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– **ECOFIN** –

Brussels, 10 July 2001

President: **Mr Didier REYNDERS**
Minister for Finance of the Kingdom of Belgium

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PARTICIPANTS

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

Belgium :

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Minister for Finance

Denmark :

Mr Michael DITHMER

State Secretary for Economic Affairs

Germany :

Mr Hans EICHEL

Federal Minister for Finance

Mr Caio KOCH-WESER

State Secretary, Federal Ministry of Finance

Greece :

Mr Yannis PAPANTONIOU

Minister for the National Economy and Finance

Spain :

Mr Rodrigo de RATO y FIGAREDO

Second Deputy Prime Minister and Minister for Economic Affairs

France :

Mr Laurent FABIUS

Minister for Economic Affairs, Finance and Industry

Ireland :

Mr Charlie McCREEVY

Minister for Finance

Italy :

Mr Giulio TREMONTI

Minister for the Economy and Finance

Mr Vito TANZI

State Secretary for Economic Affairs and Finance

Luxembourg :

Mr Jean-Claude JUNCKER

Prime Minister, Minister for Finance

Mr Henri GRETHEN

Minister for Economic Affairs

Netherlands :

Mr Gerrit ZALM

Minister for Finance

Austria :

Mr Alfred FINZ

State Secretary, Federal Ministry of Finance

Portugal :

Mr Guilherme OLIVEIRA MARTINS

Minister for Finance

Mr Vasco LAVRADOR

State Secretary for the Treasury and Financial Affairs

Finland :

Mr Sauli NIINISTÖ

Minister for Finance

Mr Raimo SAILAS

State Secretary, Ministry of Finance

Sweden :

Mr Bosse RINGHOLM

Minister for Finance

United Kingdom :

Mr Gordon BROWN

Chancellor of the Exchequer

Ms Ruth KELLY

Economic Secretary to the Treasury

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Commission :

Mr Romano PRODI
Mr Frits BOLKESTEIN
Ms Michaele SCHREYER
Mr Pedro SOLBES MIRA

President
Member
Member
Member

* * *

Other participants :

Mr Philippe MAYSTADT
Mr Mario DRAGHI
Mr Jean-Philippe COTIS

President of the European Investment Bank
Chairman of the Economic and Financial Committee
Chairman of the Economic Policy Committee

PRESENTATION OF THE PRESIDENCY WORK PROGRAMME

The Council held the customary open debate – transmitted by television to the press and the general public – on the priorities of the Belgian Presidency programme in the ECOFIN area, which include the following subjects: the successful changeover to the euro, closer coordination of economic policies including their structural aspects, the taxation policy of the European Union, the creation of an integrated European financial services market, the external use of the euro, and international questions: the enlargement of the Union, relations with Russia and the architecture of the international financial system.

To give structure to the debate, the President of the Council had invited Ministers to focus their contributions on the following issues:

- the strengthening of economic policy coordination by adopting a more proactive attitude;
- the need for progress in the directives which contribute to the specification of the statute for a European company, as a possible lever to promote financial integration;
- between the on-going debates on direct and indirect taxation, an element of the long and medium-term future of the Union: the possibility of direct financing of a part of the budget of the European Union without increase in the global tax pressure.

The President of the Council launched the debate with a succinct presentation of the priorities of his programme, underlining that a major event in the Belgian Presidency would be the introduction of euro notes and coins at the end of the year. He confirmed certain key dates relating to the final preparations to ensure that the transition to the euro is problem-free, and to communication campaigns for professionals and the general public.

In general, he indicated that the economic and financial priorities of the Belgian Presidency aimed to achieve systematic progress in the integration process via a succession of measures bringing the economies and markets of the Member States closer together, which was the only way to enjoy to the full the advantages of the common currency.

President PRODI gave his full support to the Belgian Presidency's programme, describing the Commission's position on the subjects of economic policy coordination, the strengthening of the financial markets and the financial aspects of enlargement.

Ministers spoke in support of the various preparatory and communication activities proposed by the Presidency with a view to the launch of the euro, in particular its proposal to take stock of the situation, at the ECOFIN Council on 16 October 2001, on the basis of an interim report drawn up by the Commission, in preparation for the informal meeting of Heads of State or Government to be held in Ghent on 19 October 2001.

Regarding closer coordination of economic policies, Ministers widely supported the Presidency's approach of monitoring the budgetary policies of the Member States through stability and convergence programmes to be drawn up pursuant to the Stability and Growth Pact, in parallel with the implementation of the Broad Economic Policy Guidelines, the scope of which will be extended. The experience gained will make it possible to refine procedures, particularly to improve harmonisation of the presentation of national programmes, and to receive the assessment of the ECOFIN Council as quickly as possible. Coordination will also be strengthened by adopting a more proactive attitude which will, for example, make it possible to organise policy debates on the budgets for the following year and on major structural reform projects in good time.

Regarding the integration of financial and capital markets, Ministers stressed the need for the rapid implementation of a single market on the lines indicated by the LAMFALUSSY report, to give extra impetus to growth in Europe. They stressed the need for progress in defining the Statute of the European Company.

Regarding taxation, Ministers confirmed their desire to carry through the tax package; a majority also wanted to find a speedy solution for the taxation of services supplied by electronic means, to avoid discrimination between European operators. They also expressed their preferences and concerns concerning other taxation-related elements of the Presidency programme. On the possibility of direct financing of part of the European Union's budget without increasing the global tax pressure, Ministers' reactions were very mixed, ranging from outright rejection to willingness to examine such an idea. The Presidency indicated that it would return to this question at the informal ECOFIN meeting in preparation for the wider debate on the future of Europe planned for the European Council in Laeken.

Finally, Ministers discussed the financial implications of enlargement and the need to address this problem. The Presidency announced its intention to invite the Ministers for Finance of the candidate countries to participate in a joint meeting alongside the ECOFIN Council on 4 December 2001.

FOLLOW-UP TO THE GÖTEBORG EUROPEAN COUNCIL

The Council took note of a presentation by the President on follow up to the Göteborg conclusions.

Firstly, the President indicated that the Broad Economic Policy Guidelines approved by the European Council and then adopted by the ECOFIN Council in Göteborg should now be implemented, particularly the strengthening of monitoring, amongst other things by making better use of the Commission report on the subject.

He also noted that work on the tax package should be speeded up (see the timetable below) with the aim of making a first substantial report to the European Council in December.

He also stressed that special attention should be devoted to work on the ageing of the population, for which paragraph 43 of the Göteborg conclusions proposes work in three stages:

- firstly, the Social Protection Committee and the Economic Policy Committee are to produce a joint progress report on objectives and working methods in the area of pensions, and a joint report on orientations in the field of health care and care for the elderly (on this subject, the Council also heard an oral report by the Chairman of the Economic Policy Committee);
- the Council would then, in conformity with the open method of coordination and on the basis of those reports, make reports on these subjects for the Laeken and Barcelona Councils;
- finally, the results of this work would be integrated into the Broad Economic Policy Guidelines.

Finally, the President indicated that work on sustainable development was to continue on all the dimensions of the strategy, particularly in the context of preparation for the meetings of the European Council next spring.

CONTENT AND FORMAT OF STABILITY AND CONVERGENCE PROGRAMMES

The Council approved an Opinion of the Economic and Financial Committee and a Code of Conduct on the content and format of stability and convergence programmes ¹.

The Opinion updates and replaces the Opinion of 12 October 1998 of the Monetary Committee to the Council, and the Code of Conduct annexed to it. The main changes to the 1998 Code relate to the following matters: the role of and relation to the Broad Economic Policy Guidelines (BEPGs); the equality of treatment among Member States, through an improved timetable for the submission and examination of updated stability and convergence programmes, by increasing the standardisation of their content and format and greater use of common assumptions for main extra-EU variables; and taking on board the Lisbon and Stockholm conclusions with respect to the quality of public finance and the budgetary implications of ageing.

The updated Opinion and Code of Conduct were drawn up following three years of implementation of the Stability and Growth Pact, which came fully into force in January 1999. The Economic and Financial Committee considered it useful at this stage to review experience with the assessment of stability and convergence programmes in order to improve the 1998 Code of Conduct. The Economic and Financial Committee concluded that on the whole the Code had substantially contributed to well-functioning procedures, but that some improvements could be made to it; this was done in the new Opinion and Code of Conduct.

¹ The text of the Opinion of the Economic and Financial Committee and the Code of Conduct is available in English only (<http://ue.eu.int/newsroom>)

TAX POLICY IN THE EUROPEAN UNION

The Council took note of a presentation by Commissioner BOLKESTEIN on the Commission communication "Tax policy in the European Union – priorities for the years ahead" dated 23 May 2001, which had already been the subject of a preliminary exchange of views by Ministers at their informal meeting in Malmö.

In his presentation, the Commissioner stressed that Union tax policy had to be compatible with other Community objectives, and above all had to serve the interests of citizens and economic operators who wanted to enjoy the four freedoms of the internal market. The Commissioner believed that, if the Union wanted to meet the challenges of globalisation and the objectives set by the Treaties and by recent European Councils, an effort had to be made to surmount the many obstacles on this path, while respecting the principle of subsidiarity. To that end, the communication described a number of proposals for financial coordination, some of which were already on the table and others still in preparation by the Commission, in the fields of indirect taxation (VAT, duties on tobacco and alcohol, and energy and environmental taxation) and direct taxation (of companies and natural persons, pensions etc), as well as the fight against fraud.

During the exchange of views which followed, Ministers focused on those aspects which represented special interest for them, or which gave them particular cause for concern. Some Ministers questioned the Commission communication's level of ambition and particularly whether action concerning the direct taxation of companies should be limited to the elimination of harmful practices or whether it should go further towards some effort at harmonisation with a view to completion of the internal market. Others stressed the stimulating character of competition in the tax area for the implementation of structural reforms, and disputed that tax harmonisation was an end in itself. Their comments also covered the continuation of work in the energy taxation field (structure, rates, links with the liberalisation of the energy market), the need to achieve a solution on the taxation of services supplied by electronic means, the strengthening of the common VAT system and the possible increase in the minimum rates applicable in the field of duties on tobacco and alcoholic beverages.

TIMETABLE FOR THE TAX PACKAGE

The Council approved the following timetable for the tax package:

In conformity with the conclusions of the European Council in Feira, confirmed by the European Councils in Nice and Stockholm, and on the basis of the conclusions of the ECOFIN Councils on 26 and 27 November 2000 (13898/00 FISC 207) and 2 March 2001 (6564/01 FISC 33), work on the tax package will be pursued with a view to reaching agreement on the tax package as a whole as soon as possible, and no later than 2002, according to the parallel timetable for the various parts of the package.

The European Council in Göteborg took note of the ECOFIN Council agreement, on 5 June 2001, to decide, at its meeting in July 2001, a parallel timetable for the various parts of the tax package for the forthcoming work in this area until the end of 2002.

Accordingly, the Presidency proposes the following timetable of work:

- July 2001: As far as the taxation of savings is concerned:
 - = Opening of the technical examination of the modified proposal for a Directive on the taxation of savings by the Council's working party on tax questions. This technical examination should proceed intensively with the aim of reaching political agreement in the ECOFIN Council on the text for the future Directive by December 2001;
- September 2001: As far as the taxation of savings is concerned:
 - = Continuing the work on the implementation of a standard format for the exchange of information;
- October 2001: The ECOFIN Council to take a decision on a mandate for negotiations with the third countries named in the Feira conclusions;
- December 2001: The ECOFIN Council:

As far as the taxation of savings is concerned:

- = to reach political agreement² on the text of the future Directive on the taxation of savings, including the essential elements of a standard format for the exchange of information, and to take note of and assess interim reports on progress reached on negotiations with the relevant third countries and on discussions between Member States concerned and all relevant dependent or associated territories (the Channel Islands, Isle of Man, and the dependent or associated territories in the Caribbean).

² Subject to the Opinions of the European Parliament and the Economic and Social Committee.

As far as the Code of Conduct is concerned:

- = to consider the report to the Council by the Code of Conduct Group on progress achieved on standstill and rollback, including:
 - a review of measures which Member States are ready to implement in order to fulfil their commitment in the Conclusions of the ECOFIN of November 2000 regarding new entrants, and
 - an assessment on whether Member States who have footnotes to the November 1999 Report wish to maintain those reservations in light of the Group's subsequent work³.

– March 2002:

As far as the taxation of savings is concerned:

- = finalisation of work on the implementation of a standard format for the exchange of information.

– April 2002: The ECOFIN Council:

- = As far as the taxation of savings is concerned, to take note of reports on the progress of negotiations with the relevant third countries and on discussions between Member States concerned and all relevant dependent or associated territories (the Channel Islands, Isle of Man, and the dependent or associated territories in the Caribbean);
- = As far as the Code of Conduct is concerned, to take note of:
 - progress achieved on the work on the Code of Conduct with regard to Member States;
 - reports on the progress achieved on discussions between Member States concerned and their dependent or associated territories.

– June 2002: The ECOFIN Council

- = As far as the taxation of savings is concerned, to discuss and to take note of the finalisation of the negotiations with the third countries named in the Feira Conclusions and of discussions between Member States concerned and all relevant dependent or associated territories (the Channel Islands, Isle of Man, and the dependent or associated territories in the Caribbean);
- = As far as the Code of Conduct is concerned, to assess the adequacy of the envisaged legislative or administrative measures to rollback the harmful features of the measures identified in the Code Group's November 1999 Report and to finalise the work relating to standstill and to the possible extension of benefits for certain measures beyond 2005.

³ In the Commission's view, the following paragraph should be added: "to endorse the assessment of the 66 tax measures considered to be harmful by the Code of Conduct Group in its November 1999 report to the ECOFIN Council, where appropriate, subject to final agreement on possible extension of benefits for certain measures beyond 2005 and on the tax package as a whole."

- Second part of 2002 and no later than 31.12.2002: The ECOFIN Council:
 - = to assess, as far as the taxation of savings is concerned, and on the basis of a report, whether sufficient reassurances have been obtained with regard to the application of the same measures in all relevant dependent or associated territories (the Channel Islands, Isle of Man, and the dependent or associated territories in the Caribbean) and of equivalent measures in the named third countries;
 - = to assess, as far as the Code of Conduct is concerned, the implementation of measures and the results reached on the rollback of the harmful measures and on the possible extension of benefits for some of these measures beyond the end of 2005.
 - = Once agreement is reached on the above assessments, and subject to the opinions of the European Parliament and the Economic and Social Committee, and by unanimity:
 - Adoption of the Directive on the taxation of savings;
 - Conclusion of the agreements with the third countries named in the Feira conclusions;
 - Adoption of the Directive on interest and royalty payments made between associated companies of different Member States.

ITEMS DISCUSSED OVER LUNCH

The President briefed the Council on the proceedings of the **Eurogroup**, which had met on the evening of Monday 9 July 2001. Discussions covered the usual overview of the economic situation and perspectives, a continuation of the exchange of views on the development of national budgets (Italy, Germany, France and Portugal) and on structural problems such as national systems regarding taxation and social benefits, and latest developments regarding the transition to the euro.

The Council was also briefed on the outcome of the **G7/G8 Ministers for Finance meeting** in Rome on 7 July.

ITEMS APPROVED WITHOUT DEBATE

(Decisions for which statements for the Council minutes have been made available to the public are indicated by asterisks; the statements in question may be obtained from the Press Office.)

JUSTICE AND HOME AFFAIRS

Cooperation in criminal matters with Norway and Iceland

The Council authorised the Presidency to open negotiations to conclude agreements on cooperation in criminal matters with Iceland and Norway, concerning the application of certain provisions relating to extradition and mutual judicial assistance on the basis of Articles 24 and 38 of the Treaty on European Union.

ECOFIN

Special report from the Court of Auditors concerning the programme to supply agricultural products to the Russian Federation

The Council took note of Special Report No 18/2000 from the Court of Auditors concerning the programme to supply agricultural products to the Russian Federation.

RELATIONS WITH THE CCEE

Slovenia – establishment of a Joint Consultative Committee

The Council agreed that the EU- Slovenia Association Council should adopt, by the written procedure, a Decision on the establishment of a Joint Consultative Committee by that Association Council.

EEE

Cooperation in specific fields outside the four freedoms – public health

The Council approved, for the Community, a draft Decision of the EEA Joint Committee amending Protocol 31 to the EEA Agreement, on cooperation in the specific fields outside the four freedoms (public health).

The Decision of the EEA Joint Committee aims to create a framework for cooperation and set out the modalities for the full participation of the EEA-EFTA States in the Community programmes and actions in this field. (Decision No 521/2001/EC of the European Parliament and of the Council of 26 February 2001 extending certain programmes of Community action in the field of public health adopted by Decisions No 645/96/EC, No 646/96/EC, No 647/96/EC, No 102/97/EC, No 1400/97/EC and No 1296/1999/EC and amending those Decisions).

Cooperation in specific fields outside the four freedoms – small and medium-sized enterprises

The Council approved a draft Decision of the EEA Joint Committee amending Protocol 31 to the EEA Agreement on cooperation in the specific fields outside the four freedoms (small and medium-sized enterprises).

The Decision of the EEA Joint Committee aims to create a framework for cooperation and set out the modalities for the full participation of the EEA-EFTA States in the Community programmes and actions in this field. (Council Decision 2000/819/EC of 20 December 2000 on a multiannual programme for enterprise and entrepreneurship, and in particular for small and medium-sized enterprises (SMEs) (2001-2005)).

EFTA

EC/Denmark-Faroe Islands Joint Committee

The Council approved a draft Decision of the EC/Denmark-Faroe Islands Joint Committee amending Table II of the Annex to Protocol 1 to the Agreement between the European Community, of the one part, and the Government of Denmark and the Home Government of the Faroe Islands, of the other part.

The Decision provides for an increase of 1 000 tonnes in the tariff quota for shrimps, prawns and Norway lobsters, bringing it to an annual total of 3 000 tonnes.

DEVELOPMENT

Food-aid policy and food-aid management and special operations in support of food security

The Council adopted a Regulation of the European Parliament and of the Council amending Article 21 of Council Regulation (EC) No 1292/96 on food-aid policy and food-aid management and special operations in support of food security.

At its part-session from 14 to 17 May 2001 the Parliament approved the Commission proposal as it stood, under the procedure without report.

This Regulation aims to bring Article 21 of Regulation (EC) No 1292/96 into line with Article III of the new Food Aid Convention 1999, which was approved by the Council on 13 June 2000.

After signature by representatives of both institutions, this legislative act will be published in the Official Journal of the European Communities.

RESEARCH

Directives for the negotiation of an Agreement with Chile

The Council adopted a Decision authorising the Commission to negotiate an Agreement for scientific and technological cooperation between the European Community and the Republic of Chile.

FISHERIES

Agreement with the Comoros

The Council adopted a Regulation approving on behalf of the Community the Protocol setting out the fishing opportunities between the European Community and the Islamic Federal Republic of the Comoros. The Protocol covers fishing off the Comoros for the period 28 February 2001 to 27 February 2004.

The fishing opportunities set out in the Protocol are to be allocated among the Member States as follows:

(a) Tuna seiners:	Spain:	18	vessels
	France:	21	vessels
	Italy:	1	vessel
(b) Surface longliners:	Spain:	20	vessels
	Portugal:	5	vessels

It should be noted that on 19 June 2001 the Council adopted a Decision concerning the conclusion of this Agreement which set a maximum financial contribution for the fishing opportunities at an annual amount of EUR 350 250.

APPOINTMENTS

Economic and Social Committee

The Council adopted a Decision appointing Mr Richard ADAMS as a member of the Economic and Social Committee to replace Mr James PETRIE for the remainder of his term of office, which runs until 20 September 2002.