



**COUNCIL OF
THE EUROPEAN UNION**



13678/05 (Presse 277)

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Economic and Financial Affairs

Brussels, 8 November 2005

President

Mr Gordon BROWN
Chancellor of the Exchequer of the United Kingdom

P R E S S

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Main Results of the Council

*The Council adopted a decision under article 104(8) of the treaty establishing that **Hungary** has failed to comply with its recommendations on the measures needed in order to bring Hungary's budgetary deficit below 3% of GDP by 2008.*

*It adopted conclusions on reducing the **regulatory burden** on business, calling on the Commission to start measuring burdens as part of integrated impact assessments of new EU regulatory proposals as from January 2006.*

*The Council also adopted conclusions on measures to be taken in order to improve the quality of **statistical data** to be used in the assessment of member states' budgetary situations, as well as on improved controls for the **EU budget**.*

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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 Jan DE BOCK

Permanent Representative

Czech Republic:

Mr Tomáš PROUZA

Deputy Minister for Finance

Denmark:

Mr Thor PEDERSEN

Minister for Finance

Germany:

Mr Hans EICHEL

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

Minister for Economic Affairs and Finance

Cyprus:

Mr Michalis SARRIS

Minister for Finance

Latvia:

Mr Oskars SPURDZIŅŠ

Minister for Finance

Lithuania:

Mr Zigmantas BALČYTIS

Minister for Finance

Luxembourg:

Mr Jeannot KRECKÉ

Minister for Economic Affairs and Foreign Trade,
Minister for Sport

Hungary:

Mr János VERES

Minister for Finance

Malta:

Mr Richard CACHIA-CARUANA

Permanent Representative

Netherlands:

Mr Gerrit ZALM

Deputy Prime Minister, Minister for Finance

Austria:

Mr Karl-Heinz GRASSER

Federal Minister for Finance

Poland:

Mr Wiesław SZCZUKA

Undersecretary of State, Ministry of Finance

Portugal:

Mr Emanuel AUGUSTO SANTOS

Secretary of State Assistant to the Minister and for Budget

Slovenia:

Mr Andrej BAJUK

Minister for Finance

Slovakia:

Mr Ivan MIKLOŠ

Deputy Prime Minister, Minister for Finance

Finland:

Mr Eero HEINÄLUOMA

Deputy Prime Minister, Minister for Finance

Sweden:

Mr Pär NUDER

Minister for Finance

United Kingdom:

Mr Gordon BROWN

Chancellor of the Exchequer

Ms Dawn PRIMAROLO

Paymaster General

.....

Commission:

Mr Siim KALLAS

Vice-President

Mr Joaquin ALMUNIA

Member

Mr László KOVÁCS

Member

Mr Charlie MCCREEVY

Member

.....

Other participants:

Mr Philippe MAYSTADT

President of the European Investment Bank

Mr Caio Kai KOCH-WESER

President of the Economic and Financial Committee

Mr Joe GRICE

President of the Economic Policy Committee

.....

The Governments of the Acceding States were represented as follows:

Bulgaria:

Mr Plamen Vassiler ORESHARSKI

Minister for Finance

Romania:

Mr Claudiu DOLTU

Undersecretary of State

ITEMS DEBATED

EU BUDGET CONTROL FRAMEWORK - Council conclusions

The Council adopted the following conclusions:

"Introduction

1. Since its introduction for the discharge of the 1994 budget, the European Court of Auditors has given a qualified Statement of Assurance (DAS¹) for most transactions underlying the European Union's accounts. Nonetheless, the Council welcomes the substantial progress made by the Commission and the Member States to strengthen control systems and now notes the publication of the Commission's Communication on "a Roadmap to an integrated internal control framework". A panel of experts met on 21 and 22 September 2005 to discuss the issues raised by the communication.
2. Numerous measures have already been implemented to improve sound financial management. It is in the EU's interests to continue to improve financial management so that reasonable and verifiable assurance can be had that controls are in place which work correctly and effectively. Achieving a positive DAS is an ambitious mid-term objective.
3. The Council recalls that, under the EC Treaty, the Commission is responsible for the implementation of the European Union's budget. It also considers that the controls and assurance required should be improved by building on existing control structures with a view to improving the cost-benefit ratio and promoting simplification. Participants in the management of EU funds should ensure that controls are operating effectively.
4. The Council believes that the achievement of an effective integrated internal control framework in line with the principles set out in the Court's opinion No. 2/2004 should provide reasonable assurance regarding the management of the risk of error in the underlying transactions.

Simplification

5. It is of fundamental importance to pursue the harmonisation of the principles of controls and also the simplification of legislation. The regulations to be adopted for the programming period 2007-13 should include simplification of the control requirements while providing reasonable assurance. These regulations should be simple, easy to apply and predictable throughout the programming period. The Council requests that the Commission assess the cost of controls by area of expenditure. Simplification should not lead to any increase of the current level of administrative and control costs and should ensure elimination of multiple internal controls by different bodies and entities.

¹ Déclaration *d'assurance* (DAS)

Control Systems

6. The Member States and the Commission should seek to optimise the effectiveness, economy and efficiency of current control systems. While recognising the different national administrative arrangements of the Member States, the Council believes that there is scope for general common principles and elements regarding internal controls, whether existing or to be adopted for the programming period 2007-13. For multi-annual programmes, the control systems to manage the risk of error should also be assessed over the period as the whole. It requests that the Commission provide clarification in a number of areas identified in its communication¹, inter alia:
- Simplification of legislation and harmonisation;
 - Single Audit in the context of internal control;
 - Assessment of the relevance of the various internal controls standards;
 - Assessment of the risk of error and the consequential financial impact of those errors;
 - Balancing costs and benefits of controls, taking a risk based approach; and
 - Roles of the various actors.

Action by the European Commission

7. An initial analysis has been made with the publication of the Commission services' "gap assessment between the internal control framework in the Commission Services and the control principles set out in the Court of Auditors' *proposal for a Community internal control framework* opinion No. 2/2004". The Council will consider the Commission's Action Plan to improve the quality of systems of administration and control.
8. The Council notes the Commission's actions, identified in its communication², to improve the Commission's internal control framework for budgetary management and centrally managed funds, and to improve the framework for decentralised management. As regards shared management, the Commission is invited to assess the implementation of the current regulations concerning inter alia sample checks on operations, paying authorities and winding up bodies' activities.
9. The Commission, working with the Member States, should provide an assessment of the present controls at sector and regional level and the value of existing statements and declarations.

¹ 10326/05 COM(2005) 252 final

² 10326/05 COM(2005) 252 final

The Role for Member States

10. The Council recalls that the Commission implements the budget on its own responsibility, and that Member States, in the framework of their cooperation with the Commission under Article 274 of the EC Treaty should continue to undertake and improve controls over funds under shared management arrangements.
11. Contract of Confidence arrangements proposed under the Structural Funds programmes could help increase assurance under the present regulations, and the Council invites the Commission and Member States which have indicated their wish to proceed to complete the process of their adoption of these arrangements.

Declarations and Decentralised management of EU funds

12. Taking into account the need not to put into question the existing balance between the Commission and the Member States or to compromise responsibility and accountability at the operational level, the Council believes existing operational-level declarations can provide an important means of assurance for the Commission and ultimately the Court of Auditors and should be useful and cost effective and be taken into account by the Commission and ultimately the Court of Auditors to attain a positive DAS.

Audit Issues

13. The Council emphasises the need for a strict distinction between internal control and external audit. External bodies are not part of the internal control framework.
14. The Council stresses that any form of cooperation between Independent Supreme Audit Institutions and the Court of Auditors can only be based on Article 248 of the EC Treaty. It notes the possibility that some Independent Supreme Audit Institutions are willing to discuss further how they might strengthen their contribution to an integrated control framework governing EU funds.
15. The Commission and Member States should ensure that their approach concerning the integrated internal control framework is based on common control standards and should consider together, in the appropriate formation, how these standards can be most effectively applied. The Council invites the European Court of Auditors to examine and report on how the integrated internal control framework would affect its audit approach taking account of current International Auditing Standards.
16. The Council encourages the Court to:
 - continue to improve the clarity of for the DAS;

- identify each year the factors which have prevented the supervisory and control systems from functioning effectively so as to manage adequately the risk to the legality and regularity of the underlying transactions;
- address the issue of multi-annual programmes and their relationship with the DAS;
- take into account existing declarations from Member States; and
- present the DAS supplemented by a specific assessment of each major areas of Community activity, in accordance with Article 248 of the EC Treaty.

The Council encourages Member States, within the framework of the existing procedure, to discuss bilaterally with the Court the findings of the latter's DAS audits, and to resolve any systemic problems which are identified. The Commission is encouraged to develop solutions to problems common to several Member States and to report to the Council.

17. The Council believes, in line with the Court's opinion 2/2004, that it should reach an understanding with the European Parliament regarding the risks to be tolerated in the underlying transactions, having regard to the costs and benefits of controls for the different policy areas and the value of the expenditure concerned.

Next Steps

18. On the occasion of the 2004 discharge process, the Council should examine the Commission's Action Plan to fill the gaps in the present control framework.
19. The Council will examine progress in respect of the present conclusions during 2006 to further improve internal control."

REDUCING THE ADMINISTRATIVE BURDEN ON BUSINESS - Council conclusions

The Council adopted the following conclusions:

"The Council underlines the importance of better regulation to the Lisbon agenda and welcomes the commitment made by the Commission to place regulatory reform among the top priorities in its strategy for promoting jobs and growth. In this context, it notes with concern the burden imposed on European businesses by the administrative costs of national and EU regulation and calls for urgent action at the EU and national levels to control and reduce these burdens, while respecting the wider objectives and benefits of legislation and regulation.

The Council (ECOFIN) recalls its October 2004 conclusions¹ and the conclusions of the November 2004 European Council which supported the development of a common methodology for measuring the administrative burden of EU legislation, and invited the Commission to implement the methodology in impact assessments and in simplification of existing EU legislation as soon as possible in 2005, after completion of a pilot phase. The Council further recalls the March 2005 European Council conclusions² which called on the Commission and the Council, in the context of the re-launched Lisbon strategy, to develop a common methodology for measuring administrative burdens with the aim of reaching an agreement by the end of 2005.

The Council (ECOFIN) welcomes the successful conclusion of the Commission's pilot phase and the Commission's commitment to begin implementation with a view to securing improvements in the regulatory environment and promoting jobs and growth. Looking forward, the Council (ECOFIN):

- invites the Commission to start measuring administrative burdens, as validated by the pilot phase, on a consistent basis and in line with transparent criteria, as part of integrated impact assessments of new EU regulatory proposals from January 2006;
- reiterates its October 2004 commitment to assist the Commission in implementing the methodology. In this context Ministers agree : to provide, on request and in a proportionate manner, the information needed to carry out assessments of EU administrative burdens and ; that the methodology proposed by the Commission provides a common basis for the collection and exchange of data;
- notes that the measurement of administrative burdens at the EU level complements and reinforces the domestic initiatives of a number of Member States, which remain voluntary in nature;

¹ 13017/04 Presse 284

² 71619/05

- invites the Commission to explore how best to integrate the measurement of administrative burdens into its simplification work programme and to provide information to the Council on how this is being achieved during the first half of 2006;
- reiterates its October 2004 invitation to the Commission and the member States to consider developing quantitative objectives for the reduction of the administrative burden on business in selected areas. In this context, the Council (ECOFIN) invites the Commission to explore options for establishing measurable targets for the reduction of the administrative burden of EU regulation in specific sectors and to bring forward proposals on this issue by spring 2006;
- calls for continued and enhanced cooperation between the Commission and the member States to review use of the methodology and invites the Commission to report on the progress made and lessons learned after an initial, twelve month, implementation phase, with a view to adapting, if necessary, the methodology, in order to maximise the contribution of administrative burden measurement to improving the regulatory environment in the EU; and
- notes that administrative procedures and complex regulatory requirements often impose the greatest burdens on SMEs and welcomes the intention of the Commission to address these burdens through its simplification and wider work programme while respecting the principles of subsidiarity and proportionality. In this context, the Council invites the Commission, building on its administrative burdens work, to present proposals for ensuring that SMEs are protected from disproportionate burdens imposed by new EU regulatory proposals."

EU STATISTICAL GOVERNANCE - Council conclusions

The Council adopted the following conclusions and politically endorsed three annexes to be incorporated into a draft regulation amending regulation 3605/93 as regards the quality of statistical data used under the excessive deficit procedure.

"The Council welcomes the EFC Status Report on Information Requirements in EMU. Due to the commitments of, and close-cooperation between, Eurostat and national statistical institutes (NSIs), major progress has been achieved in several fields of the Principal European Economic Indicators (PEEIs) over recent years. Furthermore, important new legislation was enacted paving the way for further progress in those areas. Overall, nine out of a total nineteen PEEIs currently fulfil or are close to the PEEI timeliness and coverage targets, thus improving considerably the information base for economic analysis and monetary policy.

This progress notwithstanding, the Council acknowledges that important challenges remain. The availability of timely and high-coverage indicators for services and labour markets, in particular employment data, should be improved as a matter of priority. Generally, despite some important improvements to timeliness, most PEEIs still lag far behind the US indicators and major efforts are still required to catch up with US timeliness. In order to meet these challenges, stronger commitments are needed in the longer term from NSIs and Eurostat, with the support of the ECB; in the short and medium-term the efforts should be concentrated on fully implementing all PEEIs and consolidating the improvements achieved rather than setting new ambitious goals. The "First for Europe" principle for PEEIs should be reinforced, with regard to a closer coordination of release, revision and dissemination practices, seasonal and working day adjustment for European aggregates; and the use of European sampling schemes. For that purpose, Eurostat and the ECB should produce a further progress report on these objectives and on the implementation plan for the PEEIs. The Council invites the European statistical system (ESS) to study the best practices in the EU for each indicator and to provide a report to the EFC on the way to apply these more widely. These two elements should be integrated into the 2006 status report prepared jointly by Eurostat and the ECB before the end of 2006.

Benchmarking exercises against other countries worldwide should be carried out from time to time so that European statistics match the best international standards. The full and prompt implementation by Member States of the legislative framework that has been adopted under the EMU Action Plan is strongly supported so as to improve the critical areas identified. To free up the necessary resources at the national and European level the Council asks the Commission to continue and reinforce the efforts on prioritisation.

With respect to the compliance of Member States with the Code of Best Practice on the compilation and reporting of data of the Excessive Deficit Procedure, the Council welcomes that the September 2005 EDP notifications can generally be considered of a good quality. However, there are still some open issues, including the fact that a number of Member States have not yet updated their inventories. With a view to the next Convergence Reports in spring 2006, the Council urges the Member States concerned to fill the remaining gaps in their statistical data underlying these Convergence Reports as soon as possible. The Council welcomes the Progress Report on the Action Plan on Economic, Monetary and Financial Statistics for the acceding and candidate countries. The Council considers that these issues should be discussed in the context of the next dialogue meeting in spring 2006.

EU Statistical Governance

Independence, integrity and accountability of Eurostat and of the European Statistical System (ESS)

In the context of improving the governance of the European statistical system (ESS), the Ecofin Council emphasised in its report on the Stability and Growth Pact, which was endorsed by the European Council on 23 March 2005, the importance of developing the operational capacity, monitoring power, independence and accountability of Eurostat. The Council therefore welcomes the Commission's assurance that the principles of the Code of Practice will be respected by Eurostat through the implementation of the Commission "Recommendation on the independence, integrity and accountability of the national and Community statistical authorities". The Council had reiterated at several occasions that the professional independence and credibility of Eurostat stems much from its competence in statistics and its operational capacity to fulfil its permanent professional tasks. Appropriate and expert staff resources are key in this context.

The Council notes the Commission's intention to propose a major reform of the European Advisory Committee on statistical information in the economic and social spheres (CEIES) so as to have a smaller and more efficient body. A reformed CEIES would contribute to the improvement of the governance of the ESS and to the enhancement of the quality of community statistics.

The Council confirms its view that the core issue remains to ensure adequate practices, resources, capabilities to produce high quality statistics at the national and European level with a view to ensuring the independence, integrity and accountability of both national statistical offices and Eurostat. The Council is of the view that a new high-level advisory body would enhance the independence, integrity and accountability of Eurostat and, in the context of the peer review assessment of implementing the European Statistics Code of Practice, of the ESS. The new body should be a small group of persons appointed on the basis of the independence and competence of these persons. It should be chaired by an influential and well regarded person selected by the Council. The new body should draw up an annual report for the Council and the European Parliament on the implementation of the European Statistics Code of Practice as it relates to Eurostat. This report will complement the implementation report on the ESS by the Commission. The Council further notes that the Commission intends to set up a reporting system to monitor adherence to the Code of Practice in the ESS in line with the proportionality principle. The reformed CEIES should be given the task to voice the interests of non-government users and respondents of European Statistics. With regard to its composition it must be in a position to give representation to all stakeholders of European Statistics.

Amendment of Regulation 3605/93

In the conclusions on EU statistical governance adopted on 7 June 2005, the Ecofin Council expressed the view that further details concerning the conduct of possible methodological visits were expected in an upcoming Commission document on these visits, and that the practical modalities would have to be discussed with the relevant fora, in particular the EFC. Finally, the Council concluded that these modalities would be made public when the Council regulation is adopted.

The Council welcomes the letter by the Commission to the Council President providing clarification on the principles and details guiding Eurostat's methodological visits, and assurance that Eurostat will discuss any possible revision with Member States and duly take into account their comments if the need for revisions arises.

In the view of the Council, legal obligations of Member States have to be specified. The Council advises that these legal obligations have a legal nature as well as Eurostat new capacity of investigation, so they should be integrated in the draft regulation as an annex. In particular, Member States have to provide specified data limited to the information strictly necessary to check the compliance with ESA rules. The Council also suggests for transparency purposes that Member States be consulted on the questionnaires' format, for instance through the CMFB. Furthermore, along with the Legal Service, the Council advises that it must be defined who are the statistical authorities concerned by the methodological visits: they are the authorities responsible for the EDP reporting. Furthermore, the Council is of the opinion that national experts taking part in the methodological visits to Member States must be nominated by the national authorities responsible for the EDP reporting in the experts' home country.

As the annex has been agreed, the Council endorses the draft Regulation amending Regulation 3605/93 and foresees a timely adoption of the Regulation with a view to its application in the next EDP notification.

CMFB

The 7 June 2005 Ecofin conclusions state that the role, areas of competence and functioning of the CMFB as well as its interaction with Eurostat including the communication policy of the eventual Eurostat decisions in relation to EDP statistics should be evaluated. Against this background, the Council examined the situation. The current system based on CMFB consultations has worked satisfactorily for many years, with the CMFB delivering opinions regularly.

There was a broad majority in favour of keeping the CMFB and not to change the current set-up of the CMFB as an advisory body. This view is based on the following key arguments. Contrary to other areas of statistics, the fundamental objective of the EDP procedure is to identify, as quickly as possible, a situation of excessive deficit or debt and to put an end to it, so that Member States can avoid excessive public deficits. The CMFB provides invaluable expertise advice from Member States' NSIs and National Central Banks in a timely manner which allows Eurostat to react swiftly in contentious cases. The procedures and transparency as well as the provision of information to the EFC have been constantly developed and streamlined over time. Being an advisory body that uses the expertise of the most experienced European statisticians has the merit that CMFB opinions are seen as purely technical and not the result of a political agreement. This reinforces the image of independence of European statistics and the credibility of EDP data. The Council invites the CMFB to review its procedures and to examine possible areas and ways of improvements. The Council welcomes in this context the intentions of the Commission to review its communication policy of Eurostat decisions.

Review of Priorities

Already in June 2004, the Ecofin Council identified the importance of reviewing statistical priorities and reducing statistical requirements for areas which are now considered to be of less importance. The Council has returned to the issue of prioritisation at several occasions since then, most recently on 7 June 2005 when it asked for an acceleration of the work on prioritisation.

The Council welcomes the initiatives taken and the progress achieved over the past year. In particular, it takes note of and endorses the work of the Eurostat Task Force, which builds upon the three guiding principles for priority setting endorsed by the Ecofin Council. It should be underlined that reprioritisation is not primarily about cost cutting, but about reallocating resources to their most effective use. Furthermore, new EU statistical requirements should be accepted only when they are needed for the implementation of EU policies. The Council believes that it is time now to focus on putting reprioritisation into practice, and that there are a number of complementary ways in which this can be achieved. The Council acknowledges the importance of both a top-down and bottom-up approach to reprioritisation. It recommends incorporating the work of the Task Force, including the evaluation of costs, into the forthcoming proposal from the Commission on the multi-annual statistical programme for 2008-12 and, as a pilot exercise, into the 2007 annual work programme. It further recommends developing and incorporating other instruments and mechanisms of reprioritisation.

Several areas that are not part and parcel of the EMU Action plan have been identified as negative priorities by national statistical institutes. These include agricultural statistics, INTRASTAT, Prodcum, structural business statistics and transport statistics. Eurostat in accordance with the Task Force on priority setting is invited to consider these areas for pilot studies and to report on progress by December 2005 with a view to reach concrete results by July 2006.

The Council also notes the Communication to the European Parliament and the Council on "Implementing the Community Lisbon Programme: A strategy for the simplification of the regulatory environment", as adopted by the Commission on 25 October 2005. In this context, it is acknowledged that the reduction of statistics and data collection deserves particular attention, taking particular account of the special needs and limited resources of small and medium sized businesses. Furthermore, the Council notes that structural business statistics and INTRASTAT statistics will be covered by the simplification programme of EU legislation for 2005-2008 proposed by the Commission and is looking forward to examining the specific proposals. This work should be aligned so as to contribute to the above mentioned discussions by July 2006. Improved co-ordination of all initiatives at the European level and a better information policy for all stakeholders is vital for the success of reprioritisation.

Treatment of complex methodological cases with relevance for EDP

Moreover, as a separate element from the above package, the Council discussed the handling of complex methodological cases with relevance for EDP statistics. There are established procedures to ensure the correct treatment of individual cases such as the classification of government transactions and liabilities. In this context, the Council is of the view that a distinction should be made concerning Eurostat's and the CMFB's views and Eurostat's decisions on past transactions on one hand and views concerning transactions that will take place in the future on the other, notably when the planned transactions will have potentially significant impact on Council decisions on EDP matters. As to the former, Article 11 of the envisaged amendment to Regulation 3605/93 stipulates the procedures to clarify complex cases and in that way provides maximum certainty. As to the latter, timely views and guidance provided under mutual trust are essential to facilitate effective fiscal planning and forecasting. The Council invites the Commission to reflect further on this issue and will revert to the matter in a later meeting, in particular with a view to establishing procedural guidelines, including CMFB consultation, for the delivery of such advice. The objective of this new governance structure should be to maximise the certainty of the guidance offered to the Member States. This should also address possible controversial classification issues for actual data."

EXCESSIVE DEFICIT PROCEDURE

– *Hungary: Council conclusions*

The Council adopted a decision establishing that the action taken by Hungary in response to its recommendation under the excessive deficit procedure (article 104(8) of the treaty) is proving to be inadequate. This follows a similar decision that the Council had taken in January 2005 when it concluded that Hungary had not taken effective action in response to its recommendation of July 2004. Furthermore, the Council adopted the following conclusions:

“The Council reviewed measures taken by Hungary following the Recommendation it issued on 8 March 2005 under the EU’s excessive deficit procedure. In this Recommendation, the Council had invited the Hungarian authorities to put an end to the present excessive deficit situation as rapidly as possible and to take action in a medium-term framework as foreseen in the Hungarian Convergence programme update of December 2004. It had also set a deadline of 8 July 2005 for Hungary to take effective action regarding the measures envisaged to achieve the revised 2005 deficit target of 3.6% of GDP (including the pension fund contributions) contained in the December 2004 Convergence Programme update.

While a number of additional measures were taken in March and June, the Council regrets that the 2005 target referred to in the Council recommendation of March 2005 will be missed by a sizeable margin and that contrary to previous commitments the government decided not to take corrective action. Furthermore, the Council notes that the 2006 deficit target also referred to in the Council recommendation has been abandoned and even the new much looser target is unlikely to be met. The Council reiterates its recommendation to Hungary of March 2005 to make the timing and implementation of tax cuts conditional upon the achievement of the deficit targets.

The Council is concerned about the situation and outlook for public finances in Hungary. Without urgent and determined action by the Government, the growing fiscal imbalances do not only put at risk the credibility of the planned adjustment path aiming at correcting the excessive deficit by 2008 but also jeopardise the needed improvement in macro-economic imbalances therefore increasing the vulnerability of the economy.”

TAXATION

– *VAT - Simplified obligations for businesses*

The Council took note of a progress report on proposals aimed at simplifying cross-border business obligations relating to value-added tax and of the intention of the United Kingdom and future Austrian presidencies to continue work on the dossier as a priority.

The proposals are intended to ease VAT compliance for businesses, particularly those that have no base in member states where they carry out their activities.

They consist of:

- a draft directive aimed at amending directive 77/388/EEC with a view to simplifying VAT obligations;
- a draft directive laying down detailed rules for the refund of VAT to businesses in member states where it has no base, as provided for in directive 77/388/EEC;
- a draft regulation aimed at amending regulation 1798/2003 as regards administrative co-operation under the “one-stop” scheme and the refund procedure for VAT.

– *VAT - Reduced rates*

The Council held an exchange of views, on the basis of a compromise proposed by the presidency, on modifications to EU rules on reduced rates of value-added tax applied by the member states.

It requested the permanent representatives committee to continue work on this basis with a view to allowing the Council to reach an agreement at its meeting on 6 December.

In July 2003, the Commission proposed a general review of reduced VAT rates, but various attempts have so far not enabled an agreement to be reached by the Council. Most recently on 7 June 2005, the Council agreed that the minimum standard rate of 15% would continue to apply until December 2010, but was unable to reach a compromise on the other issues involved.

Current rules allow for reduced rates for a limited list of supplies, as well as temporary reduced rates until 31 December 2005 for certain labour-intensive services. Other derogations with a limited timeframe, most until the end of 2007, were introduced for the new member states by their respective acts of accession.

CROSS-BORDER CONSOLIDATION IN FINANCIAL SERVICES

The Council was briefed by the Commission on work underway to improve the regulatory framework for cross-border mergers and acquisitions in the financial services industry.

It held an exchange of views and the presidency adopted the following conclusions.

"The PRESIDENCY, and all Members of the Council except one:

- NOTE the Commission study into the obstacles to cross-border consolidation in the financial services sector and ENCOURAGES further discussion on these issues in 2006.
- SUPPORT the Commission's on-going review of the existing supervisory rules in Article 16 of the Codified Banking Directive (2000/12/EC) and in the corresponding articles of the insurance Directives.
- UNDERLINE the importance of fair, transparent and consistent supervisory rules for mergers and acquisitions across EU financial markets and institutions to enhance the EU's attractiveness for foreign investment and to ensure an efficient allocation of capital in the EU. In that respect, convergence of practices and increased co-operation among supervisors should be promoted.
- ENCOURAGE the Commission to:
 - (i) provide prudential criteria to improve transparency and result in a more consistent approach to shareholder control evaluation by supervisory authorities in different Member States;
 - (ii) working with the relevant "level 3" supervisory Committees, base the consistent approach on a clear procedure for financial institutions and supervisory authorities to follow when assessing qualifying shareholdings including obligations on transparency and market disclosure;
 - (iii) ensure sufficient supervisory co-operation in assessing a proposed acquisition in an EU cross-border context, reflecting the respective responsibilities of the competent authorities concerned;
 - (iv) clarify the procedure that should be followed when the proposed acquirer is from outside the EU.

- EMPHASISE the need for consistency across financial services sectors in the prudential rules that apply to mergers and acquisitions.

- REQUEST that, in line with better regulation principles, the Commission undertakes a comprehensive consultation exercise with market participants and a full impact assessment of this review in advance of any formal proposals to the Council and the European Parliament."

SUGAR - FINANCIAL CONSEQUENCES OF EU REFORM

The Council held an exchange of views on the financial consequences of the reform of the EU's common market organisation in the sugar sector.

The president indicated that he would raise the issue with the presidents of the Agriculture, Economic and Financial Affairs/Budget and General Affairs and External Relations Councils.

IN THE MARGINS OF THE COUNCIL

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

- eurogroup;
- meeting with finance ministers from EFTA countries;
- macro-economic dialogue with the social partners.

OTHER ITEMS APPROVED

ECONOMIC AND FINANCIAL AFFAIRS

European Court of Auditors special report - European anti-fraud office - *Council conclusions*

The Council adopted the following conclusions:

"The Council:

1. WELCOMES the European Court of Auditors' (ECA) special report concerning the management of the European Anti-Fraud Office, which is part of the Council request for conducting an external audit of OLAF, dated December 2003.
2. RECALLS that OLAF operates within a complex institutional framework, where numerous actors and authorities are directly or indirectly engaged in protecting the financial interests of the European Union; attaches great importance to OLAF's independent investigative function in tackling fraud.
3. SHARES ECA's view that OLAF's hybrid status has brought advantages and has not affected the independence of its investigative function and that there is no need to consider amending the Office's status at this stage.
4. URGES OLAF to ensure an appropriate balance between internal and external investigations; stresses the importance of mobilising its personnel in a more effective way, particularly as regards the introduction of targeted investigations in areas where the risk of fraud is considered to be the highest.
5. AGREES that resources should be refocused on OLAF's investigative role. It urges the Office to clarify more precisely the objectives set for the investigators in every case and establish a time-recording system to measure investigators' workloads. It considers that the Office should also assist the Commission in legislative follow-up and in the strategy for the protection of EU financial interests and that financial follow-up should not be part of OLAF's remit.
6. AGREES with the ECA's approach to better defining the role of the Supervisory Committee while recognising the usefulness of its monitoring of the implementation of the Office. The Committee should avoid interfering with the conduct of investigations in progress, and avoid overlaps between its role and the European Ombudsman.

7. STRESSES the importance of clarifying the rules on opening, closing and extending investigations carried out by OLAF; recalls the usefulness of making a clear distinction between investigation and assistance.
8. WELCOMES the fact that, after a transitional setting-up period, the Office undertook substantial reorganisation measures in November 2003 and introduced a registry and a case management system (CMS).
9. SHARES the recommendation of the ECA on the need to shorten the length of inquiries carried out by OLAF; recommends the Office to establish a target maximum duration for inquiries and to submit a list concerning follow-up to the result of investigations based on whether it is of an administrative, disciplinary or criminal nature to all relevant Institutions and parties.
10. UNDERLINES the need to guarantee the legality of investigative procedures and to enhance procedural rights of defence for persons under investigation; emphasises the need to remedy discrepancies in the protection of persons under investigation in internal and external investigations; welcomes the publication by OLAF of its rules of procedure.
11. INVITES OLAF to establish a system for assessing its results; the development and enhancement of performance indicators should make it possible to evaluate these.
12. URGES OLAF and Member States to strengthen their cooperation in order to enhance coordination of their activities in the field of protection of EU financial interests and fight against fraud; considers it useful to improve procedures for information exchange to that end; shares ECA's view on the possibility of creating a special structure dedicated to coordination and assistance operations.
13. In addition to the views expressed by the Court, CALLS on OLAF, EUROJUST and EUROPOL to improve their collaboration and notes with satisfaction that OLAF and EUROJUST have recently started to work together to co-operate within their respective competences regarding the protection of the financial interests of the European Union.
14. INVITES the Commission to regularly report back on the progress made following these conclusions.

15. NOTES finally that the Commission intends to present an amended proposal concerning Regulation N. 1073/1999. The Council will consider this proposal carefully, inter alia in the light of this special report."

TRADE POLICY

Anti-dumping - Croatia and Ukraine - Seamless pipes and tubes of iron or non-alloy steel

The Council adopted a regulation extending the partial suspension of the definitive anti-dumping duties imposed by Regulation (EC) No 258/2005 on imports of certain seamless pipes and tubes of iron or non-alloy steel originating in Croatia and Ukraine (13473/05).

Anti-dumping - China, India, South Africa and Ukraine - Steel ropes and cables

The Council adopted by qualified majority a regulation imposing a definitive anti-dumping duty on imports of steel ropes and cables originating in China, India, South Africa and Ukraine following an expiry review pursuant to Article 11(2) of regulation (EC) No 384/96 (13468/05).

AGRICULTURE

Seeds - Third country equivalence

The Council adopted a decision on the equivalence of checks on practices for the maintenance of seed varieties carried out in certain third countries (11300/1/05).

The decision maintains the Council's competence in updating a list of third countries laid down by decision 2003/17/EC, adds a new provision on basic seed in line with new legislation on equivalence, and establishes the date of 1 July 2005 for the decision to take effect in order to avoid possible disruption of trade with third countries.

The decision lists the relevant authorities in a number of third countries responsible for carrying out checks.

By decision 97/788/EC, the Council determined that official checks on practices for the maintenance of varieties carried out in certain third countries should afford the same guarantees as those carried out by EU member states.

TRANSPORT

Agreements on air services with Azerbaijan, Bulgaria, Croatia, Georgia and Lebanon

The Council adopted decisions approving the signature and provisional application of agreements on air services between the EU and Azerbaijan, Bulgaria, Croatia, Georgia and Lebanon.

The five agreements are the result of negotiation under a mandate by which the Commission can negotiate with any third country with a view to bringing member states' existing bilateral aviation agreements into line with Community law.

APPOINTMENTS

Committee of the Regions

The Council adopted a decision appointing:

Ms Gabrielle Kagan, Councillor - Brent Council, a member of the Committee of the Regions in place of Ms Sally Powell for the remainder of her term of office, which runs until 25 January 2006.
