

# Luis de Guindos: Euro area banks: the profitability challenge



**Keynote speech by Luis de Guindos, Vice-President of the ECB, at the ABI annual conference “Banking Union and Basel III – risk and supervision 2019”, Rome, 25 June 2019**

## **Euro area banks’ profitability remains weak**

The resilience of the euro area banking sector has continued to improve over the past few years, supported by a sustained economic expansion. Banks’ aggregate Common Equity Tier 1 ratio, a key measure of capital strength, stood at 14.3% at the end of 2018, up from 12.7% in mid-2015. Cyclical factors have also helped banks’ profitability recover from its trough in the wake of the sovereign debt crisis.

That said, banks’ return on equity (ROE), at around 6%, still falls short of their cost of capital, which is estimated at around 8-10% for most banks.<sup>[1]</sup> Euro area banks’ ROE also remains below that of some of their international peers, for instance US and Nordic banks. Recently, profitability concerns have again come to the fore as the operating environment for banks has become more challenging, with economic growth projected to slow down in 2019. Banks’ profitability prospects could thus be dampened by deteriorating growth expectations, adding to structural weaknesses.

A number of banks continue to have depressed market valuations, with price-to-book ratios well below one, mirroring their weak current and expected profitability. In other words, price-to-book ratios below one indicate that

those banks are not earning their corresponding cost of equity (COE). However, it is important to stress that the situation of individual banks across the euro area varies considerably in terms of both ROE and COE. There is still a large gap between overperformers and underperformers; in the past few years around one-quarter of significant banks delivered an ROE of at least 8%, while the ROE of the worst-performing quartile remained below 3%. The COE situation is also very mixed: over 20% of European banks surveyed by the European Banking Authority estimate their COE to be above 10%, while around 10% of them estimate it at below 8%.

## **Why is low profitability a concern from a financial stability perspective?**

So why does low bank profitability matter for financial stability? Perhaps most importantly, persistently low profitability can limit banks' ability to generate capital organically. This makes it harder for them to build up buffers against unexpected shocks and limits their capacity to fund loan growth. At the same time, banks with weak profitability prospects and low market valuations could find it very costly, or even prohibitively expensive, to raise capital from market sources should the need arise.

In addition, banks with limited current earnings power may also be tempted to take on more risk. Higher risk-taking by banks can cause financial imbalances to build up, should risks be correlated. In fact, in the banking sector, profitability which is (too) high may be as much of a problem as profitability which is (too) low, as it may be an indication of excessive risk-taking of the sort observed in the run-up to the global financial crisis.

Against this background, today I will focus my remarks on the main determinants of banks' profitability outlook. I will cover both cyclical and structural factors, as well as possible ways for banks to return to sustainable profitability.

## **Cyclical factors have helped improve bank profitability in recent years**

Bank performance is closely linked to economic activity. In fact, bank profitability has improved in the past few years on the back of continued economic growth, with euro area banks' ROE reaching 6% in 2018, up from 3% two years earlier. Cyclical factors have supported these profitability improvements via three channels. First, the broadening economic expansion, coupled with low interest rates, has made it easier for borrowers to repay their loans, leading to better credit quality and lower bank provisions. Second, increased lending volumes have helped offset the negative impact of shrinking net interest margins. And third, a favourable macroeconomic environment has also supported NPL work-outs and the reduction of risk premia, leading to higher NPL sales, which have contributed to lower provisioning needs.

In this context, it is important to recall that the overall effect of our monetary policy on bank profitability has so far been broadly neutral. Nevertheless, the overall effects of negative rates on the banking sector need to be carefully monitored, particularly because the balance of their effects will depend on how long rates remain in negative territory.

## **Progress in tackling structural challenges has clearly been insufficient**

Notwithstanding the weakening economic prospects, banks' profitability is mainly weighed down by structural factors. Improving cost efficiency is one of their key challenges. Cost efficiency, as measured by cost-to-asset and cost-to-income ratios, has deteriorated since 2010 as cost containment has not offset a marked decline in revenues and total assets. As a result, euro area banks continue to underperform some of their international peers in terms of cost efficiency with an average cost-to-income ratio of 66%, compared with 55-57% at Nordic and US banks. It is important to keep in mind, however, that the picture is extremely varied at the level of individual banks, and the best-performing banks in the euro area have shown evidence of sustained profitability improvements supported by efficiency gains.<sup>[2]</sup>

Second, despite notable progress in reducing legacy NPL stocks, some banks continue to face earnings headwinds due to low returns on NPLs, which tie up capital, absorb operational capacity and incur legal and administrative costs.

Third, excess capacity has been offered as an explanation for the euro area banking sector's low profitability, as it can reduce cost efficiency and erode banks' pricing power.<sup>[3]</sup> And based on a composite indicator of overcapacity constructed using various measures of size, competition and efficiency, euro area banks indeed score relatively poorly compared with other advanced economies.

Finally, while market funding conditions remain favourable, the need to issue more bonds that are eligible under the minimum requirement for own funds and eligible liabilities, or MREL, may pose challenges for some banks in the coming years, especially smaller banks<sup>[4]</sup> and those with lower credit ratings. A possible increase in funding costs might complicate their efforts to build up the necessary loss-absorption capacity and could weigh on their profitability.

## **Possible ways for banks to return to sustainable profitability**

Let me now turn to discussing the possible solutions to the profitability problem. First, there is no "one-size-fits-all" strategy for banks to return to sustainable profitability. Each bank's preferred strategy will likely depend on multiple factors.

Let's start with reducing costs and improving efficiency. These are necessary

steps, and potential strategies to achieve them range from more traditional measures, such as downsizing and branch closures, to adopting new, cost-saving technologies aimed at digitalising financial intermediation services, for example increasing reliance on internet-based banking.

It must be remembered, however, that benefits will typically accrue only gradually. Reducing overcapacity entails restructuring costs in the short run, with the benefits materialising later. And for digitalisation, there are typically significant short-run costs involving severance payments and IT investment, while the potential profitability gains may only accrue over the medium to long term.<sup>[5]</sup>

Digitalisation can be an important and permanent cost-saving strategy for banks, particularly in countries with a dense branch network. But it needs to be underpinned by certain structural requirements. Banks' ability to cut costs will depend on factors such as labour laws, population density and the overall level of digitalisation in society. The Scandinavian (and Benelux) countries provide examples of successful cost optimisation strategies through digitalisation.

In addition to cutting costs, many banks will also need to improve their income-generating capacities. One possible avenue for better income diversification is by enhancing fee and commission-based activities. However, the extent to which banks can diversify into areas generating more fee and commission income is likely to depend on their specific business models. In particular, banks that rely heavily on maturity transformation business to generate income could benefit the most from increasing the amount of their total income accounted for by fee and commission-based activities.

Consolidation can further bolster efficiency through cost-cutting synergies. Evidence suggests that domestic mergers and acquisitions (M&As) tend to focus on achieving cost synergies, while cross-border M&As appear to be driven more by expansion opportunities.<sup>[6]</sup> This is mainly because banks have greater scope to streamline overlapping distribution networks within their domestic market.

So domestic consolidation is crucial. Domestic M&As can deliver substantial cost savings, particularly in less concentrated banking markets. This can be achieved through economies of scale, for example, lower administrative expenses and branch rationalisation, and through revenue synergies, such as lower funding costs for the merged unit.

However, consolidation across countries is an indispensable complement to domestic M&As. Banks that are more geographically diversified have tended to display stronger revenue performance in recent years.<sup>[7]</sup> Furthermore, cross-border holdings of deposits and loans can help bolster economic resilience within the euro area by helping to smooth shocks through income-sharing. These private sector risk-sharing channels play an important role in smoothing shocks in the United States but are of a much smaller magnitude in the euro area.

There are still some significant obstacles preventing us from reaping the full benefits of cross-border consolidation. In order to facilitate larger

M&As within the euro area banking sector, we must make further progress towards completing the banking union and the capital markets union, and overcome prevailing regulatory and supervisory obstacles. Truly pan-European banks need to conduct liquidity and capital management at the consolidated level to be efficient. Concrete steps in this direction involve establishing a European deposit insurance scheme and, subsequently, removing national options and discretions, for example regarding capital and liquidity, as well as harmonising insolvency laws and taxation regimes. Discrepancies in insolvency and judicial systems hamper cross-border activity in capital markets. A consistent and efficient framework for pursuing failed contracts is vital to reduce uncertainty for cross-border investors.

## **Concluding remarks**

Let me conclude.

The persistently weak profitability of the euro area banking sector remains a key concern for financial stability, as it constrains banks' ability to build up buffers against negative shocks. While cyclical factors have helped improve bank profitability over the last few years, progress in tackling structural challenges has clearly been insufficient.

Reducing costs and improving efficiency are necessary steps, and digitalisation can be an important and permanent cost-saving strategy for banks, but it needs to be underpinned by the structural requirements I mentioned earlier, such as a general environment that is conducive to digitalisation. Many banks also need to improve their income-generating capacities, for example by enhancing fee and commission-based activities.

In terms of the euro area banking sector as a whole, consolidation, both domestic and cross-border, is vital if we want the sector to become more efficient. We need to facilitate this. And we urgently need to make further progress towards completing the banking union and the capital markets union.

The Single Market is still fragmented along national lines. National options and discretions in the regulatory and supervisory frameworks reduce the economies of scale for banks operating across borders. Decisive steps to overcome these, the establishment of a European deposit insurance scheme as well as the harmonisation of insolvency laws and judicial frameworks are necessary bold steps to allow for the emergence of efficient pan-European banks and greater private risk-sharing in the European Union.

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**[Eurojust helps Italy and Slovenia](#)**

# unravel massive VAT fraud

□The Hague, 24 June 2019

✘With the assistance of Eurojust, the Italian authorities seized almost EUR 84 million after unravelling a VAT fraud scheme involving the marketing of technological and computer products in the region of Campania. A total of 49 suspects are under investigation for tax crimes committed through so-called 'carousel fraud' by collecting the VAT for themselves rather than remitting it to the Italian tax authorities. A joint investigation team, supported by Eurojust, coordinated the investigation by working together with the Public Prosecutor's Office of Naples North and the Specialized State Prosecution Office of the Republic of Slovenia. Two coordination meetings were held at Eurojust.

Searches were carried out in six companies in Italy. As part of these actions, two European Investigation Orders (EIOs) issued by the Slovenian Judicial Authority were executed to allow the transnational collection of evidence.

According to the prosecution's reconstruction of the offences, also confirmed by the preliminary investigation judge, the fraud consisted of the fabrication of a large number of invoices for non-existent transactions, amounting to almost EUR 500 million. For these activities, bogus companies were created, administered by figureheads.

Further investigations, using EIOs and telephone intercepts, were carried out in Slovenia and Estonia, two of the countries in which the bogus companies were located.

The investigation was initially conducted by the Lucca Public Prosecutor's Office and later transferred by territorial jurisdiction to the Public Prosecutor's Office of the Republic of Naples North. The Guardia di Finanza of Naples and Lucca actively supported the investigation.

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## European Commission statement on the judgment of the European Court of Justice on Poland's Supreme Court law

Today the European Court of Justice has ruled that the Polish 'Law on the Supreme Court', lowering the retirement age of judges of the Supreme Court, is contrary to EU law and breaches the principle of the irremovability of

judges and thus that of judicial independence.

In response to the judgment of the Court, the European Commission has issued the following statement:

*“The European Commission takes note of the judgment of the Court of Justice of the EU, which confirms the Commission’s position.*

*This is an important ruling in support of the independence of the judiciary in Poland and beyond. It is also a welcome clarification of the principles of irremovability and independence of judges, which are essential elements of effective judicial protection in the European Union. The judgment also clarifies that, although the organisation of justice in the Member States falls within national competence, when exercising that competence the Member States are required to comply with their obligations under EU law. Every national court is also a European court when applying EU law. Member States must therefore ensure effective judicial protection for individuals in the fields covered by EU law.*

*The Commission will now carefully analyse the judgment and take it up in the forthcoming Commission Communication on the Rule of Law.*

*The Commission stands ready to support the Polish Government in the application of this judgment and to continue discussions on the resolution of all other outstanding issues related to the rule of law in Poland under the ongoing Article 7 Procedure.*

*The rule of law is a founding pillar of our Union and as the Guardian of the Treaties, the European Commission will always do whatever is necessary to uphold it.”*

## **Background**

The Polish law on the Supreme Court lowered the retirement age of Supreme Court judges from 70 to 65, putting 27 out of 72 sitting Supreme Court judges at risk of being forced to retire. This measure also applied to the First President of the Supreme Court, whose 6-year mandate, set out in the Polish Constitution, would be prematurely terminated.

According to the law, which entered into force on 3 April 2018, judges affected by the lowered retirement age were given the possibility to request a prolongation of their mandate, which could be granted by the President of the Republic for a period of three years, and renewed once. There were no clear criteria established for the President’s decision and no judicial review if he rejects the request. Moreover, the only safeguard included in the Polish law was a non-binding consultation of the National Council for the Judiciary.

The rule of law is one of the common values upon which the European Union is founded and embraced by all Member States. It is enshrined as such in Article 2 of the Treaty on European Union.

The rule of law is essential for the functioning of the EU as a whole, for

example with regard to the Internal Market, cooperation in the area of Justice and Home Affairs, and ensuring that national judges who are also 'EU judges' can fulfil their role in ensuring the application of EU law and can properly interact with the Court of Justice of the EU in the context of preliminary ruling procedures.

The European Commission, together with other institutions and the Member States, is responsible under the Treaties, for guaranteeing the rule of law as a fundamental value of our Union and making sure that EU law, values and principles are respected. Events in Poland led the European Commission to open a dialogue with the Polish Government in January 2016 under the Rule of Law Framework and then activate the Article 7(1) TEU procedure on 20 December 2017. The process is based on a continuous dialogue between the Commission and the Member State concerned. The Commission keeps the European Parliament and Council regularly informed.

On [2 July 2018](#), the Commission launched an infringement procedure on the Polish Law on the Supreme Court, on the grounds of its retirement provisions and their impact on the independence of the Supreme Court. On [24 September 2018](#), the Commission referred the case to the Court of Justice of the EU and asked the Court to order interim measures, preventing the irreparable damage that would result from the application of the new law, as well as an expedited procedure to obtain a final judgment as soon as possible. On 17 December 2018, the Court of Justice issued a final order imposing interim measures to stop the implementation of the Polish law on the Supreme Court. The Advocate General delivered an Opinion earlier this year, on 11 April.

#### **For More Information**

[Press Release](#) – Rule of Law: European Commission refers Poland to the European Court of Justice to protect the independence of the Polish Supreme Court

[Press Release](#) – Rule of Law: European Commission takes next step in infringement procedure to protect the independence of the Polish Supreme Court

[Press Release](#) – Rule of Law: Commission launches infringement procedure to protect the independence of the Polish Supreme Court

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## **[ESMA consults on short-termism in financial markets](#)**

Considering the impact of short-termism forms part of ESMA's work on sustainable finance and relates to the European Commission's Action Plan on 'Financing Sustainable Growth'.



ESMA invites investors, issuers, UCITS management companies, self-managed UCITS investment companies, AIFMs and the trade associations of financial market participants to respond to the questionnaire. Responses will contribute to ESMA's analysis of potential sources of undue short-termism on corporations with an aim to identifying areas in which existing rules may contribute to mitigating undue short-termism and areas where the rules may exacerbate short-term pressures.

By December 2019, ESMA will deliver a report to the European Commission based on its findings, in line with the Commission's request to each of the three European Supervisory Authorities (ESAs). The report will present evidence and possibly advice on potential undue short-termism. The Commission will consider ways to follow up on the report's findings, which may include policy actions.

The questionnaire will be open for five weeks, closing on 29 July 2019. It is presented in [EUSurvey](#), an online survey making tool. Before responding to the questions, respondents are invited to read [the explanatory note](#) on the survey on short-termism which provides background information and definitions for each section of the questionnaire as well as useful technical instructions.

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## [Daily News 24 / 06 / 2019](#)

### **EU confirms support to Jordan with €100 million loan under Macro-Financial Assistance programme and high-level mission of Commissioner Hahn**

The European Commission, on behalf of the EU, has today approved the disbursement of a €100 million loan to Jordan. With today's disbursement, the EU has now provided Jordan with €380 million in Macro-Financial Assistance (MFA) funds since 2013. The current MFA programme has helped Jordan to cover its financing needs and supported the implementation of its structural reform agenda. Pierre **Moscovici**, Commissioner in charge of Economic and Financial Affairs, Taxation and Customs, said: *"Jordan has been profoundly affected by events in Syria since the crisis there began in 2011. Today's disbursement demonstrates the EU's commitment to continue to provide political and financial support to Jordan in these challenging times. It is an important and encouraging signal that Jordan intensifies its efforts to deliver on economic reforms in close cooperation with the international community. I look forward to continuing our work with the Jordanian authorities on their reform programme and in securing a stable, stronger economy for Jordan for the benefit of its entire population."* Commissioner for European Neighbourhood Policy and Enlargement Negotiations Johannes **Hahn** is currently in Amman, Jordan. The Commissioner will lead tomorrow a high-level mission with the main European and International Financial Institutions to discuss support to Jordan socio-economic reform agenda with country's authorities, private sector and civil society organisations. During his visit,

Commissioner **Hahn** will also meet with King Abdullah II, Prime Minister Omar Razzaz, Foreign Minister Ayman Safadi and Minister of Planning and International Cooperation Mohamad Al-Ississ and he will sign EU funded projects to support innovation, sustainable growth and job creation. Information on [EU cooperation with Jordan](#) is available online. A press release on the MFA assistance is available [here](#). More info on the visit of Commissioner **Hahn** is available [here](#). Photos and videos will be available on [EbS](#). (For more information: Annika Breidhardt – Tel.: +32 229 56153; Maja Kocijančič – Tel.: +32 229 86570; Alceo Smerilli – Tel.: +32 229 64887; Enda McNamara – Tel.: +32 229 58615)

### **L'UE approuve un versement de 150 millions d'euros dans le cadre de l'assistance macrofinancière à la Tunisie\***

La Commission européenne, au nom de l'UE, a approuvé aujourd'hui le versement d'un prêt de 150 millions d'euros à la Tunisie. Il s'agit du deuxième des trois versements prévus dans le cadre du deuxième programme d'assistance macrofinancière à la Tunisie, adopté par le Parlement européen et le Conseil le 6 juillet 2016. Au total, le deuxième programme a une valeur de 500 millions d'euros. Avec le versement effectué aujourd'hui, l'UE fournit désormais à la Tunisie 650 millions d'euros de fonds AMF depuis 2015. Pierre **Moscovici**, commissaire chargé des affaires économiques et financières, de la fiscalité et des douanes, a déclaré: « *Ce versement démontre que l'Union européenne demeure déterminée à aider la Tunisie et son peuple. Le succès de la mise en œuvre de l'ambitieux programme de réforme auquel est subordonné ce versement témoigne de la détermination de la Tunisie à prendre les mesures nécessaires pour assurer la croissance et soutenir la relance de son économie. L'Union continuera d'appuyer ce processus* ». Un communiqué de presse est disponible [ici](#). (Pour plus d'informations: Annika Breidhardt – Tel.: +32 229 56153; Enda McNamara – Tel.: +32 229 58615; Annikky Lamp – Tel.: +32 229-56151)

### **Dual Food Quality: Commission releases study assessing differences in the composition of EU food products**

Since his [State of the Union Address in 2017](#), President Jean-Claude **Juncker** has been committed to addressing the issue of dual quality of products. The European Commission has taken forward different initiatives and today has published a study following tests of food products across the EU using the same methodology, in order to better understand the dual quality of food products in the EU. Analysing nearly 1,400 food products in 19 EU countries, the [study](#), carried out by the Commission's in-house science and knowledge service, the [Joint Research Centre](#), shows that 9% of the compared products differed in composition, although the front-of-pack was identical. A further 22% of products with a different composition had a similar front-of-pack. The study did not show a consistent geographical pattern. Based on the new methodology developed, national competent authorities will now be able to perform the case-by-case analysis required to determine misleading practices prohibited under EU consumer law. Tibor **Navracsics**, Commissioner for Education, Culture, Youth and Sport, responsible for the Joint Research

Centre, said: *“Some Europeans feel branded food products they buy are different, perhaps worse, compared to those available elsewhere. The Commission called on our scientists to help objectively assess the extent of such differences on the single market. The results are mixed: while I am happy that they found no evidence of an East-West divide in the composition of branded food products, I am worried that they uncovered up to one third of tested products having different compositions while being identically or similarly branded.”* Věra **Jourová**, Commissioner for Justice, Consumers and Gender Equality, said: *“There will be no double standards in Europe’s single market. With the new laws penalising the dual quality and strengthening the hands of the consumer authorities, we have the tools at hand to put an end to this practice. European consumers will be able to do their shopping in full trust that they buy what they see.”* The Commission launches today a new [call for proposals](#) with a total budget of €1.26 million to strengthen consumer organisations’ capacities to test products and identify potentially misleading practices. The deadline for applications is 6 November 2019. The study is available [online](#). (For more information: Nathalie Vandystadt – Tel.: +32 229 67083; Christian Wigand – Tel.: +32 229 62253; Joseph Waldstein – Tel.: +32 229 56184; Melanie Voin – Tel.: +32 229 58659)

## **Commission publishes recommendations on improving the Single Market for food**

Today the Commission published the [final report](#) of the [High Level Forum for a Better Functioning Food Supply Chain](#), which provides recommendations in the areas of fair and efficient trading practices, competitiveness and price transparency. Commissioner Elżbieta **Bieńkowska**, responsible for the Internal Market Industry, Entrepreneurship and SMEs said: *“The Forum has done important work to counter unfair trading practices, improve producer cooperation and improve transparency in the food supply chain. Today’s report points towards a number of important outstanding issues. By improving the Single Market for food, we can boost the efficiency of the food sector and create new jobs.”* The Juncker Commission has been developing the industrial policy in the agro-food sector and related policy measures, which contribute to a better functioning of the food supply chain. The Forum, consisting of representatives of consumers, NGOs, food chain operators and Member States, assisted the Commission with this task. Building on the work of the Forum, the Commission has put forward proposals to [address unfair trading practices](#), [improve producer cooperation](#) and introduce [greater price transparency](#). To increase transparency, the Forum proposes to create a price composition indicator to be launched in autumn. It will show how consumer expenditure is distributed within the food supply chain. The tender for this project has been opened [today](#). The report also highlights the lack of harmonised rules and uneven enforcement in certain areas as well as problems with territorial supply constraints. Furthermore, the report provides recommendations on how to better respond to consumer concerns on dual food quality and provide better information to them. The Forum gave a mandate to the Commission’s Joint Research Centre (JRC) to develop a [common methodology](#) for comparing the quality of food products across the EU. The JRC then conducted a pan-European testing campaign of food products, the results of which have been [published](#)

today by the European Commission. (For more information: Lucía Caudet – Tel.: + 32 229 56182; Victoria von Hammerstein – Tel.: +32 229 55040)

## **Aide humanitaire: l'UE mobilise plus de 18 millions d'euros en faveur de la République centrafricaine en 2019**

Alors que de nombreuses personnes continuent de souffrir en République centrafricaine (RCA), l'Union européenne reste solidaire des populations dans le besoin et annonce une aide humanitaire de 18,85 millions d'euros pour 2019. Ce soutien supplémentaire porte l'assistance humanitaire de l'UE en faveur de la RCA à plus de 135 millions d'euros depuis 2014. Christos **Stylianides**, commissaire chargé de l'aide humanitaire et de la gestion des crises, a déclaré: *“Pour l'UE, la situation humanitaire en République centrafricaine n'est pas une crise oubliée. Nous continuerons à fournir de l'assistance afin de pourvoir une aide vitale aux personnes dans le besoin. Nous restons toutefois préoccupés par les actes de violence perpétrés contre des civils et des travailleurs humanitaires en République centrafricaine. Les personnes innocentes et les travailleurs humanitaires ne doivent pas constituer une cible.”* Le financement humanitaire de l'UE en République centrafricaine vise à aider les personnes touchées par le conflit, à prévenir la violence et fournir un soutien médical, psychosocial et juridique aux victimes de violences et d'atteintes aux droits humains, à s'attaquer à la crise alimentaire et nutritionnelle, et à soutenir la fourniture d'aide dans les zones où les infrastructures déficientes et les combats en cours rendent difficile l'accès aux travailleurs humanitaires. Le communiqué de presse complet est disponible [ici](#). (Pour plus d'informations: Carlos Martin Ruiz de Gordejuela – Tél.: +32 229 65322; Daniel Puglisi – Tél.: +32 229 69140)

## **Sustainable Finance: Commission hosts stakeholder dialogue to discuss latest expert reports**

The European Commission is today hosting an event to exchange views on the reports of the [Technical expert group on sustainable finance \(TEG\)](#) and present the new [Commission guidelines on climate-related reporting](#) published last week. This event builds on the Commission's ongoing efforts to involve a wide range of stakeholders as it implements its [Action Plan on Financing Sustainable Growth](#). Commission Vice-President Valdis **Dombrovskis**, responsible for Financial Stability, Financial Services and Capital Markets Union, said: *“One of the main objectives of our Sustainable Finance policy is to harness the power of private capital to achieve a climate-neutral economy by 2050. The reports published by the technical expert group on sustainable finance and new [Commission guidelines for climate-related reporting](#) provide a thought-provoking analysis on how to bring about a rapid green transition in the financial sector.”* On 18 June, the TEG delivered three major reports on the [EU Taxonomy](#), which presents the most comprehensive classification system for sustainable activities to date; an [EU Green Bond Standard](#), which recommends clear and comparable criteria for issuing green bonds; and an interim report that presents recommendations on [Climate benchmarks and benchmarks' ESG disclosures](#). On the same day, the Commission also published non-binding new guidelines to help companies disclose relevant climate-related information in a more consistent and more comparable manner. Today's event in Brussels will give all participants the chance to discuss the

substance of these publications and anticipate possible next steps in terms of the EU's progress on sustainable finance. See [here](#) the updated factsheet on sustainable finance. More information and webstreaming of the event are available [here](#). (For more information: Vanessa Mock – Tel.: [+32 229 56194](#); Guillaume Mercier – Tel.: [+32 229 80564](#))

### **Commission and Member States to discuss progress made on the 2021-2027 Cohesion Policy framework**

Tomorrow, Commissioner for Regional Policy Corina **Crețu** will participate in the Council meeting of ministers in charge of Cohesion Policy. Discussions will focus on the state of play of negotiations on the future Cohesion Policy 2021-2027 and on the preparation of the new programmes, with a stronger link to the recommendations issued in the context of the [European Semester](#). *“I welcome the progress made so far and I call for fast negotiations when talks resume in the autumn. All new programmes should be able to start in January 2021 to provide certainty and continuity of funding for regions, cities and businesses,”* said Commissioner **Crețu** ahead of the meeting. *“We will keep on working in the meantime”,* she added, *“as the Commission is in contact with all Member States to shape the new programmes on the basis of the investment priorities we suggested in the latest country reports and country-specific recommendations.”* The Commissioner will present the rationale behind the enhanced link between the 2021-2027 Cohesion Policy and the European Semester. She will stress that EU funds provide a substantial share of the resources needed for strategic investments and the implementation of structural reforms, and that at the same time, these investments can only deliver their full potential in an environment that is friendly to businesses and conducive to growth. A factsheet on the progress made in the negotiations on the 2021-2027 long-term EU budget and its programmes is available [online](#). (For more information: Christian Spahr – Tel.: +32 229 50055; Sophie Dupin de Saint Cyr – Tel.: +32 229 56169)

### **Migration: Asylum applications in the EU return to pre-crisis levels in 2018\***

New figures published today by the European Asylum Support Office (EASO) show that asylum applications in the EU have decreased for the third consecutive year in 2018. The number of asylum requests received has returned to pre-crisis levels. In 2018, a total of 664,480 applications for international protection were recorded in the EU, Norway, Switzerland, Iceland and Liechtenstein. The overall trend of greatly reduced numbers has continued in 2019, despite an increase during the first 5 months of 2019. Commissioner for Migration, Home Affairs and Citizenship Dimitris **Avramopoulos** said: *“The strong decrease in asylum applications in the EU is the result of our joint EU efforts on all fronts. We are now better managing our borders, we have put in place strong partnerships with countries of origin and transit, and we have greatly increased our efforts to protect migrants along the road and fight the root causes of irregular migration. We have to continue our work together with a common European approach.”* More information can be found in

the [press release](#) issued by EASO today. The full Annual Report on the Situation of Asylum in the EU 2018 is available [online](#). (For more information: *Natasha Bertaud – Tel.: +32 229 67456; Tove Ernst – Tel.: +32 229 86764; Markus Lammert– Tel.: +32 229 80423*)

### **Mergers: Commission approves acquisition of L3 Technologies by Harris Corporation, subject to conditions**

The European Commission has approved, under the EU Merger Regulation, the proposed acquisition of L3 Technologies by Harris Corporation, both aerospace and defence companies based in the US. The Commission examined in particular the effects of the proposed transaction on competition in certain markets related to (a) night vision devices, which are opto-electric devices that provide users with improved vision in low-light environments and total darkness; and (b) hand held video data links, which are hand held communication devices that enable the transmission of high-bandwidth, real-time full motion video from aircraft, including drones. As regards night vision devices, the Commission found that Harris Corporation and L3 Technologies compete head-to-head in the markets for image intensification night vision devices and image intensification tubes in the European Economic Area (EEA). The proposed transaction, as initially notified, would have significantly reduced competition in these markets. As a result, the Commission was concerned that the transaction would lead to higher prices and less choice for governmental defence departments, commercial customers and other customers of the companies' night vision products in the EEA. To address the Commission's competition concerns, the companies offered to divest Harris Corporation's global night vision business. These commitments fully address the Commission's concerns. Therefore, the Commission concluded that the proposed transaction, as modified by the commitments, would no longer raise competition concerns in the EEA or any substantial part of it. The Commission's decision is conditional upon Harris Corporation's full compliance with the commitments. The full press release is available online in [EN](#), [FR](#), [DE](#). (For more information: *Ricardo Cardoso – Tel.: +32 229 80100; Maria Tsoni – Tel.: +32 229 90526*)

### **Concentrations: la Commission autorise l'acquisition de SecureLink par Orange**

La Commission européenne a approuvé, en vertu du règlement européen sur les concentrations, l'acquisition de SL Bidco B.V. (« SecureLink »), entreprise basée aux Pays-Bas, par Orange S.A., basée en France. SecureLink opère des infrastructures et fournit à des entreprises et à des clients institutionnels des services gérés dans le domaine de la cybersécurité. Orange fournit principalement des services de communications électroniques dans les secteurs de la téléphonie fixe, de la téléphonie internet et de la téléphonie mobile dans différents pays du monde. La Commission a conclu que l'opération envisagée ne soulèverait pas de problème de concurrence en raison de son impact très limité sur la structure du marché. L'opération a été examinée dans le cadre de la procédure simplifiée du contrôle des concentrations. De plus amples informations sont disponibles sur [le site internet concurrence](#) de la Commission, dans le [registre public des affaires](#) sous le numéro d'affaire

[M.9385](#). (Pour plus d'informations: Ricardo Cardoso – Tel.: +32 229 80100; Maria Tsoni – Tel.: +32 229 90526)

### **State aid: Commission approves prolongation of Irish credit union resolution scheme**

The European Commission has found the prolongation of an Irish scheme for the orderly winding-up of credit unions to be in line with EU state aid rules, in particular with the [2013 Banking Communication](#) (see also [MEMO](#)). The objective of the scheme is to safeguard financial stability when a credit union becomes unable to meet regulatory requirements. It allows Ireland to provide aid for transferring the assets and liabilities of a failing credit union to an acquirer through a competitive process. This will help to achieve the maximum value for the assets and liabilities, ensuring that the aid is limited to the minimum necessary for an orderly winding-up, and that no buyer gains an undue economic advantage through the acquisition of under-priced assets and liabilities. Credit Unions are small financial institutions that are not covered by the Bank Recovery and Resolution Directive (BRRD). Ireland has chosen to make a special sector-funded resolution scheme available to those credit unions, which has been used only three times since its set-up. The scheme is prolonged until 31 May 2020. The Commission initially approved the scheme in December 2011. It has been prolonged fourteen times since then, the last time in [November 2018](#). More information will be available on the Commission's [competition](#) website, in the public [case register](#) under the reference SA.54244. (For more information: Ricardo Cardoso – Tel.: +32 229 80100; Maria Tsoni – Tel.: +32 229 90526)

### **State aid: Commission approves support for JC Decaux “Villo” bike rental system in Brussels; orders recovery of up to € 2.5 million of incompatible aid granted to JC Decaux**

In March 2015, following a complaint by advertising company Clear Channel Belgium, the Commission opened an in-depth investigation to assess whether two measures granted by the Brussels authorities in favour of the advertising company JC Decaux were in line with EU State aid rules. The first measure concerned the “Villo” bike rental system in Brussels. The region of Brussels defined Villo as a Service of General Economic Interest and, in 2008, following a tender procedure, granted JC Decaux an exclusive concession for this service. In addition, the region of Brussels granted JC Decaux certain rent and tax exemptions, which were outside the scope of the original tender for the Villo concession contract. The second measure concerned the operation by JC Decaux of certain advertising panels in the city of Brussels beyond the contractually agreed date for their removal and without paying any rent to the city. The Commission assessed both measures under State aid rules, in particular the [EU State aid rules on services of general economic interest](#), which allow Member States, under certain conditions, to compensate companies that have been entrusted with public service obligations for the extra cost of providing these services. Concerning the first measure, it found that: (i)

Villo is a genuine public service since it promotes an environmentally friendly form of transport and contributes to reducing congestion in Brussels; and (ii) that JC Decaux has not been overcompensated. On this basis, the Commission concluded that the support measures to JC Decaux concerning "Villo" are in line with EU State aid rules. However, with respect to the second measure under investigation, the Commission found that JC Decaux benefitted from an unfair economic advantage over its competitors. The Commission concluded that the measure constitutes incompatible State aid and that an amount expected to be less than € 2.5 million will need to be recovered by the Belgian authorities. More information will be available on the Commission's [competition](#) website, in the public [case register](#) under the case number [SA.33078](#). *(For more information: Ricardo Cardoso – Tel.: +32 229 80100; Maria Tsoni – Tel.: +32 229 90526)*

### **Competition: EU and ASEAN reinforce cooperation on competition policy at first EU-ASEAN Competition Week in Kuala Lumpur**

Officials and experts from the EU and the ASEAN (Association of Southeast Asian Nations) Member States will meet in Kuala Lumpur, Malaysia from 24 to 28 June to advance cooperation on competition policy and enforcement. The EU-ASEAN Competition Week, hosted by the Malaysia Competition Commission, is the first in a series of annual meetings that will provide a forum for technical discussions and exchanges of good practices between the two regional organisations. Representatives from the European Commission, EU National Competition Authorities, the ASEAN Secretariat and ASEAN Member States Competition Authorities will discuss a wide range of topics, including merger review, state aid control, procedural fairness, competition law challenges in the digital economy and competition enforcement in regional networks. The EU-ASEAN Competition Week is part of the [Competition Cooperation project](#), a 5-year EU-funded programme offering technical cooperation to competition authorities in Asia. The objective is to exchange experiences and strengthen convergence in competition policy, to the benefit of citizens and businesses in both the EU and Asia. The EU-ASEAN Competition Weeks will be hosted by a different ASEAN Member State Competition Authority each year. *(For more information: Ricardo Cardoso – Tel.: +32 229 80100; Maria Tsoni – Tel.: +32 229 90526)*

### **ANNOUNCEMENTS**

#### **Commissioner Arias Cañete in Germany to discuss the integrated national energy and climate plan**

Today, Climate Action and Energy Commissioner Miguel **Arias Cañete**, will be in Germany to present the [Commission's long-term vision for a climate-neutral economy by 2050](#), adopted by the Commission last November. He will first meet Peter Altmaier, Federal Minister for Economic Affairs and Energy, to exchange views on climate neutrality objectives and to discuss growth opportunities arising from the modernisation and transition towards a climate neutral economy. Later today, the Commissioner will meet Svenja Schulze, Federal Minister for the Environment. Their meeting will focus on the importance of ambitious and rigorous National Energy and Climate plans to maintain the EU leading position in the fight against global warming. Discussions will also



cover Energy Union governance process specific points, the Emission Trading System, carbon pricing and nuclear energy. This visit is part of a number of country visits by the Commissioner aimed at discussing the Commission's long-term vision with Member States, in order to identify the most cost efficient and socially fair measures and policies to deliver on the Paris Agreement temperature goals. *(For more information: Anna-Kaisa Itkonen – Tel.: +32 229 56186; Lynn Rietdorf – Tel.: +32 229 74959)*

### **Commissioner Navracsics travels to Georgia for Eastern Partnership Conference**

Commissioner for Education, Culture, Youth and Sport, Tibor **Navracsics**, will be in Tbilisi today and tomorrow (24 and 25 June) for the [Eastern Partnership Conference on Promoting Values through Education and Culture](#). Over 200 participants will gather to consider how cooperation in the fields of education, youth and culture can strengthen integrity in education and research, citizenship, media literacy, common values and inclusiveness. The Commissioner will give one of the opening speeches. Ahead of the event, he said: *"As we celebrate ten years of the Eastern Partnership, I am confident that our discussions in Tbilisi will enrich our understanding of how education, intercultural dialogue, and respect for diversity can help us build stronger and more resilient societies. Together, we will open up fresh opportunities and empower the younger generation both in the Eastern Partnership region and in the EU to become independent, engaged citizens."* The Commissioner will have bilateral meetings with the Prime Minister of Georgia, Mamuka Bahtadze, Minister of Foreign Affairs, David Zakaliani, and Minister of Education, Science, Culture and Sport, Mikheil Batiashvili. The Commissioner will attend a Creative Europe Fair organised to celebrate four years of Georgia's participation in the Creative Europe programme. During his visit, he will also meet thirty young people from Georgia who have taken part in Erasmus+ and other EU programmes. *(For more information: Nathalie Vandystadt – Tel.: [+32 229 67083](#); Joseph Waldstein – Tel.: [+32 229 56184](#))*

### **Commissioners Vytenis Andriukaitis attends e-commerce food conference in Berlin**

Today, June 24, Commissioner Vytenis **Andriukaitis** in charge of Health and Food Safety will be in Berlin to attend the conference on [e-Commerce of food: 'International Conference on Trends and Official Control'](#). The conference, co-organized by the European Commission and the German Federal Office of Consumer Protection and Food Safety (BVL) aims to bring together key stakeholders from across the e-Commerce of food sector. The Commissioner will deliver a welcome speech to open the event at 13.00 CET upon arrival. Following his, the speeches from Julia Klöckner, the German Federal Minister for Agriculture, Herbert Dorfmann, MEP, and Helmut Tschiersky, President of the BVL, will also be heard. Later that afternoon, Commissioner Andriukaitis will take part in a panel discussion on the responsibility of market places and fulfilment centres. The next morning on Tuesday June 25, the Commissioner visits the AMAZON FRESH Fulfillment Centre in Berlin. Ahead of his visit,

Commissioner **Andriukaitis** said: *“This event is very timely as the EU is already one of the largest e-commerce markets in the world and we expect more and more people, especially younger generations, to buy food products online in the coming years. Whilst Internet shopping brings opportunities for consumers and businesses, we need to make sure that safety, authenticity and transparency are respected. The EU new official controls legislation has already foreseen the tools to make enforcement possible and to protect our citizens.”* (For more information: Anca Paduraru – Tel: +32 229 91269; Aikaterini Apostola – Tel.: +32 229 87624)

\* [updated at 14:30 on 24/06/2019]

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