



**COUNCIL OF
THE EUROPEAN UNION**



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PRESS RELEASE

2734th Council Meeting

Economic and Financial Affairs

Luxembourg, 7 June 2006

President

Karl-Heinz GRASSER
Federal Minister for Finance of Austria

P R E S S

Main Results of the Council

*The Council debated reports by the Commission and the ECB on progress made by **Lithuania** and **Slovenia** on convergence criteria as regards European economic and monetary union. The reports, and a proposal aimed at allowing Slovenia to **adopt the euro as its currency** as from 1 January 2007, will be referred to heads of state/government at a Council meeting in the margins of the European Council on 15 and 16 June.*

*The Council agreed on the renewal of arrangements that require the levying of VAT on the provision of **e-commerce** services from third countries, and to continue work on the other elements of a package of **VAT measures** with a view to reaching a global agreement by the end of the year.*

*It also approved new capital adequacy requirements for **banks and investment firms**, intended to ensure financial stability and strengthened confidence in the financial system.*

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

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PARTICIPANTS

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

Belgium:

Mr Hervé JAMAR

State Secretary for the Modernisation of Financial Affairs and the Fight against Tax Fraud, attached to the Ministry of Finance

Czech Republic:

Mr Tomáš PROUZA

Deputy Minister for Finance

Denmark:

Mr Claus GRUBE

Permanent Representative

Germany:

Mr Peer STEINBRÜCK

Federal Minister for Finance

Estonia:

Mr Aivar SÕERD

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:

Mr Pierre SELLAL

Permanent Representative

Ireland:

Mr Brian COWEN

Minister for Finance

Italy:

Mr Tommaso PADOA-SCHIOPPA

Minister for Economic Affairs and Finance

Cyprus:

Mr Michalis SARRIS

Minister for Finance

Latvia:

Mr Oskars SPURDZIŅŠ

Minister for Finance

Lithuania:

Mr Zigmantas BALČYTIS

Acting Prime Minister and Minister for Finance

Luxembourg:

Mr Jeannot KRECKÉ

Minister for Economic Affairs and Foreign Trade,
Minister for Sport

Hungary:

Mr János VERES

Minister for Finance

Malta:

Mr Lawrence GONZI

Prime Minister and Minister for Finance

Netherlands:

Mr Gerrit ZALM

Deputy Prime Minister, Minister for Finance

Austria:

Mr Karl-Heinz GRASSER

Federal Minister for Finance

Poland:

Mr Jarosław PIETRAS

State Secretary, Ministry of Finance

Portugal:

Mr Emanuel AUGUSTO SANTOS

State Secretary for the Budget, attached to the Minister for Finance

Slovenia:

Mr Andrej BAJUK

Minister for Finance

Slovakia:

Mr Vladimír TVAROŠKA

State Secretary at the Ministry of Finance

Finland:

Mr Eero HEINÄLUOMA

Deputy Prime Minister, Minister for Finance

Sweden:

Mr Pär NUDER

Minister for Finance

United Kingdom:

Mr Gordon BROWN

Chancellor of the Exchequer

.....

Commission:

Mr Joaquin ALMUNIA

Member

Mr László KOVÁCS

Member

Mr Charlie McCREEVY

Member

.....

Other participants:

Mr Lucas PAPADEMOS

Vice-President of the European Central Bank

Mr Philippe MAYSTADT

President of the European Investment Bank

Mr Xavier MUSCA

Chairman of the Economic and Financial Committee

Mr Joe GRICE

Chairman of the Economic Policy Committee

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The Governments of the Acceding States were represented as follows:

Bulgaria:

Mr Plamen Vassiler ORESHARSKI

Minister for Finance

Romania:

Mr Sebastian VLĂDESCU

Minister for Public Finance

ITEMS DEBATED

ENLARGEMENT OF THE EURO AREA – REPORTS ON SLOVENIA AND LITHUANIA

The Council held a debate on:

- reports by the Commission and the European Central Bank on fulfilment by Slovenia and Lithuania of convergence criteria and their obligations regarding economic and monetary union;
- a proposal aimed at allowing Slovenia to join the euro area as from 1 January 2007.

The presidency will report on the outcome of the Council's discussion to heads of state/government at a meeting in the margins of the European Council on 15 and 16 June.

In its reports, the Commission finds that:

- Slovenia has achieved a high degree of sustainable convergence. The proposal for a Council decision would allow Slovenia to adopt the euro as its currency by abrogating what is considered as a derogation as from 1 January 2007;
- Lithuania has made significant progress towards reaching a high degree of sustainable convergence by meeting the criteria on public finances, exchange rate stability and long-term interest rates, but does not as yet meet the criterion on price stability. The Commission finds that the 12-month inflation average in Lithuania has been above the reference value¹ since April 2005 and is likely to stay above it in the months ahead.

The Commission and the ECB are due to present in October their two-yearly convergence reports, as required by article 122(2) of the treaty. The requests by Slovenia and Lithuania for an earlier assessment are intended to allow sufficient time for preparations for introduction of the euro on 1 January 2007, should a decision be taken allowing them to do so.

¹ The reference value is calculated as the inflation average in the three best-performing member states plus 1.5 percentage points.

The proposal aimed at allowing Slovenia to join the euro area, also based on article 122(2), will require a decision by the Council, by qualified majority if necessary, after consulting the European Parliament and discussion at a Council meeting in the composition of heads of state/government.

Twelve out of the EU's 25 member states currently use the euro as their currency: Belgium, Germany, Greece, Spain, France, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Austria and Finland. Euro notes and coins were introduced in all twelve countries on 1 January 2002.

Under the Commission's proposal, Slovenia would be the first to join the euro area out of the ten member states that joined the EU on 1 May 2004.

BRIEFING ON THE EUROGROUP

The Council was briefed by the president of the eurogroup on the eurogroup meeting held on 6 June.

TAXATION

– *VAT - Place of supply, simplified obligations for businesses, e-commerce*

The Council agreed on renewal of value-added tax arrangements for e-commerce from 1 July until 31 December 2006 and to continue work on the other elements of a package of VAT measures with a view to reaching a global agreement by the end of the year.

The e-commerce arrangements¹ require the levying of VAT on the provision of broadcasting services and certain electronically-supplied services from third countries. A directive renewing these arrangements will be adopted at a forthcoming Council meeting, after finalisation of the text.

The other elements of the package, aimed at simplifying VAT arrangements for businesses in accordance with a specific timetable, are as follows:

- a draft directive on the place of supply of services as concerns VAT payments;
- draft conclusions on proposals for two directives and a regulation on simplification of cross-border VAT obligations and refund procedures for businesses;
- a proposal for a directive on renewal of VAT arrangements for e-commerce.

The proposal on the place of supply² is aimed at changing the place of taxation for VAT for services from the place where the supplier is located to the place where the customer is located.

The proposals on simplification are aimed at creating a "one-stop" scheme to simplify registration and declaration of VAT by businesses in member states where they have no base³, as well as detailed rules for refunds of VAT to such businesses⁴ and improved administrative cooperation as relates to VAT to prevent fraud⁵.

¹ provided for in directive 2002/38/EC
² draft directive amending directive 77/388/EEC
³ draft directive amending directive 77/388/EEC
⁴ as provided for in directive 77/388/EEC
⁵ draft regulation amending regulation 1798/2003/EC

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

– ***Combating tax fraud***

The Council adopted the following conclusions.

"The Council:

- welcomes the production of the Communication of the Commission to the Council on the need to develop an anti tax-fraud strategy and takes note of the oral report by the Commission on the technical work done regarding the application of a reverse charge system in the VAT area;
- stresses the need for further action to combat actively fraud and most specifically VAT fraud;
- recognizes that all kind of possible improvements should be considered and recalls the good experiences Member States have already made with the application of reverse charge in limited areas; in the light of the results of the technical group further analysis of a more generalised reverse charge is therefore necessary;
- will
 - examine all the issues raised by the fraud communication, including possible legal changes to the VAT system,
 - continue more specifically and with the help of the Commission the analysis of the use of the reverse charge as a mechanism for dealing with VAT fraud;
 - prepare the elements that the Council would see being necessary components for a global anti-fraud strategy,
 - come back by its last meeting in 2006 in order to allow the provision of guidance for further work to the Commission."

The presidency made a statement requesting the Commission to present, as soon as possible, a proposal for a directive which would allow member states the option of applying a reverse charge mechanism to domestic business-to-business supplies where the invoice amount exceeds EUR 5,000.

– ***Common consolidated corporate tax base***

The Council took note of a report by the Commission on work undertaken a technical working group, as well as the presentation of a communication on the possible creation of a common consolidated tax base throughout the EU with the aim of simplifying direct tax arrangements for businesses. It held an exchange of views.

A common consolidated tax base would provide companies established in more than one member state the possibility of computing their group taxable income according to a single set of rules. The idea was discussed at informal ministerial meetings at Scheveningen in September 2004 and in Vienna on 7 and 8 April 2006.

Following broad support at Scheveningen for the launch of technical work, the Commission set up a working group to assist it in preparing a legislative proposal for a common consolidated tax base.

– ***Code of conduct on harmful tax competition***

The Council took note of a report from a group of national experts responsible for implementing the member states' code of conduct. After a brief discussion it adopted the following conclusions:

"The Council:

- welcomes the progress achieved by the Code of Conduct Group (Business Taxation) during the Austrian Presidency as set out in its report (9655/06);
- asks the Group to continue monitoring standstill and the implementation of rollback, and report to the Council before the end of the Finnish Presidency."

DIALOGUE WITH THE UNITED STATES ON ECONOMIC ISSUES

The Council was briefed by the Commission on the EU's dialogue and cooperation with the United States on economic issues, in the run-up to the EU-US summit to be held in Vienna on 21 June, and held a brief exchange of views.

The Commission's briefing covered both economic cooperation and the informal financial markets regulatory dialogue.

OTHER BUSINESS

– *Statistics*

The Council took note of an intervention by the Netherlands delegation on simplification of EU statistics and the need to reduce the administrative burden on businesses that results from statistical requirements.

It will revert to this issue at its meeting on 7 November in the context of discussion of progress on the *better regulation* initiative.

– *International accounting standards board*

The Council discussed briefly the funding of the international accounting standards board and possible arrangements to succeed the current funding scheme, which expires at the end of 2007.

EVENTS IN THE MARGINS OF THE COUNCIL

– *European Investment Bank*

Ministers met with the president of the European Investment Bank for the EIB annual general meeting.

OTHER ITEMS APPROVED

ECONOMIC AND FINANCIAL AFFAIRS

Capital adequacy requirements for banks and investment firms*

The Council adopted two directives aimed at introducing new capital adequacy requirements for banks and investment firms, accepting all amendments voted by the European Parliament in first reading (3669/05, 3670/05 and 9714/06 ADD1).

The new requirements are intended to contribute to financial stability and strengthened confidence in the financial system by fostering enhanced risk management by financial institutions. Part of the EU's financial services action plan, they are aimed at strengthening the competitiveness of the European economy by lowering capital costs for companies.

(for more details see press release 10156/06).

COMMON FOREIGN AND SECURITY POLICY

EU monitoring mission in Aceh (Indonesia)

The Council adopted a joint action amending and extending joint action 2005/643/CFSP on the EU monitoring mission in Aceh (Indonesia) (9363/06).

The new joint action extends the mandate of the mission for a period of three months until 15 September 2006. Both the government of Indonesia and the Free Aceh Movement have indicated their support for such an extension of the mission.

The financial reference amount intended to cover the additional expenditure related to the mission from 16 June to 15 September is EUR 300,000.

The Aceh monitoring mission was established on 15 September 2005 in order to monitor the implementation of various aspects of the peace agreement set out in the memorandum of understanding signed on 15 August 2005 by the government of Indonesia and the Free Aceh Movement.

The Council also adopted a decision extending an agreement between the EU and the government of Indonesia on the tasks, status, privileges and immunities of the Aceh monitoring mission and its personnel for the same period (9118/06).

Security of personnel deployed outside the EU

The Council approved a policy for the security of personnel deployed outside the EU involved in civilian or military operations organised under the EU treaty. The policy defines core measures, roles, responsibilities and core tasks with regard to the security and safety of personnel in such deployments (9490/06).

TRANSPARENCY

Public access to documents

The Council adopted:

- the reply to the letter sent to the Council by the European Ombudsman concerning the follow-up to complaint 1487/2005/GG (7664/06);
 - the reply to confirmatory application 15/c/02/06 made by Mr David Cronin, the Danish, Finnish and Swedish delegations voting against (7568/06).
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