GENERAL REPORTON THE ACTIVITIES OF THE EUROPEAN UNION



General Report on the Activities of the European Union — 2009

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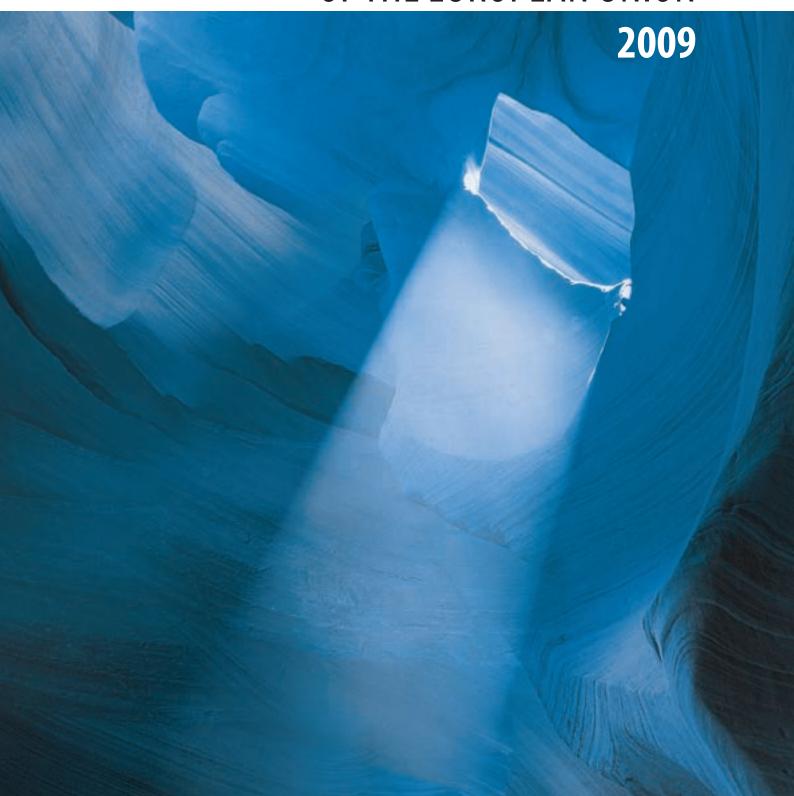
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FOREWORD

The European Union faced difficult issues in 2009.

The financial and economic crisis threatened the living standards of citizens in the Member States. Disruptions to international flows of trade and investment cost jobs and slowed growth. Ever-greater worldwide demand for energy pushed up prices of gas, oil and electricity, and winter power cuts left EU citizens shivering and interrupted industry. The threat of climate change loomed ever larger, with worldwide greenhouse gas emissions continuing to rise, while glaciers and ice-caps melted, and EU countries suffered increasingly from floods, drought and fires.



In 2009 the European Union coordinated a carefully calculated response to these challenges by its Member States and its institutions. As a stable and prosperous community of 27 democratic states, with nearly half a billion people, the largest integrated economic area in the world, accounting for more than 30% of the world's GDP and 17% of trade, the EU has many assets to deploy in tackling these challenges.

Working together, and in cooperation with international partners, the EU was able to mitigate the most serious effects of global crises at home, and to argue persuasively at international level for immediate action and for measures to head off longer-term damage. Joint action contributed to bringing the economy back toward recovery, averted protracted instability in financial markets, opened up new options for energy security, and spearheaded the drive towards environmental sustainability and a low-carbon society.

Coordinated action helped to protect national economies and private savings, and stimulated funding to maintain jobs and restore growth. A particular focus was put on developing skills for tomorrow's needs, on clean technologies to boost low-carbon markets of the future, and on new infrastructure. Investment was promoted at European level to bring further reliability and value-for-money to energy supplies. An agreement was reached within the EU on ambitious commitments to emissions reduction, energy efficiency and a greener society.

The EU played a leading role in preparing for a global agreement at the UN talks on climate change in December. The resulting Copenhagen accord should be only a first step to a more ambitious commitment.

This general report on the EU in 2009 records the actions taken and the results achieved in the face of crisis.

The EU is much more than a crisis-response mechanism. The economy, energy and climate change captured the headlines during the year, but this report also highlights EU achievements across the broad range of its activities, from promoting democracy and human rights worldwide, to bringing down the cost of mobile phone charges as citizens move around the EU.

The European Union is a project based on the ideas of freedom and solidarity. The joint approach that the EU followed on economic, energy and environmental issues in 2009 was at the heart of its activities in political, economic, social and employment policies at home, and in external policies, such as democratic promotion, human rights, development assistance, trade, aid and in relations with others beyond its borders.

The EU also transformed and reformed its institutions during the year. A new European Parliament was elected, Member States ratified the Lisbon Treaty to allow the EU to operate more effectively and democratically, the President of the Commission was elected by the Parliament, a new College was formed for installation, and the European Council nominated its first President under the new treaty. At the same time, internal reforms have cut back on unnecessary red tape and allowed EU citizens and stakeholders a clearer vision of what the EU is doing for them and how it operates.

José Manuel Barroso 4 January 2010





During 2009 the world continued to be shaken by an economic and financial crisis on a scale that has not been seen for three quarters of a century — and EU citizens and stakeholders suffered too.

The outlook at the start of the year was profoundly sombre, for investment, for consumption, for credit, for jobs, and for confidence. The threat of deep and long-lasting recession loomed large, with a vicious cycle of falling demand, downsized business plans, reduced innovation, and job cuts. Amid the turbulence, the EU and its Member States cooperated in actions to contain the scale of the downturn, to deflect the worst damage, to stimulate recovery and to prevent recurrence.

The EU provided guidelines, money, new ideas and impetus for reform.

The EU's core economic assets — the single market and the euro — helped protect Europeans. Political decisions were taken to intervene on a massive scale, and European governments and institutions injected funds so as to avert economic meltdown, protect savings and minimise job losses. The EU crafted the outlines of a new supervisory framework for Europe to avert the risk of any repetition of the crisis, and played a central role in international discussions of preventive measures and of how to support the most vulnerable developing countries withstand the effects.

Preparations were also started for an exit strategy, to restore public finances once recovery was achieved, and to create the conditions for a more sustainable future with improved prospects for growth.

In the face of the crisis, the EU demonstrated an unprecedented degree of cooperation across its institutions and Member States — and at international level. By the end of the year, tentative signs of recovery were apparent, but as the European Council pointed out late in the year, uncertainties and fragilities remained, and there was still no room for complacency.

RESPONSES TO IMMEDIATE PROBLEMS

Implementation of the European economic recovery plan in 2009 maximised the shelter afforded by the strength of the euro, and selectively boosted investment and assisted smaller firms. At the same time, the EU supported jobs and training and streamlined its procedures to ensure its measures could have rapid effect. Through a state aid control policy which was firm on substance and flexible on procedure, the Commission succeeded in safeguarding the internal market and ensuring a level playing field for European companies.

MAJOR STIMULUS

Major fiscal stimulus of 2% of GDP is being provided as part of the recovery plan and aimed at rebuilding confidence in terms of purchasing power, and getting banks lending again.

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THE EU RECOVERY PLAN

The early responses to the financial turmoil included liquidity injections and interest-rate cuts by the European Central Bank and a financial market reform programme drawn up in late 2007. By late 2008 the EU had designed an economic recovery plan (1) that included initiatives to stimulate the real economy, and this was approved by the European Council in December 2008 (2).

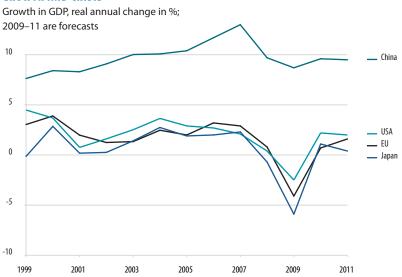
During 2009, the European economic recovery plan started to come into effect. Its priorities were restoring business and consumer confidence, kick-starting lending and investments, and supporting and creating jobs. Central to the plan was the ability of the European Union to catalyse cooperation. The EU could exert its influence because it was able to harness Member States' and Union action, using the strengths of each part of Europe to best effect. This allowed the EU to help in shaping the global response to the crisis.

The recovery plan was a considered response with a clear eye to the future. It called for investments to improve Europe's competitiveness, not just to rebound from the crisis but to foster economic growth. It specifically envisaged boosting the economy through accelerated investments in 'smart' sectors — transport infrastructure, green technologies and energy efficiency. These are the sectors that promote longer-term economic activity and employment, while complementing the EU's wider goals of sustainability, mobility and energy security.

FLEXIBLE BUT CONTROLLED STATE AID

A temporary framework for state aid measures was created to support access to finance during the crisis, with increased flexibility and simplified authorisation procedures. National funding under this scheme contributed to a return to stability in which lending could resume, and businesses could again have access to the finance they needed.

GROWTH AND CRISIS



Source: European Commission.

The European economic recovery plan

EU leaders agreed in 2008 an overall plan to fight the economic crisis. It included measures that the individual EU countries would take, as well as action by the EU institutions. The key elements of the plan were:

- ▶ a major injection of purchasing power into the economy, to boost demand and stimulate confidence: €200 billion (equivalent to 1.5% of EU gross domestic product), consisting of a budgetary expansion by Member States of €170 billion, and EU funding in support of immediate actions of €30 billion;
- ▶ short-term action to reinforce Europe's competitiveness in the long term, through 'smart' investment in the right skills for tomorrow's needs, in energy efficiency to create jobs and save energy, in clean technologies to boost major industrial sectors in the low-carbon markets of the future, and in infrastructure and inter-connection to promote efficiency and innovation;
- ▶ 10 action points for recovery to put the right social and economic levers in place including new financing for smaller firms, cutting administrative burdens, and kick-start investment to modernise infrastructure;
- ▶ an underlying principle of solidarity and social justice, protecting jobs through action on social charges, addressing the future prospects of people losing their jobs, cutting energy costs for the vulnerable through targeted energy efficiency, and building a more inclusive society.

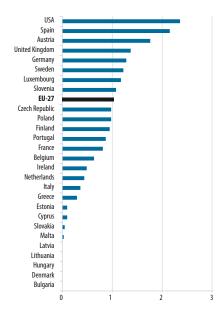
In March the Commission presented an update to the plan in its communication 'Driving European recovery' (3), setting out proposals to instil greater responsibility and reliability in European financial markets.

Action included massive and coordinated injection of purchasing power into the European economy to boost demand and support growth. The plan called for discretionary fiscal measures amounting to a minimum 1.5% of GDP or €200 billion. As a result, in 2009–10, Member States' discretionary measures will in the end represent 2% (1.1% in 2009 and 0.9% for 2010). Taking into account the effect of automatic stabilisers like unemployment benefit and other welfare payments, overall fiscal support will amount to 5% of GDP. The EU also maintained a strong line against any national temptations to protectionism.

The plan also led to imaginative approaches by the European Commission to state aid. In a breakthrough measure, the Commission introduced a temporary framework for state aid measures to support access to finance during the crisis, so as to reduce the negative effects on the real economy (4). In line with the recovery plan, the framework increased the flexibility on where state aid may be applied, outlining wider possibilities for Member States to grant state aid. National funding under this scheme contributed to a return to stability in which lending could resume, and businesses could again have access to the finance they needed. While excessive government intervention might have distorted the internal market, this move recognised the need for carefully calibrated flexibility in certain circumstances.

PUBLIC MONEY INVESTED TO FIGHT THE CRISIS

Fiscal stimulus in 2009, in % of GDP



Source: European Commission

THE SHELTER PROVIDED BY THE EURO

The economic and monetary union built around the euro — and particularly its Stability and Growth Pact — delivered benefits to Member States and to citizens. Even in the midst of the crisis, the Stability and Growth Pact remained the cornerstone for the EU budgetary framework, because it was sufficiently flexible to implement the anti-crisis measures but still provided a framework for the consolidation strategies for the future. Competitive devaluations were avoided. The European Central Bank and the Commission acted quickly to ensure coordinated responses across Europe.

The EU was able to act swiftly, decisively and coherently because its Member States were united by broad consensus on economic and monetary policy. European authorities, parliaments, governments and central banks showed they were capable, even in difficult circumstances, of taking decisions that helped protect many separate national currencies from the fallout of the financial crisis.



Commission President José Manuel Barroso looked beyond the current crisis with his vision for where the European Union should be in 2020.

The EU also provided support for non-euro countries. Working with the International Monetary Fund, in January the Council agreed a Commission proposal for \in 3.1 billion of balance-of-payments support for Latvia (5), to ease pressure on its capital and financial markets. Similar exceptional financial assistance amounting to \in 5 billion was agreed for Romania in May (6) to help correct large imbalances in its economy. Furthermore, to ease acute balance of payments difficulties in Member States outside the euro area, in May the EU increased the ceiling for support to \in 50 billion.

STEADY SHIP IN TROUBLED WATERS

'In recent months we have seen another benefit of the euro: the financial crisis is demonstrating that in turbulent financial waters it is better to be on a large, solid and steady ship rather than on a small vessel.'

ECB President Jean-Claude Trichet speaking at the ceremony to mark the 10th anniversary of the euro at the European Parliament (13 January 2009). The annual report on public finances published by the Commission in May 2009 (7) noted the trend towards rising budget deficits and government debt, as a result of the fiscal boost to ailing economies, and of direct public interventions in banking systems. Its recommendations for a phased return to balance were endorsed by EU leaders in the conclusions to the EU Councils held in March and June (8), and the December European Council repeated the need for a policy focus that would 'ensure sustainable public finances' (9).

In addition, to help protect private investors' savings, in February (10) the EU harmonised the level of depositor protection — the state guarantee for bank savings. In June it set a minimum of \in 50 000, rising to \in 100 000 by the end of 2010.

SELECTIVE INVESTMENT

EU investment was directed at carefully selected targets — including sectors of evident importance to the EU economy as a whole, sectors with good prospects of rapid job-creation, sectors that match broad EU policies and strategies in energy, environment, smaller firms, or cohesion, and sectors that can sharpen the EU's competitive edge as recovery replaces crisis. The concept of a 'smart' eco-efficient economy — with a focus on high-skill work in high-tech and low-carbon innovation — was discussed in the Energy (11), Competitiveness (12) and Environment (13) Councils during the year so as to help reach a common understanding of how a green economic transition can help Europe extricate itself from both the climate crisis and the current economic crisis and restore the potential for growth.

In February, the Commission presented a package of support measures for the automotive industry (¹⁴) at both EU and Member State levels. Those measures were effective in combating collapsing demand and in tackling the social consequences of the crisis in a responsible manner. The European recovery plan highlighted public–private partnerships as a mechanism to mitigate the effects of the crisis and to allow more investment in clean technologies. The so-called 'Green car initiative' (¹⁵) was one such partnership that supported the automotive industry with €5 billion financing for design and build of low-emission vehicles. This strategy was endorsed by the Council in March (¹⁶). The support measures aimed not only at car manufacturers, but at the entire automotive supply chain, embracing the many smaller firms that provide workplaces and create innovation. The support measures for boosting car demand in Member States also encouraged consumers to buy cleaner cars.

Investment was channelled into new sources of sustainable 'smart' growth, and into networks of the future, ranging from digital infrastructure or high-speed rail lines to supergrids for electricity and gas.

GREEN INVESTMENTS

Short-term measures to reinforce
European competitiveness met the
second major goal of the recovery plan
— to encourage investment in clean
energy-efficient technologies to create
jobs, develop infrastructure and promote
innovation. In this way, Member States
have an opportunity to change their
habits and move towards a green lowcarbon economy.



The transition to a green economy can create jobs as well as cutting emissions.

Because Internet connectivity is a powerful tool to stimulate swift economic recovery, especially in rural areas, in March the Commission adopted a communication on better access for rural areas to modern information and communications technologies (17). Many hitherto isolated farms and companies in rural areas, especially smaller firms, stand to enjoy access to international markets and more efficient ways of doing business, and to increase their competitiveness as a result. In September the Commission adopted guidelines on how state aid could be used for rapid deployment of broadband networks (18).

Financing under the EU's trans-European transport network (TEN-T) programme was amended so that €500 million of the funds that were planned for the years 2010–13 was made available in a call for proposals in 2009 for projects to be implemented in 2009–10 (¹9). Because transport plays a central role in the economy, improving the transport infrastructure can act as a catalyst for increased economic activity, while at the same time helping provide more sustainable mobility.

TEN-T	: mode	rn trar	sport

In October, the European Commission announced the first group of projects to benefit from earlier implementation under the TEN-T investment scheme. The funding will go towards projects in 11 Member States.

Austria	Four-track development of the Western Line Vienna–Linz: Melk railway station	€3 400 000
Belgium	Rebuilding of Noorderlaanbridge	€1 342 000
France	New high-speed rail line 'LGV Est' section Baudrecourt-Vendenheim	€75 996 000
Germany	BAB A3, Frankfurt–Nürnberg, renewal of the Main bridge at Randersacker	€2395000
	Tri-modal enlargement of the water involvement of Cologne Port	€3 330 000
Hungary	Construction of a pier for combined Schengen and non-Schengen operations and seamless passenger transfer at Budapest Airport	€7 560 000
Italy	Rome ring road motorway — north-western section — upgrade to three lanes in both directions from km 11+250 to km 12+650 — completion works	€2 981 000
	Implementation of nautical accessibility in the port of Venice–Marghera: operational and remedial dredging in two stretches of the West and South ship canals	€3912000
	Hub of Torino, section Susa–Stura, removal of bottleneck	€52740000
	Integration of communication and surveillance (IP1)	€4048000
Netherlands	Elimination of the bottleneck of the north–south artery A2 (E25): building the urban highway tunnel in Maastricht	€15000000
Portugal	Faro Airport Development Plan — Phase 1	€6016000
Spain	Express route SE-40 (Seville). Section Coria del Rio–Dos Hermanas (north and south tunnels)	€23 969 000
Sweden	Port infrastructure facilities in the Malmö Northern Harbour	€5 922 000
	E6.21 Partihall connection	€16296000
United Kingdom	Thames Estuary dredge and reclamation works to support the integrated multi-modal London Gateway port and logistics development	€14174000
	A14 corridor traffic management scheme	€11670000
	Felixstowe–Nuneaton route work	€9234000

In addition to the 'Green car initiative', two other 'smart' investments were launched by the European economic recovery plan. 'Factories of the future' (20) is deploying €1.2 billion to help improve industrial productivity — and thus competitiveness — leading to higher-quality jobs and more economic growth at a time when the workforce is ageing (21). And the 'Energy-efficient buildings initiative' (22), receiving €1 billion of research funding, will support more and better jobs in the hard-hit construction sector while helping reduce energy use and thus combating climate change. Accompanying investments were made in providing people with the right skills for tomorrow's needs. The funds for these public–private partnerships were made available through the budget of the seventh framework programme for research, with matching investment coming from the private sector.



The EU recovery plan encouraged investments in transport infrastructure — like the high-speed train link across the Pyrenees.

BELGA / AFP / Raymond Roig

Funding from the EU's research programmes has also increased opportunities (²³). Public–private partnerships are benefiting from €3.2 billion to develop new technologies in the manufacturing, construction and automotive industries, with half the funding from industry and half through the EU framework programme for research and development. Short-term measures coupled with longer-term smart investments in research and development can allow the countries of Europe to remain competitive as they move through the current crisis and achieve the transformation into a low-carbon knowledge-based economy.

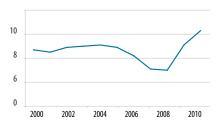
NURTURING SMALLER FIRMS

The support for EU industry was particularly focused on small and medium-sized enterprises, since they are the largest source of employment in Europe. The difficulties that many successful smaller firms were experiencing in financing their running costs and investments were putting the livelihoods of millions of workers and their families at risk. New lending from the European Investment Bank helped protect jobs by providing access to affordable finance.

Due to its access to funding from the financial markets and its status as the bank of the Member States, the European Investment Bank proved a very flexible tool in the crisis, increasing and reorienting its lending in line with EU priorities. In late 2008, it indicated that it would increase its lending to smaller firms by about 50% to €30 billion over the four-year period 2008–11. In the first five months of the year, loans to smaller firms doubled in volume compared with the same period in 2008. Its most important funding for smaller firms comes via 'EIB loans for SMEs' and 'EIB loans to SMEs: risk sharing schemes'. The pipeline for 2009 amounted to €10.9 billion, with roughly the same level foreseen for 2010.

EU UNEMPLOYMENT RISES AGAIN

Unemployment rate in % in the 27 Member States; 2009 is August, 2010 forecast



Source: European Commission.

The bank also provided a further €1 billion for developing mezzanine financing markets for smaller firms, of which some €200 million was earmarked for 2009. And it put pressure on its intermediary banks to disburse funds quickly.

Reducing administrative burdens was another way the EU helped business, and particularly smaller firms. Throughout 2009, the recovery plan boosted the implementation of the Small Business Act for Europe (²⁴), which had been adopted in December 2008. This commits Member States to substantially reduce the time and costs of starting a business, including reducing the capital requirements for a micro-enterprise to €1. The smallest firms are to be relieved of the obligation of preparing annual accounts — saving them an estimated €7 billion a year for reinvestment in growth and jobs. The Commission brought out proposals in February for Member State implementation of these changes (²⁵). The recovery plan included additional commitments to encourage smaller firms to trade across borders, to ensure that public authorities paid invoices quickly, and to reduce fees for patent applications.

Implementation came quickly. Reporting to the Competitiveness Council in May, the Commission noted the significant progress Member States were making. Measures for easier access to finance, a better regulatory environment and improved access to markets were being brought into effect. These actions to assist the real economy and to support jobs are not only social measures in line with EU values of fairness and solidarity; they also make economic sense, since maintaining people in jobs keeps skilled workforces together, relieves pressures on welfare systems and government spending, and encourages economic activity.

SUPPORTING EMPLOYMENT

Hard times hit firms fast, and the first victims are often employees. Employment policy is primarily a matter for Member States, but as the financial crisis reached into the real economy of jobs and growth, the EU introduced measures to help combat rising unemployment and relieve the pressures on businesses. The crisis highlighted the importance of social policies in support of workers who lose their jobs.

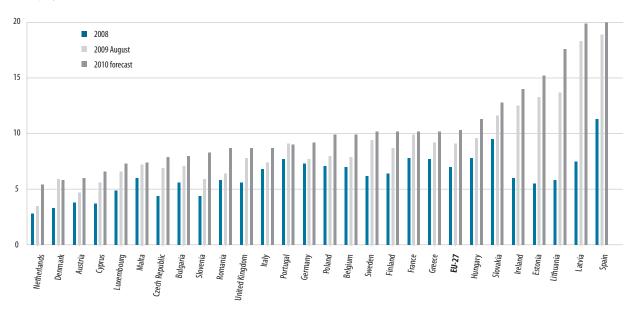


An employment summit in Prague in May proposed concrete actions to protect jobs in the short term and to create better employment opportunities in the longer term.

An employment summit in Prague in May proposed 10 concrete actions designed to protect jobs in the short term and create better employment opportunities in the longer term. The actions included the use of national funding and the European Social Fund for increasing the skills and competence levels among workers in Europe (often in combination with short-time work), and creating more apprenticeships across the EU for young people facing unemployment. The proposals appeared in a follow-up communication — A shared commitment for employment (26) — in June, urging the Member States to work together to turn the recession into an opportunity for renewal, and for creating a more productive, innovative, better skilled and low-carbon economy. Green jobs, it said, have the potential to become a key growth segment, and the renewable energy sector alone could employ 2.8 million people by 2020.

UNEMPLOYED IN THE EU COUNTRIES

Unemployment rate in %



Source: European Commission.

A continued political commitment was made by EU leaders to support active labour market policies (²⁷). This was based on managing the consequences of the crisis and preventing high unemployment levels from becoming persistent, while staying committed to increasing long-term labour supply. The European Union contribution to these efforts included promoting cooperation, coordination and mutual learning.

The EU's cohesion funding — particularly the European Social Fund and European Regional Development Fund, in May — and European Investment Bank lending were adjusted to maximise job retention and creation. In July 2009, the Commission proposed new rules (28) making it easier for Member States to modify their programmes so as to fully exploit these funds in response to the crisis and to target their interventions on those hit by the crisis. To help keep people in work with training or retraining, the Commission proposed adapting the funding rules so they could, for example, support short-time working combined with retraining.

TRAINING AND SHORT-TIME WORK

The ProAct scheme, with €40 million financing from the European Social Fund, is an example of how the EU has supported employment and responded to the economic crisis, improving workers' skills. ProAct provides alternatives to redundancies by supporting short-time working with retraining during the days not worked. It also helps apprentices complete their training in cases where their employers are struggling with a fall-off in business activity caused by the crisis.

Member States were given the option to use unspent funds from the 2000–06 programming period. From the European Social Fund alone, an additional €7 billion of upfront liquidity was released, and advances for 2009 (nearly €2.3 billion) could be used to finance active labour market measures and other crisis-related activities. In total, Member States received more than €6.1 billion as advance payments from the fund between 2007 and 2009 in order to get programmes started quickly. The EU also lightened the administrative burden on the many small, local organisations that received European Social Fund financing for employment-related projects, by introducing flat-rate payments and grants.

BILLIONS OF EUROS OF EU FUNDS FOR SOCIAL SPENDING

The EU made available billions of euros of planned European Social Fund expenditure to support people hit by the economic crisis and proposed relaxations to the obligation for Member States to contribute cofinancing for 2009–10. It also turned the European Globalisation Adjustment Fund into an instrument to counter the social consequences of the crisis.

In July 2009 the European Commission proposed a new microfinance facility (²⁹) providing microcredit to small businesses and to people who had lost their jobs and wanted to start their own small businesses. This facility was applied drawing on the expertise of the EIB and the European Investment Fund. It involved the reallocation of €100 million from the existing EU budget, with the aim of leveraging €500 million of microcredits for would-be entrepreneurs who did not meet the normal criteria for obtaining funds to set up a business. In December this legislation was with the Parliament and the Council for approval.

The European Globalisation Adjustment Fund, initially designed to provide support to workers made redundant as a result of changes in world trade patterns when local economic activity suffers from relocation, was also reoriented towards assisting those made redundant as a result of the current economic and financial crisis (30). It protected jobs and gave people who had lost their jobs the opportunity to get back into work faster, and into better work. A study released in 2009 (and based on 2008 data) revealed that 69% of workers helped by the fund found a new job. During 2009, €2.7 million was approved for workers made redundant in the automotive sector in Spain, €5.5 million for newly unemployed telecommunications workers in Germany, €14.8 million for redundant workers in the computer industry in Ireland, and €832 800 for textile workers in Portugal.

In addition, before the end of the year the Commission proposed assistance under the fund to 480 electrical equipment workers in Lithuania, 400 car workers in Austria, 1793 former Karmann employees in Germany, 1500 former workers of Volvo and its suppliers in Sweden, and 435 construction workers in the Netherlands. In December, the Parliament adopted a resolution in support of various schemes (31).

COMMON ACTION KEY TO NEW JOBS

'We cannot prevent this crisis from causing unemployment. Many have suffered already. But by acting now and in partnership along with the governments, the European institutions, the social partners, we believe we can reduce job losses, and help millions of people to find new and better jobs,' said José Manuel Barroso at a special employment summit in May.

Not only was funding made available, but the EU also provided information on how the money could be accessed and used. For instance, it organised a seminar on 'Managing the social dimension of the crisis in the automotive sector' in April to demonstrate to Member States the opportunities offered by the European Social Fund and the Globalisation Adjustment Fund.

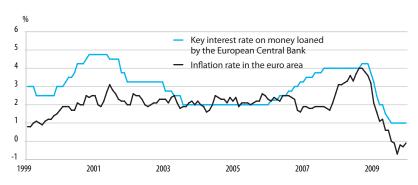
Through measures of this type the EU supported the Member States in reintegrating redundant workers back into the labour market, helping them focus on those most in need, and maintaining investments in skills and training.

To give greater flexibility in the application of VAT rates in sectors where they could stimulate job creation, the Council adopted the revised VAT directive enabling all Member States that wish to do so to apply reduced rates for locally supplied labour intensive services (within the housing sector, on minor repairs of goods, restaurants, domestic and personal care, gardening, etc.).

RESTORING LIQUIDITY

Action to defend the real economy of jobs and enterprise also required steps to get markets moving again. During 2009, financial markets still needed assistance while liquidity remained tight — constraining economic activity among businesses and consumers. Sharp reductions in key euro-area interest rates continued in order to encourage lending. They fell from 2.5 % in December 2008 to a historical low of 1 % in July 2009.

INFLATION AND INTEREST RATES



Sources: European Commission/ECB.

Lowering interest rates was not the only weapon deployed. The European Central Bank took further non-standard monetary policy measures after the extra liquidity injections and long-term liquidity provision in 2007. It had reinforced its efforts in 2008 by moving to a scheme under which, rather than allowing auctions to determine the cost of central bank lending and thus possibly limit its volume, the bank fixed a low interest rate for lending to financial institutions and then supplied as much liquidity as was required at that price. The impact of this approach was intensified in 2009 by thrice offering unlimited liquidity at 1% with one year maturity (double the previous longest maturity). And after the bank had, in 2008, broadened the list of assets that it accepted as collateral for these loans, by mid-2009 the value of eligible assets had reached over €12 trillion, which helped ease the strains on commercial bank lending. In 2009, the Eurosystem launched a new enhanced credit support measure, the gradual purchase of a new covered bond portfolio totalling €60 billion, to contribute to the reactivation of this market, and so to ease the funding of banks and the flows of credit to the economy (32).

In February the Commission issued guidance (33) on how it would treat state aid in respect of 'impaired assets' — the risky investment instruments that many banks were holding. Impaired asset relief improves the capital position of banks, making it easier for them to lend to the real economy.

STATE GUARANTEES FOR BANKS

Some €3.6 trillion has been made available in state guarantees for liabilities in the financial sector since October last year, almost a third of EU GDP — not designed to bail out bankers, but to stabilise expectations and, in consequence, to make use of the guarantees unnecessary.

STREAMLINING PROCEDURES

The EU streamlined some of its procedures so that citizens could benefit more quickly from its instruments.

The requirement for prior approval by the Commission for funding from the Cohesion Funds was temporarily eased, accelerating the procedure for projects costing €50 million (or €25 million for environment-related schemes). Some 900 such large-scale projects are being implemented in 2007–13, representing a total investment of €120 billion. The Commission also prepared simplified procedures to allow faster implementation of Structural and Cohesion Fund investments.

An agreement to reduce the costs of trade mark registration by 40% as of May 2009 was designed to save EU businesses up to €60 million annually. A further agreement by governments to accept e-invoicing from smaller firms — via a change to the VAT directive on invoicing rules — was estimated to save up to €18 billion a year by reducing burdens on business, supporting small and medium-sized enterprises, and helping Member States to tackle fraud. (The EU's better regulation programme also contributed: more details appear in Chapter 4.)



The EU plan for better regulation of banks was first prepared by an expert group headed by the experienced French banker Jacques de Larosière.

BUILDING A STRONGER FINANCIAL SYSTEM

As the EU and its Member States battled to overcome the crisis, in the face of dramatic falls in global stock markets and cuts in the household budgets and future pensions of EU citizens, one of the priorities was to prevent any repetition of such a crisis. This, the EU argued, required profound reform of financial markets' regulation and supervision. Vigorous action was required, both within the EU and in the major international arenas, to establish common principles for more effective supervision. The EU has worked — in close collaboration with its major partners — to build a new supervisory architecture, and to create the necessary complementary legislation to bring security and stability to world financial markets.

EARLY PROPOSALS

In 2008, the Commission asked a high-level expert group to recommend an improved financial supervisory framework that would prevent repetition of the financial crisis. This group was chaired by the former president of the European Bank for Reconstruction and Development, Jacques de Larosière. The resulting report made 31 clear recommendations, covering better regulation and better supervision. Welcoming the report, Commission President José Manuel Barroso said: 'The crisis has shown why we must deepen our supervisory cooperation at EU level. Why we must have better crisis management systems. Why we must be able to have a basic core set of high-level rules — both regulatory and supervisory — that are rigorously applied to all firms, by top-class supervisors.'

On the basis of the de Larosière report, in March 2009 the Commission presented its communication 'Driving European recovery'. It proposed reforms with five key objectives:

- providing a more effective and timely supervisory framework to detect and negate risks in financial markets;
- filling in the gaps in EU and national regulatory frameworks;
- ensuring that individual investors and SMEs can be confident about the security of their savings and their rights;
- improving risk management in financial firms and linking incentives to sustainable performance;
- ensuring more effective sanctions against abuse.

A NEW SUPERVISORY ARCHITECTURE

The spring European Council backed the recommendations for the new system and tasked the Commission with rapidly developing draft legislation. In May the Commission issued a detailed concept for financial reform, setting out the structure, roles and responsibilities of a new European Systemic Risk Board and European System of Financial Supervisors (34). The European Council meeting in June 2009 welcomed the proposals (35) and urged their rapid implementation such that the new structures could be up and running in the course of 2010. In September the Commission adopted the legislative proposals establishing the new system. A further legislative proposal was adopted in October in order to adapt existing legal texts to the new supervisory framework.

Following negotiations in the Council, finance ministers agreed in October on the creation of the European Systemic Risk Board as the body to be responsible for macro-prudential oversight across the EU financial system, and asked the Presidency to start negotiations with the European Parliament on the legislation, with a view to reaching agreement at first reading. The European Council endorsed these conclusions at its October meeting (36).

Council discussions also started on Commission proposals for setting up European supervisory authorities for micro-prudential supervision, with a view to reaching agreement on the general approach so that the December summit could consider a complete package setting up a new supervisory structure in the EU. In December EU finance ministers agreed on a general approach on draft regulations aimed at establishing three new authorities for the supervision of financial services in the EU: a European Banking Authority; a European Insurance and Occupational Pensions Authority; and a European Securities and Markets Authority. The European Council in December expressed its hopes for swift adoption of the entire package after negotiations with the European Parliament, to allow the new system to become operational during 2010.

SWIFT ACTION BY EUROPEAN PARLIAMENT FOR SAFER FINANCES

'The European Parliament has taken swift and responsible action on the proposals that have been put forward. Before the legislative term ended Parliament completed its work on deposit-guarantee schemes, credit rating agencies, the capital requirements of the banking industry and Solvency II.' Hans-Gert Pöttering, President of the European Parliament, at the meeting of the European Council in June.

EUROPE-WIDE REGULATION OF THE FINANCIAL SECTOR

In 2009 EU leaders designed measures to ensure a crisis of this magnitude would never occur again. They created the European Systemic Risk Board and the European System of Financial Supervisors.

WORKING TOGETHER FOR EUROPEAN CITIZENS

'We need to do everything that is possible to fight unemployment and to prevent a repetition of the financial crisis, to protect our citizens. We need a common approach to create appropriate exit strategies because the economic outlook is still mixed.'

European Parliament President Jerzy Buzek, speaking ahead of the informal meeting of Heads of State or Government, September.

RELATED INITIATIVES

Ministers also discussed how to strengthen EU financial stability arrangements and agreed on measures to be taken over the short term, particularly to enhance coordination arrangements among governments and other parties. The other strand aimed at developing more efficient regulation, particularly on early intervention and bank resolution.

In April, the Commission adopted a proposal for a directive on alternative investment fund managers (37). In covering hedge funds, private equity and other types of institutional funds, this filled a gap in EU regulation, requiring managers to be authorised and subject to supervision, to ensure that the funds are transparent, have appropriate governance standards and have robust systems in place for the management of risks, liquidity and conflicts of interest. The proposal differentiated between different types of funds to address inherent risks in the different business models. The European Parliament worked rapidly on the proposal during the year. The European Central Bank had already given a favourable opinion on the legislation, and the December European Council stressed the need to accelerate the work still further.



New EU rules will improve risk management in financial firms and link bank employees' incentives to sustainable performance.

Following stakeholder consultation launched in July and a public hearing in September, in October the Commission set out future actions to strengthen the safety of markets in derivatives (38) — high-risk complex financial products. A communication urged action to increase transparency of the derivatives market, reduce counterparty and operational risk in trading and enhance market integrity and oversight. In preparing legislative proposals for 2010, the Commission made clear it was ready to work with authorities around the world to ensure a global consistency of policy approaches.

A new agreement increased security in trades of credit default swaps (39) — complex financial products used by their buyers to insure against 'credit events', such as a bad loan. The Commission also proposed more stringent requirements on the capital banks must hold to cover the risks of their lending operations, and reforms to pay incentives in banks to avoid encouraging or rewarding excessive risk taking. The Solvency II directive was adopted by the European Parliament in April, and by the Council in November (40), setting new rules for insurance companies that enhance the competitiveness of the EU insurance industry while providing more protection for policyholders and beneficiaries. The regulation on credit rating agencies (41) entered into force in December.

In October, the Commission consulted on the measures necessary for a new EU framework for crisis management in the banking sector. To safeguard financial stability and the continuity of banking services in a cross-border banking crisis, the communication identifies tools for an EU crisis management framework, including 'early intervention' action by banking supervisors aimed at correcting irregularities at banks, bank resolution measures for the reorganisation of ailing banks, and insolvency frameworks under which failed banks are wound up.

The communication on restructuring aid to banks (42) envisaged in-depth reassessment of banks which are not fundamentally sound receiving assistance, disclosure and management of impaired assets, withdrawal from loss-making activities, and consideration of mergers with viable competitors, or even closure. Banks and their stakeholders should contribute to any restructuring from their own resources, and the state and taxpayers should be adequately recompensed for any support provided. To protect against distortions of competition, bank restructuring should be designed to remove any temporary distortions financed by state aid — even to the extent of divesting banks of assets or constraining their investment and marketing strategies. These broader guidelines aim to prevent banks that have received state aid from benefiting unfairly, and to restore equilibrium to the internal market.

In November, the Council of Economic and Finance Ministers agreed on a general approach on stricter capital requirements and remuneration policies in the banking sector (43).

The European Commission and Member State finance ministers benefited from the advice from other EU institutions. The EU reflections on the reform of the European supervisory framework received European Central Bank input, particularly on modifications to the regulatory regime for hedge funds and credit rating agencies, and on harmonisation of securities laws. In addition, the European Central Bank helped in establishing European central counterparties to clear credit-default swaps. In June 2009, the European System of Central Banks and the Committee of European Securities Regulators finalised their recommendations for securities settlement systems and central counterparties in the EU. The European Parliament also created a special committee on the financial crisis to monitor the process of financial reform.

EU INFLUENCE ON G20 THINKING ON RESPONSIBILITY

Europe was a driving force behind global action at the G20 summit in September — it highlighted the need for further regulation in order to hold financial institutions to account.

SIGNS OF AN UPTURN

The EU's Economic Sentiment Indicator rose to 86.0 (+ 3.4 points) in the EU and to 86.2 (+ 3.4) in the euro area in October, the seventh consecutive increase in both series since the trough of March 2009.

The Commission autumn economic forecasts published in November said that 'economic recovery is now imminent and fears of a prolonged and deep recession have receded'.

The EU's budget for 2010 was agreed in December, securing the €2.4 billion commitments in continued funding for the EU economic recovery plan for the year. At the same time, in a joint statement, Parliament, the Council and the Commission urged the Member States to rethink the way they use the Cohesion and Structural Fund programmes, so that EU money could 'facilitate overcoming the effects of the economic crisis' and in particular 'support growth and competitiveness and limit job losses'.

RESTORING SUSTAINABLE GROWTH

The EU was able to offer some immediate responses to the crisis, and it rapidly developed plans to avert any repetition of the crisis. But it also recognised that more was needed than firefighting and fire-prevention. The other preoccupation of 2009 was how to restore sustainable growth after the crisis receded, and how to ease the strains on public finances that the firefighting had generated. An exit strategy was needed, withdrawing the fiscal stimulus, and it had to work not just for the EU, but for the world, including the developing world.

As the October European Council concluded, the bold policy response to the economic and financial crisis started to deliver results during the year. The sharp decline in European economic activity came to a halt, with a stabilisation of financial markets and an improvement in confidence. But the incipient recovery remained under close monitoring, with support from governments and central banks continuing pending a fully secured recovery.

To anchor expectations and reinforce confidence, it was agreed that a coordinated strategy should be prepared for exiting from the broad-based stimulus policies. The European Council in October invited the Council and the Commission to work on exit strategies.

Finance ministers agreed in October on principles for fiscal support exit (44). Exit strategies should be coordinated across countries within the framework of the Stability and Growth Pact, and should ensure a timely withdrawal of extraordinary measures. They should include further structural fiscal consolidation of more than 0.5 % of GDP per year, and comprehensive structural reforms. They should be designed within the framework of the Stability and Growth Pact. And they should start in 2011 at the latest, earlier in those countries where economic circumstances make it appropriate, provided that recovery stays on track. The European Council meeting in December confirmed these general principles and invited the Council to continue its work on exit strategies and to report back by June 2010, both in the fiscal and financial areas.

In presenting his programme for the new Commission, President Barroso looked beyond the current crisis, and set out his vision for where the European Union should be in 10 years. He envisaged turning the exit from the crisis into the entrypoint for a new sustainable social market economy, a smarter, greener economy where prosperity will result from innovation and from using resources better, and where knowledge will be the key input. He called this common agenda the EU2020 strategy (45). In preparation for a formal proposal to the EU's Heads of State or Government at their spring 2010 meeting, the Commission launched a public consultation in November, to gather a wide range of suggestions on broad policy considerations for the strategy.

KEEPING A BALANCE

The strategic objective of the European economic recovery plan was to prepare for a return to growth. The aim was to put the EU in the best possible position for when the crisis recedes: a competitive economy in tune with the needs of the future. It was therefore vital to ensure that the many short-term actions taken to support employment, enterprise and the financial sector were consistent with the EU's longer-term aims.



○ IMAGEBROKEF

This strategy of preparing for future growth was a common thread running through many of the initiatives and actions taken at Member State and EU level in response to the economic crisis. It was also reinforced in the communication on 'Driving European recovery' adopted in March 2009. Throughout the crisis, the Member States remained united in accepting the need for structural reforms as the precondition for a sustainable future.

To embed this forward-looking approach in the crisis-management initiatives, in January 2009 the EU issued country-specific recommendations on the structural reforms demanded by the Lisbon strategy (46), tailored to the European economic recovery plan. They covered issues such as labour costs, competition in energy markets and reducing administrative burdens on businesses. They were aimed at maintaining and improving the competitiveness of the Member State economies to permit maximum benefit as recovery gets under way.

The Commission proposed more stringent requirements on the capital banks must hold to cover the risks of their lending operations.

PLAY BY THE RULES

'European solidarity is unthinkable without national responsibility. For confidence in the internal market to be maintained and strengthened, all the Member States must respect the rules of the market.'

Mirek Topolánek, Czech Prime Minister and President of the European Council, at the informal summit of EU leaders in March. Actions have been taken in a way that maintains the best possible balance between competing objectives. It was vital to boost business recovery, but measures also paid attention to preserving jobs and ensuring compliance with the single market and competition rules that longer-term prosperity relies on. It was essential that the fundamental rules of EMU were respected, but at the same time that its inbuilt flexibilities could be deployed.

So while guarantees and recapitalisation programmes were stabilising banks, the EU was strictly controlling the way these programmes were applied. National rescue and recapitalisation plans were not allowed to distort the single market. The EU's competition and state aid rules guaranteed viable solutions that did not discriminate against healthy institutions or between Member States. The excessive deficits that most Member States incurred must be corrected, but in a determined and intelligent way, in line with the revised Stability and Growth Pact, and taking account of the circumstances of each Member State.

The EU ensured that Member States' measures in response to the recession were time-limited, and reduced to the absolute minimum any risks of distortion to trade and competition. The majority of the national schemes approved were intended to facilitate access to credit for businesses, so as to counter the systemic difficulties faced by the banking sector.

The recovery plan was designed to match a comprehensive response with simultaneous respect for the different economic circumstances across Member States. It recognised each country's specific economic situation, and the varying capacity for remedial action, but insisted on coordination to achieve the best results and to avoid unwanted spillover effects which would favour one Member State over another. So although national measures to support demand could vary, they had to be directed at immediate results, and be temporary in nature, complementing other investment priorities in infrastructure, competitiveness, smaller firms, training and employment.

The Stability and Growth Pact was sufficiently flexible to implement the anticrisis measures, but still provided a framework for consolidation strategies for the future. Fiscal boosts and other support measures might increase deficits and debt, but these should be considered as temporary under the pact. As recovery arrived, Member States' economies should pursue realistic targets to return to stability. Meanwhile, deadlines set for the correction of excessive deficits took into account the factors in national economies and their different room for fiscal manoeuvre.

The delicate state of public finances in the Member States inevitably became a matter of concern at national and EU levels. By 2010, the massive boost that the Member States and the EU institutions are giving Europe's economy will reach around 5% of GDP. This liquidity injection is proving very effective at supporting the confidence in markets, but it comes at the cost of aggravating government deficits and debt. To assure longer-term equilibrium, the Commission maintained its vigilance over Member States' stability programmes, highlighting excessive budget deficits wherever it identified them.

INTERNATIONAL COOPERATION

From the start of the crisis, the EU consistently argued at international level for better regulation. The concerted efforts made by the EU in the G20 as well as in the G8 gave it a springboard to help shape decisions at the global level, and it was also influential in discussions on revamping financial regulation at world level. The EU influence was apparent in the declaration from the G20 meeting of world leaders in London in April, on setting up a new Financial Stability Board, which now includes representatives from the European Commission, Spain, the Netherlands and all the G20 countries, to cooperate with the International Monetary Fund to provide early warning of macroeconomic and financial risks. And at the Pittsburgh G20 summit in September, EU leaders secured a real commitment from the G20 to a sustainable, ethical and balanced global economy. The meeting agreed to rein in exorbitant bonuses and hold international finance to account. The October European Council welcomed the G20 commitment to take measures to strengthen the international financial regulatory system, including reform of international standards for compensation.

The EU argued consistently for trade to remain open, and vigorously opposed the erection of protectionist barriers. And it advocated continued support for liquidity in financial markets as long as necessary to allow sustained recovery from the crisis.

The Commission was first to act on the agreements at the G20 London summit with a strategy to support developing countries. The meeting urged respect for promises of aid, greater use of development aid to leverage other funds, front-loading and refocusing existing commitments on the most vulnerable. The EU also took the lead in making existing aid more effective, with the 27 Member States and the Commission working together.

Less than a week after the meeting, the Commission outlined a range of actions which the EU could take immediately to help developing countries weather the ongoing economic crisis. EU leaders said at the time: 'The recession must not, cannot, will not be used as an excuse for going back on our promises to keep on increasing aid.'

EU INFLUENCE ON G20 THINKING ON TRADE

It was Europe that set the agenda for global action in the G20 summit in September. Based on its own convictions, it called for strong resistance to any temptations to protectionism in world trade, pointing out that such a trend would also jeopardise development in poorer countries around the world.



Swedish Prime Minister Fredrik Reinfeldt led the EU delegation to the the Pittsburgh G20 summit in September, where EU leaders secured a commitment to a sustainable, ethical and balanced global economy. BELGA / AFP / Eric Feferberg

The Commission frontloaded €3 billion, or 72% of its foreseen budget support to African, Pacific and Caribbean nations, ensuring that social spending was not neglected when most needed. Overall, frontloading by the European Commission brought forward €4.3 billion in resources to 2009. In May the European Investment Bank signed agreements with Côte d'Ivoire, Liberia and Togo to reduce their level of debt to the bank within the framework of the 'Heavily indebted poor countries initiative'. It also took part in a coordinated action in May to provide at least an additional €10.2 billion in response to the financial crisis in Africa.



Italian Prime Minister Silvio Berlusconi shows US President Barack Obama the earthquake damage in L'Aquila, where leaders from the world's biggest powers met in July to discuss the economy and to show solidarity with the victims.

An EU action plan for a more coherent and strategic approach to situations of fragility and conflicts was published in November 2009, with a particular focus on sub-Saharan Africa. It underlined the central role of security, accompanied by policies to promote governance, reform and civil society participation, as well as investment. The Commission continued to refine its instruments and procedures so that they were responsive to the challenges posed by fragility.

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- (24) Commission communication Think small first A 'Small Business Act' for Europe (COM(2008) 394).
- (23) Proposal for a directive on the annual accounts of certain types of companies as regards micro-entities (COM(2009) 83).
- (26) Commission communication A shared commitment for employment (COM(2009) 257)
- (27) Presidency conclusions of the European Council, 1 December 2009 (http://register.consilium.europa.eu/pdf/en/09/st15/st15265-re01.en09.pdf).
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- (37) Proposal for a directive on alternative investment fund managers (COM(2009) 207).
- (38) Commission communication Ensuring efficient, safe and sound derivatives markets: future policy actions (COM(2009) 563).
- (39) http://europa.eu/rapid/pressReleasesAction.do?reference=IP/09/1215&language=EN
- (40) http://europa.eu/rapid/pressReleasesAction.do?reference=PRES/09/295&language=EN
- (41) Regulation (EC) No 1060/2009 on credit rating agencies (OJ L 302, 17.11.2009).
- $\label{eq:continuous} \begin{tabular}{ll} (^{42}) & http://europa.eu/rapid/pressReleasesAction.do?reference=IP/09/1180\&language=EN \end{tabular} \label{eq:continuous}$
- (43) Economic and Financial Affairs Council conclusions, 10 November 2009 (http://register.consilium.europa.eu/pdf/en/09/st14/st14637.en09.pdf).
- (46) Economic and Financial Affairs Council conclusions, 20 October 2009 (http://register.consilium.europa.eu/pdf/en/09/st14/st14601.en09.pdf).
- (45) Commission document Consultation on the future 'EU 2020' strategy (COM(2009) 647).
- (46) Recommendation on the 2009 update of the broad guidelines for the economic policies of the Member States and the Community and on the implementation of Member States' employment policies (OJ L 183, 15.7.2009).





The impact of climate change is increasingly evident on a global scale and in Europe. Disruptions to agriculture, transport, water supplies and tourism are becoming more frequent. Sea levels are rising, and forest fires, floods and drought are becoming more severe.

Europe must also cope with growing global demand for energy and shifting influences on energy supply. The wider recognition of the effects of fossil fuels and the sharper competition for finite resources can mean higher costs and scarcer energy for households, businesses and governments.

In response, the EU has brought its policies on the environment and on energy into new and sharper focus.

In 2009, an ambitious climate and energy package, agreed in outline by EU leaders at the end of 2008, came into force. The EU played a leading role in preparing for a global agreement on how to tackle climate change. The resulting accord should only be a first step to a more ambitious commitment. From the start of the year, when many Member States suffered interruptions in gas supplies, the EU worked to improve energy security and efficiency. And the EU's internal energy market has been given new dynamism through reforms.

In this way, the EU is tackling climate change effectively, while ensuring that Europeans have access to reliable supplies of affordable energy from sustainable sources. The challenges are different, but there is wide overlap in the solutions.

So the EU has taken initiatives throughout the year to cut emissions and save energy, and at the same time has emphasised the need for an effective international strategy, including, crucially, in support for action in the developing world.

A European approach is crucial. Only by speaking with one voice can the EU set an example and influence international action on climate change or energy trading rules. And a Europe-wide market and concerted EU support are essential to promote innovative energy solutions and to keep consumers' energy bills in check.

20 % BY 2020 — THE CLIMATE AND ENERGY PACKAGE

Europe is the first region in the world to implement such farreaching, legally binding climate and energy targets. Its climate and energy package heralds significant changes that are to be made by 2020, notably in terms of lower greenhouse gas emissions, more renewable energy and greater energy efficiency.

EFFORT SHARING TO REDUCE EMISSIONS

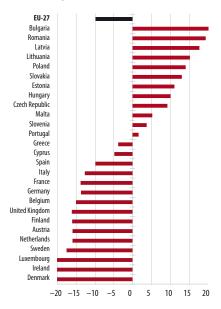
Targets were agreed between all EU countries to reduce their greenhouse gas emissions, in order for the EU to obtain a total reduction of 10 %; this is for the part of society not covered by the common emissions trading system; less wealthy countries can reduce less than richer ones, but they have a binding limit and must make an effort to reduce their emissions.

20/20/20 — THE EU COMMITMENTS TO REDUCE, TO INCREASE, TO SAVE Ahead of the rest of the world the EU has taken a lead with hold targets

Ahead of the rest of the world, the EU has taken a lead with bold targets for 2020 (¹). It has promised to reduce its own greenhouse gas emissions by at least 20 % from 1990 levels. It aims to increase the share of renewable energy sources in total energy consumption from its current 9 % to 20 %. And its ambitions for energy efficiency are to save primary energy consumption of 20 % against a 'business as usual' scenario.

Turning these ambitions into realities has been a focus of EU activity during the whole of 2009. Commission President José Manuel Barroso described the package as 'the litmus test of Europe's ability to act for the benefit of its citizens'.

2020 EMISSIONS COMPARED WITH 2005, IN %



Source: European Commission.

The climate and energy package, adopted in principle in December 2008, and which came into force in April 2009, included:

- ▶ a directive to improve and extend the EU emissions trading system (²);
- ▶ a decision setting targets for each Member State to reduce its greenhouse gas emissions (³);
- ▶ a directive introducing a regulatory framework for carbon capture and storage (⁴);
- ▶ a directive on the promotion of the use of energy from renewable sources (5).

The package is complemented by two further legislative acts agreed at the same time:

- ▶ a regulation requiring a reduction in CO₂ emissions from new cars (6);
- ▶ a revised directive requiring fuel suppliers to reduce greenhouse gas emissions from the fuel production chain (7).

EMISSIONS TRADING

The EU strengthened and expanded its emissions trading system to equip it to play a full role in achieving the objectives of the climate and energy package. In 2009, a single EU-wide cap was set for emissions, which will replace the current national caps from 2013, and will decrease steadily so that emissions from the sectors covered are brought down by 2020 to 21 % below their 2005 level.

The system's scope was extended to cover more sectors. Discussions were pursued on how to include aviation (8) and the aluminium and ammonia industries, as well as emissions of nitrous oxide and perfluorocarbons, while ensuring the right balance with competitiveness.

The system was tightened so that most allowances are auctioned rather than handed out for free. Discussions have focused on the transitional arrangements, especially for industries which face strong international competition. The allocation of free allowances will be governed by harmonised rules, and companies that receive them will have to use state-of-the-art technology in order to reap the maximum benefit.

The revised directive on the emissions trading system contains a list of sectors deemed to be exposed to a significant risk of carbon leakage — sectors where EU regulation might result in production moving away to countries with less strict controls. Installations from sectors on the list will benefit from a higher level of free allocation than installations in other industry sectors. The Commission adopted the list after extensive analysis and consultation, a positive vote in the European Parliament's climate change committee, and a three-month period of scrutiny by the European Parliament. It will remain valid for up to five years, but sectors may be added each year if established criteria are met. The list was drawn up on the basis of the EU's unilateral 20 % reduction commitment, and may be revised to reflect the outcome of negotiations on a new international climate agreement.

EMISSIONS ARE INCREASINGLY BEING TRADED

Volume in greenhouse gas emissions traded under the EU's emissions trading system



Source: European Commission.

Figures released in May showed that the system is functioning well and cost-effectively. Greenhouse gas emissions from participating businesses fell by 3.06 % in 2008. Compliance with the system is high: only 0.9 % of participating installations failed to hand over the required quantity of allowances by the deadline of 1 May 2009.

The Commission authorised state aid in several cases where the environmental costs for society could not immediately be reflected in the production costs borne by companies. For example, it cleared a Danish project to grant CO₂ tax exemptions to companies covered by the system, and authorised a UK scheme introducing a trading system for CO₂ emissions related to energy consumption.

OTHER EMISSION CUTS

Under the climate and energy package, emissions from sectors not covered by the emissions trading system — road, rail and sea transport, buildings, agriculture and waste — must be cut by 10 % against 2005 levels. The individual targets for each Member State reflect relative national wealth, to allow the EU's weaker economies a chance to grow further.

The Member States have extensive freedom in deciding how they want to go about meeting their individual targets. For example, transfers between countries are allowed, and governments can also include some emissions reductions resulting from clean development mechanism projects outside the EU.

The EU's formal action to combat climate change and save energy has encouraged numerous other initiatives within Europe. In February, over 400 cities pledged to go beyond the EU's climate change targets and slash their greenhouse gas emissions by over 20 % by 2020. Between them, the participating cities represent over 60 million people. If they all meet this target, the CO₂ savings will be equivalent to closing down 20 coal-fired power plants. By the end of 2009, many more cities and regions had signed up to the covenant, and cities from as far away as Argentina and New Zealand have expressed their interest in getting involved. Since most of the energy produced in Europe is consumed in urban areas, the success of the battle against climate change will be largely determined by what happens in cities.

Also in February, Stockholm and Hamburg were named as the first winners of the European Green Capital Award, which singles out cities taking the lead in environmentally friendly actions. Stockholm, which will hold the title in 2010, aims to become fossil-free by 2050, and has a system in place to ensure that environmental concerns are addressed in the city's budget, planning and reporting. Its per capita CO₂ emissions are half the Swedish average. In 2011 the title will pass to Hamburg, where the city's administration is investing in energy-saving measures in public buildings, and in awareness-raising.

GREENHOUSE GAS EMISSIONS REDUCTIONS

Evidence is emerging of the impact of action to restrain EU greenhouse gas emissions. They fell for the third year in a row in 2007, according to figures released by the European Environment Agency in May 2009. The EU's collective commitments will be met by a clear margin. The EU-15, which has a collective commitment to reduce emissions by 8 % for 2008-12 compared with 1990 levels, is expected to achieve emissions reductions of over 13 %, demonstrating that considered policies and concrete measures are effective in the fight against climate change. And cutting emissions does not need to mean cutting economic activity. A 1.6 % fall in the EU-15's emissions between 2006 and 2007 was achieved even though gross domestic product rose by 2.7 %.

RENEWABLES

By displacing fossil fuels, renewable energy reduces greenhouse gas emissions. It also cuts energy imports and diversifies energy supplies, thus improving the security of Europe's energy. And in developing new technologies and new sectors, renewable energy generates jobs and economic growth. In recognition of the contribution that renewable energy can make to its energy and climate goals, the EU broadened and strengthened its legislative framework.

A new directive on the promotion of the use of energy from renewable sources provides a policy regime that businesses and other investors in renewable energy can trust. National targets for renewables have been set on the basis of a country's relative wealth, ranging from 10 % (for Malta) to 49 % (for Sweden). National action plans are required, which will provide for a stable regulatory framework that lowers investment risks for the years to come. In addition, all Member States must ensure that, by 2020, 10 % of the energy consumed by the transport sector comes from renewable sources. Administrative barriers to the growth of renewable energy will also have to be removed. And biofuels will have to be produced sustainably.

The Commission authorised state aid in a Cypriot scheme, three Danish schemes and an Austrian scheme subsidising feed-in tariffs in favour of producers of renewable energies, and opened an in-depth investigation into an Austrian scheme which seemed to favour large energy consumers.

The Commission predicts annual savings of up to 900 Mt of CO_2 and reductions of up to 250 Mtoe (million tonnes of oil equivalent) in fossil fuel consumption when Member States implement the directive and the EU achieves its 20 % goal.

The European Commission and the Swedish Presidency signed the EU's accession to the International Renewable Energy Agency in November. The organisation aims at speeding up the use of renewable energy sources in the world. The EU is the first international organisation to join.

CARBON CAPTURE AND STORAGE

Since fossil fuels — coal, oil and gas — will remain part of the EU's energy mix for the foreseeable future, the EU has also agreed to explore the scope for mitigating their use through carbon capture and storage technologies that trap CO₂ and store it underground. The climate and energy package therefore included a directive on carbon storage, designed to ensure long-term safety through rules on assessing potential storage sites, authorising them and closing them down.

The EU decided that public money is needed to build the first generation of plants to demonstrate the technology, until costs come down. Initial EU funding of up to €1.05 billion will come from the European economic recovery plan, with further financing anticipated from the emissions trading system and commitments from Member States and industry. During the year, the European Commission urged EU governments to pledge up to €550 million to help equip a coal-fired power plant in China with the technology to capture and store carbon dioxide.

The Commission cleared a UK state aid scheme for engineering and feasibility studies on two industrial-scale carbon capture and storage demonstration projects.

CLEANER TRANSPORT

Alongside the climate and energy package, measures were introduced directed specifically at promoting greener transport (°). The transport sector is responsible for a quarter of the EU's greenhouse gas emissions. In 2007, the average new car emitted some 160 grams of CO₂ per kilometre. Under a regulation (¹0) that came into force in April 2009, car manufacturers must ensure by 2012 that the average CO₂ emissions of 65 % of their new vehicles do not exceed 130 g. A further 10 g CO₂/km saving will be achieved by other technical measures such as more efficient tyres or the use of biofuels. By 2015, the target will apply to 100 % of manufacturers' fleets, and, in 2020, the emissions limit will fall further to 95 g CO₂/km. This measure alone will contribute more than one third of the emissions reductions required in the sectors not covered by the emissions trading system.

At the same time, the fuel quality directive was revised to oblige fuel suppliers to cut greenhouse gases emitted during fuel production by 6 % by 2020, compared with 2010 levels. Producers can achieve this by using biofuels and alternative fuels, and by reducing flaring and venting at production sites.



CO₂ emissions from new cars will be cut to an average of 120 g per km by 2015 as part of the EU effort to combat climate change.

Another directive formalised in April uses public procurement to drive market uptake of environmentally friendly vehicles. It requires that, whenever vehicles are purchased through public procurement or for public service, their energy and environmental impacts are taken into account, using common rules for assessing those impacts over the lifetime of operation. Increasing sales of greener vehicles in this way will help to bring down costs through economies of scale.

The Commission's proposal for a new regulation on CO_2 emissions standards for light commercial vehicles was adopted in October 2009. So too was its proposal for a revised directive on car labelling for CO_2 . A proposal to base road charging on external costs like pollution and congestion was supported by the European Parliament in March, aimed at delivering new revenue to finance cleaner transport and induce more sustainable transport patterns, and remained under discussion in the Council. EU leaders in October endorsed the goals of emissions reductions of 10 % in aviation and 20 % in shipping by 2020, against the 2005 performance.

The European Investment Bank, as part of its contribution to the European economic recovery plan, created the European Clean Transport Facility to promote research and development in cutting emissions from the transport sector. The bank increased its lending for 2009/10, particularly targeting clean transport (up by 144 % for the overall automotive sector since 2008) and renewable energy investments (up by 41 % compared with 2008).

The Barroso I Commission pointed the way to the next Commission's work on climate change, with the President's promise of a decarbonisation of the transport and energy sectors in his September policy guidelines.

ADAPTING TO A CHANGING CLIMATE

Even if the world manages to dramatically slash its greenhouse gas emissions, the gases already emitted will remain in the atmosphere for decades to come, and some climate change is now inevitable — making it necessary to plan for adaptation.

In April the Commission presented a framework for adaptation measures and policies to reduce the European Union's vulnerability to the impacts of climate change (11). Because decisions on how best to adapt must be based on solid scientific and economic analysis, the strategy underlined the need to increase the understanding of climate change and its consequences. And since the impacts will vary by region — with coastal and mountain areas and flood plains particularly vulnerable — many of the adaptation measures will need to be carried out nationally or regionally; the EU role will be to provide support through a coordinated approach, particularly in cross-border issues and in policies which are integrated at EU level. Adapting to climate change will be integrated into all EU policies, and will feature prominently in its external policies, to assist those countries most affected.



The Commission report on 'The role of European agriculture in climate change mitigation'(12), accompanying the White Paper on adaptation to climate change, concentrates on greenhouse gas emissions and trends in agriculture in the EU and possibilities for reducing them. It also gives an overview of the current instruments of the CAP that facilitate climate change mitigation, examining in particular how the rural development programmes for 2007-13 contribute to this objective.

Citizens campaigned all over the world against climate change — here in Mumbai, India.

OPPORTUNITIES

Meeting the climate challenge is also an opportunity, opening up prospects for new jobs, 'green' enterprise and strengthened EU competitiveness. Just reaching the EU's renewable energy targets could create as many as 2.8 million jobs, it is estimated.

Central to the European economic recovery plan is the development of more environmentally friendly and energy-efficient technologies, which, as well as addressing climate change and reducing the EU's dependence on imported energy, will create employment and boost Europe's economy. Initiatives approved in 2009 (see Chapter 1) include offshore wind farms and carbon capture and storage projects. Other funding has been allocated to research projects on energy-efficient buildings and 'green' cars.

The transition was discussed at Council meetings of ministers responsible for environment, competitiveness, finance and enterprise during the year. At the October meeting of environment ministers, Member States were urged to move towards a more eco-efficient economy — one of the themes of the Swedish Presidency — with shifts of tax away from labour and onto natural resources, energy and procedures that damage the environment. Already some Member States have achieved cost-efficient reductions of harmful emissions by using CO₂ taxes. The Council agreed (13) that an important component of the Lisbon strategy after 2010 would be a more eco-efficient economy — a sustainable, low-carbon and resource-efficient economy, based on sustainable production and more sustainable housing and transport systems.

ENERGY

As the EU's climate change and energy package makes clear, a major contributor to climate change is energy use, and a major factor in containing climate change is better energy use. Consequently, EU energy policy highlighted energy efficiency and renewable and alternative energy sources. At the same time, the EU acted to ensure that Europe's continuing need for energy is satisfied, since competitive and reliable supplies are essential both for the wellbeing of EU citizens and for the competitiveness of EU business in world markets.

ENERGY EFFICIENCY — THE SMART WAY TO SAVE MONEY AND THE CLIMATE!

In November and December, agreement was reached on an EU legislative package on energy efficiency — one of the simplest and most cost-effective ways of addressing the triple challenge of climate change, energy security and competitiveness. The package, made up of three proposals, upgrades existing energy labelling requirements, introduces new standards for energy saving in buildings (14) and imposes new labelling for tyres (15), and was due to be finally approved by the Parliament in early 2010.



The European Commission urged further low-carbon technology development — including solar energy panels like these on the roof of Berlin's central station.

The revised energy labelling directive extends the current scheme covering household appliances to all energy-related products, so they carry information on their energy consumption. Households and businesses will acquire greater scope to cut their energy bills by choosing the most energy-efficient products. In the agreement between the European Parliament and the Council of Ministers, it was decided that labelling must be expanded to also include energy-using products used in the industrial sector and products affecting energy consumption, such as hot water taps and showerheads.



Van Par)

The directive on the energy performance of buildings consolidated earlier energy efficiency requirements for new buildings and major renovations, and required Member States to increase the proportion of buildings with low or zero consumption of energy or CO₂ emissions. It also encouraged the public sector to take a lead in promoting energy efficiency in buildings. At the insistence of the Parliament, Member States are to prioritise improving the homes of those on the lowest incomes. MEPs also urged that the plans should set out 'realistic, substantiated binding targets' and 'specify the measures to be put in place in order to ensure these targets are reached'. The Council took on board Parliament's amendments which require Member States to draw up national plans for increasing the number of nearly zero energy buildings.

The new legislation on tyre labelling will help Europe's drivers save money at the pump while also reducing transport's impact on the environment. Under-inflated or poor quality tyres can increase a vehicle's fuel consumption, and the new rules will provide customers with information on a tyre's fuel efficiency as well as its ability to handle wet conditions and how much noise it makes when in use.

The Commission also aims to improve energy efficiency by setting eco-design requirements for all energy-using products in the residential, tertiary and industrial sectors. Under legislation that came into force this year, the phase-out began in September of inefficient incandescent and halogen bulbs. By the end of 2012, when these older bulbs will have all been replaced in shops by more efficient modern bulbs, the electricity bill of each household could be cut by about \in 50 a year. By 2020, annual savings could be as high as 40 TWH (terawatt hour) — enough to power 11 million households over that period. Another bonus is that it will involve a reduction of up to 15 million tonnes of CO₂ emissions each year. The Commission also launched a publicity campaign to inform consumers about the alternatives that are available.

Under the revised rules on energy labels, household appliances and all energy-related products must carry information on how much energy they use.

CALL FOR INCREASED ENERGY EFFICIENCY AND REDUCED EU OIL CONSUMPTION

The European Economic and Social Committee recommended in February that European demand for oil be reduced by at least 50 % by 2050 (16). The European Parliament pointed out in June that the EU wastes more than 20 % of its energy due to inefficiency, and if the 20 % energy-saving target were met, Europe would cut its energy consumption by 400 Mtoe (million tonnes of oil equivalent) and slash 860 million tonnes off its carbon dioxide emissions.

In May, the Commission gave the Member States the go-ahead to use cohesion policy programmes to finance energy efficiency and renewable energy measures in housing — such as wall insulation, double glazing, solar panels or the replacement of old boilers with more energy-efficient models. The results will be savings in energy, lower emissions, reduced fuel bills and stimulation for the construction industry.





The EU started the phase-in of more-efficient modern light bulbs, which could cut the electricity bill of each household by about €50 a year by 2012.

As a further element in its effort to combat climate change and drive economic recovery, the Commission identified actions to exploit the enabling capacities of information and communication technologies to achieve improved energy efficiency across society and the economy. Because these technologies are now embedded in almost all parts of Europe's economy, they are expected to reduce total carbon emissions in Europe by up to 15 % by 2020.

LOW-CARBON TECHNOLOGY

A Commission communication on low-carbon technologies was issued in October, recommending an additional €50 billion in public and private investment in energy technology development, and wider cooperation in the sharing of risks and pooling of resources, in line with the enterprise strategic energy technology plan. It calls for six new European industryled programmes in wind and solar energy, carbon capture and storage, grids, bioenergy and fission, and the establishment of research-led programmes in a European energy research alliance.

PROMOTING THE USE OF RENEWABLE ENERGY

The EU already has a 2010 target of obtaining 21 % of electricity and 5.75 % of transport fuels from renewable sources. During 2009 it promoted the development and use of renewable energy, and the contribution of renewables was also stepped up, in particular through the new legislative framework, but also through measures focusing on the development of the technology needed. The economic recovery plan allocated over €500 million to help develop Europe's off-shore wind network. And under the EU emissions trading system agreed during the year, some revenues from the sale of allowances will be dedicated to developing innovative renewable energy projects from 2013.

The directive on renewable energy which forms part of the climate and energy package was introduced to promote stronger growth in the renewables sector. It also addresses some of the factors that still impede development of renewables, including complex administrative procedures, difficulties for renewables in gaining grid access, and incomplete support measures.

SECURITY OF SUPPLY

Whether it comes from renewable or other sources, energy remains central to the European economy and to assuring quality of life for Europe's citizens. Alternative sources are still far from capable of supplying all Europe's needs. Energy efficiency can help, by making the best use of what energy the EU has or imports. But another part of the solution is to ensure that the supplies of energy from established sources, principally fossil fuels, are reliable.

Europe produces slightly less than half the energy it needs; the rest is imported. At 2008 prices, these imports cost around €350 billion annually, or €700 for every EU citizen. Rising worldwide demand is likely to keep driving these costs upwards. The EU imports 61 % of its gas, and this is expected to rise to around 75 % by 2020. Although there are several sources (mainly Russia, Norway and Algeria), many Member States are wholly or heavily dependent on a single supplier for their imports.

Many European citizens became victims of unreliability at the beginning of 2009, when a gas dispute between Russia and Ukraine left many homes in central and eastern Europe without heating (see below, 'International cooperation'); 80 % of Russian-imported gas comes to the EU via Ukraine, and some Member States rely on Russia for over three quarters of their gas supplies. Conscious that a gas crisis on this scale could happen again as a result of commercial influences, an accident or technical problem on a major pipeline, the Commission acknowledged in a working document that 'there is considerable scope to improve the level of preparedness at national and EU level'(17) and that current early warning mechanisms at both national and EU level are inadequate. The EU has consequently been revising its planning for coping with — and where possible preventing — interruptions to supply.

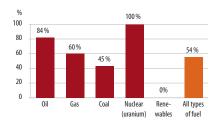
In July, the Commission proposed improvements to the existing arrangements — including a way for Member States to signal a major disruption to supply when a pipeline or production facility is out of action (18). In addition, the plan incorporates a 'supply standard' to ensure that the most vulnerable customers, especially households, continue to receive gas even when supplies are low. Member States must also designate an authority responsible for security of gas supply and for setting up preventive action plans and emergency responses to crises, and work more closely together.

In June, the Energy Council agreed in principle on tighter rules for oil stocks (19), requiring Member States to control emergency reserves equivalent to at least 90 days of net imports, of which one third must be refined products. The EU also gained additional powers to review and audit Member States' stocks, making it easier to react more efficiently in a crisis.

The drive for greater reliability in supplies is widely supported across the EU's institutions. In March, a resolution from the European Parliament called for more 'financial support for investments in alternative energy sources', and for a 'more dynamic relationship between the European Union and the oil-producing countries'.

HOW MUCH OF THE ENERGY IS IMPORTED?

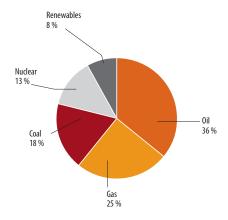
Fuel imported into the EU in 2008; % of the total consumption of each type of fuel



Source: European Commission.

WHAT TYPES OF FUEL ARE USED IN THE EU?

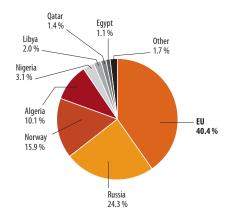
Share of fuels used to produce energy in the 27 Member States, 2008



Source: European Commission.

WHERE DOES THE GAS COME FROM?

Source of the natural gas used in the 27 Member States, 2007



Source: European Commission.

NUCLEAR POWER — AN INTEGRAL PART OF EUROPE'S ENERGY MIX

The EU has the largest number of nuclear power plants in the world, and nuclear energy is likely to remain an important part of the energy mix throughout the coming decades. Nuclear safety remains a policy priority for the EU, and a solid legal framework defining basic obligations and principles governing nuclear safety throughout the EU was adopted in June (20). The focus is on national responsibility for nuclear safety and continuous improvement of nuclear safety — with clear roles for independent and strong regulators, and for licence holders. This enshrines the requirements of the International Atomic Energy Agency Convention on Nuclear Safety and of the Safety Fundamentals, making the EU the first major regional nuclear actor to give binding legal force to these leading international nuclear safety instruments. In November, a Commission proposal to harmonise registration requirements for carriers of radioactive materials won the backing of Euratom scientific experts.

EMERGING FROM THE GAS CRISIS

The gas crisis in the winter of 2008–09 was a sharp reminder of the EU's vulnerability in terms of energy security. A number of European projects were aimed at strengthening energy security during the year, including:

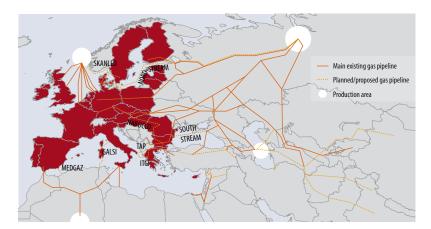
- ▶ EU involvement in the signature of an intergovernmental agreement between the five transit countries involved in the Nabucco pipeline. The pipeline will import gas from the Caspian and Middle East regions;
- European Council endorsement of the Baltic energy market interconnection plan, which will strengthen regional networks and integrate currently isolated Baltic states into the European energy market.

NETWORKS — **KEEPING ENERGY MOVING**

The EU worked hard to develop better links in energy networks between Member States. Moving energy around Europe more effectively is an important way of ensuring reliable supplies. Properly linked networks are vital for the internal market for energy to function properly. They are also indispensable for energy security, as they make it much easier to transfer energy to where it is most needed. Some €2.4 billion was allocated to electricity and gas interconnections under the European economic recovery plan.

The early-2009 interruptions to supplies via Ukraine confirmed the urgent need for the EU to make it easier to move fuel around the EU, for example by reversing the flow in pipelines. The Commission urged 'the importance of robust and consistent regulation to ensure the adequacy of networks ... to deal with widely diverging demand and supply and maintain services'.

GAS PIPELINES



Source: IEA.

The June European Council endorsed the Baltic energy market interconnection plan, to improve the energy security of Estonia, Latvia and Lithuania, which are at present isolated from other Member States' networks. The Baltic states will be integrated into the wider European energy market by strengthening these countries' connections — and their market integration — with neighbouring countries.

Another option for ensuring adequate availability of energy is to obtain supplies through new routes or from new providers. The year 2009 saw progress on the 'southern corridor', a potential new route to bring energy to the EU. In May, the EU met with partners from central Asia, the southern Caucasus and the Middle East. Obtaining natural gas supplies via this route is vital to the EU's plans to improve energy security. The conference participants pledged political, technical and financial support to the construction of the southern corridor, 'in order to support the diversification of energy sources, markets and transport routes, which will not only enhance the energy security of the participating countries, but also will simultaneously constitute fair and profitable opportunities for energy producers, consumers and transit countries'.



© AP PHOTO / Béla Szandelszky

In July, four EU Member States (Bulgaria, Hungary, Austria and Romania) and Turkey signed the Nabucco Intergovernmental Agreement in Ankara, setting out a framework for the export of gas from the rich fields of the Caspian Sea and the Middle East to Turkey and the EU, along a pipeline passing through Bulgaria, Romania and Hungary to the Austrian hub of Baumgarten. European countries that currently rely entirely on one external supplier will gain dramatic increases in security of supply from Nabucco. Companies in Azerbaijan and Iraq have already expressed their interest in using the pipeline. 'The Nabucco project is of crucial importance for Europe's energy security and its policy of diversification of gas supplies and transport routes. The signature will show that we are determined to make this pipeline a reality as quickly as possible,' said Commission President José Manuel Barroso.

Mirek Topolánek (left), Czech Prime Minister and President of the European Council in the first half of 2009, attended the Nabucco Gas Pipeline Conference in Budapest in January, hosted by Hungarian Prime Minister Ferenc Gyurcsány (right). The pipeline offers the EU the prospect of greater energy security.

MORE STEPS ALONG THE ROAD TO A FULLY LIBERALISED ENERGY MARKET

The EU has improved the rules of the EU energy market to ensure that energy users get the best deal possible and that the most efficient and competitive energy providers can prosper. The EU has been moving towards a fully-liberalised energy market for over a decade, and 2009 saw important developments in this area. The opening up of the electricity and gas markets to competition will force suppliers to compete for customers through low prices and high service, and will allow households and businesses to switch to the supplier offering the best deal. At the same time, this competition drives energy efficiency, as electricity producers seek to reduce the amount of energy wasted during production and transmission.

A LIBERALISED ENERGY MARKET

In July, legislation was published to liberalise the EU markets for electricity and gas, definitively separating production from supply. It established an Agency for the Cooperation of Energy Regulators (21), set out conditions for access to the network for cross-border exchanges in electricity (22) and natural gas transmission networks (23), and laid down common rules for the internal market in electricity (24) and natural gas (25). The new framework, which will come fully into effect in 2011, will make the EU energy market more efficient, providing customers with wider choice and the benefits of more vigorous competition, and stimulating investment in improved infrastructure.

In addition, the success of the emissions trading system depends on an energy market that functions effectively. Greater competition in the market gives energy producers and network owners a greater incentive to invest in alternative sources of energy, including renewables.

One of the most important impacts of the new legislation is 'unbundling' — in other words, there will now be a separation between the producers of gas and electricity and the operation of gas pipelines and electricity networks. In practice, this means that it will no longer be permissible for one company both to generate power and to own the grid — or it may do so only under very strict conditions.

There are optional models within the package for separating supply and production activities. Integrated energy companies can be obliged to sell off their transmission systems, retaining only their distribution networks. Or they can delegate management of networks to an independent company, or operate in line with strict rules to guarantee independence of management and investment.

The result is that all operators will have non-discriminatory access to transmission networks at fair and transparent prices. All companies will compete on an equal footing, as non-EU companies will have to respect the same rules as companies based in the EU. The measures should also make it easier for small energy producers, including those which use renewables, to get access to the grid.



EU rules came into force in 2009 to improve competition in the energy market by a separation between the producers of gas and the operation of gas pipelines.

The new rules lay down universal service obligations and set out the rights of energy consumers — with special measures to protect the most vulnerable consumers and to address fuel poverty.

Liberalisation will help keep energy prices down, as companies compete with one another to offer the best deals to customers. Between 2007 and 2008, energy prices rose by an average of 15 %. But energy prices vary widely between Member States, with consumers in some countries paying significantly more than those elsewhere. Prices in liberalised markets such as the UK and Spain have risen by just 6 % since 1998. In comparison, prices in other markets have gone up by as much as 30 %.

A new Agency for the Cooperation of Energy Regulators will assist national regulatory authorities, help cooperation between transmission system operators, and promote cross-border infrastructure links.

The EU's work in this field involves a lot more than creating new legislation. Action has also been taken to encourage Member States to fully implement legislation already in place in order to give consumers a better deal. In June, the Commission took action against 25 countries for failure to comply with the electricity and gas regulations. The violations included:

- poor information from transmission system operators, preventing supply companies from accessing networks effectively;
- lack of cooperation across borders by electricity transmission system operators and national authorities;
- lack of enforcement action by the authorities at national level in the event of violations;
- inadequate dispute settlement procedures for consumers.

INTERNATIONAL COOPERATION

Given the global scale of the challenges that the EU faces, international cooperation is crucial. If Europe speaks with a single voice on energy matters, its strength with other countries and external energy suppliers is increased. At the same time, achieving EU energy objectives is easier if the EU can work through global agreements and multilateral legal frameworks. In support of these goals, the Commission continued to increase its international engagement and cooperation specifically related to energy matters.

The EU has established firmer relations with the countries where fossil fuels come from or transit through — since political disputes, accidents, natural disasters and technical faults can all disrupt supplies.

The gas crisis at the start of 2009 — resulting from a dispute between Russia and Ukraine — cut off supplies to 12 Member States, while temperatures plunged below zero. As companies and schools were forced to close, and Europeans were left shivering at home, the Commission dispatched a team of 20 experts to monitor gas transit on site in Kiev and Moscow. Their presence demonstrated to the Russian and Ukrainian sides the united resistance of EU governments and industry to being taken hostage in the dispute. Gas finally started to flow again on 20 January after a week of mutual recriminations between Kiev and Moscow and intensive diplomatic intervention at the very highest level by the Commission, in coordination with the Czech Presidency and the affected Member States.

With the aim of providing a durable solution, the Commission brought together international financial institutions to support Ukraine in purchasing gas from Russia and to modernise the gas transit system. The Commission also worked closely with the Ukrainian authorities on modernisation. Following an agreement at the EU–Russia summit in Khabarovsk, and discussions on strengthening prevention and management of potential energy crises, the EU and Russia set up an early warning mechanism which will allow for remedial action when oil, gas or electricity supply is threatened or disrupted by infrastructure maintenance, accidents or commercial disputes.

While the response to the energy crisis was a very visible action, much of the international cooperation efforts during the year took place behind the scenes. These efforts were devoted not only to security of supply matters, such as diversification of supplies in Europe, Asia, the Middle East and Africa, but also to promoting sustainable energy policy.

'New sources of oil are becoming scarcer, and often have political and environmental problems attached to them. The world in general (and Europe in particular) will be better off and more secure if dependence on oil can be reduced.' This was a key message in the EU's second strategic energy review, proposed by the Commission in November 2008 (26), and approved in 2009 by the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions.

Among the concrete steps during the year was the setting up of the EU–US Energy Council, the launch of the Eastern Partnership Energy Security Platform, the signature of a Declaration of Intent on Energy Cooperation between the EU and Belarus, broadening of the energy dialogue with China, and progress with the 'Near zero emission coal' project with China. The EU–India summit in November also agreed to enhance energy cooperation, focusing particularly on renewables and energy efficiency.

Closer coordination among Member States and with the Commission and speaking with one voice are particularly important to harness the collective weight of the EU in multilateral frameworks such as the International Energy Agency and the G8 process. In May, the European Commission, along with the G8 countries plus other major and emerging economies, launched operations under the International Partnership for Energy Efficiency Cooperation. This forum for high-level policy discussion and cooperation on energy efficiency issues aims to:

4gain a clearer picture of international action on energy efficiency;

4develop a shared, strategic view covering these activities;

4identify possible joint activities.

The Commission was also mandated to renegotiate an agreement with Canada on cooperation in the peaceful uses of atomic energy, and it sought a revised mandate to negotiate enhanced cooperation with Russia on nuclear trade.

THE DEVELOPMENT DIMENSION

In 2009, the EU also worked closely with developing countries on energy and climate change, in particular in preparation for the UN Climate Change Conference in December. The UN process is not just about climate change. It is also a development agenda. The EU was the first in the international negotiations to propose a detailed breakdown of developing countries' needs. It agreed that, by 2020, developing countries will need an additional €100 billion a year for adaptation and mitigation. Domestic finance and the carbon market should cover a large part of this. But large-scale international public finance should also be forthcoming — in the order of €22–50 billion a year, with the EU paying its fair share.

Developing countries will be able to achieve sustainable development that at the same time will reduce emissions. This is a matter of planning for growth with low-carbon emissions, making so-called 'low-carbon growth plans', and integrating them into climate change mitigation and adaptation measures in national development strategies. This will ensure that growth will benefit all, build on open and effective forms of democratic governance, and contribute to gender equality and poverty reduction.

In May the Commission adopted the 2009 annual action programme implementing the environment thematic programme, with funding of €164 million. This provided assistance to developing countries coping with climate change, including through the Global Climate Change Alliance, which promotes cooperation between the EU and the most vulnerable developing countries. In May the EU–ACP Council adopted a joint declaration on climate change and development, and specific cooperation activities were selected with four pilot countries: Cambodia, Maldives, Tanzania and Vanuatu.

In February the Commission adopted a communication on an EU strategy for disaster risk reduction in developing countries (27) — a subject closely related to climate change, as climate-related disasters have increased rapidly. Since then, work started on an implementation plan involving the Commission and the Member States. An April Commission working document on improving environmental integration in development cooperation will provide a basis for better environmental integration at the EU level.



3ELGA / AFP / Issouf Sanog

The EU has continued to help African countries improve the business climate for energy investments.

In energy, the African Union and the EU agreed to work on standardisation and integration of energy markets, and the EU is supporting integration of electricity markets in Maghreb countries. The EU has continued to help African countries improve the business climate for energy investments, and has worked with some on a Mediterranean solar energy plan.

The European Commission also aims to protect forests globally. Under its 'Forest law enforcement governance and trade initiative', the EU imports only certified timber from its partner countries to fight illegal logging. So far Ghana and Congo have signed such an agreement, and the EU pursued an international deal to extend this campaign through the UN talks on climate change.

COPENHAGEN — WHAT HAPPENED AND WHAT DIDN'T HAPPEN

The outcome of the UN Climate Change Conference in Copenhagen in December was a disappointment. After two weeks of intense negotiations, on the final day some 30 countries — including the USA, China, India and Brazil, as well as some EU Member States and the European Commission — reached a limited 'accord'. This contains a number of positive elements, including endorsement for the first time at global level of the 2 °C ceiling and commitments to mobilise climate financing for developing countries in amounts that are in line with the Commission's proposals. Overall, however, the Copenhagen accord falls well short of meeting the EU's level of ambition. Moreover, due to opposition from a handful of parties the conference merely noted the accord without formally endorsing it. As a consequence, renewed efforts will be needed to reach a legally binding global agreement at the next UN Climate Change Conference, to be held in Mexico City in November 2010.

THE ROAD TO COPENHAGEN

Despite the limited results of Copenhagen, the work done there and over the course of preceding months to narrow differences on the negotiating texts provides a good starting point for reaching a comprehensive and legally binding agreement by the end of 2010. The EU has played a leading role in this process.



The result of the Copenhagen conference in December was only a first step to a more ambitious commitment to fight climate change.

'2009, culminating in the Copenhagen conference, is a crucial year for the battle against climate change, but in fact climate change has been the defining issue for this Commission, and I fully expect it to be the defining issue for the next Commission. Why is that? Because environment policy in general, and climate policy in particular, are natural European issues. Carbon emissions don't stop for checks at national borders. Actions we take — or don't take — inside the European Union have a direct impact on the rainforests of Brazil and Borneo, and on the thickness of the Greenland ice sheet,' said José Manuel Barroso at the Commission's Green Week conference in Brussels in June.

The EU consistently sent a forceful and clear signal to other countries in the run-up to the climate meeting in Copenhagen, showing the political leadership needed for keeping global warming below 2 °C (28). To encourage other major emitters to take strong action and thereby improve the chances of achieving a sufficiently ambitious global agreement, the EU has undertaken to raise its emission cuts to 30 % if other industrialised countries collectively agree to make comparable reductions and if developing countries with rapid economic development contribute to a global agreement to the extent that they are able.

The EU developed its position for the international climate negotiations through meetings of environment and finance ministers and the European Council, culminating in an informal ministerial meeting in Åre in July, the Environment Council in Luxembourg in October and the European Council in October (29). In October, the Environment Council stepped up the momentum in agreeing a negotiating framework for the EU. Europe again demonstrated its leadership position on climate change, with its support for even higher long-term greenhouse gas emission reductions than the 80 % reflected in the communiqué agreed at the G8 summit in L'Aquila, Italy, in July. It also called for emission reduction targets for international aviation and shipping, which are not covered by the Kyoto Protocol but are a rapidly growing source of emissions.

A final review of EU positions and strategies ahead of the Copenhagen conference took place at an extra Environment Council meeting (30) on 23 November in Brussels, where Yvo de Boer, Executive Secretary of the UN Framework Convention on Climate Change, presented the state of play in the negotiations and other parties' offers.

The key elements of the EU position are as follows:

- action to reduce global emissions should aim at keeping global warming below 2 °C. This requires that global emissions peak by 2020 at the latest, be cut to at least 50 % below 1990 levels by 2050 and continue to decline thereafter;
- ▶ long-term targets for the EU and other developed countries of 80–95 % emissions reductions by 2050 compared with 1990 levels;
- Iimitations on emissions from international aviation and shipping by 10 and 20% respectively by 2020 compared with 2005 levels, within the framework of international agreements;
- clarification of EU demands: industrialised countries are to reduce their emissions by 25–40 % by 2020, and developing countries to reduce their emissions growth by 15–30 % compared with a situation in which no measures had been taken;
- ▶ the target of a maximum 2 °C rise in temperature remains the benchmark when other countries' emissions reductions are assessed;
- clarification of EU views on how to combat deforestation and conduct sustainable forestry, and of the contributions of the agricultural and forestry sectors to achieve the climate goals: rapid action to halve deforestation by 2020 and to stop it by 2030;

- b the additional cost to developing countries of mitigating and adapting to climate change under an ambitious global deal is estimated at €100 billion annually by 2020. Some €22–50 billion of this will need to come from international public finance. The EU is ready to pay its fair share of this sum. For 2010–12 'fast-start' financing of €5–7 billion globally per year is needed to help developing countries build up their capacities to combat climate change;
- ▶ accounting rules for emissions in connection with forestry and land use;
- development of the sectoral emissions trading system mechanism and reform of the clean development mechanism;
- ▶ clarification of EU views on management of emissions allowance surpluses for 2008–12, which can affect EU environmental ambitions;
- ▶ a clear, tight timetable and guidelines for putting the legally binding regulatory framework in place.

The European Parliament provided strong support for an ambitious and legally binding agreement at the Copenhagen meeting. In October its Environment Committee called on the Heads of State or Government to give climate change top priority and to maintain a leading role in the Copenhagen negotiations. It said the international agreement should ensure that developed countries significantly reduce their emissions collectively (at the high end of the 25–40 % range and a long-term reduction target of at least 80 % by 2050 compared with 1990), and that developing countries as a group limit their emission growth to 15–39 % below 'business as usual'. A resolution at its November plenary session (31) endorsed these views and urged EU government leaders to demonstrate political leadership to make a success of the summit.

The EU showed leadership in the proactive stance it took in the run-up to the talks, on the solid basis of its own climate and energy package. In May, the Commission proposed that the EU submit an amendment to the Kyoto Protocol. The Council quickly gave its approval to the idea, and on 10 June the Czech Presidency and the European Commission, on behalf of the EU Member States and of the European Union, jointly submitted the proposed amendment to the UN secretariat responsible for the Copenhagen conference. This addressed the treatment of land-use change, improvements to carbon market mechanisms and possible approaches for targeting sectoral emissions. One of the EU's principal contributions to the Copenhagen talks was its focus on seeking agreement for financing to support developing countries in combating climate change — an issue central to achieving an agreement in Copenhagen. In September, the Commission launched a communication on scaling up international finance to help developing countries combat climate change (32). It concluded that, by 2020, developing countries are likely to face annual costs of around €100 billion to mitigate their greenhouse gas emissions and adapt to the impacts of climate change. Much of the finance needed will have to come from domestic sources and an expanded international carbon market, but international public financing of some €22–50 billion a year is also likely to be necessary. The Commission proposed that industrialised nations and economically more advanced developing countries should provide this public financing in line with their responsibility for emissions and ability to pay. This could mean an EU contribution of some €2-15 billion a year by 2020.

EUROPEAN COMMISSION CONTRIBUTIONS TO THE INTERNATIONAL NEGOTIATIONS

The EU is a driving-force in the international climate negotiations in pressing for an ambitious and comprehensive global agreement.

The European Commission has played an important role in shaping EU policy. In 2009 the Commission did so through two major policy papers:

▶ January 2009: Commission communication — Toward a comprehensive climate change agreement in Copenhagen;

▶ September 2009: Commission communication — Stepping up international climate finance: A European blueprint for the Copenhagen deal. Meanwhile, representatives of the EU institutions reached out to other partners. The Commission and the Czech and Swedish Presidencies dedicated much time and effort to bilateral dialogues on climate change with key partner countries, including Canada, China, Japan, South Korea, Russia, the USA, India, Brazil and South Africa. A delegation of the European Parliament's Environment Committee travelled to Washington in late October to meet and discuss the Copenhagen conference with members of the US Congress, and the European Parliament sent official representatives to the UN Climate Change Conference in December. The year was punctuated by five high-level preparatory meetings for the Copenhagen conference, and the EU was an active participant in all of them, consistently calling on developed nations to commit to significant greenhouse gas emissions reductions.

When, just weeks before the Copenhagen meeting, both the USA and China made new offers, Swedish Prime Minister Fredrik Reinfeldt and President of the European Commission José Manuel Barroso welcomed the bids in a joint statement. 'We welcome the news — in just the last 24 hours — that the USA and China have both indicated what they are prepared to do, in concrete numbers, on mitigation. The USA and China are essential players in this negotiation. Copenhagen must not be allowed to fail...We will continue to urge the USA, China and all our other partners in this negotiation to go to the outer limits of what is possible in order to find agreement in Copenhagen... It remains a positive sign that another major developing country following Brazil and Indonesia is ready to put concrete numbers on the table.'

In addition to their earlier commitments, European leaders agreed at their December summit to provide €2.4 billion per year between 2010 and 2012 in fast-start funding, to kick-start climate adaptation measures in developing countries. This exceeded the initial commitments made by Member States earlier in the year.

CLIMATE FOR FUTURE GENERATIONS

Speaking ahead of the October European Council, Jerzy Buzek, President of the European Parliament, said: 'In Copenhagen, in December, we will need to find an agreement which will not only fit the EU but the entire world. Decisions taken there will influence generations to come'.

A LIMITED AGREEMENT

However, the outcome fell well below EU expectations. The Council Presidency and the European Commission worked energetically to step up the negotiations throughout the two weeks of the Copenhagen meeting, maintaining the EU commitments and urging the parties to the talks to strengthen their commitments. But the progress achieved — in the form of the non-binding accord — was less than what had been hoped for by the EU.

The accord reached included:

- ▶ the objective of keeping the maximum temperature rise to below 2 °C;
- ▶ the commitment to list developed country emission reduction targets and mitigation action by developing countries for 2020;
- ▶ €20.685 billion 'fast-start' funding for immediate action from industrialised countries until 2012, for adaptation, emissions reductions, research and capacity building in developing countries, including funding to prevent deforestation;
- ▶ €68.95 billion annually by 2020 in long-term financing, as well as mechanisms to support technology transfer and forestry.

Attached to the agreement is an annex, where countries or groups of countries can fill in their commitments on emissions reductions or climate change action. But the agreement is not legally binding. The agreement was not sufficiently ambitious for the EU to change its emissions target to a 30 % reduction by 2020.

'What we wanted to achieve when we came here to Copenhagen was to get us out of the deadlock. Either we do something or we land in nothing. And now we have seen countries make efforts and set goals. Even countries that said they wouldn't make any commitments have presented figures,' said Council President Fredrik Reinfeldt.

President of the European Commission José Manuel Barroso said: 'This agreement is better than none at all, but it is clearly below our objective. I am not going to hide my disappointment'. But, he added, 'it is the first step in a very important process.'

Further international steps were left to the UN conferences in Bonn and Mexico in 2010. But the European Union's commitments made during the year remain valid and will be delivered. They are binding for all European Union Member States.

ENDNOTES

- (1) Commission White Paper Adapting to climate change: Towards a European framework for action (COM(2009) 147).
- (3) Directive 2009/29/EC to improve and extend the greenhouse gas emission allowance trading scheme of the Community (OJ L 140, 5.6.2009).
- (3) Decision No 406/2009/EC on the effort of Member States to reduce their greenhouse gas emissions to meet the Community's greenhouse gas emission reduction commitments up to 2020 (OJ L 140, 5.6.2009).
- (4) Directive 2009/31/EC on the geological storage of carbon dioxide (OJ L 140, 5.6.2009).
- $\mbox{(3)}$ Directive 2009/28/EC on the promotion of the use of energy from renewable sources (OJ L 140, 5.6.2009).
- (6) Directive 2009/33/EC on the promotion of clean and energy-efficient road transport vehicles (OJ L 120, 15.5.2009).
- (7) Directive 2009/30/EC on the specification of petrol, diesel and gas-oil and introducing a mechanism to monitor and reduce greenhouse gas emissions and on the specification of fuel used by inland waterway vessels (OJ L 140, 5.6.2009).
- (*) Directive 2008/101/EC including aviation activities in the scheme for greenhouse gas emission allowance trading within the Community (OJ L 8, 13.1.2009).
- $\begin{tabular}{ll} (9) & http://ec.europa.eu/commission_barroso/president/pdf/press_20090903_EN.pdf \end{tabular}$
- (¹º) Regulation (EC) No 443/2009 setting emission performance standards for new passenger cars as part of the Community's integrated approach to reduce CO₂ emissions from light-duty vehicles (OJ L 140, 5.6.2009).
- (11) Commission White Paper Adapting to climate change: Towards a European framework for action (COM(2009) 147).
- (¹²) Commission document The role of European agriculture in climate change mitigation (SEC(2009) 1093).
- (13) http://register.consilium.europa.eu/pdf/en/09/st14/st14361.en09.pdf
- (14) http://www.europarl.europa.eu/news/expert/infopress_page/ 051-64747-322-11-47-909-20091118IPR64746-18-11-2009-2009-false/default_en.htm
- (15) European Parliament resolution of 25 November 2009 on the labelling of tyres with respect to fuel efficiency and other essential parameters.
- (¹6) Opinion of the European Economic and Social Committee on the theme 'Facing the oil challenges' (OJ C 182, 4.8.2009).

- (17) Commission document The January 2009 gas supply disruption to the EU: An assessment (SEC(2009) 977).
 (18) Proposal for a regulation concerning measures to safeguard security of gas supply
- (COM(2009) 363).

 (19) Directive 2009/119/EC imposing an obligation on Member States to maintain
- minimum stocks of crude oil and/or petroleum products (OJ L 265, 9.10.2009).

 (20) Directive 2009/71/Euratom establishing a Community framework for the nuclear
- safety of nuclear installations (OJ L 172, 2.7.2009).

 (21) Regulation (EC) No 713/2009 establishing an Agency for the Cooperation of Energy
- Regulators (OJ L 211, 14.8.2009).

 (22) Regulation (EC) No 714/2009 on conditions for access to the network for cross-border exchanges in electricity (OJ L 211, 14.8.2009).
- (23) Regulation (EC) No 715/2009 on conditions for access to the natural gas transmission networks (OJ L 211, 14.8.2009).
- (24) Directive 2009/72/EC concerning common rules for the internal market in electricity (OJ L 211, 14.8.2009).
- (25) Directive 2009/73/EC concerning common rules for the internal market in natural gas (OJ L 211, 14.8.2009).
- (26) Commission communication Second strategic energy review An EU energy security and solidarity action plan (COM(2008) 781).
- ²⁷) Commission communication EU strategy for supporting disaster risk reduction in developing countries (COM(2009) 84).
- (28) Commission communication Towards a comprehensive climate change agreement in Copenhagen (COM(2009) 39).
- (29) Presidency conclusions of the European Council of 29/30 October 2009 (http://register.consilium.europa.eu/pdf/en/09/st15/st15265-re01.en09.pdf).
- (30) http://register.consilium.europa.eu/pdf/en/09/st16/st16454.en09.pdf
- (31) European Parliament resolution of 25 November 2009 on the EU strategy for the Copenhagen Conference on Climate Change.
- (32) Commission communication Stepping up international climate finance: A European blueprint for the Copenhagen deal (COM(2009) 475).





The EU is a relatively new player on the world stage. But it has big economic power. It is the world's largest market and biggest exporter of manufactured goods and services and the biggest source of investment. It has global trade links, and it is a leading aid donor. Its strength also derives from the cumulative political and cultural influence of its 27 Member States.

Its own evolution is assisting the EU to attain greater coherence in external relations, and increasingly it is playing a role beyond the traditional areas of trade and aid.

The size and significance of its own internal market means that what the EU does at home today often has an impact around the world tomorrow, on issues as distinct as energy security and setting safety standards for toys. The world tends to listen when the EU speaks, as evidenced by its influence on international negotiations on combating climate change and planning recovery from the economic and financial crisis.

Increasingly, the EU's external relations are not a separate area of EU activity, but rather a geographically wider application of its central values and principles. This is seen clearly in its enlargement policy, where the EU engages with eligible neighbouring states in negotiations on how and when they will adopt the entire body of EU rules and practices. But the same underlying process is visible too in the wider circles of EU external relations — with the countries in its broader neighbourhood, in its trade and diplomatic relations around the world, and in its assistance to developing countries.

ENLARGEMENT CONTINUES

The EU has been enlarging since it came into existence, and the process is not yet over. During 2009, accession negotiations continued, chapter by chapter, with Croatia and Turkey, and closer links were developed with other potential new members. Countries wishing to join the EU undertook reforms and deepened their ties with the EU. Trade and cultural exchanges expanded, advances were made in peace, stability, democracy and the rule of law, and, in most areas, their citizens experienced increased prosperity and wellbeing as the EU continued its support through technical and financial assistance programmes. The year 2009 also marked the fifth anniversary of the biggest enlargement in the history of the EU, when 10 new Member States — mostly from central and eastern Europe — entered the Union. In late November, the European Parliament adopted a resolution (1) expressing its strong commitment to the EU's enlargement policy.

CELEBRATING ENLARGEMENT — HOPE OVER FEAR

'We can all chalk up the 2004 enlargement as a major political success. The population of the European Union suddenly increased by 120 million people. More importantly, this was the first time it had admitted countries with a rather different history, thus demonstrating the viability of its mission of integration. It chose — rightly — hope over fear. This step, or rather leap, effectively meant that the EU was poised for a global role in the world.'

Czech Prime Minister and European Council President Mirek Topolánek at the celebration of five years after the enlargement of 2004.

CANDIDATE COUNTRIES

The three current candidate countries, Croatia, the former Yugoslav Republic of Macedonia and Turkey, all made some progress during the year in their bids to become EU Member States.

The EU accession process provided a strong incentive for Turkey to advance democracy and human rights and to continue modernising the country's institutions. The Commission reported in October that Turkey had showed renewed political reform efforts, with initiatives that could ease tensions with the Kurdish population, and it applauded the steps that Turkey took in October towards normalising relations with neighbouring Armenia. However, the Council Presidency expressed concern in December over the decision by Turkey's constitutional court to close the Democratic Society Party and ban some of its democratically elected representatives from political activity (²). Accession negotiations took place in June, when the first discussions were held on the taxation chapter, and in December, when discussions started on the environment chapter. So far, Turkey has closed one of the 35 chapters — science and research — and a further 12 are open. The European Investment Bank supported small businesses and research in Turkey with record loans of €900 million in June.



The 20th anniversary of the fall of the Berlin Wall was widely celebrated — here, at the Brandenburg Gate on 9 November.

Accession negotiations with Croatia (3) neared the final phase. If the country meets all outstanding conditions in time, the negotiations could be concluded in 2010. In October, negotiations were opened on: the free movement of capital; agriculture and rural development; justice, freedom and security; food safety, veterinary and phytosanitary policy; taxation; and regional policy and coordination of structural instruments. Negotiations were also provisionally closed on customs, company law, trans-European networks, statistics and freedom of movement for workers. In December a further two chapters were closed, on the right of establishment and freedom to provide services, and social policy and employment policy, bringing to 14 the provisionally closed chapters. The EU adopted conclusions on a financial package for the accession negotiations with Croatia and decided to set up an ad-hoc working party for drafting the Accession Treaty.

The former Yugoslav Republic of Macedonia (4) has been a candidate since 2005. In March, the European Parliament urged the Council to set a date for the start of the accession negotiations, and in October the European Commission also recommended that negotiations should begin.

POTENTIAL CANDIDATES MOVE CLOSER TO THE EU

The potential candidates for membership in the western Balkans — Albania, Bosnia and Herzegovina, Kosovo, Montenegro and Serbia — continued their own preparations during the year for closer ties with the EU, and were joined by Iceland, which submitted a membership application in July.

In Albania (5), the stabilisation and association agreement with the EU entered into force in April, and was implemented effectively during the year. In April, the country applied formally to join the EU, and in November the Council asked the Commission to prepare an opinion on the application.

Ratification of the stabilisation and association agreement with Montenegro (6) progressed as more EU Member States completed the process, and in April the Council asked the Commission to prepare an opinion on the country's membership application.

The reforms undertaken and commitments made by Serbia (7) were, the Commission recommended, sufficient to justify EU implementation of the interim agreement on trade signed in 2008 — a position backed by the Council in December. The country also improved its cooperation with the International Criminal Tribunal for the former Yugoslavia — although indictees Ratko Mladić and Goran Hadžić remained at large. In late December, Serbia submitted its candidacy for EU membership. The Swedish Presidency welcomed the 'historic step for Serbia', pointing out that Serbian membership of the EU would be important not just for Serbia, but for the region as a whole.

The EU repeatedly urged Bosnia and Herzegovina (*) to speed up key reforms. In April MEPs adopted a resolution (9) recalling 'that the prospect of EU membership has been offered to it as a single country, not to its constituent parts, and that, consequently, threats of secession or other attempts to undermine the sovereignty of the State are completely unacceptable'.

CANDIDATE COUNTRIES



Croatia, former Yugoslav Republic of Macedonia and Turkey

Source: European Commission.

EU MEMBERSHIP STRONGER THAN BILATERAL DISPUTES

After a long blockage, agreement was reached between Croatia and Slovenia in September on how to handle their long-standing bilateral border dispute, thanks to efforts by the Commission and the Council Presidency. Accession negotiations could therefore resume.

POTENTIAL CANDIDATE COUNTRIES



 Albania, Bosnia and Herzegovina, Iceland, Kosovo (UNSCR 1244), Montenegro and Serbia

Source: European Commission.

THE FORMER YUGOSLAV REPUBLIC OF MACEDONIA EN ROUTE TO THE UNION

In October, the Commission concluded that the former Yugoslav Republic of Macedonia had made convincing progress, substantially addressing reform priorities and sufficiently fulfilling the political criteria. Based on these elements, it recommended the opening of accession negotiations.

In Kosovo (10), which remains under the aegis of UN Security Council Resolution 1244/99, the EU's rule of law mission, EULEX, was deployed throughout the territory and became fully operational in 2009. Two thousand police and judicial personnel assisted the authorities to put effective systems of civil law into place. Since Kosovo's declaration of independence from Serbia in 2008, 22 EU Member States have recognised its independence, and a European Parliament resolution (11) in February encouraged all Member States to do so. The Council Presidency welcomed the orderly conduct of municipal elections in November and December.

In July, Iceland applied to join the EU, and the Council (12) asked the Commission to prepare an opinion. Iceland is already closely integrated with the EU, through its membership of the European Economic Area and the Schengen passport-free zone. From October, the Commission began assessing the information received from Iceland on its state of preparedness for accession.

Iceland's desire to join the EU brought new dimensions to the enlargement agenda, geographically, and because this new applicant is a highly developed economy with long-standing and close links to the EU. Together with the applications from Montenegro in December 2008, and from Albania in April, this demonstrated the continued power of attraction of the EU, and its role in promoting stability, security and prosperity.

COMMISSION SUPPORT AND PEOPLE-TO-PEOPLE CONTACTS

Visa facilitation agreements went ahead with the countries of the western Balkans, allowing many citizens to obtain visas more easily or with lower fees. In July the Commission proposed introducing visa-free travel to the Schengen zone for citizens of the former Yugoslav Republic of Macedonia, Montenegro and Serbia from the start of 2010, and in November the Council agreed (13), effective as from 19 December. The Commission also pledged to propose introducing visa-free travel for Albania and Bosnia and Herzegovina as soon as they meet the conditions. And dialogue was proposed with Kosovo with the perspective of visa liberalisation for its citizens too, once conditions are met.

A Commission overview in February (¹⁴) of assistance to the enlargement process highlighted more than 90 concrete EU-supported activities and initiatives implemented in 2008 and 2009, linking the western Balkans more closely to the EU in areas such as scholarships for study in the EU, regional cooperation, transport and trade. And in October, the European Commission and EU Member States agreed with international financial institutions on a western Balkans' investment framework which will finance priority projects in the region, initially on infrastructure, support to SMEs and energy efficiency.

A POLICY OF GOOD NEIGHBOURLINESS

The EU continued to generate mutual benefit with the countries to its east and south through the European neighbourhood policy, the Union for the Mediterranean and the Eastern Partnership (see map), in which special relations continue to be forged on the basis of shared values and objectives.

EUROPEAN NEIGHBOURHOOD POLICY

In April, a Commission assessment (15) confirmed a deepening of the EU's relations with the countries covered by the European neighbourhood policy, despite the global recession and conflicts in the Caucasus and Middle East. The policy was introduced to underpin modernisation and reform through political agreements and closer economic ties that can draw these neighbours closer to the internal market and increase cooperation in areas beyond the normal scope of diplomatic relations. It has proved particularly effective on economic and regulatory issues.

PRAGMATIC COOPERATION

'The Eastern Partnership should not reinstate blocs or the fight for spheres of influence. It should not be a formal, but a pragmatic cooperation of equal partners in the field of trade and energy security, and also in the field of strengthening democratic principles and better governance.'

Czech Prime Minister and European Council President Mirek Topolánek at the launch of the Eastern Partnership.

PARTNERSHIP AND UNION

The 2008 war in Georgia and the dispute over gas supplies between Russia and Ukraine in early 2009 highlighted how fragile stability was on the EU's eastern borders, and underlined how the EU's own security depends on security among its neighbours. The importance of the ties between the EU and many of its eastern neighbours was demonstrated during the year by the launch of the Eastern Partnership (16) at a ceremony in Prague in May, under the Czech Presidency. This new Eastern Partnership aims at enhancing the EU's overall relations with its six eastern neighbours — Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine. It envisages agreements that could lead to comprehensive free trade areas, deeper political association and gradual integration into the EU economy. It also foresees easier travel to the EU, and promotes democracy and good governance, energy security, economic reform and environmental protection. Following a recommendation from the Parliament that the Commission and partner governments should consult more closely with local authorities and civil society, the Eastern Partnership Civil Society Forum was created in November 2009.

In February 2009, the European Parliament had already called (17) for the accelerated creation of a free trade zone among Armenia, Azerbaijan, Georgia, Moldova and Ukraine, as well as for enhanced cooperation with Turkey and Russia. The Parliament also voiced its support for an eastern neighbourhood assembly ('EuroNest') which would bring together the countries of the Eastern Partnership.

In the southern neighbourhood, the Union for the Mediterranean made further progress in 2009, focusing on political contacts and concrete assistance projects, despite the difficult political environment.

THE EASTERN PARTNERSHIP



Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine

Source: European Commission.

EUROPEAN NEIGHBOURHOOD POLICY



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

Source: European Commission

INTEGRATING EASTERN NEIGHBOURS

'The recent gas crisis between Russia and Ukraine and the conflict in Georgia last summer confirmed the need to do more to promote stability, security and prosperity in the continent of Europe. The European Parliament considers it very important politically, economically and strategically to upgrade the European Union's relations with the republics of Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine as part of the Eastern Partnership project.' Hans-Gert Pöttering, President of the European Parliament, at the launch of the

UNION FOR THE MEDITERRANEAN



Albania, Algeria, Bosnia and Herzegovina, Croatia, Egypt, Israel, Jordan, Lebanon, Libya, Mauritania, Monaco, Montenegro, Morocco, Occupied Palestinian Territory, Syria, Tunisia and Turkey

Source: European Commission.

SPREADING PEACE AND SECURITY

As the EU's relationship with the rest of the world has matured, its core values become increasingly visible as the basis of its external relations. All aspects of EU policy are informed by the conviction that stability, security, democracy, respect for human rights and a high standard of living are valid objectives worldwide. So the EU has helped reinforce democracy and the rule of law with monitoring missions and civilian missions. Its strong civilian engagement has also been matched by the deployment of peacekeepers to ease tensions in some of the world's hotspots.

CIVILIAN AND MILITARY MISSIONS

European security and defence policy marked its 10th anniversary in 2009 (¹⁸). Over the past 10 years, it has contributed to bringing stability to different parts of the world through 22 civilian and military missions in three continents. The EU aspires not just to stop conflict, but to address the underlying causes, through a mix of policies, bringing together peacekeeping with development and state-building.

During 2009, the EU conducted missions in Europe, Africa and Asia. In the western Balkans, in addition to EULEX Kosovo, the EU operated in Bosnia and Herzegovina with the 2 000-strong EUFOR Althea (which, according to a May Council assessment, helped maintain a stable security situation, despite the challenging political environment), and the EU police mission, which helped the state's investigating agency make progress in targeting organised crime networks and boosted effective coordination between police and prosecutors. The EU monitoring mission in Georgia, with its 350 personnel, contributed to greater security and stability in the southern Caucasus, making armed conflict less likely. Its presence has helped allow most internally displaced persons from the 2008 conflict to return to their homes and villages. Georgia labelled the action 'invaluable' in preserving peace.



Mine-clearance remains one of the tasks of the EU 2000-strong operation in Bosnia and Herzegovina, EUFOR Althea.

EU SECURITY AND DEFENCE ACTIONS AROUND THE WORLD

Missions and operations in 2009 under the European security and defence policy



Source: Council of the European Union.

When EUFOR Chad/Central African Republic handed over to the United Nations the Minurcat mission in the Central African Republic and Chad in March, it had helped the activities of humanitarian workers, protected refugees and displaced persons affected by the neighbouring crisis in Darfur, as well as United Nations' staff. Member States remained involved in the region, since 2 000 of the 3 700 troops from European countries who served under EUFOR are currently part of Minurcat. The EU also remained active at a political and diplomatic level in Chad, the Central African Republic and Sudan — as well as in its capacity as a leading donor for humanitarian and development activities.

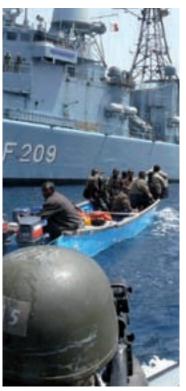
The EUNAVFOR Atalanta operation in the Indian Ocean escorted more than 280 000 tonnes of United Nations' food shipments to Somalia. Its protection of other vulnerable vessels in the Gulf of Aden and off the Somali coast has also helped deter piracy in the area.

In the Democratic Republic of the Congo, the EUSEC RD Congo mission provided help in restructuring and reforming the Congolese army. With funding from the Member States and the Commission, it also played a part in projects in gender equality, human rights, health and infrastructure. The EUPOL RD Congo police mission continued to support efforts to reform the national police and to build links to the judicial system. The EU SSR Guinea-Bissau mission helped local authorities in military, police and justice reforms.

The EU police mission in the Palestinian Territories, EUPOL COPPS, helped with operating arrangements for the Palestinian civilian police, conducted an assessment of the Palestinian Authority criminal justice system and started a support programme to the prison system. The EU border assistance mission for the Rafah Crossing Point, EUBAM Rafah, maintained its capability to redeploy at short notice, as soon as political conditions allow.

EUROPE FIGHTS PIRACY

'We must fight piracy in the Indian Ocean and off the coast of Somalia and I condemn the actions of those who commit piracy. We must support the Somali authorities in bringing back stability and peace to their country.' European Parliament President Jerzy Buzek, October.



The EUNAVFOR Atalanta operation in the Indian Ocean helped deter piracy and escorted more than 280 000 tonnes of United Nations' food shipments to Somalia.

© Euro



Javier Solana was the EU High Representative for the Common Foreign and Security Policy from 1999 to 2009.

The integrated rule of law mission for Iraq, EUJUST LEX, helped in reinforcing the rule of law and promoting human rights by training senior police officers, prosecutors, judges and prison governors. The EU police mission in Afghanistan, EUPOL Afghanistan, has taken a leading role in the anti-corruption strategy for the Ministry of Interior, and in intelligence-led policing and criminal investigations. It has helped link police and prosecutors, drafted legislation and mentored senior judicial staff. A train-the-trainers programme is intended to train 35 000 police officers in time for the 2010 parliamentary elections.

Upgrades to the EU's ability to act continued during the year. In April the Commission approved a budget of €225 million for the EU's Instrument for Stability for 2009–11, prioritising support for the EU's non-proliferation strategy for weapons of mass destruction, peace-building and transregional threats — which are often interconnected with terrorism, organised crime and trafficking of drugs, people and weapons. Counterterrorism capabilities were boosted in the Sahel region, and in Pakistan/Afghanistan, in parallel to the adoption of a plan for strengthened EU action in the region. Work was also undertaken, with funding from the Instrument for Stability, to disrupt the cocaine route from Latin America and the Caribbean to western Africa — and eventually to the EU.



On 1 December, Catherine Ashton took on the wider role of High Representative of the Union for Foreign Affairs and Security Policy, to be combined with the role of Vice-President of the Commission.

In Africa, the EU provided €1 billion in support of peace and security. It helped make the African Standby Force operational, and supported training centres. It funded African-led operations in support of peace, and cooperated on controlling small arms and light weapons. Political dialogue was stepped up at continental, regional and national levels.

The EU's own capacities for security and defence were upgraded during the year, too (19). The Political and Security Committee approved a civilian capability improvement plan, and developed management tools for it. Member States made progress in developing military capabilities, with the European Defence Agency and the EU Military Committee leading work on the first group of 12 selected capability development plans. The Defence Agency promoted collaborations to address key EU capability shortfalls, including in helicopter availability, air transport, satellite communications and maritime surveillance. It also began preparation, jointly with the European Commission, of a framework to get maximum synergy between defence and civilian security-related research activities.

SUPPORTING DEMOCRACY AND HUMAN RIGHTS

The European security strategy recognises that 'the best protection for our security is a world of well-governed democratic states'. The EU underpinned democratic reform and the rule of law in non-EU countries in 2009 through a wide range of actions, from political dialogue and diplomatic initiatives to financial and technical cooperation. The Czech and Swedish Presidencies in 2009 initiated a process to increase the effectiveness of EU support to democracy-building.

Additional coherence was brought to the way that the EU promotes democracy and human rights through its aid programmes. Support was provided in partner countries for elections, parliaments and human rights institutions and the media. And through the European Instrument for Democracy and Human Rights, the EU also intervened to help groups and individuals struggling for fundamental freedoms.



BELGA / AFP / Seyllou

The specific actions during the year included sending long-term election observation missions to eight countries — Afghanistan, Bolivia (twice), Ecuador, El Salvador, Guinea-Bissau, Lebanon, Malawi and Mozambique. These missions assess the strengths and weaknesses of an electoral process against international standards, and present recommendations that can provide a channel for dialogue with partner countries' governments and contribute to decisions on subsequent assistance.

A woman casts her vote in the presidential election in Guinea-Bissau in June — one of the countries to which the EU sent election observers.

The highest-profile election observation mission was in Afghanistan, for the first election organised by Afghan authorities since the fall of the Taleban regime. EU experts arrived in July to coordinate the assessment of the process, and were joined by other observers who assessed the campaign period, pre-election preparations, and the voting, counting and tabulation of results. Altogether, some 100 EU observers were in place on election day. A Council Presidency statement acknowledged the contribution of national and international observers to the process, including the efforts of the EU election observation mission. But the EU closed the mission after the run-off was cancelled. The Council Presidency underlined the need to review and improve the operation of the electoral system.

At the same time, the EU remained alert — and vocal — on questions of human rights and democracy around the world. It welcomed the formal abolition of the death penalty in Togo in July and deplored executions in Iran, Japan, Thailand, China and the USA. It called on the authorities of Myanmar to release Aung San Suu Kyi and other political prisoners. It expressed concern over suppression of protests in China and demonstrations in Belarus, violence in Guinea and Nigeria, challenges to democracy in Niger and Honduras, and the impunity of perpetrators of violence in Kenya.

In Russia it condemned the murder of Natalya Estemirova — a prominent human rights defender — who was found murdered in Ingushetia in July, and urged the Russian authorities to swiftly and thoroughly investigate the murder and to bring the perpetrators to justice. The European Parliament awarded its annual Sakharov Prize for Freedom of Thought to a Russian civil rights defence organisation, Memorial, and all other human rights defenders in Russia. In November, the 10th round of human rights consultations with Russia took place.



Russian human rights defender Lyudmila Alexeyeva speaks at a press conference in Moscow in October. She was a colleague of murdered activist Natalya Estemirova, in whose memory the European Parliament awarded its annual Sakharov Prize to their organisation, Memorial.

The Parliament adopted three human rights resolutions (20): urging the Chinese government to adopt an immediate and unconditional moratorium on the death penalty; calling on President Ortega to respect the constitution of Nicaragua; and urging the authorities in Laos and Vietnam to release all human rights defenders, political prisoners and prisoners of conscience.

During the year the EU added to the dedicated human rights dialogues and consultations it now maintains with nearly 40 countries and entities, by establishing a new dialogue with Indonesia, and holding first-session dialogues with Argentina, Brazil, Chile and Colombia. The EU now has guidelines on human rights, guidelines on the rights of the child, and guidelines on children in armed conflicts, and it worked on country strategies under these guidelines, accompanied by projects under the European Instrument for Democracy and Human Rights.

Progress was made on putting into practice new EU guidelines on violence and discrimination against women, and the situation of women's rights in nearly 100 non-EU countries was reviewed by delegations of the European Commission or Member States, giving rise to proposals for immediate EU action. The EU also cooperated closely with other organisations on the rights of the child. Major events included the European Children's Forum on child labour in June, and the EU–NGO Human Rights Forum on violence against children in July.

Registering its concern about the lack of progress in the Middle East peace process, the European Union called in December for the resumption of negotiations aimed at a two-state solution, and confirmed that it would not recognise any changes to the pre-1967 borders other than those agreed by the parties (21).

HUMANITARIAN AID

This is one of the EU's most tangible and positive policies. It directly saves millions of lives every year — and is one of the policies widely supported by most EU citizens. The world's largest donor of humanitarian aid has for many years been the EU, through funding from the Commission and its Member States.

FUNDING AND MECHANISMS

In 2009, the EU provided relief to tens of millions of people in more than 70 countries, with a budget of more than €900 million. In line with EU values of solidarity, respect for human dignity, equality and tolerance, aid is deployed in a neutral, impartial and independent way, and allocated solely on the basis of the needs of the victims of natural disasters or conflicts. The aid is channelled through around 200 operational partners, including specialised United Nations' agencies, the Red Cross/Crescent movement and non-governmental organisations.

Alongside the rising incidence of natural disasters, many manmade crises have become increasingly complex, generating evident humanitarian problems — in the Darfur region, for example. In 2009, the Commission funded a humanitarian programme in Sudan with \in 110 million. And as hundreds of thousands of civilians were displaced when Pakistan's Swat valley became the scene of conflict in April and May, the Commission boosted its emergency humanitarian funds to the country from \in 7 million to \in 72 million, to help the most vulnerable.

SUPPORTING AFRICA

In March the Commission allocated nearly €250 million in humanitarian aid to vulnerable people in 12 African countries, including Sudan, the Democratic Republic of the Congo, Chad, Burundi and refugees in Tanzania, the Sahel region, Uganda, Zimbabwe and Kenya, who were victims of drought and floods, conflicts, epidemics, chronic food insecurity and poverty.

RAPID DISASTER RELIEF

The Commission responded promptly to the series of natural disasters — typhoons, tsunami and earthquake — that struck the Asia-Pacific region at the end of September. It released €7.15 million in fast-track funding for immediate relief activities.

COPING WITH DISASTER

In February the Commission adopted a strategy for supporting disaster risk reduction in developing countries (22), with a focus on reducing the impact of natural disasters on high-risk countries. The EU operates on the basis that prevention is better than cure, urging investment in the reduction of risks before a disaster takes place — more effective than merely providing humanitarian aid afterwards.

In a process of political dialogue with developing countries, the EU will integrate disaster risk reduction into policy and actions and develop regional plans, including support for awareness-raising campaigns. As the first follow-up, in May, the European Commission and the Caribbean region discussed creating a platform for regional cooperation in disaster management and civil protection, in light of the acute needs in the region.



In 2009, the EU provided relief to tens of millions of victims of natural disasters or conflicts — such as here in the Philippines, in the wake of Storm Ketsana.

WAR, REFUGEES AND FORGOTTEN CRISES

The Commission continued to provide relief to the victims of 'forgotten' humanitarian crises — such as the internal conflict in Colombia — that harm vulnerable groups, specifically women, children and ethnic minorities, often causing them to flee their homes.

A delegation of MEPs also raised awareness of the humanitarian situation in Gaza after the fighting there in January. They were the only European representatives to visit the area during the conflict, and to witness at first hand the destruction of public buildings, the breakdown of daily services and the signs of humanitarian crisis.

DEVELOPMENT

The EU exercises its international influence and its soft power in fighting poverty and promoting economic development and democracy. It has become a leading actor in development over the last decade, with funding up by 90 % since 2001, so that now it provides almost 60 % of global aid. Its role is all the more important as the economic crisis exacerbates the fragility of many countries. During 2009 it intensified its efforts to build international cooperation on the global issues of climate and energy, trade liberalisation and the attainment of the UN millennium development goals (23). And in the deployment of its own extensive technical and financial assistance, the European Commission has given priority to the sensitive but crucial issue of promoting democratic governance.

POLICY COHERENCE FOR DEVELOPMENT

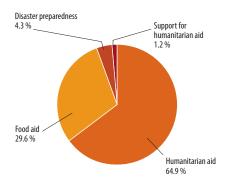
Development policy is about more than providing clean water and surfaced roads, important though these are. The aim is to help reduce and ultimately eradicate poverty in the developing countries through the promotion of sustainable development, democracy, peace and security. The Union also uses trade to drive the process, by opening its markets to exports from developing countries and by encouraging them to trade more with each other. The link between development cooperation and governance was underlined by the European Parliament when it urged the Commission to focus direct budget support on governments which used it transparently and accountably.

A commitment to policy coherence is embedded in the 'European consensus on development' — the policy statement that reflects the willingness of the European Commission and Member States to work together on common values, goals and principles to eradicate poverty and build a more stable and equitable world. Coherence is necessary because policies other than aid — including trade, transport, energy, environment, climate change, security, agriculture or fisheries — have a major role in assisting developing countries to attain the millennium development goals. In September, a regular Commission report (²⁴) highlighted how effectively this policy coherence is being pursued in research (notably in health and food security), environment (in order to fight illegal logging, the EU imports only certified timber from its partner countries) and energy (developing countries can benefit by exporting biofuels to the EU, and importers are obliged to comply with clear environmental criteria).

The millennium development goals — which range from halving extreme poverty and halting the spread of HIV/AIDS to providing universal primary education — are at the heart of EU development policy. The EU has asked national authorities to set financial targets for development funding so as to demonstrate their commitment to these goals, for which the deadline is 2015 — particularly lowering child and maternal mortality levels and providing clean drinking water, where delivery is lagging behind targets.

WHAT TYPE OF HUMANITARIAN AID DOES THE EU GIVE?

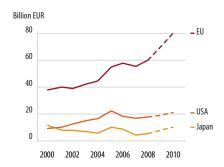
Shares of the €777 million regular EU budget for humanitarian aid in 2009



Source: European Commission.

WHO GIVES DEVELOPMENT AID?

Main donors of official development aid; 2009 and 2010 are forecasts



Sources: European Commission, OECD/DAC

NEW CROPS BRING NEW HOPE

Recent EU assistance success stories include replenishing Pacific Island root crops destroyed by cyclones, introducing sweet potatoes that are tolerant to saltwater and drought to atoll countries affected by climate change, and helping countries exposed to frequent floods by providing water tolerant seeds. Other programmes have helped local communities by boosting sustainability of the lagoon and reef fisheries that they depend on for livelihoods and food.

The EU has improved aid effectiveness by the increased use of budget support to beneficiary countries, making aid more predictable and coordinating donors more closely. Policy coherence also takes into account the impact of EU policies on development and mainstreaming of gender, environment and children's rights. In May, additional funding of €164 million was focused on efforts to assist developing countries cope with climate change.

The EU's efforts to enhance policy coherence continue. A September report from the Commission noted that, while aid has a key role to play in support of developing countries' efforts, it will not be enough in itself — particularly in the wake of the global economic and financial crisis. The report urged more focus on the positive effects for development of the EU's own choices in other policy areas, and more effective harnessing of the development potential of financial flows other than official aid. A study released during the European Development Days in October (25) suggested that a European approach to development aid could bring €3 billion to €6 billion a year in gains.

THE ACP DIMENSION

During 2009 the Commission urged greater regional cooperation and economic integration among African, Caribbean and Pacific partners to promote growth, trade and development. Negotiations with groups of countries were conducted on regional economic partnership agreements, and further assistance came from the regional component of the new European Development Fund, the African Peace Facility, the Global Fund to Fight AIDS, Tuberculosis and Malaria. With its African partners, the EU started work on an ambitious joint development strategy, and strengthened dialogue on global issues. Following on China's increased involvement in Africa, the Commission also made proposals for three-way EU–China–Africa cooperation, to find common solutions to common challenges.

In October, the 27 ambassadors to the EU's Political and Security Committee met their counterparts in the African Union in Addis Ababa, for discussions on addressing unconstitutional changes of government, election-related violence and disputes, and the conflicts in Somalia and Sudan. During the year the EU continued to provide support to the Strategic Planning and Management Unit of the African Union, with a programme of €4.7 million to help meet staff and operational costs, as well as seconding four military planners and police advisors. And scientific cooperation was given a boost in July with a call for research proposals dedicated to Africa launched through the EU's framework programme for research — the first entirely dedicated to the research initiative for Africa, and focused on health, environment, food, agriculture, fisheries and biotechnology. The fifth successful round of the AU–EU Human Rights Dialogue showed that this had become a valuable part of cooperation in the human rights area, bringing about concrete common conclusions, recommendations and commitments.

In March, an agreement was signed between the Commission and the African, Caribbean and Pacific Countries Group for a total of €2.7 billion, under which 77 countries will benefit from aid in sectors including health, water, combating climate change and peacekeeping. The Commission set aside €500 million for a new mechanism, called 'Vulnerability FLEX', to be provided during 2009–10 to help the most affected countries respond to the global crisis, including its social consequences. The Commission also made an additional contribution of €200 million to the EU–Africa Infrastructure Trust Fund. The intra-ACP 2009 annual action programme was adopted by the Commission in November 2008, containing 13 actions with a total budget of €800 million, including new funding for the ACP–EU Water and Energy Facility.

Under the joint Africa–European Union strategy, there was progress during the year on political dialogue relating to conflict prevention, crisis management and coordinated responses to unconstitutional changes of government. Moves were endorsed towards European Parliament and Panafrican Parliament collaboration and involvement. The third EU–Africa Business Forum, in Kenya in September, reached consensus on the need for Africa to shift its policy objective from poverty reduction to the more dynamic goal of wealth creation. There was also broad agreement on the need for greater regional integration, increased investment and improved infrastructure. A constructive EU–Zimbabwe troika meeting took place in June to restore and strengthen cooperation between Zimbabwe and the EU.

The EU adapted its assistance measures according to national circumstances among beneficiary countries. This included imposing sanctions on partners which violate commitments they have made to the EU. For instance, in September the Council extended by another six months its suspension of development aid to the Fiji Islands (26) — a decision taken after the 2006 coup. The EU regards its move as an incentive to the authorities in Fiji to return to democracy and to restore respect for human rights and the rule of law. However, humanitarian aid and direct support to civil society are not affected by the measures. The Commission proposed similar measures against Madagascar in May (27).

CLEAN ENERGY AND DRINKING WATER

Energy has been made more widely available in the countryside and on the outskirts of towns through the ACP-EU Energy Facility, and a new tranche of €200 million was made available for this in 2009. The result is affordable and sustainable energy supplies for poor people, and a halt to environmental degradation and pollution caused by traditional fuels. €200 million was also allocated to the ACP-EU Water Facility to help provide sustainable access to safe drinking water and basic sanitation, and a further €200 million was injected into the EU-Africa Infrastructure Trust Fund to stimulate economic development and trade through regional integration of transport.

THE FOOD FACILITY

The €1 billion Food Facility, which came into effect in March (28), was the direct EU response to the global crisis in food prices. Hundreds of millions of people are at risk of extreme poverty and malnutrition because of the volatility of food prices, combined with the financial crisis, global population growth, competition for land, climate change and environmental deterioration. Over 2009–11, this new facility is assisting 50 developing countries, bridging the gap between emergency aid and longer-term cooperation.

The first financing decision in this framework was the Commission adoption in March of a \leqslant 314 million package of projects to support agriculture and improve the food security situation in 23 developing countries across the globe. A second financing decision, in April, for \leqslant 394 million, included programmes and projects worth \leqslant 194 million in another 23 countries, and a \leqslant 200 million call to national cooperation agencies and non-governmental organisations for proposals for activities in 35 countries.

The new facility is encouraging the agricultural sector to produce, and it aims at strengthening its capacity and governance. It has improved local access to fertilisers and seeds, and supplied on-the-spot microcredit, investment, equipment, infrastructure and storage. It also provides vocational training for agricultural professionals.

The Parliament had called in January for 'immediate and continuous action' to ensure global food security (29). It said the aid of \in 1 billion that the EU has decided to give to developing countries should be accompanied by fresh investment in agriculture and it called for mechanisms to be set up to ensure that sufficient global food stocks are available. Complementary to the EU Food Facility, the 2009 annual action programme implementing the food security thematic programme was adopted by the Commission in May with funding of \in 217 million.

HELPING HOUSEHOLDS IN BANGLADESH

A project that started in March in Bangladesh rapidly created job opportunities for 78 000 men and women from vulnerable agricultural households. They improved irrigation and built seed-beds and access roads. As a result, 60 000 people live in areas that are now protected from salt-water intrusion, and 43 000 have new fishing opportunities; 26 000 additional people can now reach markets and 7 000 children can get to school even during the flood season. Altogether, 4 000 m² of land around homesteads has been created for vegetable cultivation, and more than 8 000 people no longer fear having their home washed away every flood season.

ECONOMIC PARTNERSHIPS — A PILLAR OF TRADE AND DEVELOPMENT POLICY

As part of the EU's approach to development, boosting trade is an important component in boosting prosperity of partner countries. Since 2001, the EU has set a world lead by eliminating all duties and quotas for all products (except arms) originating from the world's least-developed countries. The economic partnership agreements that the EU has devised for five African and Pacific regions are a follow-up. They are intended to be broad agreements, covering both trade and development. They will help to build regional markets and strengthen and diversify economies that have been dependent for the last 30 years on the export of just a few basic commodities to Europe. The idea is to help the countries in these regions integrate with their neighbours as a step towards global integration.

Interim agreements, mainly covering trade in goods, were signed in 2009 with Cameroon, with Botswana, Lesotho, Swaziland and Mozambique in the Southern African Development Community, Papua New Guinea, and Mauritius, Seychelles, Zimbabwe and Madagascar in the eastern and southern Africa region. Negotiations continued on comprehensive regional agreements in Africa and the Pacific, adapted to specific regional needs so as to conclude agreements tailor-made for each region. For them to be successful, these agreements must be balanced to provide benefits to both sides, as the European Parliament insisted in February, when approving the conclusion by the EU of the first regional agreement, reached with the Caribbean (Cariforum) in 2008.

TRADE

The European Union is a major power in international commerce—it accounts for a fifth of global exports and imports. It relies on an effective system of world trade with open markets, both for the prosperity that its exports provide, and for sourcing its imports on the best prices and terms.

OPEN MARKETS

In 2009 the EU continued its efforts to extend markets and to keep them open. In this way, EU trade policy helped to limit the scale of the downturn, and therefore the number of citizens who lose their jobs and become dependent on social policies.

Europe's economic strength today, in a global marketplace, depends on its ability to remain globally competitive. Some two thirds of European imports are inputs to production processes that transform them into higher value added products, much of which are then in turn exported. The EU needs to import in order to export. So the EU stepped up its action — supported by the 27 Member States — to ensure that its companies have fair access to other markets, which are often less open. The EU has focused new resources on better protection of intellectual property rights and fair access to raw materials.

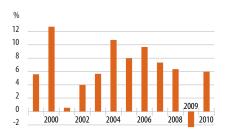
As outlined in Chapter 1, the EU showed global leadership in its response to the global economic and financial crisis. It argued consistently that sustainable recovery depends on the maintenance of open markets, based on international rules for free and fair trade. As worldwide trade volumes fell in the face of the economic crisis and the contraction of trade finance — the World Trade Organisation predicted a 10–12 % decline in 2009 — the EU battled against defensive tendencies to protect national trade interests. If countries around the world erect new barriers to trade, it argued, global production chains could collapse, turning recession into depression.

EU MARKET MEETS AFRICAN MARKETS

An interim economic partnership agreement signed in August between the EU and countries from the eastern and southern Africa regional grouping offers these countries immediate and full access to EU markets with transition periods for rice and sugar, together with improved rules of origin. In return, they will open their markets gradually over the next 15 years, with a number of important exceptions reflecting their development needs.

THE GROWTH IN GLOBAL TRADE

Annual change in % of the volume of all international trade in the world; 2009 and 2010 are forecasts



Source: European Commission.

TRADE WITH SOUTH KOREA

In October the EU and South Korea concluded negotiations on an ambitious free trade agreement. The deal, estimated to be worth up to €19 billion in new trade for EU exporters, will remove virtually all tariffs between the two economies, as well as many non-tariff barriers. It will create new market access in services and investment. The deal also makes major advances in areas such as intellectual property, procurement, competition policy and trade, and sustainable development. This will be a major boost for both economies. The agreement now moves to the Council and European Parliament for ratification.

WHERE DOES THE EU IMPORT FROM?

Share of imports into the EU, first half of 2009

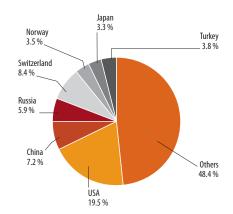
Japan Turkey Norway Switzerland Russia **Others** China 39.5 % USA

144%

Source: European Commission.

WHERE DOES THE EU EXPORT TO?

Share of exports from the EU, first half of 2009



To counter the threats to the international trading system, the Commission invested heavily and successfully in influencing the London G20 pledges, when world leaders agreed to base their trade policy on WTO rules and disciplines and the prospect of further liberalisation offered by the Doha Development Agenda. The EU also renewed its commitment to reinvigorating the Doha trade round as the best insurance policy against a new bout of protectionism, and it pushed for a swift and satisfactory outcome as the key to unlock new trade opportunities for all, and especially for developing countries. EU efforts were instrumental in the informal WTO ministerial meeting in Delhi and the resumption of senior official meetings in Geneva in the autumn.

The notion of 'fair trade' is at the heart of all these efforts. Moreover, the European Commission addressed fair trade and non-governmental traderelated sustainability assurance schemes (30). It acknowledged the strong growth of the fair trade movement and the significance of a European market in these products, which are now worth €1.5 billion per year. The Commission laid out new policy areas where fair trade and other schemes can contribute to European sustainable development objectives, and public procurement has also constituted a strategic market for fair trade products.

ECONOMIC POWERHOUSES

Global economic powerhouses — China, India, South Korea, Russia and the United States — have figured prominently on the EU's 2009 trade agenda.

The EU addressed the challenges — and opportunities — of consolidating relations with China, where the spectacular growth of recent years has led to dramatic increases in bilateral trade, making China the EU's second largest trading partner after the USA and the Union's biggest source of imports. But preliminary data suggest that EU-China trade decreased in 2009 from its 2008 level of €326 billion — partly due to the economic downturn, but also due to barriers that EU businesses encounter when they try to access the Chinese market. The EU called on China to reduce its trade barriers, which often contravene WTO rules. The EU-China High-Level Economic and Trade Dialogue in May, which focused on improving business opportunities in times of crisis and on open trade and investment as a catalyst for economic revival, led to agreements on closer economic cooperation and on the need to make progress in the Doha trade talks.

TALKING WITH CHINA

The aim of the talks with China during the year were to provide a forum for addressing trade issues before they become legal issues for the WTO. The outcomes have included a technology transfer agreement between a European telecommunications equipment manufacturer and its Chinese counterpart, and helping a major European cement manufacturer to resolve a trademark infringement.



During the year, an EU-China action plan on the customs enforcement of intellectual property rights was signed. Its principal goal is to improve control and prevention of the exports of fake products from China, further reinforcing the protection of EU firms' intellectual property rights. The EU also signed a cooperation agreement designed to better target customs controls in the fight against illicit imports, since China is reported as the main producer of precursors.

The Gulf Cooperation Council and the EU reviewed their recent consultations on a free trade agreement, with plans to resume discussions. In March, the European Parliament encouraged accelerated negotiations on an EU-India free trade agreement, which has been slated for signature by the end of 2010.

Textiles have helped make China the EU's biggest source of imports; removing the barriers that EU businesses encounter when they try to access the Chinese market has been high on the agenda of EU-China relations during the year.



The EU is Russia's main trading partner and largest source of foreign direct investment, while Russia is the Union's third largest trading partner. The importance of the relationship was shown in February, when Commission President José Manuel Barroso led nine other Members of the Commission to Moscow to meet the Russian President, Prime Minister and members of the government to set out the strategic direction for EU-Russia relations in the coming years. In addition to pressing common concerns such as the current global economic crisis and the international climate change negotiations, the discussions covered security of energy supplies, trade and border-crossing issues. The relationship with Russia was also heavily influenced by energy concerns arising from the January gas crisis — and the successful resolution of the crisis and restoration of supplies demonstrated the efficacy of EU diplomacy. The Council also authorised the Commission to start negotiations with Russia to improve cooperation in monitoring trade and preventing the trafficking and diversion of drug precursors.

European Commission President José Manuel Barroso makes his point alongside Russian Prime Minister Vladimir Putin at a meeting in Moscow.



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The election of Barack Obama as
President of the United States opened a
new chapter in transatlantic relations.
Here, Javier Solana, High Representative for
the Common Foreign and Security Policy
(left), European Commission President
José Manuel Barroso (centre) and Swedish
Prime Minister and President of the
European Council Fredrik Reinfeldt flank
Obama at the White House.

The inauguration of Barack Obama as President of the United States opened a new chapter in transatlantic relations. The EU was quick to establish links with the new administration, and to urge renewed commitment to open markets, and to a joint approach to solving problems, particularly in the face of the economic downturn. The first EU–US summit under the new President took place in Prague in May. The EU–US summit in Washington in November endorsed the concept of a global partnership, and set a course for enhanced cooperation on global challenges based on shared values of freedom, democracy, respect for international law, human rights and the rule of law.

It confirmed that Europe and the USA, with their global reach, economic power and shared values, are uniquely well-placed with the critical mass to offer coherent and positive leadership for the world. President Obama and the EU worked closely at the G20 summits in London and Pittsburgh, the informal EU–US summit in Prague, the G8 summit in L'Aquila, and at the EU–US summit. Building on the understanding reached in the long-standing transatlantic beef hormone dispute in May, both sides agreed to intensify their bilateral engagement in order to find solutions that will bring economic benefits to European and American workers, consumers and businesses.

In June, negotiations started on a comprehensive economic and trade agreement between the EU and Canada, which could provide up to \in 20 billion per year in additional benefits for the two economies. The agreement would cover trade in goods and services, investment, public procurement, the protection and enforcement of intellectual property rights, and commitments on the social and environmental aspects of trade and sustainable development. In July the Council mandated the renegotiation of a Euratom–Canada agreement on cooperation in the peaceful use of atomic energy.

The EU and three Andean countries — Colombia, Ecuador and Peru — restarted negotiations on a trade agreement in January, aiming at progressive and reciprocal liberalisation. Five rounds of trade negotiations took place, bringing a conclusion with Colombia and Peru into view. In Central America, the EU conducted negotiations on an association agreement with Panama, Guatemala, Costa Rica, El Salvador, Honduras and Nicaragua that will include a free trade agreement.

In September the Commission presented a renewed policy to strengthen the EU–Latin America strategic partnership (31). It addressed challenges in climate change, the economic and financial crisis, energy security and migration. The future Latin America Investment Facility will finance projects in energy infrastructure, including energy efficiency and renewable energy systems, transport, environment and social cohesion.

Market access partnerships also helped widen trade possibilities. The EU's market access strategy, which operates via partnerships with Member States and EU business, helps reduce trade barriers in third countries. It has simplified administrative procedures for EU exports of cosmetics to Japan, Mexico and South Korea. Working with the USA, it has won suspension of tariff increases on combine harvesters in Russia. It has reduced technical barriers to exports of wines and spirits to Colombia, India, Malaysia and Thailand. The European Union and Australia improved prospects for their businesses in June by signing a mutual recognition agreement covering medical devices, electrical equipment and telecommunications devices, and making trade easier by allowing conformity assessments (testing, inspection and certification) to take place in the exporting country, rather than on arrival in the importing country.

STRENGTHENED RELATIONS WORLDWIDE

The EU's links with the wider world are not restricted to discussions on trade or development. Dialogues on regional policy cooperation have increasingly featured in EU relations with other countries, taking advantage of the EU's long experience in how regional and cohesion policies underpin the process of economic and political integration, at the same time as promoting growth, sustainable development and cooperation across borders. The cooperation is supported by the European Parliament, which entrusted the European Commission with a new pilot project in this field for 2009.

To take the regional and cohesion policy dialogue forward, the Commission concluded memoranda of understanding with Ukraine in July and agreed a work programme in October. The work programmes under the memoranda of understanding agreed with Brazil, China and Russia also advanced.

A partnership and cooperation agreement was signed with Indonesia, marking a significant upgrade in relations, and the first agreement of its kind that the EU has signed in Asia. It covers trade, environment, energy, science and technology, and good governance, as well as tourism and culture, migration, counterterrorism and the fight against corruption and organised crime. The text of a partnership and cooperation agreement between the European Union and Iraq was also finalised.

BANANA DEAL

In December, a 15-year dispute over EU banana imports was resolved, when the EU agreed to gradually cut import tariffs on bananas from Latin America, while mobilising up to €200 million to help the main African and Caribbean banana-exporting countries adjust to stiffer competition. In response, the USA agreed to settle its related dispute with the EU.

During the year the EU held summit meetings with its major partners around the world. Climate change and the global financial economic crisis were priority items at all these meetings. In addition, the EU-Brazil summit in October focused on regional development issues. With Canada the agenda also included economic partnership, international and peace security, and aviation. Talks at the EU-Japan summit embraced science and technology, aviation, financial services, judicial cooperation and development policy cooperation. In South Korea, an agreement on cooperation in competition policy was signed, and talks ranged over scientific and technological cooperation and education and culture. At the EU-India summit in New Delhi, a decision was made on joint investments in environmental technology projects, including the partial financing of a factory that will make more environmentally friendly cars, and solar energy projects. In South Africa, exchanges on regional issues explored, in particular, the situation in Zimbabwe. In Russia, views were exchanged on human rights, the rule of law and democracy, and progress in the dialogue on visa liberalisation. At the first-ever EU-Pakistan summit, attention was devoted largely to concerns related to Afghanistan.

In China, after a summit in June that included signatures on joint actions on clean energy, science and technology, and promoting smaller firms, a second summit at the end of November highlighted the high-level dialogue that the EU and China maintain on economy and free trade and the importance of continued work against protectionism. The Swedish Prime Minister and Council President drew attention to the fact that the EU is China's largest trade partner. The EU and China also have recurring dialogues about human rights.

ENDNOTES

- (1) European Parliament resolution of 26 November 2009 on the Commission's 2009 enlargement strategy paper concerning the western Balkan countries, Iceland and Turkey.
- (²) http://www.se2009.eu/en/meetings_news/2009/12/11/ presidency_statement_on_the_closure_of_democratic_society_party_dtp_in_turkey
- (3) Commission document Croatia 2009 Progress Report (SEC(2009) 1333).
- (4) Commission document The former Yugoslav Republic of Macedonia 2009 Progress Report (SEC(2009) 1335).
- (5) Commission document Albania 2009 Progress Report (SEC(2009) 1337).
- (6) Commission document Montenegro 2009 Progress Report (SEC(2009) 1336).
- (7) Commission document Serbia 2009 Progress Report (SEC(2009) 1339).
- (8) Commission document Bosnia and Herzegovina 2009 Progress Report (SEC(2009) 1338).
- (°) European Parliament resolution of 24 April 2009 on the situation in Bosnia and Herzegovina.
- (10) Commission document Kosovo under UNSCR 1244/99 2009 Progress Report (SEC(2009) 1340).
- (11) European Parliament resolution of 5 February 2009 on Kosovo and the role of the EU.
- (¹²) Council conclusions on enlargement, 27 July 2009 (http://ec.europa.eu/enlargement/pdf/news/090727_109364_en.pdf).
- (13) Proposal for a regulation listing the third countries whose nationals must be in possession of visas when crossing the external borders and those whose nationals are exempt from that requirement (COM(2009) 366).
- (¹a) Commission document EU regionally relevant activities in the western Balkans 2008/09 (SEC(2009) 128).
- ($^{\rm 15})$ Commission communication Implementation of the European neighbourhood policy in 2008 (COM(2009) 188).
- (16) Joint Declaration of the Prague Eastern Partnership Summit, 7 May (http://register.consilium.europa.eu/pdf/en/09/st08/st08435.en09.pdf).

- (17) European Parliament resolution of 19 February 2009 on the review of the European Neighbourhood and Partnership Instrument.
- (18) Ministerial Declaration: ESDP Ten years Challenges and opportunities, 17 November 2009 (http://register.consilium.europa.eu/pdf/en/09/st15/st15649.en09.pdf).
- (http://register.consilium.europa.eu/pdf/en/09/st10/st1009.en09.pdf).
- (20) European Parliament resolution of 26 November 2009 on Nicaragua, European Parliament resolution of 26 November 2009 on the situation in Laos and Vietnam, European Parliament resolution of 26 November 2009 on China: minority rights and application of the death penalty.
- (21) Council conclusions on the Middle East peace process, 8 December 2009 (http://register.consilium.europa.eu/pdf/en/09/st17/st17281.en09.pdf).
- $\begin{tabular}{ll} (22) & Commission communication EU strategy for supporting disaster risk reduction in developing countries (COM(2009) 84). \end{tabular}$
- $\begin{tabular}{ll} (23) & http://www.un.org/millenniumgoals/bkgd.shtml \end{tabular}$
- (24) Commission report on policy coherence for development (COM(2009) 461).
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- (26) Decision 2009/735/EC (OJ L 262, 6.10.2009).
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- (28) http://europa.eu/rapid/pressReleasesAction.do?reference=IP/09/490&language=EN
- (29) European Parliament resolution of 13 January 2009 on the common agricultural policy and global food security.
- ⁸⁰⁰ Commission communication Contributing to sustainable development: The role of fair trade and non-governmental trade-related sustainability assurance schemes (COM(2009) 215).
- (31) Commission communication EU–Latin America: Global players in partnership (COM(2009) 495).





2009 was the year in which the European Union went through a renewal, in terms both of its institutional architecture and of the focus of its activities.

Some of the changes in the institutional framework were very evident. There was intense discussion throughout the year on the protracted process of ratifying the Lisbon Treaty, with a crucial referendum in Ireland and last-minute challenges in other Member States. The election of a new European Parliament was, by its nature, a major Europe-wide event. And wide media and public attention was attracted by the appointment of the next Commission President and of the new Commission, as well as by the decisions on the personalities who would take on the new role of European Council President and the dual role of High Representative for Foreign Affairs and Security Policy and Commission Vice-President.

The consequences of change were also evident.

As uncertainties over the treaty were resolved,
new institutional arrangements came into effect,
allowing purposeful planning of a new phase in the
management of EU affairs.

But other changes, not all of them so obvious, were also important. During the year, the EU institutions took new steps to reflect the interests and ambitions of its citizens and Member States through simplifying existing legislation, analysing more profoundly the justification for new legislation and providing easier and more coherent information about the way the EU works.

The cumulative effect of the numerous discussions and decisions was a new degree of efficiency, openness and democratic accountability in EU affairs.

CHANGES IN THE INSTITUTIONAL FRAMEWORK

Some of the changes the institutions underwent in 2009 were part of the regular routine of the EU — the European Parliament elections and the preparations for a new Commission. But ratification of the Lisbon Treaty — and filling the new posts it has created — was the culmination of a process with its own unique history, dating back to when the EU had only 15 Member States.

THE LISBON TREATY PUTS CITIZENS AT THE CENTRE

President of the European Commission
José Manuel Barroso said,
'The Treaty of Lisbon puts citizens at
the centre of the European project. I'm
delighted that we now have the right
institutions to act and a period of stability,
so that we can focus all our energy on
delivering what matters to our citizens.'

A NEW TREATY FOR A MORE EFFICIENT UNION

The Lisbon Treaty (¹) entered into force on 1 December 2009. The occasion was marked by a ceremony in the City of Lisbon organised jointly by the Portuguese government, the Swedish Presidency and the European Commission. The President of the European Parliament, Jerzy Buzek, the incoming President of the European Council, Herman Van Rompuy, and President of the European Commission, José Manuel Barroso, all took part in the ceremony along with other dignitaries.

The final stage of ratification came with the signature of the President of the Czech Republic on 3 November, some 22 months after the treaty was signed by the Heads of State or Government of the 27 Member States, and some 20 months after its first ratification by a Member State.

The treaty has provided the EU with updated institutions and optimised working methods to tackle the challenges of a rapidly evolving world, reinforcing democracy and the EU's capacity to promote the interests of its citizens.

At the beginning of 2009, all but four Member States — the Czech Republic, Germany, Ireland and Poland — had completed their national ratification procedures.

In September, Germany finalised the process, after a constitutional court ruling in June and the adoption of additional federal legislation in the summer.

In Ireland, the only Member State constitutionally required to hold a referendum, voters endorsed it in October with a turnout of 58 % and a 'Yes' vote of 67 % after an earlier referendum had rejected it in 2008. In preparation for a second referendum, the Irish government sought reassurances on matters that were of particular concern to Irish citizens. These were provided by the June European Council (2).



In a referendum in Ireland in October, voters endorsed the Lisbon Treaty with a turnout of 58% and a 'Yes' vote of 67%.

What does the Lisbon Treaty change?

- ▶ Citizens get a stronger voice in decision-making including, for the first time, a direct say in EU law-making: a new 'citizens' initiative' allows them to raise issues of wide public concern. National parliaments have the opportunity for more input into EU decision-making, and more checks on which matters the EU should deal with, through early consultation on proposed EU legislation. The EU law-making process is opened up to greater public scrutiny: the Council of Ministers must meet in public when deciding on new legislation. And MEPs, the citizens' directly elected representatives, have more say on EU laws and its budget, as additional subjects are brought into the co-decision procedure that requires European Parliament involvement.
- At the same time, the EU itself gets a new legal status. Its decision-making covers more fields than before, and EU decision-making procedures are streamlined. The Council will adopt decisions by qualified majority voting instead of unanimity on important new areas, such as fighting climate change, energy security and emergency aid, making action faster and more efficient. Decisions of the Council must, from 2014, be backed by at least 15 Member States, representing at least 55 % of EU countries and 65 % of the EU population.
- The institutions that run the EU's affairs are modified and processes are made more democratic. The European Council elects a President of the European Council for a term of two-and-a-half years to bring additional visibility and consistency to EU actions. A High Representative for Foreign Affairs and Security Policy, who is also a Vice-President of the Commission, promotes EU action internationally and defends its interests and values abroad, backed by a new External Action Service of diplomats and officials. The treaty also confirms the European Parliament's right to elect the President of the Commission proposed by the European Council.
- ▶ The euro is confirmed as the EU's currency.
- ▶ The EU's international role is confirmed in contributing to peace and security and in promoting its values of sustainable development, solidarity and mutual respect among peoples, free and fair trade, the eradication of poverty, the protection of human rights and respect for international law.
- ▶ The EU's role is extended beyond peacekeeping, conflict prevention and strengthening international security, to include disarmament operations, military advice and assistance, and helping to restore stability after conflicts.
- ▶ The EU's ability to fight international cross-border crime, illegal immigration and the trafficking of people, arms and drugs is strengthened, with bigger roles for the European Parliament and the Court of Justice.
- ▶ EU social objectives are intensified, all EU policies and actions must take into account the promotion of a high level of employment, and key utilities are recognised as of public interest.
- ▶ Promoting sustainable development, tackling climate change, developing sustainable energy and ensuring that the energy market functions well become priorities.
- Legal force is given to the rights and freedoms in the Charter of Fundamental Rights as regards EU legislation personal data protection, the right to asylum, equality before the law and non-discrimination, equality between men and women, the rights of children and elderly people, protection against unfair dismissal and access to social security and social assistance. The Union will also accede to the European Convention on Human Rights and Fundamental Freedoms.

Later in October, Poland concluded the ratification of the treaty, as President Lech Kaczyński signed it.

Czech President Václav Klaus signed the ratification instrument on 3 November, after the European Council at the end of October (3) made a declaration confirming a future extension to the Czech Republic of the opt-out that the UK and Poland secured on the application of the EU Charter of Fundamental Rights. This will, like the reassurances given to Ireland, take the form of a protocol that will be ratified alongside the next accession treaty.

A NEW TREATY FOR EUROPE'S CITIZENS

The Lisbon Treaty brings more democracy, more transparency and more efficiency to the EU, giving its citizens a bigger voice, allowing greater access to its processes and improving coordination among its institutions

Immediately, work began on putting the treaty's provisions into effect — including in making progress on the appointments to the new posts it created and in preparing for a new Commission under the modified rules the treaty established (see below). Another step was taken with the launch in November of a broad public consultation on one of the features of the new treaty, the European 'Citizens' initiative' (4), which will permit EU citizens to directly request an initiative by the European Commission upon the collection of at least 1 million signatures across the Member States.



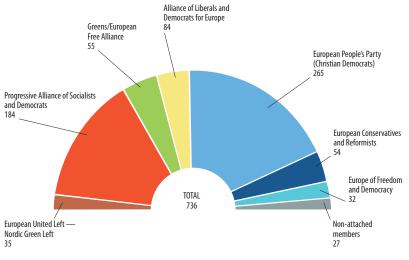
The elections to the European Parliament attracted worldwide media attention, reaching a climax as the results were announced on 7 June.

A RENEWED EUROPEAN PARLIAMENT

European Parliament elections — which take place every five years — were held across the Member States between 4 and 7 June. For the first time, 27 Member States were fully involved, since Bulgaria and Romania joined the EU in 2007.

The new Parliament consisted of 736 MEPs when it was elected, with the largest contingent from Germany and the smallest from Malta.

RESULT OF THE ELECTIONS TO THE EUROPEAN PARLIAMENT IN JUNE 2009

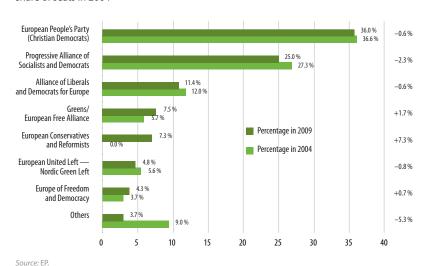


Source: EP.

The results of the vote showed a shift to the right. The centre-right European People's Party (EPP) maintained its position as the largest group. A new European Conservatives and Reformists group (ECR), made up of former EPP members, was created on the right of the spectrum. Seats were lost by the socialists (formerly the Party of European Socialists — PES, but entitled the Group of the Progressive Alliance of Socialists and Democrats in the European Parliament — S & D — in the new Parliament) and by the European United Left–Nordic Green Left (GUE–NGL). The liberals (ALDE) maintained their position, and the Greens/European Free Alliance (Greens/EFA) made gains. The Eurosceptic right-wing Europe of Freedom and Democracy (EFD) group (the former Independence/Democracy group) fell back slightly, and the Union for a Europe of the Nations (UEN) group was dissolved. The number of non-attached members is similar to the previous Parliament.

WHO WON THE EUROPEAN ELECTIONS?

Share of seats won in the 2009 elections to the European Parliament, compared with share of seats in 2004



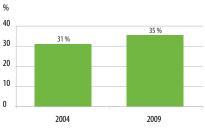
THE BIGGEST EUROPEAN PARLIAMENT ELECTION EVER

Citizens in 27 countries participated in the same elections to exercise direct influence on European affairs.

The elections resulted in a further increase in the proportion of women MEPs: at 35 %, the European Parliament now has a higher share of women members than most national parliaments in the Member States.

The pre-election period featured a new degree of cross-border cooperation within political groups as their national component parties worked together to present common manifestos at European level. The European Parliament ran an awareness campaign entitled 'It's your choice' that highlighted the policies on which the MEPs elected would have influence. The campaign used tools such as Facebook, Twitter and YouTube to attract voters, in particular among the young. In another innovation, the Commission complemented this campaign with its own actions.

SHARE OF FEMALE MEPS



Source: EP.



Women MEPs demonstrated in November in support of gender equality in the share-out of top EU jobs.

Although overall turnout was lower than in previous European Parliament elections, there were significant increases in eight Member States over 2004. Participation varied widely between Member States, with the highest level (90.75 %) in Luxembourg, where a general election was held the same day, and the lowest (19.64 %) in Slovakia. According to a post-election survey, the most common reason for not voting was disenchantment with politics in general, rather than dissatisfaction with — or ignorance of — the EU in particular. In many Member States, debate over national issues predominated over issues influenced by the EU. In some Member States, national, regional or local elections were also held on the same day, obscuring European issues.

'Today this European Parliament stands at the centre of a European

THE EUROPEAN PARLIAMENT AT THE

stands at the centre of a European parliament y democracy of which we could only dream in 1979. Parliament has become a legislature that is conscious of its responsibilities and in most areas of European legislation an equal partner in decision-making.

Hans-Gert Pöttering, President of the European Parliament, at the meeting of the European Council in June, immediately after the election. At the Parliament's constituent session in July, the new MEPs were sworn in, and elected Jerzy Buzek from the EPP group, former Polish Prime Minister and an MEP since 2004, as their President, for the first half of the five-year term. The only other candidate in the vote was Eva-Britt Svensson (GUE–NGL). Buzek described his election as a measure of 'how our Europe has changed' and as 'a sign' for the central and eastern European countries which joined the EU in 2004 and 2007: 'There is no longer an us and you. This time we can stand firm and say — we have a united Europe,' he said.

The concluding months of the outgoing legislature saw close cooperation between the Parliament, the Commission and the Council, in order to conclude several important legislative processes. And during the year the Parliament repeatedly demonstrated its capacity to contribute to vigorous EU debate — in issues as contentious as the telecoms package, access to documents, working time of persons performing mobile transport activities, the revision of the working time directive and the fisheries agreement with Guinea.



Jerzy Buzek (right) was elected in July for a two-and-a-half-year term as President of the European Parliament, succeeding Hans-Gert Pöttering (left).

Parliament began to prepare for the increased powers it gains under the Lisbon Treaty, notably its enhanced legislative powers and a new procedure for adopting the EU budget, which puts Parliament on an equal footing with the Council. The Parliament also introduced reforms in its own operations, in line with a report it adopted in May (5) on the revision of its rules of procedure; these include new arrangements for cooperation among its committees, and ways of making parliamentary debates in the plenary more lively. Buzek's inaugural speech identified parliamentary reform as one of the main challenges of his mandate. 'I will work on creating a new model and working relationship with the European Commission,' he said. The Parliament also set up a new Special Committee on the Financial, Economic and Social Crisis, in October, which was given a 12-month mandate to develop policy recommendations.

NEW PERSONALITIES FOR A RENEWED EU

In July the European Council formally nominated José Manuel Barroso as President of the next European Commission. In response to requests from the European Parliament, the President-designate presented his own 'policy guidelines' (6) and met with each of the Parliament's main political groups to discuss his plans and hear their views. His guidelines included a chapter on a specific partnership between the European Commission and the European Parliament, with pledges on enhanced cooperation with the Conference of Presidents and the Conference of Committee Chairs, the introduction of a 'Question hour', a review of all pending proposals at the beginning of the new Commission's mandate, and enhanced information provision on external action. He said: 'I will take the special partnership with the European Parliament to a new level.'

The Barroso political guidelines

European Commission President José Manuel Barroso set out his political guidelines for his second term when he appeared before the European Parliament in September. This was also the basis for his allocation of responsibilities in the new Commission. The guidelines highlighted:

- ▶ the need for EU leadership, shaping globalisation on the basis of the EU's values and interests;
- ▶ taking global interdependence as the starting point;
- ▶ putting people at the heart of the EU agenda;
- ▶ restarting economic growth and ensuring long-term sustainability and competitiveness;
- ▶ fighting unemployment and reinforcing social cohesion;
- ▶ turning the challenge of a sustainable Europe to competitive advantage;
- ensuring the security of Europeans;
- ▶ reinforcing EU citizenship and participation.

At its September plenary session, the Parliament gave Barroso its backing (7), by an absolute majority, sufficient to fulfil even the more demanding level of endorsement required by the Lisbon Treaty for appointment of a Commission President. Interpreting the vote as 'an acceptance of the ambitious programme for a Europe of freedom and solidarity' in his policy guidelines, he confirmed his determination to work closely with MEPs 'to build an even stronger parliamentary democracy'.



The President of the European Council

Herman Van Rompuy, 62, was selected as the first President of the European Council in November 2009. He had taken up the post as Belgium's Prime Minister in December 2008. His national political party, the Flemish Christian Democrats, is aligned to the European People's Party. His 35-year political career started as a political adviser to senior ministers, and has included spells as budget minister in the 1990s and, more recently, as speaker of the Belgian lower house. He stood down as Belgian Prime Minister in November so as to start work in his new EU post on 1 January 2010.

The nomination of the new Commission was delayed by uncertainty over the date of entry into force of the Lisbon Treaty. The outgoing Commission was due to end its term at the end of October, but stayed on in a caretaker capacity from 1 November until after the end of 2009, pending completion of the nomination and approval process of its successor. In the meantime, some modifications took place within the outgoing Commission. Regional Affairs Commissioner Danuta Hübner from Poland resigned to take up a seat in the EP and was replaced by Paweł Samecki. Algirdas Šemeta replaced Budget Commissioner Dalia Grybauskaitė, who was elected President of Lithuania. Karel De Gucht of Belgium took over as Commissioner for Development and Humanitarian Aid following the resignation of his compatriot Louis Michel, who took up a seat in the EP. The EP gave a positive assessment of all three new Commissioners in September. Following the resignation of Ján Figel', who was elected chairman of the Christian Democratic Movement in Slovakia, Maroš Šefčovič, the Slovak Permanent Representative to the EU, took over the portfolio of Education, Training, Culture and Youth until the end of the outgoing Commission's mandate.

In mid-November, Swedish Prime Minister Fredrik Reinfeldt, in his capacity as President of the Council, convened an extraordinary summit of EU leaders to make the appointments to the two new posts created by the Lisbon Treaty.

Belgian Prime Minister Herman Van Rompuy was selected as President of the European Council, for a two-and-a-half year term, and Baroness Catherine Ashton, the Commissioner for Trade, as the new High Representative of the Union for Foreign Affairs and Security Policy and Vice-President of the Commission.

The High Representative of the Union for Foreign Affairs and Security Policy

Catherine Ashton, 53, the new High Representative of the Union for Foreign Affairs and Security Policy and Vice-President designate of the Commission, had been the UK's European Commissioner since October 2008, in replacement of Peter Mandelson. From 1999 until then, she had been a Labour member of the UK's upper house, the House of Lords (as Baroness Ashton of Upholland), where she held ministerial office with responsibilities successively for education, constitutional affairs, justice and human rights. In 2007 she was appointed Leader of the House, in charge of government business in the Lords. She took up her new post on 1 December, when the Lisbon Treaty came into force.

As the Lisbon Treaty came into force on 1 December and Catherine Ashton took up her post as High Representative of the Union for Foreign Affairs and Security Policy, Javier Solana stepped down after 10 years as the EU's first — and only — High Representative for the Common Foreign and Security Policy. He had simultaneously held the post of Secretary-General of the Council, and in this role was replaced by Pierre de Boissieu, his deputy.

Days after these posts were decided, European Commission President José Manuel Barroso announced his plans for the composition of the new Commission, with its mandate of 2010–14.

After having received the names of all the countries' candidates, the allocation of portfolios was arranged as shown in the table (overleaf).

The new Commission includes some new portfolios: Climate Action; Home Affairs; and Justice, Fundamental Rights and Citizenship. Other portfolios are reconfigured: Education, Culture, Multilingualism and Youth; Health and Consumer Policy; Industry and Entrepreneurship; Research, Innovation and Science; International Cooperation, Humanitarian Aid and Crisis Response. There will be a new emphasis on 'inclusion' in the Employment, Social Affairs and Inclusion portfolio, and a renewed focus with the Digital Agenda portfolio.

Swedish Prime Minister Fredrik Reinfeldt, representing the Swedish Presidency, welcomed President Barroso's proposed new Commission as well composed and balanced, with clear divisions of responsibility.

The members of the College come from different political families, notably the European People's Party, the Progressive Alliance of Socialists and Democrats, and the Alliance of Liberals and Democrats for Europe. Fourteen members, including the President, were already members of the outgoing College.

The Commissioners-designate were to present themselves in the hearings before the European Parliament in January 2010, prior to a vote of consent.



3ELGA / AFP / Georges Gobet

INTRODUCING THE NEW COLLEGE

'I am confident that this College will be decisive in steering Europe towards recovery and a sustainable social market economy that works for the people. I have put together a strong Commission to fill the enhanced role of Europe, including on the world stage, provided by the Lisbon Treaty. One of the key tasks of this College will be to give life to the new opportunities provided by the Lisbon Treaty'.

European Commission President José Manuel Barroso

José Manuel Barroso (Portuguese)	on Barroso II as nominated December 2009 President				
Catherine Ashton (British)	High Representative of the Union for Foreign Affairs and Security Policy and				
Catherine Ashton (british)	Vice-President				
Viviane Reding (Luxembourgish)	Justice, Fundamental Rights and Citizenship; Vice-President				
Joaquín Almunia (Spanish)	Competition; Vice-President				
Siim Kallas (Estonian)	Transport; Vice-President				
Neelie Kroes (Dutch)	Digital Agenda; Vice-President				
Antonio Tajani (Italian)	Industry and Entrepreneurship; Vice-President				
Maroš Šefčovič (Slovakian)	Interinstitutional Relations and Administration; Vice-President				
Janez Potočnik (Slovenian)	Environment				
Olli Rehn (Finnish)	Economic and Monetary Affairs				
Andris Piebalgs (Latvian)	Development				
Michel Barnier (French)	Internal Market and Services				
Androulla Vassiliou (Cypriot)	Education, Culture, Multilingualism and Youth				
Algirdas Šemeta (Lithuanian)	Taxation and Customs Union, Audit and Anti-Fraud				
Karel De Gucht (Belgian)	Trade				
John Dalli (Maltese)	Health and Consumer Policy				
Máire Geoghegan-Quinn (Irish)	Research, Innovation and Science				
Janusz Lewandowski (Polish)	Budget and Financial Programming				
Maria Damanaki (Greek)	Maritime Affairs and Fisheries				
Günther Oettinger (German)	Energy				
Johannes Hahn (Austrian)	Regional Policy				
Connie Hedegaard (Danish)	Climate Action				
Štefan Füle (Czech)	Enlargement and Neighbourhood Policy				
László Andor (Hungarian)	Employment, Social Affairs and Inclusion				
Cecilia Malmström (Swedish)	Home Affairs				
Rumiana Jeleva (Bulgarian)	International Cooperation, Humanitarian Aid and Crisis Response				
Dacian Cioloş (Romanian)	Agriculture and Rural Development				

EFFICIENCY AND TRANSPARENCY

The renewal of the EU has boosted its capacities, both administratively and politically, to take account of the views of European citizens and to meet their expectations in addressing major issues. It has also provided mechanisms that bring in new efficiencies and new openness in the way that the EU operates in the interests of its citizens.

BETTER REGULATION

Over recent years, the Commission has made progress in implementing its better regulation agenda. Legislation already on the books is being simplified, brought up to date and made more accessible. Red tape is being cut, and a programme is focusing on reducing administrative burdens for businesses. To ensure the quality of new legislation and policies, a wide-ranging impact assessment system has been created. And together with the Member States, the Commission is developing more-efficient approaches to ensuring that EU law is correctly applied. The objective of the better regulation agenda is a regulatory framework

that stimulates entrepreneurship and innovation, and allows businesses to compete more effectively and to exploit to the full the potential of the internal market. In doing so, the better regulation agenda contributes to growth and job creation while maintaining high standards of social, environmental, health and consumer protection.

The Commission's third strategic review of the better regulation initiative, issued in January (8), showed good progress over the previous year, with the screening of all EU legislation completed, revisions made to the impact assessment guidelines, and a programme on track to deliver its target of a 25 % reduction in administrative burdens. The May Competitiveness Council reaffirmed its backing for the strategy (9), and recalled that responsibility for making it work is shared by the European institutions and the Member States. It also underscored the urgency of improving the regulatory environment in light of the difficult current economic situation.

As far as simplification and improvement of existing legislation is concerned, the Commission has screened all EU legislation in force to identify areas for improvement, and its rolling simplification programme, updated annually, currently includes 185 initiatives to recast, revise or repeal existing legislation, of which 19 were delivered by the Commission in 2009. In parallel, the Commission finalised codification of 25 acts in 2009. So far, a total of 220 codified acts have replaced 1 090 previous acts, which corresponds to about 2 000 pages of the Official Journal.

The third progress report on simplification strategy, issued in June, listed tangible benefits for citizens and companies, in particular small and medium-sized enterprises: 148 simplification initiatives contributed to streamlining the regulatory framework, improving working procedures (notably through wider use of information technologies) and ensuring effective functioning of the internal market. The Commission included 33 simplification initiatives in its legislative and work programme for 2009, in areas ranging from combating late payment in commercial transactions to simplified procedures in state aid.

In October, a Commission overview of progress to date in the 'Action programme for reducing administrative burdens in the EU' — part of the overall better regulation agenda — showed that measures proposed by the Commission and under preparation would enable businesses to save around €40 billion a year on red tape stemming from the envisaged 72 legal acts and the measures that transpose and implement them in the Member States. Reduction measures already in place could bring a reduction of €7.6 billion a year, and measures proposed by the Commission and pending adoption by the European Parliament and the Council would add another €30.7 billion. Two proposals alone, made in early 2009, could save €25.1 billion — facilitating e-invoicing for VAT, worth €18.8 billion, and exempting micro-entities from accounting obligations, worth €6.3 billion.

REDUCING THE ADMINISTRATIVE BURDEN

'We continue to attach a high political priority to reducing administrative burdens and driving forward smart regulation. Indeed, I will make smart regulation a leitmotif ... And I will make sure that all our new initiatives are inspired by these principles of smart regulation.'

José Manuel Barroso

SIMPLIFICATION

By simplifying and codifying laws, the Commission reduced the EU body of legislation by almost 14% — about 1 600 legal acts — between 2004 and 2009.

CUTTING RED TAPE AWARD

A new European Commission award encourages small firms to suggest ideas which could reduce their administrative burden. The first Red-tape Reduction Award, presented in May, went to the German Skilled Crafts Confederation (ZDH), which suggested that vehicle movements for craft firms should be exempted from tachograph requirements up to 150 km from their base, rather than the current 50 km radius. The Commission is now examining the possibility of amending the rules accordingly.

FEWER REPORTS ON TRADE

In order to produce trade statistics, enterprises have to report on their import and export of goods within the EU. The threshold for reporting has been raised, relieving smaller firms of the administrative burden this requirement imposes. The number of reporting enterprises has been cut from 720 000 to around 350 000 since 2004.

LESS REPORTING ON MERGERS

Companies could save as much as €172 million a year as a result of new limits on reporting and documentation requirements in mergers and divisions. This has been achieved by simplification of the third and sixth directives in company law.

CUTTING ACCOUNTING COSTS

The Commission proposal to exempt micro-enterprises from the accounting requirements gives the possibility to Member States to allow each of the 5.4 million micro-enterprises in Europe to save around €1 170 a year.

ASSESSING THE IMPACT

Since 2002, the Commission has completed over 500 impact assessments. In 2009 some 80 impact assessments were carried out for major policy initiatives.

QUALITY CONTROL ON IMPACT ASSESSMENTS

The Impact Assessment Board — the Commission's independent quality-control body — continues to ensure that impact assessments conform to procedures and quality standards, as it has done since 2007. In 2009 it issued around 100 opinions on the quality of Commission impact assessments and provided concrete recommendations for improvements.

Central to the Commission's efforts to improve the quality of its new proposals is the systematic use of impact assessment for initiatives likely to have significant impacts. These assessments analyse not only benefits and costs, but also the significant economic, social and environmental impacts of possible interventions, including the administrative burdens they may generate for businesses, citizens and public authorities.

Newly revised impact assessment guidelines (10) ensure rigorous analysis of whether the measure is necessary at EU level, and a more thorough evaluation of impacts, including on small business, consumers or fundamental rights. There is greater emphasis on consultations, with more effort to make stakeholders aware of consultations, and longer deadlines for comment. A central quality-control function — the Impact Assessment Board — operational since 2007, independent of policy-making departments, continues to ensure that impact assessments conform to procedures and quality standards.

Better regulation is not just a Commission initiative but is also applied by the other EU institutions. The newly elected European Parliament became more closely involved in the search for greater legislative efficiency, conducting an extensive examination of some 200 legislative proposals on which the previous Parliament did not complete its work. In September the Parliament asked the Commission to withdraw some of these proposals or to present fresh drafts. It also noted the areas where it had asked the Commission to make proposals and had not yet received them.

The Council pledged to examine impact assessments in the early stages of preparatory work, when the Commission presents the proposals in its annual legislative and work programme. The Council also requested the Commission to monitor progress on the 'Action programme for reducing administrative burdens in the EU', and to report to every spring European Council on the implementation of reduction measures and on significant changes in administrative burdens.

Work continued on improving the way that Member States apply EU law. The Commission increasingly geared its enforcement interventions to the areas of implementation that would bring the greatest benefit to the greatest number of citizens and businesses. In December the Commission presented its annual report on monitoring the application of Community law (11), which highlighted the extensive nature of the problem of the late transposition by Member States of directives.

A project to help solve problems that citizens and businesses encounter in the application of Community law completed its first year of operation. This 'EU pilot' project involved 15 volunteer Member States in cooperation with the Commission. An improved system for citizens and businesses to register enquiries and complaints about the application of Community law was introduced in a test phase.

COMMUNICATION AND INTERINSTITUTIONAL RELATIONS

The year 2009 was the first in which interinstitutional communications priorities were agreed between the Council, the European Parliament and the Commission under the joint declaration on 'Communicating Europe in partnership', signed in December 2008. The four priorities selected were the European Parliament elections, energy and climate change, the 20th anniversary of democratic change in central and eastern Europe, and sustaining growth, jobs and solidarity — with a particular link to the European Year of Creativity and Innovation.

The European Parliament's awareness campaign for the June elections, using a common visual identity, was actively supported by the Commission. Millions were reached through thousands of activities organised by institutions, Member States and committees. And together with the Parliament and Member States, the Commission organised activities and events to raise awareness of climate change and to tell people about the EU's position.

COMMUNICATING ON CLIMATE CHANGE

The Commission, the Parliament, and Member States organised awareness-raising activities on energy and climate change, engaging citizens and providing information on the EU policies. They included websites and video clips, the 'Click a tree initiative', the 'pallet house' exhibition showing energy- and environment-friendly ways of living, and the 'Play to stop — Europe for climate' MTV series of free concerts.



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In preparation for the entry into force of the Lisbon Treaty, the Commission focused on arrangements for the closer contacts there will be with national parliaments, and meanwhile continued its longstanding contacts through high-level participation in the conference of European affairs committees of the parliaments of the European Union and in meetings between national parliaments and the European Parliament. During the year the Commission received more than 220 opinions from national parliaments. In July the Commission adopted its fourth annual report on relations with national parliaments (12).

The Lisbon Treaty creates closer contacts between the EU and national parliaments — here, Las Cortes in Spain.

TWENTIETH ANNIVERSARY OF DEMOCRATIC CHANGE IN CENTRAL AND EASTERN EUROPE

To reflect the major influence on Europe and its people from the change of regime in the EU countries of central and eastern Europe, this anniversary was celebrated with activities across Europe (http://www.europa1989-2009.eu). They included concerts, debates, competitions, open-air festivals, photo exhibitions, seminars and videos.

The European Economic and Social Committee

During 2009, the European Economic and Social Committee adopted its 'Programme for Europe: proposals of civil society', a strategic, long-term document on the current political debate and the challenges ahead. The EESC has stepped up stakeholder involvement in the process of developing a more competitive, more sustainable and more integrated Europe, and co-organises with the European Commission the European Integration Forum to provide a voice for civil society in integration issues.

The new President of the European Parliament expressed his determination to work more closely with other institutions. Addressing the November plenary of the European Economic and Social Committee, Jerzy Buzek, President of the European Parliament, thanked the Committee for its support in democratisation of the European Union, and looked forward to 'fresh and fruitful cooperation between the two assemblies in the framework of the new Lisbon Treaty', stressing their common task of bringing Europe closer to its citizens. 'In his wish to safeguard the European social model and his announcement to decidedly protect European leadership in the fight against climate change, the European Parliament President underlines the major concerns of the European Economic and Social Committee,' said its President, Mario Sepi.

Committee of the Regions

In April 2009 the Committee of the Regions adopted an ambitious mission statement which sets priorities for the next 15 years and beyond, marking its 15th anniversary. The Committee's aspiration for a more systematic involvement of regional and local authorities in major EU policies culminated in its adoption in June of the White Paper on multilevel governance.

Addressing the first Committee of the Regions plenary session after his election, Jerzy Buzek declared: 'I have always been a supporter of the decentralisation of powers. Subsidiarity is key to the welfare of our citizens. This is why we need you, as Europe's elected regional and local representatives.' Committee of the Regions President Luc Van den Brande responded: 'Through our opinions, we shape the future European policies: we would like to keep doing so in partnership with the European Parliament, similarly to what we already do in partnership with the European Commission.' During the year, the Committee of the Regions urged the EU institutions and Member States to step up the involvement of local and regional authorities in the preparation and implementation of EU policies. The call came in the form of a White Paper — the first the Committee had ever issued — on multilevel governance.

European Ombudsman

As part of his work to encourage greater transparency in the European institutions, the European Ombudsman, P. Nikiforos Diamandouros, opened more than 100 inquiries in 2009, mainly relating to staff matters, access to documents, grants and subsidies, and infringements.

Agencies

A Court of Auditors report in November (13) concluded that the European Commission's executive agencies are providing effective service, because of their specialisation in well-defined tasks. They conclude contracts, make payments and approve technical and financial reports on the projects more rapidly. In addition, they have simplified the management procedures and reduced the administrative burden for applicants and project promoters. Increased external communication and dissemination of results to a wider public are also contributing to enhance the visibility of EU actions, it said. The report also identified some areas where improvements to the system could be made, notably in supervision and reporting. The Parliament, the Council and the Commission agreed in March to a joint assessment of the EU's regulatory agencies, and an interinstitutional working group started reviewing their roles, structure and operation.

TRANSPARENCY

The Commission register of interest representatives (14) celebrated its first anniversary in 2009. This voluntary register has, since its launch in June 2008, acquired increasing significance for those interested in the Brussels' lobbying scene. Citizens can see the huge diversity and multitude of active organisations and they can see, for the first time, what their financial background is. In September, the 2000th organisation signed up, exceeding expectations. The register has become a working tool for the Commission services. For instance, the Directorate-General for Trade decided to drop all unregistered organisations from their 'Civil society database', and the Agriculture DG took similar steps to make registration a condition for participation in structured and permanent consultations. Other DGs with wide civil society contacts, such as the Education and Culture DG and the Health and Consumers DG, have recommended registration.

The year 2009 also marked a milestone in terms of transparency in EU spending. For the first time, the names of the beneficiaries of major EU financial instruments — the common agricultural policy and Structural Funds — were published on the Internet in 2009. For each beneficiary, the websites state the full name, the municipality and the value of the funding received. The Commission brought all the available information together in a single website. And for the second year, 2009 saw the publication of the beneficiaries of the €18 billion from instruments that the Commission itself manages — in research, transport, energy, education and culture. The 'Financial transparency system' website (¹⁵) allows searches on several criteria. The underlying rationale was that taxpayers have the right to know how their money is used, and transparency through reinforcing public control should improve management and use of these funds.

A new degree of transparency was achieved over the financing of the Council's activities, after cooperation with the Parliament over budgets. In April, Parliament decided to postpone its vote on the discharge of the Council's 2007 budget, pending further information. The discharge for Council was approved finally in early November by the EP's competent committee, after the Parliament had received serious 'concessions' from the Council, including the provision of further information on its webpage about its use of its budget.

TRANSPARENT LOBBYING

The Commission's register of interest representatives contained 2092 registrations in October 2009:

- professional consultancies/law firms involved in lobbying EU institutions: 121
- 'in-house' lobbyists and trade associations active in lobbying: 1159
- ▶ NGOs/think-tanks: 590
- ▶ other organisations: 222

IDENTIFYING EXPERTS

The identities of the members of all the European Commission's advisory expert groups were made public for the first time.

PROTECTING EU TAXPAYERS' MONEY

In its 10 years of operation, which it celebrated in June, the European Anti-Fraud Office, OLAF, opened more than 3 000 cases, leading to the recovery of more than €1 billion of European taxpayers' money. The Commission's annual report on the application of the regulation on public access to documents showed a steady increase of access requests, and a large majority of requests (83 %) granted. A new legal framework for European statistics was adopted in March, which will ease access to information. And during the year, following a Commission suggestion to revise the rules on its expert groups, work started on clarifications which will increase transparency. The Commission has gradually completed the publication of the names of all members of its expert groups.

Landmark rulings by the Court of Justice

Since the establishment of the Court of Justice of the European Union in 1952, its mission has been to ensure that 'the law is observed' 'in the interpretation and application' of the treaties. The Court of Justice of the European Union, which has its seat in Luxembourg, consists of three courts: the Court of Justice, the General Court (created in 1988 as the Court of First Instance, and renamed in 2009 under the terms of the Lisbon Treaty) and the Civil Service Tribunal (created in 2004). Since their establishment, approximately 15 000 judgments have been delivered by the three courts.

Social policy

Case C-116/08 Meerts (ruling of 22 October 2009)

Compensation for dismissal of a full-time worker dismissed when on part-time parental leave is to be calculated on the basis of his full-time salary. A reduction of the worker's rights in the event of parental leave could discourage workers from exercising such right and could encourage employers to preferably lay off workers who are on parental leave.

Joined Cases C-350/06 and C-520/06 Schultz-Hoff and Others (ruling of 20 January 2009)

Workers do not lose their **right to paid annual leave** which they have been unable to exercise because of sickness. They must be compensated for the annual leave not taken.

Case C-88/08 Hütter (ruling of 18 June 2009)

Articles 1, 2 and 6 of Council Directive 2000/78/EC of 27 November 2000 establishing a general framework for **equal treatment in employment and occupation** must be interpreted as precluding national legislation which, in order not to treat general education less favourably than vocational education and to promote the integration of young apprentices into the labour market, excludes periods of employment completed before the age of 18 from being taken into account for the purpose of determining the incremental step at which contractual public servants of a Member State are graded.

Case C-63/08 Pontin (ruling of 29 October 2009)

Dismissed pregnant workers must enjoy effective judicial protection of their rights under Community law. Where the only remedy available under national legislation does not provide adequate time-limits within which a worker dismissed during pregnancy can bring proceedings, such legislation introduces less-favourable treatment linked to pregnancy and constitutes discrimination against female employees.

Consumer protection

Case C-489/07 Messner (ruling of 3 September 2009)

A consumer who exercises his **right of withdrawal from a distance contract** must not be obliged, in general, to compensate the seller for the use of the goods acquired. In certain circumstances, a consumer can however be required to pay compensation for the use of the goods acquired where he has made use of those goods in a way incompatible with the principles of civil law, such as those of good faith or unjust enrichment.

Air transport

Joined Cases C-402/07 and C-432/07 Sturgeon and Others (ruling of 19 November 2009)

Passengers whose flights are delayed may be entitled to compensation. When they reach their final destination three hours or more after the scheduled arrival time, they (like passengers whose flights are cancelled) may seek flat-rate compensation from the airline, unless the delay is caused by extraordinary circumstances.

Internal market

Case C-222/07 UTECA (ruling of 5 March 2009)

A Member State can require television operators to earmark part of their operating revenue for the **funding of European cinematographic and TV films**. National legislation may also provide for a specific rate of funding for works whose original language is one of the official languages of that Member State.

Environment

Case C-115/08 ČEZ (ruling of 27 October 2009)

The Austrian courts, when hearing an action for cessation of nuisance between neighbouring landowners and the Temelín nuclear power plant, must take account of the operating authorisation granted by the Czech authorities. That authorisation is part of the Community system aimed at ensuring protection of the population against nuclear hazards. As a result national legislation cannot treat differently industrial facilities on the basis of the operating authorisation having been granted by national authorities or authorities of Member States.

Case C-552/07 Azelvandre (ruling of 17 February 2009)

The right of public access to information applies to releases of genetically modified organisms. Member States cannot invoke a public order exception so as to prevent the disclosure of the location of release of genetically modified organisms.

Common foreign and security policy

Case T-341/07 Sison v Council (ruling of 30 September 2009)

A national procedure leading to the **refusal to grant refugee status** or right of residence cannot be used by the Council to freeze funds unless the national procedure was launched in the framework of the fight against terrorism.

Joined Cases T-37/07 and T-323/07 El Morabit v Council (ruling of 2 September 2009)

The General Court upholds the Council's decisions freezing the funds of Mohamed El Morabit. Those decisions do not breach the principle of the presumption of innocence and the Council is not obliged to wait for a final conviction before freezing funds.

Parliamentary proceedings in 2009

Resolutions and decisions adopted by the European Parliament

Legislation						Other procedures																	
	Cooper	ation (¹)	C	o-decisio	n							.	.	.					ative	108)	rights	snoa	
Consultation	First reading	Second reading	First reading (²)	Second reading (3)	Third reading	Assent	Budget and discharge	Own initiative	Resolutions (Articles 103 and	Human ri	Miscellaneous	Total											
89			75	22	8	6	55	121	91	26	20	513											

⁽¹⁾ In 34 cases the European Parliament amended the Commission proposal.

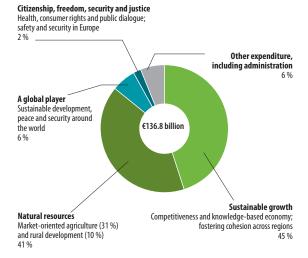
 $^(^3)$ In 14 cases the European Parliament amended the Council's common position.

Staff in the EU institutions — number of posts as per December 2009							
	Permanent posts	Temporary posts					
Commission, administrative posts	20 018	366					
Commission, research	3 827						
Offices attached to the Commission	1 883	115					
Parliament	5 093	126					
Council	3 476	36					
Court of Justice, the General Court and the Civil Service Tribunal	1 493	438					
European Economic and Social Committee	643	146					
Committee of the Regions	465	37					

⁽²) In 63 cases the European Parliament amended the Commission proposal and in one case it rejected the Commission proposal.

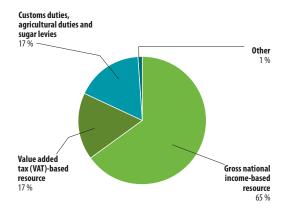
THE EU BUDGET IN 2009

Sustainable development and innovation at the core of the EU budget



Source: European Commission.

WHERE DOES THE MONEY FOR THE EU BUDGET COME FROM?



Source: European Commission.

ENDNOTES

- (¹) Treaty of Lisbon amending the Treaty on European Union and the Treaty establishing the European Community (OJ C 306, 17.12.2007).
- (2) Presidency conclusions of the European Council, 18/19 June 2009 (http://register.consilium.europa.eu/pdf/en/09/st11/st11225-re02.en09.pdf).
- (*) Presidency conclusions of the European Council, 29/30 October 2009 (http://register.consilium.europa.eu/pdf/en/09/st15/st15265-re01.en09.pdf).
- (9) Commission communication Green Paper on a European citizens' initiative (COM(2009) 622).
- (5) European Parliament's rules of procedure as amended on 6.5.2009, Richard Corbett rapporteur (http://www.europarl.europa.eu/news/expert/briefing_page/54105-124-05-19-20090421BRI54104-04-05-2009-2009/default_p001c028_en.htm).
- $\begin{tabular}{ll} (\%) & Political guidelines for the next Commission, 3.9.2009 \\ & (http://ec.europa.eu/commission_barroso/president/pdf/press_20090903_EN.pdf). \end{tabular}$
- (7) http://www.europarl.europa.eu/news/expert/infopress_page/008-60584-257-09-38-901-20090911IPR60583-14-09-2009-2009-false/default_en.htm

- (a) Commission communication Third strategic review of better regulation in the European Union (COM(2009) 15).
- (°) Competitiveness Council conclusions, 28/29 May 2009 (http://register.consilium.europa.eu/pdf/en/09/st10/st10306.en09.pdf).
- (10) Commission document, Impact assessment guidelines, 15.1.2009 (SEC(2009) 92).
- (11) Annual report on monitoring the application of Community law (2008) (COM(2009) 675).
- (12) Fourth annual report on relations with national parliaments (COM(2009) 343).
- (¹³) European Court of Auditors, Special Report Delegating implementing tasks to executive agencies: a successful option?, (http://eca.europa.eu/portal/pls/portal/docs/1/3336297.PDF).
- (14) https://webgate.ec.europa.eu/transparency/regrin/welcome.do
- (15) http://ec.europa.eu/beneficiaries/fts/index_en.htm





The EU's activity on behalf of its citizens extends far beyond the economic recovery plan and the climate and energy strategy reported on in previous chapters, and its influence is felt in many areas beyond external relations and institutional affairs. The EU has continued developing the internal market and the freedoms it embodies. It has made it easier and safer for people and goods to move around Europe. It has acted as the consumer watchdog, looking after citizens' interests on banking, on product safety and on their rights as customers.

It has worked with Member States to promote citizens' health. It has promoted greater efficiency in the agricultural sector, and ensured a comprehensive policy approach towards its seas and oceans. Its regulations and programmes have brought the opportunities of advanced technologies to citizens and boosted Europe's competitiveness.

At the same time, the EU has brought in new programmes and taken concrete steps to combat crime and terrorism, to bring greater certainty into cross-border legal cases and to manage migration and asylum with respect for human rights. The interests of society have been catered for in areas ranging from maternity leave to workers' rights.

Although the EU's activities and policies are diverse, there is a conscious and increasing degree of coherence among them. Through many of these actions in individual areas, the EU has contributed to broader policy objectives — including economic recovery, more efficient energy use, lower emissions, stronger links with the world beyond its borders, more efficient implementation of its own internal policies, and, above all, a Europe that takes account of its citizens' needs.

FREEDOMS

Free movement is central to the success of the European Union — the freedoms of the single market relate to people, goods, capital and services. During 2009 the EU continued to improve the opportunities for citizens and businesses in these areas.

TRAVEL AND TRANSPORT

Flight times should get shorter and fuel consumption and emissions should fall, as the second 'single European sky' package (¹) — agreed during the year — brings greater efficiency to air traffic management and reduces unnecessary delays. Flying will get safer, too, after the Commission proposed to reinforce EU rules on civil aviation incidents (²), and the EU's list of unsafe airlines was periodically updated (³) — with the Commission arguing in favour of a system extended to international level. The Court of Justice ruled in November (⁴) that air passengers suffering a long delay in their flight are caused as much inconvenience as those passengers whose flight is cancelled — a judgment in line with the European Commission's interpretation of the air passenger rights regulation.



The EU has improved transport options for its citizens to boost sustainability and mobility.

In response to the economic crisis, in June the European Parliament and the Council modified the rules on airline slots (5), allowing airlines to retain existing rights without the need to fly empty planes just to avoid losing them. At international level, agreements on air transport services and safety were reached with Canada in May, progress was made on agreements with more than a dozen countries in Asia, Africa and the Pacific, and the Council authorised the Commission to negotiate agreements with Georgia, Brazil, the International Civil Aviation Organisation and the US Federal Aviation Administration.

European road-freight carriers will find it easier to get EU funding for projects to increase their efficiency and reduce the environmental impact of their operations following the administrative streamlining of the Marco Polo programme (6), which promotes the shift of road freight from congested roads to more sustainable modes — short-sea shipping, rail or inland waterways. Changes to the rules on market access in international freight and coach transport made it easier for carriers to do business, as administrative burdens were lightened and sanction procedures clarified. As the European Parliament agreed the new rules, it underlined that they would mean fewer empty lorries travelling across Europe, a reduction in the maximum working hours for coach and bus drivers, and tougher inspections of transport companies. New standards for digital tachographs allow easier data exchange and help the authorities to identify problematic operators.

To combat the crisis among vehicle manufacturers, the Commission met industry leaders to review how public money might be used to encourage the purchase of new cars, and how state aid could be channelled towards training workers. And in the interests of road safety, the Commission urged Member States to speed up the implementation of the 'eCall' in-car technology which automatically informs emergency services in the event of a crash. Meanwhile, discussions continued in the European Parliament and Council on infrastructure charges that would make road hauliers carry more of the costs of the pollution and congestion they contribute to. Charges should be based in part on air and noise, the European Parliament said as it gave its backing in March.

Plans to establish high-quality international rail freight corridors (7) received support from the European Parliament in April, and the Council in June. The Commission adopted a plan for deployment of the European train signalling and speed control system (8), and announced a review of rail safety rules and practices (9) following the freight train derailment in Viareggio, Italy, in June.

In March the Council endorsed the Commission's maritime transport strategy (10), a recognition of the importance of shipping — which carries nearly 90 % of all EU external trade and some 40 % of intra-Community trade, and helps ensure energy supplies to Europe. To promote competitive and sustainable quality shipping by speeding up administrative requirements for vessels on arrival or departure in European ports, the Commission proposed an update of reporting formalities for ships and cargos, and this won backing in principle from the Council. The third maritime safety package (11), adopted in April by the European Parliament and the Council, imposes new duties on national authorities for control of shipping, better traffic monitoring, clearer rules on accident investigation, and stronger liability and insurance regimes.

In June guidance was issued by the Commission on state aid to ship management companies. The Council of Ministers also agreed rules providing for information, assistance and compensation to ship passengers in the event that trips are cancelled or delayed, and that also boost the rights of passengers with disabilities. And the European Parliament and the Council adopted in October a reinforcement of the existing rules on penalties for ship-source pollution (12) following a Commission proposal earlier this year.

Following reflections in the European Parliament and Committee of the Regions, the Commission adopted an action plan on urban mobility (¹³) in September, to promote an integrated approach to urban mobility, with a focus on citizens and on making urban transport more environmentally friendly. In addition to the impetus given to the EU trans-European transport networks by frontloading €500 million for the current priority projects (see Chapter 1), preparations began with the adoption of a Green Paper for a policy review to adapt legislation to the needs of citizens and business, and to strengthen the internal market and EU competitiveness. Meanwhile, the mandates of the coordinators of the projects were renewed for four years in July.

FIGHTING CIGARETTE SMUGGLING

Agreements to combat illicit trade in tobacco products applied to the entire EU as from 2009. In April, the United Kingdom joined the 26 other Member States and the European Union as a signatory to the 2004 anti-contraband and anti-counterfeit agreement with Philip Morris International and the 2007 cooperation agreement with Japan Tobacco International, designed to stem the losses of hundreds of millions of euros in unpaid taxes on tobacco products and to combat illegal supply chains that compromise legitimate distribution channels and compete unfairly with genuine products.

Beyond the borders of the EU, the European Commission was one of the signatories in October to a new partnership to improve major transport connections in northern Europe, among Belarus, Denmark, Estonia, Finland, Germany, Latvia, Lithuania, Norway, Poland, Russia and Sweden. The aim is to help this region, rich in natural resources and with a highly developed industrial sector, overcome the challenges posed by long distances within the region and to major markets. A June communication assessed strengthening transport cooperation between Africa and Europe, and the EU–Japan summit in May recognised that common measures should be taken to counter growing greenhouse gas emissions from international air and sea transport. In May, an EU–China high-level economic and trade dialogue welcomed a new bilateral aviation and maritime framework and successful technical cooperation projects in aviation. And in June the Commission and the Ministry of Transport and Communications of the Republic of Kazakhstan signed a memorandum of understanding in the field of transport networks development.

SIMPLIFYING TRADE

To simplify clearance of goods entering — or leaving — the EU, the Member States signed a Convention on Centralised Customs Clearance (14) in March, providing for a proportion of collected customs duties to be retained in national budgets. As from July, electronic submission of customs declarations became possible as part of the introduction of a fully electronic, interoperable customs environment in the EU by 2013. The Commission also continued bringing in a common risk management approach for security and safety purposes, aimed at detecting and preventing trafficking of dangerous goods.



Enhanced customs cooperation in the EU has helped crack down on fraud and combat counterfeiting. Here a French customs officer destroys counterfeit leather goods.

The Council backed a new three-year action plan to combat infringements of intellectual property rights, focused on improving legislation, targeted and EU-coordinated customs controls actions, strengthened cooperation with industry and at international level, and raising awareness among EU citizens.

A more open EU market for defence equipment (15) was created, with common rules and more competitive procurement to end cumbersome procedures designed to protect national markets. It will particularly benefit small and medium-sized enterprises that produce individual components for defence equipment. Member States can still exempt contracts which are so sensitive that even the new rules cannot satisfy their security needs, but the overall effect will be better value in defence spending — to the benefit of EU taxpayers.

In 2009, 36 cases of Member States' non-compliance with EU taxation and customs rules were dealt with, mostly concerning personal taxation and VAT. To improve international cooperation in direct taxation, the Commission proposed strengthening EU legislation to prevent bank secrecy being invoked as a reason to refuse cooperation between Member States' tax administrations. It also proposed extending and reinforcing the legal framework for tax authorities to exchange information and cooperate on valued added tax, including through Eurofisc, a common structure to fight cross-border fraud.

TIME GAINED FOR TRUCKS AT THE RUSSIAN BORDER

In September, discussions with Russian authorities on reinforcing customs cooperation with the EU helped reduce border congestion and ease conditions for the long queues of lorries formed regularly at crossing points on the EU–Russian border in Estonia, Finland and Latvia.

NEW TECHNOLOGIES

Procurement was finalised of the first, main contracts for Galileo, the global satellite navigation system that the European Union will deploy, and management and administrative arrangements were completed for governance of the European satellite navigation systems. In October the Commission launched the European Geostationary Navigation Overlay Service (16), offering free access to citizens and businesses to this first contribution by Europe to satellite navigation.

In March transport ministers endorsed a framework for deploying intelligent transport systems in Europe, to boost the use of innovative technologies in support of road transport efficiency and safety and to protect the environment by reducing pollution. In April the European Parliament gave its support, as did the European Economic and Social Committee in May. In October the Commission defined the technical elements for the European electronic toll service, which is one of the key components of the planned system.



NOVOSTI / Sergey Kazak

Galileo gets ready for take-off — the EU global satellite navigation system is on its way.

MEET THE WINNER OF THE 2009 SINGLE MARKET AWARD: AURORA DE FREITAS

Aurora de Freitas is a 65-year-old Portuguese citizen who has been living in France since 1968. She received the first-ever Single Market Award. The award is presented to a company, individual or organisation that has helped to improve the internal market. Aurora de Freitas was recognised for her work making it easier for Portuguese citizens to be granted residence permits in France.

OPENING UP SERVICES

The end of 2009 was the deadline for implementation of the services directive in all Member States, to help realise the full potential of the largest sector of the European economy — and the one where the great majority of new jobs are created by opening up cross-border opportunities. The Commission insisted at the Competitiveness Council in September that the reform agenda foreseen by the directive had become even more pressing in the economic downturn. Implementation of the directive should therefore be seen, it underlined, as a cornerstone of the structural reforms that are necessary to put the EU economy back on the track of recovery. During the year, preparatory seminars and conferences were organised in the European Parliament and by the Commission.

During the year the Commission continued to work towards full compliance by Member States with the rules on free movement of services. In September, for instance, it raised questions about public procurement for the provision of housing services with the UK, review periods between contract award and conclusion with Spain, legal services contracts for motorway construction projects with Slovakia, nationality requirements for notaries and freedom of action for estate agents and patent agents with Portugal, and recognition of veterinary diplomas and restrictions on courier services with Greece.

COMPETITION

Throughout the year, EU rules on competition continued to provide a wide-ranging defence of the interests of EU citizens and businesses. State aid measures proved effective tools for helping achieve the objectives of the climate change package, by, for instance, allowing assistance where environmental costs for society cannot yet be reflected in production costs. The Commission authorised state aids promoting investment in energy saving, the use of renewable energy sources and improved energy infrastructure. At the same, the Commission remained vigilant against abuse, opening investigations into schemes that, for instance, seemed to favour large energy consumers.

It also stepped up its efforts to remove obstacles to market integration and competition — and moved to ensure non-discriminatory access to gas networks or to prevent distortive effects of regulated prices. The Commission imposed fines totalling more than €1 billion on E.ON and GDF Suez for secretly agreeing not to sell gas in each other's home market from a pipeline that they built together. E.ON divested many power plants in Germany and elsewhere after the Commission decision adopted at the end of 2008. And the Commission reached an agreement with the energy giant GDF Suez that will make it easier for other companies to enter the French gas market. The Commission has also taken action against the regulated or preferential tariffs maintained by some Member States for industrial end-users. State aid control in the field of energy assisted the liberalisation of energy markets, by, for instance, establishing a methodology for evaluating energy suppliers' costs that helps to ensure continued security of supply.

Other major developments during the year included the imposition of a €1.06 billion fine on Intel, the world's largest chipmaker, for trying to shut AMD, its main competitor, out of the market through rebates to computer-makers and retailers. In December the Commission concluded a long-running dispute with Microsoft over abuse of its dominant position, with a solution which will guarantee consumer choice of Internet browser.

A Swedish–Danish postal merger — the first between incumbent postal operators — was cleared by the Commission, subject to conditions. Merck's merger with Schering-Plough was approved on the grounds that it would not harm competition, as was Lufthansa's takeover of Austrian Airlines. But the aviation industry groupings — oneworld and Star Alliance — both came under Commission scrutiny during the year, and the Commission decided to take a closer look at Oracle's proposed takeover of Sun Microsystems.

State aid decisions included authorisation — under strict conditions — of aid to banks, including to Royal Bank of Scotland, the biggest-ever support provided by a national government. The Commission also made clear that any state aid to Opel would have to respect EU rules. The Commission's state aid scoreboard released in December noted further progress in the recovery of illegal and incompatible aid. At the end of June 2009, \in 9.4 billion had been effectively recovered, leaving only 9 % of unlawful aid still outstanding — meaning that 91 % of the total amount of illegal and incompatible aid had effectively been repaid by its beneficiaries, compared with only 25 % at the end of 2004.

The Commission imposed fines totalling €173 million on two cartels that it said were guilty of rigging the market for plastic additives, and launched investigations into suspected cartels in the cement industry and on bananas. And following its inquiry into competition in the pharmaceutical sector, the Commission continued to investigate suspicions of anti-competitive behaviour, launching new probes with a series of dawn raids.

TAKING CARE OF CITIZENS

The EU has many responsibilities, directly and indirectly, for its citizens' welfare. It played a leading role during the year in cross-border consumer protection issues and in controls on potentially risky products, while the influenza pandemic led to the EU taking a more prominent role in healthcare discussions as a coordinator of Member State responses.

CONSUMER PROTECTION

Some of the EU activity in consumer protection has taken the form of outright bans on dangerous products. In May, an EU-wide ban came into force on the marketing of consumer products such as couches and shoes containing the biocide dimethylfumarate, which has caused severe allergic reactions in hundreds of consumers in the EU. Measures were also taken to ensure early recall of products already on the market. In March, a ban on novelty lighters was extended until 2010, along with rules requiring that only lighters which are child-resistant are placed on the EU market. EU legislation also operates routinely in defence of its citizens. The general product safety directive was shown to be a powerful tool for ensuring consumer protection in a report published in January (17), with the RAPEX information system now a reference for market surveillance authorities worldwide.

The Commission also conducted active monitoring exercises and took new initiatives. Its consumer markets scoreboard identified energy, banking and transport as markets with a high risk of malfunctioning for consumers, and as a follow-up, a study of the retail electricity market will focus on problems for consumers.

In February, the European Parliament adopted a report noting that only 30 million consumers take advantage of the single market in carrying out cross-border shopping in the EU. MEPs demanded increased Internet security, simplified rules and specific measures for smaller firms. The Commission also analysed obstacles holding back cross-border e-commerce and drafted a strategy to overcome them.

The Commission also suggested harmonisation of systems for classifying and reporting consumer complaints. In autumn 2009 the Commission began follow-up of consumers' problems identified in retail financial services with bank fees, information and advice on financial products, and bank account switching. Consultations were held on possible policy options for redress for mass claims. To ensure that the EU's framework of consumer rules benefits European consumers, the Commission made recommendations in July on the enforcement of consumer rights. And rules setting up the European Consumer Consultative Group were updated in September to improve representativeness and to promote wider cooperation with national consumer organisations.

Negotiations continued in Council and Parliament on the proposal for a new directive on consumer rights (18), which brings existing directives into a single instrument to strengthen consumer confidence wherever they shop in the EU and to allow traders to sell their products across borders. Work started on a revision of the package travel directive, to take account of the emergence of the Internet and low-cost airlines — which are not covered by the directive. When airlines go bankrupt, passengers have currently nearly no recourse against the airline to recover the money of their unused ticket or to obtain repatriation if they are stranded abroad. In November, the European Parliament told the European Commission that passengers who have booked flights with airlines that go bankrupt should be guaranteed compensation and assistance.

Cooperation between enforcement authorities — essential for effective action against rogue traders operating across borders — advanced with the start of negotiations with the USA in June, which should lead to an agreement on exchange of information and requests for enforcement.

KEEPING EUROPE HEALTHY

To improve Europe's record in combating common major diseases, a European partnership against cancer was launched in June (19), to support national efforts by sharing information, capacity and expertise in cancer prevention and control. And in July the Commission made proposals to coordinate European action on Alzheimer's disease and other dementias and neurodegenerative conditions, winning strong backing from the European Parliament in November. The Commission announced actions to help Member States tackle the gaps in health (20) which exist between and within countries in the EU, despite increased prosperity and overall improvements in health. At the other end of the disease scale, a European strategy was adopted in June to urge Member States to implement national plans for rare diseases (21) before the end of 2013.

The challenge posed by the H1N1 pandemic was met with efforts at EU and international level to maximise coordination. In September the Commission hosted a crucial meeting on effective public health measures, bringing together health ministers from Canada, France, Germany, Italy, Japan, Mexico, the UK and the USA, and officials from the World Health Organisation. A Commission strategy paper in September aimed to support Member States in their efforts to respond efficiently, including through assistance to Member States in procuring vaccines, and in coherent messages to the public. The Council backed the approach in October. And the European Medicines Agency worked closely with Member State experts and the European Commission to process authorisations for vaccines with unprecedented speed (22).



An initiative on patient safety and infection control was launched in June, against the background of increasing incidence of adverse events associated with healthcare. The European Commission also proposed urging all Member States to protect their citizens from exposure to tobacco smoke by 2012 in enclosed public places, workplaces and public transport, and to encourage giving up tobacco use. Young people were given a chance to become involved in developing EU health policies in July, with a conference on youth health in Brussels attended by young people from EU Member States, and a website 'Be healthy — Be yourself' in 22 languages. An EU-wide scheme to provide free fruit and vegetables to school children (23) started in the school year 2009/10, and was followed up by a healthy-eating campaign. And to ensure that public health authorities and patients do not become victims of unnecessarily high medicine prices or unnecessarily slow innovation, the Commission pushed ahead with its 'Innovative medicines initiative' and concluded its competition inquiry in the pharmaceutical sector, warning that it would act against companies that illegally impeded the launch of generic copies of patent-expired products (24).

The EU maximised international coordination to meet the challenge posed by the H1N1 pandemic.

HEALTH CONTROLS

The EU has clear duties for protecting its citizens against health risks from products, too — and the risk is real, as the 12 % increase in notifications via the EU's rapid alert system for food and feed showed in 2009. In July new rules provided for more effective controls against known or emerging risks in imported feed and food of non-animal origin, with more stringent Member State controls on certain imports from January 2010. And even though the Chernobyl accident took place over 20 years ago, many agricultural products coming from the most affected areas are still highly radioactive, often exceeding set limits. In October, the EU extended by 10 years the current system used to check that produce coming from these areas does not exceed the permitted levels of radioactivity (25).

New rules on the marketing of plant protection products will give the EU the most stringent level of protection against possible risks from the use of plant protection products worldwide, at the same time harmonising conditions for the availability of plant protection products throughout the EU. The pesticides framework directive adopted in September is designed to ensure that pesticides are used in a sustainable manner, by requiring integrated pest management to be phased in by 2014 — promoting natural control mechanisms and limiting the use of chemicals. In parallel, a regulation on statistics on pesticides was adopted in November with the objective to define harmonised rules for the collection and dissemination of statistics on the sale and use of pesticides. The sale and use of pesticides needs to be monitored more strictly, said Parliament as it voted to back the new rules (26).

A review started of the plant health regime, with a view to producing a new strategy that will reinforce preventive action on harmful organisms and faster interventions where needed. Major efforts were made to stop the further deterioration of the situation of pine wood nematode, a very harmful pest for conifers, on Portuguese territory, and to reinforce the protection for other Member States against a possible spread into their territory. Renewed debate on antimicrobial resistance resulted in a mandate to the European Medicines Agency to monitor the use of antibiotics in animals, and a state-of-the-art report from its expert advisors focused on zoonotic infections.

EU activities were not all about stopping the flow of goods. Europe is both an importer and an exporter of food and food products, and efforts were therefore also directed at ensuring the right balance between effective safety controls and the efficient movement of goods.

Following European Parliament approval of a compromise reached with Council, balancing customers' rights to information with safeguarding the industry's intellectual property rights, legislation on the marketing of feed was updated in July (27), modernising labelling and reducing unnecessary administrative procedures. The Commission also authorised some innovative feed additives which are now fully replacing antibiotic growth promoters. For the marketing of seed and propagating material, measures were introduced for preserving genetic resources of vegetables. A slight easing of BSE testing requirements at the start of the year — increasing from 24 to 48 months the age limit for testing, on advice from the European Food Safety Authority — cut the costs of BSE surveillance for national administrations and business operators by around a third, without any reduction in the efficacy of controls.

The European Food Safety Authority provided favourable opinions on 15 applications for genetically modified food and feed and five decisions of authorisation have been adopted. An evaluation of the regulatory system for genetically modified food and feed was launched, taking account of the experience of the Member States and the approach of important EU trading partners. A Commission report on national strategies to ensure the coexistence of genetically modified crops with conventional and organic farming (28) concluded that the subsidiarity-based approach remains valid, and work began on further recommendations for crop-specific technical segregation measures.

For trade with Switzerland, veterinary border controls for animal products were abolished in January, and agreements with Canada, Chile, Mexico, New Zealand and the USA are being implemented. Commission management of relations with Russia has allowed EU exports in sensitive health and plant health products to remain at a high level.

A high level of safety was guaranteed for cosmetic products by the adoption of a regulation that increases manufacturer responsibility and strengthens controls on the internal market, but that does so while reducing administrative burdens. In the same spirit, in June the Commission proposed simplifying the movement of pet animals travelling with their owners since, owing largely to EU-supported programmes of oral vaccination of wildlife, the rabies situation in the EU has improved.

ASSURING EUROPE'S FOOD SUPPLIES AND A SUSTAINABLE USE OF THE SEAS

Since its earliest days, the EU has played a major role in assuring the provision of food, and agriculture remains one of its principal areas of spending. Fisheries too is still an important EU industry, and it became clear that radical reform of the EU's common fisheries policy is essential to provide for a competitive and sustainable industry in the 21st century. The EU's integrated maritime policy is a comprehensive response to the crucial importance of the seas and oceans as a productive resource for Europe.

AGRICULTURE

A 2009 progress report showed that the Commission has cut administrative burdens in the common agricultural policy and is on track to reach the target of a 25 % reduction by 2012 (²⁹). Although the return of the curvy cucumber stole the media limelight in July when rules governing the size and shape of many fruit and vegetables ceased to exist, the overall progress has led to savings of €1.9 billion for farmers and other operators in the food chain. And a regulation on crop statistics was approved — less conspicuously, but of major importance for the management and evaluation of the common agricultural policy.

The Commission proposed new quality labelling rules (30) to identify where an agricultural product was farmed, to improve international protection of geographical indications and to help develop an international approach to marketing standards and organic products. The aim is also to create a unique register for all geographical indications (for wines, spirits and agricultural products and foodstuffs) while preserving the specificities of each system. Organic farming also got a boost with the creation of a distinctive EU logo which will be found on all organic produce in 2010. A further phase of the ongoing wine reform included rules on protected designations of origin and protected geographical indications, traditional terms, and labelling and presentation of wine-making practices to improve communication with the consumer — ensuring the best traditions of EU wine-making are preserved while creating an opening to innovation.

To help alleviate the difficult market situation for dairy producers, the Commission continued to use intervention, private storage aid and export refunds, and allowed early direct payments to farmers. It launched a new round of dairy promotion programmes, and temporarily doubled the limits for state aid to the sector to €15 000. But in line with the conclusions of the June European Council, the Commission did not propose any reversal of decisions already taken to phase out the quota system.

A communication in November (31) proposed improving the functioning of the food supply chain through a prices monitoring tool which can let consumers see what a kilogramme of pork costs from country to country.

In less-favoured areas, the Commission intensified its cooperation with national authorities to simplify and better target the aid. A communication (32) which should pave the way for a new classification of agricultural areas with natural handicaps was submitted to the European Parliament, to the Council and to the European Economic and Social Committee. With the help of scientific experts, the Commission has identified eight soil and climate criteria as a basis for objectively and clearly classifying such areas. In order to preserve landscapes, natural habitats and biodiversity, to prevent forest fires and to improve water and soil management, support should be given to farming systems in areas where climate and soil make this difficult. Subsidies should be reserved for those areas where natural handicaps are severe and affect farming, and the aid should target farms most at risk of land abandonment.

FISHERIES

The review of the common fisheries policy began in 2009, with the European Commission's Green Paper (33) analysing the shortcomings of the current policy and exploring its future, and with a consultation of fishermen, scientists, civil society and interested citizens. The Council endorsed the Commission's approach in May. In October, long negotiations led to a new regulation on fisheries control (34). The decision means more equal sanctions for fishermen breaking the rules, and Member States which do not abide by the rules may see their quotas reduced and the financial support they receive from the European Fisheries Fund suspended. The new regulation will enable European fishermen to compete on equal terms and will also lead to more effective controls to protect fish stocks.

SIMPLE AND EFFICIENT CONTROLS

The radical overhaul in 2009 of fisheries controls — a central plank of fisheries management — is designed to deliver a system which is simple, transparent and fair, which acts as an effective deterrent and which cuts both red tape and costs.



The new regulation on fisheries control will allow European fishermen to compete on equal terms and lead to more effective controls to protect fish stocks.

A communication on aquaculture released in April looked at ways to improve the sector's competitiveness, sustainability and governance, and was backed by the Council in June.

The Council adopted the regulations in December on fishing opportunities for 2010 in the Atlantic Ocean and North Sea, the Baltic Sea and the Black Sea. Following the approach outlined by the Commission in its consultation document in May, total allowable catches for an increasing number of stocks were set. Long-term plans for sustainable management included horse mackerel across the western Atlantic, the anchovy stock in the Bay of Biscay, and sharks, skates and rays.

The Commission contributed towards the successful negotiation of an international agreement in August setting minimum port state measures as part of the global fight against illegal, unreported and unregulated fishing. It also proposed the transposition of a bluefin tuna catch documentation programme. The Council adopted regulations to transpose into EU law multiannual recovery plans for eastern bluefin tuna and Greenland halibut.

INTEGRATED MARITIME POLICY

Reporting to the European Council on achievements in the integrated maritime policy since its inception in 2007, the Commission noted that, out of 65 actions foreseen in the maritime policy action plan, 56 have been launched or completed and initiatives have been taken on the nine others. In September the Commission adopted a communication on improving maritime governance in the Mediterranean Sea basin (35), and the EU strategy for the Baltic Sea region (36) adopted in June will help in achieving the goals of the integrated maritime policy in terms of the EU's continually evolving approach to sea basins.

President Barroso stated on European Maritime Day in May 2009: 'We now have a consistent framework to steer our efforts in the same direction in a coordinated manner'.

In parallel, the Commission tabled in October concrete proposals on two major issues — the integration across sectors and countries of maritime surveillance (37), and the international dimension of Europe's maritime policy (38).

From the beginning of July, mobile phone users have been able to text, call and surf at much lower cost while abroad in the EU.

REPORTERS / Patrick Renice

KEEPING IN TOUCH — INFORMATION AND COMMUNICATION TECHNOLOGY AND MEDIA

DIRECT BENEFITS FOR THE CITIZEN

From the beginning of July, mobile phone users were able to text, call and surf at much lower cost while abroad in the EU, as a result of an update (39) of the EU regulation on roaming. Following a specific request from the European Parliament and EU ministers, the Commission proposed in late 2008 to bring in reduced rates for text messages and data services, and after rapid approval by a large majority of the European Parliament in April, the scheme was adopted by the Council in June.

The Commission provided guidance on how EU telecoms regulators should calculate termination rates — the wholesale fees charged by operators to connect the call from another operator's network, which are part of everyone's phone bill — to eliminate the wide price divergences between phone operators across the EU. This will lower consumer prices for voice calls within and between Member States, saving business and household customers at least €2 billion in 2009–12, and helping investment and innovation in the entire telecoms sector.

Europe's digital competitiveness report, launched in August, indicated how EU policy had widened the opportunities for European citizens, with increased Internet use, more broadband connections, and mobile phone subscriptions exceeding the number of EU citizens. To build on the potential, the Commission launched a public consultation on how to make the digital economy run at full speed, as the first step towards a new European strategy on information and communication technologies.

In March the Council adopted conclusions on the accessible information society to help remove barriers, including for disadvantaged users such as people with limited eyesight. It urged making public administration websites more accessible and introduced an accessibility requirement into public procurement contracts for creating or re-designing websites financed with public funds.

In response to a call from the European Parliament, in May the European Commission launched the eYouGuide (ec.europa.eu/eyouguide), giving practical advice on consumer digital rights — such as relations with broadband providers, shopping on the web, downloading music and protecting personal data online and on social networking sites.

Also in May the European Commission adopted a recommendation to make sure that everyone involved in the design or operation of technology using smart chips respects the individual's fundamental right to privacy and data protection contained in the Charter of Fundamental Rights of the European Union. It followed up with an action plan in June to make sure that Europe plays a leading role in shaping these new networks of interconnected objects from books to cars, from electrical appliances to food. The plan will help Europeans benefit from this evolution and at the same time address the challenges it raises such as privacy, security and the protection of personal data.

In October, the Commission encouraged Member States to open up the market for new operators and new broadband wireless services by using the 'digital dividend' of radio frequencies freed up by the switch from analogue to digital broadcasting for television.

Some 4.6 million digitised books, maps, photographs, film clips and newspapers can now be accessed by Internet users on Europeana, Europe's multilingual digital library (www.europeana.eu). In a communication adopted in August, the European Commission declared as its target to bring the number of digitised objects to 10 million by 2010.

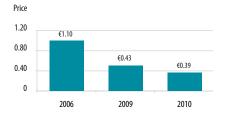
Internet users and businesses can now register domain names in the characters of all 23 official languages of the EU, including Cyrillic and Greek scripts, under the .eu top-level Internet domain, following the Commission's adoption of new rules

Meanwhile, the Commission called for more transparency and accountability in the governance of the Internet, to reflect the key role that the global network has come to play for all countries.

A public–private partnership on 'Future Internet' has been initiated by the European Commission, with a proposed budget of €300 million for research, innovation and quick take-up of new Internet technologies, services and applications by citizens and businesses — such as in healthcare, mobility, environment and energy management.

CHEAPER TO PHONE ABROAD

Price for a mobile call made abroad; charge per minute in euros excluding VAT; 2006 is market average; 2009 and 2010 maximum 'Eurotariff' according to EU rules



Source: European Commission.

THE NEW ROAMING RULES

- ➤ Cap the price that consumers can be charged for sending a text message while abroad.
- Reduce the cost of surfing the web or downloading content with a mobile phone while abroad.
- Protect consumers from 'bill shocks' by ensuring they receive an SMS about how much it will cost to use their mobiles when they roam.
- Further reduce price caps for mobile roaming calls.
- Introduce per-second billing.

MEDIA

The introduction of the new 'MEDIA Mundus' programme, focused on cooperation between audiovisual industry professionals in Europe and non-EU countries, was approved.

The Commission adopted policy guidelines (40) in August to promote media literacy across Europe through activities that help people access, understand and critically evaluate all media they are exposed to.

A communication (41) in July set out how the Commission will apply state aid rules to public service broadcasting in the new context provided by the audiovisual media services directive and the development of new digital technologies and Internet-based services.

UPDATING THE REGULATORY FRAMEWORK

In November, the European Parliament and the Council reached an agreement on reform for the telecoms regulatory framework (42), to coordinate and improve telecoms rules in Europe's single market, and strengthen competition and consumer rights as well as the open nature of the Internet. The Council of the European Union, the European Parliament and the European Commission called a joint press conference to present the agreement on the telecoms package, reached after 24 months of negotiations.

At a ceremony in Strasbourg, the Swedish Presidency and President of the European Parliament Jerzy Buzek signed the telecoms package, and Member States have 18 months to transpose the legislation into national law. It strengthens competition and consumer protection in Europe, leading to lower prices and more and better services. The new regulations will remove uncertainty, and encourage companies to invest in the infrastructure to provide fast Internet broadband connections across Europe. They also reinforce consumers' rights — to privacy, to switch operator and to information about the services they subscribe to. National telecoms authorities will be able to set minimum quality levels for network transmission services.

Preparing Europe for major disruptions or attacks is the goal of a new strategy proposed by the European Commission in a communication on 'Protecting Europe from large-scale cyber-attacks and disruptions: enhancing preparedness, security and resilience' adopted in March (43). Electronic communication services and networks provide the backbone of the European economy. However, natural disasters, terrorist attacks, malicious human action and hardware failure can pose serious risks to Europe's critical information infrastructures. Recent large-scale attacks on Estonia, Georgia and Lithuania proved that essential electronic communication services and networks are under constant threat.

FEEDING EUROPE'S MIND AND SOUL

Europe's agenda in research, education and culture is vital both for economic reasons and because intellectual and cultural values are among Europe's key assets. The EU and Member States cooperated closely across this broad range of activity, reinforced by the designation of 2009 as the European Year of Creativity and Innovation, which featured hundreds of events throughout the year underlining the importance of these skills for personal, social and economic development.

RESEARCH

In 2009, nearly 100 calls for proposals were published under the seventh framework programme for research and technological development, 2007–13. The 2009 budget of €5.5 billion started to fund over 3 000 projects, on issues such as climate change, energy security, food supply, sustainable agriculture and health. The EU created a Research Executive Agency to manage researchers' mobility and careers and SME-specific activities, and a European Research Council Executive Agency to support investigator-driven frontier research.

MEASURING UP TO SUCCESS

Agreement was reached between the European Parliament, the Council and the Commission on a European metrology research programme, linking 22 national metrology research programmes in an effort to increase the efficiency and effectiveness of public metrology research.

Alternative energies: The enterprise strategic energy technology plan calls for six new European industry-led programmes in wind and solar energy, carbon capture storage, grids, bioenergy and fission and the establishment of research-led programmes in a European energy research alliance.



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Further progress was made in 2009 in achieving the European research area — which aims at bringing together research resources from the Member States and at European level — by following up the 2008 launch of schemes for the promotion of mobility and careers of Europe's researchers, and for guidance on the management of intellectual property by public research organisations. A legal framework for European research infrastructure was also adopted by the Council in 2009.

Furthermore, in March the Commission launched a new research and innovation strategy for communication technologies which aims at making Europe the world leader in this field. Two communications on the strategy for future and emerging technologies and on e-infrastructures (such as the pan-European research network GÉANT, e-science grids, data infrastructures and supercomputing) were also adopted.

The European Institute of Innovation and Technology, created to promote excellence in innovation in Europe through stronger integration of higher education, research and business, took further shape. It issued its first call to establish 'knowledge and innovation communities', its operational heart, in climate change mitigation and adaptation, sustainable energy and the future information and communication society.

European Commission President
José Manuel Barroso holds a European
Union Rubik's cube in November as he
launches the Manifesto for Creativity and
Innovation in Europe.

A CLEARER PICTURE ON DIABETES

Millions in EU funding to image technology to combat diabetes:

Ulf Ahlgren's research group at the

Umeå Centre for Molecular Medicine was recently awarded €621 000 in EU funds for a period of three and a half years, to create three-dimensional images of the pancreas and insulin cells. Cooperating with researchers in Belgium, Denmark, Germany and Spain, the project could lead to early diagnosis of diabetes, and better opportunities for following up the effect of treatments.

JOINT TECHNOLOGY INITIATIVES

'Clean sky', a joint technology initiative with a budget of €1.6 billion to promote research into greener, quieter and more efficient aircraft, launched its first call for proposals in June. The 'Innovative medicines initiative', the 'Hydrogen and fuel cells initiative, the European Nanoelectronics Initiative Advisory Council (ENIAC) on nanoelectronics and Artemis on embedded computer systems all launched their second calls for proposals in 2009. These public-private partnerships in research at European level focus on areas where R & D can contribute to Europe's wider competitiveness, and increase the scale and impact of research investment, as well as raise the technology content of industrial activity.

After decades of negotiations, a new level of agreement was reached on how a common EU patent should be designed and regulated. Once the remaining language issues are resolved, the European patent will promote innovation and provide European industry with a better chance of competing on the global market.

The Presidency also reached a compromise between the Council and the European Parliament on a regulation that will improve animal protection for laboratory animals in the whole of the EU.

EDUCATION

Erasmus Mundus, the European cooperation and mobility programme which supports academic excellence and the attractiveness of European higher education worldwide and fosters cooperation with third countries, entered a new phase with a substantially increased budget and a wider scope. In 2009–13, the EU will increase its support to the most highly talented students and professors from countries outside the EU with grants to take part in joint programmes in European universities. It will also extend the scope of the programme to the doctoral level and give more financial support to European students to take part in exchanges.

Member States agreed to intensify their cooperation in a reform of education and training systems in Europe geared to better preparing people to find jobs, to help businesses find the staff they need to succeed and to innovate in the face of global competition. An updated strategic framework for European cooperation in education and training was endorsed by the Council, setting long-term goals of EU-level cooperation up until 2020, and an updated set of benchmarks used to measure reform progress and covering the entire range from early childhood education through to university and adults' lifelong learning.

In July the Council and Parliament adopted a recommendation on the adoption of Europe-wide instruments to support mobility and quality in vocational education and training — the 'European credit system for vocational education and training,' to provide recognition of achievements in different countries or learning environments, and the 'European quality assurance reference framework' to provide authorities with common tools for management of quality.



Erasmus Mundus, the European programme which supports academic cooperation worldwide, entered a new phase with an increased budget and widened scope.

The Commission set up the 'European master's in translation' network, which brings together a group of EU university programmes and promotes a quality label in translator training. Thirty-four programmes from 16 Member States were selected to become members of the EMT network for an initial period of four years.

The Commission adopted a new EU strategy for youth policy for the coming decade. It highlighted both the vulnerability of young people in the current economic and financial crisis, and their value as a resource in the EU's ageing society. It recommended creating more opportunities for youth in education and employment, improving access and participation of young people in society, and fostering solidarity between youth and society.

In April, ministers for higher education from 46 European countries met in Belgium to agree on priorities for the next decade for the European higher education area, in the framework of the Bologna process, which aims at modernising national policies and reforming Europe's higher education institutions to foster innovation and an entrepreneurial mindset among students and staff.

In July, the Commission published a Green Paper inviting stakeholders to provide ideas for giving a new impetus to learning mobility, with the ambition of seeing a period abroad built into all learning experiences, and the offer of mobility opportunities to all young people. And President Barroso, in his political guidelines for the next Commission, outlined the vision for a 'Youth on the move' initiative which would offer Erasmus-style opportunities to all young people.

Hungarian author Noémi Szécsi was among the winners of the European Prize for Literature in September 2009.



EPA / Olivier

CULTURE

In 2009, the EU Prize for Literature was awarded, for the first time, to 12 emerging European authors. Like the European Border Breakers' Awards, the Cultural Heritage Prize and the Contemporary Architecture Prize, this new recognition aims to stimulate the circulation of works and their authors, cultural diversity and intercultural dialogue.

Commission President José Manuel Barroso, on the occasion of the EU Prize for Literature ceremony, said: 'This prize celebrates the full diversity of Europe's literature... The free movement of ideas across borders has always been a strength of our continent... European integration is not just a political construct. It is a collective, a culture — of institutions, ideas, hopes, customs, languages, memories and projects for the future — which draw Europeans together.'

In September, the first European Culture Forum brought together more than 1 000 culture sector experts and policy-makers to discuss cooperation on culture and intercultural dialogue.

The European Commission set up two new forums to promote multilingualism — the Business Platform for Multilingualism, aimed at boosting competitiveness and employability, and the Civil Society Platform for Multilingualism, focusing on the benefits for intercultural dialogue. And as part of the European Day of Languages, activities and celebrations were organised at local level in Member States to raise the visibility of language professions and make citizens aware of multilingualism in their daily lives.

FREEDOM, SECURITY AND JUSTICE

The EU continued to respond to the widening range of challenges in building an integrated society that respects citizens' rights and the rule of law, embraces the opportunities of an enlarged EU, and manages migration and asylum effectively.

A NEW PROGRAMME FOR JUSTICE AND HOME AFFAIRS

The Stockholm programme for justice and home affairs, backed by the European Parliament in November and adopted by the December summit, sets out priorities in justice, freedom and security over the next five years — on citizens' rights, and on protecting and promoting a more integrated society. It aims to strengthen security and the rule of law to promote the rights of the individual. It envisages more efficient police cooperation by making better use of Europol and a more carefully prepared plan for the future exchange of information. With the entry into force of the Lisbon Treaty, the EU should rapidly accede to the European Convention on Human Rights and compliance with the convention will be monitored rigorously and systematically. The 'roadmap' (adopted under the Swedish Presidency) for strengthening the rights of defendants in criminal cases will be implemented in parallel, increasing emphasis on the rights of victims of crime. A robust regime for data protection will be developed. Cooperation with countries of origin and transit in migration cases is to be strengthened and the EU needs to facilitate the matching of the contribution of migrants' skills and the needs of the labour markets and ensure a uniform level of rights for immigrants. Action is needed to prevent and combat illegal immigration.

IMMIGRATION AND ASYLUM

A directive adopted by the Council in May makes it easier and more attractive for highly qualified third-country citizens to enter and live in the EU. It creates the 'EU Blue Card', which offers a fast-track procedure and common criteria for issuing a special residence and work permit. The card is valid for up to four years, and helps holders get jobs, and entitles them to rights including family reunification and movement across the EU. In May the Council also adopted a directive introducing penalties for employers of illegal non-EU residents.



The 'Blue Card' scheme, adopted in May, makes it easier and more attractive for highly qualified citizens from beyond the EU to live and work in Europe.

A scheme was proposed in September to coordinate resettlement of refugees within the EU and practical cooperation among Member States, to help share the burden of the 203 000 refugees expected in 2010, including children, single women and the seriously ill, who will be in need of resettlement. A European asylum support office was proposed in February, to support Member States faced with large-scale influxes of asylum-seekers. In November the Justice and Home Affairs Council agreed to locate the office in Malta. The EU is committed to developing a sustainable common system which is based on solidarity and the full and inclusive application of the Geneva Convention.

MANAGING THE PASSPORT-FREE ZONE

The Commission proposed in March periodic on-the-spot inspections and unannounced visits to help build mutual trust and safeguard the freedoms of the Schengen area. Travel documents are to be better protected against fraud under a regulation adopted by the Council in April which sets down security features and biometric standards for passports and travel documents issued by Member States, which are considered to be essential for security and simplifying border controls. The result will be easier transit across frontiers, and better security. The Commission proposed in June a single dedicated agency to manage from 2012 the large-scale information systems, including the Schengen information system, the visa information system and the Eurodac fingerprint database, that underpin effective border management in the EU. Frequent travellers who enter the Schengen area for short periods — such as for work or to visit family — now benefit from a June regulation on common procedures and conditions for issuing multiple-entry visas valid for six months to five years.

CITIZENS' RIGHTS

The sound functioning of the internal market depends on legal certainty in the case of disputes, and the Commission launched a consultation in April on how to improve clarity over jurisdiction, recognition and enforcement of judgments in civil and commercial matters, based on mutual recognition of judgments among Member States. In October the European Commission presented a proposal for a regulation on succession. More and more people make their homes and own property in other EU countries and there are an estimated 450 000 cases of cross-border succession every year. The proposal contains provisions on jurisdiction, applicable law and the introduction of a European certificate of succession (a document that shows who inherits from a certain person or has the right to administer the estate). The objective is to create greater predictability for individuals in cases of cross-border succession and to simplify administration.

Contracts are the legal instrument most commonly used every day by individuals and business. To generate better and more consistent legislation in this area, the Council in June set out guidelines for a common frame of reference for European contract law. Eight million EU citizens have moved to live in a Member State other than their own, and new guidelines help inform citizens about their rights to the freedom of movement — and assist Member States in applying them.

SECURITY

In March the Commission adopted proposals for providing more assistance to victims and tougher action against criminals responsible for the abuse of women and children through human trafficking and sexual exploitation. The proposal envisages phone tapping by police, the provision of accommodation, care and legal aid for victims, and tougher sanctions for sex tourists.

The Commission has also proposed that, for the purposes of fighting terrorism and serious crime, law enforcement authorities should be authorised to consult the Eurodac database of fingerprints, which was designed as part of the EU's asylum policy. Accompanying measures will provide for the protection of personal data and safeguard the right to asylum.

Fighting terrorism was also the objective of an agreement to make financial transaction records in the EU available to the US authorities. Negotiations during the year have focused on protecting personal data, and a Commission review of procedures governing the handling, use and dissemination of financial transaction records by the US Treasury Department confirmed that the USA had been vigilant from the outset in respecting the safeguards in the handling of personal data.

EMPLOYMENT AND SOCIAL AFFAIRS

The EU's response to the economic and financial crisis paid major attention to employment (see Chapter 1). But concerns over jobs, social justice and equality are a permanent preoccupation of the EU, as 2009 demonstrated.

JOBS

Some 12 000 job-seekers and 80 recruiting organisations took part in a job fair in the EU Commission's Berlaymont headquarters in October; 95 % of employers said they were extremely satisfied with the quality of candidates they saw and most will be calling back an average of 40 % of candidates for second interviews. European Employment Service advisers from a score of Member States gave advice to job-seekers and potential job changers on working and living conditions, and demonstrated the European Job Mobility Portal that contains 760 000 job vacancies, 350 000 CVs and 20 000 registered employers.

In March, the Council adopted conclusions on the professional and geographical mobility of the workforce and the free movement of workers within the European Union, stressing the importance of mobility and the free movement of workers for meeting the needs of labour markets, increasing employment and strengthening the EU's competitiveness.

The Council adopted in February the agreement between social partners on the international Maritime Labour Convention.

SOCIAL SECURITY

Several years of complicated negotiations were concluded with an agreement on simplified rules to safeguard the social security rights of migrants within the EU. This coordination of social security systems significantly modernises and simplifies the rules on safeguarding the social rights of EU citizens living and working in another Member State. The new rules will speed up the handling of applications of persons living abroad, remove barriers and modernise the exchange of information between authorities in the EU-27.

The Council also adopted conclusions on 'Social services as a tool for active inclusion, strengthening social cohesion and an area for job opportunities'. These stress the importance of investments in social services in times of crisis. They underscore the significance of education and training of providers of formal as well as informal social services, and call on the Member States and the Commission to create a voluntary EU quality framework for social services.

The publication of the 2009 ageing report from the Economic Policy Committee added further evidence to the argument that the social and economic consequences of change require closer attention. The report's tentative 'worst case' scenario for the decades ahead suggested the current economic and financial crisis would result in severe falls in living standards owing to persistent lower growth and a permanent increase in age-related expenditure as a proportion of GDP.

The 2009 employment report (44) noted that climate change and the related shift to a low-carbon economy will have an important impact on the future demand for skills, favouring — initially, at least — high-skilled workers. But, it underlined, with market deployment of new technologies, lower-skilled workers should also be able to fill the new jobs — provided they receive adequate training.

'We cannot overcome the economic crisis without making use of the vast intellectual, economic and creative potential of women. Half the members of our community do not enjoy equal opportunities.'

European Parliament President Jerzy Buzek, inaugural address, September.



Under new rules agreed by EU ministers in November, both parents will have the right to longer parental leave.

EQUALITY

In response to deepening Roma exclusion, aggravated by the impacts of the economic crisis, increasing extremism and signs of racism, 'Common basic principles on Roma inclusion' were endorsed at a June Council meeting. The conclusions also institutionalised the European platform for Roma inclusion, as a space for the exchange of experiences in the field of Roma inclusion.

In June, the Council also adopted conclusions on 'Equal opportunities for women and men: active and dignified ageing', and examined ongoing work on a directive on the equal treatment of the self-employed and their assisting spouses. And in November, cooperation in the area of violence against women was discussed during a conference in Stockholm, including the role of the EU-funded Daphne programme in exchanging innovative policy practices to combat the phenomenon.

Parents will have the right to longer parental leave, under new rules agreed by EU ministers in November. The revised directive on parental leave also provides for better protection against discrimination and a smoother return to work, putting into effect an agreement between European employers and trade union organisations.

ENDNOTES

- (¹) Regulation (EC) No 1108/2009 in the field of aerodromes, air traffic management and air navigation services (OJ L 309, 24.11.2009).
- (²) Proposal for a regulation on investigation and prevention of accidents and incidents in civil aviation (COM(2009) 611).
- (3) Regulation (EC) No 1144/2009 establishing the Community list of air carriers which are subject to an operating ban within the Community (OJ L 312, 27.11.2009).
- (4) Court of Justice ruling of 19.11.2009 in Joined Cases C-402/07 and C-432/07 Sturgeon
- (5) Regulation (EC) No 545/2009 on common rules for the allocation of slots at Community airports (OJ L 167, 29.6.2009).
- (°) Regulation (EC) No 923/2009 establishing the second 'Marco Polo' programme for the granting of Community financial assistance to improve the environmental performance of the freight transport system (Marco Polo II) (OJ L 266, 9.10.2009).
- (') Proposal for a regulation concerning a European rail network for competitive freight (COM(2008) 852).
- (8) Commission decision of 22 July 2009 as regards the implementation of the technical specification for interoperability relating to the control-command and signalling subsystem of the trans-European conventional rail system (C(2009) 5607).
- (9) http://europa.eu/rapid/pressReleasesAction.do?reference=IP/09/1283&language=EN
- (°) Transport, Telecommunications and Energy Council conclusions, 30 and 31 March 2009 (http://register.consilium.europa.eu/pdf/en/09/st08/st08176.en09.pdf).
- (¹¹) The third maritime safety package comprised two regulations and six directives (OJ L 131, 28.5.2009).
- (12) Directive 2009/123/EC on ship-source pollution and on the introduction of penalties for infringements (OJ L 280, 27.10.2009).
- (13) Commission communication Action plan on urban mobility (COM(2009) 490)
- (¹4) Convention on Centralised Customs Clearance concerning the allocation of national collection costs retained when traditional own resources are made available to the EU budget (OJ C 92, 21.4.2009).
- (15) Directive 2009/81/EC on the coordination of procedures for the award of certain works contracts, supply contracts and service contracts by contracting authorities or entities in the fields of defence and security (OJ L 216, 20.8.2009).
- (16) http://europa.eu/rapid/pressReleasesAction.do?reference=IP/09/1399&language=EN
- (17) Commission report Implementation of Directive 2001/95/EC on general product safety (COM/2008) 905)
- (18) Commission communication Directive on consumer rights (COM(2008) 614).
- (1°) Commission communication Action against cancer: European partnership (COM(2009) 291).
- $\label{eq:continuous} \begin{tabular}{ll} (20) & http://europa.eu/rapid/pressReleasesAction.do?reference=IP/09/1550&language=EN & language=EN & language=E$
- (21) Council recommendation on action in the field of rare diseases (OJ C 151/7, 3.7.2009).
- (22) Employment, Social Policy, Health and Consumer Affairs Council conclusions, 12 October 2009 (http://register.consilium.europa.eu/pdf/en/09/st14/st14311.en09.pdf).

- (23) Regulation (EC) No 288/2009 laying down detailed rules for applying Regulation (EC) No 1234/2007 as regards Community aid for supplying fruit and vegetables, processed fruit and vegetables and banana products to children in educational establishments, in the framework of a school fruit scheme (OJ L 94, 8.4.2009).
- $\label{eq:continuous} \ensuremath{\text{(24)}} \quad \text{http://europa.eu/rapid/pressReleasesAction.do?reference=IP/09/1098\&language=EN}$
- (25) Justice and Home Affairs Council conclusions, 23 October 2009 (http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/jha/110759.pdf).
- (28) Directive 2009/128/EC establishing a framework for Community action to achieve the sustainable use of pesticides (OJ L 309, 24.11.2009).
- (27) Regulation (EC) No 767/2009 on the placing on the market and use of feed (OJ L 229, 1.9.2009).
- (28) Commission report on the coexistence of genetically modified crops with conventional and organic farming (COM(2009) 153).
- (29) http://ec.europa.eu/agriculture/healthcheck/before_after_en.pdf
- $\begin{tabular}{ll} (30) & Commission communication Agricultural product quality policy (COM(2009) 234). \end{tabular}$
- (31) Commission communication A better functioning food supply chain in Europe (COM(2009) 591).
- $(^{12})$ Commission communication Towards a better targeting of the aid to farmers in areas with natural handicaps (COM(2009) 161).
- (33) Commission Green Paper Reform of the common fisheries policy (COM(2009) 163).
- (34) Agriculture and Fisheries Council conclusions, 19/20 October 2009 (http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/agricult/110614.pdf).
- (35) Commission communication Towards an integrated maritime policy for better governance in the Mediterranean (COM(2009) 466).
- (36) Commission communication European Union strategy for the Baltic Sea region (COM(2009) 248).
- $(^{37})$ Commission communication Towards the integration of maritime surveillance in the EU (COM(2009) 538 and SEC(2009) 1341).
- (28) Commission communication Developing the international dimension of the integrated maritime policy of the European Union (COM(2009) 536).
- $^{(9)}$ Regulation (EC) No 544/2009 on roaming on public mobile telephone networks (OJ L 167, 29.6.2009).
- (40) Commission recommendation on media literacy in the digital environment for a more competitive audiovisual and content industry and an inclusive knowledge society (C(2009) 6464).
- (1) Commission communication on the application of state aid rules to public service broadcasting (OJ C 257, 27.10.2009).
- (42) http://europa.eu/rapid/pressReleasesAction.do?reference=MEMO/09/491&language=EN
- (43) Commission communication Protecting Europe from large-scale cyber-attacks and disruptions: enhancing preparedness, security and resilience (COM(2009) 149).
- (44) http://ec.europa.eu/social/main.jsp?langId=en&catId=113&newsId=642&furtherNews=yes

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