

13689/03 (Presse 306)

2537th Council meeting

- ECONOMIC AND FINANCIAL AFFAIRS -

Brussels, 4 November 2003

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

Internet: <http://ue.eu.int/>
E-mail: press.office@consilium.eu.int

For further information call 32 2 285 95 48 – 32 2 285 63 19

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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.
- The documents whose references are given in the text are available on the Council's Internet site <http://ue.eu.int>.
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PARTICIPANTS

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

Belgium:

Mr Didier REYNERS

Minister for Finance

Denmark:

Mr Claus GRUBE

Ambassador, Permanent Representative

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

Minister for Finance

Austria:

Mr Karl-Heinz GRASSER

Federal Minister for Finance

Portugal:

Mr Álvaro MENDONÇA E MOURA

Ambassador, Permanent Representative

Finland:

Mr Antti KALLIOMÄKI

Deputy Prime Minister, Minister for Finance

Sweden:

Mr Bosse RINGHOLM

Minister for Finance

United Kingdom:

Mr Gordon BROWN

Chancellor of the Exchequer

* * *

Commission:

Mr Frits BOLKESTEIN

Member

Mr Pedro SOLBES

Member

* * *

Other participants:

Mr Philippe MAYSTADT

President of the European Investment 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 Zdenek HRUBY

Deputy Minister for Finance

Estonia :

Mr Aare JÄRVAN

Secretary General of the Ministry of Finance

Cyprus :

Mr Marcos KYPRIANOU

Minister for Finance

Latvia :

Mr Valdis DOMBROVSKIS

Minister for Finance

Lithuania :

Ms Dalia GRYBAUSKAITE

Minister for Finance

Hungary :

Mr Csaba LÁSZLÓ

Minister for Finance

Malta:

Mr John DALLI

Minister for Finance and Economic Affairs

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

In the Ministerial Dialogue on the 2003 Pre-accession Economic Programmes, **the Governments of the Candidate Countries** were represented as follows:

Bulgaria :

Mr Milen VELTCHEV

Minister of Finance

Romania :

Mr Mihai TANASESCU

Minister of Public Finance

Turkey :

Mr Kemal UNAKITAN

Minister of Finance

ITEMS DEBATED

THE EXCESSIVE DEFICIT PROCEDURE FOR FRANCE

The Council decided to postpone the discussion on the Commission Recommendation for a Council Decision based on Article 104(8) to its meeting on 25 November 2003.

Background information:

It should be noted that the excessive deficit procedure is governed by Article 104 of the Treaty and by Council Regulation (EC) N°1467/97 of 7 July 1997 on the speeding up and clarifying the implementation of the excessive deficit procedure, which is part of the Stability and Growth Pact. It is completed by the political commitments enshrined in the Resolution of the Amsterdam European Council on the Stability and Growth Pact of 17 June 1997.

Based on the evidence that the Government deficit in France amounted to 3.1 per cent of GDP in 2002, the Commission initiated the Excessive Deficit Procedure for France on 2 April 2003, with the adoption of the report provided for in Article 104(3) of the Treaty. This report concluded that the excess of the French deficit in 2002 over the 3% of GDP Treaty reference value was not temporary and did not result from an unusual event outside the control of the French authorities, nor was it the result of a severe economic downturn within the meaning of the Treaty. The Commission, taking into account the opinion of the EFC, adopted on 7 May 2003 an Opinion stating that an excessive deficit existed in France. The Council decided accordingly, in conformity with Article 104(6), on 3 June 2003. At the same time, the Council adopted a recommendation under Article 104(7) of the Treaty with a view to bringing the situation of excessive deficit to an end. In this recommendation, the Council recommended France to put an end to the excessive deficit situation by 2004 at the latest. The Council established the deadline of 3 October 2003 for the French Government to take appropriate measures to this end. The Council also recommended France to achieve a significantly larger improvement in the cyclically-adjusted deficit in 2003 than that planned at that time, and to limit the increase in the general Government gross debt to the GDP ratio in 2003. These recommendations were confirmed in the Broad Economic Policy Guidelines for 2003 adopted by the Council on 26 June 2003.

On 8 October 2003, the Commission recommended that the Council adopt a decision under Article 104(8) that France has not fulfilled the recommendations addressed to it under Article 104(7) within the period laid down in that Recommendation.

IMPACT OF AGEING ON PUBLIC FINANCES – EPC REPORT

The Council endorsed the Economic Policy Committee (EPC) report on the impact of ageing populations on public finances (*doc. 14085/03*) and confirmed the mandate to the EPC to produce new common budgetary projections by mid-2005 on the basis of the approach outlined in the EPC report.

The Council also invited the EPC to produce a study on economic incentives affecting retirement, in the light of the Lisbon strategy target to raise the employment rates of older workers, whilst making appropriate use of the results of the OECD and of relevant EU Committees. This study should be presented to the Council by the end of 2004.

The report endorsed today by the Council shows that large demographic changes with significant budgetary effects will take place in coming decades even if there is some uncertainty as to the precise scale of their impact. Overall, the projections of the EPC show that on the basis of current policies, public spending on age-related public expenditures (notably pensions, health care and long-term care) could increase by between 3 and 7 percentage points of GDP by 2050, with the effects taking hold as of 2010.

The EPC report highlights the need for a three-pronged strategy to meet the economic and budgetary consequences of ageing populations, consisting of: faster pace of debt reduction (especially in high debt countries); measures to raise employment rates, especially for older workers and women; and reform of pensions and health care systems.

It should be noted that the ECOFIN Council of May 2003 mandated the EPC to prepare a progress report by November 2003 providing an overview of analyses carried out at EU level to date on the impact of ageing populations on public finances, and examining the merits and limitations of the approach used to assess the sustainability of public finances on the basis of the 2002 stability and convergence programmes.

HARMONISATION OF TRANSPARENCY REQUIREMENTS

The Council, on the basis of a progress report prepared by the Presidency, had a policy debate on the proposal for a Directive on the harmonisation of the requirements with regard to information about issuers whose securities are admitted to trading on a regulated market (doc. 8062/03). The debate focused on the obligation for listed companies to present quarterly financial information.

The proposal, which is part of the Financial Services Action Plan and the Lisbon agenda, complements the International Accounting Standards (IAS) Regulation and the prospectus and market abuse Directives – all three recently adopted – as well as the Directive on financial instruments markets. The purpose of the proposal is to harmonise across Member States regular reporting requirements and requirements concerning the notification of major holdings.

Due to the rapid development in recent years of financial markets and the emergence of new financial instruments, the new 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 proposal is drafted in a manner enabling implementing measures to be adopted by the Commission in relation to several provisions of the Directive.

STRUCTURAL INDICATORS – *Council conclusions*

Referring to the Commission's proposal for the list of structural indicators for the spring report 2004, the Council adopted the following conclusions:

The ECOFIN Council considers that the Commission's shortlist of headline indicators needs to be improved to contain indicators measuring economic reform. The EPC should continue its work with a view to achieving this.

ROLE OF CUSTOMS IN CONTROLLING EXTERNAL BORDERS – *Council Conclusions*

The Council adopted Conclusions on the role of customs in the integrated management of external borders, as follows:

“THE COUNCIL OF THE EUROPEAN UNION,

1. RECALLING

- the Laeken European Council Conclusions of 14 and 15 December 2001 inviting the Council and the Commission "to work out arrangements for cooperation between services responsible for external border control and to examine the conditions in which a mechanism to control external borders could be created";
- the strategic goal set by the Lisbon European Council on 23 and 24 March 2000 for the Union "to become the most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion";

2. WELCOMES the Commission Communication on the role of customs in the integrated management of external borders which complements the earlier communication of May 2002 on the control of persons at external borders;

3. RECOGNISES the central role of customs and the importance of customs cooperation in the control of all kinds of goods crossing EU borders;

4. STRESSES the need to fully integrate safety and security aspects in the daily work of customs and RECOGNISES that this represents a new challenge which requires important adaptations to both the organisational and the legislative framework governing the tasks of customs. Meeting this challenge represents, at the same time, a valuable contribution to the worldwide efforts to secure the supply chain;

5. EMPHASISES the importance, with regard to the management of the external borders and considering the forthcoming enlargement of the European Union, of ensuring optimal, facilitated conditions for a rapid flow of international trade without prejudice to the need for society and the economy to be effectively protected against unfair or illegal operations. Such a balance can only be achieved through well-organised control mechanisms that are based on the concepts of risk analysis and risk selection, on security criteria, and on simplification of customs procedures;

6. RECALLS that the strategic goal set by the Lisbon European Council can only be achieved through a well-functioning internal market. An enhanced legal framework and effective external border controls of movements of goods are therefore essential to protect Community interests and to counter the risk of distortion of competition, in particular resulting from the introduction of harmful or counterfeit goods or other practices incompatible with international trade rules;

7. RECOGNISES the importance of measures to combat fraud against the financial interests of the European Union and the Member States in the context of achieving the objective of ensuring equal conditions of competition in the internal market;
8. EXPRESSES its support for
 - strengthening the cooperation and the information exchange between all administrations or agencies and operators involved in international trade whilst simplifying procedures, inter alia by implementing a single window, and promoting the electronic transmission of data related to the movement of goods;
 - increasing cooperation with third countries, in particular those in neighbouring areas;
 - maximising the effectiveness of the external border controls of goods by concentrating them on consignments that pose a risk to safety and security. Other controls that do not put into question the admissibility of goods into the EU or other Community or national interests should be carried out by the customs office where customs clearance can best be effected;
 - ensuring an equivalent level of protection at all entry and exit points of the European Union through the development of common risk criteria for the selection of controls. Such an approach should, however, leave room for the application of appropriate national or regional criteria and, for its effective application, be supported by the full range of facilities available to a modern customs administration;
 - further developing and adapting the necessary legal and regulatory framework governing customs control;
9. INVITES the Commission urgently to present all necessary proposals to implement the approach outlined above paying special attention to strengthening the information exchange between all administrations or agencies and operators involved in international trade;
10. INVITES the Commission and the Member States, within their respective spheres of competence, to
 - work towards an integrated management of external borders, ensuring close cooperation between the services responsible for the control of persons and those responsible for the control of goods at the external border in order to fulfil the request from the Laeken European Council;
 - assess what control tools are considered to be appropriate for the efficient management of external borders and to explore ways in which they could be financed, including aspects of possible burden sharing;
 - take the necessary complementary legal, regulatory and operational measures to accomplish the aforementioned objectives in order to ensure a better management of EU external borders.”

ANY OTHER BUSINESS

At the request of the Belgian delegation, the Council discussed the possibility of having common model agreements concerning the taxation of savings with associated and dependent territories.

IN THE MARGINS OF THE COUNCIL:

– *Ministerial Dialogue with acceding and candidate countries on 2003 Pre-accession Economic Programmes (PEPs)*

In the margins of the Council, the Economic and Finance Ministers of the EU and the acceding and candidate countries met for their fifth economic policy dialogue meeting.

They examined the 2003 Pre-accession Economic Programmes (PEPs), and approved the following Joint Conclusions:

“Joint conclusions of the Ministerial dialogue between the Economic and Finance Ministers of the EU and the acceding and candidate countries on 4 November 2003

On 4 November 2003, the Economic and Finance Ministers of the EU and of the acceding and candidate countries, along with representatives of the Commission and the ECB, met for their fifth economic policy dialogue.

For the ten acceding countries

1. Ministers endorsed the Joint Opinions on the 2003 Pre-accession Economic Programmes of the ten acceding countries. On the whole, the programmes describe an ambitious but credible medium-term macro-economic and fiscal framework conducive to strong and sustainable economic growth.

Although the growth of GDP in 2002 in most acceding countries was higher than in the EU, continued sustainable high growth performance will remain necessary for the process of further catching up in income levels. In this respect, Ministers emphasised the continued importance of sound and credible public finances, also to further enhance their long-term sustainability of public finances in the light of the ageing populations and further structural reforms in the acceding countries. This would allow a strengthening of the foundation for macro-economic stability and strong and sustainable growth, in the context of the Lisbon strategy. Ministers also welcomed the progress that most acceding countries have continued to make in the area of disinflation, thus entrenching macro-economic stability and providing an environment for sustained economic growth. To anchor inflation expectations inflation should be kept at low levels. In particular, some acceding countries are still facing the challenges stemming from the ongoing processes of price deregulation and increases in regulated prices. Ministers noted that in some acceding countries current account deficits remain high and might pose a challenge for the medium term. In several countries the relatively high unemployment rate indicate a need for urgent further structural adjustment.

2. Ministers took note of the plans stated by the authorities of acceding countries in their Pre-accession Economic Programmes regarding the future monetary integration process and pointed out that such plans would be assessed on a case-by-case basis and in accordance with the Treaty provisions and the approach agreed in Athens in April 2003.
3. Ministers also underlined that acceding countries have now entered a decisive phase of their final preparations regarding the transposition and implementation of the *acquis*. In accordance with the conclusions of the European Council in Copenhagen and in Thessaloniki, they repeated the great importance attached to the monitoring process and to respect for the commitments made by acceding countries, including the deadlines fixed in the negotiations. They underlined their hope that the Commission's Comprehensive Monitoring Reports will serve as a catalyst for incoming countries to solve all outstanding issues regarding the proper implementation of EU legislation by the date of accession, in particular in the economic and financial field, and that no safeguard clauses will prove necessary.
4. In particular, Ministers noted the importance of complying with the *acquis* in the area of capital movements. In a number of acceding countries some residual restrictions on cross-border operations still remain to be lifted in the period before 1 May 2004. Compliance with the *acquis* concerns not only the abolition of exchange controls per se, but also of restrictions on the underlying operations. Any remaining restrictions must be covered by the exceptions provided for by the Treaty or be justified by overriding requirements of the general interest.
5. Ministers reiterated their commitment to include Collective Action Clauses in all their international sovereign bond issues and stated that they would expect new Member States to follow up on this commitment.
6. Ministers noted that further progress has been made regarding the implementation of the Action Plan on Economic, Monetary and Financial Statistics for the acceding countries, which helped to identify six priority areas where countries have to concentrate their efforts in the run-up to accession. However, several countries should urgently complete their efforts if the agreed goals are to be met by 1 May 2004. Substantial efforts are required in the areas of government debt and deficit (all countries should improve compliance with ESA 95 accounting rules), annual national accounts (notably by Poland, Cyprus and Malta), the Harmonised Index of Consumer Prices (notably by Slovakia), balance of payments and international investment position (notably by Hungary, Cyprus, Estonia, Poland, Slovenia and Malta), and external trade statistics (notably by Cyprus). It is also very important that all acceding countries devote sufficient resources to the compilation of all other statistics needed for the Convergence Reports. The acceding countries are invited to urgently step up their efforts in these respects, and the EFC is invited to continue to monitor closely progress made.

For the three candidate countries

Ministers welcomed the 2003 Pre-accession Economic Programmes of the three candidate countries. The programmes describe a medium-term macro-economic and fiscal framework with strong economic growth.

Ministers endorsed the following conclusions as regards the assessment of these programmes:

Bulgaria

- The macro-economic performance in 2002, with high growth, low inflation and a low government deficit was welcomed. The public finance scenario of the PEP reflects the government's awareness of the importance of a prudent fiscal policy in a currency board environment.
- It was noted that a currency board regime poses particular challenges to the external viability of the Bulgarian economy. It was welcomed that, although total foreign debt and foreign borrowing remain high, they are projected to fall further, and that the share of public foreign debt is declining.
- The programme also suitably stresses the importance of continuing structural reforms to reinforce the conditions allowing high and sustained economic growth and sound public finance.
- Considerable progress has recently been made in this respect, such as the completion of the privatisation and restructuring of the banking sector. However, delays occurred in areas with important fiscal implications, such as privatisation and healthcare reform.
- As regards labour markets, the programme relies mainly on active labour market policies. It puts limited emphasis on measures aiming to increase the flexibility of labour markets, which could be one of the main tools for further reducing unemployment and enhancing necessary structural change in the economy.

Romania

- The macro-economic performance in 2002 with high growth, falling inflation, a decrease in the current account deficit and a moderate government deficit was welcomed. The PEP in general restates the macro-economic projections and policy targets of the 2002 programme. However, reflecting ongoing trends, GDP growth for this year is projected to be slightly lower (4,8%) than previously envisaged and less balanced. In contrast to the 2002 PEP, the negative contribution of net exports to growth will imply a widening of the current account deficit. Moreover, the authorities now target a larger government deficit in 2004 so as to allow for a temporary increase in expenditures while preserving the goal of reducing the tax burden.
- The macro-economic framework is, also in the light of the progress achieved so far, broadly in line with recent economic trends in the country and abroad. However, it should pay more attention to the extent and causes of the ongoing deterioration in the external accounts. Additionally, a larger fiscal deficit might also cause further widening in the external accounts.

- The recent successful disinflation has been welcomed, although the level of inflation is still too high. The authorities' fiscal policy has been supportive in bringing down inflation, but may be less so as of next year when the government deficit is targeted to increase. Furthermore, the recent considerable wage increases might also pose some risk for bringing inflation down further. A further clarification of the current and future framework of monetary and exchange rate policy would be appreciated, especially since the authorities envisage a change of monetary policy towards inflation targeting from 2005 onwards, with an envisaged transition towards a free floating regime for the currency from 2005/2006.
- The PEP is yet to illustrate the full picture of the state of enterprise reforms. It would have benefited from more complete information and an attempt to quantify the impact of planned reforms on issues such as the quasi-fiscal deficit and the volume of arrears. This still needs to be developed. The PEP properly identifies the accumulation of arrears as an important budgetary risk factor, but this is not analysed for its macro-economic impact.

Turkey

- The improvement of this year's programme was welcomed as it incorporates many of the suggestions made in the assessment of the 2002 PEP. It demonstrates the Turkish administration's improving technical and analytical capacities in preparing such a programme. Also the major achievements with reducing inflation and macro-economic volatility have allowed the government to better provide for a more credible medium-term scenario and planning framework.
- The macro-economic performance in 2002 with high growth, falling inflation and a moderate government deficit was welcomed. The macro-economic scenario is, in contrast to last year's PEP, more realistic and broadly consistent with current and likely future trends, assuming a more moderate growth contribution from private and public consumption. The programme correctly stresses as key priorities: to ensure a sustainable growth environment, to reduce inflation and to bring down the government deficit and debt ratios to sustainable levels. Full compliance with the IMF-programme is essential for maintaining the confidence of markets, further lowering interest rate levels and ensuring the sustainability of the recovery.
- A strict fiscal approach is key to achieving these ends. The PEP offers a good overview of the Turkish authorities' intentions to rebalance public finances and to achieve fiscal sustainability in the medium term. However, a more detailed presentation of expenditure and revenue categories in line with ESA 95 accounting standards would have been helpful.
- Structural reforms are centred on strengthening market forces, completing the reform of the financial sector and modernising public finances and public administration. Further progress is also needed in the area of privatisation of enterprises and, in the light of persisting high unemployment levels, reform of the labour market.

Ministers invited the Economic Policy Committee to look into the structural policies in Bulgaria, Romania and Turkey and to present a report on this in due course in 2004, also with a view to discussing that report at next year's Joint Ministerial Meeting."

ITEMS APPROVED WITHOUT DEBATE

ECOFIN

Labour force sample survey – *Public deliberation*

The Council adopted a Regulation amending Council Regulation (EC) No 577/98 on the organisation of a labour force sample survey in the Community to adapt the list of survey characteristics (*doc. PE-CONS 3672/03*).

Financial Regulation for executive agencies

The Council adopted an opinion on the draft Commission Regulation concerning a standard financial regulation for the executive agencies pursuant to Council Regulation (EC) No 58/2003 laying down the statute for executive agencies to be entrusted with certain tasks in the management of Community programmes (*doc. 12784/03*).

ENLARGEMENT

Accession conference with Bulgaria – EU common positions

The Council, with a view to the next Accession Conference with Bulgaria at ministerial level, adopted EU common positions on environment and co-operation in the fields of justice and home affairs.

INTERNAL MARKET

Detergents * - *Public deliberation*

On the basis of the political agreement reached on 19 May 2003, the Council adopted its common position on the draft Regulation on detergents (*doc.10595/03 + doc. 13271/03 ADD 1*). The Portuguese delegation voted against.

This Regulation aims at ensuring the free movement of detergents in the Internal Market while providing a high level of protection for human health and for the environment. In particular it modernises the existing detergent directives by including provisions on the biodegradability of surfactants.

The proposed new biodegradability tests ensure a higher level of environmental protection and are applicable to all types of surfactants in detergents. Furthermore, it makes binding the requirements for the products covered by this Regulation specified in Commission Recommendation 89/542 on labelling of detergents and cleaning products and on specific information to consumers on the presence of fragrance substances in detergents.

Pedestrian protection – *Public deliberation*

The Council adopted, pursuant to Article 251(2) of the Treaty, a Directive on the protection of pedestrians and other vulnerable road users which aims at reducing deaths and injuries of pedestrians involved in collisions with cars and light vehicles (*doc. PE-CONS 3660/03*).

Traditional herbal medicinal products * – *Public deliberation*

The Council adopted its common position on a proposal for a Directive amending the Community Code on medicinal products for human use as regards traditional herbal products (*doc. 12754/03 + doc. 13601/03 ADD 1*).

This draft Directive aims at facilitating the registration of certain traditional herbal medicinal products and further enhancing harmonisation by promoting mutual recognition among Member States of granted registrations of these products.

FISHERIES**Western Waters***

The Council adopted by qualified majority, with Ireland and Spain voting against and Belgium abstaining, a Regulation on the management of the fishing effort relating to certain Community fishing areas and resources and modifying Regulation (EEC) No 2847/93 ("Western Waters") (*doc. 13682/03 ADD 1 + doc. 13679/03*).

The purpose of the Regulation is to introduce a revised effort limitation scheme in Western Waters following the reform of the Common Fisheries Policy (CFP) and the full integration of Spain and Portugal into the CFP.

A political agreement had been found at the last Council (Agriculture and Fisheries) on 11 October 2003, after arduous negotiations. The Commission submitted this proposal to the Council on 17 December 2002.

ENVIRONMENT**Montreal Protocol**

The Council adopted the Decision concerning the participation of the EC in the negotiations on the modifications and adaptations of the Montreal Protocol with regard to substances which deplete the ozone layer.

TRANSPARENCY**Public access to documents**

The Council adopted the reply to the confirmatory application made by Mr Ilias KONTEAS (3/03), the Swedish delegation voting against (*doc. 13138/03*).

APPOINTMENTS**Committee of the Regions**

The Council adopted a Decision appointing:

- Mr H.A. AALDERINK, gedeputeerde van de provincie Gelderland, as a member of the Committee of the Regions in place of Mr Piet JANSEN for the remainder of his term of office, which ends on 25 January 2006 (*doc. 13937/03*).

Economic and Social Committee

The Council adopted a Decision appointing:

- Ms Sally SCUTT as a member of the Economic and Social Committee in place of Mr Robert BAIRD for the remainder of the latter's term of office, which runs until 20 September 2006 (*doc. 13746/03*).
-