



**COUNCIL OF
THE EUROPEAN UNION**



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PRESS RELEASE

3167th Council meeting

Economic and Financial Affairs

Brussels, 15 May 2012

President **Ms Margrethe VESTAGER**
Minister for Economic Affairs and the Interior of Denmark

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 reached agreement on a general approach on two proposals, the so-called "CRD 4" package, amending the EU's rules on **capital requirements for banks** and investment firms. Negotiations will now proceed with the European Parliament with a view to adopting the texts at first reading.*

The proposals set out to amend and replace existing bank capital rules and prudential requirements. They are aimed at transposing into EU law an international agreement approved by the G-20 in November 2010 – the so-called Basel 3 agreement - concluded by the Basel Committee on Banking Supervision.

The Council also adopted conclusions on:

- the fast-start financing of **climate change** measures;*
- projections for **age-related expenditure** in the member states;*
- the future of **value-added taxation** and the establishment of a simpler, more robust and efficient VAT system.*

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¹ 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

Belgium:

Mr Steven VANACKERE

Deputy Prime Minister and Minister for Finance and Sustainable Development, with responsibility for the Civil Service

Bulgaria:

Ms Boryana PENCHEVA

Deputy Minister for Finance

Czech Republic:

Mr Miroslav KALOUSEK

Mr Tomáš ZÍDEK

Minister for Finance

Deputy Minister for Finance

Denmark:

Ms Margrethe VESTAGER

Minister for Economic Affairs and the Interior

Germany:

Mr Wolfgang SCHÄUBLE

Federal Minister for Finance

Estonia:

Mr Jürgen LIGI

Minister for Finance

Ireland:

Mr Michael NOONAN

Minister for Finance

Greece:

Mr Theodoros SOTIROPOULOS

Permanent Representative

Spain:

Mr Luis DE GUINDOS JURADO

Minister for Economic Affairs and Competitiveness

France:

Mr Philippe ETIENNE

Permanent Representative

Italy:

Mr Mario MONTI

Prime Minister and Minister for Economic Affairs and Finance

Mr Vittorio GRILLI

Deputy Minister for Economic Affairs and Finance

Cyprus:

Mr Vassos SHIARLY

Minister for Finance

Latvia:

Mr Andris VILKS

Minister for Finance

Lithuania:

Ms Ingrida ŠIMONYTĖ

Minister for Finance

Luxembourg:

Mr Luc FRIEDEN

Minister for Finance

Hungary:

Mr Gyula PLESCHINGER

Minister of State for Taxation and Financial Policy Affairs

Malta:

Mr Tonio FENECH

Minister for Finance, the Economy and Investment

Netherlands:

Mr Jan Kees de JAGER

Minister for Finance

Austria:

Ms Maria FEKTER

Federal Minister for Finance

Poland:

Mr Jacek ROSTOWSKI

Minister for Finance

Portugal:

Mr Vitor GASPAR

Minister for Finance

Romania:

Mr Claudiu DOLTU

State Secretary, Ministry of Finance

Slovenia:

Mr Janez ŠUŠTERŠIČ

Minister for Finance

Slovakia:

Mr Vazil Hudák

State Secretary, Ministry of Finance

Finland:

Ms Jutta URPILAINEN

Deputy Prime Minister, Minister for Finance

Sweden:

Mr Anders BORG

Minister for Finance

Mr Peter NORMAN

Minister for Financial Markets

United Kingdom:

Mr George OSBORNE

Chancellor of the Exchequer

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Commission:

Mr Olli REHN

Vice President

Mr Michel BARNIER

Member

Mr Algirdas ŠEMETA

Member

Mr Janusz LEWANDOWSKI

Member

.....

Other participants:

Mr Vitor CONSTÂNCIO

Vice President of the ECB

Mr Werner HOYER

President of the European Investment Bank

Mr Thomas WIESER

President of the Economic and Financial Committee

Mr Hans VIJBRIEF

President of the Economic Policy Committee

Mr Andrea ENRIA

Chairman of the European Banking Authority

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The government of the acceding state was represented as follows:

Croatia:

Mr Slavko LINIĆ

Minister for Finance

ITEMS DEBATED

BANK CAPITAL REQUIREMENTS

The Council reached agreement on a general approach on two proposals, the so-called "CRD 4" package, amending the EU's rules on capital requirements for banks and investment firms.

It called on the presidency to start negotiations with the European Parliament, on the basis of the Council's general approach. The aim is to reach agreement on the texts at first reading, if possible by June as requested by the European Council in March.

The proposals set out to amend and replace the existing capital requirement directives¹ and divide them into two new legislative instruments: a *regulation* establishing prudential requirements that institutions need to respect and a *directive* governing access to deposit-taking activities.

They are aimed at transposing into EU law an international agreement approved by the G-20 in November 2010 – the so-called Basel 3 agreement – concluded by the Basel Committee on Banking Supervision.

For details, see press release [9399/12](#).

¹ Directives 2006/48/EC and 2006/49/EC

SAVINGS TAX AGREEMENTS

The Council discussed a draft decision aimed at giving a mandate to the Commission to negotiate amendments to agreements signed in 2004 with Switzerland, Liechtenstein, Monaco, Andorra and San Marino on the taxation of savings income.

The negotiations would aim to update the agreements so as to ensure that the five countries apply measures that are equivalent to an amended EU directive on the taxation of savings income.

The amendments to both the directive¹ and the agreements would set out to improve their efficiency whilst reflecting changes to savings products and developments in investor behaviour since they were first applied in 2005.

In the light of reservations expressed by two delegations, the presidency suggested that the issue be included in a report to the European Council on tax issues that is scheduled for June. The report will cover ways to step up the fight against tax fraud and tax evasion, including in relation to third countries.

¹ Directive 2003/48/EC

PUBLIC FINANCES AND AGEING POPULATIONS

The Council adopted the following conclusions.

- "1. Positive developments related to life expectancy have taken place in recent years. Nevertheless, an ageing population poses major economic, budgetary and societal challenges. The economic and financial crisis contributed to a strong deterioration in the budgetary positions in most Member States, resulting in high government debt levels and potentially putting at risk fiscal sustainability in several EU countries. The Council **STRESSES** the need for ensuring swift progress towards long-term fiscal sustainability of public finances by continuing appropriate consolidation of public finances. The Council **STRESSES** the urgency for further implementation of structural reforms in accordance with the Europe 2020 strategy and the Ecofin Council conclusions of 21 February 2012 in order to durably enhance the growth potential of EU economies and thereby further support the sustainability of public finances within the strengthened governance framework in the EU.
2. Against this background, the Council **ENDORSES** the 2012 Ageing Report: economic and budgetary projections for the 27 EU Member States (2010-2060) prepared by the Economic Policy Committee (Ageing Working Group) and the Commission (DG ECFIN) on the basis of commonly agreed methodologies and assumptions. In line with previous editions, the projections in the 2012 Ageing Report cover age related public expenditures in pensions, health care, long-term care, education, and unemployment benefits.
3. The Council **HIGHLIGHTS** the main findings of the 2012 Ageing Report:
 - Following the largest economic crisis in many decades, potential GDP growth has been revised downwards in 2010 and the surrounding years, compared with the baseline projection in the 2009 Ageing Report. As a consequence, the GDP level is lower throughout the projection period in the new projections. In addition, a substantial decline in the working-age population over the projection period will result in a decrease in labour supply with a consequent trend decline in potential growth estimated to converge to below 1 ½ % in real terms in the long-term in the EU.
 - The fiscal impact of ageing will be considerable in almost all Member States. The economic crisis has already led to an increase in age-related public expenditure in 2010 compared with the previous projections and, on the basis of current policies, strictly-age-related public expenditures (excluding unemployment benefits) are projected to further increase by 4.1 p.p. of GDP between 2010 and 2060 in the EU, with large differences across countries. This increase is nevertheless lower than in the previous projection round (4.7 p.p.) thanks to recent reforms and more benign demographic developments projected for the EU.

- The projected increase in age-related expenditure amongst others reflects public pension spending rising by 1.5 p.p. of GDP until 2060 in the EU. The diversity across Member States is very large, depending on the degree and timing of population ageing, the specific features of national pension systems and, notably, countries' progress with structural reforms. In a number of countries, recent pension reforms have had a visible positive impact by containing public expenditure dynamics, including by introducing a link between the statutory retirement age and life expectancy in some cases. The scale of reforms in some other countries is still insufficient or has not been quantified yet.
- Mainly due to demographic developments, public expenditure on health care and long-term care is projected to increase by 2.7 p.p. of GDP between 2010 and 2060 in the EU in the AWG reference scenario. Taking into account possible future developments in non-demographic cost drivers in health care and long-term care spending, as in the AWG risk scenario, the projected increase in care-related spending could even reach 3.4 p.p. of GDP between 2010 and 2060.

4. In light of the updated age-related expenditure projections and the current economic situation, the Council REAFFIRMS that coping with these challenges will continue to require appropriate policy action in the EU. This entails implementation of the Europe 2020 strategy and of the three-pronged strategy for addressing the economic and budgetary consequences of ageing, i.e. by reducing government debt at a fast pace, raising employment rates and productivity, and reforming pension, health care and long-term care systems.
5. The Council therefore RECONFIRMS the commitment to implementing further reforms in all these areas, notably pension and health care reforms, while respecting national traditions of social dialogue. Especially, the Council HIGHLIGHTS that further steps need to be taken to raise the effective retirement age, including by avoiding early exit from the labour market and by linking the statutory retirement age or pension benefits to life expectancy, in line with the 2012 Annual Growth Survey, or may include other measures of equivalent budgetary effect. Achieving this will give rise to a double dividend: higher living standards for all, including supporting adequate retirement income in the future, which is the specific subject of a parallel work-strand in the Social Protection Committee, and an important contribution to public finance sustainability. Moreover, the Council, recalling its Conclusions of 7 December 2010, INVITES Member States to balance the need to provide universal health care and long-term care with an increasing demand related to an ageing population, technological development and growing patient expectations in the coming decades. This enhances the need to assess the performance of health care systems and implement sound and needed reforms to achieve both a more efficient use of limited public resources and the provision of high quality health care within the context of significant budgetary constraints resulting from the high government deficit and debt levels.

6. The Council INVITES the Commission to factor these findings related to ageing challenges into its analysis and surveillance under the European Semester, and to take account of its implications in all relevant fields of economic policy coordination in the EU, as ensuring the long-term sustainability of public finances is a major challenge that needs to be addressed resolutely and monitored closely.

7. The Council INVITES the Commission to undertake its regular in-depth overall assessment of the sustainability of public finances by autumn 2012 using this set of more comprehensive and comparable updated projections. The Economic Policy Committee should on the basis of this assessment report back to the Council. The Council RECALLS that the new long-term budgetary projections should be taken into account in the update of the MTOs incorporating implicit government liabilities, and INVITES the Economic and Financial Committee and the Commission to finalise their work considering the new role of MTO in national fiscal frameworks. The Council INVITES the Economic Policy Committee to update, on the basis of new population projections to be provided by Eurostat, its analysis of the economic and budgetary implications of ageing by the autumn of 2015."

CLIMATE CHANGE

The Council adopted the following conclusions.

"The Council:

1. REAFFIRMS the EU and its Member States' commitment to provide EUR 7.2 billion cumulatively over the period 2010 – 2012 to fast start finance; UNDERLINES that despite the difficult economic situation and tight budgetary constraints, the EU and all 27 Member States have advanced notably in the implementation of this commitment;
2. ENDORSES the official report on fast-start financing by the EU and its Member States for 2011; CONFIRMS that in 2010 and 2011 a total of €4.59 billion has been mobilized by the EU to meet its FSF commitment, with 46% of the total to fund mitigation action, 32% to support adaptation efforts, 14% to support action to reduce deforestation and forest degradation in developing countries and 8% to cross sectoral activities and activities that can not be strictly categorized. REQUESTS the Commission to update the data in the Fast Start Finance report as appropriate in order to reflect any further information received before the submission to the UNFCCC.
3. REAFFIRMS the importance of continuing to provide support by developed countries beyond 2012 for activities to mitigate and adapt to climate change as set forth in the Durban decisions; in this context RECALLS that the Durban platform noted the significant gap between mitigation pledges and emissions reduction necessary to achieve the 2 °C target and therefore calls on all parties to ensure the highest possible mitigation efforts; REITERATES that in this respect the EU and other developed countries should work in a constructive manner towards the identification of a path for scaling up climate finance from 2013 to 2020 from a wide variety of sources, public finance and private sector finance, bilateral and multilateral, including alternative sources of finance, as needed to reach the international long term committed goal of mobilizing jointly US\$100 billion per year by 2020 in the context of meaningful mitigation actions and transparency on implementation with a view to reducing global greenhouse gas emissions so as to keep the increase in global average temperature below 2 °C compared to preindustrial levels;

4. REAFFIRMS the importance for the EU, together with other developed countries, to continue to contribute to climate finance after 2012 as set forth in the Durban decision to support initiatives that will deliver substantial results and value for money in the context of meaningful mitigation actions, and in helping increasing climate resilience and to narrow the ambition gap between current pledges and emission reductions with special attention to avoiding duplication of initiatives, the efficient use of available funding and the need for sustainable public finance and fiscal consolidation; ENCOURAGES domestic efforts by developing countries, including the phasing out of fossil fuel subsidies and other distortions as well as in providing good framework conditions for investments, as recipient action is crucial in ensuring ownership of supported action and the right identification of national priorities; RECOGNISES that substantial cost effective mitigation potential already exists in developing countries and UNDERLINES that increased information about efficient and cost effective available and meaningful National Appropriate Mitigation Action-proposals could further facilitate decision making and targeting of climate finance in terms of smart use of resources; RECALLS the collective nature of the financial commitments made and URGES a broader range of Parties to also significantly contribute and mobilise climate finance for that purpose reflecting evolving economic realities;

5. ACKNOWLEDGES the important role of Multilateral Development Banks and other public financial institutions, including the EIB in facilitating the mobilisation of these flows; REAFFIRMS the role of the private sector in providing finance for climate-related investments in developing countries and STRESSES that this role should be strengthened by further efforts to address regulatory barriers and to develop policy frameworks necessary to leverage private climate finance, including an efficient international carbon market; NOTES that currently no internationally agreed definition of private sector climate finance exists. RECOGNISES that further efforts are required to clarify the concept of private financing and its contribution to the 100 billion US;

6. RECALLS that a measure applied to aviation and maritime transport should have the primary goal to allow for the sector to contribute through mitigation to the 2 degree objective established by the UNFCCC; REITERATES that the carbon pricing of global aviation and maritime transportation would generate the necessary price signal to efficiently achieve more emission reductions from these sectors and could generate large financial flows, as highlighted in the AGF and the G20 reports; In this context, TAKES NOTE of the Commission's work on carbon pricing of international aviation and maritime transport and the options under consideration in the context of ICAO and IMO for global measures to address emissions in the aviation and maritime sectors; CONCLUDES that a majority of those have the potential to generate a carbon price which could potentially also generate significant revenues; NOTES that finance available, including from auctions of aviation allowances in the EU ETS, could help to support climate action in developing countries while STRESSING that it will be up to each Member State to determine the use of public revenues in accordance with national budgetary rules and in consistency with a sound and sustainable public finances policy framework of the EU, without prejudging the ongoing negotiations at the IMO; WELCOMES an acceleration of work by ICAO to further develop options for global market-based measures to address aviation emissions; ENCOURAGES the EU and its Member States to further engage effectively in negotiations in ICAO and IMO to support carbon pricing schemes which primarily incentivise mitigation and also have the potential to generate revenue; and URGES all Parties to IMO and ICAO to further increase their efforts to make progress on market based mechanisms to address emissions from global aviation and maritime transportation.

7. LOOKS FORWARD TO the establishment of the Board and the Interim Secretariat of the Green Climate Fund (GCF); and ENCOURAGES the future Board of the GCF to ensure that the GCF is a cost effective and efficient fund that will strive to provide value for money by maximizing the impact of its funding for adaptation and mitigation, including REDD+, while promoting environmental, social, economic and development co – benefits and taking a gender sensitive approach; REITERATES that the Fund is to make a significant and ambitious contribution to the global efforts towards attaining the goals set by the international community to combat climate change and to support activities to adapt to climate change."

EU DRAFT BUDGET FOR 2013

The Council took note of the presentation by the Commission of its draft for the EU's general budget for 2013¹ and held an exchange of views on the proposal.

It asked the Permanent Representatives Committee to examine the draft, with a view to enabling the Council to establish its position.

The Commission's draft provides for payments totalling EUR 137.9 billion (+ 6.8% compared with 2012) and commitments at the level of EUR 150.9 billion (+ 2.0%). Payments represent 1.04 % of EU gross national income and commitments 1.13 %.

On 21 February, the Council set out its priorities for the 2013 budget ([6260/12](#)). These will be used by the incoming Cypriot presidency as the basis for negotiations with the European Parliament and the Commission later in the year.

The Council is expected to establish its position on the draft budget by the end of July, and the Parliament in late October. If their positions diverge, a three-week conciliation process will start on 24 October.

¹ http://ec.europa.eu/budget/library/biblio/documents/2013/DB2013/DB2013_docI_en.pdf

MEETINGS IN THE MARGINS OF THE COUNCIL

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

- ***Informal dialogue with the European Parliament***

The Council troika (current and future two presidencies) held an informal meeting on 14 May with a delegation from the European Parliament, focusing on economic governance and financial services.

- ***Eurogroup***

Ministers of the euro area member states attended a meeting of the Eurogroup on 14 May.

- ***EIB annual governors meeting***

Ministers met in their capacity as governors of the European Investment Bank for the annual EIB governors' meeting.

- ***Ministerial breakfast meeting***

Ministers held a breakfast meeting to discuss the economic situation, in the light of the Commission's Spring economic forecast released on 11 May. They also took stock of discussions within the Economic and Financial Committee on IMF governance issues.

- ***Ministerial dialogue with EU candidate countries***

Ministers, over lunch, held an informal meeting with their counterparts from the EU accession and candidate countries – Croatia, Turkey, the former Yugoslav republic of Macedonia, Montenegro, Iceland and Serbia – focusing on the candidate countries' pre-accession economic programmes for the 2012-14 period.

OTHER ITEMS APPROVED**ECONOMIC AND FINANCIAL AFFAIRS****TARGET2-Securities - Conclusions**

The Council adopted conclusions on TARGET 2-Securities (T2S), welcoming progress made by the Eurosystem and relevant stakeholders and confirming its political support for T2S as an important contributor to the establishment of the single market for securities services.

The conclusions can be found in [9605/1/12 REV.](#)

KPMG appointed auditor of Bank of France

The Council adopted a decision approving the appointment of Deloitte and KPMG as external auditors of the Bank of France for the financial years 2012 to 2017.

The future of VAT - Conclusions and Report

The Council took note of a report on discussions on a communication from the Commission on the future of Value Added Tax (VAT).

It adopted the following conclusions.

"A. Council Conclusions on the future of VAT in general

The Council of the European Union

- RECALLS the Commission's Green Paper on "The future of VAT – Towards a simpler, more robust and efficient VAT system" and ACKNOWLEDGES the wide public consultation of all interested parties conducted during the first half of 2011.
- WELCOMES the subsequent Communication from the Commission to the European Parliament, the Council and the European Economic and Social Committee on "The future of VAT – Towards a simpler, more robust and efficient VAT system tailored to the single market".
- SUPPORTS the objective of an EU VAT system which should be simpler, more efficient and neutral, robust and fraud-proof.

- In this context, EMPHASISES that the current financial and economic situation is difficult and complex and demands a strong fiscal consolidation of national budgets, as reflected in the European Council Conclusions of 1/2 March 2012 (cf. doc. EUCO 4/3/12) and RECALLS that the European Council invited “Member States, where appropriate, to review their tax systems with the aim of making them more effective and efficient, removing unjustified exemptions, broadening the tax base, shifting taxes away from labour, improving the efficiency of tax collection and tackling tax evasion”. This should be taken into account at EU level in the implementation of the objectives of the Communication. Value Added Tax constitutes a major source of revenue for the national budgets and reform of the current EU VAT system should, in particular, aim at making it more effective and efficient, removing unjustified exemptions and broadening the tax base, in order to contribute to fiscal consolidation and growth.
- POINTS TO the following principles and legal considerations, which should be taken into account in furtherance of any future action: cost-efficiency, proportionality, unanimity, data protection legislation, compliance with the subsidiarity principle and full respect for the respective competences of the Union and the Member States.
- INVITES the relevant Council bodies and the Commission to take into account these conclusions, in their ongoing work and in the implementation of the objectives of the Communication.
- INVITES the Presidency and the Commission to update the Council on the progress of work as necessary.

B. Council Conclusions on the priorities for further work

1) A simpler VAT system

The Council of the European Union

- ACKNOWLEDGES the need to simplify the current VAT system in order to reduce VAT compliance costs and administrative burdens for businesses small and large alike, and in particular for businesses working in more than one Member State and SUPPORTS work to ensure the timely implementation of the mini One-Stop-Shop in 2015 as a key priority action. TAKES NOTE of the Commission’s view that, in a VAT system based on taxation at destination, a One-Stop-Shop is a crucial instrument to facilitate access to the single market.

- EMPHASISES the importance of ensuring that initiatives designed to arrive at a simpler VAT system for businesses do not impose additional burdens on national authorities; the strategic objective of simplicity should be seen as a two-way concept that applies to businesses and national authorities alike.
- CALLS ON the Commission to further clarify the legal status of the information, as well as content, form, roles and responsibilities in connection with the proposed EU VAT web portal and INVITES Member States to collaborate on the design of such a portal, which should not impose disproportionate administrative burdens on national authorities nor duplicate work.
- INVITES the Commission, in close cooperation with Member States and in consultation with stakeholders, to continue its work on the setting up of an EU VAT forum for Member States and stakeholders, facilitated by the Commission.
- TAKES NOTE of the intention of the Commission to present a proposal for creating a standardised VAT declaration, and in this context CALLS ON the Commission to ensure a broad based dialogue and a thorough cost-benefit analysis beforehand.

2) *A more efficient VAT system*

The Council of the European Union

- CONSIDERS revenue generating capacity and the ability to sustain economic growth to be inherent features of a more efficient VAT system.
- CONCURS with the need to examine in further detail the present EU rules on the application of VAT to the public sector, in so far as there is competition between the public and private sectors.
- ACKNOWLEDGES the desire to clarify the rules concerning non-profit-making organisations.
- RECALLS the ECOFIN Council Conclusions of 10 March 2009, which settled the issue of: “the possibility, for the Member States that so wish, of applying reduced VAT rates in certain sectors” and “at the same time acknowledged that reduced VAT rates may, depending on the circumstances, have positive and negative economic effects, so that more efficient alternative solutions should always be considered before a Member State decides to use the option to apply reduced VAT rates”.

- TAKES NOTE that the Commission favours a restricted use of reduced rates in order to increase the efficiency of the VAT system, and that it intends to launch in 2012 an assessment of the current VAT rates structure in the light of the various guiding principles set out in its Communication. COMMITS ITSELF to examine the findings of that assessment.

3) *A more robust and fraud-proof VAT system*

The Council of the European Union

- Fully ACKNOWLEDGES that continued work is needed to improve the robustness and resilience of the EU VAT system, including taking into account new technological developments.
- TAKES NOTE of the intention of the Commission to analyse the feasibility of new tax collection methods.
- TAKES NOTE of the intention of the Commission to come forward with a concrete proposal for a Quick Reaction Mechanism which, with a view to combating sudden fraud, will enable the adoption at national level of temporary measures derogating from the Directive, pending the outcome of the procedures for the adoption of appropriate measures at Union level.

4) *A VAT system tailored to the single market*

The Council of the European Union

- CONCURS with the Commission that the principle of “taxation in the Member State of origin of the supply of goods or services”, as envisaged in article 402 of Directive 2006/112/EC on the common system of value added tax, remains unlikely to be politically achievable.
- INVITES the Commission to proceed with in-depth technical work and a broadly based dialogue with Member States to examine in detail the different possible ways to implement the destination principle."

BUDGETS

EU Solidarity fund for Italy

The Council adopted its position on draft amending budget no 2 for 2012¹ and accepted the mobilisation of EUR 18.1 million in commitments and payments in order to provide financial assistance to the regions of Liguria and Tuscany in Italy, affected by heavy rainfall and flooding in October 2011.

In line with an interinstitutional agreement on budgetary discipline and sound financial management, the Council wishes to use redeployments from energy projects under the European economic recovery plan in order to cover the payments. The commitments would be in addition to those already existing.

ENVIRONMENT

Green Climate Fund

The Council adopted conclusions on Green Climate Fund nominations as set out in [9856/12](#).

¹ The UK delegation abstained.