



**COUNCIL OF  
THE EUROPEAN UNION**



6052/06 (Presse 37)

**PROVISIONAL VERSION**

## **PRESS RELEASE**

2707th Council Meeting

### **Economic and Financial Affairs**

Brussels, 14 February 2006

President

**Mr Karl-Heinz GRASSER**  
Federal Minister for Finance of Austria

# **P R E S S**

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6052/06 (Presse 37)

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## **Main Results of the Council**

*The Council adopted a directive enabling the member states to apply **reduced VAT rates** for certain labour-intensive services until 2010, enacting an agreement reached at its meeting on 24 January. Member states may apply a reduced rate to district heating and two (or in exceptional cases three) out of the following five services: small repair services, the renovation of private dwellings, window cleaning and private household cleaning, domestic care services and hairdressing, on condition that they request authorisation to do so by 31 March 2006.*

*The Council approved opinions on updated **stability and convergence programmes** presented by a second group of member states (a first series was approved last month). It also agreed to nominate Mr Jürgen Stark as member of the executive board of the **European Central Bank**, to replace Mr Otmar Issing, whose mandate expires on 31 May.*

*The Council examined a number of dossiers to be referred to the spring European Council, including a report on **age-related public expenditure** in areas such as pensions and healthcare.*

*It also approved an association agreement with **Lebanon**, signed in 2002, and renewed restrictions on aid to **Zimbabwe** for a further year.*

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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>.
- 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 abovementioned Council Internet site or may be obtained from the Press Office.

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## **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

**Czech Republic:**

Mr Bohuslav SOBOTKA

First Deputy Prime Minister and Minister for Finance

**Denmark:**

Mr Thor PEDERSEN

Minister for Finance

**Germany:**

Mr Peer STEINBRÜCK

Federal Minister for Finance

**Estonia:**

Mr Aivar SÕERD

Minister for Finance

**Greece:**

Mr Georgios ALOGOSKOUFIS

Minister for Economic Affairs and Finance

**Spain:**

Mr Pedro SOLBES MIRA

Second Deputy Prime Minister and Minister for Economic Affairs and Finance

**France:**

Mr Pierre SELLAL

Permanent Representative

**Ireland:**

Mr Brian COWEN

Minister for Finance

**Italy:**

Mr Giulio TREMONTI

Deputy Prime Minister

**Cyprus:**

Mr Michalis SARRIS

Minister for Finance

**Latvia:**

Mr Oskars SPURDZIŅŠ

Minister for Finance

**Lithuania:**

Mr Zigmantas BALČYTIS

Minister for Finance

**Luxembourg:**

Mr Jean-Claude JUNCKER

Prime Minister, Ministre d'Etat, Minister for Finance

**Hungary:**

Mr János VERES

Minister for Finance

**Malta:**

Mr Lawrence GONZI

Prime Minister and Minister for Finance

**Netherlands:**

Mr Gerrit ZALM

Deputy Prime Minister, Minister for Finance

**Austria:**

Mr Karl-Heinz GRASSER

Mr Alfred FINZ

Federal Minister for Finance

State Secretary, Federal Ministry of Finance

**Poland:**

Ms Zyta GILOWSKA

Minister for Finance

**Portugal:**

Mr Fernando TEIXEIRA DOS SANTOS

Minister for Finance

**Slovenia:**

Mr Andrej BAJUK

Minister for Finance

**Slovakia:**

Mr Ivan MIKLOŠ

Deputy Prime Minister and Minister for Finance

**Finland:**

Mr Pertti RAUHIO

State Secretary at the Ministry of Finance

**Sweden:**

Mr Pär NUDER

Minister for Finance

**United Kingdom:**

Mr Ivan LEWIS

Economic Secretary to the Treasury

.....

**Commission:**

Mr Joaquin ALMUNIA

Member

.....

**Other participants:**

Mr Philippe MAYSTADT

President of the European Investment Bank

Mr Xavier MUSCA

President of the Economic and Financial Committee

Mr Joe GRICE

Chairman of the Economic Policy Committee

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The Governments of the Acceding States were represented as follows:

**Bulgaria:**

Mr Plamen Vassiler ORESHARSKI

Minister for Finance

**Romania:**

Ms Alice Cezarina BÎTU

State Secretary, Ministry of Public Finance

**ITEMS DEBATED**

**STABILITY AND CONVERGENCE PROGRAMMES**

– *Belgium, Luxembourg, Austria, Estonia, Latvia and Slovenia*

The Council adopted opinions on a series of annual updates of the member states' stability and convergence programmes, namely:

- updated stability programmes presented by Belgium, Luxembourg and Austria;
- updated convergence programmes presented by Estonia, Latvia and Slovenia.

Under the EU's stability and growth pact, member states having the euro as their currency are required to present stability programmes and those not participating in the single currency to present convergence programmes.

The aim is to ensure sound government finances as a means for strengthening the conditions for price stability and for sustainable growth conducive to employment creation.

The pact requires the programmes to set out the medium-term objective of the member state's budgetary position, the main assumptions about expected economic developments and important economic variables, a description of budgetary and other economic policy measures, and an analysis of how changes in assumptions will affect their budgetary and debt position.

**LISBON STRATEGY FOR GROWTH AND JOBS**

– *Annual progress report - Key issues*

The Council held a policy debate, on the basis of questions raised by the presidency in a key issues paper, on the Commission's annual progress report on the EU's strategy for growth and jobs laid down by the European Council at Lisbon in 2000.

The presidency will revise its key issues paper in the light of the debate. At its meeting on 14 March, the Council will be called on to reach agreement on the key issues paper, which will be submitted to the European Council on 23 and 24 March.

The Commission's annual report assesses national reform programmes drawn up by the member states in response to economic policy and employment guidelines laid down by the Council. Specific issues considered include the sustainability of public finances, tax and benefit systems for labour, competition policy, research and development and regulatory reform.

In a mid-term review last March, the European Council agreed changes to the Lisbon strategy's governance provisions, with the aim of strengthening its contribution to growth and jobs in the EU.

**EIB CONTRIBUTION TO GROWTH AND JOBS**

The Council held a policy debate, on the basis of a note prepared by the economic and financial committee (EFC), on proposals by the European Investment Bank for further involvement of the EIB and the European Investment Fund in measures to promote growth and employment in the EU.

The EIB proposes to reinforce its contribution to measures in four areas:

- research and development, innovation and competitiveness;
- energy efficiency and security and diversification of energy supply;
- support to small and medium-sized enterprises;
- investment in large-scale infrastructure.

The Council approved the priorities identified by the EIB. It highlighted the need to identify clearly the economic rationale for the bank's intervention, as concerns both the added value that it can provide in areas where the market cannot provide the required funding and the catalytic effect that it can have in leveraging private investment. The Council agreed that all interventions must respect the existing framework for the EIB's capital, namely that its next capital increase should not occur before 2010 and that it should self-financing.

The Council requested the EFC to continue work on the EIB's proposals with a view to enabling it to reach agreement, at its meeting on 14 March, on a contribution to be submitted to the European Council on 23 and 24 March.

## **THE IMPACT OF AGEING POPULATIONS ON PUBLIC SPENDING**

The Council held an exchange of views on a report by the economic policy committee and the Commission assessing the likely impact of ageing populations on public expenditure during the period from 2005 to 2050 and on the sustainability of the member states' finances.

It adopted the following conclusions:

### **"Council conclusions on the report on the impact of ageing populations on public spending**

The Council (Ecofin) endorses the report on age-related expenditure projections covering pensions, health care, long-term care, education and unemployment transfers for EU25 Member States for the period 2004 to 2050, prepared by the Economic Policy Committee and the Commission on the basis of commonly agreed assumptions. The Council supports the main messages annexed to these conclusions. The projections are not a forecast, but provide an indication of the potential timing and scale of budgetary changes that could result from ageing populations.

The Council takes note of the central findings as regards the economic and budgetary implications of ageing populations. While the employment rates of females and older workers are expected to increase, the effects of ageing will eventually dominate and lower total employment levels. The average annual potential growth rate for the EU25 is projected to fall significantly from 2.2% in the period 2004-10 to 1.4% between 2030 and 2050. An even steeper decline is foreseen for several countries.

The fiscal impact of ageing will be substantial in almost all Member States, with the effects accelerating as of 2010. Overall, on the basis of current policies, age-related public expenditures are projected to increase on average by 4 percentage points of GDP by 2050 in EU25 and up to 10 % in several Member States, through two main channels:

- Pensions: Ageing populations are expected to lead to a substantial increase in public pension expenditure though there is a large diversity across countries. In nine countries the increase is projected to be over 5 percentage points of GDP. Reforms implemented in recent years in some Member States are having visible positive impacts. They have sharply reduced the projected increase in expenditures, diminishing the impact of ageing. In some cases, however, the scale of reforms has been insufficient.

- *Health care and long-term care*: on average for the EU25, public spending on health care is projected to rise by some 1.5 percentage points of GDP, and public spending on long-term care is projected to increase by between 0.5 and 1 percentage points of GDP in most Member States.

The Council concludes that:

- on the basis of current policies and the demographic trends, substantial risks to the sustainability of public finance remain a major challenge for many Member States;
- there is a limited, but fast-closing, window of opportunity to take policy action. In absence of decisive countervailing measures, an ageing population will act as a drag on potential economic and employment growth, leading to extensive pressure for increased public spending in the medium and long-run;
- Ministers should reaffirm their commitment to implementing further structural reforms aimed at: increasing job creation and participation in the labour market, reducing incentives for early-exit from the labour market and strengthening productivity growth;
- the projections should be used as the basis for quantitative analysis as part of the reformed Stability and Growth Pact. They provide a sounder, more comprehensive and comparable basis for assessing further in depth the sustainability of Member States' public finances. This assessment will also take into account all relevant information including structural fiscal positions, outstanding debt levels, national institutional features and national projections including on the revenue side;
- despite progress achieved in recent years, further comprehensive reforms are needed in many Member States to modernise their welfare systems. In light of the challenges ahead, Ministers reaffirm their commitment to the existing three-pronged strategy for meeting the economic and budgetary consequences of ageing i.e.: reducing debt at a faster pace, raising employment rates and productivity, as well as reforming pension, health care and long-term care systems. In pursuing these reforms, there is a need to secure core policy goals of access, adequacy and financial viability. Later retirement should be encouraged and measures which encourage early withdrawal from the labour force, or add to pension costs should be avoided; and
- a growing share of private pensions in overall retirement income underlines the importance of appropriate regulation of private pension funds and of careful surveillance of their performance for securing adequate retirement income.

The Council invites:

- the EPC to deepen its analysis of the labour market implications of ageing populations, and on policy measures - including reforms aiming at the modernisation of social protection and welfare systems - which can contribute to extending working lives and lead to a better control and management of public expenditures;
- the EPC to update and further deepen its common projection exercise of age-related expenditure projections by the autumn of 2009 on the basis of a new population projection to be provided by Eurostat; and
- the Commission, on the basis of the projections, to undertake a comprehensive assessment of the sustainability of Member States' public finances by autumn 2006, using the commonly agreed framework. It invites the EPC on the basis of that assessment to report back to the Council by the end of 2006."

**OTHER BUSINESS**

– *VAT fraud*

The Council was briefed by the presidency on the results of a conference on taxation held in Vienna on 6 and 7 February, which focused on the issue of VAT fraud.

It took note of the Commission's intention to report to the Council before the end of June on work undertaken on the issues raised at the conference.

– *Development aid - Innovative sources of funding*

The Council was briefed by the French delegation on a levy on airline tickets to be introduced by France as a new source of financing of aid to developing countries, and on a conference on the subject of innovative financing to be held in Paris on 28 February and 1 March.

**OTHER ITEMS APPROVED**

**ECONOMIC AND FINANCIAL AFFAIRS**

**Reduced rates of VAT - Labour-intensive services - Extension until 2010**

The Council adopted, following an agreement reached at its meeting on 24 January, a directive enabling the member states to (continue to) apply reduced rates of value-added tax for certain labour-intensive services until 2010. (5916/06)

The main features of the directive, which is based on directive 77/388/EEC, are as follows:

- In order to prolong the experiment, launched in 1999, of reduced VAT rates for certain locally-provided labour-intensive services, the validity of annex K to directive 77/388/EEC is extended as from 1 January 2006 until 31 December 2010. All member states may opt for the application of annex K, on condition that they apply for authorisation to do so by 31 March 2006;
- Member states are authorised to apply a reduced rate to supplies of district heating, provided that this doesn't create a distortion of competition;
- The Council invites the Commission to present, by the end of June 2007, a report providing an assessment of the impact of reduced rates applied to locally supplied services, including restaurant services, in terms notably of job creation, economic growth and the internal market, on the basis of a study to be carried out by an independent economic think-tank.

In December, the Council adopted a directive extending the 15% minimum VAT standard rate applied by the member states until 2010. As a derogation to this general rule, permanent reduced VAT rates for a number of goods and services are allowed for under annex H of 77/388/EEC.

Annex K, which is applied on a temporary basis and expired on 31 December, allows for reduced rates for a further list of services including small repair services, the renovation of private dwellings, window cleaning and private household cleaning, domestic care services and hairdressing.

**EU budget - Rules for implementation of financial regulations**

The Council adopted an opinion on a draft Commission regulation aimed at amending regulations 2342/2002 on implementation of financial regulation applicable to the general budget of the European Community (5906/06). It invited the Commission to take due consideration of comments and suggestions reflected in the opinion.

### **VAT in the waste sector - Spain, Italy and the Netherlands**

The Council adopted a decision authorising Spain, Italy and the Netherlands to continue applying measures to prevent evasion of value added tax in the waste sector, until 31 December 2009 or until the date of entry into force of a special scheme for the application of VAT to the recycled waste sector, whichever comes earlier (5465/06).

### **EXTERNAL RELATIONS**

#### **Euro-Mediterranean agreement with Lebanon**

The Council adopted a decision approving a Euro-Mediterranean association agreement between the EU and Lebanon, signed in Luxembourg on 17 June 2002 (10820/02).

The agreement is aimed at providing political dialogue, establishing conditions for the gradual liberalisation of trade in goods, services and capital and promoting economic, social, cultural, financial and monetary cooperation.

#### **Moldova - Transnistrian region - Restrictive measures**

The Council adopted a decision implementing common position 2004/179/CFSP on restrictive measures against the leadership of the Transnistrian region of Moldova and a common position renewing the restrictive measures for a further 12 months (5326/06 and 5456/06).

The decision introduces the necessary adjustments to a list of 17 persons covered by the restrictive measures in order to take account of changes in their functions.

In February 2004 the Council adopted common position 2004/179/CFSP imposing restrictive measures on the leadership of the Transnistrian region, banning the entry into or transit through EU territory of those members of the leadership responsible for preventing progress in arriving at a political settlement of the conflict in Transnistria.

In August 2004, the Council expanded the scope of the restrictive measures to persons held responsible for an intimidation campaign and the closure of Latin-script Moldovan schools, and established a new list of persons subject to the visa ban.

**DEVELOPMENT POLICY**

**ACP -EU partnership agreement - consultations with Zimbabwe**

The Council adopted a decision extending by 12 months the period of application of measures introduced under decision 2002/148/EC following consultations with Zimbabwe under the ACP-EC partnership agreement (5844/06).

The measures are renewed as the essential elements cited in Article 9 of the ACP-EC partnership agreement continue to be violated by the government of Zimbabwe and the current conditions in Zimbabwe do not ensure respect for human rights, democratic principles and the rule of law. They include, for instance, suspension of support under the European Development Fund in all areas except those in direct support of the Zimbabwean population, reorientation of support in favour of social sectors, democratisation, respect for human rights and the rule of law, and suspension of the signature of new EDF funding.

**TRADE POLICY**

**Chile - Wines, spirits and aromatised drinks**

The Council adopted two decisions approving the conclusion of agreements with Chile aimed at eliminating import duties on wines, spirits and aromatised drinks originating in the EU, amending the EU-Chile association agreement (5269/06 and 5274/06).

**Anti-dumping - Castings - China**

The Council adopted a regulation amending regulation 1212/2005 imposing a definitive anti-dumping duty on imports of certain castings originating in China (5546/06).

**ENLARGEMENT**

**Accession partnership with Croatia**

The Council adopted a regulation amending regulation 533/2004 by changing the name of the "European partnership" for Croatia to "accession partnership" in order to align the name with that used for the partnership for Turkey, as both are candidate countries that have started accession negotiations on their accession to the EU (15673/05).

**INSTITUTIONAL AFFAIRS**

**Court of Auditors' report on interpretation expenditure - Council conclusions**

The Council adopted the following conclusions:

"THE COUNCIL:

1. WELCOMES the Court's special report on interpretation expenditure incurred by three institutions and CONSIDERS it very useful as the audit covers the period of the accession of 10 new Member States, increasing the number of official and working languages to 21.
2. AGREES with the Court that sound financial management in the field of interpretation involves providing cost-effective and high quality interpretation services where needed without however exceeding real requirements.
3. NOTES with satisfaction that the institutions have been successful in containing interpretation expenditure although the number of working languages has increased, but UNDERLINES nevertheless that an amount of EUR 24 million has been spent for interpretation services requested but not used because of meeting cancellations; RECOMMENDS that efforts should be made by reducing late cancellations, last-minute meeting requests and unequal distribution of meetings over the course of the week and the year.
4. UNDERLINES that further savings are possible through a better management of meetings, on-request linguistic arrangements, a review of the level of resources kept on standby, a further integration of computer services and interinstitutional cooperation between all institutions.
5. STRESSES the need to maintain the high quality of interpretation provided in the institutions while controlling costs; INVITES all institutions to assess regularly the quality of interpretation, including making inquiries of the final users.
6. AGREES that procedures to avoid the provision of interpretation services exceeding real requirements are an absolute necessity for all institutions. Therefore, ENCOURAGES them to apply one another's best practices in order to set up efficient systems in this respect, including forecasting the expected use of languages, monitoring actual use, maintenance of updated interpretation language profiles by users, keeping a list of interpretation facilities requested but not used and surveys to assess such cases.

7. TAKES NOTE that the European institutions do not only employ permanent staff interpreters whose working conditions, remunerations and reimbursement of expenses are governed by the Staff Regulations, but also freelance interpreters (AICs), governed by an agreement signed between the International Association of Conference Interpreters (IACI) and the three institutions, which affect the interpretation cost in different ways; IS IN FAVOUR of the renegotiation of this agreement with the IACI aiming at reducing all elements of the costs.
8. POINTS OUT that the policy of providing interpretation either by permanent staff or ACIs has to be examined carefully to have an appropriate availability of interpretation resources either local or non-local, permanent or freelance, taking into account the balance between permanent and freelance interpreters for working languages involving high travel expenses.
9. STRESSES the importance of the availability of interpretation services in all languages and therefore, INVITES the Commission to ensure that sufficient competitions are organised on time.
10. ASKS FOR an independent evaluation concerning the possible costs and benefits of the creation of one single interinstitutional Office providing interpretation services to all EU institutions, compared with those achieved by an increased interinstitutional cooperation."

**INTERNAL MARKET**

**Intellectual property - Trademark law treaty**

The Council adopted a decision authorising the Commission to open negotiations on a revised international treaty on trademark law and on the participation of the EU in the new treaty.

A diplomatic conference of the World Intellectual Property Organisation (<http://www.wipo.int/>) will take place in Singapore on 13 to 31 March 2006 with the aim of updating the 1994 treaty (5260/06).

**FISHERIES**

**EU - Mauritania agreement \***

The Council adopted a decision approving the signature of an agreement concerning the provisional application, for the period from 1 August 2001 to 31 July 2006, of an amended protocol on the fishing opportunities and the financial contribution provided for in the agreement on cooperation in the sea fisheries sector between the EU and Mauritania, (15968/05, 5272/06 ADD1).

Amendments include a temporary reduction in the fishing effort for cephalopods, a second closed period of one month for demersal fishing, and an increase in the number of pole-and-line tuna vessels and surface longliners from 31 to 35 (+3 for Spain and +1 for France) and in the number of pelagic freezer trawlers from 15 to 25.

**APPOINTMENTS**

**European Central Bank: Appointment of a member of the executive board**

The Council adopted a recommendation on the appointment of Mr Jürgen Stark as member of the executive board of the European Central Bank, for a term of office of eight years from 1 June 2006 (6007/06).

The recommendation on the appointment, to replace Mr Otmar Issing, whose mandate expires on 31 May, will be submitted for a decision by the heads of state/government of the member states of the euro zone, after consulting the European Parliament and the ECB's governing council.

**Economic and Social Committee**

The Council adopted decisions appointing:

- Mr Wilfried Woller as a member of the European Economic and Social Committee in place of Mr Alfred Geissler for the remainder of his term of office, namely until 20 September 2006 (15188/05);
- Ms Marie Louise Knuppert as a member of the Economic and Social Committee in place of Mr Ib Wistisen for the remainder of his term of office, namely until 20 September 2006 (5743/06).

**TRANSPARENCY**

**Access to documents**

The Council adopted:

- replies to three confirmatory applications made by Mr Aurel Sari (50/c/05/05, 51/c/06/05 and 52/c/07/05 - 16000/05, 16003/05 and 16006/05);
- a reply to confirmatory application 01/c/01/06, the Swedish delegation voting against (5377/06);
- a reply to confirmatory application 02/c/02/06, the Danish, Finnish and Swedish delegations voting against (5416/06);
- a reply to confirmatory application 03/c/01/06, the Danish, Finnish and Swedish delegations voting against (5441/06).

**DECISIONS ADOPTED BY WRITTEN PROCEDURE**

**Preparation of the International Civil Aviation Organisation conference**

The Council approved on 7 February by written procedure an action paper and an information paper for the International Civil Aviation Organisation conference of directors general of civil aviation on a global strategy for aviation safety, which will take place in Montreal on 20-22 March. The Hungarian delegation abstained from the decision (5673/06).

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