Preparation for the European Council (25-26 March 2010)

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In preparation of the spring meeting of the European Council, the Council adopted the following conclusions:

1) New EU strategy for growth and jobs: EU 2020 strategy: the European Council is due to agree on the general framework of the strategy, in the light of a communication from the Commission. It is expected to adopt the new strategy at its meeting in June.

The Council emphasises the **need to firmly set the EU on an upward path of sustainable growth and employment creation**. It considers that the "Flagship Initiatives" set out by the Commission provide a good basis for reflections on how to focus efforts on the appropriate areas. It also emphasises that restoring macro-economic stability and returning Member States' public finances on a sustainable path are prerequisites for growth and jobs, and that growth is important to support fiscal consolidation. Structural reforms and fiscal consolidation under the Stability and Growth Pact (SGP) need to go hand in hand according to the Council and it stresses the need to ensure that macroeconomic and fiscal constraints are fully observed as they are a prerequisite for long-term sustainability of our social models.

The Council takes note of the proposal to **mobilise EU policies and instruments**, including legal and financial instruments (including cohesion policy), to pursue the EU2020 objectives. It supports in particular the proposal to: (i) make full use of the single market policy to reduce fragmentation and remove obstacles to cross-border activities; (ii) develop a strong external economic agenda; and (iii) improve instruments to help finance Europe 2020.

The Council takes note of the proposal to define **five headline targets** for the EU to be achieved by 2020, and to translate these into national targets. As regards the choice of headline targets, the Council underlines the importance of outcome oriented targets and of ensuring coherence across the different headline targets and between EU level and national level targets. The Council further underlines: (i) the need for a clear link to enhancing productivity and to growth and jobs as well as the need to respect the principle of subsidiarity; (ii) the urgent consideration should be given to a wider indicator that would reflect R&D and innovation; (iii) the need to give further consideration to the principle and the correct design of a possible social inclusion target.

The Council recommends that progress towards meeting the EU and national targets should be monitored rigorously by the European Council at least annually on the basis of contributions from the European Commission and the relevant Council formations. The European Council may want to consider setting intermediate milestones towards achieving the targets set for 2020.

The Council stands ready to: (i) work further on the governance structure of the Europe 2020 Strategy; (ii) support the European Council, if requested, with the provision of strategic guidance, including for a possible Annual Economic Summit; (iii) play its full role in the proposed setup of macro-structural economic country surveillance under Europe 2020; (iv) develop and carry out macro-structural country surveillance, focusing on public finance issues, imbalances and potential growth drivers, taking full account of spillover effects.

Lastly, the Council emphasises the usefulness of carrying out a mid-term review of the Strategy in 2013 /14.

2) Exit strategies: crisis-related measures in labour and product markets support:

Regarding temporary crisis-related sectoral support measures:

- these should be phased out as quickly as possible given their relatively large budgetary costs and the risks that the continuation of supply side measures may hamper efficient resource allocation and hence distort competition and the functioning of the internal market;
- in view of recent Commission economic forecasts, no new short-term schemes should be introduced nor existing ones extended;
- where they have longer term objectives and are considered for extension, e.g., restructuring, greening or research and innovation, they should continue to be scrutinised under the relevant State Aid rules.

Regarding measures to ease financing constraints:

- withdrawal of temporary schemes to ease financing constraints should depend on the capacity of financial institutions to supply adequate credit to the credit-worthy corporate sector and should be consistent with agreed principles for exit from support schemes in the financial sector and the end of the temporary state aid framework;
- continued careful monitoring is required to prevent the recovery from being hampered by undue credit supply constraints;
- SMEs may continue to be more limited in their access to finance than larger firms even as the recovery takes hold, which should be taken into account when deciding on the withdrawal of measures to address financing constraints given the central role that SMEs play in the restructuring of the economy.

Regarding temporary labour market support measures:

- these should be gradually withdrawn when the recovery is secured. This withdrawal could begin with a benchmark of mid- 2010 for the EU as a whole, taking into account the historic lag before employment reacts positively to an upturn in economic activity;
- the precise timing of withdrawal should depend on the country-specific situation;
- the gradual phasing out of temporary labour market support measures should be accompanied where necessary by a strengthening of activation, training and other flexicurity policies to facilitate job reallocation and workers' reskilling.

The Council considers that the too late withdrawal of measures may carry substantial costs in terms of locking in labour to declining activities, thereby preventing the necessary reallocation of resources, damaging future growth prospects, distorting competition and interfering with the functioning of the internal market. Temporary measures that increase the generosity and coverage of unemployment benefits and other income support should be phased out.

On the **sequencing of exit strategies**, the withdrawal of sectoral support schemes should be prioritised, followed by the withdrawal of labour market support measures when the recovery is secured, and the withdrawal of measures to ease financing constraints based on economic evidence and consistent with other agreed principles for exit strategies as noted above.

There is also a need to ensure that any permanent measures adopted during the crisis are supportive of long term growth and employment and consistent with fiscal consolidation strategies.

The Council therefore invites the Commission to conduct an assessment of the main structural reform challenges and existing bottlenecks facing Member States and report back in May in accordance with the timeline set out by the Europe 2020 strategy.

3) Follow-up to the UN's Copenhagen Conference on Climate change as regards the financing of policies:

- developed countries have committed themselves to providing resources approaching **USD 30 billion in the period 2010-2012**, with a balanced allocation between adaptation and mitigation including REDD-plus and investments through international institutions, and with a special emphasis on the most vulnerable and least developed countries: the Council stresses the need to urgently mobilise and deploy this fast-start funding;
- the EU and its Member States' commitment to contribute **EUR 2.4 billion annually over the period 2010-2012**: the Council calls on other parties to announce their fast start contributions. It underlines that the EU and its Member States are ready to present a preliminary state of play on these commitments at the UNFCCC session in Bonn (31 May – 11 June 2010) and submit EU-coordinated reports on the implementation of this commitment at the Cancún Climate Conference and thereafter on an annual basis and it encourages other contributors to do so as well;
- developed countries' commitment in the context of meaningful mitigation actions of developing countries and transparency on implementation, to a goal of mobilising jointly **USD 100 billion a year by 2020**, coming from a wide variety of both public and private sources, to assist developing countries in fighting climate change. It welcomes the establishment by the United Nations Secretary General of an **Advisory Group on Climate Change Financing** to develop practical proposals on how to significantly scale up long-term financing for mitigation and adaptation strategies in developing countries. It underlines that the potential of innovative sources of finance and of market-based instruments in particular, including carbon markets, as well as leverage of private finance through public finance.

4) Priorities for the EU's general budget for 2011: the 2011 budgetary procedure will play a crucial role in the pursuit and development of the European Union's objectives and priorities and takes place in a very specific context due to two main factors: the consequences of the economic crisis will still impact on 2011; at the same time, the 2011 budgetary procedure is the first procedure under the Lisbon Treaty.

The Council recalls the importance of maintaining an overall budgetary discipline. The budget for 2011 should remain strictly within the limits fixed in the current 2007-2013 financial framework and sufficient margins should be left under all the ceilings of various headings and sub-headings of the financial framework, with the exception of sub-heading 1b, for the purpose of sound financial management and notably to cater for unforeseen circumstances.

The Council underlines the fact that the draft budget resented by the Commission is the starting point of the budgetary procedure and therefore it must set the tone for a realistic budgeting.

The Council identifies the following elements as crucial in preparing the budget for 2011:

- ***competitiveness for growth and employment***: the Council underlines the importance of measures contributing to economic recovery, notably in the field of research and innovation. Special attention should be given to the timely implementation of agreed measures in the context of the European Economic Recovery Plan;
- ***cohesion for growth and employment***: the Council considers that payments from Structural Funds and the Cohesion Fund should be at cruising speed in 2010 and 2011. It urges the Commission and Member States to maintain this momentum in order to avoid recurrent under-implementation in this area;
- ***CAP expenditure***: the Commission is invited to present realistic and clearly defined forecasts already in its DB and then in its "ad hoc" letter of amendment on agriculture, taking into account

past implementation and foreseeable market prices evolution at European and international level. Particular attention should be given to ensuring that payment appropriations for expenditure related to rural development are accurate;

- ***citizenship, freedom, security and justice***: the Council recalls the importance of allocating sufficient resources to EU policies such as immigration;
- ***external actions***: the role of the European Union as a global player must be reaffirmed and that the budget for 2011 should have adequate means to match the Union's ambitions. In this respect, the Council stresses that sufficient margin under the ceiling of heading 4 is vital for the European Union, in order to enable it to provide for unexpected needs and crises in the most effective, flexible and rapid way. The Council recalls the importance of the setting up of the European External Action Service (EEAS), which should be guided by the principle of cost-efficiency aiming towards budget neutrality;
- ***administrative expenditure***: the Council intends to continue to monitor and to improve EU institutions' effectiveness with a view to increasing administrative efficiency and stresses the crucial importance of redeployment of resources and reprioritisation. This is even more important in a situation where the Lisbon Treaty assigns new tasks to institutions. The Council reiterates the importance it attaches to the recruitment process in the context of enlargement and expects all institutions to take the necessary steps;
- ***the European Union's decentralised agencies***: the Council reiterates the importance of keeping their funding under firm control, so as to provide for the real needs and to avoid over-budgeting. It expects the Commission to continue providing a comprehensive picture concerning decentralised agencies, including their building policy, in due time for the draft budget for 2011. Regarding executive agencies, the Council will continue to monitor closely their activities, financing and staffing.