



**COUNCIL OF
THE EUROPEAN UNION**

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NOTE

from: Presidency
to: Permanent Representatives Committee/Council
Subject: *European Council (15 and 16 October 2008)*
– *Draft conclusions*

The attached draft conclusions are presented by the Presidency with a view to their adoption by the European Council on 15 and 16 October 2008.

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The European Council met on 15 and 16 October 2008, against a backdrop of international economic and financial crisis. The European Council expressed its resolve to act in a concerted and comprehensive manner to protect the European financial system and depositors. The European Council reaffirmed the objective of an overall agreement on the "energy/climate change" issue before the end of the year. It agreed to speed up work on energy security. It adopted the European Pact on Immigration and Asylum. In the external sphere, it took stock of Russia's implementation of the agreement of 8 September, the situation in Georgia and EU policy towards its eastern neighbours. The European Council heard the Irish Prime Minister's analysis of the Irish referendum on the Lisbon Treaty; it will return to the issue in December. [The European Council endorsed the composition of the Reflection Group on the Future of the Union.]

ECONOMIC AND FINANCIAL SITUATION

1. Europe is now suffering severely from the international financial crisis, the effects of which are making themselves felt on growth, which has slowed markedly, and on European businesses, particularly SMEs, which are finding it increasingly difficult to obtain finance. A determined, coordinated and comprehensive response is needed, both within the European Union and with our partners throughout the world.
2. The European Council welcomes the measures taken by the ECB and by the relevant national central banks since the beginning of the financial crisis. It reiterates its commitment that everything necessary will be done to preserve the stability of the financial system and to ensure that deposits are protected in all circumstances.

3. The European Council points out that decisions taken nationally must take account of the impact they will have on other Member States and must be within the framework of the common principles defined by the Council. It considers that measures to support banks in difficulty should go hand in hand with measures to protect tax payers, to secure accountability on the part of executives and shareholders and to protect the legitimate interests of other market players.
4. European rules must be implemented in a way which meets the need for speedy action and flexibility to reflect the current exceptional circumstances. It is in this spirit that the Commission is implementing the rules on competition policy, particularly State aids, with the European Council's backing.
5. Maintaining confidence in the financial and banking system and protecting the interests of depositors and investors are predicated on rigorous implementation by financial institutions of recommendations on the transparency of their commitments and risks.
6. The European Council calls for work to tighten up the rules on stability and supervision to be speeded up, including work on the Directive on capital adequacy rules for banks. In addition, the European Council welcomes the Commission's intention to submit a legislative proposal soon to tighten up the rules on rating agencies and supervision of them at European level. It calls for speedy decisions on the transparency and security of transactions on credit derivatives markets, and the development of European rules on the security of deposits to ensure that savers are protected. The European Council particularly urges the need for a decision at the end of this month on the accounting standards applicable to financial institutions and their interpretation, in order to give a more balanced picture of the true value of their assets with effect from the third quarter of 2008.

7. The European Council calls urgently for accountability on the part of all those involved in the financial system. It emphasizes that the real performance of company executives should be reflected in their remuneration, including their severance pay ("golden parachutes"), which should be in line with their actual contribution to the success of the company. Likewise, care should be taken that earnings from stock options or the system of remuneration, especially in the financial sector, do not lead to excessive risk-taking or extreme concentration on short-term objectives. The European Council calls on the Member States to work to put these principles into practice and calls on the Council to report back on the decisions taken by the end of the year.
8. The European Council emphasizes that continued structural reform is more important than ever, to help restore growth and improve employment in Europe. Support for economic activity involves an adequate level of finance. The European Council welcomes the EIB's decision to mobilise EUR 30 billion to support European SMEs and its commitment to step up its ability to intervene in infrastructure projects. Budget policies must stay within the revised Stability and Growth Pact, which should also be applied in a manner which reflects the current exceptional circumstances, as provided for in its rules.
9. The European Union must work with its international partners on a genuine, all-encompassing reform of the international financial system based on the principles of transparency, sound banking, responsibility, integrity and world governance. It calls for a summit to be held to this end with its main partners as soon as possible.
10. The European Council took note of a report drawn up by the Presidency, in cooperation with the Commission, on oil price volatility. It calls on the Council to press ahead with its discussions on this issue, on the basis of the road map submitted by the Presidency in July. In the immediate future, it requests the Commission and the European Investment Bank to take the necessary action to promote energy efficiency and the transparency of commercial oil stocks, as described in the Presidency report.

LISBON TREATY

11. [...]

ENERGY AND CLIMATE CHANGE

12. The European Council confirms its determination to honour the ambitious commitments it has made on climate and energy policy. In this connection, it reaffirms that its objective is to reach agreement, working closely with the European Parliament, on the Commission's four legislative proposals. These proposals form a coherent package, the balance and fundamental parameters of which must be maintained, while finding appropriate responses to the challenge of applying it to industry. In order to achieve this objective, the European Council requests that discussions continue on the basis of the guidelines set out in the Annex.

ENERGY SECURITY

13. Security of energy supply is a priority for the European Union. It involves the responsibility and solidarity of all the Member States. To this end, on the basis of the report submitted by the Presidency, the European Council has decided to step up the work in progress, by adopting the following guidelines and requesting the Commission to submit relevant proposals, where necessary, to:
- (a) finalise the legislative package on the internal market in electricity and gas before the end of the legislative period;
 - (b) expedite the implementation of the European Energy Efficiency Action Plan;
 - (c) pursue with determination the diversification of energy sources, to which the measures in the energy/climate package contribute directly;

- (d) promote improvement to the working of the market, in particular through greater transparency on stockpiles and through sharing information on long-term requirements and resources;
 - (e) establish a crisis mechanism to deal with temporary disruptions to gas supplies.
The Commission has been requested to bring forward a proposal along these lines;
 - (f) strengthen and add to critical infrastructure, particularly liquefied natural gas terminals and trans-European energy transport networks; particular attention will be paid to the connection of the most isolated European countries, to the interface of European networks with supply infrastructure and the need to diversify both sources and routes. A schedule of work will be drawn up for this purpose before the end of the year;
 - (g) develop the Union's energy relations with producer and transit countries with a view to securing stability of supply and diversifying its energy sources and supply routes.
14. The European Council will return to this issue at its meeting in March 2009 to take stock of progress, in the light, also, of the Commission's next strategic energy review, and to adopt the necessary decisions.

EUROPEAN PACT ON IMMIGRATION AND ASYLUM

15. The European Council adopted the European Pact on Immigration and Asylum¹, which expresses the commitment of the European Union and its Member States to conduct a fair, effective and consistent policy for dealing with the challenges and opportunities which migration represents. The Pact will henceforth form the basis, for the Union and its Member States, of a genuine common immigration and asylum policy, guided by a spirit of solidarity between Member States and cooperation with third countries. This common policy must be founded on proper management of migratory flows, in the interests not only of the host countries but also of the countries of origin and of the migrants themselves.

¹ 13440/08.

16. The fundamental principles set out in the Pact are reflected in a series of measures which will have to be implemented at both EU and national level. These principles will in particular inform the future work programme of the European Union, which will be proposed by the Commission in May 2009 with a view to finalisation under the Swedish Presidency. Implementation of the Pact will be the subject of an annual debate starting with the European Council in June 2010.

FOLLOW-UP TO THE EUROPEAN COUNCIL OF 1 SEPTEMBER 2008

17. [The European Council welcomes the withdrawal of Russian troops which followed the agreements of 12 August and 8 September as well as the launching in Geneva of the international discussions provided for by those agreements. Given these developments, the next session of negotiations on a new Partnership Agreement with Russia may be held in November. The European Council is asking the Commission and the Council to continue a full in-depth evaluation of EU-Russia relations with a view to the forthcoming summit, scheduled to take place in Nice on 14 November.]
18. The European Union is resolved, in particular through its neighbourhood policy, to continue supporting its eastern neighbours in their efforts to achieve economic and democratic modernisation. The European Council would stress here the importance of the outcome of the EU-Ukraine Summit in Paris and calls for relations between the Union and Moldova to be strengthened in accordance with the Council conclusions of 13 October. It is instructing the Council to conduct an initial examination of the proposals for a future "Eastern Partnership" of the European Union which the Commission intends to submit in November.

[REFLECTION GROUP

19. The European Council approved the proposal by the Chairman of the Reflection Group and its two Deputy Chairmen concerning the composition of the Group, as annexed to these conclusions. The Group will start work in January 2009 and will conduct its discussions in accordance with the mandate adopted by the European Council in December 2007. The General Secretariat of the Council will provide the Group with material and logistical support.]
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Guidelines approved by the European Council on the energy/climate package

- (a) The emission permit trading system proposed by the Commission is acceptable in its general principles. In order to give investors the predictability they require, it is however indispensable to provide clear answers to the problem of the carbon leakage which would occur if other States did not commit themselves to taking appropriate measures to reduce greenhouse gas emissions. To that end, the Directive must lay down precise quantitative criteria making it possible to establish by 2009 a list of the sectors and subsectors exposed to a significant risk of carbon leakage. The measures to be taken for each of those sectors or subsectors should the international agreement not provide sufficient guarantees must be determined by 2010 at the latest. These measures will be based in particular on the options proposed by the Commission, which will have to be elaborated in greater detail in 2009. The sectors or subsectors exposed to the highest risk will have to have 100 % free emission allowances. Moreover, an answer must rapidly be found to the problem of indirect emissions, something which has to be faced by electro-intensive industries in compliance with Community legislation. European industry must be closely involved in this.
- (b) The proportion to be auctioned in manufacturing industry when it is not exposed to any significant risk of carbon leakage will gradually be increased from 20 % in 2013.
- (c) The proportion to be auctioned in the energy sector will, as a general rule, be 100 % by 2013. Sizeable derogations for limited periods may be granted when justified by specific situations, particularly those related to insufficient integration in the European electricity market.

- (d) In order to make it easier to achieve the national targets defined in the Effort-Sharing Decision, Member States will have to be authorised to defer from one year to the next a sufficient proportion of expected annual reductions and to trade emission rights amongst themselves.
- (e) Additional credits under own-development mechanisms and joint-implementation mechanisms will have to be granted in sufficient and fair quantities, while ensuring that this does not disproportionately affect the effort to be made on European territory. It will also have to be possible for them to be traded amongst Member States.
- (f) Achieving the national targets defined for renewable energies will have to be based on indicative national trajectories and on the mechanism for cooperation between Member States. Rendez-vous clauses may be included, subject to compliance with the agreed targets.
- (g) The establishing of carbon capture and storage must be founded on legal and technical bases that are sound from the environmental and human-health point of view. The establishing of 12 demonstrations in 2015 will have to be appropriately funded by supplementing the private-sector contribution.
- (h) The sharing between Member States of the effort expected of each, and the emission rights which will be allocated to them in the light of specified solidarity factors, must achieve an overall balance.
- (i) It will have to be possible to mobilise the revenue from auctioning, use of which is left up to the individual Member State, in order to back up greenhouse gas reduction efforts, energy transition and, for those who so wish, the work undertaken at international level. The Council and the Commission are also invited to consider how other Community instruments might be mobilised to back up transition to a low-carbon economy.

- (j) The European Union undertakes to raise its greenhouse gas emission reduction effort to 30 % if a satisfactory international agreement is found that commits developed countries to comparable efforts and countries with emerging economies to an appropriate effort. Decisions on the arrangements for this increase in effort must be taken by the European Parliament and the Council using the codecision procedure.
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Composition of the Reflection Group

– (to be completed)]

List of the reference documents submitted to the European Council

- European Pact on Immigration and Asylum (13440/08, approved by the JHA Council on 25 September)

- Report on energy security (13827/1/08 REV 1)

- Presidency report on the volatility of oil prices (13266/1/08 REV 1)

