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2546th Council meeting

- ECONOMIC AND FINANCIAL AFFAIRS -

Brussels, 25 November 2003

President : **Mr Giulio TREMONTI,**
Minister for Economic Affairs and Finance of the Italian Republic

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CONTENTS [1]

[1]
- *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.*
- *The documents whose references are given in the text are available on the Council's Internet site http://ue.eu.int.*
- *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 above mentioned Council Internet site or may be obtained from the Press Office.*

ITEMS APPROVED WITHOUT DEBATE

PARTICIPANTS

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

Belgium:	
Mr Didier REYNDERS	Minister for Finance
Denmark:	
Mr Thor PEDERSEN	Minister for Finance
Germany:	
Mr Hans EICHEL	Federal Minister for Finance
Greece:	
Mr Nikos CHRISTODOULAKIS	Minister for Economic Affairs and Finance
Spain:	
Mr Rodrigo DE RATO Y FIGAREDO	Second Deputy Prime Minister and Minister for Economic Affairs
France:	
Mr Francis MER	Minister for Economic Affairs, Finance and Industry
Ireland:	
Mr Charlie McCREEVY	Minister for Finance
Italy:	
Mr Giulio TREMONTI	Minister for Economic Affairs and Finance
Luxembourg:	
Mr Jean-Claude JUNCKER	Prime Minister, Ministre d'Etat, Minister for Finance
Netherlands:	
Mr Gerrit ZALM	Deputy Prime Minister, Minister for Finance
Austria:	
Mr Karl HEINZ GRASSER	Federal Minister for Finance
Portugal:	
Ms Manuela FERREIRA LEITE	Ministra de Estado, Minister for Finance
Finland:	
Mr Antti KALLIOMÄKI	Deputy Prime Minister, Minister for Finance
Sweden:	
Mr Gunnar LUND	Minister at the Ministry of Finance, with responsibility for Economic Affairs and Financial Markets
United Kingdom:	
Mr Gordon BROWN	Chancellor of the Exchequer

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Commission:	
Mr Romano PRODI	President
Ms Loyola DE PALACIO	Vice-President
Mr Pedro SOLBES	Member
Mr Fritz BOLKESTEIN	Member

* * *

Other participants:	
Mr Philippe MAYSTADT	President of the European Investment Bank
Mr Jean-Claude TRICHET	President of the European Central Bank
Mr Caio KOCH–WESER	Chairman of the Economic and Financial Committee
Mr Jan Willem OOSTERWIJK	Chairman of the Economic Policy Committee

The Governments of the Acceding Countries were represented as follows:

Czech Republic :	
Mr Mr Bohuslav SOBOTKA	Minister for Finance
Estonia :	
Mr Aare JÄRVAN	Secretary General of the Ministry of Finance
Cyprus :	
Mr Mr Markos KYPRIANOU	Minister for Finance
Latvia :	
Mr Valdis DOMBROVSKIS	Minister for Finance
Lithuania :	
Ms Dalia GRYBAUSKAITĖ	Minister for Finance
Hungary :	
Mr Csaba LÁSZLÓ	Minister for Finance
Malta:	
Mr Tarcisio ZAMMIT	Acting Permanent Representative
Poland :	
Mr Andrzej RACZKO	Minister for Finance
Slovakia :	
Mr Ivan MIKLOŠ	Deputy Prime Minister and Minister for Finance
Slovenia :	
Mr Dušan MRAMOR	Minister for Finance

ITEMS DEBATED

FINANCIAL SERVICES

– ***Directive on transparency requirements***

The Council reached a general approach on the Directive on the harmonisation of transparency requirements with regard to information on issuers whose securities are admitted to trading on a regulated market.

The purpose of the Directive is to harmonise across Member States regular reporting requirements and requirements concerning the notification of major holdings.

This Directive will replace and significantly revise the existing provisions of Directive 2001/34/EC on the admission of securities to official stock exchange listing and on information to be published on those securities. With a view to similar future developments, the Directive is drafted in a manner enabling implementing measures to be adopted by the Commission in relation to several provisions of the Directive.

One of the most important issues contained in the text agreed by the Council is the question of interim management statements. Under Article 6 of the draft text:

> "1. Without prejudice to Article 6 of Directive 2003/6/EC, an issuer whose shares are admitted to trading on a regulated market shall make public a statement by its management during the first six-month period of the financial year and another statement by its management during the second six-month period of the financial year. Such statement shall be made in a period between ten weeks after the beginning and six weeks before the end of the relevant six-month period. It shall contain information covering the period between the beginning of the relevant six-month period and the date of publication. Such a statement shall provide:
>
> – an explanation of material events and transactions that have taken place during the relevant period and their impact on the financial position of the issuer and its controlled undertakings, and

– a general description of the financial position and performance of the issuer and its controlled undertakings during the relevant period.

2. Issuers which under national legislation, the rules of the regulated market or of their own initiative, publish quarterly financial reports in accordance with the said legislation or rules shall not be required to make public statements by the management provided for in paragraph 1.

3. The Commission shall review no later than five years after the entry into force of this Directive, the transparency of quarterly financial reporting and statements by management of issuers to examine whether the information provided meets the objective of allowing investors to make an informed assessment of the financial position of the issuer."

On the basis of this general approach, the Presidency will explore the possibility of reaching an agreement with the European Parliament before the end of the parliamentary term.

– ***Investment Services Directive***

The Council adopted the following statement:

"1. On 7 October the ECOFIN Council reached a political agreement on a new Investment Services Directive.

2. The ECOFIN Council recognises that there is an imperative to adopt the Investment Services Directive before April 2004 to meet the timetable of the Financial Services Action Plan, as agreed by the European Council.

3. The ECOFIN Council encourages the European Parliament to progress its consideration of Investment Services Directive to meet this deadline.

4. In a spirit of cooperation and to assist meeting this timetable, the ECOFIN Council invites the European Parliament to enter into early discussions with the Troika and the European Commission regarding changes to the text of the Investment Services Directive that would allow a second reading agreement between the European Parliament and the Council."

– ***Risk capital Action Plan – Council conclusions***

The Council took note of a presentation by the Commission on its implementation report on the risk action plan and adopted Conclusions, as follows:

> "The Council discussed the Commission communication on implementation of the Risk Capital Action Plan (RCAP). The Council welcomed the Commission communication including its evaluation of the implementation of the RCAP over the five years of the programme (1998-2003).
>
> In particular, the Council:
>
> - Emphasised the strategic importance of developing the European market for risk capital as an important element of promoting new and innovative firms, entrepreneurship, raising productivity and the sustainable rate of growth and hence contributing to the Lisbon objectives;
> - Welcomed the Commission's assessment of considerable progress since 1998, in terms of both practices and volumes of investments, and including with respect to development of the European regulatory framework and the increasing awareness of risk capital as an important asset class for institutional investors;
> - Emphasised, however, that Europe still has some way to go in improving the potential and the maturity of this sector and that a significant investment gap with the US persists;
> - Considered also that ongoing work in the context of developing rules on capital adequacy and accounting standards could have important implications, and so merited continued attention and, if necessary, appropriate action in due course.
>
> The Council therefore invites the Financial Services Committee to consider in more detail the Commission communication and prepare advice for the Council by September 2004, particularly in the light of the request of the European Council in spring 2003 for the Commission and Council *"to work towards reducing barriers to the creation of a genuine European risk capital market, capable of supporting entrepreneurship, and examine inter alia obstacles for investments by institutional investors (pension funds) in venture capital funds*". The Council also invites the Commission to report on progress in developing this market in the context of its annual report to the spring European Council."

The Risk Capital Action Plan has run from 1998-2003, in an effort to develop European risk capital markets, which have historically lagged behind those in the US. Developing risk capital is felt to be central to establishing a dynamic entrepreneurial environment in which small and medium-sized enterprises can flourish.

The Commission's report (14357/03) concludes that good progress has been made, although the EU continues to lag behind the US. EU risk capital markets are now much larger, more mature and more professional than in 1998 and awareness of the importance of the sector has increased dramatically. The EU regulatory framework has also improved over that period.

TAXATON

– ***Code of Conduct***

The Council took note of a report from the Code of Conduct Group (Business Taxation) concerning implementation of rollback and standstill.

– ***VAT – Reduced rates***

The Council unanimously considered that it would be highly desirable for Member States to be in a position to benefit for two more years from Annex K for labour-intensive services, and invited the Commission to make the appropriate proposals.

Any agreement on a solution to this issue must be accompanied by simultaneous best efforts to resolve the problem of cross-border leasing of motor vehicles.

STRUCTURAL INDICATORS

The Council discussed the list of structural indicators that should be used in the Commission spring report for the European Council. The Council invited the Permanent Representatives Committee to finalise the discussions on this issue in order to reaching an agreement at the next (General Affairs) Council meeting.

It is recalled that the Lisbon European Council invited "the Commission to draw up an annual synthesis report on progress on the basis of structural indicators to be agreed relating to employment, innovation, economic reform and social cohesion."

The Commission sent the Council a communication on Structural Indicators on 9 October 2003 (*13452/03*).

The structural indicators have been used in the Commission's spring report and other Commission documents to provide statistical support for policy messages and to measure progress towards the Lisbon objectives (as expanded at Gothenburg and refined at subsequent European Councils). The structural indicators have also attracted a great deal of outside attention, being one of Eurostat's most popular websites. Indeed, the Member States have used the structural indicators in their own reports.

This year, the Commission has suggested a short list of 14 indicators. The indicators on this shortlist have been chosen from last year's 42 agreed structural indicators. Last and previous years' structural indicators are maintained by Eurostat in its publicly-accessible database New Cronos and on the structural indicators website. The shortlist of indicators and the database will be the main statistical tools the Commission uses when drafting the spring report.

PREPARATION OF THE BRUSSELS EUROPEAN COUNCIL (12 AND 13 DECEMBER)

EUROPEAN ACTION FOR GROWTH

– ***Report to the European Council***

The Council adopted a report on the European Action for Growth. This report will be forwarded to the European Council.

It should be noted that the October European Council gave a mandate to the Commission, the EIB and the relevant Council formations to continue their work on all aspects of the European Action for Growth. The Commission and the ECOFIN Council were in particular invited to report back to the December European Council.

In line with the specific mandate given by the European Council, the ECOFIN report focuses on financial aspects of the initiative.

– ***TEN financial Regulation – Public deliberation***

The Council reached a political agreement on the TENs financial regulation.

The agreement consists in an increase of the Community aid in the field of Trans-European networks from 10 % to 20 % maximum for projects concerning satellite positioning and navigation systems, as provided for in Art. 17 of Decision No. 1692/96/EC (Galileo type projects) and priority projects on the energy networks.

The increase in Community aid will be from 10 % to 20 % maximum for cross-border sections of projects of European interest identified in Annex III to Decision No 1692/96/EC (transport priority projects).

EIB MANDATES AND WIDER EUROPE

– ***External mandate and guarantee Fund – Mediterranean EIB Investment Facility - Council conclusions***

The Council adopted two reports: on mid-term review of EIB lending mandates and on the review of the EIB facility for Euro-Mediterranean Investment and Partnership.

The Council also adopted the following conclusions:

"Council conclusions on the review of the EIB external lending mandate and the Facility for Euro-Mediterranean Investment and Partnership (FEMIP)

The Council endorses the reports prepared by the EFC on the review of the EIB external lending mandate and the EIB Facility for Euro-Mediterranean Investment and Partnership (FEMIP) and agrees on the following:

Euro-Mediterranean Financial Co-operation

In line with the Barcelona European Council mandate, the Council reviewed the performance of the Facility for Euro-Mediterranean Investment and Partnership (FEMIP). The results achieved by FEMIP were evaluated positively. Mediterranean partner countries, beneficiaries of FEMIP operations, were also consulted and all indicated their satisfaction with what the FEMIP had achieved in such a short time and its positive contribution to private sector development in their countries. The majority of them signalled a preference for a "reinforced" FEMIP Initiative as the next step, while three of them expressed a preference for a Subsidiary as the next step.

The Council agrees, on the basis of the FEMIP experience and the consultation with Mediterranean partner countries, to develop this instrument further, and to reinforce FEMIP within the Bank. A "reinforced" FEMIP will strengthen FEMIP with a number of features in support of private sector development:

- Dedicate up to EUR 200 million from the Bank's reserves to allow for extended risk-sharing operations of up to €1 billion, and a better structuring of lending to mitigate private sector risks (a "special FEMIP envelope").

- Improve the dialogue on the structural reform process so to enhance the environment for private sector activity, project and donor co-ordination, and the development of new financial products through transforming the Policy Dialogue and Co-ordination Committee into a Ministerial Committee of Finance Ministers that meets once a year, to be complemented by a High-Level preparatory body of experts, without duplicating the Barcelona process. The Facility's local presence would be extended to Maghreb States.

- Establish a trust fund of initially EUR 20-40 million, modelled on the special cofinancing funds of other IFIs, directing resources to projects in certain priority sectors (water, transport, electricity, human capital) that can be made financially viable via a grant contribution or risk-capital participation. Participation in the trust fund would allow other donors to complement on a voluntary basis the contributions from the Community budget already pledged to the Facility under the MEDA Programme. Donors would need to be identified.

The incorporation of an EIB majority-owned subsidiary dedicated to the Mediterranean partner countries will be fully assessed in December 2006, on the basis of an evaluation of the reinforced Facility's performance, and taking into account the outcome of consultations with the Barcelona Process partners.

The Council agrees to transfer the "surplus margin" in the external mandate of EUR 2,180 million to the Mediterranean countries.

Financial co-operation with Russia and the WNIS

In line with the EU's Wider Europe – New Neighbourhood policy, the Council also agrees to an additional allocation of EUR 500 million for lending to Russia and the WNIS by the EIB until January 2007 as a further development of ad-hoc Decision 2001/777/EC (Northern Dimension) for projects in areas in which the EIB has a comparative advantage (i.e. environment, and transport, telecommunications, energy infrastructure on priority TEN axes with a cross-border aspect for an EU Member State) and where there is unmet credit demand. This mandate shall be subject to, on the one hand, appropriate conditionality consistent with EU high-level agreements on political and macroeconomic aspects, and with other IFIs on sectoral and project aspects, and on the other hand, appropriate work sharing between the EIB and the EBRD. Russia's inclusion in the general mandate will be fully assessed in December 2006.

In the light of this, a slight increase in the overall ceiling of the general mandate may be needed. For the next generation of mandates as from 2007, instead of further increasing the overall ceiling, alternative means should be explored without the simple recourse to Community guarantees."

IMPLEMENTATION OF THE STABILITY AND GROWTH PACT

– *France*

The Council took a vote on a Commission Recommendation for a Council Decision under Article 104(8) of the Treaty in respect of France.

With Belgium, Denmark, Greece, Spain, Netherlands, Austria, Finland and Sweden voting in favour, the Presidency concluded that there was not a qualified majority for adopting the Decision. The Decision was therefore not adopted.

The Council also took a vote on a Commission Recommendation for a Council Decision under Article 104(9) of the Treaty in respect of France.

With Belgium Greece, Spain, Netherlands, Austria and Finland voting in favour, the Presidency concluded that there was not a qualified majority for adopting the Decision. The Decision was therefore not adopted.

It is recalled that only countries which have adopted the euro are allowed to vote on Decisions on the Article 104(9) of the Treaty.

The Council, with Belgium, Germany, Greece, Ireland, Italy, Luxembourg and Portugal voting in favour, adopted the following conclusions regarding France (it is recalled that the same voting rules as for a Decision under Article 104(9) apply):

> **"Council conclusions on assessing the actions taken by France in response to recommendations of the Council according to Article 104(7) of the Treaty establishing the European Community and considering further measures for deficit reduction in order to remedy the situation of excessive deficit**
>
> 1. In assessing the budgetary situation of France, the Council has taken several considerations into account, in particular:

i. By Council Decision 2003/487/EC[2], it was decided, in accordance with Article 104(6) of the Treaty, that an excessive deficit existed in France.

ii. In accordance with Article 104(7) of the Treaty and Article 3(4) of Regulation (EC) No 1467/97, the Council sent a Recommendation to France on 3 June 2003 requesting it to take measures to bring the existence of an excessive deficit to an end in 2004 at the latest. The Recommendation was made public.

iii. Several important economic and budgetary developments have taken place since spring 2003, which the Commission recommended be taken into account: (i) the worsening in cyclical developments was abrupt and unexpected and made the effort to bring the deficit below 3% of GDP in 2004 much greater than expected in June 2003; the Commission spring forecast foresaw a growth rate for France of 1,1% in 2003 and 2,3% in 2004; in autumn the forecast was revised to 0,1% in 2003 and 1,7% in 2004; (ii) the cumulated loss of real GDP growth over the period 2003-2004 compared to what was expected in the spring now amounts to about 1,5 percentage points; (iii) the budgetary plans for 2004 submitted to Parliament in September are targeted at a reduction in the cyclically-adjusted deficit of 0,7 percentage points of GDP, slightly more than the 0,5 recommended by the Council in June. Consideration was also given to the fact that the French Government committed to implementing in 2004 a structural reform of health insurance, with the aim of curbing the dynamic of health expenditure, which constituted a major problem in controlling general Government expenditure in recent years.

iv. The argument stressed by the Commission, that too great a consolidation effort in a single year might prove economically costly, in particular in the light of the downward revision of growth forecasts, should be given the appropriate relevance. On the basis of this argument, the Commission considered that the deadline which was set in June for the elimination of the excessive deficit in France should be extended by one year, provided that effective measures are taken by the French authorities as from 2004.

v. It is paramount that France moves rapidly towards a situation in which government finances are close to balance or in surplus. Such an underlying budgetary position must be achieved to ensure a rapid reduction in the debt to GDP ratio below the 60% of GDP reference value of the Treaty.

2. The Council noted that, following the Council Recommendation of 3 June 2003, France has adopted a number of structural measures, having an impact on 2003 and in the following years. The budget law entails a reduction of the structural deficit in 2004 estimated at 0,7% of GDP.

[2] OJ L 165, 3.7.2003, p29.

3. The Council welcomes the public commitment by France to implement all the necessary measures to ensure that the deficit will be below 3% of GDP in 2005 at the latest.

4. In the light of the Commission Recommendation and the commitments made by France, the Council recommends France to:

   a) achieve in 2004 an annual reduction in the cyclically-adjusted deficit of 0,8 percent of GDP;

   b) achieve in 2005 a reduction in the cyclically-adjusted deficit of at least 0,6 percent of GDP or a larger amount so as to ensure that the general government deficit is brought below 3 percent of GDP;

   c) should the recovery in economic activity be stronger than currently expected, a allocate any higher-than-expected revenue to deficit reduction and accelerate the reduction in the cyclically-adjusted deficit;

   d) ensure that the budgetary consolidation continues in the years after 2005, namely through a steady reduction in the cyclically-adjusted budgetary deficit by at least 0.5 percentage points of GDP per year or more if necessary to achieve the medium term position of government finances close to balance or in surplus and bring back the debt ratio to a declining path;

   e) outline a strategy consistent with these commitments and based on prudent macroeconomic assumptions in the Stability Programme to be updated by December 2003;

   f) take into account the recommendations issued by the Council in the framework of the Broad Economic Policy Guidelines when implementing the measures to be taken in order to comply with the above commitments;

   g) put an end to the present excessive deficit situation as rapidly as possible and at the latest by 2005.

5. In the light of the recommendations and the commitments by France set out above, the Council decided not to act, at this point in time, on the basis of the Commission Recommendation for a Council decision under Article 104(9).

6. The Council agrees to hold the Excessive Deficit Procedure for France in abeyance for the time being. The Council stands ready to take a decision under Article 104(9), on the basis of the Commission Recommendation, should France fail to act in accordance with the commitments set out in these Conclusions as it would emerge from the assessment based on paragraph 7 below.

7. The Council invites France to regularly report on the progress made in fulfilling the commitments set out above, in particular in the context of the biannual notifications. In assessing the progress achieved, the Council and the Commission will give due attention to the prevailing economic conditions and to the structural reforms being implemented in France with a view to strengthening growth and ensuring the long term sustainability of public finances."

– *Germany*

The Council took a vote on a Commission Recommendation for a Council Decision under Article 104(8) of the Treaty in respect of Germany.

With Belgium, Denmark, Greece, Spain, Netherlands, Austria, Finland and Sweden voting in favour, the Presidency concluded that there was not a qualified majority for adopting the Decision. The Decision was therefore not adopted.

The Council also took a vote on a Commission Recommendation for a Council Decision under Article 104(9) of the Treaty in respect of Germany.

With Belgium Greece, Spain, Netherlands, Austria and Finland voting in favour, the Presidency concluded that there was not a qualified majority for adopting the Decision. The Decision was therefore not adopted.

It is recalled that only countries which have adopted the euro are allowed to vote on Decisions on the Article 104(9) of the Treaty.

The Council, with Belgium, Greece, France, Ireland, Italy, Luxembourg and Portugal voting in favour, adopted the following conclusions regarding Germany (it is recalled that the same voting rules as for a Decision under 104(9) apply):

"Council conclusions on assessing the actions taken by Germany in response to recommendations of the Council according to Article 104(7) of the Treaty establishing the European Community and considering further measures for deficit reduction in order to remedy the situation of excessive deficit

1. In assessing the budgetary situation of Germany, the Council has taken several considerations into account, in particular:

   i. By Council Decision 2003/89/EC[3] it was decided, in accordance with Article 104(6) of the Treaty, that an excessive deficit existed in Germany.

   ii. In accordance with Article 104(7) of the Treaty and Article 3(4) of Regulation (EC) No 1467/97, the Council sent a Recommendation to Germany on 21 January 2003 establishing the deadline of 21 May 2003 for Germany to take measures to bring the existence of an excessive deficit to an end as rapidly as possible. The Recommendation was made public.

   iii. On the basis of information available upon the expiry of the deadline of 21 May 2003, the policies announced by the German authorities satisfied the requirement of budget consolidation measures amounting to 1 % of GDP set out in the Recommendation of 21 January 2003.

   iv. Several important economic and budgetary developments have taken place since the Spring: (i) the worsening in cyclical developments was abrupt and unexpected and made the effort to bring the deficit below 3% of GDP in 2004 much greater than expected in May 2003; the Commission spring forecast foresaw a growth rate for Germany of 0,4% in 2003 and 2,0% in 2004; in autumn the forecast was revised to 0,0% in 2003 and 1,6% in 2004; (ii) the cumulative loss of real GDP growth over the period 2003-2004 compared to what was expected in the spring now amounts to nearly 2 percentage points.

   v. The following arguments, which the Commission stressed, should be given the appropriate relevance: (i) too great a consolidation effort in one single year might prove economically costly in view of the prolonged stagnation in Germany over the last three years and the expected slow recovery; and (ii) government proposals for structural reforms would boost potential growth and reduce the deficit in the medium to long term.

   vi. Taking into account these factors, and in order to provide the conditions for a balanced correction, the Commission considered that it appears that the deadline set in January 2003 for the elimination of the excessive deficit in Germany should be extended by one year, provided that effective measures are taken by the German authorities as from 2004.

3 OJ L 34, 11.2.2003, p. 16.

vii. It is paramount that Germany moves rapidly towards a situation in which government finances are close to balance or in surplus. Such an underlying budgetary position must be achieved to ensure a rapid reduction in the debt-to-GDP ratio below the reference value of 60% referred to in the Treaty.

2. The Council noted that, following the Council Recommendation of 21 January 2003, Germany has made a substantive adjustment adopting several measures, which have a total impact on government finances in 2003 that is estimated by the Commission to be 1 percent of GDP.

3. The Council welcomes the public commitment by Germany to implement all the necessary measures to ensure that the deficit will be below 3% of GDP in 2005 at the latest, on the basis of the Commission's GDP growth projections.

4. In the light of the Commission Recommendation and the commitments made by Germany, the Council recommends Germany to:

   a) achieve in 2004 an annual reduction in the cyclically-adjusted deficit of 0,6 percent of GDP;

   b) achieve in 2005 a reduction in the cyclically-adjusted deficit of at least 0,5 percent of GDP or a larger amount so as to ensure that the general government deficit is brought below 3 percent of GDP;

   c) should the recovery in economic activity be stronger than currently expected, allocate any higher-than-expected revenue to deficit reduction and accelerate the reduction in the cyclically-adjusted deficit;

   d) ensure that the budgetary consolidation continues in the years after 2005, namely through a steady reduction in the cyclically-adjusted budgetary deficit by at least 0,5 percentage points of GDP per year or more if necessary to achieve the medium term position of government finances close to balance or in surplus and bring back the debt ratio to a declining path;

   e) outline a strategy consistent with these commitments and based on prudent macroeconomic assumptions in the Stability Programme to be updated by December 2003;

   f) take into account the recommendations issued by the Council in the framework of the Broad Economic Policy Guidelines when implementing the measures to be taken in order to comply with the above commitments;

   g) put an end to the present excessive deficit situation as rapidly as possible and at the latest by 2005.

5. In the light of the recommendations and the commitments by Germany set out above, the Council decided not to act, at this point in time, on the basis of the Commission Recommendation for a Council decision under Article 104(9).

6. The Council agrees to hold the Excessive Deficit Procedure for Germany in abeyance for the time being. The Council stands ready to take a decision under Article 104(9), on the basis of the Commission Recommendation, should Germany fail to act in accordance with the commitments set out in these conclusions as it would emerge from the assessment based on paragraph 7 below.

7. The Council invites Germany to report regularly on the progress made in fulfilling the commitments set out above, in particular in the context of the biannual notifications. In assessing the progress achieved, the Council and the Commission will give due attention to the prevailing economic conditions and to the structural reforms being implemented in Germany with a view to strengthening growth and ensuring long term sustainability of public finances."

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The Council unanimously adopted the following conclusion:

"The Council:

- confirms its strong commitment to sound public finances as a basis for strong economic growth and increased employment, in accordance with the conclusions of the European Council meeting of spring 2003;

- recalls the central role played by the Stability and Growth Pact in ensuring an improvement in the overall budgetary situation in the EU, and encouraging the development by the Member States of sound and sustainable budgetary policies;

- reaffirms its commitment to the Stability and Growth Pact as the framework for the coordination of budgetary policies in the European Union with the particular objectives of achieving budgetary positions of close to balance or in surplus over the business cycle and public finances that are sustainable in the long term;

- will, to achieve these objectives, strengthen the monitoring of budgetary developments in the Member States in accordance with the surveillance procedures laid down by the Treaty and the Pact;

- reaffirms the determination to implement the provisions of the Stability and Growth Pact by ensuring equality of treatment across Member States and the role of the Commission in this area;

- will pay particular attention within the surveillance framework to the full and timely implementation of the firm commitments given by those Member States whose budgetary positions require significant improvement in order to meet the Pact's medium term objective;

- undertakes to strengthen the implementation of the Pact by reinforcing budgetary discipline over the cycle and fostering structural reforms aimed at increasing growth potential."

The Commission entered in the Council minutes the following statement:

"The Commission takes note of the rejection by the Council of the Commission recommendation under Article 104(8) for France and Germany, without giving the adequate explanation as laid down in the European Council Resolution on the Stability and Growth Pact. The Commission therefore considers that the Council recommendations based on Article 104(7) remain in force.

The Commission deeply regrets that the Council has not followed the spirit and the rules of the Treaty and the Stability and Growth Pact that were agreed unanimously by all Member States. Only a rule-based system can guarantee that commitments are enforced and that all Member States are treated equally.

The Commission will continue to apply the Treaty and reserves the right to examine the implications of these Council conclusions and decide on possible subsequent actions."

OTHER BUSINESS

– ***Company taxation***

The Council was briefed by the Commission concerning the issue of the forthcoming Commission communication on company taxation.

– ***Code of Conduct (Business Taxation)***

The Council took note of the German delegation's view that the mandate of the Code of Conduct Group should be extended to cover the problem of special tax incentives for expatriates.

IN THE MARGINS OF THE COUNCIL

– ***Macroeconomic dialogue at political level***

The eight meeting of the Macroeconomic Dialogue at political level was held on 25 November 2003. Representatives of the Council, the Commission, the European Central Bank and the social partners participated in its regular debate on the economic situation and the appropriate policy mix.

– ***Troika with the European Parliament***

The Troika (Italy, Ireland and the Netherlands) met with a European Parliament delegation with a view to discussing the current economic situation and macroeconomic policies.

ITEMS APPROVED WITHOUT DEBATE

ECOFIN

Macrofinancial assistance to Serbia and Montenegro

The Council adopted the Decision on additional macrofinancial assistance to Serbia and Montenegro amending Decision 2002/882/EC providing further macrofinancial assistance to the Federal Republic of Yugoslavia *(14202/03).*

The loan component of this assistance shall amount to a maximum principal of EUR 80 million with a maximum maturity of 15 years. To this end, the Commission is empowered to borrow, on behalf of the Community, the necessary resources that will be placed at the disposal of Serbia and Montenegro in the form of a loan. The grant component of this assistance shall amount to a maximum of EUR 120 million.

Turnover taxes

The Council adopted the Decision amending Council Decision 97/510/EC authorising Ireland to apply a measure derogating from Article 21 of the Sixth Directive (77/388/EEC) on the harmonisation of the laws of the Member States relating to turnover taxes *(14093/03).*

VAT - implementing powers and derogations

The Council, pending the opinion of the European Parliament, reached a political agreement on a draft Council Directive amending Directive 77/388/EEC as regards implementing powers and the procedure for adopting derogations *(15012/03).*

Taxation of parent companies and subsidiaries of different Member States

The Council, pending the opinion of the European Parliament, reached a political agreement on the draft Council Directive amending Directive 90/435/EEC on the common system of taxation applicable in the case of parent companies and subsidiaries of different Member States *(14814/03).*

The objective of Directive 90/435 is to exempt dividends and other profit distributions paid by subsidiary companies to their parent companies from withholding taxes and to eliminate double taxation of such income at the level of the parent company. The objective of the amending proposal is to extend the scope to other entities which can carry out cross-border activities in the Community and which meet all the conditions laid down in the Directive 90/435.

BUDGET

Second reading of the budget of the European Communities for the financial year 2004
(13231/1/03)

Following the agreement reached by the ECOFIN/Budget Council of 24 November 2003, the Council:

- confirmed the outcome of the proceedings of the Ecofin/Budget Council of 24 November 2003;
- established the amending budget No 6 to the draft budget for 2003 on the basis of the above mentioned elements;
- established the amending budget No 7 to the draft budget for 2003 on the basis of the above mentioned elements;
- established the amending letter No 1 to the draft budget for 2004 on the basis of the above mentioned elements;
- established the amending letter No 2 to the draft budget for 2004 on the basis of the above mentioned elements;
- established the amending letter No 3 to the draft budget for 2004 on the basis of the above mentioned elements;
- established the Council second reading of the general budget for 2004 on the basis of the above mentioned elements;
- mandated the Presidency, assisted by the General Secretariat of the Council, to draw up the relevant budget documents and forward them to the European Parliament in accordance with the timetable established;
- recorded in its minutes the statements:
  . No 1 as annexed to document 14985/03;
  . in the conclusions of the conciliation meeting of 24 November 2003, set out in ANNEX to document 13231/1/03, and.
- solicited the European Parliament to join the statement No 1, as set out in Annex II to document 14985/03.

JUSTICE AND HOME AFFAIRS

Status of third-country nationals who are long-term residents*

The Council adopted the Directive concerning the status of third-country nationals who are long-term residents *(10501/1/03, 14679/03).*

The purpose of the Directive is to grant to third-country nationals who have resided for five years in the territory of a Member State an EC statute of long-term resident, to which a number of benefits and rights are attached. In particular, this statute will allow the persons concerned to move, under certain conditions, from one Member State to another.

Readmission Agreement with Sri Lanka

The Council adopted a Decision on the signing of an Agreement between the European Community and the Democratic Socialist Republic of Sri Lanka on the readmission of persons residing without authorisation (*10642/03).*

In accordance with the respective Protocols on their positions, the United Kingdom notified that it would take part in the adoption and application of the Decision, whereas Ireland and Denmark are not participating in the adoption of the Decision and are not bound by or subject to its application.

Assistance for the purposes of removal by air

The Council adopted the Directive on assistance in cases of transit for the purposes of removal by air *(10503/03).*

The objective of this Directive is to create a set of rules aimed at facilitating the transit of persons subject to removal in an airport of a Member State other than the Member State which has adopted and implemented the removal decision. To that purpose it defines under which conditions the transit operations may take place and indicates what measures of assistance the requested Member State should provide.

PESC

Financing of terrorism – ***Council conclusions***

The Council adopted the following conclusions:

"The Ministers took note with interest and appreciation of the outcome of the Workshop on the Prevention of Financing of Terrorism, held in Brussels on 7 November 2003 at the joint initiative of the Italian Presidency and the Commission.

Ministers welcomed the dialogue being pursued with the countries of the Gulf Co-operation Council on the prevention of terrorism financing, and agreed that these issues and related issues should continue to be on the agenda for EU-GCC relations both at political and technical level. Modalities for follow-up mechanisms of exchange of views and information at technical level will be further explored by the Presidency in consultation with the Commission."

HUMAN RIGHTS

Human rights and democratisation with Mediterranean partners – ***Council conclusions***

The Council adopted the following conclusions:

"1. The Council welcomed the Commission's communication on reinvigorating EU actions on human rights and democratisation with Mediterranean partners.

2. The Council reaffirms that the Euro-Mediterranean partnership is based on respect for human rights, fundamental freedoms and democracy**,** and that these form an essential element both of the bilateral Association Agreements and of the multilateral framework governing relations between the EU and the Mediterranean partners. It recalls that the 1995 Barcelona Declaration establishing this partnership committed its signatories to respect human rights and fundamental freedoms, to act in accordance with the universal declaration on human rights, strengthen democracy and the rule of law and ensure respect for diversity and pluralism in their societies. Promoting these values is likewise among the objectives and rules for the implementation of the MEDA Programme.

3. While some progress has been made in these areas to a varying degree, the Council considers that, as set out in the communication, further serious efforts are needed to improve the overall situation in the region with regard to respect for human rights and democracy. The findings of recent UNDP Human Development Reports have highlighted the importance of issues such as good governance, human rights, gender and democratisation. The Council remains convinced that addressing these issues, important in themselves, is also essential to achieving lasting economic, social and human development and the Euro-Mediterranean Partnership's goal of a region of peace, stability and prosperity.

4. The Council stresses that human rights and democratisation issues should be an important part of the political dialogue between the EU and the Mediterranean Partners, both at regional and bilateral level, in the framework of the Association Councils, the Association Committees and the various ad hoc reinforced bilateral political dialogues that might be set up. In this respect, the Council notes with satisfaction the agreement of a number of Mediterranean partners to establish or consider establishing subcommittees on human rights within the framework of their Association Agreements.

5. In its conclusions of 25 June 2001 and 10 December 2002 on human rights and democratisation in third countries, the Council stressed the importance it attaches to consistency between Community action and the Common Foreign and Security Policy and "mainstreaming" of human rights and democratisation into EU policies and actions. The Council fully endorses the Commission's communication as an important contribution towards enhancing the application of these principles to the Euro-Mediterranean Partnership, which constitute the common values of our societies on both sides of the Mediterranean. The Council supports in particular the ten recommendations set out in the communication and invites the Commission to take work forward, in close co-operation with Member States, Mediterranean partner countries and civil society actors.

6. The Council notes the relevance of the implementation of the communication as an important step in moving towards the full implementation of the Wider Europe/New Neighbourhood initiative which includes not only the Southern but also Eastern neighbours. The Council recalls the importance it attaches to the enhancing of the application of the principles of human rights and democratisation in the relations of the Union with all its neighbours in the South and in the East.

7. The Council calls on those concerned to play their part in the implementation of the communication in a spirit of co-operation and dialogue and on an equal footing. The Council will take stock of implementation of the communication on the basis of a report from the Commission before the end of 2004."

AGRICULTURE

Negotiation of the International Agreement on Olive Oil and table olives

The Council formally adopted a Recommendation for a Decision authorising the Commission to negotiate, on behalf of the European Community, the revision of the International Agreement on Olive Oil and table olives, extended most recently in 2003.

Extension of the International Sugar Agreement

The Council formally adopted a Decision establishing the Community position with regard to the extension of the International Sugar Agreement for a period of up to two years (*14700/03, 14740/03*). The current Agreement remains in force until 31 December 2003. The extension of the Agreement runs from 1 January 2004 to 31 December 2005. The Commission is authorised to vote on behalf of the Community, within the International Sugar Council (ISC), for a two-year roll-over of the International Sugar Agreement (ISA), 1992.