



**EUROPEAN COUNCIL  
THE PRESIDENT**

**Brussels, 29 October 2010  
PCE 250/10**

**Joint letter of  
President Van Rompuy and President Barroso  
on the G20 Summit in Seoul**

Looking ahead to the European Council tomorrow, we would like to share with you our views on the key issues coming up for discussion at the G20 Summit in Seoul, and at summits the EU will have with some of its strategic partners. We hope this letter could serve as the basis of a constructive discussion at the dinner of the European Council.

The G20 Summit in Seoul comes at a critical time. It will be a real test of whether the G20 can continue to deliver in its role as the premier global forum for international economic cooperation. We believe it can, and we are convinced that the EU can play a key role in making Seoul a success. The G20 at Leaders level resulted from a European initiative, and it has played a pivotal role in tackling the economic and financial crisis, demonstrating that the world can act together in the face of adversity.

With the world economy slowly recovering despite very large uncertainties, the G20 is now at a turning point. Its focus has shifted from immediate crisis response to longer-term global economic coordination. Sustaining the recovery and laying the foundations for strong and more balanced growth remains a significant policy challenge. As we move into a new phase of economic challenges, there is a risk that the momentum of collective and cooperative action might weaken. It will be important to show in Seoul that leading global economies are ready to make the G20 the central global forum to work on both governance – crisis response as well as prevention – and medium term cooperation.

A strong EU position drawing on its experience in political and economic integration and its track record of support to global economic governance, can play a key role in making Seoul a success. With this in mind, we have been working closely with the Korean Presidency to develop the key themes you will find set out in annex. We need a clear common position on a set of difficult issues:

**P R E S S**

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- First, we need to drive forward the global recovery by forcefully implementing the G20 Framework for strong, balanced and sustainable growth. All G20 countries must recognise that economic imbalances are a common concern, and that all major economies must do their part to achieve rebalancing. If the debate on setting current accounts target will come back at the table, we should underline the benefits of our own mechanism based on a limited number of indicators. In addition, we cannot ignore the recent exchange rate issues and should promote our shared interest in a strong and stable international financial system. The G20 should reaffirm its commitment to move towards more market oriented exchange rate systems that reflect underlying economic fundamentals and refrain from competitive devaluation of currencies.
- Second, we need to see action on reform of International Financial Institutions. In Seoul all parties should confirm the agreements reached at the G20 ministerial meeting last week in Gyeongju on quota shift and the composition of the Executive Board, and should commit to move forward on the full range of issues set out in the annex, including broader governance reform such as enhanced Ministerial involvement.
- Third, we should highlight what the G20 has already achieved on financial regulatory reform and ensure the implementation and monitoring of key reforms like the Basel III agreement. The agenda for financial regulatory reform has not yet been completed. We need to avoid a loss of momentum. The EU has an impressive record on this front and can speak with real credibility. Moreover, the EU should continue to support work in the G20 to explore and develop a financial transaction tax at global level. In the meantime, we need to work on other ways of ensuring that the financial sector makes an equitable contribution, through measures such as a financial activities tax and levies.
- Fourth, we fully support the G20 work on development, where an action plan will be adopted in Seoul to bring developing countries into the G20 growth agenda. At the same time, we want to engage emerging economies in a fully-fledged international development framework.
- The G20 should also give a political impulse to a rapid conclusion of the Doha Round negotiations, taking advantage of a window of opportunity which seems available in the near future. This will require strong political leadership, with clear and operational instructions for negotiators to bridge the gaps and to conclude the Round.
- Seoul will also be an important opportunity to create political momentum for a successful climate change conference in Cancún. The G20 needs a balanced and realistic position which continues to drive us forward towards the global ambition to limit climate change to 2° Celsius.
- Finally, we should support G20 work on addressing energy-related issues and fighting corruption.

The outcome of Seoul will pave the way to the future, also in view of the French Presidency in 2011, which intends to carry forward the work already under way and also to pioneer new avenues of global governance. The stakes for Seoul are high - for the credibility of the G20 and for our economic interests. A strong European voice will be necessary not only to defend our positions, but to shape the future agenda for global economic governance.

The EU will have a number of summits with strategic partners before the end of the year. In line with our September general conclusions, we propose to have a discussion in October on our respective summits with the United States, Ukraine and Russia. As agreed in September, our discussion should provide the foundation for the EU's key political messages at these summits. Our conclusions tomorrow should make a brief reference to our discussion on these issues.

In November we will have the first EU-US summit in the new post-Lisbon era. This summit will provide an opportunity to reassert the political importance of the transatlantic relationship. The summit should demonstrate a common will to cooperate for more effective global governance, based on shared values and a commitment to solidarity and predictability. Its main goal should be to send positive joint messages on issues of common interest and to strengthen co-operation in a number of areas. It should focus on global issues such as the economic recovery, climate change, security and development issues. We should seek a transatlantic accord on a jobs and growth based agenda, including further cooperation on transatlantic market integration and boosting EU-US trade and co-operation on the development of clean energy technologies. This green jobs and growth agenda would serve both to get the economy back on track - globally and bilaterally - and to combat climate change. Further on climate, we should promote a successful outcome of the Cancún Conference. Finally, the summit should enhance cooperation in countering new security threats and address foreign policy and development challenges.

As regards the summit with Ukraine, particular emphasis will be placed on supporting the reform process, particularly as regards strengthening democratic values, ensuring macro-economic stability, improving the business climate and reforming the energy sector. We are aiming to use the summit to add momentum to the negotiations on the Association Agreement, and especially on the deep and comprehensive Free Trade Area. Last, but not least, our ambition will be to launch the action plan on visas.

Finally, our summit with Russia in December will be an important opportunity to strengthen EU/Russian engagement. We will follow up on earlier discussions on the modernisation of Russia not least by taking stock on our Partnership for Modernisation. The summit should focus, in particular, on achieving decisive progress on Russia's accession to the WTO, and on some of our outstanding bilateral issues, such as trade, investment and cooperation in the energy sector. We should see how we can enhance the efficiency of crisis-management co-operation on the basis of a comprehensive approach to security issues, including frozen conflicts. We should also register progress on the visa dialogue entering a fully operational phase through the elaboration of Common Steps. As always, the summit will be an opportunity to openly address questions related to human rights and the rule of law.

**Preparing for the Seoul G20 summit  
Boosting global recovery**

The EU objectives for the summit need to be seen against the backdrop of the global economic situation. The global economic recovery is still fragile and its speed differs across countries. The growth momentum in the US and Japan is slowing, but it remains strong in emerging market economies. In the EU, recent data confirm some strength in the recovery and growth this year will be better than expected. Private demand has started to lend support to growth and world trade has rebounded. There are a number of risks for the global economic recovery which require sustained attention, including sovereign debt sustainability, financial repair, high unemployment in several G20 countries, and re-emerging global macroeconomic imbalances accompanied by tensions in currency markets. These factors frame the goals for the Seoul Summit.

**1) Ensuring global recovery and forcefully implementing the Framework for strong, balanced and sustainable growth**

The uneven global recovery highlights the need for credible medium-term economic policies and continued strong global macroeconomic policy coordination in the G20 in the context of the G20 Framework for strong, balanced and sustainable growth. Our contribution to the Seoul Summit will be based on the agreed EU economic policy strategy: first, growth-friendly and differentiated plans for fiscal consolidation; second, the Europe 2020 strategy for structural reforms to strengthen growth and employment; third, our ambitious programme for financial reform and repair where needed; and fourth, the reinforcement of the economic governance for the EU and the euro area.

All major economies need to do their part to achieve economic rebalancing. We need a strong action plan coming out of Seoul. It is key that there will be clear political commitment to deliver and to provide cooperative and lasting solutions to the current tensions in particular in currency markets. Advanced deficit economies need to seek an increase in their domestic savings rate, while maintaining open markets and enhancing export competitiveness. Emerging surplus economies need to encourage stronger domestic consumption through structural reforms aimed at developing better social safety nets and financial markets, and make progress towards greater flexibility of exchange rate regimes. Exchange rates should reflect economic fundamentals, and G20 countries should reaffirm their commitment to move towards more flexible exchange rates, considering that market oriented exchange rates which reflect underlying fundamentals contribute to financial stability.

**2) Maintaining the momentum on financial regulatory reform in the G20**

Financial market reform will be an important deliverable in Seoul. The EU has been implementing an ambitious financial regulatory agenda. Most recently the new EU supervisory architecture was approved and will enter into force at the beginning of 2011. Much has been achieved so far also at the global level, but we need to avoid a loss of momentum. The endorsement of the agreement on capital and liquidity standards reached by the Basel Committee in September (the so-called 'Basel III' agreement) will be at the centre of the discussions. 'Basel III' is an important step in strengthening global financial stability. Its application will entail better capitalisation of banks and larger liquidity cushions. Sufficient transition periods have been foreseen to take into account the need to support economic recovery. The European Commission will in the first quarter of 2011 make the necessary proposals to translate 'Basel III' into community law. It is important that global implementation of the Basel agreement secures a level playing field.

However, the agenda for financial regulatory reform has not yet been completed. Addressing the risk for financial stability posed by Systemically Important Financial Institutions is paramount and must be dealt with robustly. We must also achieve a sufficient degree of harmonisation of crisis management and resolution regimes to enable smooth cross-border resolution. We should support exploring a binding international agreement on this issue. We also need to ensure that convergence towards a single set of global accounting standards remains on track.

### **3) Completing the reform of the International Financial Institutions**

In Seoul, we need to complete the reform of the International Financial Institutions so that they can take on the challenges of the 21st century. Now that the World Bank reform is behind us we should focus on the International Monetary Fund (IMF). We should confirm the agreement reached at Ministerial level in Gyeongju which will increase legitimacy and effectiveness. Broader governance reforms of the institution are also required, and at the end of this reform process we should expect to see enhanced Ministerial involvement, a more effective Executive Board, adapted voting modalities and a more diverse staff and management in all IFIs.

### **4) Strengthening the global financial safety nets**

Our priority must be to pursue stability-oriented macroeconomic and financial policies to prevent crises. But well-designed improvements to global financial safety nets based on sound incentives such as the Flexible Credit Line and the Precautionary Credit Line recently set up by the International Monetary Fund are most welcome. What remains to be done is to strengthen the link and cooperation between global financial safety nets and regional safety nets. Our own European schemes and facilities (EU balance of payments support, our assistance to Greece, and the European Financial Stabilisation Mechanism and Facility) already aim at this objective through the implementation of joint programmes with the IMF. In addition, we need to step up our efforts to address more systemic risks, limit the build-up of excessive reserves and as a result build a more stable and resilient international monetary system.

### **5) Injecting political impulse into the Doha negotiations**

With a possible window of opportunity to conclude Doha, Seoul comes at a crucial time to unblock the present impasse. This will require solid political leadership providing clear and operational instructions for negotiators to bridge the gaps and to conclude the Round. This is a matter of credibility for the G20. Moreover, Seoul must agree on further steps to reverse the build-up of trade restrictive measures, thus ensuring that the Toronto standstill commitment is respected.

### **6) Adopting a growth-oriented G20 development agenda**

G20 Leaders in Toronto last June agreed to set out a development agenda and a multi-year action plan to promote economic growth and resilience in developing countries. The G20 development agenda is a key opportunity to bring emerging economies into an international development framework which allows better coordination with traditional donors. Its focus on growth provides significant added value to other existing donor activities, which are more closely oriented at poverty reduction and the Millennium Development Goals. It also links up with the G20 Framework for strong, sustainable and balanced growth to achieve stronger global multi-polar growth. Also, the G20 must agree on action on financial inclusion to improve access to finance by households and SMEs.

## **7) Addressing energy-related issues**

The G20 in Seoul should confirm the need to rationalise and phase out inefficient fossil fuel subsidies in the medium-term. This will improve energy efficiency, enhance energy security and contribute to the fight against climate change.

It should also support efforts to reduce fossil-fuel price volatility, including improving physical market transparency, strengthening the producer-consumer dialogue, and improving the regulation, functioning and transparency of financial and commodity markets.

In light of the recent oil spill in the Gulf of Mexico, the G20 will share best practices to protect the marine environment and to prevent accidents related to offshore exploration and development, as well as transportation. The EU shares these concerns as waters off European shores are in parts extensively exploited for the production of oil and gas and the European Commission has just adopted a Communication on facing the challenges of the safety of offshore oil and gas activities.

## **8) Giving political momentum for climate negotiations in Cancun**

The G20 Summit, taking place just weeks before the Cancun Climate Conference (COP 16), will be an important opportunity to push for a successful conference. The EU remains fully committed to a fully-fledged international framework to drive comprehensive and ambitious global efforts to cut emissions and secure the action needed to keep the temperature rise below 2°C.

## **9) Combating Corruption**

Corruption remains one of the biggest challenges for our societies and for our economies. It has many faces, threatens the integrity of markets and it destroys public trust and undermines the rule of law. The EU is strongly committed to fight corruption at every level and in all its forms. Combating corruption can only be efficient if conducted in partnership with other countries and international organizations. Therefore, we strongly support the efforts by the G20 in this field.

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