



**COUNCIL OF
THE EUROPEAN UNION**

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NOTE

from: The General Secretariat of the Council
to: COREPER/General Affairs Council

Subject: European Council (4 February 2011)
- Draft conclusions

In accordance with article 2(3)(a) of the Council's Rules of Procedure, delegations will find attached the draft conclusions prepared by the President of the European Council, in close cooperation with the member of the European Council representing the Member State holding the six-monthly Presidency of the Council and with the President of the Commission.

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1. The presentation of the Commission's first Annual Growth Survey marks the launch of the European semester of economic policy coordination. The European Council called on the Council to examine it promptly and to report back in March, with a view to the European Council giving guidance in advance of Member States finalizing their National Reform Programmes and their mid term budgetary strategies.
2. In times of budgetary consolidation it is more than ever crucial to maximize the efficiency of public expenditure. The European Councils called for rapid progress on the revision of the financial regulation and underlined the need to adopt by the end of year simplified financial rules and more effective delivery mechanisms for EU policies.

I. ENERGY

3. Safe, secure, sustainable and affordable energy remains a priority for Europe. Action at the EU level can and must bring added value to that objective. Over the years, a lot of work has been carried out on the main strands of an EU energy policy, including the setting of ambitious energy and climate change objectives and the adoption of comprehensive legislation supporting these objectives. But more action is needed to set Europe on the right path.
4. Basing its discussion on the Commission Communications on the 2020 Energy Strategy and on infrastructure priorities and the initial work done at the Energy Council of 3 December 2010, the European Council highlights a number of key issues for future work.

An integrated and interconnected market

5. The EU needs a fully functioning and integrated internal energy market. Legislation on the internal energy market must therefore be speedily and fully implemented by Member States in full respect of the March 2011 deadline. Council and European Parliament are invited to work towards the early adoption of the Commission's proposal for a Regulation on energy markets integrity and transparency.

6. A new agency to coordinate the work of national energy regulators (ACER) has been set up. Progress has been made by national regulators and transmission systems operators on market coupling and guidelines and network codes applicable across European networks; however, the pace of work should be accelerated. The relevant actors should deliver on their work programmes so as to complete the internal energy market by 2014 at the latest, in particular by putting in place EU-wide network codes and removing all technical barriers to allow gas and electricity to flow freely within the EU. Member States, in liaison with European standardization bodies, are invited to accelerate work on technical standards for smart grids and meters and charging system for electric vehicles with a view to adopting such standards by the end of 2012.
7. As set out in the Commission's communication on infrastructure priorities, major efforts are needed to modernise and expand Europe's energy infrastructure, be it pipelines, transmission lines or storage facilities, and to interconnect markets across borders. This is crucial to ensure that solidarity between Member States will become operational, that alternative supply routes will materialise and that renewables will develop and compete on an equal footing with traditional sources. The Commission intends to propose an initiative to streamline authorisation procedures, while respecting national procedures, for the building of new infrastructure. The various initiatives undertaken by Member States to integrate networks at a regional level as well as those outlined in the Commission communication contribute to the objective and deserve support. No EU member State should remain an energy island after 2015 or see its energy security jeopardized by lack of the appropriate connections.
8. The bulk of the important financing costs for infrastructure investments will have to be delivered by the market, with costs recovered through tariffs. Particular attention should be given to the setting of tariffs at levels consistent with financing needs and to the appropriate cost allocation for cross-border investments. However, some projects that would be justified from a security of supply/solidarity perspective but are unable to attract enough market-based finance will require some limited public finance. The Commission is invited to submit by June 2011 to the Council figures on the investments likely to be needed and suggestions on how to respond to financing requirements - starting within the current 2007-2013 financial framework - and accommodate the risks attached to complex infrastructure projects.

Energy efficiency and Renewables

9. Investments in energy efficiency enhance competitiveness and support security of energy supply and sustainability at low cost. The 2020 20% energy efficiency target, which is presently not on track, must be delivered. This requires determined action by public authorities and the private sector to tap the considerable potential for higher energy productivity of buildings, transport and product/processes. As of 1 January 2012, all Member States will include energy efficiency standards consistent with the EU headline target in all public contracts for new public buildings and services. The Council is invited to promptly examine the upcoming Commission proposal for a new Energy Efficiency Plan, setting out in more detail a series of policies and measures across the full energy supply chain. It will review the implementation of the EU energy efficiency target by 2013 and consider further measures if necessary.
10. The Commission is invited to strengthen its work with Member States on the implementation of the Renewable Energy Directive, in particular as regards stable support schemes and cooperation mechanisms.
11. The EU and its Member States will give priority to investment in renewables and low carbon technologies and focus on implementing the technology priorities established in the European Strategic Energy Technology plan. The Commission is invited to table new initiatives on smart grids, energy storage, sustainable bio fuels and energy saving solutions for cities.

Energy and external relations

12. There is a need for more systematic coordination of EU and Member States' activities with a view to ensuring consistency and coherence in the EU's dealings with key producer, transit, and consumer countries. The Commission is invited to submit by June 2011 a communication on energy security and international cooperation aimed at further improving the consistency and coherence of the EU's external action in the field of energy. The Member States are invited to inform the Commission of all new and existing bilateral energy agreements from 1 January 2012; the Commission will make this information available to all other Member states in an appropriate form, having regard to the need for protection of commercially sensitive information.

13. The EU should develop partnerships on regulatory approaches on all subjects of common interest, such as low carbon technologies and energy efficiency, with key players and around strategic corridors. In practical terms, concrete work should start as early as possible concerning such a partnership with Russia, in view of the extensive work already going on in terms of the post-PCA process, the Partnership for Modernization and the Energy Dialogue.

Long term strategic vision

14. The low carbon 2050 strategy provides the framework for the longer term action in the energy and other related sectors. The EU has already committed to reduce greenhouse gas emissions by 80-95% by 2050; this will require a revolution in energy systems, which must start now, by delivering on the 2020 objectives. Due consideration should be given to fixing concrete intermediary stages towards reaching the 2050 objective. The European Council will keep developments under review on a regular basis.

II. INNOVATION

15. With an ageing population and strong competitive pressures from globalization, Europe's future economic growth and jobs will increasingly have to come from innovation in products, services and business models. Investment in research and innovation is a key driver of growth, and innovative ideas that can be turned into new products and services help create growth and quality jobs. The European Council called for a strategic and integrated approach to boosting innovation, to the benefit of citizens, companies and researchers. It will track progress in the framework of the follow up to the Europe 2020 Strategy.

Tackling the grand societal challenges

16. Innovation contributes to tackling the most critical societal challenges we are facing (such as health, food and energy security, sustainable development, climate change, ageing populations), which at the same time provide opportunities for new markets and for reinforcing Europe's competitiveness. To that end, mobilizing Europe's expertise and resources in a coherent manner, fostering synergies between the EU and Member States' levels to ensure that innovations with a societal benefit get to the market quicker is a priority. The launch of the pilot Partnership on active and healthy ageing is important in that context; the active support of the Council, European Parliament, Member States and stakeholders is now needed to make the partnership a success. Regular monitoring will be necessary in order to reach concrete goals to be fixed year by year.

Completing the European Research Area

17. Europe needs a unified research area to attract talent and investment. Remaining gaps must therefore be addressed rapidly and the European Research Area completed by 2014 to create a genuine single market for knowledge, research and innovation. In particular, the mobility of researchers should be improved: the Commission is invited to present a proposal to encourage the mobility of graduate students. It is also invited to present proposals to enhance the portability of researchers' pension rights. Furthermore, information about publicly financed R&D should be better spread, notably through the establishment of an inventory of EU-funded R&D, linked to similar inventories of R&D programmes funded at national level.

Improving framework conditions for innovative companies

18. Private investment in innovative products and services should be encouraged, in particular by improving framework conditions. In this regard:
- the Commission is invited to make proposals to accelerate and modernize standardization procedures, notably to allow turning industry developed standards into European standards under certain conditions;
 - public procurement should be better geared to creating greater demand for innovative goods and services; to this end Member States will significantly increase the part of their public procurement budgets devoted to innovative products, processes and services; the Commission should provide guidance on the application of the Directives on public procurement;
 - the Commission will conduct a mid term review of the relevant State aid frameworks during 2011;
 - the Commission is invited to work on the setting up an intellectual property rights valorisation instrument at the European level, in particular to ease SMEs' access to the knowledge market and to report back to the Council by the end of 2011.
19. Every effort should be pursued to lift remaining legal and administrative obstacles to the cross-border operation of venture capital funds in order to achieve a genuine European Venture Capital market. The Commission is invited to present proposals for putting in place an EU wide venture capital scheme building on the EIF and incorporation with national operators, as well as for scaling up the Risk Sharing Finance Facility and for assessing how best to meet the needs of fast growing innovative companies. The Commission is also invited to explore the feasibility of a Small Business Innovation Research Scheme in order to support young innovative companies, which could be managed by an agency on the model of the European Research Council.

Prioritizing public support

20. In conducting fiscal consolidation, Member States should give priority to sustainable growth-friendly expenditure in areas such as research and innovation, education and energy. This should be coupled with clear reform measures aimed at boosting the effectiveness of their research and innovation systems, which they should set out in their final National Reform Programmes. At national level, Member States will make full use of the option of devoting 50% of ETS revenue to finance climate-related innovative projects. They will also improve the use of existing Structural Funds for research and innovation projects.
21. It is crucial that EU instruments aimed at fostering R&D&I be simplified in order to facilitate their take up by the best scientists and the most innovative companies, in particular by agreeing between the relevant institutions a new balance between trust and control and between risk taking and risk avoidance. The Commission is invited to make proposals by mid 2011. The next multiannual financial framework should reflect the strategic importance of R&D&I. The development of financing mechanisms adequate for the financing of major European projects that are important drivers for research and innovation should be explored.

Measuring innovation

22. The European Council noted the trends and developments revealed by the current Commission innovation scoreboard. It invited the Commission to continue to develop a single indicator to allow a better monitoring of progress in innovation. It will keep developments concerning the above under review.