



EUROPEAN COUNCIL

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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 (20/21 March 2014).

The European Council held an in depth discussion on the situation in Ukraine. It adopted a strong message of support to Ukraine and agreed on a number of concrete measures in that respect. The EU and its Member States signed the political provisions of the Association Agreement with Ukraine. The European Council strongly condemned the annexation of Crimea and Sevastopol to the Russian Federation and will not recognise it. In the absence of any steps towards de-escalation, the European Council decided on an extension of the visa ban and asset freeze and cancelled the next EU-Russia summit. While remaining open for dialogue, the European Council did not exclude additional and far reaching consequences for relations with Russia in case of any further steps by the Russian Federation to destabilise the situation in Ukraine and asked the Commission and the Member States to prepare possible targeted measures. It also decided to advance the signature of the Association Agreements with Georgia and Moldova.

Europe is emerging from the financial and economic crisis. The European economy is recovering, after several years of limited or even negative growth. The recovery is expected to strengthen this year. The European Council had an exchange of views on the economic and social situation and outlook. It discussed in particular the most appropriate policy response for the short and medium term. It concluded the first phase of the European Semester and had a first discussion on the implementation of the Europe 2020 Strategy ahead of the mid-term review at the Spring 2015 European Council. It also focused on a stronger European industrial competitiveness as a driver for economic growth and jobs. It held a first policy debate on the framework for climate and energy in the period from 2020 to 2030 and agreed on the way forward. It underlined the important link between the Europe 2020 strategy, industrial competitiveness and climate and energy policies. The European Council hailed the agreement reached on the SRM regulation which will open the way to the completion of the Banking Union. This represents another crucial step towards a stronger and more resilient Economic and Monetary Union. Finally, it cleared the way for the adoption of the Directive on taxation of savings income.

I. GROWTH, COMPETITIVENESS AND JOBS

A. THE EUROPEAN SEMESTER

1. The European Council in December 2013 endorsed the five broad policy priorities for the European Union and its Member States set out in the 2014 Annual Growth Survey (AGS): pursuing differentiated, growth-friendly fiscal consolidation, restoring normal lending to the economy, promoting growth and competitiveness, tackling unemployment and the social consequences of the crisis, while modernising public administration. To steer the Council's discussions on the 2014 European Semester, the European Council put particular emphasis on policies enhancing competitiveness, supporting job creation and fighting unemployment, particularly youth unemployment, and on the follow-up to reforms to improve the functioning of labour markets. The National Reform Programmes and the Stability and Convergence Programmes should address the issues identified in last year's Country-Specific Recommendations and in the Commission's recent analysis in the context of the integrated surveillance of macroeconomic and fiscal imbalances, including its in-depth reviews and the Stability and Growth Pact, while taking full account of the discussions held in the Council in the framework of the European Semester.

2. The European Council assessed the implementation of the Europe 2020 Strategy on the basis of the Commission communication. Achieving the Strategy's goal of smart, sustainable and inclusive growth remains crucial. The crisis has slowed down progress towards the key goals of the Strategy and the long-term challenges affecting growth in Europe have not gone away. The European Council calls for stepping up efforts to reach the Europe 2020 targets and looks forward to the planned review of the EU 2020 Strategy in 2015.

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3. The European Council congratulates the negotiators of the European Parliament and the Council on the agreement reached on the Single Resolution Mechanism Regulation. As was underlined at today's exchange of views between the President of the European Parliament and the European Council, this is a major achievement that will open the way to the completion of the Banking Union. It is important now to formally adopt the Regulation before the end of the current legislature. Together with the Intergovernmental Agreement on the Transfer and Mutualisation of Contributions to the Single Resolution Fund, this represents another crucial step towards a stronger and more resilient Economic and Monetary Union.
4. The European Council welcomes the Commission's report on the state of play of negotiations on savings taxation with European third countries (Switzerland, Liechtenstein, Monaco, Andorra and San Marino) and calls on those countries to commit fully to implementing the new single global standard for automatic exchange of information, developed by the OECD and endorsed by the G20, and to the early adopters initiative.

The European Council calls on the Commission to carry forth the negotiations with those countries swiftly with a view to concluding them by the end of the year, and invites the Commission to report on the state of play at its December meeting. If sufficient progress is not made, the Commission's report should explore possible options to ensure compliance with the new global standard.

In the light of this, the Council will adopt the Directive on taxation of savings income at its next March 2014 meeting.

The European Council invites the Council to ensure that, with the adoption of the Directive on Administrative Cooperation by the end of 2014, EU law is fully aligned with the new global standard.

B. INDUSTRIAL COMPETITIVENESS AND POLICY

5. Europe needs a strong and competitive industrial base, in terms of both production and investment, as a key driver for economic growth and jobs. Competitiveness requires a stable, simple and predictable environment, including better regulation and in particular an ambitious REFIT programme. The overall framework at European and national levels must be made more conducive to investment and innovation and the reshoring of manufacturing jobs. The Commission communication "For a European Industrial Renaissance" provides important input in this respect; the Commission is invited to present a roadmap for taking work forward on this basis.
6. Industrial competitiveness concerns should be systematically mainstreamed across all EU policy areas and be part of impact assessments in view of getting a stronger industrial base for our economy. This should go together with competitiveness proofing. Member States are invited to match European measures to strengthen competitiveness of industry at national level.
7. Efforts must continue to complete and to fully exploit the potential of the internal market in goods and services, including in the digital economy, and to foster entrepreneurship. The timely adoption of the "Connected Continent" package will contribute to this objective. Infrastructure networks, including digital networks, need to be developed and updated with intelligent and innovative technologies. Particular attention should be paid to encouraging the creation and growth of SMEs, including facilitating access to finance across the EU.

8. Through its budget, the European Union contributes to industrial competitiveness. The best possible use should be made of EU instruments such as Horizon 2020, the Connecting Europe Facility, the European Structural and Investment Funds and COSME as well as market-based and other innovative financial instruments to support competitiveness and access of SMEs to finance.

In this context, smart specialisation should be promoted at all levels, including through the efficient use of public investment in research. This will facilitate contacts between firms and clusters and improve access to innovative technologies.

9. The competitiveness of European industry on international markets cannot be taken for granted. Efforts should continue to improve market access around the world by facilitating the integration of European companies in global value chains and promoting free, fair and open trade while asserting its interests, in a spirit of reciprocity and mutual benefit. The European Council calls on the European Investment Bank to further contribute to enhancing European companies' internationalisation and competitiveness. Taking forward an ambitious trade and investment agenda and promoting European and international standards and regulations, including the fight against counterfeiting, are important elements contributing to enhancing the EU's industrial competitiveness globally. This should help open markets, defend EU interests and actively promote a level playing field in third markets. Further action must also be pursued on ensuring access to core raw materials.

The European Council welcomes the Commission's plans to modernise the state aid rules which will enter into force in June 2014. In particular, it welcomes the Commission's intention to facilitate the implementation of wider EU policies and programmes, including EU Structural and Investment Funds by extending the scope of the General Block Exemption Regulation, while maintaining a level playing field among the Member States.

10. Fostering the Union's industrial growth requires the right skills. The European Council urges the Commission and the Member States to address shortages in the area of science, technology, engineering and mathematics (STEM skills) as a matter of priority, with increased involvement of industry. Further efforts by the public and private sectors should be directed to promoting mobility, education and vocational training. All available instruments should be used to this end, such as the European Structural and Investment Funds (ESIF), the new generation of Erasmus +, the Grand Coalition for Digital Jobs, the European Alliance for Apprenticeships or the Youth Employment Initiative and the Youth Guarantee. Industry should be more involved in forecasting future skills needs.
11. Intellectual property and patenting are key drivers for growth and innovation. Despite its leading role in a number of technology industries, the European Union is lagging behind in patenting. The European Council therefore calls for enhancing support to these high-growth sectors, in order to preserve the European Union's technology lead. The concerned Parties should ratify, in accordance with their constitutional provisions, the agreement on the Unified Patent Court and make the necessary legal and administrative arrangements so that the EU patent regime can enter into force by the end of 2014.
12. The European Council recalls that key enabling technologies (KETs) are of crucial importance for industrial competitiveness. KETs of high industrial interest, such as batteries for electro-mobility, intelligent materials, high performance production and industrial bio-processes, should be strengthened by swiftly identifying projects of European interest. Special attention should be paid to the role of cleantech as a cross-cutting element for enhancing the competitiveness of the European industry. The Commission is invited to report on how to promote cleantech through concrete actions in all relevant EU policies.
13. On the basis of the orientations set out above, the European Council invites the Council, the Commission and the Member States to continue work. The European Council will come back to these issues in the context of the Europe 2020 Strategy review in March 2015.

14. A strong, resource-efficient and competitive European industrial base must be seen in relation to a coherent European climate and energy policy, including through addressing the issue of high energy costs, in particular for energy-intensive industries.

C. CLIMATE AND ENERGY

15. A coherent European energy and climate policy must ensure affordable energy prices, industrial competitiveness, security of supply and achievement of our climate and environmental objectives. Substantial progress has been made towards the attainment of the EU targets for greenhouse gas emission reduction, renewable energy and energy efficiency, which need to be fully met by 2020.
16. Taking into account the timeline agreed in Warsaw for the conclusion of a global climate agreement at the 21st session of the Conference of the Parties in Paris in 2015, the European Council confirms that the European Union will submit its contribution at the latest by the first quarter of 2015, as should all major economies. In the light of the UN Climate Summit in September 2014 the specific EU target for 2030 for greenhouse gas emission reductions will be fully in line with the agreed ambitious EU objective for 2050. Such an agreed EU policy framework on greenhouse gas emissions, renewables and energy efficiency, to be elaborated on the basis of the Commission communication, will provide the necessary stability and predictability for its economic operators and confirm the EU's role globally.

17. The new framework should be based on the following principles:
- further improve coherence between greenhouse gas emissions reduction, energy efficiency and the use of renewables and deliver the objectives for 2030 in a cost-effective manner, with a reformed Emissions Trading System playing a central role in this regard;
 - develop a supportive EU framework for advancing renewable energies and ensure international competitiveness;
 - ensure security of energy supply for households and businesses at affordable and competitive prices;
 - provide flexibility for the Member States as to how they deliver their commitments in order to reflect national circumstances and respect their freedom to determine their energy mix.
18. With a view to an early agreement on a new policy framework for energy and climate in the period 2020 to 2030, the European Council invites the Council and the Commission to continue work and rapidly develop the following elements:
- analyse the implications for individual Member States of the Commission's proposals for EU-wide targets for emission reductions and renewable energy;
 - elaborate mechanisms which will result in an overall fair effort sharing and foster the modernisation of the energy sector;
 - develop measures to prevent potential carbon leakage and call for long-term planning security for industrial investment in order to ensure the competitiveness of Europe's energy-intensive industries;
 - review the Energy Efficiency Directive in a timely manner and develop an energy efficiency framework.

The European Council will take stock of progress made on these issues at its meeting in June, based inter alia on consultations with Member States, with a view to taking a final decision on the new policy framework as quickly as possible and no later than October 2014. The European Council asks its President and the European Commission to take the necessary steps to prepare this decision.

19. The objectives of completing the internal energy market by 2014 and developing interconnections so as to put an end to any isolation of Member States from European gas and electricity networks by 2015 remain a priority. The European Council calls for speeding up efforts in particular as regards:
- speedy implementation of all the measures to meet the target of achieving interconnection of at least 10 % of their installed electricity production capacity for all Member States. The European Council invites the Commission to propose by June specific interconnection objectives to be attained until 2030 with a view to taking a decision at the latest by October 2014. Special attention should be paid to improving interconnections with the more remote and/or less well connected parts of the single market, including through the improvement and creation of reverse flows, and integrating Member States into the European continental networks;
 - effective and consistent implementation of the Third Energy Package by all players in the European energy market;
 - effective application and enforcement of EU rules regarding market integration and energy efficiency, and striving for a level playing field for companies operating within the EU.

20. Efforts to reduce Europe's high gas energy dependency rates should be intensified, especially for the most dependent Member States. Moderating energy demand through enhanced energy efficiency should be the first step which will also contribute to other energy and climate objectives. The European Council calls on the Commission to conduct an in-depth study of EU energy security and to present by June 2014 a comprehensive plan for the reduction of EU energy dependence. The plan should reflect the fact that the EU needs to accelerate further diversification of its energy supply, increase its bargaining power and energy efficiency, continue to develop renewable and other indigenous energy sources and coordinate the development of the infrastructure to support this diversification in a sustainable manner, including through the development of interconnections. Such interconnections should also include the Iberian peninsula and the Mediterranean area. Where relevant, interconnections should also be developed with third countries. Member States will show solidarity in case of sudden disruptions of energy supply in one or several Member States. In addition, further action should be taken to support the development of the Southern Corridor, including further spur routes through Eastern Europe, to examine ways to facilitate natural gas exports from North America to the EU and consider how this may best be reflected in TTIP, and increase the transparency of Intergovernmental Agreements in the field of energy.
21. In order to pursue the objectives set out above, implementation of relevant projects of common interest should be speeded up and available EU resources, including the CEF, and the EIB financing capacity, should be swiftly mobilised.

22. In the light of the main cost drivers identified in the Commission communication, the European Council calls for sustained efforts to moderate the energy costs borne by energy end-users, in particular through:

- a progressive evolution of support mechanisms for renewables to a more cost-effective and market-based system and more convergence of national support schemes beyond 2020;
- sustained investment in energy efficiency and demand-side management all along the value chain and at the R&D stage;
- fuller use of the electricity generation capacity available on the internal market rather than relying on national capacities alone, while recognizing the role of Member States in ensuring security of supply;
- promotion of domestic resources and of competition on gas supply markets and addressing the issue of the contractual linkage of gas and oil prices.

All of this should be in compliance with State Aid rules and the rules of the internal market.

On the basis of the above measures, Member States will take the appropriate actions leading to cost reduction in the manner most suited to their specific circumstances. Coordination between Member States as well as across sectoral policies must be ensured in order to facilitate the achievement of EU level objectives.

23. In addition, the European Council calls on the Member States to further examine their different national practices on energy policy levies, tax components of prices and network costs, with the objective of minimising negative consequences for energy prices. Building on recent experience, Member States will continue to regularly exchange information on major national energy decisions which have a possible impact on other Member States, while fully respecting national choices of energy mix.

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CYPRUS

24. The European Council welcomes the resumption of fully fledged settlement negotiations based on the 11 February Joint Declaration with the aim to reunite Cyprus. The European Council supports a comprehensive and viable settlement of the Cyprus problem within the UN framework, in accordance with relevant UN Security Council resolutions and in line with the principles on which the European Union is founded. The European Council underlines that the division of Cyprus has endured for too long and emphasises the importance of maintaining the momentum. The European Council stands ready to play its part in supporting the negotiations. Reunification of Cyprus would be to the benefit of all the Cypriot people and in this respect the European Council supports any confidence building measures agreed by the two parties which could contribute decisively to creating a climate of mutual trust and give impetus to the negotiation process.

II. EXTERNAL RELATIONS

Ukraine

25. The European Union supports the Ukrainian people and their right to choose their own future. The European Union stands by the Ukrainian government in its efforts to stabilise Ukraine and undertake reforms. In this context the European Union will pursue further efforts with the international community to assist Ukraine.
26. The European Union, its Member States and Ukraine will sign the political provisions of the Association Agreement. The European Union and its Member States are committed to sign the remainder of the Association Agreement and Deep and Comprehensive Free Trade Area, which together with the political provisions constitute a single instrument. The European Council agrees that the first meeting in the political dialogue as envisaged under the Agreement should take place in April. The European Council urges the Council and the European Parliament to swiftly adopt the proposal for temporarily removing customs duties, so called Autonomous Trade measures, on Ukrainian exports to the European Union.

27. Restoring macroeconomic stability in Ukraine is an immediate priority. The Ukrainian government needs to embark swiftly on an ambitious programme of structural reforms, including the fight against corruption and enhancing transparency of all fiscal operations. The European Council urges the Council to rapidly agree on macro-financial assistance and underlines that an agreement with the IMF is critical to enable this assistance. EU Member States agree to coordinate their positions in the IMF regarding the conditions for assistance to Ukraine. The European Council welcomes the establishment of a focal point for coordination of efforts which should underpin the structural transition in Ukraine with participation of the international community and international financial institutions.
28. The European Union commends the measured response shown so far by Ukraine. The European Council welcomes the Ukrainian government's commitment to ensure the representative nature and inclusiveness of governmental structures, reflecting regional diversity, to ensure the full protection of the rights of persons belonging to national minorities, to undertake constitutional reform, to investigate all human rights violations and acts of violence and to fight extremism. In this context the European Union encourages the government of Ukraine to ensure that the Presidential election on 25 May will be free and fair.
29. The European Union remains committed to uphold the sovereignty and territorial integrity of Ukraine. The European Council does not recognise the illegal referendum in Crimea, which is in clear violation of the Ukrainian Constitution. It strongly condemns the illegal annexation of Crimea and Sevastopol to the Russian Federation and will not recognise it. The European Council asks the Commission to evaluate the legal consequences of the annexation of Crimea and to propose economic, trade and financial restrictions regarding Crimea for rapid implementation.
30. In the light of this and in the absence of any steps towards de-escalation the European Council agrees to expand the list of individuals to be subject to visa ban and asset freeze. The European Council decides to cancel the next EU-Russia Summit and notes that Member States will not hold bilateral regular summits for the time being. In addition, the European Council and the Member States support the upcoming G7 countries' meeting in The Hague. They also support the suspension of negotiations over Russia's joining the OECD and IEA.

31. The European Council firmly believes that there is no place for the use of force and coercion to change borders in Europe in the 21st century. The Russian actions are in clear breach of the Helsinki process, which in the past 40 years has contributed to overcoming divisions in Europe and building a peaceful and united continent. The European Council deplores that Russia has still not taken steps to de-escalate the crisis and that negotiations between Ukraine and the Russian Federation have still not started. It urges that an agreement be promptly reached on an OSCE mission to be deployed in Ukraine as soon as possible, in order to help stabilise the situation. In that context, the European Council asks the High Representative to urgently draw up plans for an EU contribution to facilitate the work of the OSCE mission. In the absence of an agreement in the coming days on a credible OSCE mission, the EU will draw up an EU mission.
32. The European Union has a special responsibility for peace and stability in Europe. It will remain at the forefront of efforts to facilitate and engage in a meaningful dialogue involving Ukraine and Russia, including through the establishment of a multilateral mechanism, with a view to finding a political solution.
33. The European Council recalls that any further steps by the Russian Federation to destabilise the situation in Ukraine would lead to additional and far reaching consequences for relations in a broad range of economic areas between the European Union and its Member States, on the one hand, and the Russian Federation, on the other hand. In this respect, the European Council asks the Commission and the Member States to prepare possible targeted measures.
34. The European Union reconfirms its objective to further strengthen the political association and economic integration with Georgia and the Republic of Moldova. We confirm our aim to sign the Association Agreements, including the Deep and Comprehensive Free Trade Areas, which we initialled in Vilnius last November, no later than June 2014.

EU-Africa relations

35. Ahead of the 4th EU-Africa Summit on 2 and 3 April 2014, the European Union remains committed to building a partnership of equals with Africa and strengthening relations in all relevant areas in response to the growing interdependence between the European Union and Africa. The European Council expresses the EU's willingness to further cooperate with its African partners in promoting trade and development, democracy and good governance, the rule of law and human rights. It also underlines the importance to address migration and mobility, including irregular migration and the fight against smuggling of migrants and trafficking of human beings, in a spirit of shared responsibility between countries of transit, origin and destination.
36. The European Council emphasises in particular that continued international support for African partners in the area of security remains crucial and encourages other donors to participate in burden-sharing. Therefore, the European Union will continue to provide operational support through its civilian crisis management missions and military operations, at the request of individual countries and in close cooperation with other regional and international actors. In this context, it underlines the urgency of mobilising financial and operational support for the African-led International Support Mission to the Central African Republic (MISCA) and reaffirms the Union's commitment to deploy its operation EUFOR RCA in the coming weeks.
37. The European Union will also consider ways and means to support African initiatives for capacity-building, which will strengthen the African Peace and Security Architecture and enable African partners to prevent conflicts and address crises effectively and rapidly. The European Council encourages further work at EU level to enhance support for African capacity development in a comprehensive and systematic way encompassing advice, mentoring, training and equipment. The European Council invites the High Representative to make further proposals in this regard, including on a possible clearing house on the provision of equipment to support training provided by the EU.

Sri Lanka

38. The European Council remains committed to accountability, reconciliation and universal human rights in Sri Lanka. The European Council calls for the adoption of a resolution on Sri Lanka at the Human Rights Council that would provide for an international investigation into alleged war crimes by both sides during the war, as recommended by the UN High Commissioner for Human Rights.
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