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2931st meeting of the Council

Economic and Financial Affairs

Brussels, 10 March 2009

President **Miroslav KALOUSEK**
Minister for Finance of the Czech Republic

PRESS

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Main results of the Council

The Council reached a political agreement on the use of ***reduced rates of value-added tax*** *(VAT) in certain sectors.*

It endorsed terms of reference for the EU's participation in a meeting of G-20 finance ministers and central bank governors on 14 March that will prepare the ***G-20 summit on international financial governance*** *in London on 2 April.*

It adopted a ***key issues paper*** *outlining the main policy objectives to be set for 2009 as concerns economic and financial affairs, as well as a report on the 2009 update of the EU's* ***country-specific recommendations*** *to member states regarding their economic and employment policies.*

The Council also adopted conclusions on the international financing of ***climate change*** *measures.*

All these documents will be submitted to the spring meeting of the European Council, to be held in Brussels on 19 and 20 March.

In addition, the Council assessed a number of updated ***stability and convergence programmes*** *presented by the member states, and established priorities for the EU's* ***budget for 2010****.*

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 Vassilev ORESHARSKI	Minister for Finance
Czech Republic:	
Mr Miroslav KALOUSEK	Minister for Finance
Mr Peter CHRENKO	Deputy Minister for Finance, Tax and Customs Section
Denmark:	
Mr Lars Løkke RASMUSSEN	Minister for Finance
Germany:	
Mr Peer STEINBRÜCK	Federal Minister for Finance
Mr Jörg ASMUSSEN	State Secretary, Federal Ministry of Finance
Estonia:	
Mr Raul MÄLK	Permanent Representative
Ireland:	
Mr Bobby McDONAGH	Permanent Representative
Greece:	
Mr Ioannis PAPATHANASIOU	Minister of Economic 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, Industry and Employment
Italy:	
Mr Giulio TREMONTI	Minister for Economic Affairs and Finance
Cyprus:	
Mr Charilaos STAVRAKIS	Minister for Finance
Latvia:	
Mr Atis SLAKTERIS	Minister for Finance
Lithuania:	
Mr Algirdas Gediminas ŠEMETA	Minister for Finance
Luxembourg:	
Mr Jean-Claude JUNCKER	Prime Minister, Ministre d'Etat, Minister for Finance
Mr Jeannot KRECKÉ	Minister for Economic Affairs and Foreign Trade, Minister for Sport
Hungary:	
Mr Álmos KOVÁCS	State Secretary, Ministry of Finance
Malta:	
Mr Tonio FENECH	Minister of Finance, Economy and Investment
Netherlands:	
Mr Jan Kees de JAGER	State Secretary for Finance
Austria:	
Mr Josef PRÖLL	Vice Chancellor and Federal Minister for Finance
Poland:	
Mr Jan VINCENT-ROSTOWSKI	Minister for Finance
Portugal:	
Mr Fernando TEIXEIRA DOS SANTOS	Ministro de Estado, Minister for Finance

Romania:	
Mr Cosmin COMAN	State Secretary, Ministry of Finance
Slovenia:	
Mr Franc KRIŽANIČ	Minister for Finance
Slovakia:	
Mr Maroš ŠEFOVIČ	Permanent Representative
Finland:	
Mr Jyrki KATAINEN	Deputy Prime Minister, Minister for Finance
Sweden:	
Mr Anders BORG	Minister for Finance
United Kingdom:	
Mr Alistair DARLING	Chancellor of the Exchequer
Commission:	
Mr Joaquín ALMUNIA	Member
Mr László KOVÁCS	Member
Mr Charlie MCCREEVY	Member
Other participants:	
Mr Lucas PAPADEMOS	Vice-president of the European Central Bank
Mr Philippe MAYSTADT	President of the European Investment Bank
Mr Thomas WIESER	Vice-president of the Economic and Financial Committee
Mr Christian KASTROP	Chairman of the Economic Policy Committee

ITEMS DEBATED

STABILITY AND GROWTH PACT

Annual updates of the member states' stability and convergence programmes

The Council adopted opinions, in accordance with the EU's stability and growth pact, on a number of annual updates of the member states' stability and convergence programmes.

The draft opinions relate to:

- updated stability programmes presented by Germany, Greece, Ireland, Spain, France, Italy, Luxembourg, Malta, the Netherlands, Portugal and Finland;
- updated convergence programmes presented by Bulgaria, the Czech Republic, Denmark, Estonia, Latvia, Lithuania, Hungary, Poland, Sweden and the United Kingdom.

Under the 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 of strengthening the conditions for price stability and for sustainable growth, conducive to employment creation.

The Council's opinions can be found in the following documents: Bulgaria (*7308/09*), the Czech Republic (*7310/09*), Denmark (*7311/09*), Germany (*7315/09*), Greece (*7316/09*), Estonia (*7312/09*), Ireland (*7318/09*), Spain (*7323/09*), France (*7314/09*), Italy (*7327/09*), Latvia (*7319/09*), Lithuania (*7328/09*), Luxembourg (*7329/09*) Hungary (*7317/09*), the Netherlands (*7325/09*), Poland (*7322/09*), Portugal (*7330/09*), Finland (*7313/09*), Sweden (*7324/09*), Malta (*7320/09*) and the United Kingdom (*7326/09*).

PREPARATION OF THE SPRING MEETING OF THE EUROPEAN COUNCIL

Key issues paper on economic and financial affairs

The Council adopted a key issues paper, to be submitted to the spring meeting of the European Council (19 and 20 March), outlining the main policy objectives to be set for 2009 as concerns economic and financial affairs (Ecofin).

The key issues paper can be found in document *6784/1/09 REV 1*.

The key issues paper focuses on the following issues:

– financial markets: how to stabilise the markets and restore functioning in the short term, and how to develop global financial governance in the longer term;

– European economic recovery plan: implementation of fiscal stimulus plans;

– public finances: consequences of expansionary budgetary policies in the member states, and how to ensure sustainable fiscal and macroeconomic policies.

In view of the ongoing financial and economic crisis, the European Council is expected to:

– take stock of progress achieved in ensuring greater stability and better supervision and transparency of financial markets, and will consider further measures as necessary, particularly in the light of Commission analysis and proposals based on the recommendations of a high-level reflection group chaired by Jacques de Larosière[1];

– assess implementation of the European economic recovery plan that it approved in December;

– reiterate the commitment of member states to return to sustainable budgetary positions as soon as possible;

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[1] Former managing director of the International Monetary Fund.

– emphasise the increased importance of making renewed progress in implementing the EU's Lisbon strategy on growth and jobs;

– underscore the determination of member states to adhere to the principles of the EU's single market;

– establish the EU's position with regard to the G-20 summit to be held in London on 2 April.

The Ecofin Council is one of a number of Council configurations contributing key issues papers to the European Council. The Permanent Representatives Committee will draw on the main messages from those papers in preparing draft conclusions for the European Council.

Common messages to the G-20 summit

The Council endorsed terms of reference for the EU's participation in a meeting of G-20 finance ministers and central bank governors on 14 March that will prepare the G-20 summit on the global economy and international financial governance in London on 2 April.

An informal meeting of EU G-20 heads of state and government was held in Berlin on 22 February. The European Council on 19 and 20 March is due to approve common messages for the G-20 summit.

The London summit will bring together the heads of state and government of the world's developed and emerging economies and representatives of international financial institutions (IFIs), with the aim of identifying the means for restoring economic confidence and financial stability.

It will follow on from a summit held in Washington on 15 November, the first G-20 meeting to be held at the level of heads of state and government.

The aim will be to reach agreement on coordinated actions to revive the global economy, reforming and improving financial systems and principles for the reform of IFIs, namely the International Monetary Fund, the Financial Stability Forum and the World Bank.

The EU terms of reference cover the following issues:

- closer international coordination of macroeconomic policies;
- global financial market regulation based on increased transparency and accountability;
- strengthened cooperation between financial authorities at international level;
- the strengthening of the International Monetary Fund;
- the role of multilateral development banks in countering the effects of the financial and economic crisis, in particular for the poorest and most vulnerable populations.

Country-specific recommendations

The Council approved a report, to be submitted to the spring meeting of the European Council (19 and 20 March), on the 2009 update of the EU's country-specific integrated recommendations to member states regarding their economic and employment policies.

Once endorsed by the European Council, the recommendations will be submitted for adoption by the Council.

The recommendations can be found in document *6638/09*.

Reduced VAT rates

The December 2008 European Council requested the Council (ECOFIN) to settle, by March 2009, the issue of: "the possibility, for the member states that so wish, of applying reduced VAT rates in certain sectors".

The Council (ECOFIN) had a thorough discussion on the overall system of reduced VAT rates, as a result of which it:

– ACKNOWLEDGES that reduced VAT rates may, depending on the circumstances, have positive and negative economic effects, so that more efficient alternative solutions should always be considered before a member state decides to use the option to apply reduced VAT rates.

– REACHED POLITICAL AGREEMENT

- that all member states, by amending directive 2006/112/EC, should have the option to apply reduced VAT rates on a permanent basis to:

(1) Without prejudice to ANNEX III of directive 2006/112/EC services in Annex IV of directive 2006/112/EC

- Minor repairing of bicycles, shoes and leather goods, clothing and household linen (including mending and alteration);
- Window-cleaning and cleaning in private households;
- Domestic care services such as home help and care of young, elderly, sick or disabled;
- Hairdressing;
- Renovation and repairing of private dwellings, excluding materials which account for a significant part of the value of the service supplied.

(2) Restaurant services;

(3) Books on all physical means of support;

- that Portugal is allowed to apply reduced VAT rate to tolls on bridges in the Lisbon area and that Cyprus is allowed to apply a reduced VAT rate to LPG in cylinders

- and that all the other items of the 2008 Commission proposal shall not be eligible for a reduced VAT rate.

– TAKES NOTE, in line with the outcome of relevant economic studies evaluating the impact of reduced VAT rates for environmental reasons, that reduced VAT rates as a tool for achieving environmental policy objectives are relevant only to a certain extent.

– TAKES NOTE of the intention of the Commission to submit a proposal to prolong for two years the derogation for the United Kingdom concerning the reverse charge mechanism and DECLARES its support to the prolongation.

– INVITES the Commission to submit, prior to the expiry of Malta's transition period for the maintenance of its VAT 0% rate instead of the reduced rate of 5% on the supplies of foodstuffs and pharmaceuticals on 31 December 2010, an appropriate proposal for the extension of that provision until the adoption of the definitive arrangements referred to in Article 402 of directive 2006/112/EC and DECLARES its support to the prolongation.

International financing of climate change measures

The Council held an exchange of views on the international financing of climate change measures, with a view to the spring meeting of the European Council (19 and 20 March).

The Council adopted the following conclusions to be submitted to the European Council, while leaving the last paragraph (in square brackets) open for consideration by the European Council.

"The Council (ECOFIN) RECALLS the European Council Conclusions of 19-20 June 2008 requesting a comprehensive strategy on financial aspects of climate change, and welcomes the Commission Communication "Towards a comprehensive climate change agreement in Copenhagen".

The Council (ECOFIN) REAFFIRMS the EU's determination to reach a global and comprehensive climate agreement in Copenhagen in December 2009. The general objective of such an agreement should be to limit the global temperature increase to below 2oC compared to pre-industrial levels. The Council (ECOFIN) RECALLS that the estimates of the global costs of tackling climate change by a coordinated international response remain far lower than the costs of inaction, provided that swift action is taken to make use of the lowest cost abatement opportunities available internationally. The Council (ECOFIN) STRESSES that cost effective action requires the implementation of negative cost abatement options in all major emitting countries which will minimize the amount of financing required at the international level.

The Council (ECOFIN) NOTES the existence of substantial opportunities to achieve multiple benefits by addressing the current global economic crisis, energy security and climate change in a coordinated manner. Accordingly, the efficiency and the effectiveness of the EU climate and energy package and the cost-efficient transition to a low carbon economy is to a large extent dependent on the conclusion of an ambitious and comprehensive global agreement.

The Council (ECOFIN) RECALLS the strong mitigation commitment and the contributions to climate protection already made by the EU and the importance of comparable efforts by all developed countries. The Council (ECOFIN) TAKES THE VIEW that developed countries should continue to play a leading role, however, STRESSES that all but the least developed countries (LDCs) and small island developing states (SIDS) should commit to measurable, verifiable and reportable (MRV) mitigation actions and related financial participation, based on dynamic assessment of individual levels of abatement potential and development, if climate change is to be tackled effectively.

The Council (ECOFIN) UNDERLINES that international financial assistance for developing countries in support of incremental costs that cannot readily be borne by the countries themselves needs to be efficient and therefore linked to effective results in terms of emission reductions induced by the implementation of concrete actions. In this regard, developing countries, except the LDCs and SIDS, should commit to adopting or updating by no later than 2012 low-carbon development strategies based on appropriate MRV mitigation policies, covering all key emitting sectors. This definition of national mitigation actions in developing countries should be a pre-requisite for the delivery of international financial public support.

The Council (ECOFIN) HIGHLIGHTS that market-based instruments providing a high degree of flexibility are central to efficient and cost-effective responses to climate change, including the trade with Assigned Amount Units (AAU). The Council (ECOFIN) SUPPORTS the development of a robust incentives enhancing global carbon market by both linking equally ambitious emission trading schemes worldwide – within OECD countries by 2015 extended to more advanced developing countries by 2020 – and by providing support for the design and implementation of new crediting and trading mechanisms, and NOTES that economically more advanced developing countries should participate according to their common but differentiated responsibilities and respective capabilities.

The Council (ECOFIN) RECOGNISES that the Clean Development Mechanism (CDM) has played, and should continue to play, an important role in engaging in particular developing countries in the carbon market, facilitating cost-effective global abatement and providing financing for clean technology transfer. In order to enhance its contribution to sustainable development, ensure its environmental integrity and that only actions delivering real additional emission reductions are credited, the mechanism should be improved and sectoral and programmatic approaches should be promoted, also with a view to broadening the participation of developing countries. The Council (ECOFIN) NOTES that the implementation of the EU climate and energy package can deliver substantial financial flows from the EU to developing countries, in particular through the CDM.

The Council (ECOFIN) UNDERLINES that, for financing mitigation and adaptation actions, appropriate domestic and external sources of finance, both private and public, will be required and EMPHASISES that private funding will be, via appropriate policy frameworks, the main source of the necessary investments. Complementary public finance is needed in areas that cannot be adequately financed by the private sector to leverage private investments and to provide incentives for additional efforts.

The Council (ECOFIN) REITERATES that governance of mechanisms channelling international support must allow for effective and efficient decision-making and transparent follow-up. Public funding and international financing need to be governed by principles of effectiveness, efficiency and equity and subject to transparency and corresponding financial sound management practice. The Council (ECOFIN) HOLDS that financial assistance should be delivered by mechanisms which maximize the linkages and synergies with existing development aid, building on international financing and development experience, particularly lessons learned on aid effectiveness.

Being aware of the challenge of adaptation for developing countries and their possibly limited fiscal leeway in the near future, the Council (ECOFIN) STRESSES the important role of existing financial mechanisms and HOLDS that the creation of new instruments should be carefully assessed in terms of their value added to existing structures and their adequacy within a coherent financial architecture and should only be considered where a clear need is evident.

The Council RECOGNISES that international financial support is crucial for reaching an ambitious agreement in Copenhagen. The Council (Ecofin) affirms that in the context of an international and comprehensive agreement, the EU stands ready to contribute its fair share. In the context of international agreement the Council (ECOFIN) RECALLS the willingness of member states, which so wish, to use at least half of the revenues from auctioning emissions allowances for climate change related activities, including support to developing countries that will have ratified the Copenhagen agreement.

[The Council (ECOFIN) IS READY to develop in more detail the practical options for financing mitigation, adaptation, technology support and capacity building. Careful assessment will be given to the necessary level of public finance, addressing inter alia budgetary and macroeconomic implications. Both the EFC and EPC are invited to contribute further on financial architecture and the possible financial mechanisms for the post 2012-regime, and related economic aspects in preparation for the Copenhagen conference. It INVITES the European Commission to continue to work on the assessment of the need for private investment and international public funding.]"

EU GENERAL BUDGET

Council priorities for the 2010 budget

The Council adopted conclusions to be found in document *6767/1/09 REV 1*.

EVENTS IN THE MARGINS OF THE COUNCIL

The following events took place in the margins of the Council:

- **Eurogroup**

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

- **Breakfast meeting on the economic situation**

Ministers attended a breakfast meeting to discuss the economic situation. They were also debriefed on the informal meeting of heads of state and government held on 1 March, and on the eurogroup meeting on 9 March.

- **Convention on centralised customs clearance**

Ministers signed a convention on centralised customs clearance, concerning the allocation of national collection costs retained when traditional own resources are made available to the EU budget (*document 5641/09*).

In accordance with the convention, the contracting party where the customs declaration is lodged must redistribute 50% of the retained collection costs to the contracting party where the goods are presented. The centralised customs clearance as set out in the modernized customs code, introduces the possibility to declare goods for free circulation in a member state but to present them to customs in another member state.

OTHER ITEMS APPROVED

ECONOMIC AND FINANCIAL AFFAIRS

Reduction of administrative burdens

The Council adopted the following conclusions:

"Referring to the European Council Conclusions of 8-9 March 2007 requesting a review of progress on Better Regulation on a yearly basis, the Council welcomes the Commission's report "Third strategic review of Better Regulation in the European Union".

The Council (ECOFIN) CONSIDERS that better regulation, including the reduction of administrative burden, is a key element of the renewed Lisbon Strategy. Improvement of the regulatory environment is crucial for realising the full potential of the Single Market, stimulating entrepreneurship and innovation and enhancing competitiveness. Given the limited room for budgetary manoeuvre in the present difficult economic situation, the reduction of undue administrative burden, which would alleviate the impact of the economic crisis on businesses in a fiscally neutral manner, would contribute to short term stimuli and is in line with medium and long term objectives. On the other hand efforts to reduce administrative burden shall not contradict measures securing integrity and transparency of financial markets.

The Council (ECOFIN) APPRECIATES the work undertaken by the Commission in this field, especially the measurement of the administrative burden on businesses, the first proposals for reducing administrative burden (potential savings estimated by the Commission at EUR 30 billion in the EU) and the proposed extension of the Action Programme as presented by the Commission in its 3rd Strategic Review of Better Regulation. However, the Council (ECOFIN) STRESSES that further measures are needed to achieve timely delivery of results. The Council (ECOFIN) therefore CALLS UPON the Commission to continue suppressing unnecessary administrative burden and to identify specific reductions to be made in each of the 13 priority areas and to adopt proposals stemming from the present action programme before the end of its mandate.

The Community institutions should make a joint effort to progress quickly in achieving the 25% reduction of the administrative burden arising from EU legislation with the aim of significant impacts felt by business by 2010 and impacts across all identified key sectors by 2012 at the latest. The Council (ECOFIN) WELCOMES the establishment of sectoral reduction figures by the Commission in two areas (taxation and company law) and the Commission's intention to identify before the end of its mandate the contributions that each baseline sector will make to the overall 25% reduction target.

The Council (ECOFIN) HIGHLIGHTS the importance of an indicative timetable for the Action Programme and robust monitoring of progress made and reporting annually to the Spring European Council on the implementation of the Action Programme and on changes in the administrative burden. The progress in reducing administrative burdens would be undermined by additional administrative costs resulting from new legislative proposals. The Council (ECOFIN) therefore ENCOURAGES the Commission to assess the potential administrative burdens resulting from new proposals in line with its Impact Assessment Guidelines in order to ensure that administrative costs are kept to a minimum that is necessary for new policy initiatives.

By the end of 2008, 21 Member States had set their national targets on reduction of administrative burden stemming from national law as invited by the 2007 Spring European Council. The Council ENCOURAGES the remaining Member States to set their national targets of comparable ambition by the 2009 Spring European Council and all Member States to actively implement concrete reduction measures of unnecessary administrative burden, consistently with their country-specific legal and regulatory procedures. The Council INVITES the Member States to complete their specific national baseline measurement as soon as possible, preferably by the end 2010."