COUNCIL OF
THE EUROPEAN UNION

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10014/08 (Presse 152)

PRESS RELEASE

2872nd Council meeting

Economic and Financial Affairs

Luxembourg, 3 June 2008

President **Andrej BAJUK**
Minister for Finance of Slovenia

PRESS

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Main results of the Council

The Council adopted decisions closing the ***excessive deficit procedures*** *it opened in 2004 and 2005 with regard to the* ***Czech Republic****,* ***Italy****,* ***Portugal*** *and* ***Slovakia****, following the reduction of their government deficits to below 3% of gross domestic product, the maximum threshold set by the EU's stability and growth pact.*

As a result, whereas three years ago a majority of member states were subject to excessive deficit procedures, only two procedures now stay open. With Italy and Portugal lowering their deficits, none of the euro area's 15 member states remain in excessive deficit.

In the case of ***Slovakia****, closure of the excessive deficit procedure is a necessary precondition for it to* ***adopt the euro as its currency on 1 January 2009****, as proposed by the Commission. The Council assessed progress made by Slovakia in the fulfilment of convergence criteria to this end.*

The proposal will be referred to heads of state/government for discussion at a Council meeting in the margins of the European Council on 21 and 22 June.

The Council also adopted conclusions on the ***clearing and settlement of securities transactions*** *and on* ***harmful tax competition****.*

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 and Institutional Reforms
Bulgaria:	
Mr Plamen Vassilev ORESHARSKI	Minister for Finance
Czech Republic:	
Mr Tomáš ZÍDEK	Deputy Minister, Ministry for Finance
Denmark:	
Mr Lars Løkke RASMUSSEN	Minister for Finance
Germany:	
Mr Thomas MIROW	State Secretary, Federal Ministry of Finance
Estonia:	
Mr Raul MÄLK	Permanent Representative
Ireland:	
Mr Brian LENIHAN	Minister for Finance
Greece:	
Mr Georgios ALOGOSKOUFIS	Minister for Economic Affairs and Finance
Spain:	
Mr Carlos BASTARRECHE SAGÜES	Permanent Representative
France:	
Ms Christine LAGARDE	Minister for Economic Affairs, Finance and Employment
Italy:	
Mr Giulio TREMONTI	Minister for Economic Affairs and Finance
Cyprus:	
Mr Nicholas EMILIOU	Permanent Representative
Latvia:	
Mr Atis SLAKTERIS	Minister for Finance
Lithuania:	
Mr Valentinas MILTIENIS	Deputy 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 János VERES	Minister for Finance
Malta:	
Mr Tonio FENECH	Minister for Finance, the Economy and Investment
Netherlands:	
Mr Wouter BOS	Minister for Finance, Deputy Prime Minister
Austria:	
Mr Wilhelm MOLTERER	Vice Chancellor and Federal Minister for Finance
Poland:	
Mr Jacek DOMINIK	Deputy State Secretary, Ministry of Finance
Portugal:	
Mr Fernando TEIXEIRA DOS SANTOS	Minister of State, Minister for Finance
Romania:	
Mr Varujan VOSGANIAN	Minister for the Economy and Finance

Slovenia:	
Mr Andrej BAJUK	Minister for Finance
Mr Žiga LAVRIČ	State Secretary, Ministry of Finance
Slovakia:	
Mr Ján POČIATEK	Minister for Finance
Finland:	
Mr Jyrki KATAINEN	Deputy Prime Minister, Minister for Finance
Sweden:	
Mr Anders BORG	Minister for Finance
United Kingdom:	
Ms Yvette COOPER	Chief Secretary to the Treasury

Commission:	
Mr Joaquín ALMUNIA	Member
Mr László KÓVACS	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 Xavier MUSCA	Chairman of the Economic and Financial Committee
Mr Christian KASTROP	President of the Economic Policy Committee

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ITEMS DEBATED

EXCESSIVE DEFICIT PROCEDURE – CLOSURE OF FOUR PROCEDURES

Czech Republic, Italy, Portugal and Slovakia

The Council adopted decisions, under article 104(12) of the treaty, abrogating decisions it took in 2004 and 2005 under article 104(6) on the existence of excessive government deficits in the Czech Republic, Italy, Portugal and Slovakia *(docs 9590/08, 9587/08, 9588/08* + *9589/08)*.

This follows reduction by all four countries of their government deficits to below 3% of gross domestic product (GDP), the threshold set by the treaty.

For details, see press release 10127/08.

As a result of the decisions, whereas in May 2005 a majority of member states were subject to excessive deficit procedures, only two procedures now stay open. With Italy and Portugal lowering their deficits, none of the euro area's 15 member states remain in excessive deficit.

In the case of Slovakia, closure of the excessive deficit procedure is a necessary precondition for its adoption of the euro on 1 January next year, as proposed by the Commission (see page 8).

ECONOMIC AND MONETARY UNION

The Council took note of the presentation by the Commission of a communication, entitled "*EMU@10: successes and challenges after ten years of economic and monetary union*" (doc. 9385/08). It held an exchange of views.

The Council approved the text of a letter summarising its discussion, to be sent by its president to the president of the European Council.

On 2 May 1998, Europe's leaders took the historic decision to introduce the euro, the EU's single currency. The European Central Bank was established in June 1998, and the euro area has since expanded from 11 to 15 countries. Ten years on, the euro is a resounding success, though the Commission considers that it has fallen short of some of its initial expectations.

In its communication, the Commission highlights a number of challenges for economic and monetary union (EMU).

The Council took note of the Commission's views and agreed to pursue work in the coming months.

REPORTS ON CONVERGENCE

The Council held an exchange of views on reports from the Commission and the European Central Bank on the ten non-euro area member states with a derogation[1], examining their fulfilment of EU convergence criteria and of their obligations regarding economic and monetary union (docs 9384/08 and 9117/08);

It also took note of the presentation by the Commission of a proposal for a Council decision aimed at allowing Slovakia to join the euro area as from 1 January 2009.

As regards the proposal on Slovakia, it approved the text of a letter to be sent by its president to heads of state/government, with a view to their discussion of the issue at a Council meeting in the margins of the European Council on 19 and 20 June. A decision is then expected to be taken at the Council's meeting on 8 July.

Fifteen of the EU's 27 member states currently use the euro as their currency: Belgium, Cyprus, Germany, Greece, Spain, France, Ireland, Italy, Luxembourg, Malta, the Netherlands, Austria, Portugal, Slovenia and Finland. Euro notes and coins were introduced in 12 of those counties on 1 January 2002, in Slovenia on 1 January 2007 and in Cyprus and Malta on 1 January 2008.

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[1] i.e. Bulgaria, the Czech Republic, Estonia, Latvia, Lithuania, Hungary, Poland, Romania, Slovakia and Sweden. (Denmark and the United Kingdom have not expressed a wish to adopt the euro.)

DEVELOPMENTS IN FOOD PRICES

The Council held an exchange of views on the recent rise in food prices, with a view to further discussion by the European Council at its meeting on 19 and 20 June.

It approved the text of a letter summarising its discussion to be sent to the president of the European Council.

The European Council will assess rising food prices and discuss the policy implications, including possible consequences for the common agricultural policy, development policy, trade policy, energy policy and climate change.

The world economy has faced a boom in commodity prices in recent years. After thirty years of falling global food prices in real terms, the trend has reversed since 2006 although, in real terms, today's food prices are still on average lower than they were in the 1980s. Prices in Europe for wheat and dairy products increased by 96% and 30% respectively between September 2006 and February 2008. The impact on inflation varies from one member state to another.

The food price increases are mainly driven by factors outside the EU. These include increased global demand stemming primarily from higher incomes in emerging economies such as China and India, adding to the effect of global population growth. Higher oil and energy prices are driving up input costs for farmers and lead to higher costs for transport and food processing, while biofuel production is shifting supply from food crops to fuel crops. Temporary supply-side factors have added to the trend.

The Council expressed concern at the continued surge in oil prices and discussed ways of addressing its social and economic consequences. It underscored the need to foster energy efficiency and alternative energy sources, increase the transparency of oil markets, promote competition in energy markets and enhance dialogue with oil-producing countries.

It confirmed an agreement reached by ministers at an informal meeting in Manchester in September 2005 whereby distortionary fiscal and other policy interventions should be avoided, as they prevent the necessary adjustment by economic agents. Measures that can be considered to alleviate the impact of higher oil prices on the poorer sections of the population should remain short-term and targeted, and should avoid distortionary effects.

The Council encouraged the Commission to further review commodity-related markets and to consider policy responses aimed at limiting price volatility.

SECURITIES – CLEARING AND SETTLEMENT - *Council conclusions*

The Council adopted conclusions on the clearing and settlement of securities transactions, following discussion by ministers at an informal meeting at Brdo, near Llubljana, on 4 and 5 April.

The conclusions review progress on four separate initiatives that are currently underway, under a two-year timetable established by the Council in November 2006, aimed at tackling the fragmentation of European securities post-trading industries:

- A code of conduct for clearing and settlement, promoted by the Commission and implemented by industry.

- The "*Target2-Securities*" project for the settlement in central bank money of securities transactions in euros, envisaged by the European Central Bank and the euro-area national central banks.

- The removal of technical obstacles to securities market integration, as identified in the so-called Giovannini report[1], for which work is continuing within the Commission's advisory groups.

- Completion of work on the safety and soundness of post-trading arrangements in Europe, on the basis of former draft standards for clearing and settlement prepared by the European System of Central Banks (ESCB) and the committee of European securities regulators (CESR).

The Council's conclusions can be found in document 9720/08.

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1 The Giovannini group, formed in 1996 and chaired by Alberto Giovannini (chairman of Unifortune Asset Management SGR), advises the Commission on inefficiencies in EU financial markets and on measures to improve market integration. On clearing and settlement, the group has produced two reports, in November 2001 and April 2003.

INSURANCE – THE SOLVENCY OF INSURANCE COMPANIES

The Council took note of progress on a proposal for a directive setting new solvency rules for insurance companies ("Solvency II"), on the basis of a report from the presidency (*doc. 9673/1/08 REV 1*).

The proposal is intended to establish a new framework for EU regulation and supervision in the insurance sector. It is also being used as an opportunity to recast 13 insurance directives into one legal text. It is aimed at further integration of the EU insurance market, the enhanced protection of policyholders and beneficiaries, improved competitiveness of EU insurers and re-insurers and promoting better regulation in the insurance sector.

Since the last progress report submitted to the Council, in December, the number of provisions on which substantial work is still needed has been significantly reduced, and the presidency has started exchanges with representatives of the European Parliament.

The supervision of insurance groups operating in several member states has in particular given rise to discussion, given the innovative nature of the Commission's proposal on this issue, the different circumstances in the member states and different views on how to ensure policyholder protection. Other issues on which discussions have not yet concluded concern the treatment of equity risk, minimum capital requirements, surplus funds and participations.

BANKING – DEPOSIT GUARANTEE SCHEMES

The Council held a policy debate on the functioning of deposit guarantee schemes and their role in ensuring financial stability, in particular with regard to the banking industry.

The Commission is expected to present a report on the subject in September, providing the basis for a more targeted policy debate later in the year.

Deposit guarantee schemes help prevent panic reactions by depositors in the event of a bank experiencing difficulties or loss of public trust. The Financial Stability Forum, an international forum of central banks, supervisory authorities, national ministries and international financial institutions, has recommended a review of deposit guarantee arrangements in the light of the recent difficulties in the banking sector. At EU level, the key policy question is whether there is a case for developing common principles and/or strengthening the regulatory framework.

Directive 94/19/EEC requires member states to ensure the existence of one or more deposit guarantee schemes that can reimburse depositors at least up to EUR 20 000 within three months if a bank is unable to pay back deposits. The cost of financing the scheme must be borne by the banks themselves, though the directive does not harmonise methods of financing.

The directive gives discretion to the member states in implementing the rules, so the schemes differ significantly across the EU. The main differences concern the share-out of roles between public authorities and the private sector, triggers for pay-outs, the types of deposits covered, the level of protection offered to customers and the financing of the schemes.

VALUE-ADDED TAX ON INSURANCE AND OTHER FINANCIAL SERVICES

The Council took note of a progress report from the presidency on a proposal for a directive on the value-added tax (VAT) treatment of insurance and other financial services (*doc. 9929/08*).

It called on the incoming presidency to build on progress made and to report back to the Council by the end of the year.

The proposal is aimed at clarifying and updating the definitions and rules governing insurance and financial services – which are exempt from VAT – thus increasing legal certainty for economic operators and tax administrations, reducing administrative burdens and reducing the impact of hidden VAT in the costs of service providers. The existing definitions were established in the 1970s and have led to uneven interpretation by the member states.

The proposal is intended to amend directive 2006/112/EC on the common VAT system. It is closely linked to a proposal for a regulation laying down implementation measures for directive 2006/112/EC as regards insurance and other financial services.

GENERAL ARRANGEMENTS FOR EXCISE DUTIES

The Council took note of a progress report from the presidency on a proposal for a directive establishing general arrangements for excise duties (*doc. 9928/08*).

It called on the incoming presidency to build on progress made, with a view to the timely adoption of the directive so as to enable a new excise movement and control system to start operating as soon as possible.

The proposal is intended to provide the legal basis for a modernised movement and control system, with an electronic message to replace the accompanying paper document that currently enables the control of intra-Community movements of excise goods.

HARMFUL TAX COMPETITION – CODE OF CONDUCT - *Council conclusions*

The Council took note of a report from a working group which, on the basis of a code of conduct, works on the elimination of situations of harmful tax competition in the EU.

The report summarises the group's work since the beginning of this year.

The code of conduct, which covers business taxation, concerns measures that affect (or may affect) in a significant way the location of business activity in the Community. The so-called code of conduct group is responsible for assessing:

– the "rollback" of tax measures deemed as harmful (where favourable tax treatment in one member state attracts businesses from other member states);

– the monitoring of a "standstill" commitment by member states not to introduce new measures that are harmful.

The Council adopted the following conclusions:

"With regard to the Code of Conduct, the Council:

- welcomes the progress achieved by the Code of Conduct Group (Business Taxation) as set out in its report (doc. 9633/08 FISC 56).

- asks the Group to continue monitoring standstill and the implementation of rollback and report to the Council before the end of the French Presidency.

- underlines the importance of agreement on the future work programme and, building on the work of the Group, will return to the outstanding issues under the French Presidency."

OTHER BUSINESS

Committees of supervisors work programmes

The president of the Council announced that he has signed a letter addressed to each of the EU's committees of supervisors – the committee of European banking supervisors, the committee of European insurance and occupational pensions supervisors and the committee of European securities regulators – following the presentation of their work programmes for 2008.

MEETINGS IN THE MARGINS OF THE COUNCIL

– *Eurogroup*

Ministers of the euro area member states attended a meeting of the eurogroup, in Frankfurt on 2 June, on the occasion of the tenth anniversary celebration of the European Central Bank.

– *EIB annual governors' meeting*

Ministers met in their capacity as governors of the European Investment Bank for the EIB's annual governors' meeting.

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Over lunch, ministers discussed developments on financial markets and were debriefed on the eurogroup meeting on 2 June.

OTHER ITEMS APPROVED

TAXATION

Portugal - Excise duty on beer from Madeira

The Council adopted a decision authorising Portugal to apply to beer produced in Madeira a rate of excise duty lower than the standard national excise duty rate *(7748/08)*.

The reduction will apply to cases where a brewery's production does not exceed 300 000 hectolitres per year (production in excess of 200 000 hectolitres may benefit from the reduced rate if is to be consumed only in Madeira).

The decision is aimed at offsetting the disadvantages suffered by breweries in Madeira on account of their remote location, fragmented terrain and limited local markets.

Authorisation is granted for a period of six years.

DEVELOPMENT COOPERATION

Food aid convention

The Council approved the position to be adopted by the Community within the United Nations food aid committee, in favour of an extension of the UN food aid convention for a period of one year, until 30 June 2009.

The 1999 food aid convention would normally expire at the end of June.

Under the convention, the EU and other donors are committed to providing a fixed volume of food aid, mainly cereals, in particular to the least developed countries.