



**COUNCIL OF
THE EUROPEAN UNION**



7245/07 (Presse 50)

PRESS RELEASE

2792nd Council meeting

Economic and Financial Affairs

Brussels, 27 March 2007

President **Mr Peer Steinbrück**
Federal Minister for Finance of Germany

P R E S S

Rue de la Loi 175 B – 1048 BRUSSELS Tel.: +32 (0)2 281 6083 / 6319 Fax: +32 (0)2 281 8026
press.office@consilium.europa.eu <http://www.consilium.europa.eu/Newsroom>

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Main results of the Council

*The Council agreed on a draft directive establishing a legal framework for **payment services** with the aim of facilitating payments throughout the EU. The Council also confirmed an agreement already reached with the Parliament on a draft directive on the assessment by the member states' supervisory authorities of **acquisitions in the financial sector**. Both directives will be adopted at first reading, in codecision with the European Parliament.*

*The Council assessed a second series of **stability and convergence programmes** presented by the member states (following the 20 programmes assessed in February). The texts include the first-ever convergence programmes presented by Bulgaria and Romania, following their accession to the EU on 1 January.*

*The Council also adopted a recommendation on the 2007 update of the EU's **economic policy and employment guidelines** and conclusions on the coordination of member states' **direct taxation systems**.*

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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.
- Documents for which 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 Council's 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

Bulgaria:

Mr Plamen Vassiler ORESHARSKI Minister for Finance

Czech Republic:

Mr Miroslav KALOUSEK Minister of Finance

Denmark:

Mr Thor PEDERSEN Minister for Finance

Germany:

Mr Peer STEINBRÜCK Federal Minister for Finance
Mr Thomas MIROW State Secretary, Federal Ministry of Finance

Estonia:

Mr Aivar SÕERD Minister for Finance

Ireland:

Mr Brian COWEN Minister for Finance

Greece:

Mr Georgios ALOGOSKOUFIS Minister of 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

Italy:

Mr Rocco Antonio CANGELOSI Permanent Representative

Cyprus:

Mr Michalis SARRIS Minister for Finance

Latvia:

Mr Eduards STIPRAIS Permanent Representative

Lithuania:

Mr Rimantas ŠADŽIUS Deputy Minister for Finance

Luxembourg:

Mr Jean-Claude JUNCKER Prime Minister, "Ministre d'Etat", Minister for Finance

Hungary:

Mr János VERES Minister for Finance

Malta:

Mr Lawrence GONZI Prime Minister, Minister for Finance

Netherlands:

Mr Wouter Jacob BOS Deputy Prime Minister, Minister for Finance

Austria:

Mr Wilhelm MOLTERER Vice Chancellor and Federal Minister for Finance

Poland:

Ms Zyta GILOWSKA Deputy Prime Minister, Minister for Finance

Portugal:

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

Romania:

Mr Sebastian Teodor Gheorghe VLĂDESCU Minister for Public Finance

Slovenia:

Mr Andrej BAJUK

Minister for Finance

Slovakia:

Mr Ján POČIATEK

Minister for Finance

Finland:

Mr Pertti RAUHIO

Secretary of State, Ministry of Finance

Sweden:

Mr Anders BORG

Minister for Finance

United Kingdom:

Ms Dawn PRIMAROLO

Paymaster General

.....

Commission:

Mr Joaquin ALMUNIA

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

ITEMS DEBATED**STABILITY AND CONVERGENCE PROGRAMMES**

The Council adopted opinions on a number of member states' stability and convergence programmes, namely:

- updated stability programmes presented by Belgium and Spain;
- convergence programmes presented by Bulgaria and Romania, the first to be presented since their accession to the European Union on 1 January;
- updated convergence programme presented by Latvia.

An initial series of 20 programmes (annual updates) were assessed by the Council at its meeting on 27 February. For this year's review, only Austria and the Czech Republic remain to be assessed.

Under the EU's stability and growth pact, member states having the euro as their currency are required to present stability programmes and those not participating in the single currency to present convergence programmes.

The aim is to ensure sound government finances as a means of strengthening the conditions for price stability and for sustainable growth conducive to employment creation.

The pact requires programmes setting out the member state's medium-term objectives, the main assumptions about expected economic developments and important economic variables, a description of budgetary and other economic policy measures, and an analysis of how changes in assumptions will affect their budgetary and debt position.

EU BUDGET

Budget guidelines for 2008 - *Council conclusions*

The Council adopted the following conclusions:

- "1. The Council points out that the 2008 budgetary procedure, the second one within the 2007-2013 financial framework, falls in a period of both consolidation and development for the achievement of the European Union's objectives and priorities. The EU is faced with the challenge of guaranteeing the continuity and coherence of actions while pursuing forward-looking policies to adjust to a fast changing world.
2. The Council confirms that the Interinstitutional Agreement (IIA) on budgetary discipline and sound financial management of 17 May 2006 is the base for the establishment of the 2008 budget and has to be applied to the full. The Council underlines the importance it attaches to compliance with the financial framework and the strict respect of the annual limits set therein.
3. In this context, the Council is fully aware that a good collaboration between the two arms of the budgetary authority and the Commission is an essential element in achieving a satisfactory result and looks forward to establishing an effective spirit of co-operation throughout the whole 2008 budgetary procedure.
4. The Council recalls the importance of maintaining an overall budgetary discipline and considers that the same degree of budgetary constraints exercised by the Member States for their own national budgets should be applied to the EU budget. In this context, the Council reiterates its wish that the annual 2008 budget should provide sufficient and justified level of resources to ensure an efficient and effective implementation of EU policies.

5. The Council strongly believes that at the beginning of a new financial period it is very important to maintain in the final budget sufficient margin below the ceilings of the various Headings, with the exception of Heading 1b, for the purpose of sound financial management and of dealing with unexpected needs.
6. In order to achieve the best possible use of resources, both commitment and payment appropriations for 2008 should reflect real and well defined needs and be compatible with the ceilings set in the financial framework. Moreover, absorption capacity and past implementation should be carefully taken into account when establishing appropriations. The Council reaffirms the importance of reprioritisation and reallocation. This would provide to the budgetary authority the necessary flexibility to adapt the appropriations to meet present and future needs in a realistic way.
7. The Council encourages the Commission and the Member States to pursue their efforts to deliver better forecasts. However, it points out that, while it is up to the Member States to present structural operations estimates as accurate as possible, it is the Commission that bears the ultimate responsibility for the assessment of the actual needs and for the appropriations introduced in the Preliminary Draft Budget (PDB).
8. The Council reiterates the great importance of keeping the payment appropriations firmly under control. The Council is aware that the estimates for the 2008 budget are particularly challenging, the second year of the new financial period entailing both advance payments for new actions, intermediate payments and the closure of the programmes related to the previous financial period. A sufficient and justified level of payment appropriations should be entered in the budget, taking into account past implementation and realistic needs. It exhorts all the parties involved to make every possible effort to avoid overestimation.
9. While acknowledging the progress made recently in the establishment of the Preliminary Draft Budget estimates, the Council calls on the Commission to increase its efforts to further improve it, so as to substantially reduce the difference between the PDB and outturn, as illustrated in the annex. Under these circumstances the PDB would be a benchmark throughout the whole budgetary procedure. In this context, the Council stresses the need for a constant monitoring and improvement of budget implementation to contribute towards avoiding the significant under-use of funds that occurred in the beginning of the financial perspective 2000-2006.

10. The Council asks the Commission to provide all the updated information necessary throughout the year to allow the budgetary authority to adapt the budget in a realistic way. The Council welcomes the "budget forecast alert system" and expects it to be further improved. Such a monitoring system would facilitate and justify the proposal and adoption, in due time, of adjusting measures by means of the appropriate budgetary tools, including letters of amendment.
11. The Council recalls that high quality Activity Statements and timely financial information on spending proposals are a prerequisite condition for the budgetary authority to confirm and establish priorities. It looks forward to the improvement of the "Activity Based Budgeting" (ABB) in 2008, in particularly regarding performance indicators. The Council reiterates its commitment to make constructive use of the information provided together with the PDB, particularly regarding the justification of the level of appropriations allocated to the different programmes and policies and the proposed variations. The Council stresses its willingness to continue an enhanced examination of a set of Activity Statements during the 2008 budgetary procedure. The results of the analysis of the Activity Statements shall continue to have budgetary implications.
12. As regards some sectoral issues, the Council wishes the following elements to be kept constantly in mind in preparing the 2008 budget:

- The Council encourages the Commission to continue its efforts together with the Member States in order to establish an accurate level of payments for structural funds. The Council stresses the importance of fully implementing efficiently and effectively the provisions contained in the legislative framework adopted for the 2007-2013 period, in particular by issuing timely guidelines regarding the simplification of procedures.

The Council reminds the Commission of its commitment to provide the budgetary authority with detailed information on the adoption of the structural funds programmes, in particular on advance payments, together with the PDB.

- The Commission is invited, as in the previous years, to present realistic and well defined forecasts regarding CAP expenditure in its Preliminary Draft Budget and in its letter of amendment taking into account the past implementation as well as the foreseeable market prices evolution at European and international level. Particular attention should be given to ensuring that the payment appropriations for expenditure related to rural development are accurate.

- As regards external actions, the Council considers that the European Union must confirm and develop its role as a global player and expects its priorities to be taken into account. In this context, the Council recalls the importance it attaches to the Common Foreign and Security Policy funding and stresses that the level of appropriations has to be fully in line with the provisions and amounts established in the IIA.

The Council strongly believes that an adequate margin within the ceiling of Heading 4 is of the highest importance for the European Union, so as to be able to take quick and effective action in the case of unexpected needs and crisis. In this context, the Council points out that in the 2008 budgetary procedure an amount of EUR 200 millions, earmarked for the Guarantee Fund in the annual financial framework, will become available under Heading 4 because of the recent implementation of a new mechanism for financing the Fund. The Council considers that this amount should remain unused and added to the margin.

- Recalling the common objective of reducing bureaucracy and bearing in mind the parallel efforts of the Member States and the gains achieved, the Council considers it essential to monitor and to improve EU institutions' effectiveness with a view to achieving greater administrative efficiency and stresses the crucial importance of redeployment and reorganisation. To this end, it recalls the importance it attaches to the fact that all institutions as well as an independent body provide a comprehensive cost/benefit analysis of administrative resources. Furthermore, the Council recalls the Commission's commitment to undertake a medium term evaluation of its staff needs by 30 April 2007.

In addition, the Council exhorts all institutions to present their analysis and plans for economies of scale. These reports would provide the budgetary authority all the appropriate information to evaluate the situation and take an objective decision on how to allocate and use the resources in the best possible way. The objective should be to achieve a substantial efficiency gain, mainly by further development of targeted measures and by redeployment and reorganisation of administrative structures in each EU institution.

- Moreover, the Council urges the Commission to improve clarity in the area of administrative spending, by presenting a clear consolidated picture of all administrative expenditure, including agencies.
- As far as the European Union's decentralised agencies are concerned, the Council stresses the importance of keeping a tight grip on their funding with the purpose of making economies through realistic appropriations, in line with real needs, and of avoiding over-budgeting. For better clarity and transparency, the Council expects the Commission to provide together with the PDB a concise and comprehensive budgetary overview covering all decentralised agencies.

The Council recalls the need to apply a thorough cost/benefit assessment before setting up new agencies and to implement the review clauses foreseen in their specific regulations. In addition, the Council invites the Commission to submit a comprehensive report to the budgetary authority so as to allow for a general assessment as to whether the existing strategy on decentralised agencies should be pursued.

- The Council reiterates the importance it attaches to the recruitment process in the context of enlargement and expects all institutions to take the necessary steps to carry it forward without delay, in line with the joint declaration agreed in the 2007 budgetary procedure.

13. The Council recalls that the budget is one of the most significant tools to guarantee the accountability of the European Union towards its citizens. Therefore, it attaches the greatest importance to these guidelines and expects them to be fully taken into account already in the Preliminary Draft Budget for 2008. These guidelines will be forwarded to the European Parliament and the Commission."

Budgetary control framework

The Council took note of the presentation by the Commission of a report on progress on an action plan aimed at establishing a reliable integrated controls framework for management of the EU's general budget (7255/07).

The action plan, approved by the Commission in January 2006¹, proposes measures aimed at providing sufficient guarantees to enable the Court of Auditors to issue a positive statement of assurance as regards payments made from the EU budget. It identifies roles that the Council, the member states, the European Parliament and the Commission could play to achieve this.

Since the statement of assurance was introduced in 1994, the Court has been unable to give an unqualified assurance of the legality and regularity of the transactions underlying a large part of the EU's expenditure. The difficulty reflects the complexity of the issues involved and the Commission has therefore made it a priority to achieve an unqualified statement before the end of its current mandate.

The Commission's report assesses progress on 40 actions aimed at strengthening controls, of which 12 have been completed and the remaining 28 are due by the end of this year. The Commission's overall conclusion is broadly positive. The most important actions that remain to be completed involve:

- strengthening the link between reasonable assurance and payments;
- clarifying the importance of recoveries;
- ensuring that the cost of control is commensurate with the risk of error;
- simplification and clarification of rules;
- the sharing of audit data.

The Council will review the issue at its meeting on 5 June.

The Commission is expected to present a final report in early 2008.

¹ doc. 5509/06

ACQUISITIONS IN THE FINANCIAL SECTOR

The Council reached political agreement, by qualified majority, on a draft directive on the assessment by the member states' supervisory authorities of acquisitions and increased shareholdings in the banking, insurance and securities sectors.

The Polish delegation voted against.

The Council approved a global compromise as voted by the European Parliament at first reading after negotiations under the Parliament-Council codecision procedure. It will adopt the directive at a forthcoming meeting, after finalisation of the text.

The draft directive, amending directives 92/49/EEC, 2002/83/EC, 2004/39/EC, 2005/68/EC and 2006/48/EC, is aimed at improving the legal certainty, clarity and transparency of the supervisory approval process.

Under the current legal framework, the competent authorities of the host member state are responsible for the supervisory assessment of both domestic and cross-border transactions in the financial sector. They can oppose an acquisition if, in view of the need to ensure sound and prudent management of the institution being acquired, they are not satisfied as to the suitability of the acquirer. However, the current framework does not provide specific criteria or a detailed procedure for the assessment, and has thus afforded considerable latitude to national authorities.

The draft directive modifies the framework considerably, setting out a procedure to be applied as regards notification and decision-making. Deadlines are reduced, and any "stopping of the clock" by the competent authorities is limited to one occasion and subject to clear conditions.

The text sets out the following prudential criteria for supervisory assessments, to be applied in all member states: the reputation of the proposed acquirer; the reputation and experience of any person that may run the resulting institution or company; the financial soundness of the proposed acquirer; on-going compliance with relevant directives; and the level of risk as regards money laundering and terrorist financing.

PAYMENT SERVICES

The Council agreed on a general approach on a draft directive establishing a legal framework for payment services, aimed at facilitating and reducing the cost of payments throughout the European Union.

The draft directive, amending directives 97/7/EC, 2000/12/EC and 2002/65/EC, is aimed at:

- establishing the right for non-bank service providers to provide payment services to the public, by setting up harmonised market access requirements for "payment institutions";
- introducing clear and succinct harmonised information requirements, to be fulfilled by all payment service providers;
- stipulating the rights and obligations of users and providers of payment services (regarding, for instance, the time it can take to execute a payment).

The proposal complements an initiative by which the payments industry has committed itself to establishing by 2010 a "single euro payments area" (SEPA), with integrated payment infrastructures and payment products enabling money to move freely between users, regardless of where they are situated. The legislative proposal is intended to underpin this industry initiative¹.

The Council's agreement is based on a proposal by the presidency involving a compromise on the following main issues.

- capital requirements for payment institutions;
- activities that payment institutions may undertake, in particular the granting of credit;

¹ The Council adopted conclusions on SEPA in October 2006.

- the possibility of waiving application of certain provisions for smaller payment institutions;
- the possibility of waiving application of certain provisions for certain instruments used primarily for the payment of small amounts (low-value payments).

The Council's general approach will be used as the basis for adopting the directive in first reading, under the Parliament-Council codecision procedure¹.

¹ The Parliament's committee on economic and monetary affairs adopted its report on the proposal on 12 September 2006 and has indicated its wish for the Parliament to vote during its plenary session from 23 to 26 April.

MEETINGS IN THE MARGINS OF THE COUNCIL

Eurogroup

Ministers of the euro area member states attended a meeting of the eurogroup on 26 March.

Ministerial breakfast meeting on the economic situation

Ministers held a breakfast meeting to discuss the economic situation in the EU and were briefed on the eurogroup meeting held on 26 March.

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Over lunch, ministers discussed preparations for the International Monetary Fund's spring meeting, in Washington D.C. on 14 and 15 April.

OTHER ITEMS APPROVED**ECONOMIC AND FINANCIAL AFFAIRS****Economic policy and employment guidelines**

The Council adopted a recommendation on the 2007 update of the EU's broad economic policy guidelines for the 2005-2008 period and on implementation of the member states' employment policies, following endorsement by the European Council at its meeting on 8 and 9 March. (7456/07).

The recommendation provides country-specific guidelines for policy at national level, as well as specific recommendations for the euro area. For the first time, it consists of a single text for both economic and employment policies.

Direct tax systems in the internal market - *Council conclusions*

The Council adopted the following conclusions:

"The Council held a debate based on the Communications from the Commission on "Co-ordinating Member States' direct tax systems in the Internal Market", "Exit taxation and the need for co-ordination of Member States' tax policies", and "Tax Treatment of Losses in Cross-Border Situations".

The Council and the Commission recalled that Member States are free to design their direct tax systems so as to meet their domestic policy objectives and requirements, provided that they exercise that competence consistently with Community law.

The Council underlined that the functioning of the internal market may be improved through co-operation on taxation among Member States and where appropriate at the European level, while respecting national competencies. While recognising the principle of preserving an effective allocation of the power to tax, the Council recognised the value of discussions on enhancing co-operation between Member States in specific areas of direct taxation to ensure that their domestic direct tax systems work together within the framework of Community law. The Council noted that appropriate solutions may take a variety of forms, in accordance with the subsidiarity principle.

The Council acknowledged the need for an effective use of the mechanisms of administrative co-operation such as those provided for in the Mutual Assistance and Recovery Directives.

Against this background the Council took note of the Commission proposals towards improved co-ordination of national tax systems. The Council invites the Member States to continue to work with the Commission with a view to establishing in which areas there may be a need for greater co-ordination."

EXTERNAL RELATIONS

Restrictive measures against North Korea*

The Council adopted a regulation implementing at Community level the measures foreseen in United Nations Security Council Resolution 1718 (2006) and in Council common position 2006/795/CFSP of 20 November 2006 concerning certain restrictive measures in respect of the Democratic People's Republic of Korea.

The measures concerned include a ban on exports of goods and technology which could contribute to North Korea's nuclear-related, other weapons of mass destruction-related or ballistic missile-related programmes, and on the provision of related services; a ban on the procurement of goods and technology from North Korea; a ban on exports of luxury goods to North Korea; as well as the freezing of funds and economic resources of persons, entities and bodies engaged in or providing support for the North Korean programmes.

Kosovo EU team - Preparations for a possible international civilian mission

The Council adopted a joint action extending until 31 July 2007 the mandate of the EU team to contribute to preparations for a possible international civilian mission in Kosovo, including an EU special representative component (7168/07).

In September, the Council adopted a joint action establishing the EU team. The joint action expires on 31 March. (*see also press release 12623/06*).

Convention on the rights of persons with disabilities

The Council adopted a decision authorising the signature by the European Community of an international convention on the rights of persons with disabilities (7401/1/07). The signing ceremony will take place in New York on 30 March.

The United Nations approved the convention last December. The Commission negotiated the accession of the Community to the convention, including its optional protocol. The Council will reconsider the question of the European Community signing the optional protocol as soon as possible.

RESEARCH**EU-Korea agreement on scientific and technological cooperation**

The Council adopted a decision approving the conclusion of an agreement with the Republic of Korea in order to develop and facilitate cooperative activities for peaceful purposes in the areas of science and technology (6038/07 and 13815/06). The agreement was signed in Brussels last November.

Establishment of an EU joint undertaking for the ITER project on fusion energy*

The Council adopted a decision establishing a European joint undertaking for ITER (International Thermonuclear Experimental Reactor) and the development of fusion energy (5946/1/07 +5945/07ADD1).

The joint undertaking will manage the EU's financial contribution to ITER. It is established for a period of 35 years and will be based in Barcelona.

The tasks of the joint undertaking will be as follows:

- to provide the contribution of the European Atomic Energy Community (Euratom) to the ITER International Fusion Energy Organisation;
- to provide Euratom's contribution to "broader approach" activities with Japan for the rapid realisation of fusion energy;
- to prepare and coordinate a programme of activities in preparation for the construction of a demonstration fusion reactor and related facilities.

The total resources deemed necessary for the joint undertaking amount to EUR 9 653 million.

The seven parties to the ITER negotiations (Euratom, China, India, Japan, Korea, Russia and the United States) have concluded an agreement on the establishment of the ITER International Fusion Energy Organisation for the joint implementation of the ITER project, establishing the ITER International Fusion Energy Organisation (the "ITER organisation") with headquarters in St. Paul-le-Durance (France). The ITER organisation has full responsibility for constructing, operating, exploiting and de-activating ITER facilities (*see also Official Journal L 358 of 16.12.2006*).

AGRICULTURE

Voluntary modulation

The Council, following a political agreement at its meeting on 19 March and consultation with representatives of the European Parliament, adopted, with the abstention of the Latvian delegation, a regulation laying down rules for voluntary modulation of direct payments under the common agricultural policy (CAP).

The regulation introduces a legal basis allowing Portugal and the United Kingdom to apply the voluntary modulation scheme. A review of the issue of modulation is foreseen in the framework of the so-called "health check" of the CAP reform in 2008.

The United Kingdom delegation stated that four regions are planning to use voluntary modulation over the 2007-2013 period at less than 20% and that, in England, 80% of the modulation will be devoted to protection of the environment, to be co-financed at a significant level.

The European Parliament had suspended 20% of EU 2007 budget appropriations for rural development unless the proposal to extend voluntary modulation to all member states was withdrawn.

The suspension was lifted on 21 March, following unanimous political agreement on the presidency compromise. This will release 20 % bound appropriations from the reserve and allow the approval and implementation of rural development programmes for the new programming period without delay.