



EUROPEAN COUNCIL
THE PRESIDENT



EUROPEAN COMMISSION
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Evlo

Brussels, 25 May 2012

H.E. Mr Enda KENNY
Taoiseach

SGS12/005600

Dear Taoiseach,

We should like to inform you about the key issues coming up for discussion at the G20 Summit in Los Cabos, Mexico, scheduled to take place on 18-19 June 2012.

Strong policy measures taken by G20 members since the Cannes Summit have helped keep global recovery on track. Nevertheless, risks to global growth remain. At the Los Cabos Summit we should deliver a strong and credible message on growth. Enhanced commitment and cooperative action is needed from all G20 members.

In Los Cabos, the EU should aim for results in four priority areas, as set out in the Spring European Council Conclusions:

1. Keeping growth and employment at the top of the G20 agenda

Growth and employment should be the key focus of the Los Cabos summit. Leaders should adopt the Los Cabos Action Plan for Growth and Jobs, building on the agreement in Cannes, and based on a balanced assessment of risks to the global economy.

In this context the situation in the euro area will be an issue for discussion in this year's G20 Summit. We will emphasise how we have been determined in delivering a comprehensive response to the sovereign debt crisis: addressing the challenges of vulnerable countries; supporting growth through structural reform and differentiated and growth-friendly fiscal consolidation within the European Semester; strengthening euro area financial firewalls; funding and recapitalising banks; and strengthening economic governance in the euro area. We will reaffirm our commitment to safeguard financial stability in the Euro Area and its integrity. We will also make clear that we want Greece to remain in the euro area while respecting its commitments. Finally, we will inform our partners that we are in the process of reinforcing further our economic union to make it commensurate with monetary union.

We should underline that we are ready to promote targeted investment to supplement the other policies of our growth agenda, building upon our discussions at the informal European Council meeting on 23 May. At the EU level, our most important growth lever remains the Single Market. To be fully credible it is important that each MS fully and consistently implements the legislation already approved. The European Commission will be making further proposals for completing the internal market in the area of services and network industries. Also, we invited the EIB Board to consider an increase of its capital by June for financing projects across the EU and we will soon launch the pilot phase of our project bonds initiative. Finally, we should emphasise that we have also put in place a process to tackle macroeconomic imbalances within the EU, which will help step up competitiveness and rebalance economic growth. Recent data show that EU-internal imbalances are being reduced, although more needs to be done by both deficit and surplus countries.

Whilst we are firmly focused on playing our part, at Los Cabos all other G20 partners should also recognise their responsibilities in building a sustainable recovery. We believe that there should be a renewed emphasis on rebalancing the global economy, and we must reflect on accountability under the G20 Framework for Growth.

In this regard, the EU should urge the US and Japan to implement credible medium-term fiscal consolidation plans, in particular to avoid the "fiscal cliff" in the US at the end of the year. We should also call on China to continue strengthening its social safety nets, carry out further structural reforms and move to a market determined exchange rate.

Trade should play an important role at the current juncture as a source of growth and jobs. We will, therefore, call on the G20 to enhance the fight against protectionism and to further strengthen the multilateral trading system. The recent surge in protectionism is a major concern and the G20 should strengthen the existing monitoring mechanism and improve on notifications and transparency. The G20 should give a strong impulse for Trade Facilitation and in this way secure a successful outcome of one part of the Doha Development Agenda which is particularly helpful for Least Developed Countries.

The EU should strongly support the Mexican priority of promoting Green Growth and to give a political impulse to a successful Rio+20 conference which takes place just days after the G20 Summit. Moving towards low carbon economies is a global challenge but at the same time also a source of growth and jobs.

The EU should welcome the continued G20 focus on employment matters, in particular youth unemployment which has reached worrisome levels also in the EU.

2. Continuing to strengthen the International Financial Architecture

We will welcome the agreement at the G20 Ministerial meeting and the IMFC in Washington to increase IMF resources by USD 430 bn with significant contributions from the European Union. This, together with the decision of the euro area to increase its firewalls, will provide a stronger and more credible global firewall.

We will stress that the full implementation of the 2010 reforms is a critical element for boosting the legitimacy, credibility and effectiveness of the IMF. The EU is on track for the timely implementation of the 2010 IMF quota and governance reforms, and all EU Member States expect to complete their ratification by the agreed deadline. We should encourage all other IMF members to do likewise. IMF members should also now stand ready for constructive discussions on the review of the IMF quota formula and on the next review of quotas, taking into account the need to improve IMF accountability, oversight and effectiveness.

The EU should also support the efforts to strengthen IMF surveillance, and should welcome the building blocks put forward by the Fund for a new Integrated Surveillance decision. Our recent experience has demonstrated that we need to better integrate bilateral, regional and multilateral surveillance. We will support an improved and deeper analysis of exchange rates, capital flows as well as capital flow management policies, drivers of reserve accumulation, and global liquidity.

3. Making substantial further progress on financial market reform

Financial regulatory reform must remain at the core of the G20. In 2008, we pledged that the new international financial system must be based on principles of accountability and transparency. We affirmed that no financial institution, no market segment and no jurisdiction must escape proportionate and adequate regulation or at least oversight.

We have made steady progress in implementing our comprehensive agenda. The EU is well on track to have all financial reforms fully in place by 2013 and we expect our partners to move along with us.

We will recall that the EU is delivering on all fronts. We will argue for ensuring consistent implementation of existing commitments - most crucially, the Basel III framework on bank capital and reforms of OTC Derivatives markets - and strict monitoring on the basis of the Common Framework for Implementation Monitoring, concentrating on six priority areas: the Basel II/II.5/III framework; OTC derivative market reforms; compensation practices; policy measures for Global-SIFIs; resolution frameworks; and shadow banking.

Progress should also be made on the remaining policy strands, covering key issues such as shadow banking, Credit Rating Agencies and the convergence of international accounting standards. The governance reform of the Financial Stability Board should be implemented in a timely manner, including by ensuring effective coordination between the Financial Stability Board and other international financial regulatory/standard-setting bodies.

4. Tackling food security and promoting development

We will welcome the progress made on implementing the G20 Action Plan on Food Price Volatility and Agriculture agreed last year and the further steps taken on increasing sustainable agriculture productivity and investment. Ensuring food security around the world is an important issue for the EU. The G20 work on development should remain a fundamental part of the G20 agenda so that advanced and emerging economies continue working together in taking responsibility to help the poor and most vulnerable.

The Los Cabos Summit comes at a critical juncture for the global economy. Europe has stepped up and assumed its special responsibility for securing the financial stability of the euro area and we will continue to do so. It is now up to all G20 members to enhance their efforts and deepen our cooperation in order to ensure a sustained global economic recovery. With this in mind, we should look forward to a constructive and cooperative meeting with our G20 partners in Los Cabos.

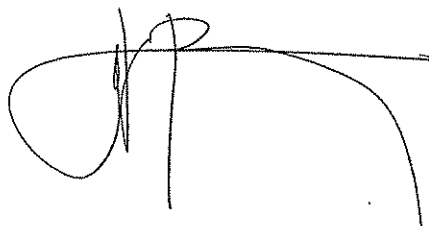
Yours faithfully,

For the European Commission

A handwritten signature in black ink, consisting of a stylized 'J' followed by a horizontal line and a small dot at the end.

J.M. BARROSO

For the European Council

A handwritten signature in black ink, featuring a large, loopy 'H' followed by a horizontal line and a small dot at the end.

H. VAN ROMPUY