



**COUNCIL OF
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NOTE

from: General Secretariat of the Council

To: Permanent Representatives Committee / Council

Subject: European Council (19-20 December 2013)
- 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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[p.m. general chapeau]

I. COMMON SECURITY AND DEFENCE POLICY

1. Defence matters. It contributes to peace and stability in our Neighbourhood and in the broader world and helps to enhance the security of European citizens. But Europe's strategic and geopolitical environment is evolving rapidly. Defence budgets in Europe are constrained, limiting the ability to develop, deploy and sustain military assets. Fragmented European defence markets jeopardize the sustainability and competitiveness of Europe's defence and security industry.
2. The Union must exercise greater responsibilities in response to those challenges if it wants to be a global player and live up to its responsibilities for maintaining peace and security together with its key partners. To fulfil this role, the EU and its Member States need to have the necessary means. Today, the European Council makes a strong commitment for the further development of a credible and effective Common Security and Defence Policy (CSDP), in accordance with the Lisbon Treaty. All opportunities opened up by this Treaty should be explored. The European Council calls on the Member States to deepen their defence cooperation, strengthen the Union's strategic autonomy and make full use of synergies in order to improve the development and availability of the required civilian and military capabilities, supported by a more integrated, sustainable, innovative and competitive European Defence Technological and Industrial Base (EDTIB). This will also bring benefits in terms of growth, jobs and innovation to the broader European industrial sector.

3. In response to the European Council conclusions of December 2012 important work has been undertaken by the Commission, the High Representative, the European Defence Agency and the Member States. The Council adopted substantial conclusions on 25 November 2013, which the European Council endorses.
4. On that basis the European Council has identified a number of priority actions built around three axes: increasing the effectiveness, visibility and impact of CSDP; enhancing the development of capabilities and strengthening Europe's defence industry:

a) Increasing the effectiveness, visibility and impact of CSDP

5. In recent years progress has been made in a number of areas relating to CSDP. The numerous civilian and military crisis management missions and operations throughout the world are a tangible expression of the Union's commitment to international peace and security. Today, the Union through CSDP deploys more than 7000 staff, in 12 civilian missions and 4 military operations. The Union can bring to the international stage its ability to combine, in a consistent manner, policies and tools ranging from diplomacy, security and defence to finance, trade, development and justice. Further improving the efficiency and effectiveness of this EU Comprehensive Approach is a priority. The European Council welcomes the presentation of the joint communication from the Commission and the High Representative.
6. Our efforts in the area of CSDP cannot stand alone. The Union remains fully committed to working in close collaboration with its partners, in particular the United Nations, NATO, OSCE, the African Union, strategic partners and partner countries. Such collaboration should be further developed, in a spirit of mutual reinforcement and complementarity.

7. The European Council emphasises the importance of supporting partner countries and regional organisations, through providing training, advice, equipment and resources where appropriate, so that they can increasingly prevent or manage crises by themselves. The European Council invites the Member States, the High Representative and the Commission to ensure the greatest possible coherence between the Union's and Member States' actions to this effect.
8. The Union and its Member States need to be able to plan and deploy the right civilian and military assets rapidly and effectively. The new approach to military rapid response through EU Battlegroups will make them more flexible and deployable. The European Council invites the Commission, the High Representative and the Member States to ensure that the financial rules for civilian missions enable the Union to be more flexible and speed up the deployment of EU civilian missions.
9. New security challenges continue to emerge. The Union's internal and external security dimensions are increasingly interlinked. To enable the Union to respond, the European Council calls for:
 - an EU Cyber Defence Policy Framework in 2014, on the basis of a proposal by the High Representative, in cooperation with the Commission and the European Defence Agency;
 - the adoption of an EU Maritime Security Strategy by June 2014, on the basis of a joint Communication from the Commission and the High Representative, and the subsequent elaboration of action plans to respond to maritime challenges;

- increased synergies between CSDP and Freedom/Security/Justice actors to tackle horizontal issues such as organized crime, including trafficking and smuggling of human beings, and terrorism;
- progress in developing CSDP support to third states and regions, in order to help them to improve border management.

The European Council invites the High Representative, in close cooperation with the Commission, to assess the impact of changes in the global environment, and to report to the Council in the course of 2015 on the challenges and opportunities arising for the Union, following consultations with the Member States.

b) Enhancing the development of capabilities

10. Cooperation in the area of military capability development is essential to maintaining key capabilities, remedying shortfalls and avoiding redundancies. Pooling demand, harmonising requirements and realising economies of scale will allow Member States to enhance the efficient use of resources and ensure interoperability, including with key partner organisations such as NATO. Cooperative approaches whereby Member States or groups of Member States develop capabilities based on common standards or decide on their common usage, maintenance or training arrangements, while enjoying access to such capabilities, will allow participants to benefit from economies of scale and enhanced military effectiveness.

11. The European Council welcomes and supports the multinational programmes developed and approved by the concerned Member States and supported by the European Defence Agency to deliver key capabilities and address critical shortfalls through concrete cooperative projects:

- the development of Remotely Piloted Aircraft Systems (RPAS) in the 2020-2025 timeframe: preparations for a programme of a next-generation European Medium Altitude Long Endurance RPAS; the establishment of an RPAS user community - so far seven Member States have expressed their intention to participate. The European Council encourages close synergies with the European Commission on regulation (for an initial RPAS integration into the European Aviation System by 2016); ensuring appropriate funding from 2014 for R&D activities;
- the development of Air-to-Air refuelling capacity: progress towards increasing overall capacity and reducing fragmentation of the fleet, especially as regards the establishment of a Multi-Role Tanker Transport fleet, with necessary synergies in the field of certification, qualification, in-service and training;
- Satellite Communication: preparations for the next generation of Governmental Satellite Communication through close cooperation between the Member States, the Commission and the European Space Agency; a Users group should be set up in 2014;
- Cyber: developing a roadmap and concrete projects focussed on training and exercises, improving civil/military cooperation on the basis of the EU Cybersecurity strategy, the protection of EU assets in missions and operations, as well as the timely adoption of the proposal for a Directive on network and information security across the EU.

12. Cooperation should be facilitated by increased transparency and information sharing of defence planning, allowing national planners and decision-makers to consider greater convergence of capability needs and timelines. To that end, the European Council invites the High Representative and the European Defence Agency to put forward an appropriate policy framework by the end of 2014, contributing to more systematic and long-term cooperation in full recognition of existing NATO planning processes.
13. The European Council welcomes the existing cooperative models, such as the European Air Transport Command (EATC), and encourages Member States to explore possibilities to replicate the EATC model in other areas.
14. The European Council welcomes progress achieved in cooperation through the EU Code of Conduct on Pooling and Sharing. It encourages the further development of incentives and innovative approaches for such cooperation, including by investigating non market-distorting fiscal measures in accordance with existing European law. It invites the Commission and the European Defence Agency to develop, in close consultation with the Member States, proposals for a pooled acquisition mechanism, with a view to reporting back to the Council by the end of 2014.
15. Taking into account the frequent recourse to missions which are civilian in nature, the European Council calls for the enhanced development of civilian capabilities and stresses the importance of fully implementing the Civilian Capability Development plan.

c) Strengthening Europe's defence industry

16. Europe needs a more integrated, sustainable, innovative and competitive defence technological and industrial base (EDTIB) to develop and sustain defence capabilities. This will enhance its strategic autonomy and its ability to act with partners. The EDTIB should be strengthened to ensure operational effectiveness and security of supply, while remaining globally competitive and stimulating jobs, innovation and growth across the EU. These efforts should be inclusive with opportunities for defence industry in the EU, balanced and in full compliance with EU law. The European Council stresses the need to retain the necessary skills identified as essential to the future of the European defence industry.

17. The European Council welcomes the Commission communication “Towards a more competitive and efficient defence and security sector” and notes the intention of the Commission to develop, together with the High Representative and the European Defence Agency, a roadmap and to ensure the rapid implementation of the proposed actions. It stresses the importance to ensure the full and correct implementation and application of the two defence Directives of 2009, inter alia with a view to opening up the market for subcontractors from all over Europe, ensuring economies of scale and allowing a better circulation of defence products.

Research – dual-use

18. To ensure the long-term competitiveness of the European defence industry and to secure the modern capabilities that Europe's armed forces need, it is essential to retain defence Research & Technology (R&T) expertise, especially on critical defence technologies. The European Council invites the Member States to increase investment in cooperative research programmes, in particular collaborative investments, and to maximize synergies between national and EU research. Civilian and defence research reinforce each other, including on key enabling technologies. The European Council therefore welcomes the Commission's intention to evaluate how the results under Horizon 2020 could also benefit defence and security industrial capabilities and invites the Commission and the European Defence Agency to develop proposals to stimulate further dual use research and to set up a Preparatory Action on CSDP-related research, while seeking synergies with national research programmes whenever possible.

Certification and standardisation

19. Developing standards and certification procedures for defence equipment reduces costs, harmonises demand and enhances interoperability. The European Defence Agency and the Commission will prepare a roadmap for the development of defence industrial standards by mid-2014, without duplicating existing standards. Together with the Commission and Member States, the European Defence Agency will also develop a harmonized European military certification approach and produce options for increasing the mutual recognition of military certification between EU Member States. It should report to the Council on both issues by mid 2014.

SMEs

20. SMEs are an important element in the defence supply chain, a source of innovation and key enablers for competitiveness. The European Council underlines the importance of cross-border market access for SMEs and stresses that full use should be made of the possibilities that EU law offers on subcontracting and general licensing of transfers. Supporting regional networks of SMEs and strategic clusters is also critically important. The European Council therefore welcomes the Commission proposals to promote greater access of SMEs to defence and security markets and to encourage strong involvement of SMEs in future EU R&T programmes.

Security of Supply

21. The European Council emphasises the importance of Security of Supply arrangements for the development of long-term planning and cooperation, and for the functioning of the internal market for defence. It welcomes the recent adoption of an enhanced framework on Security of Supply and calls upon the Commission to develop with Member States and in cooperation with the High Representative and the EDA a roadmap for a comprehensive EU-wide security of Supply regime.

d) Way forward

22. The European Council invites the Council, the Commission, the High Representative, the European Defence Agency and the Member States, within their respective spheres of competence, to take robust and verifiable steps to implement the orientations set out above. The European Council will assess concrete progress on all issues in June 2015 and provide further guidance, on the basis of a report from the Council drawing on inputs from the Commission, the High Representative and the European Defence Agency.

II. ECONOMIC AND SOCIAL POLICY

Shared analysis

23. The European Council welcomes the 2014 Annual Growth Survey and the Alert Mechanism Report presented by the Commission. It acknowledges that while the economic recovery is still modest, uneven and fragile, the economic outlook becomes gradually more positive. Fiscal consolidation, internal rebalancing and banks' balance sheet repair are all further progressing. Unemployment has stabilised, albeit at high levels. Job creation will resume in 2014 and 2015. Determined and ambitious implementation of agreed policies will support the economic recovery.
24. Member States and the European Union will continue to take determined action to promote growth, jobs and competitiveness in accordance with the five priorities set out in the Annual Growth Survey.
25. The Annual Growth Survey identifies areas where important challenges prevail and where further progress is needed. To support the economic recovery, specific attention should be given to improving the functioning and flexibility of product and services markets, the functioning of the single market, improving the business environment, and continuation of the on-going restructuring of the banking sector with a view to restoring normal lending to the economy. To support job creation and to fight youth unemployment, implementation and follow-up of reforms regarding the functioning of labour markets is crucial. Policies should focus in particular on reinforcing tax and other incentives for job creation, including shifting taxes away from labour, extension of working lives and increasing labour market participation, ensuring that wage developments are consistent with productivity gains, addressing skills mismatches, and increasing labour mobility. Policies fostering innovation and leading to productivity gains remain crucial.

Implementation of the Compact for Growth and Jobs

26. The Compact for Growth and Jobs agreed in June 2012 remains one of the EU's major tools aimed at re-launching growth, investment and employment as well as making Europe more competitive. The implementation of the Compact remains the key element to fulfil these objectives. While substantial progress has been achieved in a number of areas, efforts should continue to ensure that the potential of the Compact is used to its fullest extent.

The European Council stresses the importance of combatting Youth unemployment and of developing tools for financing the economy. In this context, the European Council calls on Member States who have not yet submitted their Youth Guarantee Implementation Plans, to do so without delay.

Restoring normal lending to the economy, in particular to the SMEs, remains a priority. In this context, the European Council welcomes the adoption of the 2014-2020 Multiannual Financial Framework and associated financial programmes which support the achievement of the Europe 2020 Strategy. In line with its October 2013 conclusions, the European Council reiterates its call to launch the SME initiative in January 2014 and calls on Member States to inform the Commission and the EIB about their contributions by the end of the year.

The European Council calls for enhancing efforts in particular as regards the swift adoption of remaining legislation under the Single Market Acts I and II, and a swift implementation of the measures contained therein. *[p.m. to be updated in light of the EPSCO Council]*

27. The European Council takes note of the Council report to the European Council on Tax issues and welcomes the establishment by the Commission of the High Level expert group on Taxation of the Digital Economy. Recalling its conclusions of May 2013, the European Council calls for further progress at the global and EU levels, in particular in the fight against tax fraud and evasion, aggressive tax planning, base erosion and profit sharing (BEPS), money laundering, and disclosure of non financial information for large groups. *[p.m. to be updated in light of the ECOFIN Council]*.

III. ECONOMIC AND MONETARY UNION

28. Since the presentation last December of the report "Towards a genuine EMU" work has progressed on the key building blocks to strengthen the architecture of the Economic and Monetary Union (EMU). The European Council has focussed its discussions on the banking and economic union. 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. It will be open and transparent towards Member States not using the single currency.

Banking Union

29. *[p.m. to be updated in light of the ECOFIN Council]*

Partnerships for Growth, Jobs and Competitiveness

30. Significant progress in economic governance has been achieved in recent years. The Europe 2020 Strategy and the European Semester constitute an integrated process of policy coordination to promote smart, sustainable and inclusive growth in Europe. In the euro area, the coordination of economic policies needs to be further strengthened to ensure both convergence within the EMU and higher levels of sustainable growth. Closer coordination of economic policies will help detect economic vulnerabilities at an early stage, and allow for their timely correction.

31. To achieve this, it is essential to increase the level of commitment, ownership and implementation of economic policies and reforms in the euro area Member States, underpinned by strong democratic legitimacy and accountability at the level at which decisions are taken and implemented.
32. In this context, it is crucial to facilitate and support reforms in key areas for growth and jobs and which are essential for the smooth functioning of the EMU as a whole. It is also important to facilitate and support sound policies before countries face severe economic difficulties. To this end, a system of contractual arrangements and associated solidarity mechanisms is set up.
33. This system will be embedded in the European Semester, open to non euro area Member States and fully compatible with the Single Market in all aspects. It will apply to all euro area Member States except for the Member States under a macroeconomic adjustment programme. In order to avoid overlapping surveillance tools, for Member States under the excessive imbalance procedure or the excessive deficit procedure, the Corrective Action Plan or the Economic Partnership Programme could replace the contractual arrangement.
34. The system of partnerships will include associated solidarity mechanisms offering support, as appropriate, to Member States engaging into contractual arrangements, thus helping investment in growth and job-enhancing policies.

35. The European Council agrees on the following main features:
- a) Contractual arrangements will be a "home-grown" commitment which constitutes a binding partnership between the Member States, the Commission and the Council. Where contractual arrangements are to be accompanied by financial support, the associated financial support agreement will have a legal nature.
 - b) The National Reform Programme submitted by each Member State in the context of the European Semester will be the starting point for the preparation of contractual arrangements. The economic policy measures and reforms included in the contractual arrangements should be designed by the Member States, according to their institutional and constitutional arrangements and ensuring full national ownership through appropriate involvement of national parliaments, social partners, and other relevant stakeholders. They should be discussed and agreed with the Commission, and approved by the Council. The Commission will be responsible for monitoring the agreed milestones contained in the contractual arrangements, on the basis of commonly agreed timelines for implementation.
 - c) Contractual arrangements will cover a broad range 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. They will reflect the economic policy priorities identified in the shared analysis of the European Council and take into account the country-specific recommendations. To be effective, each contractual arrangement will focus on a small number of key impediments to sustainable growth, competitiveness and job creation and which represent a potential risk for the Euro area as a whole. Their content will be tailor-made to the needs of each individual Member State.

d) On the associated solidarity mechanisms, the European Council invites the President of the European Council, in close cooperation with the President of the European Commission, to further explore all options regarding the exact nature (loans, grants, guarantees), institutional form and volume of support while ensuring that these mechanisms do not entail financial obligations for the Member States not participating in the system of contractual arrangements and associated solidarity mechanisms; they do not become an income equalisation tool nor do they have an impact on the Multi-annual Financial Framework.

36. Work will be carried forward on the system of contractual arrangements and associated solidarity mechanisms with a view to reaching an overall agreement on both of these elements in Spring 2014.

Social dimension of the EMU

37. The European Council reiterates the importance of employment and social developments within the European Semester. On the basis of work undertaken by the Council, the European Council confirms the relevance of the use of an employment and social scoreboard as described in the Joint Employment Report.

38. Work must continue speedily on the use of employment and social indicators along the lines proposed by the Commission with the objective of using these new instruments in the 2014 European Semester. The use of this wider range of indicators will have the sole purpose of allowing a broader understanding of social developments.

[to be updated in light of the EPSCO Council]

IV. MIGRATION FLOWS

39. The European Council discussed the report of the Presidency on the work of the Task Force for the Mediterranean in the wake of the recent tragedy off the coast of Lampedusa. The European Council reiterates its determination to reduce the risk of further tragedies of this kind from happening in the future.

The European Council welcomes the Commission communication which outlines thirty-eight operational actions. The European Council calls for increased engagement with third countries in order to avoid that migrants embark on hazardous journeys towards the European Union. Regional protection, mobility partnerships and information campaigns should be a priority. It reiterates the importance it attaches to resettlement for persons in need of protection and contributing to the global efforts in this field. It also calls for the mobilisation of all efforts in order to implement actions proposed in the Communication, in particular for the reinforcement of Frontex border surveillance operations and the actions to fight smuggling and human trafficking, as well as to ensure that appropriate solidarity is shown to all Member States under high migration pressure.

40. The European Council invites the Council to regularly monitor the implementation of the actions. It will revert to the issue of asylum and migration in June 2014 in a broader and longer term policy perspective, when strategic guidelines for further legislative and operational planning in the area of freedom, security and justice will be defined. Ahead of that meeting the Commission is invited to report to the Council on the implementation of the actions set out in its communication.

V. ENLARGEMENT

[p.m.]

VI. OTHER ITEMS

Energy

41. The European Council welcomes the Council reports on the implementation of the Internal Energy Market and on External Energy relations. In this context, it emphasizes the need for rapid actions implementing the guidelines set by the European Council in May 2013. The European Council will revert to energy policy at the February European Council.

EU Strategy for the Alpine Region

42. Recalling its conclusions of June 2011 the European Council invites the Commission, in cooperation with Member States, to elaborate an EU Strategy for the Alpine Region.

P.M.: The European Council may also address specific external relations issues (Central African Republic...) in the light of developments on the international scene.