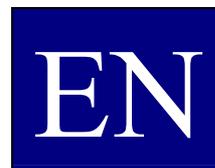




**COUNCIL OF
THE EUROPEAN UNION**



7192/08 (Presse 61)

PROVISIONAL VERSION

PRESS RELEASE

2857th Council meeting

Economic and Financial Affairs

Brussels, 4 March 2008

President

Mr Andrej BAJUK
Minister for Finance of Slovenia

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>

7192/08 (Presse 61)

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Main results of the Council

*The Council approved a report on **financial stability** issues, in the light of recent volatility on financial markets, as well as this year's update of the EU's broad **economic policy guidelines** and **country-specific recommendations** on economic and employment policies.*

*Both documents will be submitted to the spring meeting of the European Council, to be held in Brussels on 13 and 14 March, where the issue of **sovereign wealth funds** will also be discussed.*

*The Council assessed a second series of updated **stability and convergence programmes** presented by the member states (following 11 programmes assessed in February).*

*It also adopted a regulation updating rules on **aviation security** adopted in 2002.*

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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.

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 and Institutional Reforms

Bulgaria:

Mr Plamen Vassilev ORESHARSKI

Minister for Finance

Czech Republic:

Mr Miroslav KALOUSEK

Minister for Finance

Denmark:

Mr Claus GRUBE

Permanent Representative

Germany:

Mr Peer STEINBRÜCK

Federal Minister for Finance

Estonia:

Mr Raul MÄLK

Permanent Representative

Ireland:

Mr Brian COWEN

Tánaiste (Deputy Prime Minister) and Minister for Finance

Greece:

Mr Georgios ALOGOSKOUFIS

Minister for Economic Affairs and Finance

Spain:

Mr Pedro SOLBES MIRA

Second Deputy Prime Minister and Minister for Economic Affairs and Finance

France:

Ms Christine LAGARDE

Minister for Economic Affairs, Finance and Employment

Italy:

Mr Tommaso PADOA SCHIOPPA

Minister for Economic Affairs and Finance

Cyprus:

Mr Charilaos STAVRAKIS

Minister for Finance

Latvia:

Ms Irēna KRŪMANE

State Secretary, Ministry of Finance

Lithuania:

Mr Rimantas ŠADŽIUS

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 Alfred CAMILLERI

Permanent Secretary, Ministry of Finance

Netherlands:

Mr Wouter BOS

Minister for Finance, Deputy Prime Minister

Austria:

Mr Wilhelm MOLTERER

Vice Chancellor and Federal Minister for Finance

Poland:

Mr Jan VINCENT-ROSTOWSKI

Minister for Finance

Portugal:

Mr Fernando TEIXEIRA DOS SANTOS

Ministro de Estado, Minister for Finance

Romania:

Ms Alice BITU

Secretary of State, Ministry of the Economy and Finance

Slovenia:

Mr Andrej BAJUK
Mr Žiga LAVRIČ

Minister for Finance
State Secretary, Ministry of Finance

Slovakia:

Mr Ján POČIATEK

Minister for Finance

Finland:

Mr Jyrki KATAINEN

Deputy Prime Minister, Minister for Finance

Sweden:

Mr Anders BORG

Minister for Finance

United Kingdom:

Ms Yvette COOPER

Chief Secretary to the Treasury

.....

Commission:

Mr Joaquín ALMUNIA
Mr László KÓVACS
Mr Charlie MCCREEVY

Member
Member
Member

.....

Other participants:

Mr Philippe MAYSTADT
Mr Xavier MUSCA
Mr Christian KASTROP

President of the European Investment Bank
Chairman of the Economic and Financial Committee
Chairman of the Economic Policy Committee

ITEMS DEBATED

STABILITY AND CONVERGENCE PROGRAMMES

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

- stability programmes presented by Cyprus and Malta, the first to be presented since their adoption of the euro as their currency on 1 January;
- updated stability programmes presented by Austria, Greece, Ireland, Portugal, Slovenia and Spain;
- updated convergence programmes presented by Bulgaria, the Czech Republic, Denmark, Estonia, Latvia and Lithuania.

This follows the adoption of opinions on a first series of 11 programmes at the Council's meeting on 12 February. For this year's review, only Belgium and Poland 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 programmes are required to set out the member states' medium-term budgetary objectives, the main assumptions about 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.

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.

PREPARATION OF THE SPRING MEETING OF THE EUROPEAN COUNCIL

Broad economic policy guidelines and country-specific recommendations

The Council approved reports, to be submitted to the spring meeting of the European Council (13 and 14 March), on:

- the EU's broad economic policy guidelines (BEPGs) for the 2008-2010/2011 period, to be included in integrated guidelines for growth and jobs;
- a 2008 update of the EU's country-specific integrated recommendations on economic and employment policies. .

Once endorsed by the European Council, the guidelines and recommendations will be adopted by the Council without further discussion.

The new BEPGs are unchanged from those applied for the 2005-07 period; only the explanatory texts have been updated. The text can be found in document [6728/1/08](#).

The country-specific integrated recommendation can be found in document [6775/08](#)).

Financial stability

The Council held an exchange of views regarding the situation on financial markets and progress with financial stability issues, with a view to further discussion by the European Council at its spring meeting (13 and 14 March).

It approved an interim report on the subject, to be submitted to the European Council, assessing ongoing work on financial market stability in the light of the sustained period of volatility on global financial markets experienced since last August (6784/08).

It also took note of the presentation by the Commission of a communication, suggesting that the European Council endorses principles to guide the EU, both internally and in international fora, as well as a series of actions to be followed (6930/08).

The Council's interim report notes that growth in the EU economy is expected to moderate this year, although the extent of the slowdown should remain limited in Europe because of strong fundamentals and the absence of significant macroeconomic and financial imbalances.

In a recent interim forecast, the Commission revised growth prospects for 2008 downwards to 1.8% of gross domestic product (GDP) for the euro area and 2% of GDP for the EU as a whole. Many of the downside risks identified in its autumn forecast have materialised, including a significant rise in oil prices and a strengthening in the euro exchange ratio.

In the current context, the Council report states, economic and financial policies should be geared towards ensuring macroeconomic stability and pursuing structural reforms.

At its meeting on 9 October, the Council adopted conclusions on a series of initiatives to be followed in response to weaknesses identified in the financial system. These combine actions of both a regulatory and non-regulatory nature around four main objectives:

- improving transparency in the market, notably as concerns banks' exposures relating to securitisation and off-balance sheet items;
- upgrading valuation standards to respond in particular to problems arising from the valuation of illiquid assets;
- strengthening the EU's prudential framework for the banking sector, e.g. with respect to the treatment of large exposures, banks' exposures to securitisation as well as liquidity risk management; and
- investigating issues such as the role played by credit rating agencies.

Sovereign wealth funds

The Council held an exchange of views on issues relating to sovereign wealth funds, with a view to further discussion by the European Council at its spring meeting (13 and 14 March).

It took note of the presentation by the Commission of a communication, suggesting that a code of conduct be defined at international level in order to ensure greater transparency, predictability and accountability in sovereign wealth funds; a code that would involve the countries that invest in such funds (6944/08).

Sovereign wealth funds are state-owned investment vehicles funded by foreign-exchange assets; they are estimated to control assets of between EUR 1.5 and 2.5 trillion, up from several hundreds of billions a few years ago. More than 30 countries have established sovereign wealth funds since the early 1950s, most of those in the last eight years; the biggest funds are sponsored by China, Kuwait, Norway, Saudi Arabia, Singapore and the United Arab Emirates.

Delegations agreed that sovereign wealth funds play an important and positive role on global capital markets. However, the recent increase in funds under their management raises issues of governance and transparency that need to be addressed so as to ensure that the climate for investment remains open, secure and predictable.

Delegations agreed on the need for the EU to forge a common position, so as to help ensure that their shared objectives are met through the work of international fora. Commitments in particular with regard to the separation of the management of sovereign wealth funds from political authorities should be central to any agreement at global level. And if international negotiations were not to develop satisfactorily, further action should be considered at EU level.

EU BUDGET

Council priorities for the 2009 budget – *Council conclusions*

The Council adopted the following conclusions:

- "1. The Council considers that the budgetary procedure 2009, the third one within the 2007-2013 Financial Framework, will play a pivotal role in the pursuit and development of the European Union's objectives and priorities, as the vast majority of programmes and actions are likely to reach their cruising speed. The European Union is faced with the challenge of guaranteeing the continuity and coherence of actions while pursuing forward-looking policies to adjust to a fast changing environment.
2. The Council considers that an excellent spirit of cooperation prevailing in the course of the preparation of the budget is a key factor in the smooth development of the budgetary procedure and emphasises the importance of continuing to strengthen the good collaboration between the two arms of the budgetary authority and the Commission in 2009.
3. The Council reiterates that the Interinstitutional Agreement (IIA) on budgetary discipline and sound financial management of 17 May 2006 is the basis for the establishment of the 2009 budget and that it has to be applied to the full.

In this context, it stresses the necessity of strict compliance with the multiannual Financial Framework, as revised on 18 December 2007. Expenditure must strictly remain within the limits fixed therein and sufficient margins must be maintained under all the ceilings of various headings, with the exception of sub-Heading 1b, for the purpose of sound financial management and notably to cater for unforeseen circumstances.

4. The Council recalls the importance of maintaining an overall budgetary discipline, as well as respecting the principle of sound financial management, and emphasises that this entails applying to the EU budget the same degree of budgetary restraint as is exercised by the Member States for their own national budgets. In this context, the Council believes that the budget for 2009 should provide sufficient and justified resources to implement and develop efficiently and effectively the various policies of the Union bearing in mind their multiannual nature. The Council urges the Commission to deliver, together with its Preliminary Draft Budget, the underlying assumptions on which the figures for each Heading or sub-Heading are based.
5. In order to optimise its actions, it is of the utmost importance for the European Union to achieve the best possible use of resources. Commitment and payment appropriations should be set so as to reflect real and well defined needs, in full respect of the ceilings fixed by the Financial Framework. In addition, past trends of implementation should be taken into account in assessing the absorption capacity in all sectoral policies and in allocating resources. Monitoring the implementation and the effectiveness of new programmes and actions becomes essential. Furthermore, the Council underlines the importance of reprioritisation and reallocation, as a primary tool for budgetary flexibility, in order to allow the budgetary authority to adapt the appropriations in a realistic way.
6. The Council acknowledges the progress achieved by the Commission in delivering better forecasts and encourages the Commission and the Member States to pursue their efforts. In this context, the Council points out that, while Member States present estimates under shared management as accurately as possible, the Commission remains ultimately responsible for ensuring that the appropriations introduced in the Preliminary Draft Budget (PDB) reflect genuine needs and implementation capacity.
7. The Council stresses, once again, the great importance of keeping payment appropriations firmly under control. The Council also notes with great concern the volume of outstanding commitments and considers that the relation between the level of commitment and payment appropriations must be carefully weighed against the absorption capacity. The Council calls on all actors involved to do their utmost to avoid overestimation.

8. The Council acknowledges the progress made by the Commission in the establishment of the PDB estimates and exhorts it to pursue its efforts to reduce to the minimum the difference between the PDB and the outturn, as illustrated in the annex. It underlines the fact that the PDB is the starting point of the budgetary procedure and therefore it must set the tone for a realistic budgeting. An accurate PDB, together with a constant monitoring and improvement of budget implementation are essential to avoid the significant under-use of funds that occurred in the past, and to allow the Member States to precisely anticipate the level of their contribution to the EU budget. Moreover, it would limit the recourse to corrective budgetary tools such as Amending Budgets to the strict minimum, thus avoiding their unexpected impact on national budgets.
9. In this context, the Council notes with satisfaction the constant improvements in the functioning of the Commission's "Budget Forecast Alert (BFA) system", which allows adjustments to the level of the appropriations in a more realistic and rigorous way. It expects this positive trend to be enhanced during the 2009 budgetary procedure and encourages the Commission to continue to refine its methods of monitoring expenditure. The Council expects the BFA information to be delivered sufficiently in time to allow its effective use at each stage of the budgetary procedure.
10. The Council, while recalling that the objective of the "Activity Based Budgeting" is to match human and financial resources to political priorities, points out that high quality Activity Statements and timely financial information on spending proposals are crucial for the budget authority to establish, confirm or modify budgetary priorities. While noting its usefulness in the assessment of EU action in 2008, it expects further improvements for 2009, in particular regarding performance indicators and human resources, in order for them to be more useful and to have a greater budgetary implication. Consequently, the Council stresses its willingness to continue an enhanced examination of a set of Activity Statements during the 2009 budgetary procedure.

11. As regards some sectoral issues, the Council identifies the following elements as crucial in preparing the 2009 budget:
- Concerning Competitiveness for Growth and Employment, the Council attaches the greatest importance to a proper implementation of the various programmes and actions within the ceiling of this sub-Heading as revised in 2007.
 - The Council reiterates its encouragement to the Commission to continue its efforts together with the Member States in order to establish a realistic and accurate level of payments for Structural Policies. The Council requires the Commission to ensure that rules are applied in a simplified and operational way through instructions and guidelines which are understandable and adequate as well as in line with sectoral regulations, enabling efficient and effective implementation of the 2007-2013 programmes. In this context, it asks the Commission to continue to encourage and facilitate this, by providing constant advice and guidance to Member States through all the relevant channels and tools.
 - Concerning CAP expenditure, the Commission is invited to present realistic and clearly defined forecasts already in its PDB and then in its Letter of Amendment, taking into account not only past implementation and foreseeable market prices evolution at European and international level but also the very tight ceiling of expenditure for 2009. Particular attention should be given to ensuring that payment appropriations for expenditure related to rural development are accurate.
 - As regards Citizenship, Freedom, Security and Justice, the Council recalls the importance of allocating sufficient resources to the EU immigration policy.
 - As far as external actions are concerned, taking into account the present and forthcoming challenges, both at the economic and stability level, the Council firmly believes that the role of the European Union as a global player must be reaffirmed and that the 2009 budget should have adequate means to match the Union's ambitions. In this respect, the Council stresses that sufficient margin within the ceiling of Heading 4 is vital for the European Union, in order to enable it to provide for unexpected needs and crises in the most effective, flexible and rapid way.

In this context, the Council draws attention to the constantly growing role of the Common Foreign and Security Policy and the need for it to continue to be adequately funded; therefore, it points out that a level of appropriations has to be in line with the provisions and amounts established in the IIA bearing in mind the yearly amounts retained in the financial programming when the IIA was agreed.

- As for administrative expenditure, the Council recalls the common objective of reducing bureaucracy, along the same line adopted by Member States to optimise the use of resources and achieve gains. The Council intends to continue to monitor and to improve EU institutions' effectiveness with a view to improving administrative efficiency and stresses the crucial importance of redeployment and reorganisation. Therefore, it expects all the institutions to provide in advance all the necessary information - including the additional information requested in last year's exercise - for a clear consolidated picture of the administrative expenditure, thus allowing the budgetary authority to evaluate the situation and take well-founded decision on the allocation and use of resources.

The Council is concerned about the evolution in appropriations for pensions and their impact on the administrative expenditure in the future. Therefore, it invites the Commission to provide well before the PDB an updated estimate of annual Communities' pension expenditure at least up to 2013.

- Regarding executive agencies, the Council refers to the joint statement adopted by the budgetary authority on 13 July 2007, and confirms that it intends to monitor closely their establishment and their implementation and recalls that the final decision on staffing remains a matter for the budgetary authority.
- As far as the European Union's decentralised agencies are concerned, the Council reiterates the importance of keeping their funding under firm control, so as to provide for the real needs and to avoid over-budgeting. In this context, the Council recalls the budgetary authority's joint statements on Community agencies adopted during the 2008 procedure and calls on the Commission and the agencies to comply with their requirements. It expects the Commission to provide a comprehensive picture in due time for the PDB for 2009.

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. The Council notes with interest the Commission's intention to issue a communication on regulatory agencies and expects it to be issued in a timeframe consistent with the budgetary procedure.

- Concerning assigned revenue, the Council strongly believes that increasing transparency in the budgetary field is part of a sound financial management of EU funds. It recalls the joint statement on assigned revenue agreed during the 2008 budgetary procedure and calls on all the institutions as well as agencies and other bodies to provide all the requested information on a regular basis and in time for the PDB for 2009. It also welcomes the Commission's commitment to include assigned revenue in the BFA.

The Council reiterates the importance it attaches to the recruitment process in the context of enlargement, especially at this point in time, where the transitional period is coming to its end. In line with the joint statement agreed in the 2008 budgetary procedure, it recalls that the budgetary authority "intends to continue to monitor closely the ongoing recruitment process" and exhorts all institutions to take the necessary steps to finalise it without delay.

12. The Council recalls that the budget is one of the most significant tools to guarantee the accountability of the European Union towards its citizens; likewise it is fully aware that an accurate and accountable use of the EU resources is one of the essential means to reinforce the trust of the European citizens. Therefore, it attaches the greatest importance to these guidelines and expects them to be fully taken into account already in the PDB for 2009. These guidelines will be forwarded to the European Parliament and the Commission."

COMBATING TAX FRAUD

The Council examined draft conclusions on the issue of combating value-added tax (VAT) fraud, on the basis of a communication from the Commission (6859/08 + ADD 1).

It agreed to re-examine the issue at one of its forthcoming meetings, with a view to adopting the conclusions.

TAXATION OF SAVINGS

The Council was briefed by the Commission on progress made in its contacts with certain third countries and territories as regards the possible adoption of savings tax measures that are equivalent to those applied in the EU.

It held an exchange of views on the issue, as well as on application within the EU of directive 2003/48/EC on the taxation of savings income.

The Council reiterated its resolve to broaden and improve the network of savings tax agreements concluded by the EU and the member states, expressing support to the Commission in its efforts to conclude savings tax agreements with a further group of third countries.

It also called on the Commission to accelerate preparation of a report on implementation of directive 2003/48/EC since its entry into force on 1 July 2005, and to make it ready in May.

Savings tax measures are currently applied in the EU under directive 2003/48/EC, as well as in five European third countries (Andorra, Liechtenstein, Monaco, San Marino and Switzerland) and in ten member state associated and dependent territories (Anguilla, British Virgin Islands, Cayman Islands, Montserrat, Turks and Caicos, Aruba, Netherlands Antilles, Guernsey, Jersey and the Isle of Man) under savings tax agreements.

In conclusions adopted in October 2006, the Council asked the Commission to start exploratory talks with Hong Kong, Macao and Singapore.

This is the first time that the Commission has reported back on its contacts with them.

MEETINGS IN THE MARGINS OF THE COUNCIL

The following meetings were held in the margins of the Council:

– **Eurogroup**

Ministers of the euro area member states attended a meeting of the eurogroup on 3 March.

– **Breakfast meeting on the economic situation**

Ministers attended a breakfast meeting to discuss the economic situation, on the basis of interim economic forecasts from the Commission, with a particular focus on commodity price developments. The president of the eurogroup reported on the eurogroup meeting held on 3 March.

Ministers agreed on the need for member states to report oil stock data on a weekly basis.

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Over lunch, ministers discussed issues regarding the European Bank for Reconstruction and Development, with a view to the bank's annual meeting in Kiev on 18 and 19 May.

OTHER ITEMS APPROVED

TRANSPORT

Civil aviation security*

The Council adopted by qualified majority¹ a regulation on common rules in the field of civil aviation security, in accordance with a joint text on which agreement was reached with the European Parliament under the Parliament-Council conciliation procedure (3601/08, 6406/08 ADD1, 6406/08 ADD1 COR1).

The regulation seeks to replace, in the light of experience gained, regulation 2320/2002, which was adopted in the wake of the terrorist attacks of 11 September 2001 and is in force since January 2003.

The new regulation sets common rules and common basic standards on aviation security and mechanisms for monitoring compliance. With the aim of enhancing security, it clarifies, simplifies and further harmonises the existing rules. It also provides the basis for a common interpretation of annex 17 to the 1944 Chicago convention on international civil aviation.

The common basic standards laid down in the regulation concern in particular: airport security, aircraft security, passengers and cabin baggage, hold baggage, cargo and mail, in-flight and airport supplies, in-flight security measures, staff recruitment and training and categories of articles that may be prohibited.

For more information see press release 5082/08.

¹ The United Kingdom delegation abstained and the Danish and Luxembourg delegations voted against.