



**COUNCIL OF
THE EUROPEAN UNION**



5387/06 (Presse 11)

PROVISIONAL VERSION

PRESS RELEASE

2704th Council Meeting

Economic and Financial Affairs

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President

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P R E S S

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Main Results of the Council

*The Council reached agreement, pending confirmation by three delegations, on **reduced VAT rates** applied by the member states. It decided on the existence of an excessive government deficit in the **United Kingdom** and recommended corrective measures.*

*The Council also approved EUR 33.5 million in macro-economic assistance to **Georgia**, to support economic reforms and help improve debt sustainability.*

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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://ue.eu.int>.
- 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 Didier REYNDERS Deputy Prime Minister and Minister for Finance

Czech Republic:

Mr Bohuslav SOBOTKA First Deputy Prime Minister and Minister for Finance

Denmark:

Mr Thor PEDERSEN Minister for Finance

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 Thierry BRETON Minister for Economic Affairs, Finance and Industry

Ireland:

Mr Brian COWEN Minister for Finance

Italy:

Mr Giulio TREMONTI Deputy Prime Minister

Cyprus:

Mr Michalis SARRIS Minister for Finance

Latvia:

Mr Oskars SPURDZIŅŠ Minister for Finance

Lithuania:

Mr Zigmantas BALČYTIS 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
Mr Alfred FINZ State Secretary, Federal Ministry of Finance

Poland:

Mr Zbigniew DYNAK Undersecretary of State, Ministry of Finance

Portugal:

Mr Fernando TEIXEIRA DOS SANTOS Minister for Finance

Slovenia:

Mr Andrej BAJUK Minister for Finance

Slovakia:

Mr Ivan MIKLOŠ

Deputy Prime Minister and Minister for Finance

Finland:

Mr Eero HEINÄLUOMA

Deputy Prime Minister, Minister for Finance

Sweden:

Mr Pär NUDER

Minister for Finance

United Kingdom:

Ms Dawn PRIMAROLO

Paymaster General

Commission:

Mr Joaquin ALMUNIA

Member

Mr László KOVÁCS

Member

Other participants:

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

The Governments of the Acceding States were represented as follows:

Bulgaria:

Mr Lubomir DATZOV

Deputy Minister for Finance

Romania:

Ms Alice Cezarina BÎTU

State Secretary, Ministry of Public Finance

ITEMS DEBATED

PRESIDENCY WORK PROGRAMME

The current Austrian and future Finnish presidencies presented a work programme for economic and financial affairs for 2006 (*16088/05*).

The main priorities outlined in the programme are as follows:

- Boosting economic growth and employment in Europe: economic policy coordination, sustainable public finances, better regulation, financial market integration, tax coordination;
- Strengthening Europe's role at global level;
- Reinforcing the European Investment Bank's contribution to growth and employment;
- Enlarging the euro area;
- Renewing the European Investment Bank's external lending mandates;
- Providing the EU with adequate budgetary means: budgetary framework for the 2007-13 period, 2007 budget, financial management.

STABILITY AND CONVERGENCE PROGRAMMES

– *Finland, Czech Republic, Denmark, Hungary, Slovakia and Sweden*

The Council adopted opinions on an initial series of stability and convergence programmes of the member states for 2006, covering the updated stability programme of Finland and the updated convergence programmes of Czech Republic, Denmark, Hungary, Slovakia and Sweden.

EXCESSIVE DEFICIT PROCEDURE

– *United Kingdom*

The Council adopted a decision, under article 104(6) of the EU treaty, on the existence of an excessive government deficit in the United Kingdom and a recommendation, under article 104(7), on action to be taken for its correction.

The decision is based on the Commission's assessment that, having exceeded though remained close to the maximum reference value provided for by the EU treaty since the 2003-04 financial year, the UK's deficit will continue to exceed 3% of gross domestic product, remaining around 3.1% in 2006-07, despite fiscal measures announced in December. In such circumstances, the excess can no longer be considered as exceptional or temporary.

The Council's recommendation provides the UK with six months to present corrective action, and requires the excessive deficit to be brought to an end by the 2006-07 financial year at the latest, with a 0.5% of GDP improvement of the structural balance between the 2005-06 and 2006-07 financial years.

PREPARATION OF THE SPRING EUROPEAN COUNCIL

– *Lisbon economic reform strategy*

The Council discussed the procedural aspects of the follow-up to be given, in the run-up to the European Council meeting on 23 and 24 March, to the annual progress report by the Commission on the economic reform strategy laid down at Lisbon in 2000.

The Council will examine the report at its meeting on 14 February.

In a mid-term review of the Lisbon strategy last March, the European Council agreed changes to governance provisions with the aim of strengthening the contribution to growth and employment in the EU. On the basis of this agreement, member states have drawn up national reform programmes (NRPs) geared to their own needs and specific situations, in response to economic policy and employment guidelines laid down by the Council, while the Commission has presented a "Community Lisbon programme" covering all action to be undertaken at EU level.

The Council adopted conclusions on 6 December on the first NRPs presented by the member states, and the Commission will assess them in its annual progress report to be issued shortly. The presidency will then draft a key issues paper to be discussed by the Council at its meetings on 14 February and 14 March.

– *The quality of public finances*

The Council held an exchange of views on the quality of public finances, on the basis of a report from the economic policy committee, and adopted the following conclusions:

"Improving the quality of public finances can contribute to increasing growth and employment in line with the Lisbon strategy, as also recognised by the reformed Stability and Growth Pact. The Council (ECOFIN) welcomes the Report prepared by the Economic Policy Committee on challenges and progress made in improving the quality of public expenditure. While underlining that the composition of public finances, budgetary laws, fiscal frameworks and institutions are issues of national responsibility, the Council acknowledges the increasing importance of the quality of public finances in national and EU economic policy making.

The Council emphasises the role played by national fiscal rules and institutions on final budgetary outcomes as a key element for improving the composition of public finances. Member States that have maintained fiscal discipline have been able to put a stronger focus on efficient resource allocation. National expenditure rules and performance budgeting schemes within a medium-term framework appear to help Member States direct spending towards their priorities. The analysis of these issues along with an exchange of best practices among EU Member States can contribute to the improvement of fiscal governance. The Council therefore invites the Commission in joint co-operation with the EPC to conduct a comprehensive analysis of the fiscal rules and institutions in the EU.

The Council also underlines that some spending trends call for increased attention in order to avoid the squeezing out of growth-enhancing expenditure items or the resurgence of unsustainable fiscal deficits. It invites Eurostat and the National Statistical Offices, in co-operation with the EPC, to step up efforts on data availability in order to facilitate the analysis of trends in public expenditure composition. This will help the implementation of both the Lisbon strategy and the guidelines on the format and content of Stability and Convergence Programmes.

The Council stresses the importance of further improving efficiency and effectiveness of public spending in order to enhance the quality of public finances. It invites the EPC to further develop the measurement of public expenditure efficiency, by assisting Member States in improving the information content of budgets, and the exchange of best practices in the evaluation of public spending.

The Council agrees to come back to these issues in the autumn of 2006."

REDUCED RATES OF VAT

The presidency concluded that, pending confirmation by the Czech Republic, Poland and Cyprus by the end of this week, the Council reached agreement on the following:

"With a view to the outcome of the December 2005 European Council, the Council had an in depth discussion on the question of reduced rates of VAT and reached political agreement on the following:

In order to prolong the experiment of reduced rates for labour-intensive services, the validity of Annex K to Directive 77/378/EEC shall be extended as from 1.1.2006 until 31.12.2010. All member states shall be authorised to opt for the application of Annex K. Member states wishing to make use of the provisions of Annex K may apply for such an authorisation until 31.3.2006.

District heating shall be included in the option provided for by Article 12(3)(b) of the sixth VAT Directive.

The Council invites the Commission to present a report to the Council and the European Parliament, by the end of June 2007, providing for an overall assessment of the impact of reduced rates applying to locally supplied services, including restaurant services, in terms notably of job creation, economic growth and the internal market, based on a study carried out by an independent economic think tank."

ENERGY MARKETS

The Council held a brief exchange of views on issues related to energy markets, in the light of a memorandum presented by the French delegation.

The presidency intends to follow up the discussion at the Council's meeting on 14 March, on the basis of a green paper to be presented by the Commission.

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Over lunch, ministers were briefed on the eurogroup meeting held on 23 January. They took note of a presentation by the president of the European Investment Bank on the possibility of further involvement of the EIB in promoting growth and employment; the Council will discuss further this issue at its meeting on 14 February.

OTHER ITEMS APPROVED

ECONOMIC AND FINANCIAL AFFAIRS

Georgia - Financial assistance*

The Council adopted a decision providing for macro-financial assistance to Georgia up to a maximum of EUR 33,5 million with a view to supporting economic reforms and helping the country improve debt sustainability (*14840/05 and 15711/05 ADD 1*).

The EU financial assistance, in the form of grants, will be made available for two years, with a possible extension of one year. The economic policy and financial conditions attached to the assistance will be laid down in a memorandum of understanding.

VAT - Latvia - Timber transactions

The Council adopted a decision authorising Latvia, in the case of timber transactions, to continue to designate the recipient as the person liable to pay VAT until 31 December 2009 (*15653/05*).

This special measure, which constitutes a derogation to EU common rules on turnover taxes, is aimed at enabling Latvia to reduce the risk of VAT evasion and to simplify the procedure for charging tax in the timber market.

EXTERNAL RELATIONS

Relations with Ukraine - EU enlargement

The Council adopted a decision approving the conclusion of a protocol to the agreement on partnership and cooperation between the EU and Ukraine in order to take account of the accession of ten new member states to the EU in May 2004, and on adjustments to the agreement (*14889/05*).

The agreement was signed on 14 June 1994 and entered into force on 1 March 1998.

CUSTOMS UNION

Tariff quotas for agricultural and industrial products

The Council adopted a regulation providing for the administration of Community tariff quotas for imports of certain agricultural and industrial products, and amending regulation 2505/96 (15812/05).

The regulation opens tariff quotas at reduced or zero rates of duty and extends the validity of certain existing tariff quotas, in order to meet Community demand for the products in question under the most favourable conditions, while avoiding any disturbance to the markets for these products.

It also removes from regulation 2505/96 certain products for which no Community tariff quota is maintained for 2006.

APPOINTMENTS

Committee of the Regions - New mandate

The Council adopted a decision appointing the members and alternate members of the Committee of the Regions for the period from 26 January 2006 to 25 January 2010.

Members or alternate members of the Committee of the Regions, besides being representatives of regional or local bodies, either hold a regional or local authority electoral mandate or are politically accountable to an elected assembly. They are appointed by the Council on the basis of proposals from the member states.

The Committee of the Regions has now 317 members and the same number of alternates.

The complete list can be found in document 15368/3/05.