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COVER NOTE

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to : Delegations
Subject : **EUROPEAN COUNCIL**
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CONCLUSIONS

Delegations will find attached the conclusions of the European Council (24/25 October 2013).

Signs of economic recovery are visible but the EU needs to pursue its efforts to increase growth potential, enhance job creation and boost European competitiveness. Today the European Council focused on the digital economy, innovation and services. These areas have a particular potential for growth and jobs which must be rapidly mobilized. The European Council provided concrete guidance so as to take full advantage of the existing potential.

The European Council also looked at different economic and social policy areas. It took stock of the implementation of the initiatives taken in June in the fight against youth unemployment and the financing of the economy, in particular of small and medium-sized enterprises, and agreed on additional measures. It gave a new impetus to better regulation.

The European Council held an in-depth discussion on completing the Economic and Monetary Union. It focused in particular on enhanced economic policy coordination, strengthening the social dimension of the Economic and Monetary Union and completing the Banking Union. As decided in June, the European Council will return to all these elements in December with a view to taking decisions.

The European Council looked ahead to the Eastern Partnership Summit which will be held in Vilnius on 28 and 29 November 2013.

The European Council expressed its deep sadness at the recent tragic events in the Mediterranean in which hundreds of people lost their lives and decided to step up the Union's action so as to prevent such tragedies from happening again.

I. DIGITAL ECONOMY, INNOVATION AND SERVICES

1. A strong digital economy is vital for growth and European competitiveness in a globalised world. To this end, all efforts must be made for Europe's industry to regain momentum in digital products and services. There is an urgent need for an integrated single digital and telecoms market, benefiting consumers and companies. As part of its growth strategy, Europe must boost digital, data-driven innovation across all sectors of the economy. Special consideration should be given to supporting the reduction of the digital gap among Member States.

Investing in the digital economy

2. To tap the full potential of the digital economy, to boost productivity and create new economic activity and skilled jobs, Europe needs investment and the right regulatory framework. New investments should be promoted to accelerate the roll-out of infrastructure capable of achieving the broadband speed targets of the Digital Agenda for Europe, and to accelerate the deployment of new technologies, such as 4G, while maintaining technology neutrality. Legislative measures to reduce the cost of broadband roll-out should be adopted rapidly.

3. Several strategic technologies such as Big Data and Cloud computing are important enablers for productivity and better services. Cloud computing should improve access to data and simplify their sharing. Big Data aims to process, collect, store and analyse large amounts of data. EU action should provide the right framework conditions for a single market for Big Data and Cloud computing, in particular by promoting high standards for secure, high-quality and reliable cloud services. The European Commission and the Member States, with the support of the "European Cloud Partnership", should continue to make every effort to put Europe at the forefront of cloud adoption. The European Council calls for the establishment of a strong network of national digital coordinators which could play a strategic role in Cloud, Big Data and Open Data development.

4. The ongoing work to tackle tax evasion, tax fraud, aggressive tax planning, tax-base erosion and profit shifting is also important for the digital economy. Member States should further coordinate their positions where appropriate in order to achieve the best possible solution for Member States and the EU in the OECD/BEPS (Base Erosion and Profit Shifting) framework. In its ongoing VAT review, the Commission will also address issues which are specific to the digital economy, such as differentiated tax rates for digital and physical products. The European Council welcomes the Commission's initiative to set up an expert group on taxation of the digital economy. The European Council will return to taxation-related issues at its December 2013 meeting.

Promoting a consumer and business-friendly Digital Single Market

5. Overcoming fragmentation, promoting effective competition and attracting private investment through an improved, predictable and stable EU-wide legal framework is crucial, while ensuring a high level of consumer protection and allowing Member States a degree of flexibility to take additional consumer protection measures. In this context, the European Council welcomes the presentation by the Commission of the "Connected Continent" package and encourages the legislator to carry out an intensive examination with a view to its timely adoption. It underlines the importance of better coordinating the timing and conditions of spectrum assignment, while respecting national competences in this area.
6. The commitment to complete the Digital Single Market by 2015 has to be delivered on: today's market fragmentation hampers the release of the digital economy's full potential. This requires a comprehensive approach fostering innovation and competition in digital services.

7. No efforts should be spared to accelerate work on the pending legislative proposals, in particular the proposals on e-identification and trust services and on e-invoicing and payment services, so that they can be adopted by the end of the legislative period. There is also a need to address the bottlenecks in accessing one's "digital life" from different platforms which persist due to a lack of interoperability or lack of portability of content and data. This hampers the use of digital services and competition. An open and non-discriminatory framework must therefore be put in place to ensure such interoperability and portability without hindering development of the fast moving digital sphere and avoiding unnecessary administrative burden, especially for SME's. Providing digital services and content across the single market requires the establishment of a copyright regime for the digital age. The Commission will therefore complete its ongoing review of the EU copyright framework in Spring 2014. It is important to modernise Europe's copyright regime and facilitate licensing, while ensuring a high level of protection of intellectual property rights and taking into account cultural diversity.
8. It is important to foster the trust of citizens and businesses in the digital economy. The timely adoption of a strong EU General Data Protection framework and the Cyber-security Directive is essential for the completion of the Digital Single Market by 2015.
9. The modernisation of public administrations should continue through the swift implementation of services such as e-government, e-health, e-invoicing and e-procurement. This will lead to more and better digital services for citizens and enterprises across Europe, and to cost savings in the public sector. Open data is an untapped resource with a huge potential for building stronger, more interconnected societies that better meet the needs of the citizens and allow innovation and prosperity to flourish. Interoperability and the re-use of public sector information shall be promoted actively. EU legislation should be designed to facilitate digital interaction between citizens and businesses and the public authorities. Efforts should be made to apply the principle that information is collected from citizens only once, in due respect of data protection rules.

Improving skills

10. Users must have the necessary digital skills. Many European citizens and enterprises currently do not use IT sufficiently. This results in a growing difficulty in filling digital jobs. In 2011, the European Union was faced with 300 000 unfilled vacancies in the ICT sector; if this trend is not checked, there could be as many as 900 000 unfilled vacancies by 2015. This skills mismatch is detrimental to our economic and social policy objectives.

11. Concrete steps should be taken in order to redress this situation:
 - a) part of the European Structural and Investment Funds (2014-2020) should be used for ICT education, support for retraining, and vocational education and training in ICT, including through digital tools and content, in the context of the Youth Employment Initiative;

 - b) a higher degree of integration of digital skills in education, from the earliest stages of school to higher education, vocational education and training and lifelong learning should be ensured;

 - c) the Grand Coalition for Digital Jobs should be strengthened to address skills mismatches by supporting targeted labour mobility schemes and the use of the newly developed classification of European Skills/Competences, Qualifications and Occupations (ESCO);

 - d) the Commission will further intensify work on the basis of the EU Skills Panorama for digital jobs in order to accelerate progress on pan-European competences frameworks for digital skills.

12. In all three areas - investments, Digital Single Market and improving skills - a strong commitment is vital if the objective of enhancing growth, competitiveness and jobs is to be achieved. The European Council calls on the Council and the Commission to take forward this agenda and will return to the matter in the course of 2014.

Innovation

13. Investment in research and innovation fuels productivity and growth and is key for job creation. Member States that have continued to invest in research and innovation have fared better in the current crisis than those that have not.
14. In February 2011, the European Council called for a strategic and integrated approach to boost innovation and take full advantage of Europe's intellectual capital. It set out specific steps to achieve this. Two years on, a significant number of them are on track. Joint programming in research and innovation is developing. Annual monitoring of progress on innovation is taking place in the framework of the Europe 2020 strategy. The establishment of a Research and Innovation Observatory by the Commission is under way. A number of programmes providing funding to research and innovation are being finalised. As requested, the Commission recently proposed a single Indicator of Innovation Output which should allow for better monitoring.
15. The Union's intellectual and scientific potential does not always translate into new products and services that can be sold on markets. The main reasons for this commercialisation gap are: difficulties in accessing finance, market barriers and excessive red tape. The grouping of research institutes and industry ("clusters") can provide the ground for fruitful interaction between them and for the emergence of new products, services and industries.

16. Europe needs a better-coordinated use of tools such as grants, pre-commercial public procurement and venture capital, and an integrated approach from research and innovation to market deployment. Special attention should be paid to the role of the public sector in enabling systemic innovations, especially in the cleantech and biotech sectors. The 2010 Innovation Union flagship initiative provides a number of valuable instruments which, combined with financing programmes, such as Competitiveness of Enterprises and SMEs (COSME) and Horizon 2020, including the Risk-Sharing Finance Facility, can support innovation and its impact on the market. The proposals for Joint Technology Initiatives in pharmaceuticals, new energy technologies, aeronautics, the bio-based economy and electronics should be adopted as soon as possible. Efforts should also continue at national level.

17. In order to obtain a full European Research Area by the end of 2014, it is important to accelerate structural reforms of national systems and to strengthen progress monitoring based on robust data provided by Member States. The progress report submitted by the Commission identifies some areas which require more efforts. In particular, we must improve the mobility and career prospects of researchers through adequate pensions solutions, transnational access to research infrastructures and open access to publicly funded research results and knowledge transfer as part of innovation strategies at national and European levels.

18. The European Council invites the Commission and the Member States to continue their efforts in the area of innovation and research. It will take stock of progress at its meeting in February 2014.

Services and Trade

19. Services are a fundamental part of the Single Market. To reap the full economic benefits, Member States urgently need to improve implementation of the Services Directive and thus speed up the opening of services markets. All opportunities should be seized in this respect; unjustified or disproportionate barriers should be removed in order to ensure a level playing-field on the services market. The European Council invites the Commission and the Council to provide yearly progress reports on national reforms on services, including in individual sectors, and invites the Commission to make proposals by March 2014.
20. The European Council welcomes the peer review of the Services Directive presented by the Commission. It agrees that all Member States should ensure systematic, thorough and robust proportionality assessments of their regulatory requirements. In particular, Member States should address disproportionate barriers. The European Council invites the Commission to provide additional guidance to Member States on the concept of proportionality and invites Member States to take full account of best practices.
21. The European Council stresses the importance of the mutual evaluation of regulated professions launched by the Commission and calls for swift progress. This exercise should identify the remaining barriers to access to professions in the Member States, assess the cumulative effect of all restrictions imposed on the same profession, and suggest appropriate action.
22. The European Council reiterates the importance of trade as an engine for growth and job creation, in line with its conclusions of February 2013. It welcomes the political agreement on the key elements of a Comprehensive Economic and Trade Agreement with Canada and looks forward to the swift examination by the European Parliament and the Council. This agreement will provide significant new opportunities for companies in the EU and in Canada and will give an important impetus to enhanced trade relations between both sides of the Atlantic.

II. ECONOMIC AND SOCIAL POLICY

Combating youth unemployment

23. The fight against youth unemployment remains a key objective of the EU strategy to foster growth, competitiveness and jobs. The European Council recalls the need for the Youth Employment Initiative to be fully operational by January 2014, which will allow the first disbursements to beneficiaries to be made. It calls on the Member States to mobilise all efforts necessary to this end.

24. The European Council also calls for rapid implementation by the Member States of the Youth Guarantee and the Council declaration on the European Alliance for Apprenticeships. It points out that Member States benefiting from the Youth Employment Initiative need to adopt plans to tackle youth unemployment, including through the implementation of the "Youth Guarantee", before the end of 2013 in order to benefit rapidly from the initiative. In this context, the European Council welcomes the upcoming Paris Conference.

Financing of the economy

25. All efforts should continue to restore normal lending to the economy and facilitate financing of investment, particularly with respect to small and medium-sized enterprises (SMEs).

26. The programming negotiations of the European Structural and Investment Funds (ESIF) should be used to significantly increase the overall EU support from these funds to leverage-based financial instruments for SMEs in 2014-2020, while at least doubling support in countries where conditions remain tight. These instruments should be designed in a way which limits market fragmentation, ensures high leverage effects and quick uptake by the SMEs. This will help concentrate the funds adequately and expand the volume of new loans to SMEs.
27. The European Council takes note of the reports by the Commission and the EIB on the implementation of measures aimed at financing the economy and invites Member States to make good use of the opportunities provided. It reiterates its call to expand joint risk-sharing financial instruments between the Commission and the European Investment Bank (EIB) to leverage private sector and capital market investments in SMEs, with the aim of expanding the volume of new loans to SMEs across the EU. Work should be finalized to amend the Common Provisions Regulation to enable the use of guarantees. The new instruments should achieve high leverage effects and be attractive for private sector and capital markets investment. The EIB should start implementing them while work should start immediately on further developing tools for the future, especially on securitisation. While contributions to the SME initiative should remain voluntary, the European Council calls for the greatest possible participation by Member States. Participating Member States will inform the Commission and the EIB about their contributions by the end of the year. The new instruments should begin operating in January 2014 to accompany recovery, fight unemployment and reduce fragmentation in the initial years of the financial framework.

28. The role of the Union's budget in providing opportunities to SMEs is crucial. In this context, the European Council welcomes the agreement on the COSME and Horizon 2020 programmes and points out that their implementation is a matter of priority. It also encourages the legislator to work swiftly on the proposed legislation on long-term investment funds with a view to its adoption before the end of the legislative period.

Regulatory fitness

29. Regulation at Union level is necessary in order to ensure that EU policy goals, including the proper functioning of the Single Market, are attained. This should be achieved with a maximum of transparency and simplicity and a minimum of costs while always taking account of the need for a proper protection of consumers, health, the environment and employees.
30. The European Council welcomes the recent Commission Communication on regulatory fitness (REFIT), which acknowledges work already undertaken in recent years to alleviate the burden of legislation, in particular for SMEs, and proposes ambitious further steps to make the EU regulatory framework lighter. The European Council calls on the Commission to make further substantial proposals in this field.
31. The European Council urges the Commission and the legislator to rapidly implement the REFIT programme, *inter alia* through simplification of existing EU law, by withdrawing proposals that are no longer needed and by repealing legislation that is out of date.

32. To this end, the European Council underlines the need to monitor progress by means of a comprehensive scoreboard to track progress at the European and national level and facilitate dialogue on regulatory fitness. It welcomes the steps taken by the Member States and the EU aimed at better identification of excessively burdensome regulation, noting in this respect the subsidiarity and proportionality principles. Substantial efforts are required in this respect, both at EU and national levels. The European Council looks forward to agreeing further steps in this direction at its June meeting and will return to the issue annually as part of the European Semester.

III. ECONOMIC AND MONETARY UNION

33. Following the December 2012 and June 2013 European Council meetings, the European Council has focused its discussion on banking and economic union but will return to all issues in December 2013. This process builds on the EU's institutional framework, in full respect of the integrity of the single market, while ensuring a level playing-field between EU Member States, including via a fair balance between home and host Member States. It will be open and transparent towards Member States not using the single currency.

Strengthened economic policy coordination

34. Strengthening economic governance is an ongoing process in which significant progress has been achieved in recent years. The European Semester brings the elements together in an integrated process leading to the formulation of policy recommendations.
35. To promote strong, sustainable and inclusive economic growth in the Euro area, the coordination of economic policies needs to be further strengthened, notably by increasing the level of commitment, ownership and implementation of economic policies and reforms in Euro area Member States, underpinned by strong democratic legitimacy and accountability at the level at which decisions are taken and implemented.

36. The European Council underlines that closer coordination of economic policies should be focused on policy areas where positive effects on competitiveness, employment and the functioning of the EMU are most prominent.

As a first step, the European Council will make a shared analysis of the economic situation in the Member States and in the Euro area as such. To this end, it will already hold a discussion in December following the publication of the Commission's Annual Growth Survey and the Alert Mechanism Report with the aim to agree, on the basis of the relevant indicators, on the main areas for coordination of economic policies and reforms.

This shared analysis will be based on an assessment of growth and job-enhancing policies and measures, including the performance of labour and product markets, the efficiency of the public sector, as well as research and innovation, education and vocational training, employment and social inclusion in the Euro area.

The Commission will also provide a first overview of the implementation of country-specific recommendations that will be a basis for the further monitoring of their implementation.

Work will be carried forward to strengthen economic policy coordination, with the objective of taking decisions in December on the main features of contractual arrangements and of associated solidarity mechanisms. This would engage all Euro area Member States but non-Euro area Member States may also choose to enter into similar arrangements. Any such measures must be fully compatible with the Single market in all aspects.

Social dimension

37. The European Council welcomes the European Commission's Communication on the social dimension of the EMU as a positive step and restates the importance of employment and social developments within the European Semester. The use of an employment and social scoreboard in the Joint Employment Report and of employment and social indicators along the lines proposed by the Commission should be pursued, following appropriate work in the relevant Committees, for decision by the Council in December, confirmed by the European Council with the objective of using these new instruments as early as the 2014 European Semester. This wider range of indicators has the purpose of allowing a broader understanding on social developments.
38. The coordination of economic, employment and social policies will be further enhanced in line with existing procedures while fully respecting national competences. This requires more work to strengthen cooperation between the various Council configurations in order to ensure consistency of those policies in line with our common objectives.
39. The strengthened economic policy coordination and further measures to enhance the social dimension in the Euro area are voluntary for those outside the single currency and will be fully compatible with the Single Market in all aspects.
40. Finally, the European Council underscores the importance of enhancing the social dialogue involving the social partners both at Member State and European level, in particular in the context of the European Semester, with the objective of enhancing the ownership of its conclusions and recommendations across the Union.

Banking Union

41. The European Council has been actively steering the process of establishing the Banking Union. It welcomes the final adoption by the Council of the Single Supervisory Mechanism and the European Banking Authority (EBA) Amending Regulations. This represents a decisive step towards the Banking Union. The European Council reiterates the principle of non-discrimination of Member States regarding banking supervision and resolution as stated by the European Council in October 2012 and reconfirms the agreed new voting arrangements in the EBA regulation for these matters, which is reflecting an appropriate balance between the participating and non-participating Member States. The European Council also reconfirms its agreement that the review on the operation of the voting arrangements will take place from the date on which the number of non-participating Member States reaches four.

42. The Single Supervisory Mechanism is the first step towards the Banking Union. In November, the European Central Bank will launch a comprehensive assessment of the credit institutions of the Member States participating in the Single Supervisory Mechanism in line with the Regulation conferring specific tasks on the European Central Bank. This will be followed by a stress test of banks across the EU. The European Council considers that this exercise is key to reinforce confidence in the EU banking sector and to restore normal lending conditions to firms and households. The European Council expects full support and cooperation by the national authorities to ensure complete transparency and a rigorous approach, which is key for the credibility of the exercise.

43. In this context, the European Council recalls the urgency, for the Member States taking part in the Single Supervisory Mechanism, of establishing a coordinated European approach in preparation for the comprehensive assessment of credit institutions by the European Central Bank. Member States should make all appropriate arrangements, including national backstops, applying state aid rules. European instruments are available according to their agreed rules. The European Council asks the Council to develop this approach as a matter of urgency and to communicate it by the end of November, in line with the goal that the European Central Bank completes the comprehensive assessment of credit institutions in a timely manner.

It also calls on the Eurogroup to finalise guidelines for European Stability Mechanism direct recapitalisation so that the European Stability Mechanism can have the possibility to recapitalise banks directly, following the establishment of the Single Supervisory Mechanism.

44. Completing the Banking Union is urgent and requires not only a Single Supervisory Mechanism but also a Single Resolution Mechanism. The European Council calls on the legislators to adopt the Bank Recovery and Resolution Directive and the Deposit Guarantee Directive by the end of the year. The European Council underlines the need to align the Single Resolution Mechanism and the Bank Recovery and Resolution Directive as finally adopted. It also underlines the commitment to reach a general approach by the Council on the Commission's proposal for a Single Resolution Mechanism by the end of the year in order to allow for its adoption before the end of the current legislative period.

IV. EASTERN PARTNERSHIP

45. The European Council looks forward to the Eastern Partnership Summit in Vilnius on 28 and 29 November 2013. It underlines the importance of the Eastern Partnership for building a common area of democracy, prosperity and stability across the European continent. The European Council reiterates the European Union's willingness to sign the Association Agreement, including the Deep and Comprehensive Free Trade Area, with Ukraine at the Vilnius Summit, provided there is determined action and tangible progress in line with the Council Conclusions of 10 December 2012, and to launch its provisional application. It confirms the European Union's readiness to initial similar agreements with the Republic of Moldova and Georgia at the Vilnius Summit, with the aim of signing them by Autumn 2014.

V. MIGRATION FLOWS

46. The European Council expresses its deep sadness at the recent and dramatic death of hundreds of people in the Mediterranean which shocked all Europeans. Based on the imperative of prevention and protection and guided by the principle of solidarity and fair sharing of responsibility, determined action should be taken in order to prevent the loss of lives at sea and to avoid that such human tragedies happen again.

47. The European Council underlines the importance of addressing root causes of migration flows by enhancing cooperation with the countries of origin and transit, including through appropriate EU development support and an effective return policy. It also calls for closer cooperation with the relevant international organisations, in particular UNHCR and the International Organisation of Migration in the third countries concerned. Not only in the territory of the EU Member States but also in the countries of origin and transit, the fight against trafficking and smuggling of human beings should be stepped up. Furthermore, the European Council calls for the reinforcement of Frontex activities in the Mediterranean and along the Southeastern borders of the EU. Swift implementation by Member States of the new European Border Surveillance System (EUROSUR) will be crucial to help detecting vessels and illegal entries, contributing to protecting and saving lives at the EU's external borders.
48. The European Council invites the newly established Task Force for the Mediterranean, led by the European Commission and involving Member States, EU agencies and the EEAS, to identify -based on the principles of prevention, protection and solidarity - priority actions for a more efficient short term use of European policies and tools. The Commission will report to the Council at its meeting of 5-6 December 2013 on the work of the Task Force with a view of taking operational decisions. The Presidency will report to the European Council in December.
49. The European Council will return to asylum and migration issues in a broader and longer term policy perspective in June 2014, when strategic guidelines for further legislative and operational planning in the area of freedom, security and justice will be defined.

STATEMENT OF HEADS OF STATE OR GOVERNMENT

The Heads of State or Government discussed recent developments concerning possible intelligence issues and the deep concerns that these events have raised among European citizens.

They underlined the close relationship between Europe and the USA and the value of that partnership. They expressed their conviction that the partnership must be based on respect and trust, including as concerns the work and cooperation of secret services.

They stressed that intelligence gathering is a vital element in the fight against terrorism. This applies to relations between European countries as well as to relations with the USA. A lack of trust could prejudice the necessary cooperation in the field of intelligence gathering.

The Heads of State or Government took note of the intention of France and Germany to seek bilateral talks with the USA with the aim of finding before the end of the year an understanding on mutual relations in that field. They noted that other EU countries are welcome to join this initiative.

They also pointed to the existing Working Group between the EU and the USA on the related issue of data protection and called for rapid and constructive progress in that respect.
