



**COUNCIL OF
THE EUROPEAN UNION**



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2766th Council Meeting

Economic and Financial Affairs

Brussels, 28 November 2006

President

Mr Eero HEINÄLUOMA
Minister of Finance of Finland

P R E S S

Main Results of the Council

*The Council adopted a decision, under article 104(8) of the treaty, establishing that action taken by **Poland** in response to a Council recommendation is proving to be inadequate for bringing its government budget deficit below the maximum threshold of 3% of GDP by next year.*

*The Council reached agreement on renewal, for the 2007-13 period, of the mandates given to the **European Investment Bank**, under guarantee from the EU budget, for lending to projects outside the EU. It agreed on maximum lending of EUR 27.8 billion over the seven-year period, of which EUR 2 billion will be activated if the Council decides so on the basis of a mid-term review. It also agreed on a new geographical breakdown of lending in order to ensure better linkage with the EU's external relations policies and objectives.*

*The Council adopted a recast of the directive on **common VAT rules** (the "sixth VAT directive") and reached political agreement on increased **duty-free allowances** for travel from third countries. It also approved the renewal until the end of 2008 of a directive on **VAT provisions for e-commerce**, pending further work on a package of measures aimed at simplifying VAT arrangements for businesses.*

It adopted conclusions on a number of other subjects:

- **capital and labour flows** in the world economy;*
- **national economic reform** programmes;*
- reducing the **statistical burden** on businesses;*
- **combating tax fraud**;*
- the **clearing and settlement** of securities transactions;*
- review of the EIB's **Euro-Mediterranean** investment facility.*

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- Where declarations, conclusions or resolutions have been formally adopted by the Council, this is indicated in the heading for the item concerned and the text is placed between quotation marks.
- The documents whose references are given in the text are available on the Council's Internet site <http://www.consilium.europa.eu>.
- Acts adopted with statements for the Council minutes which may be released to the public are indicated by an asterisk; these statements are available on the abovementioned Council Internet site or may be obtained from the Press Office.

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PARTICIPANTS

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

Belgium:

Mr Didier REYNDERS Deputy Prime Minister and Minister for Finance

Czech Republic:

Mr Vlastimil TLUSTÝ Minister for Finance

Denmark:

Mr Thor PEDERSEN Minister for Finance

Germany:

Mr Peer STEINBRÜCK Federal Minister for Finance

Estonia:

Mr Aivar SÕERD Minister for Finance

Greece:

Mr Georgios ALOGOSKOUFIS Minister for the National Economy and Finance

Spain:

Mr Pedro SOLBES MIRA Second Deputy Prime Minister and Minister for Economic Affairs and Finance

France:

Mr Pierre SELLAL Permanent Representative

Ireland:

Mr Bobby MCDONAGH Permanent Representative

Italy:

Mr Rocco CANGELOSI Permanent Representative

Cyprus:

Mr Michalis SARRIS Minister for Finance

Latvia:

Mr Oskars SPURDZIŅŠ Minister for Finance

Lithuania:

Mr Zigmantas BALČYTIS Minister for Finance

Luxembourg:

Mr Jean-Claude JUNCKER Prime Minister, "Ministre d'Etat", Minister for Finance
Mr Jeannot KRECKÉ Minister for Economic Affairs and Foreign Trade,
Minister for Sport

Hungary:

Mr János VERES Minister for Finance

Malta:

Mr Lawrence GONZI Prime Minister, Minister for Finance

Netherlands:

Mr Gerrit ZALM Deputy Prime Minister, Minister for Finance

Austria:

Mr Karl-Heinz GRASSER Federal Minister for Finance

Poland:

Mr Piotr WOJTCZAK Chargé d'Affaires

Portugal:

Mr Fernando TEIXEIRA DOS SANTOS Ministro de Estado, Minister for Finance

Slovenia:

Mr Andrej BAJUK

Minister for Finance

Slovakia:

Mr Maroš ŠEFČOVIČ

Permanent Representative

Finland:

Mr Eero HEINÄLUOMA

Deputy Prime Minister, Minister for Finance

Mr Pertti RAUHIO

State Secretary, Ministry of Finance

Sweden:

Mr Anders BORG

Minister for Finance

United Kingdom:

Ms Dawn PRIMAROLO

Paymaster General

.....

Commission:

Mr Joaquín ALMUNIA

Member

Mr László KOVÁCS

Member

Mr Charlie McCREEVY

Member

.....

Other participants:

Mr Philippe MAYSTADT

President of the European Investment Bank

Mr Xavier MUSCA

Chairman of the Economic and Financial Committee

Mr Joe GRICE

Chairman of the Economic Policy Committee

.....

The Governments of the Acceding States were represented as follows:

Bulgaria:

Mr Plamen Vassiler ORESHARSKI

Minister for Finance

Romania:

Mr Bogdan DRAGOI

State Secretary, Ministry of Finance

ITEMS DEBATED**EXCESSIVE DEFICIT PROCEDURE**– *Poland*

The Council adopted a decision, under article 104(8) of the treaty, establishing that action taken by Poland in response to a Council recommendation is proving to be inadequate for bringing its government budget deficit below the maximum threshold of 3% of gross domestic product (GDP) set by the EU's stability and growth pact.

In its recommendation, issued in July 2004 under article 104(7) of the treaty, the Council called on Poland to take action in the medium-term in order to bring down its deficit in a sustainable manner with the following targets: 5.7% of GDP in 2004, 4.2% in 2005, 3.3% in 2006 and 1.5% in 2007.

Although there has meanwhile been an improvement in Poland's fiscal position and it has so far overachieved its budgetary targets, Poland's 2007 deficit is expected to exceed the 3% threshold, once the budgetary costs of Poland's pension reform is taken into account. The Council therefore decided, on a recommendation by the Commission, to proceed to the next step of the EU's excessive deficit procedure.

The Council noted that:

- the revised deficit target of 1.7% of GDP in Poland's draft budget for 2007, excluding pension reform costs, is above the 1.5% target endorsed in the Council's 2004 recommendation;
- the transition period for implementing Eurostat's March 2004 decision on the classification of funded pension schemes will expire on 1 April 2007, and the consequent inclusion of Poland's pension reform costs will lead to a 2007 deficit target of around 3.7% of GDP;
- the Commission's autumn forecast projects the 2007 deficit to be 0.3% higher than that targeted by the Polish authorities.

ECONOMIC REFORM

The Council held an exchange of views, on the basis of reports from the economic policy committee on capital and labour flows in the world economy and on progress made in implementation of the member states' national economic reform programmes.

– Globalisation: capital and labour flows - Council conclusions

The Council adopted the following conclusions.

"The Council discussed policies toward international flows of labour, and foreign investment capital, which are elements of future sources of economic growth in the context of globalisation.

The Council noted that competition for international investment and for internationally mobile skilled workers is intensifying. Skilled internationally mobile workers, and foreign direct investment spur increased productivity through transfers of innovation, research and the development of a knowledge based society in Europe. Europe's attractiveness for international factor flows is strongly dependent on appropriate framework conditions and could be enhanced by a number of targeted policies.

The Council welcomed the report by the Economic Policy Committee, and noted that:

On Foreign Direct Investment (FDI):

- FDI has become an important driver of economic globalisation and the spill-over of knowledge. At present, the EU is the biggest recipient in the world for FDI. However, the share of emerging markets in total FDI will continue to increase while the composition of trade and FDI will see emerging markets attracting a higher share of FDI in high value added manufacture, services, and R&D as their skill levels will continue to catch up with EU levels. While this development is favourable for global growth, to take advantage of all these opportunities, Europe needs to remain at the cutting edge of innovation. It is also important to improve the ability of Member States to benefit from knowledge-spill-overs from FDI.

- Framework conditions play an important role in shaping the flows of FDI. The diversity, rigidity and complexity of product and labour market regulations directly impact on the capacity of the EU to benefit from the opportunities of globalisation. The Council in this respect confirms its commitment to enforcing the Internal Market with respect to reducing remaining barriers within the EU to inward investments. Completion of the Internal Market in financial services is especially crucial.
- The EU should have an attractive investment climate to attract inward FDI. The use of financial incentives to attract FDI has considerably expanded which, combined with the higher mobility of FDI, gives rise to some concerns, as positive effects in one country may well be achieved at the cost of other countries. Member States should strengthen the impact assessment of incentive schemes designed to attract and retain internationally-mobile production factors. The Community should step up its efforts to reduce distorting subsidies within the EU and with its main partners.
- In order to underpin outward FDI, a stable and attractive investment climate with legal and regulatory certainty, including investment protection rules and intellectual property rights in partner countries, is a priority. It is urgent to achieve a successful settlement of the Doha round, with an ambitious and comprehensive multilateral trade agreement reducing barriers to trade and distorting subsidies. In parallel, and building on the platform of the WTO, there is a need for complementary mechanisms that allow us to continue to achieve additional improvements in market access and business environment.

On Migration:

- Policies on labour mobility through migration deserve increased attention from the perspective of receiving and source countries. Migration can contribute to meeting the changing needs of the labour market at different skill levels, which in turn helps to increase dynamic efficiency in the host countries.
- All Member States have in place a wide variety of policies to manage migration. Whilst being fully aware of the policy challenges involved in migration policies, the Council underlines that the economic aspects of migration policy should be fully taken into account in particular as regards policies to attract skilled workers and to address skills gaps and mismatches, to enable Europe to remain at the leading edge of innovation and R&D developments.

- In terms of migration within the EU, concrete measures should be considered and implemented for facilitating movement of workers. Proposals on portability of pensions and mutual recognition of qualifications are currently being considered. Lower barriers to labour mobility within the euro area support the smooth functioning of the EMU.
- In addition, policies should aim at equipping workers to realise their potential and benefit from the opportunities of globalisation. The Council underlined the role that social bridges can play in this respect.

The Council invited the Commission to take stock of the multiple sets of national product market regulations that contribute to hindering inward investment in the European market, and the Community-wide impact of national investment incentive schemes; and to analyse closely the economic determinants of migration, including high skilled migration, into Europe. The Commission is invited to report to the Council in the second half of 2007".

– *National reform programmes - Council conclusions*

The Council adopted the following conclusions:

"The Council discussed the implementation of the Member States' National Reform Programmes (NRPs) for the period 2005-2008. It endorsed the report prepared by the Economic Policy Committee which covers four major areas of reform: innovation; labour markets; energy; and better regulation. The Council noted that:

- The overall picture on progress being made towards the Lisbon objectives is encouraging. All Member States acknowledge the necessity to reform. Many actions are being taken, and first results are already starting to show, but there is more work to be done. All Member States are making progress with the implementation of their NRPs although the performance varies between Member States. Europe should make good use of the current relatively favourable economic outlook to build upon the reforms already underway and turn to the areas where progress remains limited, such as fostering competition, improving incentives in benefit systems and extending working lives which is an important element to promoting fiscal sustainability.
- The development of innovation policies is a key element in all NRPs. There is broad recognition among Member States that the right framework conditions including competition; legal and technical infrastructure especially a well-balanced and user-friendly system for the protection of intellectual property rights; access to capital especially for SMEs; increased co-operation between companies, research institutes and universities; well functioning labour markets; and a skilled workforce are necessary conditions for successful innovation performance. More should be done to create fully competitive markets as this is an important incentive for companies to innovate. In view of the EU-wide target, more should be done to foster private R&D expenditure. Particular attention should also be given to supporting innovation in the services sector and creating an innovation friendly environment for companies. Furthermore, Member States should strive to maximise returns on innovation inputs by enhancing the quality of their policy measures, especially the effectiveness of public research expenditure.

- Increasing employment in Europe remains a top priority. Bringing the overall employment rate of the EU closer towards 70% will require significant additional efforts by many Member States. In a number of countries, tax systems have been made more conducive to employment. However, additional steps will be required to improve incentives in tax and benefit systems and increase the adaptability of the labour market. Increasing effectiveness of activation measures and training programmes is also important in this area. Member States have put much effort into increasing the participation of older workers, but more progress is needed for the EU to reach the employment rate target for older workers of 50%. Even fulfilling this target will not be enough to respond to the challenge of ageing populations. Therefore, more should be done to extend working lives and discourage early withdrawal from the labour force or contain pension cost increases. Further attention should also be given to raising employment for female and young workers.

- The EU is far from having a well-functioning and fully integrated internal market in electricity and gas. Full implementation of agreed directives would be a first step towards an efficient energy market in the EU. The working of the energy markets would be further enhanced by increasing the degree of interconnectivity, full implementation of the provisions for unbundling and third party access, increased transparency in the markets and greater co-operation between national regulators. Member States have taken or plan many measures to promote energy efficiency and the use of renewables and should continue to address incentives and financial barriers to investment in technologies and infrastructure that promote energy efficiency. The design of the Emission Trading Scheme, including a more rational allocation of permits and the participation of other relevant emitting countries, is a key issue and it needs to be improved for the post 2012 period in the review taking place in 2007.

- Much progress is being made on better regulation, especially in the area of measuring and reducing the unnecessary administrative burden. This momentum should be maintained. National strategies for regulatory reform should be developed further. Member States should follow the experiences of ‘first mover countries’ by undertaking concrete actions to reduce undue administrative burdens in particular to businesses. Follow-up needs to be given to intensifying efforts with respect to the thorough use of regulatory impact assessments and the simplification of existing regulation. EU-level action to support Member States efforts is also needed.

The Council felt that the thematic approach chosen in the review was useful for sketching an early picture of progress and identify best practices and challenges. The Council invites the Commission to take account of this work in its Annual Progress Report. It looks forward to the results of the second round of multilateral surveillance in the context of the update of the Broad Economic Policy Guidelines which will have a clear focus on country-specific recommendations early next year. The Council stresses the importance of continued structured reforms for a smoother functioning of EMU and reaping fully the benefits of the single currency.

* * *

In this context, the Council confirms that benchmarking national performance, accompanied by qualitative assessment, can help Member States to implement reform by facilitating the exchange of best practice. Following the mandate to review the indicators used to monitor progress with the Lisbon agenda, the Council considers that, at the current juncture, the shortlist of 14 headline indicators should remain as it is.

The work carried out by the EPC to develop further the use of structural indicators and their use in surveillance is useful in this respect, and Eurostat and EPC are invited to improve the database in 2007. Indicators should be developed for example in the field of integration. The structural indicators should remain part of the methodology for assessing progress with the implementation of the Lisbon strategy. The lack of reliability and transparency of the indicators, time lags in the availability of data and the diversity of countries, should be taken into account".

REDUCING THE ADMINISTRATIVE BURDEN ON BUSINESSES

– Statistics - Council conclusions

The Council took note of the presentation by the Commission of a communication entitled "*Reduction of the response burden, simplification and priority-setting in the field of Community statistics*".

It adopted the following conclusions:

"After having reviewed the Commission Communication on the Reduction of the Response Burden, Simplification and Priority-Setting in the Field of Community Statistics; and progress made to date, the Council stresses that while high-quality statistics are crucial for policy-making in Europe, enhanced efforts are needed to reduce the administrative burden caused by statistics in the EU. In particular, the Council:

- NOTES that while the statistical burden accounts for relatively small part of the total administrative burden, the overall statistical burden has continued to increase despite the initiatives launched in recent years in reviewing statistical priorities and reducing statistical requirements for areas which are now considered to be of lesser importance;
- RECALLS the Council conclusions of 8 November 2005 which required putting reprioritisation into practice and recommended incorporating it into the forthcoming multi-annual statistical programme for 2008-2012 and into the 2007 annual work programme; the request by the Council in June 2006 to analyse ways to reduce the burden imposed by the Intrastat regulation in particular to the Small and Medium-sized Enterprises (SMEs); and the 10 October 2006 Council conclusions which called for the Commission and Member States to immediately identify pieces of EU legislation and take prompt action to reduce burdens;

- WELCOMES the strategic approach and work plan set out in the Commission Communication which combines concrete actions to simplify statistical requirements in specific areas, proposals for the application of various tools to reduce the respondent burden by changing the way certain statistics are produced, a wider use of modern information and communication technologies and a proposal for a systematic priority setting for major statistical projects and in the multi-annual statistical programme 2008-2012. All these elements together are key factors in rebalancing priorities while at the same time ensuring that European policies are underpinned by high-quality statistics. To ensure progress, the Commission is CALLED UPON to implement the various measures and to report on further progress by October 2007, including an indication on the change in overall burden. The Council also WELCOMES the Commission's commitment to involve the national statistical institutes (NSIs) more closely in the content of the Commission's statistical programmes;
- STRESSES that ambitious actions are needed, in line with the Commission strategy, for the substantial reduction in the administrative burden due to statistical reporting requirements; and in this context WELCOMES the commitment by the Commission to carry out a cost-benefit analysis for the introduction of all new statistical requirements that are likely to impose a significant statistical burden on data providers as well as the planned systematic assessment of the cost-effectiveness of all fields covered by the next multi-annual statistical programme (2008-2012) that involve primary data collection, before the end of the programme;
- ACKNOWLEDGES that, within the context of the objective of an overall reduction in the administrative burden and the commitment to obtain full access to all required existing data and to use these data to the maximum extent possible, the statistical priorities formulated and monitored in the EFC 2006 Status Report may call for new or enhanced statistical surveys; and that the compilation of statistics that are of vital importance for European policy-making will continue to require that SMEs are also obliged to meet some statistical reporting requirements; and

- FULLY SUPPORTS the Commission's ambitious goals on the simplification of Intrastat, which will be a key factor in reaching the overall reduction in the statistical reporting burden; and in particular WELCOMES the twin-track approach, in which a further substantial progress on traditional simplification would be complemented by a switch to single-flow reporting in the medium-term. In this context, the Council STRESSES that a transition to a single-flow system, or the implementation of any other method that leads to a significant reduction in the statistical response burden, must not affect the availability, timeliness and quality of those national statistics that are crucial for European economic policy purposes, such as national accounts and the data on aggregate flows between the euro area and other EU Member States. It should also be accompanied with the necessary measures to ensure confidentiality when exchanging micro-data among the producers of official statistics in Europe. To this end, the Commission is INVITED to analyse the feasibility of a single flow method and alternative methods which would deliver broadly the same results, as well as the transition issues and, taking this analysis into account, to present a precise roadmap for further progress to the Council in October 2007 with appropriate timetables. In parallel to this analysis, concrete progress in the short-term should be made on traditional simplification; and the Commission, together with Member States, should make progress in overcoming the current challenges related to Intrastat, in particular the issue of asymmetries".

EUROPEAN INVESTMENT BANK

– EIB external lending

The Council agreed on a general approach regarding a draft decision on renewal of the European Investment Bank's external lending mandates for the 2007-13 period.

The agreement will enable a formal decision to be taken before the current mandates expire in January 2007.

The draft decision is aimed at renewing the mandates given to the EIB, under guarantee from the EU budget, for lending to projects outside the EU. The current mandates consist of a general external lending mandate as well as specific mandates, established by Council decisions 2000/24/EC and 2005/48/EC, for projects in Russia, Ukraine, Moldova and Belarus.

Activities outside the EU make up roughly 10% of the EIB's total activities, amounting to EUR 5.1 billion in 2005, of which 72.5% were under EU guarantee. The guarantee prevents the bank's operations, which often bear a significantly higher risk than its operations within the EU, from affecting the bank's credit standing. It thus allows the EIB to maintain attractive lending rates.

The decision will allow lending on a single legal basis for loans and guarantees in all regions. It will provide for a new geographical breakdown aimed at ensuring better linkage with the EU's external relations policies and objectives.

The Council's general approach provides for a total volume of lending for the seven-year period amounting to EUR 27.8 billion, of which EUR 2 billion would be withheld until 2010, pending the results of a mid-term review.

The regional distribution of lending is calculated on the basis of the remaining fixed ceiling of EUR 25.8 billion:

- Pre-accession countries: EUR 8.7 billion.
- European neighbourhood and partnership countries: EUR 12.4 billion, of which:
 - EUR 8.7 billion for Mediterranean countries, and
 - EUR 3.7 billion for eastern Europe, the southern Caucasus and Russia.
- Asia and Latin America: EUR 3.8 billion, of which:
 - EUR 2.8 billion for Latin America, and
 - EUR 1 billion for Asia.
- South Africa: EUR 900 million.

– *Review of the EIB's Euro-Mediterranean facility - Council conclusions*

The Council adopted the following conclusions:

"Following the invitation by the European Council in December 2003, the Ecofin Council has assessed the performance of the reinforced Facility for Euro-Mediterranean Investment and Partnership (FEMIP) and its possible evolution taking into account partner countries' views. The results achieved by the reinforced FEMIP were evaluated positively, since it has proved to be instrumental in channelling funding to the Mediterranean region through lending to private companies and infrastructure investment aiming at enhancing the business environment.

However, Member States also noted that the effectiveness of FEMIP could be enhanced further, in particular with respect to supporting the private sector, especially SMEs, which has not yet stabilised at the 50%-target of FEMIP activities. At the same time, Member States agree that the effectiveness of FEMIP also depends on the business environment in Partner countries becoming more conducive to private sector development and on regulatory obstacles in partner countries being removed.

Against this background and the results of the consultations with the Partner countries, the Council agrees that, at the current juncture, the best way forward to enhance partnership with Mediterranean partners is to develop this instrument further with the following priorities:

- improving the linkages of FEMIP with the European Neighbourhood Policy (ENP) including by a better integration of the EIB's activities into the EU country strategies and by better combining EIB loans and EU budgetary resources. To this effect, adequate resources should be provided by the Community budget;
- developing further the FEMIP instruments in order to overcome the obstacles to more effective financing of the private sector, in particular SMEs. To this effect:
 - the allocation of risks between FEMIP, local financial intermediaries and local companies should be improved mainly by encouraging increased risk-taking by local intermediaries;
 - EIB risk-taking should be increased through a more active use of the Special FEMIP envelope;

- incentives should be provided together with technical assistance to local intermediaries in order to make global loans more effective and accessible to SMEs;
 - the risk borne by SMEs should be alleviated through local currency guarantees and loans; and
 - risk-capital resources and technical assistance could be used more often to enhance the quality of local SME projects and should continue to support activities with a higher risk profile;
- strengthening partnership and local interaction notably by creating an advisory committee, including representatives from Mediterranean countries, to strengthen ownership of partner countries.

In implementing these priorities, the EIB should continue to safeguard FEMIP's value added vis-à-vis the market and other IFIs.

Member States invite partner countries

- to facilitate private sector development and encourage structural reforms, in particular financial sector reform; and
- to commit to closer co-operation with the EIB, in particular ensure that the EIB can issue bonds in local markets.

The Council will continue to monitor the performance of FEMIP".

EXCISE DUTIES– *Alcoholic beverages*

The Council examined proposed adjustments to minimum excise duty rates on alcoholic beverages, aimed at countering the effects of inflation, and a proposed mechanism for review of the rates in order to cater for inflation in the future.

It invited the Commission to carry out a comprehensive study of the taxation of alcohol and alcoholic beverages, including trends in competitive positions and in levels of taxes and prices, and to present the results of that study during the first half of 2007, with a view to facilitating further Council decision-making as regards alcohol taxation.

– *Duty-free allowances for travel from third countries*

The Council reached political agreement on a proposal regarding duty-free allowances on goods carried by persons entering the European Union from third countries.

It requested the permanent representatives committee to finalise the text and to submit it for adoption without further discussion at a forthcoming Council meeting.

The proposal is aimed at revising and replacing directive 69/169/EEC on traveller allowances, adapting it to the enlarged EU whilst restructuring it and simplifying certain provisions. It provides for an increase in duty-free allowances, in part to cater for the effects of inflation since they were last revised in 1994.

The Council's agreement is based on a compromise proposed by the presidency, of which the main elements are as follows:

- the value limit on duty-free allowances is increased from EUR 175 to EUR 430 for air and sea travellers, and from EUR 175 to EUR 300 for travellers by land (including by inland waterways);
- member states may apply different quantitative limits for duty-free imports of tobacco products (cigarettes, cigarillos, cigars, smoking tobacco) depending on whether they enter the EU by air (higher limit) or by land or water crossing (lower limit).

The directive will enter into force at the same time as proposed customs provisions will enter into force.

VALUE ADDED TAX

- *Place of supply of services*
- *Simplified obligations for businesses: the “one-stop” scheme*
- *E-commerce*

The Council took note of progress in work on a package of measures aimed at simplifying value-added tax arrangements for businesses.

It agreed:

- a general approach according to which the validity of the e-commerce directive will be prolonged from 1 January 2007 until the end of 2008, it being understood that, subsequent to receipt of a Commission proposal and opinions of the European Parliament and the Economic and Social Committee, a text will be finalised by the legal linguistic experts, so as to allow its adoption without discussion without delay;
- to continue to take work forward on the VAT package as a matter of priority, with a view to preparing a comprehensive solution by June 2007, taking also into account aspects related to combating VAT fraud.

The VAT package is composed of the following elements:

- a draft directive on the place of supply of services as concerns VAT payments,¹ which is aimed at changing the place of taxation for VAT from the place where the supplier is located to the place where the customer is located;
- two draft directives and a draft regulation on simplification of cross-border VAT obligations and refund procedures for businesses;

¹ draft directive amending directive 77/388/EEC

- renewal of VAT arrangements for e-commerce,¹ which require the levying of VAT on the provision from third countries of broadcasting services and certain electronically-supplied services.

The proposals on simplification of cross-border arrangements are aimed at creating a "one-stop" scheme to simplify registration and declaration of VAT by businesses in member states where they have no base.² They also set out detailed rules for refunds of VAT to such businesses³ and provide for improved administrative cooperation to prevent fraud⁴.

Under the "one-stop" scheme, businesses active in member states where they are not registered would have the option of fulfilling in their home member state a single set of obligations for registrations, declarations and refunds. The home state would transmit the information to the other member states concerned, whose VAT rates and controls would be applicable, and who would collect the tax directly.

¹ provided for in directive 2002/38/EC

² draft directive amending directive 77/388/EEC

³ as provided for in directive 77/388/EEC

⁴ draft regulation amending regulation 1798/2003/EC

COMBATING TAX FRAUD - Council conclusions

The Council adopted the following conclusions:

"The Council stresses the importance to take all necessary measures to combat tax fraud and most notably in the area of indirect taxation.

The Council recognizes the urgent need to establish an anti-fraud strategy at Community level that complements national efforts to combat tax fraud.

The Council invites the Commission to prepare the elements of such a strategy in close co-operation with the Member States and to give particular priority to the following aspects:

- the establishment of an action plan including a follow-up mechanism with the aim of ensuring a more efficient use of administrative co-operation;
- the exploration of ways to enable Member States to take more efficient measures against fraudsters and give as much priority to the protection of other Member States VAT revenue as for that of their own;
- the possibilities for quicker and more detailed exchange of information between Member States, including the study of legal and practical possibilities of access to data about taxpayers for tax administrations in other Member States; this shall also include the elaboration of legislative proposals, where necessary, to ensure Member States obtain the relevant information from businesses, accompanied by an assessment of the effects in terms of additional burden on businesses and administrations taking into account the possibilities offered by electronic technologies;
- the examination of potential legal changes to the current VAT system in view of enhancing the legal possibilities for combating fraud such as joint and several liability.

The Council requests the Commission to report to the Council on the progress made on these aspects and to present an outline of an anti-fraud strategy at EU level at its meeting in June 2007.

The Council has also examined possible legal changes to the VAT system, especially the possibilities to tax intra-community transactions or to use, on an optional basis, a general reverse charge system for dealing with the most costly forms of VAT fraud. So far this discussion has not been conclusive and has not allowed for an orientation to be agreed on.

The Council will continue its work in this respect with all these legislative measures in order to define orientations to the Commission at its meeting in June 2007 at the latest".

BUSINESS TAXATION

– Harmful tax competition - Council conclusions

The Council took note of a report from a Council working group responsible for implementing the code of conduct aimed at eliminating harmful tax competition with regard to business taxation. It held a brief exchange of views.

Ongoing work by the group, chaired by United Kingdom Paymaster General Dawn Primarolo, covers:

- the rollback of tax measures deemed as harmful;
- monitoring of the commitment by member states not to introduce new measures that are harmful ("standstill");
- discussion of the code of conduct's future, focused on extending work within its existing mandate.

The Council adopted the following conclusions.

"The Council

- Welcomes the progress achieved by the Code of Conduct Group (Business Taxation) under the Finnish presidency as set out in its report (doc. 15472/06 FISC 145).
- Agrees to an extension of benefits for Maltese measures ML4 and ML5 beyond the end of 2006 as set out in paragraph 21 of the Code of Conduct Group's report (doc. 15472/06 FISC 145).
- Asks the Group to continue monitoring standstill and the implementation of rollback and to report to the Council before the end of the German presidency".

– *Common consolidated tax base*

The Council was briefed by commissioner László Kovács on work underway within a technical working group on the possible creation of a common consolidated tax base throughout the EU aimed at simplifying direct tax arrangements for businesses.

It held a brief exchange of views.

A common consolidated tax base would provide companies established in more than one member state the possibility of computing their group taxable income according to a single set of rules. The idea was discussed at informal ministerial meetings at Scheveningen in September 2004 and in Vienna in April this year, as well at the Council's meeting on 7 June.

Following the expression of support at Scheveningen for the launch of technical work, the Commission set up a working group to assist it in preparing a legislative proposal. The group has met on a quarterly basis and has been assisted by four sub-groups working on the more technical aspects.

FINANCIAL SERVICES

– *Payment services*

The Council took note of a progress report concerning work on a draft directive aimed at establishing a legal framework for payment services (15064/06). It held an exchange of views.

The proposal is aimed at:

- establishing the right for "payment institutions" to provide payment services to the public, setting up market access requirements for non-bank payment service providers;
- introducing clear and succinct information requirements to be fulfilled by all payment service providers;
- stipulating the rights and obligations of users and providers of payment services.

The Council took note of progress achieved so far and invited the current and incoming presidencies to build on progress made with a view to reaching a swift agreement, enabling the Council and the Parliament, if possible, to reach agreement in first reading.

– *Clearing and settlement - Council conclusions*

The Council was briefed by commissioner Charlie McCreevy on the finalisation of an industry code of conduct aimed at improving the clearing and settlement of securities transactions in the EU. It held a brief exchange of views.

The Council adopted the following conclusions:

"After having considered the European Code of Conduct for Clearing and Settlement signed by the Industry on 7 November 2006; and the Commission's plans to enhance the efficiency and soundness of post-trading infrastructures in the EU; and after having had an exchange of views on 10 October 2006, the Council:

- RECALLS that the clearing and settlement of securities transactions is a key area of financial integration in the EU where substantial progress needs to be achieved, in line with the Council conclusions of 25 November 2004 and 5 May 2006;
- TAKES NOTE of the Code of Conduct, WELCOMES the agreement reached by the Industry on the Code and CALLS FOR its swift implementation;
- RECOGNISES that the strategic approach by the Commission based on self-regulation is an attempt in trying to enhance competition and reduce costs for users of post-trading services; that the enforcement of the Code of Conduct needs to be closely monitored with a view to considering other measures, including regulatory actions, if progress is not satisfactory; that compliance with the competition rules must continue to be closely monitored; and that further steps by different parties will be necessary in parallel in order to enhance efficiency and soundness of post-trading infrastructures taking into account the evolution in the markets;
- INVITES the Commission to deepen its work in these key areas taking into account the Ecofin discussion on 10 October 2006 and review the state of progress as follows:
 1. by February 2007, report on the monitoring process of the implementation and functioning of the Code of Conduct;

2. by June 2007, review issues related to the safety and soundness of securities clearing and settlement infrastructure providers in Europe – taking into account the work of the European System of Central Banks and the Committee of European Securities Regulators in this area; and review progress made in the removal of legal and fiscal obstacles in the context of the 'Giovannini barriers'; and
 3. by February 2008, present a full assessment on the overall situation and possible further policy action necessary so as to ensure progress in all key areas, taking also into account the implementation of the Code of Conduct and its impacts on the markets, including the possibility of extending the Code in the future;
- TAKES NOTE that the European Central Bank and National Central Banks in the Eurosystem are examining the feasibility of a TARGET2-Securities service for settlement in central bank money of securities transaction in euro; EXPECTS to obtain further insight by January 2007 on how TARGET2-Securities might contribute to the evolution, soundness and efficiency of post-trading services of securities transactions within the EU and its Member States; and INVITES the Financial Services Committee (FSC) to examine issues related to TARGET2-Securities for discussion by the Ecofin Council, prior to a decision on whether to take the initiative forward which is foreseen in February 2007 by the ECB;
 - INVITES the FSC by July 2007 to assess the state of progress in clearing and settlement including with the efforts to enhance the safety and soundness as well as with the removal of the 'Giovannini barriers' in the Member States; and by March 2008 to examine the overall situation and provide guidance on the need for further policy measures in the light of the Commission's examinations mentioned above; and
 - INVITES the Economic and Financial Committee to prepare comprehensive strategic discussions on these issues, based on the above mentioned elements, for the Council in Autumn 2007 and Spring 2008".

IN THE MARGINS OF THE COUNCIL– *Eurogroup*

Ministers of the euro area member states attended a meeting of the eurogroup on 27 November, which examined the economic situation, procedures for reviewing the member states' budgetary policies and dynamic adjustment in the euro area. The eurogroup also met Michael Deppler, director of the European department of the International Monetary Fund.

– *Macroeconomic dialogue with the social partners*

Representatives of the Council, the Commission, the European Central Bank, the eurogroup, the European Trade Union Confederation and the Union of Industrial and Employers' Confederations of Europe met for an exchange of views on the economic situation and outlook. The meeting included an assessment of policies for improving economic confidence and consolidating growth in the EU. It also included issues that are expected to be examined by the European Council at its spring 2007 meeting, in particular as regards globalisation.

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Over lunch, ministers were briefed by the Belgian minister on developments in an enquiry into alleged surveillance by the American authorities of bank transfers executed by Swift SCRL in Belgium.

OTHER ITEMS APPROVED**ECONOMIC AND FINANCIAL AFFAIRS****Recast of common VAT rules**

The Council adopted a directive recasting the directive on the EU system of value added tax (the "sixth VAT directive") with a view to enhancing clarity, rationality and simplification of legislation in this field (*12876/2/06 REV2 and 15447/06 ADD1*).

External auditors of national central banks - Slovenia

The Council adopted a decision approving the appointment of Deloitte & Touche revizija d.o.o. as the external auditors of Banka Slovenije for the financial years 2007 and 2008 (*14961/06*).

EXTERNAL RELATIONS**Western Balkans - European Agency for Reconstruction**

The Council adopted a regulation amending regulation 2667/2000, extending for two years, until the end of 2008, the work of the European Agency for Reconstruction with its current mandate and status, whilst phasing out its activities under the CARDS (Community assistance for reconstruction, development and stabilisation) programme (*10086/06*).

The European Agency for Reconstruction, set up under regulation 2667/2000, is responsible for assistance to Serbia and Montenegro, including Kosovo under UN Security Council resolution 1244, and the former Yugoslav Republic of Macedonia. The agency was set up in parallel to adoption of the CARDS programme, under Council regulation 2666/2000, which is aimed at supporting the participation of the Western Balkan countries in the stabilisation and association process.

EUROPEAN SECURITY AND DEFENCE POLICY

Bosnia and Herzegovina - EU police mission

The Council adopted a decision on implementation in 2007 of joint action 2005/824/CFSP on the EU police mission (EUPM) in Bosnia and Herzegovina (BiH), providing for a budget of EUR 12.15 million (14555/06).

Joint action 2005/824/CFSP, adopted by the Council in November 2005, provided for continuation of EUPM from 1 January 2006 until the end 2007 with an adjusted mandate and size. It established a follow-on mission aimed at supporting the fight against organised crime in a more proactive way, as well as implementation of police reform, working closely with other EU actors and local law enforcement agencies.

EUPM, launched in January 2003, was the first EU mission initiated under European Security and Defence Policy. It has endeavoured to establish sustainable policing arrangements, under BiH ownership, in line with the objectives of the 1995 Paris/Dayton agreement, by concentrating on the following strategic priorities: institution and capacity-building; fight against organised crime and corruption; development of the financial viability and sustainability of the local police; and promotion of police independence and accountability.

(<http://www.eupm.org>)

DEVELOPMENT COOPERATION

Agreement with South Africa on trade, development and cooperation

The Council adopted a decision authorising the opening of negotiations with South Africa on revision of the EU-South Africa agreement on trade, development and cooperation, as well as a decision giving guidance to the Commission for the conduct of the negotiations.

World AIDS Day

The Council approved a draft EU statement on "Tackling HIV/AIDS: making further progress", with a view to releasing it on World AIDS Day on 1 December.

TRADE POLICY

Agreement with Argentina - EU enlargement

The Council adopted decisions approving the conclusion of an agreement with Argentina, under the GATT, relating to the modification of concessions in the schedules of the ten new member states in the course of their accession to the EU (13898/1/06).

The Council also adopted a regulation on implementation of the agreement as regards amendments to regulation 2658/87 on the tariff and statistical nomenclature and on the EU's common customs tariff (13899/06).

INTERNAL MARKET

Motor vehicles - UN Economic Commission

The Council adopted a decision approving the accession of the European Community to UN Economic Commission for Europe regulation 107 on uniform provisions concerning the approval of category M2 or M3 motor vehicles with regard to their construction.

ENVIRONMENT

Protection of the marine environment in the Mediterranean

The Council adopted a decision authorising the Commission to participate, on behalf of the European Community, in negotiations on a protocol to the Convention for the protection of the marine environment and the coastal region of the Mediterranean, as regards integrated coastal zone management.

FISHERIES**Financing of expenditure in respect of fishery and aquaculture products**

The Council adopted a regulation intended to ensure continuity in financing under the EU's common markets organisation in fishery and aquaculture products (12598/06).

The regulation, which amends regulation 104/2000, enables application of the new European agricultural guarantee fund (EAGF) as regards the financing of the expenditure relating to fisheries markets.

The EAGF, which replaces the European agricultural guidance and guarantee fund (EAGGF) guarantee section, will finance measures relating to fisheries markets by centralised management.
