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NOTE

from:	Presidency
to:	COREPER/Council
Subject:	*European Council (29 and 30 October 2009)* – *Draft conclusions*

The attached draft conclusions are presented by the Presidency with a view to their adoption by the European Council on 29 and 30 October 2009.

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The meeting of the European Council was preceded by an exposé by the President of the European Parliament, Mr Jerzy Buzek, followed by an exchange of views.

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I. Institutional issues

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1. The European Council stresses the importance of ensuring a smooth entry into force of the new Treaty, following ratification by all Member States. It takes note of the work conducted as set out in the Presidency's report (doc. 14928/09).

2. The European Council endorses the Presidency's report on guidelines for the European External Action Service. It invites the future High Representative to present a proposal for the setting up of the EEAS as soon as possible after the entry into force of the Lisbon Treaty with a view to its adoption by the Council at the latest by the end of April 2010. In this context, it also recognises the need for the European Union to become more capable, more coherent and more strategic as a global actor, including in its relations with strategic partners, in its neighbourhood and in conflict-affected areas.

II. Climate change

3. The climate is changing faster than expected and the risks this poses can already be seen. We experience widespread melting of ice, rising global sea levels and increased frequency, intensity and duration of floods, droughts and heat waves.

4. The European Council calls upon all Parties to embrace the 2°C objective and to agree to global emission reductions of at least 50%, and aggregate developed country emission reductions of at least 80-95%, as part of such global emission reductions, by 2050 compared to 1990 levels; such objectives should provide both the aspiration and the yardstick to establish mid-term goals, subject to regular scientific review. It supports an EU objective, in the context of necessary reductions according to the IPCC by developed countries as a group, to reduce emissions by 80-95% by 2050 compared to 1990 levels.

5. The European Union is at the forefront of efforts to fight climate change. It is committed to move to a 30% reduction by 2020 compared to 1990 levels as its contribution to a global and comprehensive agreement for the period beyond 2012, provided that other developed countries commit themselves to comparable emission reductions and that developing countries contribute adequately according to their responsibilities and respective capabilities.

6. Just weeks away from the Copenhagen Conference, the European Union is more than ever fully determined to play a leading role and contribute to reaching a global, ambitious and comprehensive agreement. All parties to the negotiation need to inject new momentum into the process and the pace of the negotiations must be stepped up.

7. In this context, the European Council endorses the conclusions adopted by the Council on 21 October 2009 (doc. 14790/09), which together with these European Council conclusions and the attached guidelines give the Union a strong negotiating position. It will allow the European Union to play a constructive role during the final phase of the negotiating process, in particular on key issues such as financing, technology transfer, adaptation, mitigation and good governance.

8. However, action by the European Union alone will not be enough. A comprehensive and ambitious agreement can only be reached if all parties contribute to the process. Other developed countries should also demonstrate their leadership and commit to ambitious emission reductions and step up their current pledges. Developing countries, especially the more advanced, should commit to appropriate mitigation action, reflecting their common but differentiated responsibilities and respective capabilities. The European Council underlines the need for measuring, reporting and verification (MRV) of mitigation actions in all countries.

9. Adaptation is a necessary element that must be comprehensively addressed in a Copenhagen agreement. The European Council recalls the proposal to create a Framework for Action on Adaptation as part of this agreement. It underlines the need to scale up support for adaptation in developing countries, until and beyond 2012, focusing on countries and regions that are particularly vulnerable to the adverse impacts of climate change.

10. The European Council underlines the importance of creating incentives to engage the private sector in technology cooperation. RD&D must be substantially scaled up, global technology objectives established and safe and sustainable technologies diffused.

11. A deal on financing will be a central part of an agreement in Copenhagen. A gradual but significant increase in additional public and private financial flows is needed to help developing countries implement ambitious mitigation and adaptation strategies.

12. The EU is ready to take its fair share of the global effort by setting an ambitious mitigation target, allowing for offsets and providing its fair share of public support. It is estimated that the total net incremental costs of mitigation and adaptation in developing countries could amount to around €100 billion annually by 2020, to be met through a combination of their own efforts, the international carbon market and international public finance.

13. The overall level of the international public support required is estimated to lie in the range of EUR 22 to 50 billion per year by 2020, subject to a fair burden sharing at the global level in line with the distribution key to be agreed by Parties, a governance arrangement and delivery towards specific mitigation actions and ambitious Low Carbon Development Strategies/Low Carbon Growth Plans. This range could be narrowed down in view of the Copenhagen summit.

14. An effective and efficient institutional framework for governance has to be developed at the forefront of financing. Institutional anchoring of global functions must rely on a clear separation of political and operational levels with guidance being given at the political level, and decision making an implementation being done at a highly professional technical level. The European Council supports the establishment of a high-level forum/body to be set up under the guidance of the UNFCCC to inter alia provide an overview of international sources for climate financing in developing countries.

15. All countries, except the least developed, should contribute to international public financing, through a comprehensive global distribution key based on emission levels and on GDP to reflect both responsibility for global emissions and ability to pay. The weight on emissions should increase over time to allow for adjustments of economies. The EU and its Member States are ready to take on its resulting fair share of total international public finance.

[p.m. internal burden sharing].

16. The European Council stresses that fast-start international public support is important in the context of a comprehensive, balanced and ambitious Copenhagen agreement The purpose should be to prepare for effective and efficient action in the medium and longer term and avoid delay of ambitious action. It is estimated that an overall financing of EUR 5-7 billion per year for the first three years is needed following an ambitious agreement in Copenhagen. The European Council underlines that the EU in this context is ready to contribute its fair share of these costs.

17. Private financing will be stimulated by developing a broad and liquid carbon market based on robust cap-and-trade systems in developed countries, a reformed CDM and sectoral crediting and trading mechanisms for action in developing countries.

18. The European Council stresses the role of mitigation actions in land use, land use change and forestry and in particular through creating incentives for reduced deforestation and forest degradation in developing countries. A performance based mechanism which recognizes verified emission reductions should be established.

19. It recalls that the risk of carbon leakage is analysed and addressed in the new ETS Directive (Directive 2009/29/EC) so that, to preserve the environmental integrity of the EU's policies, in the light of the outcome of the international negotiations and the extent to which these lead to global greenhouse gas reductions, it is possible to consider appropriate measures to be taken in compliance with international trade rules. An ambitious international agreement remains the best way of addressing this issue.

20. The European Council notes the Commission's draft decision containing a list of sectors and subsectors deemed to be exposed to a significant risk of carbon leakage based on the criteria set out in the new ETS directive (Directive 2009/29/EC). It notes that a sector or sub-sector may be added to the list, on the basis of new information, if it satisfies the relevant criteria. The list will be reviewed in light of the outcome of the international climate change negotiations.

21. In parallel with deliveries of climate financing all international parties should commit that such financing would not undermine or jeopardize the fight against poverty and continued progress towards the Millennium Development Goals.

22. The European Council invites the Presidency to take the necessary steps to maintain a strong negotiating position throughout the process and will review the situation at its meeting in December in order to take the necessary decisions in the light of the early stages of the Copenhagen conference.

III. <u>Economic, financial and employment situation</u>

23. The sharp decline in European economic activity is coming to a halt, with a stabilisation of financial markets and an improvement in confidence. However, there is no room for complacency. The incipient recovery needs close monitoring and the support by governments and central banks should not be withdrawn until the recovery is fully secured.

24. At the same time, in order to anchor expectations and reinforce confidence, it is necessary to prepare a coordinated strategy for exiting from the broad-based stimulus policies. The European Council invites the Council and the Commission to continue their work on exit strategies, taking fully into account the principles agreed by the Council on 20 October 2009, and to report back to the European Council in December 2009.

25. Structural reform will contribute to foster sustainable growth. The upcoming review of the Lisbon Strategy for Jobs and Growth will be of particular importance in that regard.

26. As the employment situation in Europe can be expected to deteriorate further, a continued political commitment to active labour market policies is required. It is necessary to take measures to support the connection to the labour market and to prevent high unemployment levels from becoming persistent, thus ensuring high employment levels and sustainable public finances in the long run. Labour market participation is a prerequisite for economic growth, for the social and economic wellbeing of individuals and for a more socially cohesive Europe. In this regard, active social security policies should also be promoted. The European Union can contribute to these efforts by promoting cooperation, coordination and mutual learning.

27. The European Council recalls its Conclusions of June 2009 as regards strengthening the supervisory framework in the EU and notes that there was broad agreement in the Council on 20 October 2009 on the two legislative proposals (draft Regulation and Council Decision) on the establishment of the European Systemic Risk Board for macro-prudential supervision. The European Council urges the Presidency to initiate the process with the European Parliament on the draft Regulation and Decision. The European Council recognises the progress made thus far and reiterates the importance of the swift continuation of the work on the establishment of the European Supervisory Authorities for micro-prudential supervision, in order to reach a general approach on these proposals. The European Council urges the Council, after further political consideration, to reach agreement by December 2009 on a complete package setting up a new supervisory structure in the EU.

28. The European Council calls for rapid progress to be made on the strengthening of the regulatory framework for the prevention, management and resolution of financial crises and on the development of a comprehensive EU-wide framework for closer policy coordination on financial stability, in line with the roadmap agreed by the Council on 20 October 2009.

29. In this connection, the European Council welcomes the outcome of the G20 Pittsburgh meeting, particularly as regards the preparation of a framework for strong, sustainable and balanced growth as well as continuing work on a Charter for Sustainable Economic Activity. It also welcomes the commitment to take measures to strengthen the international financial supervisory and regulatory system, including reform of international standards for compensation. It calls on the Council and the Commission to ensure thorough preparation by the European Union of future G20 meetings.

30. The European Council welcomes the progress achieved with regard to energy infrastructures and interconnections as well as crisis mechanisms since last January as set out in the report presented by the Presidency (doc. 13068/2/09). It invites the actors concerned to implement as a matter of urgency the next steps set out in that report, in particular as regards the draft Regulation on security of gas supply, which should be adopted as soon as possible.

31. The European Council welcomes the initiatives taken by the Commission to stabilize the European dairy market, thereby responding to the European Council of June 2009. The European Council encourages the Council to continue to responding to the challenges facing the European dairy sector. The European Council notes that the Commission has set up a High-level group with the important task of discussing the medium and long term perspectives.

IV. EU Strategy for the Baltic Sea Region

32. The European Council adopts the EU Strategy for the Baltic Sea Region and endorses the Council conclusions on the subject (doc. 13744/09). This Strategy constitutes an integrated framework to address common challenges, i.a. the urgent environmental challenges related to the Baltic Sea, and to contribute to the economic success of the region and to its social and territorial cohesion, as well as to the competitiveness of the EU.

33. The European Council calls upon all relevant actors to act speedily and ensure full implementation of the Strategy, which could constitute an example of a macro regional strategy. It invites the Commission to present a progress report to the Council by June 2011.

V. Illegal immigration

34. The European Council welcomes progress made on implementing the measures it identified at its June 2009 meeting regarding illegal migration in the Mediterranean. A determined European response based on firmness, solidarity and shared responsibility remains essential, in line with the European Pact on Asylum and Migration and the EU Global Approach to Migration. It calls for continued concerted action to address this challenge in a comprehensive manner and to avoid the reoccurrence of tragedies at sea.

35. The European Council notes the launch of the pilot project for Malta and the concrete solidarity showed by a number of Member States in the reallocation of beneficiaries of international protection and urges more Member States to participate in the project, on a voluntary basis. It also notes good progress on the establishment of the European Asylum Support Office and reiterates that the office should be established before the end of 2009. It furthermore notes ongoing work on the enhancement of FRONTEX. It expresses its satisfaction with the reinforced dialogue on migration between the EU and Turkey.

36. A broad, forward-looking and comprehensive EU migration policy, in accordance with international law, is the basis for sustainable medium- and long-term actions for migration management. This will be reflected in the multi-annual Stockholm Programme, to be adopted in December.

37. In this context the European Council:

– calls for additional efforts to adopt, implement and evaluate existing instruments and to continue with the realisation of the Common European Asylum System, addressing the issue of internal secondary movements as well as the need for tangible and effective solidarity with Member States under particular pressure;
– calls for the enhancement of the operational capacities of FRONTEX as well as progress in its development and invites the Commission to present proposals to that end early 2010. Such an enhancement could be based on the following elements:

   i) the preparation of clear common operational procedures containing clear rules of engagement for joint operations at sea, with due regard to ensuring protection for those in need who travel in mixed flows, in accordance with international law;
   ii) increased operational cooperation between FRONTEX and countries of origin and transit;
   iii) examination of the possibility of regular chartering financed by FRONTEX of joint return flights;

- invites the Commission and Member States to accelerate the implementation of the Global Approach to Migration with emphasis to its strategic and effective application, including the Regional Protection Programmes. In this context it will be essential to secure effective use of all relevant existing financial instruments;
- calls on the Presidency and the Commission to continue efforts to promote a dialogue with Libya on managing migration and responding to irregular immigration, including cooperation at sea.

VI. <u>External relations</u>

38. The European Council endorses the conclusions of the Council meeting of 27 October on Afghanistan and Pakistan and welcomes the adoption of the plan for strengthened EU action in the region. The Plan of Action will strengthen the civilian capacity of the state institutions in Afghanistan and Pakistan. The European Union now stands stronger to respond to the challenges facing the region. The EU welcomes the work of the electoral institutions in Afghanistan in safeguarding the credibility of the election process. The European Council stresses the need for the second round of the Presidential election to be credible, inclusive, secure and reflect the will of the Afghan people. The European Council shares the concern about the deteriorating security situation in Pakistan and reiterates the European Union's readiness to assist the affected population.

Guidelines for the EU position on international climate finance

1. The EU STRESSES that addressing climate change by building greenhouse gas efficient and climate resilient economies is in the mutual interest of all countries and will underpin sustainable development as well as energy security. Success will require strong commitments and efforts by all countries.

2. The EU REITERATES that all countries, except the least developed, should cover their fair share of the costs of tackling climate change. RECALLING the March 2009 Council conclusions, developed countries should demonstrate their leadership and commit to ambitious emission reductions and step up their current pledges. Developing countries, especially the economically more advanced, should commit to appropriate mitigation action, reflecting their common but differentiated responsibilities and respective capabilities. Promoting additional efforts these commitments should be assisted by an effective and efficient international architecture for cooperation and appropriate support. International support should also assist adaptation to climate change.

Appropriate governance of climate finance

3. The EU RECALLS that the purpose of carbon market financing and international public support is to contribute to the objective of the Copenhagen agreement in full by ensuring effective and efficient mitigation and adaptation action in developing countries. This requires an effective and efficient institutional framework for governance which has to be developed at the forefront of financing. The overall basis for efforts should be comprehensive national strategies.

4. RECALLING the March and June conclusions of the Council, the EU HIGHLIGHTS that the most important components of the governance framework for financing of mitigation should be:

- Submission of ambitious and robust country-owned Low Carbon Growth Plans (LCGPs) by all countries except the least developed countries. LCGPs should describe their current mitigation and energy policy frameworks, including regulation and pricing. Developed countries should outline their plans for implementing economy-wide reduction targets and providing international support. Developing countries should describe their intended emission trajectories and reductions below business-as-usual, identify broad areas and types of possible action to this end, and set out expectations for domestic and international financing.

- There should be an independent, international technical assessment of these country-owned plans. This would help to facilitate access to support for specific actions.

- Support for specific nationally appropriate mitigation actions (NAMAs) at sectoral or programmatic level would come from multiple multilateral and bilateral channels. Coherence and consistency of the support system would build on Measuring, Reporting and Verification (MRV) of mitigation actions and the two global functions of registry and matching support with mitigation action:

    - Unsupported actions could be measured and verified domestically on the basis of internationally agreed standards, and should be reported internationally. Supported and carbon-market related action should be **measured, reported and verified** internationally. The MRV of supported action would verify that financing as well as action is delivering in full towards commitments.

- All mitigation action would enter an **international registry**. LCGPs and the registry of all NAMAs will ensure full transparency about the context in which individual NAMAs are supported.

- A **matching function** that provides overview and guidance and assists information diffusion would be available for countries putting forward NAMAs for support as well as countries and institutions offering support. This would facilitate matching of competencies and needs and improve overall performance.

- Governance at the global level should rely on principles of effectiveness, efficiency and equity. Institutional anchoring of global functions must rely on a clear separation of political and operational levels with guidance being given at the political level, and decision making and implementation being done at a highly professional technical level. Both levels could be informed by advice from internationally recognised experts. Balanced representation at political level is needed.

- Gaps and imbalances in financing mitigation and adaptation actions that may arise should be monitored and regularly reviewed at high level by an appropriate body.

5. International track-keeping is required in order to ensure clear transparency of overall efforts. This encompasses domestic efforts, offset acquisition and public support in developed countries and unsupported efforts, supported efforts and offset-based emission reductions in developing countries.

6. Provisions should be made for an effective and orderly transition from project-based to sector-based carbon market mechanisms especially in the more advanced developing countries. This is indispensable to ensure a manageable administration of offset crediting in the context of increasing carbon market financial flows to developing economies. It would also increase environmental integrity and implies larger scope for discretion for developing countries as regards technologies and policies applied to deliver action for credits. The crediting thresholds and targets for sectoral systems should be set to reflect ambitious own efforts in line with countries' respective capabilities. International cooperation and a system for verifying and authorising the ambition of such thresholds and targets would be crucial.

7. The EU STRESSES that international public finance should also assist adaptation to climate change in the developing countries especially for the poorest and the most vulnerable countries with limited national capabilities. Adaptation concerns should be effectively integrated with development strategies and national planning via country led processes and coordination. Financial support for adaptation would be based on these national strategies and plans. The international level should provide general guidance as well as analysis and sharing of good practices. Development cooperation and delivery of ODA-based investments should be fully consistent with the building of climate-resilient economies and all key players in development cooperation should as appropriate integrate climate concerns in their actions. Synergies in the implementation of international climate finance and other assistance in developing countries should be fully exploited, and implementation of international climate finance should respect agreed standards on aid effectiveness. The experience of existing institutions in delivering support to developing countries should be fully used. Reporting on progress on adaptation should also be country led via improved National Communications.

Covering incremental cost and private financing

8. The EU UNDERLINES that available financial support should be scaled up over time in line with absorptive capacity, the overall scale of efforts and the development and implementation of the effective framework for governance. Developing countries' own efforts should increase with their level of development, also reflecting available mitigation potential. Mitigation support will be delivered against specific action anchored in an ambitious overall strategy of the recipient country.

9. The Commission estimate of mitigation financing requirements assumes implementation of the most cost efficient measures. The EU STRESSES that choosing measures other than the most cost efficient should not reduce the ambition of mitigation efforts and the extra costs entailed should be borne by the authorities making such choices. All developing countries are expected over the medium term to implement such own efforts mitigation action that deliver direct economic benefits and directly assist sustainable development, including by removing fossil fuel subsidies and other incentives to select overly emission-intensive patterns of production and consumption. Support for capacity building to facilitate such policy changes may be necessary.

10. All countries will have to generate private financing by pursuing appropriate policies that drive inter alia incentives for investment. In this context, the EU RECOGNISES the importance of well-functioning financial markets and an appropriate business environment in developing countries in enabling lending for low-carbon investments and ACKNOWLEDGES that lending from international institutions can also play a catalysing role.

11. Private financing will also be stimulated by developing a broad and liquid carbon market based on robust cap-and-trade systems in developed countries, a reformed CDM and sectoral crediting and trading mechanisms for action in developing countries.

12. The EU ACKNOWLEDGES that development and delivery of a robust carbon market relies on the ambition of mitigation targets and respective emission reduction paths in developed countries.

International public finance over the medium term

13. Financing through the carbon market should be monitored and recognised separately and cannot be counted towards fulfilment of commitments to public financial support, except for procurement of offset credits that are not used for compliance with quantified emission targets.

14. A global distribution key would increase the overall amount of financing raised including by ensuring trust in the fair distribution of financing, and it would increase global ownership and take into account developments in the world economy. At the same time it would ensure more stable levels of support and a benchmark against which financing deliveries can be verified. Developing countries would be net beneficiaries with magnitudes depending inter alia on their capabilities and mitigation potential.

15. Countries should finance their contributions based on national priorities and in accordance with budgetary frameworks and national budgetary principles. Countries may want to consider the use of revenues from specific sources. Revenues from specific sources should be recognised as contributions under the global distribution key to the extent such contributions unambiguously can be referred back to a country of origin.

16. Robust MRV for mitigation and monitoring and review for adaptation and regular review should enhance compliance with international financing commitments.

17. Contributions from global sources could complement other public finance contributions and could be directed through global accounts. Financing flows through global accounts should be channelled through existing institutions to implement support, maximise synergies and limit administrative costs. Such financing could focus on closing gaps in international financing.

18. To maximise global mitigation efforts and a level playing field vis-à-vis other emission sources the EU STRESSES there is a strong need for appropriate global regulation of otherwise unregulated emissions from international aviation and maritime transport. The International Civil Aviation Organisation (ICAO) and International Maritime Organisation (IMO) respectively are the appropriate forums to develop global frameworks, based on global sectoral targets set by UNFCCC, which should provide a flag-neutral, un-distortive coverage of each sector to avoid carbon-leakage, while building on market-based measures and observing national fiscal responsibilities. Moreover, to reflect different circumstances and respective capabilities, part of potential revenues could be directed to the benefit of climate change purposes in developing countries.

19. A comprehensive set of statistics for climate financing and support should be established, preferably by building on existing reporting mechanisms such as the OECD-DAC system for monitoring financial flows to developing countries, including ODA, based on proper engagement of developing countries. The statistics should be fully consistent and transparent and thus able to assist identifying any risk to poverty reduction efforts and efforts towards the Millennium Development Goals.