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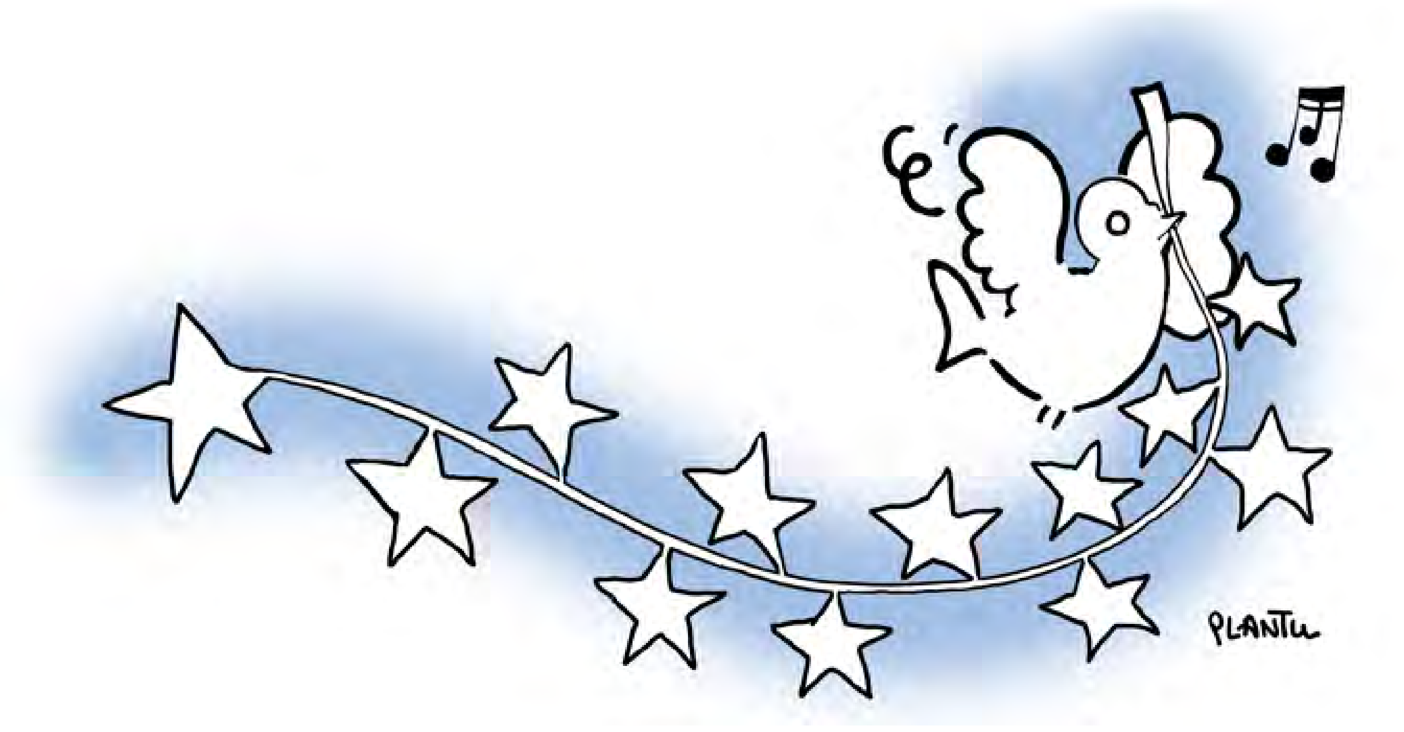
General Report on the Activities of the European Union



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2012

General Report

on the Activities of the European Union

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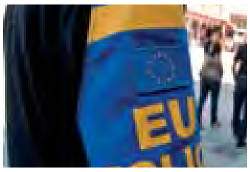



FOREWORD

We can take pride in the manner in which the European Commission met the challenges facing Europe in 2012.

The year started in difficult circumstances. There was declining confidence in the euro, economic growth was ebbing away and most importantly the belief of our citizens in Europe's capacity to fix its problems stood at an all-time low.

Over the last year the European Commission has done its utmost to meet these challenges head on.

Euro area countries in need have received the necessary support as they put their budgets in order and tackle deep-rooted structural problems. They are doing so with determination and resolve and the results are already beginning to be seen.

We have not simply established a system of economic governance at the European level, we have seen it deliver in practice by providing a framework for reforms at the European and national levels.

We have worked to ensure that fiscal consolidation and smart investment go hand in hand. Our proposal for the European Union budget, the multiannual financial framework, is a European budget for investment, growth and job creation. It is designed to complement national budgets and bring added value to the European Union as a whole.

Globally, the European Union is leading the way in implementing new and more responsible rules for the financial sector, and with the European Council's agreement on the European Commission's proposal for a single supervisory mechanism we have laid one of the foundation stones of a genuine European banking union, which is necessary to prevent governments having to prop up irresponsible banks in the future, to the detriment of their own budgets.

This ambitious work inside the European Union is starting to bring results, with financial markets regaining confidence and investors starting to return to economies which had been in difficulty.

Just as importantly, Europe's place in the world was strengthened by our policies and actions over the past year. Europe's capacity to engage in diplomacy, participate in multilateral forums and provide assistance to those in need demonstrated our values in action in so many practical ways.

We were at the forefront of global efforts to face our common challenges: sustainable development and climate change. We set the agenda at Rio+20 and again in Doha, and even if we did not achieve all our objectives, we have moved the debate forward and will continue to do so.

No review of our activities in 2012 would be complete without recalling the singular honour bestowed on the European Union when it was awarded the Nobel Peace Prize. The Nobel Prize is recognition of 60 years of achievement in bringing peace, justice and democracy to our continent. It is also the spur to work even harder in the future to build on this achievement.

Inside the European Union we must continue to combat the crisis, especially its social impact, and build a stronger Europe, globally competitive and based on inclusive, sustainable growth.

By adopting our blueprint on how to complete economic and monetary union we have laid out a long-term vision as well as the concrete steps that need to be taken in the short and the medium term.

Before the next elections for the European Parliament we will come forward with our explicit ideas for treaty change, setting out the objectives to be pursued, the way to make the European Union more integrated, more open, more democratic and more effective, and the model to make it a Union for the citizens of Europe. Now is the time to start the fundamental debate on how the European Union must evolve, both in the economic and in the political sense.

Globally too there is much work to be done, both to meet Europe's commitments and also to help others meet their obligations as we work to shape our common destiny.

The *General Report on the Activities of the European Union — 2012* gives a great overview of all that we have achieved over the past year and a glimpse of what needs to be done in 2013 and beyond. I commend it to readers to deepen their knowledge on the workings of the Union.

José Manuel Barroso

1963

Konrad Adenauer, Federal Chancellor of Germany, and Charles de Gaulle, President of France, in Paris, France.

2012

Presidents Van Rompuy, Barroso and Schulz at the Nobel Peace Prize ceremony in Oslo, Norway.

CHAPTER 1

Towards political union

- Nobel Peace Prize 2012
- Towards political union
- Engaging citizens

One of the most significant highlights of the year was the award of the 2012 Nobel Peace Prize to the European Union for its abiding commitment to peace and the rule of law since its foundation in the aftermath of the two horrific world wars in the 20th century. The year in review was also marked by a renewed debate on the future of the Union, on the completion of economic and monetary union and on how the EU might move towards a deeper political union. This debate was enriched by many contributions, notably the Commission's blueprint, input from the European Parliament and the President of the European Council, Herman Van Rompuy, working closely with colleagues. Following a call from the Commission President José Manuel Barroso in his State of the Union speech, the debate spread beyond the institutional framework to engage directly with the Union's citizens.

Nobel Peace Prize 2012

On 12 October the Norwegian Nobel Committee awarded the 2012 Nobel Peace Prize to the European Union and its forerunners for having contributed for over six decades to the advancement of peace and reconciliation, democracy and human rights in Europe.

Announcement by the Nobel Committee

'In the inter-war years, the Norwegian Nobel Committee made several awards to persons who were seeking reconciliation between Germany and France. Since 1945, that reconciliation has become a reality. The dreadful suffering in World War II demonstrated the need for a new Europe. Over a 70-year period, Germany and France had fought three wars. Today war between Germany and France is unthinkable. This shows how, through well-aimed efforts and by building up mutual confidence, historical enemies can become close partners.

In the 1980s, Greece, Spain and Portugal joined the EU. The introduction of democracy was a condition for their membership. The fall of the Berlin Wall made EU membership possible for several central and eastern European countries, thereby opening a new era in European history. The division between east and west has to a large extent been brought to an end; democracy has been strengthened; many ethnically based national conflicts have been settled.

The admission of Croatia as a member next year, the opening of membership negotiations with Montenegro and the granting of candidate status to Serbia all strengthen the process of reconciliation in the Balkans. In the past decade, the possibility of EU membership for Turkey has also advanced democracy and human rights in that country.

The EU is currently undergoing grave economic difficulties and considerable social unrest. The Norwegian Nobel Committee wishes to focus on what it sees as the EU's most important result: the successful struggle for peace and reconciliation and for democracy and human rights. The stabilising part played by the EU has helped to transform most of Europe from a continent of war to a continent of peace.

The work of the EU represents "fraternity between nations", and amounts to a form of the "peace congresses" to which Alfred Nobel refers as criteria for the Peace Prize in his 1895 will.'

On 10 December in Oslo, the European Parliament President Martin Schulz, the European Council President Herman Van Rompuy and the Commission President José Manuel Barroso represented the European Union at the Nobel Peace Prize award ceremony. Mr Thorbjørn Jagland, Chair of the Norwegian Nobel Committee and current Secretary-General of the Council of Europe, presented the three presidents with the Nobel Peace Prize diploma and medal.

Thorbjørn Jagland, Norwegian Nobel Committee Chairman, applauds as Herman Van Rompuy, President of the European Council, José Manuel Barroso, President of the European Commission, and Martin Schulz, President of the European Parliament, pose with the Nobel diploma and medal during the Nobel Peace Prize ceremony.

In his citation, Mr Jagland said that the Nobel Prize was 'both deserved and necessary', and emphasised the need for institutions to anchor and embed peace. Presidents Van Rompuy and Barroso then responded by jointly delivering the 2012 Nobel Peace Prize lecture.

During the course of the lecture, the European Council President recalled the horrors of European wars and, subsequently, the imagination of the Union's founding fathers in setting forth on a new path of reconciliation, friendship and hope. Acknowledging that the EU is undergoing the worst economic crisis for two generations and putting the political bonds of the Union to the test, he stressed that the EU must preserve its sense of togetherness and 'the promise of Europe' for the children of today and tomorrow.

The Commission President for his part said that the genius of the founding fathers was in their understanding that to guarantee peace for the future it was necessary to go beyond the nation state — the unique feature of the EU was that it combined the legitimacy of democratic states with the legitimacy of supranational institutions. He stressed that the EU is not merely about peace among nations, but that it embodies a disposition for benevolence, confidence and justice — it is a new legal order, not based on the balance of power between nation states, but rather on the free consent of states to share sovereignty.

Together with the three presidents, the EU's official delegation in Oslo comprised representatives of the other institutions, the social partners and the European Youth Forum, and the staff committees of the EU institutions.

Europe's youth in Oslo

The EU delegation also included the four winners of the youth drawing and writing contest 'Peace, Europe, future' for 8- to 24-year-olds, organised in conjunction with the European Youth Forum. In this context the three presidents said, 'The 2012 Nobel Peace Prize is not only a recognition of the European Union's past achievements; it also looks to the future. Our task is always to inspire the next generation of Europeans. That is why we want Europe's youth, who are inheriting a continent of peace and who will be responsible for Europe's future, with us in Oslo.'

The contest attracted close to 5 400 applications from 33 countries: 1 173 drawings for the age group 8–12; 1 870 texts for the age group 13–17; and 2 354 texts for the age group 18–24. The four winners were: Ana Fanlo Vicente, from Spain, 12 years old; Elena Nicoletta Garbujo, from Italy, 16 years old; Ilona Zielkowska, from Poland, 21 years old; and Larkin Zahra, from Malta, 23 years old.

Winners of the contest 'Peace, Europe, future'. From left to right: Ana Fanlo Vicente, Larkin Zahra, Ilona Zielkowska and Elena Nicoletta Garbujo.

The prize money — €930 000 or SEK 8 million — will be allocated to projects that will benefit children in war and conflict zones. The Commission decided to double the allocation, to €2 million in total. Four projects were selected that will reach out to over 23 000 conflict-affected children worldwide and will provide access to basic education and child-friendly spaces:

- 4 000 Syrian refugee children in camps at the border between Iraq and Syria;
- 5 000 Colombian children, most of them refugees in Ecuador;
- 11 000 Congolese children displaced in the eastern Democratic Republic of the Congo and refugees in Ethiopia; and
- 3 000 Pakistani children in the conflict-affected north of the country.

The Nobel Peace Prize medal.

Under the umbrella of the ‘EU children of peace’ initiative, ACTED from France is going to work in the Domiz refugee camp in northern Iraq with Syrian children, UNHCR will deliver assistance in Colombia and Ecuador, Save the Children and the Norwegian Refugee Council will work with children in the Democratic Republic of the Congo and Ethiopia, and Unicef will implement the project in Pakistan.

As for the medal, it will be displayed in the House of European History, a new project by the European Parliament in Brussels. This will ensure that the Nobel Peace Prize medal is accessible to all European citizens, both current and future generations, by means of a permanent exhibition.

Towards strengthened economic and monetary union and political union

The financial and economic crisis brought into ever sharper focus the need to complement the existing architecture of economic and monetary union (EMU), and strengthen it substantially. Ways and means were sought and debated over the course of the year as to how best to make EMU more resilient in the months and years to come, underpinned by greater integration and reinforced solidarity for the euro area.

For the June European Council, a report ([1]) was presented to EU leaders with a view to consolidating and strengthening EMU so as to ensure economic and social welfare, stability and sustained prosperity. The report, prepared by the President of the European Council in collaboration with the President of the Commission, the President of the Eurogroup and the President of the European Central Bank, aimed at developing a vision for EMU to ensure stability and sustained prosperity. It sought to do so by proposing a strong and stable architecture in the financial, fiscal, economic and political domains, underpinning the jobs and growth strategy.

This led to the President of the European Council, in close collaboration with the other three presidents, being tasked to develop a specific and time-bound road-map for the achievement of genuine economic and monetary union. There were further important inputs into the development of this evolving policy, notably an interim report ([2]) to the October European Council, the Thyssen report ([3]), the resolution ([4]) of the European Parliament, the blueprint produced by the Commission at the end of November and the four presidents' report to the December European Council.

Herman Van Rompuy, President of the European Council, flanked by José Manuel Barroso, President of the European Commission, and Demetris Christofias, President of Cyprus, the Member State holding the Presidency of the Council of the European Union, at a press conference after the December European Council.

In December 2012, EU leaders meeting in the European Council agreed on a process — a roadmap for the achievement of a genuine economy and monetary union. The Commission's blueprint, while being a contribution to the development of the roadmap and the four presidents' report to the December European Council, goes significantly further, and presents the Commission's vision and specific ideas for the short, medium and longer term, including ideas for institutional change that may require treaty change.

European Council roadmap

The roadmap [5] adopted by the December European Council stresses the need to build on the existing institutional and legal framework. It underlines the need to respect the integrity of the single market by establishing a sound framework for the euro area that is fair, transparent and open to all other EU countries.

The following is a brief summary of the main features of the roadmap.

1. Banking union

Single supervisor

The first important step in the creation of a banking union is the establishment of a single supervisory mechanism (SSM). It will cover euro area banks and be open to all Member States. The agreement on this, reached in December, will facilitate the Council Presidency to negotiate with the European Parliament with the aim of reaching a final agreement rapidly so that the SSM can be implemented as soon as possible. The SSM will be composed of the European Central Bank and national competent authorities. The European Banking Authority will retain its role of developing standards and ensuring consistency.

Once an effective SSM is established, the European stability mechanism (ESM) will be able to recapitalise banks directly. An agreement on the operational framework supporting this possibility, including the definition of legacy assets, should be agreed as early as possible in 2013. The SSM will start supervising in March 2014, or 12 months after the entry into force of the legislation, whichever is later.

Bank capital requirements

New rules on bank capital requirements to make the financial sector better equipped to manage risks and absorb shocks are in the final stages of negotiation. The European Council considered them 'of the utmost priority' and called for their rapid adoption.

Bank resolution and deposit guarantee schemes

Legislative proposals on more harmonised national bank resolution and deposit guarantee frameworks should be agreed before June 2013.

A single resolution mechanism

The Commission will propose, in the course of 2013, a single resolution mechanism for Member States participating in the SSM. This mechanism, including appropriate and effective backstop arrangements, will safeguard financial stability if banks fail, but will also protect taxpayers, as it will be based on contributions from the financial sector itself. The objective is to reach agreement on this mechanism by the summer of 2014.

2. Fiscal sustainability and reinforced economic policy coordination

The immediate priority in this area is to complete and implement key legislation for stronger economic governance. The leaders called for rapid adoption of the 'two-pack' to reinforce fiscal surveillance in the euro area. It will complement the 'six-pack' on fiscal and macroeconomic surveillance in the EU, which contains some specific rules for euro area members and came into effect in 2012. The third main element is the Treaty on Stability, Coordination and Governance (TSCG, 'fiscal compact'), which is to enter into force at the beginning of 2013.

3. Economic policy issues to be considered by the June 2013 European Council

A number of other important questions related to the economic policy coordination of the euro area need to be examined further. President Van Rompuy, in close cooperation with the President of the Commission, will present to the June 2013 European Council a roadmap on the following issues:

- greater *ex ante* coordination of Member States' major economic policy reforms (Article 11 TSCG) — the Commission will propose a framework for this in the context of the European semester;
- the social dimension of EMU, including social dialogue;
- the feasibility of mutually agreed contracts for competitiveness and growth that would be compulsory for euro area Member States and voluntary for the others;
- solidarity mechanisms to support such contracts.

4. Democratic legitimacy

Throughout the process, an overarching principle is 'to ensure democratic legitimacy and accountability at the level at which decisions are taken'. This could be done for instance by introducing 'new mechanisms increasing the level of cooperation between national parliaments and the European Parliament' (Article 13 TSCG and Protocol No 1 to the treaties).

European Commission blueprint

The Commission's blueprint ([6]) on EMU and political union is the institution's contribution to fuel a broader and deeper debate about the shape of the Union well into the future. While contributing analyses and concrete suggestions, it goes beyond the immediate, seeking to identify the shape of political union to underpin the credibility and sustainability of EMU in the longer term and what type of democratic structures might be necessary.

Press conference by José Manuel Barroso, President of the European Commission, on a blueprint for a deep and genuine economic and monetary union.

The blueprint makes clear that the role of the European Parliament needs to be enhanced as part of strengthening the democratic accountability that needs to accompany any future treaty change to enhance EMU. The December European Council has clearly stated that further integration of policymaking and greater pooling of competences must be accompanied by a commensurate involvement of the European Parliament.

The issues at stake in the fields of fiscal union, of economic policy coordination and of corresponding political union are fundamental. They are at the heart of national policies and politics, indeed the heart of national sovereignty.

'As we move towards deep and genuine EMU, it is crucial that we ensure commensurate democratic legitimacy and appropriate accountability' — President Barroso, Brussels, Belgium, 28 November 2012.

In a deep and genuine EMU, all major economic and fiscal policy choices by Member States should be subject to deeper coordination, endorsement and surveillance at the European level. Steps towards more responsibility and economic discipline should be combined with more solidarity and financial support. Political integration, ensuring democratic accountability and legitimacy, is necessary every step of the way. This transformation ought to take place gradually, over the short, medium and longer term, and would, if the Commission's blueprint were to be followed through, ultimately entail treaty changes.

TIMELINE ENVISAGED BY THE BLUEPRINT FOR THE DIFFERENT INITIATIVES

		A blueprint for a deep and genuine EMU Launching a European debate	Secondary law	Treaty change
THROUGHOUT THE PROCESS	SHORT TERM Within the next 18 months	1. Full implementation of European semester and six-pack and quick agreement on and implementation of two-pack	●	
		2. Banking union: financial regulation and supervision; quick agreement on proposals for a single rulebook and single supervisory mechanism	●	
		3. Banking union: single resolution mechanism	●	
		4. Quick decision on the next multi annual financial framework	●	
		5. *Ex ante* coordination of major reforms and the creation of a Convergence and Competitiveness Instrument (CCI)	●	
		6. Promoting investment in the euro area in line with the Stability and Growth Pact	●	
		7. External representation of the euro area	●	
	MEDIUM TERM 18 months to 5 years	1. Further reinforcement of budgetary and economic integration	●	●
		2. Proper fiscal capacity for the euro area building on the CCI	●	●
		3. Redemption fund		●
		4. Eurobills		●
	LONGER TERM More than 5 years	1. Full banking union		●
		2. Full fiscal and economic union		●
		Political union: Commensurate progress on democratic legitimacy and accountability	●	●

The debate on the future of Europe

'I would like to see the development of a European public space, where European issues are discussed and debated from a European standpoint. We cannot continue trying to solve European problems just with national solutions. This debate has to take place in our societies and among our citizens' — President Barroso, Strasbourg, France, 12 September 2012.

The Commission President, in his State of the Union speech (7) before the European Parliament in September, said that before the next European Parliament elections in 2014, the Commission would present its outline for the shape of the future European Union, putting forward explicit ideas for treaty change in time for a debate.

During the speech, he also proposed a more ambitious evolution of the Union — a move towards a federation of nation states, but not a super state. The underlying rationale for his proposal relates to the pace of globalisation. 'In the age of globalisation pooled sovereignty means more power, not less,' he said.

In that State of the Union speech, President Barroso called for a great debate across Europe on the policies and instruments needed for the future. He strongly encouraged the further development of a European public space, where European issues are discussed and debated from a European perspective. He stressed that a stronger commitment to Europe's fundamental values is needed and that a more political European Union also means that 'we must concentrate European action on the real issues that matter and must be dealt with at the European level.'

With the award of the 2012 Nobel Peace Prize to the European Union, this call gained greater weight due to the public recognition given to the fundamental values of the Union and to its achievements; it will give renewed impetus to the debate on closer political union with the accompanying requirement for more democracy structures.

In the context of developing this debate in the European public space, it is planned that a series of structured 'citizens' dialogues' will take place in all Member States to engage directly with citizens throughout the Union.

Viviane Reding, European Commission Vice-President responsible for Justice, Fundamental Rights and Citizenship, at the citizens' dialogue in Cádiz, Spain.

Citizens' dialogues

The dialogues are centred on the question 'What kind of Europe do we want?'

The citizens' dialogues are structured around three main topics, then move on to a debate.

1. The economic crisis in Europe. Has the European Union done enough to solve the crisis? Do citizens believe that Europe is part of the problem or part of the solution?

2. Citizens' rights. European citizenship entails certain rights and obligations. What does Europe mean in our daily lives? What can Europe do to improve the lives of its citizens?

3. The future of Europe. The economic crisis has led to profound changes in the economic, political and social situation in the EU and in its Member States. How should the European Union adapt to this new reality?

Viviane Reding, European Commission Vice-President responsible for Justice, Fundamental Rights and Citizenship, in Berlin, Germany, where she took part in a citizens' dialogue.

'We want to start a new Europe of the 500 million citizens,' Vice-President Reding said. 'My colleagues and I want to discuss with citizens before we present our plans for the future of the EU.'

The first three citizens' dialogues were held in Cádiz (Spain, September 2012), Graz (Austria, November 2012) and Berlin (Germany, November 2012). A fourth dialogue with participants of the 'Semaines sociales de France 2012' took place in Paris (France, November 2012).

The next formal dialogue is scheduled for Dublin (Ireland) in January to coincide with opening of the 2013 European Year of Citizens.

All dialogues are open forums of 200 to 500 people in which political leaders from the Commission, the other institutions and local politicians listen to the concerns and expectations of citizens on the financial and economic crisis, on citizens' rights and on the future of the Union by 2020.

Debates in smaller formats or on specific themes are also being encouraged — a debate on employment took place in Naples (Italy) in late November, while a similar approach was taken in Sweden with a thematic dialogue on active ageing on November 28 in Stockholm, coinciding with the closure of the European Year 2012.

The central information hub for the series of dialogues is available on the Internet ([8]). The announcement of events (including practical details, information on preliminary debates, registration and social media) is made in the language of the Member State, while a live broadcast of the event can be viewed on the website.

ENDNOTES

(1) http://www.consilium.europa.eu/uedocs/cms_Data/docs/pressdata/en/ec/134069.pdf

(2) http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ec/132809.pdf

(3) http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-//EP//NONSGML+REPORT+A7-2012-0339+0+DOC+PDF+V0//EN&language=EN

(4) European Parliament resolution of 20 November 2012 with recommendations to the Commission on the report of the Presidents of the European Council, the European Commission, the European Central Bank and the Eurogroup 'Towards a genuine economic and monetary union'.

(5) http://www.consilium.europa.eu/uedocs/cms_Data/docs/pressdata/en/ec/134353.pdf#page=2

(6) Commission communication — A blueprint for a deep and genuine economic and monetary union — Launching a European debate (COM(2012) 777).

(7) http://europa.eu/rapid/press-release_SPEECH-12-596_en.htm

(8) http://ec.europa.eu/european-debate

PHOTO CREDITS

AFP, page 6
European Union, pages 7, 11, 12, 13, 16, 18, 19
Heiko Junge/Scanpix Norway/AFP, page 10

1964

Under construction: the Berlaymont building — the European Commission's headquarters in Brussels, Belgium.


2012

Renovated Berlaymont.

CHAPTER 2

Strengthening economic governance and financial stability in the European Union

- Reinforcing Europe's growth agenda
- Financial sector reform
- Towards banking union

CHAPTER 2

STRENGTHENING ECONOMIC GOVERNANCE AND FINANCIAL STABILITY IN THE EUROPEAN UNION

The continuing financial and economic crisis has been addressed by intense and sustained action by the European Union's institutions and national governments and this work continued apace over the course of 2012. All have been working closely together to support financial stability, to put in place a stronger governance system for the future and to strengthen the necessary conditions to boost growth and employment. In the face of the crisis, important decisions were taken in the course of the year that considerably enhanced the Union's capacity to address the crisis and to move beyond it.

Across the European Union, reform and consolidation measures were implemented. Joint financial backstops were put in place, and the Union's institutions have consistently shown that they stand by the common currency through their ability to act to address the challenges of the crisis. In particular, measures were taken to ensure that the new European stability mechanism, with significant additional firepower, would be operational by autumn. Fiscal and macroeconomic imbalances in some euro area Member States continued to be a source of concern during the course of the year, but serious efforts were made to address them. The Stability and Growth Pact was significantly strengthened with the coming into force of new legislation introducing tighter surveillance of economic and fiscal matters.

A new treaty, more commonly known as the fiscal compact, heralding stronger stability, coordination and governance in economic and monetary union, was signed by 25 of the 27 Member States, and represented an important milestone in the Union's structural response to the crisis.

Twenty-five European leaders — all but the Czech Republic and the United Kingdom — signed the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union at the beginning of March. They committed to more discipline and convergence, thus sending a very clear message on the irreversibility of the euro and European integration.

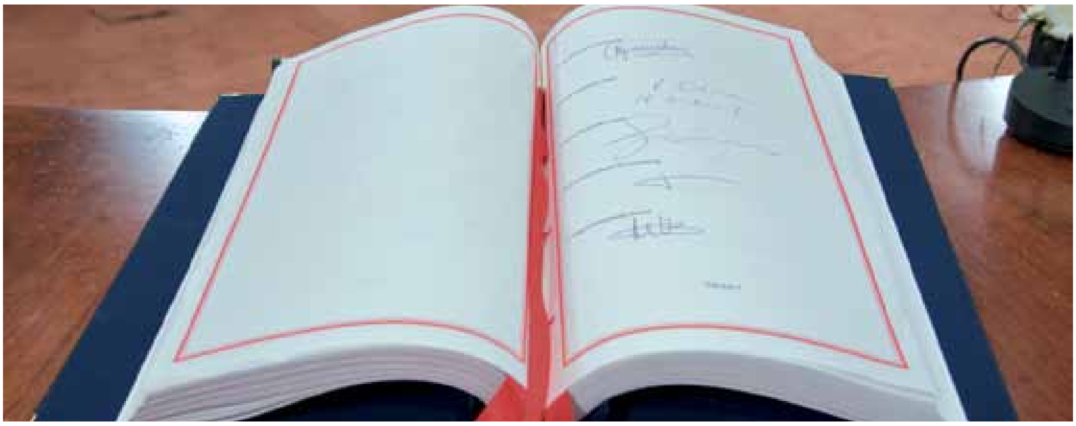
The year under review also marked the 10th anniversary of the introduction of euro notes and coins.

Growth and jobs depend on a healthy and well-functioning financial sector. The Commission has fought the crisis from the beginning with a comprehensive set of measures to regulate and supervise the sector. At the end of 2011, many key initiatives had been adopted already or were before the Parliament and the Council. The most notable new feature during 2012 was the banking union proposal with the single supervisory mechanism as its centrepiece. In the course of the year, further legislative enhancements were put forward to improve investors' protection and to strengthen the internal market.

Strengthening the EMU architecture

Treaty on Stability, Coordination and Governance in the Economic and Monetary Union

Twenty-five European leaders — all but the Czech Republic and the United Kingdom — signed the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union ([1]) at the beginning of March. They committed to more discipline and convergence, thus sending a very clear message on the irreversibility of the euro and European integration.



Treaty on Stability, Coordination and Governance in the Economic and Monetary Union.

What the treaty changes

The signatories will bring a 'debt brake' into their national legislation, preferably at a constitutional level, with a binding and permanent effect. National budgets will have to be in balance or in surplus, with an annual structural deficit under 0.5 % of GDP. If not, an automatic correction mechanism will be triggered. The signatories also committed to deeper economic coordination.

The treaty also formalised summits of the euro area. Euro summit meetings will take place at least twice a year. Those who share the single currency can take certain decisions and involve, where appropriate, the other countries.

The treaty, often referred to as the 'fiscal compact', entered into force on 1 January 2013 after it was ratified by at least 12 euro area countries, as required.

'Two-pack'

These two draft regulations will further strengthen the economic governance of the euro area by building on what has already been done through the six pieces of legislation adopted last year (the 'six-pack') and the European semester. This reinforcement of economic governance will be one of the essential foundations of deep and genuine economic and monetary union (EMU), as outlined in the blueprint presented by the Commission at the end of November (see Chapter 1 for more details).

The first of these two regulations ([2]) codifies and clarifies the procedures for enhanced surveillance of Member States that are experiencing, or at risk of, severe financial difficulties. It also links the treaty framework with the practices for providing conditional financial assistance, for instance through the European stability mechanism.

The second regulation ([3]) harmonises the timetable for the preparation and adoption of national budgets of the euro area Member States. This builds on the principles of *ex ante*, or prior, policy coordination enshrined in the European semester, and will help to ensure that budgetary plans are in line with country-specific recommendations.

Viviane Reding, European Commission Vice-President responsible for Justice, Fundamental Rights and Citizenship, at the French Assemblée Nationale, where she discussed the European semester.

One of the most substantial innovations of this legislative proposal is that it grants the Commission the right to request that a draft national budget be amended, if the analysis indicates that it would not put the country on track to meet its commitments under the Stability and Growth Pact. This will represent a significant change in the process towards ensuring more effective coordination of budgetary policies in the euro area, where there is such strong interdependence — for the sake of financial stability and especially for the sake of sustainable growth and job creation in Europe. By year's end, these two proposals were still being considered under the co-decision process in the Parliament and in the Council.

Deepening of economic and monetary union

The June European Council considered a report (4), 'Towards a genuine economic and monetary union', presented by the President of the European Council, in co-operation with the Presidents of the Commission, the Eurogroup and the European Central Bank (ECB). It set out 'four essential building blocks' for future EMU: an integrated financial framework; an integrated budgetary framework; an integrated economic policy framework; and strengthened democratic legitimacy and accountability. European leaders considered the matter again at October's European Council on the basis of an interim report.

Prior to the submission of the four presidents' final report to the December Council, the Commission presented a blueprint for completing EMU (5), which sets out a range of actions in the short, medium and long term.

Preparing the report 'Towards a genuine economic and monetary union': Herman Van Rompuy, President of the European Council, Jean-Claude Juncker, President of the Eurogroup, and José Manuel Barroso, President of the European Commission.

While the blueprint is the Commission's contribution to the four presidents' final report and roadmap (6) for the December Council, it also functions as a stand-alone report, giving a longer-term vision with a clear timing and sequence of its own. The Commission's blueprint identifies what remains to be done to achieve a true banking, fiscal, economic and political union, along with a clear timeframe for putting in place the various elements necessary for completing the work begun in Maastricht. A number of the actions covered in the document are already on the table or are in the legislative pipeline. Some of the components proposed would, however, require treaty change. See Chapter 1 for further details.

In early December, the President of the European Council presented the final report which called for a political commitment to implement the proposed roadmap.

The European Council agreed to conclusions (7) on a roadmap for the completion of economic and monetary union, based on deeper integration and reinforced solidarity. This process will begin with the completion, strengthening and implementation of the new enhanced economic governance, as well as the adoption of the single supervisory mechanism (SSM) and of the new rules on recovery and resolution and on deposit guarantees. This will be completed by the establishment of a single resolution mechanism, which the Commission intends to propose once there is agreement on the SSM.

'Political union can, and shall, develop hand-in-hand with fiscal, economic and financial union' — Mario Draghi, President of the European Central Bank.

European stability mechanism: a major step towards more solidarity

The European stability mechanism (ESM) ([8]) is a permanent crisis management mechanism, in addition to the European Financial Stability Facility (EFSF) and European Financial Stabilisation Mechanism (EFSM), designed to prevent contagion in the euro area and boost confidence. In February, euro area finance ministers signed the ESM Treaty. Furthermore, in March, euro area leaders reassessed the overall ceiling of the EFSF/ESM, setting the cumulative lending capacity at €700 billion, and accelerated the payment of the ESM's paid-in capital so that the ESM could build up to its full and effective lending capacity of €500 billion more swiftly; two tranches were paid in 2012, two more will be paid in during the course of 2013 and the last in 2014.

The ESM entered into force on 27 September as soon as instruments of ratification were submitted by Member States representing at least 90 % of the ESM's authorised capital. The ESM's inaugural Board of Governors and Board of Directors meetings were held on 8 and 9 October respectively. They adopted the ESM's implementing documents — including the mechanism's by-laws, rules of procedure, pricing and investment policies and instrument guidelines — marking the moment when the ESM became fully operational.

How the ESM works

The ESM is authorised to make use of the following lending instruments for the benefit of its members, subject to appropriate conditionality:

- provide loans in the framework of a macroeconomic adjustment programme;
- purchase debt in the primary and secondary debt markets;
- provide precautionary financial assistance in the form of credit lines;
- finance recapitalisations of financial institutions through loans to the governments of ESM members. The ESM will be empowered to directly recapitalise banks in the euro area once an effective single supervisory mechanism for euro area banks is established.

With the ESM's entry into force, the euro area was endowed with a permanent crisis resolution mechanism that will be able to provide financial assistance, in various forms, to euro area Member States in the event such needs arise. It can provide assistance via loans, precautionary credit lines and financial assistance for the purpose of recapitalising financial institutions, as well as intervention in both the primary and secondary markets. In addition, Heads of State or Government have decided that once a single supervisory mechanism is established, the ESM should have the possibility to recapitalise banks directly. Work at a technical level commenced in 2012 so as to develop an instrument to this effect.

ESM Treaty in line with EU law

The Court of Justice of the European Union has upheld the validity of the European Council decision establishing the European stability mechanism (ESM). The ruling ([9]), which was issued on 27 November, was a response to the claim by a member of the Irish parliament before the Irish courts that the amendment to the Treaty on the Functioning of the European Union (TFEU) by a European Council decision was unlawful. The Court of Justice ruled that the amendment does not encroach on the exclusive competences held by the EU in the areas of monetary policy or the coordination of the economic policies of the Member States. The Court also reaffirmed the right of Member States to conclude between themselves an agreement for the establishment of a stability mechanism such as the ESM Treaty, provided that the commitments undertaken are consistent with EU law.

G20

At the G20 Summit in Los Cabos in June, it was agreed to increase the resources of the International Monetary Fund (IMF) by USD 456 billion. This amount exceeds the USD 430 billion of additional resources agreed on by the IMF and G20 in April 2012. As agreed, and reflected in the G20 leaders' declaration from Los Cabos, Mexico, these resources will be available for the whole membership of the IMF, and not earmarked for any particular region. The EU will contribute more than half of the resources, i.e. USD 240 billion.

'We have and will continue to confront country-specific crises [and] demonstrate solidarity and we will continue to act to ensure overall financial stability in the euro area. And we now have tools we didn't have at the beginning' — Herman Van Rompuy, President of the European Council, at the G20 Summit in Los Cabos, Mexico.

Together with the increase of the European firewalls to support the financial stability of the euro area, this will strengthen the ability of the international community to provide responses at a global level to the challenges currently being faced.

Euro notes and coins — 10 years on

The euro, as the second reserve currency of the world, and the cash in the pockets of some 300 million citizens, is a remarkable achievement, despite the serious financial and economic crisis of recent years.

Only 10 years ago, 12 Member States introduced euro notes and coins as their daily currency and that number now stands at 17. All but two countries of the Union are committed to joining the euro in accordance with their treaty obligations — Denmark and the United Kingdom have opt-outs.

The euro is not just a technical monetary arrangement but also a tangible symbol of the determination to work together in a spirit of shared responsibility and solidarity, and is one of the great achievements of European integration.

Euro coins and banknotes.

Reinforcing Europe's growth agenda

Second European semester in 2012

While the European semester process was inaugurated in 2011 in agreement with the Member States, the 2012 exercise was underpinned by European law as part of the newly strengthened economic governance of the euro area and the wider EU. The semester is a key element of the 'six-pack' of legislation which significantly reinforced the Stability and Growth Pact and extended the scope of fiscal surveillance. The semester focuses on good economic governance and the implementation of the Europe 2020 strategy for growth and jobs.

The Commission launched the second European semester in November 2011 with its annual growth survey for 2012 ([10]). The key message of the 2012 survey was that, faced with a deteriorating economic and social situation, more efforts are needed to put Europe back on track and sustain growth and jobs, and that Member States had not done enough to enact the measures they had committed to at EU level during the first European semester.

The annual growth survey for 2012 called for the Union and Member States to focus on 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.

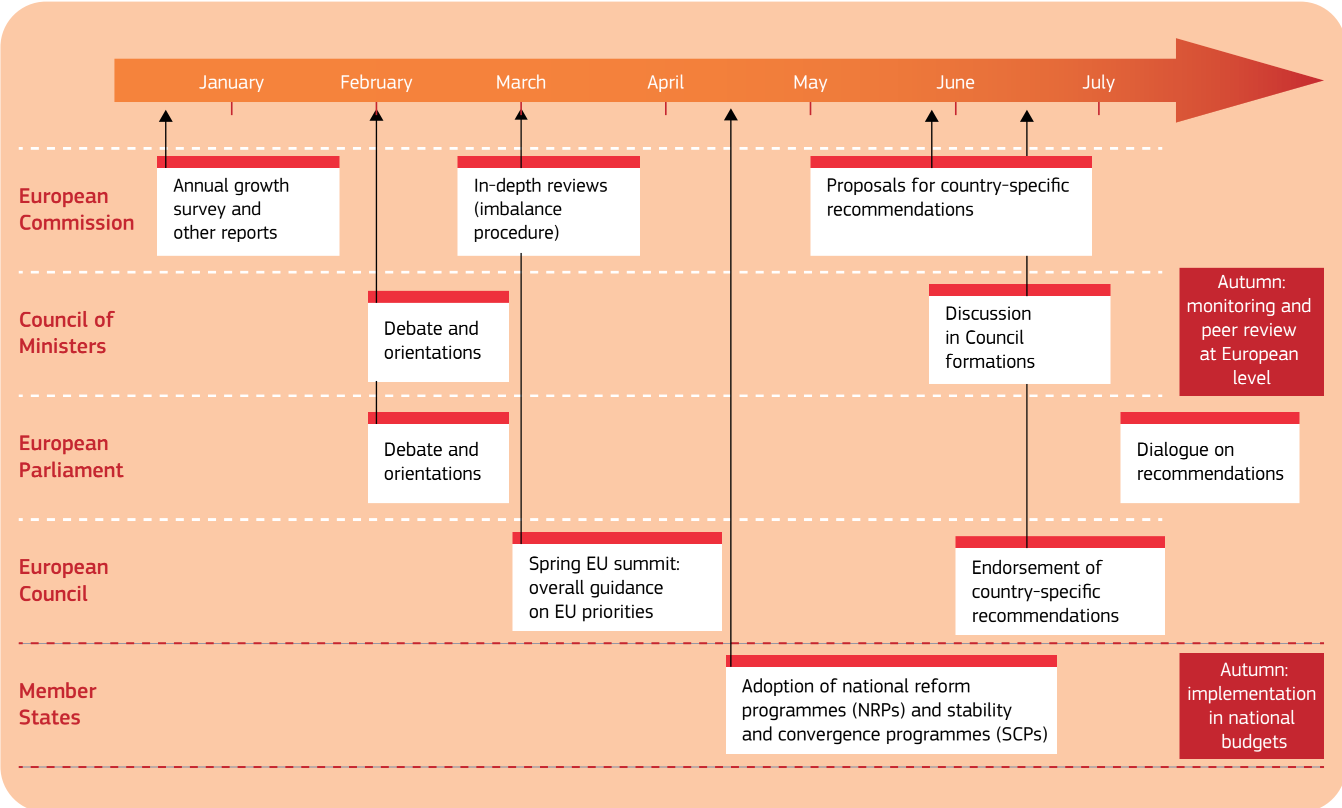
How does the semester work?

The European semester is a yearly cycle. As a central element, the Commission is entrusted with undertaking detailed analyses of Member States' programmes for economic and structural reforms and proposing recommendations for action. These recommendations — called country-specific recommendations — are then considered and adopted by the Council and addressed to the Member States.

The European semester starts when the Commission adopts its annual growth survey, which sets out the most important EU priorities for the coming year to boost growth and job creation. The Parliament plays an important role in this process via the so-called 'economic dialogue'. To enhance dialogue between the EU institutions, the Parliament can invite the presidents of the EU institutions to debate any specific occasion and step of the European semester, as indicated in the graph below.

'The European semester is a way to anticipate and prevent dangerous economic imbalances before they spill over to other countries' — José Manuel Barroso, President of the European Commission.

THE EUROPEAN SEMESTER



Macroeconomic imbalance procedure

The new economic governance arrangements enacted by the 'six pack' introduce, for the first time in the Union, a procedure for monitoring and correcting macroeconomic imbalances: the macroeconomic imbalance procedure.

The Commission's alert mechanism report ([11]) in February was the first step of the new procedure on the prevention and correction of macroeconomic imbalances. It pointed to challenges and potential risks raised by macroeconomic imbalances in some Member States. It contained thorough examinations ([12]) of the sources of imbalances and analyses of the driving forces behind such developments. Based on these reviews, the Council addressed recommendations to the Member States in question under the preventive or corrective arms of the procedure.

Macroeconomic imbalance procedure scoreboard

The scoreboard indicators are:

- 3-year backward moving average of the current account balance as a percentage of GDP;
- net international investment position at end of year as a percentage of GDP;
- 3-year percentage change of the real effective exchange rates based on the Harmonised Index of Consumer Prices/consumer price index deflators;
- 5-year percentage change in share of world exports (export market shares) measured at current prices;
- 3-year percentage change in nominal unit labour cost;
- year-on-year changes in house prices relative to the final consumer price index;
- private-sector credit flow as a percentage of GDP;
- private-sector debt as a percentage of GDP;
- general government sector debt as a percentage of GDP;
- 3-year backward moving average of the unemployment rate;
- year-on-year changes of total financial sector liabilities.

National reform programmes and country-specific recommendations

In the second phase of the European semester, in April, Member States presented their national economic reform programmes (national reform programmes and stability and convergence programmes).

Following detailed analysis of each programme, the Commission presented country-specific recommendations ([13]) geared towards boosting economic growth and job creation. The Commission made 28 proposals for Council recommendations, one for each Member State, with country-specific guidance on economic policy, such as public finances and structural reforms, as well as one for the euro area as a whole. EU countries were also encouraged to make their judicial systems ever more efficient and to implement necessary judicial reforms as part of their economic recovery programmes.

Annual growth survey 2013

The annual growth survey (AGS) for 2013 ([14]) was launched by the Commission at the end of November 2012. It set out how shared responsibility between the European and national levels could be used to drive change across the EU, laying the foundations for a return to growth and jobs.

The survey outlined priority actions to be taken by Member States in order to ensure better-coordinated and more effective policies for fostering sustainable economic growth. In order to maintain a reform momentum, the Commission recommended focusing on the same five priorities that were identified for the previous year.

The main message of the AGS this year is that while EU policies are beginning to show results — deficits are coming down, tensions in financial markets are easing and there are signs that competitiveness is improving in some Member States — continued reform is needed to generate sustainable growth and jobs. Each of the five priorities is focused on delivering growth and jobs, with a special emphasis on fairness. There is no 'one-size-fits-all' agenda to boost growth and jobs, but there are common goals and a range of reforms to consider.

The December European Council took note of the 2013 AGS and endorsed the priorities set by the Commission for the year ahead. Building on the survey, the European Council will adopt guidance for Member States' national reform programmes and stability and convergence programmes at its spring 2013 meeting.

Financial assistance

European financial assistance mechanisms are capable of supporting EU Member States in difficulty and thereby preserving the financial stability of the EU and the euro area. They consist of loans jointly provided by the EU (EFSM), the European Financial Stability Facility (EFSF) and the IMF. Financial assistance is linked to macroeconomic conditionality, the details of which are negotiated between the Member State seeking support and the official lenders and set out in a memorandum of understanding.

Support continued to be provided over the year to Greece, Ireland and Portugal. During the course of the year, Cyprus and Spain also sought financial assistance, in the latter case specifically for the banking sector.

Klaus Regling, Managing Director of the European Financial Stability Facility, Christine Lagarde, Managing Director of the International Monetary Fund, Jean-Claude Juncker, President of the Eurogroup, and Olli Rehn, European Commission Vice-President responsible for Economic and Monetary Affairs and the Euro, at the Eurogroup meeting of 20 February.

Greece: second economic adjustment programme

To support the Greek government's efforts to get its economy back on track, euro area Member States agreed on 2 May 2010 to a 3-year programme (15), providing a total of €80 billion in bilateral loans (this amount was eventually reduced by €2.7 billion, because Slovakia decided not to participate in the Greek loan facility agreement while Ireland and Portugal stepped down from the facility as they requested financial assistance themselves). Together with €30 billion from a standby agreement with the IMF, a loan package of €110 billion was formulated.

Since 2010, the Commission, the ECB and the IMF, working as a troika, have assisted Greece to bring its economy towards sustainability. Greece has made major fiscal adjustments under exceptionally difficult circumstances. Together with the IMF, the euro area countries have now committed €237.3 billion of financing for Greece until 2014. Private-sector creditors are contributing another €106 billion through the debt exchange that reduced the nominal value of their investment by 53.5 %.

In the second programme (16), agreed in March, euro area Member States via the EFSF and the IMF committed the undisbursed amounts of the first programme plus an additional €130 billion for the years 2012–14. During this period, and subject to conclusive reviews, the EFSF is authorised to commit an overall amount of €144.7 billion (including the already committed or disbursed amounts for private-sector involvement and bank recapitalisation), while the IMF will contribute €28 billion over 4 years.

In mid-December, the Eurogroup formally approved the second disbursement under the second economic adjustment programme for Greece, following the finalisation of the relevant national procedures and after having reviewed the outcome of the debt buy-back operation conducted by Greece, which will lead to a substantial reduction of the Greek debt-to-GDP ratio. The Eurogroup reaffirmed that this, together with the initiatives agreed by the Eurogroup on 27 November and full implementation of the adjustment programme, should bring Greece's public debt back on a sustainable path, to 124 % of GDP in 2020. Greece and the other euro area Member States are prepared to take additional measures, if necessary, to ensure that this objective is met. It was on this basis that Member States authorised the EFSF to release the next instalment for a total amount of €49.1 billion, of which €34.3 billion was paid in December.

OVERVIEW OF DISBURSEMENTS, BILLION €

First programme			
Disbursement	Euro area/EFSF	IMF	Total
May 2010	14.5	5.5	20.0
September 2010	6.5	2.6	9.1
December 2010–January 2011	6.5	2.5	9.0
March 2011	10.9	4.1	15.0
July 2011	8.7	3.2	11.9
December 2011	5.8	2.2	8.0
Total disbursed under first programme	**52.9**	**20.1**	**73.0**
Second programme			
Disbursement	EFSF	IMF	Total
March–June 2012 (*)	74	1.6	75.6
December 2012 (**)	34.3		34.3
Total disbursed under second programme	**108.3**	**1.6**	**109.9**
Total	**161.2**	**21.7**	**182.9**

(*) The first disbursement under the second programme took place in seven tranches from March to June 2012.

(**) The second disbursement amounts to €52.34 billion in total (EFSF and IMF) and is made in several tranches.

Greece task force

The task force, put at the disposal of Greece to provide technical assistance in implementing its challenging reform agenda, including on tax, labour markets, healthcare, the judicial system, public administration, energy, transport and a range of other reforms, continued its work ([17]) in 2012 but the pace of reforms was slower than anticipated due to the electoral situation in the country. With the formation of the new Greek government, renewed impetus was given to the process in the latter part of the year.

Ireland

The agreed external assistance for Ireland amounts to up to €67.5 billion over 3 years (where the EFSM will contribute €22.5 billion) as part of a total package worth €85 billion (including contributions from Ireland).

OVERVIEW OF DISBURSEMENTS, BILLION €

Disbursements	EFSF	EFSM	IMF (*)	Bilateral (**)	Total
Quarter 1 2011	3.6	8.4	5.8	0.0	17.8
Quarter 2 2011	0.0	3.0	1.4	0.0	4.4
Quarter 3 2011	3.0	2.5	1.5	0.5	7.5
Quarter 4 2011	2.8	0.0	3.9	0.5	7.2
Quarter 1 2012	2.7	4.5	3.2	0.7	11.1
Quarter 2 2012	0.0	2.3	1.4	0.5	4.2
Quarter 3 2012	0.0	0.0	0.9	0.7	1.6
Quarter 4 2012	0.0	1.0	0.9	—	1.9
Total disbursed 2011–12	**12.1**	**21.7**	**19**	**2.9**	**55.7**
To be disbursed	5.6	0.8	3.5	1.9	11.8
Total commitment	**17.7**	**22.5**	**22.5**	**4.8**	**67.5**

(*) IMF amounts are based on €–SDR exchange rates and might therefore show differences.
(**) Bilateral includes Denmark, Sweden and the United Kingdom.

Portugal

The agreed assistance for Portugal totals up to €78 billion over 3 years with an EFSM share of €26 billion.

OVERVIEW OF DISBURSEMENTS, BILLION €

Disbursements	EFSF	EFSM	IMF (*)	Total
May–Sept. 2011	5.9	13.5	6.1	25.5
Quarter 4 2011	—	0.6	4.0	4.6
Quarter 1 2012	3.8	1.5	2.8	8.1
Quarter 2 2012	5.2	4.5	5.2	14.9
Quarter 3 2012	2.6	—	1.4	4.0
Quarter 4 2012	0.8	2.0	1.5	4.3
Total disbursed 2011–12	**18.3**	**22.1**	**21.1**	**61.4**
To be disbursed	7.7	3.9	4.9	16.5
Total commitment	**26**	**26**	**26**	**78**

(*) IMF amounts are based on €–SDR exchange rates and might therefore show differences.

Spain

Spain requested financial assistance for its financial sector on 25 June. The policy conditions specific to the financial sector contain measures to increase the long-term resilience of the banking sector, thus restoring its market access, and to deal effectively with the legacy stock of assets stemming from the bursting of the real estate bubble. The agreement was endorsed by the Eurogroup meeting in Brussels on 20 July, with the memorandum of understanding and the financial assistance facility agreement signed subsequently.

The terms and conditions of the financial sector assistance were negotiated between the Spanish authorities and the European Commission, in liaison with the ECB and the European Banking Authority (EBA), with technical assistance from the IMF.

The 4 December Eurogroup meeting of euro area finance ministers welcomed a decision by the ESM to authorise the disbursement of up to €39.5 billion to Spain ([18]). The disbursement is the first tranche of the programme for the country's financial sector. During their meeting, ministers reviewed progress on the bank recapitalisation programme in Spain, which was adopted in July to overhaul weak segments in the country's banking sector. Funds from this disbursement will be used to reinforce the most severely affected financial institutions, as well as to capitalise a newly created asset management company which will acquire and manage banks' underperforming assets. In a related development, the Commission concluded that the restructuring plans of four Spanish banks are in line with EU state aid rules. The Commission's approval clears the way for the banks to receive aid from the ESM.

Cyprus

In the face of troubles in the banking sector and macroeconomic imbalances, Cyprus requested financial assistance from the European Union and the IMF. Considerable progress has been made towards a possible macrofinancial assistance programme for Cyprus, which envisages a significant financial, fiscal and structural adjustment, as foreseen in a draft memorandum of understanding agreed at staff level on 23 November. The euro area finance ministers, meeting on 13 December, welcomed the fact that the Cypriot authorities were demonstrating their commitment to such reforms and that the Cypriot parliament had passed a first set of measures as agreed with the international institutions. The Eurogroup noted the interim results of the due diligence exercise on the capital needs of the Cypriot financial sector, whose main parameters were broadly in line with expectations underlying programme discussions. The final results were expected early in 2013.

Financial sector reform: investing in confidence

Towards banking union

The vulnerabilities in the banking sector have a negative impact on the sovereign debt crisis. The negative feedback loops between individual Member State budgets and some of their banks are a threat to financial stability in the EU. Given pooled monetary responsibilities in the euro area and closer financial integration, there are specific risks in terms of cross-border spillover effects in the event of bank crises. Coordination of national banking supervision is no longer an option for the euro area. A move to an integrated system — a 'banking union' — is deemed necessary.

Significant progress was made during the year towards creating a viable banking union — a common set of rules to supervise and otherwise deal with the cross-border spillovers of banking problems and, in particular, to break the vicious cycle of banking debt and sovereign debt.

In May, as part of a longer-term vision for economic and fiscal integration, the Commission called for a banking union to restore confidence in banks and the euro. In tandem, the ongoing reforms of the EU regulatory framework for the financial sector need to be completed to ensure the integrity of the single market. Decisive and rapid steps to achieve both are required. Against that backdrop, the June and October European Councils requested that a single supervisory mechanism (SSM) for banks be set up, which is binding for euro area Member States but open to the extent possible for non-euro area Member States. Such an integrated supervision is necessary to make sure that at least all euro area Member States can have full confidence in the quality and impartiality of banking supervision, opening the way for the European stability mechanism to directly recapitalise banks that fail to raise capital on the markets.

The Commission's proposal ([19]) in September for an SSM is a key element in strengthening economic and monetary union. The Council reached broad agreement on the modalities of the SSM in mid-December. In welcoming this agreement, the European Council called on the co-legislators to rapidly reach final agreement so as to allow implementation as soon as possible.

How the SSM works

The SSM will be composed of the European Central Bank and national competent authorities. The ECB will be responsible for the overall functioning of the SSM. Under the proposals, the ECB will have direct oversight of certain euro area banks, although in a differentiated way and in close cooperation with national supervisory authorities. Non-euro area Member States wishing to participate in the SSM will be able to do so by entering into close cooperation arrangements.

The ECB's monetary tasks would be strictly separated from supervisory tasks to eliminate potential conflicts of interest between the objectives of monetary policy and prudential supervision. To this end, a supervisory board responsible for the preparation of supervisory tasks would be set up within the ECB. Non-euro area countries participating in the SSM would have full and equal voting rights on the supervisory board. The board's draft decisions would be deemed adopted unless rejected by the ECB governing council.

National supervisors would remain in charge of tasks not conferred on the ECB, for instance in relation to consumer protection, money laundering, payment services and branches of banks of non-EU countries. The European Banking Authority (EBA) would retain its competence for further developing the single rule book and ensuring convergence and consistency in supervisory practice.

The proposals foresee changes to the EBA regulation, in particular as regards voting modalities, to ensure equitable and effective decision-making within the single market. The amendments would ensure that the countries participating in the SSM would not unduly dominate the EBA's board of supervisors.

The ECB will assume its supervisory tasks within the SSM on 1 March 2014 or 12 months after the entry into force of the legislation, whichever is later, subject to operational arrangements. In December, the text was still subject to trilogue negotiation with the Parliament and the Council.

Special meeting of the European Council — round table on 22 November.

Proposals [20] were adopted by the Commission in June for EU-wide rules for bank recovery and resolution that are designed to ensure that, in the future, authorities will have the means to intervene decisively both before problems occur in a bank's situation and early on in the process if they do. Furthermore, if the financial situation of a bank deteriorates beyond repair, the proposal ensures that a bank's critical functions can be rescued while the costs of restructuring and resolving failing banks fall upon the bank's owners and creditors and not on taxpayers.

At the same time, the financial crisis highlighted that public authorities are ill-equipped to deal with ailing banks operating in today's global markets. In order to maintain essential financial services for citizens and businesses, governments have had to inject public money into banks and issue guarantees on an unprecedented scale: between October 2008 and October 2011, the Commission approved €4.5 trillion (equivalent to 37 % of EU GDP) of state aid measures to financial institutions. This averted massive banking failure and economic disruption, but has burdened taxpayers with deteriorating public finances and failed to settle the question of how to deal with large cross-border banks in trouble.

The financial crisis also provided clear evidence of the need for more robust crisis management arrangements at national level, as well as the need to put in place arrangements better able to cater for cross-border banking failures. There have been a number of high-profile banking failures during the crisis (Fortis, Lehman Brothers, Icelandic banks, Anglo Irish Bank, Dexia) which have revealed serious shortcomings in the existing arrangements. In the absence of mechanisms to organise an orderly wind-down, EU Member States have had no choice other than to bail out their banking sector.

The proposals for EU-wide rules for bank recovery and resolution are designed to change this. In this regard, the December European Council urged the co-legislators to agree on these proposals (and on the proposal on deposit guarantee schemes — see below) before June 2013 so that they can be implemented by the Member States as a matter of priority.

In the context in which bank supervision is effectively moved to a single supervisory mechanism, the European Council has concluded that 'a single resolution mechanism will be required, with the necessary powers to ensure that any bank in a Member State participating in the SSM can be resolved with the appropriate tools'. It called on the Commission to come forward with such a proposal in 2013.

The December European Council also called on co-legislators to agree on new rules on capital requirements for banks, as proposed by the Commission in 2011 (known as CRD IV). CRD IV is crucial for financial stability and is of the utmost priority for developing a single rulebook for banks.

The Commission proposal on deposit guarantee schemes has been on the table since 2010 and is another important aspect of the single rulebook for banks. We need to ensure that each Member State has a fully funded deposit guarantee scheme in place. The December European Council called for an agreement on this proposal before June 2013.

Finally, the single rulebook could include rules on the structure of the banking sector. The Liikanen report, drawn up by the Commission's high-level expert group on reforming the structure of the EU banking sector (chaired by Erkki Liikanen, Governor of the Bank of Finland) and published in October, has proposed solutions to separate deposit-taking from more risky activities. The Commission is reflecting on these ideas.

Consumer protection in the financial services area

Lack of transparency, low awareness of risks and poor handling of conflicts of interest have meant that consumers across the EU have been repeatedly sold investment and insurance products that were not right for them. Consumers have had their faith in the financial sector shaken. In addition, existing legislation has not developed fast enough to reflect the growing complexity of financial services.

The video 'Emerging stronger from the crisis'.

Only by taking steps to address these shortcomings can low consumer confidence be tackled, laying strong foundations for growth in the EU. Strong, well-regulated retail markets that place the best interests of consumers at their heart are necessary for consumer confidence and economic growth in the medium and longer term. That is why the Commission has presented a legislative package that raises standards and removes loopholes for the benefit of consumers. Specifically, the package proposed new, consumer-friendly standards for information about investments, raised standards for advice and tightened certain rules on investment funds to ensure their safety.

The package was composed of three legislative proposals: a proposal for a regulation on key information documents for packaged retail investment products ([21]), a revision of the insurance mediation directive ([22]) and a proposal to boost protection for those who buy investment funds ([23]) (currently governed by the directive on undertakings for collective investment in transferable securities).

These provisions will enhance the legal and regulatory environment for post-trade markets in the European Union and complement T2S, the Eurosystem's initiative to create a single settlement engine for Europe.

In November, the rules on the ban on uncovered sovereign credit default swaps and short sales of shares and sovereign debt ([24]) entered into force.

In late 2012, a new regulation ([25]) to increase transparency in derivatives and reduce risk in over-the-counter derivatives took effect.

FINANCIAL REGULATION PROGRAMME OF THE EUROPEAN COMMISSION IN RESPONSE TO THE FINANCIAL CRISIS AND TO G20 COMMITMENTS (26)

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<tr><td>September 2010</td><td colspan="3">Introduction of the European systemic risk board and the European supervisory authorities for banking, securities and markets, and insurance (*)</td></tr>
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<tr><td>September 2012</td><td>Banking union: proposals for a single supervisory mechanism</td><td></td><td></td></tr>
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(*) G20 proposals.

Proposals adopted by the European Union

Commission proposals being discussed in the Parliament and the Council

Shadow banking

As part of the reform of the financial sector, measures became necessary to deal with the growing area of non-bank credit activity, or so-called 'shadow banking', which has so far not been a prime focus of prudential regulation and supervision. To a certain extent, shadow banking performs important functions in the financial system. For example, it creates additional sources of funding and offers investors alternatives to bank deposits. But it can also pose potential threats to long-term financial stability because unknown sources of risk can accumulate in the financial sector and there are potential spillover effects from the shadow banking sector to the regular banking sector.

In March, the Commission presented a Green Paper ([27]) that examined existing measures and proposed a regulatory framework. The key areas covered were asset management, securities lending and repurchase agreements and securitisation. Legislation will be proposed early in 2013.

Credit rating agencies

The amendments to the regulation on credit rating agencies (CRAs) were agreed between the Parliament and the Council in November. The new rules will make rating agencies more accountable for their actions as ratings are not just simple opinions. Therefore, the new rules ensure that a rating agency can be held liable in cases of negligence or intent, thereby causing damage to an investor. The regulation will encourage competition, for instance by introducing rotation rules, although these will be limited to complex structured finance instruments. New rules will improve the independence of rating agencies and avoid conflicts of interest by introducing shareholder limitations for important shareholdings. Investors will be prohibited from simultaneously owning important stakes in more than one rating agency to ensure sufficient independence of credit rating agencies.

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, the developments in the context of the euro debt crisis have shown that the existing regulatory framework is not good enough. So, in November 2011, the Commission put forward proposals to further toughen the framework and to deal with outstanding weaknesses.

In November 2012, political agreement was reached at EU level on additional rules for CRAs which aim to reduce the overreliance on ratings, eradicate conflicts of interest and establish a civil liability regime. Credit rating agencies will have to be more transparent when rating sovereign states, respect timing rules on sovereign ratings and justify the timing of the publication of unsolicited ratings of sovereign debt. They will have to follow stricter rules which will make them more accountable for mistakes in case of negligence or intent. This matters because ratings have a direct impact on the financial markets and the wider economy and thus on the prosperity of European citizens.

Capital requirements

European rules to strengthen the regulation of the banking sector [28] were also proposed (the CRD IV package), but agreement is yet to be found in the Council.

Financial transaction tax

The introduction of an EU-wide financial transaction tax (FTT) was high on the agenda in 2012. An FTT, as proposed [29] by the Commission in 2011, would facilitate the financial sector in making a fair contribution to public finances and participating in the cost of rebuilding Europe's economies.

Moreover, an FTT could significantly reduce the contributions of Member States to the EU budget. In May, the Parliament strongly supported the Commission's proposal. However, on 22 June, it became clear that support in the Council of Ministers for an FTT as proposed by the Commission was not unanimous. In October, 11 Member States [30] addressed a letter to the Commission to request the launch of the enhanced cooperation procedure in the area of FTT, which would allow them to proceed with such a taxation measure. At the 13 November Economic and Financial Affairs Council, the Netherlands expressed its interest in joining the group under certain conditions. On 12 December, the European Parliament gave its consent to the procedure with an overwhelming majority (81 % of the votes expressed) while discussions to authorise the smaller group of Member States to introduce a harmonised FTT are still ongoing in the Council. Such a decision shall be taken at qualified majority. Once this authorisation is given the Commission will table a proposal on the content, scope and implementing details of the tax.

State aid

The Commission's role under the state aid rules [31] has ensured a coordinated approach to bank restructuring while maintaining a level playing field. The crisis state aid rules for banks pursue a triple objective of preserving a level playing field in the internal market, safeguarding financial stability and restructuring aid beneficiaries for long-term viability without state support. Banks were required to move away from unsustainable business models based on excessive leverage and overreliance on short-term wholesale funding and encouraged to focus again on core business. The Commission is the only institution that explicitly imposes burden-sharing conditions on bailouts, helping to curtail moral hazard in the future, and requires proportionate measures to limit the distortions of competition resulting from the aid.

Throughout 2012, the Commission continued to use state aid control to help restore a sound financial sector. Even when banks rely heavily on state aid, they can be allowed to stay on the market when parts of their activities continue to have a realistic prospect of returning to viability. This is the case provided that they considerably reduce their size and substantially change their business model to focus only on viable activities. The Commission is thereby making sure that banks use no more than what is necessary of taxpayers' money to restructure and that they can function without public support in the future. Restoring a healthier financial sector capable of financing the real economy is indispensable for economic recovery in Europe.

This approach is illustrated, for example, by the approval of the restructuring of Banco Português de Negócios (BPN). The restructuring plan includes the sale of BPN to Banco BIC Portugal.

The Commission also dealt with a series of restructuring aid cases concerning the German Landesbanken, which previously relied heavily on aid. The banks have been significantly restructured with a realistic prospect of returning to viability. In July, the Commission finalised the last two cases, being BayernLB and NordLB. They were allowed to stay on the market provided that they change their business model and focus on viable activities. In particular as regards BayernLB, the Commission imposed a significant downsizing of the bank and an obligation to pay back €5 billion of the rescue aid which exceeded the minimum necessary of state aid required for the restructuring.

The Commission further reacted in May to the partial annulment by the Court of its ING decision of 2009, by issuing a new restructuring decision — with the additional analysis requested by the Court — confirming that the plan ING presented in 2009 allowed restored viability and mitigated distortions of competition.

In December, the Commission approved the orderly resolution of the Dexia group. Since 2008, Dexia had benefitted from significant public support measures, which were authorised on the basis of a restructuring plan by the Commission in 2010. As Dexia was not able to implement the restructuring plan and faced further difficulties, Belgium, France and Luxembourg acknowledged the necessity of resolving the Dexia group. While the residual group is being run down, the Belgian entity has been bought by the Belgian state and renamed Belfius while the main French activities concerning municipal lending became part of a new development bank in France.

State aid control was also decisive in the context of the Commission's assessment of banks' restructuring plans in programme countries. Here the Commission's role has evolved considerably over the past months, and has in the case of Spain come close to conducting a resolution process ([32]). The Commission has always been a central player in the resolution of banks, but its powers have been strengthened recently in the Spanish programme.

The memorandum of understanding with Spain made the granting of ESM support for the recapitalisation of Spanish banks conditional upon the Commission's approval of those banks' restructuring plans. This meant that no funds could be disbursed before the Commission was satisfied that the criteria of its respective state aid rules — restoration of long-term viability, adequate burden-sharing and appropriate limitations of distortions of competition — were met. This mechanism ensured greater supervision by the Commission in resolving the Spanish banks, and led to a significant acceleration of the procedure; it took less than 6 months to approve the restructuring plans of eight Spanish banks.

The Bankia bank headquarters in Madrid, Spain.

The Commission concluded in November that the restructuring plans of four other Spanish banks — BFA/Bankia, NCG Banco, Catalunya Banc and Banco de Valencia — are in line with EU state aid rules. The in-depth restructuring undergone by BFA/Bankia, NCG Banco and Catalunya Banc will allow them to become viable in the long term without continued state support. Moreover, the banks and their stakeholders are adequately contributing to the costs of restructuring. Finally, the plans foresee sufficient safeguards to limit the distortions of competition induced by the state support. Because its viability could not be restored on a stand-alone basis, Banco de Valencia will cease to exist as an independent entity and will be sold and integrated into CaixaBank.

In December, the Commission approved the restructuring plans of the four Spanish banks Liberbank, Caja3, Banco Mare Nostrum and Banco CEISS. The plans will ensure that the banks return to long-term viability as sound credit institutions in Spain. Banco CEISS will be sold, and Banco Mare Nostrum and Liberbank will need to be listed on the stock exchange before the end of the restructuring period. Caja3 will cease to exist as a stand-alone entity.

In 2012, the Commission proposed a reform of state aid. See Chapter 3 for more details.

Financing the future: securing sustainable public revenue through improved tax policy coordination

Tax policy can contribute to fiscal consolidation and growth. Taxation is primarily the competence of Member States. But in March, in the framework of the annual growth survey exercise, the European leaders invited them, where appropriate, to review their tax systems. The aim is:

- removing unjustified exemptions, which in particular encourage debt;
- broadening the tax base;
- shifting taxes away from labour, towards more growth-enhancing taxes such as ones on consumption and property;
- increasing environmental taxation;
- improving the efficiency of tax collection and tackling tax evasion.

At the March European Council, Member States asked the Commission 'to rapidly develop concrete ways to improve the fight against tax fraud and tax evasion, including in relation to third countries, and to report by June 2012'. The size of the shadow economy is estimated to be nearly one fifth of GDP on average across Member States, or €2.4 trillion, which leads to an estimated loss of around €1 trillion in tax evasion and avoidance every year in the EU. Given the globalisation of the economy and technological advances, it is clear that isolated national efforts to overcome this problem will not work.

In reply, the Commission proposed several measures to ensure the sustainability and the stability of public finances:

- On 2 May, the Council adopted a regulation ([33]) for new rules on administrative cooperation in the field of excise duties. The adoption of this regulation will make it easier for Member States to control the movement of excise goods and speed up the collection of excise duties.
- On 27 June, the Commission presented to the EU summit some concrete measures ([34]) to be further analysed, such as minimum sanctions for tax crimes, a cross-border tax identification number and an EU taxpayers' charter.
- On 31 July, the Commission proposed a new instrument ([35]) for speedy response to VAT carousel fraud, which costs the EU and national budgets several billion euro every year. For example, between June 2008 and December 2009, an estimated €5 billion was lost as a result of VAT fraud in greenhouse gas emission allowances. Under the proposed quick reaction mechanism, a Member State faced with a serious case of sudden and massive VAT fraud would be able to implement certain emergency measures, in a way which it is currently not allowed to under VAT legislation. This would significantly improve its chances of effectively tackling complex fraud schemes, such as carousel fraud, and of reducing otherwise irreparable financial losses.

- On 6 December, the Commission presented an action plan on fighting fraud and evasion [36], with specific measures that could be rapidly developed. In tandem, the Commission came forward with two recommendations to encourage Member States to take immediate and coordinated action against tax havens [37] and aggressive tax planning [38]. Using common criteria, Member States are encouraged to identify tax havens, place them on national blacklists and apply measures to persuade these non-EU countries to apply EU governance standards. In the recommendation on aggressive tax planning, Member States are encouraged to reinforce their double tax conventions, to prevent legal loopholes which some companies exploit to avoid paying taxes

ENDNOTES

(1) http://european-council.europa.eu/media/639235/st00tscg26_en12.pdf

(2) Proposal for a regulation on the strengthening of economic and budgetary surveillance of Member States experiencing or threatened with serious difficulties with respect to their financial stability in the euro area (COM(2011) 819).

(3) Proposal for a regulation on common provisions for monitoring and assessing draft budgetary plans and ensuring the correction of excessive deficit of the Member States in the euro area (COM(2011) 821).

(4) http://ec.europa.eu/economy_finance/focuson/crisis/documents/131201_en.pdf

(5) Commission communication — A blueprint for a deep and genuine economic and monetary union — Launching a European debate (COM(2012) 777).

(6) http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ec/134069.pdf

(7) http://www.consilium.europa.eu/uedocs/cms_Data/docs/pressdata/en/ec/134353.pdf

(8) http://www.european-council.europa.eu/media/582311/05-tesm2.en12.pdf

(9) Court of Justice ruling of 27.11.2012 in Case C-370/12 *Pringle*.

(10) Commission communication — Annual growth survey 2012 (COM(2011) 815).

(11) Commission report — Alert mechanism report (COM(2012) 68).

(12) http://ec.europa.eu/economy_finance/indicators/economic_reforms/eip/sbh/index.cfm

(13) Commission communication — Action for stability, growth and jobs (COM(2012) 299).

(14) Commission communication — Annual growth survey 2013 (COM(2012) 750).

(15) http://ec.europa.eu/economy_finance/publications/occasional_paper/2010/pdf/ocp61_en.pdf

(16) http://ec.europa.eu/economy_finance/publications/occasional_paper/2012/pdf/ocp94_en.pdf

(17) Quarterly report, December 2012 (http://ec.europa.eu/commission_2010-2014/president/pdf/qr3_en.pdf).

(18) http://www.esm.europa.eu/about/assistance/spain/index.htm

(19) Commission communication — A roadmap towards a banking union (COM(2012) 510).
Proposal for a regulation conferring specific tasks on the European Central Bank concerning policies relating to the prudential supervision of credit institutions (COM(2012) 511).
Proposal for a regulation establishing a European Supervisory Authority (European Banking Authority) conferring specific tasks on the European Central Bank concerning policies relating to the prudential supervision of credit institutions (COM(2012) 512).

(20) Proposal for a directive establishing a framework for the recovery and resolution of credit institutions and investment firms (COM(2012) 280).

(21) Proposal for a regulation on key information documents for investment products (COM(2012) 352).

(22) Proposal for a directive on insurance mediation (COM(2012) 360).

(23) Proposal for a directive on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS) as regards depositary functions, remuneration policies and sanctions (COM(2012) 350).

(24) Regulation (EU) No 236/2012 on short selling and certain aspects of credit default swaps (OJ L 86, 24.3.2012).

(25) Regulation (EU) No 648/2012 on OTC derivatives, central counterparties and trade repositories (OJ L 201, 27.7.2012).

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

(27) Commission Green Paper — Shadow banking (COM(2012) 102).

(28) http://ec.europa.eu/internal_market/bank/regcapital/new_proposals_en.htm

(29) Proposal for a directive on a common system of financial transaction tax (COM(2011) 594).

(30) Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia.

(31) Commission communication — EU state aid modernisation (COM(2012) 209).

(32) In cases of resolution, such as the splitting up of a bank and selling off the good parts, where the granting of public support by the Member States is involved, this is considered state aid. It needs to be authorised by the Commission.

(33) Regulation (EU) No 389/2012 on administrative cooperation in the field of excise duties (OJ L 121, 8.5.2012).

(34) Commission communication on concrete ways to reinforce the fight against tax fraud and tax evasion including in relation to third countries (COM(2012) 351).

(35) Proposal for a directive on the common system of value added tax as regards a quick reaction mechanism against VAT fraud COM(2012) 428.

(36) Commission communication — An action plan to strengthen the fight against tax fraud and tax evasion (COM(2012) 722).

(37) Commission recommendation regarding measures intended to encourage third countries to apply minimum standards of good governance in tax matters (C(2012) 8805).

(38) Commission recommendation on aggressive tax planning (C(2012) 8806).

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1972

Workers in the packing section of a candle factory in London, UK

2012

Modern techniques.

CHAPTER 3

Stronger growth

- EU policies for growth — Europe 2020
- 20 years of the single market
- EU budget

The European Union's strategy for growth and jobs, Europe 2020, was the mainstay of the Union's approach in 2012 to structural reforms and improving competitiveness. While the crisis management continued, there was a greater sense of urgency about the necessity to generate growth and sustainable employment. The Europe 2020 strategy was complemented by a compact for growth and jobs in mid-year as Europe's leaders grappled with the effects of unemployment and attendant social difficulties. A renewed belief that manufacturing industry could play a greater part in the growth agenda was flanked by a host of other policy initiatives seeking to leverage growth from sectors as diverse as information and communication technologies, agriculture and fisheries. Boosting the growth potential of the single market was central to policy developments during the year in which its 20th anniversary was marked chiefly by efforts to release its latent job creation power. Singular determination continued to be deployed to address the needs of the less well off in society and to build pathways into education, training and employment.

EU policies for growth — Europe 2020

Growth compact

The December European Council took stock of progress on work to boost growth and jobs, where the onus in 2013 will be on the Member States and the European Parliament to adopt and implement the many growth-enhancing proposals that the Commission has tabled. Specifically, the European Council urged the co-legislators to continue the good progress made with recent agreements on several Single Market Act I proposals by adopting the outstanding proposals without delay and then completing work on the Single Market Act II proposals by the end of the current parliamentary term. Swift and comprehensive follow-up on the youth employment package and the new communication on EU regulatory fitness ([1]) would also make an important contribution to economic recovery.

'The Commission has always argued that consolidation must be accompanied by sustainable growth created by structural reforms combined with targeted investment'
—José Manuel Barroso, President of the European Commission, 3 July 2012.

Education and training

In the European semester 2012, the Commission proposed country-specific recommendations ([2]) to Member States in the area of education and training, focusing on the following priorities:

- countries' performances with regard to the Europe 2020 education headline targets, i.e. early school leaving and tertiary or equivalent attainment, including early school leaving strategies and quality of higher education;
- vocational education and training reforms, including apprenticeships, in the follow-up to the youth opportunities initiative/youth action teams;
- addressing challenges related to specific disadvantaged groups.

In the context of these recommendations, the need to preserve investment in education and training in the context of growth-friendly fiscal consolidation was underlined.

While many of the direct measures to address skills and qualifications need to be taken at the level of the Member States, a number of European-level initiatives were launched over the course of the year.

In April, the Commission started the 'We mean business' campaign to encourage companies to create more trainee placements to boost young people's skills and employability. In 2012, the Commission provided funding support for a total of 130 000 job placements in companies through its Leonardo da Vinci and Erasmus schemes for vocational and higher-education students.

In September, an initiative to boost the recognition of skills and competences gained outside school or university was launched by the Commission. It aims to increase job opportunities, in particular for the young unemployed and those with few formal qualifications such as older and low-skilled workers. It also seeks to increase access to higher education, especially among mature students. The priorities of the new skills and jobs agenda were pursued in the course of 2012, including the launch of the EU skills panorama and the EU skills passport. The year also saw the birth of the first version of the European skills, competences and occupations classification (ESCO), while the Commission also proposed to modernise the systems for the recognition of professional qualifications and facilitate the mobility of workers within the EU.

In November, the Commission published its strategy 'Rethinking education', which makes recommendations on how to modernise and finance education and training systems in Europe. The strategy included the first education and training monitor, which reports on progress and lingering weaknesses in the fulfilment of the education and training 2020 strategy. A country analysis revealed how individual countries are performing in relation to education and training headline targets, benchmarks and indicators.

Employment and social inclusion

The employment package

The package was released in April ([3]). It seeks to identify the most effective tools and methods for a job-rich recovery and outlines ways to improve EU employment governance and coordination.

The package emphasises that supply-side labour-market policies, such as improving employability and activation, are important, but in the context of job scarcity they have to be accompanied by appropriate demand-side policies. Accordingly, it identifies policies such as hiring subsidies for newly created jobs; a budget-neutral tax shift from labour to environmental taxes; and greater support for business start-ups, self-employment and the social economy as effective ways to help demand. Moreover, on the demand side, it identifies the green economy, information and communication technologies, and health services as three areas that can generate enormous job opportunities and it proposes concrete and detailed action plans to support and develop the employment potential of these areas.

László Andor, Commissioner for Employment, Social Affairs and Inclusion, at the opening of the Job Days 2012.

The employment package highlights the dynamics of the labour market by identifying key elements such as investing in skills and creating a true European labour market.

Furthermore, the package addresses reinforcement of the governance of employment policy. It proposes better involvement of the social partners in European governance, notably by setting up, in full respect of the autonomy of social partners, a European tripartite format for an exchange of views on wage developments. Also, Member States are invited to submit, as an integral part of their national reform programme, their 'national job plan'.

Protection of supplementary pension rights of people who change jobs

Unlike with statutory social security pensions which are coordinated under Regulation (EC) No 883/2004 [4], people can lose supplementary pension rights if they move jobs across borders.

The Commission's 2005 proposal for a directive [5] (amended in 2007 [6]) sought to address this issue, but agreement was not reached in Council.

The Commission's 2012 White Paper on pensions [7] relaunched this debate, and the Cypriot Presidency chaired discussions on the issue in the Council.

Youth employment

The EU youth opportunities initiative (YOI) [8] continued to be a key component in the effort to tackle youth unemployment. It builds upon the consensus of Member States to take action in four main areas: preventing early school leaving; developing skills that are relevant to the labour market; helping young people gain their first work experience and on-the-job training, in particular through apprenticeships and traineeships; helping them to access the labour market and the world of employment.

The Commission launched a pilot exercise for mobilisation of the Structural Funds with the 15 Member States whose youth unemployment rates are above the EU average. The initial results proved encouraging. About €10.4 billion of EU financing was mobilised through the initiative, with at least 540 000 young people and 56 000 SMEs as beneficiaries.

To help young people find a job in another Member State, the 'Your first EURES job' scheme was launched at European level. It is a pilot initiative to provide a customised job placement service for both young jobseekers and employers.

At the end of 2012 the Commission presented a proposal for a Council recommendation on youth guarantees, including the key recommendation to ensure a quality offer of employment, education or training within 4 months of becoming unemployed or leaving formal education and further recommendations as guidelines to achieve this main objective.

The 'Youth on the move' campaign continued spreading the word about EU-funded study/work abroad opportunities for young people. In 2012, 'Youth on the move' organised events in Belgium, the Czech Republic, Germany, Ireland, Spain, France, Italy, Cyprus, Latvia, Lithuania, Austria, Portugal, Romania, Slovenia, Slovakia, Finland, Sweden and the United Kingdom, allowing young people to access information on studying, training, working or volunteering in another country.

Food distribution programme and the proposed Fund for European Aid to the Most Deprived

The EU's food distribution programme for the most deprived persons of the community has been in place since December 1987, when the Council adopted the rules for releasing public intervention stocks of agricultural products to Member States wishing to use them as food aid at Union level. Following agreement between the European Parliament and the Council, the new rules ([9]), with retroactive effect to 1 January, were adopted on 15 February. The main provisions of the revised programme are the following.

- The scheme remains fully funded out of the EU budget, with a ceiling of €500 million per budget year.
- The current scheme ends following a phasing-out period, which would terminate with the completion of the 2013 annual plan.
- The legal basis of the programme remains unchanged (Article 42 and Article 43(2) of the Treaty on the Functioning of the European Union (TFEU)) for the duration of the phasing-out period.
- Market purchases are made a regular source of supply for the programme to complement intervention stocks. However, priority would be given to the use of suitable intervention stocks where these are available.
- Member States choose the food products on the basis of objective criteria including nutritional values and suitability for distribution.
- Member States may give preference to food products of Union origin.
- The storage costs borne by the charities become eligible for reimbursement.

In October the Commission presented a proposal to set up a new Fund for European Aid to the Most Deprived as part of the multiannual financial framework 2014–20 to help the most deprived persons in the EU. The fund would support Member State schemes providing food to the most deprived people, and clothing and other essential goods to homeless people and materially deprived children.

Child poverty

The Member States and the Commission prepared a new comprehensive report on child poverty ([10]), which was adopted in June. It will serve as input for a Commission recommendation on child poverty to come in 2013.

The Europe 2020 strategy is giving new impetus to the policy efforts addressing child poverty. One of its five headline targets for 2020 is to reduce the number of people at risk of poverty by 20 million, i.e. by 20 %. A number of Member States have even set specific targets for child poverty, while two thirds have mentioned child poverty as an important challenge in their national reform programmes.

Roma integration

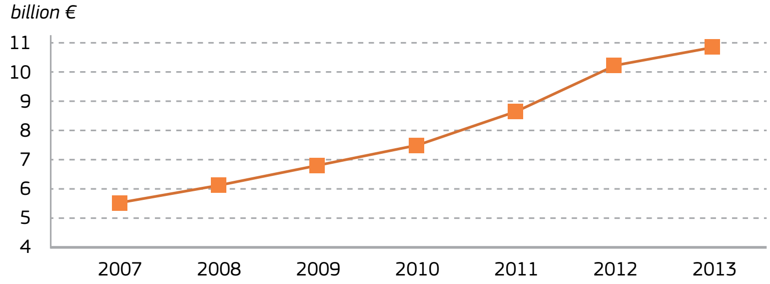
In May the Commission adopted a communication ([11]) assessing the national Roma integration strategies submitted by the Member States. In the context of the European semester, the Commission also evaluated the consistency of national Roma integration strategies with mainstream policies proposed in national reform programmes. On that basis, country-specific recommendations relevant for Roma inclusion for Bulgaria, Hungary and Slovakia were made.

Research, development, innovation

European research area

The European research area (ERA) contributes to the Europe 2020 strategy as a key component of the innovation union policy flagship ([12]). In 2012 the momentum was maintained with the adoption of the communication 'A reinforced European research area: partnership for excellence and growth' ([13]). Five priority areas were identified: more effective national research systems; optimal transnational cooperation and competition; an open labour market for researchers; gender equality and gender mainstreaming in research; and optimal circulation, access to and transfer of scientific knowledge, including via the digital ERA. The communication responds to the calls from European leaders to achieve the ERA by 2014.

BUDGET EXECUTION IN THE FIELD OF RESEARCH AND TECHNOLOGY DEVELOPMENT (RTD) FROM 2007 TO 2012 AND OUTLOOK FOR 2013



Innovation union

The EU continued to make good progress in implementing measures to give tangible effect to the Europe 2020 innovation union flagship initiative. New impetus for private research and innovation investments will come from four measures aimed at creating a single innovation market:

- cutting the costs of patenting in Europe by 80 % through a unified patent agreed by the European Parliament and the Council in December 2012 ([14]);
- modernising and accelerating standard-setting to develop and gain future markets, cutting time-to-standard by half;
- ending the fragmentation of European venture capital markets through an EU passport for venture capital funds; and
- using the power of public procurement for innovation through concrete innovation-friendly proposals in the EU procurement directives.

Máire Geoghegan-Quinn, Commissioner for Research, Innovation and Science, with a 'zero emission' bus running on hydrogen.

In addition, the innovation union is also supported by the actual financing of innovation. To that end the final and biggest ever set of calls for proposals for research, €8.1 billion, was made under the seventh framework programme (FP7). The calls target both innovation and a range of societal challenges, building a bridge to Horizon 2020, the next funding programme for EU research and innovation from 2014–20. The calls will support projects and ideas that will boost Europe's competitiveness and tackle issues such as human health, protecting the environment and finding new solutions to growing challenges linked to urbanisation and managing waste. These last calls of FP7 embrace a much larger part of the innovation cycle than ever before. They will shorten the gap from ideas to market through support to pilot projects, exploitation of existing research results, standardisation actions, public procurement of innovation, specific SME actions and in many other ways.

European innovation partnerships

The European innovation partnerships take a new approach to speed up innovative solutions to specific societal challenges by mobilising stakeholders across the whole research–development–innovation chain, bringing together public and private stakeholders across demand and supply, and across borders and sectors. They each have an ambitious target to reach by 2020, and are expected to start delivering results within 2 to 3 years.

European innovation partnerships have already been launched in the following areas:

- active and healthy ageing
- raw materials
- water
- agricultural productivity and sustainability.

In addition, a European innovation partnership on smart cities and communities has been proposed.

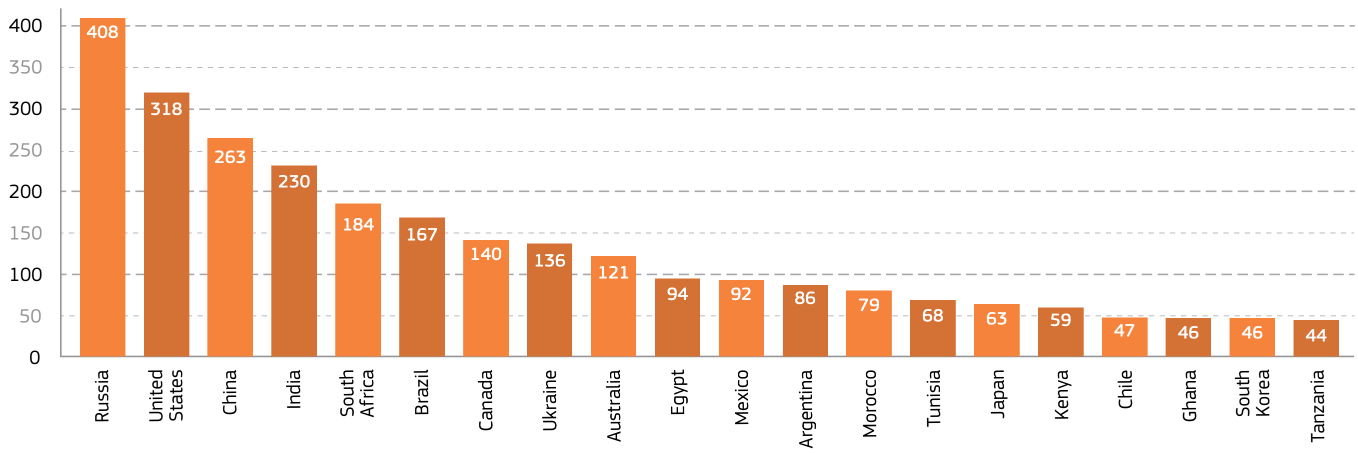
Initiatives under the joint programming process are starting to deliver by launching joint actions and calls addressing major societal challenges such as ageing, climate knowledge or safe food supply. They are thereby structuring the ERA as foreseen in the original Commission communication ([15]). The Commission supports all 10 joint programming initiatives through coordination and support actions to facilitate their progress. Four out the 10 joint programming initiatives have this year adopted strategic research agendas ([16]) and several of them are already investing in joint actions and calls for a total of around €50 million in 2012.

Key enabling technologies — a bridge to growth and jobs
A communication on a common strategy for key enabling technologies (KETs) in the EU was published in June ([17]). The global market in KETs, which comprise micro- and nanoelectronics, advanced materials, industrial biotechnology, photonics, nanotechnology and advanced manufacturing systems, is forecast to grow from some €650 billion to over €1 trillion by 2015. The Commission's goals are: promoting research in this field by allocating €6.7 billion in industrial capabilities, establishing and implementing a multiannual work programme for projects and implementing innovation-oriented public–private partnerships. The deployment of KETs is highly relevant for both industrial competitiveness and for responding to societal challenges, while their transversal and multifaceted role is mirrored by the number of SMEs active in the field and the number of high-quality jobs being created. Later in the year, the Commission presented a communication on the regulatory aspects of nanomaterials ([18]), which identified possible gaps and suggested action to fill them and better implement the existing legislative framework.

Open access to EU-funded research results — boosting Europe's innovation capacity
In July the Commission presented a communication ([19]) and a recommendation ([20]) to improve access to scientific information produced in Europe, in particular thanks to EU research funding. Broader and more rapid access to scientific papers and data will make it easier for researchers and businesses to build on the findings of publicly funded research. This will boost Europe's innovation capacity and give citizens quicker access to the benefits of scientific discoveries.

International cooperation in research and innovation
The EU is an important international player and is among the world's leading regions in research and innovation. International cooperation is therefore an important element of the EU's research and innovation activities, as illustrated by the fact that one in five of the projects funded through FP7 has a non-EU partner as part of its consortium. Other important international initiatives funded through FP7 include: the European and Developing Countries Clinical Trials Partnership, which contributes to combating HIV/AIDS, tuberculosis and malaria, in particular in sub-Saharan Africa; the Marie Curie actions, which have attracted participants from over 80 different countries; and the human frontier science programme, in which the EU and 13 other countries finance international collaboration in basic research.

TOP INTERNATIONAL PARTNERS OF FP7 — PARTICIPATIONS PER COUNTRY



A communication on 'Enhancing and focusing international cooperation in research and innovation: a strategic approach' was adopted in September 2012 ([21]) with a view to preparing for Horizon 2020. It identifies three main objectives for international cooperation: strengthening the EU's excellence and attractiveness in research and innovation, as well as its economic and industrial competitiveness; tackling global societal challenges; and supporting the Union's external policies. Proposals are made to develop multiannual roadmaps for cooperation with key partner countries and regions, while also promoting common principles and strengthening the partnership with Member States and major stakeholders.

A stronger European industry for growth and economic recovery

Europe needs its real economy now more than ever to underpin the recovery of economic growth and jobs and it needs to strengthen its industrial base in line with the challenges of the 21st century. Immediate action needs to be taken to reverse the declining role of industry, with the aim of delivering sustainable growth and high-value jobs. Currently, industry accounts for about 16 % of EU GDP, whereas the Commission has proposed setting a target of 20 % by 2020 ([22]).

Europe's industry is well placed to attain this target: Europe is a world leader in many strategic sectors such as automotive, aeronautics, engineering, space, chemicals and pharmaceuticals. Industry still accounts for four fifths of Europe's exports and 80 % of private sector R & D investment comes from manufacturing.

The pillars of the reinforced industrial policy are as follows.

- Investments in innovation — providing the right framework conditions for investments to rapidly return to pre-crisis levels, with a focus on six priority areas with enormous potential for growth and jobs in Europe: advanced manufacturing technologies for clean production; sustainable industrial and construction policy, and raw materials; clean vehicles; bio-based products; key enabling technologies; and smart grids.

- Better market conditions — improvements in the functioning of the internal market and opening up international markets. The Commission will concentrate on selected areas where significant improvement can be achieved quickly: improving the internal market for goods; fostering entrepreneurship with regard to the digital single market, which is expected to grow by 10 % a year up to 2016; protecting intellectual property rights; and further promoting the internationalisation of EU SMEs around the world, reaching 25 % (from 13 %) in the medium term.

- Access to finance and capital — to improve lending to the real economy by better mobilising and targeting public resources, including those of the EIB, which should allocate between €10 and €15 billion in additional lending for SMEs, and of the Structural Funds, and by unlocking private funds through the elimination of remaining obstacles for venture capital funds and the facilitation of cross-border operations by smaller companies.

- Human capital and skills — equipping the labour force for industrial transformations, notably by better anticipating skills needs and mismatches. In this area, the Commission will in particular further promote cooperation between employers, workers and relevant authorities through the creation of European sector skills councils and of knowledge and sectors skills alliances.

José Manuel Barroso, President of the European Commission, at the presentation of the Hiriko driving mobility project.

CARS 2020: for a strong, competitive and sustainable European car industry

The Commission presented its car action plan ([23]) in October — with 12 million sector-related jobs, the automotive industry is vital for Europe's prosperity and job creation. The EU needs to maintain a world-class car industry, producing the most energy-efficient and safe vehicles globally and providing high-skilled jobs to millions. The action plan proposes a massive innovative push by streamlining research and innovation under the European green cars initiative. Cooperation with the European Investment Bank will be reinforced to finance an innovation boost and facilitate SMEs' access to credit. An EU standard recharging interface will provide the regulatory certainty needed to facilitate a breakthrough for large-scale electric car production. Innovation in the automotive industry will also be stimulated through a comprehensive package of measures to reduce CO_2, pollutant and noise emissions, to drive improvements in road safety and to develop technologically advanced intelligent transport systems.

The European SME Week — 15–21 October 2012

This annual campaign provides information about support for SMEs and promoting entrepreneurship across 37 countries. Eighty-five per cent of net new jobs in the EU between 2002 and 2010 were created by small and medium-sized enterprises. At 1 % annually, employment growth for SMEs was higher than for large enterprises (0.5 %). Green jobs are generally created in SMEs and are estimated to expand dynamically by 35 % over the next 2 years. As female entrepreneurial potential is currently underexploited — women only account for 34.4 % of the self-employed in Europe — this year's SME Week focused on a range of activities to encourage women to consider setting up their own business.

Neelie Kroes, European Commission Vice-President responsible for the Digital Agenda, at the ICT 'Made in Europe' exhibition at the European Parliament.

Digital agenda for Europe — next steps

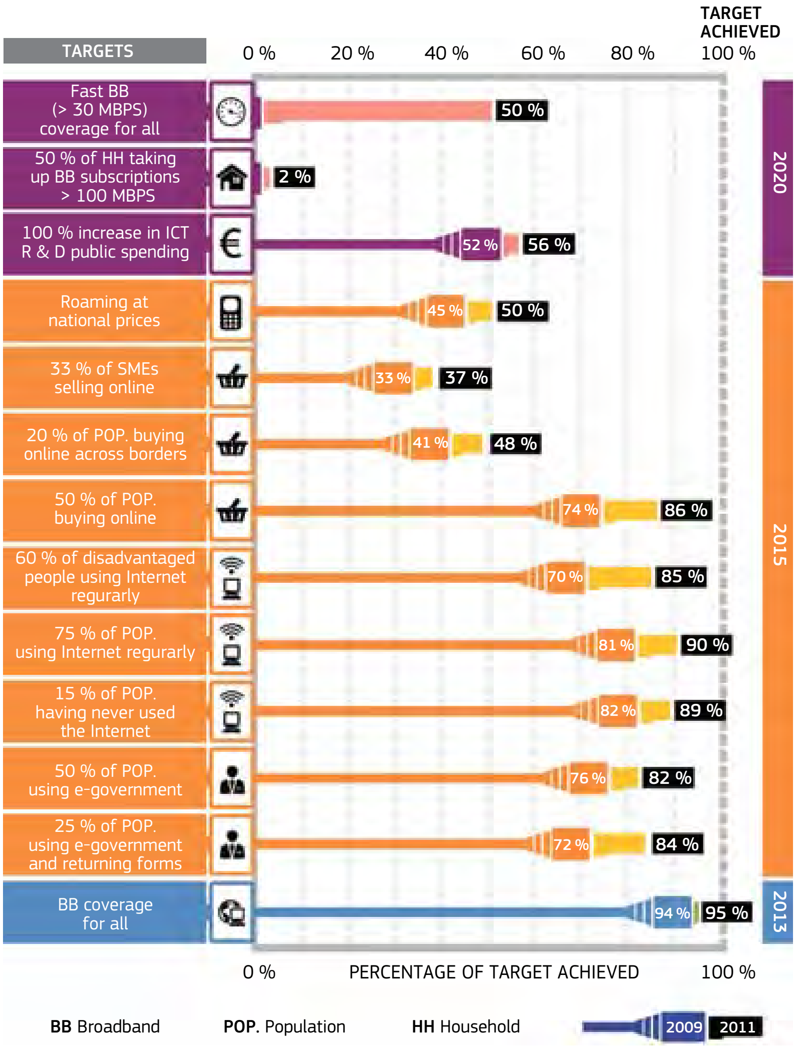
The year 2012 saw the mid-point in the implementation of the digital agenda for Europe (DAE), the Union's 5-year strategy to stimulate the digital economy and address societal challenges through digital technologies. In December 2012 a comprehensive policy review ([24]) showed that the DAE had achieved many of its targets and was on track to meet many others. Thirty-eight of the 101 DAE actions were completed. Regular Internet usage is rising steadily, especially among disadvantaged groups. The number of citizens who have never used the Internet is decreasing. Online buying continues to increase, although the pace of growth in cross-border e-commerce remains too slow. High-speed broadband shows the first signs of taking off, including ultra-fast connections above 100 Mbps. However, significant differences remain among Member States, differences which require European policy action.

The review identified seven areas where the European Commission will take more focused action over 2013–14.

- Creating a new and stable broadband regulatory environment.
- Creating new public digital service infrastructures through the 'Connecting Europe facility'.
- Launching a grand coalition on digital skills and jobs.
- Proposing an EU cybersecurity strategy and directive.
- Updating the EU's copyright framework.
- Accelerating cloud computing through public-sector buying power.
- Launching a new electronics industrial strategy — an 'Airbus of chips'.

Implementation of this updated DAE could increase European GDP by 5 %, or €1 500 per person, over the next 8 years, by increasing investment, improving e-skills levels in the labour force, enabling public sector innovation and reforming the framework conditions for the Internet economy.

DIGITAL AGENDA TARGETS



Source: European Commission, Digital Agenda Scoreboard 2012.

Boosting e-commerce

As part of the digital agenda and the Single Market Act, and in response to the request from the European Council to submit a roadmap for the completion of the digital single market by 2012, the Commission presented in January ([25]) 16 targeted initiatives aimed at doubling the share of e-commerce in retail sales (currently 3.4 %) and that of the Internet sector in European GDP (currently less than 3 %) by 2015. By that year online trade and services could account for more than 20 % of growth and net job creation in some Member States. Moreover, the development of electronic commerce and online services offers enormous potential for beneficial economic, social and societal change. The Internet economy creates 2.6 jobs for every 'offline' job lost, and offers a better choice to consumers, including those in rural and isolated areas.

Unleashing the potential of cloud computing in Europe

The EU cloud computing strategy adopted in September [26] aims to drive European business and government productivity by creating a friendlier environment for 24/7 access to computing power and content. The Commission has proposed actions to: cut through the jungle of technical standards so that cloud users enjoy interoperability, data portability and reversibility; develop an EU-wide certification scheme for trustworthy cloud services; and develop model contract terms to cover issues not covered by the common European sales law [27]. Implementing the actions in the cloud computing strategy for the European Union would support the creation of 3.8 million new European jobs and generate some €250 billion by 2020 (against €88 billion with no policy change). In parallel, a European cloud partnership was established in order for innovation and growth to be driven by the public sector, which is the largest purchaser of IT services in Europe (with around €5 billion in cloud service purchases in 2011, rising to some €11 billion by 2014).

New advantages for mobile users

In summer 2012, EU consumers found it much cheaper to use mobile Internet while travelling in other Member States. Updated roaming rules delivered consumers savings of 75 % across a range of mobile roaming services compared to 2007 prices, a saving of more than a €1 000 per year for a typical businessperson travelling in the EU or some €200 for a family taking their annual summer holiday abroad.

The revised EU roaming regulation approved by the Parliament and the Council in the first half of 2012 also introduced structural measures to boost competition in the EU roaming market. From summer 2014, consumers will be able to choose a separate roaming contract before they travel or select a provider at their destination, similar to the way they choose a Wi-Fi network.

Rules for cross-border and secure electronic transactions in Europe

In June the Commission adopted a draft regulation [28] to enable cross-border electronic signatures and to get more value out of electronic identification in the digital single market. The proposed regulation will ensure people and businesses can use their own national electronic identification schemes (e-IDs) to access public services in other EU countries where e-IDs are available. It also creates an internal market for e-signatures and related online trust services across borders by ensuring these services will work across borders and have the same legal status as traditional paper-based processes.

A safer and better online world for children and teenagers

The Commission set out a plan [29] in May 2012 to give children the digital skills and tools they need to benefit fully and safely from the digital world. The Internet was not designed with children in mind, but today 75 % of children use the Internet, a third of them on mobiles. The new strategy is to build up the market for interactive, creative and educational content online, in a partnership between the European Commission and Member States, mobile phone operators, handset manufacturers and providers of social networking services.

Sharing radio spectrum to foster wireless innovation

As the first measure of the radio spectrum policy programme, the Commission presented a coordinated EU approach ([30]) to enable wireless technologies, including broadband, to share the use of the radio spectrum, in response to the exponential growth in mobile and wireless data traffic. With new technologies it is possible to share radio spectrum amongst several users — such as Internet providers — or use the spectrum available between TV frequencies. A coordinated European approach to sharing the spectrum will lead to greater mobile network capacity, cheaper wireless broadband and new markets such as tradable secondary rights for a given spectrum allocation.

Space technology

Since mid-2012, GPS data has been obtainable via the Internet in addition to access via the existing satellite signal. The European Data Access Service — a new commercial service of the European Geostationary Navigation Overlay Service — is designed to make satellite navigation in Europe more reliable and thus more effective for use in commercial applications in difficult surroundings. The EDAS will support new services in numerous sectors, including high-precision fertiliser spraying, automatic road-tolling, fleet management, inland waterway navigation, dangerous goods transportation and accurate area measurement. Access to GPS data will also be possible via hand-held devices, using wireless communication from added-value service providers.

In October 2012 the latest two operational Galileo satellites were launched into orbit. This second launch set the foundation for the in-orbit validation of the system with a total of four Galileo satellites. As from next year, the large-scale deployment of satellites will continue towards the completion of the full Galileo constellation with 30 satellites. The annual market for global navigation satellite products and services is currently valued at €124 billion worldwide, and is expected to grow over the next decade, leading to an estimated market size of €244 billion in 2020.

Antonio Tajani, European Commission Vice-President responsible for Industry and Entrepreneurship, takes a picture with his smartphone at the air show in Paris-Le Bourget.

Cohesion policy

Structural Funds: the investment arm of the EU budget

EU cohesion policy is leading the way in responding to the current economic crisis — adapting to harsher financial conditions, but also contributing to growth and jobs through an ever-closer alignment with the Europe 2020 objectives. Cohesion policy is a key instrument in implementing the strategy because success in achieving its growth and employment goals will greatly depend on the capacity to support investment at national, regional and local levels. The policy plays an essential role in driving the shift to investment in smart, sustainable and inclusive growth through the actions it can support to promote employment, education and social inclusion and to tackle climate, energy and environmental issues.

Johannes Hahn, Commissioner for Regional Policy, on a trip to the Danube region to see progress within the framework of the Danube strategy.

Such strategic investment is needed not only in the poorest EU regions, but in all regions of Europe in order for them to stay competitive. Cohesion policy pushes regions to capitalise on their strengths, to make more effective and better-combined use of European national and regional public funds, and to develop 'smart specialisation' strategies for growth. Regions are required to set clear strategic priorities and to focus on local strengths, removing bottlenecks to innovation and harnessing innovation potential. EU-funded projects such as Eco World Styria or UPTEC at Porto University are leading lights, creating synergies between business and academia in sectors of innovation potential in the local economy. Such projects and strategies are key to securing prosperity and jobs in the regions, as well as to making Europe more competitive and knowledge driven as a whole, in line with our Europe 2020 agenda.

In keeping with the goal of inclusive growth, and in order to combat the risk of a 'lost generation', more than €10 billion of funding from the European Social Fund and European Regional Development Fund has been redirected in order to tackle youth unemployment in the eight Member States with the highest incidence.

Cohesion policy mobilises on average €65 billion of investments each year (EU and national co-financing combined), which corresponds to more than 50 % of total public investment in many Member States. It is having a real impact on the EU economy — for instance it is estimated that the GDP of the 12 Member States which entered the Union in or after 2004 will increase by around 1.5 % each year during the implementation of the current cohesion programmes (i.e. between 2007 and 2016).

The impact of cohesion policy is twofold: it has a short-term impact reflecting the implementation of programmes and a long-term impact by improving the structure of the economy and its human capital. Accordingly, an important part of its impact only materialises in the long run, i.e. after the programmes are completed. For instance, between 2007 and 2025 the impact for the 12 Member States which entered the Union in or after 2004 surges to a 4.5 % increase in GDP per year.

REGIOSTARS AWARDS 2012 ([31])

Innovative and inspirational projects from Austria, Poland and Sweden, and two transnational projects, were recognised at the 2012 RegioStars Awards in June. These good-practice examples, which range from clean technology to assistance for older people in rural areas, demonstrate the wide variety of projects supported through EU cohesion policy.

The proposals for 2014–20 ensure that the policy is closely aligned with the goals of smart, sustainable and inclusive growth for all through the concrete translation of our priorities into investment. Public investment needs to be concentrated more than ever on a small number of growth-enhancing investment priorities, as outlined in Europe 2020. This 'thematic concentration' aims to maximise the added value of investment for Europe as a whole, focusing investment on 2020 targets via a thematic menu of objectives and related investment priorities with the flexibility to adapt strategies to the individual needs and challenges of regions.

Connecting Europe facility

With a proposed budget of €50 billion between 2014 and 2020, the 'Connecting Europe facility' (CEF) (32) will be a key instrument to promote growth, jobs and competitiveness through targeted infrastructure investment at European level. It will support the development of high-performing, sustainable and efficiently interconnected trans-European networks in the fields of transport, energy and digital services.

The CEF will invest €31.7 billion to upgrade Europe's transport infrastructure (railways, roads, ports and inland waterways), build missing links and remove bottlenecks. By focusing on transport modes that are less polluting, the CEF will push our transport system to become more sustainable. The proposed funding includes €10 billion ring-fenced in the Cohesion Fund for transport projects in the cohesion countries, with the remaining €21.7 billion available for all Member States to invest in transport infrastructure.

The energy sector can look forward to €9.1 billion being invested in trans-European infrastructure such as electricity and gas transmission grids, helping to meet the EU 2020 energy and climate objectives. The CEF will also help to remove financial gaps and network bottlenecks.

In telecommunications and ICT the CEF will provide almost €9.2 billion to support investment in fast and very fast broadband networks and pan-European digital services.

To assist with the financing of the CEF and increase the impact of the EU budget, the Europe 2020 project bond initiative will be one of a number of risk-sharing instruments upon which the facility may draw in order to attract private finance for projects. The total budget amount of €230 million for a pilot phase managed by the European Investment Bank is expected to mobilise investments of up to €4.6 billion.

The European Commission first proposed the establishment of the CEF in June 2011, as part of its EU budget proposal for the next multiannual financial framework (MFF) for 2014–20. The proposal was submitted to the European Parliament and the Council, and the Council reached a partial general agreement on 7 June 2012. The Commission considered the agreed text a fair basis for the ongoing interinstitutional discussions.

On 18 December the members of the European Parliament's Committee on Transport and Tourism gave their clear and strong support to the efforts of the European Commission to give new impetus to the development of the trans-European transport network (TEN-T). Their vote on the CEF reflected their strong belief that achieving a modern, well-linked and efficient European transport network is vital to support the renewed growth and competitiveness of the European economy on a sustainable basis.

The proposal is now expected to be adopted by the two co-legislators before the end of 2013, following an agreement on the Union's budget for 2014–20.

Connecting Europe facility — Europe Container Terminals (ECT) in Rotterdam, Netherlands.

Justice for growth

Effective and efficient justice systems across Europe will help drive growth, attract investors and increase competitiveness. Trusting that the rule of law is fully and efficiently upheld directly translates into the confidence to invest in the economy. In the framework of the country-specific recommendations of the European semester, EU countries were also encouraged to make their judicial systems ever more efficient and to implement necessary judicial reforms as part of their economic recovery programmes.

Furthermore, the Union's justice policy can stimulate growth by helping the single market to fulfil its potential. Justice policy is to be used to complete the internal market and to modernise the existing rules.

Reform of EU rules on civil judgments cuts red tape in cross-border court cases

Businesses and consumers will be able to resolve cross-border legal disputes more easily, thanks to a reform adopted by the Parliament and the Council in December 2012. The reformed rules determine which national court has jurisdiction in cross-border cases and how court judgments issued in one EU country are recognised and enforced in another. The reform that was proposed by the European Commission in December 2010 ([33]) aims to strengthen the single market and cut red tape. It proposes to abolish the costly 'exequatur' procedure, which requires companies to first go through a time-consuming and costly procedure in the courts to get a judgment in civil and commercial matters recognised in another EU country. Abolishing this administrative procedure is expected to save businesses and consumers up to €48 million a year. The regulation will enter into force following its publication in the *Official Journal of the European Union* in 2012; it will become applicable 2 years thereafter.

Commission proposes modern insolvency rules

In December the Commission proposed to modernise the current rules on cross-border insolvency ([34]), which date from 2000. Benefiting from 10 years of experience, the new rules propose to shift the focus away from liquidation towards developing a new approach to help businesses overcome financial difficulties, while protecting creditors' right to get their money back. They will also be of benefit to creditors as they are more likely to get their money back if a company restructures rather than liquidates. The new rules are geared towards increasing the efficiency and effectiveness of cross-border insolvency proceedings, affecting an estimated 50 000 companies in the EU every year. This is a first step towards an EU 'rescue and recovery' culture to help companies and individuals in financial difficulties.

Protection of the financial interest of the EU, including by criminal law

New rules were proposed to fight fraud against the EU budget by means of criminal law to better safeguard taxpayers' money. The draft directive ([35]) creates a more harmonised framework for prosecuting and punishing crimes involving the EU budget so that criminals no longer exploit differences between national legal systems. The proposed legislation provides for common definitions of offences against the EU budget and for minimum sanctions. This will help to deter fraudsters, provide for more effective legal action at national level and make it easier to recover lost funds.

LIBOR scandal — measures to avoid market manipulation of lending rates

In the wake of the LIBOR scandal in 2012 serious concerns were raised about the manipulation of benchmarks, which can result in significant losses to consumers and investors, or distort the real economy. The integrity of financial markets is also undermined by market manipulation and insider dealing. European justice ministers meeting in the Council of the European Union in December reached agreement on the Commission's proposals for a directive on insider dealing and market manipulation [36] that will criminalise such behaviour.

Data protection

At the beginning of 2012 the Commission proposed a comprehensive reform of the EU's 1995 data protection rules to strengthen online privacy rights and boost Europe's digital economy [37]. A single law will do away with the current fragmentation and costly administrative burdens, leading to savings for businesses of around €2.3 billion a year. The initiative will help reinforce consumer confidence in online services, providing a much-needed boost to growth, jobs and innovation in Europe (see relevant section in Chapter 4 for further details).

Women on boards

In November the Commission proposed legislation [38] with the objective of breaking the glass ceiling that continues to hinder the access of female talent to the boardrooms of Europe's biggest companies. Currently boards are dominated by one gender: 85 % of non-executive board members and 91.1 % of executive board members are men, while women make up 15 % and 8.9 % respectively. Despite an intense public debate and some voluntary initiatives at national and European level, the situation has not changed significantly in recent years: an incremental average increase of the number of women on boards of just 0.6 percentage points per year has been recorded since 2003.

The proposed directive sets an objective of a 40 % presence of the under-represented sex among non-executive directors of companies listed on stock exchanges [39]. The carefully balanced proposal offers a procedural quota so that if a candidate for a supervisory board position of the under-represented gender is as well qualified as a candidate of the over-represented gender, the candidate of the under-represented gender must be given priority. Moreover, it does not apply to small and medium-sized enterprises (companies with less than 250 employees and an annual worldwide turnover not exceeding €50 million) or non-listed companies. Moreover, Member States that have already taken other, equally effective measures to achieve the 40 % quota target before the directive enters into force will not have to apply the new procedural quota and can continue to follow their own route.

Viviane Reding, European Commission Vice-President responsible for Justice, Fundamental Rights and Citizenship, at a press conference on the Commission proposal on gender equality on the boards of listed companies.

Resource efficiency

The spring European Council, in its conclusions on economic governance, asked for rapid progress on the implementation of the roadmap towards a resource-efficient Europe, a call subsequently underlined by the European Parliament. In June the Commission launched a European Resource Efficiency Platform (EREP) to provide high-level guidance and advice on policy measures designed to transform the European economy on a more sustainable growth path. The primary task of the platform is to determine how to achieve the milestones and vision set out in the roadmap, including the ultimate vision of decoupling resource use and its impacts from economic growth. The EREP is part of a wider Commission move to bring together stakeholders and promote dialogue on resource-efficiency challenges and opportunities. The Commission has launched an online platform on resource efficiency, where it promotes a series of exchanges and consultations on the topics of the transition towards a green economy, and resource-efficiency indicators and target setting.

In the course of the year the Commission adopted the remaining initiatives under the resource-efficiency flagship. The communication 'Innovating for sustainable growth: a bioeconomy for Europe' ([40]) sets the goal of a more innovative and low-emissions economy, reconciling demands for sustainable agriculture and fisheries, food security and the sustainable use of renewable biological resources for industrial purposes, while ensuring biodiversity and environmental protection. Other initiatives adopted included the strategy for the sustainable competitiveness of the EU construction sector and two regulations on the monitoring and reporting of greenhouse gas emissions ([41]), and on verification and the accreditation of verifiers under the EU emissions trading system ([42]).

Resource efficiency became a pillar of the new environmental action programme and a number of initiatives were adopted aimed at an efficient use of natural resources, in particular water and soil (see the section on the environment).

Efficient management

Under its smart regulation agenda, the Commission continued to improve the manner in which it prepares, implements and evaluates policy. It has increased transparency and accountability, and promoted evidence-based policymaking.

Smart regulation

Following up on its commitment in the 2010 communication on smart regulation in the EU ([43]), the Commission issued a communication on EU regulatory fitness ([44]) (in December). The new communication takes stock of the progress made and the lessons learned since 2010. On this basis it identified a set of concrete actions for further improvements. The results of a review of the Commission public consultation policy ([45]) and the final report of the action programme for reducing administrative burdens in the EU ([46]) were attached to the communication.

The voice of citizens and stakeholders has been strengthened by increasing the minimum period for open public consultations from 8 to 12 weeks since the beginning of 2012.

The Commission continued to simplify legislation, having produced proposals going significantly beyond the 25 % target set in the action plan for administrative burden reduction ([47]) 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.

A clear writing campaign supports smart regulation by encouraging and training Commission staff to write clearly. To this end, the Commission made a multilingual 'writer's toolbox' and an e-tutorial available to drafters in 2012, and it runs the annual Clear Writing Awards.

The Commission took action to minimise regulatory burdens for the smallest businesses ([48]). This included a review of the existing body of European legislation to exempt the smallest companies from regulatory burdens or adapt provisions to their needs. Several conferences were held in Member States with SMEs to collect feedback, and a wider public consultation was launched to identify the 10 most burdensome pieces of legislation, as viewed by SMEs.

Impact assessment

The Impact Assessment Board — the body which ensures that Commission impact assessments conform to quality and procedure standards — examined 97 impact assessments and issued 144 opinions on their quality, 47 of which were on resubmitted reports. To support the analysis of individual impacts within the Commission integrated approach to the assessment of benefits and costs, new operational guidelines on analysing impacts on sectoral competitiveness and micro-enterprises were finalised.

Implementation of EU law

The 'EU pilot' application has been operating since 2008 with the aim of providing speedier and better answers to questions raised by citizens or businesses and solutions to problems arising in the application of EU law. It is also designed to improve communication and cooperation between the Commission services and each participating Member State's authorities on the application and transposition of EU law. Since June 2012 all Member States have participated in this problem-solving mechanism. Files submitted to Member States by the Commission within 'EU pilot' in 2012 dealt mostly with environmental issues (28 %), the internal market (14 %), taxation (12 %), mobility and transport (9 %), and justice, fundamental rights and citizenship (8 %). Those policy areas represent 71 % of the total number of 'EU pilot' files.

In 2012 the number of infringement procedures initially launched against Member States for alleged breaches in the implementation of EU law amounted to 699 (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, environmental issues and health and consumers, representing about 60 % of the total.

After having initiated the first Court cases under Article 260(3) TFEU in 2011, the Commission decided to refer 35 such procedures to the Court in 2012. 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. At the end of 2012, 17 such procedures were ongoing before the Court against eight Member States.

Scientific advice in policymaking

The European Commission's in-house scientific service, the Joint Research Centre, provided continuous support in the EU policymaking process across a wide range of policies. In 2012, the JRC thoroughly analysed issues as diverse as the complex interdependencies of the European banking sector, the practical implications of classifying nanomaterials according to the Commission's proposed definition and the market impact of shale gas extraction. It worked on interoperability standards for electric vehicles, launched a repository of alien species, tested the earthquake resistance of buildings and carried out measurement campaigns to ensure that European laboratories are able to trace very low concentrations of pollutants. It monitored air pollution and natural and man-made hazards such as floods and droughts, supported nuclear stress tests and assessed the innovation capacity of Member States. The JRC identified new areas where its scientific support can provide tangible benefits, such as scientific support to eco-industries, oil refinery capacity, nuclear decommissioning and governance of river basins such as the Danube.

Internal audit

In 2012 the Internal Audit Service of the Commission carried out audits in various directorates-general and EU autonomous bodies on topics such as management and monitoring of staff allocation, annual activity reporting, payment deadlines, ethics and risk management implementation. More and more attention was paid to auditing performance, as one of the enablers allowing the organisation to successfully achieve its objectives by making optimal use of the resources at hand.

In October the Internal Audit Service organised a broad-scale event gathering together over 500 professionals in the area of internal audit from across Europe, Africa, Asia and the United States. The conference, dedicated to performance auditing, aimed at debating the modalities by which public sector internal auditors can contribute to the more efficient and effective management of their organisations. The event facilitated the exchange of methodologies and lessons learned among audit professionals, thus bringing value to the internal auditors' community.

Modernisation of public administrations

The quality of public administration at EU, national, regional and local levels is a determining element of competitiveness and an important productivity factor. The interoperability solutions for European public administrations programme (ISA) ([49]) is unique in its support for facilitating the cross-border and cross-sector collaboration of public administrations, and turns the challenge of restructuring public sector procedures into an opportunity. ISA actions motivate and support public administrations across Europe to cut down costs through interoperable, shared and reused software components.

The Commission adopted the e-Commission 2012–15, a new and ambitious IT strategy that aims to strengthen operational effectiveness and efficiency, and guarantee the continuity of the Commission's IT services, contain costs and create value, contribute to reducing administrative burdens, help to improve transparency and eliminate the digital barriers between public administrations in Europe. To support online communication with citizens and between administrations, the Commission is developing a new machine translation facility (MT@EC) using the body of work produced by its professional translators (currently more than 650 million sentences in 23 languages). A prototype has been available in-house on a limited scale since mid-2012, and the full service is planned to be operational by the middle of 2013.

An open and fair internal market

The 20th anniversary of the single market — the Single Market Act II

The year 2012 marked the 20th anniversary of the single market. Much has been achieved. For European consumers the single market means more choice at lower prices. For citizens, the single market has given them the capacity to travel freely, settle and work where they wish. For young people it has opened up the opportunity to study abroad — more than 2.5 million students have seized this opportunity in the last 25 years. For the 23 million companies in the EU the single market has opened up access to 500 million consumers and generated foreign investment. The evidence is clear: a strong, deep and integrated single market creates growth, generates jobs and offers opportunities for European citizens which were not there 20 years ago.

Michel Barnier, Commissioner for the Internal Market and Services, at the launch of the Single Market Week 2012.

The completion of the single market is a continuous exercise and is a central element of the European growth agenda to address the current financial and economic crisis. This is the rationale behind the Commission's October proposals in the second 'Single Market Act', in which it put forward 12 key actions for rapid adoption by the EU institutions. These actions are concentrated on four main drivers for growth, employment and confidence: integrated networks; cross-border mobility of citizens and businesses; the digital economy; and actions that reinforce cohesion and consumer benefits.

The Single Market Act II followed a first set of measures presented by the Commission in 2011 — the Single Market Act I — and represents a new chapter in a process towards a deeper and better-integrated single market.

The Single Market Act II includes actions in the following areas.

- Transport and energy networks: efficient and fully integrated transport and energy networks are the backbone of the single market. The opportunities offered by Cohesion and Structural Funds must be accompanied by a firm commitment towards competition, choice and good-quality services across the EU. To realise this vision, the Commission proposed:
  - an action to open the provision of domestic rail passenger services to further intra-EU competition;
  - the improvement of the single market for maritime transport;
  - measures to accelerate the single European sky;
  - actions to make the application of existing EU energy legislation effective.

- Mobility of citizens and businesses: free movement across borders is the very basis of a single market and one of the foundations of the European Union. Practical and legal barriers to the mobility of citizens, business activities and investment funding still persist. With the Single Market Act II, the Commission is proposing to:

  - develop the EURES (job search) portal into a fully fledged cross-border job placement and recruitment tool;

  - introduce provisions to mobilise long-term investment funds for private companies and long-term projects;

  - modernise insolvency proceedings, starting with cross-border cases, and contribute to an environment that offers second chances to failing entrepreneurs.

- The digital economy: with its economic weight and important spill-over effects, for example in terms of productivity and resolving societal challenges, the digital economy revolution remains an opportunity that cannot be missed. Working towards the completion of the digital single market by 2015, the Commission proposed to:

  - facilitate e-commerce in the EU by making payment services easier to use, more trustworthy and more competitive;

  - address a key underlying cause of lack of investment in high-speed broadband connection, i.e. its civil engineering costs;

  - make electronic invoicing standard in public procurement procedures — a proven money saver.

- Social entrepreneurship, cohesion and consumer confidence: the success of the single market is also a result of the economic and social participation it can generate. Consumers need to be confident and all citizens, everywhere in the EU, must have the chance to tap into the opportunities the single market offers. The Commission intends to pursue this objective by using concrete internal market tools, including:

  - improvement of product safety rules and their actual enforcement;

  - measures to ensure widespread access to bank accounts, as well as transparent and comparable account fees and easier bank account switching.

The 20th anniversary of the single market

The year 2012 marked the 20th anniversary of the creation of the single market, in which people, goods, services and capital can move freely. In its 20-year existence the single market has achieved much, but is still a work in progress which is constantly being refined, updated and expanded where necessary.

To mark this anniversary, a series of events was held across the 27 EU Member States in the week of 15–20 October 2012. They included forums, fairs, conferences, exhibitions, and radio and TV programmes. They brought together European citizens and businesses with Members of the European Parliament, the European Commission, the European Council and the Member States to mark and reflect on the past, present and future of the single market.

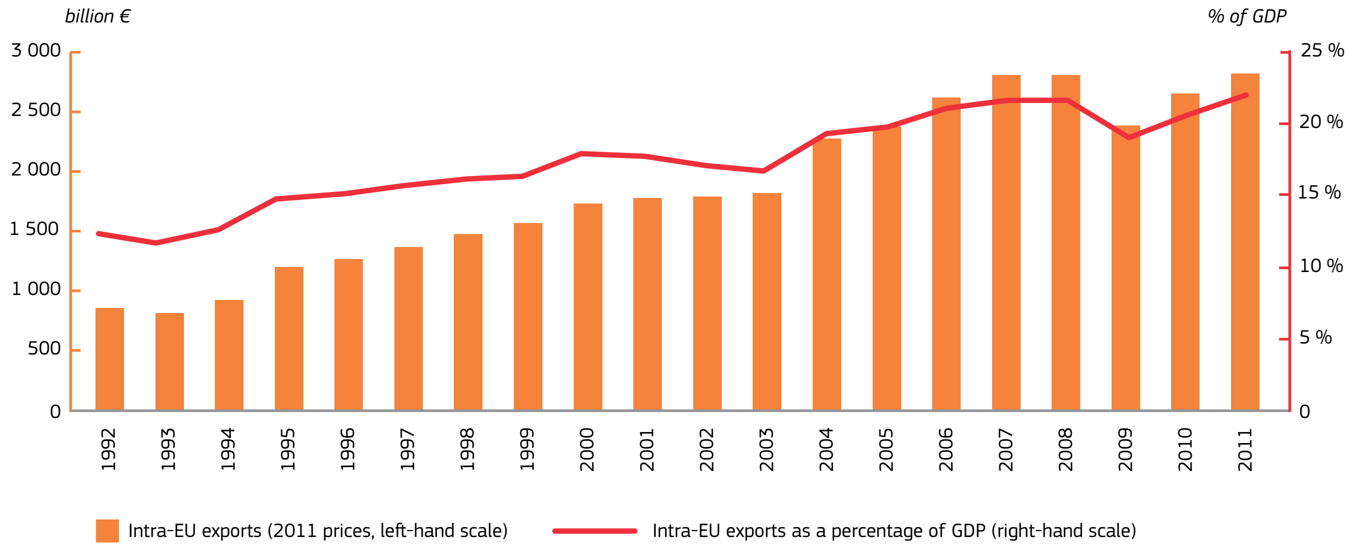
Michel Barnier, Commissioner for the Internal Market and Services, with the winners of the Generation 1992 competition.

Generation 1992 competition

'Generation 1992' was a competition in which today's 20-year-olds, who grew up in the single market, submitted videos, photos, cartoons, essays or smartphone apps on what Europe's single market means for their generation. Winners received their prizes at the Single Market Week closing event.

INTRA-EU TRADE BETWEEN 1992 AND 2011

Intra-EU trade in goods soared from €800 billion in 1992 to €2 800 billion in 2011 thanks to the single market. It increased from 12 % of EU GDP in 1992 to 22 % in 2011.



Source: Eurostat, AMECO.

Internal energy market (50)

In late 2012, the European Commission adopted a communication entitled 'Making the internal energy market work' (51). This communication considers the state of play of the progress towards the completion of the internal energy market by 2014 and encourages Member States to step up efforts by underlining the benefits of the internal energy market for citizens and businesses. It identified the need for further action in a number of areas, such as consumer protection, the enforcement of existing rules and investment in the modernisation of energy infrastructures, in order to ensure that Europe's energy systems are fit for the 21st century.

Promoting fair competition in the single market

Throughout 2012 the Commission continued to ensure that competition was safeguarded through the vigilant enforcement of the EU competition rules. Competition policy has helped maintain a level playing field in the single market, ensuring that consumers and law-abiding companies benefit from a competitive market place — in terms of better prices, more choice in innovative products and the prevention of distortive state aid.

Cartels

Cartels are the most serious breach of competition law. They impede the healthy functioning of the markets and harm consumers, companies and the economy. They keep prices artificially high, stifle innovation and create illegal partitions within the single market. In 2012, the fight against cartels remained a priority for the Commission.

The Commission adopted four decisions against major cartels, fining them over €1.8 billion. These cartels affected numerous Member States, involved many companies and operated for relatively long periods of time. The Commission uncovered several price fixing cartels and fined their participants, such as the operators of freight forwarding services or the producers of window mountings.

In December the Commission fined seven international groups of companies a total of €1.47 billion for participating in cartels in the sector of cathode ray tubes. These cartels had lasted for over a decade. They were among the most organised cartels that the Commission had ever investigated. They carried out the most harmful anti-competitive practices, including price fixing, market sharing, customer allocation, capacity and output coordination, and exchanges of sensitive commercial information. The fine reflects the gravity of the breach of law and is the highest imposed by the Commission to date. In all these cases, certain companies benefited from a reduction in fines because they helped the Commission with information under the leniency programme.

Antitrust

In addition to cartels, other types of anti-competitive behaviour — such as the abuse of a dominant position — have a harmful impact on the single market and consumers. Such behaviour reduces incentives for companies to provide new or better products and services at competitive prices, and consequently forces consumers to pay more for possibly lower quality.

Antitrust enforcement

In 2012 the Commission accepted the commitments offered by Apple and four top international publishing groups — Hachette Livre, part of France's Lagardère Group; Harper Collins, owned by News Corporation of the US; Simon & Schuster of the CBS Group, also of the US; and Macmillan, of the German publishing group Georg von Holtzbrinck — in relation to suspected infringements on the market for e-books in the European Economic Area (EEA).

The Commission had concerns that these companies may have contrived to limit retail price competition for e-books in the EEA, in breach of EU antitrust rules. Since this market is nascent in Europe and is extremely dynamic, quick and decisive action was called for.

To address the Commission's concerns, the companies offered to terminate ongoing agency agreements and to exclude certain clauses in their agency agreements for the next 5 years. The publishers have also offered to give retailers freedom to discount e-books, subject to conditions, for a 2-year period.

The commitments proposed by these companies will restore normal competitive conditions in this new and fast-moving market, to the benefit of the buyers and readers of e-books.

The Commission made legally binding the commitments offered by Thomson Reuters to create a new licence allowing customers, for a monthly fee, to use Reuters instrument codes (RICs) for data sourced from Thomson Reuters' competitors. The Commission had concerns that Thomson Reuters could be abusing its dominant position in the market for consolidated real-time datafeeds through its licensing practices, in breach of EU antitrust rules. The commitments offered by Thomson Reuters will enhance competition in this market. Financial institutions that use RICs will now be able to switch to alternative providers more easily.

The Commission also opened a string of new investigations in important markets. Examples include the investigation into a transatlantic joint venture between several passenger airlines, or the investigations in the sector of mobile device producers which look at whether the behaviour of certain holders of standard essential patents may amount to an abuse of dominance. The Commission is also working on other new cases involving telecommunications, transport, energy and pharmaceuticals.

Joaquín Almunia, European Commission Vice-President responsible for Competition, participated in the European Competition Forum.

Mergers

In 2012 the Commission cleared 253 merger transactions and banned only one.

- Cleared mergers in the telecommunications sector include the acquisition of Motorola Mobility, a developer of smartphones and tablets, by Google, the world's largest Internet search and advertising company and developer of Android, one of the most popular mobile operating systems. The Commission approved the transaction because it would not significantly modify the market situation in the EEA or any substantial part of it in respect of operating systems and patents for these devices.

- The acquisition of control by Südzucker of Germany, Europe's largest sugar producer, over ED & F Man of the United Kingdom, the second-largest sugar trader worldwide and a company also active in sugar production, was cleared conditionally. The approval in this case was made conditional upon the divestiture of ED & F Man's interests in the biggest and most modern production facility located in Brindisi. This will allow for sufficient competition in this market.

- A conditional clearance was also granted in the stainless steel sector concerning the acquisition of Inoxum, the stainless steel division of ThyssenKrupp of Germany, by the Finnish stainless steel company Outokumpu. The Commission's investigation found that, in the market for cold-rolled steel products in the EEA, the merger would combine the largest and second-largest players and create an entity between three and five times as big as the closest competitor. The approval was made conditional upon divestiture of Inoxum's steel plant in Terni and a number of distribution centres in Europe to ensure that the merged entity will continue to face a sufficient competitive challenge.

At the beginning of the year the Commission prohibited the merger between Deutsche Börse and NYSE Euronext. If allowed, the merger would have resulted in a quasi-monopoly in exchange-traded European financial derivatives, where the two companies controlled more than 90 % of the global market. The prohibition aimed at protecting the European economy from the adverse effects of a combination that would have practically eliminated effective competition in the market, with significant harm to customers.

State aid

In 2012 the Commission launched a far-reaching reform designed to modernise the rules on the control of state aid — the state aid modernisation (SAM) initiative ([52]).

This initiative has three main objectives: to ensure that state aid rules support sustainable, smart and inclusive growth and the Europe 2020 objectives; to prioritise enforcement in cases that have a significant impact in the single market; and to streamline the Commission's decision-making process.

In order to achieve these objectives, the Commission will improve the focus on 'good aid' — efficient and well-designed aid which addresses real market failures and has a real incentive effect. It will be even more vigilant with regard to 'bad aid', amounting to harmful subsidies crowding out private investment or keeping inefficient and non-viable companies on the market. At the same time, state aid modernisation has to contribute to Member States' efforts towards a more efficient use of public finances in the context of fiscal consolidation. The sovereign debt crisis and the scarcity of public funds emphasise the importance of the quality and effectiveness of public spending, including state aid. The main elements of the reform package should be in place by the end of 2013.

In 2012 the Commission took a number of decisions which will help to foster growth and innovation in Europe.

- It cleared a United Kingdom umbrella support scheme for investments in next-generation access (NGA) broadband networks, 'BDUK'. The scheme is aimed at supporting local projects in rural and remote areas, where such networks would be unlikely to be developed on commercial terms. It also approved a €2 billion support scheme aimed at promoting the development of NGA broadband networks in currently underserved areas of Bavaria, as it ensures that support is granted only in areas where no commercial NGA network rollout is planned in the near future. Both these schemes are a major step towards achieving the EU digital agenda and are a strong impetus for growth in both areas.

- The Commission approved an Austrian scheme to support the production of energy from renewable sources, the 2012 'Green Electricity Act', which is designed to assist Austria in reaching by 2020 the mandatory national renewable energy target. It also authorised a United Kingdom scheme in support of renewable energy sources used to generate heat in Northern Ireland, in line with the Europe 2020 strategy for sustainable growth.

- The Commission approved public funding of GBP 3 billion granted by the United Kingdom for the creation of a bank investing in environmentally friendly projects: the Green Investment Bank (GIB). The objective of this is to reduce carbon emissions in the United Kingdom by accelerating the development of a 'green economy'. The GIB's mission is to invest in projects in innovative, environmentally friendly areas for which a market failure has been identified.

In parallel, the Commission has continued to update and refine competition rules in a number of policy areas.

- The Commission has adopted a *de minimis* regulation for services of general economic interest (SGEI) ([53]). The regulation exempts from EU state aid rules aid of up to €500 000 per company over a 3-year period that is granted as compensation for the provision of SGEI. The new regulation is a major simplification for both public authorities and service providers, because it will considerably reduce the administrative burden for granting public compensation for small SGEI and, at the same time, it increases legal certainty.

- The Commission has adopted rules on national support for industry electricity costs in the context of the EU emission trading scheme (ETS). This new framework allows Member States to compensate some electro-intensive users, such as steel and aluminium producers, for part of the higher electricity costs expected to result from a change to the EU ETS as from 2013. The rules ensure that national support measures are designed in a way that preserves the EU objective of decarbonising the European economy and maintains a level playing field among competitors in the internal market.

Judicial review of the Commission's decisions in the field of competition

The year 2012 has also been marked by a number of important rulings by the Court of Justice of the European Union.

The Courts have recently confirmed several fundamental issues for competition practice. For instance, the General Court has endorsed the key elements of the Commission's fining policy introduced by the 2006 fining guidelines in three cases it has examined: sodium chlorate ([54]), international removers ([55]) and chloroprene rubbers ([56]). These rulings strengthen the Commission's position and consolidate legal certainty.

In the antitrust field, the judgment by the General Court in the MasterCard case is particularly important. The Court confirmed the Commission's finding that MasterCard's cross-border inter-bank fees for consumer debit and credit cards (MIFs) restrict competition as they inflate the cost of card acceptance by merchants without leading to benefits for consumers ([57]).

The General Court also largely upheld the Commission's decision of 2009 to impose fines on the E.ON group and GDF Suez for having concluded and maintained a market-sharing agreement in the French and German natural gas markets. By confirming that the Commission was right in finding that the companies' conduct violated European competition law, the General Court sent a strong message that the incumbent operators in the gas sector may not use anti-competitive practices to counter liberalisation efforts ([58]).

The General Court's Microsoft ruling essentially upheld the Commission's 2008 decision imposing a penalty payment on Microsoft for not complying with the Commission's 2004 Microsoft decision. This was the first judgment in which the Court has ruled on a penalty payment imposed on a company for non-compliance with an antitrust prohibition decision ([59]).

Taxation

In April, the Parliament strongly supported the 2011 proposal ([60]) for a common consolidated corporate tax base (CCCTB), which could save EU businesses billions of euros and help attract more foreign investors into Europe by eliminating the huge administrative burdens, heavy compliance costs and legal uncertainties that companies currently face when operating in more than one Member State.

In May, following the broad public consultation launched by the European Commission in December 2010 ([61]), the Council adopted conclusions calling for an EU VAT system which should be simpler, more efficient and neutral, robust and fraud proof in order to ensure the correct operation of the single market.

In October the Commission made a proposal for a Council decision on enhanced cooperation for a financial transaction tax, for the sake of fair taxation and a stronger single market. So far 11 countries have indicated they wish to take part, citing the Commission's 2011 proposal for a financial transaction tax as the basis upon which they wish to proceed. In December the European Parliament gave its backing for enhanced cooperation.

The new VAT rules will come into force on 1 January 2013. They will make life easier for businesses across Europe. First, electronic invoicing will have to be treated the same as paper invoicing, enabling companies to choose the VAT invoicing solution that works best for them. This has the potential to save businesses up to €18 billion a year in reduced administration costs. Second, Member States will be allowed to offer a cash accounting option to small businesses with a turnover of less than €2 million a year. This means that these SMEs will not have to pay the VAT until it has been received by the customer, thereby avoiding cash-flow problems.

Algirdas Šemeta, Commissioner for Taxation and Customs Union, Audit and Anti-Fraud, at the 2012 Internal Audit Service (IAS) conference 'Performance Audit by Public Sector Internal Auditors'.

Doing business in more than one Member State often means dealing with several tax administrations in different languages, while dealing with multiple VAT obligations can be very burdensome and costly for companies. The regulation ([62]) proposed by the Commission at the beginning of 2012 is a first step towards a 'one-stop shop' for all electronically delivered services that will benefit businesses as from 1 January 2015. In the future the Commission will seek to extend the 'one-stop shop' step by step to other goods and services.

Customs

In February the Commission proposed in the Union Customs Code (UCC) (recast) ([63]) to adjust some provisions of the customs code to the evolution of customs and other relevant legislation, to align it to procedural requirements resulting from the Treaty of Lisbon and to postpone its application. The main aim of this legislation is to address, but also to govern, the electronic environment for customs and trade. The customs union is an essential element in the functioning of the single market and it can only function properly when there is a common, consistent application of common, modern customs rules and systems.

On 20 March, Neri Spa of Livorno (Italy) became the 10 000th authorised economic operator (AEO) by signing up to an EU-wide customs scheme that makes international trading faster and safer at customs checks on the EU borders. AEO status at EU level identifies safe and reliable businesses that are engaged in international trade and that benefit from trade facilitation as regards customs controls. Amongst the benefits is the mutual recognition of the EU reliable trader status with major trading partners. One major step was reached in 2012 with the mutual recognition of AEO status with the US.

The contribution of trade to economic growth

Trade as a growth factor

The EU remains the world's largest exporter, importer, and source and recipient of foreign direct investment, with a per capita GDP of €25 000 for its 500 million consumers. This places Europe among the five best-performing economies and represents a €12.6 trillion economy. Furthermore, the EU has managed to hold on to its 20 % share of total world exports despite the rise of China, whereas Japan and the US have seen significant declines in their shares.

The EU is also the top trading partner for 80 countries (by comparison, the US is the top trading partner for a little over 20 countries).

The EU has a massive manufacturing trade surplus of €281 billion, a figure that has increased five-fold since 2000 and has more than compensated for the increase in the energy bill over the same period. The EU's surplus in services has expanded by a factor of 17 in 10 years, to stand at €86 billion in 2010. Moreover, about 30 million jobs in the EU, or more than 10 % of the total workforce, depend on sales to the rest of the world, an increase of almost 50 % since 1995.

Robust external demand is the main source of growth for the moment, as domestic demand components (public or private) remain weak. And the contribution of external demand to economic growth ought to increase further in the future, as by 2015 90 % of global economic growth is expected to be generated outside Europe. Hence, tapping into the markets of our key trading partners will play an increasingly significant role for Europe's growth in the future.

Visit by Karel De Gucht, Commissioner for Trade, to Mexico.

Moreover, the recently concluded EU–South Korea Free Trade Agreement offers new export opportunities worth nearly €20 billion for the EU. Productivity gains further increase the impact of trade agreements by more than half overall. An ambitious agenda could also help create more than 2 million jobs across the EU.

In the same vein, deepening relationships between the EU and its key trading partners can contribute significantly to Europe's recovery. As the EU pursues its ambitious external trade agenda, this could boost the EU's GDP by 2 %, or more than €250 billion.

External public procurement initiative

In line with the commitments made in the WTO government procurement agreement of March 2012, the Commission proposed an initiative to help open up worldwide public procurement markets to EU bidders. In concrete terms, the proposal aims at ensuring that both European and non-European firms are on an equal footing when it comes to competing for business in the EU's lucrative public procurement market. In the longer term, this initiative will facilitate increased business opportunities for EU companies, both in the EU and internationally, boost the potential for small and medium-sized enterprises to operate in a globalised economy and, lastly, promote innovation in the EU.

Investment

As part of the broad investment policy which has become an exclusive EU competence under the Lisbon Treaty, a regulation on financial responsibility in investor–state dispute settlements ([64]) was adopted by the Commission. This provides the legal and financial framework to accompany future EU agreements on investment protection. When agreed by the co-legislators, it will regulate how future investment disputes in cases against the EU or individual Member States would be handled.

The European Commission is currently negotiating on investment, including investment protection, as part of the free trade agreement talks with Canada, India and Singapore, while it is also preparing for an EU–China investment agreement. When concluded, the EU-level agreements including investment protection will replace the Member States' bilateral investment treaties (BITs) with these non-EU countries.

To ensure legal certainty for European investors benefiting from investment protection offered in Member States' BITs, the Commission presented a proposal for a regulation in July 2010 that was adopted by the Parliament and the Council in December 2012 under the ordinary legislative procedure ([65]).

Most prominently, the regulation clarifies the legal status of BITs under EU law and confirms that they may be maintained in force until they are replaced by an EU investment agreement. At the same time, the regulation also establishes a mechanism for empowering Member States — under certain conditions — to negotiate BITs with countries not immediately scheduled for EU-wide investment negotiations. This is designed to expand the scope of investment protection currently available to European investors.

Agricultural policy and fisheries and maritime policies

Agriculture

The 50th anniversary of the common agricultural policy

The 50th anniversary of the common agricultural policy.

The year 2012 marked the 50th anniversary of the implementation of the EU's common agricultural policy (CAP) ([66]), a cornerstone of European integration that has provided European citizens with 50 years of food security and a living countryside. The CAP remains the only EU policy for which there is a common EU framework, and for which the majority of public spending in all EU Member States comes from the EU budget rather than from national or regional budgets. Figures demonstrate that the CAP has helped see a steady increase in economic value, in productivity and in trade, while also allowing the share of household spending on food to be halved.

The CAP is a policy that has steadily evolved to meet changing circumstances. For example, the reform process since 1992 has seen a move towards much greater market orientation, while also taking into account consumer concerns about issues such as animal welfare and environmental protection.

Negotiations on a future CAP, continued in 2012, aimed at addressing the challenges of today and tomorrow: food security; climate change; the sustainable use of natural resources; balanced rural development; helping the farming sector cope with the effects of the economic crisis and with the increased volatility of agricultural prices; and contributing to smart, sustainable and inclusive growth in line with the Europe 2020 strategy.

Dacian Cioloş, Commissioner for Agriculture and Rural Development, during a trip to China to strengthen cooperation between the EU and China in the fields of agriculture and rural development.

Milestones in the history of the CAP

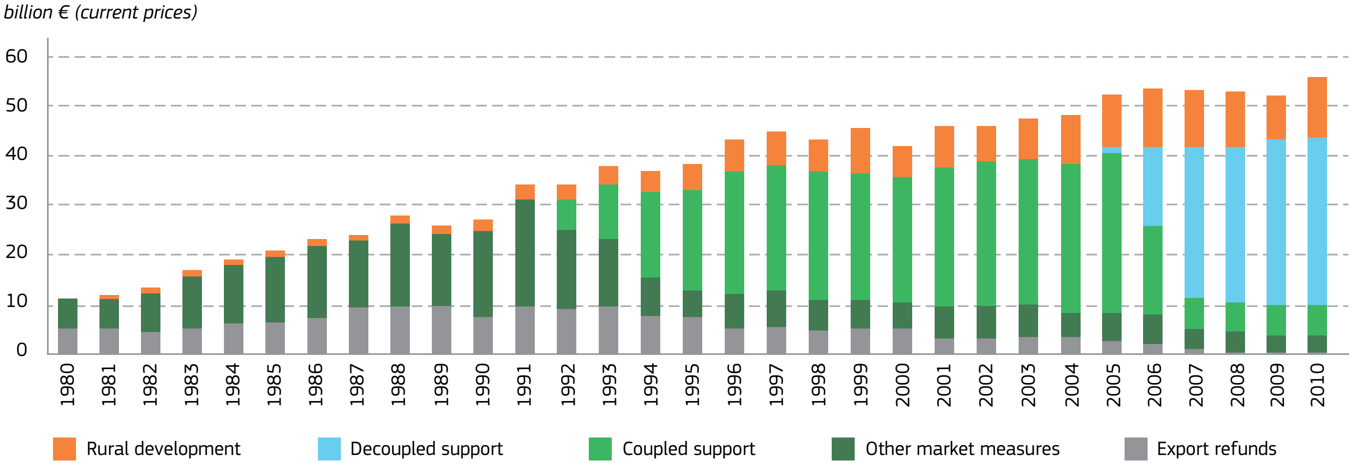
1962: The CAP is born. The essence of the policy is to provide affordable food for EU citizens and a fair standard of living for farmers.

1984: Milk quotas — specific measures are put in place to align milk production with market needs.

2000: The scope of the CAP is widened to included rural development. The CAP focuses on the economic, social and cultural development of rural Europe with targeted multiannual programmes, designed at national, regional or local level.

2012: New CAP reform negotiations to strengthen the economic and ecological competitiveness of the agricultural sector, to promote innovation, to combat climate change and to support employment and growth in rural areas.

THE PATH OF CAP EXPENDITURE 1980–2010



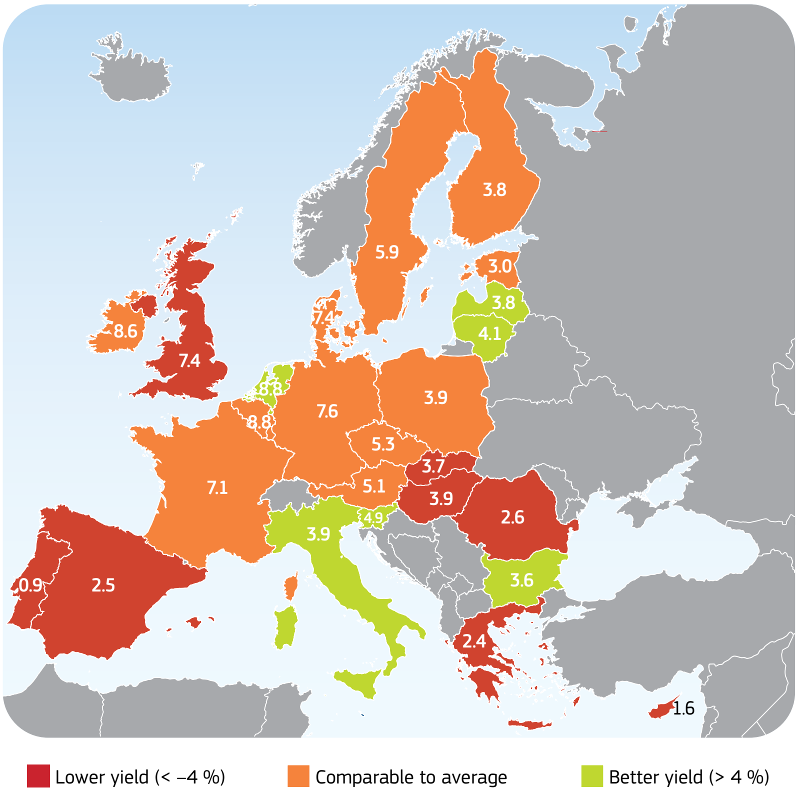
STATISTICS ON THE EVOLUTION OF BASIC AGRICULTURAL DATA

	1962	1992	2002	2012
Number of Member States	6	12	15	27
Number of farmers (million)	6.5	7.2	6.2	13.7
Agricultural area (million hectares)	69	118	126	172
Value of agricultural production (real prices, billion €/ECU)	20			350
Average milk yield (kg per cow per year)	3 000			6 500
Average wheat yield (tonnes per hectare)	2			6
Value of agricultural exports (in real terms, billion €//ECU)	3			90 (*)
Value of agricultural imports (in real terms, billion €//ECU)	6			80 (*)
Value of agricultural trade (in real terms, billion €//ECU)	10			170 (*)
Percentage of household spending on food (EU-wide average)	30 %			16 %

(*) Provisional January–November 2011 figures.
Source: DG Agriculture and Rural Development.

JRC CROP YIELD FORECASTS

The Commission's Joint Research Centre (JRC) carries out crop yield forecasts in support of the EU's agricultural policy. The image shows the forecast yield of wheat in 2012 relative to the 2007–11 average. The figures within each country represent the tonnes/hectare forecast, while the colour coding displays the change from the previous 5 years.



More transparent and efficient rules on agriculture

In September, the Commission adopted a proposal designed to apply new rules with regard to the publication of information on the beneficiaries of European agricultural funds ([67]). This legislative review was prompted by a 2010 judgment of the Court of Justice ([68]) which repealed part of Commission Regulation (EC) No 259/2008 ([69]), particularly as regards the publication of information on individual beneficiaries of the agricultural funds. This proposal takes into account the legal constraints inherent in the protection of personal data.

In December the Commission adopted its second report on the evolution of the market situation and conditions for a smooth phasing out of the milk quota system ([70]), as requested by the Council as part of the 2008 CAP health check. The report concludes that the so-called 'soft landing' approach is on track — in the vast majority of Member States, quotas are no longer relevant to limiting production and the quota price (paid by farmers seeking additional quota) is already zero or close to zero.

European fisheries policy

Common fisheries policy — in urgent need of reform

In 2011 the Commission proposed a radical reform of the common fisheries policy which was debated in the Parliament, the Council and among interested parties throughout 2012. The reform sought to restore prosperity for the fishing sector, end the sector's dependence on subsidies and stimulate jobs and growth in coastal areas.

The status quo is not a option. Roughly 47 % of assessed stocks are overfished in the Atlantic and 80 % in the Mediterranean. However, progress is possible: recent conservation efforts have led the number of European stocks fished sustainably to rise to 27. Consequently, some fishing quotas could be raised in 2012, and this generated extra revenues for fishermen estimated at €135 million, tangible evidence that redressing the environmental balance of marine resources has direct economic advantages.

Fishing all fish stocks at sustainable levels could lead to a 20 % increase in catches by 2020. This would generate considerable socioeconomic benefits for the sector and the overall economy.

'Zero tolerance' on illegal fishing

Since 2010 the EU regulation to fight illegal, unreported and unregulated (IUU) fishing ([71]) has been strictly implemented. The European Commission has been carrying out extensive investigations on individual vessels and on the control systems of countries around the world. As a result, 12 countries have imposed sanctions against 46 vessels and the Commission has compiled a list of eight non-EU countries that might be considered uncooperative on IUU ([72]). The Commission is determined help those countries correct the situation through dialogue, cooperation and appropriate action plans, but if they were ultimately to be blacklisted by the Council, they would no longer be allowed to export fish to the EU. EU operators managing or owning IUU vessels would receive no public aid or EU funds. Extensive investigations continue.

Sustainable fishing campaign.

European maritime policy — 'Blue growth': sustainable growth prospects from maritime sectors

'Blue growth' refers to maritime sectors, both traditional and emerging, with considerable economic potential.

Maria Damanaki, Commissioner for Maritime Affairs and Fisheries, making a statement on the fight against illegal fishing.

Today the EU's 'blue economy' is worth 5.4 million jobs and almost €500 billion per year in gross added value. By 2020 the EU hopes to increase this to 7 million jobs and €600 billion a year. To do so the Commission initiated a dedicated strategy ([73]) in September 2012. The strategy identifies five specific areas where targeted action could trigger substantial progress: maritime, coastal and cruise tourism; blue energy; marine mineral resources; aquaculture; and blue biotechnology. Action will consist in removing factors hindering growth and in implementing smart solutions to boost those sectors. By promoting marine research, by supporting innovative SMEs, by addressing skills needs and by encouraging innovative products, Europe could unlock the untapped potential of the marine economy, while safeguarding biodiversity and the environment.

In October the ministers in charge of maritime affairs and the European Commission adopted the Limassol declaration ([74]) on a marine and maritime agenda for growth and jobs — a clear commitment from Member States towards the blue growth strategy and towards all maritime policies.

Budget

The EU budget 2013

EU financial programming and budget in 2012

The year 2012 was a particularly challenging one for the management of the annual EU budget, especially due to the lower levels of payment appropriations agreed in its initial version. In addition to its implementation, the budgets of 2011 and 2010 went through the different stages of assessment and evaluation. Furthermore, a core activity was the preparation of the budget for 2013, which is the last budget of the current 7-year programming period. Apart from the annual budgetary procedure, this year brought a significant event, the adoption of the new financial regulation. Following the presentation of all relevant proposals by the Commission, intensive negotiations over the next multiannual financial framework (2014–20) continued throughout the whole year.

Janusz Lewandowski, Commissioner for Financial Programming and Budget, at the press conference to present the EU budget 2013 proposal.

Implementation of the EU budget 2012

The 2012 budget reflected the growth- and innovation-oriented goals of the Europe 2020 strategy. At the same time it continued to take account of important constraints, reflecting the adverse economic situation in many Member States. This compromise approach presented significant challenges throughout the year in order to ensure that appropriate levels of funding were available to allow for the correct and effective implementation of the Union's programmes in full respect of the commitments made by Member States.

Discharge granted to the Commission for the EU budget 2010

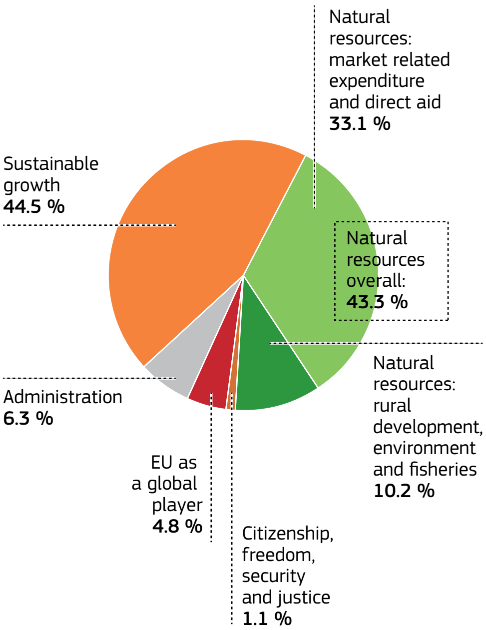
On 10 May 2012 the European Parliament granted discharge to the European Commission for the implementation of the 2010 budget. This positive and important decision concluded a period of several months when both arms of the budgetary authority (the European Parliament and the Council), as well as the Court of Auditors, scrutinised how the resources from the 2010 budget were used. In the context of the budgetary discharge procedure, the European Parliament as the budgetary discharge authority, as well as the Council and the Court of Auditors, issued several requests and recommendations with regard to EU financial management which are being implemented by Commission services.

On 6 November 2012 the Court of Auditors published its annual report on the implementation of the budget concerning the financial year 2011. In its report the Court of Auditors confirmed that, in 2011, the overall quantified error rate for EU spending remained stable, at below 4 %. With regard to the EU's account keeping, it has been given a clean bill of health by the Court of Auditors for the fifth year in a row.

The EU budget 2013: investing in growth and jobs

The EU's budget for 2013, adopted on 12 December 2012, reflects the European Council's conclusions that growth and employment in the EU can only be achieved by combining fiscal consolidation and investment into future growth. Overall, the budget for 2013 amounts to €150.9 billion in commitments, a 1.7 % increase on 2012, in line with the current inflation rate. Payments represent €132.8 billion, which amounts to a decrease of 2.2 %.

PAYMENTS IN PERCENTAGE OF TOTAL 2013 BUDGET



The EU budget again usefully complements the efforts of the EU Member States by concentrating investments in the priority areas defined in the EU's growth strategy 'Europe 2020', while at the same time taking into account the difficult economic context and pressure on national budgets. The budget 2013 freezes future expenditure — the increase of commitments (i.e. tomorrow's payments) is at the level of inflation (1.7 %). It also freezes the Commission's administrative budget at well below inflation level while cutting its staff by 1 %, the first step towards the goal of a 5 % reduction in staff in 5 years.

A total of €59 billion in payments is devoted to job-friendly growth in Europe. A particular effort has been made with regard to the research framework programmes (€7.8 billion, a 5.6 % increase on 2012), the competitiveness and innovation programme (€435.1 million, a 17.7 % increase) and the Structural and Cohesion Funds (€47.2 billion, a 2.1 % decrease).

The figures in the 2013 budget adopted in December 2012 do not take into account the costs of Croatia joining the EU in July 2013.

The multiannual financial framework (MFF)

After intensive discussions in the various Council bodies organised by the Danish and Cypriot Presidencies, as well as in the European Parliament throughout the whole year, an extraordinary European Council meeting was held on 22 and 23 November 2012, dedicated exclusively to the MFF 2014–20. Prior to that meeting, compromise proposals had been tabled first by the Cypriot Presidency and then by the President of the European Council, Herman Van Rompuy, who also held bilateral meetings with each Head of State or Government. However, no agreement could be reached during these meetings. The European Council should agree on the next MFF as early as possible in 2013 and in time to ensure that there is no delay in the implementation of the new generation of EU programmes as of 1 January 2014. The required unanimous adoption of the MFF regulation by the Council will then be subject to approval from the European Parliament.

The Commission published its proposals for the Union's next MFF in June 2011. It proposed priorities and ceilings for future expenditure as well as a modification of the revenue side and a simplification of the correction mechanisms. On 6 July 2012 the Commission carried out a technical update.

The MFF 2014–20 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 focuses on areas where European funding makes a real difference. It funds what would not be funded or what would be more expensive to fund from national budgets.

In the table below you find the key figures of the Commission proposal as updated on 6 July 2012 ([75]).

2014–20 MULTIANNUAL FINANCIAL FRAMEWORK

Commission proposal from 6 July 2012 expressed in concrete amounts for all policy areas concerned.

(million € — 2011 prices)

COMMITMENT APPROPRIATIONS	2014	2015	2016	2017	2018	2019	2020	Total 2014–20
1. Smart and inclusive growth	**64 769**	**67 015**	**68 853**	**70 745**	**72 316**	**74 386**	**76 679**	**494 763**
of which: economic, social and territorial cohesion	50 464	51 897	53 177	54 307	55 423	56 474	57 501	379 243
2. Sustainable growth: natural resources	**57 845**	**57 005**	**56 190**	**55 357**	**54 357**	**53 371**	**52 348**	**386 472**
of which: market-related expenditure and direct payments	42 363	41 756	41 178	40 582	39 810	39 052	38 309	283 051
3. Security and citizenship	**2 620**	**2 601**	**2 640**	**2 679**	**2 718**	**2 757**	**2 794**	**18 809**
4. Global Europe	9 400	9 645	9 845	9 960	10 150	10 380	10 620	70 000
5. Administration	**8 622**	**8 755**	**8 872**	**9 019**	**9 149**	**9 301**	**9 447**	**63 165**
of which: administrative expenditure of the institutions	7 047	7 115	7 184	7 267	7 364	7 461	7 561	51 000
6. Compensation	**27**	**0**	**0**	**0**	**0**	**0**	**0**	**27**
TOTAL COMMITMENT APPROPRIATIONS	143 282	145 021	146 400	147 759	148 690	150 195	151 888	1 033 235
as a percentage of GNI	1.10 %	1.09 %	1.08 %	1.08 %	1.07 %	1.06 %	1.06 %	1.08 %
TOTAL PAYMENT APPROPRIATIONS	133 976	141 175	144 126	138 776	146 870	144 321	138 356	987 599
as a percentage of GNI	1.03 %	1.06 %	1.06 %	1.01 %	1.06 %	1.02 %	0.96 %	1.03 %

The financial regulation

The financial regulation contains the rules for the establishment of the EU budget and the way it is spent. On 27 June 2012 the European Parliament, the Council and the Commission came to a political agreement on the reform of the financial regulation which the Commission launched in December 2010, addressing the main concerns from beneficiaries of EU funds.

After a formal adoption in autumn 2012, most of the provisions of the new financial regulation were to be applied from 1 January 2013. There will therefore be an improvement in the delivery of EU funds to businesses, NGOs, researchers, students, municipalities and other beneficiaries thanks to simplified procedures. The new legislation enables increased transparency and introduces higher accountability for all involved in dealing with EU finances. It moves the protection of EU financial interests to a higher level.

Some 80 % of EU funds are distributed under ‘shared management’; in other words projects are selected and managed by the Member States themselves. The new rules will increase the accountability of the Member States, especially in the field of regional policy. National authorities in charge of EU funding will have to sign and submit to the Commission annual declarations certifying that EU funds have been used correctly.

In future, various financial instruments such as loans, equity or guarantees will be used to multiply the financial impact of EU funds. New possibilities are created for a more flexible implementation of public–private partnerships, reflecting the needs of European industry partners.

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(4) Regulation (EC) No 883/2004 on the coordination of social security systems (OJ L 166, 30.4.2004).

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(6) Amended proposal for a directive on minimum requirements for enhancing worker mobility by improving the acquisition and preservation of supplementary pension rights (COM(2007) 603).

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(14) Regulation (EU) No 1257/2012 implementing enhanced cooperation in the area of the creation of unitary patent protection (OJ L 361, 31.12.2012). Competitiveness Council conclusions, 17 December 2012 (http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/intm/134394.pdf).

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(17) Commission communication — A European strategy for key enabling technologies — A bridge to growth and jobs (COM(2012) 341).

(18) Commission communication — Second regulatory review on nanomaterials (COM(2012) 572). Nanomaterials are chemical substances or materials that are manufactured and used at a very small scale and are developed to exhibit novel characteristics (such as increased strength, chemical reactivity or conductivity) compared to the same material without nanoscale features. Hundreds of products containing nanomaterials are already in use: batteries, coatings, anti-bacterial clothing, etc. and nano-innovation will be seen in many sectors including public health, employment and occupational safety and health, the information society, industry, environment, energy, transport, security and space. Analysts expect markets to grow to hundreds of billions of euros by 2015. Nanomaterials have the potential to improve the quality of life and to contribute to industrial competitiveness in Europe. However, the new materials may also pose risks to the environment and raise health and safety concerns.

(19) Commission communication — Towards better access to scientific information: Boosting the benefits of public investments in research (COM(2012) 401).

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(21) Commission communication — Enhancing and focusing EU international cooperation in research and innovation: A strategic approach (COM(2012) 497).

(22) Commission communication — A stronger European Industry for growth and economic recovery — industrial policy communication update (COM(2012) 582).

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(48) Commission report — Minimising regulatory burden for SMEs — Adapting EU regulation to the needs of micro-enterprises (COM(2011) 803).

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(50) http://ec.europa.eu/energy/gas_electricity/index_en.htm

(51) Commission communication — Making the internal energy market work (COM(2012) 663).

(52) Commission communication — EU state aid modernisation (SAM) (COM(2012) 209).

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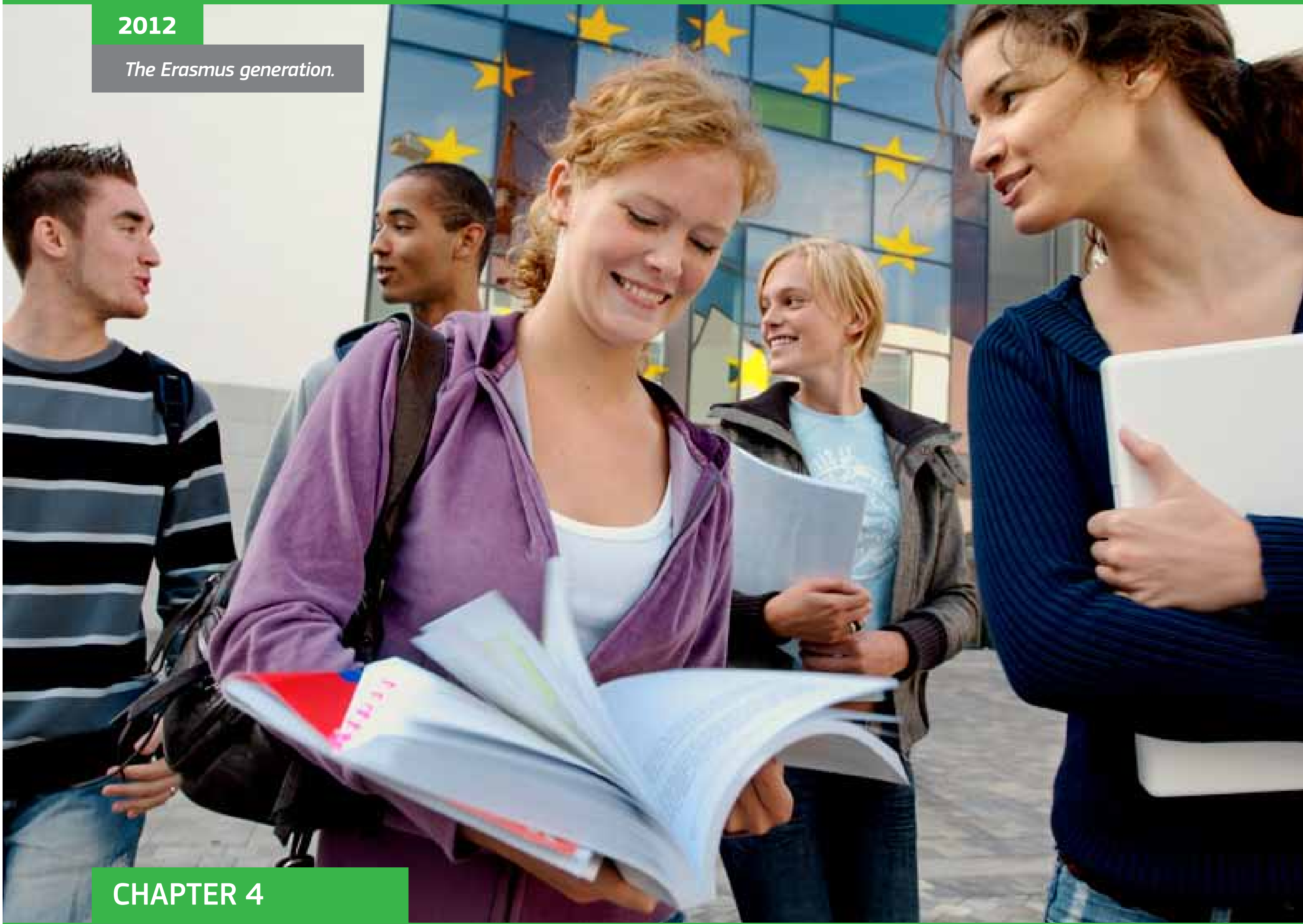
PHOTO CREDITS

1985

Cars queuing at the German-Polish border crossing near the German town of Görlitz on the Polish side in Zgorzelec.



2012

The Erasmus generation.

CHAPTER 4

A stronger focus on EU citizens

- Fundamental rights and citizenship
- Justice
- Home affairs
- Easing citizens’ everyday concerns

In the year in which the Nobel Peace Prize was awarded to the European Union, the fundamental values and principles underpinning the Union were never so important. The growing appreciation of the Charter of Fundamental Rights was more evident since its formal introduction by means of the Lisbon Treaty. Equally the 20th anniversary of the single market brought into ever sharper relief the necessity to protect citizens' rights and facilitate their enforcement. The growing corpus of law in the twin domains of justice and home affairs underlined the development of a new legal order. In so many other areas, from the environment to agriculture, from data protection to free movement of workers, from passenger rights to energy efficiency, the policies of the Union were designed to facilitate the day-to-day lives of citizens.

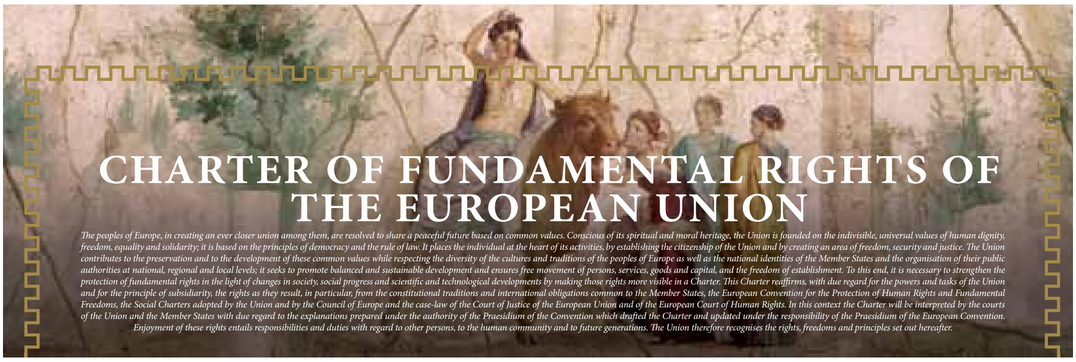
Fundamental rights and citizenship

Fundamental rights — A reality for citizens

The Charter of Fundamental Rights

The Charter of Fundamental Rights of the European Union — in force and legally binding for more than 2 years — has guided EU law-making from initial drafts all the way through to the statute book. The charter sets out fundamental rights — such as freedom of expression and the protection of personal data — that reflect Europe's common values and its constitutional heritage. The European Commission's second annual report (1) on the charter found that fundamental rights concerns are increasingly embedded in EU policymaking.

'My primary goal over the last 2 years, since the charter became legally binding, was to create a solid EU-wide fundamental rights culture. I have made the charter the compass of all policies decided at EU level,' said Viviane Reding, Vice-President of the Commission responsible for Justice, Fundamental Rights and Citizenship. 'We now need to help citizens exercise their rights in practice by working with Member States to ensure people know where they can turn if their rights are infringed.'



Prologue to the Charter of Fundamental Rights of the European Union.

The primary role of the charter is to guarantee that the EU institutions respect fundamental rights in preparing new European laws. The Commission not only guarantees that its proposals are compatible with the charter, it also ensures that the charter is respected when Member States implement EU law.

There is still a misapprehension among EU citizens about its purpose and the situations in which the charter applies or does not apply, as well as the EU's role. There is a common public impression that the charter gives the Commission a general right to intervene when it suspects that fundamental rights have been infringed anywhere in the EU. This is not the case — the charter applies to Member States when they implement EU law. Each EU country protects rights through its own national constitution and courts. The charter does not replace these.

Highlights of Court of Justice and General Court rulings on fundamental rights, non-discrimination and citizenship of the Union

- Neither the right of access to a tribunal nor the principle of equality of arms, both enshrined in Article 47 of the Charter of Fundamental Rights of the European Union, preclude the Commission from bringing an action before a national court, on behalf of the European Union, for damages in respect of loss sustained by the Union as a result of an agreement or practice which has previously been found by a decision of the Commission to infringe Article 81 EC or Article 101 TFEU ([2]).

- Under Directive 2000/43/EC implementing the principle of equal treatment between persons irrespective of racial or ethnic origin, Directive 2000/78/EC establishing a general framework for equal treatment in employment and occupation and Directive 2006/54/EC on the implementation of the principle of equal opportunities and equal treatment of men and women in matters of employment and occupation, a worker who has a plausible claim that he meets the requirements listed in a job advertisement and whose application was rejected is not entitled to have access to information indicating whether the employer engaged another candidate at the end of the recruitment process; however, a refusal to grant any access to information may be one of the factors to take into account in the context of establishing facts from which it may be presumed that there has been direct or indirect discrimination ([3]).

- Under Directive 2000/78/EC establishing a general framework for equal treatment in employment and occupation, the radical lowering of the retirement age for Hungarian judges constitutes unjustified discrimination on grounds of age. That measure is not proportionate to the objectives pursued by the Hungarian legislature seeking to standardise the retirement age for the public-service professions and to establish a more balanced age structure in the area of the administration of justice ([4]).

- A national of a non-EU country who resides legally in the Member State of origin of his daughter and his spouse, while they have moved to another Member State, cannot rely on their EU citizenship in order to base his right of residence either on Directive 2004/38/EC on the right of citizens of the Union and their family members to move and reside freely within the territory of the Member States or directly on the Treaty on the Functioning of the European Union, where the refusal to grant such right of residence is not liable to deny to the daughter and the spouse the genuine enjoyment of the substance of the rights associated with their status or to impede the exercise of their right to move and reside freely within the territory of the Member States ([5]).

Rule of law

The rule of law and independence of the judiciary are fundamental principles on which the Union is based, which must be upheld by resolute vigilance and action by the Commission. In respect of developments in Hungary and Romania, the Commission has responded firmly to situations where the respect for the rule of law and independence of the judiciary may have come under threat.

Following detailed exchanges with the Hungarian authorities regarding laws adopted under Hungary's new constitution, the Commission noted progress on a number of issues, notably as regards Hungary's central bank statute in which the Hungarian government committed to take into account the Commission's legal concerns and to amend its national legislation. In two further cases, the legal concerns of the Commission could not be remedied. The Commission, therefore, decided to refer Hungary to the Court of Justice of the European Union for two infringements concerning the independence of the data protection authority and the retirement age of judges, prosecutors and public notaries.

Court of Justice of the European Union oversees legislation on retirement of judges in Hungary

According to the Court of Justice of the European Union ([6]), the forced early retirement of hundreds of judges and prosecutors in the course of 2012, as well as the notaries in 2014 under a new Hungarian law, constitutes unjustified age discrimination in breach of Directive 2000/78/EC ([7]). On the basis of its new Fundamental Law, Hungary had issued implementing legislation lowering the mandatory retirement age for judges, prosecutors and public notaries from 70 to 62 years within a very short transition period. In January 2012, the European Commission decided to launch infringement proceedings and referred the case to the Court. Following a request from the Commission and given the urgency of the matter, the Court dealt with this case in an expedited procedure, issuing its judgment in November 2012, less than 5 months after the Commission's application. The Hungarian authorities have submitted to the Commission draft measures that were tabled in the Hungarian parliament in December 2012 to implement the Court's ruling. These measures are under examination by the Commission. The Commission will continue to monitor the situation very closely.

As far as Romania is concerned, the Commission reported in July 2012 on Romania's progress under the cooperation and verification mechanism (CVM) ([8]). The main focus of the report was to look at the steps taken since 2007 in terms of laws and institutions, as well as the sustainability and irreversibility of the reforms put in place. However, as the report was issued at a time when important questions were raised with regard to the rule of law and the independence of the judiciary in Romania, it included specific recommendations to restore respect for these fundamental principles. The Commission will continue to monitor progress closely and will report early in 2013 on the reform process.

Dismantling obstacles for citizens — Preparing for the European Year of Citizens 2013

The year in review saw work continue to implement the commitments entered into by the Commission in its October 2010 citizenship report. Almost all of the 25 measures have been implemented in full or are at an advanced state of preparation ([9]). For example, European action has included:

- strengthening the rights of around 75 million crime victims a year across the EU;
- slashing red tape for 3.5 million people registering a car in another EU country each year, with savings of €1.5 billion;
- banning extra credit card charges and pre-ticked boxes for online shoppers;
- reinforcing fair trial rights for all EU citizens, applying to around 8 million proceedings a year;
- clarifying property rights for Europe’s 16 million international couples.

Official logo of the European Year of Citizens 2013.

In the context of producing the second citizenship report in 2013, the Commission launched the biggest ever EU public consultation on citizens’ rights. The consultation lasted 4 months, during which time the public were asked about the obstacles they faced in exercising their rights as EU citizens, be it when travelling in Europe, when voting or standing as a candidate in elections or when shopping online, to name but a few examples. The results are being evaluated and it is planned to launch the second report in May as a key feature of the European Year of Citizens 2013.

Data protection

At the beginning of the year, the Commission proposed a comprehensive reform of the EU's outdated data protection rules to strengthen online privacy rights. A single legal framework will do away with the current fragmentation between Member States and costly administrative burdens in this area, leading to savings for businesses of around €2.3 billion a year. The initiative will also help reinforce consumer confidence in online services, providing a much-needed boost to growth, jobs and innovation in Europe, and clarify the conditions for the use of data, for example for research and medical purposes.

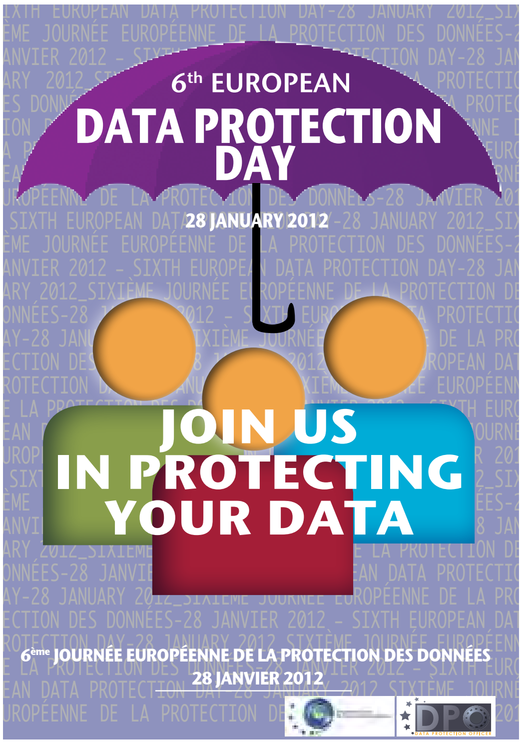
The new rules are designed to ensure that clear and understandable information is given when personal data are processed. Whenever consent is required, it will have to be given explicitly before a company can process personal data. The draft rules strengthen individuals' right to be forgotten — this means that if a person no longer wants their data to be processed, and there is no legitimate reason for a company to keep them, the data shall be deleted. The proposals seek to guarantee free and easy access to individuals' personal data, making it easier for individuals to see what personal information is held about them by companies and public authorities. Moreover, it should make it easier for individuals to transfer personal data between service providers — the so-called principle of 'data portability'. Independent national data protection authorities will be strengthened so they can better enforce the EU rules at home. They will be empowered to fine companies that violate EU data protection rules with penalties of up to €1 million or up to 2 % of the global annual turnover of a company. EU data protection rules must also apply when personal data are handled abroad by companies that are active on the EU market and offer their services to EU citizens.

Significant other safeguards and innovations are contained in the proposals.

The Commission's proposals update and modernise the principles enshrined in the 1995 data protection directive to guarantee privacy rights in the future. They include a policy communication setting out the Commission's objectives and two legislative proposals: a regulation setting out a general EU framework for data protection and a directive on protecting personal data processed for the purposes of prevention, detection, investigation or prosecution of criminal offences and related judicial activities ([10]).

Freedom of movement for workers within the Union

The new EU social security coordination rules introduced in 2010 were extended in April 2012 to Switzerland ([11]) and in June to three EEA–EFTA countries: Iceland, Liechtenstein and Norway ([12]). Also in June, new improved and simplified rules ([13]) for aircrew and cross-border self-employed workers were introduced with the entry into force of the new regulation, which amends existing social security coordination regulations. As a result, air hostesses, stewards and pilots are due to pay social security contributions and are eligible to receive benefits in the country where they start and end their shifts, in other words their 'home base', instead of in the country where their airline is based. For self-employed frontier workers, the new rules ensure that in cases in which the country of residence has no unemployment benefit scheme for self-employed people, the country of last activity will pay the unemployment benefit. This way, the person concerned will receive a return on contributions paid.



Poster of the sixth European Data Protection Day.

While the rights on free movement of EU workers are strong and have existed for over 40 years, a number of indicators show that discrimination on the ground of nationality continues to take place and there is therefore a gap between the *de jure* and *de facto* rights of EU citizens. An evaluation of EU law on free movement of workers and an impact assessment exercise demonstrated that a legislative proposal would improve legal certainty, as it would allow for explicit protection from, and awareness in respect of, nationality-based discrimination.

Member States' tax provisions can lead to discrimination against cross-border workers. During 2012, the Commission carried out a thorough assessment of national direct taxes to determine whether they create unfair disadvantages for workers that live in one Member State and work in another. Where discrimination or breaches of the EU's fundamental freedoms are found, the Commission will flag them to the national authorities and insist that the necessary amendments are made.

Case-law

Freedom of movement for workers: The Court of Justice considered that EU law does not prevent a Member State from granting family benefits to posted or seasonal workers in respect of whom it is not, in principle, the competent Member State ([14]). The Court also ruled that eligibility for study financing is a social advantage in the context of the free movement of workers and cannot be conditional on residence requirements. Therefore, the dependent family members of migrant workers are automatically eligible for funding to study abroad even if they do not reside in the country of the workers' employment ([15]).

Posting of workers

To make the EU single market work better for workers and for businesses, the Commission proposed in March 2012 new rules to increase the protection of workers temporarily posted abroad. Worker protection and fair competition are the two sides of the EU single market's coin, yet findings suggest that minimum employment and working conditions are often not respected for the 1 million or so posted workers in the EU. To address the specific issues of abuse where workers do not enjoy their full rights in terms of, for example, pay or holidays, especially in the construction sector, the Commission has put forward concrete, practical proposals as part of an enforcement directive. This would increase monitoring and compliance and improve the way existing rules on posted workers are applied in practice.

To send a strong message that workers' rights and their right to strike are on an equal footing with the freedom to provide services, the Commission has also put forward a new directive ([16]) that takes on board existing case-law. This is especially relevant in the context of cross-border services provision like the posting of workers. However, noting this proposal was unlikely to gather the necessary political support, in particular within the European Parliament and the Council, the Commission withdrew the proposal to enable its adoption.

European Year for Active Ageing and Solidarity between Generations 2012

The 2012 European Year for Active Ageing and Solidarity between Generations was officially opened during a conference held in January in Copenhagen, Denmark, hosted by the Danish Presidency of the Council of the European Union. As part of the Year, the Commission launched the European Year 2012 Awards in order to celebrate organisations and individuals that promote active ageing through their activities. There were six categories: workplaces for all ages; towards age-friendly environments; social entrepreneurs; reporting on ageing and relations between generations; life story challenge; and a generations@school competition. The award ceremony took place in November with winners from four Member States (Denmark, Estonia, France and Finland).

Launch event of the European Year for Active Ageing in Copenhagen, Denmark.

European political parties and European political foundations

The Commission has adopted a legislative proposal ([17]) to strengthen the ability of European political parties to form a truly European public sphere and express the will of EU citizens, by increasing their visibility, recognition, effectiveness, transparency and accountability.

The proposal provides European-level legal status for European political parties and their affiliated foundations. Most are currently registered as Belgian non-profit making associations, or 'asbl'.

In order to be recognised as a European political party or a European political foundation, such organisations will have to meet high standards on internal democracy, governance, accountability, transparency and respect for the values on which the Union is founded. All aspects of party funding will be subject to a comprehensive set of rules, including strict reporting and control requirements. Moreover, a regime of administrative sanctions will be introduced in case of infringements.

The citizens' initiative

January 2012 saw the official launch of the European citizens' initiative ([18]), introduced as a result of the Lisbon Treaty. A European citizens' initiative is an invitation to the European Commission to propose legislation on matters in which the EU has competence to legislate. A citizens' initiative has to be backed by at least 1 million EU citizens, coming from at least seven out of the 27 Member States. Persons interested in launching an initiative can now use software developed by the Commission with the support of the programme for interoperability solutions for European public administrations (ISA) to collect the required signatures online. The European citizens' initiative is a new and powerful tool for European citizens to make their voice heard .

The Access City Award 2013

This award was given to the city of Berlin, Germany, in recognition of its comprehensive and strategic approach to creating an accessible city for all. The award is organised by the Commission together with the European Disability Forum. The prize aims to encourage cities to share their experience and to improve accessibility for the benefit of all. Berlin was selected for its strategic and inclusive disability policy, which has invested heavily in turning the formerly divided city into an accessible, barrier-free environment. The city's transport system and investment in accessibility for disabled people in reconstruction projects were highlighted. Berlin's comprehensive approach to accessibility is fully embedded in the city's policies and broadly supported by its authorities.

Viviane Reding, European Commission Vice-President responsible for Justice, Fundamental Rights and Citizenship, with representatives of Berlin, Germany, the laureate city of the 2013 Access City Award.

Justice

One of the key objectives of the European Union is to offer its citizens an area of freedom, security and justice without internal borders. To achieve this, it is necessary to ensure that the different national judicial systems of all EU Member States work effectively together and do not create obstacles to EU citizens whenever they are seeking access to justice. The Commission, together with the co-legislators, continued in 2012 to find solutions to some of these obstacles in line with the Stockholm programme for 2010–14. Some of the main measures are described below.

Judicial cooperation in civil and commercial matters

EU rules to ease cross-border successions are now law

New European Union rules to reduce legal headaches when a family member with property in another EU country passes away became EU law in July. The new regulation ([19]) on cross-border successions will make it easier for European citizens to handle the legal side of an international will or succession. The rules will bring legal certainty to the estimated 450 000 European families dealing with an international succession each year. Member States have 3 years to align their national laws so that the new EU rules become effective. The new law makes it much simpler to settle international successions by providing a single criterion for determining both the jurisdiction and the law applicable in cross-border cases: the deceased's habitual place of residence. It also permits citizens to plan their succession in advance in full legal certainty. The law also provides for a European certificate of succession, which will allow people to prove that they are heirs or administrators of a succession without further formalities throughout the EU. This will represent a considerable improvement from the current situation in which citizens have great difficulty exercising their rights. The result will be faster and cheaper procedures, saving people time and money in legal fees.

E-Justice portal: The European e-Justice Portal is conceived as a future electronic one stop shop in the area of justice. As a first step it strives to make citizens' lives easier by providing information on justice systems and improving access to justice throughout the EU, in 22 languages ([20]).

Criminal justice

Letter of Rights is now law

An EU-wide right to information upon arrest ([21]) became law in June. The new law, when in effect, will ensure that anyone arrested or subject to a European Arrest Warrant in any Member State is given a Letter of Rights listing their basic rights during criminal proceedings. EU Member States have 2 years to introduce the new rules in their national legal systems.

Putting victims first: new rules on victims' rights to become law

A new law to improve rights for an estimated 75 million crime victims across the European Union became law in November. The new directive on standards for victims sets out minimum rights for victims, wherever they are in the EU. Member States have 3 years to implement the provisions within their national laws. The directive will ensure that, in all 27 Member States: victims are treated with respect and police, prosecutors and judges are trained properly to deal with them; victims get information on their rights and their case in a way they understand; victim support exists; victims can participate in proceedings if they wish and are helped to attend trial; vulnerable victims — such as children, victims of rape or those with disabilities — are identified and are properly protected; and victims are protected while police carry out investigations and during court proceedings.

2012 EUROPEAN CRYSTAL SCALES OF JUSTICE

In October, the Regional Court of Antwerp won this prize for innovative court practices. The prize was awarded in Vilnius, marking the European Day of Civil Justice, in the presence of the Minister of Justice of Lithuania, Remigijus Šimašius. The jury examined 38 applications from 18 European states.

Expert group on EU criminal policy

In June, Viviane Reding, European Commission Vice-President responsible for Justice, Fundamental Rights and Citizenship, presided at the inaugural meeting of the expert group on EU criminal policy. Twenty high-level legal experts, academics and practitioners will meet twice a year to discuss and advise the European Commission on key questions of EU criminal law. The expert group includes judges, prosecutors and defence lawyers from 13 different Member States representing the major legal traditions of the EU and will contribute to improving the quality of EU legislation in the field of criminal law, in the light of the new rules of the Lisbon Treaty and the Charter of Fundamental Rights.

Case-law

Under Framework Decision 2002/584/JHA on the European Arrest Warrant and the surrender procedures between Member States and under Article 18 TFEU, a Member State cannot restrict solely to its own nationals the non-execution of a European Arrest Warrant with a view to enforcing in its territory a custodial sentence imposed in another Member State; the prohibition on discrimination on the grounds of nationality precludes a Member State's legislation from providing that other Member States' nationals who are staying or resident in the first Member State are automatically and absolutely prevented from serving their sentence in that Member State ([22]).

EU drugs strategy

In September, the Commission tabled two proposals ([23]) to tighten EU controls of methamphetamine and heroin precursors. Drug precursors are legal chemicals contained in a wide range of products, including pharmaceuticals, perfumes and plastics, but which can also be illegally diverted to produce narcotics. The proposed legislation seeks to close loopholes in current legislation on drug precursors that could be exploited by illegal drug producers. In doing so, the proposed new rules can contribute to early-stage prevention of illicit drug manufacturing, which is an important pillar of the EU's drug strategy.

Home affairs

One of the key objectives of the European Union is to offer its citizens an area of freedom, security and justice without internal borders. To achieve this, the Commission, together with the co-legislators, continued in 2012 to work in line with the Stockholm programme 2010–14. Some of the main measures are described below.

Migration

In June, the Commission published its third annual report on immigration and asylum, providing a forward-looking analysis based on developments in 2011, along with a Eurobarometer ([24]) on European citizens' attitudes towards cross-border mobility, migration and security.

Legal migration and integration

In February and May, the Commission acted against Member States ([25]) that had still not transposed into national law the EU blue card directive ([26]), which puts in place common and efficient rules that allow highly skilled people from outside Europe to come and work in European Union labour markets, filling gaps that cannot be filled by EU nationals. This EU law should have been implemented by mid-June 2011.

In June, the Migration Policy Centre (MPC) officially opened in Florence, Italy. Founded with EU support, the MPC conducts research on global migration issues relevant to European policies.

In October, the eighth meeting of the European Integration Forum was held and focused on the contribution of migrants to economic growth in the EU.

Following the publication of a Green Paper in November 2011, the Commission launched a public debate on family reunification (Directive 2003/86/EC) ([27]) lasting until March 2012 and revealing that an overwhelming majority of the stakeholders do not wish for changes in the directive, but a better implementation and guidelines by the Commission.

A number of reviews took place, including a report on the development of the European Migration Network taking stock of the progress made and considering how it should evolve beyond 2013. In September, the Commission adopted a mid-term report on the implementation of the action plan on unaccompanied minors (2010–14), giving an overview of the progress made and identifying the areas which require more attention and targeted action over the next 2 years.

Case-law

In May, the Court of Justice delivered two significant judgments concerning non-EU nationals who are long-term residents in the EU (under Directive 2003/109/EC).

Firstly, in a case concerning housing benefits of an Albanian national living in Italy, the Court stated that EU law precludes a national or regional law which provides for different treatment for non-EU nationals and nationals of the EU Member State in which they reside, in so far as the housing benefit falls within the fields covered by the principle of equal treatment provided for under the directive concerning long-term residents and constitutes a core benefit ([28]).

Secondly, in a case examining resident permit fees in the Netherlands, the Court held that a Member State cannot impose excessive and disproportionate charges for the grant of residence permits to non-EU nationals who are long-term residents and to members of their families ([29]).

Irregular migration

In February, April, May and June, the Commission decided to advance infringement proceedings against Member States ([30]) that were still failing to transpose EU rules on sanctions and measures against employers who exploit irregular migrants. The employer sanctions directive targets employers who take advantage of irregular migrants' precarious position and employ them for what are usually low-paid jobs with poor working conditions. It should have been implemented by mid-July 2011.

New scanner used to inspect rail wagons at the rail crossing point between Ukraine and Poland.

In June, the Commission and Turkey initialled a readmission agreement, which reflects their shared interest in more effective migration and border management. The agreed text sets out clear obligations and procedures for the respective authorities in order to swiftly return persons (including non-EU nationals) who are irregularly residing on their territories, in full respect of international law and fundamental rights. Once in force, the agreement will also further enhance EU–Turkey dialogue and cooperation in the field of home affairs policy and enable both sides to make progress in the perspective of visa liberalisation.

This agreement is similar to readmission agreements already concluded by the EU with other non-EU countries, which are constantly monitored, particularly through the regular meetings of the joint readmission committees. In 2012, the Commission held such meetings with Georgia, Moldova, Pakistan, Russia and Ukraine. Furthermore, a readmission agreement between Cape Verde and the EU has been initialled and is now undergoing ratification.

EU external migration policy

Progress was made in 2012 on the global approach to migration and mobility (GAMM), with Council conclusions adopted in May. GAMM provides the overarching framework for the EU's external migration policy. It gives structure to how the EU wants to organise its dialogue and cooperation with non-EU countries in the area of migration and asylum. The GAMM framework captures all migration-related policies that are relevant in connection with non-EU countries (e.g. better organisation of legal migration/fostering well-managed mobility; preventing and combating irregular migration/eradicating trafficking in human beings; maximising the development impact of migration and mobility; promoting international protection; and enhancing the external dimension of asylum). GAMM is well aligned with EU foreign policy and development policy. It is linked to internal policies, the Europe 2020 strategy and employment and education policies. And it is jointly implemented by the Commission, the European External Action Service (EEAS) and Member States, allowing the EU to speak with one voice, in this field, in line with the Treaty of Lisbon.

The thematic programme 'Cooperation with third countries in the areas of migration and asylum' (€384 million for the period 2007–13) is a centrepiece in support of the external dimension of migration and asylum policies.

External borders

Schengen

In May, the Commission adopted the first of a series of biannual overviews on the functioning of the Schengen area. Over 400 million Europeans enjoy travel without controls at borders within this area. With more than 1.25 billion journeys being made every year across internal borders, vigilance is needed to defend the right of free movement. The report provides the basis for debate in the European Parliament and in the Council and contributes to the strengthening of political guidance and cooperation between the 26 countries that are part of the Schengen area (all the EU Member States except Bulgaria, Ireland, Cyprus, Romania and the United Kingdom and the non-EU countries Iceland, Liechtenstein, Norway and Switzerland).

The second biannual report on the functioning of Schengen, presented in November, focused on the situation at the external borders and within the Schengen area itself, the application of the Schengen *acquis* and the use of specific flanking measures — the Schengen Information System (SIS) and the Visa Information System (VIS).

As far as the accession of Bulgaria and Romania to the Schengen area is concerned, the Council was not in a position to take a decision, although the Schengen evaluations had been finalised in 2011.

EURO 2012 football cup

In June, as teams were preparing to go out on the pitch, the Commission was working with the Polish authorities to ensure a safe EURO 2012 football championship. In a bid to enhance public protection, the Commission provided technical support and guidance to the Polish police and border guards in training and developing the methodology for the use of mobile chemical and biodetection equipment to scan for explosives and weaponry at Polish stadiums and airports. It was the first time that mobile detection equipment for explosives, chemical and biological threats was deployed in the EU during such a high-profile public event. The Commission is expected to launch more practical trials of detection equipment in other areas of public security in 2013.

In June and July, Frontex coordinated a joint operation in support of Polish and Ukrainian border guards. Over 100 officers from 23 EU Member States were deployed on the Polish–Ukrainian border to assist with border checks and border surveillance. At the same time border guards from several Member States and non-EU countries were working in key airports in Poland and Ukraine.

Visas

The Commission launched talks on visa-free travel with Kosovo in January and in February it published the second progress reports on the implementation by Moldova and Ukraine of their respective action plans on visa liberalisation. In June, visa liberalisation talks started with Georgia. The aim of the process is to eventually lift the visa obligation for citizens of these countries once they have implemented substantial reforms in several key areas including the security of travel documents, border, migration and asylum management and the fight against organised crime and corruption. In November, the Commission proposed that citizens from 16 Caribbean and Pacific island nations should soon be able to travel to the Schengen area without needing a visa.

The Visa Information System (VIS) connects consulates in non-EU countries and all external border crossing points of Schengen states with a central database, allowing the use of biometrics.

Under the EU–Russia visa dialogue, the process of implementing the 'common steps towards visa-free short-term travel of Russian and EU citizens' was launched after the document itself was adopted by the December 2011 EU–Russia Summit.

In February and March respectively, the Commission started negotiations on visa facilitation agreements with Armenia (initialed in October) and Azerbaijan and in October it signed a visa facilitation agreement with Cape Verde. In June, the Commission signed an amended visa facilitation agreement with Moldova and in July with Ukraine, further facilitating people-to-people contacts and making it easier for Moldovan and Ukrainian citizens who want to travel to the EU. The amendments provide, among other things, for the extension of certain facilitations to additional categories of Moldovan and Ukrainian visa applicants, such as representatives of civil society organisations or young persons who participate in events organised by non-profit organisations, as well as for the improvement of existing facilitations for categories of applicants like journalists.

In November, the Commission outlined ways to make sure that the visa rules help the EU to remain an attractive destination, in particular for those countries presenting a high tourist-generating potential. Facilitating the travel of non-EU nationals to the EU has a considerable impact on the economy as a whole. Accounting for 18.8 million jobs in 2011, tourism has become one of the biggest generators of employment in the European Union, with foreign visitors spending over €330 billion. According to recent estimates these figures are likely to increase to 20.4 million jobs and €430 billion in 2022.

In November, the Commission also adopted the seventh (and final) visa reciprocity report ([31]) on certain non-EU countries' maintenance of visa requirements in breach of the principle of reciprocity.

IT agency

A new agency for managing large-scale EU information systems held its inaugural management board meeting in March in Tallinn, Estonia, and took up its responsibilities as of December 2012. Its main task will be to ensure that the Visa Information System (VIS) and Eurodac system operate 24 hours a day, 7 days a week. The agency will also manage the second generation of the Schengen Information System (SIS II), which will bring added value to the security and free movement of persons within the Schengen area. SIS II will become operational in the first quarter of 2013.

Fight against counterfeiting at the EU's borders

EU customs play a crucial role in stopping products which violate intellectual property rights from entering the EU. In a knowledge-based economy, competitiveness depends on the capacity to protect innovation and creativity. To achieve this, an active policy against counterfeit and pirated goods is essential. Last year, customs seized 115 million such articles, thereby protecting legitimate EU businesses. This corresponds to an increase of 15 % compared to 103 million in 2010. The value of the intercepted goods represented nearly €1.3 billion compared to €1.1 billion in 2010. The top categories of articles stopped by customs were medicines (24 %), packaging material (21 %) and cigarettes (18 %). Products for daily use and products that could be potentially dangerous to the health and safety of consumers accounted for a total of 28.6 % of the detained articles, compared to 14.5 % in 2010.

Anti-fraud actions led by OLAF partners in Lithuania: during the check of a locomotive which had arrived from Belarus, a cache of cigarettes was found in the engine compartment.

The discussions in the Parliament and in the Council on the Commission's 2011 proposal ([32]) for a new regulation on customs enforcement of intellectual property rights (IPR) continued in 2012, in particular to clarify the role of customs as regards generic medicines in transit. The negotiations were concluded at the end of 2012, allowing for the Parliament and the Council to formally adopt the regulation in early 2013. The Council also adopted in December a new action plan to combat IPR infringements for 2013–17. Particular focus is put on the increased trend for small parcels related to Internet purchases and strengthening cooperation with the European Observatory on Infringements of Intellectual Property Rights and law enforcement authorities on IPR infringements.

Common European asylum system

The European Council set the objective of completing the common European asylum system (CEAS) by 2012. The first element of the package, the revised qualification directive ([33]), was adopted in November 2011.

In March, the EU adopted the 'Joint EU resettlement programme' ([34]). Refugee resettlement is not only a life-saving measure but also an important solidarity gesture on the part of receiving EU countries towards non-EU countries hosting large numbers of refugees. The resettlement programme will specify a broader list of refugees whose resettlement will qualify for EU funding. There will also be EU resettlement priorities, specifying the nationalities of refugees and the countries from which resettlement should take place as a priority and for whom EU funding is available. The programme will also offer additional financial incentives for the countries that start to engage in resettlement activities.

In July, political agreement was reached on the revised reception conditions directive, which further harmonises the Union's rules to ensure that there are humane material reception conditions for asylum seekers across the EU. For the first time in an EU instrument, detailed rules have been adopted on the detention of asylum seekers, including a restrictive list of grounds on which such detention may be ordered.

In November, political agreement was reached on the Dublin regulation, which determines the Member State responsible for an asylum claim. This regulation will also allow early detection of problems in the national asylum or reception systems, address their root causes before they develop into fully fledged crises and provide additional guarantees for the protection of asylum applicants.

Negotiations were in the final phase on the two outstanding instruments: the asylum procedures directive and the Eurodac regulation.

Terrorism and organised crime

Trafficking in human beings

In June, the Commission adopted the EU's strategy ([35]) towards the eradication of trafficking in human beings (2012–16), a set of concrete and practical measures to be implemented over the next 5 years. According to preliminary data included in the strategy, most of the victims in the EU are used for sexual exploitation (76 % in 2010). Others are forced into labour (14 % in 2010), begging (3 %) and domestic servitude (1 %). Regarding gender, the same data show that women and girls are the main victims; female victims accounted for 79 % (12 % girls) and men for 21 % (3 % boys) in 2008–10. The number of victims of forced labour, including forced sexual exploitation, is estimated at 20.9 million worldwide (in the developed economies it is around 1.5 million forced labourers). The strategy identifies as priority areas prevention, protection and support of the victims, and prosecution of the traffickers. It is victim centred and gender sensitive, and envisages the establishment of multidisciplinary law enforcement units, joint investigation teams, a European business coalition against trafficking in human beings, an EU civil society platform and child protection systems, as well as addressing demand, gender and human rights aspects of the phenomenon. The strategy will support and complement the implementation of EU legislation on trafficking (Directive 2011/36/EU) — for which the deadline for transposition is April 2013.

Fight against child sexual abuse online

In December, the EU and the US launched a global alliance against child sexual abuse online. Ministers from 48 countries participating in this initiative committed to take specific action at national level to enhance efforts to identify and support child victims, investigate cases and prosecute offenders, increase awareness of the risks of child sexual abuse online and reduce the availability of child pornography.

Confiscation of criminal assets

In March, the Commission proposed new rules for more effective and widespread confiscation of funds and other property acquired through crime. New rules will enhance the ability of Member States to confiscate assets that have been transferred to third parties, make it easier to confiscate criminal assets even when the suspect has fled and ensure that competent authorities can temporarily freeze assets that risk disappearing if no action is taken. The proposal is part of a series of measures that seek to protect the legal economy from criminal infiltration, linked to the Europe 2020 strategy and growth agenda. These include the EU anti-corruption package and the Commission anti-fraud strategy.

European Cybercrime Centre

In March, the Commission proposed the establishment of a European Cybercrime Centre to help protect European citizens and businesses against mounting cyber threats. It is estimated that, worldwide, more than 1 million people become victims of cybercrime every day and that its cost could reach some €300 billion a year. The Centre will be launched as from January 2013 within Europol, the European Police Office, in The Hague (Netherlands) and focus on illegal online activities carried out by organised crime groups, particularly those generating large criminal profits, such as online fraud involving credit cards and bank credentials.

Cecilia Malmström, Commissioner for Home Affairs, gives a press conference on the fight against cybercrime.

Examples of police cooperation

In January, an international organised crime network, responsible for the large-scale production and trafficking of synthetic drugs, was broken up in Operation Fire, following extensive investigation by Europol and several other European law enforcement authorities. Some 30 kg of amphetamine was seized and three suspects arrested in Sweden, as well as two suspects in Germany and one in the Netherlands. In addition, cooperation with the Bulgarian authorities led to the arrest of three members of the organised crime network and the dismantling of three illegal synthetic drug production facilities. The Bulgarian authorities seized approximately 75 litres of amphetamine base (enough to produce around 120 kg of pure amphetamine), 15 kg of amphetamine substance and over 1 400 litres of various chemicals for producing synthetic drugs. Equipment, including 2 tableting machines, together with five firearms, 150 rounds of ammunition and 6.4 kg of trinitrotoluene (TNT), was also seized.

In June, an international organised crime group responsible for payment card fraud and illegal online purchases was successfully disrupted by the police during a raid in Romania, with the support of Europol and Eurojust. The raid resulted in 10 arrests. Evidence seized included cash, computers, mobile phones, other electronic devices and luxury cars. The suspects were believed to have been committing fraud for years in several EU countries.

Passenger name records agreement with the US

In April, the Parliament gave its consent to the new passenger name record (PNR) agreement with the US. Under the agreement, which entered into force on 1 July, data of passengers travelling to the US will be used to fight serious transnational crime and terrorism. This provides stronger protection of EU citizens' right to privacy and more legal certainty for air carriers and fully meets the security needs of the US and the EU.

Firearms

New EU legislation was adopted in spring 2012 to fight illegal arms trafficking to and from the EU more effectively. It establishes requirements for exports, imports and transit licensing, and makes it easier to track weapons. This paves the way for the final ratification of the UN Firearms Protocol by the European Union.

Explosives precursors

In December, the EU adopted new rules on the marketing and use of explosives precursors to address the problem of the misuse of certain chemicals for the illicit manufacture of explosives which can be used, for example, to carry out terrorist attacks. The new rules generally prohibit members of the general public from acquiring, possessing or using specific chemical substances above certain concentration levels.

Fight against corruption

Corruption remains a major problem in the EU and levels are thought to have risen over the last 3 years, according to the Eurobarometer survey ([36]) published by the Commission in February. The data showed that almost three quarters of Europeans continue to see corruption as a major problem and think that it exists at all levels of government. Some 8 % of respondents said that they have been asked or expected to pay a bribe in the past year. The first EU anti-corruption report, which will give a clear account of the state of play of anti-corruption efforts in all Member States, is under preparation and scheduled for publication next year.

Easing citizens' everyday concerns

Education and culture

On 10 and 11 May, in public deliberation, the EU education and culture ministers discussed for the first time the Commission proposals for the 'Creative Europe' ([37]) and 'Erasmus for all' ([38]) programmes for the period 2014–20.

Erasmus 25th anniversary

Twenty-five years after its launch, Erasmus has become the best-known EU programme and the most successful student exchange scheme in the world. With its focus on languages, adaptability, intercultural awareness and leadership, Erasmus provides young people with vital skills to boost their employability and personal development. Since it began in 1987, the programme has provided more than 2.5 million European students with the opportunity to go abroad to study at a higher education institution or for a job placement in a company. On current trends, the European Union will reach its target of supporting 3 million Erasmus students by 2013.

Erasmus programme — 25th anniversary.

Culture and MEDIA

European prizes and European capitals of culture

Guimarães (Portugal) and Maribor (Slovenia) were the two European Capitals of Culture in 2012. The Council also formally designated Donostia-San Sebastián (Spain) and Wrocław (Poland) as European Capitals of Culture for 2016. The Commission also proposed countries to host European Capitals of Culture after 2019.

Twenty-eight projects won the 2012 European Union Prize for Cultural Heritage/Europa Nostra Awards

The awards were presented on 1 June during a ceremony at the Jerónimos Monastery in Lisbon. Out of the 28 winning projects, six were named as 'Grand prix' laureates at the ceremony as 2012's most outstanding heritage achievements, namely the Averof Building — School of Architecture in Athens (Greece), the Number 2 Blast Furnace, Sagunto (Spain), the Poundstock Gildhouse, Bude, Cornwall (United Kingdom), a study on the Augustus botanical code of Ara Pacis, Rome (Italy), the dedicated service to heritage of Paraschiva Kovacs, Satu Mare, Harghita County (Romania) and an educational programme for a heritage site developed by the Norwegian Heritage Foundation, Vågå (Norway).

Handshake between Lada Žigo, Croatian writer and winner of the 2012 European Union Prize for Literature, on the left, and Androulla Vassiliou, Commissioner for Education, Culture, Multilingualism and Youth.

The winners of the 2012 European Union Prize for Literature

This prize recognises the best new or emerging authors in the EU. The winners were announced at the Frankfurt Book Fair on 9 October and are: Anna Kim (Austria), Lada Žigo (Croatia), Laurence Plazenet (France), Viktor Horváth (Hungary), Kevin Barry (Ireland), Emanuele Trevi (Italy), Giedra Radvilavičiūtė (Lithuania), Gunstein Bakke (Norway), Piotr Paziński (Poland), Afonso Cruz (Portugal), Jana Beňová (Slovakia) and Sara Mannheimer (Sweden). Each winner received €5 000 and, more importantly, priority for funding from the EU culture programme to get their book translated into other languages.

European Union Award for Contemporary Music/European Border Breakers Awards (EBBAs)

The winners of the 2012 edition were: Elektro Guzzi (Austria), Selah Sue (Belgium), Agnes Obel (Denmark), Ben l'Oncle Soul (France), Boy (Germany), James Vincent McMorrow (Ireland), Afrojack (Netherlands), Alexandra Stan (Romania), Swedish House Mafia (Sweden) and Anna Calvi (United Kingdom).

The new EU MEDIA prize

The prize, awarded for the best project with box office potential submitted by a screenwriter and a production company, went to the Iranian director Asghar Farhadi in May during a ceremony at the Cannes Film Festival.

Citizens' health and their rights as consumers

Consumers' rights and safety

The European consumer agenda ([39]), the strategic vision for EU consumer policy for the years to come, was adopted in May. It presents policy measures contributing to the achievement of the objectives of the EU's growth strategy, Europe 2020. It builds on and complements other initiatives such as the EU citizenship report, the Single Market Act, the digital agenda for Europe and the resources efficiency roadmap. The agenda has four main objectives: reinforcing consumer safety; enhancing knowledge; stepping up enforcement and securing redress; and aligning consumer rights and policies to changes in society and in the economy. It also presents a number of key actions to be implemented between now and 2014.

In 2012, the Member States and the Commission continued to share information efficiently on dangerous products found across Europe through the rapid alert system for non-food dangerous products called RAPEX. Cooperation with China and the US has been further strengthened. A global recall portal extending the RAPEX system beyond the EU became operational in October. It allows authorities across the world to exchange information about unsafe products that have been taken off the market. The project is developed jointly by the EU and OECD countries including Australia, Canada and the US.

In addition, the discussions in the European Parliament and the Council continued on the Single Market Act I package of proposals on alternative and online dispute resolution, leading to their adoption, and on the consumer programme 2014–20.

Citizens' health

NEW APP FOR THE HEALTH INSURANCE CARD

The European Health Insurance Card (EHIC) continues to make it easier for people in 31 European countries to access healthcare services during temporary visits abroad. Currently approximately 192 million people have an EHIC. To raise awareness of the card and how to use it, the European Commission has developed an application for smartphones which is a handy guide on how to use the card in the 27 EU Member States, Iceland, Liechtenstein, Norway and Switzerland. It includes general information about the card, emergency phone numbers, treatments that are covered and costs, how to claim reimbursement and who to contact if you have lost your card. The application is available in 24 languages, with the option to switch from one language to another.

In December, the Commission presented an e-health action plan ([40]) to address barriers to the full use of digital solutions in Europe's healthcare systems. The goal is to improve healthcare for the benefit of patients, give patients more control of their care and bring down costs. While patients and health professionals are enthusiastically using telehealth solutions and millions of Europeans have downloaded smartphone apps to keep track of their health and wellbeing, digital healthcare has yet to reap its great potential to improve healthcare and generate efficiency savings.

In September, the Commission adopted proposals ([41]) to revise the European medical device legislation which covers a wide range of medical items from contact lenses to scanners. This sector plays a crucial role in the diagnosis, prevention, monitoring and treatment of diseases. The main changes address strengthening of the designation and monitoring of notified bodies, vigilance and market surveillance, and better traceability of medical devices. The proposals aim to ensure uniform assessment standards, in particular regarding the manufacturer's clinical evaluation, and early information of competent authorities regarding high-risk (especially innovative) devices before they arrive on the market.

The new Cosmetic Products Notification Portal ([42]) became operational in January. It significantly increases consumer safety in the EU by allowing Member States to perform their tasks of market surveillance in a more efficient way and by providing all European poison centres with the information necessary for prompt medical treatment in case of poisoning with cosmetic products.

In July, the Commission adopted a proposal for a regulation ([43]) on clinical trials on medicinal products for human use. Clinical trials, which consist of testing experimental medicines on humans, are crucial for developing new drugs and improving existing treatments. The proposal aims to boost clinical research in Europe by simplifying and streamlining the rules for conducting clinical trials while protecting the safety of patients.

All medicinal products in the EU are subject to a strict testing and assessment of their quality, efficacy and safety before being authorised. Once on the market, they continue to be subject to a continuous monitoring called pharmacovigilance. Following recent events, in particular those related to the 'Mediator case', the Commission carried out a screening of the current legislation and identified some weaknesses in the EU pharmacovigilance system. Consequently the Commission made new proposals to amend the pharmaceuticals legislation in order to strengthen transparency and improve the monitoring and reporting of adverse reactions to medicines. The relevant amendments to Regulation (EC) No 726/2004 ([44]) and Directive 2001/83/EC ([45]) were adopted on 25 October 2012.

In December, the Commission adopted a proposal to revise the tobacco products directive (Directive 2001/37/EC). The revision aims at improving the functioning of the internal market while ensuring a high level of health protection and improving public health. The revision of the directive ([46]) addresses the following main issues:

- regulation of nicotine-containing products such as electronic cigarettes, as well as herbal cigarettes;
- labelling and packaging of tobacco products;
- additives such as flavourings used in tobacco products;
- Internet sales of tobacco products;
- tracking and tracing of these products.

Other health legislation adopted by the Commission during 2012 includes:

- a set of 14 new textual health warnings to appear on tobacco packages — decision adopted in March;
- an implementing decision to facilitate EU cross-border exchange of information about organs and their donors, adopted in October;
- an implementing directive laying down common rules on cross-border medical prescriptions, adopted in December.

In addition, discussions in the European Parliament and the Council have continued on the proposals on serious cross-border health threats and on the health programme 2014–20.

The Commission's Joint Research Centre (JRC) has developed a certified reference material used to support the monitoring of chronic myelogenous leukaemia.

HELPING CANCER PATIENTS

The Commission's in-house science service, the Joint Research Centre (JRC), developed a new reference material to support the monitoring of chronic myelogenous leukaemia (CML), a cancer of the white blood cells which affects some 9 600 new EU patients each year. The disease cannot currently be cured, but can be kept under control. For optimal treatment, patients need to be regularly monitored. JRC's reference material makes it possible to compare results from different laboratories, and will therefore improve the treatment of the patients.

Food safety and quality

In the context of the Parliament's report requesting the Commission to take practical measures to halve food waste by 2025 and of the Europe 2020 resource efficiency flagship and its subsequent roadmap, the Commission took a number of practical steps to address the issue. Consultations with stakeholders, Member States and experts took place on how to minimise food waste without compromising food safety and to define the most appropriate EU actions to complement those carried out at national and local levels. The Commission also set up a dedicated website ([47]), prepared a video clip and disseminated information such as '10 tips to reduce food waste' in all EU languages and information material on 'best before' and 'use by' dates.

The Commission adopted in May a first list of 222 permitted health claims, a milestone in the implementation of the regulation on nutrition and health claims made on food. The list ([48]), which will be updated over time, is based on the advice of the European Food Safety Authority and was supported by Member States, the European Parliament and the Council. As from 14 December 2012, non-scientifically backed claims such as 'good for your heart' or 'reduces cholesterol' will have to be removed from the market.

The Food and Veterinary Office (FVO) ([49]), the Commission's inspectorate based in Ireland, works to assure effective control systems and to evaluate compliance with European standards inside and outside the Union. It carries out audits in Member States and in non-member countries exporting to the EU with a view to promoting high and uniform levels of health protection and to ensuring trade can take place on a safe basis. In 2012, some 160 audits were carried out in Member States and 80 in non-EU countries.

During the year efforts were stepped up with China to strengthen cooperation in agriculture and quality food products and to improve cooperation in agriculture and rural development; a roadmap towards mutual recognition of organic products was adopted.

As regards the protection of geographical indications (GIs), an agreement was signed in June between the EU and Moldova. In November, a project aimed at ensuring protection of 10 famous EU food names in China, the biggest consumer market in the world, was finalised. 'Grana Padano', 'Prosciutto di Parma' and 'White Stilton cheese'/'Blue Stilton cheese' are some of 10 EU names that have been protected as GIs in China as part of the so-called '10+10 project'. In turn, the European Commission has registered 10 Chinese food names receiving protected status in the EU as GIs. These 10 Chinese names have been added to the more than 1 000 names of agricultural products and foodstuffs which are protected in the EU (among them 13 non-EU GIs). Not only does the GI system provide an important protection against imitations, but it is also recognised as a useful marketing tool.

As from 1 July 2012, the EU organic logo is obligatory on all pre-packaged organic food products produced in EU Member States which meet the necessary standards.

In December, the High Level Forum for a Better Functioning Food Supply Chain, established in 2010, presented its report. It shows that around 80 % of the initiatives contained in the forum's roadmap have been satisfactorily implemented. The Commission will assess all possible options for tackling unfair trading practices in the food chain, including legislation, and will launch an impact assessment.

Animal welfare

The new EU animal welfare strategy 2012–15 ([50]) adopted in January is designed to further improve the protection and welfare of animals in the European Union. Animals are of important value in our daily lives and make a significant contribution to the European economy. The new strategy envisages preparing, for 2014, a comprehensive new legislative framework promoting a result-oriented approach, with a focus on providing information and educating all concerned parties, as well as ensuring effective enforcement mechanisms.

Environment

In November, the Commission adopted a new environmental action programme (EAP) to cover the period up to 2020. This seventh EAP takes a long-term view of environment policy, reaffirming the 2050 vision included in the resource efficiency roadmap adopted in 2011, whereby EU citizens can live in a safe and healthy natural environment which is managed in ways that respect environmental limits and ensure ecological resilience. Actions are focused on nine priority areas, including:

- protecting, conserving and enhancing natural capital to ensure the continued provision of goods and services that nature provides, such as food, clean water and air, climate change mitigation and adaptation;
- turning the EU into a resource-efficient, greener and more competitive low-carbon economy to ensure economic progress is sustainable;
- safeguarding EU citizens from environment-related pressures and from risks to health and wellbeing to ensure that the environment in which they live and work is conducive to a high quality of life.

Janez Potočnik, Commissioner for the Environment, at the United Nations Conference on Sustainable Development (Rio+20).

In March, the Commission adopted a policy document on improving the implementation of environment law. It underlines the positive benefits of environment law, showing how preventing damage to the environment can cost far less than long-term remediation. Environment legislation can bring advantages to industry: full implementation of EU waste legislation would generate an additional 400 000 jobs, for example, with net costs that are €72 billion less than the alternative scenario of non-implementation. The communication is intended to intensify the dialogue with governments and all other stakeholders on better implementation of EU law by improving collection and sharing knowledge and by promoting greater ownership by all of environmental objectives.

Water was the main issue in the 2012 Green Week.

May 2012: Green Week 'The water challenge — Every drop counts'

This year's edition of Green Week was dedicated to water. Some 3 000 stakeholders, NGOs, government representatives and EU officials gathered for 3 days to discuss water-related issues and search for solutions to key water problems, like how to safeguard the availability of good-quality water against a backdrop of rapid population growth and ever more apparent climate change. The week also featured the European Business Awards for the Environment, which honoured companies combining innovation, competitiveness and outstanding environmental performance, and the third European Water Conference, a high-level stakeholder event.

In October, the Commission proposed a recast of the environmental impact assessment directive. Under EU law, any project that is likely to have a significant effect on the environment has to be studied carefully before it is approved. This helps minimise any negative impact on the environment, and avoids problems in the longer term. But after more than two decades, the law in question needed to be brought up to date. Under the revised proposal, the procedure for determining whether a project should undergo an environmental assessment procedure will be adjusted to ensure that only projects with significant environmental effects are subject to an impact assessment. The rules for the EIA procedure will be strengthened to ensure that they lead to better decisions and avoid or mitigate environmental damage.

Waste

A report published in August on how Member States manage their municipal waste showed large differences across the EU. The report graded the Member States against 18 criteria, using green, orange and red flags in areas such as total waste recycled, pricing of waste disposal and infringements of European legislation. The resulting scoreboard was then used to help Member States improve their waste management performance ([51]).

Climate action

In the road transport sector, the Commission put forward legislative proposals [52] to implement targets that will further considerably reduce carbon dioxide (CO_2) emissions from new cars and vans by 2020. The Commission also took action to reduce greenhouse gas emissions from other sectors. A proposal to establish common EU accounting rules for greenhouse gas emissions from, and their absorption by, the forest and agriculture sectors was presented by the Commission in March [53] and agreed at first reading in December. In November, following a review of current legislation, the Commission proposed measures to further reduce emissions of fluorinated industrial gases (F-gases), most of which are powerful greenhouse gases. The proposal would cut F-gas emissions by two thirds of today's levels by 2030 [54].

In October, the Commission proposed tougher rules on the sustainability of biofuels [55] to ensure that they provide substantial greenhouse gas savings compared to petrol or diesel. The new rules will now also take into account emissions due to indirect land-use change (ILUC). The proposal aims at shifting the use of biofuels from food-based biofuels towards increased use of advanced feedstock, like wastes, algae and straw. Furthermore, it will provide incentives for the production of biofuels with low estimated indirect land-use change emissions. This will ensure that the biofuels used in Europe do not cause significant increases in food prices or deforestation.

Low-carbon energy

Under the NER300 programme, one of the world's largest funding programmes for innovative low-carbon energy demonstration projects, the Commission granted co-funding of over €1.2 billion in December for 23 innovative renewable energy demonstration projects in 16 Member States [56]. This first round of funding was raised through the sale of 200 million EU emissions trading system allowances. The funding is expected to leverage €2 billion of private investment, thus helping ensure the EU's place as the frontrunner in low-carbon technologies. A second call for proposals will be launched in 2013.

The aviation sector joined the EU emissions trading system (EU ETS) at the start of the year, requiring airlines to hand over emission allowances to cover CO_2 emissions from all domestic and international flights to and from airports in the EU, Iceland, Liechtenstein and Norway. However, in November the Commission proposed deferring application of the scheme to 2013 for flights to and from countries outside this group as a goodwill gesture to allow more time for a global agreement addressing aviation emissions to be reached within the International Civil Aviation Organisation (ICAO) [57]. The legislation continues to apply to all flights within and between the 30 European countries.

Final preparations for implementation of the climate change aspects of the 2008 climate and energy package continued throughout the year. Under the so-called 'effort sharing decision', the Commission set out the exact tonnages of greenhouse gases from sectors not covered by the EU ETS that each Member State may emit per year from 2013 to 2020 ([58]). The reform of the EU ETS taking effect on 1 January 2013, the start of the system's third trading period, was another major focus of preparations. The Commission allowed the temporary free allocation of emission allowances to existing power stations in eight Member States — Bulgaria, the Czech Republic, Estonia, Cyprus, Lithuania, Hungary, Poland and Romania — in derogation of the general rule that power plants should buy all their allowances at auction or on the secondary market ([59]).

In a major step towards the first full intercontinental linking of emission trading systems, the Commission and Australia agreed in August on a pathway for linking the EU ETS and the Australian emissions trading scheme ([60]). An interim link will operate from 1 July 2015, enabling Australian businesses to use EU allowances to help meet liabilities under the Australian scheme.

In view of the large surplus of allowances that has built up in the EU ETS due to the economic crisis, the Commission took the initiative to postpone the auction of 900 million allowances from 2013–15 to 2019–20 to help rebalance supply and demand. In its first report on the state of the European carbon market, the Commission also set out six options for structural reform of the system ([61]) which could provide a sustainable solution to the surplus in the longer term, and launched a public consultation to gather stakeholders' views.

Transport

Infrastructure

In November, the Commission launched a major call for proposals in the transport infrastructure programme (TEN-T) totalling €1.265 billion ([62]). This injection of money into the European economy will directly boost growth and jobs, creating a better connected European transport network. This call will also support a transition into the upcoming new framework of the TEN-T guidelines ([63]) and the 'Connecting Europe facility' ([64]).

TEN-T CORE NETWORK INCLUDING CORE NETWORK CORRIDORS

- Baltic–Adriatic
- Warsaw–Berlin–Amsterdam/Rotterdam–Felixstowe–Midlands
- Mediterranean
- Hamburg/Rostock–Burgas/Turkish border/Piraeus–Lefkosia
- Helsinki–Valletta
- Genoa–Rotterdam
- Lisbon–Strasbourg
- Dublin–London–Paris–Brussels
- Amsterdam–Basel/Lyon–Marseille
- Strasbourg–Danube
- Other core network sections

Road transport

In July, the Commission presented the new roadworthiness package [65], with proposals to strengthen vehicle checks in order to improve road safety. Technical failure is still a contributing factor in 6 % of all serious car accidents and in 8 % of all accidents involving motorbikes and scooters in the EU. The purpose of the proposals is to increase and harmonise standards across the Union — to keep the potentially dangerous cars off the roads.

Concerning interoperability of electronic road tolling systems, the European Electronic Toll Service (EETS) will enable road users to easily pay tolls throughout the whole European Union as a result of one subscription contract with one service provider and one single on-board unit. However, the target date of October 2012 for having an operational EETS for heavy duty vehicles could not be met due to delays in Member States. The Commission requested Member States to accelerate the implementation of EETS and to fulfil as a matter of urgency their obligations foreseen by the legislation. Deployment of EETS at regional level could be a first step towards full European interoperability.

Railways

The Parliament and the Council reached agreement in June on the recast of the existing rail market access legislation. The agreed legislative text entered into force before the end of 2012 and will: (1) create a new financial architecture for the rail sector, stimulating both public and private investments; (2) facilitate access to the rail market with more transparent market conditions and stringent rules for the provision of rail-related services; and (3) reinforce the competence, independence and powers of national rail regulators.

Maritime transport

In December, the Commission proposed a substantial update [66] of the existing legislation concerning marine equipment [67]. This is an important instrument in the field of maritime safety, as it lays down the safety requirements for items such as lifeboats or fire extinguishers to be used on board ships flying the flag of an EU Member State, in accordance with the applicable international standards.

On working conditions for seafarers, the Commission adopted in 2012 two legislative proposals aimed at enforcing the Maritime Labour Convention, 2006, which was partially integrated into EU law by Directive 2009/13/EC [68]. In particular, one of the proposals provides for checks on all ships calling at EU ports — irrespective of their flag — against the social standards set out in the convention. This will significantly contribute to enforcing decent working conditions worldwide and to ensuring a global level playing field for shipping.

Aviation

In September, the Commission presented a communication on future challenges for the EU's aviation policy [69], in which it proposed a more ambitious external aviation policy to support the competitiveness and business opportunities of the European aviation sector in the global market. The future focus of the proposed policy includes negotiating new aviation agreements with neighbours and international partners, developing effective measures to strengthen fair competition in open markets and reforming the ownership and control restrictions for airlines. Since its establishment in 2005, the EU external aviation policy has brought nearly 1 000 bilateral air services agreements into conformity with EU law, developed a wider common aviation area with several EU neighbouring countries and negotiated comprehensive air transport agreements with a number of key partners.

Siim Kallas, European Commission Vice-President responsible for Transport, at the high-level conference 'Single European sky: time for action' in Limassol, Cyprus.

A new regulation was proposed on occurrence reporting in civil aviation in December [70]. While aviation safety has steadily improved over the years, the Commission considers that more effort should be made to protect European citizens and to ensure safe aviation transportation in the EU. The purpose of the proposed regulation is to ensure that the EU and its Member States use feedback from experience in order to improve civil aviation safety. This will be done through the collection of aviation incidents which will then be analysed and addressed to draw appropriate safety lessons.

The Commission's proposals for a comprehensive 'better airports' package of measures to help increase the capacity of Europe's airports, reduce delays and improve the quality of services offered to passengers were discussed in the European Parliament and in the Council during 2012. The measures proposed address the quality of services passengers and airlines receive on the ground before they take off and after they land, such as baggage handling, check-in and refuelling, [71] the transparency of decisions on airport noise [72] and the efficiency of the complex network of take-off and landing slots that make up every journey [73]. The legislator is expected to reach an agreement on the package during 2013.

Smartphone application for passenger rights.

Passenger rights

Concerning maritime passenger rights, Regulation (EU) No 1177/2010 ([74]) has been applicable since 18 December 2012. Passengers travelling by ship now enjoy rights comparable to those who travel by air and train.

On 4 July, just in time for the summer holidays, the Commission launched a new tool to provide passengers with information on their rights when travelling by air and rail. The tool is a free smartphone application and is part of the Commission's 'Your passenger rights at hand' campaign ([75]). Its aim is to help passengers better understand their rights when a journey does not go as expected.

Innovative and sustainable transport

September saw the launch of the 'Research and innovation for Europe's future mobility' initiative, which aims at speeding up the deployment of new transport means and solutions to achieve a competitive, sustainable and affordable European transport system. The strategy foresees the definition in 2013 of a set of roadmaps focusing on the deployment of technologies and innovation in 10 critical areas of transport. Industry, the public sector and other stakeholders involved in bringing innovative transport technologies and services to the market will participate in developing and implementing this strategy, for example by agreeing common targets, coordinating development and deployment agendas, considering the need for standards and identifying funding implications.

A battery switch station co-financed by the EU at Schiphol airport, Amsterdam, the Netherlands.

Connect to compete

The first ever European transport business summit 'Connect to compete' was held in Brussels in November. Business leaders and major players in industry and the economy, as well as major transport service providers and users, came together to hold an open discussion on the policy issues and challenges faced by transport in Europe today. The summit highlighted the essential role that transport can play in Europe's strategy for growth and for promoting Europe's global competitiveness.

Energy

Nuclear energy ([76])

The accident in the Fukushima nuclear power plant in Japan in March 2011 has revealed that continuous improvements of the nuclear safety and security framework in the European Union are necessary and should be based on the highest safety standards. Nuclear safety therefore remained very high on the agenda of the European Commission in 2012.

Nuclear stress tests: safety and security assessments

The Commission continued to be closely involved in the comprehensive risk and safety assessments ('stress tests') of nuclear power plants in the European Union and in neighbouring countries.

The last step of the process, an extensive EU-wide peer review process, was carried out by multinational teams, in two phases, from January to April 2012.

In July, the European Nuclear Safety Regulators Group (Ensreg) and the Commission agreed on an action plan to follow up the implementation of the peer review recommendations. The main findings, recommendations and proposed follow-up measures of the Commission were presented in October in a communication to the Parliament and the Council ([77]) on 'the EU stress tests, both on the safety and the security tracks, and the EU nuclear safety framework'.

Beyond the review of the physical safety of the plants, the Commission has also assessed the institutional architecture and legal framework for nuclear safety in Europe, as requested by the spring European Council. Taking into account the stress tests, the reports from Japan and the work of the international community in the International Atomic Energy Agency (IAEA), the Commission has identified a number of weaknesses within the existing EU nuclear safety framework. In order to address these, the Commission will adopt a proposal for a revised nuclear safety directive in 2013 ([78]).

Radiation protection ([79])

The Commission continued to monitor the situation in Japan as regards controls on feed and food, based on the development of the radiological situation around the Fukushima nuclear power plant, to ensure that such feed and food did not contain unacceptable levels of radioactivity.

The Commission also proposed strengthening the protection against the dangers arising from exposure to ionising radiation. It adopted in May a proposal (80) for a new basic safety standards directive which aims to provide a comprehensive system of protection of workers, patients and members of the public, as well as non-human species, from ionising radiation from both man-made and natural radiation sources. In addition, the proposal represents a major simplification of European legislation by replacing five directives (i.e. the medical directive, the high activity sealed sources directive, the outside workers directive, the public information directive and the basic safety standards directive) with one piece of legislation.

The Smart Cities and Communities European Innovation Partnership was launched in mid-year and aims at boosting the development of smart technologies in cities — by pooling research resources from energy, transport and ICT and concentrating them on a small number of demonstration projects which will be implemented in partnership with cities.

Renewables (81)

June 2012 saw the publication of a communication on renewable energy policy (82), outlining options for the period beyond 2020. It confirms the market integration of renewables and the need for their growth in the decades after 2020. The communication also calls for a more coordinated European approach in the establishment and reform of support schemes and an increased use of renewable energy trading among Member States.

Günther Oettinger, Commissioner for Energy, inaugurated the new electric charging point next to the headquarters of the European Commission Directorate-General for Mobility and Transport in Brussels, Belgium.

Energy efficiency (83)

The energy efficiency directive (84) entered into force in December. It is a key measure to reach one of the Europe 2020 targets, namely the 20 % increase in energy efficiency. Its main elements include:

- the legal obligation to establish energy efficiency obligations schemes or policy measures in all Member States to drive energy efficiency improvements in households, industries and transport sectors;
- a call for an exemplary role to be played by the public sector, notably in relation to the renovation of government-owned buildings;
- the right for consumers to know how much energy they consume;
- the encouragement of energy audits for SMEs and households and an obligation for large companies to assess their energy savings possibilities;
- increased efficiency in energy generation, transmission and distribution.

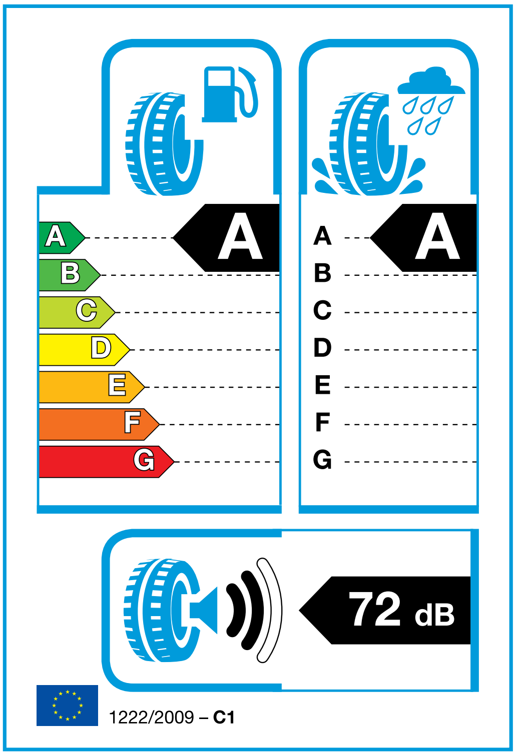
Security of energy supply [85]

In September 2011, the European Commission published a communication on security of energy supply and international cooperation [86]. It outlined for the first time a comprehensive strategy for the EU's external energy policy and has obtained the support of the other European institutions. This communication was accompanied by a proposal for a decision [87] setting up an information exchange mechanism with regard to intergovernmental agreements between Member States and non-EU countries in the field of energy, which was negotiated and adopted by the co-legislators in 2012 and entered into force in November. By establishing a notification of Member States' intergovernmental agreements and providing the possibility for a compatibility check, the mechanism on intergovernmental agreements aims to promote transparency and coherence in the EU's external energy relations as well as to ensure internal market rules and energy security policy goals are respected.

Ecodesign and energy labelling of products [88]

Since November 2012, the EU regulation on labelling of tyres has been applicable. The label provides information on fuel efficiency, wet grip and external rolling noise through clear pictograms. It will allow consumers to make informed choices when buying tyres, ranked on a scale from A (best) to G (worst).

Seven measures were adopted in 2012 to diminish the environmental impact of energy-using products at design or use stages. They concern the following products: air conditioners, household tumble driers, lamps and luminaires and water pumps. In addition, one voluntary agreement was adopted following the commitments made with industry, on complex set top boxes.



The EU regulation on the labelling of tyres has been in force since 1 November 2012.

EU civil protection mechanism

Seventeen countries affected by disasters requested assistance through the EU civil protection mechanism in 2012. The Commission's Monitoring and Information Centre coordinated the EU response to these requests and has been closely following 28 disasters that have occurred in Europe and outside of it.

Ethics and religious dialogue

The European Group on Ethics (EGE)

The European Group on Ethics (EGE) is an independent, pluralist and multidisciplinary body which advises the European Commission on ethical aspects of science and new technologies in connection with the preparation and implementation of Union policies and ultimately legislation. In 2011, the Commission President José Manuel Barroso requested the EGE to issue an opinion on the ethical implications of information communication technology (ICT) ([89]). The EGE adopted its opinion in early 2012 and subsequently met Neelie Kroes, European Commission Vice-President responsible for the Digital Agenda, to discuss its proposed actions. The opinion resulted from an intense series of meetings ([90]) with external experts and relevant stakeholders (including industry, civil society, NGOs, academia and the chairpersons of the national ethics councils of the Member States). It addressed governance aspects (ethical, legal, social and political) related to the different sectors of the EU digital agenda, such as social networks, e-government, e-commerce, corporate social responsibility, the digital divide, e-skills, e-advertising and cybercrime.

In March, the EGE started working on its opinion on ethics of energy, as requested by President Barroso. The opinion, to be adopted in January 2013, will contribute to the debate on a sustainable energy mix in Europe.

In November, the EGE adopted its position on the proposal for a regulation of the European Parliament and the Council on clinical trials ([91]).

The European Commission international dialogue on bioethics

In the science and new technologies sector the Commission is promoting a responsible use of science and technology, both within the European Union and worldwide. The international dialogue platform is conceived as a tool to cluster chairs of national ethics councils or equivalent bodies from different regions of the world in order to allow a better exchange of information and communication between these bodies and facilitate interactions and links between them and the Commission. On 19 June, the fourth meeting of the European Commission international dialogue on bioethics took place, an event organised by the Commission under the auspices of the Danish Council Presidency. Invited participants included members of the EGE, the chairs of the national ethics councils of the Member States and those of the 15 non-EU national ethics councils, as well as representatives of international organisations ([92]). The topic discussed was 'The governance of large research and medical databases in clinical and research multi-centre trials'.

Religious dialogue

The Bureau of European Policy Advisers (BEPA) (93) intensified the dialogue with churches, religious communities and philosophical and non-confessional organisations based on Article 17 of the Treaty on the Functioning of the European Union — a dialogue the Commission has conducted over several decades.

The Presidents of the European Parliament, the European Council and the European Commission held meetings with both religious leaders and representatives of philosophical and non-confessional associations. In the perspective of the European Year for Active Ageing and Solidarity between Generations 2012, discussions focused on 'Intergenerational solidarity: Setting the parameters for tomorrow's society in Europe'. In addition, five dialogue seminars were held — two with umbrella organisations of the Catholic and Protestant churches on religious freedom and the challenges of a European social market economy, a large colloquium with free thinkers on the EU policy towards Arab spring countries, one with adogmatic representatives of freemasonry on the topic of intergenerational solidarity and finally one with representatives of the Orthodox church on the contribution of the Orthodox church to overcoming the financial and economic crisis.

Participation of José Manuel Barroso, President of the European Commission, flanked by Herman Van Rompuy, President of the European Council, and Jerzy Buzek, former President of the European Parliament, in the high-level religious leaders meeting on 'Intergenerational solidarity: Setting the parameters for tomorrow's society in Europe' on 12 July 2012.

ENDNOTES

(1) Commission report — 2011 report on the application of the EU Charter of Fundamental Rights (COM(2012) 169).

(2) Court of Justice ruling of 6.11.2012 in Case C-199/11 *Otis and Others*.

(3) Court of Justice ruling of 19.4.2012 in Case C-415/10 *Meister*.

(4) Court of Justice ruling of 6.11.2012 in Case C-286/12 *Commission* v *Hungary*.

(5) Court of Justice ruling of 8.11.2012 in Case C-40/11 *Iida*.

(6) Court of Justice ruling of 6.11.2012 in Case C-286/12 *Commission* v *Hungary*.

(7) Directive 2000/78/EC establishing a general framework for equal treatment in employment and occupation (OJ L 303, 2.12.2000).

(8) Commission report on progress in Romania under the cooperation and verification measure (COM(2012) 410). At the same time, the Commission also reported on Bulgaria's progress under the CVM.

(9) http://ec.europa.eu/commission_2010-2014/reding/factsheets/index_en.htm

(10) Commission communication — Safeguarding privacy in a connected world: A European data protection framework for the 21st century (COM(2012) 9). Proposal for a regulation on the protection of individuals with regard to the processing of personal data and on the free movement of such data (general data protection regulation) (COM(2012) 11). Proposal for a directive on the protection of individuals with regard to the processing of personal data by competent authorities for the purposes of prevention, investigation, detection or prosecution of criminal offences or the execution of criminal penalties, and the free movement of such data (COM(2012) 10).

(11) Decision No 1/2012 of the Joint Committee established under the Agreement between the European Community, of the one part, and its Member States and the Swiss Confederation, of the other, on the free movement of persons (OJ L 103, 13.4.2012).

(12) Decision No 76/2011 of the EEA Joint Committee (OJ L 262, 6.10.2011).

(13) Regulation (EU) No 465/2012 on the coordination of social security systems (OJ L 149, 8.6.2012).

(14) Court of Justice ruling of 12.6.2012 in Joined Cases C-611/10 and C-612/10 *Hudziński and Wawrzyniak*.

(15) Court of Justice ruling of 14.6.2012 in Case C-542/09 *Commission* v *Netherlands*.

(16) Proposal for a directive concerning the posting of workers in the framework of the provision of services (COM(2012) 131).

(17) Proposal for a regulation on the statute and funding of European political parties and European political foundations (COM(2012) 499).

(18) http://ec.europa.eu/citizens-initiative/public/welcome

(19) Regulation (EU) No 650/2012 on jurisdiction, applicable law, recognition and enforcement of decisions and acceptance and enforcement of authentic instruments in matters of succession and on the creation of a European Certificate of Succession (OJ L 201, 27.7.2012).

(20) https://e-justice.europa.eu/home.do?action=home

(21) Directive 2012/13/EU on the right to information in criminal proceedings (OJ L 142, 1.6.2012).

(22) Court of Justice ruling of 5.9.2012 in Case C-42/11 *Lopes Da Silva Jorge*.

(23) Proposal for a regulation laying down rules for the monitoring of trade between the Community and third countries in drug precursors (COM(2012) 521). Proposal for a regulation on drug precursors (COM (2012) 548).

(24) Special Eurobarometer 380 (2012).

(25) Greece, Cyprus, Austria and Slovenia.

(26) 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).

(27) Directive 2003/86/EC on the right to family reunification (OJ L 251, 3.10.2003).

(28) Court of Justice ruling of 24.4.12 in Case C-571/10 *Kamberaj*.

(29) Court of Justice ruling of 26.4.2012 in Case C-508/10 *Commission* v *Netherlands*.

(30) Belgium, Cyprus, Lithuania, Luxembourg, Poland, Portugal, Slovenia, Finland and Sweden.

(31) Commission report on certain third countries' maintenance of visa requirements in breach of the principle of reciprocity (COM(2012) 681).

(32) Proposal for a regulation concerning customs enforcement of intellectual property rights (COM(2011) 285).

(33) Directive 2011/95/EU on standards for the qualification of third-country nationals or stateless persons as beneficiaries of international protection, for a uniform status for refugees or for persons eligible for subsidiary protection, and for the content of the protection granted (OJ L 337, 20.12.2011).

(34) Decision No 281/2012/EU amending Decision No 573/2007/EC establishing the European Refugee Fund for the period 2008 to 2013 as part of the general programme 'Solidarity and management of migration flows' (OJ L 92, 30.3.2012).

(35) Commission communication — The EU strategy towards the eradication of trafficking in human beings 2012–16 (COM(2012) 286).

(36) Special Eurobarometer 374 (2012).

(37) http://ec.europa.eu/culture/news/20120511_en.htm

(38) http://ec.europa.eu/education/news/20120515_en.htm

(39) Commission communication — A European consumer agenda — Boosting confidence and growth (COM(2012) 225).

(40) Commission communication — E-health action plan 2012–20 — Innovative healthcare for the 21st century (COM(2012) 736).

(41) Commission communication — Safe, effective and innovative medical devices and in vitro diagnostic medical devices for the benefit of patients, consumers and healthcare professionals (COM(2012) 540). Proposal for a regulation on medical devices (COM(2012) 542). Proposal for a regulation on in vitro diagnostic medical devices (COM(2012) 541).

(42) http://ec.europa.eu/consumers/sectors/cosmetics/cpnp/index_en.htm

(43) Proposal for a regulation on clinical trials on medicinal products for human use (COM(2012) 369).

(44) Regulation (EU) No 1027/2012 as regards pharmacovigilance (OJ L 316, 14.11.2012).

(45) Directive 2012/26/EU as regards pharmacovigilance (OJ L 299, 27.10.2012).

(46) Proposal for a directive on the approximation of the laws, regulations and administrative provisions of the Member States concerning the manufacture, presentation and sale of tobacco and related products (COM(2012) 788).

(47) http://ec.europa.eu/food/food/sustainability/index_en.htm

(48) http://ec.europa.eu/nuhclaims/

(49) http://ec.europa.eu/food/fvo/index_en.cfm

(50) Commission communication on the European Union strategy for the protection and welfare of animals 2012–15 (COM(2012) 6).

(51) http://europa.eu/rapid/pressReleasesAction.do?reference=IP/12/888&format=HTML&aged=0&language=EN&guiLanguage=en

(52) Proposal for a regulation to define the modalities for reaching the 2020 target to reduce CO_2 emissions from new passenger cars (COM(2012) 393). Proposal for a regulation to define the modalities for reaching the 2020 target to reduce CO_2 emissions from new light commercial vehicles (COM(2012) 394).

(53) Proposal for a decision on accounting rules and action plans on greenhouse gas emissions and removals resulting from activities related to land use, land use change and forestry (COM(2012) 93).

(54) Proposal for a regulation on fluorinated greenhouse gases (COM(2012) 643).

(55) Proposal for a directive relating to the quality of petrol and diesel fuels and on the promotion of the use of energy from renewable sources (COM(2012) 595).

(56) http://europa.eu/rapid/press-release_IP-12-1385_en.htm

(57) http://europa.eu/rapid/press-release_MEMO-12-854_en.htm

(58) http://ec.europa.eu/clima/news/articles/news_2012101702_en.htm

(59) http://ec.europa.eu/clima/policies/ets/cap/auctioning/documentation_en.htm

(60) http://ec.europa.eu/clima/news/articles/news_2012082801_en.htm

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(62) http://tentea.ec.europa.eu/en/apply_for_funding/follow_the_funding_process/calls_for_proposals_2012.htm

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Thomas Lehmann/DPA/AFP, page 96

1992

The Commission's European Community Humanitarian Office (ECHO) was created in 1992 as an expression of European solidarity with people in need all around the world. In its 20 year existence it has provided €14 billion of humanitarian assistance to victims of conflict and disasters in 140 countries around the globe.

2012

An EU police mission.

CHAPTER 5

A stronger EU in the world

- Neighbouring countries and international partners
- Multilateral governance
- Global solidarity and responsibility

A STRONGER EU IN THE WORLD

The European Union is a powerful inspiration for many around the world. The EU's multilateral approach is based on the twin principles of global solidarity and global responsibility. That is what inspires our engagement with our neighbouring countries and international partners, from the Middle East to Asia, from Africa to the Americas. It defines our stance against the death penalty and our support for international justice embodied by the International Court of Justice and the International Criminal Court, under a multilateral global governance system led by the United Nations.

The principles of global solidarity and responsibility drive the Union's leadership in the fight against climate change and for food and energy security.

They underpin our policies on disarmament and against nuclear proliferation, and on development and humanitarian assistance.

The year 2012 saw the fostering of deeper relations with Europe's neighbours with the aim of promoting democracy, stability and prosperity, the continued building of strong strategic partnerships with existing and emerging global players, and the second full year of operation of the European External Action Service, which now oversees 141 Union delegations throughout the world.

The main developments of the year in the external relations domain are charted in this chapter.

The European neighbourhood

Supporting transformations in the neighbourhood

In 2012 the EU, together with its partners, successfully took forward the implementation of the European neighbourhood policy (ENP) so as to ensure that their important endeavour will have maximum impact. In parallel, the EU responded with determination to a fast-changing situation in its neighbourhood, with the aim of supporting and encouraging sustainable democratic transitions. The revised ENP provided the overall framework. Applying the reform-rewarding logic of 'more for more', the EU supported those partners embarking on political reforms. The EU swiftly curtailed relations with countries violating human rights and imposed wide-ranging restrictive measures against repressive regimes. Support was channelled towards civil society and affected populations. The policy is based on mutual accountability between the EU and its partners, the need to complement partnerships with governments by forging close links with and support for civil society, and recognition of the special role of women in shaping both politics and society.

The European Commission put forward 'umbrella' financial programmes ('Support for partnership, reform and inclusive growth' (Spring) for the south and 'Eastern partnership integration and cooperation' (EaPIC) for the east) with a total budget of €670 million over the period 2011–13. Significant allocations have already been announced in the southern neighbourhood for Algeria, Egypt, Jordan, Lebanon, Morocco and Tunisia, and in the eastern neighbourhood for Armenia, Georgia and Moldova.

The European neighbourhood programme for agriculture and rural development (Enpard) is a new policy initiative, part of the EU's commitment to inclusive growth and stability in its neighbourhood, which recognises the potential importance of agriculture in terms of food security, sustainable production and rural employment. With the launch of this programme the EU aims to meet the needs of southern Mediterranean countries and to further a more inclusive growth, through the identification and implementation of operations that can be funded under its new Spring programme.

In addition, the Commission and Catherine Ashton, the High Representative of the Union for Foreign Affairs and Security Policy/Vice-President of the European Commission (HR/VP), have taken innovative steps to mobilise financial assistance for transition in the neighbourhood from outside the traditional Community budget. This has included an increase in the lending ceilings of €1.15 billion to partner countries from the European Investment Bank (EIB), and an extension of the mandate of the European Bank for Reconstruction and Development (EBRD) to cover the countries of the southern and eastern Mediterranean.

The southern neighbourhood and the Middle East

There was both hope and concern over various developments in the southern neighbourhood. Positive dynamics allowed task forces to meet with Egypt, Jordan and Tunisia, which mobilised further EU support from both the public and private sectors for political and economic reforms in those countries.

On the other hand, and in response to the dramatic deterioration of the situation in Syria, the EU decided to suspend bilateral financial assistance and to impose a strong package of sanctions. The EU stepped up its assistance to the Syrian population affected by the crisis, and the overall EU contribution for humanitarian assistance reached almost €300 million in 2012. Despite the failure to reach an agreement in the UN Security Council on Syria, the EU has continued to call on the members of the UN Security Council to uphold their responsibilities with a view to reaching a political solution to the conflict and, in that context, reiterated its support for Lakhdar Brahimi, the Joint Special Envoy of the United Nations and the League of Arab States. The December Foreign Affairs Council accepted the National Coalition of the Syrian Revolutionary and Opposition Forces as the legitimate representatives of the Syrian people.

Catherine Ashton, Commission Vice-President and High Representative of the Union for Foreign Affairs and Security Policy, in Tunis, Tunisia, where she took part in the 'Friends of Syria' meeting.

The European Commission allocated €90 million for humanitarian response to help Syrians affected by the conflict, both inside Syria and those who had fled to neighbouring countries such as Iraq, Jordan, Lebanon and Turkey. The funding, channelled through the humanitarian partners of the European Commission, contributed to assistance programmes benefiting more than 1.5 million people in Syria and a large proportion of the over 250 000 Syrians who have fled across the borders to Iraq, Jordan, Lebanon and Turkey. Assistance was also provided to some 500 000 Palestinian refugees and another 87 000 Iraqi refugees who were being hosted by Syria, most of whom remained in the country.

In the case of Libya, the EU endeavoured to engage the provisional authorities in a dialogue covering key issues of concern. It continued to accompany the process of democratic transition, notably through the deployment of an EU election observation mission for the July General National Congress elections and through assistance to civil society, the security sector and governance.

A new generation of more ambitious ENP action plans have been or are being negotiated with Algeria, Lebanon, Morocco, the Palestinian Authority and Tunisia. Following the adoption of negotiating directives for deep and comprehensive free trade agreements (DCFTAs) with Egypt, Jordan, Morocco and Tunisia, negotiations are being prepared with Jordan, Morocco and Tunisia.

The Middle East peace process

The HR/VP continued her efforts to create a credible perspective for relaunching direct talks between Israel and the Palestinians to advance the Middle East peace process, in particular building on the first direct preparatory meeting between the parties in more than a year on 3 January 2012. The EU has consistently set out clear parameters for negotiations, and the HR/VP and José Manuel Barroso, the President of the European Commission, visited the region during the year. Throughout 2012 the HR/VP remained in close contact with many stakeholders. The EU continued to extend direct financial support to the Palestinian Authority and contributed to its ongoing state-building efforts. Against the background of apparent political impasse, the EU expressed its grave concern about developments on the ground which threaten to make a two-state solution impossible: Israel's continued settlement expansion and settler violence; the growing isolation of East Jerusalem from the rest of the West Bank; the prevention of Palestinian development across the West Bank, the majority of which is still under full Israeli control; and the increasingly precarious financial position of the Palestinian Authority. The EU condemned all forms of violence against civilians, including rocket attacks from Gaza, and continued to urge Fatah and Hamas to implement their agreements to reconcile under the leadership of President Mahmoud Abbas. Further to the renewed violence in Gaza and Israel, the vote at the UN General Assembly on the status of Palestine at the UN and the consequent Israeli decision on settlement expansion, the EU reiterated the urgent need to take bold and concrete steps towards peace and called on the parties to resume direct negotiations.

Eastern neighbourhood

The EU is determined to support sustainable reforms in east European countries, and to advance the political association and economic integration agenda with its partners. The main goal of the Eastern Partnership, the eastern dimension of the European neighbourhood policy, is to create the conditions to accelerate political association and deepen economic integration between the EU and the east European partner countries: Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine.

In May 2012, the HR/VP and the European Commission issued an Eastern Partnership roadmap ([1]) listing objectives to be achieved, reforms which partners have committed to implement, EU support and expected results. This policy was endorsed by the Eastern Partnership foreign ministers' meeting in July 2012.

Significant progress was made throughout 2012 in the implementation of the Eastern Partnership. The association agreement with Ukraine was initialled, including a DCFTA, but signature has been deferred awaiting corrective action by Ukraine over the country's deteriorating domestic situation. The EU remained concerned about the selective use of justice against members of the former government, including former Prime Minister Yulia Tymoshenko and former Interior Minister Yuriy Lutsenko. In a joint statement of 12 November 2012, the HR/VP and Štefan Füle, the European Commissioner for Enlargement and Neighbourhood Policy, noted that the 28 October 2012 parliamentary elections represented a deterioration in several areas compared to the standards previously achieved. In December the Foreign Affairs Council reiterated that the speed of political association and economic integration with the EU, including the signing of the association agreement, was determined in particular by Ukraine's progress in addressing the issues of selective justice and electoral shortcomings, and in implementing key reforms as set out in the association agenda.

Good progress was made in the negotiations for association agreements with Armenia, Georgia and Moldova, and in the negotiations with Azerbaijan. Negotiations for DCFTA agreements were successfully launched with Armenia, Georgia and Moldova as an integral part of the ongoing association agreement negotiations with these partner countries.

As regards Georgia, the EU welcomed the conduct of the parliamentary elections in October, and supported the smooth transition of power — this was an important step for Georgia's democratic consolidation. At the same time, the EU demonstrated active support for the territorial integrity of Georgia.

EU–Moldova relations saw a significant deepening and strengthening. Agreements were signed on a range of sectoral matters. Similarly, relations with Armenia and Azerbaijan developed dynamically, including through preparations for the launching of an EU–Armenia partnership for reforms and an EU–Azerbaijan partnership for modernisation.

The EU continued its active engagement in efforts to settle the Transnistrian conflict in Moldova, as part of the so-called 5+2 format, and to manage the conflicts in Georgia, as co-chair of the Geneva talks. On the ground, the presence of the EU Monitoring Mission (EUMM) in Georgia continued. The EU has invested in supporting confidence-building measures (CBMs) in the case of both Georgia and Moldova. In addition to his central role in the Geneva talks, Philippe Lefort, the EU Special Representative for the south Caucasus, has explored possibilities for stronger EU support in efforts to settle the Nagorno-Karabakh conflict.

Štefan Füle, Commissioner for Enlargement and European Neighbourhood Policy, in the centre, with Marina Adamovich (on the left) and Natalia Pinchuk (on the right), wives of political prisoners in Belarus.

The EU condemned publicly serious human rights violations in Belarus, including harassment and intimidation of representatives of political opposition and the media, arbitrary detentions, travel bans, allegations of torture and infringement of other fundamental rights such as freedom of expression and freedom of association or assembly. Under EU leadership, the Human Rights Council established in July 2012 a mandate for the Special Rapporteur on Belarus, who will monitor the human rights situation in the country, keep close contacts with civil society and formulate recommendations to the Belarusian authorities. The EU consistently called on the Belarusian authorities to release and rehabilitate all political prisoners, stop all acts of harassment and intimidation, and ensure free and transparent conduct of the 23 September parliamentary elections, including through the implementation of the recommendations of the Organisation for Security and Cooperation in Europe Office for Democratic Institutions and Human Rights (OSCE/ODIHR). Regrettably, these elections fell short of international standards. Already in March, in response to the difficult democracy and human rights situation, the Foreign Affairs Council strengthened existing restrictive measures against Belarus. These measures were extended for another year by the October Council.

Strategic partnerships

The concept of strategic partners refers to those major actors on the international scene with which the EU needs to work to find solutions to global and regional challenges.

United States

EU–US relations are in excellent shape, not least because of the degree of like-mindedness between the partners. The effective relationship the HR/VP forged with US Secretary of State Hillary Clinton on foreign policy issues remained a strong element in this area. There has been close coordination of assistance on the reform process in north Africa and the Middle East, on the political and humanitarian situation in Libya and on restrictive measures vis-à-vis Iran and Syria, in addition to a substantive dialogue on the long-term outlook for the region. Close coordination continues on the nuclear negotiations with Iran, led by the HR/VP. Also, in the case of the eastern neighbourhood and the Balkans, the EU and the US cooperated closely on Belarus, Georgia and Ukraine. In October 2012, the HR/VP and the Secretary of State jointly visited Bosnia and Herzegovina, Kosovo and Serbia. The transatlantic dialogue on energy security, policy and research continued with the meeting of the EU–US Energy Council ([2]) in December 2012 and, finally, following the November 2011 EU–US Summit commitment, the EU–US dialogue on the Asia/Pacific region is in the process of being strengthened.

EU–US relations in the area of justice and home affairs have over the past decade developed into an important pillar of transatlantic cooperation, and the 2011 EU–US Summit commitments in this regard have been largely fulfilled. In terms of transport security, the EU and the US reached an agreement, as of 1 June 2012, on mutual recognition of their respective air cargo security regimes. Other important milestones were: the adoption of the passenger name records (PNR) agreement with the US, which entered into force on 1 July 2012; the mutual recognition of companies designated as 'trusted traders' by both the US customs-trade partnership against terrorism (C-TPAT) programme and the EU's authorised economic operators (AEO) regime; and mutual recognition of air cargo security regimes, which entered into force on 1 June 2012.

The 2011 EU–US Summit decided to establish an EU–US High-Level Working Group on Jobs and Growth to look at all options to enhance transatlantic trade and investment in order to spur the creation of jobs and economic growth. On 20 June 2012, Herman Van Rompuy, the President of the European Council, and José Manuel Barroso, the President of the European Commission, issued a joint statement with US President Barack Obama welcoming the interim report of the working group, which reached the preliminary conclusion that 'a comprehensive agreement that addresses a broad range of bilateral trade and investment policies as well as issues of common concern with respect to third countries would, if achievable, provide the most significant benefit of the various options we have considered.' The work of the group is strongly supported by EU Member States.

Handshake between Hillary Clinton, US Secretary of State, on the left, and Catherine Ashton, Commission Vice-President and High Representative of the Union for Foreign Affairs and Security Policy.

Canada

EU–Canada relations are intensifying and the potential for enhanced economic and political cooperation is currently being explored through the negotiations for a comprehensive economic and trade agreement and a strategic partnership agreement (SPA). Since the launch of the SPA negotiations in late 2011, and following several negotiating rounds, an agreement is within reach.

In July 2012, the EU and Canada completed the negotiations on a draft agreement on security of information that will set rules on the protection of classified information. There are also ongoing negotiations on a passenger name records agreement. The EU–Canada transatlantic dialogue took place in March and focused on international issues and the ongoing SPA negotiations.

Russia

The EU's constructive engagement with Russia produced important results during the year, from Russia's accession to the World Trade Organisation (WTO), which took effect on 22 August, to the continued implementation of the Partnership for Modernisation and the 'common steps' towards a visa-free regime for short-term travel. Together with a possible relaunch of the negotiations on a new agreement, proper implementation of these agreements and commitments will be essential for the further development of the relationship.

EU–Russia Summit.

The 29th EU–Russia Summit took place in June 2012 near Saint Petersburg. This first summit with Vladimir Putin as president following his inauguration on 7 May demonstrated that the new Russian leadership has taken a decision to strengthen and further deepen EU–Russian cooperation, in particular in view of Russia's interest in modernisation, but it also revealed that there are still a number of differences where further work on both sides is needed. The 30th EU–Russia Summit held in December 2012 in Brussels constituted an opportunity to give impetus to the conclusion of the negotiations on a new agreement in the near future.

The EU followed closely developments related to Russia's domestic situation, which has been characterised by demonstrations of discontent from key groups in society. It has expressed concern both publicly and in political dialogues over negative developments, especially in the context of treatment of demonstrators, and the adoption of restrictive legislation on public assemblies and NGOs.

China

The EU and China exceptionally held two summits in 2012 — one postponed from 2011 and the 15th EU–China Summit on 20 September in Brussels. EU–China cooperation was strengthened in a number of areas, including urbanisation, energy (with a joint declaration on energy security ([3])), people-to-people, and research and innovation, adding to the strong economic and trade relationship. Both sides agreed to prepare for negotiations on an investment agreement. The HR/VP reinforced cooperation on security and defence with China during her visit to Beijing in July. At the same time, human rights continued to be one of the priorities in the EU's engagement with China. There have been some challenges relating to prominent trade irritants, yet there remains a high degree of joint commitment to focus on the significant potential for further expanding trade and investment and strengthening commercial relations.

EU–China Summit.

Japan

The EU and Japan have successfully completed the 'scoping exercise' launched in 2011 and aimed at determining the contours of a comprehensive and ambitious overall framework for the bilateral relationship. On this basis, the Commission adopted in July recommendations to the Council for opening parallel negotiations on a framework agreement (covering political, global and sectoral issues) and a deep and comprehensive free trade agreement. The Council adopted the two corresponding negotiating mandates in November, paving the way for one of the most significant negotiation exercises that the EU has ever had with one of its strategic partners.

South Korea

The new strategic partnership with South Korea, based upon a mutual free trade agreement and framework agreement, is creating momentum in all aspects of the relationship: trade, political, sectoral and global issues. In the first year of free trade agreement implementation, bilateral trade and investment have increased; outstanding issues linked to non-trade barriers were addressed through the free trade agreement mechanisms. The sixth bilateral summit, which took place back-to-back with the Nuclear Security Summit in Seoul on 28 March, agreed practical ways of expanding the strategic partnership in other areas like development, maritime security, green growth, research and education.

José Manuel Barroso, President of the European Commission, with Manmohan Singh, Indian Prime Minister.

India

The EU and India confirmed their interest in reinforcing the political dimension of their strategic partnership, with an emphasis on security, reiterated the importance of concluding a substantial and comprehensive free trade agreement as soon as possible and enhanced cooperation in a widening range of areas, such as research and innovation, civil nuclear energy (with a joint declaration on enhanced cooperation on energy signed at the February 2012 summit ([4])), and migration and mobility. The EU and India agreed to reinforce their foreign policy cooperation with a view to jointly promoting more effectively global stability, security and prosperity.

Brazil

EU–Brazil relations were deepened via the implementation of a joint action plan and dialogues in more than 30 areas of common interest, including inter alia trade, services, drugs, organised crime, international security, climate change, deforestation, social development and human rights. In February 2012 the HR/VP visited Brazil, where she met with Antonio Patriota, the Minister of External Relations. Cooperation on human rights issues advanced through the organisation of a joint event in Geneva on 'women human rights defenders'. A third session of the EU–Brazil human rights dialogue was held in September in Brussels.

Mexico

EU–Mexico relations have strengthened considerably over the last decade, following the entry into force of the global agreement in 2000 and the approval of the EU–Mexico strategic partnership in 2008. The visit of the HR/VP to Mexico early in 2012 boosted prospects for further cooperation with Mexico. At the EU–Mexico Summit on 17 June in Los Cabos leaders discussed security, multilateral issues — notably the economic crisis — and the possible review of the free trade agreement. The meeting highlighted that Mexico has made important advances in the area of human rights, but that certain aspects still remain to be tackled.

South Africa

The EU and South Africa held their annual summit for the fifth time in September 2012 in Brussels. The summit was the culmination of a year of intense political dialogue and important policy cooperation activities. These included the fourth bilateral peace and security consultations on 30 April in Brussels, the 13th Joint Cooperation Council on 17 July in Pretoria and the 11th ministerial policy dialogue, attended by the HR/VP and South African Foreign Minister Maite Nkoana-Mashabane, in August in Pretoria. These events led to significant progress in the partnership, and to a gradual strengthening of the political dialogue on foreign policy issues. In terms of trade, the leaders conveyed an important political signal by calling for the conclusion of the ongoing talks on the EU–Southern African Development Community (SADC) economic partnership agreement 'as a matter of priority.'

Human rights and democracy

Overview

In 2012 human rights were confirmed as a top priority in the EU's external relations. A unified EU strategic framework on human rights and democracy ([5]) was adopted in June, including an action plan for its implementation. Built on the communication entitled 'Human rights and democracy at the heart of EU external action — Towards a more effective approach' ([6]), the framework sets out principles, objectives and priorities, all designed to improve EU policy on human rights. They provide an agreed basis for a collective effort, involving Member States, the EU institutions and civil society. In order to contribute to the implementation of the strategic framework and the action plan, in July the HR/VP appointed Stavros Lambrinidis as the first ever EU Special Representative on Human Rights.

EU human rights priorities at the UN

The EU remained committed to a strong multilateral human rights system which can monitor the implementation of human rights norms and call all states to account. Throughout the year, the EU played a significant role in major international human rights forums. The EU has been active in promoting the UN Human Rights Council's indispensable role in addressing urgent cases of human rights violations, notably through the convening of special sessions and urgent debates on Syria, securing strong support for the adoption of resolutions with concrete outcomes, such as the dispatching of an international commission of inquiry to look at accountability for the gross human rights violations taking place in that country. The EU also took the lead in bringing the human rights situation of Belarus under close scrutiny, through the establishment of a special rapporteur. During the 67th UN General Assembly, the EU played a major role in the successful adoption of a cross-regional resolution on a moratorium on the death penalty. In the same body, the EU took the lead in resolutions on the human rights situation in Burma/Myanmar and in North Korea, as well as on freedom of religion or belief.

Election observation missions

Composed of observers from both Member States and non-EU partner countries such as Norway and Canada, and with the participation of MEPs as chief observers, EU election observation missions (EOMs) are a truly representative European contribution to efforts for democratisation and human rights globally. In 2012, in line with its strategic priorities, the EU deployed EOMs to Algeria, East Timor, Jordan, Senegal and Sierra Leone. Alongside full-fledged EOMs, the EU also sent an election assessment team to Libya and election expert missions to Angola, Egypt, El Salvador, Ghana, Guinea-Bissau, Indonesia (Aceh province), Mexico, Senegal (legislative elections) and Yemen.

Counting votes in the Algerian elections.

Support for democracy: establishment of a European endowment for democracy

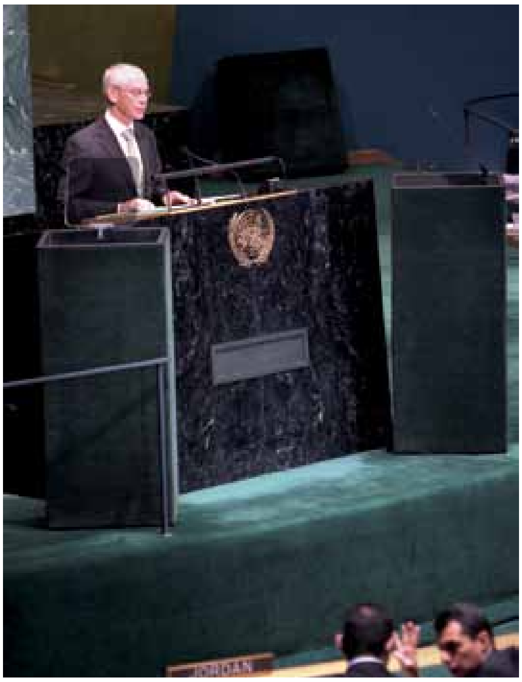
Through a joined-up effort between the European institutions and all Member States, a European endowment for democracy (EED) was established in Brussels in October 2012. The EED was conceived in the framework of the renewed European neighbourhood policy. The EED is thus the expression of the EU's concrete commitment to actively promoting democracy in the neighbourhood and beyond. The EED will aim to help actors of change and emerging players who face obstacles in accessing EU funding. It will offer a rapid and flexible funding mechanism for beneficiaries who are unsupported or insufficiently so, in particular for legal or administrative reasons. Such actors may include journalists, bloggers, non-registered NGOs and political movements, including those in exile or from the diaspora, in particular when all of these actors operate in a very uncertain political context.

Multilateral governance and global challenges

Multilateral governance

The EU in the UN

The EU is a keen supporter of multilateralism, with a strong and efficient UN system at its centre. The strengthening of the UN remains a key element of EU external action. For 2012 the EU continued to pursue, as priorities, international peace and security, sustainable development and human rights, as well as an effective reform of the organisation. The follow-up to and implementation of the Rio+20 outcome, and the preparation of the 2013 millennium development goals (MDGs) review and the post-2015 development framework, were of particular importance. Furthermore, the EU has continued to promote human rights, democracy and the rule of law. Following the 2011 resolution adopted by the UN General Assembly, the EU representatives have consolidated their ability to effectively represent the Union at the UN as envisioned by the Lisbon Treaty.



Herman Van Rompuy, President of the European Council, at the United Nations General Assembly in New York, United States.

The EU has stepped up its engagement on regional and global challenges by promoting a more comprehensive approach through bringing together diplomatic initiatives and political dialogue, humanitarian aid, development assistance and security instruments such as common security and defence policy (CSDP) operations (e.g. Horn of Africa, Sahel). It also aims to foster a more comprehensive approach on key global foreign policy challenges such as energy security, water security and education in post-conflict situations.

The UN is a key partner for the EU in the international effort to combat and prevent terrorism, and the UN global counterterrorism strategy (adopted by the UN General Assembly in 2006) is integral to the EU's approach to counterterrorism. The EU was closely involved in the most recent review of the global strategy in June 2012, and remains in close dialogue with a range of UN agencies on counterterrorism issues.

The UN's Year of Sustainable Energy for All

Recognising the critical role of access to modern energy services in achieving the MDGs, the European Union is championing access to sustainable energy for all. Welcoming the United Nations' rallying call in the framework of the UN's Year of Sustainable Energy for All, it has set out an ambitious agenda to help achieve this key objective by 2030. On 16 April 2012, the European Union organised a Sustainable Energy for All Summit, stressing the importance of providing access to modern energy services for all.

During the summit, the EU announced that it will support developing countries to provide access to energy for an additional 500 million people.

Under the EU–Africa Energy Partnership (AEEP), the European Union engaged in an ambitious programme to promote clean energy in Africa: the renewable energy cooperation programme (RECP). The RECP will work to make the continent a prime destination for renewable energy investments, as well as to strengthen institutional, scientific and technological cooperation between Africa and Europe.

UN Conference on Sustainable Development (Rio+20): a boy holds a plant during the 'Plant for the planet' action, on the sidelines of the summit.

The UN Conference on Sustainable Development (Rio+20)

In June 2012, the UN Conference on Sustainable Development (Rio+20) adopted its declaration 'The future we want'. Whilst a number of the EU's ambitions were not fully achieved, the EU welcomed the Rio declaration as a sound basis for further work. The green economy was for the first time recognised as an important tool for achieving sustainable development and reducing poverty. The Rio+20 conference also agreed to establish an inclusive and transparent process to develop sustainable development goals, to establish a high-level political forum to replace the Commission on Sustainable Development and to strengthen a number of functions of the United Nations environment programme (UNEP).

The European Union successfully pushed for the inclusion of the right to food in the Rio+20 summit's outcomes and the recognition of the importance of small-scale farming in tackling food insecurity.

Cooperation on peacekeeping, peacebuilding and mediation

Throughout the year, the EU played an active role in the Peacebuilding Commission (PBC), continuing its efforts to strengthen the UN's peacebuilding architecture. At the same time, as the largest donor in all six countries on the PBC's agenda, the EU maintained a strong focus on delivering on the ground, with some success. More broadly, the EU was instrumental in achieving the Busan commitments ([7]) on fragile states, a key success in building an international framework of support for those countries most at risk of conflict and collapse.

Throughout 2012 there was significant EU–UN civilian and military crisis management cooperation, such as along the coast of Somalia (Atalanta) and in Kosovo (EULEX), and this continues to be an important part of our overall partnership.

The EU in the WTO

The EU has reiterated its commitment to multilateralism and acknowledged the fundamental importance of the WTO in the international trade system. Being the world's major global player in international trade, the EU supports the work of the WTO on multilateral rule-making, trade liberalisation and sustainable development.

The continued relevance of the WTO is underscored by the new accessions that took place during 2012: Russia became a WTO member in July 2012 and there was agreement that Laos and Tajikistan should join. In addition, WTO members, including the EU, are consistently making use of the dispute settlement mechanism — most notably, in 2012, the EU initiated cases on China's export restrictions on rare earth elements and on Argentina's import licensing restrictions.

The Organisation for Security and Cooperation in Europe (OSCE)

The OSCE remained essential for the EU's security due to its broad membership, comprehensive approach to security and role in conflict resolution, being directly involved in the negotiations to resolve the protracted conflicts in Georgia and Moldova, as well as the Nagorno-Karabakh conflict.

The main priorities of the EU in the OSCE in 2012 were to: strengthen the OSCE's ability to prevent conflicts, including early warning systems, and conflict prevention and management; modernise conventional arms control, and confidence- and security-building measures; strengthen the implementation of the OSCE commitments in the human dimension; and fight against transnational threats (police cooperation, cybercrime, the fight against drugs and terrorism).

G8

The outcome of the G8 Summit at Camp David on 18 and 19 May included a renewed commitment to promoting growth and jobs alongside increased efforts to tackle climate change, including efforts to rationalise and phase out inefficient fossil fuel subsidies. Commitments were also made on food security and nutrition, Afghanistan and transitions in the Middle East and north Africa.

The G8 adopted a 'new alliance for food security and nutrition'. The new alliance is a commitment by G8 members, African partners and the private sector to lift 50 million people out of poverty over the next 10 years through agricultural growth.

G20

At the G20 Summit in Los Cabos in June, the Mexican Presidency maintained food security as a top priority and sent a strong signal to keep sustainable development and food security high on the international agenda. Emphasis was placed on: implementing the 2011 action plan on food price volatility and agriculture; support for the UN's 'Scaling up nutrition' (SUN) movement; continued efforts on various research, risk management and market information initiatives; and encouraging the implementation of voluntary guidelines on responsible governance of tenure of land. For more on the summit, refer to Chapter 2.

From left to right: Cristina Fernández de Kirchner, President of Argentina, José Manuel Barroso, President of the European Commission, Susilo Bambang Yudhoyono, President of Indonesia, Barack Obama, President of the United States, Hu Jintao, President of China, and Felipe Calderón, President of Mexico, pose for the family picture of the G20 Summit of Heads of State and Government in Los Cabos, Mexico.

Gulf Cooperation Council

The EU and the Gulf Cooperation Council continued their dialogue, both at the political level and through the implementation of the EU–GCC joint action programme 2010–13 in several different sectors. The 22nd EU–GCC joint council and ministerial meeting was held in Luxembourg on 25 June 2012, co-chaired by the Saudi Foreign Minister Prince Saud Al Faisal and the HR/VP. The meeting agreed to take EU–GCC relations a step further, on the basis of proposals to be endorsed at the 23rd ministerial meeting in 2013.

Union for the Mediterranean

The EU remained actively engaged with regional organisations, including the Union for the Mediterranean (UfM). The EU took over the northern presidency of the organisation while Jordan took over the southern presidency.

League of Arab States

An EU–League of Arab States (LAS) ministerial meeting took place on 13 November in Cairo. The EU supported the LAS's political initiatives on Syria and established a more structured dialogue and projects.

Global challenges

Climate change and energy

The EU strengthened the partnerships with its major energy partners, continued to support sustainable energy market reforms and regional market integration in its neighbourhood and pursued its resource diversification strategy, notably with regard to the 'southern corridor' reaching out to the Caspian region.

In December the UN climate conference in Doha, Qatar took a number of decisions which moved international climate action a modest step forward. With a new global climate agreement requiring action by all countries not due to be adopted until 2015, the conference achieved the EU's main objectives in terms of preparing the ground and generating momentum. It agreed a detailed plan of work for 2013 and beyond for drawing up a new global regime, which will enter into force in 2020, and for identifying ways to step up the ambition of global climate action in the short term. In addition, Doha streamlined the UN climate negotiations process by closing two working groups, allowing future negotiations to focus on preparing the global agreement and on measures to raise ambition over the rest of this decade.

The conference also finalised and adopted rules for the second period of the Kyoto Protocol, enabling it to start on 1 January 2013. The rules satisfy the EU's key requirements: the second period will run for 8 years until 2020, ensuring there is no gap between its end and the entry into force of the new global agreement; an 'ambition mechanism' means the emission targets of the developed countries participating will be revisited in 2014; and important rules to strengthen environmental integrity were introduced.

Connie Hedegaard, Commissioner for Climate Action, attended the African Ministerial Conference on the Environment, in Tanzania. Here, with a group of Maasai women wearing traditional clothing.

The EU is applying the second period rules in practice from 1 January 2013, even though formal ratification by the EU institutions and Member States is likely to take some time.

Despite the difficult economic situation Europe faces, the EU was able to show that it has delivered on its commitment to provide €7.2 billion in 'fast-start' funding to developing countries over 2010–12 and reassured its partners that financial assistance to help poorer countries tackle climate change will continue in the coming years. The EU and a number of Member States came forward with climate finance pledges totalling some €7 billion for 2013 and 2014, which represents an increase from the past 2 years ([8]).

Densely populated islands, Solomon Islands

Global Climate Change Alliance

An important element of the work of the EU to address climate change is the Global Climate Change Alliance (GCCA), the EU flagship initiative to strengthen dialogue and cooperation on climate change with developing countries. The GCCA focuses on least-developed countries and small island developing states, which are often the most affected by climate change but have the fewest resources to tackle it. The five GCCA priority areas are: mainstreaming climate change into poverty reduction and development strategies; adaptation; disaster risk reduction; reducing emissions from deforestation and forest degradation; and enhancing participation in the global carbon market and the clean development mechanism. By the end of 2012, over 45 GCCA programmes were ongoing or under preparation in over 35 countries and four regions with a budget of over €285 million, coming from the European Union budget, the European Development Fund and EU Member States (Czech Republic, Estonia, Ireland, Cyprus and Sweden).

Non-proliferation and disarmament

As in the past, the guiding principle and overall aim of the EU in 2012 was the promotion of the universality of international treaties, conventions and other instruments and their national implementation, in accordance with the objectives of the EU weapons of mass destruction strategy and the European security strategy. Accordingly, the EU pursued these objectives in all the key events in 2012, notably during the first Non-Proliferation Treaty (NPT) Preparatory Committee meeting, the Conference on Disarmament, the annual IAEA General Conference, the Comprehensive Nuclear-Test-Ban Treaty (CTBT) meetings, the ministerial meeting on the Chemical Weapons Convention, the UN General Assembly First Committee meeting and the Biological and Toxin Weapons Convention meeting of states parties, as well as in a number of other related international forums, such as the Nuclear Security Summit in Seoul.

The Seoul Nuclear Security Summit in March 2012 was a successful continuation of the 2010 Washington Summit. The key issues discussed by the participants (including the EU) included cooperative measures to combat the threat of nuclear terrorism, the protection of nuclear materials and related facilities, and the prevention of illicit trafficking of nuclear material. The summit adopted a communiqué essentially reaffirming its earlier commitments and work plan on securing vulnerable nuclear materials and highlighting a number of additional priorities, such as the security of radioactive sources, nuclear information security and the interface between nuclear safety and security.

The Instrument for Nuclear Safety Cooperation

The Instrument for Nuclear Safety Cooperation finances measures to promote a high level of nuclear safety, radiation protection and the application of efficient and effective safeguards of nuclear materials in non-EU countries. The instrument covers countries worldwide and has a budget of €525 million for 2007–13.

The EU worked for the effective and complementary use of all available instruments and financial resources (common foreign and security policy (CFSP) budget, Instrument for Stability, other instruments) in order to maximise the impact of its activities in supporting international organisations and non-EU countries, including by providing in 2012 an additional €5 million for the modernisation of the IAEA Seibersdorf Laboratory, €10 million in support of an IAEA low-enriched uranium bank and over €5 million for the work of the Comprehensive Nuclear Test Ban Treaty Organisation (CTBTO) Provisional Technical Secretariat.

In 2012 the EU continued to strongly promote agreement on a legally binding arms trade treaty — a new international instrument negotiated in the UN regulating international transfers of conventional weapons to make them more transparent and responsible. While there was no agreement on the final treaty text at the July 2012 conference, the draft treaty text that resulted from the negotiations is very close to a treaty that could enjoy global support. The EU has been at the forefront of these negotiations and has been among the main promoters of the new UN General Assembly resolution of 2012 that convenes a final UN conference in March 2013, where the treaty should be eventually agreed.

For the Second Review Conference on the UN programme of action on the illicit trade in small arms and light weapons, which took place in August and September 2012, the EU promoted concrete recommendations for activities to ensure the full and effective implementation of this instrument, some of which were ultimately reflected in the outcome documents of the conference. In particular, the EU supports the establishment of concrete mechanisms to effectively prevent the diversion of small arms and light weapons, as well as the increased cooperation of UN Member States with peace support missions in order to improve the tracing of illicit small arms and light weapons.

Migration

Since the launching of the global approach to migration and mobility (GAMM) in November 2011 the EU and its Member States have established a broad and truly comprehensive migration policy which looks at all dimensions of migration and mobility, building on the concerns and objectives of its partner countries. The GAMM, well aligned with the Union's external policies, received full support from the European Council in the course of 2012.

Action against illicit drugs and trafficking in human beings

The EU has stepped up its efforts in addressing various global challenges linked with organised crime, including trafficking in drugs and in human beings, which are highly complex and need to be tackled in a global and comprehensive way, taking account of every dimension of the problem.

Drugs

In the field of drugs, the EU has been cooperating closely with the western Balkans, Latin America and the Caribbean, west Africa, central Asia and Afghanistan, the Eastern Partnership, Russia and the United States. Criminal activities related to drug trafficking are undermining democratic stability in regions such as the Caribbean, Central America and west Africa, where it has pushed some already very fragile states to the brink of failure. International cooperation is a key area under the EU drug strategy, which has been renewed for 2013–20 (adopted by the Council in December 2012) and under which the EU is actively sharing the achievements of the EU approach in drug policy, which is balanced between drug demand reduction and drug supply reduction and is based on scientific evidence and intelligence as well as respect for human rights.

Trafficking in human beings

Trafficking in human beings is also a global and multifaceted phenomenon, and for whatever purpose — sexual or labour exploitation — is a grave human rights violation affecting women and men, boys and girls. In the new EU strategy towards the eradication of trafficking in human beings 2012–16, adopted by the Commission in June, the EU pursues a comprehensive approach focusing on prevention of trafficking, prosecution of criminals, protection of victims and partnerships with the various stakeholders, including civil society. This approach is human rights centred and gender specific.

The Global Counterterrorism Forum (GCTF)

The EU has been a strong supporter of the GCTF, a civilian, multilateral counterterrorism grouping of 30 founding members (29 countries plus the EU) launched in the margins of the UN General Assembly in September 2011. The EU has made a substantive contribution to the GCTF as the co-chair (with Turkey) of the Horn of Africa Capacity-Building Working Group, one of the five (two thematic and three regional) GCTF working groups. The inaugural meeting of the Horn of Africa Working Group was held in Dar es Salaam, Tanzania, in February 2012, and in October 2012 the EU hosted a GCTF meeting in Brussels focused on strengthening anti-money laundering and counterterrorist financing capacity in the wider Horn of Africa region.

Cybersecurity

In 2012, the Commission and the HR/VP launched the preparation of a joint communication on the EU strategy on cybersecurity. The HR/VP presented an EU vision on cyberspace developments at the Budapest Conference on Cyberspace in October 2012. Additionally, regular dialogues on cyber issues have been held with some of the EU's strategic partners and key international organisations, in particular NATO.

Peace and security

Common security and defence: the EU as a security provider

With 15 CSDP missions and operations in the field, CSDP remains a visible, necessary and hands-on instrument in the wider EU toolbox. It demonstrates the Union's will and ability to tackle the security challenges of our time. In the context of a growing demand for the European Union to become a more capable, coherent and strategic global actor, CSDP is an essential element of a wider comprehensive approach.

OVERVIEW OF THE MISSIONS AND OPERATIONS OF THE EUROPEAN UNION IN 2012 (DECEMBER 2012)

Currently, the EU is conducting 12 civilian missions and three military operations. Three new CSDP missions were launched in 2012: EUCAP (EU capacity-building) Nestor in the Horn of Africa, EUCAP SAHEL in Niger and Euavsec (aviation security) in South Sudan. Planning continued for possible EU support for border security in Libya and to train the Malian armed forces. In March 2012 the Council of the European Union decided to activate, for the first time, the EU Operations Centre to coordinate and increase synergies between the three CSDP missions in the Horn of Africa (Eunavfor — Atalanta, EUTM Somalia and EUCAP Nestor). Operation Eunavfor — Atalanta (the Union's counter-piracy operation) was extended until 2014. EULEX Kosovo, the largest civilian mission, was successfully reconfigured. The police mission in Bosnia and Herzegovina — the longest running civilian mission — was closed down.

To act, Europe needs capabilities: the European Council in December 2012 adopted conclusions on CSDP, setting the stage for a debate among Heads of State or Government in December 2013 on capabilities and the defence industry and market.

Operation Atalanta in the Gulf of Aden, Somalia.

Instrument for Stability

In 2012, the Instrument for Stability (IfS) continued to significantly increase the ability of the EU to intervene in crisis situations around the world at all stages of the conflict cycle. Forty-one actions were launched for a total of €195.8 million under the short-term crisis response component of the IfS. In line with the remit of the instrument, these actions had a wide geographic and thematic scope, contributing in particular to the EU crisis response/crisis mitigation efforts linked to the following main challenges this year.

Election support was provided across various regions, with IfS projects launched in Burkina Faso, Guinea-Bissau, Haiti, Kenya, Madagascar, Pakistan, Togo and Zimbabwe in 2012. The IfS was also quick to ensure ongoing interventions across the Middle East and north Africa (MENA) region, with assistance towards efforts to respond to the ongoing unrest in Syria and provide support to affected populations. Other main areas of intervention included projects in Libya to provide assistance in developing the national capacity to respond to crisis situations, protect vulnerable groups and clear unexploded ordnance. And in Asia, the IfS launched projects in Burma/Myanmar promoting reform, local peace processes and resettlement through support for demining actions.

The instrument also has a programmable component (Article 4.3) encompassing longer-term IfS actions. The year 2012 saw the so-called peacebuilding partnership launch an €8.5 million financial envelope to improve the capacity of non-state actors in preventing conflict. EU delegations in Brazil, the Democratic Republic of the Congo, El Salvador, Haiti, India, Kyrgyzstan and Nicaragua are now launching local calls for proposals in four priority areas related to peacebuilding.

Two actions were launched in the area of early warning and conflict analysis: one in partnership with global non-state actors to conduct early warning activities and conflict analysis; and the other with regional and sub-regional organisations to promote partners' early warning capabilities and strengthen the links between 24/7 situation rooms.

The peacebuilding partnership also launched a project on climate change and security in eastern Europe and the south Caucasus, and another to promote artisanal diamond mining in Côte d'Ivoire.

Finally, the success of the ENTRi (Europe's new training initiative for civilian crisis management) programme for the training of civilian experts for crisis management and stabilisation missions for deployment to international crisis missions has continued with the renewal of the programme in 2012.

Enhancing capacities for conflict prevention, peacebuilding and mediation

During 2012 — and in accordance with the objective to 'preserve peace, prevent conflicts and strengthen international security' set out in Article 21 of the Lisbon Treaty — work has continued to enhance EU capacities in conflict prevention, peacebuilding and mediation. Efforts are ongoing to: build systems, tools and culture to identify countries at medium- to long-term risk of violent conflict, and options for early action to address these risks; develop staff capacities through training, guidance documents, lessons learned and best practices, specifically in conflict analysis and mediation; and provide operational support to staff working in the field on conflict prevention, peacebuilding and mediation issues. In taking forward this work, there is a need to adopt a comprehensive approach, ensuring complementarity with EU crisis response and crisis management structures and working closely with partners, including the UN, regional organisations, civil society and academia.

Strengthening African capacities in peace and security

The Africa peace facility mechanism for immediate support to early phases of prevention, management or resolution of crises by the African Union (AU) and the regional economic communities was activated three times in 2012 in Kenya and Madagascar, and to support the AU initiative against the Lord's Resistance Army (LRA), led by Joseph Kony. Considerable support is provided to African-led peace support operations such as the ongoing missions in Somalia (African Union Mission in Somalia — Amisom) and the Central African Republic (Mission for the Consolidation of Peace in the Central African Republic — Micopax), as well as to the validation of the operationalisation of the Africa Standby Force through the programme 'Amani Africa II'.

Through the implementation of a comprehensive approach to the fight against piracy in the Horn of Africa, the EU not only seeks to address this maritime security threat, but also to create a favourable environment for the economic development of the region. For that purpose the EU combines its traditional external assistance programmes with military (Eunavfor — Operation Atalanta) and regional maritime capacity-building interventions (e.g. EUCAP Nestor, the IfS critical maritime routes programme, the maritime security programme).

Enlargement

Croatia

In line with the accession treaty of December 2011, the Commission continued to monitor closely Croatia's accession preparations, focusing in particular on competition, the judiciary and fundamental rights, and justice, freedom and security. A comprehensive monitoring report ([9]) was presented, along with the rest of the 'enlargement package' ([10]), in October 2012, which overall confirmed that Croatia's accession preparations were on track and identified certain specific actions which must be completed in the coming months.

The sealing of the Accession Treaty of Croatia.

Iceland

Accession negotiations with Iceland proceeded well, as 16 chapters were opened with three provisionally closed at the four intergovernmental conferences held in 2012. This brings the number of chapters opened so far to 27, of which 11 have been provisionally closed. In addition, Iceland has started preparations in key policy areas such as regional policy and agriculture. Challenges still remain in the areas of fisheries, agriculture and rural development, food safety, environment, capital movements, financial services, taxation and customs union.

Turkey

Turkey remains a key country for the EU, considering its dynamic economy, its strategic location and its important regional role. The EU underlined that it is in the interest of both the EU and Turkey that accession negotiations regain momentum soon, ensuring that the EU remains the benchmark for reforms in Turkey. In order to support and complement the process of accession negotiations (no new chapters in the accession negotiations could be opened in 2012), a positive agenda was launched by the Commission to enhance cooperation in a number of areas of joint interest: political reforms, alignment with the *acquis*, Turkey's participation in EU programmes, dialogue on foreign policy, visas, mobility and migration, trade, energy and counterterrorism. Work on the implementation of the positive agenda has been successful, including the launch of technical working groups to promote, inter alia, alignment with the EU *acquis*.

Concerns are growing regarding Turkey's lack of substantial progress towards fully meeting the political criteria. Turkey has still not fully implemented the Additional Protocol of the Ankara Agreement. The EU expressed deep regret over Turkey's freezing of its relations with the EU Presidency during the second half of 2012, the statements made by Turkey in this regard and the non-alignment with EU positions or statements in international forums.

On foreign policy cooperation, the European External Action Service (EEAS) has significantly broadened and intensified the regular political dialogue between the EU and Turkey, covering international issues of common interest, including developments in Syria, north Africa, the Middle East and the Gulf, the Middle East peace process, the western Balkans, Afghanistan/Pakistan, Russia and the south Caucasus, as well as counterterrorism and non-proliferation issues.

Montenegro

After the European Council endorsed the start of the accession negotiations, the negotiations with Montenegro were opened on 29 June 2012. A second accession conference took place in mid-December, with one chapter opened and provisionally closed. The screening process is ongoing and expected to be completed by the end of June 2013.

Kotor, Montenegro.

Serbia

The European Council granted Serbia candidate status in March. Serbia continues on its way to sufficiently fulfilling the political criteria. Serbia needs to reinvigorate reforms, in particular regarding the rule of law, and in the areas of judicial reform and the fight against corruption. Serbia has intensified efforts to normalise its relations with Kosovo, resulting in meetings between Ivica Dačić, Prime Minister of Serbia, and Hashim Thaçi, Prime Minister of Kosovo (see below), in the EU-facilitated dialogue. With a view to the opening of accession negotiations, further progress towards a visible and sustainable improvement of relations with Kosovo is needed. In this context, the Council decided in December to examine during the Irish Presidency the progress made by Serbia on the basis of a report by the Commission and the HR/VP.

The former Yugoslav Republic of Macedonia

The high-level accession dialogue (HLAD) with the European Commission, launched in spring 2012, served as a catalyst for accelerating reforms. The Ohrid Framework Agreement continues to be an essential element for democracy and the rule of law in the country. In October the Commission reiterated its recommendation to open accession negotiations. The Council took note of the recommendation, recognising the progress that has been made. The Council recalled that maintaining good neighbourly relations remains essential, welcoming the momentum generated by recent intensified dialogue between the parties concerned. The Commission was tasked with preparing a report by spring 2013 which will assess the implementation of the reforms in the context of the HLAD, as well as the steps taken to promote good neighbourly relations and to reach a negotiated and mutually accepted solution to the name issue with Greece under the auspices of the UN. On the basis of this report, with a view to a possible opening of accession negotiations, the Council will assess progress during the next presidency.

Albania

Albania made considerable progress towards fulfilling the key priorities set out by the Commission's 2010 opinion on the opening of accession negotiations ([11]). Acknowledging the progress made, the Commission recommended in October 2012 that the Council should grant Albania the status of a candidate country subject to the completion of key measures in the areas of judicial and public administration reform, and revision of the parliamentary rules of procedure. In December, the Council endorsed the overall assessment of the Commission and, with a view to deciding whether to grant candidate status, invited the Commission to report as soon as the necessary progress has been achieved.

Bosnia and Herzegovina

Limited progress has been made by Bosnia and Herzegovina towards meeting the political criteria and the requirements of the roadmap for the entry into force of the stabilisation and association agreement and for a credible membership application. The country needs to refocus on the implementation of the EU agenda. Amending Bosnia and Herzegovina's constitution to remove incompatibilities with the European Convention on Human Rights would be the most important step forward. So far there has been little progress in achieving more functional, coordinated and sustainable institutional structures. The structured dialogue on justice with the EU within the stabilisation and association process continued. A high-level dialogue on the accession process with the Commission was launched in June, with a second meeting held in November. The EU's enhanced presence has provided the impetus in a number of areas to assist the country's authorities in implementing the EU agenda. In 2012 the EU further reinforced its presence on the ground, amongst others by opening an office in the Brcko district following the suspension of international supervision in May 2012.

In June 2012, the EU completed its police mission in Bosnia and Herzegovina, EUPM BiH, the first mission under the European security and defence policy (ESDP), launched in January 2003.

In nearly a decade of its involvement, EUPM worked diligently to create, under BiH ownership, a modern, sustainable, professional, multiethnic police force, trained, equipped and ready to assume full responsibility for upholding law enforcement according to international standards. EUPM also provided operational advice to the EU Special Representative and contributed to ensuring that the European Union was fully informed of developments in Bosnia and Herzegovina.

Mostar, Bosnia and Herzegovina.

Over the last decade, more than 2 300 men and women participated in EUPM BiH: 1 786 police officers and 154 international experts of various professional backgrounds from all 27 EU Member States, Canada, Iceland, Norway, Switzerland, Turkey and Ukraine, as well as 487 staff from Bosnia and Herzegovina.

Kosovo ([12])

Kosovo continued to make progress on European integration-related issues. Many important challenges remain, notably the rule of law, public administration reform, electoral reform, the integration of communities and the economy. The Commission launched a visa dialogue with Kosovo in January and issued a visa roadmap in June. In May a structured dialogue with the Commission on the rule of law was launched. The Commission issued its feasibility study for a stabilisation and association agreement with Kosovo in October. With a view to a possible decision to open negotiations for a stabilisation and association agreement with Kosovo the Council decided in December to examine, during the Irish Presidency, the progress made by Kosovo on the basis of a report by the Commission and the HR/VP. A new EU Special Representative for Kosovo, Samuel Žbogar, was appointed in February and the EULEX mandate was extended to June 2014.

Belgrade–Pristina dialogue

The EU-facilitated Belgrade–Pristina dialogue slowed down during the electoral period in Serbia during the first half of 2012, but implementation work continued (inter alia, on civil registry, university diplomas and freedom of movement). Work on implementation has accelerated in particular on IBM (integrated border/boundary management) implementation. The dialogue continued at high political level in October and three meetings between Prime Ministers Dačić and Thaçi took place between October and December 2012.

Pre-accession assistance — IPA

In 2012, the overall allocation to the enlargement countries from the Instrument for Pre-accession Assistance (IPA) amounted to €1.846 billion, including multi-beneficiary assistance. This compares with €1.746 billion in 2011 and €1.543 billion in 2010. By the end of 2012, pre-accession assistance allocated to those countries since 2007 added up to a total of €9.298 billion.

ASSISTANCE GIVEN TO CANDIDATE COUNTRIES AND POTENTIAL CANDIDATES IN 2012

Country	IPA 2012 allocations (in current prices; million €)
Albania	94.57
Bosnia and Herzegovina	107.87
Croatia	155.59
The former Yugoslav Republic of Macedonia	101.47
Iceland	12.00
Kosovo	68.80
Montenegro	34.95
Serbia	202.10
Turkey	856.32
Multi-beneficiary programme	212.70
Total	**1 846.37**

Assistance to the Turkish Cypriot community for social and economic development in 2012 was again €28 million.

Regional policies and development

Development

This year has seen an overhaul of EU development policies. Some of the most important changes are highlighted below.

With the adoption of the agenda for change (Commission communication of October 2011 ([13]) and Council conclusions of May 2012 ([14])) and the new programming instructions, EU development policy will focus on the countries most in need and on areas where the EU can have the greatest impact in terms of poverty reduction. In addition, priority will be given to issues such as governance, human rights and sustainable and inclusive growth. The aim is to achieve higher impact and greater visibility, reduce transaction costs and foster greater coherence between different policies and actors.

New ideas to attract funding are also high on the agenda and in compliance with the objectives of the agenda for change. They have been set out in the joint communication ([15]), which aims to increase the impact of EU resources by developing partnerships with other financing sources such as the private sector and the development banks, and through the application of the latest aid-effectiveness policies.

Aid for trade and import preferences

The EU and its Member States have once again been confirmed as the largest provider of aid for trade in the world, despite the current economic crisis. The EU accounted for around a third of total worldwide aid for trade, totalling some €10.7 billion committed. Aid for trade helps countries to develop trade strategies, build trade-related infrastructure and improve their productive capacity in order to encourage growth and reduce poverty.

The EU has also revised the import preference scheme — known as the generalised scheme of preferences (GSP) — for the developing countries most in need, which will take effect from 1 January 2014. The new scheme will focus on fewer beneficiaries (89 countries) to ensure more impact on the countries most in need. At the same time, more support will be provided to countries which are serious about implementing international human rights, labour rights, and environment and good governance conventions.

Strengthening budget support and domestic resource mobilisation

In May 2012 the Council endorsed the Commission communication on the future approach to EU budget support to third countries ([16]). Budget support, as a 'vector of change', aims at addressing five key development challenges:

- promoting human rights and democratic values;
- improving financial management, macroeconomic stability, inclusive growth and the fight against corruption and fraud;
- promoting sector reforms and improving sector service delivery;
- state building in fragile states and addressing the development challenges of small islands developing states (SIDS) and overseas countries and territories (OCTs); and
- improving domestic revenue mobilisation and reducing dependency on aid.

In 2012 the European Commission strengthened its support for a tripartite initiative (with the World Bank and the OECD) launched in 2011 on transfer pricing. The objective is to build capacity in developing countries to monitor and audit the international costing practices of multinational companies. The Commission also launched a legislative initiative on country-by-country reporting to improve the transparency of payments by listed and large European multinationals in the extractive and logging industries to host governments (taxes, levies, royalties, etc.).

Millennium development goals

The European Union is committed to reaching the millennium development goals (MDGs) by 2015. The MDGs have been a powerful tool for political mobilisation on development issues over the past 10 years. However, while some successes have undeniably been achieved (access to drinking water for example), important progress is still needed in other fields (child and maternal health for instance).

With the UN millennium development goals review scheduled for the autumn of 2013, the Commission has launched discussions on a possible international development agenda after 2015.

Thirty-two million people benefited from EU actions on water

Contributing to the MDG of access to water and sanitation is at the core of the EU's work on reducing poverty. The EU MDG initiative allocated an extra €1 billion for African, Caribbean and Pacific (ACP) countries to help them meet the most off-track MDGs (as well as to further support those who have made particularly good progress). Water and sanitation is one of the four MDGs being specifically targeted by the initiative, with €266 million of aid being granted.

Sustainable agriculture and food and nutrition security are at the top of the EU's long-term development cooperation agenda. Over the past years the world has witnessed an increase in disasters, such as droughts and floods, and persistently recurring stress factors, such as high food prices. For countries where food insecurity is chronic, those factors have increased the vulnerability of the poorest. The EU has been stepping up its support to strengthen resilience to such shocks. The EU is determined to enhance its support to provide the three key requirements of water, energy and food. These efforts have indeed been reflected in the 2012 European report on development *Confronting scarcity: Managing water, energy and land for inclusive and sustainable growth*, where development orientations are provided to integrate the interrelated sectors of water, energy and land.

Andris Piebalgs, Commissioner for Development, in the centre, meeting with fishermen next to Lake Turkana in Kenya.

Employment, social protection and social inclusion

In August the Commission adopted the first ever communication on social protection in EU development cooperation ([17]). It outlines how future EU aid should work to support the development of nationally owned social protection policies and systems, in line with the agenda for change, which calls for enhanced social protection in support of inclusive growth. Too often, the most vulnerable (women, children, the disabled, the elderly) are left behind in the creation of wealth. The lack of social protection represents a strong obstacle to the long-term and sustainable development of both middle- and low-income countries.

Economic partnership agreements (EPAs)

So far EPAs have been signed with three regions (Cariforum, Pacific (Papua New Guinea), and eastern and southern Africa), and the focus is now on the implementation of these agreements. Negotiations between the EU and the other remaining African, Caribbean and Pacific (ACP) regions are ongoing and significant progress with some regions has been achieved over the last months. The EU remains convinced that EPAs, providing privileged access for ACP countries to the EU market, will create the right framework to foster sustained growth and investment.

Responses to humanitarian crises

The 20th anniversary of ECHO

Established 20 years ago, the European Commission's humanitarian department (ECHO) is today a flagship of European solidarity, and is at the forefront of international efforts to save lives and relieve suffering.

In the past 20 years, ECHO has provided €14 billion to meet the basic needs of people caught in conflicts and affected by natural disasters. Taken together, Europe — the Commission and the Member States — is the world's largest relief aid donor.

Over the past years, the Commission has provided €1 billion of assistance annually to nearly 150 million people in over 80 countries outside the European Union, which represents less than 1 % of the European Union's total budget.

Visit of Kristalina Georgieva, Commissioner for International Cooperation, Humanitarian Aid and Crisis Response, to a refugee camp in Kilis, on the Turkish–Syrian border.

Setting-up of the EU Aid Volunteers (European Voluntary Humanitarian Aid Corps)

Based on the experience of the 2011 and 2012 pilot projects and extensive consultations with humanitarian organisations and other stakeholders, the Commission adopted in September a draft regulation ([18]) to establish the corps. It is proposed that the EU Aid Volunteers will be fully functional as from 2014 and will train and send out some 10 000 humanitarian volunteers over the following years.

Regional policies

Western Europe

Cooperation with European Free Trade Association (EFTA) countries

Close ties between the EU and Iceland, Liechtenstein and Norway were further strengthened, both bilaterally and within the framework of the European Economic Area (EEA). Particular efforts were made throughout 2012 with a view to addressing the large number of outstanding EU acts related to the single market which had not yet been incorporated into the EEA agreement. In December 2012 the EEAS and the Commission submitted their review of the functioning of the EEA for discussion with the EU Member States. The EU–EEA Council met in May and November 2012.

EU cooperation with Switzerland intensified with the conclusion of an administrative arrangement for cooperation between the European Defence Agency (EDA) and the Swiss Armament Office and the extension for 2 years of Switzerland's participation in the Euratom research framework programme (Euratom FP7).

The Council gave its political assessment of the relationship with the four EFTA countries in its conclusions dedicated to this subject of 20 December 2012 ([19]).

Andorra, Monaco and San Marino

On 20 November the Commission adopted a communication on enhancing the EU's relations with Andorra, Monaco and San Marino ([20]), which set out five options for their closer integration with the EU. The December Council adopted conclusions welcoming the communication and inviting the Commission to continue its analysis of two options: the participation of these small-sized countries in the European Economic Area and the negotiation of one or several framework association agreements with them.

Regional cooperation in south-east Europe

Significant progress was achieved in regional cooperation in south-east Europe (SEE) with the support of the EU, and steps were taken that contributed to regional reconciliation, including through initiatives such as the Igman initiative and RECOM (Commission for Reconciliation). Cooperation within specific sectors also advanced, including the energy community, the Central European Free Trade Agreement (CEFTA) and the Regional School for Public Administration (ReSPA). The Regional Cooperation Council (RCC) continued the implementation of its strategy and work programme 2011–13, which had been drawn up with the help of the EU. It also became involved in a new initiative, SEE 2020, which aims at adapting the Europe 2020 process to the needs and conditions of the countries of south-east Europe. A new RCC Secretary-General, Goran Svilanovic, was appointed in June 2012.

Arctic/northern dimension

The new joint communication [21] by the HR/VP and the European Commission concerning the Arctic region adopted in June 2012 underlines that, as the Arctic is changing rapidly and fundamentally, developments in the region are of increasing strategic, economic and environmental importance to the European Union. The EU wants to engage more with Arctic partners to address the common challenges of sustainable development and effective environmental protection in a collaborative and constructive manner. The communication proposes steps for the EU's constructive engagement in the Arctic which can be summarised in three words: knowledge, responsibility and engagement.

The northern dimension policy and its structures provide a framework for practical, result-oriented cooperation, in which the EU and its Member States work together with Russia, Norway and Iceland in jointly adopted projects. The establishment of the support fund to finance the Transport and Logistics Partnership's activities follows the model set out in the Environmental Partnership and strengthens the EU's approach in northern regional cooperation.

Africa

Good governance, respect for human rights and economic reforms have remained priorities in EU policy towards Africa. In support of relevant regional organisations, the EU has been engaged in trying to find solutions to political problems in countries under Article 96 of the Cotonou Convention (Guinea, Guinea-Bissau, Madagascar, Zimbabwe). The EU has supported the constitutional transfer of powers in Ethiopia and Malawi. It has also provided assistance to electoral processes in several countries including Ghana, Senegal and Sierra Leone.

The close cooperation with the African Union (AU) is embedded within the joint Africa–EU strategy (JAES), which is the overarching framework for cooperation between the two continents. The strategic partnership was consolidated by political contacts at the level of the HR/VP and other senior officials, regular contacts between the two commissions and a series of concrete thematic initiatives at the political and technical levels.

Sahel/Mali

Since 2010, in close coordination with the governments of Mali, Mauritania and Niger, the EU has prepared and implemented the EU strategy for security and development in the Sahel with the objective of simultaneously promoting security, good governance and development at local, national and regional levels.

The crisis which arose in Mali in 2012 highlighted the relevance of this comprehensive approach. A durable solution to the political and security crisis in Mali is necessary for peace and development throughout the Sahel. But Sahel-wide security and development issues must be addressed also, including in Mali.

In 2012 specifically, the EU accelerated the implementation of the strategy in Mauritania and Niger. In Niger, a new EU mission (EUCAP SAHEL) was launched in July to train internal security forces and reinforce coordination with Mali and Mauritania to tackle criminal activities including drug trafficking and terrorism. Projects were also launched and future projects were planned in the security sector and on other dimensions of the strategy, including counter-radicalisation.

In Mali, the EU is determined to make a substantial contribution to reconstructing, stabilising and building a lasting peace, in the north of the country in particular. In the short term, the EU is committed to meeting a request made officially by the government of Mali to help modernise and train the Malian defence forces, under legitimate civilian control. This EU training mission will also address the need to help restore the chain of command, generate a credible threat of force and inculcate respect by the military of international humanitarian law. The EU is also committed to contributing financial support to an African-led international support mission in Mali.

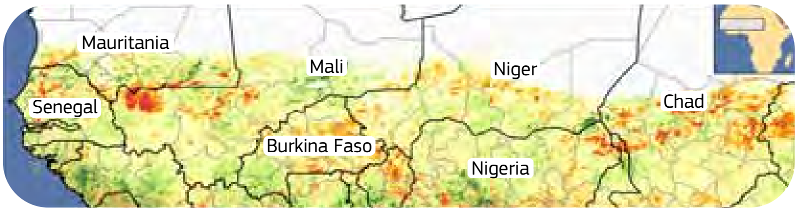
This EU engagement is part of a comprehensive political support for the restoration of state authority, political transition, reunification and stability in Mali.

Food crisis in the Sahel

The acute food and nutritional crisis in the Sahel affects 18 million people, with 8 million people and more than 1 million children considered at serious risk. The European Commission has allocated an additional €164.5 million to reinforce and complement existing development actions on food security in the region. This is in addition to funding in the food security sector in Burkina Faso, Chad, Mali, Mauritania, Niger and Senegal of about €220 million.

STATE OF VEGETATION IN THE SAHEL IN AUGUST 2011, JOINT RESEARCH CENTRE

The food crisis in the Sahel in 2012 was partially caused by poor crop yields in certain parts of the Sahel in 2011 due to drought.



Very poor | Poor | Normal | Good | Very good

Country | Province

Furthermore, in 2012 the EU announced that additional efforts must be made to protect people's livelihoods in fragile environments, with the allocation of €250 million to support immediate recovery activities in the Horn of Africa ('Supporting the Horn of Africa's resilience' — SHARE), while €320 million was being mobilised to address the root causes of food insecurity in the Sahel. In June 2012 the EU launched a second initiative to bring a permanent end to hunger and malnutrition in the Sahel region through a global partnership known as AGIR-Sahel (Alliance Globale pour l'Initiative Résilience).

Democratic Republic of the Congo (DRC)

In 2012 renewed volatility in the country's political and security situation was caused both by the difficulties in the aftermath of the presidential and parliamentary elections of 28 November 2011 and by the resumption of the Kivu/eastern DRC conflict following the secession of the March 23 Movement (M23) from the national Congolese army (FARDC) in April. The EU election observation mission made a series of recommendations in order to improve the next stages of the current electoral cycle (provincial and local elections), including the restructuring of the national electoral commission, a reform that was achieved and endorsed by the DRC parliament later in 2012.

In the eastern DRC, the EU has promptly mobilised its efforts and diplomatic instruments, sparing no effort to contain the conflict and its humanitarian consequences. President Van Rompuy participated on 17 September 2012 in a UN high-level meeting on the situation in the eastern DRC, attended also by Joseph Kabila, President of the DRC, and Paul Kagamé, President of Rwanda. This was the occasion to condemn the rebellions in the DRC and to encourage political solutions based on dialogue. The HR/VP has closely followed the situation and has passed clear messages to the presidents of the DRC and Rwanda to call for restraint while encouraging the search for solutions. Public statements have been made by the HR/VP condemning the M23 and the armed groups active in the DRC, but also reminding all parties of their specific responsibilities in the process, including the need to allow humanitarian access to endangered populations. The Council conclusions on the situation in the eastern DRC (25 June, 19 November and 10 December) reiterated the need to respect the sovereignty and integrity of the DRC, while condemning all types of support to the M23. Addressing the root causes of conflict is essential to facilitate the internal consensus in the Kivus region and the resumption of a positive regional dynamic in the Great Lakes region.

Asia

Association of Southeast Asian Nations (ASEAN)/Asia–Europe Meeting (ASEM)

The EU and ASEAN intensified relations on the basis of a plan of action for the period 2013–17 adopted at the 19th EU–ASEAN foreign ministers' meeting in April in Brunei. The HR/VP also attended the 19th ASEAN Regional Forum ministerial meeting in July in Phnom Penh, where she also had the opportunity to sign the EU's accession to the Treaty of Amity and Cooperation in Southeast Asia together with the 10 ASEAN foreign ministers. Further advancing the dialogue on issues of mutual security concern, the EU–ASEAN senior officials' consultation on terrorism and transnational crime took place in Bangkok in September 2012.

José Manuel Barroso, President of the European Commission, at the ninth Asia–Europe Summit.

In 2012, the EU significantly upgraded its relations with Asia. In particular, the ninth ASEM Summit held in 2012 in Laos allowed Europe and Asia to continue a region-to-region dialogue. The EU is negotiating ambitious free trade agreements with several countries in ASEAN: the EU and Singapore completed negotiations in December on one of the most comprehensive free trade agreements the EU has ever negotiated. It will create new opportunities for companies from Europe and Singapore to do business together, as the growing Singaporean market offers export potential for EU industrial, agricultural and services businesses. In addition, negotiations with Malaysia and Vietnam are ongoing. In addition to the liberalisation of the trade in goods, topics covered include government procurement, sustainable development, services and investment, intellectual property and competition.

Iran

The EU remains fully committed to seeking a diplomatic solution to the Iranian nuclear issue through negotiations based on the Non-Proliferation Treaty (NPT) and the full implementation of all relevant UN Security Council and International Atomic Energy Agency (IAEA) Board of Governors resolutions. The HR/VP, together with the E3+3 group of China, France, Germany, Russia, the United Kingdom and the United States, has continued her efforts to engage Iran in a serious negotiation process, including through several rounds of talks this year. Iran was urged to take concrete and practical steps aimed at building confidence in the exclusively peaceful nature of the Iranian nuclear programme, and to comply with all its international obligations in order to address the serious concerns of the international community. Moreover, Iran has to fully cooperate with the IAEA in order to resolve outstanding issues, including those pointing to possible military dimensions.

In response to the concerns over Iran's nuclear programme, the EU has applied sanctions against Iran, implementing both UN decisions and autonomous measures. In response to renewed concerns based on a November 2011 IAEA report, in January 2012 the Council adopted a new round of strong sanctions against Iran, including a prohibition on the import of Iranian crude oil and petroleum products. Moreover, due to Iran's failure to engage seriously in negotiations, the Council decided to impose a further package of strong sanctions in October 2012, to again confirm its commitment to the dual-track approach, including sanctions.

The EU continued to raise concerns over the deteriorating human rights situation in Iran. It condemned the large increase in the number of executions that has made Iran one of the most prolific users of capital punishment worldwide. The EU also expressed concerns over Iran's failure to protect and respect the fundamental freedoms of its citizens, such as freedom of expression, assembly, and religion or belief. In this light, the EU condemned the systematic repression of political opponents, artists, bloggers, filmmakers, journalists and women, as well as people belonging to religious or ethnic minorities. The EU has applied sanctions targeting those responsible for serious human rights violations in Iran, which were strengthened in March 2012. The EU supports the mandate of the UN Special Rapporteur on the Situation of Human Rights in Iran, Ahmed Shaheed, and advocates for facilitation of his visit to Tehran.

Iraq

The signature of a partnership and cooperation agreement with Iraq on 11 May gave impetus to developing EU–Iraq relations. Both sides committed to an early implementation based on the provisional application of the agreement as a whole, including the trade agreement, which started on 1 August, allowing the first joint meetings to take place as early as the beginning of 2013.

Yemen

The EU has been among the main international partners supporting Yemen's elected President, Abd-Rabbu Mansour Hadi, through the first steps of a delicate and challenging transition process. International support remains essential in empowering the president and the transitional government and avoiding an escalation of violence in the country.

Handshake between Aung San Suu Kyi, Chairperson of the National League for Democracy in Burma/Myanmar and Nobel Peace Prize laureate, on the right, and José Manuel Barroso, President of the European Commission.

Burma/Myanmar

The EU established a new office in Yangon, inaugurated by the HR/VP on 28 April during her visit to the country, and has closely followed the positive recent political developments in the country. The EU announced in February an exceptional package of development assistance for 2012–13 of €150 million, of which €96 million was already committed by September 2012 to support better access to education, health and livelihoods for the Burmese population, but also to provide capacity-building to some key ministries. The EU is also fully engaged in supporting the ethnic peace process, including through its support to uprooted people affected by conflicts in Myanmar. President Barroso reaffirmed the EU's support for the substantial reforms underway during his visit to Burma/Myanmar in November, while announcing an EU contribution of €700 000 as start-up funding for the Myanmar Peace Centre.

Afghanistan

The Council conclusions of 14 May 2012 reaffirmed the long-term commitment of the EU and its Member States to support Afghanistan during transition and the decade of transformation. The international conferences held in Chicago, Kabul and Tokyo provided a comprehensive framework for a successful transition in Afghanistan. At the Tokyo conference in July the EU reaffirmed its long-term commitment to support Afghanistan beyond 2014. A mutual accountability framework was established, setting the benchmarks for the continuation of international community support. Negotiations on the Cooperation Agreement for Partnership and Development (CAPD) were launched. In 2012 the EU committed €190 million in support of health and agriculture national priority programmes (NPPs) and social protection actions addressing women at risk and in conflict with the law. The programmes are in line with Afghanistan's national development strategy and the share of EU assistance 'on budget' is progressively increasing. The EU supports political cooperation between Afghanistan's neighbours under the Istanbul process through confidence-building measures.

Pakistan

The EU continues to support the sustainable development of rural communities. In the mountainous region in the north-west of the country the Commission funds the provision of electricity from hydropower to 75 000 households that currently do not have access to electricity. The Commission also supports the ability of national and provincial parliaments to exert democratic control. It provides training and equipment to parliamentarians and support staff. The Commission continues to help provincial governments in Sindh and Khyber Pakhtunkhwa with their education reforms in order to bring more children into school, increase the share of girls that attend school and improve the quality of education. The Council in January 2012 approved the EU–Pakistan 5-year engagement plan, which underpins the EU–Pakistan strategic dialogue launched by the HR/VP with Foreign Minister Hina Rabbani Khar during her visit to Islamabad on 5 June. These steps were welcomed in the Council conclusions of 25 June 2012 as an expression of the deepening and widening of the EU's relationship with Pakistan. Emergency autonomous trade preferences for Pakistan were agreed by the EU as part of the response to the devastating floods. This means that certain goods from Pakistan can enter the EU duty free or will be subject to certain ceilings (tariff rate quotas). The measures entered into force in November 2012 and will be in place until 31 December 2013.

Bangladesh

The EU continued to be Bangladesh's largest trading partner and one of its most important development partners. The EU has provided assistance to the most vulnerable elements in society, including refugees and indigenous people.

EU support and cooperation with Bangladesh: Baghjur Pashchhimpara Shikhon School, Baghjur, Hobiginj. (Shikhon — learning alternatives for vulnerable children).

Maldives

The EU has sought to foster a better political climate in the Maldives after the 'transfer of power' in February 2012.

North Korea

The EU's assistance consisted mainly in linking relief, rehabilitation and development (LRRD) interventions in the field of food security and humanitarian aid. Under the 2011–13 food security thematic programme budget, €20 million has been allocated to North Korea.

Vietnam

The EU is discussing with the government of Vietnam a new aid programme starting in 2013 to improve health-system management and the provision of health services to the poor, and to achieve universal health coverage. Following the signature in July of an agreement on a new programme for trade and economic cooperation, the EU has confirmed its intention to assist the country in fostering pro-poor economic growth through its stronger integration into the global and regional trading systems. This new €15 million initiative is the continuation of a successful aid programme concluded in June.

Latin America and the Caribbean

EU–LAC FOUNDATION

The EU–LAC Foundation began its work in the beginning of 2012 in the city of Hamburg, Germany. It is presided over by former Commissioner of the European Union Benita Ferrero-Waldner, with the Peruvian diplomat Jorge Luis Valdez Carrillo as Executive Director.

In 2012 further progress was made in implementing the outcomes of the EU–LAC (Latin America and the Caribbean) Summit held in May 2010 in Madrid. The EU and LAC partners continued to pursue a joint agenda, notably to sign the agreements concluded in Madrid (Central America association agreement and Colombia/Peru trade agreement) and to address priorities in key areas. Preparations for the summit that took place in Santiago de Chile in January 2013 were undertaken in 2012. The summit's main theme, 'An alliance for sustainable development: promoting investments of social and environmental quality', is particularly relevant to the EU–CELAC (Community of Latin American and Caribbean States) partnership.

Olaf Scholz, Mayor of Hamburg, in the centre, welcomes Benita Ferrero-Waldner, President of the EU–Latin America and Caribbean Foundation, on the right, next to Jorge Luis Valdez Carrillo, Executive Director of the foundation, on the left, at the town hall in Hamburg, Germany.

With its impressive economic performance, its increasingly solid and widespread commitment to democratic values and human rights and its rising influence in multilateral organisations, the Latin American and Caribbean region continued to increase in importance for the EU during 2012. However, overall relations have been marked by a worrying trend of restrictive trading practices such as Argentina's import licensing restrictions, which have affected the commercial dynamic.

Several major advances were made in 2012. The association agreement between the EU and Central America was signed in June 2012, the same month in which the free trade agreement with Colombia and Peru was also signed. Another essential step forward was the approval by the Foreign Affairs Council in November of the EU–Caribbean joint strategy, a significant document for the relations with the Caribbean subregion.

In 2012 a number of cooperation actions were approved in favour of Latin America for a total of some €365 million, such as addressing human development issues for Brazil, Guatemala and Nicaragua. Others cover social cohesion-related aspects, such as in Mexico and Uruguay, while others aim at the improvement of the business climate and the economic development of the region, such as in Nicaragua and Peru. In addition, actions aiming at adaptation to climate change and the preservation of natural resources were also supported, such as in Bolivia and Honduras.

The Latin American Investment Facility (LAIF), promoting investment in key infrastructure for equitable and sustainable socioeconomic development, continued its successful implementation. Six operational boards were organised, giving approval to 17 projects and provisional approval to two, with a total LAIF contribution of €92.8 million leveraging total investments of nearly €3.3 billion.

Overall the EU has been very active in promoting the rule of law and good governance in the region. Security continued to be one of the main priorities on the EU agenda for the LAC region. A new Central America regional strategy on security was adopted with EU follow-up through the 'Group of friends' mechanism, bringing together all donors active in the sector. The EU will support some pillars of this regional strategy through its regional cooperation with Central America.

Pursuing and strengthening the political dialogue with the region remains a priority. The EU and the Caribbean countries worked together on a joint regional strategy which will strengthen the political dimension of their relationship in addition to trade and development cooperation. 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.

Reconstruction of housing and urban planning in Haiti

Haiti remains the poorest country in the Caribbean. A situation which was already complex before the 2010 earthquake has become far more complicated in the disaster's aftermath, with numerous infrastructure, social and political challenges. In line with the Haitian authorities' priorities, the EU and EU Member States' development assistance focuses on the following areas: infrastructure, water and sanitation, education, health, governance, agriculture and rural development. In 2012 particular focus was given to supporting housing and sustainable urban development in informal neighbourhoods affected by the earthquake. An additional €23.5 million has been allocated to an ongoing programme including supporting housing rehabilitation, urban infrastructure and local administrations' capacity for territorial planning, disaster risk reduction and land management. This programme, funding for which totals €59.4 million, will contribute to the transition from emergency relief to rehabilitation and development.

ENDNOTES

(1) Joint communication — Eastern Partnership: A roadmap to the autumn 2013 summit (JOIN(2012) 13).

(2) http://ec.europa.eu/energy/international/bilateral_cooperation/usa_en.htm

(3) http://ec.europa.eu/energy/international/bilateral_cooperation/china/china_en.htm

(4) http://ec.europa.eu/energy/international/bilateral_cooperation/india_en.htm

(5) Foreign Affairs Council conclusions, 25 June 2012 (http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/EN/foraff/131181.pdf).

(6) Joint communication — Human rights and democracy at the heart of EU external action — Towards a more effective approach (COM(2011) 886).

(7) http://www.aideffectiveness.org/busanhlf4/images/stories/hlf4/OUTCOME_DOCUMENT_-_FINAL_EN.pdf

(8) http://europa.eu/rapid/press-release_IP-12-1342_en.htm

(9) Commission communication on the main findings of the comprehensive monitoring report on Croatia's state of preparedness for EU membership (COM(2012) 601).

(10) http://ec.europa.eu/enlargement/countries/strategy-and-progress-report/index_en.htm

(11) Commission communication — Commission Opinion on Albania's application for membership of the European Union (COM(2010) 680).

(12) This designation is without prejudice to positions on status, and is in line with UNSCR 1244/99 and the International Court of Justice opinion on the Kosovo declaration of independence.

(13) Commission communication — Increasing the impact of EU development policy: an agenda for change (COM(2011) 637).

(14) Foreign Affairs Council conclusions, 14 May 2012 (http://register.consilium.europa.eu/pdf/en/12/st09/st09369.en12.pdf).

(15) Joint communication — Global Europe: A new approach to financing EU external action (COM(2011) 865).

(16) Commission communication — The future approach to EU budget support to third countries (COM(2011) 638).

(17) Commission communication — Social protection in European Union development cooperation (COM(2012) 446).

(18) Proposal for a regulation establishing the European Voluntary Humanitarian Aid Corps — EU Aid Volunteers (COM(2012) 514).

(19) Transport, Telecommunications and Energy Council conclusions, 20 December 2012 (http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/trans/134523.pdf).

(20) Commission communication — EU relations with the Principality of Andorra, the Principality of Monaco and the Republic of San Marino — Options for closer integration with the EU (COM(2012) 680).

(21) Joint communication — Developing a European Union policy towards the Arctic region: Progress since 2008 and next steps (JOIN(2012) 19).

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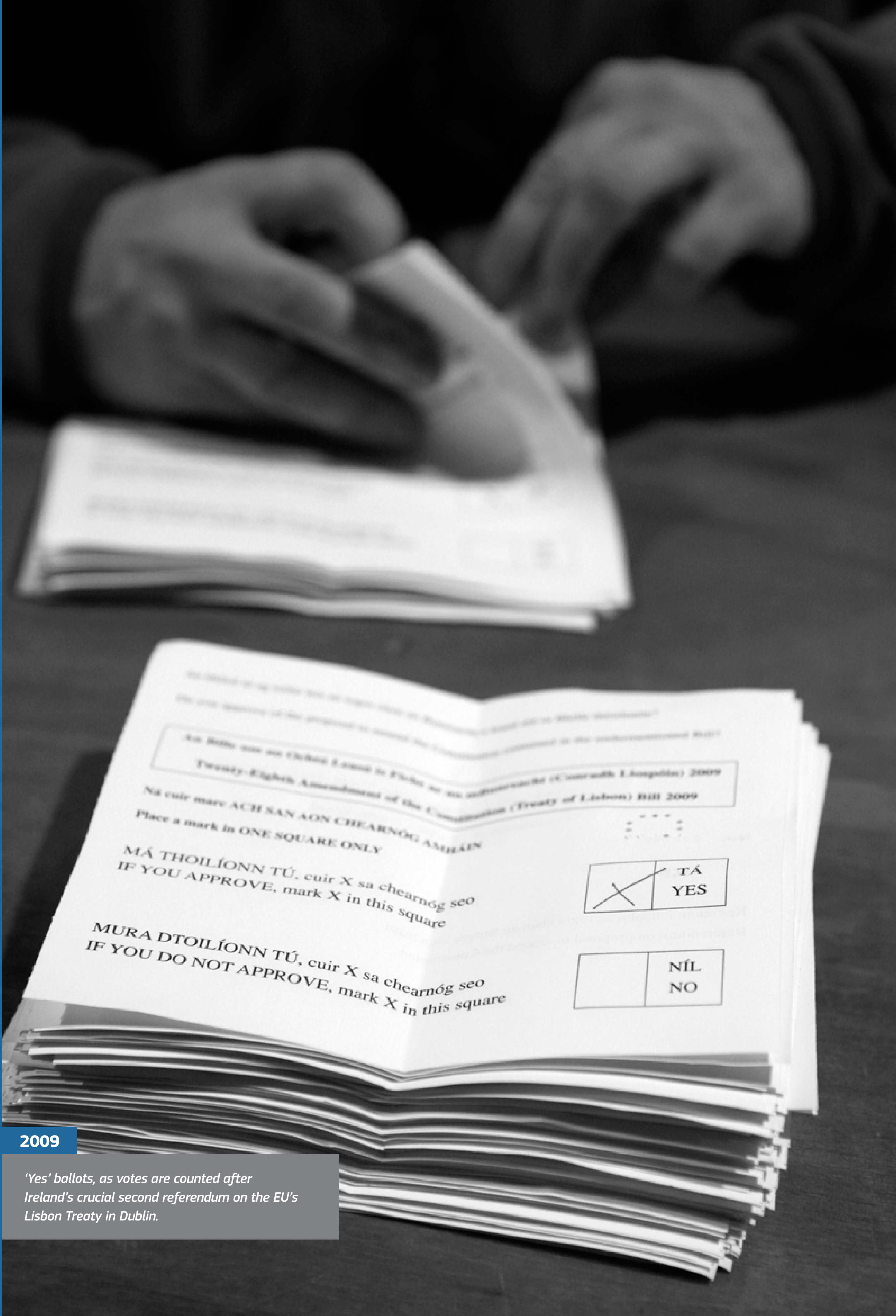

2009

'Yes' ballots, as votes are counted after Ireland's crucial second referendum on the EU's Lisbon Treaty in Dublin.

2012

European Parliament plenary in Strasbourg, France.

CHAPTER 6

The European institutions and bodies at work

- **European institutions/bodies at work**
- **Landmark Court decisions**
- **National parliaments' European role**

CHAPTER 6

THE EUROPEAN INSTITUTIONS AND BODIES AT WORK

The Union's institutions were fully occupied in dealing with the response to the financial and economic crisis. There were difficult issues to be considered and difficult decisions to be made, yet the respective institutions lived up to expectations in providing comprehensive solutions to very complex problems. The decisions taken, proposals made, opinions given and legislation enacted meant that decisive reforms were undertaken to tackle the crisis and provide a solid basis for recovery. As well as the heavy workload on the financial and economic front, the institutions and bodies also assumed a substantial charge of other work in the interests of the citizens of the Union and the wider world. The role of national parliaments in exercising their new-found remit under the Lisbon Treaty was also a notable feature of the year.

The European Parliament

Key debates

In the third year of its term, the workload of the European Parliament was rich, varied and heavy, with a special focus on legislative and policy work on financial and economic issues. Such matters took up a great deal of the legislature's time. Other high-level political debates included the traditional presentation of the work programme of the rotating Presidencies (Denmark and Cyprus), and the debate on the State of the Union.

MEPs voting in a plenary session in Strasbourg, France.

A plenary debate took place in January, concerning political developments in Hungary, with the Hungarian Prime Minister Viktor Orbán in attendance at his own request. The Council Presidency and José Manuel Barroso, the President of the Commission, gave carefully measured statements focusing, in particular, on the question of the compatibility of certain Hungarian legislation with EU law, and also insisting on the wider respect of fundamental values and rights. The February plenary adopted a follow-up resolution, expressing 'serious concern at the situation in Hungary', and called on the Hungarian government, 'in the joint interest of Hungarian citizens and the European Union', to comply with the recommendations, objections and demands of the European Commission, the Council of Europe and the Venice Commission (the European Commission for Democracy through Law). The Commission was called on to monitor closely the possible amendments and the implementation of Hungarian laws and their compliance with the letter and spirit of the European treaties and to conduct a thorough study on a number of key principles and areas.

The second half of the year started with a similar debate reviewing the political situation in Romania. The Commission emphasised its impartiality as the guardian of the treaty, while noting the necessity of monitoring judicial systems in all Member States.

The Parliament also held a dedicated plenary debate on the issue of the Internet site launched by the Dutch PVV party, giving its almost unanimous condemnation.

Finally, developments in the Council led to the Danish Presidency coming under pressure at the end of its term following the Council's decision to change the legal base of the Schengen package. As Schengen had become a crucial issue, the Parliament held another debate in July on the many breaches of Schengen rules (11 cases cited by the Commission) to highlight the need for an EU mechanism based on the Community method.

One of the more significant developments of the year was the rejection by the Parliament of the Anti-Counterfeiting Trade Agreement (ACTA) in July. While the Commission had decided to refer ACTA to the Court of Justice of the European Union for an opinion of the Court pursuant to Article 218(11) of the Treaty on the Functioning of the European Union (TFEU) on its compatibility with the treaties, it decided in December to withdraw its request.

The Parliament's role in the economic and financial crisis

Besides political developments, the main focus of the plenary debates was the current economic crisis and exit strategies as well as longer-term projects towards further economic, monetary and fiscal integration. These debates had President Barroso as a regular contributor, alongside Olli Rehn, European Commission Vice-President responsible for Economic and Monetary Affairs and the Euro, and the President of the European Council Herman Van Rompuy at times. President Barroso regularly updated the Parliament about the Commission's plans and concrete proposals to tackle the crisis (including presentations of the Commission's topical communications on the employment package and 'Growth for Greece', as well as of the Commission's annual growth survey for 2013 and of its blueprint for a deep and genuine economic and monetary union (EMU)), and repeatedly argued for the necessity of combining financial stability and fiscal consolidation with sustainable growth and job creation. In particular, he kept a strong focus on the Community method, firmly rejected any divisive discussion about 'winners and losers' and, in May, suggested to the Parliament the conclusion of an interinstitutional agreement on the growth initiative. Over the course of the year it was noticeable that, while attention continued to be paid to systemic governance issues, more and more attention also fell on the fall-out from the crisis; leaders and other Members increasingly took up the theme of the urgency of tackling the growing social crisis.

Herman Van Rompuy, President of the European Council, and José Manuel Barroso, President of the European Commission, take part in the Conference of Presidents on the outcome of the European Council of 13 and 14 December.

In the second half of the year, drawing on President Barroso's State of the Union speech and the ensuing key documents presented by the Commission (banking union/single supervisory mechanism proposals, blueprint for EMU) but also in reaction to the 'four Presidents' report' and own-initiative opinions, the Parliament's attention shifted progressively towards the strategic and structural questions of the future architecture of EMU/EU. Throughout these deliberations the Parliament focused on the need to enhance the democratic legitimacy of economic governance, through extended powers for the Parliament. Greece figured prominently in these debates, with institutional leaders and others repeatedly making the case for solidarity with the country and its people, while also stressing the importance of both Greece and others standing by their commitments.

A debate took place in February with Italy's Prime Minister Mario Monti, who received a standing ovation from MEPs. His speech about the economic reforms in Italy was well received and leaders of the political groups praised him for putting the Italian economy back on track and implementing fiscal discipline. Further specific debates took place on various issues strongly related to the EU's crisis response. These included debates on: the European semester and the implementation of its 2012 cycle; the annual growth survey (the Parliament's resolution called for more efforts on growth, employment and poverty and efforts by Member States to implement their structural reforms; the Parliament's Rapporteurs also urged the Commission to report on Member States' implementation of the recommendations); on growth; on the banking union; on the European Globalisation Adjustment Fund crisis derogation; on reprogramming of the Structural Funds to better combat youth unemployment and help SMEs; on combating tax fraud and tax evasion; and on the youth opportunities initiative. During the year the Parliament adopted various important resolutions on economic and monetary developments.

Important efforts were also made to secure agreement on various key legislative files/packages related to economic governance. These included the economic governance 'two-pack', the CRD IV proposals on capital requirements and the banking union/single supervisory mechanism.

State of the Union address 2012

In September, the President of the European Commission delivered his annual speech on the state of the Union before the European Parliament, where he made a strong case for a new direction and new thinking for Europe. President Barroso sketched out the way towards more European unity to overcome the crisis and maintain sovereignty in a globalised world. These efforts should be part of a wider decisive deal for Europe — to project our values, our freedom and our prosperity into the future of a globalised world, including the completion of a deep and genuine economic union, coupled with a deeper political union.

José Manuel Barroso. President of the European Commission, addresses the European Parliament during the State of the Union debate in Strasbourg, France.

In this context, he called for a federation of nation states and announced a blueprint for deeper economic and monetary union. The adoption of a Commission proposal the same day to establish a supervisory mechanism for banks in the euro area was an important step in this direction. Mr Barroso also insisted on the need to reach an appropriate agreement on the multiannual financial framework for the period 2014–20.

He underlined the importance of a strengthened European Parliament and the need for complementarity and cooperation between the European and national parliaments. In this context, he referred to the Commission's proposal of the same day for a better statute for European political parties ([1]). In view of the 2014 European elections, he suggested that all European political parties should present their candidate for the position of Commission President as a means of deepening pan-European political discourse.

The President emphasised the need for solidarity, maintaining the integrity of the Union, and strongly encouraged pro-European forces to face up to the challenge posed by populist and extremist forces and to make every effort to communicate the real impact and positive benefits of European integration. The debate showed a clear divide between the overwhelming majority of pro-European forces welcoming the President's ambitious speech, and, in a substantial minority, those rejecting the *raison d'être* of European integration.

Following up on President Barroso's State of the Union speech, the Commission adopted its work programme for 2013 in October 2012, setting out measures to tackle the crisis and return the EU to sustainable growth. The work programme outlined what action was needed — including 58 new initiatives to be adopted and taken forward before the European elections in June 2014.

Legislative work

The legislative workload increased throughout the year and by autumn it had become very heavy.

First reading agreements were reached (with the Council) and approved by the plenary on a number of files especially relevant for the economic crisis (project bonds, over-the-counter derivatives (EMIR), risk-sharing instruments for Member States facing serious difficulties with respect to their financial stability) or with direct benefits for citizens and businesses (roaming charges, succession and European Certificate of Succession, interconnection of business registers, technical requirements for direct debits and credit transfers in euro, coordination of social security systems); European standardisation; energy efficiency; pharmacovigilance; minimum standards on the rights, support and protection of victims of crime; jurisdiction and the recognition and enforcement of judgments in civil and commercial matters ('Brussels I'); and the European Year of Citizens 2013.

One of the legislative highlights of the year was the adoption of the European patent package in December, after lengthy negotiations.

Some files could be successfully adopted at a later stage in the legislative process; early second reading agreements were reached among others on spectrum policy, on food distribution to the most deprived, on the European Refugee Fund and on the single European railway area. The Environment, Public Health and Food Safety Committee files on waste electrical and electronic scrap (WEEE) and on biocides were subject to second reading agreements after protracted negotiations, and only after some Commission declarations clearly stating reservations on some important institutional points. In some cases the Parliament preferred to adopt a first reading position, thus sending out a strong signal to the Council. This was the case for instance on the Lisbon alignment package and the deposit guarantee schemes proposal.

Annual visit to the European Commission of a delegation of Committee Chairs of the European Parliament.

Under the consultation procedure, the Parliament, inter alia, endorsed by a comfortable majority its position on the common corporate consolidated corporate tax base (CCCTB) proposal.

Also under the consultation procedure, the plenary overwhelmingly adopted a report and legislative resolution on the common system for taxing financial transactions, which included a call for parts of the revenues of a future financial transaction tax to be used as EU own resources

Political agreement between the Parliament and the Council on two asylum instruments, the Dublin regulation and the reception conditions directive, represented an important step towards establishing the Common European Asylum System.

The House rejected a series of initiatives:

- The 'groundhandling' proposal included in the airports package, aiming at opening a number of services from two to three providers, was subject to strong lobbying and sent back from plenary to the Transport and Tourism Committee for renegotiation.

- Also in December, the plenary rejected the Commission proposal on European statistics on safety from crime, unconvinced of the added value of the €12 million of planned expenditure.

On the other hand, a wide range of important items of legislation were passed:

- After a previously failed attempt, the Parliament endorsed in April by a very large majority the new EU–US agreement on air passenger name records (PNR) which will replace the 2007 agreement.

- Another controversial issue proved to be the EU–Morocco Agreement on Reciprocal Liberalisation Measures on Agricultural Products and Fishery Products; despite a difficult debate the plenary finally gave its approval.

Similarly, the Parliament gave, by a narrow majority, its consent to the conclusion of the EU–Israel Agreement on Conformity Assessment and Acceptance of Industrial Products (ACAA).

Non-legislative/own-initiative reports/debates

Apart from the political, economic and legislative debates highlighted above, the Parliament also proved to be very active on topical issues for the EU and the wider world. Accordingly, a large number of non-legislative debates also took place, giving an opportunity for the Parliament to set out its views on various issues.

Topics discussed in various formats included the following: the Durban Climate Change Conference and the Rio+20 Conference; the situation one year after Fukushima; the situation of the homeless after the cold winter; migrants in Greece; the legal security of European investments outside the EU; measures to protect the EU market from unusually low-priced imports of Chinese origin, especially photovoltaic panels; the future of the Single Market (Act) and citizens and businesses' prevailing top 20 concerns related to the functioning of the single market; SMEs' access to financing and external markets; restructuring in the EU car industry and the future of the EU steel industry; card, mobile and Internet payments; shadow banking; the social business initiative; the situation of European milk producers; the management of the sugar sector; the food supply chain and the definition of locally produced food; the EU biodiversity strategy 2020; the fight against homophobia; visa-free travel to Canada and the introduction of Swiss quotas for residence permits for EU nationals; the revision of the data protection framework; defective silicone breast implants; the rights of people travelling by air; and the protection of children in the digital world. The long and lively debate on shale gas also deserves mention.

In some cases the Parliament reacted to issues already under consideration by the Commission (such as the feasibility of introducing stability bonds, the law applicable to contractual relations, trafficking in human beings) and in several cases the Parliament urged the Commission to step up its action and eventually propose legislation. Notable examples included the call for a proposal (within the framework of Directive 2007/46/EC) in order to ensure the mandatory deployment of a public, 112-based e-call system by 2015 in all new, type-approved cars and in all Member States, and the call to submit (if justified by an impact assessment) by January 2013, on the basis of Article 114 TFEU, a proposal for a directive ensuring access to basic payment services to all consumers legally residing in the Union.

Strong messages and innovative ideas were also formulated in a large number of other reports, such as a competitive digital single market (with e-government as a spearhead), equal pay for male and female workers, the single market scoreboard, the future of the single market and the EU citizenship report 2010 'Dismantling the obstacles to EU citizens' rights', which calls for the European Year of Citizens 2013.

Foreign affairs

In the field of foreign affairs, the Parliament discussed a significant number of topical issues, such as the situation in the Middle East and north Africa. The debates focused in particular on Syria, Iran's nuclear programme, the conflicts in northern Mali and between Sudan and South Sudan, and human rights situation in many parts of the world (including Azerbaijan, Belarus, Egypt, Russia, Tunisia and Ukraine). The House also discussed more long-term and structural questions (the annual report on the common foreign and security policy, EU foreign policy towards the BRICS countries (Brazil, Russia, India, China and South Africa), the annual report on human rights). Apart from debating the Commission's enlargement reports on specific countries (Albania, Bosnia and Herzegovina, Iceland, Kosovo ([2]), Montenegro, Serbia, Turkey and the former Yugoslav Republic of Macedonia, the Parliament endorsed its horizontal approach to the EU's enlargement policy. As regards foreign trade, the enhanced participation of the European Parliament in EU trade policy, as provided for by the Lisbon Treaty, was reflected in a busier trade agenda. At the centre of the debates were the Anti-Counterfeiting Trade Agreement (ACTA) and numerous other trade agreements with, for example, Colombia, Morocco and Peru.

The link between human rights and trade was strongly stressed by the Parliament's annual human rights report, which stated that all free trade agreements signed with non-EU countries should include clauses promoting social cohesion and ensuring respect for social, environmental and labour standards and the sound management of natural resources, in particular land and water.

The Parliament's Sakharov Prize was this year awarded to two Iranian activists, lawyer Nasrin Sotoudeh and film director Jafar Panahi, acknowledging their plight and their outstanding efforts in their incessant struggle for human dignity, fundamental freedoms and political change in Iran.

Martin Schulz, top left, President of the European Parliament, during the awards ceremony for the Sakharov Prize at the Parliament. The empty chair is for laureates Iranian lawyer Nasrin Sotoudeh and film director Jafar Panahi. The laureates were not able to attend the ceremony in person because they are not allowed to leave Iran.

Last but not least, the end of the year was marked by the award of the Nobel Peace Prize 2012 to the European Union; upon return of the EU delegation from Oslo the Parliament held a ceremony in the hemicycle in December, with 20 European citizens being selected to receive a symbolic certificate of the prize.

Institutional developments

'Here, today, I issue a challenge to anyone who claims that more Europe can be achieved with less parliamentarianism!' — Martin Schulz, Strasbourg, France, 17 January 2012.

This year the Parliament reached the half-way point of its mandate and therefore at the start of the year it carried out a 'recomposition', i.e. renewal of leading functions (President, Vice-President, Quaestors, Committee Chairs and Vice-Chairs). Most notably; the Parliament confirmed, as expected, Martin Schulz as its new President for the remainder of the seventh legislature. Mr Schulz's programme speech focused on serving the citizens of Europe, in particular by securing the future of the younger generation, and on defending the European project and its institutional and procedural coherence, including democratic accountability and the role of the European Parliament itself. The new President made a strong case for the Community method and pledged to work to give the Parliament a powerful voice, positioning it as a central place for debate, as well as to defend all Members' rights, hoping that those not having voted for him 'will be pleasantly surprised'.

Martin Schulz, President of the European Parliament, giving a press conference in Strasbourg, France.

Among the developments in the institutional field, the following can be highlighted:

- At the April part-session, the Parliament welcomed the arrival of 12 Croatian observer MEPs. The Parliament decided in March to set up a special committee on organised crime, corruption and money laundering.

- In May, and under the special legislative procedure, the Parliament adopted a draft report setting out its wishes for the alignment of its rules on Committees of Inquiry with the provisions of the Lisbon Treaty. The legislative resolution was not voted on in view of forthcoming negotiations with the Council and the Commission.

- The Parliament held a short debate in July on the preparation of the Commission work programme for 2013. A second debate was held in September, just after the adoption by the Commission of the programme. In September, as every year, the Parliament adopted an own-initiative report on the Commission's annual report on subsidiarity and proportionality. The text contains a series of recommendations, including some 'ground-breaking ideas', such as a review of the 2003 interinstitutional agreement on better regulation, a review of the timescale currently applied for the subsidiarity check by national parliaments and an assessment of the need to lay down EU-wide criteria for the application of subsidiarity and proportionality.

- The November plenary adopted a non-legislative resolution on the European Parliament elections to be held in 2014, which among other things urges the European political parties to nominate candidates for the Presidency of the Commission and expects those candidates to play a leading role in the parliamentary electoral campaign.

- The European Parliament played an important role in various institutional nominations. In November, in a secret ballot and with a comfortable majority, the Parliament gave a favourable opinion regarding the Council's intention to appoint Mr Tonio Borg as new Commissioner for Health and Consumer Policy. Mr Borg had previously undergone a hearing organised by the competent parliamentary committee.

Hearing at the European Parliament of Tonio Borg, Commissioner-designate for Health and Consumer Policy.

- The Parliament modified its internal rules of procedures on several issues with interinstitutional implications. The most noteworthy were the revision of Article 70 on the rules applicable to interinstitutional negotiations with a view to first reading agreements and of Rule 42 on legislative initiatives according to Article 225 TFEU. In both case the European Parliament fixed more detailed rules for the transparency and democratic control of the process (in the first case) and the submission and the eligibility of the initiatives and their handling inside the Parliament (in the second).

Court of Justice's ruling on Strasbourg

The Court of Justice's judgment concerning the Parliament's calendar of periods of part-sessions for 2012 and 2013 was announced to the plenary in December. The Court decided that the Parliament's amendments to merge the two plenary sessions in October into one week were not in line with the treaties' requirements concerning the seats of the institutions. The Parliament's calendar for 2013 will have to be adjusted accordingly ([3]).

Parliamentary questions

Following the huge increase of past years, questions continued to be numerous in 2012, with a total of almost 12 000 written questions. As part of the effort to make the work of the plenary more attractive to MEPs and the public, 'question time' with the Commission has been held with a new format. Within the scope of topics decided beforehand, Members have spontaneously asked questions to a group of commissioners ('catch-the-eye procedure'). Topics discussed this year included: the services sector; the services directive and increasing competitiveness; growth and employment in Europe; the EU's role in stimulating the competitiveness of Member States' economies; employment rights in a Europe of open borders; the state of play of the energy market *acquis*; and boosting Europe's industry for growth and jobs. While the experience of the new format was on the whole positive, its functioning is being examined.

Budget and budgetary control

As regards the Discharge 2010 procedure, after a consensual and constructive debate held in May, with the much-appreciated participation of the Danish Presidency, the Parliament granted the 2010 discharge to the Commission by a large majority. The Commission welcomed the Parliament's position and emphasised its commitment to respond positively to the Parliament's requests. The Parliament also granted discharge to the other institutions and bodies, with the exception of the Council and three agencies (the European Medicines Agency (EMA), the European Food Safety Authority (EFSA) and the European Environment Agency). In November, the Parliament decided to grant discharge to the EMA and EFSA, although it refused to grant discharge to the Council, deploring the attitude of the Council which was deemed to obstruct democratic control as well as transparency and accountability vis-à-vis Union taxpayers.

As regards the Discharge 2011 procedure, the November plenary session launched the new discharge cycle, with President Vítor Manuel da Silva Caldeira presenting the Court of Auditor's Annual Report 2011.

The Parliament held a series of debates on the annual budget for 2013 in line with the different phases of the budgetary procedure.

- In February, the Parliament adopted with an overwhelming majority its guidelines for 'Budget 2013 (sections other than the Commission)', calling for a freeze of the institution's administrative budgets at the rate of expected inflation. In July, the plenary debated and adopted with a large majority the Parliament's mandate for the 2013 budget. There was general agreement among the major groups that the EU budget constitutes an investment budget and that it is the Union's most effective instrument for supporting measures for more growth and jobs.

- In April, the plenary voted with an overwhelming majority for Draft Amending Budget No 1/2012, reflecting the agreement reached with the Council in December 2011 on the additional funding needs for the ITER project for the years 2012 and 2013.

- Further to this, and confirming the mandate, the plenary approved in October its position in view of the upcoming conciliation. The Parliament generally endorsed the Commission's draft budget, while proposing an increase of resources in some sections of the budget related to growth and job creation.

- Finally, after difficult and protracted negotiations, the Parliament approved in December the 'budget package', consisting of Amending Budget No 6/2012 and Budget 2013, by a large majority, even though Members from all groups expressed their deep worry that Budget 2013 would clearly be insufficient for payment needs in 2013 and that an amending budget to cover payment obligations from 2012 would have to be presented by the Commission in the first months of 2013.

Furthermore, a specific plenary debate was organised in October on 'Erasmus in danger', which reflected the broader concerns of the Parliament. The vast majority of MEPs expressed their clear support for bridging the funding gap to secure the future of the Erasmus programme and called on the Council to take the appropriate measures to amend the 2012 budget as proposed by the Commission.

As regards the multiannual financial framework (MFF) the following developments took place:

- The plenary held a first dedicated debate in June. The Parliament made clear that it would not agree to the next MFF unless the package contained an agreement on own resources and different flexibility elements.

- In October, the Parliament adopted its interim report on the next MFF as well as its report on own resources, by very large majorities, thus reflecting the House's unity and strongly reiterating its position, very close to that of the Commission, ahead of the November Council, against any linear, across-the-board cuts to the MFF and the headings.

- The outcome of the extraordinary European Council of 22 and 23 November was subject to a special plenary debate, held in the format of an open conference of Presidents and with the participation of President Van Rompuy reporting back from the summit. Whereas Mr Van Rompuy asked the Parliament to show willingness to compromise, President Barroso regretted that the Heads of State or Government did not give a 'positive narrative' in favour of the EU and drew attention to the inconsistency of attributing ever more tasks to the Union and its institutions without also providing for the necessary financial and administrative means.

The European Council

Against the backdrop of a busy year, the European Council took far-reaching decisions and delivered swift responses to rapidly evolving events both at European and international levels. Under the chairmanship of President Herman Van Rompuy, who was re-elected in 2012, the European Council met seven times in 2012, holding formal and extraordinary sessions. In addition, four meetings of the 17 Heads of State or Government of the euro area Member States were convened. These so-called euro summits were also chaired by President Van Rompuy.

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 of President Van Rompuy, who reported back on the decisions of the European Council. Furthermore, the President of the European Parliament, Martin Schulz, addressed the European Council in the margins of its meetings.

The strengthening of the EU's economic governance and the resolution of the sovereign debt crisis, as well as growth and jobs, were paramount on the European Council's agenda throughout the year. The 27 Heads of State or Government concluded the 2012 European semester, agreeing on priorities for structural reform and fiscal consolidation.

'This crisis will take time to solve. There are no quick fixes nor silver bullets, but we will do all it takes to see it through' — Herman Van Rompuy, President of the European Council.

Helle Thorning-Schmidt, Prime Minister of Denmark, the Member State holding the Presidency of the Council of the European Union, Herman Van Rompuy, President of the European Council, and José Manuel Barroso, President of the European Commission, at the press conference after the June European Council.

Three issues deserve to be highlighted in particular. The first was the Compact for Growth and Jobs adopted at the June 2012 European Council, which envisages action to be taken by the Member States and the European Union with a view to relaunching growth, investment and employment and making Europe more competitive. The second was the roadmap for the completion of European monetary union, which was discussed at the June, October and December meetings, on the basis of the reports submitted by the President of the European Council in close collaboration with the Presidents of the Commission, the European Central Bank and the Eurogroup, and on the Commission's blueprint for a deep and genuine economic and monetary union (see Chapter 1 for further details).

In the third instance, the European Council also discussed the multiannual financial framework for 2014–20, in particular at an extraordinary European Council meeting on 22 and 23 November, without being able to reach agreement.

The Council of the European Union

Apart from considering the adoption of legislation, the development of the common foreign and security policy, the conclusion of international agreements and the discussion of the EU budget, the Council of the European Union focused in 2012 on the coordination of Member States' economic policies, most notably in the context of the new economic governance arrangements.

The 2012 rotating Presidencies of the Council were held by Denmark and Cyprus, in the first and second half of 2012 respectively. The Danish Presidency focused primarily on a responsible, dynamic, green and safe Europe. The Cypriot Presidency's main priorities were for a more efficient and sustainable Europe, a better performing and growth-based economy, a Europe more relevant to its citizens with solidarity and social cohesion as underpinning elements, and a Europe closer to its neighbours and partners in the world.

Jeppe Tranholm-Mikkelsen, Permanent Representative of Denmark to the EU, and Andreas Mavroyiannis, Minister for European Affairs of Cyprus, at the press conference to take stock of and present their respective Council Presidencies.

In the course of these two Presidencies, the Council met under nine of its 10 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 also met in its Foreign Affairs configuration.

The agendas of the different Council configurations reflected a wide variety of legislative proposals and debates. The agenda items reflected, to a large extent, the challenging events in Europe and beyond to which the EU had to react speedily, notably the global economic slowdown, the economic governance of the Union, financial regulation and supervision, a deeper European monetary union, migration and the functioning of the Schengen area, as well as data protection.

The European Commission

During the course of the year, the College of European Commissioners met on 44 occasions to take decisions on a host of issues related to the functioning of the Union, including proposals for legislation, budget management, initiation of infringement proceedings, competition cases and staff appointments, among others.

The Commission has a key role in the supranational institutional framework of the European Union. Firstly, it has a duty to promote the general interest of the Union and to take appropriate initiatives towards that objective, in particular, the right to initiate legislative proposals. It must assure the application of the treaties and the appropriate implementation of Union law, subject to the control of the Court of Justice of the European Union. In this regard, as 'guardian of the treaties', the Commission may take infringement procedures against Member States before the Court where it has grounds for believing that Union law was not properly implemented. The institution also manages the budget and oversees the many programmes that have been agreed by the Parliament and the Council. It also ensures the external representation of the Union in appropriate situations.

In 2012, the Commission made proposals for 168 legislative acts, of which 137 were draft regulations and 31 draft directives. The College also initiated 699 infringement procedures for suspected breaches or non-implementation of EU law.

Building on its right of initiative and its pivotal role in economic governance, the European Commission pushed for a comprehensive response to the financial and economic crisis. In this context, it has been insisting on respect for the Community method and on demonstrating its effectiveness. The year 2012 saw the European semester of economic coordination make use of the new tools brought in by the reinforced Stability and Growth Pact, the so-called 'six-pack'. In particular, the Commission included, for the first time, findings in the context of the macroeconomic imbalances procedure. The new economic governance framework has indeed significantly strengthened the Commission's role in the governance of the euro area. It will be complemented by two new regulations on enhanced budgetary coordination and surveillance for euro area Member States (the so-called 'two-pack') when they are adopted. In this broad context, the Commission has further increased its capacities and expertise in the field of economic and fiscal policy.

The new logo of the European Commission, in force since 1 February 2012.

While driving forward the Europe 2020 strategy to coordinate and facilitate national reforms, the Commission proposed a range of growth-enhancing initiatives at EU level. The package of 12 key measures of the Single Market Act, which were negotiated in 2012, was complemented by the Single Market Act II, proposed in the autumn. In addition, the Commission fully played its role in ensuring the implementation of legislation, notably with infringement procedures concerning the services directive. The Commission also pursued proposals for a root-and-branch overhaul of financial sector regulation. In particular, it tabled its proposal to create a single banking supervision mechanism as a further essential building block of a banking union, an essential complement to a strengthened economic and monetary union.

Many of the growth-enhancing measures that the Commission had proposed and advocated as a complement to the ongoing fiscal consolidation were incorporated in the Compact for Growth and Jobs that was agreed by the Heads of State or Government at the European Council in June.

In the process of institutional change for a genuine economic and monetary union, the Commission acted strongly to ensure the integrity of the single market and the unity of the EU as a whole. The Commission's close involvement in the formulation of the Treaty on Stability, Coordination and Governance ensured that the treaty is in line with European Union law and respects the role of the European institutions therein.

Looking beyond the short and even medium term, the Commission, in exercising its role as promoter of the general interest of the Union, adopted in November a blueprint on EMU as the institution's contribution to fuelling a broader and deeper debate about the shape of the Union well into the future. While contributing analyses and concrete suggestions, it goes beyond the immediate, seeking to identify the shape of political union to underpin the credibility and sustainability of EMU in the longer term and what type of democratic structures might be necessary, including treaty change (see Chapter 1 for further details).

On the institutional front, the European Commission negotiated an administrative agreement ([4]) with the Council of Europe regarding the use of the European emblem (circle of 12 yellow stars on a blue background) by third parties (for example, citizens and civil society organisations). In the spirit of reducing administrative burdens and meeting the widespread desire in civil society to demonstrate its proximity to the European Union, the former prior individual authorisation request has been replaced by a general authorisation to the public, combined with a right to intervene in case of abuse.

The Court of Justice of the European Union: some landmark rulings

The Court of Justice and the General Court made important rulings which cover a great variety of areas of EU law. The following are of particular general interest:

- Free movement of goods: Articles 34 TFEU and 36 TFEU do not preclude a Member State from bringing a prosecution under national criminal law for the offence of aiding and abetting the prohibited distribution of copyright-protected works where such works are distributed to the public on the territory of that Member State in the context of a sale, aimed specifically at the public of that state, concluded in another Member State where those works are not protected by copyright or the protection conferred on them is not enforceable as against third parties ([5]).

- Freedom of establishment: Articles 49 TFEU and 54 TFEU preclude national legislation which enables companies established under national law to convert, but does not allow, in a general manner, companies governed by the law of another Member State to convert to companies governed by national law by incorporating such a company; in the context of cross-border company conversions, the host Member State is entitled to determine the national law applicable to such operations and thus to apply the provisions of its national law on the conversion of national companies governing the incorporation and functioning of companies, such as the requirements relating to the drawing-up of lists of assets and liabilities and property inventories. However, under the principles of equivalence and effectiveness the host Member State may not refuse, in relation to cross-border conversions, to record the company which has applied to convert as the 'predecessor in law', if such a record is made of the predecessor company in the commercial register for domestic conversions, or refuse to take due account, when examining a company's application for registration, of documents obtained from the authorities of the Member State of origin ([6]).

- Taxation: A company which has sold goods for transport to another Member State may be refused the VAT exemption if it has failed to prove that the supply is an intra-Community transaction: on the other hand, if the company has produced the requisite proof and acted in good faith, it cannot be refused the VAT exemption on the ground that the purchaser did not transport the goods to a destination outside the Member State of dispatch ([7]).

- Agriculture: The exclusion of a farmer from receiving aid for the year in which he made a false declaration of the eligible area, and reducing the aid he can claim within the following 3 calendar years by an amount corresponding to the difference between the area declared and the area determined, does not constitute a criminal penalty and therefore does not preclude the imposition of a criminal penalty for the same act ([8]).

- Transport: Under Regulation (EC) No 1008/2008 on common rules for the operation of air services in the Community, a person selling air travel may not include flight cancellation insurance as a default setting when selling air tickets over the Internet; such an insurance may be offered only on an opt-in basis, as an 'optional supplement' ([9]).

- Approximation of laws:
  - Intellectual and commercial property: Under Directive 2000/31/EC on certain legal aspects of information society services, in particular electronic commerce, in the internal market, the owner of an online social network cannot be obliged to install a general filtering system, covering all its users, in order to prevent the unlawful use of musical and audiovisual work ([10]).
  - Intellectual and commercial property: Under Directive 91/250/EEC on the legal protection of computer programs, the functionality of a computer program and the programming language cannot be protected by copyright ([11]).
  - Intellectual and commercial property: Under Directive 96/9/EC on the legal protection of databases, a football fixture list cannot be protected by copyright when its compilation is dictated by rules or constraints which leave no room for creative freedom ([12]).
  - Consumer protection: Under Directive 93/13/EEC on unfair terms in consumer contracts, a Member State may provide that an unfair contract term that has been declared void following an action brought in the public interest by a consumer protection authority against a seller or supplier is not binding on any consumer who has entered into a contract with that seller or supplier to which the same general business conditions apply ([13]).
  - Consumer protection: Under Regulation (EC) No 1924/2006 on nutrition and health claims made on foods, wine may not be promoted as being ‘easily digestible’, since such a description, indicating reduced acidity levels, constitutes a health claim that is prohibited in relation to alcoholic beverages ([14]).
- Economic and monetary policy: Articles 4(3) TEU and 13 TEU, Articles 2(3) TFEU, 3(1)(c) and (2) TFEU, 119 TFEU to 123 TFEU and 125 TFEU to 127 TFEU, and the general principle of effective judicial protection, do not preclude the conclusion between the Member States whose currency is the euro of the Treaty establishing the European Stability Mechanism (ESM) of 2 February 2012 or the ratification of that treaty by those Member States ([15]).
- Social policy: Directive 2003/109/EC concerning the status of third-country nationals who are long-term residents precludes national or regional legislation which — when the funds for the housing benefit are allocated — provides for different treatment for non-EU nationals and nationals of the Member State in which they reside, in so far as the housing benefit falls within one of the three fields covered by the principle of equal treatment provided for under the directive concerning non-EU nationals who are long-term residents and constitutes a core benefit within the meaning of that directive, which are matters for the national court to determine, taking into account both the integration objective pursued by the directive and the provisions of the Charter of Fundamental Rights ([16])

- Institutional issues:

  - The Court of Justice annulled the votes of the European Parliament concerning the Parliament's calendar of periods of part-sessions for 2012 and 2013 by which the periods of plenary part-sessions for October 2012 and 2013 have been split into two parts, considering that these periods cannot be regarded individually as periods of monthly plenary part-sessions, in violation of Protocol No 6, annexed to the EU Treaty and the Treaty on the Functioning of the European Union, and Protocol No 3, annexed to the Treaty establishing the European Atomic Energy Community, which require the European Parliament, whose seat is established in Strasbourg, to meet in 12 monthly plenary part-sessions per year in Strasbourg ([17]).

The Court of Justice Members.

  - The Court of Justice, partially setting aside the judgment of the General Court under appeal, ruled that Regulation (EC) No 1049/2001 regarding public access to European Parliament, Council and Commission documents, interpreted in light of Regulation (EEC) No 4064/89 on the control of concentrations between undertakings, entitles the Commission to refuse access to all of the documents at issue relating to the merger control proceedings, exchanged between the Commission and notifying parties and third parties, without first carrying out a concrete, individual examination of those documents. Documents internal to the Commission, established in connection with control of a merger, are covered by that general presumption for as long as the control proceedings are pending or are likely to be reopened by the Commission following legal proceedings before the EU Courts. However, that general presumption does not exclude the right of the interested party to show that there is an overriding public interest which justifies disclosure of the documents requested ([18]).

  - The Court of Justice, partially setting aside the judgment of the General Court under appeal, ruled that publication in three languages of notices of EU competitions and the obligation to take the selection tests in one of those languages amount to discrimination on the ground of language; the limitation of the choice of the second language of a competition must be based on clear, objective and foreseeable criteria ([19]).

- Common foreign and security policy: Sanctions adopted by the Council in relation to a non-EU country cannot be applied to natural persons solely on the ground of their family connection with persons associated with the leaders of that country ([20]).

The European Central Bank

Against the background of the materialisation of downside risks to the economic outlook for the euro area, which would dampen inflationary pressures further, the European Central Bank (ECB) Governing Council on 5 July cut the ECB's key interest rates by 25 basis points each, bringing the interest rate on the main refinancing operations of the Eurosystem to a historical low of 0.75 %.

With regard to non-standard monetary policy measures which aim at restoring the proper functioning of the transmission mechanism of monetary policy, the ECB:

- with regard to the allotment mode and maturities 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 July 2013, including its main refinancing operations, special-term refinancing operations with a maturity of one maintenance period and 3-month long-term refinancing operations (LTROs) ([21]);
  - conducted its second LTRO with a maturity of 36 months in February 2012, in FRFA mode ([22]);
- with regard to providing liquidity in foreign currencies,
  - continued, until further notice, to conduct regular operations providing liquidity in US dollars with maturities of approximately 1 week and 3 months ([23]);
  - decided in cooperation with the Bank of Canada, the Bank of England, the Bank of Japan, the Federal Reserve and the Swiss National Bank to extend the temporary network of reciprocal swap lines until 1 February 2014 ([24]);
- with regard to special programmes,
  - continued to actively implement its securities markets programme (SMP) before deciding to terminate it in September 2012 (as at 23 November 2012, the programme totalled €208.5 billion, with bonds being held until maturity);
  - decided on the modalities to undertake outright monetary transactions in secondary sovereign bond markets, conducted without ex ante quantitative limits, and subject to the strict and effective conditionality attached to an appropriate European financial stability facility/European stability mechanism (EFSF/ESM) programme, provided that they include the possibility of EFSF/ESM primary market purchases ([25]).

'The ECB is ready to do whatever it takes to preserve the euro. And believe me, it will be enough' — ECB President Mario Draghi, London, United Kingdom, 26 July 2012.

The ECB furthermore took decisions aimed at preserving the collateral base to be accepted in its operations:

- by approving temporary additional credit claims frameworks ([26]);
- by reducing the rating threshold and amending the eligibility requirements for certain asset-backed securities (ABSs) ([27]); and
- by suspending the application of the minimum credit rating threshold in the collateral eligibility requirements for the purposes of the Eurosystem's credit operations in the case of marketable debt instruments issued or guaranteed by the central government, and credit claims granted to or guaranteed by the central government, of countries eligible for outright monetary transactions or which are under an EU/IMF programme and comply with the attached conditionality as assessed by the Governing Council ([28]);
- by expanding the list of assets eligible to be used as collateral to marketable debt instruments denominated in currencies other than the euro, namely the US dollar, the pound sterling and the Japanese yen, and issued and held in the euro area ([29]).

In the field of international cooperation, the ECB completed two major technical cooperation projects, with the western Balkans and Turkey ([30]) and with the Central Bank of Egypt ([31]). It also signed a memorandum of understanding with the Central Bank of the Republic of Turkey ([32]) as well as with the Bank of Russia ([33]).

Regarding payment systems, the ECB completed a major milestone in the Target2-Securities (T2S) project by signing the T2S framework agreement with Central Securities Depositories ([34]).

As regards banknotes, the ECB announced the introduction of a second series of euro banknotes, the 'Europa' series, which will be gradually introduced over several years, starting with the €5 banknote in May 2013 ([35]).

Mario Draghi, President of the European Central Bank, delivering a speech at the Global Investment Conference in London, United Kingdom, on 26 July 2012.

The European Court of Auditors

The European Court of Auditors adopted its annual report concerning the financial year 2011 on 6 September, which it subsequently presented to the European Parliament on 22 November and to the Council of the European Union on 4 December.

The Court's responsibility is to provide, on the basis of its audit, the European Parliament and the Council with a statement of assurance as to the reliability of the accounts and the legality and regularity of the transactions underlying them. The Court conducted its audit in accordance with the IFAC International Standards on Auditing and Codes of Ethics and the INTOSAI International Standards of Supreme Audit Institutions. These standards require that the Court plans and performs the audit to obtain reasonable assurance of whether the consolidated accounts of the European Union are free from material misstatement and the transactions underlying them are legal and regular.

Vítor Manuel da Silva Caldeira, President of the European Court of Auditors, presents the 2011 annual report in the plenary session of the European Parliament in Strasbourg, France.

As regards the reliability of the accounts, in the Court's opinion, the consolidated accounts of the European Union presented fairly, in all material respects, the financial position of the Union as of 31 December 2011, and the results of its operations and its cash flows for the year in question, in accordance with the provisions of the Financial Regulation and the accounting rules adopted by the Commission's accounting officer.

The Court also stated that commitments and revenue underlying the accounts were legal and regular in all material respects. The Court estimated that payments underlying the accounts were affected by a slight material error of 3.9 %.

The European Economic and Social Committee

In 2012, at its nine plenary sessions, the European Economic and Social Committee (EESC) delivered 250 opinions, of which 50 were own-initiative opinions and 12 were exploratory opinions (four asked by the European Commission and eight by the Council Presidencies).

Maroš Šefčovič, European Commission Vice-President responsible for Interinstitutional Relations and Administration, and Staffan Nilsson, President of the EESC, on the occasion of the event 'European citizens' initiative: time to act!'.

The EESC was particularly involved in the discussions on the implementation of the Europe 2020 strategy as well as the European semester, namely through its Europe 2020 Steering Group. Many discussions were dedicated to the financial crisis and the response to it. The EESC also debated the Union's major policy deliverables such as a modernised common agriculture policy post-2013 and a future cohesion policy. The EESC was also active in deliberations on the multiannual financial framework after 2013. Furthermore, the energy sector, the role of SMEs and employment issues featured prominently on the EESC's agenda.

The EESC also played an active role during the Rio+20 Conference held in June 2012, facilitating broad civil society dialogue and input.

The new Protocol of Cooperation between the EESC and the European Commission, which updates the first protocol of 2005 following the entry into force of the Lisbon Treaty, was signed in February 2012.

The Committee of the Regions of the European Union

The year 2012 saw the election of the new President of the Committee of the Regions of the European Union (CoR), Ramón Luis Valcárcel Siso, who started his 2½-year mandate in August 2012, replacing Mercedes Bresso, who had been President for the Committee's first 2½-year term.

José Manuel Barroso, President of the European Commission, flanked by Ramón Luis Valcárcel Siso, President of the Committee of the Regions, and Mercedes Bresso, First Vice-President, on their way to a plenary session of the Committee of the Regions.

At its five plenary sessions in 2012, the CoR presented 71 opinions, of which five were initiative opinions and seven were outlook opinions (three asked by the European Commission and four by the Council Presidencies).

Through its Europe 2020 monitoring platform, the CoR continued to assess the strategy for growth and employment from the point of view of EU regions and cities. It also published its third monitoring report on Europe 2020 and produced a 'Handbook on the Europe 2020 strategy for cities and regions'.

A 2012 Open Days event, organised jointly by the Committee and the Commission, was devoted to overall discussions on the future European cohesion policy. It gathered numerous participants from administrative and academic levels to participate in hundreds of seminars and workshops, with President Barroso delivering the opening speech. The Commission President also participated in the fifth European Summit of Cities and Regions, held in Copenhagen, Denmark, in March, which focused on innovative urban planning fostering intellectual, cultural, economic and social exchanges in the 21st century.

In 2012, the CoR reinforced its subsidiarity monitoring 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. It also launched the Regpex database, aimed at supporting the participation of regions with legislative powers in the early phase of the EU legislative procedure.

The new protocol of cooperation between the CoR and the European Commission was signed in February. It updates the first protocol of 2005 following the entry into force of the Lisbon Treaty.

The European Investment Bank

As the European Union's bank, the European Investment Bank (EIB) is the only bank owned by and representing the interests of the 27 Member States and it works closely with other EU institutions to implement EU policy. The EIB is the largest multilateral borrower and lender by volume, providing finance and expertise for sound and sustainable investment projects which contribute to furthering EU policy objectives. The EIB also implements the financial aspects of the EU's external and development policies.

The EIB group includes the European Investment Fund (EIF), which focuses on innovative financing for SMEs. Lending, blending and advising are the EIB's major tasks.

The EIB group played an enhanced role in boosting the financing of the economy in 2012. The EIB's paid-in capital has been increased by €10 billion, with the aim of strengthening its capital basis as well as increasing its overall lending capacity by €60 billion over 3 years, and thus unlocking up to €180 billion of additional investment, spread across the whole European Union, including in the most vulnerable countries. This increase will become effective from the beginning of 2013.

José Manuel Barroso, President of the European Commission, receives Werner Hoyer, President of the European Investment Bank.

The pilot phase of the EU–EIB project bond initiative was launched in July and could mobilise additional investments of up to €4.5 billion for pilot projects in key transport, energy and broadband infrastructure. Depending on the evaluation of the pilot phase, the volume of such financial instruments could be developed further in all countries, including in support of the 'Connecting Europe' facility.

Member States have the possibility under existing rules and practices of working with the Commission in using part of their Structural Funds allocation to share the EIB loan risk and provide loan guarantees for knowledge and skills, resource efficiency, strategic infrastructure and access to finance for SMEs. The Structural Funds have reallocated funds in support of research and innovation, SMEs and youth employment, and a further €55 billion has been devoted to growth enhancing measures.

The European Ombudsman

The Commission, by the nature of its powers and the fact that many of its decisions and proposals have a direct or indirect impact on the citizens, is the institution most concerned by complaints to the European Ombudsman. In 2012, 52 % of the inquiries which the Ombudsman opened concerned the Commission. The Commission received 190 new inquiries from the Ombudsman and replied to 308 of his inquiries, including those launched in earlier years which were still ongoing in 2012.

The complaints submitted by the Ombudsman concern several areas of activity, including the following: access to documents, cases of alleged infringement, administration and staff regulations, competition and selection procedures, issues relating to award of tenders and grants and execution of contracts. One special report concerning the Commission was sent to the European Parliament in 2012, namely concerning the alleged lack of an environmental impact assessment in the context of the extension of Vienna Airport.

P. Nikiforos Diamandouros, European Ombudsman.

Relations between the Ombudsman and the Commission continued to be strengthened and political and administrative links were deepened. In this regard, several meetings between P. Nikiforos Diamandouros, the European Ombudsman, Maroš Šefčovič, the European Commission Vice-President responsible for Interinstitutional Relations and Administration, and the Commission directors-general took place in 2012.

In 2012, the Ombudsman published a brochure containing the public service principles that should guide the conduct of EU civil servants. These principles constitute a vital component of the administrative culture of service to which the EU institutions adhere, and the aim of the Ombudsman initiative is to help build greater trust between citizens and the EU institutions. The Commission supported this initiative.

Decentralised agencies

The Inter-institutional Working Group on EU 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, reached an agreement subsequently endorsed by the three institutions in July 2012.

This 'common approach' represents the first political agreement on EU decentralised agencies of its kind and will serve as a political blueprint guiding future horizontal initiatives and reform of individual EU agencies. It aims at improving their governance and efficiency, and will also bring more transparency, accountability and legitimacy to them.

The agreement concerns more than 30 decentralised agencies, located throughout the Member States, as well as any possible future decentralised agency. The three decentralised agencies operating in the field of foreign and security policy are not covered by the agreement, nor are the six executive agencies.

The Commission endorsed a roadmap on the follow-up to this agreement. The roadmap lists concrete deliverables and corresponding deadlines, and highlights the initiatives that the Commission considers as priorities. In addition, it indicates when cooperation with agencies is necessary/useful and when agencies have already started implementing the common approach.

The EU's decentralised agencies employ more than 7 000 people and received a contribution from the EU budget of €727.5 million in 2012.

National parliaments and their role on the European scene

In 2012, the Commission's political dialogue with national parliaments remained a key feature of interinstitutional relations at EU level. Exchanges, in particular on issues linked to the financial crisis and economic governance, intensified at all levels and were one of the key topics on which the Conference of Parliamentary Committees for Union Affairs of Parliaments of the European Union (COSAC) also focused at its plenary meetings in Copenhagen, Denmark, and Nicosia, Cyprus. The number of opinions addressed by national parliaments to the Commission continued to increase. Overall, in 2012, national parliaments sent 623 opinions to the Commission. While the increase in the number of opinions was significant in previous years, the 2012 numbers were only slightly higher than the year before. However, as in previous years, about 10 % of these opinions were reasoned opinions stating an alleged breach of subsidiarity.

Plenary meeting of the XLVIIIth Conference of Parliamentary Committees for Union Affairs of Parliaments of the EU (COSAC) in Nicosia, Cyprus, in October.

In 2012, and for the first time since the entry into force of the Lisbon Treaty, national parliaments issued a so-called 'yellow card' on the proposal for a regulation on the exercise of the right to take collective action within the context of the freedom of establishment and the freedom to provide services ([36]). Within the deadline of 8 weeks, the Commission received reasoned opinions from 12 chambers ([37]) (accounting for 19 votes), which concluded that the Commission proposal did not respect the principle of subsidiarity.

The Commission carefully assessed these reasoned opinions and took note of the state of play of the discussions on the draft regulation among co-legislators. Against this background, on 12 and 13 September it informed the co-legislators and national parliaments of its intention to withdraw its proposals.

Transparency

Access to documents

The two proposals tabled by the European Commission for the revision of Regulation (EC) No 1049/2001 (Recast of the regulation submitted on 30 April 2008 and extension of the institutional scope of the regulation to all the European Union institutions, bodies, offices and agencies submitted on 21 March 2011) have been subject to interinstitutional reflection. The European Parliament adopted its position with regard to both proposals at the very end of 2011. The Danish and Cyprus Presidencies of the Council tested various options for taking the legislative process forward with a view to reaching an agreement between the positions of the Parliament, the Council and the Commission.

Transparency register

In 2011, the Parliament and the European Commission adopted an interinstitutional agreement for organisations and self-employed individuals engaged in EU policymaking and policy implementation ([38]) — the so-called lobbyist register. By the end of December 2012, the transparency register, managed by a joint secretariat of the Parliament/Commission, included about 5 500 registered organisations. Talks have been initiated with the Council with a view to possibly involving it in the system at a later stage.

Historical archives

On 16 August, the Commission adopted a proposal ([39]) to create a sound and lasting basis for the partnership between the EU and the European University Institute in Florence, Italy, for the management of the historical archives of the EU institutions. The proposal aims to promote the management and consultation of the historical archives and takes account of the emergence of digital and digitised archives.

ENDNOTES

(1) Proposal for a regulation on the statute and funding of European political parties and European political foundations (COM(2012) 499).

(2) This designation is without prejudice to positions on status, and is in line with UNSCR 1244/99 and the International Court of Justice opinion on the Kosovo declaration of independence.

(3) Court of Justice ruling of 13.12.2012 in Joined Cases C-237/11 and C-238/11 *France* v *Parliament*.

(4) Administrative agreement regarding the use of the European emblem by third parties (OJ C 271, 8.9.2012).

(5) Court of Justice ruling of 21.6.2012 in Case C-5/11 *Donner*.

(6) Court of Justice ruling of 12.7.2012 in Case C-378/10 *VALE Építési*.

(7) Court of Justice ruling of 6.9.2012 in Case C-273/11 *Mecsek-Gabona*.

(8) Court of Justice ruling of 5.6.2012 in Case C-489/10 *Bonda*.

(9) Court of Justice ruling of 19.7.2012 in Case C-112/11 *ebookers.com Deutschland*.

(10) Court of Justice ruling of 16.2.2012 in Case C-360/10 SABAM.

(11) Court of Justice ruling of 2.5.2012 in Case C-406/10 SAS Institute.

(12) Court of Justice ruling of 1.3.2012 in Case C-604/10 Football Dataco and Others.

(13) Court of Justice ruling of 26.4.2012 in Case C-472/10 *Invitel*.

(14) Court of Justice ruling of 6.9.2012 in Case C-544/10 Deutsches Weintor.

(15) Court of Justice ruling of 27.11.2012 in Case C-370/12 *Pringle*.

(16) Court of Justice ruling of 24.4.2012 in Case C-571/10 *Kamberaj*.

(17) Court of Justice ruling of 13.12.2012 in Joined Cases C-237/11 and C-238/11 *France* v *Parliament*.

(18) Court of Justice ruling of 28.6.2012 in Case C-404/10 P *Commission* v *Éditions Odile Jacob*.

(19) Court of Justice ruling of 27.11.2012 in Case C-566/10 P *Italy* v *Commission*.

(20) Court of Justice ruling of 13.3.2012 in Case C-376/10 P *Tay Za* v *Council*.

(21) http://www.ecb.int/press/pr/date/2012/html/pr121206_1.en.html

(22) http://www.ecb.int/press/pr/date/2011/html/pr111208_1.en.html

(23) http://www.ecb.int/press/pr/date/2012/html/pr121213.en.html

(24) http://www.ecb.int/press/pr/date/2012/html/pr121213.en.html

(25) http://www.ecb.int/press/pr/date/2012/html/pr120906_1.en.html

(26) http://www.ecb.int/press/pr/date/2012/html/pr120209_2.en.html

(27) http://www.ecb.int/press/pr/date/2012/html/pr120622.en.html

(28) http://www.ecb.int/press/pr/date/2012/html/pr120622.en.html

(29) http://www.ecb.int/press/pr/date/2012/html/pr120906_2.en.html

(30) http://www.ecb.int/press/pr/date/2012/html/pr120116_2.en.html

(31) http://www.ecb.int/press/pr/date/2012/html/pr120315.en.html

(32) http://www.ecb.int/press/pr/date/2012/html/pr120704.en.html

(33) http://www.ecb.int/press/pr/date/2012/html/pr121030_2.en.html

(34) http://www.ecb.int/press/pr/date/2012/html/pr120508.en.html

(35) http://www.ecb.int/press/pr/date/2012/html/pr121108_1.en.html

(36) Proposal for a regulation on the exercise of the right to take collective action within the context of the freedom of establishment and the freedom to provide services (COM(2012) 130).

(37) Chambre des représentants/Kamer van Volksvertegenwoordigers (Belgium), Folketing (Denmark), Sénat (France), Saeima (Latvia), Chambre des Députés (Luxembourg), Kamra Tad-Deputati (Malta), Tweede Kamer (Netherlands), Sejm (Poland), Assembleia da Republica (Portugal), Eduskunta (Finland), Riksdag (Sweden) and House of Commons (United Kingdom).

(38) Agreement on the establishment of a transparency register for organisations and self-employed individuals engaged in EU policy-making and policy implementation (OJ L 191, 22.7.2011).

(39) Proposal for a regulation as regards the deposits of the historical archives of the institutions at the European University Institute in Florence (COM(2012) 456).

PHOTO CREDITS

Associated Press/Reporters, page 191
European Union, pages 183, 185, 186, 187, 189, 192, 194, 197, 198, 203, 206, 207, 208, 209, 210, 212
Peter Muhly/AFP, page 182
UKTI, page 205

CHRONOLOGY OF THE EU'S RESPONSE TO THE DEBT CRISIS

THE LIST BELOW INDICATES SOME OF THE MAJOR EVENTS FROM 2012 IN THE FINANCIAL AND ECONOMIC FIELD. THE CHRONOLOGY IS NOT INTENDED TO BE EXHAUSTIVE — ADDITIONAL HIGHLIGHTS ARE DETAILED IN THE REPORT ITSELF.

JANUARY

30

European leaders set out three immediate priorities:

- stimulating employment, especially for young people;
- boosting the financing of the economy, in particular SMEs;
- completing the single market.

FEBRUARY

14

The Commission issues its first alert mechanism report, the starting point of the new macroeconomic imbalance procedure which identifies countries at risk.

MARCH

2

All European leaders (except the Czech Republic and the United Kingdom) sign the Treaty on Stability, Coordination and Governance. National budgets should be in balance or in surplus, a 'golden rule' that each country should bring into their own legislation within 1 year.

14

The Eurogroup approves the second Greek adjustment programme.

30

The Eurogroup decides to reinforce the euro area's financial firewalls and raise the combined ceiling for the European stability mechanism (ESM)/European Financial Stability Facility (EFSF) to €700 billion.

APRIL

18

The Commission issues a communication on priority actions for Greece to unlock growth and create jobs.

MAY

16

The European economic forecast sees a slow recovery in sight.

23

The Commission proposes a banking union as a step towards full economic and monetary union.

26

A euro exhibition opens in Bruges, Belgium.

30

As part of the European semester, the country-specific recommendations for all 27 EU countries and the euro area as a whole aim at enhancing financial stability, growth and jobs. Likewise, the Commission publishes its first set of in-depth reviews to tackle macroeconomic imbalances.

31

The Brussels Economic Forum, the Commission's major economic annual event, debates sources of economic growth.

JUNE

22

The Council approves the Commission's recommendations on budgetary and economic policies. The recommendations are country specific, but also provide for the euro area as a whole.

25

Spain applies for financial assistance for its banking sector.

27

The Eurogroup accepts the Cypriot request for financial assistance.

29

The European Council decides on a compact for growth and jobs.

The Presidents of the Council, the Commission, the Eurogroup and the ECB present their report 'Towards a genuine economic and monetary union'. It sets out ideas for an integrated financial framework, an integrated budgetary framework, an integrated economic policy framework, and strengthened democratic legitimacy and accountability.

JULY

10

The Council approves a project bond pilot phase.

The Commission signs a partnership agreement with Latvia on euro changeover communication activities.

20

The Eurogroup leaders agree on financial assistance to Spain in the form of a banking recapitalisation programme. It will cover needs of up to €100 billion. The country needs to correct its excessive deficit by 2014 and adopt structural reforms.

SEPTEMBER

12

The Commission proposes a single supervisory mechanism for banks in the euro area, managed by the ECB. It is to be open to non-euro countries.

The Commission also proposes the single rulebook, as well as the next steps for a single bank resolution mechanism.

OCTOBER

8

The ESM enters into force. It is the largest international financial institution with a capital base of €700 billion. It provides financial assistance to ESM countries in crisis. The ESM takes over from the EFSF and the European financial stabilisation mechanism (EFSM).

9

The Council gives Portugal an additional year, until 2014, to correct its excessive deficit. This enables the next tranche of financial assistance to be disbursed.

12

The Task Force for Greece reaches its first anniversary.

NOVEMBER

7

The European economic forecast sees a gradual return to growth for 2013.

28

The Commission publishes the annual growth survey for 2013, which launches the 2013 European semester for economic policy coordination, ensuring Member States align their budgetary and economic policies with the Stability and Growth Pact and the Europe 2020 strategy.

The Commission also issues its second alert mechanism report to tackle macroeconomic imbalances in 14 EU countries.

The Commission presents its blueprint for a deep and genuine economic and monetary union.

DECEMBER

5

As its first act of financial assistance, the ESM issues bonds for the recapitalisation of the Spanish banking sector.

Report on EMU — detailed proposals and roadmap submitted to the Council.

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EUROPEAN COMMISSION REPRESENTATIONS

Representation in Ireland
European Union House
18 Dawson Street, Dublin 2
IRELAND
Tel. +353 16341111
Internet: http://ec.europa.eu/ireland
E-mail: eu-ie-info-request@ec.europa.eu

Representation in the United Kingdom
Europe House
32 Smith Square, London SW1P 3EU
UNITED KINGDOM
Tel. +44 2079731992
Internet: http://ec.europa.eu/uk

Representation in Wales
2 Caspian Point, Caspian Way, Cardiff
CF10 4QQ
UNITED KINGDOM
Tel. +44 2920895020
Internet: http://ec.europa.eu/uk

Representation in Scotland
9 Alva Street, Edinburgh EH2 4PH
UNITED KINGDOM
Tel. +44 1312252058
Internet: http://ec.europa.eu/uk

Representation in Northern Ireland
74–76 Dublin Road, Belfast BT2 7HP
UNITED KINGDOM
Tel. +44 2890240708
Internet: http://ec.europa.eu/uk

Delegation in the United States
2175 K Street, NW
Washington DC 20037
UNITED STATES OF AMERICA
Tel. +1 2123713804
Internet: http://www.eurunion.org

EUROPEAN PARLIAMENT OFFICES

Office in Ireland
43 Molesworth Street, Dublin 2
IRELAND
Tel. +353 16057900
Internet: http://www.europarl.ie
E-mail: epdublin@europarl.europa.eu

United Kingdom Office
Europe House
32 Smith Square, London SW1P 3EU
UNITED KINGDOM
Tel. +44 2072274300
Internet: http://www.europarl.org.uk
E-mail: eplondon@europarl.europa.eu

Office in Scotland
The Tun, 4 Jackson's Entry
Holyrood Road, Edinburgh EH8 8PJ
UNITED KINGDOM
Tel. +44 1315577866
Internet: http://www.europarl.org.uk
E-mail: epedinburgh@europarl.europa.eu

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