



Brussels, 3 May 2006

BACKGROUND¹

ECONOMIC and FINANCIAL AFFAIRS COUNCIL

Friday 5 May in Brussels

*The Council will be preceded as usual by a meeting of the **eurogroup**, on Thursday 4 May starting at 19.00, which will examine the economic situation in the euro area and budgetary developments in the member states.*

A ministerial dialogue with the EU accession and candidate countries will be held at 9.00 on Friday.

*Starting at 10.00, the Council will prepare the European Council's review of the EU's **sustainable development** strategy, as regards the economic and financial aspects, and adopt conclusions on three financial services dossiers: **financial supervision**, cross-border **mergers and acquisitions** and the Commission's white paper on **financial services policy**.*

*The Council will also debate proposals on the **place of taxation** for VAT payments for business-to-business and business-to-consumer services and on simplified **VAT obligations for businesses**.*

At lunch, ministers will discuss the European Investment Bank's external lending mandate, pending a proposal from the Commission, expected next month.

The president of the Council will hold a press conference at the end of the meeting.

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¹ This note has been drawn up under the responsibility of the press office

Bulgaria, Romania, Turkey, Croatia - Pre-accession economic programmes

A dialogue will be held with finance ministers and central bank representatives of the EU accession and candidate countries - Bulgaria, Romania, Turkey, Croatia and the former Yugoslav republic of Macedonia - covering the economic programmes of four of the five countries.

Ministers will approve joint opinions on Bulgaria and Romania's pre-accession economic programmes for 2005 and joint conclusions on Turkey and Croatia.

Sustainable development

The Council will hold a policy debate, on the basis of a questionnaire prepared by the presidency, on the review of the EU's sustainable development strategy and will approve its contribution to the European Council meeting on 15 and 16 June as regards the strategy's economic and financial aspects.

The review is aimed at renewing the strategy for the next five years, with a view to strengthening environmental protection, social equity and cohesion and economic prosperity and ensuring that the EU meets its international responsibilities. The renewed strategy, to be adopted by the European Council in June, will comprise targets, indicators and a monitoring procedure, integrating both the internal and external dimensions of sustainable development. Work on the strategy is ongoing within eight of the Council's nine configurations.

The questions set by the presidency are as follows:

- *Do you consider that the objectives, targets, key actions and implied mix of policy instruments proposed in the SDS Review Package, in particular Annex 22, are appropriate and sufficient to meet the challenges of Sustainable Development and to efficiently address unsustainable trends in your policy area? Are greater prioritisation and/or stronger efforts necessary to achieve this?*
- *How can the Ecofin Council formation best contribute to deliver visible results and measurable progress in implementing the EU SDS? What should be done to enhance synergies and coherence across policies and processes, including the Lisbon agenda?*
- *How can an ambitious EU SDS ensure coherence between EU internal policies and its international commitments and contribute to Sustainable Development at both EU and global level, in particular in your specific policy area?*

In the light of the debates in the different Council configurations, the presidency will prepare a draft for a renewed sustainable development strategy to be adopted by the European Council in June.

EU budget

- Draft budget for 2007

- Budgetary control framework

The Commission will present a preliminary draft EU budget for 2007, as well as an action plan aimed at improving the control of the budget's implementation.

The Commission is due to approve the preliminary draft budget on 3 May.

As regards the control framework, the Commission's action plan 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.

For more than ten consecutive years, the Court has qualified its annual statement of assurance, and this has tarnished public perception of the Commission's management of EU resources. The difficulties reflect the complexity of the issues involved, in particular given that for about 80 percent of the budget, including agriculture and structural funds, the Commission shares implementation with the member states. The Commission has therefore made it a priority to achieve a positive statement before the end of its mandate.

The action plan covers four types of measures:

- Simplification and common control principles;
- Management declarations and audit assurance;
- Single audit approach: sharing results and priorities in cost-benefit;
- Sector-specific gaps.

The Council adopted conclusions on the budgetary control framework on 8 November 2005.

Financial services

The Council is expected to adopt conclusions on:

- the regulatory framework for cross-border mergers and acquisitions in the financial services industry;
- financial supervision, on the basis of a report by the financial services committee (discussed at an informal ministerial meeting in Vienna on 8 April);
- the Commission's white paper on EU financial services policy for the 2005-10 period, following completion of the Commission's action plan.

The draft Council conclusions on cross-border mergers highlight the need to tackle unnecessary and unwarranted obstacles to consolidation in order to strengthen the global competitiveness of the EU's financial industry, as well as the importance of sound, fair and non-discriminatory national supervisory practises.

They welcome the Commission's intention to present legislative proposals before the end of the year and to make use of its powers under the EU's competition and state aid rules.

The draft Council conclusions on financial supervision, in line with market developments, request various committees involved to further strengthen cooperation on regulatory and supervisory issues.

As regards the broader issues, the Commission's white paper sets out policy objectives for the next five years:

- further consolidation in financial services with the aim of achieving an integrated, open, competitive and economically efficient EU financial market;
- removal of the remaining economically significant barriers so that services can be provided and capital circulate freely at the lowest possible cost, with effective levels of prudential regulation;
- implementation, enforcement and continuous evaluation of existing legislation. Rigorous application of the *better regulation* agenda to future policy initiatives;
- enhanced supervisory cooperation and convergence within the EU and development of supervisory relations as regards other global marketplaces.

Whilst sharing the broad objectives of the white paper, the draft Council conclusions identify enhanced cross-border supervision, clearing and settlement of securities transactions and the proposed single euro payments area as key areas where further progress should be ensured as soon as possible.

Taxation - Value-added tax

- Place of taxation

- Simplified obligations for businesses

The Council will hold an exchange of views, on the basis of a reflection paper prepared by the presidency, on proposals regarding the place of taxation for VAT payments for certain services, simplification of cross-border VAT obligations for businesses - particularly those that carry out activities in member states where they have no base - as well as the prolongation of a directive on e-commerce.

The debate is intended to provide guidance for further work on the three dossiers.

The proposed directive on VAT payments is aimed at changing the place of taxation for business-to-business and business-to-consumer services from the place where the supplier is located to the place where the customer is located. It provides for amendments to directive 77/388/EEC as regards the place of supply of services and regulation 1798/2003 as regards the exchange of information.

The proposals on simplification consist of:

- a draft directive aimed at amending directive 77/388/EEC, simplifying VAT obligations and providing for a “one-stop” scheme to simplify registration and declaration of VAT by businesses in member states where they have no base;
- a draft directive laying down detailed rules for the refund of VAT to businesses in member states where they have no base, as provided for in directive 77/388/EEC;
- a draft regulation aimed at amending regulation 1798/2003 as regards administrative co-operation under the “one-stop” scheme and the refund procedure for VAT.

As regards e-commerce, directive 2002/38/EC provides for a special scheme allowing taxation at the place where the customer is located as regards the provision of electronically supplied services from third countries. Applicable for a temporary period, the directive's provisions are due for review by 1 July 2006.

The Council's debate is intended to identify any reservations that may remain as regards the three dossiers and the timetable envisaged by the presidency for their entering into force.

SMEs and public procurement

Under "other business", the French delegation will present a document examining the difficulties for small and medium-sized enterprises in competing for public procurement contracts.
