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- ECOFIN -

President : **Mr Didier REYNDERS**

Minister for Finance of the Kingdom of Belgium

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PARTICIPANTS

The Governments of the Member States and the European Commission were represented as follows:

Belgium :	
Mr Didier REYNDERS	Minister for Finance
Denmark :	
Mr Michael DITHMER	State Secretary for Economic Affairs
Germany :	
Mr Hans EICHEL	Federal Minister for Finance
Mr Caio KOCH-WESER	State Secretary, Federal Ministry of Finance
Greece :	
Mr Nikos CHRISTODOULAKIS	Minister for the National Economy and Finance
Spain :	
Mr José FOLGADO BLANCO	State Secretary for Economic Affairs, Energy and Small and Medium-Sized Enterprises
France :	
Mr Jean-Pierre JOUYET	Director of the Treasury
Ireland :	
Mr Charlie McCREEVY	Minister for Finance
Italy :	
Mr Giulio TREMONTI	Minister for the Economy and Finance
Luxembourg :	
Mr Jean-Claude JUNCKER	Prime Minister, Minister for Finance
Mr Henri GRETHEN	Minister for Economic Affairs
Netherlands :	
Mr Gerrit ZALM	Minister for Finance
Mr Wouter Jacob BOS	State Secretary for Finance
Austria :	
Mr Alfred FINZ	State Secretary, Federal Ministry of Finance
Portugal :	
Mr Guilherme OLIVEIRA MARTINS	Minister for Finance
Mr Vasco LAVRADOR	State Secretary for the Treasury and Financial Affairs
Finland :	
Mr Sauli NIINISTÖ	Minister for Finance
Sweden :	
Mr Sven HEGELUND	Minister for Finance
United Kingdom :	
Ms Dawn PRIMAROLO	Paymaster General

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Commission :	
Mr Frits BOLKESTEIN	Member
Mr Pedro SOLBES MIRA	Member

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Other participants :	
Mr Philippe MAYSTADT	President of the European Investment Bank
Mr Johnny ÅKERHOLM	Chairman of the Economic and Financial Committee
Mr Jean-Philippe COTIS	Chairman of the Economic Policy Committee

AGEING POPULATIONS: IMPLICATIONS FOR PUBLIC FINANCES – CONCLUSIONS

The Council endorsed the report prepared by the Economic Policy Committee on budgetary challenges posed by ageing populations. The report, established at the request of the Council, reviews projections of the impact of ageing on public expenditure on pensions, health care and long-term care for the elderly up to the year 2050, and puts forward possible indicators to examine the overall long-term sustainability of public finances on the basis of these projections.

The report identifies some key challenges stemming from the large changes in the size and composition of the population in all the Member States in the coming decades. The Council notes that, whilst caution needs to be exercised in interpreting all long-term projections, the impact of ageing on public finances would be large in terms of expenditure for pensions, health care and long term care for the elderly.

Regarding pensions, the projections made by the Economic Policy Committee show that, notwithstanding reforms during the 1990s, ageing populations could lead to a substantial increase in public expenditures of between 3 and 5 percentage points of GDP up to 2050 in most Member States, and even larger increases are projected for several. The design of public pension systems plays a crucial role in determining the scale of the budgetary impact of ageing. The Council notes that higher employment rates, especially amongst women and older workers, can help mitigate the pressure for increased spending on pensions due to ageing, but on their own cannot prevent an increase in expenditure levels.

Regarding health care, the Council notes that ageing populations could lead to an increase in public spending of around 1 to 2 percentage points of GDP over the long term up to 2050. Whilst it should be noted that the projections for public expenditure on health care and long-term care for the elderly depend to an important extent on the methodology and the assumptions used, those Member States for which projections on both health care and long-term care are available could face increases in expenditure levels over the fifty years of around 2 to 4 percentage points of GDP.

The Council underlines that in view of the expected budgetary pressures posed by ageing populations during the next decades, ensuring sustainable public finances, including by public debt reductions, is a crucial challenge that Member States must address as soon as possible. The report demonstrates that the budgetary impact of ageing will be substantial in almost all Member States.

The Council therefore notes with interest the indicators put forward by the Economic Policy Committee to assess the overall impact of ageing populations on the sustainability of public finances. These indicators first aim at verifying whether current budgetary policies are likely to ensure sustainable public finances and respect of the Stability and Growth Pact in the longer run, and secondly specify the degree of budgetary adjustment required to ensure that this goal is met. These indicators could be usefully complemented by indicators reflecting pension liabilities. The Council also acknowledges, however, that an evaluation of overall fiscal sustainability needs to take into account all types of public expenditure as well as changes in the revenue from the taxation of pensions.

On the basis of the report, the Council:

– concludes that this report provides a valuable input for the reports to be examined by the Laeken and Barcelona European Councils on pensions, health care and long-term care for the elderly. Taking due account of the principle of subsidiarity, the projections on pensions could also be used in the context of the open method of coordination in the field of pensions.

– considers that the indicators developed by the EPC to measure the sustainability of public finances in view of ageing are a valuable first step, to be developed further, and invites the EFC and the Commission in collaboration with the EPC to examine how they could be used in future assessments of stability and convergence programmes. In line with the agreement of the European Council in Göteborg, Member States' comprehensive strategies for addressing the economic and budgetary challenges posed by ageing populations should be presented in conjunction with stability and convergence programmes and be examined in the context of multilateral surveillance. The results of the work should be integrated into the Broad Economic Policy Guidelines.

– invites the EPC to repeat its common projection exercise at EU level at an interval of 3-5 years, and to take the necessary steps to further improve the quality and comparability of projections. The Council also invites the EPC to continue with its work programme on the economic and budgetary consequences of ageing populations.

METHODS OF EVALUATING OUTPUT GAPS

The Council took note of a report from the Economic Policy Committee and of the work done by the Economic and Financial Committee on methods of evaluating output gaps. The report advocates a new method based on a factor analysis of inputs to identify a non-inflationary potential output rate. This approach is regarded as being potentially more useful than the purely statistical techniques currently used to take account of structural changes and the effects of labour market reforms.

The Council noted in particular that, as recommended in the EPC's report, the Commission was preparing to use the evaluation method based on production function as from the 2002-2003 financial year, in parallel with the evaluation system currently in force. The Council also asked the EPC to continue examining evaluation methods so as to refine the "production function approach" and to submit its findings to the Council next year.

The technical improvement proposed in the EPC's report to the method currently used by the Commission for calculating potential output and output gaps is of considerable importance for several aspects of the analysis of the economic situation and could accordingly be helpful for budgetary surveillance. These new instruments should in particular permit a more thorough analysis of the underlying economic situation, making it possible to improve the assessment of the medium-term economic outlook and fine tune appropriate policies so that budgetary positions close to balance or in surplus can be maintained.

RISK CAPITAL

The Council heard a presentation from Commissioners BOLKENSTEIN and SOLBES on the Commission communication containing a mid-term review of the implementation of the Risk Capital Action Plan adopted by the Cardiff European Council in 1998, with an eye to the cut-off date of 2003 agreed on in Lisbon.

This third progress report covers, inter alia, market developments, the regulatory framework, tax issues, entrepreneurship and public funding, areas which – with the exception of the regulatory framework – are essentially the responsibility of the Member States. Questions concerning the regulatory framework which are covered in the main by the Financial Services Action Plan will be the subject of a separate progress report to be submitted to the Council in December.

The Commission's presentation was supplemented by a statement from the President of the EIB indicating that EUR 8,3 billion of the target figure of EUR 12 billion earmarked by the European Council for the three-year period had already been committed, a substantial share of which had been devoted to research and development policy in the Union.

The Commission communication indicates that while risk capital investment in the European Union has seen spectacular growth, the gap between the United States and the European Union can only widen unless an additional effort is made on the European side.

The Council heard comments from the various delegations and took note of the Commission report and of the progress made in implementing the Action Plan. In this context, the President stressed the need to make further progress in implementing the Plan without delay, in particular by finalising work on several dossiers concerning structural reform of financial services.

EMU STATISTICAL REQUIREMENTS – CONCLUSIONS

The Council endorsed the fourth progress report by the Economic and Financial Committee on information requirements in EMU. The report examines progress on the implementation of the Action Plan on EMU Statistical Requirements (EMU Action Plan), endorsed by Ecofin Council in September 2000, as well as progress on the original report by the Monetary Committee on Information Requirements in EMU endorsed by Ecofin Council in January 1999. Ministers decided that the fourth progress report would be made public.

The Council noted that further progress has been made under the EMU Action Plan (which covered quarterly national accounts, quarterly accounts for the government sector, statistics on labour markets, short-term business statistics, and statistics on external trade). Resources now are reported to be sufficient for its implementation. The Council also noted that much remains to be done in France, Italy and Spain to achieve the targeted 80% coverage of Member States' data in euro area aggregates within the recommended deadlines. To fulfil the needs of country-by-country analysis, also several other countries, notably Greece, Ireland, Luxembourg and Portugal need to do more.

Relative to the original report by the Monetary Committee, a number of actions are still necessary. In particular further improvements must be achieved in timeliness of key indicators so that EMU Statistics get close to US standards of availability and timeliness within the next five years. That report also stressed the need for a broader statistical basis on service activities, a better balancing of priorities between speed, detail and quality of statistics, and the collection of data for rapid production of European aggregates.

The Council stresses that the quality of data on cross-border payments must be preserved. Member States affected are urged to adapt their balance of payments collection systems in line with the requirements of higher reporting thresholds and the shift of the reporting burden from banks to enterprises.

The Council, in conclusion, considers that in order to improve the statistical basis for economic and monetary policy-making in EMU/EU, a number of Member States still need to increase efforts to fulfil their obligations under the EMU Action Plan. Particular attention should be devoted to the area of labour market statistics. The Council furthermore considers that in order to meet shortcomings identified in the original Monetary Committee report, a number of coordinated actions are still required by the Member States. Ministers invite the statistical offices in the Member States to take the necessary action as a matter of priority. They ask for a follow-up report for the autumn of 2002.

IRELAND : COMPLIANCE WITH THE RECOMMENDATION OF 12 FEBRUARY 2001 – CONCLUSIONS [1]

The Ecofin Council examined today a report from the Commission on economic and budgetary developments in Ireland in 2001. The report was submitted by the Commission in response to an invitation contained in the Recommendation addressed by the Council to Ireland on 12 February 2001. The Recommendation, which aimed at ending the inconsistency with the broad guidelines of economic policy engendered by the Irish budget plans for 2001, urged the Irish government to take countervailing budgetary measures during the current fiscal year.

The Commission report concludes that the implementation of the budget in 2001 reflected some of the concerns underlying the Recommendation. Expenditure has been kept under control, including by decisions to offset unforeseen expenses with spending cuts elsewhere in the budget.

[1] When these conclusions were adopted, the President stressed the wider implications of their adoption. The Recommendation to Ireland was in fact the first recommendation to be made under Article 99(4) of the Treaty, and since the Treaty gives no details as to the procedure to be followed once such a recommendation has been made, the procedure followed in this first case – a Commission report followed by Council conclusions –could be regarded as applicable in future cases.

Moreover, two measures introduced after the Recommendation, a tax-preferred savings scheme and a tax recovery scheme, go in the direction of a short-term easing of demand pressures, as requested in the Recommendation. Above all, in the assessment of the Commission, unexpected developments, which are slowing down the economy and thereby reducing inflationary pressures, mean that the inconsistency addressed in the Recommendation between the Irish budgetary plans and the goal of economic stability has lost part of its force for this year. Such developments include the agricultural crises (especially foot-and-mouth-disease), the slowdown in the United States and world economy and now the aftermath of the recent tragic events in the US. However, the Commission argues that the experience of overheating in the Irish economy justifies continued vigilance regarding the evolution of the fiscal stance. After the large decline in the general government surplus expected for this year, in both actual and structural terms, the Report concludes that further reduction in Ireland's structural fiscal surplus in 2002 should be avoided.

The ECOFIN Council takes note of the Report of the Commission and shares its main conclusions. While agreeing on the importance of taking into account the changing economic situation, the Council stresses the need for continued vigilance on the fiscal stance in Ireland given the experience of overheating. In this connection the Council notes that its recommendations have been to some extent adhered to. Taking note of the need to plan for a broadly neutral fiscal stance in Ireland, the Council considers that a budget for 2002 along these lines would provide further evidence that fiscal policy in Ireland is being directed toward stability and therefore in compliance with the Council Recommendation. The Council will assess the budgetary stance for 2002 when the forthcoming update of the Irish stability programme will be discussed.

COMPANY TAXATION – TOWARDS AN INTERNAL MARKET WITHOUT TAX OBSTACLES

The Council took note of a presentation by Commissioner BOLKESTEIN of a Commission communication on company taxation entitled : "Towards an Internal Market without tax obstacles".

The communication pinpoints a number of tax obstacles hampering cross-border economic activity in the Internal Market and suggests a strategy for removing them, while confirming that setting the rate for taxation of companies is a matter for the Member States.

According to the Commission, Community action on two levels is needed to remove tax obstacles, namely:

- targeted solutions for questions such as the extension of the Directives on dividends and mergers, the cross-border offsetting of losses, transfer pricing and double taxation treaties
- in the longer term, a single consolidated corporate tax base for companies' EU-wide activities

To launch a wide-ranging detailed discussion of these issues, the Commission presented several possible approaches to defining a consolidated tax base.

After hearing each delegation's initial reactions to the Commission communication, the Council instructed the Permanent Representatives Committee, the Working Party on Tax Questions and the High-Level Working Party to examine the communication in preparation for a debate in Council.

TAXATION OF AUDIOVISUAL AND MUSICAL PRODUCTS

In response to a request from the President of the Cultural Affairs Council, the Council discussed the advisability of a study of the impact of certain tax measures on the audiovisual sector.

The Council noted that, where indirect taxation was concerned, the Commission was to report by the end of 2002 on the application of reduced VAT rates. Moreover, in compliance with the Treaty and with the competition rules, the Commission would be focusing its attention on the impact of the measures applied or being considered in the Member States for the development of this sector.

Over coffee, after the lunch with the EFTA member countries (see 13662/01 Presse 407), the Presidency briefed Member States on the proceedings the day before in **the Euro Group** on the following topics: the customary survey of the economic situation with particular reference to growth prospects, the budgetary position and the strategy to be followed (with presentations from several Member States : Belgium, Greece, Ireland and Luxembourg) as well as questions relating to the switch-over to the euro.

ITEMS APPROVED WITHOUT DEBATE

The documents whose references are given are available on the Council's Internet site http://ue.eu.int. Acts adopted with statements for the Council minutes which may be released to the public are indicated by an asterisk; these statements may be obtained by following the procedure indicated above or from the Press Office.)

ECOFIN

Sixth Vat Directive – derogation for Spain

The Council adopted a Decision authorising the Kingdom of Spain to apply a measure derogating from Article 11 of the Sixth Directive (77/388/EEC) on the harmonisation of the laws of the Member States relating to turnover taxes.

Spain is thus authorised, by way of derogation from Article 11(A)(1)(a) of the Sixth VAT Directive, to include, until 31 December 2004, in the taxable amount in respect of the supply of goods or services involving the working of non-taxed investment gold the value of the gold contained in the finished product based on the current market value of the investment gold.
(12704/01)

Excise duty applied on manufactured tobacco

Pending receipt of the Opinion of the European Parliament, the Council recorded political agreement – on the basis of a Presidency compromise – on amending Directive 92/79/EEC, Directive 92/80/EEC and Directive 95/59/EC as regards the structure and rates of excise duty applied on manufactured tobacco.

The aim of the new provisions is to reduce the considerable discrepancies which still exist between Member States in the taxation of tobacco products and, through greater convergence between the tax rates applied in the Member States, help reduce fraud and smuggling within the Community.

Extending the guarantee to the EIB

The Council adopted two Decisions

– granting a Community guarantee to the European Investment Bank against losses under a special lending action for selected environmental projects in the Baltic Sea basin of Russia under the Northern Dimension
– amending Decision 2000/24/EC so as to extend the Community guarantee granted to the European Investment Bank to cover loans for projects in the Federal Republic of Yugoslavia.

The first Decision provides for the EIB to be given, as an exceptional measure, a 100% Community guarantee for loans under this special action up to an overall ceiling of EUR 100 million under the quite specific conditions of this action to finance the realisation of selected environmental projects in the Baltic Sea rim of Russia, notably in the St Petersburg and Kaliningrad areas.

The second Decision provides for the Community's global guarantee for EIB loans for projects outside the Community to be extended to the Federal Republic of Yugoslavia for an amount of EUR 350 million, and for the loan ceilings to be increased accordingly.
(12722/01 and 12927/01)

TELECOMMUNICATIONS

eu Top Level Domain *

The Council adopted its Common Position with a view to adopting a Regulation of the European Parliament and of the Council on the implementation of the .eu Top Level Domain.

The purpose of this proposed Regulation is to create the .eu Top Level Domain (TLD) as planned in the *e*Europe initiative approved by the European Council at its meeting in Lisbon on 23 and 24 March 2000, in particular so as to accelerate electronic commerce. It also aims to define the characteristics and conditions of implementation and operation of the Registry.
(12171/01)