

Brussels, 6 June 2006

Preparation of Eurogroup and Economic and Finance Ministers Council, Luxembourg 6 and 7 June

EUROGROUP (AT)

Eurogroup ministers will meet at 19:00 hrs on Tuesday 6 June. Joaquín Almunia, Commissioner responsible for Economic and Monetary Affairs and European Central Bank Governor Jean-Claude Trichet will attend. A press conference is planned for after the meeting.

The meeting will start with a presentation by International Monetary Fund (IMF) Director Michael Deppler of the Fund's assessment of the euro area's economy and developments (so-called **Art IV mission**). Mssrs Almunia and Trichet are expected to offer their views. The IMF follows economic and monetary developments in the euro area since its inception in 1999.

The IMF is expected to publish its concluding statement on euro area policies after the Eurogroup meeting. For the last IMF concluding statement on the euro area go to (<http://www.imf.org/external/np/ms/2005/052905.htm>)

Ministers will also have an exchange of views on **inflation developments** in the euro area with a special focus on the services sector. Inflation developments feature regularly in Eurogroup meetings and were last discussed in November 2005.

For some time now, headline inflation has remained above 2% (the flash estimate for May is 2.5%, up 0.1 percentage point from April) with most of the increase seen coming from the services and energy sectors. The Commission's analysis points to several factors that can explain the higher services inflation such as lower labour productivity, little innovation and investment in ICT (information and communication technology) and insufficient competition. The Spring economic forecasts point to euro area headline inflation at 2.2% in both 2006 and 2007.

Budgetary developments will feature high on the minister's agenda as they will discuss the implications of the 8th of May economic forecasts for the countries currently under an Excessive Deficit Procedure.

There are currently 5 euro area countries in the EDP. Although there was a significant improvement in the average deficit of the euro area in 2005 (2.4% versus 2.8% in 2004), in 2006 and 2007 the evolution is expected to fall well short of the 0.5% of GDP annual benchmark established in the SGP. This is at a time when the euro area economy is seen growing around its potential at 2.1% in 2006.

Finally the Ministers will have a short exchange of views on the **Convergence Reports** on Lithuania and Slovenia which were adopted by the Commission and the ECB on 16 May 2006, following the discussion in Vienna. In the reports, the Commission concludes that Lithuania meets all the convergence criteria except on inflation while Slovenia is ready to adopt the euro (see [IP/06/622](#) and [IP/06/623](#) – see below).

ECOFIN COUNCIL

The European Union's Council of Economy and Finance Ministers will start at 11.00 hrs on Wednesday 7 June. The European Commission will be represented by Economic and Monetary Affairs Commissioner Joaquín Almunia, Taxation and Customs Union Commissioner Lazlo Kovacs and Internal Market Commissioner McCreevy. A press conference will take place after the meeting.

EIB Governors' meeting (09:00) (AT)

Before the ECOFIN itself, a meeting of the European Investment Bank Governors will take place to discuss annual activity reports for 2005 (Financial; Audit) as well as the implementation of the new Strategic Orientations, including the 2006 Capital Review; the Increase in the EIF's Capital and of the Structured Finance Facility - II

Enlargement of the euro area – Convergence reports (AT)

As required by Art 122(2) of the Treaty, the Commission and the ECB report to the Council, at least once every two years or at the request of a Member State, on the progress made towards the adoption of the euro by those Member States that have not yet adopted it and have no legal opt out. Slovenia (on 2 March) and Lithuania (on 16 March), submitted a request for an earlier convergence assessment. On 16 May, the Commission and ECB issued their respective assessments concluding that Slovenia fulfils the necessary conditions to adopt the euro. Lithuania, on the other hand, does not meet the inflation criterion and no change is required to its status as an EU Member State with a derogation.

The European Parliament is expected to give its opinion on the Commission's proposal for Slovenia to join the euro area at its plenary session in June, shortly before the 15-16 June European Council of Heads of State or Government which will also consider the matter. The formal decision is scheduled for adoption by the ECOFIN Council on 11 July 2006.

Preparation of the EU-US Summit (AT)

Ministers are also expected to prepare the EU-US Summit in Vienna on 21 June for what concerns the economic issues and, particularly, to take stock of progress made on the so-called Economic Initiative adopted at the Summit last year. The Economic Initiative involved drafting detailed work programmes on a range of subjects, including the macro-economic dialogues and stimulating open and competitive capital markets which fall under the remit of the ECOFIN Council.

Taxation (MA)

- VAT package : political agreement

The Austrian Presidency will try to make progress and if possible to reach a political agreement on the different proposals that have been submitted by the Commission to the Council (since 2004) and which are part of the VAT package. This package is composed of interlocking elements intended to establish clear cut rules for determining the place of taxation for services and minimizing regulatory burdens on business engaged in cross border trade.

It is important to reach a political agreement not only on the timetable on the adoption of the different proposals, but also to the package as a whole.

The package is composed of:

- the "**E-Commerce**" **Directive** which ensures that B2C supplies of digital downloads are taxed in the EU when supplied from outside the EU using a rudimentary electronic portal. The current rules expire on 30 June 2006;
- two elements of the "VAT simplification proposal", namely the **one stop shop** (which aims to provide a simplified system for registration and declaration of VAT in Member States where a business is not established) and the **simplified rules for the refund of value added tax** to taxable persons not established in the territory of the country but established in another Member State;
- the proposals concerning the place of supply of B2B (Business to Business) and B2C (Business to Consumers) services.
- **Combating tax fraud (EC Communication)**

Commissioner László Kovács will present the Commission's Communication on the need for a comprehensive strategy to combat tax fraud, adopted 31 May, 2006. ([IP/06/697](#)) This communication presents a whole range of pragmatic and realistic actions that could be taken against tax fraud in a coordinated and integrated manner at European level. At the same time, the Commissioner will report on the work done by the technical group on the reverse charge mechanism.

The Commission will seek orientation on the different actions proposed in its Communication.

- **Direct taxation**

- Common consolidation corporate tax base

The Commission will present formally to the ECOFIN Council its communication (adopted 5 April, 2006) on progress made on the technical work carried out by the Commission Working Group on the subject. ([IP/06/448](#)) This progress report has been already presented during lunch at the informal ECOFIN in Vienna on 7 April, 2006. The Commission will seek political support for the continuation of this technical work.

- Code of conduct on business taxation (Report)

The President of the Code of Conduct Group, Mme Primarolo, will report on the work undertaken under the AT Presidency

Financial Services (OD)

The Council is expected to discuss three important areas of EU financial markets policy.

Firstly, the Council is expected – as an information point – to discuss the preparation of this year's **EU-US Summit** that will take place on 21 June. The EU and US authorities are currently drafting a joint progress report on economic issues which will be submitted to the Summit leaders. Regarding one particular element of this report, the Financial Markets Regulatory Dialogue (FMRD), the Commission has submitted to the Ecofin Council a non-paper describing the current state of play on the most topical issues being discussed, *i.e.* rules on **deregistration**, **accounting standards**, the implementation of **Basel II's** capital requirement for banks and investment firms and the issue of **reinsurance collateral**. Commissioner McCreevy is expected to highlight the tangible benefits and long-term growth potential delivered by the FMRD. However, he will note that the US should improve its proposal on deregistration.

Secondly, over lunch, the Council is expected to have a first preliminary discussion based on a note prepared by the Austrian Presidency as a follow-up to the Vienna Informal Ecofin debate on globalisation. The note focuses on the **completion of the Internal Market** and the role the Ecofin Council could play in this regard. Commissioner McCreevy is expected to emphasise that this work neatly fits in with the work the Commission is currently conducting in the context of the citizen's agenda for Europe, presented in May this year. Although welcoming the Presidency's initiative as this will merit greater ownership of the Internal Market by Finance Ministers, Commissioner McCreevy will stress the need for convergent and mutually supportive processing.

Finally, also over lunch, the Council is expected to have a first discussion on the current **funding arrangements of the International Accounting Standards Board (IASB)**. Continuation of the current system of funding after 2007, relying on only a small number of voluntary contributions, is believed not to be sustainable in the light of increasing global application. This would not enable the international standard setting body to be independent and sufficiently resourced to conduct its work in a timely fashion. Therefore, a new system is needed with a proper allocation between geographical areas. Commissioner McCreevy is expected to outline that a clear political signal to the IASB and the outside world, via a Declaration at the level of the Ecofin Council, appears the most appropriate means to contribute to the implementation of a reasonable and workable solution in the short term. In such a Declaration, a strong message should be included on the longer-term objective to improve IASB's governance by further developing its approach to consultation, feedback and due process.