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COVER NOTE

from : General Secretariat of the Council
to : Delegations
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CONCLUSIONS

Delegations will find attached the conclusions of the European Council (4 February 2011).

1. Beyond the immediate action required to tackle the most pressing challenges posed by the economic and financial crisis, it is important to continue laying solid foundations for a sustainable and job-creating growth. This is the purpose of the Europe 2020 Strategy for jobs and growth adopted last June. Today, the European Council focused on two sectors – energy and innovation – which are key to Europe's future growth and prosperity. It agreed on a number of priority actions whose implementation will contribute much to enhancing growth and job creation as well as promoting Europe's competitiveness.

I. ENERGY

2. Safe, secure, sustainable and affordable energy contributing to European competitiveness 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. Today's meeting of the European Council underlined the EU's commitment to these goals through a number of operational conclusions, as set out below.
3. The EU needs a fully functioning, interconnected 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 agreed deadlines. 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.

4. The internal market should be completed by 2014 so as to allow gas and electricity to flow freely. This requires in particular that in cooperation with ACER national regulators and transmission systems operators step up their work on market coupling and guidelines and on network codes applicable across European networks. Member States, in liaison with European standardization bodies and industry, are invited to accelerate work with a view to adopting technical standards for electric vehicle charging systems by mid-2011 and for smart grids and meters by the end of 2012. The Commission will regularly report on the functioning of the internal energy market, paying particular attention to consumers **including the more vulnerable ones** in line with the Council conclusions of 3 December 2010.

5. Major efforts are needed to modernise and expand Europe's energy infrastructure and to interconnect networks across borders, in line with the priorities identified by the Commission communication on energy infrastructure. This is crucial to ensure that solidarity between Member States will become operational, that alternative supply/transit routes and sources of energy will materialise and that renewables will develop and compete with traditional sources. It is important to streamline and improve authorisation procedures, while respecting national competences and procedures, for the building of new infrastructure; the European Council looks forward to the forthcoming proposal from the Commission in that respect. The various initiatives undertaken by Member States to integrate markets and 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 isolated from the European gas and electricity networks after 2015 or see its energy security jeopardized by lack of the appropriate connections.

6. The bulk of the important financing costs for infrastructure investments will have to be delivered by the market, with costs recovered through tariffs. It is vital to promote a regulatory framework attractive to investment. Particular attention should be given to the setting of tariffs in a transparent and non-discriminatory manner at levels consistent with financing needs and to the appropriate cost allocation for cross-border investments, enhancing competition and competitiveness and taking account of the impact on consumers. However, some projects that would be justified from a security of supply/solidarity perspective, but are unable to attract enough market-based finance, may require some limited public finance to leverage private funding. Such projects should be selected on the basis of clear and transparent criteria. The Commission is invited to report by June 2011 to the Council on figures on the investments likely to be needed, on suggestions on how to respond to financing requirements and on how to address possible obstacles to infrastructure investment.

7. In order to further enhance its security of supply, Europe's potential for sustainable extraction and use of conventional and unconventional (shale gas and oil shale) fossil fuel resources should be assessed.

8. Investments in **energy efficiency** enhance competitiveness and support security of energy supply and sustainability at low cost. The 2020 20% energy efficiency target as agreed by the June 2010 European Council, which is presently not on track, must be delivered. This requires determined action to tap the considerable potential for higher energy savings of buildings, transport and products and processes. As of 1 January 2012, all Member States should include energy efficiency standards taking account of the EU headline target in public procurement for relevant 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.

9. The Commission is invited to strengthen its work with Member States on the implementation of the **Renewable Energy** Directive, in particular as regards consistent national support schemes and cooperation mechanisms.

10. The EU and its Member States will promote investment in **renewables and safe and sustainable 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, including those linked to the development of clean vehicles, energy storage, sustainable bio fuels and energy saving solutions for cities.

11. There is a need for better coordination of EU and Member States' activities with a view to ensuring consistency and coherence in the EU's **external relations** with key producer, transit, and consumer countries. The Commission is invited to submit by June 2011 a communication on security of supply 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 from 1 January 2012 the Commission on all their new and existing bilateral energy agreements with third countries; 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. The High Representative is invited to take fully account of the energy security dimension in her work. Energy security should also be fully reflected in the EU's neighbourhood policy.

12. The EU should take initiatives in line with the Treaties in the relevant international fora and develop mutually beneficial energy partnerships with key players and around strategic corridors, covering a wide range of issues, including regulatory approaches, on all subjects of common interest, such as energy security, safe and sustainable low carbon technologies, energy efficiency, the investment environment and maintaining and promoting the highest standards for nuclear safety. It should encourage neighbouring countries to embrace its relevant internal energy market rules, notably by extending and deepening the Energy Community Treaty and promoting regional cooperation initiatives. In the context of the Energy Strategy 2020 it should also develop measures as necessary to ensure a level playing field for EU power producers vis-à-vis producers outside the European Economic Area. Europe needs to diversify its routes and sources of supply. The Commission is accordingly invited to continue its efforts to facilitate the development of strategic corridors for the transport of large volumes of gas such as the Southern Corridor.

13. Work should be taken forward as early as possible to develop a reliable, transparent and rules-based partnership with Russia in areas of common interest in the field of energy and as part of the negotiations on the post-Partnership and Cooperation Agreement process and in the light of on-going work on the Partnership for Modernization and the Energy Dialogue.

14. The EU will cooperate with third countries in order to address the volatility of energy prices and will take this work forward within the G20.

15. The European Council looked forward to the elaboration of a **low carbon 2050 strategy** providing the framework for the longer term action in the energy and other related sectors. Reaching the EU objective, in the context of necessary reductions according to the IPCC by developed countries as a group, of reducing greenhouse gas emissions by 80-95% by 2050 compared to 1990 as agreed in October 2009 will require a revolution in energy systems, which must start now. Due consideration should be given to fixing intermediary stages towards reaching the 2050 objective. The European Council will keep developments under review on a regular basis.

II. INNOVATION

16. Investment in education, research, technology and innovation is a key driver of growth, and innovative ideas that can be turned into new marketable products and services help create growth and quality jobs. The European Council called for the implementation of a strategic and integrated approach to boosting innovation and taking full advantage of Europe's intellectual capital, to the benefit of citizens, companies - in particular SMEs - and researchers. It will monitor progress in the framework of the follow up to the Europe 2020 Strategy.
17. In this connection, the European Council noted the trends and developments revealed by the current Commission innovation scoreboard. It invited the Commission to quickly develop a single integrated indicator to allow a better monitoring of progress in innovation. It will keep developments concerning the above under review.

18. Innovation contributes to tackling the most critical **societal challenges** we are facing. Europe's expertise and resources must be mobilized in a coherent manner and synergies between the EU and the Member States must be fostered in order to ensure that innovations with a societal benefit get to the market quicker. Joint programming should be developed. The launch of the pilot Innovation Partnership on active and healthy ageing is an important step in that context. Regular monitoring by the Council will be necessary in order to reach long term objectives as well as concrete goals to be fixed year by year. The Council will take the necessary political decisions on future Innovation Partnerships before they are launched.

19. 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, efforts should be made to improve the mobility and career prospects of researchers, the mobility of graduate students and the attractiveness of Europe for foreign researchers. Furthermore, information about publicly financed R&D should be better disseminated, whilst respecting intellectual property rights, notably through the establishment of an inventory of EU-funded R&D, linked to similar inventories of R&D programmes funded at national level.

20. 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, simplify and modernize standardization procedures, notably to allow standards developed by industry to be turned into European standards under certain conditions;
 - provide guidance on the application of the Directives on public procurement; more generally public procurement should be better geared to creating greater demand for innovative goods and services;
 - conduct a mid-term review of the relevant State aid frameworks during 2011;
 - explore options for 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.
21. The Commission is invited to make rapid progress in key areas of the digital economy to ensure the creation of the Digital Single Market by 2015, including the promotion and protection of creativity, the development of e-commerce and the availability of public sector information
22. Every effort should be pursued to lift remaining legal and administrative obstacles to the cross-border operation of venture capital. The Commission is invited to present proposals by the end of 2011:
- for putting in place an EU-wide venture capital scheme building on the EIF and other relevant financial institutions and in cooperation with national operators;
 - for scaling up the Risk Sharing Finance Facility;
 - and for assessing how best to meet the needs of fast growing innovative companies through a market-based approach. In this connection the Commission is also invited to explore the feasibility of a Small Business Innovation Research Scheme.

23. In conducting fiscal consolidation, Member States should give priority to **sustainable growth-friendly expenditure** in areas such as research and innovation, education and energy.

24. Such efforts should be coupled with clear reform measures aimed at boosting the effectiveness of Member States' research and innovation systems. At national level, Member States recall their willingness to devote at least 50% of ETS revenue to finance climate-related action, including innovative projects. They should also improve the use of existing Structural Funds allocated to research and innovation projects.

25. 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 the end of the year, ensuring that the full range of research and innovation financing instruments work together within a common strategic framework. The development of financing mechanisms adequate for the financing of major European projects that are important drivers for research and innovation should be explored. It is more than ever crucial to improve the efficiency of public expenditure at national and EU levels. In this connection, the simplification of the financial regulation should be adopted by the end of the year in order to ensure effective delivery mechanisms for EU policies.

III. ECONOMIC SITUATION

26. The European Council reviewed the economic situation and noted that the overall economic outlook is improving although important challenges still remain. It agreed on the way forward to the March European Council.
27. The European Council called on the Council to reach in March a general approach on the Commission's legislative proposals on economic governance, ensuring full implementation of the recommendations of the Task Force, so as to reach a final agreement with the EP by the end of June. This will allow strengthening the Stability and Growth Pact and implementing a new macroeconomic framework.
28. It called on the European Banking Authority and other relevant authorities to conduct ambitious stress tests and on Member States to ensure that concrete plans, compliant with EU State aid rules, are in place to deal with any bank that demonstrates vulnerabilities in the stress tests.
29. In the context of the European Semester and on the basis of the Annual Growth Survey presented by the Commission, the March European Council will identify the priorities for structural reforms and fiscal consolidation for the next round of stability and convergence programmes as well as in the EU's areas of competence, including the single market. On this basis, and steered by the Europe 2020 integrated guidelines, Member States are invited to submit in April their national reform programmes as well as their stability or convergence programmes.

30. The March European Council will also adopt the final decision on the limited treaty change to set up the European Stability Mechanism.
31. The European Council welcomed the attached Statement by the Heads of State or government of the euro area and the EU institutions.

IV. EXTERNAL RELATIONS

32. The European Council adopted a declaration on Egypt and the region (annex II).
33. The European Council emphasised that developments in the Mediterranean region make it even more urgent to respect previous peace agreements and to achieve rapid progress in the Middle East Peace Process. It expressed the expectation that the Quartet meeting on 5 February 2011 in Munich will make a substantive contribution to this process.
34. The European Council endorsed the conclusions on Belarus adopted by the Foreign Affairs Council on 31 January, including the decision to impose restrictive measures. The European Union reiterates its strong commitment to strengthening its engagement with Belarusian civil society. The European Union remains committed to its policy of critical engagement, including through dialogue and the Eastern Partnership, conditional on the respect for the principles of democracy, the rule of law and human rights. The Foreign Affairs Council will regularly re-examine the situation in Belarus and stand ready to consider further targeted measures in all areas as appropriate.

**STATEMENT BY THE HEADS OF STATE OR GOVERNMENT OF THE EURO AREA
AND THE EU INSTITUTIONS**

Following their December 2010 Statement, and reiterating their readiness to do whatever is required to ensure the stability of the euro area as a whole, the Heads of State or government of the euro area and the EU institutions reviewed progress in the implementation of the comprehensive strategy to preserve financial stability and ensure that the euro area will emerge stronger from the crisis.

This strategy includes the legislative package on economic governance, the stress tests and the financial sector repair, and the implementation of the European semester. In addition, they agreed on the following steps as part of the global package to be finalized in March:

- Continued successful implementation of existing programmes with Greece and Ireland.
- Assessment by the Commission, in liaison with the ECB, of progress made in euro area Member States in the implementation of measures taken to strengthen fiscal positions and growth prospects.
- Concrete proposals by the Eurogroup on the strengthening of the EFSF so as to ensure the necessary effectiveness to provide adequate support.
- Finalization under the chairmanship of the President of the Eurogroup of the operational features of the European Stability Mechanism in line with the mandate agreed upon in December.

Building on the new economic governance framework, Heads of State or government will take further steps to achieve a new quality of economic policy coordination in the euro area to improve competitiveness, thereby leading to a higher degree of convergence, without undermining the single market. Non-euro members will be invited to participate in the coordination. The President of the European Council will undertake consultations with the Heads of State or government of the euro area Member States and report back, identifying concrete ways forward in line with the Treaty. To this effect, he will closely cooperate with the President of the Commission. He will ensure that the Heads of State or government of the interested non-euro area Member States are duly involved in the process.

DECLARATION ON EGYPT AND THE REGION

The European Council is following with utmost concern the deteriorating situation in Egypt. It condemned in the strongest terms the violence and all those who use and encourage violence. It emphasised the right of all citizens to demonstrate freely and peacefully, under due protection from law enforcement authorities. Any attempt to restrict the free flow of information, including aggression and intimidation directed against journalists and human rights defenders, is unacceptable.

The European Council called on the Egyptian authorities to meet the aspirations of the Egyptian people with political reform not repression. All parties should show restraint and avoid further violence and begin an orderly transition to a broad-based government. The European Council underlined that this transition process must start now. The basis for the EU's relationship with Egypt must be the principles set out in the Association Agreement and the commitments made.

The European Council saluted the peaceful and dignified expression by the Tunisian and Egyptian people of their legitimate, democratic, economic and social aspirations which are in accordance with the values the European Union promotes for itself and throughout the world. The European Council emphasised that the citizens' democratic aspirations should be addressed through dialogue and political reform with full respect for human rights and fundamental freedoms, and through free and fair elections. It called on all parties to engage in a meaningful dialogue to that end.

The European Union is determined to lend its full support to the transition processes towards democratic governance, pluralism, improved opportunities for economic prosperity and social inclusion, and strengthened regional stability. The European Council is committed to a new partnership involving more effective support in the future to those countries which are pursuing political and economic reforms including through the European Neighbourhood Policy and the Union for the Mediterranean.

In this context, the European Council

- asked the High Representative to convey our message on her forthcoming visit to Tunisia and Egypt;
- invited the High Representative within the framework of this partnership to develop a package of measures aimed at lending European Union support to the transition and transformation processes (strengthening democratic institutions, promoting democratic governance and social justice, and assisting the preparation and conduct of free and fair elections); and to link the European Neighbourhood Policy and Union for the Mediterranean more to these objectives; and
- invited the High Representative and the Commission to adapt rapidly the instruments of the European Union, to make humanitarian aid available and to propose measures and projects to stimulate cooperation, exchange and investment in the region with the aim of promoting economic and social development, including advanced status for Tunisia.
