COUNCIL OF
THE EUROPEAN UNION

EN

6514/11

PROVISIONAL VERSION

PRESSE 25
PR CO 6

PRESS RELEASE

3067th Council meeting

Economic and Financial Affairs

Brussels, 15 February 2011

President **M. György MATOLCSY**
Minister for National Economy of Hungary

P R E S S

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Main results of the Council

*The Council held a first discussion on a package of legislative measures intended to strengthen **economic governance** in the EU – and more specifically in the euro area – in order to face up to the challenges posed by the sovereign debt crisis. The proposals are aimed at enhancing budgetary discipline in the member states and broadening the surveillance of their economic policies.*

In line with the deadlines set by the European Council, the presidency's intention is for a general approach to be agreed on all six proposals at the Council's meeting on 15 March.

*The Council adopted a directive aimed at strengthening administrative cooperation in the field of taxation so as to enable the member states to better combat **tax fraud**.*

The directive will fulfil the member states' growing need for mutual assistance – especially via the exchange of information – so as to enable them to better assess taxes due. It ensures implementation in the EU of an OECD standard for the exchange of information on request, and enables introduction, on a step-by-step basis, of provisions on the automatic exchange of information.

*Pursuing implementation for the first time of the so-called **European Semester**, which stems from a broader reform of EU economic governance, the Council adopted conclusions providing policy guidance to the member states for tackling macroeconomic and fiscal challenges.*

Furthermore, it adopted conclusions:

- *concerning work on the scope of a code of conduct on business taxation which is aimed at eliminating situations of **harmful tax competition**;*

- *setting the Council's priorities for negotiation with the European Parliament of the EU's general **budget for 2012**.*

*The Council also revised some of the EU's **restrictive measures against Zimbabwe**, removing 35 names from the list of individuals subject to a visa ban and assets freeze.*

The remaining EU restrictions will remain in force until further tangible progress is made with democratic reforms in Zimbabwe.

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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.

DEVELOPMENT COOPERATION

PARTICIPANTS

Belgium:	
Mr Didier REYNDERS	Deputy Prime Minister and Minister for Finance and Institutional Reforms
Bulgaria:	
Mr Simeon DJANKOV	Deputy Prime Minister and Minister for Finance
Czech Republic:	
Mr Miroslav KAROUSEK	Minister for Finance
Denmark:	
Mr Claus HJORT FREDERIKSEN	Minister for Finance
Germany:	
Mr Wolfgang SCHÄUBLE	Minister for Finance
M. Jörg ASMUSSEN	State Secretary
Estonia:	
Mr Jürgen LIGI	Minister for Finance
Ireland:	
Mr Brian LENIHAN	Minister for Finance
Greece:	
Mr Giorgos PAPACONSTANTINOU	Minister for Finance
Spain:	
Ms Elena SALGADO	Vice-President of the Government and Minister for Economic Affairs and Finance
France:	
Mr Philippe ETIENNE	Permanent Representative
Italy:	
Mr Giulio TREMONTI	Minister for Economic Affairs and Finance
Cyprus:	
Mr Charilaos STAVRAKIS	Minister for Finance
Latvia:	
Mr Andris VILKS	Minister for Finance
Lithuania:	
Ms Ingrida SIMONYTE	Minister for Finance
Luxembourg:	
Mr Luc FRIEDEN	Minister for Finance
Hungary:	
Mr György MATOLCSY	Minister for Economic Affairs
M. András KÁRMÁN	State Secretary
Malta:	
Mr Tonio FENECH	Minister for Finance
Netherlands:	
Mr Jan Kees de JAGER	Minister for Finance
Austria:	
Mr Josef PRÖLL	Vice Chancellor and Federal Minister for Finance
Poland:	
Mr Jan VINCENT-ROSTOWSKI	Minister for Finance
Portugal:	
Mr Fernando TEXEIRA DOS SANTOS	Minister for Finance
Romania:	
Mr Gheorghe IALOMITIANU	Minister for Finance
Slovenia:	
Mr Franci KRIŽANIČ	Minister for Finance

Slovakia:	
Mr Ivan MIKLOŠ	Deputy Prime Minister and Minister for Finance
Finland:	
Mr Jyrki KATAINEN	Minister for Finance
Sweden:	
Mr Anders BORG	Minister for Finance
United Kingdom:	
Mr George OSBORNE	Chancellor of the Exchequer

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Commission:	
Mr Olli REHN	Member
Mr Algirdas ŠEMETA	Member
Mr Janusz LEWANDOWSKI	Member

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Other participants:	
Mr Vitor CONSTANCIO	Vice President of the European Central Bank
Mr Philippe MAYSTADT	President of the European Investment Bank
Mr Thomas WIESER	Chairman of the Economic and Financial Committee
Mr Lorenzo CODOGNO	Chairman of the Economic Policy Committee

ITEMS DEBATED

ECONOMIC GOVERNANCE

The Council held a policy debate on a package of measures intended to strengthen economic governance in the EU, and more specifically in the euro area, in order to address the challenges highlighted by recent difficulties on sovereign debt markets.

It asked the Permanent Representatives Committee to oversee further work on the package, in the light of its discussion. The presidency's aim – in accordance with the deadlines set by the European Council on 4 February – is for the Council to agree on a general approach on all six proposals at its meeting on 15 March, with a view to reaching an agreement with the European Parliament in June.

The proposals are aimed at enhancing budgetary discipline in the member states and broadening the surveillance of their economic policies, thus implementing the recommendations of a task force chaired by the President of the European Council, Herman Van Rompuy[1].

The package consists of:

– a draft regulation amending regulation 1466/97 on the surveillance of member states budgetary and economic policies;

– a draft regulation amending regulation 1467/97 on the EU's excessive deficit procedure;

– a draft regulation on the enforcement of budgetary surveillance in the euro area;

– a draft regulation on the prevention and correction of macroeconomic imbalances;

– a draft regulation on enforcement measures to correct excessive macroeconomic imbalances in the euro area;

– a draft directive on requirements for the member states' budgetary frameworks.

Four of the propositions deal with reform of the EU's Stability and Growth Pact. They are aimed at enhancing the surveillance of fiscal policies, introducing provisions on national fiscal frameworks, and applying enforcement measures for non-compliant member states more consistently and at an earlier stage.

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[1] Final report of the task force, 21 October 2010: http://www.consilium.europa.eu/uedocs/cms_Data/docs/pressdata/en/ec/117236.pdf

In particular, a so-called reverse majority rule, whereby the Commission's proposal for imposing a fine will be considered adopted unless the Council turns it down by qualified majority, will trigger the sanction more automatically than at present. Greater emphasis will also be placed on the debt criterion of the Stability and Growth Pact, with member states whose debt exceeds 60% of GDP required to take steps to reduce their debt at a pre-defined pace, even if their deficit is below the 3% of GDP threshold.

The other two proposals target macroeconomic imbalances within the EU. Here, the aim is to broaden the surveillance of economic policies, introducing the possibility of fines on member states found to be in an "excessive imbalances position". Risks of macroeconomic imbalances will be assessed using a "scoreboard" of economic indicators.

SAVINGS TAXATION AND ANTI-FRAUD AGREEMENTS

The Council held an orientation debate on

– a draft directive aimed at strengthening the provisions of directive 2003/48/EC on the taxation of savings interest;

– a draft anti-fraud and tax information exchange agreement with Liechtenstein;

– a draft decision authorising the Commission to negotiate anti-fraud and tax information exchange agreements with Andorra, Monaco and San Marino, as well as a new agreement with Switzerland.

The dossiers are a priority for the presidency in the months ahead, as set out in its work programme (*18048/10*). The presidency intends, in the light of comments made by ministers, to take work forward in the Council's high-level working group on taxation so as to enable the Council to make progress as soon as possible.

Taxation of savings interest

The proposed amendments to directive 2003/48/EC are intended to reflect developments in savings products and in investor behaviour since it was first applied in 2005. They set out to enlarge the directive's scope to include all savings income, as well as products that generate interest or equivalent income, and to avoid circumvention of the directive.

Directive 2003/48/EC requires the member states to exchange information so as to enable interest payments made in one member state to residents of other member states to be taxed in accordance with the laws of the state of tax residence. For a transitional period[1], Luxembourg and Austria impose instead a withholding tax on interest paid to savers resident in other member states.

Equivalent measures to those provided for in the directive are applied by Andorra, Liechtenstein, Monaco, San Marino and Switzerland, under agreements concluded with the EU, and in ten dependent and associated territories of the Netherlands and the United Kingdom (Guernsey, Jersey, the Isle of Man and seven Caribbean territories), under bilateral agreements concluded with each of the member states.

[1] The length of the transitional period depends on Andorra, Liechtenstein, Monaco, San Marino, Switzerland and the United States being committed to exchange of information upon request as defined in a 2002 OECD model agreement.

Anti-fraud agreements

The draft agreement with Liechtenstein covers fraud as relates to both direct and indirect taxation. It uses a definition of fraud that covers both natural and legal persons (e.g. companies) and includes not just false documents and false tax returns, but also the submission of incomplete tax returns.

The text provides for cooperation between the parties through the exchange of information that is forseeably relevant to tax administrations. It allows the parties to trigger administrative assistance that cannot be refused on the sole grounds that the information requested is held by a bank or other financial institution, and legal assistance for acts that are punishable under the laws of the parties. Implementing measures, such as seizure, are foreseen for acts that are punishable by prison sentence by both parties.

The draft agreement with Liechtenstein may later serve as a model for the negotiation of agreements with Andorra, Monaco and San Marino, as well as the negotiation of a new agreement with Switzerland that would extend existing provisions on indirect taxation to also cover direct taxation.

EU BUDGET

Discharge for 2009

The Council adopted a recommendation to the European Parliament on the discharge to be given to the Commission for implementation of the EU's general budget for 2009 (*doc. 5891/11 ADD 1*).

The Dutch, Swedish and UK delegations abstained and adopted a unilateral declaration (see annex).

The recommendation was prepared on the basis of the Court of Auditors' annual report[1].

The Council also adopted recommendations on the discharge to be given for their 2009 budgets to the directors of 22 EU agencies, six EU executive agencies and five joint undertakings (*docs 5892/11 ADD 1* + *5893/11 ADD 1* + *5894/11 ADD 1*).

In accordance with the EU's budgetary discharge procedure, the recommendations will now be submitted to the Parliament, along with Council conclusions on a series of Court of Auditors special reports (*doc. 5891/11 ADD 2*).

Guidelines for 2012

The Council adopted conclusions setting out its priorities for the EU's general budget for 2012.

The conclusions can be found in document *5895/11*. They will serve as the basis for negotiations with the European Parliament and the Commission later this year.

The conclusions emphasise that the consequences of the economic crisis and fiscal consolidation efforts will continue to impact the budget in 2012. They underscore the need to take into account economic and budgetary constraints at the national level whilst continuing implementation of EU programmes and actions, including the financing of measures aimed at tackling the effects of the crisis and promoting growth.

[1] OJ C 303 of 9.11.2010.

PREPARATION OF THE MARCH EUROPEAN COUNCIL

EU 2020 strategy: Macroeconomic and fiscal guidance to the member states

The Council adopted conclusions to be found in document *5991/11*, and agreed to submit them to the European Council with a view to its meeting on 24 and 25 March.

European Central Bank: Nomination of an executive board member

The Council adopted a recommendation on the nomination of Peter Praet (Belgium) as an executive board member of the European Central Bank to succeed Gertrude Tumpel-Gugerell, whose term of office expires on 31 May.

The Council's recommendation will be submitted to the European Council, after consulting the European Parliament and the ECB's governing council, so as to enable it to take a decision at its meeting on 24 and 25 March.

EXCESSIVE DEFICIT PROCEDURE

Bulgaria, Denmark, Cyprus and Finland

The Council took note of a communication from the Commission assessing action taken by Bulgaria, Denmark, Cyprus and Finland in order to bring their government deficits below 3% of GDP, the reference value set by the EU treaty.

It shared the Commission's view that, on the basis of current information, all four countries have taken action representing adequate progress towards correcting their deficits within the time limits set in its recommendations, and that no further steps under the EU's excessive deficit procedure are required at present.

Bulgaria, Denmark, Cyprus and Finland have been subject to excessive deficit procedures since July 2010, when the Council issued its recommendations. The Council called on Bulgaria and Finland to reduce their deficits below the threshold of 3 % of GDP by 2011, Cyprus by 2012 and Denmark by 2013.

PREPARATION OF G-20 MINISTERIAL MEETING

The Council endorsed EU terms of reference in preparation for a meeting of G-20 finance ministers and central bank governors to be held in Paris on 18-19 February.

The terms of reference contain common positions, for both the EU institutions and EU member states that participate in the G-20, on the various issues to be discussed at the meeting.

The Paris meeting will be the first of six at ministers' level that are scheduled ahead of the G-20 summit in Cannes on 3-4 November 2011. G-20 finance ministers and central bank governors will also meet in April, September and October, whilst two other G-20 ministerial meetings are scheduled, on agriculture and on employment and labour, in June and October.

France assumed the G-20 presidency last November, for one year. President Nicolas Sarkozy recently defined its priorities as follows: Addressing global imbalances, reform of the international monetary system and addressing commodity price volatility. France has also proposed the creation of a permanent secretariat for the G-20.

Discussions in Paris are expected to focus on the global economy and G-20 framework for growth, the reform of the international monetary system, commodities, financial regulation and certain other issues such as development.

MEETINGS IN THE MARGINS OF THE COUNCIL

The following meetings were held in the margins of the Council:

- ***Macroeconomic dialogue with the social partners***

A dialogue on macroeconomic issues was held on 14 February between the presidency, the Commission, the European Central Bank and the president of the Euro Group, on the one hand, and the social partners (employers and trade unions at EU level and representatives of public enterprises and SMEs), on the other.

- ***Euro Group***

Ministers of the euro area member states attended a meeting of the Euro Group on 14 February.

- ***Ministerial meeting on the European Stability Mechanism***

Ministers attended a meeting on 14 February on the preparation of a European Stability Mechanism to ensure the financial stability of the euro area.

- ***Ministerial breakfast meeting***

Ministers held a breakfast meeting to discuss the economic situation.

OTHER ITEMS APPROVED

TAXATION

Administrative cooperation in the field of direct taxation

The Council adopted a directive on administrative cooperation in the field of direct taxation, aimed at strengthening mutual assistance between the member states and ensuring that OECD standards for information exchange on request are implemented in the EU, so as to better combat tax evasion and tax fraud.

For details, see press release *6554/11*.

Code of conduct on business taxation

The Council took note of a report from the presidency on the scope of the EU's code of conduct on business taxation, and adopted the following conclusions.

"The High Level Working Party (HLWP) discussed the current scope of the Code of Conduct on business taxation in line with ECOFIN conclusions of 7 December 2010 (doc. *17380/10* FISC 149).

The HLWP took the view that personal income taxation falls, as a general rule, outside the scope of the Code. However, certain aspects of such taxation may be taken into account in specific circumstances.

The regimes of the Isle of Man and Jersey (doc. *16766/10* FISC 139 point 12) fall under the scope of the Code of Conduct due to the following reasons:

1. Shareholders are not taxed exclusively on actual distributions, but also on deemed distributions. The combination of both ensures current taxation of business profits at shareholder level.

2. Current business profits are effectively taxed at shareholder level via deemed distribution or attribution provisions. The mechanism is designed as a system based on shareholder and company taxation to ensure combined taxation of business profits.

3. The mechanism, whereby current business profits are taxed at shareholder level via deemed distribution or attribution provisions, only applies to resident shareholders thus creating an instrument to protect the national tax revenues and to attract non-resident shareholders.

4. The mechanism is an alternative means of taxing domestic business profits rather than an anti-avoidance measure.

These conclusions are without prejudice to any further clarification of the scope of the Code of Conduct made necessary by examination of other regimes with potentially damaging effects."

DEVELOPMENT COOPERATION

Zimbabwe – restrictive measures

The Council revised some of the EU's restrictive measures on Zimbabwe, removing 35 names from the list of individuals subject to a visa ban and assets freeze.

The remaining EU restrictions will remain in force until further tangible progress is made with democratic reforms in Zimbabwe. The Council is ready to review its decisions at any time in the light of further developments.

More specifically, the Council adopted a decision extending for a further year, until 20 February 2012, restrictive measures first imposed in 2002 owing to concerns about violence and human rights abuses perpetrated by the regime in Zimbabwe (6102/11 + 5989/11).

The restrictive measures include a ban on the sale to Zimbabwe of arms and of equipment that can be used for internal repression; a ban on entering or transiting the EU member states of persons whose activities seriously undermine democracy, respect for human rights and the rule of law in Zimbabwe; and an assets freeze applying to natural and legal persons, entities and bodies that support the regime economically.

The assets freeze and visa ban list will now contain the names of 163 individuals and 31 entities. The list will be published in the Official Journal on 16 February.

The Council also adopted a decision extending for a further year, until 20 February 2012, measures first imposed in 2002, under article 96 of the ACP-EU partnership agreement, prohibiting EU development assistance from being channeled through the government of Zimbabwe (*5726/11* + *6016/11*).

The EU however remains committed to the Zimbabwean population by providing ongoing assistance to meet the needs of the people and, since 2009, to support the reform agenda of the Government of National Unity.

Pacific states – Interim economic partnership agreement

The Council approved the conclusion of an interim economic partnership agreement with the Pacific states, i.e. Papua New Guinea and the Fiji Islands (*5536/11* + *COR1*).

Negotiations on the interim agreement were finalised in November 2007. The European Parliament gave its consent on 19 January 2011 to the conclusion of the agreement.

The text of the agreement is set out in *5558/2/09 REV 2*.

European development fund

The Council adopted a recommendation to the European Parliament on the discharge to be given to the Commission in respect of the implementation of operations under the 8th, 9th and 10th European development funds for the financial year 2009 (*5469/11*, *5472/11*, *5473/11*).

It also took note of comments of the Council's ACP working group on the Court of Auditors annual report on those operations (*6003/11*), as well as a statement on the Court's statement of assurance for the same transactions (*6053/11*).

Annex

Joint declaration signed by the Netherlands, Sweden and the United Kingdom

With reference to:

- The European Court of Auditors' annual report on implementation of the 2009 EU Budget;
- Discharge to be given to the Commission in respect of the implementation of the budget for the financial year 2009;
- Draft Council recommendation 5891/11 FIN 47 PE-L14+ ADD1 + ADD 2;

- The Netherlands, Sweden and the United Kingdom are concerned that:
  - For the 16th year in succession, the European Court of Auditors has been unable to grant a positive unqualified Statement of Assurance on the EU Budget as a whole;

  - The slow pace of reforms to the financial management of EU funds is detrimental to the credibility of the EU budget as a whole.

- The Netherlands, Sweden and United Kingdom highlight that independent EU-level audit is a crucial function and we therefore strongly support the work of the European Court of Auditors;

- The Netherlands, Sweden and the United Kingdom agree with the European Court of Auditors that improving the quality of spending should be a high priority in order to attain significantly better results in the annual report on the 2010 budget.

- The Netherlands, Sweden and the United Kingdom want to see concrete steps towards achieving the following specific objectives before the Council debates Discharge of the 2010 Budget:
  - Member States are responsible for implementing the majority of funds from the EU Budget in cooperation with the Commission. Member States are responsible for conducting checks and for putting in place an effective and efficient control system. As part of a closer dialogue with Member States, the Commission is invited to make proposals and to strengthen Member State responsibility. Member States should account for the administration of EU funds at national level, including the proper functioning of internal control systems;
  - For reasons of transparency and in order to incentivise sound financial management, Member States' annual summaries should be made publicly available. At the same time, Member States should be obliged to provide analysis of financial management data as an integral part of the annual summaries;
  - In support of a risk-based approach to auditing, a more structured dialogue between the Court of Auditors, the Commission and Member States is necessary. The Commission should bring forward proposals to enable a stronger focus on the audit of larger projects and institutions which have a proven track record of risk.

- The forthcoming negotiations of the Financial Regulation provide an opportunity to take forward these proposals.