2444th Council meeting

- ECONOMIC AND FINANCIAL AFFAIRS (ECOFIN) -

Brussels, 12 July 2002

President: Mr Thor PEDERSEN

Minister for Finance of Denmark

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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 Thor PEDERSEN Minister for Finance

Mr Per CALLESEN State Secretary to the Ministry for Finance

Germany:

Mr Karl DILLER Parliamentary State Secretary to the Federal Minister for Finance

<u>Greece</u>:

Mr Nicos CHRISTODOULAKIS Minister for the National Economy and Finance

Spain:

Mr Luis de GUINDOS State Secretary for Economy

France:

Mr Francis MER Minister for Economic Affairs, Finance and Industry

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

Netherlands:

Mr Bernard R. BOT Ambassador, permanent representative

Austria:

Mr Alfred FINZ State Secretary, Federal Ministry of Finance

Portugal:

Ms Manuela FERREIRA LEITE Minister for Finance

Finland:

Mr Sauli NIINISTÖ Minister for Finance

Sweden:

Mr Bosse RINGHOLM Minister for Finance

United Kingdom:

Ms Dawn PRIMAROLO Paymaster General

* * *

Commission:

Mr Frits BOLKESTEINMemberMr Pedro SOLBESMemberMs Michaele SCHREYERMember

* * *

Other participants:

Mr Jean-Philippe COTIS Chairman of the Economic Policy Committee
Mr Johnny ÅKERHOLM Chairman of the Economic and Financial Committee

PRESENTATION OF THE DANISH ECOFIN WORK PROGRAMME

The Council held a debate on the Danish Presidency ECOFIN work programme for the forthcoming six months. During its presentation, the President outlined the main challenges to improve the structures of the European economies in order to strengthen competition and increase efficiency, thereby enhancing the potential for sustainable growth and high employment. (Doc. 10672/02).

In view of those challenges, the Danish Presidency will focus its efforts in key areas, such as:

- 1. taxation, where it considers essential to adopt the tax package as a whole before the end of 2002 and to reach agreement on the adoption of an energy taxation directive by December 2002, in parallel with the agreement on the opening of the energy markets;
- 2. the internal market in financial services, where it will endeavour to obtain political agreement on common rules for prospectuses, strengthen cooperation in the field of financial supervision and make the supervisory structure for the EU's financial markets more effective;
- 3. economic policy cooperation, where it gives priority to streamlining cooperation processes and focusing on Member States' implementation of economic policy recommendations and compliance with obligations in order to increase employment and ensure future welfare in Europe;
- 4. finally, as regards enlargement and the EU's global responsibility, the Presidency will strengthen economic and financial cooperation between the EU and the candidate countries as well as cooperation with Asian countries in the financial markets.

The Council welcomed he Presidency's programme. The Commission, in particular, considered the programme in line with its own working priorities.

TAX ISSUES

TAX PACKAGE

Over lunch, ECOFIN Ministers held a debate about the current state of play of negotiations with Switzerland on the taxation on savings.

COMMUNICATION ON COMPANY TAXATION IN THE INTERNAL MARKET

The Council held an orientation debate on the Commission's Communication on company taxation in the internal market, following a presentation by Commissioner BOLKESTEIN.

The Council focused its debate on the so-called targeted solutions for the short and mid-term, as well as on a longer-term solution consisting in a single consolidated corporate tax for EU companies.

The Council broadly welcomed the targeted solutions for the short and mid-term and invited the Commission to pursue its work with a view to implementing the related measures identified in the Communication as soon as feasible.

As far as the long term solution is concerned, the Council received a variety of comments with regard to the proposed single consolidated corporate tax base and a possible initiative on tax rates.

FINANCIAL SERVICES

FINANCIAL STABILITY, SUPERVISION AND INTEGRATION - Council Conclusions

The Council took note of an interim report form the Economic and Financial Committee (EFC) on EU arrangements for financial regulation, supervision and stability.

On the basis of an EFC note, the Council had a preliminary exchange of views on certain key issues such as comitology arrangements for financial regulation, political accountability, supervisory as well as financial

stability arrangements, and adopted the following conclusions:

"The Council welcomes the interim report of the Economic and Financial Committee (EFC) and invites the EFC, according to the principles agreed by the Council on 7 May 2002, and on the basis of the Resolution adopted by the Stockholm European Council and of Council Decision 1999/468/EC on comitology arrangements, and with the support of the Commission, to elaborate the new approach for all financial sectors based on the 'four-level Lamfalussy framework' for securities. The new approach should:

- enhance cross-sectoral consistency, including facilitating consideration of issues related to financial conglomerates in the 'level 2' regulatory committee or committees, while taking into account the specificities of the insurance sector; and
- take into account synergies between banking supervision and central banking.

The Council considers it appropriate for the Financial Services Policy Group to be reconfigured under Member State chairmanship to give political advice and oversight on financial market issues to the ECOFIN Council.

The Council is of the view that insurance sector legislation should be dealt with by the ECOFIN Council.

The Council invites the EFC to pursue reflection on the proposal to bring together representatives of all EU parties with an interest in maintaining financial stability in a new forum.

The Council invites the EFC to produce its report on implementation modalities by the end of September. In particular, this should:

- indicate reporting mechanisms with respect to the Council and the European Parliament;
- identify chairmanship and secretariat arrangements;
- make proposals for allocating membership, including observer status, of the committees; and
- propose an indicative timetable for implementation and evaluation of the possible new arrangements.

A number of issues do, of course, remain outstanding, and the Council will return to these in the autumn. Institutional aspects and good relations with the European Parliament are of great importance and need careful consideration and must take fully into account existing political and legal agreements. The Council invites COREPER to assess the institutional aspects with a view to providing timely guidance for its future work and paving the way for the necessary discussions with the European Parliament."

- INTER-INSTITUTIONAL MONITORING COMMITTEE

The Council confirmed the agreement reached with the European Parliament and the Commission on 10 July 2002 on the mandate for the Inter-institutional monitoring Committee and invited the Permanent Representatives Committee to appoint the experts representing the Council, to be confirmed at a future meeting of the Council.

As far as the mandate for the Monitoring Group and in line with the report of the "Lamfalussy group", the Stockholm European Council "Resolution on More Effective Securities Market Regulation" and the Commission's commitment to the European Parliament on how to implement the Lamfalussy process, the Group should:

- assess the progress made on implementing the Lamfalussy process to secure a more effective securities market regulatory system, and
- identify any possible emerging bottlenecks in this process.

The Group should begin working as soon as possible. The mandate for the Group may be revised as part of a full review in 2004 without prejudice as to whether the Group should continue or not after 2004.

The Group should report results to the Institutions twice a year. The High Level Group on Inter-institutional Co-operation and the 2005 group on the Financial Services Action Plan should be regularly informed of the Group's deliberations and receive the draft reports. The reports should be made public on the Internet.

In line with the report of the "Lamfalussy Group", the Group should consist of 6 members, two independent external experts appointed by each Institution bearing in mind the need for a professional and geographical balance, and nominate a rapporteur among its members. Members of the Group should receive travel expenses and per diem allowances paid by each Institution.

A light secretariat will support the Group in preparing their reports. The Commission will ensure the secretariat with full participation of the European Parliament and the Council.

- IMPLICATION OF CURRENT MARKET SITUATION FOR FINANCIAL SERVICES POLICIES

The Council took note of an oral presentation by Commissioner BOLKESTEIN on the implications of the current market situation for financial services policies, notably for pension funds and the insurance sector.

FOLLOW-UP TO THE SEVILLE EUROPEAN COUNCIL - Council Conclusions

The Council adopted the following Conclusions on the follow-up to the Seville European Council:

"An effective European Council is essential for the work of the European Union and for a good functioning of economic and monetary union. The ECOFIN Council therefore welcomes the new rules for organising the proceedings of the European Council and the measures concerning the structure and functioning of the Council. The ECOFIN Council takes note that the Seville European Council considered that the new rules for the preparation of the European Council will be implemented having regard to EMU operating rules. The ECOFIN Council will continue to prepare contributions of central importance for the deliberations of the European Council, including for the annual Spring meeting on economic and social issues established by the Lisbon European Council, and with regard to other matters within the competence of Ministers of Economy and Finance, in particular those related to the functioning of EMU.

As its main contribution to the annual Spring European Council, the ECOFIN Council prepares its Key Issues Paper on the Broad Economic Policy Guidelines. The Broad Guidelines form the main instrument identified by the Lisbon European Council for implementing the economic strategy adopted at that meeting, as well as the most important instrument for the policy co-ordination required to ensure a sound foundation for the good functioning of EMU.

With this in mind, the ECOFIN Council reiterates the importance it attaches to the proper preparation of its Key Issues Paper, as the main means of ensuring that the Spring European Council can give the orientations necessary for the subsequent elaboration of the Broad Economic Policy Guidelines. Noting that the preparation of the Key Issues Paper draws heavily on the Council's examination of Member States' annual stability and convergence programmes, the ECOFIN Council recalls that it can be finalised only upon completion of that exercise. The ECOFIN Council continues to involve relevant Council formations in preparing the Key Issues Paper.

The ECOFIN Council invites future Presidencies to reflect on how best to comply with the timetable set for the preparation of European Council meetings, while maintaining the quality of the ECOFIN Council's and the Commission's contributions to the European Council's deliberations. It should be ensured that the Presidency, the ECOFIN Council and the Ministers of Economy and Finance fulfil their obligations in respect of and in conformity with the Treaty and notably Declarations 3 and 4 annexed to the final act of Maastricht."

REPORT ON METHODS FOR EVALUATING OUTPUT GAPS - Council Conclusions

The Council, on the basis of a report from the Economic Policy Committee (EPC) adopted the following Conclusions on the methods for assessing output gaps:

"The Council welcomes recent progress in refining further the production function approach for the estimation of output gaps. It considers that this approach should constitute the reference method when assessing stability and convergence programmes. The Council welcomes the Commission's intention to apply this method in a non-mechanistic, transparent and consistent way.

A transition period is considered useful, during which the HP filter should be used as a backup method. This transition period shall be as short as possible and the situation shall be reviewed on a regular basis."

and agreed on the following Council statement:

"For one country, due to problems in estimating the production function, the HP filter will be used in the assessment of its 2002 stability programme. The situation will be reviewed next year. The Council invites the EPC to continue efforts to find a solution on this particular case."

The Council also took note of statements from Germany and Austria, to be included in the minutes of the Council.

RELATIVE MERITS OF DIFFERENT PENSION SYSTEMS

The Council took note of an oral report from the chairman of the Economic Policy Committee (EPC), Mr COTIS, on the state of work on the relative merits of different pension systems and the reforms needed.

The Council supported the approach of the EPC in this field and encouraged the EPC to continue working with a view to the presentation of the Commission and Council joint report to the Spring European Council in 2003.

PUBLIC FINANCES IN EMU 2002

The Council took note of the presentation by Commissioner SOLBES of the Commission's communication on public finances in EMU 2002, and decided to discuss in more detail the issues referred to in the Communication in October on the basis of preparatory work by the EFC and the EPC.

PROTECTION OF THE COMMUNITIES' FINANCIAL INTERESTS AND FIGHT AGAINST FRAUD

The Council took note of a presentation by Commissioner SCHREYER on the third Annual report on the protection of the financial interests of the Communities and fight against fraud.

The Council mandated the Permanent Representatives Committee to examine the Annual report with a view to preparing draft conclusions to be submitted to a forthcoming ECOFIN Council.

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.

ECONOMIC AND FINANCIAL AFFAIRS

Taxation - Special measures for the Hellenic Republic taxation of recyclable waste

(doc. 10339/02)

The Council adopted a Decision authorising the Hellenic Republic to apply special measures derogating from Articles 2 and 28a of the Sixth Directive 77/388/EEC on the harmonisation of the laws of the Member States relating to turnover taxes.

The Hellenic Republic is thereby authorised to apply until 31 December 2003 special measures for the taxation of recyclable waste, such as scrap iron, waste of iron and steel, glass, paper and board, by taxable persons whose sales of such products in the previous year amounted to less than EUR 900 000. In addition, it is intended to exempt the supplies and intra-Community acquisitions of non-ferrous metal waste, regardless of the trader's gross turnover.

Ecofin - Macro-financial assistance to Ukraine*

(doc. 10056/02)

The Council adopted a Decision providing supplementary macro-financial assistance to Ukraine. In particular, the Community shall make available to Ukraine a long-term loan facility of a maximum principal amount of EUR 110 million with a maximum maturity of 15 years, with a view to ensuring a sustainable balance-of-payments situation, strengthening the country's reserve position and facilitating the implementation of the necessary structural reforms.

EXTERNAL RELATIONS AND ESDP

Adoption of a negotiating mandate for a Trade and Cooperation Agreement with Iran

The Council formalised the adoption of a mandate for the negotiation of a Trade and Co-operation Agreement with Iran, following its political agreement at the 17 June General Affairs Council. The political agreement on the mandate for the Trade and Cooperation Agreement was combined with clear political messages to Iran on progress wanted by the EU on five main areas of concern: human rights and fundamental freedoms, non-proliferation, fight against terrorism, Afghanistan and the Middle East.

Negotiations on the Trade and Cooperation Agreement will take place in parallel with negotiations on an EU-Iran political dialogue and EU-Iran co-operation on counter-terrorism. The Trade and Cooperation Agreement, the agreement on political dialogue and on counter-terrorism will form an indissociable whole when it comes to entry into force, application and denunciation. The opening of negotiations is expected to take place in autumn.

Small arms and light weapons*

(doc. 9880/02)

The Council adopted a Joint Action on the EU's contribution to combating the destabilising spread of small arms and light weapons which repeals the Joint Action 1999/34/CFSP (OJ L 9 of 15.1.1999, p.1). The new Joint Action aims in particular to include ammunition of small arms and light weapons, which was recognised as a cause for concern by the Panel of Governmental Experts on Small Arms.

Under the Joint Action, the EU seeks to build international consensus on principles for combating the destabilising spread of arms and light weapons and may provide financial and technical assistance to specific projects contributing to these principles.

EU Police Mission in Bosnia and Herzegovina (EUPM)

The Council authorised the Presidency to open negotiations to conclude an agreement with Bosnia and Herzegovina concerning the activities of the EUPM in the country, in accordance with article 24 of the Treaty on European Union.

On 11 March 2002, the Council adopted a Joint Action on EUPM, which is due to follow on from the current UN International Police Task Force (IPTF) in Bosnia and Herzegovina as of 1 January 2003.

EC-Mexico special committees

The Council approved a Decision defining the Community position within the EC-Mexico Joint Council on the rules of procedure of the Special Committees. According to its rules of procedure, the Joint Council shall determine the composition and duties of such committees and how they shall function.

EUROPEAN ECONOMIC AREA

EC-Andorra relations - Council conclusions

(doc. 10236/02)

"The Council welcomes the presentation by the Government of Andorra of its ideas for a co-operation agreement between the EC and Andorra.

The Council recalls the mandate given to the Commission on 24 February 1997, and asks the Commission to resume negotiations with Andorra with the aim of concluding a co-operation agreement between the EC and Andorra."

EEA Joint Committee

The Council adopted:

- A Decision of the EEA Joint Committee amending Protocol 31 to the EEA Agreement, on co-operation in specific fields outside the four freedoms (Combating social exclusion) (doc 9748/02). The aim of this Decision is to modify Protocol 31 in order to extend co-operation in the field of social policy. It creates a framework for co-operation and lays down the arrangements for full participation by the EFTA States in Community programmes and actions in this field.
- A Decision of the EEA Joint Committee amending Protocol 31 to the EEA Agreement, on co-operation in specific fields outside the four freedoms (doc 10172/02). The aim of this Decision is to amend Protocol 31 in order to extend co-operation in the field of civil protection.
- Two Decisions of the EEA Joint Committee amending Annex XXI (Statistics) to the EEA Agreement aiming at adding the "acquis" recently adopted in the field of statistics with regard to Commission Decision No 98/377/EC of 18 May 1998 (doc 10175/02) and with regard to Commission Decision No 2000/363/EC of 28 April 2000 (doc 10186/02).
- A Decision of the EEA Joint Committee amending Annex XX (Environment) to the EEA Agreement aiming at adding the "acquis" recently adopted in the field of the environment with regard to the Regulation no 2037/2000 on substances that deplete the ozone layer (doc 10153/02).

RELATIONS WITH THE ACP

Discharge of the CTA-Director

(doc. 2164/02)

The Council agreed to a draft ACP-EC Decision of the ACP-EC Committee of Ambassadors giving a discharge to the Director of the Technical Centre for Agricultural and Rural Co-operation (CTA) in respect of the implementation of its budget for the financial years 1997, 1998 and 1999. The Council decided to forward the draft Decision to the ACP States with a view to its adoption by the ACP-EC Committee of Ambassadors.

Rules of procedure of the EDF Committee

(doc. 10369/02)

The Council approved a Decision adopting the rules of procedure for the European Development Fund (EDF) Committee for the EDF resources that the Commission manages, in accordance with Article 21 (setting-up of the Committee) of the Internal Agreement of 18 September, pursuant to the Cotonou ACP-EC Partnership Agreement.

Awards of contracts financed by EDF

(doc. 9828/02)

The Council approved a Decision, as proposed by the Commission, on the position to be adopted by the Community in the ACP-EC Council of Ministers regarding the implementation of Articles 28, 29 and 30 of Annex IV to the Cotonou Agreement.

Articles 28, 29 and 30 of Annex IV to the ACP-EC Partnership Agreement signed at Cotonou on 23 June 2002 provide that the ACP-EC Council of Ministers shall adopt, upon the recommendation of the ACP-EC Development Finance Co-operation Committee, decisions concerning the procedures governing the award of contracts financed by the European Development Fund, the performance of such contracts and the settlement of disputes.

It is recalled that at the 11th meeting of the ACP-EC Development Finance Co-operation Committee, held at ministerial level on 28 June 2002 in Punta Cana in the Dominican Republic, the ACP side made it known that it could agree to the proposal. Subsequently, the ACP-EC Council of Ministers on the same day confirmed that it had delegated powers to the ACP-EC Committee of Ambassadors to adopt the decisions by the written procedure.

COMMERCIAL POLICY

Textile

(doc. 10207/02)

The Council adopted a Council Regulation amending Regulation (EC) No 517/94 on common rules for imports of textile products from certain third countries not covered by bilateral agreements, protocols or other arrangements, or by other specific Community import rules.

The changes introduced into Regulation 517/94 concern: committee procedure, electronic transmission, Annexes IIIb and VI (adaptation of the name of a State appearing therein) and Annex VII (surveillance document).

JUSTICE AND HOME AFFAIRS

Common Consular Instructions

(docs. 9202/02 and 8729/1/02 + cor1)

The Council adopted two Decisions concerning the adaptation of parts III and VIII (first Decision) and part VI (second Decision) of the Common Consular Instructions.

The aim of the first Decision is to ensure the maximum possible harmonisation of the processing of visa applications lodged through travel agencies with the diplomatic missions and consular posts of the Member States in order to reduce the risks of visa shopping and abuse of procedure; the second one establishes an uniform visa format and, in particular, common rules on the technical methods and standards to be used for filling in the form.

Approval of the election of the President and Vice- Presidents of Eurojust

(doc. 10402/02 + cor 1)

The Council approved the election of Mr Michael Kennedy as President of Eurojust and Oliver de Baynast and Ignacio Pelaez as Vice-Presidents.

Court of Justice

(docs. 15300/2/01 - 15299/01)

The Council approved a Decision amending Article 20 of the Protocol on the Statute of the Court of Justice of the European Communities (*doc. 15300/01*) and amendments to Articles 29 and 104 of the Rules of Procedure of the Court of Justice (*doc. 15299/01*).

The objective of these Decisions is to allow non-Member States to participate in preliminary-ruling proceedings before the Court of Justice in the event that an agreement relating to a specific subject-matter, concluded by the Council with one or more non-Member States, provides that those States are to be entitled to submit statements of case or written observations where a court or tribunal of a Member State refers to the Court of Justice for a preliminary ruling a question falling within the scope of the agreement.

Revision of the Common Manual*

(doc. 9287/2/02)

The Council adopted a Decision on the revision of the Common Manual referred to in Annex A to Council Decision 1999/435/EC (OJ L 176, 10.7.1999).

This Decision repeals certain outdated provisions of the Common Manual and updates certain other provisions in order to bring them into line with Community provisions on the right to move freely enjoyed by citizens of the European Union, nationals of States parties to the Agreement on the European Economic Area and nationals of the Swiss Confederation.

TRANSPARENCY

Public Access to Council documents

The Council approved the replies to:

- a confirmatory application made by Mr Jochen HENTSCHEL (the Danish, Dutch, Finnish and Swedish delegations voting against) (doc. 10100/02);
- a confirmatory application made by Mr Markus KLINGER (the Danish, Dutch, Finnish and Swedish delegations voting against) (doc. 10033/02).

RESEARCH

Negotiations with Mexico for a scientific and technological cooperation agreement

The Council adopted a Decision authorising the Commission to negotiate, on behalf of the Community, an agreement for scientific and technological cooperation with Mexico.

The aim is to provide for reciprocal access for researchers ot both parties' respective research and development activities under an agreement concluded for an initial period of five years and which may be renewed tacitly. The Council's Decision also establishes negotiating directives on the basis of which the Commission is to negotiate the agreement.