve the implementation of European legislation.

Promoting equality

Fundamental rights include the rights to non-discrimination, and to gender equality. The first EU-wide Equal Pay Day was held on 5 March and marked the extra number of days in 2011 that women must work to match the amount of money earned by men the previous year. Women in the European Union earn on average 17.5 % less than men and the European Commission is committed to closing the gender pay gap, based on its overall strategy for gender equality.

The European Parliament has strongly endorsed the need for more women in business leadership and in economic decision-making positions in line with the Commission's position. Quite apart from the fundamental equality issues involved, the EP debate highlighted the pressing need to use the untapped potential of a well-educated female workforce. Commission Vice-President Reding called on publicly listed companies in the EU to sign the 'Women on the Board Pledge for Europe' by March 2012 voluntarily to increase women's presence on corporate boards to 30 % by 2015 and to 40 % by 2020.

On 22 December the Commission adopted guidelines to help the insurance industry implement unisex pricing, after the Court of Justice ruled^(?) that different premiums for men and women constitute sex discrimination. (See Chapter 5 for further details.)



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Equality is not just an optional extra, it is a fundamental right.

ACCESS CITY AWARD

The Austrian city Salzburg won the Access City Award 2012, the European prize for making cities more accessible to people with disabilities. The annual honour aims to award efforts to improve accessibility in the urban environment and to foster equal participation of people with disabilities. The European Commission commended Salzburg's long-standing commitment, coherent approach and excellent results in improving accessibility, achieved with the direct participation of people with disabilities.

Rights of the child

The European Commission has set out an EU agenda⁽⁴⁾ for the rights of the child listing 11 fields for action in the short to longer term. The initiative reaffirms the strong commitment of the European Union and its Member States to promoting, protecting and fulfilling the rights of the child in all relevant policies and to turning them into concrete results. In the future, policies that affect children directly or indirectly should be designed, implemented, and monitored taking into account the principle of children's best interests.

Dismantling obstacles for citizens

Work continued apace during 2011 on the implementation of the commitments undertaken by the Commission in its EU citizenship report, published in October 2010. The report proposed 25 concrete measures to make EU citizens' lives easier when exercising their rights in another EU Member State such as getting married, buying a house, getting involved in politics, studying, working, and receiving medical care. Considerable progress has been made so far in the various fields covered and in 2013, which the Commission has proposed to be the 'European Year of Citizens', a global assessment will be presented. The table below summarises the state of play at the end of 2011. Some further details are highlighted in this chapter.

Political commitment in the EU Citizenship Report 2010: The European Commission	State of play
Will make it easier for international couples (either married or registered partners) to know which courts have jurisdiction, and which law applies to their property rights (e.g. a jointly owned house) and how the decisions will be recognised and enforced by proposing legislative instruments in 2011.	The Commission has proposed two Regulations on patrimonial regimes for international couples on 16 March 2011. These proposals are currently being considered in the Parliament and in the Council.
Will facilitate the free circulation of civil status documents (e.g. birth certificates) by proposing legislative instruments in 2013.	In December 2010 the Commission launched a Green Paper calling for contributions from citizens and civil society organisations. The consultation ended in May 2011. The Commission is analysing contributions and identifying best options for future work. Legislative instruments are foreseen for the last quarter of 2012.
Will enable citizens, businesses and legal practitioners to easily find multilingual information on justice via the European e-justice portal.	The e-justice portal went live on 16 July 2010.
Will further improve the protection of persons suspected and accused in criminal proceedings, including safeguarding suspects' access to a lawyer and communication with the outside world while in detention, by proposing legislative instruments in 2011.	A proposal for a Directive on the 'right of access to a lawyer in criminal proceedings and on the right to communicate upon arrest' was put forward by the Commission in June 2011 and is being considered in the Parliament and the Council.
Will improve the protection of victims of crime by proposing a package of measures, including a legislative instrument, in 2011.	The Commission proposed in May 2011, a proposal for a legislative package to strengthen the legal framework including among others a proposal for a directly binding and effectively enforceable Directive establishing minimum standards on the rights, support and protection of victims of crime . It is now being considered in the Parliament and the Council.
Will simplify the formalities and conditions for the registration of cars previously registered in another Member State by proposing a legislative instrument in 2012.	A legislative proposal on registration of motor vehicles previously registered in another Member State is scheduled for the first quarter of 2012.
Will also take action in cases where the tax treatment of cars is discriminatory and work on solutions to double registration taxes on cars which can hinder the free movement of citizens and goods.	The Commission plans to adopt an initiative with possible recommendations for best practices on car taxation in 2012.
Will examine possible solutions to the taxation problems faced by EU citizens in cross-border situations in an initiative 'Removing tax obstacles for EU citizens'.	The Commission adopted a Communication of 20 December 2010 ' Removing cross-border tax obstacles for EU citizens ' and a Communication on double taxation in the Single Market of 11 November 2011.
Will propose ways to facilitate access to cross-border health care.	The Directive on patients' rights in cross-border health care entered into force on 24 April 2011. It should be transposed into national law by 25 October 2013.



<p>Will put in place pilot actions to equip Europeans with secure online access to their medical health data and to achieve widespread deployment of telemedicine services by 2020.</p>	<p>The Commission is negotiating two pilot projects to equip Europeans with secure online access to their medical health data, expected to involve over 20 regions in different Member States. The Commission will also publish a working paper on the applicability of existing EU legislation to telemedicine services in 2012.</p>
<p>Will recommend a minimum common set of patient data for interoperability of patient records to be accessed or exchanged electronically across Member States by 2012.</p>	<p>The new voluntary network on e-health, as foreseen by the directive on patients' rights in cross-border health care is expected over the next year to develop guidelines defining a minimum set of patient data to be accessible across Member States, building on results of the epSOS project.</p>
<p>Will increase the effectiveness of the right of EU citizens to be assisted in third countries, including in times of crisis by the diplomatic and consular authorities of all Member States:</p> <ul style="list-style-type: none"> • by proposing legislative measures in 2011; and • by better informing citizens via a dedicated website and targeted communication measures. 	<p>The Commission took stock of the state of play (Communication of 23 March 2011^(*)) and made a proposal for a Directive on 14 December 2011^(**) in order to strengthen citizens' rights and consular protection.</p> <p>To increase awareness of this right, all new passports in the EU will have information on consular protection printed along with the address of the EU's dedicated website providing details on where you can find help during your holidays outside the EU.</p> <p>The Consular Protection website^(***) went live in March 2011.</p>
<p>Will modernise the current rules for the protection of consumers buying package travel, especially over the Internet, and facilitate the purchase of package travel from other Member States by making a legislative proposal.</p>	<p>A proposal to revise the rules will be made in 2012.</p>
<p>Will seek to complete the legislative framework to ensure a set of common rights for passengers travelling by any transport mode across the EU and ensure adequate enforcement of these rights.</p>	<p>The Commission will make a proposal in 2012 to revise the Council Directive 90/314/EEC on package travel, package holidays and package tours to modernise the current rules for the protection of consumers buying package travel, notably over the Internet.</p>
<p>Will seek to ensure that transport hubs (e.g. airports, stations, ports) progressively become places where citizens can get easy access to information about their EU rights, especially when travelling within the EU.</p>	<p>In 2012 the Commission will revise Regulation (EC) No 261/2004 on compensation and assistance to passengers to make sure that passengers are adequately informed, assisted and, if necessary, compensated for all types of flight disruptions and loss/damage of luggage.</p>
<p>Will propose additional ways to ensure that passengers with reduced mobility can more easily access all means of transport and relevant infrastructure, will give, from 2010 onwards, an annual award to the most accessible European cities, will promote better access to services such as travel insurance and will develop and foster the use of EU wide standards on accessibility to the built environment, by proposing, in 2010, an EU Disability Strategy 2010–20.</p>	<p>Report on Regulation No 1107/2006 on passengers with reduced mobility travelling by air. The EU Disability strategy 2010–20 was adopted in November 2010. The second Access City Award was presented in December 2011. A process of standardising accessibility in the built environment is ongoing, the Commission has included in its work programme for 2012 a European Accessibility Act. A public consultation on the subject was opened at end 2011.</p>
<p>Will propose ways to increase consumer confidence in tourism products, by organising awareness-raising campaigns for European tourists and by monitoring consumer satisfaction with various tourism services (e.g. transport, accommodation, travel, etc.).</p>	<p>Communication and awareness raising activities are planned in 2012.</p>
<p>Will summarise existing digital rights in the EU in a clear and accessible way by issuing a Code of EU Online Rights by 2012.</p>	<p>Code of EU Online Rights to be launched in 2012.</p>
<p>Will facilitate fast and inexpensive out-of-court resolution of consumer problems in the EU by:</p> <ul style="list-style-type: none"> • proposing a legislative instrument on alternative dispute resolution (ADR) mechanisms in 2011; • exploring proposals for an EU-wide online dispute resolution system for e-commerce transactions by 2012; and • promoting wider use of mediation by 2013. 	<p>The proposal for a Directive on alternative dispute resolution for consumer disputes (ADR), adopted in November 2011, seeks to ensure that quality ADR entities exist to deal out-of-court with any contractual dispute between a consumer and a business.</p> <p>The proposal for a Regulation on online dispute resolution for consumer disputes (ODR) seeks to create an EU-wide online platform providing consumers and businesses with a single point of entry for resolving online the disputes concerning purchases made online in another EU country.</p>
<p>Will facilitate free movement of EU citizens and their third-country family members:</p> <ul style="list-style-type: none"> • by enforcing EU rules strictly, including on non-discrimination; • by promoting good practices and increased knowledge of EU rules on the ground; and • by stepping up the dissemination of information to EU citizens about their free movement rights. 	<p>Following bilateral exchanges with the Commission, 16 Member States have modified their law or announced amendments to ensure full transposition of the free movement directive. Regarding unresolved problems, the Commission has launched infringement proceedings where needed. A study on the evaluation of the application of EU free movement policy will be launched in 2012.</p> <p>A study was launched to be used as basis for an impact assessment of possible EU initiatives in the area of free movement of workers and is expected to be finalised by the beginning of 2012. Proposals are expected in 2012.</p>





Is improving provision of information to citizens and developing a new system of electronic exchange of data to reduce delays and difficulties in exchanging social security information.	Work is ongoing with a view to introducing a fully operational IT system for the exchange of data between national social security institutions in the different Member States, which should be operational at the latest on 1 May 2014.
Is asking Member States to ensure that in future, publication of the results of the European Parliament elections takes place at the same time in all Member States.	The Commission will monitor the measures that have been put in place in all Member States to make this a reality.
Is asking Member States to ensure that voting rights of EU citizens in their Member State of residence are fully enforced, that EU citizens can be members of or found political parties in the Member State of residence and that Member States duly inform EU citizens of their electoral rights.	Enforcement measures ongoing.
Will propose the simplification of the procedure for EU citizens when standing as candidates in their Member State of residence.	Relaunch of discussions on the Commission Proposal for a Council Directive amending Directive 93/109/EC as regards certain detailed arrangements of the exercise of the right to vote and stand as a candidate in elections to the European Parliament for citizens of the Union residing in a Member State of which they are not nationals.
Will improve the current mechanism for preventing double voting in European Parliament elections, taking into account the timeframe and outcome of a future European Parliament electoral reform.	Interpretative guidelines will be prepared for a more efficient implementation of this directive in 2012.
Will launch a discussion to identify political options to prevent EU citizens from losing their political rights as a consequence of exercising their right to free movement.	Dialogue with Member States launched. The Commission is currently analysing the positions of Member States.
Is developing the Your Europe web portal into a one-stop-shop information point on the rights of citizens and businesses in the EU, easy to use and accessible via the web and via a free phone number. It will provide clear and practical information and be a central port of call ('front office') which will dispatch enquiries to the various specialised assistance services.	Launched in March 2011. Content migrating to 22 languages.
Is streamlining its information networks in the Member States so that citizens easily find the right contact point at national, regional and local level. The Commission's representations in the Member States, together with the 500 Europe Direct information centres, will improve the promotion of citizens' rights by 2012, including through a better cooperation and interaction with existing EU-level assistance and problem-solving services.	Promotion of Your Europe and Europe Direct (2012 and 2013 in link with European Year of Citizens). Ongoing pilot project in which legal experts give direct advice to citizens in the Commission's Representations.
Will strengthen citizens' awareness of their EU citizenship status, their rights and their meaning in their daily lives by proposing the designation of 2013 as the European Year of Citizens and by organising targeted events on EU citizenship and citizen-related EU policies during this Year.	A Common proposal for a Decision of the European Parliament and of the Council on the European Year of Citizens (2013) is now being discussed in the Parliament and the Council. Preparations are ongoing.
Will make it simpler to use Commission financial support for EU citizenship, by exploiting synergies among available EU funding instruments and rationalisation.	Proposals for simplified 'Rights and Citizenship' programme adopted by the Commission on 15 November 2011. Proposal for simplified 'Europe for Citizens' programme adopted on 14 December 2011. Proposals will be discussed in the Parliament and the Council.
Will explore ways to strengthen information on European affairs, characterised by independent, professional and high-quality reporting; the Commission will also explore options for a more sustainable financing of Euronews. Encourage building up of a Brussels studio for Euronews.	New programmes on EU affairs were launched in spring 2011 and a Brussels' based Euronews studio was opened in June 2011.

(*) Commission Communication — Consular protection for EU citizens in third countries: State of play and way forward (COM(2011) 149).

(**) Proposal for a Council Directive on consular protection for citizens of the Union abroad (COM(2011) 881).

(***) <http://ec.europa.eu/consularprotection>.

Citizens' mobility

Following up on the introduction of new, improved rules on social security coordination for EU nationals and their family members that came into force in mid-2010, these rules were extended from the beginning of 2011 to nationals from third countries who reside legally in the EU and move between EU Member States. The Commission continued to focus its work on the efficient application of the rules, with important guidance being produced on the social security rights of posted workers and persons working in more than one Member State. In addition, a legislative proposal to make small amendments to the social security rules was made, aiming, amongst other things, to clarify the rights of self-employed frontier workers to unemployment benefit and to make clear where airline employees should pay social security contributions.

Moreover, in response to a request by Bulgaria and Romania, as foreseen in the 2005 Act of Accession, the Commission presented on 11 November 2011 a new report on the functioning of the transitional arrangements on the free movement of workers from these two countries. The report analyses the post-enlargement migration flows, the main characteristics of the intra-EU movers and the economic and labour market impacts.

European Year of Volunteering 2011

In the European Union, almost 100 million citizens of all ages invest their time, talents and money to make a positive contribution to their community by volunteering in civil society. Volunteering is an active expression of civic participation that strengthens common European values such as solidarity and social cohesion. Volunteering also provides important learning opportunities, because involvement in voluntary activities can provide people with new skills and competences that can also improve their employability. Volunteering plays an important role in sectors as varied and diverse as education, youth, culture, sport, environment, health, social care, consumer protection, humanitarian aid, development policy, research and equal opportunities.

The Year had four main objectives:

1. to make it easier for people to undertake voluntary activities;
2. to improve the quality of volunteering;
3. to recognise and reward the volunteers;
4. to underscore the significance of volunteering and galvanise a new generation of volunteers.

The 'EYV2011 Alliance' represented the voice of over 1 500 volunteering organisations throughout the Union as a key partner, together with the voice of the Member States, via the specially appointed 'National Coordination Bodies'. The European Parliament, the European Economic and Social Committee and the Committee of the Regions were also involved in the events throughout the year.

The 'European Night without Accident 2011'

The European Night Without Accident is a volunteering project for and by young drivers carried out on Saturday 15 October 2011 in all 27 EU Member States. Some 1 000 volunteers, aged 18 to 29 years, went to 200 nightclubs and asked the young drivers to accept the commitment neither to drink alcohol nor to use drugs when they had to drive home. At the end of the evening, the volunteers offered the possibility to all participating drivers to prove to their passengers they were responsible young European citizens by doing a voluntary breathalyser test and/or drug test.

The 'Serve the City Community Dinners'

Breaking bread together at table is a powerful symbol of social integration. The Serve the City Community Dinners Project employs that symbol and an innovative approach. The project organises community dinners and food distribution to homeless people — 200 dinners per week for one year are served outdoors in the Campo das Cebolas in the centre of Lisbon, Portugal. The aim is to approach and interact with homeless and marginalised community members and at the same time build healthy relationships and friendships between long-term volunteers and also short-term volunteers.



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The Commission is committed to ensuring that the Year of Volunteering has a positive legacy for volunteering beyond the end of 2011. To that end the Commission adopted a Communication on Volunteering in September 2011⁽⁵⁾ placing volunteering within the context of the Europe 2020 strategy for growth and its associated flagship initiatives. In the area of humanitarian aid, the Commission moved a step forward in the creation of a European Voluntary Humanitarian Aid Corps, as required by the Lisbon Treaty. In 2011, it initiated a public consultation and an impact assessment and launched pilot projects which will help in defining the structure and role of the future Corps.

*European Year of
Volunteering 2011 —
young people promote
safe driving.*

European Year for Active Ageing 2012

The European Year 2012 for Active Ageing and Solidarity between Generations will seek to raise awareness of the contribution of older people to society. A chance for all, including policymakers and citizens, to reflect on how Europeans are living longer and staying healthier than ever before. In 2011, preliminary contacts with stakeholders, such as national governments and AGE Platform (network of organisations for people aged over 50) were organised, with a view to preparing activities on the ground during 2012.

European Year of Citizens 2013

In August the Commission adopted a proposal for a European Year of Citizens in 2013⁽⁶⁾. Union citizenship, as provided for in the Treaty, is conferred automatically upon all Member States' nationals and grants them an additional set of rights, which includes the right to move and reside freely within the territory of Member States other than the one of which they are nationals. A European Year of Citizens in 2013, which will mark the 20th anniversary of the establishment of Union citizenship by the Treaty of Maastricht, will provide a very timely opportunity to give visibility to Union citizenship and its concrete benefits for individuals and highlight the importance of citizens' contribution in giving tangible effect to their rights.

'Europe for Citizens' programme 2014–20

The Commission adopted in December a proposal to follow the 'Europe for Citizens' programme (2007–13)⁽⁷⁾. The proposal aims at strengthening remembrance and enhancing the capacity of citizens and their associations to engage in civic participation. The programme will involve organisations active in the area of European remembrance, organisations of general European interest, municipalities, civil society organisations and think tanks. The new programme will have a more effective structure and is built on the strengths of the current programme.

The Citizens' Initiative

The Lisbon Treaty introduced a new form of public participation in European Union policy shaping, the European Citizens' Initiative. To give effect to this new right, a regulation was adopted by the Parliament and the Council at the beginning of 2011⁽⁸⁾ and will apply from 1 April 2012. The year 2011 was therefore dedicated to preparing for the implementation of this new instrument, which will allow 1 million EU citizens coming from at least seven Member States to invite the Commission to bring forward proposals for legal acts in areas where it has the power to do so.

A major innovation foreseen by the regulation is the possibility for organisers of citizens' initiatives to collect statements of support from signatories online. The Commission adopted technical and security standards for online collection systems on 17 November 2011⁽⁹⁾ and in order to facilitate online collection it made available open source software in December 2011 that can be freely downloaded by organisers.

Justice

Citizens must benefit from the freedoms they are afforded as citizens of the Union and should be entitled to access to justice in case of legal difficulties anywhere in the EU, protection and support if they fall victim to crime, a fair trial if they are accused of a crime, as well as effective resolution of civil matters like divorce, family maintenance, property and inheritance in cross-border situations. The justice system across the Union, while fully respecting fundamental rights, should be geared towards bringing those suspected of committing crime to account. In a similar way, developing the single market in the justice domain is necessary, as described in Chapter 2, including the Common European Sales Law, cross-border debt recovery, and alternative dispute resolution.

Protecting victims of crime

Victims' rights are covered by the principles of fundamental rights and non-discrimination. The latter was upheld in the landmark 1989 [Cowan v Trésor public case](#), in which the Court of Justice ruled that victims have a right to compensation regardless of their nationality.

Throughout the EU, an estimated 75 million people may be victims of crime every year. When the incident takes place abroad, different cultures, languages and laws can make protection hard to gain. Moreover the risk of becoming a victim of crime is just as great when travelling abroad as it is at home.

Minimum rules for victims are part of the broader objective to build a European area of justice, so that people can rely on the same level of basic rights and have confidence in the justice system wherever they are in the EU. Victims' rights are also fundamental rights, including respect for human dignity, private and family life and property. These rights should be safeguarded, along with the rights of others involved in criminal proceedings, such as those accused of a crime. The Lisbon Treaty now provides a clear legal base⁽¹⁰⁾ for the EU to establish minimum rules on the rights of victims of crime to facilitate mutual recognition of judgments and judicial decisions.

The Commission is seeking to ensure that victims' needs are better met and to that end it made two proposals in this field, designed to reinforce existing national provisions with EU-wide minimum standards, so that any victim can rely on the same basic level of rights — whatever their nationality and wherever in the EU the crime takes place.

The draft directive on minimum standards for victims⁽¹¹⁾ is designed to ensure that, across the Union, victims are treated with respect, with police, prosecutors and judges being trained in how best to deal with them; they get information on their rights and their case in a way they understand; they can access support in every Member State; they can participate in proceedings if they want and are helped to attend a trial; they are protected while police investigate the crime and during court proceedings, and those who are vulnerable are identified — such as children, victims of rape, or those with disabilities — and are properly protected.

The draft regulation on mutual recognition of civil law protection measures⁽¹²⁾ is designed to help protect victims of violence from any further harm by their attacker, and ensure that victims of violence (such as domestic violence) can still rely on restraint or protection orders issued against the perpetrator if they travel or move to another EU country. This regulation will complement the directive on the European protection order for criminal matters agreed by the European Parliament and the Council in December. Ensuring that no gaps remain in the protection of victims is equally important. Protection for women when they travel and go abroad is either covered under criminal law or under civil law for administrative reasons, depending on the system of the Member State. It is important to have all women protected.



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New protection under way for victims of crime.

Suspects' rights to a fair trial

Throughout the year the EU institutions pursued their action, initiated with the Treaty of Lisbon, to strengthen the rights of suspects or accused persons in criminal proceedings by establishing EU-wide minimum standards. This included a proposal for a directive on the right of access to a lawyer for suspects and accused persons and on the right of people in detention to communicate with a person of their choice, such as a relative, employer or consular authority⁽¹³⁾. This proposal is being discussed in the European Parliament and in the Council. It builds on two previous initiatives on the right to translation and interpretation adopted in 2010 and the right to information in criminal proceedings which was negotiated and agreed by the Parliament and by the Council throughout 2011. Besides, the European Commission has adopted a Green Paper on the application of EU criminal justice legislation in the field of detention⁽¹⁴⁾.

Assessing the use of the European Arrest Warrant

The Commission's report⁽¹⁵⁾ assessed how Member States have implemented the European Arrest Warrant and took stock of its operation so far.

CRIMINALS BROUGHT TO ACCOUNT

Among those surrendered, under the European arrest warrant, were a failed London bomber caught in Italy, a German serial killer tracked down in Spain, a suspected drug smuggler from Malta extradited from the UK, a gang of armed robbers sought by Italy whose members were then arrested in six different EU countries, and, more recently, a large international operation against highway cargo theft networks was dismantled in five countries.

Member States issued almost 55 000 European Arrest Warrants between 2005 and 2009, leading to almost 12 000 suspects being transferred to another Member State. Over the same period, the arrest warrant has had a marked effect in speeding up the transfer of suspected offenders between EU countries. Prior to the arrest warrant, the previous extradition procedure used to take an average of one year, but this has now been cut to 16 days when the suspect agrees to surrender, or 48 days when they do not. The European Arrest Warrant has therefore become a key tool in the fight against crime, and an important aspect of internal security in the EU. Based on this report and on the subsequent debates in the European Parliament in June and in the Council in October, further refinements and improvements to the system will be put in place.

Matrimonial property rights

Union legislation has already made it easier for international couples to identify which rules would apply in case they divorce. Now the Commission is proposing to address the related issue of how they deal with common assets after their divorce. This initiative⁽¹⁶⁾ is also part of the EU's action to tackle the remaining obstacles in the daily lives of people living, working, studying and travelling in other European countries.

Defining an EU criminal policy to protect citizens

The Commission has for the first time set out the strategy and principles⁽¹⁷⁾ it intends to apply when using EU criminal law to strengthen the enforcement of European policies and protect the interests of the citizens, in line with the Lisbon Treaty. A clearly defined EU criminal policy can help ensure that EU-wide rules are enforced, notably to prevent the manipulation of financial markets, including from insider trading, or protect the environment. The strategy sets out the conditions under which the Union and Member States can work together to put in place a coherent and consistent EU criminal policy, including:

- ▶ criminal law must always remain a measure of last resort;
- ▶ criminal law sanctions are reserved for particularly serious offences;
- ▶ criminal law measures are fundamental rights-sensitive: new legislation requires the strict respect of fundamental rights as guaranteed by the EU Charter of Fundamental Rights and the European Convention for the Protection of Human Rights and Fundamental Freedoms;
- ▶ every decision on what type of criminal law measure or sanction to adopt must be accompanied by clear factual evidence and respect the principles of subsidiarity and proportionality.

Stronger EU action to tackle Europe's drug problem

The Commission has given a fresh impetus to anti-drugs policy by announcing an overhaul of the EU rules to fight illicit drugs, particularly new psychoactive substances⁽¹⁸⁾. This will include stronger legislation on new psychoactive substances so that the EU can provide a faster response, including the possibility of temporary bans, new legislation to target cross-border trafficking in drugs by means of criminal law as well as new laws to strengthen control over chemicals used for drugs production.

Protection of EU financial interest and fight against fraud

In May 2011, the Commission adopted a series of proposals⁽¹⁹⁾ on how to improve the protection of EU financial interest by strengthening criminal law in the Member States. They contain measures to facilitate cooperation between prosecutors and judges across the EU to fight fraud, as well as proposals to improve consistency and fairness in the application of criminal sanctions relating to fraud. They are also designed to reinforce the capacities of the European Anti-Fraud Office (OLAF) and Eurojust (the EU's judicial cooperation body).

OLAF inspector and customs officer in action against alcohol smuggling. The fight against fraud is a key European policy.



In June 2011, the Commission adopted its new anti-fraud strategy⁽²⁰⁾ to update and modernise its policies to fight against fraud. A more systematic approach to fighting fraud against the EU budget will be adopted to improve the Commission's audit and control capacities. OLAF will play an important role and assist the Commission services by providing its expertise and guidance for developing these anti-fraud strategies.

A first outcome of this new approach is the EU action plan to fight against smuggling of cigarettes and alcohol along the EU eastern border. Every year, Member States and the EU lose more than €10 billion of customs and tax revenues due to cigarette and alcohol smuggling.

In March 2011, the European Commission adopted a proposal to reform the European Anti-Fraud Office (OLAF). The aim is to improve the efficiency, effectiveness and accountability of OLAF, while safeguarding its investigative independence. Since it was set up in 1999, OLAF has carried out some 4 500 investigations and has contributed greatly to protecting the EU budget against fraudulent activity. This reform intends to make OLAF even stronger, more efficient and more capable, to the benefit of each and every European citizen. It includes measures to ensure that OLAF's investigations are conducted and followed up more efficiently, to protect the rights of persons under investigation and to reinforce the cooperation between OLAF and its strategic partners in the fight against fraud.

Tax and customs coordination to better fight against fraud

Tax coordination is a significant tool in the fight against tax fraud both within and outside the EU. The Union is stepping up its fight against tax fraud and evasion, and continuing to lead the campaign for good governance internationally, based on three principles: greater transparency of tax systems, exchange of tax information between administrations and fair tax competition. The Commission is negotiating the inclusion of good governance provisions in agreements with third countries. Negotiations have been launched with 28 third countries or regions, with 11 negotiations finalised. Negotiations with Singapore are in their final, critical, stage, with fair tax competition at issue.

At EU level, an important milestone was the adoption by the Council in February of the new directive⁽²¹⁾ on administrative cooperation in the field of taxation. It provides that Member States can no longer rely on bank secrecy to refuse to provide information and thus reflects the international standards of transparency and exchange of information in tax matters. The directive also introduces automatic exchange of information from 1 January 2014 on five categories of income and capital: income from employment, director's fees, life insurance products not covered by other EU directives, pensions and ownership of, and income from immovable property.

*Algirdas Šemeta,
Commissioner for Taxation
and Customs Union, Audit
and Anti-Fraud, was active
in the battle against piracy
and counterfeiting —
103 million products
stopped at the Union's
borders suspected of
violating intellectual
property rights.*



An efficient customs policy contributes to the fight against piracy and counterfeiting. Violations of intellectual property rights (IPR) have a negative economic impact not only on legitimate businesses but also on the everyday life of citizens. According to the most recent report, EU customs seized more than 103 million products suspected of violating IPR at the EU's external borders. The number of shipments stopped by customs almost doubled compared to the previous year, rising from 43 500 to almost 80 000. The value of the goods detained is estimated at over €1 billion. The top categories of articles stopped by customs were cigarettes (34 %), office supplies (9 %) other tobacco products (8 %), labels, tags and emblems (8 %), clothing (7 %) and toys (7 %). Regarding the countries of provenance, China continued to be the main source of IPR-infringing products, totalling 85 % of all IPR-infringing articles.

A number of actions are being carried out by the Commission to strengthen customs' ability to combat such trade. On 24 May 2011, the Commission adopted a proposal⁽²²⁾ for a new regulation on customs enforcement of IPR, as part of a comprehensive package of IPR measures.

The existing legal framework dates from 2003. It is now time for a new regulation which takes account of developments such as the increasing importance of IPR for the EU economy and the explosion of postal traffic resulting from Internet sales. Moreover, the proposal aims at solving the dispute with India and Brazil over the issue of generic medicines transiting EU territory.

Good cooperation with international trading partners can also significantly help in preventing and detecting IPR-infringing goods from being exported to the EU. The action plan with China which specifically focusses on enhancing cooperation in IPR customs enforcement was extended until the end of 2012. Cooperation with industry is also very important to ensure that goods which violate IPR can be properly identified.

Home affairs

Home affairs policies aim at ensuring that all activities necessary and beneficial to the economic, cultural and social growth of the EU develop in a stable, lawful and secure environment. More specifically, the policies are designed to build an open and safer Europe, addressing, among others, migration, border control, security, terrorism and organised crime, and trafficking in humans.

Migration

Following an in-depth review of current migration and free movement of people legislation, the Commission presented its vision in mid-year — in the form of a communication on migration — for a more structured, comprehensive, rapid-response approach from the EU to the challenges and opportunities of migration, not least in view of the ongoing developments in the Mediterranean region. The initiatives covered various aspects of migration, including strengthened border control and Schengen governance, enhancing the Common European Asylum System, more targeted legal migration, exchange of best practices for successful integration of migrants, and a strategic approach for relations with third countries on migration. In November the Commission launched the EU Immigration Portal⁽²³⁾ offering practical information to migrants and potential migrants. In terms of legal migration, in December, the single permit directive was adopted. The new legislation simplifies migration procedures and ensures that third-country workers legally residing in a Member State will enjoy a common set of rights on equal footing with nationals. The Commission also adopted reports⁽²⁴⁾ on the directive on third-country national students, school pupils, unremunerated trainees and volunteers and the directive on long-term resident status for third-country nationals as well as on researchers. In addition, the Blue Card directive⁽²⁵⁾ came fully into force in the Member States, facilitating high skilled migration from outside the EU. The fight against irregular migration was strengthened by the coming into force of the employers sanctions directive⁽²⁶⁾, targeting unscrupulous employers of irregular migrants.

In the light of developments in the southern Mediterranean, the Commission proposed the establishment of dialogues on migration, mobility and security with the North African countries. These would encompass all migration-related aspects of the EU's future relationship with the region. This proposal envisages mobility partnerships to better manage legal mobility opportunities between the EU and the North African countries. Such partnerships would be tailor-made with each partner country, in cooperation with the Member States. They should help countries to make better use of their labour potential on their own territories, while also helping Member States to fulfil their labour market needs.

The Court of Justice ruled that the Return Directive precludes national rules imposing a prison term on third-country nationals staying irregularly on the territory of a Member State and who do not comply with an order to leave the national territory⁽²⁷⁾.



© European Union

*Cecilia Malmström,
Commissioner for Home
Affairs, launched the new
phase of the 'Global
Approach to Migration and
Mobility'*

Schengen rules

The Schengen area, without border controls at internal borders, leading to the free movement of some 400 million citizens between 26 countries (including four associated countries) is one of the most tangible, popular and successful achievements of the European Union, as well as implementing a fundamental freedom.

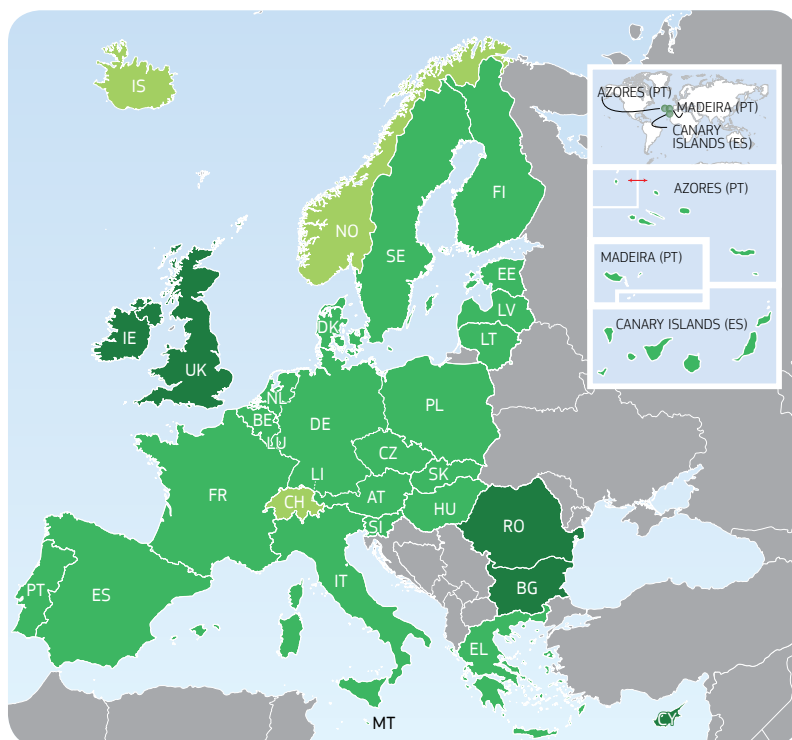
Due to the weaknesses identified at certain external borders, a number of Member States raised concerns on the functioning of the Schengen area. In May, the Commission proposed a package of measures on various aspects of migration, including strengthened Schengen governance.

The European Council at its June meeting⁽²⁸⁾ concluded that a mechanism should be introduced in order to respond to exceptional circumstances, which put the overall functioning of Schengen cooperation at risk, without jeopardising the principle of free movement of persons. The European Council also concluded that, as a very last resort, in the framework of this mechanism, a safeguard clause could be introduced to allow for the exceptional reintroduction of internal border controls in a truly critical situation. Building on these conclusions as well as on the position taken by the European Parliament in July 2011 and in line with its communication on migration, in September the Commission adopted proposals to ensure a more effective system of Schengen governance, better equipped to strengthen the Schengen area and to cope with crises resulting from both internal and external pressures. These proposals are currently being negotiated in the European Parliament and the Council.

It should be also noted that the Parliament delivered a positive opinion in June on Bulgaria and Romania meeting the conditions for joining the Schengen area.

On 11 October 2011, the Visa Information System (VIS) began operations in all Schengen visa-issuing consulates in North Africa (Algeria, Egypt, Libya, Morocco, Mauritania, and Tunisia). The VIS is a central database which supports the exchange of data on short-stay visas between Schengen states. Visa applicants are requested to appear in person when lodging their first application for the collection of their biometric data: a digital photograph and fingerprints.

SCHENGEN AREA AS OF DECEMBER 2011



- EU Schengen states
- Non-Schengen EU states
- Non-EU Schengen states

- | | |
|--------------------|--------------------|
| AT: Austria | IT: Italy |
| BE: Belgium | LI: Liechtenstein |
| BG: Bulgaria | LT: Lithuania |
| CH: Switzerland | LU: Luxembourg |
| CY: Cyprus | LV: Latvia |
| CZ: Czech Republic | MT: Malta |
| DE: Germany | NL: Netherlands |
| DK: Denmark | NO: Norway |
| EE: Estonia | PL: Poland |
| EL: Greece | PT: Portugal |
| ES: Spain | RO: Romania |
| FI: Finland | SE: Sweden |
| FR: France | SI: Slovenia |
| HU: Hungary | SK: Slovakia |
| IE: Ireland | UK: United Kingdom |
| IS: Iceland | |

Source: European Commission.

Controlling external borders — enhanced legal framework, better coordinated joint operation

Frontex is the agency responsible for coordinating the control of external borders of the EU, namely in the form of organising joint operations, in support of the primary role of the Member States. During 2011 it continued operational support in certain Member States and had its legal status strengthened. The Parliament and the Council amended the legislation covering Frontex to clarify and enhance its mandate and role⁽²⁹⁾. The principal aims of the amendment were to ensure the availability of technical equipment and qualified border guards for joint operations, to ensure efficient coordination, implementation and evaluation of joint operations, to ensure efficient cooperation between Frontex and third countries on border management, to improve efficiency of joint return operations and to improve the evaluation of the performance of Member States in the area of border management. The amended legislation has placed particular emphasis on strengthening respect for fundamental rights during all Frontex operations.



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*Safe and secure borders
is a key theme.*

Operations to assist migratory challenges

During the year under review, the EU responded swiftly to the migratory challenges it faced, with the full operational and financial means at its disposal. Over €144 million was mobilised to manage the humanitarian emergency generated by the sudden inflows of refugees and displaced persons in the countries neighbouring Libya. Together with the funds provided on a bilateral basis, this support has made it possible to offer temporary shelter to refugees and displaced persons, to meet their basic needs and to assist many of them to return to their countries of origin.

A Frontex operation, called Hermes 2011, was launched on 20 February to help Italy with maritime border surveillance, identification of migrants and refugees, as well as search and rescue operations at sea. Hermes 2011 set up an operational area at the south of Lampedusa and on 15 March an additional area at Sardinia was also activated. Ten Member States (Belgium, Czech Republic, Spain, France, Italy, the Netherlands, Poland, Portugal, Romania and Sweden) participated in the operation with experts and technical resources, including planes. Among the mission's tasks were the identification of migrants' nationalities and gathering intelligence on people-smuggling networks. Europol experts also provided operational analytical support throughout the operation. In addition to funding of almost €130 million over the past two years on migration issues, Italy also benefited from emergency financial assistance of €13 million out of the €28.1 million that was earmarked by the Commission under the External Borders, the European Refugee and the European Return Funds.

The Rapid Border Intervention Teams (RABIT) in Greece: during the operation, which lasted from 2 November 2010 to 2 March 2011, close to 200 well-trained law enforcement officers from 26 Member States assisted their Greek colleagues in controlling the border areas with Turkey, as well as in identifying apprehended irregular immigrants. Managed by Frontex, the deployment of Rapid Border Intervention Teams also helped the Greek authorities in gathering information on migration routes and facilitator networks that exploit the desperate situation of irregular immigrants. During the four months' operational period, over 11 800 migrants were detected and the number of illegal entries dropped by over 70 %. The EU has continued assisting Greece in implementing its action plan on asylum reform and migration management which identifies the short and longer-term measures needed for the establishment of a well-functioning asylum and migration system. The Commission has coordinated assistance by experts from Member States and provided targeted EU financial support including emergency funding. The total financial assistance allocated to Greece in the period 2010–12 amounts to €223 million.

Promoting migrants' integration

The Commission has proposed a 'European agenda for the integration of third-country nationals' to enhance the economic, social and cultural benefits of migration in Europe⁽³⁰⁾. The agenda places emphasis on migrants' full participation in all aspects of collective life and highlights the key role of local authorities in Member States. In November, the Commission launched a public debate on the directive on the right to family reunification of non-EU nationals living in the EU⁽³¹⁾.

Diversity brought by migration, if well managed, can be a competitive advantage and a source of dynamism for European society. If the EU is to meet its target of a 75 % employment rate by 2020, it is vital to remove barriers to migrants' access to employment — not least since the European workforce is decreasing as a consequence of the ageing population. The European Union's workforce will decline by approximately 50 million by 2060. For example, in terms of future demand for carers for the elderly, it is estimated that by 2020 there will be a shortage of about 1 million professionals in the health sector — and up to 2 million if ancillary health care professions are taken into account. This points to the need for a well managed migration policy supported by a strong integration agenda.

Asylum

In June, the Commission presented revised proposals on asylum procedures and on reception conditions with a view to reinforcing the Common European Asylum System (CEAS) by 2012⁽³²⁾. The modifications aimed at ensuring faster, fairer and more efficient rules that benefit both the Member States and the refugees themselves. In December, the Commission proposed to enhance EU solidarity in the field of asylum⁽³³⁾ through a better interaction of EU legislation, practical cooperation and use of EU funding mechanisms.

The European Asylum Support Office (EASO) was inaugurated in Malta in June 2011. With the recruitment of staff underway, the agency formed a pool of some 350 experts from all Member States to be available for emergency situations. These teams would provide interpreting services, information on countries of origin and know-how on managing asylum cases. An operating plan for the deployment of EU asylum support teams in Greece was signed in April, with the aim of assisting the Greek authorities in setting up a modern and efficient asylum and reception system. Several Member States have offered the services of their experts to assist in the operation which commenced in May (Austria, Belgium, Cyprus, Czech Republic, Denmark, Finland, Germany, Hungary, the Netherlands, Romania, Slovakia, Sweden, and the United Kingdom).

Terrorism and organised crime

The fight against terrorism and organised crime continued across the continent, underpinned by significant legal provisions, together with increased judicial and police cooperation.

In 2011 the Commission started to implement the Internal Security Strategy in Action, with a proposal for EU legislation on the collection of passenger name records (PNR) on flights entering or leaving the territory of the EU and the adoption of two packages on anti-corruption and assets recovery, among other initiatives. Negotiations towards new bilateral PNR agreements with the US and Australia have been completed, and negotiations with Canada are well advanced. On the operational level, the EU policy cycle for the fight against organised crime provided for a coherent framework for Member States' actions, based on the EU threat assessment. Altogether, 25 actions foreseen in the communication on the internal security strategy (ISS) for 2011 have been initiated, 10 of them being already concluded. The first annual report on the implementation of the ISS was adopted in November 2011⁽³⁴⁾.

In 2011 the first EU Anti-Trafficking Coordinator commenced work on behalf of the Commission to provide for the overall strategic policy orientation and coordination in addressing trafficking in human beings. New legislation on trafficking in human beings was adopted by the Parliament and the Council⁽³⁵⁾, which aims at approximating substantive criminal law and takes a zero-tolerance approach towards traffickers. The Commission developed further the EU anti-trafficking website which gives an overview of EU policy and legislation, all Commission-funded projects on human trafficking and many publications.



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Passenger name records (PNR) — new agreements under way.

Some key highlights of successful operations are described here.

Fighting child abuse and child-related offences

In early 2011, with the leading support of Europol, the police arrested 184 suspected child sex offenders and identified over 200 victims of child abuse in an operation with law enforcement agencies across the world. Europol had issued over 4 000 intelligence reports to police authorities in over 30 countries in Europe and elsewhere in support of the operation. Law enforcement authorities from 13 countries tracked offenders across the globe in Australia, Belgium, Canada, Greece, Iceland, Italy, the Netherlands, New Zealand, Poland, Romania, Spain, the United Kingdom and the United States. The suspected child sex offenders were members of an online forum that promoted sexual relationships between adults and young boys. The website operated from a server based in the Netherlands and, at its height, boasted up to 70 000 members worldwide.

Cracking down on drugs

In May 2011, almost 1 tonne of cocaine and 160 kg of hashish were seized in an international police operation led by the Spanish Civil Guard and coordinated by Europol. The huge consignment of cocaine was diluted in 13 tonnes of palm oil that had been shipped from Colombia, via Antwerp in Belgium, before being finally seized in Albania. In total, 22 members of an international criminal drugs network, some of them key 'head' figures, were arrested in this operation. The Spanish authorities together with Europol worked with law enforcement authorities in seven countries: Albania, Austria, Belgium, Germany, Italy, the former Yugoslav Republic of Macedonia and Serbia.

Raid against currency counterfeiting

In mid-year, Bulgarian police raided and dismantled a sophisticated counterfeit euro print shop in a joint operation with Europol. The Bulgarian police arrested six suspects and seized over half a million euros of very high quality counterfeit banknotes from print shops in the country. The operation was realised as a joint investigation team between Europol, Bulgaria, Spain and Eurojust. Europol was able to support the investigation with analytical, technical and financial support, including providing cash to carry out tactical police measures that were crucial for the final success.



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Fight against corruption

There are no available comprehensive data but corruption in the Member States is roughly estimated to cost the European economy 1 % of the Union's GDP. In June, the Commission adopted a set of measures⁽³⁶⁾ to address corruption, including an EU anti-corruption report, to monitor and assess Member States' efforts against corruption and to encourage more political support and reinforce mutual trust across the EU. The report will be published every two years, starting in 2013. This will help Member States to better enforce legislation and fully implement their international commitments, as well as to improve the coherence of their anti-corruption policies and actions. This approach will be complemented by a proposal for a directive on the confiscation and recovery of criminal assets in the European Union, as one of the measures to protect the legal economy.

Speedy action has been taken against money counterfeiters.

Easing citizens' everyday concerns

The Union is involved in many policy fields to facilitate the everyday lives of citizens. These relate to environmental safety, safety concerning natural and industrial catastrophes, health and safety, as well as in the domains of transport, telecommunications, culture and tourism. The initiative to have the website 'Your Europe' available in all EU languages will make it easier for people in Europe to have access to practical information concerning their daily lives.

Environmental safety

Climate action

A Eurobarometer survey⁽³⁷⁾ showed that climate change remained a serious concern to the European public despite the economic crisis. The EU-15 Member States remain well on track to meet or even go beyond their collective commitment to reduce emissions in the 2008 to 2012 period to 8 % below levels in a chosen base year (1990 in most cases).

The EU institutions continued to put in place the follow-up measures needed to implement the 'climate and energy' package of legislation, which sets binding targets for 2020: a 20 % reduction in greenhouse gas emissions from 1990 levels — or 30 % if the conditions are right — and a 20 % market share for renewable energy sources. Many of these implementation measures involved the introduction of common rules for the EU Emissions Trading System (ETS) in preparation for its third trading period, running from 2013 to 2020. Following cases of cybercrime in late 2010 and early 2011 which led to national ETS registries being temporarily suspended, measures were adopted to strengthen the security of the national registries system pending the entry into force in 2012 of the single EU registry. Preparations for the transition to the single registry, including software testing, were finalised in the second half of the year. To improve market transparency and ensure the ability of market supervisors to act swiftly when needed, in October the Commission proposed bringing all sectors of the carbon market, including spot transactions, under the EU's rules for regulating financial markets.

Legislation⁽³⁸⁾ was enacted for the inclusion of the aviation sector in the ETS from 1 January 2012. In September the Commission published the benchmark values⁽³⁹⁾ which will be used to allocate free emission allowances to airlines flying to and from EU airports. In 2012 airlines will receive 85 % of their allowances for free, while in 2013–20 the proportion will be 82 %. On 21 December the Court of Justice ruled against US airlines' legal challenge against inclusion in the ETS, finding that the EU's legislation was fully compatible with international law.

As part of the EU's strategy to cut CO₂ emissions from light-duty road vehicles, in May the Parliament and the Council adopted legislation to reduce emissions from vans⁽⁴⁰⁾. The legislation is similar to that passed in 2009 for cars.

Cleaner maritime fuels — lower sulphur content of marine fuels

The European Commission proposed on 12 July 2011 legislation⁽⁴¹⁾ to lower the sulphur content of shipping fuels. The proposals should reduce sulphur dioxide emissions by up to 90 %, and fine particle emissions by up to 80 %. The benefits for public health will be between €15 billion and €34 billion, far exceeding the expected costs, which are in the range of €2.6 billion to €11 billion. With nearly half of Europe's population living in areas where EU air quality objectives are still not met, air pollution is one of the main environmental worries facing citizens.

Recreational boats to become safer and less polluting

The Commission proposed new legislation⁽⁴²⁾ that will make the use of jet skis, motor and sailing boats less harmful for European waters, with benefits to the environment and consumer health. The revision of the recreational craft directive (RCD), proposes stricter limits for nitrogen oxides, hydrocarbons and particulate matters for new recreational craft.

Less polluting road transport

The revision of the so-called 'Eurovignette' directive on charging heavy road vehicles for the use of certain infrastructures was adopted in September 2011. It will enable Member States to charge heavy lorries not only for the cost of infrastructure, but also for the external costs from air and noise pollution which they produce. Moreover, Member States will be allowed to differentiate tolls according to the level of congestion, thus easing congestion in peak periods. This will give incentives to freight transport operators to use cleaner vehicles and during less congested periods and at the same time generate new revenues to finance cleaner transport. It will reduce air and noise pollution affecting the life and health of citizens living near to roads and help in better managing congestion from which motorists suffer.

Biodiversity

In May, the Commission adopted a new strategy to protect biodiversity in the EU⁽⁴³⁾. It is built around a limited number of measurable, ambitious, and realistic sub-targets that focus on the main drivers of biodiversity loss. There are six targets addressing different aspects of the challenge, each one accompanied by a corresponding set of actions. The strategy looks to improve and restore ecosystems and ecosystem services wherever possible, notably by more use of green infrastructure.

LIFE

In December the Commission proposed allocating €3.2 billion from 2014 to 2020 for a new programme for the Environment and Climate Action. The proposed LIFE programme will build on the success of the existing LIFE+ programme but will have a significantly increased budget, a distinct sub-programme for Climate Action and, through reforms, will have a greater impact, be simpler and be more flexible.



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*Janez Potočnik,
Commissioner for the
Environment, promoting
sustainable urban living
and development.*

Citizens' safety in natural and industrial catastrophes

Civil protection

An explosion at a naval base in Cyprus, forest fires in Greece, marine pollution in Spain's Algeciras Bay, as well as the evacuation of EU citizens and third-country nationals during the crisis in Libya — in 2011 the European Civil Protection Mechanism was activated 27 times to respond to disasters in and outside the EU. At the same time, the Commission presented a legislative proposal to strengthen the instruments of the Mechanism. At present the deployment of EU civil protection assets is based on largely ad hoc voluntary offers from the 31 participating States. The Commission proposes to move to a pre-planned and more immediate system.

Volcanic crisis prevention

In 2010 the European Union reviewed its response to volcanic ash clouds after the eruption of the Eyjafjallajökull volcano caused havoc to air traffic. A volcanic eruption exercise was held in April 2011 to test and verify the effectiveness of the various procedures and tools developed as a response to the 2010 crisis. The new procedures were put to a real-time examination when another Icelandic volcano — Grimsvötn — erupted on 21 May 2011. The results of both episodes demonstrated that the new European procedures are a very significant step forward in terms of managing the associated risk and minimising disruption.

Nuclear safety

Following the disastrous events in the Fukushima nuclear plant in Japan, nuclear safety again came to the top of the European agenda. A safeguard measure was taken as regards controls on feed and food originating from Japan to ensure that such feed and food did not contain unacceptable levels of radioactivity.

The European Commission stepped up radiological monitoring after the Fukushima accident by means of the European Radiological Data Exchange Platform (EURDEP) network. It was developed and is operated by the European Commission's in-house science service, the Joint Research Centre. It covers 35 European countries and makes data available online from some 4 400 gamma dose-rate (GDR) stations and is refreshed every hour. It is proposed to extend the EURDEP system worldwide based on a memorandum of understanding signed between the Commission and the International Atomic Energy Agency.

Nuclear stress tests

Member States agreed that, from 1 June 2011 onwards, the safety of all nuclear power plants in 14 Member States will be reviewed using common criteria. The stress tests are reassessments of the safety margins of the 143 nuclear power plants involved. Drawing on lessons from Fukushima and with a view to guaranteeing the highest safety standards in the world, the tests focus on all sorts of natural disasters and include the effects of man-made accidents such as aeroplane crashes as well as terrorist or other malevolent attacks. The data are collected via the European Clearinghouse for Operational Experience Feedback for nuclear power plants, a network of nuclear safety regulatory authorities and their technical support organisations within the EU, coordinated by the European Commission's in-house science service, the Joint Research Centre.

Radioactive waste safety

The directive on nuclear radioactive waste was adopted by the Council under the Euratom Treaty in mid-2011⁽⁴⁴⁾. It creates a strong EU framework with significant obligations imposed on Member States, while reaffirming the ultimate responsibility of those states for the management of spent fuel and radioactive waste. Under the new legal provisions, all Member States will have to draw up detailed programmes for radioactive waste disposal, safety standards drawn up by the International Atomic Agency become legally binding, and nuclear workers and the general public will be entitled to more information.



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Safer offshore platforms

On 27 October 2011, the European Commission proposed new legislation⁽⁴⁵⁾ which will ensure that European offshore oil and gas production will respect the world's highest safety, health and environmental standards everywhere in the EU. The new draft regulation sets clear rules that cover the whole lifecycle of all exploration and production activities from design to the final removal of an oil or gas installation. Under the control of the national regulatory authorities, European industry will have to assess and further improve safety standards for offshore operations on a regular basis.

*Günther Oettinger,
Commissioner for Energy,
proposed new legislation
to ensure safety on
offshore oil and gas rigs.*

Citizens' health and safety and their rights as consumers

A step nearer the safer use of chemicals in the EU

More than 3 million classification notifications by companies manufacturing or importing hazardous substances were submitted to the European Chemicals Agency (ECHA) in line with new EU rules at the beginning of the year. Classification is essential to determine whether a chemical is dangerous for health and the environment, and will determine the information on the labels of chemicals that workers and consumers use. The new system will enable ECHA to establish the first European inventory of hazardous substances and harmonised classifications. This will permit the safer use of chemicals and allow downstream users and consumers to select less hazardous chemicals for their needs.

Toy safety

On 20 July 2011 the new toys directive⁽⁴⁶⁾ entered into force and all actors involved in the production, selling and control of toys on the EU market got more responsibilities to better protect children. First of all, Member States have to ensure that market surveillance authorities perform adequate checks within the Union. Second, toy manufacturers, importers and distributors have more obligations too.

Banning of Bisphenol A in baby bottles

Baby bottles containing the substance Bisphenol A (BPA) have been banned across the European Union since June 2011, as foreseen by an EU directive adopted in late January⁽⁴⁷⁾. The EU ban is based on the scientific advice of the European Food Safety Authority and, in accordance with the precautionary principle, aims at reducing the exposure of infants as much as reasonably achievable. Exposure to BPA — an organic molecule that is a building block of some plastic material used for baby bottles — could have possible adverse impacts on infants, whose systems' capacity to eliminate the substance is not yet fully developed.

Safety of medicines and medical devices

The new legislation on pharmacovigilance adopted at the end of 2010 and the new directive on falsified medicines adopted in June 2011⁽⁴⁸⁾ are major EU legislative developments on pharmaceuticals. They strengthen the legal framework to ensure the safety, efficacy and quality of medicines placed on the market. Patients' safety is improved arising from the European databank for medical devices called 'Eudamed' which became fully operational in May 2011.

Safety of cosmetics

A new European IT system was developed and tested during the year with the objective of significantly increasing consumer safety by allowing Member States to perform their tasks of market surveillance in a more efficient way; and providing all European Poison Centres with the information necessary for prompt medical treatment in case of poisoning with cosmetic products.

Patients' rights in cross-border health care

The new directive on patients' rights in cross-border health care, adopted in March 2011⁽⁴⁹⁾, marks an important step forward for all EU patients. It provides a clear and coherent set of rules on the reimbursement of cross-border health care, facilitates the recognition of prescriptions from other Member States, helps patients requiring specialised treatment, and facilitates the exchange of information on quality and safety standards of health care.

The European Health Insurance Card (EHIC) continues to make it easier for people in 31 European countries to access health care services during temporary visits abroad. Currently more than 188 million people have an EHIC (or a replacement certificate), which is over 37 % of the total EU population. The Commission and Member States have continued their information activities to raise awareness of the card and how to use it.



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Safe toys mean safe children and happy parents.

RAPID ALERT SYSTEM FOR NON-FOOD PRODUCTS (RAPEX)

In 2011, the Rapid Alert System for non-food products improved the efficiency of information sharing among Member States and the Commission on dangerous products found across Europe and strengthened its cooperation with China and the US. Further measures to increase product safety taken in 2011 include: adoption of a series of safety requirements for several home and leisure products used by citizens in their daily lives; preparations for joint market surveillance and global multilateral product safety work.

Prevention and control of serious cross-border health threats

The Commission legislative proposal for strengthened EU measures to protect citizens against serious cross-border threats to health was adopted in December 2011⁽⁵⁰⁾. It proposes to update the existing legislation on communicable diseases and to reinforce collaboration at Union level on serious cross-border health threats from a global public health perspective.

Action against smoking

As part of the EU's wider action on tobacco, in June 2011, the Commission launched a pan-European campaign 'Ex-smokers are unstoppable'. This anti-tobacco campaign focusses on smoking cessation, shifting the focus from the dangers of smoking to the positive benefits of quitting smoking, highlighting the inspirational achievements of ex-smokers and offering smokers practical help to stop. The target audience is young people aged between 25 and 34 years old, representing 28 million Europeans. Together with the preventive measures taken at European and national levels, the campaign should contribute actively to a reduction of smoking across Europe.

Nobel Prize

The 2011 Nobel Prize in Physiology or Medicine was divided, one half jointly to Bruce A. Beutler and Jules A. Hoffmann 'for their discoveries concerning the activation of innate immunity' and the other half to Ralph M. Steinman 'for his discovery of the dendritic cell and its role in adaptive immunity'.

Both Professors Hoffmann and Steinman were aided in their work by funding from the European Union. Jules A. Hoffmann's research in the EU project: 'Biology and Pathology of the Malaria Parasite' in the area of innate immunity led to his contribution on uncovering the receptors and signalling pathways of antimicrobial defences in the *Drosophila* fly. Ralph M. Steinman's dendritic cell research was the main focus of his work in the three different EU projects in which he participated. The Nobel Prize award to Jules A. Hoffmann and Ralph M. Steinman demonstrates that EU-funded researchers are world class leaders in many areas.

Safe and secure food for Europe and beyond

The central goal of the European food safety policy is to ensure a high level of protection of human health and consumers' interests in relation to food, taking into account diversity, including traditional products, whilst ensuring the effective functioning of the internal market. The guiding principle, primarily set out in the Commission's White Paper on food safety⁽⁵¹⁾, is to apply an integrated approach from farm to table covering all sectors of the food chain, including feed production, primary production, food processing, storage, transport and retail sale.

Despite the EU being at the vanguard of global food safety, outbreaks of food-borne bacteria can occur, occasionally with fatal results.

***E. coli* outbreak**

In May, Germany informed the Commission's Early Warning and Response System (EWRS) of a significant increase in the number of patients with hemolytic uremic syndrome (HUS) and bloody diarrhoea caused by enterohemorrhagic *Escherichia coli* (EHEC). Investigations concluded that a Shiga toxin-producing *Escherichia coli* bacteria was responsible. These bacteria can cause illness ranging from mild intestinal disease to severe kidney complications and death. Further outbreaks caused by the same strain of *E. coli* were later detected in the area of Bordeaux in France. Some 53 people died as a result of the *E. coli* bacteria making it one of the most serious food-borne public health threats of recent years.

The Commission activated immediately all relevant networks as soon as the outbreak was confirmed. This included the Rapid Alert System for Food and Feed (RASFF) and the Early Warning and Response System (EWRS) ensuring rapid distribution of information throughout the EU in relation to the outbreak.

A link was established between the outbreaks in northern Germany and France and fenugreek seeds from Egypt leading the Commission to take measures to withdraw from the market, and temporarily ban the import of, certain types of seeds from Egypt⁽⁵²⁾.

In response to the economic impact of the *E. coli* epidemic all across Europe, the Commission set up an emergency plan to support vegetable producers. In total, a budget envelope of €210 million was made available to allow a response to demands for compensation for the period from 26 May to 30 June. Moreover, in November, the Commission approved 14 programmes in 11 Member States to promote fresh fruit and vegetables both on the internal market and in third countries to address the difficult market situation faced by the sector in the wake of the *E. coli* crisis. The total budget for the programmes, running for a period of three years, is €34.1 million of which the EU contributes €17.0 million



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John Dalli, Commissioner for Health and Consumer Policy. On the food safety day, the Commission focussed on food waste minimisation and food packaging optimisation.

Food safety — testing methods to protect and promote consumer confidence

The European Commission's in-house science service, the Joint Research Centre (JRC), carries out extensive work in support of food safety, and develops test methods that are used by laboratories all over the EU and beyond. In May 2011, Taiwanese authorities discovered that certain sports drinks on their market had been contaminated by phthalates (chemical substances often used as softeners in plastic materials). The JRC rapidly developed three test methods that allowed rapid and accurate identification of the substances. These new methods facilitated the work of laboratories testing suspected contaminated sport drinks imported from Taiwan, and thereby helped protect the health of consumers worldwide.

In 2011, the JRC published a compendium listing all the 79 methods that have been validated so far to detect, identify and quantify GMOs in human food and animal feed. These methods are used by laboratories all over Europe, to help check whether producers respect the labelling rules for all food or feed products that contain GMOs.

Food information for consumers

A new regulation on the provision of food information to consumers was adopted by the Parliament and the Council⁽⁵³⁾. The legislation lays down general principles on food labelling. It provides new rules on legibility of information. It also strengthens the rules intended to prevent misleading practices and provides for additional information, for instance on substances causing allergies. There are also new requirements to provide information on the nutrient content of foods and new rules on the labelling of meat. Engineered nanomaterials will also need to be indicated in the list of ingredients. The new rules will help consumers make better-informed decisions when they buy food, boost consumer empowerment and contribute to the fight against the rising levels of obesity and chronic diseases in the EU.

Milestone of 1 000 registrations

In February 2011, Piacentinu Ennese, a sheep's cheese from Italy, became the one thousandth name to be registered under the Commission's agricultural product and foodstuff quality labelling scheme. Since their creation in 1992, the EU schemes have registered quality agricultural products and foodstuffs from across the EU and beyond. The creation of quality labels such as geographical indications and the EU organic farming logo generated the provision of quality and safe products all across the EU. In recent years there has been a boost in applications due to the enlargement of the EU and growing interest from non-EU producers including those from India, China, Thailand and Vietnam, among others.



A major milestone was reached during the year when the 1 000th name was registered — Piacentinu Ennese — a sheep's cheese from Italy.

Alternative dispute resolution (ADR)

When buying goods and services in the single market, disputes between consumers and traders often go unresolved. This affects consumer confidence and slows down growth. Out-of-court dispute resolution offers an alternative to traditional court procedures, and in this regard, the Commission adopted on 29 November 2011, two legislative proposals⁽⁵⁴⁾ which once adopted, will give European consumers easy, quick and inexpensive ways to sort out their problems, wherever and however they purchase a product or service in the EU. One is a proposal for a directive on alternative dispute resolution for consumer disputes (directive on consumer ADR) that aims to enhance the availability and quality of such redress mechanisms and the other is a proposal for a regulation on online dispute resolution for consumer disputes (regulation on consumer ODR) that intends to establish an EU-wide platform allowing the handling of disputes related to cross-border e-commerce transactions entirely online.

Adoption of the consumer rights directive

The new EU consumer rights directive was adopted during the year⁽⁵⁵⁾. This piece of legislation will strengthen consumers' rights in all 27 EU countries, particularly when shopping online. Member States will have two years to implement the rules at national level. Among the innovations in the directive are the elimination of hidden charges and costs for Internet purchases, price transparency, banning pre-ticked boxes on websites, and extending the period in which consumers can revoke a contract from 7 to 14 days.

Transport and telecommunications

Launch of the first two operational Galileo satellites

In October Europe took a major step by launching the first two operational Galileo satellites from Kourou, French Guiana. From 2014, the satellites will enable improved services ranging from more precise in-car navigation, effective road transport management, search and rescue services, more secure banking transactions as well as reliable electricity provision, which all rely heavily on satellite navigation technologies to work efficiently. The overall economic impact is estimated to be about €90 billion over the next 20 years.



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A Soyuz rocket launches the first Galileo global navigation system satellites into space from the new space port in French Guiana.

Driving licence

The directive on driving licences was amended⁽⁵⁶⁾ to introduce a new European driving licence model instead of the paper and plastic licences currently issued by Member States. The new European driving licence will be introduced as from 19 January 2013. It will include features such as harmonised validity periods and new vehicle categories.

Cross-border traffic offences

A directive on cross-border exchange of information on road traffic offences was adopted in September⁽⁵⁷⁾ giving Member States two years to transpose it into their national legislation. In accordance with the new legislation, a Member State in which an offence has been committed with a vehicle registered in another Member State will be able to identify the holder of the vehicle and investigate who is personally liable for the offence, so that sanctions can be enforced.



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New tachograph rules

In July, the Commission adopted a proposal revising the tachograph legislation to make full use of new technological opportunities such as satellite positioning. It will help reduce fraud and cut the administrative burden related to the use of the tachograph and lead to an estimated saving of more than €500 million per year. The proposed new rules are designed to improve road safety and working conditions of drivers and lead to fairer competition in the road haulage sector.

Siim Kallas, Commission Vice-President responsible for Transport, on board a new EU-funded London hydrogen-fuelled bus.

Better Airports package

At the end of the year a new set of measures⁽⁵⁸⁾ was proposed to change existing EU rules on slot allocation, access to the ground handling market and noise-related operating restrictions at EU airports. A policy document⁽⁵⁹⁾ entitled 'Airport policy in the European Union: addressing capacity and quality to promote growth, connectivity and sustainable mobility' was also adopted to explain the overall context and the need for airports to improve further their performance.

Aviation security

For the first time the Commission has adopted rules⁽⁶⁰⁾ that will render EU inbound flights more secure. Until now Member States relied on the so-called 'host state' principle that gives all members of the International Civil Aviation Organisation (ICAO) the duty to control departing flights against global security standards. The incidents of October 2010 when two US-bound bomb parcels were shipped in cargo aircraft from Yemen into the EU required a prompt response. Now air carriers flying cargo into the EU will have to commit to apply basic security measures. Cargo from places considered high risk will have to undergo additional controls.

Passenger security at airports

New legislation⁽⁶¹⁾ allows Member States and airports, wishing to use security scanners for the screening of passengers, to do so under strict operational and technical conditions. Security scanners technology is developing rapidly and has the potential significantly to reduce the need for physical searches of passengers. By laying down specific operational conditions on the use of security scanners and by providing passengers with the possibility to be informed and to opt out from a security scanner, the legislation respects fundamental rights and the principles recognised in the Charter of Fundamental Rights of the European Union.

Passenger rights

The Parliament and the Council adopted a regulation⁽⁶²⁾ on the rights of passengers travelling by bus and coach in February. This means that after air, rail and water, now transport by road will also be covered by a specific set of rights for passengers, thereby advancing the legal protections for users of all transport modes at EU level. Bus and coach passengers, and in particular passengers with a disability and people with a reduced mobility, will enjoy new rights that will protect them when they travel on long-distance services (i.e. of more than 250 km) anywhere within the European Union. Improvements for passengers travelling by air were also introduced over the course of the year, while at the same time a major review of the air passengers' laws is being carried out.

The Court of Justice ruled that in the event of cancellation of a flight, passengers may claim, under certain conditions, compensation for non-material damage in addition to that awarded for material damage suffered. A passenger may also claim compensation for cancellation of a flight where his aeroplane took off but, for whatever reason, was subsequently forced to return to the airport of departure and that passenger was transferred to another flight⁽⁶³⁾.

Maritime transport

The Council adopted in December 2011 a decision concerning the accession of the European Union to the 2002 Protocol to the Athens Convention relating to the liability of carriers and the compensation of passengers carried by sea. This will facilitate the international entry into force of this protocol, which represents a major improvement to the regime applicable to passengers during a sea voyage. In particular, it provides for a strict liability for the carrier and includes compulsory insurance with a right of direct action against insurers up to specified limits.

Rail transport

In May 2011, the Commission adopted a regulation to facilitate pan-European rail journey information, planning and ticketing, an action of the digital agenda for Europe and an essential tool for the rail passengers' rights regulation adopted in 2007⁽⁶⁴⁾. This is also the last European technical specification for interoperability of railways, which, together with the definition of rail interoperability registers in 2011, completes the 10-year round of railway technical harmonisation.

*Improving rail transport is
a key priority.*



In May 2011 the Commission adopted a regulation⁽⁶⁵⁾ on a system of certification of entities in charge of maintenance for freight wagons, thereby amending previous legislation. The regulation was foreseen in the framework set up by the 'Railway Safety' directive.

Railway package

The Commission proposal to recast the current rail market access legislation (the so-called 'first railway package') was examined by both the Parliament and the Council, with broad agreement forthcoming from both institutions by the end of the year. The final adoption of this proposal in 2012 should stimulate rail infrastructure financing, facilitate market access for railway undertakings and improve regulatory oversight.

Manufacturers deliver the common mobile phone charger

The personal nuisance and enormous environmental waste of multiple mobile phone chargers started to become a thing of the past in 2011. During the year, European consumers were able to purchase a standard mobile phone charger for all data-enabled phones — including smart-phones — sold in the Member States.

There are an estimated 500 million mobile phones being used across the European Union today with 30 different chargers. Aside from the inconvenience that this causes to individuals having so many different types of chargers, it has a profoundly negative impact on the environment. More than 51 000 tonnes of electric waste per year are generated as a result.

To tackle this issue the European Commission gave phone manufacturers an ultimatum in March 2009: voluntarily adopt a common charger or be subject to mandatory EU legislation. As a result in June 2009, Europe's major mobile phone manufacturers agreed to adopt a common charger for data-enabled mobile phones sold in the EU, to be introduced in 2011.

Lowering roaming prices

With effect from 1 July 2011 to 30 June 2012 EU mobile operators will again be obliged to lower retail prices for roaming calls in line with EU rules first introduced in 2007 and amended in 2009. Consumers opting for the EU-regulated 'Euro-tariff' will pay no more than 35 cents per minute for calls made and 11 cents per minute for calls received while abroad in the EU. This is the last in the series of regulated price cuts under the current EU roaming regulation, which expires at the end of June 2012.

Culture and tourism

Eden Awards: Former industry sites top sustainable tourism destinations today

Twenty-one destinations from across Europe received the 2011 Eden Award for exemplary regeneration and promotion of their declining physical sites.

The 21 winning destinations in 2011 were: City of Gmund, Carinthia (Austria), Marche-en-Famenne (Belgium), Pustara Višnjica (Croatia), Kalopanayiotis (Cyprus), Slovacko (Czech Republic), Lahemaa National Park Manors (Estonia), Roubaix (France), Municipality of Delphi (Greece), Mecsek (Hungary), Stykkishólmur Municipality (Iceland), The Great Western Greenway, Co Mayo (Ireland), Montevecchio, Municipality of Guspini (Italy), Ligatne Village (Latvia), Rokiškis Manor (Lithuania), Għarb (Malta), Veenhuizen (Netherlands), Żyrardów (Poland), Faial Nature Park (Portugal), Idrija (Slovenia), Trasmiera Ecopark (Spain), Hamamönü-Altındağ Ankara (Turkey).

European prizes and European capitals of culture

Turku (Finland) and Tallinn (Estonia) were the two European Capitals of Culture in 2011. The Council also formally designated Mons (Belgium) and Plzeň (Czech Republic) as European Capitals of Culture for 2015.



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*Tallinn, Estonia,
European Capital
of Culture 2011.*

Twenty-seven projects won the 2011 European Union Prize for Cultural Heritage/ Europa Nostra Awards. The awards were presented on 10 June during a ceremony at the Concertgebouw in Amsterdam. Out of the 27 winning projects, six were named as 'Grand prix' laureates at the ceremony as 2011's most outstanding heritage achievements, namely: Antwerp Central Station (Belgium), Preindustrial buildings in Ademuz, Valencia (Spain), the Hackfall woodland garden Grewelthorpe/North Yorkshire (United Kingdom), Buffer zone in the walled city of Nicosia (Cyprus), Szymon Modrzejewski, Uście Gorlickie (Poland) and Weald and Downland open air museum in Chichester, West Sussex (United Kingdom). The Neues Museum in Berlin was the winner of the 2011 European Union Prize for Contemporary Architecture/Mies van der Rohe Award. The building is a reconstruction, blending old and new, by UK architect Sir David Chipperfield.

The winners of the 2011 European Union Prize for Literature were announced at the Frankfurt Book Fair on 12 October 2011: Kalin Terziyski (Bulgaria), Tomáš Zmeškal (Czech Republic), Kostas Hatziantoniou (Greece), Ófeigur Sigurðsson (Iceland), Inga Zolude (Latvia), Iren Nigg (Liechtenstein), Immanuel Mifsud (Malta), Andrej Nikolaidis (Montenegro), Rodaan Al Galidi (the Netherlands), Jelena Len-gold (Serbia), Çiler İlhan (Turkey), Adam Foulds (United Kingdom).

The winners of the 2011 European Union Award for Contemporary Music/European Border Breakers Awards (EBBAs) were Saint Lu (Austria), Stromae (Belgium), Aura Dione (Denmark), ZAZ (France), The Baseballs (Germany), Caro Emerald (the Netherlands), Donkeyboy (Norway), Inna (Romania), Miike Snow (Sweden), Mumford & Sons (United Kingdom).

MEDIA programme: 20th Anniversary

The MEDIA programme celebrated its 20th anniversary in 2011. Since its launch in 1991 it has been a huge success story, helping to bring many superb films to the screen, including more than a dozen Oscar (La vita è bella (1999), Das Leben der Anderen (2007), Slumdog Millionaire (2009), among others) and Palme d'Or winners (Secrets and Lies (1996), The Pianist (2002), The Wind That Shakes The Barley, (2006), Das weisse Band (2009)).

Creative Europe

Europe needs to invest more in its cultural and creative sectors because they significantly contribute to economic growth, employment, innovation and social cohesion. In November the Commission proposed a new programme — 'Creative Europe' — running from 2014 to 2020. It is dedicated to the cultural and creative sectors and would provide funding opportunities for artists, cultural professionals, European film industry and cinemas.

Beliefs and ethics

Dialogue with churches, religious communities and philosophical non-confessional organisations

The Commission engaged in dialogue with churches, religious communities and philosophical non-confessional organisations, as foreseen in the new provisions of the Lisbon Treaty. The Presidents of the Commission, the Parliament and the

Presidents Buzek, Barroso and Van Rompuy and Commission Vice-President Reding at a meeting with representatives of the Christian, Jewish and Muslim religions and of the Buddhist community in Brussels in May.



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Council held meetings with religious leaders as well as with non-confessional associations. Discussions focussed on 'A partnership for democracy and shared prosperity: a common willingness to promote democratic rights and liberties'. This issue lies at the very core of European integration and needs to be highlighted as a value dimension of EU policies and consensually shared by all communities. In addition, two seminars were held, one with churches on Roma inclusion and one with non-confessional associations on youth, education and culture.

Ethics

At the beginning of the year, the President of the Commission appointed the 15 members of the European Group on Ethics in Science and New Technologies (EGE) for 2011 to 2016⁽⁶⁶⁾. The EGE members serve in a personal capacity and are asked to offer independent advice to the Commission. In March the President of the Commission requested the EGE to issue an opinion on the ethical implications of information communication technology (ICT). The opinion will be adopted in February 2012⁽⁶⁷⁾.

In September the 3rd meeting of the European Commission International Dialogue on Bioethics took place under the auspices of the Polish and Hungarian rotating Council Presidencies⁽⁶⁸⁾. Participants at this event included the members of the EGE, the chairs of 15 non-EU national ethics councils, the chairs of the national ethics councils (NEC) of the 27 Member States of the European Union and representatives of international organisations⁽⁶⁹⁾.

The Court of Justice considered that a process which involves removal of a stem cell from a human embryo at the blastocyst stage, entailing the destruction of that embryo, cannot be patented. The use of human embryos for therapeutic or diagnostic purposes which are applied to the human embryo and are useful to it is patentable, but their use for purposes of scientific research is not patentable⁽⁷⁰⁾.

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- (1) http://ec.europa.eu/justice/policies/rights/docs/report_EU_charter_FR_2010_en.pdf
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- (3) Court of Justice ruling of 1.3.2011 in Case C-236/09 *Association Belge des Consommateurs Test-Achats and Others*.
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- (6) Proposal for a decision on the European Year of Citizens (2013) (COM(2011) 489).
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- (9) Commission implementing Regulation (EU) No 1179/2011 laying down technical specifications for online collection systems pursuant to Regulation (EU) No 211/2011 on the citizens' initiative (OJ L 301, 18.11.2011).
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- (11) Proposal for a directive establishing minimum standards on the rights, support and protection of victims of crime (COM(2011) 275).

- (¹²) Proposal for a regulation on mutual recognition of protection measures in civil matters (COM(2011) 276).
- (¹³) Proposal for a directive on the right of access to a lawyer in criminal proceedings and on the right to communicate upon arrest (COM(2011) 326).
- (¹⁴) Strengthening mutual trust in the European judicial area — A Green Paper on the application of EU criminal justice legislation in the field of detention (COM(2011) 327).
- (¹⁵) Report from the Commission to the European Parliament and the Council on the implementation since 2007 of the Council Framework Decision of 13 June 2002 on the European Arrest Warrant and the surrender procedures between Member States (COM(2011) 175).
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- (¹⁸) Commission communication — Towards a stronger European response to drugs (COM(2011) 689).
- (¹⁹) Commission communication — The protection of the financial interests of the European Union by criminal law and by administrative investigations. An integrated policy to safeguard taxpayers' money (COM(2011) 293).
- (²⁰) Commission communication — The Commission anti-fraud strategy (COM(2011) 376).
- (²¹) Directive 2011/16/EU on administrative cooperation in the field of taxation (OJ L 64, 11.3.2011).
- (²²) Proposal for a regulation concerning customs enforcement of intellectual property rights (COM(2011) 285).
- (²³) <http://ec.europa.eu/immigration>
- (²⁴) Report from the Commission to the European Parliament and the Council on the application of Directive 2003/109/EC concerning the status of third-country nationals who are long-term residents (COM(2011) 585).
- Report from the Commission to the European Parliament and the Council on the application of Directive 2004/114/EC on the conditions of admission of third-country nationals for the purposes of studies, pupil exchange, unremunerated training or voluntary service (COM(2011) 587).
- (²⁵) Directive 2009/50/EC on the conditions of entry and residence of third-country nationals for the purposes of highly qualified employment (OJ L 155, 18.6.2009).
- (²⁶) Directive 2009/52/EC providing for minimum standards on sanctions and measures against employers of illegally staying third-country nationals (OJ L 168, 30.6.2009).
- (²⁷) Court of Justice ruling of 28.4.2011 in Case C-61/11 PPU *El Dridi*.
- (²⁸) European Council Conclusions of 23–24 June 2011.
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- (⁴⁷) Commission implementing Regulation (EU) No 321/2011 as regards the restriction of use of Bisphenol A in plastic infant feeding bottles (OJ L 87, 2.4.2011).
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- (⁵⁰) Proposal for a decision on serious cross-border threats to health (COM(2011) 866).
- (⁵¹) Commission White Paper — Food safety (COM(1999) 719).
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Chapter 4

A stronger EU in the world

The European Union is a major player in all of the world's regions. This role has been strengthened by the coming into operation of the Lisbon Treaty's provisions concerning who represents the EU on the global stage and by the establishment of the European External Action Service, the Union's newly fledged diplomatic service operating in 140 countries.

In response to major popular uprisings and the transition to democracy in a number of countries in north Africa and the Middle East, the European Union issued a joint communication — from the High Representative of the Union for Foreign Affairs and Security Policy and the Commission — on 8 March entitled 'A partnership for democracy and shared prosperity with the southern Mediterranean'. A second communication published on 25 May and entitled 'A new response to a changing neighbourhood' represents a major overhaul of the manner in which the European neighbourhood policy is implemented both towards the south and the east and includes overall strategy, accompanied by a large number of proposals addressing the whole of the EU neighbourhood (i.e. those countries and territories stretching from Morocco to Syria and from Azerbaijan to Belarus) to support those partners in delivering on reform, building 'deep democracy' and ensuring sustainable and inclusive economic development.

The Union's capacity to respond to disasters and crises was again tested throughout the year, with the Commission mobilising swift humanitarian and civil protection assistance following the earthquake, tsunami and nuclear accident in Japan, or in mobilising a major humanitarian response in the drought-stricken Horn of Africa.

On the diplomatic and geopolitical front, the adoption of a resolution of the United Nations General Assembly according the EU a single voice in the UN was a major achievement, and again is an expression of the Lisbon Treaty's provisions.

Apart from continuing and deepening multilateral and bilateral arrangements across a range of headings, the Union was particularly active in pursuing measures to address the global economic and financial situation. This was notable in the revamped G20 forum, where the EU's contribution was increasingly influential.

The European External Action Service: first year of activity

The European External Action Service (EEAS) was created under the Treaty of Lisbon, and it formally came into being on 1 January 2011. Huge strides were quickly made, but there remains a great distance to travel, both practically and politically, in forging a single home for the EU's collective foreign policy, and the people, policies and programmes at its disposal.

The task involves integrating staff from the Council of Ministers and the European Commission, while also recruiting diplomats from Member States. The first objective was — and remains — to attract the most talented staff, and in turn offer them prospects, progression and training.

At the beginning of 2011, the administrative staff of the EEAS was made up of one third coming from the Council and two thirds from the Commission. Added to this was a limited number of diplomats from Member States, mostly in senior management functions. The total proportion of Member States' diplomats in the EEAS is scheduled to reach one third in 2013.

Today the EEAS has 3 611 staff, including 1 551 working in Brussels and 2 060 in the 140 EU delegations. The two most recent EU delegations are in South Sudan and in Libya.

The budget of the EEAS in 2011 was €464 million, divided between €184 million in headquarters and €280 million in delegations. The EEAS also managed €253 million on behalf of the Commission for the administrative expenses linked to Commission staff in delegations. This represented 1 % of the EU's annual development budget of some €50 billion, and less than 0.5 % of the Union's total budget.

The challenge of bringing the EU's foreign policy under one roof presents its procedural hurdles, in aligning the various different funding sources for its operations and harnessing all its tools — diplomacy, political engagement, development assistance, civil and military crisis management — in support of conflict prevention and poverty reduction, security and stability and the promotion of human rights around the world.

Indeed the EEAS staff are complemented by some 7 000 other people in the EU's three military and 17 civilian missions around the world, training policemen, judges, prison officers and customs officials from Iraq to Afghanistan, from Bosnia and Herzegovina to the Democratic Republic of the Congo.

A new service taking on so many new responsibilities takes time to establish itself fully. Over the course of 2011 it moved very quickly towards this goal.

A more effective European neighbourhood policy — promoting reforms in the southern and eastern neighbourhood

The EU's biggest current challenge is to support reforming processes, and the deepening of democracy and development, in 16 countries to its south and east. These partner countries are: to the south, Algeria, Egypt, Israel, Jordan, Lebanon, Libya, Morocco, the Occupied Palestinian Territory, Syria and Tunisia; and to the east, Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine.

The neighbourhood region experienced tumultuous times in 2011, as the Arab spring convulsed the south with a concerted cry for dignity and opportunity and the ongoing challenges of embedding democracy and accompanying growth continued to see progress and reversal in the east. The EU was actively involved in supporting progress and change in each, and in May 2011 it launched a new European neighbourhood policy (ENP) as the framework for its actions.

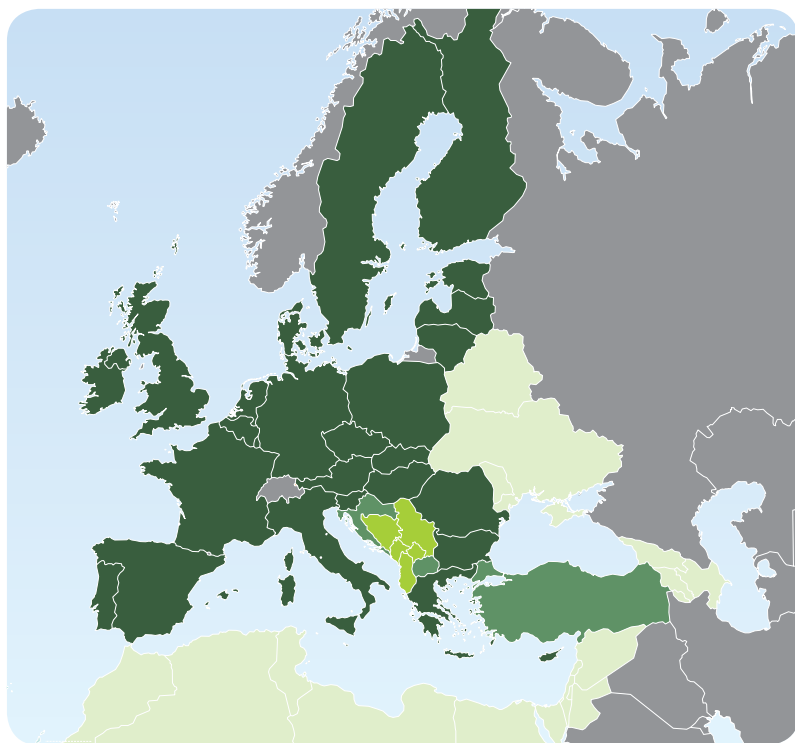
A new European neighbourhood policy

The renewed ENP⁽¹⁾ is based on mutual accountability and a shared commitment to the universal values of human rights, democracy and the rule of law. It will involve a much higher level of differentiation, allowing each partner country to develop its links with the EU as far as its own aspirations, needs and capacities allow. For those southern and eastern neighbours able and willing to take part, this vision entails closer economic integration and stronger political cooperation on governance reforms, security and conflict resolution matters, including joint initiatives in international fora on issues of common interest.

'This is in our shared interest. We all share one future. If we promote democracy and development, we foster stability and avoid instability' — José Manuel Barroso, President of the European Commission.

THE EUROPEAN NEIGHBOURHOOD REGION

Algeria, Egypt, Israel, Jordan, Lebanon, Libya, Morocco, the Occupied Palestinian Territory, Syria, Tunisia, Ukraine, Armenia, Azerbaijan, Belarus, Georgia, Moldova



Source: European Commission.

The partnership will develop with each neighbour on the basis of its needs, capacities and reform objectives. Some partners may want to move further in their integration effort, which will entail a greater degree of alignment with EU policies and rules leading progressively to economic integration in the EU internal market. The EU does not seek to impose a model or a ready-made recipe for political reform, but it will insist that each partner country's reform process reflect a clear commitment to universal values that form the basis of our renewed approach. The initiative lies with the partner and EU support will be tailored accordingly. Increased EU support to its neighbours is conditional. It will depend on progress in building and consolidating democracy and respect for the rule of law. The more and the faster a country progresses in its internal reforms, the more support it will get from the EU.

- ▶ Up to €1 billion will be added to the €5.7 billion already available for the neighbourhood region for 2011–13 from the European Neighbourhood and Partnership Instrument (ENPI). Furthermore, for the southern neighbourhood these allocations are accompanied by an additional €1 billion for EIB loans and €2.5 billion to be available through the European Bank for Reconstruction and Development, which will soon begin operations in the southern Mediterranean.
- ▶ The new European Neighbourhood Instrument (ENI)⁽²⁾ was adopted by the Commission on 7 December 2011 as part of an overall proposal by the European Commission on the external instruments package for the multiannual financial framework 2014–20. It translates the ENP review and the goals of the renewed ENP into a new financial instrument, enabling the EU to address key elements of the ENP review such as differentiation and the more-for-more principle from 2014 onwards.

Neighbourhood transport action plan

The European Commission published a new neighbourhood transport action plan⁽³⁾ to strengthen transport links with neighbouring regions to the east and south of the Union. The plan proposes more than 20 concrete measures, over the short to longer term, to make transport connections smoother, safer and more reliable. Proposed actions include the extension of the EU's internal aviation market to the European neighbourhood policy countries, joining up the transport networks and removing bottlenecks in passenger and freight transport. In October 2011, a comprehensive EU–Moldova air transport agreement was initialled which will gradually open markets and integrate Moldova into the wider European common aviation area. The Eastern Partnership Transport Panel was established as a framework to oversee strengthened transport cooperation with neighbours to the east.



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*'Judge us first by our role
in our own neighbourhood'*

— Catherine Ashton, High
Representative of the
Union for Foreign Affairs
and Security Policy and
Vice-President of the
European Commission.

The south and the Arab spring

A Tunisian citizen, Mohamed Bouazizi, set fire to himself on 17 December 2010 in front of the governor's office in Sidi Bouzid, central Tunisia, in protest at his mistreatment by local police. No one could have predicted the effect of this personal tragedy. His death on 5 January 2011, following the injuries sustained by self-immolation, set off the Tunisian revolution, leading in turn to the events in Egypt on 25 January, the Libyan revolt against the Gaddafi regime and — across the whole north Africa and Middle East region — the so-called Arab spring.



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The European Commission's humanitarian and civil protection department immediately provided assistance to the region. To date this amounts to €80.5 million: €60 million covering operations in Libya and in the neighbouring countries and €10 million covering the reintegration of Chadian migrants returning to Chad due to the crisis. An additional €10.5 million went towards civil protection.

*José Manuel Barroso,
President of the European
Commission, visiting Tahrir
Square, Egypt.*

While voicing its support and giving all practical assistance where it could, the EU was the first to acknowledge that the uprisings and their outcomes must be owned and driven by the people of those countries. The EU took a number of actions. There has been support for elections in Tunisia, Morocco and Egypt. Repression of peaceful protests in Bahrain, Yemen, and especially Syria, drew EU public condemnation. In Libya and Syria the EU decided on economic sanctions, with trade embargos, asset freezes and visa bans.

Following the two joint communications already mentioned ('A [partnership for democracy and shared prosperity with the southern Mediterranean](#)'⁽⁴⁾ and 'A new response to a changing neighbourhood'), there has been a review, together with partner countries, to reorientate €800 million in national action plans towards the new objectives of the communication. In particular:

- ▶ Jordan: The EU front-loaded €40 million from 2012/13 for new programmes to support public financial management and the modernisation of the service sector.
- ▶ Tunisia: With €70 million of additional funds allocated in 2011 the EU prepared a new (€20 million) programme for impoverished areas. Funds for the programme 'appui à la relance' (part of the 2011 annual action programme) to support relaunching the economy through the budget were increased from €60 million to €100 million — including €10 million from the Spring (support for partnership, reforms and inclusive growth) initiative⁽⁵⁾.
- ▶ Egypt: A new programme was prepared to support small and medium-sized enterprises in rural areas (support for agricultural SMEs with a budget of €22 million).
- ▶ Algeria: A new programme for youth employment (€23.5 million) was prepared by reallocating funds originally earmarked for the transport sector.

SUPPORTING DEMOCRACY IN TUNISIA

The EU is following closely the democratic transition in Tunisia and has provided considerable support for this since the revolution, including through assistance to help prepare elections for the constituent assembly in October, the deployment of an EU election observation mission and support for the development of civil society. Following the elections the EU is ready to provide full support to the newly elected body and to engage in a comprehensive dialogue with the new government.

President Barroso announced the launch of the Spring initiative in Cairo on 14 July 2011, with an allocation of €350 million. The initiative is a flexible, rapid-reaction umbrella programme, designed to function on a 'more-for-more' basis. The programme was adopted by the European Commission on 26 September. Tunisia was the first country to benefit from Spring. €20 million was allocated to two projects, one contributing to the economic recovery (the 'appui à la relance' programme), the other to support Tunisia's democratic transition and the rule of law. Other countries expected to benefit include Egypt, Morocco, Jordan and Lebanon.

The Commission adopted the Civil Society Facility⁽⁶⁾ on 20 September 2011, covering the southern and eastern neighbourhood, with an initial overall budget of €22 million for 2011 that was later increased to €26.4 million. The same levels of funding are foreseen for 2012 and 2013. This facility aims to strengthen the capacity of civil society to promote reform and increase public accountability in their countries. The Erasmus Mundus programme was boosted by a decision on 23 September to allocate €66 million to the neighbourhood policy, with €30 million earmarked for the southern region, and in December the number of education and teaching grants was increased by 559, on top of the 525 already planned for 2011–12.

Task forces to strengthen cooperation with neighbourhood countries

An international task force was created to enhance the coherence of international support to countries in transition in the southern Mediterranean, bringing together the EU, third countries and international financial institutions. The September meeting of this task force in Tunis was co-chaired by the Tunisian PM and the HR/VP and resulted in an overall financial support to Tunisia of about €4 billion over the 2011–13 period. Coordination, both inside the EU and with international partners, is a key element in the mandate of the new European Union special representative (EUSR) for the southern Mediterranean. Task forces in collaboration with other countries are under preparation.

In the field of trade, negotiating mandates for deep and comprehensive free trade agreements (DCFTAs) with Morocco, Egypt, Tunisia and Jordan were authorised by the European Commission on 14 December 2011. Designed to support economic reforms, these will go beyond simply removing tariffs and will be part of the existing Euro–Mediterranean association agreements. They will cover a range of regulatory areas of mutual interest such as trade facilitation and technical barriers to trade.

With regard to mobility, partnership dialogues on migration mobility and security have been offered to Morocco, Tunisia and Egypt, covering legal migration, the fight against illegal migration and readmission, visa facilitation and asylum. This approach was endorsed by the European Council of 24 June 2011. The first of these dialogues — with Tunisia and Morocco — were launched in October 2011.

Libya, Syria, Yemen and Morocco are also supported by the EU's response to the Arab spring.



Tunisians queue up to vote in the October elections.

- ▶ **Libya:** The EU participated in the main international meetings such as those of the International Contact Group on Libya, and the HR/VP helped to bring together the divergent positions of key international partners through participation in the 'Cairo Group' (comprising the African Union, the Arab League, the EU, the Organisation of Islamic Cooperation and the UN). HR/VP Ashton visited Benghazi on 22 May, opening the first EU representation office in Libya. At the same time, the EU provided capacity-building support to the National Transitional Council (NTC) and to local civil society organisations. In September, an EU office was opened in Tripoli. This was subsequently upgraded to a fully fledged EU delegation on 12 November, when it was opened by HR/VP Ashton. In December a package of support for an amount of €10 million was adopted, focusing on public sector capacity building, education and support for civil society. The EU is the lead donor for post-conflict needs assessments in three sectors: civil society/women's rights, media and communication and border management. Further support is planned via the non-state actors' thematic programme, as well as projects under the European Instrument for Democracy and Human Rights (EIDHR). €50 million is available for Libya from the European neighbourhood funds for 2012/13.
- ▶ **Syria:** The EU was one of the first donors to suspend its bilateral cooperation with the Syrian regime, on 25 May. The European Commission has since suspended Syria's involvement in its regional programmes, whilst the EIB has suspended its loan operations and technical assistance. Not all cooperation has stopped however; several projects are still ongoing which support non-state actors, Syrian civil society and refugee populations. Tempus and Erasmus programmes with Syrian students and universities are also continuing.
- ▶ **Yemen:** Since the protest movement began in February 2011, the EU has exerted constant pressure on all Yemeni parties to facilitate a peaceful transfer of power, in close calibration with the Gulf states, the US and other international players. The HR/VP spoke out publicly and in specific circumstances; her staff have also been in regular contact with key members of the regime and its opponents. Following action by the EU at the Human Rights Council, the UN Security Council unanimously adopted a resolution urging all parties in Yemen to implement the steps needed for political transition, which finally began on 23 November 2011. This sustained political commitment is but one angle of the EU engagement with Yemen. The EU keeps development and humanitarian aid flowing to those who need it most; €25 million in additional humanitarian aid has come from EU funds since the start of 2011.
- ▶ **Morocco:** Morocco has remained focused on its reform agenda, adopting a new constitution in July and holding elections on 25 November. A €139 million annual action plan was adopted in favour of Morocco by the European Commission in July 2011 and Morocco will also benefit from the Spring programme.

The Arab spring wins Sakharov Prize 2011

The European Parliament awarded its Sakharov Prize for freedom of thought in 2011 to five representatives of the Arab people, in recognition and support of their drive for freedom and human rights.

- ▶ Asmaa Mahfouz helped organise protests and strikes for fundamental rights in Egypt. Her YouTube videos, Facebook and Twitter posts helped motivate Egyptians to demand their rights in Tahrir Square.



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*Sakharov Prize 2011 —
Presentation of the prize
on behalf of the Arab
spring — Asmaa Mahfouz.*

- ▶ Ahmed al-Sanusi, the longest-serving 'prisoner of conscience', spent 31 years in Libyan prisons. He is now a member of the National Transitional Council.
- ▶ Razan Zaitouneh created the Syrian human rights information link (SHRIL) blog, which reports on current atrocities in Syria and has become an important source of information for international media. She is now in hiding.
- ▶ Ali Farzat, a political satirist and a well-known critic of the Syrian regime. His caricatures helped to inspire revolt in Syria. In August 2011, the Syrian security forces beat him badly, breaking both his hands as 'a warning'.
- ▶ Mohamed Bouazizi, a Tunisian market trader, set himself on fire in protest at incessant humiliation by the Tunisian authorities. Public sympathy and anger inspired by this gesture sparked uprisings and vital changes in Tunisia and other Arab countries such as Egypt and Libya, collectively known as the 'Arab spring'.

The Eastern Partnership

The EU maintained its strong focus on its eastern partners, even when global attention was focused on the Arab spring. The eastern partners view the EU as a magnet and a catalyst for reform — as an economic opportunity and a close political partner.

At the Second Eastern Partnership Summit in Warsaw in September 2011, the EU and its eastern neighbours renewed their commitment to the objectives and continued implementation of the Eastern Partnership. An allocation of additional resources (of up to €130 million) for the period 2012–13 will benefit partners committed to reforms. The Warsaw summit also highlighted various regional conflicts in Transnistria, Nagorno Karabakh and Abkhazia, where the EU has a brokering role with a view to reaching a settlement.

In response to the violent aftermath of the December 2010 elections in Belarus, the EU participated in the Warsaw conference in support of the Belarusian people in February 2011 and pledged more than €17 million for immediate and medium-term assistance, for instance in supporting NGOs and non-state actors in the promotion of freedom of assembly and the monitoring of election processes. Over the course of the year, the EU made repeated calls for the release and rehabilitation of political prisoners in Belarus, and the opening of political dialogue with the opposition.



The EU–Ukraine Summit in December 2011 noted the common understanding on the full text of the association agreement, including its deep and comprehensive free trade area, opening the way for its final consolidation and initialling. The text of the association agreement, which will establish the future contractual basis of EU–Ukraine relations, provides for a shared commitment to a close relationship based on common values, ‘values that need to be fully observed at all times’, declared Mr Barroso.

Štefan Füle, Commissioner for Enlargement and European Neighbourhood Policy, presents the 2014–20 budget proposals for the Union’s external instruments.

New and upgraded contractual relations with the region are also under discussion with Armenia, Azerbaijan, Georgia and Moldova. With Georgia and Moldova, negotiations on deep and comprehensive free trade areas were launched at the end of 2011. The EU and its eastern partners are also discussing increased mobility across the continent. Dialogues on visa-free regimes have been launched with Ukraine and Moldova. Visa-facilitation and readmission agreements were concluded with Georgia, and similar agreements will be sought with Armenia, Azerbaijan and Belarus. A mobility partnership has been signed with Armenia, making it the third one in the region after those with Moldova and Georgia. Enhanced cooperation is also under discussion in areas such as energy efficiency, regional electricity markets, renewable energies and border control.

The Middle East peace process

The EU stepped up its efforts to advance the Middle East peace process. It reiterated clear parameters for negotiations and lent its full support to the High Representative in her continuing efforts on behalf of the EU to create a credible perspective for relaunching direct talks between the parties. To this end, the HR/VP visited the region numerous times throughout the year and stayed in close contact with many stakeholders. The EU strengthened the role of the Quartet, backing its call on the parties to refrain from provocative actions and to respect the roadmap. Attacks against civilians were strongly condemned. The EU continued to extend direct financial support to the Palestinian Authority and contributed to its ongoing state-building efforts. Israel's settlement expansion, in particular in East Jerusalem, was deplored by the EU. Against the background of the UN membership application deposited by President Abbas in September, the EU renewed its efforts to find a way for the parties to return to negotiations. The High Representative welcomed the deal between Israel and Hamas on the exchange of prisoners and extended a cautious welcome to the proposals for reconciliation between Fatah and Hamas.



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*The Middle East Quartet:
Hillary Clinton, Ban
Ki-moon, Sergueï Lavrov
and Catherine Ashton,
Commission Vice-President
and High Representative of
the Union for Foreign
Affairs and Security Policy
(left to right).*

Strengthening strategic alliances

In an increasingly integrated world, strategic alliances on issues of mutual interest with key international partners represent not just a good way of doing business, but also a win-win opportunity for European citizens and businesses. The European Union prioritises forging alliances that are truly strategic with the other major global players. This approach fully complements the Union's dynamic role in multilateral fora, such as the United Nations and the World Trade Organisation, yet is essential to further the interests of the EU and its Member States by developing better relations with partners of a similar or growing scale.

Relations with major partners

USA

The close working relationship between the US administration and the EU has facilitated joint approaches on many foreign policy issues. This has been the case, for example, with the coordinated imposition and lifting of sanctions on Libya, as well as sanctions and simultaneous statements on Syria and concerted approaches in the Balkans, notably Bosnia and Herzegovina. The EU and US have worked especially closely as co-members of the Quartet coordinating international approaches to the Middle East peace process and on orchestrating an international response to Iran's nuclear development programme. Meanwhile, the Transatlantic Economic Council (TEC) is in regular dialogue over trade and investment, which accounts for an estimated 14 million jobs on either side of the Atlantic. The TEC has been reinvigorated, with a particular focus on early cooperation in areas of future strategic economic importance. It is delivering tangible results in emerging sectors such as electric cars and smart grids, as well as in the digital economy where an agreement was reached on common trade principles for information communication technology (ICT) services. Deep and regular dialogue also continued in areas such as energy supply (through the EU-US Energy Council) and coordinated approaches to tackling terrorism and transnational crime, as evidenced by the signature of a new passenger name record agreement, and new threats such as cybercrime. Finally, the signature of an administrative arrangement between the Federal Emergency Management Agency of the US Department of Homeland Security and the European Commission will strengthen EU-USA coordination in response to natural and man-made disasters and enhance disaster preparedness and prevention.



President of the European Council Herman Van Rompuy, President of the United States Barack Obama, President of the European Commission, José Manuel Barroso (left to right).

EU–US Summit strengthened the transatlantic partnership

The EU–US Summit took place in Washington DC on 28 November against the backdrop of great uncertainties in the global economy and in the financial sector. Leaders on both sides of the Atlantic renewed their commitment to working together to reinvigorate economic growth, create jobs and ensure financial stability. They undertook to do so by taking actions that address near-term growth concerns, as well as fiscal and financial vulnerabilities, and that strengthen the foundations of long-lasting and balanced growth. The summit also committed both sides to making the EU–US trade and investment relationship — already the largest and most integrated in the world — stronger. To that end, they directed the TEC to establish a joint High Level Working Group on Jobs and Growth, co-chaired by the European Commissioner for Trade and the U.S. Trade Representative. The working group will identify and assess options for strengthening the EU–U.S. economic relationship, especially those that have the highest potential to support jobs and growth. The Working Group is to report its recommendations and conclusions to leaders by the end of 2012, with an interim report in June 2012 on the status of this work.

Russia

The 27th EU–Russia Summit took place in Nizhny Novgorod in a friendly and constructive atmosphere. Discussions covered the global economy and global governance issues; bilateral relations, including the EU–Russia partnership for modernisation and the negotiations on a new agreement; and trade issues, including prospects for Russia’s WTO accession. The exchanges on international issues focused on developments in north Africa and the Middle East, but included also European regional issues.

Progress made in the EU–Russia partnership for modernisation was welcomed by both sides. However, the Union urged more balanced progress in negotiations on a new agreement between EU and Russia, in particular on trade and investment including energy. The EU leaders encouraged President Medvedev to give an early mandate to Russian negotiators to engage on substantive issues.



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*Presidents Van Rompuy,
Medvedev and Barroso
at the June EU–Russia
Summit in Nizhny
Novgorod.*

Trade issues and WTO accession were discussed in considerable detail, and the EU expressed the political importance of Russian WTO accession. Nevertheless, the new investment regime in the automotive sector was identified as a key outstanding issue of major sensitivity for both sides, with discussions in this regard to continue. These discussions ultimately prepared the ground for Russia’s subsequent successful accession to the WTO that took place at the Eighth WTO Ministerial Conference in December. The EU reiterated its concerns over the implementation of the customs union and urged better and earlier information about changes in the Russian trade regime in this context. The summit found a solution to the Russian ban on the import of vegetables from the EU.

Considerable progress has been noted in the mobility area. The negotiations on the amendments of the visa facilitation agreement were launched and brought to the very final stage by the end of the year. In the context of the EU–Russia visa dialogue, the parties agreed on a list of common steps towards visa-free short-term travel by Russian and EU citizens. The implementation of that list will contribute to achieving the shared objective of a visa-free regime between Russia and the EU.

China

In 2011, the EU and China consolidated the high-level strategic dialogue, which, on top of the existing high-level economic and trade dialogue, has allowed a deepening of EU–China consultation on a range of foreign policy issues. These include security matters and global challenges such as climate change (the topic of a joint conference in February 2011) and the recovery of the global economy. At the most recent EU–China Summit in 2011, leaders agreed to start the process towards launching negotiations for a comprehensive EU–China investment agreement, which would promote and facilitate investment in both directions. They also agreed to broaden dialogue on the mutually important issue of science and technology innovation. In the last two years, there has been a marked intensification of EU–China cooperation in the fields of education, training, culture, language training and youth, embodied by the organisation of the EU–China Year of Youth in 2011.



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The opening ceremony of the European Union–China Year of Youth.

Japan

Japan and the European Union are strategic partners that share many fundamental values, strategic goals and wide-ranging interests. Willingness to tackle, among others, non-tariff measures and the removal of obstacles that hamper EU companies' access to Japan's market for public procurement have been consistent demands from the EU side in discussions with Japan.

These two issues, together with requests for an ambitious tariff liberalisation and improvement in the investment environment, continue to be key elements for EU stakeholders.

In this regard the 20th summit at the end of May between the two sides broke new ground. It was agreed to start the process towards:

- ▶ a deep and comprehensive free trade agreement (FTA)/economic partnership agreement (EPA), addressing all issues of shared interest to both sides including tariffs, non-tariff measures, services, investment, intellectual property rights, competition and public procurement; and
- ▶ a binding agreement covering political, global and other sectoral cooperation in a comprehensive manner and underpinned by their shared commitment to fundamental values and principles.

The 20th summit was also important in that it was the first meeting of the leaders of both sides since the great east Japan earthquake and the Fukushima nuclear disaster. Against that background, leaders agreed to work together to ensure the highest levels of nuclear safety worldwide, to reinvigorate energy cooperation and to improve coordination and enhance cooperation in humanitarian assistance and emergency relief operations, as well as disaster preparedness and prevention.



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*Prime Minister of Japan,
Naoto Kan, and President
of the European Council
Herman Van Rompuy, at
the EU–Japan Summit.*

Asia

The Asia–Europe foreign ministers' meeting is a unique forum. Together, both regions represent more than 60 % of the world's population (4 billion people), half of global GDP and more than 60 % of international commerce. The overall aim of the bilateral engagement is to foster political dialogue, reinforce economic cooperation and promote cultural cooperation between Asia and Europe. For the first time, ministers considered non-traditional security challenges as the main theme of the dialogue. Issues like climate change, food and energy security and the fight against piracy featured high on the agendas.

Brazil, India and South Africa

The partnerships with Brazil, India and South Africa reflect the growing importance of these countries both in regional affairs and in global governance (through the G20 and other fora). The growth of these countries represents an opportunity for the EU to develop new partnerships on key multilateral issues and to deepen political, security and economic relations. To ensure the EU takes advantage of this opportunity, work continued on negotiations for a far-reaching free trade agreement with India, on the relaunched negotiations for an association agreement with the Mercosur region (including Brazil) and on fostering regional integration in southern Africa by the completion of negotiations on an economic partnership agreement between the EU and the Southern African Development Community.

The Fifth EU–Brazil Summit was held in Brussels in October 2011. It confirmed the positive state of the relationship and the willingness on both sides to further strengthen the strategic partnership. To this end, the second EU–Brazil joint action plan covering the period 2012–14 was adopted.

Transport agreements

During the year there were a number of significant international strategic agreements with key partners in the field of aviation and bilateral contacts in the field of maritime transport.

- ▶ The EU and Russia overcame years of difficult relations and agreed to modernise the current system of Siberian overflight payments. Today, EU airlines pay more than €300 million per year in Siberian overflight royalties. From 1 January 2014, charges for overflying Russia will be cost related, transparent and non-discriminatory. In September 2011, Russia agreed for the first time to the principle of non-discriminatory EU designation and in October 2011, Russia and the EU organised a successful first EU–Russia Aviation Summit in St. Petersburg.



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- ▶ The EU and the US agreed a memorandum of cooperation to promote civil aviation research and development, as well as a cooperation agreement on civil aviation safety. They also signed a joint statement on supply chain security to improve air cargo security and reduce possibilities for the transport of improvised explosive devices on aircraft.

Major international transport agreements in the aviation and shipping sectors were a feature of 2011.

- ▶ The European Commission and the US agreed a memorandum of cooperation on short sea shipping promotion and facilitation, which will enable a regular exchange of ideas and best practices on the potential of short sea shipping for clean and efficient cargo transport along intermodal logistics chains.
- ▶ The Commission signed a memorandum of cooperation with the International Civil Aviation Organisation (ICAO). It establishes closer collaboration in the fields of aviation safety, aviation security, air traffic management and environmental protection.
- ▶ Brazil and the EU initialled a far-reaching aviation agreement. It will create new investment opportunities and improve the commercial and operational environment for EU carriers operating into Brazil.

Regional policy dialogues with third countries

Dialogues on regional policy are ongoing with a number of interested third countries on topics such as strategic planning and integrated approaches to development, multilevel governance, territorial cohesion, regional innovation, cross-border cooperation and information systems. Memoranda of understanding have been concluded with China, Russia, Brazil and Ukraine, and new regional policy dialogues have been launched with Eastern Partnership countries, as well as with Chile.

The key objectives are to contribute to the strategic partnership between the Union and such third countries; to share the benefits of the EU's long experience in how regional policy promotes growth, sustainable development and cooperation across borders; and to contribute to improved understanding of European values, basic principles, delivery structures and policies.

Building multilateral governance and tackling global challenges

The European Union continued to be a staunch supporter of multilateral institutions with a view to protecting the common good and developing peace and prosperity worldwide.

Promoting multilateral governance

The EU in the UN

Recognising that global challenges require global solutions, the EU maintained its unequivocal support for multilateralism, as reaffirmed in the Lisbon Treaty. The strengthening of the UN remained a key element in the EU external action. For the UN General Assembly (UNGA) 65, the EU prioritised addressing international peace and security, environment and sustainable development, human rights and reform of the UN system. From early 2010, the EU had sought a resolution in the UNGA on EU participation in the work of the UN, aiming at implementing Lisbon Treaty external representation at the United Nations, while maintaining the EU's observer status. Eventually, the UNGA adopted the proposed historic Resolution 65/276 with 180 votes in favour and only two abstentions on 3 May 2011, which lays down the modalities for the participation of the representatives of the European Union (the President of the European Council, the High Representative, the European Commission and the EU delegations) in the General Assembly, its committees and working groups and in UN international meetings and conferences.

A SINGLE VOICE IN THE UN

For the first time ever, on 22 September, the President of the European Council addressed the 66th UN General Assembly in this capacity.



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The EU played a significant role in major international human rights fora. Throughout the year, the EU worked to defend the role of the UN High Commissioner for Human Rights and to enhance the mandate of the Human Rights Council to address gross and systematic violations of human rights. For example, the EU called for special sessions of the Human Rights Council on Syria and Libya and secured the success of a resolution on the human rights situation in Belarus. During UNGA 65 the EU ensured the successful adoption of a new cross-regional resolution on a moratorium on the death penalty, support for which has even increased in comparison to the landmark UN resolutions on this topic of 2007 and 2008. In the same body, the EU promoted resolutions respectively on the human rights situations in Burma/Myanmar and in North Korea.

Regarding the promotion of peace and security in the framework of the UN, the implementation of the 'responsibility to protect' concept, endorsed by the UN World Summit in 2005, continued to be a major priority for the EU. The EU pursued its efforts to promote implementation of the concept at the UN and also continued discussing implementation at the level of EU and Member States' instruments and policies, as well as the role of regional organisations.

Historic moment: President of the European Council, Herman Van Rompuy, addressed the UN General Assembly — the EU speaks with one voice to the world.

With EU leadership, the UN took a determined step towards further entrenching and operationalising the ‘protection of civilians’ concept (PoC). The inclusion of PoC in peace operations mandates went hand in hand with a successive strengthening of protection on the ground, for which EU outreach and determined diplomacy were crucial. The EU played a leading role in shepherding a renewed commitment and revitalisation of the Peacebuilding Commission (PBC). The EU pushed in a determined manner for the decisive implementation of the recommendations of the 2010 review of the UN peacebuilding architecture and examples of early successes in making the PBC more relevant have materialised.

The EU also increased joint efforts to ensure strong and principled humanitarian resolutions in the General Assembly, notably on the safety and security of humanitarian workers.

The EU in other multilateral fora

The EU continued its cooperation with the Council of Europe in line with the memorandum of understanding signed in 2007, notably in the European neighbourhood policy area, the western Balkans and central Asia. The recent events in the southern Mediterranean and the adoption by the Council of Europe in May 2011 of its neighbourhood strategy have created important new prospects for cooperation between the two organisations in the areas of democracy, rule of law and human rights in relation to the southern neighbourhood.

G8 Summit in Deauville

In May, an important G8(?) Summit was held in Deauville which came to far-reaching conclusions.



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*José Manuel Barroso,
President of the European
Commission, French
President Nicolas Sarkozy,
US President Barack
Obama and Japanese
Prime Minister Naoto Kan
take a stroll during the
May G8 Summit in
Deauville, France.*

In light of the recent developments in the Middle East and north Africa, and in sub-Saharan Africa, the G8 leaders committed for the first time collectively to support, via the Deauville Partnership, democratic reform around the world and to respond to the aspirations for freedom, including freedom of religion, and empowerment, particularly for women and youth. In addition, they renewed a strong partnership with Africa, building on commitments made for over a decade.

On speeding up global recovery, the G8 committed to prioritising growth-enhancing policies such as research, education and innovation. It reaffirmed its commitment to fighting protectionism and to moving global trade talks forward in a way which can, in particular, help least-developed countries. The importance of and opportunities offered by the Internet were discussed. Promoting green growth was underlined as being essential in the creation of jobs, in sustainable development and in the fight against global warming. The leaders also marked their determination to draw lessons from the nuclear accident in Japan, including the necessity to promote the highest levels of safety, consistent with the principles of the Convention on Nuclear Safety.

G20 Summit in Cannes

The G20⁽⁸⁾ Summit in November was dominated by the sovereign debt crisis in the euro area. It was significant that the European Union received a strong message of support from G20 leaders for the conclusions of the Euro Summit on 26 October. The G20 group called for swift implementation of these actions. Arising from deliberations at the summit, Italy agreed that the International Monetary Fund (IMF) would regularly monitor its progress on implementing structural economic reforms.

The key role of the IMF as the central institution of global governance and of crisis prevention and resolution in the 21st century was reaffirmed by the summit. There was consensus on increasing IMF resources when needed for the benefit of the entire membership, and on an extension of the lending toolkit to provide more flexible short-term liquidity to countries with strong fundamentals in the case of a systemic shock. The G20 also underlined the importance of further strengthening IMF surveillance.

There was also an agreement on an action plan for growth and jobs where all G20 members put forward coordinated measures to enhance and rebalance global growth and jobs. The social and employment dimension remains key.

Moreover, the leaders gave a firm commitment to continue implementing financial market reform and further strengthen financial regulation. For example, the agreement on a comprehensive set of measures to address the problem of 'too big to fail', including publication of a list of 29 initial global SIFIs (systematically important financial institutions) which will face specific increased requirements by the end of 2012.

Fighting food insecurity

The Commission, together with the Food and Agriculture Organisation of the United Nations (FAO), the World Food Programme (WFP) and the International Fund for Agricultural Development (IFAD), launched a new strategic framework of cooperation to address food insecurity and malnutrition worldwide. With these institutions joining forces, the international community will be better equipped to achieve better food security and nutrition on the ground both in the short and the longer term.

Today, around 925 million people in the world remain undernourished. The poor are particularly vulnerable to crises, the negative effects of climate change and high food prices. Over the past year, more than 40 million people have been pushed into extreme poverty by higher food prices. Humanitarian food assistance is the single largest aid sector in the EU's humanitarian budget, representing more than €1.1 billion from 2007 to 2010.



© European Union/Stefano Perugini

Screening for malnutrition in young children in the Lubombo region, Swaziland.

Climate change and energy

The EU worked in multiple fora to achieve further progress during the year towards its goal of an ambitious, comprehensive and legally binding global climate agreement. Efforts focused on getting a strong outcome from the annual United Nations Climate Change Conference, held in Durban, South Africa, from 28 November to 11 December.

After difficult negotiations, a package of decisions was reached in Durban which represents a breakthrough for international climate policy and a major success for the EU's climate diplomacy. The key results include the following agreements.

- ▶ To launch negotiations on a new UN legal framework for more ambitious climate action — in the form of a protocol, other legal instrument or agreed outcome with legal force — that will cover all countries in the developed and developing worlds alike. The negotiations will start in the first half of 2012 and the new legal framework will be adopted in 2015 and implemented from 2020. Through effective outreach during the conference, the EU successfully built support for the negotiations 'roadmap' among the developing countries that are most vulnerable to climate change, namely least-developed countries, small island states and African countries.
- ▶ To launch a work plan to identify options for closing the significant 'ambition gap' between countries' collective emissions reduction pledges for 2020 and the goal of keeping global warming below 2 °C or 1.5 °C compared to the pre-industrial temperature. The work plan was a joint initiative of the EU and the Alliance of Small Island States (AOSIS).
- ▶ That the Kyoto Protocol's second commitment period will start on 1 January 2013 and run until 2017 or 2020. The end date and the emission targets of developed countries taking part will be fixed at the UN Climate Conference to be held at the end of 2012 in Qatar. Certain new rules which improve the protocol's environmental integrity were agreed and a process launched to decide on others in Qatar. The EU stated that it would participate in the second commitment period since its key conditions for doing so — agreement to start negotiations on a global legal regime and a strengthening of the protocol's environmental integrity — were being met.
- ▶ To establish a new market-based mechanism to enhance cost-effective action to reduce emissions.
- ▶ To make operational the new Green Climate Fund for developing countries, as well as other bodies and mechanisms established at the Cancun Climate Conference in 2010 covering adaptation to climate change and technology cooperation and transfer.

The EU has been actively working towards the global approval of an energy efficiency design index (EEDI) within the International Maritime Organisation (IMO). The adoption was achieved in July 2011 and presents an important step to increasing the efficiency of new ships from 2015 and thus reducing shipping greenhouse gas emissions. However, in view of the expected growth in global trade and the associated maritime transport needs, further measures will have to be developed and the EU is playing a key role in advancing discussions, both within the IMO and the United Nations Framework Convention on Climate Change (UNFCCC).



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*Connie Hedegaard,
Commissioner for Climate
Action, at the Climate
Change Conference 2011
in Durban.*

Meanwhile the most vulnerable and poorest people around the world are already experiencing the effects of climate change: temperatures are rising, extreme weather events are becoming more frequent and water and food are becoming scarcer.

Climate change is, therefore, not only an environmental problem. It is also a development problem that is overburdening poorer developing countries and threatening to hinder the achievement of the millennium development goals. It could wipe out years of development efforts, sometimes in seconds when climate change-induced disasters overwhelm vulnerable and unprepared populations.

With support from the Global Climate Change Alliance (GCCA), partner countries are implementing climate change programmes on the ground, integrating climate change into national and sector strategies, reducing deforestation and disaster risks and promoting adaptive agriculture and clean energy. Through the GCCA, the EU is spearheading the drive towards low-emission and climate-resilient development.

From 2008 to 2011, the GCCA contributed over €200 million in support of more than 30 country and regional programmes in the Caribbean, Africa, Asia and the Pacific.

Climate change is also becoming the key humanitarian challenge of this century. Every year, thousands of people lose their lives and millions their livelihoods due to disasters caused by natural hazards. In the framework of its humanitarian action, the EU has invested increasing financial resources in disaster risk reduction (DRR). From 2008 to 2011 the EU humanitarian budget contributed over €210 million supporting community-based programmes for reducing the risk of disasters in the most vulnerable developing countries.

Nuclear safety

In April, the Commission pledged €110 million to complete safety work on the Chernobyl site. This year marked the 25th anniversary of the accident at the Chernobyl nuclear power plant. Since then, the European Commission has committed around €470 million to Chernobyl and related projects in order to improve nuclear safety and to deal with the legacy of the disaster, for example through programmes to help the local population and provide affected families with access to quality healthcare. Yet a further €740 million is needed from the international community in order to complete the major projects on the site by 2015.

Since 2007 the Commission has expanded its nuclear safety assistance and co-operation to third countries under the Instrument for Nuclear Safety Cooperation (INSC), which has a total budget allocation of €524 million. A large proportion of the budgets of both programmes were allocated to Chernobyl projects.

Stabilising the western wall of the Chernobyl shelter, EU nuclear safety mission, March 2011.



Promoting peace, security and human rights around the globe

In a fast-changing, increasingly interconnected world where even more complex crises and security challenges continue to emerge, including in the immediate neighbourhood, there is a growing demand for the EU to become a more capable, efficient, coherent and strategic global actor.

The European security strategy: a strategic framework

Following the creation of the European External Action Service in January 2011, the EU has continued to strengthen its policy framework regarding peace and security. In its Council conclusions of 20 June 2011 on conflict prevention⁽⁹⁾, the EU notably called for reinforced linking of early warning to early action. Furthermore, the Council conclusions on EU climate diplomacy of 18 July 2011⁽¹⁰⁾ recognised that climate change is a global environmental and development challenge with important security implications which can exacerbate fragility and instability, since it acts as a 'threat multiplier'. The EU further recognised the need to drive forward the global debate on climate change and international security and welcomed the increasing attention of the UN Security Council to the security-related aspects of climate change.

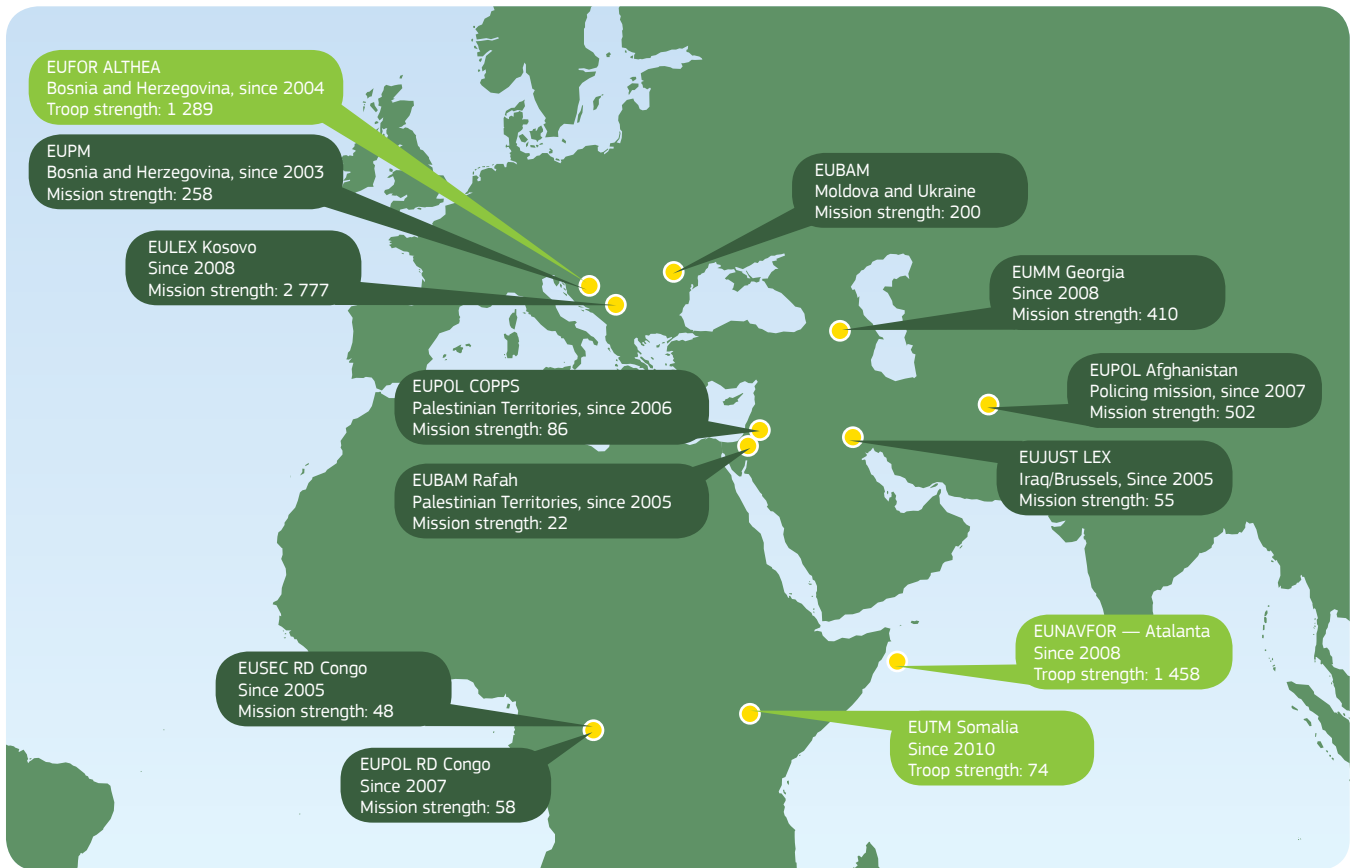
The EU is currently investing in further strengthening its dialogue and mediation capacity as an efficient and cost-effective instrument that can be used by different EU actors, including EU special representatives (EUSR), CSDP missions and delegations, at different levels in all parts of the conflict cycle. More specifically, in Kosovo⁽¹¹⁾, the EU has facilitated a dialogue process between the parties. Other recent examples where the EU, in close cooperation with UN and regional organisations, has been involved in dialogue and mediation include the Geneva talks on Georgia and the provision of EU expert and financial support to the African Union High-Level Implementation Panel for Sudan.

The EU common security and defence policy

With the Lisbon Treaty in place providing new flexibilities, the common security and defence policy (CSDP) remains an essential part of the EU's toolbox, alongside political, diplomatic, development, humanitarian, trade and economic instruments. CSDP missions and operations have contributed considerably to fostering peace, stability and the rule of law, helping to rebuild fragile states, accompany the transition to democracy and overcome weak governance.

The EU aspires not just to stop conflict, but to address the underlying causes. CSDP civilian missions and military operations range from post-tsunami peace building in Aceh, to protecting refugees in Chad, to contributing to stability in Georgia and the surrounding region or fighting piracy off the Somali coast. With three CSDP military operations and 10 civilian missions ongoing, the EU's assistance is increasingly in demand.

OVERVIEW OF THE MISSIONS AND OPERATIONS OF THE EUROPEAN UNION IN 2011 (NOVEMBER 2011)



Contribution to peace and security

In the western Balkans — Kosovo

The European Union Rule of Law Mission in Kosovo (EULEX Kosovo) is the largest civilian mission ever launched under the EU CSDP. The mission has around 1 650 international police officers, judges, prosecutors and customs officials and approximately 1 250 local staff deployed Kosovo-wide.

In Africa

Somalia — EUNAVFOR Operation Atalanta

Launched in December 2008, EUNAVFOR Operation Atalanta, which is the first EU maritime operation, has a leading role in the international counter-piracy efforts off the coast of Somalia.

Strengths take into account international and local staff

- Civilian missions
- Military operations

Source: Council of the European Union.

Operation Atalanta — the navy watching, checking and arresting suspicious fishermen off Somalia.



SAFER ROUTES OFF THE COAST OF SOMALIA

Since the launch of the operation, EUNAVFOR has provided successful escorts to over 106 World Food Programme vessels and over 508 000 tonnes of food have so far been delivered feeding over 1.3 million people per day. Additionally, EUNAVFOR has also provided protection to 102 Amisom shipments, which are critical to the success of operations in Somalia.

EUNAVFOR is providing vital protection to the World Food Programme (WFP) vessels transporting food aid to the population in need in Somalia and to vessels of the African Union Mission in Somalia (Amisom).

Democratic Republic of the Congo

Restoration of governance in general and defence reform in particular have remained central factors in creating the conditions for lasting stability in the DRC. The EUSEC RD Congo mission has continued its work in providing advice and assistance for security sector reform, with the aim of contributing to the Congolese efforts to restructure and reform the Congolese army. The police mission EUPOL RD Congo continues to support the efforts to reform the Congolese National Police (CNP).

In the Middle East — Palestinian Territory

The EU Police Mission in the Palestinian Territories (EUPOL COPPS) continued in 2011 its action to assist the Palestinian Civil Police (PCP) in establishing lasting and effective policing arrangements. It is part of the wider efforts of the EU in support of a comprehensive peace with Israel and a two-state solution. The mission assists the Palestinian Authority in building the institutions of the future state of Palestine in the areas of policing and criminal justice. The support of the EU aims at increasing the safety and security of the Palestinian population and at serving the domestic agenda of the Palestinian Authority in reinforcing the rule of law. EUPOL COPPS promotes 'civilian police primacy', meaning that the civilian police should be the organisation in ultimate charge of policing, and that civilian control of security forces should be guaranteed. The objective is to make the PCP into a competent security force of the future Palestinian state, based on the principles of democratic policing, neutrality and community service.

Jerzy Buzek, President of the European Parliament, visits the construction site of a school in Gaza.



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EUPOL COPPS also supports the development of a sustainable criminal justice sector, which complies with international human rights standards. The mission aims to assist the Palestinian Authority to develop and consolidate the criminal justice system, to build professional capacity within the judicial institutions, enact modern legislation and facilitate other activities to ensure their enhanced performance. The number of the mission's international advisers has increased to 70.

In Asia

Afghanistan

The EU Police Mission in Afghanistan (EUPOL Afghanistan) aims at supporting the Afghan government to move towards a civilian police grounded in the rule of law. The mission has about 330 police, rule of law and civilian experts deployed in Kabul and in nine provinces.

Iran

Implementing the UN resolutions aiming at restraining Iran's nuclear ambitions, the EU reviewed its sanctions against Iran throughout 2011, and added new entities and persons to its sanctions lists whenever a connection to Iran's nuclear and ballistic programs could be established. Equally importantly, the HR/VP continued her efforts on behalf of the E3+3 group of China, France, Germany, Russia, the United Kingdom and the United States to engage Iran in negotiations leading to a comprehensive, negotiated, long-term solution restoring international confidence in the exclusively peaceful nature of Iran's nuclear programme.

In reaction to the deterioration of the human rights situation in Iran, the EU, in April 2011, adopted restrictive measures consisting of an asset freeze and a visa ban against 32 named Iranian individuals responsible for grave human-rights violations. The list was amended in September, bringing the number of listed individuals to 61 persons in total. At the same time, the EU has informed Iran that its door remains open for contacts on human rights.

Electoral observation missions

Elections are the milestone of democratic changes and respect for citizens' rights. The European Union election observation missions are a key tool for democracy promotion and are deployed worldwide in line with the European Instrument for Democracy and Human Rights. In 2011, the EU implemented 10 election observation missions in the following countries: South Sudan, Niger, Uganda, Chad, Nigeria, Peru, Zambia, Tunisia, Nicaragua and the Democratic Republic of the Congo.



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In the absence of ink staff used markers for accredited voters.

A comprehensive trade policy for Europe's growth and jobs

Trade is a motor of growth, jobs and prosperity within the region. EU trade is currently worth about €3.5 trillion per year and trade policy over the next five years aims to add €150 billion to the Union's economy. An open trade and investment policy is even more important in a challenging global economic environment. In 2010 roughly a quarter of economic growth in the EU came as a result of the EU's trade performance. With 90 % of future global economic growth set to be generated outside of Europe by 2015, trade can only become more significant to growth and jobs in the EU.

EU–South Korea free trade agreement

The EU–South Korea free trade agreement became applicable from 1 July 2011. This is the EU's biggest trade agreement to date and its first with an Asian country. It is estimated that the deal will create around €19 billion of new export opportunities for EU businesses. In the medium to long term the deal is expected to double bilateral trade.



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Karel De Gucht, Commissioner for Trade, left, and Kim Hwang-Sik, South Korean Prime Minister, right, discuss the new free trade agreement.

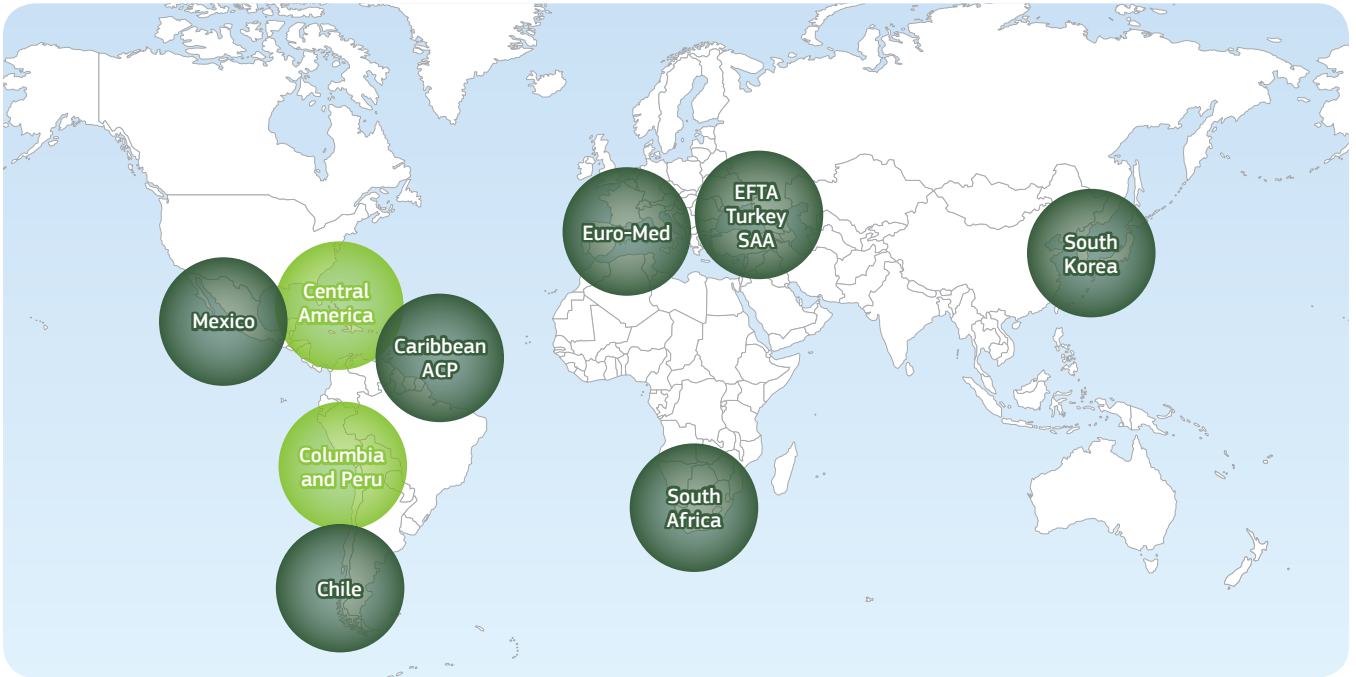
EU–Central America and EU–Colombia and Peru trade agreements

The Commission completed negotiations for an association agreement with Central America and trade deals with Colombia and Peru in 2010 and has proposed their signature and conclusion to the Council. Once fully implemented these agreements will save all parties around €800 million annually in customs duties alone.

Trade relations with the southern Mediterranean

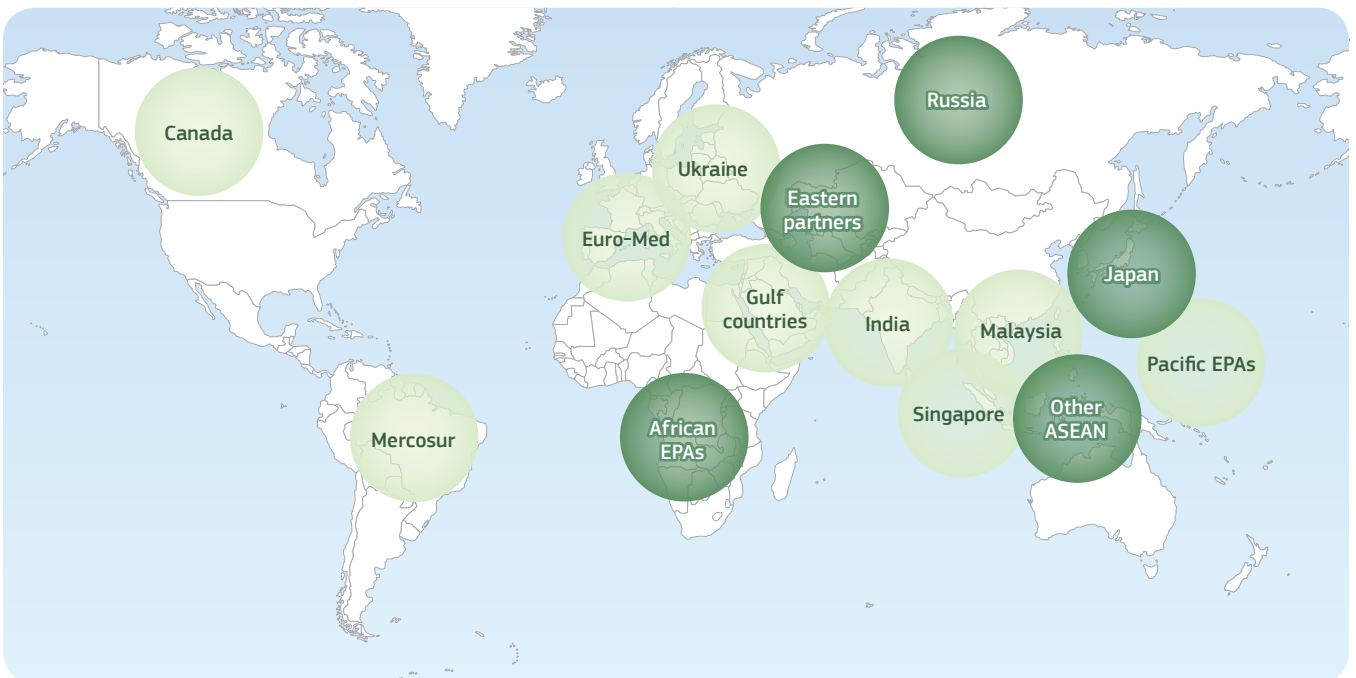
Following the events of the Arab spring, the EU suspended its trade negotiations with Libya early in 2011, but elsewhere it made full use of trade and investment to support the democratic transformation of its southern Mediterranean neighbours. The EU decided to open negotiations for deep and comprehensive free trade agreements with Morocco, Jordan, Egypt and Tunisia. Such agreements would offer a real opportunity for closer integration with Europe for those countries engaged in a process of positive economic and political reform.

THE EU'S TRADE AGREEMENTS



ACP: African, Caribbean and Pacific Group of States
 EFTA: European Free Trade Association
 SAA: stabilisation and association agreements signed with western Balkan countries

■ Agreements in force
 ■ Negotiations concluded



EPAs: economic partnership agreements with ACP countries
 Euromed: forthcoming negotiations on deep and comprehensive free trade agreements
 Russia: commitment to negotiate a free trade agreement already contained in the Partnership and Cooperation Agreement of 1997

■ Negotiations ongoing
 ■ Under consideration

The EU has cemented progress on a number of trade negotiations

The EU is progressing well with negotiations for bilateral trade agreements with a number of other important partners, including India, Canada, the Mercosur region, Singapore and Malaysia, and is ready to consider whether the conditions are in place for the potential launch of trade negotiations with further countries, such as Japan and other ASEAN and eastern partners. At the end of December, the EU and Ukraine completed the technical negotiations for the DCFTA that will be part of the future association agreement. The initialling and signing of the agreement will depend on the political situation in Ukraine.

Getting the right conditions for trade

In December the European Union and the Member States agreed to sign the anti-counterfeiting trade agreement, following the completion of negotiations in November 2010, by the EU, United States, Japan and eight other developed countries to introduce a gold standard in IPR enforcement. The agreement should enter into force for the EU after ratification by the European Parliament and by national parliaments.

The accession to the WTO of Montenegro, Russia and Samoa was approved at the Eighth WTO Ministerial Conference in December, confirming the central role of the multilateral trading system in world trade. This followed Vanuatu's accession earlier in the year, bringing the total number of WTO members to 157.

Trade and investment for development

In 2011 the Commission proposed an overhaul of the preferential trade scheme it offers developing countries to help their integration into the global trading system. This reform of the general system of preferences (GSP)⁽¹²⁾ focuses on those countries most in need, strengthens the incentives for the respect of core human and labour rights, environmental and good governance standards (through the GSP+ element of the scheme) and reinforces predictability for economic operators. The proposal is currently before the European Parliament and the Council and should be adopted before 1 January 2014.

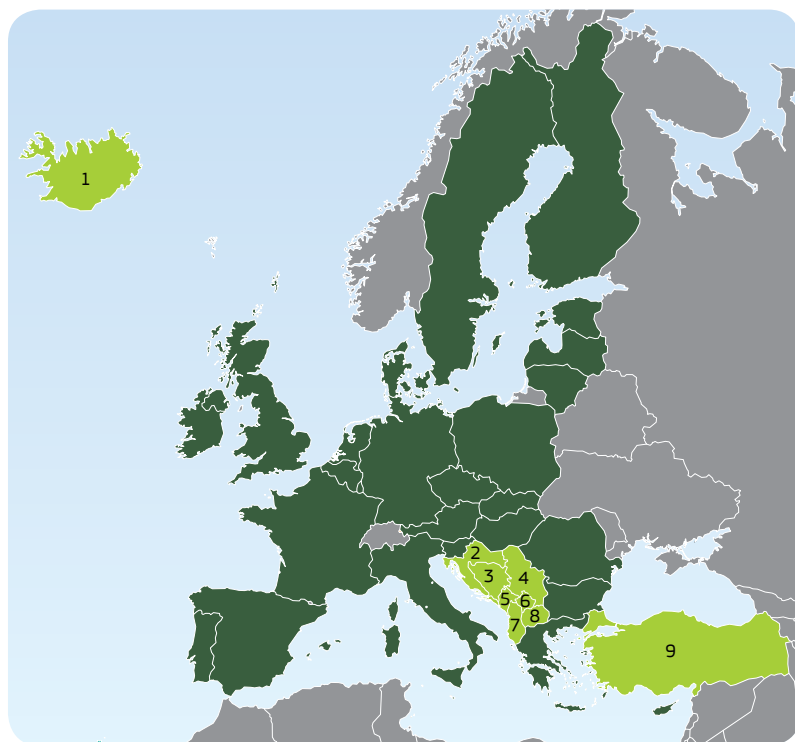
The Commission also proposed changes to the existing rules granting products from certain African, Caribbean and Pacific (ACP) partners duty- and quota-free access to the EU market. Under the proposal, the countries concerned will continue to enjoy the benefits of the interim economic partnership agreements concluded in 2007 if they go ahead towards ratification of their interim agreements by 1 January 2014. Finally, the EU decided autonomously to extend certain specific existing trade preferences to western Balkan countries.

Enlargement

The enlargement process — from an original Community of six to the current 27 constituents of the European Union — has delivered benefits for Europe and its citizens in the widest sense, including more security and prosperity for the Union as well as incentives for reform in countries seeking to become EU members.

Reforms continued in all the enlargement countries, albeit at an uneven pace. These related to democracy and human rights, economic reform and alignment of national legislation with EU standards and legislation. Challenges remained, notably in relation to good governance, rule of law and freedom of expression, as well as regional cooperation and reconciliation. The Commission continues its efforts to promote the rule of law, respect for fundamental rights and the efficiency of the candidate countries' justice systems.

CANDIDATE COUNTRIES AND POTENTIAL CANDIDATES



-
1. Iceland
 2. Croatia
 3. Bosnia and Herzegovina
 4. Serbia
 5. Montenegro
 6. Kosovo
 7. Albania
 8. The former Yugoslav Republic of Macedonia
 9. Turkey
-

Source: European Commission.

Croatia

CROATIA HEADING TOWARDS EU MEMBERSHIP

In October 2011 the Commission gave a positive opinion on Croatia's accession to the Union. The European Parliament gave its consent on 1 December. Pending successful ratification of the Accession Treaty signed on 9 December, Croatia will become the 28th EU Member State on 1 July 2013.

After Croatia had met the outstanding, closing benchmarks concerning reforms of the judiciary, fundamental rights and competition policy, the Commission recommended closing accession negotiations with Croatia. Following the unanimous agreement of the Member States an accession conference closed the negotiations on 30 June 2011.

The Commission will continue to closely monitor Croatia's fulfilment of all commitments and its continued preparations to assume responsibilities of membership upon accession.



© Marianna Sulic/Getty Images

*Dr Franjo Tuđman Bridge,
Dubrovnik, Croatia.*

Iceland

Accession negotiations with Iceland are proceeding well, as 11 chapters have been opened with eight provisionally closed at the June, October and December intergovernmental conferences. The screening of Iceland's compliance with EU legislation was completed in June and confirmed that negotiations on fisheries, agriculture and rural development, food safety, environment, financial services, taxation, financial control and customs union will be challenging.

Turkey

The current stage of the accession negotiations — in which no new chapters could be opened in 2011 — requires Turkey to step up its efforts, notably in complying with its obligation of full non-discriminatory implementation of the Additional Protocol to the Association Agreement to all EU Member States, including the Republic of Cyprus. The Council in December took positive note of the Commission's proposal of a new positive agenda being developed in EU–Turkey relations within the framework of the accession process.

Turkey continued to make progress in alignment with the EU *acquis* in most areas. Significant further efforts are required to guarantee fundamental rights, in particular freedom of expression, where the number of court cases against writers and journalists and the restrictions on access to the Internet raised serious concerns. As regards the east and south-east of the country, the 2009 democratic opening was not followed through. The European Council in December expressed serious concern over Turkish statements and threats related to tensions in the relations between Turkey and Cyprus.

Montenegro

The European Council in December welcomed the Commission's assessment⁽¹³⁾ that Montenegro had successfully addressed the seven key priorities identified in 2010, with a view to opening negotiations in June 2012. The European Council also invited the Commission to present a proposal for a framework for negotiations.

The former Yugoslav Republic of Macedonia

The Council in December stated its readiness to return to the Commission's reaffirmed recommendation to open accession negotiations during the next Presidency. Notwithstanding some reform progress over the past year, core challenges remain, notably independence of the judiciary, reform of public administration and fighting corruption. Freedom of expression remains a serious concern. A solution as regards the dispute with Greece over the country's name is long overdue and remains essential.

Albania

Albania had only made limited progress in meeting the political criteria for membership and needs sustained efforts in achieving demonstrable progress on all areas identified last year before candidate status and the opening of accession negotiations could be recommended. The Council in December welcomed recent positive developments concerning the cooperation between the government and the opposition, which should help to overcome the stalemate that had dominated the domestic political scene. The Council also encouraged the Albanian authorities to intensify efforts on the reform agenda, in particular implementation of the 12 key priorities.

Bosnia and Herzegovina

Bosnia and Herzegovina must amend its constitution to remove incompatibilities with the European Convention on Human Rights. Only limited progress in judiciary and public administration reform and in tackling corruption was achieved, but regional cooperation continued to improve. Some progress was made towards meeting the remaining requirements for the closure of the Office of the High Representative. The EU launched a structured dialogue on justice within the stabilisation and association process and reinforced its role, also by appointing a new EU special representative (EUSR) and head of delegation.



© European Union

The Mehmed Paša Sokolović Bridge over the river Drina in Bosnia and Herzegovina.

Serbia

Serbia has made considerable progress in meeting the political criteria and also reached fully satisfactory cooperation with the International Criminal Tribunal for the former Yugoslavia. Serbia has taken an increasingly active role in fostering reconciliation in the region. The Belgrade–Pristina dialogue has led to several agreements, and initial steps for their implementation were taken. Significant further progress in improving relations with Kosovo and implementing pragmatic and sustainable solutions that will facilitate people living in the area are needed.

In its October opinion on Serbia's application for membership the Commission recommended granting candidate status to Serbia. The European Council in December tasked the Council to examine and confirm Serbia's continued credible commitment in the Belgrade–Pristina dialogue and progress in the implementation in good faith of agreements reached in the dialogue, on inclusive regional cooperation and on cooperation with EULEX and KFOR, with a view to granting candidate country status in March 2012. The opening of accession negotiations requires taking steps towards a visible and sustainable improvement of relations with Kosovo, and the Council invited the Commission to present a report as soon as sufficient progress in this area has been achieved.

Kosovo

Kosovo continued to make progress on European integration-related issues. Many important challenges remain, notably in public administration, the judiciary and the fight against organised crime and corruption, as well as in the economy. Following progress regarding readmission and reintegration, the Commission announced the launch of a visa dialogue, which the Council in December supported, together with the Commission's other initiatives to further Kosovo's progress towards the EU, namely: making progress towards a trade agreement; Member States to agree on a framework agreement on EU programmes; launching a structured dialogue on the rule of law; for Pristina to propose an agenda for the north to be supported by the Commission and for the Commission to review its 2009 Kosovo communication. A new mandate of the EU special representative (EUSR) to Kosovo was agreed.

Regional cooperation in south-east Europe (SEE)

Significant progress was achieved in regional cooperation in SEE and steps were taken that contributed to regional reconciliation. Cooperation within specific sectors also advanced, including in the Energy Community and the Central European Free Trade Agreement (CEFTA). The Regional Cooperation Council (RCC) started the implementation of its strategy and work programme 2011–13, which had been elaborated with the help of the EU. There is still a need to ensure the inclusiveness of regional cooperation, notably with respect to the participation of Kosovo in regional initiatives.

Pre-accession assistance

In 2011, the overall allocation to the enlargement countries (including Iceland for the first time) from the Instrument for Pre-accession Assistance (IPA) amounted to €1.74 billion, including multi-beneficiary assistance. This compares with €1.539 billion in 2010 and €1.494 billion in 2009. By the end of 2011, pre-accession assistance allocated to those countries since 2007 added up to a total of €7.461 billion.

Assistance given to candidate countries and potential candidates in 2011, including both national and cross-border cooperation programmes:

Country	IPA 2011 allocations (in current prices; million €)
Albania	94.43
Bosnia and Herzegovina	107.43
Croatia	156.53
Former Yugoslav Republic of Macedonia	98.03
Iceland	12.00
Kosovo	68.70
Montenegro	34.15
Serbia	201.88
Turkey	779.90
Multi-beneficiary programme (*)	186.27
Total	1 739.32

(*) Allocation for transition assistance and institution building, excluding cross-border cooperation.

Assistance to the Turkish Cypriot community for social and economic development in 2011 was €28 million.

Investing in development — the EU as the world's largest donor

As the world's largest donor, the EU and Member States provide more than half (56 %) of global aid to developing countries. The official development aid managed by the European Commission alone represents about 20 % of total EU aid. The EU provides aid to the poorest people in more than 150 countries worldwide and is committed to supporting the achievement of the millennium development goals (MDGs) by 2015 by implementing the recently adopted EU development framework, laid down in the communication⁽²⁴⁾ 'Increasing the impact of EU development policy: an agenda for change'. This new framework will shape Commission work over the coming years in the field of development.

Leading the way in development policy

The new EU development policy framework builds upon the findings of a 2010 public consultation and takes into account the events of the 'Arab spring', alongside an increasing demand for demonstrable results from both European politicians and citizens and from our partner countries. In particular, the Commission proposed to concentrate EU aid on certain sectors, notably those in support of good governance and inclusive and sustainable growth. Quite simply, the Commission cannot be everywhere and do everything and it must carefully select the sectors it wants to engage in and limit them to programmes to which it can bring added value. The Commission will also adjust its geographic portfolio so that limited aid resources are targeted to where they can really make a difference. While increasing focus on sub-Saharan Africa and neighbourhood partner countries, and paying special attention to countries in situations of fragility, we must accept that differentiation will result in less or no grant aid to substantial parts of Asia and Latin America. The Commission also issued a policy paper on budget support which suggests improvements to how the EU provides funds to governments in developing countries to support them in implementing their own development policies.



Andris Piebalgs, Commissioner for Development, third from the left, at the inauguration of a vocational training centre co-funded by the EU in South Sudan.

Sustainable energy

Sustainable energy as a driver of economic growth is moving to the top of the development agenda. This against the background that 1.4 billion people in the world still lack access to electricity and 2.7 billion people use traditional biomass for cooking. The Energy Facility on access, the Infrastructure Trust Fund on energy security and the Global Fund for Energy Efficiency and Renewable Energy (GEEREF) are the key financing instruments implemented by the EU. The political dialogue is conducted through the EU Energy Initiative for Sustainable Development and Poverty Reduction and the Africa–EU Energy Partnership.

EU development policy recognises civil society and local authorities as key partners in development. With a total budget of €1.6 billion for the period 2007–13, the Commission continues to provide a variety of grants to support civil society and local authorities.

Increasing aid effectiveness

Difficult economic and budgetary times make it even more critical to ensure that aid is spent effectively, delivers the best possible results and is used to leverage further financing for development. To this end, it is essential to ensure that every euro of EU development aid generates the greatest possible impact on poverty in developing countries.

In September 2011 the Commission adopted a policy paper⁽¹⁵⁾ for the High Level Forum on Aid Effectiveness held in Busan from 29 November to 1 December 2011. The paper highlighted that the EU's performance (Commission and 14 Member States) in aid effectiveness commitments is above the global average amongst donors and EU aid is more effective and transparent than ever before.

Innovative financing

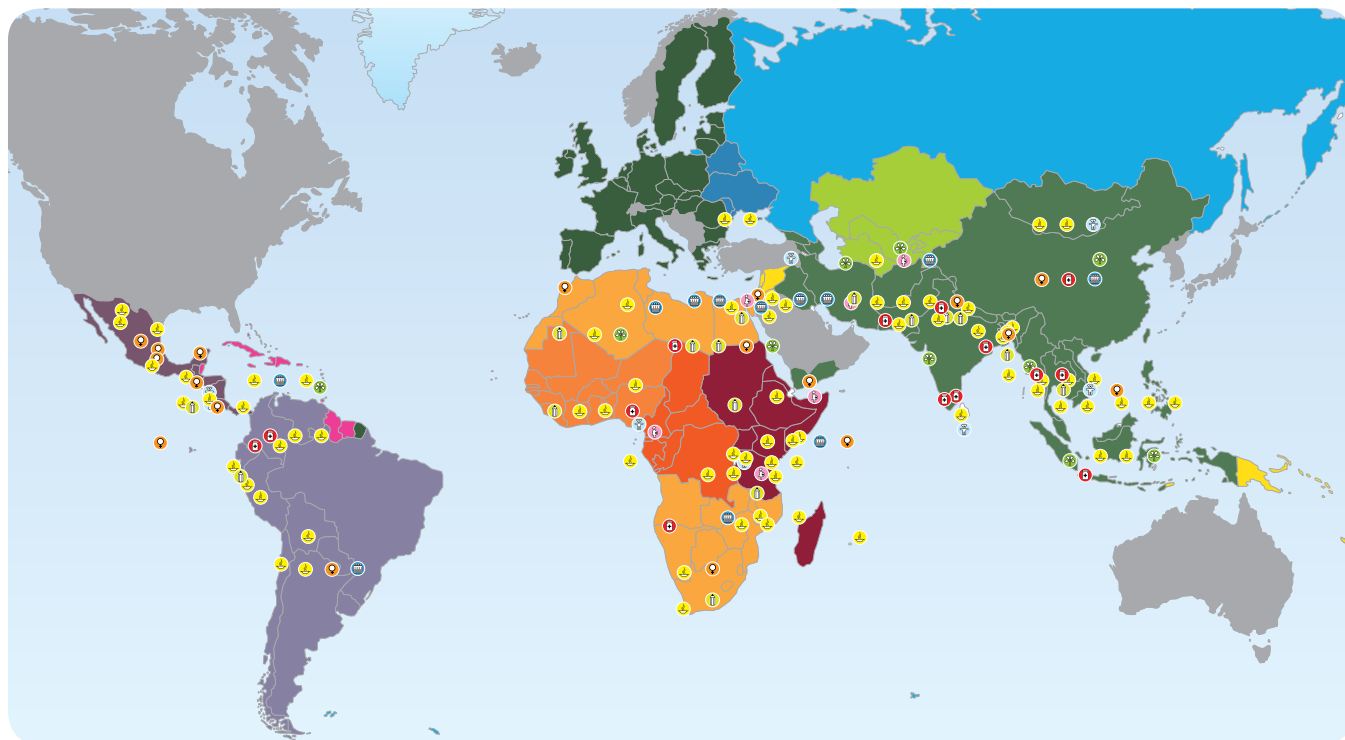
In March, the Commission announced the launch of a pooling mechanism⁽¹⁶⁾, part of the ACP–EU Water Facility, to increase access to water in Africa, the Caribbean and the Pacific. €40 million is available under this mechanism, which has been created to blend grants from the European Development Fund (EDF) with loans from the EU multilateral and bilateral finance institutions to finance projects for access to water and sanitation services in African, Caribbean and Pacific (ACP) countries.

This financial instrument will increase the leverage effect of the financial aid and will trigger private sector participation. It will also contribute to EU support in developing countries' efforts to reach the MDG for drinking water and sanitation.

Achieving the millennium development goals

There is particular concern about the lack of progress in certain countries and regions (notably in sub-Saharan Africa) and against some of the MDGs (notably maternal and child health).

MILLENNIUM DEVELOPMENT GOALS: AN ILLUSTRATION OF EUROPEAN COMMITMENT



1. Halve extreme poverty and hunger



2. Achieve universal primary education



3. Promote gender equality



4. Reduce child mortality



5. Improve maternal health



6. Combat AIDS, tuberculosis and malaria



7. Safeguard the environment



8. Set up a global partnership for development

South Africa: new health care programme to fight HIV and tuberculosis

The €126 million EU-funded primary healthcare sector policy support programme aims to contribute to increased life expectancy, reduced maternal and child mortality and the fight against HIV/AIDS and tuberculosis. To this end it will support the South African government, and notably the Ministry of Health, in improving access to healthcare services for patients and in raising the quality of the health system and its management at district level.

Given the effort still needed if the MDGs are to be reached by 2015, the EU needs to rapidly increase the impact of its aid on poverty reduction. Beyond 2015, the EU will need to continue to support the global effort to combat poverty.

The EU Food Facility

The €1 billion EU Food Facility, which helps beneficiaries to reinvest in agricultural production and supports the needs of the most food insecure, was set up in order to respond to the challenges of rising food prices in 2007/08. By the end of 2011, it is expected to have benefited 50 million people in 50 developing countries.

Source: European Commission.

Africa

Under-nutrition is the leading underlying cause of child death, contributing to more than 3 million children dying each year, and under-nutrition accounts for over 20 % of maternal mortality. It is both a cause and a consequence of poverty: millions of children throughout sub-Saharan Africa are not getting the nutrition they need for proper physical and mental development during childhood or to maximise their productivity as adults.

Tackling under-nutrition

To help fight this, the European Union announced a €14.95 million grant to Unicef to tackle under-nutrition in the region. Twenty-five million children and 5.5 million pregnant and lactating women are expected to benefit from the programme. Thanks to European aid, more than 70 million people, especially women and children, have benefited from direct support to have access to food.

While parts of Somalia are facing famine conditions, neighbouring populations (particularly in rural areas) in Kenya, Ethiopia and Djibouti are already faced with a food security emergency.

The European Union has committed over €440 million since 2008 for agriculture and food security in the Horn of Africa (Eritrea, Ethiopia, Djibouti, Kenya and Somalia), helping to feed the most vulnerable people, improve nutrition and encourage sustainable agriculture.



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Over the past decade, the EU has been progressively setting up a comprehensive approach to the Horn of Africa, including long-term development interventions aimed at creating security, building peace and improving democratic governance in the region. To date, the EU is the biggest donor to Somalia. The EU has committed €215.4 million for the period 2008 to 2013.

The EU responded generously to the devastating effects of two dry seasons in the Horn of Africa.

South Sudan formally declared its independence on 9 July 2011, as a result of the referendum held in January 2011, part of the 2005 comprehensive peace agreement. The situation in large areas of South Sudan and the border regions with Sudan remains complex, with persistent violent conflicts and frequent incidents of serious fighting. In addition to humanitarian aid provided to the region, €200 million was allocated to South Sudan: these funds will support the implementation of the government of South Sudan's forthcoming '2011–13 development plan'. They could be used for projects related to education, health, agriculture, food security and democratic governance.

JOINING FORCES TO FIGHT AIDS, TUBERCULOSIS AND MALARIA

The European and Developing Countries Clinical Trial Partnership (EDCTP) is accelerating the development of new treatments to fight the three main poverty-related diseases: HIV/AIDS, tuberculosis and malaria. It brings together 14 EU Member States and two associated countries in partnership with 29 sub-Saharan African countries. It is jointly funded by the European Commission (€132 million), participating European countries (€116 million) and third-party funding (€63 million) from the private sector and charities.

The EU suspended its cooperation with Niger in 2009 following the former president's unconstitutional attempt to remain in office beyond his second term. The investiture of the new president, Mahamadou Issoufou, in April 2011 signalled the completion of the country's democratic transition. The European Union confirmed the full resumption of development cooperation with Niger on 20 June 2011 and released €25 million in budgetary support for the country. With these funds the government will be able to step up its fight against poverty, in particular by concentrating on the social sectors (education and health).

Originally established by the EU in 2003 in response to a request of the African Union, the African Peace Facility (APF) is an instrument of EU support to the African peace and security agenda. Over the years it has provided funding to African-led peace support operations (€607 million), helping to prevent conflicts and promote stability after they have taken place. It has also provided significant contributions to the strengthening of African institutional capacities in peace and security at continental and regional level (€100 million), as well as supporting a number of mediation activities (€15 million).

In August 2011 the European Commission decided to replenish the APF with €300 million. The funding will be available to the African Union and African regional organisations for the period 2011–13 in order to support relevant, targeted, continental and regional initiatives in the area of conflict prevention, management and resolution and peace building.

Supporting reconciliation in Somalia

In Somalia, the African Peace Facility funds the African Union Peace Support Operation (Amisom), which provides support to the Somali transitional federal institutions in their stabilisation efforts and in the pursuit of political dialogue and reconciliation. Amisom is also mandated to facilitate the delivery of humanitarian aid and to create the necessary conditions for reconstruction, reconciliation and the sustainable development of Somalia. The overall APF contribution to the mission amounts to €208.4 million and covers costs such as allowances, medical care, housing, fuel and communication equipment.

The fifth meeting of the European Commission and African Union Commission took place on 31 May and 1 June 2011. It provided fresh political momentum to the close and trustful partnership between the two institutions. It was the opportunity to discuss and define common approaches to current international events, including the situation in north Africa, as well as to define the road forward to the 17th Climate Change Conference in Durban. The strategic partnership between Africa and the EU that was established at the historic Lisbon Summit in December 2007 seeks to expand EU–Africa relations 'beyond' development, to promote cooperation between the two continents and to address global challenges and opportunities.

Caribbean

The European Union has been a long-time partner of the people and the governments of the region. The current economic crisis poses a significant challenge to realising the benefits from free trade and regional integration. This is why the European Commission is very supportive of the Caribbean Community's (Caricom) regional integration programme and the Caribbean Forum's (Cariforum) commitment to the economic partnership agreement (EPA) with the European Union, which governs how the two regions will cooperate on a wide range of trade-related issues.

Development cooperation in the region has picked up significantly. The Cariforum/EU economic partnership agreement is being implemented and both sides are working together on a joint Caribbean/EU strategy to lay the groundwork for a more mature relationship which will encompass strengthened political dialogue and development cooperation.

Following the Latin American Investment Facility (LAIF) example, a Caribbean Investment Facility (CIF) is in the process of being launched, with a €40 million budget, to help mobilise resources from financial institutions to promote investment in infrastructure, energy, durable transportation and social development projects.

Overseas countries and territories (OCT)

During the EU–OCT Forum in February, the Commission announced that a focus on poverty reduction is no longer sufficient and that the new partnership should push for the economic and social development of the OCTs, ensuring inclusive growth and sustainable development.

Pacific

In 2011 the EU continued its commitment to the Pacific–EU Joint Initiative on Climate Change and its implementation. Under the Global Climate Change Alliance (GCCA), the Pacific has received a total amount of €28.4 million for 2008–11.

In March 2011, The EU organised the first GCCA workshop on mainstreaming climate change adaptation into national development planning and budgeting.

During a visit to Vanuatu in March, the Commission called for an increase of international support for the small islands, notably for Pacific islands. Projects worth €50.4 million were launched and new ones announced for €39 million for adaptation to the effects of climate change and poverty. The Commission also announced new programmes to strengthen Pacific economic integration through trade (€30 million) and to support climate change capacity development for the population of the Pacific islands.

Latin America

In 2011, the EU and Latin American and Caribbean partners continued to pursue a joint agenda to address priorities following areas identified at the EU–LAC Summit in May 2010 in Madrid:

- ▶ science, research, innovation and technology;
- ▶ sustainable development, environment, climate change, biodiversity, energy;
- ▶ regional integration and interconnectivity to promote social inclusion and cohesion;
- ▶ migration;
- ▶ education and employment to promote social inclusion and cohesion;
- ▶ global drug problem.

A total of €454 million was to be available for the region by the end of 2011. The development cooperation funds allocated to the region principally will support areas such as social cohesion and poverty reduction. For example, in El Salvador, the European Union is providing support for social cohesion (reduction of poverty and the fight against inequalities and exclusion), good governance and respect for human rights. In Paraguay, support covers social protection and economic inclusion for the most vulnerable and poorest parts of the population, and employment.

RECONSTRUCTION AFTER DISASTER

Following the 2010 earthquake in Haiti, the EU is providing, under a revised strategy and indicative programme 2011–13, an additional €169 million to support Haiti's reconstruction, bringing to €391 million the total envelope of EU programmable aid in Haiti in the period 2008–13. Under special EDF funds for urgent and unplanned measures, the EU also agreed in 2011 with AFD and UN-Habitat to implement an additional €23 million project aimed at the reconstruction and rehabilitation of damaged houses in two neighbourhoods in Port-au-Prince, including the provision of basic urban services.



© European Union

Planting trees to fight soil degradation and desertification under the UN–EU programme with the active participation of local communities.

Important funds were allocated to the region through the Latin America Investment Facility, promoting investment in key infrastructure for equitable and sustainable socioeconomic development. A similar initiative for the Caribbean is in the final steps of the adoption procedure. These facilities have an important leverage effect in mobilising additional resources from finance institutions so as to promote investment in climate- and environment-related infrastructure, energy, sustainable transport and social development, among others.

Overall the European Union has been very active in promoting the rule of law and good governance in the region. For example, in Uruguay, the EU supports reform of the penal system and respect for human rights in detention centres. Another achievement was the support in Colombia of a newly approved law on 'victims and land restitution'. This law seeks to reinforce the right on reparation for the victims of the conflict and the restitution of land appropriated illegally.

The European Union also supports the implementation of the new Central American security strategy to fight against organised crime and drug trafficking in the region.

Asia and central Asia

During a visit to Pakistan, in June, the Commission reaffirmed its intentions to increase its development assistance to Pakistan by 50 %, from €50 to €75 million a year for 2011–13. The aid programmes will continue to focus on rural development, support for education and stronger governance. The EU and Pakistan also discussed the next steps towards an EU–Pakistan strategic dialogue, including important economic aspects such as development and market access, progress towards the millennium development goals, as well as human rights and peace-building issues.

In Afghanistan, discussions focused on the areas of good governance, including civil police reform, justice, public administration and the need to improve public finance management. The EU committed €200 million in 2011 to these sectors, all of which are crucial to the country's long-term growth and development. Moreover, a large part of the funds will be invested in rural development.

At the Sopot Informal Meeting of Ministers for Development in July 2011, a diversified approach to Central Asian partner countries was considered, with the necessity of concentrating on Tajikistan and Kyrgyzstan, the countries with the region's highest poverty level.

EU SUPPORT TO PAKISTAN

Total assistance for Pakistan by the EU and its Member States from 2009–13 amounts to €2.458 billion, which represents around 30 % of the total annual development assistance to the country.

Solidarity in action — responding to humanitarian crises

Humanitarian needs are on the rise worldwide. The European Union, between the respective budgets of the Commission and Member States, remains the largest humanitarian donor in the world. The aim of this concrete expression of solidarity with the most vulnerable populations is to save and preserve life, to prevent and alleviate human suffering and to safeguard the integrity and human dignity of people affected by natural or man-made disasters occurring inside or outside the EU.

Instruments of solidarity

The Commission's mandate encompasses humanitarian assistance and civil protection, the two main instruments at the European Union's disposal to ensure rapid and effective delivery of EU relief assistance to people faced with the immediate consequences of disasters and conflicts. The EU's humanitarian assistance, which is distinct from longer-term development aid or foreign policy instruments, is based on the humanitarian principles of humanity, impartiality, independence and neutrality.

The EU works continuously to improve the quality of humanitarian assistance to make it simpler, faster and better. In 2011, the European Commission honed the instruments in its humanitarian toolbox, designed to speed up and streamline aid delivery. The Commission, through its network of humanitarian experts permanently based in crisis hotspots around the world, is uniquely placed as a donor to assess the needs in the field and monitor the operations it funds.

The EU is also integrating disaster risk reduction into policy and actions, within the EU and in relations with developing countries, and urging investment in prevention and preparedness before a disaster takes place.

EUROPEAN VOLUNTARY HUMANITARIAN AID CORPS

The Lisbon Treaty introduced a major innovation in the field of humanitarian assistance, namely the European Voluntary Humanitarian Aid Corps. Preparations for the creation of the corps, including the launch of pilot projects, continued during the year.

RESPONDING TO JAPAN'S DISASTER

Immediately after the devastating earthquake, tsunami and nuclear accident on 11 March, the Union was mobilised to provide urgently needed assistance. Emergency relief support was delivered, including among others 400 tonnes of in-kind assistance and financing of €10 million. At the same time, the Union was vigilant to ensure European citizens' safety. Radiation protection measures were adopted swiftly to guarantee public health. EU-wide safety and risk assessment tests for nuclear energy plants have been carried out.



Kristalina Georgieva, Commissioner for International Cooperation, Humanitarian Aid and Crisis Response, in the aftermath of the Fukushima disaster.



Télécoms Sans Frontières, a partner of the European Commission, set up a satellite communication system to allow displaced Libyans to call their families.

GLOBAL REACH OF ASSISTANCE

Support and funding allocations continue to be solely driven by humanitarian needs. Funding allocations in 2011 covered specific crisis zones such as the Horn of Africa, Sudan, Côte d'Ivoire, the Middle East and the Sahel, as well as so-called 'forgotten crises' such as the Rohingya refugees in Bangladesh, civilians affected by internal armed conflicts in Colombia and the Central African Republic and the interethnic conflict in Burma/Myanmar.

Europe's response to the Libyan crisis

The Union has been at the forefront of the international humanitarian response to the crisis in Libya. Over the course of the year, total humanitarian and civil protection funding from the EU with regard to the Libyan crisis reached nearly €155 million, including €80.5 million from the Commission. In the first phase of the crisis the EU focused its efforts on responding to the exodus of people fleeing Libya into neighbouring countries. The activation of the EU civil protection mechanism in February supported the evacuation of EU citizens from Libya. In March, a further activation assisted the evacuation of large numbers of third-country nationals stranded on the Tunisian side of the border with Libya. Following this first phase, the EU reoriented its humanitarian support mainly to alleviate the suffering of the civilian population inside Libya, providing, inter alia, medical assistance, protection for the most vulnerable (sub-Saharan Africans, minority groups formerly supporting the Gaddafi regime, internally displaced people) and humanitarian mine clearance.

Drought and food crisis in the Horn of Africa


The recurrent drought in the Horn of Africa, the worst in more than 60 years, triggered a food crisis in parts of the region. On 20 July, the United Nations declared famine in some regions of Somalia, where conflict compounded the

THE FOOD CRISIS IN THE HORN OF AFRICA (SEPTEMBER 2011)

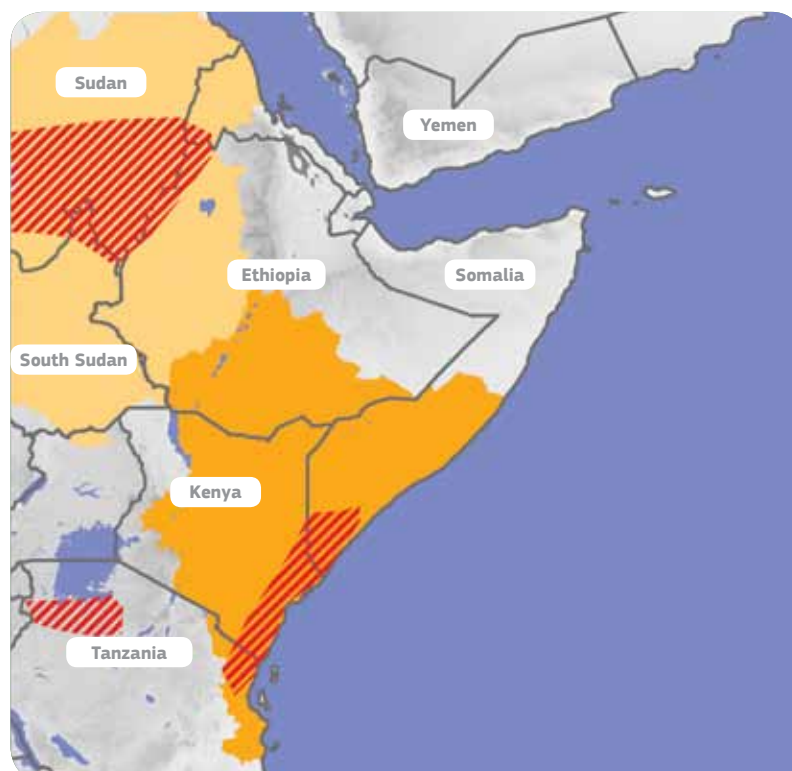
Reference: Drought news — September 2011
African Drought Observatory (ADO)

Currently affected areas 

Affected areas in June 2011 

Areas under threat in June 2011 


Source: European Commission.



drought. In a joint effort by Member States and the Commission, the EU mobilised humanitarian aid worth €984 million for the Horn of Africa within a very short period of time. By October, 13.3 million people in Somalia, Ethiopia, Kenya and Djibouti needed emergency assistance. Over 950 000 Somalis sought refuge outside their country, a majority in the Dadaab refugee camps in Kenya. Dadaab became the largest refugee complex in the world, with 450 000 people registered. The Somali refugees, as well as the most vulnerable people in the drought-affected areas, benefited from the EU's humanitarian assistance — in total more than 5.6 million people. The EU contribution represents more than one third of the global assistance to the region. Since 2006, the EU has also invested additional humanitarian funds in prevention and disaster risk reduction programmes in the Horn of Africa. The aim is to prepare communities better to withstand the impact of recurrent drought.

ENDNOTES

- (¹) Joint communication — A new response to a changing neighbourhood (COM(2011) 303).
- (²) Proposal for a regulation establishing a European Neighbourhood Instrument (COM(2011) 839).
- (³) Commission communication — The EU and its neighbouring regions: a renewed approach to transport cooperation (COM(2011) 415).
- (⁴) Joint Communication — A partnership for democracy and shared prosperity with the southern Mediterranean (COMM(2011) 200).
- (⁵) Commission implementing decision — Support for partnership, reforms and inclusive growth (Spring) 2011–12 in favour of the southern neighbourhood region (C(2011) 6828).
- (⁶) Commission implementing decision on the special measure: Neighbourhood Civil Society Facility 2011 (C(2011) 6471).
- (⁷) The Group of Eight (G8) is a forum for the leaders of eight of the world's most industrialised nations, and includes Canada, France, Germany, Italy, Japan, Russia, the United Kingdom and the United States.
- (⁸) The Group of Twenty (G20) is made up of the finance ministers and central bank governors of 19 countries and the European Union (Argentina, Australia, Brazil, Canada, China, European Union, France, Germany, India, Indonesia, Italy, Japan, Mexico, Russia, Saudi Arabia, South Africa, South Korea, Turkey, United Kingdom, United States of America).
- (⁹) http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/EN/foraff/122911.pdf
- (¹⁰) http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/EN/foraff/123923.pdf
- (¹¹) Under UNSCR1244/99.
- (¹²) Proposal for a regulation applying a scheme of generalised tariff preferences (COM(2011) 241).
- (¹³) Commission communication — Enlargement strategy and main challenges 2011–12 (COM(2011) 666).
- (¹⁴) Commission communication — Increasing the impact of EU development policy: an agenda for change (COM(2011) 637).
- (¹⁵) Proposal for the EU common position for the Fourth High Level Forum on Aid Effectiveness, Busan (COM(2011) 541).
- (¹⁶) http://ec.europa.eu/europeaid/where/acp/regional-cooperation/water/documents/acp_eu_water_facility_pooling_mechanism_guidelines_en.pdf



Chapter 5

Strengthening accountability, efficiency and transparency in the EU

The particular situation facing the European Union in 2011 galvanised all of the institutions and bodies into playing their full part in providing speedy solutions. With the fast pace of events and evolving scenarios, the institutions were tested and rose to the challenge.

There was major interaction between and within the institutions, ensuring critical examination of all potential options and proposed solutions. They responded robustly and with vigour in a most demanding environment. All concerned defended the community method established by the treaties, despite various calls for inter-governmental approaches.

The Parliament, the Council and the Commission worked closely and efficiently together, with their three Presidents and the rotating Presidency coordinating their work to ensure the most effective outcomes. Equally, the European Central Bank was to the fore in meeting the challenges within its remit, in a year which saw the end of eight years of sterling service by Mr Jean-Claude Trichet.

The Economic and Social Committee and the Committee of the Regions brought their significant and broadly based experience and expertise to bear on many issues, not least contributing on the response to the economic crisis and proposals for a new budgetary framework towards 2020.

As is always the case, while the response to the economic crisis made headlines, the institutions otherwise had a very heavy workload. Whether it was the Ombudsman handling complaints concerning administration, or the Court of Auditors overseeing the Union's expenditure, or legislative simplification, or the introduction of greater transparency, it was clear that the institutions were constantly delivering to make a stronger European Union for its citizens and the wider world.

The European institutions and other official bodies at work

Close cooperation between the Parliament, the Council and the Commission was a feature of the year, especially so far as financial and economic matters were concerned. Without this level of joint commitment, the major legislative changes introduced over the year would not have been possible. The role of the European Central Bank was again crucial in addressing the scale and depth of the economic crisis.

The European Parliament

In 2011 the European Parliament completed the second year of its five-year mandate. As well as concentrating on its role as co-legislator, the year saw the Parliament debate many topical issues of European and global importance, with special regard to economic governance and the financial crisis.

Overall in its second year, the business of the Parliament was consolidated and the agendas combined a rich variety of legislation, traditional debates on the latest developments regarding topics of major interest to citizens (such as debates related to European Council meetings, with special regard to the latest developments on economic governance and to the work of Council Presidencies) and other topical debates which reflected the Parliament's will to address major events.

Apart from the above, other significant debates were as follows.

- ▶ In November, President Barroso presented to the plenary the Commission work programme 2012 (CWP 2012). In the course of the debate, MEPs, including from the biggest political groups, urged the Commission to be more ambitious and to look for 'new ideas', reflecting Europe's current critical state.
- ▶ A series of debates reacting to controversial developments in Member States (the media law and the new constitution in Hungary; issues related to freedom of expression and discrimination on the basis of sexual orientation in Lithuania; the waste crisis in Campania).
- ▶ A high number of discussions dedicated to health-related topics (*E. coli* outbreak; strategy on Alzheimer's; resistance to antibiotics; tuberculosis vaccine initiative; cord blood stem cells; protein deficit in the EU; EU global response to HIV/AIDS).
- ▶ Regular debates dedicated to the issue of migration (migration flows and their impact on the Schengen area; proposed changes to Schengen governance; immediate measures to support Italy and other Member States facing exceptional migratory flows; establishment of a joint resettlement programme; EU asylum system).
- ▶ Energy issues also featured high on the agenda, especially in the wake of the Fukushima disaster. Accordingly, several lively debates took place focusing on nuclear energy (situation in Japan; lessons to be drawn from Japan; nuclear safety 25 years after Chernobyl; stress tests for nuclear power plants in the EU).

- ▶ A very significant number of debates relating to foreign policy issues, such as the ‘Arab spring’, the Middle East peace process and the situation in various ‘hot spots’ (Russia, Belarus, Iran, Sudan, the Sahel region), as well as discussing more long-term and structural questions (the EU as a global actor in multilateral organisations; development of the common security and defence policy under the Lisbon Treaty; the annual report on the common foreign and security policy; the annual report on human rights; review of the European neighbourhood policy). In November, the Parliament gave its assent to the accession of Croatia to the European Union.
- ▶ Discussions — based on own-initiative reports or on oral questions — were also held on ‘strategic issues’ of great interest, such as: the EU strategy on Roma inclusion; workers’ mobility within the EU; the future of pension systems; the stress tests for the EU banking sector; the implementation of the services directive; the modernisation of public procurement; the EU framework to fight violence against women; the functioning of the European Arrest Warrant; the Danube strategy; a single European transport area; aviation security and security scanners; European disaster response — civil protection and humanitarian assistance; the Durban climate change conference; anti-corruption; EU research and innovation funding; the future of the European Globalisation Adjustment Fund; the EU raw materials strategy; and the EU industrial policy for the globalised era. In some cases, the Parliament’s position on such issues was adopted without debate (personal data protection in the EU; corporate governance in financial institutions; European broadband — investing in digitally driven growth; energy infrastructure priorities for 2020 and beyond), or with ‘limited debate’ (so-called short presentation procedure: management of H1N1 influenza; agriculture as a strategic sector in the context of food security; reducing health inequalities; social services of general interest; role of credit rating agencies; global economic governance; EU counterterrorism strategy; alternative dispute resolution mechanisms; online gambling).
- ▶ Dedicated debates were also held on issues around the Europe 2020 strategy for growth and jobs. Separate debates were organised on strategy and the employment policy guidelines (February), on the single market (April) and on lessons to be drawn from the first European semester (October). Furthermore, several ‘sectoral’ debates also took place both on the future of key policy areas, such as the CAP, cohesion policy and EU trade policy, and on various flagship initiatives and strategic sectors related to the Europe 2020 strategy. These latter discussions included ‘Youth on the move’, ‘Early years learning’, ‘Cooperation in vocational training and education’, the ‘Agenda for new skills and jobs’, the ‘European platform against poverty and social exclusion’ and the ‘Innovation Union’.

As regards Parliamentary committees, both the Temporary Committee on the Financial Crisis and the Temporary Committee on the Next Multiannual Financial Framework completed their work and provided the plenary with very important contributions with a view to expressing the Parliament’s position on topical future-oriented issues.

*Extraordinary conference
of presidents of the
political groups in the
European Parliament,
11 May 2011.*



On organisational issues, the December session saw 17 (out of 18) new Members joining the European Parliament, as the ratification process relating to the adjustment of the Parliament's composition by the Lisbon Treaty had come to a close. During the year, the Parliament elected two new Vice-Presidents in July, namely Mr Chichester (ECR/UK) and Ms Podimata (S & D/EL), to replace Mr Lambrinidis (S & D/EL — appointed Foreign Minister of Greece) and Ms Koch-Mehrin (ALDE/DE — resigned). Furthermore, the Parliament also gave a positive opinion on the appointment of the new President of the European Central Bank. It also endorsed the appointment of the three candidates as Chairs of the newly established European Financial Supervisory Authorities and of eight new Members of the Court of Auditors. A separate discussion was also held on the selection process for the Managing Director for the International Monetary Fund, with a strong focus on how to ensure the best external representation for the euro area.

Regarding budgetary matters, several debates were held on the 2012 budget, regarding both its main principles and its actual content. Whereas the budget was finally declared approved at the November II part session, an additional agreement was endorsed in December on the additional financing needs of the ITER project. On this occasion the Parliament made it clear that it will only accept and secure the additional funding (concerning 2013) if the Council respects the terms of the deal made. Moreover, the Commission President presented to both the Conference of Presidents and the plenary the Commission's proposals regarding the future multiannual financial framework 2014–20.

European renewal — State of the Union address 2011

In September, the President of the European Commission, José Manuel Barroso, delivered his second State of the Union address in the European Parliament⁽¹⁾. The President stated that Europe was facing the biggest challenge in the history of the Union. He outlined how this challenge could be surmounted, in particular by:

- ▶ building a Union of stability and responsibility;
- ▶ building a Union of growth and solidarity;
- ▶ giving the EU an effective voice in the wider world.

The speech and the ensuing debate attracted strong interest from MEPs, with many interesting and lively contributions. The vast majority of MEPs across the political spectrum welcomed the strong determination evidenced in the President's speech. The message of all those supporting the President's vision was to encourage him to act quickly and transform the commitments into deeds. Particular emphasis, in a great number of interventions, was put on the central importance of regaining people's, and in particular young people's, trust and confidence, since declining public support for and understanding of the European Union rationale was an inherent part of the political-economic crisis.



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*José Manuel Barroso,
President of the European
Commission, addresses
the plenary session of the
European Parliament
in the course of the
debate on the state of the
Union, Strasbourg,
28 September 2011.*

President Buzek's term of office came to an end on 31 December 2011 (the new President will be elected on 17 January 2012). Accordingly, at the December session he made a farewell speech in which he reminded the house that no institution was forever and that building the EU represented an everyday investment in our common future. The outgoing President recalled the entry into force of the Lisbon Treaty and rejoiced in how far it advanced European democracy and the powers of the European Parliament, noting that 'we are now the Parliament we always wanted to be, a full co-legislator in a two-chamber structure.' He spoke proudly of the way the Parliament had used its new powers (inter alia delivering better results on the 'six-pack' or on 'SWIFT agreement') and was pleased to see that interinstitutional relations were upgraded and enhanced (highlighting an improved framework agreement with the Commission, the increased interaction with the President of the Commission, the hearings of EU ambassadors and the constant dialogue with the High Representative/Vice-President of the Commission and the President of the European Council).



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Jerzy Buzek, President of the European Parliament, delivers his valedictory speech in December to the plenary session, Strasbourg.

Regarding budgetary control, the Parliament granted discharge to the Commission in respect of the 2009 accounts, with a large majority. However, as regards the Council's accounts, the Parliament postponed its vote, with some MEPs even calling into question the application of the agreement (on working arrangements) between the two institutions. Discharge in respect of the European Medicines Agency and the European Police College was also postponed, but later on granted, unlike discharge to the Council, which was finally rejected in October.

In the institutional field, the Parliament had to contend with allegations of inappropriate lobbying in respect of the tabling of amendments. The Parliament reacted promptly, and a new Code of Conduct for Members was drafted; after approval by the Constitutional Affairs Committee and the plenary it was annexed to the Parliament's Rules of Procedure.

In a similar vein, a new joint Parliament–Commission transparency register for lobbyists was established and launched in June. In an interesting development, the Council has also expressed its readiness to consider modalities for joining the register. (See transparency section at the end of this chapter.)

Still in the institutional field, the Parliament started considering the modification of the act concerning the election of Members of Parliament. The plenary debate held in July revealed, however, that there is a strong divergence between, and even within, political groups as to the key proposal of establishing a ‘transnational list’ for some seats. Accordingly, the draft report was referred back to the responsible committee for further consideration.

In the same context, a report was adopted on the rules governing political parties at European level and their funding in which the Parliament called on the Commission to adopt a genuine statute for political parties at European level and their affiliated foundations.

Furthermore, the Parliament also discussed the application of the subsidiarity principle after the Lisbon Treaty, with special regard to the opinions provided by national parliaments and the involvement of the Committee of the Regions.

Several ‘annual institutional debates’ also took place, most notably on better regulation, in which a general trend could be observed, with MEPs asking for more transparency. In addition, the annual report of the Ombudsman and the report of the deliberations of the Committee on Petitions were also examined, with a strong focus on the enforcement of environmental legislation as well as the Charter of Fundamental Rights in the latter debate.

As regards interinstitutional relations, the Council decided to embark upon bilateral negotiations with the Parliament on a limited set of institutional problem areas, including the issue of legislative correlation tables, as well as the Parliament’s participation in international negotiations and the Parliament’s access to confidential documents. The last two issues proved to be quite difficult to solve; on correlation tables an agreement was found and approved in October, after protracted negotiations at both technical and political level, whereas the discussions on access to confidential documents remained inconclusive in 2011.

It is worth noting that the Parliament adopted its calendar of sittings for 2012 and 2013 as early as March 2011, with a view to identifying well in advance its activities, with special regard to plenary sessions, so that the other institutions could plan their respective activities accordingly, ensuring their most efficient participation in the Parliament. However, a legal challenge was launched by the French authorities in the Court of Justice, opposing the suggestion that the week of the October II part session would be split into two separate part sessions of two days each.

Economic crisis

As the sovereign debt crisis unfolded, the Parliament held regular debates assessing the situation and trying to come up with solutions, often strongly criticising the Heads of State or Government for their perceived inability to find a comprehensive and lasting agreement. Throughout these debates the leaders of the Parliament’s major political groups have repeatedly called for ensuring a ‘parliamentary dimension’ of democratic control for the envisaged new structures and solutions and made the case for anchoring any further steps within the framework of the current treaties.



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Jerzy Buzek, President of the European Parliament, leaving the rostrum after having addressed the chamber.

The Parliament took a similar stance regarding the newly introduced European semester. In its report dedicated to the subject, it requested that the Annual Growth Survey be transformed into 'Annual Sustainable Growth Guidelines' and called on the Commission to come and present its recommendations to the European Parliament at an appropriate time. Furthermore, the report also called on the Commissioners responsible for the European semester to come and debate the ASGG with the relevant Parliament committees, while calling on the European Council to invite the European Parliament President for its discussions on the European semester.

Legislation

Several important legislative proposals were approved, thereby translating and approving compromises reached with the Council (by way of illustration: the economic governance 'six-pack'; consumer rights; food information for consumers; cross-border healthcare; 'Eurovignette'; amendment of the mandate of Frontex; European protection order; single permit for residence and work; European heritage label). The Parliament's consent in February to the launch of enhanced cooperation in the area of EU patents was particularly noteworthy. It should also be noted that in December the Parliament refused to give its consent to the temporary extension of the EU–Morocco fisheries partnership agreement, as a means to call on the Commission to come forward with a revised proposal. The Parliament adopted, in certain cases, a new 'approach', by adopting its position on the substance of a Commission proposal while withholding its final vote on legislative resolutions so as to allow for continued negotiations with the Council towards first-reading agreements. This was notably the case for the top legislative package of the first half of the year, the economic governance package (the 'six-pack'), which turned out to be a case of real political interaction both within the Parliament itself and with the Council.

In the context of co-decision, on the sensitive issue of novel food the conciliation between the Parliament and the Council failed (as acknowledged in a plenary stock-taking debate in May), while on another controversial topic — rights of passengers in bus and coach transport — an agreement could be reached and was approved by the Parliament in third reading in February. Similarly, after long negotiations, the final agreement reached in conciliation on external financing instruments was endorsed by the Parliament in November.

Parliamentary questions

Parliamentary questions are a vital factor in the Parliament's power of control. Under the terms of Article 230 TFEU, 'the Commission shall reply orally or in writing to questions put to it by the European Parliament or by its Members.'

The Commission answers all the questions that are sent to it by the Parliament, endeavouring to answer them as fully and precisely as possible. Over the years it has noted a huge increase in written questions and this trend also continued in 2011, with a total of 12 067 questions.

The Parliament completed the work of its Working Group on the Attractiveness of the Plenary, which reflected a renewed attempt to streamline the work of the plenary and committees and to make them more attractive for both MEPs and the public. Significant changes have yet to be introduced. Nevertheless, a new format for 'question time' with the Commission was introduced from September for a trial period of six months, grouping together a 'cluster' of Commissioners having a portfolio related to the predefined topic for each session. Within the limits of this topic, MEPs are free to ask questions spontaneously ('catch-the-eye procedure'). Topics discussed this year included new 'forms of work'; trade and third-country relations; the implementation of the Single Market Act; and the reform of cohesion policy and of the common agricultural policy.

The European Council

The European Council, in its second year as a fully fledged institution, had a particularly active year which produced far-reaching decisions in response to rapidly evolving European and international events. Under the chairmanship of President Herman Van Rompuy, the European Council met seven times throughout 2011 in formal and extraordinary sessions. Additionally, three meetings of the 17 Heads of State or Government of the euro area Member States took place. These so-called 'euro summits' were also chaired by President Van Rompuy, who will have this function until May 2012, when a euro summit president will be elected by the European Council.

The European Council meetings were prepared by its President in cooperation with the General Affairs Council and the President of the Commission. Exchanges of views with the European Parliament were ensured by regular visits by President Van Rompuy, who reported on the discussions and decisions of the European Council. Furthermore, the president of the European Parliament, Jerzy Buzek, addressed the European Council on several occasions.

The strengthening of the EU's economic governance and addressing the sovereign debt crisis were crucial to the European Council's agenda in 2011. The 27 Heads of State or Government concluded the first phase of the European semester and agreed on priorities for structural reform and fiscal consolidation. In order to convert the European Financial Stability Facility into a permanent instrument, the European Council adopted a corresponding decision amending the Treaty on the Functioning of the European Union which is in the process of being ratified by the Member States. Furthermore, the 27 Heads of State or Government appointed Mr Mario Draghi as the new President of the European Central Bank. Back-to-back with the European Council meeting on 9 December, the Accession Treaty with Croatia was signed. Subject to the conclusion of ratification procedures, Croatia will become the 28th member of the Union on 1 July 2013.

*Polish Prime Minister Tusk
and Presidents
Van Rompuy and Barroso
brief the media
after the December
European Council.*



The Council

Next to the adoption of legislative acts, the development of the common foreign and security policy, the conclusion of international agreements and the discussion of the EU budget, the Council focused in 2011 on the coordination of Member States' economic policies, most notably in regard to economic governance.

The 2011 rotating Presidencies of the Council were held by Hungary and Poland, in respectively the first and second half of 2011. The focal point of the Hungarian Presidency was 'A strong Europe with a human touch'. The Polish Presidency articulated three priorities: 'European integration as the source of growth', 'Secure Europe' and 'Europe benefiting from openness'. During these two Presidencies, the Council met under nine of its ten configurations (General Affairs Council; Economic and Financial Affairs Council; Justice and Home Affairs Council; Employment, Social Policy, Health and Consumer Affairs Council; Competitiveness (internal market, industry, research and space) Council; Transport, Telecommunications and Energy Council; Agriculture and Fisheries Council; Environment Council; Education, Youth, Culture and Sport Council). Under the chairmanship of the High Representative of the Union for Foreign Affairs and Security Policy, the Council met under another configuration: the Foreign Affairs Council.

Pál Schmitt, President of Hungary, addresses a plenary session during an official visit to the European Parliament in Strasbourg.



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The agendas of the different Council configurations reflected a wide variety of legislative proposals and debates. Important points on the agenda related to a large extent to the challenging events in the world and Europe to which the EU needed to formulate a response (global economic slowdown; euro debt crisis; the Arab spring; energy security and the nuclear accident in Japan; migration and the Schengen area).



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Donald Tusk, Prime Minister of Poland, attending a conference on the EU budget on 20 October 2011.

The Commission

A significant amount of the Commission's time during the year was devoted to addressing the financial and economic crisis affecting the Union and, in particular, the 17 euro area Member States. The Commission used its right of initiative to frame the debate and to propose legislative and other solutions to the problems confronted. It was at the heart of the first European semester in terms of coordinating national macroeconomic, budgetary and structural reform policies. The Commission utilised the current treaty scope to the maximum extent possible and proposed forceful measures to support economic and monetary union. As well as other initiatives throughout the year, two additional proposals were made for new regulations — of a far reaching character — that would further strengthen economic and budgetary surveillance in the euro area. The Commission's policy paper on stability bonds — a highly contested idea — examines the potential benefits for financial stability of jointly issued bonds and the preconditions for their possible introduction.



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*Maroš Šefčovič,
Commission
Vice-President responsible
for Interinstitutional
Relations and
Administration, at the
Open Doors Day at the
European institutions,
May 2011.*

The Commission continued to be fully committed to a true economic union, through increased convergence. Nevertheless, the institution remained focused on ensuring coherence between the euro area and the 27 Member States, particularly to maintain a level playing field in the single market. In October, President Barroso appointed Commissioner Rehn as Commission Vice-President for Economic and Monetary Affairs and the Euro. This was to ensure independence, objectivity and efficiency in the exercise of the Commission's responsibility of coordination, surveillance and enforcement in the area of economic governance of the Union and of the euro area in particular.

In addition to a whole host of policy initiatives, the Commission advanced the objectives of the Europe 2020 strategy for growth. This was all the more important as greater internal and external pressures became evident as regards growth prospects. Through its annual work programme the Commission balances the need to tackle the immediate crisis with the need to pursue long-term reform.

On the institutional front, the new framework agreement between the Commission and the Parliament was implemented smoothly over the year. The ongoing dialogue with the Parliament on the Commission work programme, including a dedicated exchange with both the Conference of Committee Chairs and the Conference of Presidents, ensures better working methods and more transparency between the two institutions.

In line with the intention announced by President Barroso in his 'Political guidelines for the next Commission', the Commission adopted a revised version of its Code of Conduct for Commissioners, aimed at strengthening and clarifying many of its provisions. The improvements decided by the Commission (in areas such as the Commissioners' political activities, post-office activities, the scope of the Commissioners' declarations of interests, gifts and hospitality, etc.) bring the Code of Conduct for Commissioners up to the best standards at international level.

The Court of Justice of the European Union

The Court of Justice and the General Court made important rulings and took on board significant cases that have implications for a wide range of rights and activities in the EU.

Some landmark rulings in different policy fields

- ▶ **Social policy:** the Court of Justice considered that a supplementary retirement pension paid to a partner in a civil partnership which is lower than that granted in a marriage may constitute discrimination on grounds of sexual orientation⁽²⁾. The Court also ruled that taking the gender of the insured individual into account as a risk factor in insurance contracts constitutes discrimination⁽³⁾.
- ▶ **Taxation:** the Court of Justice determined that the pollution tax introduced by Romanian legislation, levied on imported second-hand vehicles on first registration in Romania and not on national second-hand ones, is contrary to EU law⁽⁴⁾.



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- ▶ **Intellectual and commercial property:**
 - **Approximation of laws:** the Court of Justice ruled that EU law precludes the imposition of an injunction by a national court which requires an internet service provider to install a filtering system with a view to preventing the illegal downloading of files. Such an injunction does not comply with the prohibition on imposing a general monitoring obligation on such a provider, or with the requirement to strike a fair balance between, on the one hand, the right to intellectual property, and, on the other, the freedom to conduct business, the right to protection of personal data and the freedom to receive or impart information⁽⁵⁾. The Court also determined that Member States which have introduced an exception for private copying are obliged to ensure effective recovery of the fair compensation intended to compensate the authors⁽⁶⁾.
 - **Freedom to provide services:** the Court also established that the remuneration payable to authors in the event of public lending cannot be calculated exclusively according to the number of borrowers⁽⁷⁾. The Court provided clarification on the liability of companies operating internet marketplaces for trademark infringements committed by users⁽⁸⁾.

Hearing at the Court of Justice — five-judge chamber.

- ▶ Institutional issues: the Court of Justice ruled that the draft agreement on the creation of a European and Community Patent Court is not compatible with European Union law⁽⁹⁾. The Court also held the view that a prohibition against infringement, issued by a national court sitting as a Community trademark court, extends, as a rule, to the entire area of the European Union⁽¹⁰⁾.

The Court has also determined the scope of the notion of 'serious risk to the unity or coherence of the Union's law' laid down in Article 62 of its rules of procedure⁽¹¹⁾.

As regards the law governing the institutions, the Court of Justice partially set aside the judgment of the General Court and partially annulled the decisions of the Commission refusing access to certain of its internal documents relating to a closed merger procedure⁽¹²⁾. The General Court has laid down the conditions under which access could be refused to documents issued by a Member State and in the possession of the Commission. The General Court also laid down the conditions under which, within the framework of Regulation (EC) No 1049/2001, communication to third parties could be refused for access to documents from Member States in the possession of the Commission⁽¹³⁾.

The Court of Justice also clarified the temporal application of the provisions of the ECSC Treaty after the expiry of that treaty⁽¹⁴⁾.

▶ Fundamental rights:

- The Court of Justice considered that European Union law and, in particular, its provisions on citizenship of the Union, must be interpreted as meaning that it does not preclude a Member State from refusing to allow a third-country national to reside on its territory, where that third-country national wishes to reside with a member of his family who is a citizen of the Union residing in the Member State of which he has nationality, who has never exercised his right to freedom of movement, provided that such refusal does not lead, for the Union citizen concerned, to the denial of the genuine enjoyment of the substance of the rights conferred by virtue of his or her status as a citizen of the Union, which is a matter for the referring court to verify. This judgment⁽¹⁵⁾ clarified the scope of the judgment of the Court in Case C-34/09 *Ruiz Zambrano*.
- The Bundesgerichtshof (Federal Court of Justice, Germany) and the Tribunal de grande instance de Paris (Paris regional court, France) asked the Court of Justice to clarify the extent to which the principles of the Brussels regulation⁽¹⁶⁾ also apply in the case of infringements of personality rights committed by means of content placed online on an Internet website. Victims of infringements of personality rights by means of the Internet may bring actions before the courts of the Member State in which they reside in respect of all of the damage caused. However, the operator of an Internet website covered by the e-commerce directive cannot be made subject, in that state, to stricter requirements than those provided for by the law of the Member State in which it is established⁽¹⁷⁾.

- In its ruling on the Test-Achats case on 1 March 2011⁽¹⁸⁾, the Court of Justice gave insurers until 21 December 2012 to treat individual male and female customers equally in terms of insurance premiums and benefits. Up until now, a careful young male driver paid more for auto insurance just because he was a man. Under the ruling, insurers will no longer be able to use gender as a determining risk factor to justify differences in individuals' premiums, although the ruling does not affect the use of other legitimate risk-rating factors and price will continue to reflect risk. Gender is a determining risk-rating factor for at least three main product categories: motor insurance, life insurance/annuities and private health insurance. On 22 December the Commission adopted guidelines to help the insurance industry implement unisex pricing, after the Court of Justice of the European Union ruled that different premiums for men and women constitute sex discrimination.
- ▶ Competition: the General Court ruled that public financing of airport infrastructure aimed at developing an economic activity could be considered as state aid under the meaning of Article 107 TFEU⁽¹⁹⁾.
- ▶ Environment: the Court of Justice ruled that it was competent to construe the provisions of the Aarhus Convention, notwithstanding that Article 9(3) of the said Convention has no direct effect⁽²⁰⁾.

The European Central Bank

Against the background of upside risks to price stability, the Governing Council increased the ECB's key interest rates by 0.25 % on 7 April and 0.25 % on 7 July 2011. On 3 November 2011, and again on 8 December 2011, the Governing Council cut interest rates by 0.25 %, given that downside risks to the economic outlook for the euro area were starting to materialise, while inflation rates were expected to decline further in the course of 2012 to below 2 %.



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With regard to non-standard monetary policy measures which aim at restoring the good functioning of the transmission mechanism of monetary policy, the ECB:

- ▶ with regard to the allotment mode in its operations
 - continued to provide ample liquidity to the banking sector via fixed rate full allotment (FRFA) procedures in all refinancing operations (at least) until the summer of 2012;

Mario Draghi, the European Central Bank's new President, accompanied by Vítor Constâncio, Vice-President, gives his first press conference after the November Governing Council meeting of the ECB in Frankfurt.

- ▶ with regard to the maturity of its operations, decided to
 - continue its FRFA special-term refinancing operations with a maturity of one maintenance period (at least) until the summer of 2012,
 - conduct a liquidity-providing FRFA supplementary longer-term refinancing operation (LTRO) with a maturity of approximately six months in August 2011,
 - conduct three LTROs, also in FRFA mode, one with a maturity of approximately 12 months, conducted in October 2011, and the other two with a maturity of 36 months and with the option of early repayment after one year, to be conducted in December 2011 and February 2012, respectively;
- ▶ with regard to providing liquidity in foreign currencies, decided to
 - continue its USD liquidity-providing operations with a maturity of approximately one week and three months, via a coordinated extension of the liquidity swap arrangements with the Federal Reserve up to 1 February 2013,
 - lower the pricing of USD liquidity-providing operations by 50 bps (to OIS+50 bps),
 - extend its swap with the Bank of England,
 - as a contingency measure, establish temporary reciprocal two-way swap lines between the ECB and five other central banks (those of Canada, Japan, Switzerland, the UK and the US);
- ▶ decided to actively implement its securities markets programme (SMP), which increased from €73.5 billion at the end of 2010 to €211 billion on 19 December 2011;
- ▶ decided to launch a new covered bond purchase programme (CBPP2) for an intended amount of €40 billion, expected to be launched in November 2011 and completed by the end of October 2012; and
- ▶ decided to
 - discontinue, for the time being, the fine-tuning operations carried out on the last day of each maintenance period,
 - reduce the reserve ratio from 2 % to 1 %, and
 - increase collateral availability by (i) reducing the rating threshold for certain asset-backed securities (ABS) and (ii) allowing national central banks (NCBs), as a temporary solution, to accept as collateral additional performing credit claims (i.e. bank loans) that satisfy specific eligibility criteria.

Trichet's term of office comes to an end

Mr Trichet's mandate, from 1 November 2003 to 31 October 2011, took place in the context of significant institutional changes, among which: (i) the enlargement of the EU from 15 to 27 countries and of the euro area from 12 to 17 participating Member States; (ii) the entry into force of the Lisbon Treaty in 2009, which listed for the first time the ECB as one of the European institutions; (iii) the establishment of a new supervisory financial framework in the EU; and (iv) the reinforcement of EU and euro area governance. Mr Trichet also actively contributed to the overall reflections on the euro area crisis management mechanisms which have taken so much prominence in recent years.

During Mr Trichet's term, the ECB constantly delivered on its mandate to ensure price stability, defined as an inflation rate 'below, but close to, 2%', with a yearly average inflation rate very close to 2% over the first 10 years of existence of the euro, despite important fluctuations in inflation due to significant macroeconomic fluctuations in the period, e.g. strong oil and commodity price increases or the recent financial crisis.

Mr Trichet's stewardship in this time of crisis proved crucial in steering the Governing Council's deliberations and decisions, among them a number of non-standard monetary policy measures put in place since August 2007.

Following the establishment of the new EU framework for financial supervision, Mr Trichet became the first Chairman of the European Systemic Risk Board, established in December 2010, which acts as an independent EU body responsible for the macro-prudential monitoring of the financial system of the EU. The credibility and authority of the ECB, continuously strengthened under Mr Trichet's presidency, was an important factor in leading to this choice.

For his decisive leadership during the financial crisis, which at the time of his leaving the ECB in October 2011 was still ongoing, and his overall contribution to the European integration, Mr Trichet was awarded prestigious prizes, amongst which Man of the Year (2007), Banker of the Year (2008) and the Charlemagne Prize (2011). At the acceptance of the Charlemagne Prize in Aachen, Mr Trichet postulated:

'In this Union of tomorrow, or of the day after tomorrow, would it be too bold, in the economic field, with a single market, a single currency and a single central bank, to envisage a ministry of finance of the Union?

Not necessarily a ministry of finance that administers a large federal budget. But a ministry of finance that would exert direct responsibilities in at least three domains: first, the surveillance of both fiscal policies and competitiveness policies, as well as the direct responsibilities mentioned earlier as regards countries in a "second stage" inside the euro area; second, all the typical responsibilities of the executive branches as regards the Union's integrated financial sector, so as to accompany the full integration of financial services; and third, the representation of the Union confederation in international financial institutions.'⁽²¹⁾



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*Jean-Claude Trichet,
President of the ECB until
31 October 2011.*

The Court of Auditors

The Court of Auditors presented the annual report on the implementation of the 2010 budget to the European Parliament on 15 November 2011 and to the Council of the European Union on 30 November.



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Annual meeting of the Court of Auditors with the European Parliament's Committee on Budgetary Control, Luxembourg, 20 October 2011.

As in previous years, the Court's annual report mainly covers the reliability of the 2010 EU accounts and the regularity of the transactions underlying them. This year it also includes a chapter on the results of EU spending.

- ▶ As regards the reliability of the EU accounts, the Court concludes that the 2010 accounts present fairly the financial position of the European Union and the results of its operations and its cash flows for the year. Nevertheless, there remains scope to improve the quality of financial reporting and the underlying information systems.
- ▶ As regards the regularity of revenue and expenditure, the Court's statement of assurance on the 2010 financial year distinguishes between revenue, commitments and payments. In the Court's opinion, revenue and commitments underlying the EU accounts for the year 2010 are legal and regular in all material respects. In contrast, the payments underlying the accounts were affected by a slight material error, with an estimated marginal error rate of 3.7 % for EU spending as a whole.
- ▶ This year, for the first time, the Court presented the results of its review of the performance reporting of three directorates-general responsible for much EU spending. The Court recommended that the Commission should put more focus on performance in annual activity reports — including on economy and efficiency — and that it should set appropriate targets for assessing progress towards achieving multiannual objectives.

The European Economic and Social Committee

In 2011, at its nine plenary sessions, the EESC delivered 199 opinions, of which 29 were own-initiative opinions and nine were exploratory opinions.

The President and Members of the European Commission played an active part in the EESC's work. In March, President Barroso took part in the EESC plenary; VP Šefčovič had a bilateral meeting with President Nilsson and had an exchange of views with bureau members in December. At least one Commissioner took part in each plenary session.

The EESC was active in its involvement in the implementation of the Europe 2020 strategy through its Europe 2020 Steering Group. Numerous visits by President Nilsson were made to Member States' capitals with the aim of mobilising national economic and social committees and different networks to participate more fully in the Europe 2020 process. Particular emphasis was placed on participation in the preparation of national reform programmes, a crucial element in the European semester.



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Among other initiatives during the year, the EESC adopted opinions on each of the seven Europe 2020 flagship initiatives. It also debated the Union's major policy deliverables such as a modernised common agriculture policy post-2013 and a future cohesion policy. It was also active in deliberations on the multiannual financial framework after 2013.

European Economic and Social Committee's October plenary session in Brussels.

The EESC played a lively role in the preparation of the Rio+20 conference (United Nations Conference on Sustainable Development (UNCSD)) to be held in 2012. This is one of President Nilsson's priorities.

Discussions on the revision of the protocol of cooperation with the Commission continued during the year.

The Committee of the Regions

At its six plenary sessions in 2011, the CoR presented 58 opinions, of which four were initiative opinions and three were outlook opinions.

The CoR played a prominent role in deliberations on the future of the common agricultural policy, fisheries and cohesion policies and the multiannual financial framework for 2014–20. By means of the EU 2020 monitoring platform, the CoR has continued to assess the strategy for growth and employment from the point of view of EU regions and cities. The second monitoring report on Europe 2020 was published in December 2011. With a view to successfully implementing the Europe 2020 strategy, there was a strong push for territorial pacts that should be concluded on a voluntary basis, with due respect for Member States' institutional organisation, but without adding further red tape to the process. The idea was supported by President Barroso and President Van Rompuy and further developed during the year. This idea found expression in the Commission's multiannual financial framework proposals.



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The Committee of the Regions' June plenary session in Brussels.

The CoR took a proactive role and contributed to the success of the Covenant of Mayors — a formal commitment by the municipal councils of the signatories to go beyond the EU objectives in terms of CO₂ reduction through the implementation of action plans devoted to sustainable energy, with concrete measures.

The CoR reinforced its subsidiarity network, created in order to facilitate the exchange of information between local and regional authorities of the European Union as regards the various policy documents and proposals from the Commission. For the first time, the CoR adopted a subsidiarity report (2010).

Similar to the work of the EESC, at an institutional level, discussions on the revision of the protocol of cooperation between the Commission and the CoR continued during the year.

The European Ombudsman

The Commission is the institution most concerned by Ombudsman complaints due to its role under the treaties. In 2010, 65 % of the complaints from the Ombudsman were referred to the Commission. In 2011 the Commission handled 372 new inquiries from the European Ombudsman and replied to 362 of his inquiries.

The complaints submitted by the Ombudsman concern several areas of activity, including the following: access to documents, cases of alleged infringement, staff matters and issues relating to subsidies or service contracts.



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In 2011, relations between the European Ombudsman and the Commission showed very positive trends. Political and administrative links were strengthened. In this regard, a meeting between the College and the Ombudsman took place on 15 February 2011.

In 2011 the Ombudsman started to implement his new strategy designed to further improve his action, to better serve European citizens' interests and to develop further a genuine culture of service in all institutions, bodies and agencies of the EU. In the same vein, he attaches great importance to issues related to transparency, access to documents and infringements of Union law.

P. Nikiforos Diamandouros, European Ombudsman, with Diana Wallis MEP and Viviane Reding, Commission Vice-President, at the conference 'Is the Lisbon Treaty delivering for citizens?', March 2011.

Decentralised agencies

The year under review saw the creation of the 'Agency for the operational management of large-scale IT systems in the area of freedom, security and justice' (Schengen Information System (SIS II), Visa Information System (VIS) and Eurodac). The main operational task will be to ensure that these systems are kept functioning 24 hours a day, seven days a week. Its other responsibilities will include adopting the necessary security measures and ensuring data security and integrity, as well as compliance with data protection rules. The agency will be located in Tallinn, Estonia, with an operational arm in Strasbourg, France.

The Interinstitutional Working Group on Decentralised Agencies, set up in 2009 with the aim of finding common ground between the Parliament, the Council and the Commission on how to improve agencies' work, made important progress in 2011. Progress was notable in respect of issues concerning governance, financing, human resources, accountability and supervision of decentralised agencies.

National parliaments

In 2011, national parliaments remained top of the Commission's interinstitutional agenda, and the Commission demonstrated its commitment to further enhance dialogue and cooperation with national parliaments. It is the second year in which the Commission applied the new Lisbon Treaty provisions concerning national parliaments⁽²²⁾, and in particular the subsidiarity control mechanism. Experience gained so far has clearly demonstrated that national parliaments are ready to assume their new role and powers.

The number of opinions received in the context of political dialogue, as well as within the framework of the subsidiarity control mechanism, is substantially increasing. Nevertheless, the number of reasoned opinions — stating why a national parliament considers that the draft in question does not comply with the principle of subsidiarity — is still relatively low compared to the overall number of opinions received. The thresholds for the so-called 'yellow and orange card' procedure have not yet been reached as regards any proposal — if these thresholds were reached, the Commission would have to decide to either maintain, amend or withdraw its proposal. As in previous years, the great majority of national parliaments' opinions continue to focus on the substance of Commission proposals and non-legislative documents rather than on subsidiarity aspects.

It is to be noted, however, that the proposal on the consolidated common corporate tax base received particular attention from national parliaments, with 13 reasoned opinions. At the same time, other chambers considered the proposal as complying with the principle of subsidiarity.

Overall, in 2011, national parliaments sent 618 opinions in the context of political dialogue and the subsidiarity control mechanism. This represents an increase of almost 60 % compared to the previous year. Only 53 of these opinions were reasoned opinions⁽²³⁾.

National parliament	Chamber	Total number of opinions (received from 1.1.2011 to 30.11.2011)
Portugal	Assembleia da Republica	149
Italy	Senato della Repubblica	64
Czech Republic	Senát	48
Sweden	Riksdagen	33
Italy	Camera dei Deputati	29
Romania	Senatul	28
Romania	Camera Deputaţilor	28
Germany	Bundesrat	26
United Kingdom	House of Lords	17
Bulgaria	Narodno Sabranie	11
Denmark	Folketinget	10
Luxembourg	Chambre des Députés	10
United Kingdom	House of Commons	10
Poland	Sejm	7
The Netherlands	Eerste Kamer Staten-Generaal	6
Germany	Bundestag	5
Austria	Nationalrat	4
Poland	Senat	4
Czech Republic	Poslanecká sněmovna	4
Greece	Vouli ton Ellinon	3
France	Assemblée Nationale	3
Austria	Bundesrat	2
Lithuania	Seimas	2
Spain	Congreso de los Diputados and Senado (both chambers)	2
France	Sénat	2
The Netherlands	Both Chambers	2
Latvia	Saeima	2
Slovakia	Národná rada	2
Finland	Eduskunta	2
Belgium	Chambre des représentants/Kamer van Volksvertegenwoordigers	1
The Netherlands	Tweede Kamer Staten-Generaal	1
Ireland	Oireachtas (both chambers)	1
Cyprus	Vouli ton Antiprosópon	1
Belgium	Sénat/Senaat	1
Malta	Kamra tad-Deputati	1
Estonia	Riigikogu	0
Hungary	Országgyűlés	0
Slovenia	Državni svet	0
Slovenia	Državni zbor	0
Total		521

Efficiency: smart regulation; managing the quality of legislation through the policy cycle; improving the implementation of EU legislation

Under its smart regulation agenda, the Commission continued improving the manner it prepares policy and drafts legislation. It has increased transparency and accountability and promoted evidence-based policy-making.

Smart regulation

As a follow-up to its policy orientation on smart regulation, the following actions have been taken.

- ▶ The Commission continued to simplify legislation, having produced proposals going significantly beyond the 25 % target set in the action plan for administrative burden reduction, well in time for the Parliament and the Council to reach that target in the remaining period of the programme up to the end of 2012.
- ▶ The Commission presented concrete actions on how to minimise regulatory burdens for the smallest businesses⁽²⁴⁾. These include a review of the existing *acquis* to exempt the smallest companies from regulatory burdens or adapt provisions to their needs, improved consultation with smaller businesses to identify excessive regulatory burdens and find the best ways to lift them and the introduction of a scoreboard to check that objectives lead to real impacts for smaller businesses.
- ▶ The fitness checks — launched in 2010 for areas in environment, transport, employment/social policy and industrial policy — have been extended to other policy areas in 2011, including health and consumer protection. The Commission made progress to ensure that significant proposals for new or revised legislation are based on an evaluation of what is already in place.
- ▶ The Commission's multiannual evaluation planning is on a specific website to allow Member States and stakeholders to prepare inputs at an early stage⁽²⁵⁾.
- ▶ New policy proposals were supported by impact assessments, analysing both benefits and costs and addressing all significant economic, social and environmental impacts.

Impact assessment

The Impact Assessment Board — the body which ensures that Commission impact assessments conform to quality and procedure standards — examined 104 impact assessments and issued 138 opinions on their quality, 35 of which were on resubmitted reports.

In 2011, the board also examined 43 impact assessments supporting sectoral spending proposals for the next multiannual financial framework, and issued 37 opinions on the quality of these impact assessments⁽²⁶⁾.

To ensure continued high-quality scrutiny and to give board members more flexibility in carrying out its tasks, President Barroso decided in November to enlarge the number of board members and to broaden the scope of departments from which board members can be appointed.

The High Level Group of Independent Stakeholders on Administrative Burdens, chaired by Mr Edmund Stoiber, finalised in November its report on best practices for Member States to implement EU legislation in the least burdensome way.

Implementation of EU law

Work continued on improving the way in which Member States apply EU law.

- ▶ An 'EU pilot' project has been operating since April 2008 with the aim of providing quicker and better answers to questions raised by citizens or businesses and solutions to those problems arising in the application of EU law. It is also designed to improve communication and cooperation between the Commission services and Member State authorities on the application and implementation of EU law.
- ▶ In 2008, 15 Member States volunteered to participate in the 'EU pilot' project. Following the success of the project, the Commission decided to invite the remaining 12 Member States to join the project. Since September 2011, 25 Member States have been participating in the problem-solving mechanism 'EU pilot'.
- ▶ The project has made and continues to make a positive contribution to cooperation between the Commission and participating Member States in answering enquiries and resolving the problems of citizens, business and civil society interests more speedily. Since its implementation, around 80 % of the responses provided by the Member States have been assessed as acceptable (in line with EU law), allowing the file to be closed without the need to launch an infringement procedure under Article 258 TFEU.
- ▶ The issues concerned in the files submitted via 'EU pilot' are broadly in line with the existing situation of the volume of questions and problems arising in the different sectors of EU law: some 33 % of files concerned environmental issues, 15 % internal market, 10.5 % taxation, 8 % mobility and transport and 6 % health and consumer protection. Those policy areas represent 64.5 % of the total number of 'EU pilot' files.

In 2011 the number of infringement procedures initially launched against Member States for alleged breach in the implementation of EU law amounted to 1 351 (the figure represents the first stage of the procedure when a letter of formal notice is sent according to Article 258 TFEU). Those policy areas which saw a higher proportion of inquiries being launched were transport, internal market and services and health and consumer protection, representing over 50 % of the total.

During 2011 the Commission launched its first procedures under Article 260(3) TFEU. Created by the Treaty of Lisbon, this article represents an exception from the general rule that Member States may suffer financial penalties only if a second Court judgment establishes their non-compliance with an earlier Court judgment. Article 260(3) TFEU allows the imposition of financial sanctions on Member States that fail to transpose directives on time from the very stage at which the Commission first refers the issue to the Court. Nine such procedures were initiated in 2011 against five Member States.

Efficient management

The Commission's internal audit function conducts some 300 audit engagements between the Internal Audit Service (IAS) and the Internal Audit Capabilities (IACs) per year. As a result of this work, in May 2011 the Commission's Internal Auditor issued for the first time an overall opinion focusing on the state of the Commission's financial management, for 2010.

The opinion aims at providing an extra layer of assurance to the Commission by providing confirmation of the solidity of the control framework of the institution as a whole. It is another layer of checks and balances in the already comprehensive audit process in the Commission.

The 2010 opinion confirms that the Commission's internal control framework is mature and that audit recommendations have been followed up and implemented by departments. It confirms that recommendations issued by the IAS and IACs each year are implemented by management, consequently internal control, governance and risk management are being continuously improved.

Clarity in the way documents are written also featured high on the Commission's agenda. The Commission's Directorate-General for Translation contributes substantially to putting forward clear legislative and policy proposals by providing high-quality translation and other language services in all official languages, in particular the legislative proposals linked to the multiannual financial framework. The Clear Writing Campaign continued into its second year. The interservice Clear Writing Task Force made a number of recommendations on how to improve the quality of drafting in the Commission — some of which are now being implemented.

Transparency of the institutions

On access to documents of the EU institutions, following the entry into force of the Treaty of Lisbon, Article 255 of the Treaty establishing the European Community was replaced with Article 15(3) of the Treaty on the Functioning of the European Union. The treaty provision extends to all EU bodies, offices and agencies, along with the Parliament, the Council and the Commission, the existing right of any Union citizen to have access to the documents in their possession. In March, the Commission adopted a legislative proposal to give practical effect to this extension.

On interest representatives, in an effort to give a further boost to the transparency of the EU's decision-making process, in June the Parliament and the Commission reached an interinstitutional agreement on the establishment of a joint Transparency Register, which provides more information than ever before on those who seek to influence European policy.

PARLIAMENTARY PROCEEDINGS IN 2011

Legislation					Budget and discharge	Other procedures				Total
Consultation ⁽¹⁾	Co-decision			Assent ⁽⁴⁾		Own initiative	Resolutions (Articles 103 and 108)	Human rights	Miscellaneous	
	First reading ⁽²⁾	Second reading ⁽³⁾	Third reading							
36	92	16	5	58	82	140	110	32	22	593

⁽¹⁾ In 10 cases the European Parliament amended the base proposal.

⁽²⁾ In 61 cases the European Parliament amended the base proposal.

⁽³⁾ In 11 cases the European Parliament amended the Council's common position.

⁽⁴⁾ In one case the European Parliament rejected the Commission proposal.

ENDNOTES

⁽¹⁾ http://ec.europa.eu/commission_2010-2014/president/state-union-2011/index_en.htm

⁽²⁾ Court of Justice ruling of 10.5.2011 in Case C-147/08 *Römer*.

⁽³⁾ Court of Justice ruling of 1.3.2011 in Case C-236/09 *Association Belge des Consommateurs Test-Achats and Others*.

⁽⁴⁾ Court of Justice ruling of 7.4.2011 in Case C-402/09 *Tatu*.

⁽⁵⁾ Court of Justice ruling of 24.11.2011 in Case C-70/10 *Scarlet Extended*.

⁽⁶⁾ Court of Justice ruling of 16.6.2011 in Case C-462/09 *Stichting de Thuiskopie*.

⁽⁷⁾ Court of Justice ruling of 30.6.2011 in Case C-271/10 *VEWA*.

⁽⁸⁾ Court of Justice ruling of 12.7.2011 in Case C-324/09 *L'Oréal and Others*.

⁽⁹⁾ Court of Justice opinion 1/09 of 8.3.2011.

⁽¹⁰⁾ Court of Justice ruling of 12.4.2011 in Case C-235/09 *DHL Express France*.

⁽¹¹⁾ Court of Justice ruling of 8.2.2011 in Case C-17/11 *RX*.

⁽¹²⁾ Court of Justice ruling of 21.7.2011 in Case C-506/08 *P Sweden v MyTravel and Commission*.

⁽¹³⁾ General Court ruling of 13.1.2011 in Case T-362/08 *IFAW Internationaler Tierschutz-Fonds v Commission*.

⁽¹⁴⁾ Court of Justice ruling of 29.3.2011 in Case C-352/09 *P ThyssenKrupp Nirosta v Commission*.

⁽¹⁵⁾ Court of Justice ruling of 15.11.2011 in Case C-256/11 *Dereci and Others*.

⁽¹⁶⁾ Council Regulation (EC) No 44/2001 of 22 December 2000 on jurisdiction and the recognition and enforcement of judgments in civil and commercial matters (OJ L 12, 16.1.2001, p. 1).

⁽¹⁷⁾ Court of Justice ruling of 25.10.2011 in *Joined Cases C-509/09 and C-161/10 eDate Advertising and Others*.

⁽¹⁸⁾ Court of Justice ruling of 1.3.2011 in Case C-236/09 *Association Belge des Consommateurs Test-Achats and Others*.

⁽¹⁹⁾ General Court ruling of 24.3.2011 in *Joined Cases T-443/08 and T-455/08 Freistaat Sachsen and Others v Commission*.

⁽²⁰⁾ Court of Justice ruling of 8.3.2011 in Case C-240/09 *Lesoochránárske zoskupenie*.

⁽²¹⁾ <http://www.ecb.int/press/key/date/2011/html/sp110602.en.html>

⁽²²⁾ Treaty on the Functioning of the European Union — Protocol No 1 on the role of national parliaments in the European Union.

⁽²³⁾ Table displays data available as at 31.12.2011.

⁽²⁴⁾ http://ec.europa.eu/governance/better_regulation/documents/minimizing_burden_sme_EN.pdf

⁽²⁵⁾ http://ec.europa.eu/dgs/secretariat_general/evaluation/evaluation_planning_en.htm

⁽²⁶⁾ Further details on the IAB's role and activities can be found in its annual reports, accessible via: http://ec.europa.eu/governance/impact/iab/iab_en.htm

CHRONOLOGY OF THE EU'S RESPONSE TO THE DEBT CRISIS

The events listed indicate some of the major events from 2011 in the financial and economic field. The chronology is not intended to be exhaustive — additional highlights are detailed in the report itself.

JANUARY

1

— Three new European authorities, the European Banking Authority (EBA), the European Securities and Markets Authority (ESMA) and the European Insurance and Occupational Pensions Authority (EIOPA), start work to supervise financial activities with regard to banks, markets and insurance and pensions respectively.

12

— The Commission adopts the first Annual Growth Survey, setting out economic policy priorities, and starts the first European semester for closer economic policy coordination.

15

— The Commission gives a favourable opinion on a limited change of Article 136 TFEU to allow for the creation of the European Stability Mechanism (ESM).

MARCH

11

— European Council: leaders of euro area countries endorse the Euro Plus Pact.

MAY

17

— Finance ministers conclude an agreement on financial assistance to Portugal.

18

— The Brussels Economic Forum 2011, the major EU economic event, discusses the new framework of EU economic governance.

19

— Assistance for Portugal and Ireland: the financial package will cover Portugal's financing needs of up to €78 billion. The EFSM and the European Financial Stability Facility (EFSF) will provide up to €26 billion each to be disbursed over three years. Further support of up to €26 billion will be made available through the International Monetary Fund (IMF).

26–27

— G8 leaders agree on measures to support global economic recovery. Noting that the EU has adopted a broad package of measures to deal with the sovereign debt crisis, pursuing rigorous fiscal consolidation alongside structural reforms to support growth remains high on the agenda.

JUNE

24

— The European Council adopts country-specific recommendations based on Commission proposals under the European semester. Member States will now take into account the guidance received from the Council when drawing up their budgets for the following year.

JULY

11

— Euro area finance ministers sign the Treaty on the ESM, paving the way for ratification by the signatory countries.

21

— European leaders agree on an additional financial support programme for Greece, including a voluntary private sector contribution. Agreement is also reached to increase the flexibility and effectiveness of the EFSF and the ESM, lower EFSF lending rates and increase maturities. Both the EFSF and the ESM will get new instruments, enabling them to act in precautionary programmes, for the recapitalisation of financial institutions and primary and secondary market interventions.

SEPTEMBER

28

— EU economic governance: the European Parliament gives its final agreement and votes to adopt the package of six new legislative proposals (the so called 'six-pack'). Based on the Commission proposal of 29 September 2010, these measures reinforce the Stability and Growth Pact, deepen fiscal coordination, improve and harmonise national budgetary frameworks and address the prevention and correction of macroeconomic and competitiveness imbalances.

OCTOBER

4

— EU economic governance: EU finance ministers approve the package of legislative proposals with a view to their coming into force by the end of 2011.

23 and 26

— The European Council and the euro area summit: euro area leaders agree to increase resources for the EFSF and to strengthen the banking sector with guarantees to help them to access medium-term funding. Banks will also need to raise their capital ratio to 9 % by June 2012. Based on the Commission's roadmap for stability and growth, agreement is reached on 10 measures to improve economic and fiscal coordination and surveillance of the euro area. European leaders agree on the new EU-IMF financial assistance programme of up to €100 billion for Greece, including a higher voluntary private sector contribution compared to the arrangement reached on 21 July. Its purpose is to ensure that the debt ratio of Greece falls to 120 % of GDP by 2020. A mandate is given to Van Rompuy, Barroso and Juncker to propose measures to strengthen economic union. A report should be presented to the European Council in March 2012.

NOVEMBER

3–4

— The G20 leaders coordinate their policies to invigorate growth, create jobs and ensure financial stability. Aiming to make the international monetary system more stable and resilient, additional resources are foreseen for the IMF. A financial transaction tax is discussed and the Commission's proposal for the EU presented.

8

— EU economic governance: the Council adopts the package of legislative proposals. As part of the adopted package, the EU finance ministers agree on the list of external and internal indicators that will be used for the surveillance of macroeconomic imbalances. It forms the basis for the new alert mechanism being put in place by the Commission. Ministers also adopt a directive amending the financial conglomerate directive in order to close loopholes and ensure appropriate supplementary supervision of financial entities in a conglomerate.

11

— The EU economic forecast sees EU economic growth at a standstill.

23

— The Commission proposes two regulations under Article 136 TFEU to further strengthen economic and budgetary surveillance and coordination. President Barroso also presents the economic policy priorities in the 2012 Annual Growth Survey and a consultation paper on euro stability bonds.

DECEMBER

9

— The European Council agrees to further strengthen economic union by means of a 'fiscal compact' among euro area Member States to enshrine fiscal rules and an automatic correction mechanism in their national legal systems. Several other Member States, not including the UK, have indicated their readiness to take part after consulting their parliaments. In addition, agreement is reached to advance the ESM to mid-2012. The EU also plans to fast-track Commission proposals designed to boost growth and jobs and implement measures, at both national and European level, to support employment, particularly for the most vulnerable groups such as the young unemployed.

13

— EU economic governance: the package of legislative measures enters into force.

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