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THE EUROPEAN UNION**

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**NOTE**

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from :            Presidency  
to :                Coreper

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*Subject :        European Council (13 and 14 March 2008)*  
                      – *Draft conclusions*

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The Presidency hereby submits to Coreper draft conclusions to be agreed by the European Council at its meeting on 13 and 14 March 2008.

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**p.m. Executive Summary**

*The meeting of the European Council was preceded by an exposé by the President of the European Parliament, Mr Hans-Gert Pöttering, followed by an exchange of views.*



1. The fundamentals of the European Union economy remain sound: public deficits have been more than halved since 2005 and public debt has also declined to just under 60%. Economic growth has reached 2,9% in 2007, but is likely to be lower this year. 6,5 million jobs were created in the last two years. Although cyclical factors have played a role, these developments have been aided by the structural reforms undertaken over the last years within the framework of the Lisbon Strategy and the beneficial effects of the Euro and the single market.
2. However, the global economic outlook has deteriorated recently as a result of a slowdown of economic activity in the United States, higher oil and commodity prices, and ongoing turbulence on the financial markets. This is why it is all the more essential for the Union to avoid complacency and sustain reform efforts through the full implementation of the National Reform Programmes and the Integrated Guidelines for Growth and Jobs. Efforts to complete and deepen the internal market must continue. Closely coordinated economic and financial policies must be geared towards ensuring macro-economic stability, taking up the opportunities of globalisation and addressing the challenges ahead including ageing populations, climate change and energy. In order ensure greater stability of financial markets action is also required to strengthen their transparency and functioning and to further improve the supervisory and regulatory environment at national, EU and global level.
3. The European Council notes that recent significant increases in food and energy prices have contributed to inflationary pressures. In this regard, the European Council recalls the need to avoid distortionary policies that prevent the necessary adjustments by economic agents. It invites the Council to identify the driving forces behind developments of commodity and food prices and pursue EU and national policies which remove possible supply limitations.

**LAUNCHING THE NEW CYCLE OF THE RENEWED LISBON STRATEGY FOR GROWTH AND JOBS (2008-2010)**

4. Further to the Commission's Strategic Report and in the light of work in the relevant Council formations the European Council launches the second three-year cycle of the Strategy by
- confirming that the current Integrated Guidelines (BEPGs and Employment Guidelines) remain valid and should serve for the period 2008-2010. The Council (ECOFIN and EPSCO) is invited to formally adopt the Integrated Guidelines in accordance with the Treaty;
  - endorsing the country-specific recommendations for the economic and employment policies of the Member States and the Euro area as drawn up by the Council on the basis of the Commission's proposals. The Council is invited to formally adopt them. Member States should set out detailed and concrete actions addressing their specific policy response to the country-specific recommendations and "points to watch" in their National Reform Programmes and the subsequent annual implementation reports. The Commission is invited to continue working with Member States to further develop a clear and transparent methodology for the monitoring and evaluation of Lisbon reforms;
  - taking into account the priorities identified by the Council and the concrete actions set out below, inviting the Commission, the European Parliament and the Council, within their spheres of competence, to take forward work on the 10 objectives identified in the Community Lisbon Programme, which provides a strategic reform agenda for the Community part of the renewed Lisbon Strategy; progress should be assessed annually.
5. The focus of the new cycle will be on implementation. The European Council therefore:
- reconfirms the four priority areas agreed at its Spring 2006 meeting as the cornerstones of the renewed Lisbon Strategy and at the same time calls for synergies among them to be exploited to a greater degree;

- invites the Commission and Member States in the context of multilateral surveillance to step up the exchange of best practices, in particular by making full use of existing methods of open coordination, efficient coordination within the euro-area being of particular importance;
- invites the Commission and Member States to strengthen the involvement of relevant stakeholders in the Lisbon process;
- recognises the role of the local and regional level in delivering growth and jobs; increased ownership of the growth and jobs agenda at all levels of government will lead to more coherent and effective policymaking;
- emphasises that economic, social and territorial cohesion also contribute to fulfilling the objectives of the renewed Lisbon Strategy and welcomes the progress made in targeting cohesion funds in support of national reform programmes and implementation of the Integrated Guidelines. Now that the programming phase has been completed, the European Council calls on Member States to ensure that expenditure reflects the earmarking commitments made;
- underlines the importance of macro-economic stability in addressing longer-term challenges ahead. The EU budgetary framework, as defined by the revised Stability and Growth Pact, provides the appropriate tools in this regard. The improvement in the overall budgetary situation in the EU provides the necessary room for manoeuvre for automatic stabilisers to play if downside risks were to materialise. Countries that have reached their medium-term objectives should maintain their structural position and all countries not yet at their medium-term objectives should speed up the pace of deficit and debt reduction and allocate possible higher-than-expected revenues to this objective. The quality of public finances needs to be improved by raising efficiency and effectiveness of public expenditures and revenues and favouring measures in public budgets that promote productivity, employment and innovation;

- reconfirms the importance of further developing the social dimension of the EU as an integral part of the Lisbon Strategy and in particular stresses the need to further integrate economic, employment and social policies;
  - agrees the concrete actions set out below. In this connection, the European Council endorses the key messages from the Council in its ECOFIN, Competitiveness, Employment and Social Policy, Environment and Education and Youth formations, as well as the Council conclusions on the Single Market Review.
6. The European Council furthermore stresses that a renewed EU-level commitment to structural reforms and sustainable development will be necessary after 2010 in order to lock in the progress achieved by the renewed Lisbon Strategy for growth and jobs. The European Council therefore invites Council and the Commission to start reflecting on a post-2010 strategy.

### **Investing in knowledge and innovation**

7. A key factor for future growth is the full development of the potential for innovation and creativity of European citizens built on European culture and excellence in science. Since the relaunch of the Lisbon Strategy in 2005, joint efforts have led to significant achievements in the areas of research, knowledge and innovation. The implementation of the broad-based innovation strategy, including innovation in services, eco-innovation and non technological innovation, as well as the European lead markets strategy, remain key to realising EU ambitions in the area. At the same time further efforts must be made, including in the private sector, with a view to investing more, and more effectively, in research, creativity, innovation and higher education and achieving the 3% R&D investment target. The European Council highlights the following actions on which the Member States and the Community are urged to make swift progress:
- Member States are invited to set out in their National Reform Programmes how progress towards national R&D investment targets will be achieved and how their R&D strategies will contribute to the realising and better governance of the European Research Area;

- key projects, such as GALILEO, EIT, the European Research Council, the Risk-Sharing Finance Facility, the Joint Technology Initiatives must be swiftly implemented or further promoted; decisions on Article 169 initiatives and additional research initiatives should be taken as soon as possible;
- scientific e-infrastructure and high-speed internet usage must be significantly increased. With a view to high-speed internet penetration at the EU level reaching 30%, Member States should aim to make high-speed internet available to all schools by 2010 and to set ambitious national targets for household access as part of their National Reform Programmes;
- an EU-wide market for venture capital for the most innovative companies must be promoted; in that respect the European Investment Fund must play a key role in the financing of innovative SMEs;
- efforts towards improving the framework conditions for innovation should be better coordinated, including through improved science-industry linkages and world-class innovation clusters;
- particular attention should be given to further initiatives for joint programming of research, mutually complementary international S&T cooperation strategies and the strengthening of research infrastructure of pan-European interest;
- universities should be allowed to develop partnerships with the business community so as to benefit from complementary private sector funding.

8. In order to become a truly modern and competitive economy, and building on the work carried out on the future of science and technology and on the modernisation of universities, Member States and the EU must remove barriers to the free movement of knowledge by creating a "**fifth freedom**" based on:

- enhancing the cross-border mobility of researchers, as well as students, scientists, and university teaching staff,
- making the labour market for European researchers more open and competitive, providing better career structures, transparency and family-friendliness,
- further implementing higher education reforms,

- facilitating and promoting the optimal use of intellectual property created in public research organisations so as to increase knowledge transfer to industry, in particular through an "IP Charter" to be adopted before the end of the year,
- encouraging open access to knowledge and open innovation,
- fostering scientific excellence,
- launching a new generation of world-class research facilities.

### **Unlocking the business potential, especially of SMEs**

9. Decisions taken since the renewal of the Lisbon Strategy have started to improve conditions for market players. It has become easier to set up a business as all Member States have established one-stop shops or similar arrangements to facilitate registration and reduce paperwork. The European Council welcomes the progress made during 2007 on **better regulation** and considers that further efforts are needed in order to deliver crucial improvements to the competitiveness of EU business, in particular SMEs. Better regulation should be considered a high priority by each Council formation in its regulatory work. To ensure that the better regulation initiative delivers real and substantial economic benefits:

- efforts on reducing administrative burdens arising from EU legislation by 25% by 2012 should be stepped up, in line with the European Council Conclusions of March 2007; progress made will be evaluated at the 2009 Spring meeting on the basis of the Commission's "Strategic Evaluation of Better Regulation";
- pending "fast track" legislative proposals should be swiftly adopted and new ones identified, and the Commission should also continue to bring forward administrative burden reduction proposals on an ongoing basis; the simplification rolling programme should continue to be implemented;
- more should be done to develop the capacity of EU institutions on impact assessment, in line with the relevant key message from the Council (Competitiveness).

10. The **Single Market** remains a crucial driver for enhancing living standards of European citizens and Europe's competitiveness in the globalised economy. In order to further improve the functioning of the Single Market so as to allow business, in particular SMEs, and consumers to make full use of its potential the following measures and actions need to be taken forward as immediate priorities:
- ensure an effective follow-up to the Commission's Single Market Review on a yearly basis with a focus on actions needed to boost growth and jobs by removing remaining barriers to the four freedoms of the treaty, including, where appropriate, through harmonisation or mutual recognition. In this context market developments should be monitored in order to prioritise action in markets where there are genuine and significant barriers to market functioning and competition. Due attention must also be paid to the social dimension and services of general interest;
  - reinforce efforts to strengthen competition in network industries (energy, electronic communications) and to adopt the adequate regulatory frameworks; in this context work on interconnections must be pursued and accelerated;
  - ensure a complete, coherent, and timely transposition and implementation of the Services Directive which is an important step towards the creation of a genuine single market for services. In this context it is crucial to improve the functioning of "e-Single Market" by putting in place cross-border interoperable solutions for electronic signature and e-authentication.
11. **Small and medium sized enterprises** (SMEs) form the backbone of European economy and have the potential to contribute significantly to creating more growth and jobs in the European Union. In order to reinforce the Union's SMEs policy and to allow them to operate more effectively in the Single Market, the following actions are of immediate importance:
- swift examination by the Council of the upcoming Small Business Act initiative setting out an integrated approach across the SMEs' life cycle in line with Better Regulation and Think Small First principles, should be developed to further strengthen SMEs' growth and competitiveness;
  - the introduction, where justified and following screening of the *acquis communautaire*, of exemptions for SMEs from the administrative requirements of EU legislation;



- strengthened support of research-performing and innovative SMEs with high growth potential, for example through a new European private company statute;
- further facilitation of access to finance, including through existing EU financial instruments;
- facilitation of increased participation of innovative SMEs in clusters.

12. Open markets and a sound international environment contribute to growth and jobs and should lead to reciprocal benefits. The EU should therefore continue its endeavours to shape globalisation by reinforcing the **external dimension of the renewed Lisbon strategy**. The European Council welcomes the Commission's intention to report annually on market access, identifying countries and sectors where significant barriers remain and believes that the EU should continue its endeavours to:

- promote free trade and openness as a means to foster growth, employment and development for itself and its trading partners and intends to continue taking the lead in this domain;
- improve the multilateral trading system, in particular by continuing to strive for an ambitious, balanced and comprehensive agreement in the Doha Development Round;
- conclude ambitious bilateral agreements with important trading partners and further step up the efforts for integration with neighbouring countries and candidate countries through developing a common economic space;
- secure reliable access to energy and to strategic raw materials;
- strengthen existing economic relations and develop mutually beneficial strategic partnerships with emerging economic powers;
- foster regulatory cooperation, convergence of standards and equivalence of rules in the mutual interest of the EU and its partners, and improve the effectiveness of the Intellectual Property Rights enforcement system against counterfeiting.

## **Investing in people and modernising labour markets**

13. The education element of the knowledge triangle "research-innovation-education" should be strengthened. Providing high-quality education and investing more and more effectively in human capital and creativity throughout people's lives are crucial conditions for Europe's success in a globalised world. This can bridge and facilitate the movement towards a "knowledge-based economy", create more and better jobs and contribute to sound fiscal positions. They are also effective ways of fighting inequality and poverty and can contribute to reducing youth unemployment.
  
14. In this context the European Council looks forward to the Commission's proposal for a renewed Social Agenda which should play a key role in strengthening the social dimension of the Lisbon Strategy by taking account of Europe's new social and labour realities and also covering issues such as youth, education, migration and demography as well as intercultural dialogue. For this purpose it should use all the instruments and tools available at Community level. In this context combating poverty and social exclusion, promoting active inclusion and increasing employment opportunities for those furthest from the labour market are all of major importance. In view of increasing skills shortages in a number of sectors, it invites the Commission to present a comprehensive assessment of the future skills requirements in Europe up to 2020, taking account of the impacts of technological change and ageing populations and to propose steps to anticipate future needs. Given the important role economic migration can play in respect of the labour market and skills shortages, cooperation in the field of legal migration should also be increased.
  
15. The European Council urges Member States to take concrete action to:
  - substantially reduce the number of young people who cannot read properly and the number of early school leavers, and improve the achievement levels of learners with a migrant background or from other disadvantaged groups;
  - attract more adults, particularly low-skilled and older workers into education and training and to further facilitate geographic and occupational mobility;

- promote higher overall labour force participation and tackle segmentation in order to ensure active social inclusion;
- improve policy consistency and coordination of economic, employment and social policies in order to enhance social cohesion.

16. Flexicurity strikes a balance between flexibility and security on the labour market and helps both employees and employers to seize the opportunities globalisation offers. In line with the recommendations of European social partners of October 2007 and recognizing that there is no single flexicurity model, the European Council calls on the Member States to implement the agreed common principles on flexicurity by defining national flexicurity arrangements within their National Reform Programmes by the end of 2008. Flexibility and security are mutually reinforcing throughout the life cycle. In this context, intergenerational solidarity should be considered within all four components of flexicurity. Continued attention needs to be given to youth employment, and in particular to the transition from education to employment in the context of the implementation of the European Youth Pact. Attention should also be given to the employment of disabled persons. The availability and affordability of quality child care should be increased in line with national and Community targets. Efforts should be pursued to reconcile work, private and family life for both women and men, substantially reduce gender pay gaps and implement the European Pact for Gender Equality. The European Alliance for Families can also contribute to achieving these aims.

## CLIMATE CHANGE AND ENERGY

17. Last year the EU made firm and ambitious commitments on climate and energy policy; now, in 2008, the challenge is to deliver. In December of last year the Bali Climate Conference made an important breakthrough and launched an inclusive international negotiating process on the reduction of greenhouse gas emissions after 2012. The EU is committed to maintaining international leadership on climate change and energy and to keeping up the momentum of negotiations on the United Nations Framework Convention on Climate Change in particular at the next Conference of parties in Poznań. The objective is to secure an ambitious and comprehensive post-2012 agreement on climate change at Copenhagen in 2009. By delivering on its own targets, the EU will make a major contribution to this objective. A key challenge will be to ensure that this transition to a low-carbon economy is handled in a way that is consistent with EU sustainable development, competitiveness, security of supply, sound and sustainable public finance. Taking into account that energy and climate is an integral part of the Lisbon Strategy it should also contribute positively to broader growth and jobs objectives.
  
18. The ambitious package of proposals proposed by the Commission to implement the conclusions of the Spring European Council 2007 provides a good starting point and basis for agreement. Comprehensive deliberations by the Council, working closely with the European Parliament, should result in an agreement on these proposals as a coherent package before the end of 2008 and consequently allow for their adoption within the current legislative term, at the latest early in 2009. In so doing, the Council should bear in mind the importance of maintaining the overall balance across the package as a whole and should base its work on the principles of transparency, economic efficiency and cost-effectiveness, fairness and solidarity in the distribution of effort between Member States. It should also take into account Member States' different starting points and respect the need for sustainable economic growth across the Community. A cost-effective and flexible way should be followed as well when developing market-based instruments to reach energy and climate policy objectives. The European Council also recognizes that in certain sectors particularly exposed to international competition the risk of carbon leakage is a concern that needs to be addressed urgently. Appropriate measures should be implemented in the event that other countries do not commit to adequate measures reducing greenhouse gas emissions in the context of an international agreement.

19. The European Council underlines that the EU ETS forms an essential part of an integrated climate and energy policy and recognizes the importance of an EU ETS cap with the emissions reduction trajectory. The revised Directive should enhance the cost-effectiveness of the necessary emission reductions. The European Council also underlines the need for flexibility in achieving national renewable targets and in this light stresses the importance of effective national support schemes for renewable energies; and stresses the need for Community and Member States' source policy to increase energy efficiency and security of supply as key elements for achieving the EU's integrated climate and energy policy and sustainable economic development. The European Council recalls that the objective of proposing a regulatory framework on carbon capture and geological storage (CCS) is to ensure that this novel technology is deployed in an environmentally safe way, which will be demonstrated through projects, as agreed in spring 2007. It invites the Commission to continue to support Member States' efforts to reduce their emissions of greenhouse gases through comprehensive and ambitious Community policies and measures.
20. It is necessary to achieve greater synergies between climate change and biodiversity policies as a way of securing co-benefits, in particular by strengthening mutually supportive activities and measures. Member States should use these synergies to define national strategies on biodiversity, paying particular attention to the production, consumption of and trade in biofuels and biomass.
21. An effective fully-functioning internal energy market is an essential condition for secure, sustainable and competitive supply of energy in Europe. The European Council therefore urges the Council to build on recent progress on the third internal market package for gas and electricity in order to reach political agreement on the key issues by June 2008, taking full account of the orientations set out in the Spring 2007 European Council conclusions.

22. The European Council recalls the importance it attaches to enhancing the energy security of the EU and its Member States. Whereas action on climate change and energy, the internal energy market and new technologies all contribute to this objective, work must also be vigorously pursued on further developing the external dimension of the 2007-2009 Energy Policy for Europe. The European Council welcomes the progress achieved in this regard, as set out in the state of play report submitted to the Council (doc. 6778/08) and will undertake a more comprehensive assessment of progress on implementation in the light of the next Strategic Energy Review to be presented in November 2008, which will focus in particular on security of supply and external energy policy.
23. The European Council welcomes the joint report from the High Representative and the Commission on the impact of climate change on international security. It underlines the importance of this issue, and invites the Council to examine the paper and to submit recommendations on appropriate follow-up action by December 2008 at the latest.
24. The transition into a safe and sustainable low carbon economy will have an impact on numerous policies and on the economic and daily life of the citizens. Coherent policies exploiting the synergies relating to energy and climate change are also needed in the other three priority areas of the Lisbon Strategy as well as in other EU policy areas, including:
- developing coherent R&D and innovation policies at the European and national levels;
  - unlocking the business potential of eco-industries and developing a sustainable industrial policy and sustainable and globally competitive lead markets, while taking into account the impact of Energy and Climate Change measures on competitiveness;
  - considering a review of the Energy Taxation Directive to bring it closer in line with the EU's energy and climate change objectives;
  - improving energy and resource efficiency;
  - informing the consumer about the efficient use of energy in order to tackle social impacts and opportunities of Energy and Climate Change.

25. The European Council emphasises the need for sustained investment in research and development and an active take-up of new technologies in energy, as outlined recently in the Strategic Energy Technology Plan put forward by the Commission.
26. The European Council recognises that addressing energy and climate change is also a matter of shaping values and changing citizens' behaviour. It therefore urges national governments and European institutions to set an example by making substantial progress towards reducing energy use in their buildings and car fleets by 10% by 2013 compared to 2008 levels.

### **THE STABILITY OF FINANCIAL MARKETS**

27. European Council endorses the interim report by the Council (ECOFIN) on financial market stability. Some adjustments in follow-up to the turmoil have already taken place in financial markets since last autumn as the European Central Bank, national and EU authorities and financial institutions have acted to stabilise the situation.
28. Prompt and full disclosure of exposures to distressed assets and off-balance sheet vehicles and/or of losses by banks and other financial institutions is essential. Improvements are needed to the prudential framework and the risk management of individual institutions, in an environment of constant financial innovation which has underscored new challenges for financial supervision at national, EU and global level.
29. In responding to the turmoil, the European Council agrees that while primary responsibility is with the private sector, authorities in the EU stand ready to take regulatory and supervisory actions where necessary. Policy action should focus on four areas:
  - enhancing transparency for investors, markets and regulators on exposure to structured products and off-balance sheet vehicles;
  - improving valuation standards, in particular for illiquid assets;

- reinforcing the prudential framework and risk management in the financial sector, through reviewing a number of areas of the Capital Requirements Directive (CRD), and enhancing the management of liquidity risk. It is important that the Council, European Parliament and Commission strive for a timely agreement on the necessary regulatory changes; and
- improving market functioning and incentive structure, including the role of credit rating agencies, on which the EU stands ready to consider regulatory alternatives if market participants do not rapidly address these issues.

30. The current turmoil has highlighted the need for further strengthening of the financial stability framework, through enhanced prudential supervision and improved tools for financial crisis management. The European Council invites the Council (ECOFIN) to swiftly implement the programme of work agreed in autumn 2007, according to which further progress should be made in Spring 2008 as follows:

- on financial supervision, main issues include improvements to and convergence of key supervisory rules and standards, clarification of the relationship between home-host authorities, the role of colleges of supervisors and improvement of the functioning of Supervisory Committees;
- on the management of cross-border financial crisis situations, tools and procedures should be enhanced and, as a first step, a new Memorandum of Understanding on cross-border cooperation between the relevant authorities is expected to be signed in Spring 2008. On the basis of further work by mid-2008, the Council should also scrutinise the functioning of deposit guarantee schemes.

31. In addition, early warning systems at the EU and international level should be developed, including by strengthening the role of the IMF in oversight of macro-financial stability. On all these issues, the EU should work in close cooperation with its international partners in the relevant fora.



32. The European Council invites the Council to continue to give high priority to these issues in the coming months, with a major review of progress in April 2008, and to monitor closely the situation so as to react swiftly to possible adverse developments. The European Council will come back to these issues as appropriate and at the latest in autumn 2008.
33. The European Council welcomes the Commission Communication on Sovereign Wealth Funds (SWFs). It is committed to an open global investment environment based on the free movement of capital and the effective functioning of global capital markets. SWFs have so far played a very useful role as capital and liquidity providers with long-term investment perspective. However, the emergence of new players with a limited transparency regarding their investment strategy and objectives has raised some concerns related to potential non-commercial practices. The European Council agrees on the need to develop a common European approach, in line with the five principles proposed by the Commission, namely: commitment to an open investment environment; support for multilateral work; use of national available instruments if necessary; respect of EC Treaty obligations and international commitments; proportionality and transparency. The European Council supports the objective to agree at the international level on a voluntary Code of Conduct for SWF owners and defining principles for recipient countries at international level. The EU should aim at giving a co-ordinated input to this ongoing debate, and invites the Commission and the Council to continue work along these lines.

## **INTERNATIONAL RELATIONS**

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