

José Manuel Barroso
President of the European Commission

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Dear Prime Minister, *Jens Lars Løkke*.

We will have a full agenda when we meet on 23/24 June. We have important economic matters to discuss. In the context of the first European Semester, the Commission has presented a full set of recommendations, one for each Member State and one for the Euro area, each of which supported by a Commission staff working documents. In addition, I felt it might be helpful to put in writing the Commission's perspective on some of the other issues on our agenda which are currently under preparation and also to update you on some ongoing work following up our last meetings, namely migration, our response to the Southern neighbourhood, the work on financial sector taxation and reducing administrative burden.

Migration

The issue of migration has come to the fore in recent months, in particular under the pressure of recent events in the Southern Mediterranean. On 4 May the Commission presented a Communication on migration setting recent and future policy initiatives in a framework that allows the EU and its Member States to manage asylum, migration and mobility of third-country nationals in a secure environment.

We need an asylum system that is both efficient and protective, and that guarantees that asylum seekers are treated in an equal and appropriate manner, wherever they are in the European Union. To achieve this objective, the Common European Asylum System (CEAS) is to be agreed by 2012. To make that possible, the Commission has reviewed its current proposals on minimum standards for the reception of asylum seekers and for granting and withdrawing refugee status in order to find a compromise that I hope will be accepted by both the European Parliament and by the Council. I hope that the European Council will lend its support to the completion of the entirety of the asylum package, as swiftly as possible within the agreed deadline.

His Excellency
Mr Lars Løkke RASMUSSEN
Prime Minister
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Free movement is a defining principle of the European Union and one of the most tangible and successful achievements of the European project. It is central to the success of the Single Market and to Europe's continued efforts for growth and jobs and must be preserved. The Schengen area offers great opportunities to European citizens to travel, work and do business across the EU. The Commission will not hesitate to act if these basic foundations of the European project are called into question.

The abolition of controls at internal borders goes hand in hand with common rules, solidarity and a shared responsibility for external borders. But shared responsibility also means mutual trust in each others commitment and capacity to fully implement the agreed measures. An efficient evaluation mechanism, based on trust and providing the necessary levels of assurance is a crucial part of our policy. It will improve Schengen governance and build the necessary confidence. The Commission made a proposal, already last year, to strengthen the evaluation system; we will shortly present a revised proposal improving further the system and reinforcing the mutual trust.

When dealing with exceptional circumstances, Member States may use the possibility to introduce urgent measures. And some have done it in the past. The Union has to have the appropriate means to handle these situations where either a Member State is not able to fulfil its obligations to control its section of the external border, or where a particular portion of the external border comes under unexpected and heavy pressure due to external events. A coordinated Community-based response by the Union in critical situations would further reinforce mutual trust and also reduce the need for recourse to unilateral initiatives by Member States.

Such a mechanism should allow for a decision at the European level defining the appropriate measures to be taken, including, if necessary and as a last resort, the reintroduction of internal border controls for a very short period until other (emergency) measures have been taken to stabilise the situation.

Building on these principles, the Commission is exploring the feasibility and design of such a Community-based mechanism. I look forward to your reactions to the first ideas set out above, which will help to fine tune our formal proposals that will follow.

Response to the Southern Neighbourhood

Delivering the right response to the events taking place in our southern neighbourhood is a point we have discussed at several of our recent meetings. We have all agreed that we must reach out and offer solidarity and partnership to those who seek to share our values. We have done a lot in recent months – in the attached short note I set out an overview of the scale of support that we are providing to the region and to Egypt and Tunisia in particular. At the same time I think we all acknowledge the need for greater co-ordination of our efforts. That is why we are now moving ahead with the appointment of an EU special representative for the Southern Mediterranean, recently proposed by the High Representative/Vice-President, Cathy Ashton, and the creation of a task force bringing together the Commission, the EEAS, the Member States, EIB and EBRD. I will ensure that the European Council is updated regularly on progress but will also bring to your attention any problems and delays that may need your intervention.

Work on financial sector taxation

Whilst we are not due to discuss this at our June meeting, I would also like to briefly update you on our work on financial sector taxation, a subject we have discussed on several occasions. In line with the conclusions of our last meeting, the Commission is completing its impact assessment and will present a formal legislative proposal after the summer.

Our analysis shows that there is a strong case for deciding on a financial sector tax in the EU as a first step:

- To avoid fragmentation in the internal market for financial services, bearing in mind the increasing number of uncoordinated national tax measures being put in place;*
- To ensure that financial institutions make a fair and substantive contribution to recoup the costs of the recent crisis, to address concerns about excessive profits and to ensure even taxation of the sector vis-à-vis other sectors;*
- To create appropriate disincentives for overly risky or purely speculative transactions.*

With a view in particular to the G20 Summit in Cannes, we will in parallel continue to work for a global agreement on a financial transaction tax.

Reducing administrative burden

At our March meeting we also discussed the importance of reducing the regulatory burden on our companies, in particular the smallest firms, which face the greatest costs in complying with regulations. I would like to report back to you on how the Commission intends to take this work forward.

The Commission has already made a series of proposals that would alleviate the burden on SMEs. We have made over 200 proposals to simplify legislation and have tabled proposals that would reduce administrative burden by more than 31%, well beyond our agreed target of 25%. I am concerned that the Council appears prepared to lower the level of ambition of these efforts. If I take as an example our proposal to exempt micro enterprises from parts of our accounting directives, here the Council is only prepared to accept a mere 50% of the burden reduction as compared to the Commission proposal. I doubt that the European Parliament will be satisfied with such a low level of ambition. So putting first things first, it is now high time to take decisions – ambitious decisions - on what is already on the table. Given the importance of SMEs for our economy, I would particularly ask you all to take a second look at the Commission's accounting proposals so that we can reach a strong and SME friendly outcome.

Of course, we can also go further. At present our legislation is generally applicable to all companies irrespective of size. As I said in March I would like to find ways of reducing the burden on micro enterprises, so I am now considering including a micro entities dimension in our SME test. This would provide clearer criteria for the inclusion or exclusion of micro entities from future regulations. It would be complemented by the further screening of the acquis so as to identify existing obligations from which micro entities could be exempted. In order for the test to add value, it must achieve two objectives. On the one hand, it must identify burdens on micro entities that need not apply or that would be disproportionate to them and hence should be adapted, whilst ensuring the full respect of public policy objectives pursued by the relevant regulations, e.g. public health, food safety or environmental protection. On the other hand, it must ensure that derogations for micro entities in Union law do not lead to a fragmentation in the single market by the subsequent introduction of 27 different regulations at Member States level. The Commission will report on this work by the end of 2011. This is an issue we could discuss at the next Spring European Council.

I look forward to our discussions next week in Brussels.

Yours faithfully,

A handwritten signature in black ink, consisting of a vertical line on the left and a long, sweeping horizontal line that curves downwards on the right.

José Manuel BARROSO