

The background of the cover is a photograph of a cable-stayed bridge. The bridge has two tall, dark grey towers with numerous white cables fanning out to support the bridge deck. The bridge spans across a body of water. A large, semi-transparent red rectangle is overlaid on the middle of the image, containing the title text.

# The 2010 Spanish Presidency of the EU: Priorities and Recommendations

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## About ACCA

ACCA is the global body for professional accountants. We aim to offer business-relevant, first-choice qualifications to people around the world who seek a rewarding career in accountancy, finance and management.

We have 71,000 members across Europe. Globally, we support our 122,000 members and 325,000 students throughout their careers, providing services through a network of 80 offices and centres around the world.

Our focus is on professional values, ethics, governance, and we deliver value-added services through our global accountancy partnerships, working closely with multinational and small entities to promote global standards and support. We use our expertise and experience to work with governments, donor agencies and professional bodies to develop the global accountancy profession and to advance the public interest.

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## Key points

1. Spain will be the first presidency to fully operate under the Lisbon Treaty, and it will be Spain's task to ensure a smooth implementation process after prolonged ratification. ACCA broadly supports the changes made, but it is vital that the Treaty be implemented quickly and effectively to ensure improvements in decision-making efficiency, promised by the Treaty, occur.
2. Spain will be dealing with the conclusions, or lack of them, at COP 15 in Copenhagen in December 2009. ACCA urges the Spanish to ensure that momentum for a deal on climate change is not lost if there is no agreement in Copenhagen; this is not the last ever chance for a deal. The EU must improve its support for renewable energy sources and begin to link its Emissions Trading Scheme with those elsewhere.
3. Spain takes over the presidency as the EU continues to recover from recession. Spain is already planning for the future and will look to developing more regulatory powers for the EU, to prevent future recessions. ACCA hopes that Spain places SMEs (Small and Medium Enterprises) at the heart of its economic agenda, and that SMEs are properly consulted before changes are made. Spain must 'think small first'.
4. Spain's presidency coincides with the updating of the EU's Lisbon Strategy. Much of the strategy will remain the same, but there is likely to be a new emphasis on a more stable, low-carbon economy. ACCA believes that the Lisbon Strategy must have sharper and more realistic goals. The recognition of the importance of a low-carbon economy is a positive, but more support for entrepreneurs and innovation is required.
5. Negotiations for the EU's budget from 2014 will begin next year. Current proposals see an end to the UK rebate, an increase in Eastern European contributions, and a switch in emphasis from agriculture to enterprise. ACCA welcomes this change in emphasis.

## Context

From 1 January 2010, Spain will take over the rotating presidency of the European Council for six months. The Spanish presidency will be the first of a new 'trio' of presidencies comprising Spain, Belgium (July–December 2010), and Hungary (January–June 2011). The outgoing trio, 2008/09, comprised of France, the Czech Republic, and Sweden. The trio system of presidencies is a relatively new innovation from the EU (the coming group will be only the third such trio) and is designed to ensure consistency of message and direction, that may otherwise be compromised by the short length of presidency terms (while also functioning as a 'buddy' system for newer member states).

Barring the unexpected, the forthcoming trio will be the first to fully operate under the auspices of the Lisbon Treaty. Among other 'tidying up' measures, the Treaty will formalise the trio system. To reflect this there will be closer co-operation between the next trio than there was under predecessors, with, for example, the (largely symbolic) introduction of a joint symbol for the trio, and a joint web portal. Meetings to discuss plans for 2010/11, have been taking place between the three governments since as long ago as May 2008.

The trio's draft operative programme has outlined several priorities, including:

- the EU's competitiveness
- the strengthening of 'Social Europe'
- managing the economic and financial crisis
- sustainable use of natural resources
- shaping common energy policy
- combating climate change
- the security of EU citizens
- European neighbourhood policy
- enlargement, and in particular financial cohesiveness between newer and older Member States
- the problems posed by globalisation.

Spain's prime minister, José Luis Rodríguez Zapatero, addressing the Association of European Journalists,<sup>1</sup> said that he expects Spain's presidency to be a 'transforming' presidency, not a 'managing' one. He added that all actions carried out by the Spanish presidency will be aimed at two main goals: firstly, technological, economic, institutional, and political innovation; and secondly, equality at all levels between men and women.

The seven key issues that will particularly dominate Spain's six-month stint will be:

- the continued recovery from recession and re-organisation of industry, business, and regulation
- the fall-out and agreements of COP 15 in Copenhagen in December 2009, and other environment issues
- the implementation of the Lisbon Treaty
- the possible accession of Croatia and Iceland to the EU by next July
- changes to the EU's social agenda framework
- updates of the EU's Lisbon Strategy
- early negotiations for the EU's next budget.

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1. <http://www.aej.org/>

## The economy

Spain takes over the presidency as the Europe-wide recovery from recession continues. Spain's challenge is to carefully shepherd the potentially fragile recovery, while putting in place mechanisms that will prevent a similarly harsh economic downturn from hitting the EU again. Appropriately, Mr Zapatero has selected the creation of a 'new economic model' as one of the Spanish presidency's core objectives, and has stated that he hopes the EU will lead the global economic recovery, linking this leadership strongly with the successful ratification of the Lisbon Treaty.

Plans for the recovery were begun under the Czech and Swedish presidencies and the Spanish presidency is likely to be one of consolidation and evaluation of previous actions (while attempting to establish a new framework for future action, see below). One of the tasks that will befall the Spanish, should the Swedes not complete it by January, is the need to formulate a timetable for implementing 'exit strategies' from the stimulus measures embarked on by many Member States as they sought to counteract recessions. It is important that the Member States begin a co-ordinated reduction of their bloated budget deficits in such a way that recovery is not threatened; although Spain's Finance Minister, Elena Salgado, has suggested the EU could grant a one-year extension to its requests to EU countries to reduce their budget gaps by 2012. Additionally, it is likely that there will be a follow-up of the European Economic Recovery Plan that was launched in December 2008 (under the French presidency).

Mr Zapatero believes that if the EU is to effectively prevent a recurrence of the last two years' economic problems, then the EU needs to be provided with improved regulatory powers. Speaking after a meeting with French president Nicolas Sarkozy in April 2009, Mr Zapatero said that:

*'if the [EU] really wants to be a political union, which works for its citizens, it has to have a much more solid economic government...with powers, with tools'.<sup>2</sup>*

Some of the 'tools' that are possible include the implementation of a European Systemic Risk Board. The Board would be an EU-wide financial supervisory body, charged with keeping a lookout for potential financial difficulties. Plans also included provisions for three sector-specific watchdogs for the banks, insurers, and financial markets.

An agreement was signed in June 2009 to set up the bodies, but these were then knocked back by the UK. The plans will have to wait until a December 2009 summit before they can be resurrected, and it is possible that further discussions will continue well into the Spanish presidency in 2010.

Currently working its way through the EU's decision-making bodies is the Alternative Investment Fund Management (AIFM) Directive, which aims to impose stricter controls and improved oversight for hedge funds and private equity firms. 60% of the EU's private equity firms, and an even higher proportion of hedge funds (80%), operate out of London and there are fears in the City that the regulation could spark a flight of funds and firms to less regulated havens, such as Switzerland. On the issue of strengthening regulation on hedge funds and equity firms, Ms Salgado said in September 2009:

*'... they [hedge funds] need to be regulated... not only hedge funds, but other funds as well... the [AIFM] Directive introduces some bigger obligations, in transparency and the protection of consumers, that we think are adequate'.<sup>3</sup>*

Aside from the two proposals outlined above, there are several directives and plans up for renewal or implementation in the coming months. These include the implementation of a new Financial Services Action Plan 2010-15, as well as possible legislation to protect bank depositors, and investors and insurance policy holders. There may well also be reviews of Directives on the capital adequacy of investment firms and credit institutions, financial services remuneration, and market abuses.

There is likely to be action on SMEs too, to ensure that their importance to the European economy is more accurately reflected by EU policy. The Spanish presidency will carry on the task of overseeing the attempt to meet the EU Council's target for a 25% reduction in the administrative burden on European businesses. Potential solutions include an increased use of e-government, the broadening of one-stop-shop services, and the implementation of an 'only once' regulatory principle. There is also a commitment from the forthcoming trio to improve SME's access to the internal market by providing comprehensive market information, improving public procurement rules, and encouraging cross-border co-operation.

2. <http://www.euractiv.com/en/opinion/spain-push-economic-integration-eu-helm/article-181836>

3. <http://www.guardian.co.uk/business/2009/sep/10/hedge-funds-europe>

## ACCA THINKS

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It is important that Spain gives serious attention to improving the single market; doing so would help create more jobs and help Member States continue their recovery from recession. Key improvements that can be made to the Single Market include its extension to areas currently not included, such as the financial services sector. Currently, services make up almost 70% of GDP and employment in the EU's Member States, yet there is very little trade in services: less than 5% of GDP.

As the Spanish take over the presidency, SMEs must be placed at the heart of their economic considerations. All forthcoming legislation should pass the 'think small first' test. It is important that new legislation considers the needs of SMEs rather than simply adds to their burdens. Qualified accountants are in a pivotal position to provide input on draft legislation affecting businesses of all sizes and covering multiple sectors of economic activity, and should be consulted at the earliest possible stage on draft business legislation or proposals.

When the Spanish do try to help SMEs, it is important that no 'knee-jerk' legislation be brought in without full consultation and economic impact assessments. In this light, ACCA asks that the Spanish presidency leads a reconsideration of the currently proposed exemption of accounting requirements for micro-entities. The proposals are deeply misguided, ill-prepared, and worrisome, and they may discourage the start-up of new businesses.

It is vital that Spain pays attention to increasing access to finance for all business, particularly SMEs. More needs to be done to ensure that funds already provided by the European Investment Bank are actually reaching the businesses they are meant to be helping.

It is important that any changes the EU makes to regulations are only made after proper consultation with stakeholders, particularly SMEs and consumers. Previous Directives have failed to reflect the needs of those they impact upon: Between October 2002 and June 2005 there were 1,680 responses to 46 European financial services consultations. Only 13 of these responses came from consumer groups. ACCA therefore believes that more effort should be made to ensure adequate consumer contributions to the formulation of legislation. Any changes that are made to the financial system must not be at the expense of competitiveness or innovation.

## Environment and energy

There will be two key environmental issues that need addressing under the Spanish presidency. The first of these, and the one most likely to grab headlines, is the problem posed by climate change, and in particular the fallout from the COP 15 climate change talks in Copenhagen that take place a matter of weeks before Spain assumes the presidency. The second issue concerns threats to biodiversity.

The ongoing action to combat climate change will include efforts to promote sustainable industrial policies and efforts to develop a competitive green European economy. Both Mr Zapatero and Ms Espinosa have noted the importance of anti-climate change efforts to the economy, and in a speech to the UN Mr Zapatero said that the demands of climate change were not something that were difficult or required sacrifice, but instead they presented a 'fantastic opportunity'<sup>4</sup> to improve the global economy by increasing sustainability. Ms Espinosa meanwhile, has noted the need for the agricultural sector to adapt to the demands of climate change and reduce greenhouse emissions.

The COP 15 meeting will undoubtedly set the agenda for Spain's actions on climate change. It is currently unlikely that a strong deal with actually be reached at Copenhagen; world leaders have begun speaking about reaching a political agreement, rather than achieving a new treaty. Should this be the case it will be up to the Spanish to pick up the pieces and possibly try to achieve bilateral climate change deals, or to at least keep up the momentum towards some sort of future deal. If there is a solid deal at Copenhagen, then the Spanish will be responsible for initiating EU efforts to work towards Copenhagen targets. This work may also include the organisation of assistance payments from the EU to the developing world.

With regards to energy policy, the Spanish presidency will have responsibility for overseeing the 2010 Spring EU summit, where it is hoped the revised Energy Action Plan for 2010–12 can be approved to help meet the EU's 20% primary energy reduction target by 2020. With the Lisbon Strategy due to be updated for 2010 onwards, the Spanish have the opportunity to incorporate sustainable green industrial policies into the heart of EU economic planning.

The Spanish are also concerned to promote a more unified EU response to energy security. Possibly taking note of the uncoordinated, delayed, and consequently weak EU response to the Russia–Georgia conflict last year, and no doubt mindful of Russia's (and the volatile Middle East's) role in energy supply for the EU, the Spanish believe that the EU 'speak with one voice' on external energy security issues, especially when dealing with energy supply and transit countries.

### ACCA THINKS

If the Copenhagen summit fails to reach an agreement then the impetus for action must not be allowed to fade; no agreement or treaty is no excuse for the EU not to act. In the event of failure a new round of negotiations must begin immediately to ensure that a concrete deal, even a late one, is reached.

It is very important that the Spanish further work towards improving links between the EU's Emissions Trading Scheme and similar schemes elsewhere. This could include providing advice and support for future schemes, such as potential schemes in the US and China. Bilateral co-operation such as this will be even more important should Copenhagen not achieve a binding global agreement on emissions reductions.

While the EU has contributed to research into renewable energy sources, more needs to be done. Research, investment, and support for key current or future technologies, such as nuclear fusion or fission power, are lagging and can be improved. The Spanish have the opportunity to make a big impact in turning the EU into a low-carbon economy, although it is important that this does not threaten the competitiveness of EU businesses, particularly SMEs.

4. [http://www.un.org/News/briefings/docs/2009/090923\\_Spain.doc.htm](http://www.un.org/News/briefings/docs/2009/090923_Spain.doc.htm)

## The Lisbon Treaty and the new commission

One of the most important tasks facing the Spanish presidency is ensuring the smooth implementation of the Lisbon Treaty. The Treaty – which would streamline decision-making in the EU, as well as creating the permanent posts of Council President and foreign High Representative – has already been significantly delayed; the earlier version of the Treaty was due to apply from 2006, while the current Treaty was supposed to apply from January 2009.

The ratification of the Treaty has been completed under the Swedish presidency, but it will be up to the Spanish to put the Treaty into effect. Some of the important work will be begun by the Swedes, such as the selection of EU Council president and foreign representative, but it will be the Spanish who actually have to marshal the important formative months of these posts. The UK's Europe minister, Chris Bryant, has said that he hopes certain aspects of the Treaty will be functioning by April 2010.

As well as having to bed in important structural changes to the EU, the Spanish will also have to work with a brand new Commission. Many of the commissioners will be experienced, as is returning Commission President José Manuel Barroso, but there will be several new or moved commissioners attempting to get to grips with their new briefs. On top of this, there will be changes to the structure of the EU's Directorates (DGs), with a new DG for Climate Action, and the split of the Energy and Transport DG. If commissioners and the new DGs struggle to find their feet quickly, it could be a serious challenge for the Spanish to achieve much of their agenda.

### ACCA THINKS

ACCA broadly welcomes aspects of the Lisbon Treaty. It is imperative that now the prolonged ratification process is complete, the Treaty be implemented quickly and effectively.

The key aspects of the Treaty that the Spanish must begin to deliver on include: the speeding up of the Council of Ministers' decision-making process; improvements to, and the completion of, the single market; the strengthening of the EU parliament; and the increased involvement of national parliaments in the formation of EU legislation.

ACCA approves of the improved continuity that a permanent president provides, but at the same time ACCA recognises that the unelected nature of such an important position dilutes some of the democratising changes elsewhere in the Treaty.

ACCA welcomes the importance that the Treaty affords the combating of climate change, and hopes that the actions of the Spanish presidency reflect this new focus from the start.

## Competition and development – Lisbon

One of the key aspects of the next presidency's work on competition and development is updating the Lisbon Strategy, the most recent phase of which ends in 2010 and has struggled to reach many of its goals. The decision on what exactly to replace the strategy with will be taken in spring 2010, halfway through the Spanish presidency, although the Commission has already unveiled its proposal for post Lisbon in the form of its EU 2020 Strategy. It is likely that the replacement strategy will reiterate the aims of its predecessor on some issues: attention to sustainable economic growth; a strong labour market; the promotion of the importance of a strong knowledge economy (to allow the EU to compete in a globalized world); and environmentally friendly growth, particularly support for a low carbon economy. In light of the recent financial and economic crises, there will undoubtedly be attention given to incorporating economic stability goals into the new strategy.

Spain's First Vice President, Teresa Fernández de la Vega, has stated that Spain's main consideration for the Lisbon Strategy's replacement will be the provision of 'quality employment' for those who live in the EU. In the area of employment policy, there may be a focus on supporting employment in new green technology industries and businesses, a focus on helping workers achieve a better balance between professional and private lives, and providing more support for the working poor.

Consideration may also be given to enhancing the 'knowledge' and R&D aspect of the Lisbon Strategy, with the free movement of knowledge within the internal market being mooted as a 'fifth freedom'. Intellectual property rights are likely to be strengthened too (there could well be a European Day Against Piracy introduced), particularly with regard to the internet, although this internet-focus will come under the 2010-15 Granada Strategy for ICT, which will also look at the future of the internet, and the development of a European Action Plan for e-administration and e-invoicing procedures.

### ACCA THINKS

It is important that the renewed or replacement Lisbon agenda should be designed with sharper more realistic goals. These goals should be strongly linked to action plans that commit, as a priority, Member States to implementing reforms in labour markets, the financial services sector, and discriminatory tax systems.

It is vitally important that green issues are placed right at the heart of any new competitiveness strategy. Recent economic difficulties and the need to update the EU's competitiveness framework present the perfect opportunity to do this. There must be investment in a low-carbon economy, specifically investment in energy efficient technologies, renewable energy sources, and in creating lower carbon growth and green jobs.

Accountants have a key role in promoting innovation in the spirit of the Lisbon Strategy. ACCA appreciates that European businesses need to tackle falling asset values, low levels of growth and dependence on unsustainable natural resources in order to compete with emerging economies that do not face these problems. New ways of identifying assets and then managing them are a vital operational area where accountants can make a real difference.

Issues that need to be addressed include: giving special attention to monitoring and cash flow forecasts; tightening up credit control and cash collection, and optimising treasury management; critically assessing the forward order book and timing of future orders and cash flows; considering foreign exchange hedging when importing/exporting, and where this is material to the business; critically assessing staff requirements and recruitment strategy, whilst taking account of changing demographics; exercising caution in awarding pay rises, and in staff incentive schemes (ensure they relate as much to profitability and cash generation as to growth).

To ensure continued economic development in the EU, entrepreneurial culture must be better supported. Regulatory and fiscal arrangements must be reconsidered to help achieve this. Ideas such as one-stop-shops that help reduce regulatory hoops for entrepreneurs and SMEs are useful, but the Spanish must do more to ensure that Member States make every effort to follow through on EU legislation.

## EU budget

The EU's current budgetary framework (begun 2007) is due to end in 2013 and a replacement for 2014–21 must be in place by then. It is expected that the draft for the next framework will be tabled in early 2011, at the end of the current trio of presidencies (under the Hungarians), but the budgetary negotiation process for the next framework really begins by the end of this year with the publication of the 2008/09 budget review. It will be under the Spanish presidency that the first of these fraught budgetary negotiations will take place.

Early copies of the review indicate that the Commission is preparing 'root and branch reform'<sup>5</sup> for the next framework. There could be a shift away from spending on agriculture (currently 45% of the EU budget) towards innovation, climate measures, energy production, and foreign aid. There will also be less spending on big regional infrastructure projects, and, in keeping with the Lisbon Strategy, spending will focus instead on R&D, innovation, and training projects. Importantly, the Commission also aims to end the UK's rebate, while seeking higher contributions from eastern European Member States.

Negotiations in the next six months will be tricky for the Spanish. The British will vigorously oppose any threat to the rebate; the French, Irish, Poles (the biggest receivers of CAP subsidies), and others will fight reductions in agriculture spending; and Eastern Europe will be displeased by threats to the level of funding it receives. The upcoming trio will also have to contend with warnings from the French – one of the EU's top net contributors – that its contribution may be under threat from its mounting debt burden; the same may be true of other top contributors.

### ACCA THINKS

ACCA welcomes the potential rebalancing of the budgetary support given to agriculture and fishing. The previous budgetary focus on agriculture did not match up with the words of support offered by the EU to business and entrepreneurialism in the Lisbon Strategy, and it is important that this dichotomy is corrected. Placing business and entrepreneurship at the heart of the EU budget would provide important support to sectors that are relevant to a modern, dynamic, competitive, and knowledge-based European economy.

5. <http://www.euractiv.com/pdf/Draft%20document%20reforming%20the%20budget%20oct%202009.pdfm>

## Conclusion

Spain is taking over the EU presidency at a very important time; the next six months will be a time of great change and transition for the EU. The Lisbon Treaty will make significant alterations to the way the EU governs; changes in membership could occur; key frameworks, including the Lisbon Strategy and EU budget, must be renewed or debated; the European economy is recovering from one of its worst ever recessions and will have to be modified to prevent a repeat of this; and 2010 could see a world without a proper framework for emissions reductions post-2012.

ACCA hopes that SMEs and the environment stay right at the forefront of the Spanish Government's considerations as it sets about managing these changes. Both of these issues are central to the future of the EU, and must not be sidelined in decision-making.

The challenges of the coming months are daunting, but they present an opportunity for Spain to leave their mark on a raft of issues and practices that have long-lasting ramifications for Europe. That said, the reverse is also true; there are an awful lot of important things that can go wrong.

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