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2813th Council meeting

Economic and Financial Affairs

Brussels, 10 July 2007

President **Mr Fernando TEIXEIRA DOS SANTOS**
Minister of State, Minister for Finance of Portugal

P R E S S

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Main results of the Council

The Council adopted decisions allowing ***Cyprus and Malta to adopt the euro as from 1 January 2008****, and setting conversion rates for the Cypriot pound and Maltese lira to the euro. The decisions will enlarge the euro area from 13 to 15 member states.*

Ministers reached broad agreement on the candidacy of Dominique Strauss-Kahn as ***managing director of the IMF*** *following the resignation of Rodrigo Rato.*

The Council adopted a decision establishing that the ***Czech Republic*** *has failed to comply with its recommendation on measures needed in order to bring the Czech general government deficit below the EU's 3% of GDP maximum threshold. It decided that no further action is required at this stage as regards* ***Hungary****, following its most recent recommendation, whilst confirming the need to continue to monitor closely Hungary's excessive deficit situation.*

The Council also adopted conclusions on governance and funding issues regarding the International ***Accounting Standards*** *Board.*

CONTENTS[1]

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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.
- 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

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
Bulgaria:	
Mr Plamen Vassiler ORESHARSKI	Minister for Finance
Czech Republic:	
Mr Miroslav KALOUSEK	Minister of Finance
Denmark:	
Mr Claus GRUBE	Permanent Representative
Germany:	
Mr Peer STEINBRÜCK	Federal Minister for Finance
Estonia:	
Mr Ivari PADAR	Minister for Finance
Ireland:	
Mr Brian COWEN	Minister for Finance
Greece:	
Mr Georgios ALOGOSKOUFIS	Minister of National Economy and Finance
Spain:	
Mr Pedro SOLBES MIRA	Second Deputy Prime Minister and Minister for Economic Affairs and Finance
France:	
Ms Christine LAGARDE	Minister for Economic Affairs, Finance and Employment
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 Rimantas ŠADŽIUS	Deputy Minister for Finance
Luxembourg:	
Mr Jean-Claude JUNCKER	Prime Minister, "Ministre d'Etat", Minister for Finance
Hungary:	
Mr János VERES	Minister for Finance
Malta:	
Mr Lawrence GONZI	Prime Minister, Minister for Finance
Netherlands:	
Mr Wouter Jacob BOS	Deputy Prime Minister, Minister for Finance
Austria:	
Mr Wilhelm MOLTERER	Vice Chancellor and Federal Minister for Finance
Poland:	
Ms Marta GAJĘCKA	Undersecretary of State, Ministry of Finance
Portugal:	
Mr Fernando TEIXEIRA DOS SANTOS	Ministro de Estado, Minister for Finance
Romania:	
Mr Varujan VOSGANIAN	Minister for the Economy and Trade
Slovenia:	
Mr Andrej BAJUK	Minister for Finance

Slovakia:	
Mr Peter KAŽIMÍR	State Secretary at the Ministry of Finance
Finland:	
Mr Eikka KOSONEN	Permanent Representative
Sweden:	
Mr Anders BORG	Minister for Finance
United Kingdom:	
Mr Stephen PICKFORD	Head of Europe
Commission:	
Mr Joaquin ALMUNIA	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

ITEMS DEBATED

PRESIDENCY WORK PROGRAMME

The Council took note of the presentation by the Portuguese presidency of a work programme for economic and financial affairs for the duration of its tenure, from July to December 2007 *(11314/07)*. The Council held an exchange of views.

The work programme focuses on the following issues:

- economic policy: in particular enlargement of the euro area, implementation of the stability and growth pact, improving the quality of public finances, the Lisbon strategy for jobs and growth and the mid-term review of the European growth initiative;

- the EU's *better regulation* initiative, aimed at strengthening European competitiveness;

- completion of the EU's internal market, especially as regards taxation and the integration of financial markets;

- the EU's budget for 2008.

STABILITY AND CONVERGENCE PROGRAMMES

Austria and the Czech Republic

The Council adopted opinions on annual updates:

- by Austria of its stability programme;
- by the Czech Republic of its convergence programme.

Adoption of the opinions concludes the current cycle of annual updates of the member states' stability and convergence programmes; twenty programmes were examined by the Council in February and five in March.

Under the EU's stability and growth pact, member states having the euro as their currency are required to present stability programmes, and those not participating in the single currency to present convergence programmes. The aim is to ensure sound government finances as a means for strengthening the conditions for price stability and for sustainable growth conducive to employment creation.

The pact requires programmes that set out the member state's medium-term objective for its national budget, the main assumptions about expected economic developments and important economic variables, a description of budgetary and other economic policy measures, and an analysis of how changes in assumptions will affect its budgetary and debt position.

EXCESSIVE DEFICIT PROCEDURE

Czech Republic

The Council adopted a decision, under article 104(8) of the treaty, establishing that the Czech Republic has failed to comply with a recommendation issued by the Council on the measures to be taken to bring its government deficit below the maximum threshold of 3% of gross domestic product (GDP) set by the EU's stability and growth pact.

The excessive deficit procedure was opened with regard to the Czech Republic following a government deficit of 12.9% of GDP in 2003 (6.6% if a major one-off operation related to state guarantees is excluded).

In its recommendation, adopted in July 2004 under article 104(7) of the treaty, the Council set out measures for correction of the deficit by 2008, with deficit targets of 5.3% of GDP for 2004, 4.7% for 2005, 3.8% for 2006 and 3.3% for 2007.

In January 2005, the Council concurred with the Commission's assessment that the Czech Republic had taken effective action regarding measures to achieve the deficit target for 2005.

However, the new Czech government's updated convergence programme, presented on 15 March following elections in June of last year, sets deficit projections of 4.0% of GDP for 2007, 3.5% for 2008 and 3.2% for 2009, thus missing the 3% threshold not only in 2008, but also in 2009. And the higher deficit for 2007, which is mainly due to increases in social spending, contrasts with lower deficits in the 2004-06 period than foreseen in the Council's recommendation and with much stronger predicted growth than forecast at the time of the recommendation.

Hungary

The Council examined a communication from the Commission assessing action taken by Hungary in response to the Council's latest recommendation on measures to be taken in order to bring its government deficit below the maximum threshold of 3% of gross domestic product (GDP) set by the EU's stability and growth pact.

The Council shared the Commission's view that, on the basis of current information, the Hungarian government has so far acted in a manner consistent with its recommendation, and that no further steps are needed at present under the EU's excessive deficit procedure.

Three times the Council has issued recommendations to Hungary under article 104(7) of the treaty on the correction of its excessive deficit, in July 2004, March 2005 and October 2006. And twice, in January 2005 and November 2005, it adopted decisions under article 104(8) establishing that effective action had not yet been taken.

Steps provided for by article 104(9) and 104(11) of the treaty do not apply to Hungary as it is not a member of the euro area.

In its October 2006 recommendation, the Council set out measures for correction of the deficit by 2009, one year later than envisaged previously, with deficit targets of 10.1% of GDP for 2006, 6.8% for 2007, 4.3% for 2008 and 3.2% for 2009[1]. The recommendation established the deadline of 10 April 2007 for Hungary to take effective action in order to achieve the deficit targets for 2006 and 2007.

On 26 April, the Hungarian authorities submitted a progress report.

The Council, together with the Commission, will continue to closely monitor budgetary developments in Hungary in order to ensure that adequate action continues to be taken.

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[1] Although the deficit target for 2009 exceeds 3% of GDP, account will be taken of pension reform when taking a decision on abrogation

ADOPTION OF THE EURO BY CYPRUS AND MALTA

The Council adopted:

– decisions allowing Cyprus and Malta to adopt the euro as their currency as from 1 January 2008;

– regulations setting permanent conversion rates for the Cypriot pound and the Maltese lira against the euro, amending regulation 2866/98 accordingly;

– regulations adjusting certain technical provisions on introduction of the euro, amending regulation 974/98.

The decisions will enlarge the euro area to 15 member states as from 1 January 2008. Cyprus and Malta will issue euro notes and coins at the same time as adopting the euro.

The conversion rates are set at 0.585274 Cyprus pounds to the euro and 0.4293 Maltese lira to the euro, which correspond to the current central rates of both currencies within the EU's ERM II exchange rate mechanism.

The Council encouraged Cyprus and Malta to continue with appropriate policies to ensure that they can make the most of the benefits of joining the euro, in particular as regards budgetary rigour, structural reform and maintaining the competitiveness of their economies.

Thirteen out of the EU’s 27 member states currently use the euro as their currency: Belgium, Germany, Greece, Spain, France, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Austria, Slovenia and Finland. Euro notes and coins were introduced in 12 of those countries on 1 January 2002 and in Slovenia on 1 January 2007.

PUBLIC FINANCES UNDER THE STABILITY AND GROWTH PACT

The Council took note of the presentation by the Commission of an annual report on developments in member state public finances within the framework set by the EU's stability and growth pact (*11037/07*).

It held a brief exchange of views, focused on the means for improving the effectiveness of the pact's preventive arm.

The stability and growth pact is aimed at ensuring sound government finances as a means of strengthening the conditions for price stability and for sustainable growth conducive to employment creation within the EU's economic and monetary union. In 2005 the pact was revised, introducing greater flexibility and strengthened economic rationale.

As revised, the pact puts more emphasis on budgetary consolidation during economic good times, so as to allow member states to create the necessary margins for less favourable times.

In its report, the Commission highlights smooth implementation of excessive deficit procedures but notes some deviations from the policy rules set by the pact's preventive arm. Concerns relate in particular to insufficient fiscal consolidation efforts by member states that have not yet reached their budgetary medium-term objectives despite the current favourable economic conditions. In some member states, unexpected increases in tax revenues are partly used to finance increases in government expenditure, raising doubts as to the permanent nature of ongoing fiscal consolidation.

The Commission formulates proposals aimed at strengthening the functioning of the preventive arm of the stability and growth pact. The Council called on the economic and financial committee to examine these proposals, and to prepare draft conclusions for adoption by the Council at its meeting on 9 October.

ACCOUNTING STANDARDS - IASB GOVERNANCE AND FINANCING

The Council was briefed by the Commission on current work regarding governance and financing of the International Accounting Standards Board and took note of a Commission working document on the subject (*10727/07*).

It adopted the following conclusions:

"The Council emphasises the importance of International Financial Reporting Standards (IFRS) for EU financial markets. Strong governance and stable funding of the International Accounting Standards Board (IASB) and the International Accounting Standards Committee Foundation (IASCF) are crucial for the European Union.

At its meeting on 11 July 2006, the Council adopted conclusions on funding of the International Accounting Standards Board (IASB). The Council welcomed the current private sector efforts to create a broad-based voluntary financing system for the IASB. In addition, ECOFIN stressed the importance of improvements in the IASB governance structure and invited the Commission and the Economic and Financial Committee to monitor the work of the IASB and report to the Council on a regular basis on the effective progress on these issues.

The Council notes that following the two progress reports prepared by the Commission, improvements have been made to the IASB/IASCF governance structure. Reaffirming the July 2006 Conclusions, whilst recognising these achievements made by the IASB/IASCF, the Council would like to see further action in the following areas:

– Implementation of the decided measures to improve the IASB's governance structure through an appropriate work-plan;

– Comments from the Roundtable on Consistent Application of IFRS in the EU need to be fully taken into account in work of the IASB on standards and interpretations;

– IASB should carry out rigorous ex-ante impact analysis for any new standards and ex-post analysis of the impact and functioning of issued standards and interpretations to ensure that their goals have been achieved and that they provide relevant information to users;

– Member States and the European Parliament should be regularly informed at an early stage by members of the IASB about their intention to issue new standards, and by the Trustees on governance developments in the IASCF;

– The IASCF should proceed swiftly with the review of the working methods of the Standards Advisory Council (SAC) and give more prominence to its role.

Furthermore, the Council continues to underline the importance/necessity of:

- Full transparency by the IASB at all stages of the process of international accounting standards convergence, taking into account the views of all relevant stakeholders;

- Geographically balanced representation in all key Committees of the IASB/IASCF structure;

- Ensuring that stakeholders are adequately represented in the IASB foundation, IASB and International Financial Reporting Interpretations Committee (IFRIC) governing bodies, bringing additional technical expertise.

The Council is generally satisfied with the IASCF efforts to provide stable and secure funding for the IASB structure. The Council nevertheless considers that the following measures are necessary to make further progress:

- On the basis of clear financing needs, seek a broad international base of contributors, also including smaller jurisdictions;

- Liaise with European and national business and other relevant organisations to support private sector efforts to create a broad-based voluntary financing system;

- Demonstrate that other regions of the world are contributing equitably to the funding system;

- Agree modalities for regular evaluation of the working of the future funding system with the aim to ensure its efficiency and stability.

The Council invites the Commission and the Economic and Financial Committee to continue monitoring the IASB/IASCF issues, and report to the Council on a regular basis on developments in governance and funding of the IASB and IASCF".

GALILEO SATELLITE NAVIGATION SYSTEM - FINANCING ASPECTS

The Council held an exchange of views on the possible additional public financing of Galileo, the EU's global satellite navigation system.

The Transport, Telecommunications and Energy Council, at its meeting on 6-8 June, requested detailed alternative proposals for the financing of Galileo (*10126/07*). The Commission is expected to present in September a proposal for continued management of the project.

Galileo, launched in 2001, has accumulated a delay of five years on its initial calendar and is currently facing a number of difficulties, in particular with regard to industrial governance and the transfer of risk to the private sector.

Without prejudice to decisions to be taken in the autumn, the Transport Council expressed support for deployment of the Galileo system by the end of 2012 and recognised that this would require additional public funding.

MEETINGS IN THE MARGINS OF THE COUNCIL

Eurogroup

Ministers of the euro area member states attended a meeting of the eurogroup on 9 July.

Ministerial breakfast meeting on the economic situation

Ministers held a breakfast meeting to discuss the economic situation in the EU, in the light of an assessment by the Commission. The president of the eurogroup reported on the eurogroup meeting held on 9 July.

Ministers agreed to support the candidacy of Dominique Strauss-Kahn, former French finance minister, as managing director of the International Monetary Fund, following the resignation of Rodrigo Rato.

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Over lunch, ministers discussed International Monetary Fund quotas and the "Klems" database on member state economic statistics.

OTHER ITEMS APPROVED

ECONOMIC AND FINANCIAL AFFAIRS

VAT- Austria - Frontier power station

The Council adopted a decision authorising Austria to conclude an agreement with Switzerland on the taxation of imports in relation to a cross-border power plant *(11019/07)*. The decision implies a derogation from EU common rules on value added tax (VAT).

Austria is authorised to conclude a bilateral agreement in relation to the import of goods for the construction, maintenance and renewal of the cross-border power plant across the River Inn between Prutz (Austria) and Tschlin (Switzerland).

Under the agreement, imports from Switzerland into Austria by taxable persons with a full right of deduction will not be subject to VAT, so as to obtain a similar arrangement from Switzerland for goods imported from Austria into Switzerland.

COMMON FOREIGN AND SECURITY POLICY

Georgia/South Ossetia

The Council adopted a joint action extending until the end of 2007 joint action 2006/439/CFSP with a further EU contribution to the conflict-settlement process in Georgia/South Ossetia *(10667/07).*

Under joint action 2006/439/CFSP, EUR 140 000 was granted to the OSCE to finance meetings of the joint control commission and the organisation of conferences, and to cover certain costs for the running of two secretariats until 30 June 2007.

On the basis of the assessment of an OSCE mission to Georgia and the recommendations of the EU special representative for the South Caucasus and of the Commission, the EU contribution will be continued until 31 December 2007.

EMPLOYMENT

Guidelines for employment policies *

The Council adopted a decision establishing guidelines for the employment policies of the member states, maintaining for 2007 the guidelines set out in decision 2005/600/EC *(10237/07 + 11242/07 ADD1)*.

The guidelines are aimed at the objectives of full employment, job quality, labour productivity and social cohesion, reflected in clear priorities: to attract and retain more people in employment, increase labour supply and modernise social protection systems; to improve the adaptability of workers and enterprises; and to increase investment in human capital through better education and skills.

The next full revision of the integrated guidelines (employment and broad economic policy guidelines) is scheduled for 2008.

RESEARCH

Agreement with Israel on scientific and technical cooperation

The Council adopted a decision authorising the signature of a scientific and technical cooperation agreement with Israel, associating it with the EU's 7th framework programme for research, technological development and demonstration activities *(10424/07 +COR 1)*.

The agreement is aimed at extending scientific and technical cooperation with Israel and enabling its further integration into the European Research Area. It will apply provisionally as of 1 January 2007 pending its final conclusion at a later date.

The signing ceremony is scheduled to take place on 16 July in Brussels.

ENERGY

Convention on the physical protection of nuclear material and nuclear facilities*

The Council adopted a decision approving the accession of the European Atomic Energy Community (Euratom) to the Convention on the physical protection of nuclear material and nuclear facilities *(10341/07)*.

The Convention was adopted in 1979 and entered into force in 1987. As of 27 June 2006, 118 states and the Community including all of its member states, were parties to the Convention.

FISHERIES

Import quotas for fishery products *

The Council adopted a regulation providing for a partial or total suspension of import tariffs for imports of certain fishery products *(10886/3/07+ 11066/07 ADD1 + ADD2)*.

The regulation introduces a similar regime for the years 2007 to 2009 as the one established for the 2004-2006 period, taking into account the EU's supply needs.

Exploitation of fisheries resources

The Council adopted a regulation amending regulation 2371/2002 on the conservation and sustainable exploitation of fisheries resources under the EU's common fisheries policy *(9746/07)*.

The regulation is aimed at adapting the EU's fishing fleet in order to improve safety, working conditions, hygiene and product quality and energy efficiency. The amendments concern:

- the possibility to allocate 4% of tonnage scrapped with public aid for the purpose of improving safety, hygiene, working conditions and product quality on board new or existing vessels;
- reduction in power linked to engine replacement with public aid.

Fisheries agreement with Kiribati

The Council adopted a decision approving the conclusion of an agreement with the Republic of Kiribati on the provisional application of a protocol setting out, for the period from 16 September 2006 to 15 September 2012, fishing opportunities for EU vessels in Kiribati waters *(9283/07)*.

The fishing opportunities set out in the protocol will be allocated as follows:

– purse seine vessels: Spain and France (73% and 27% of available licences respectively);

– long-liners: Portugal and Spain (six vessels each).

Under the agreement, the EU will grant an annual contribution of EUR 416 000 equivalent to a reference tonnage of 6400 tonnes per year, plus EUR 62 400 per year for initiatives taken to support Kiribati fisheries policy.

APPOINTMENTS

European Economic and Social Committee

The Council adopted a decision appointing Mr Pedro Raúl NARRO SÁNCHEZ as member of the European Economic and Social Committee in place of Mr Pedro BARATO TRIGUERO for the remainder of his term of office, which ends on 20 September 2010.