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Economic and Financial Affairs

Luxembourg, 19 October 2010

President **Didier REYNDERS**
Deputy Prime Minister and Minister for Finance and Institutional Reforms of Belgium

P R E S S

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Main results of the Council

The Council reached agreement on a draft directive on the management of ***hedge funds*** *and other alternative investment funds, with a view to concluding negotiations with the European Parliament so as to allow the text to be adopted at first reading.*

The draft directive is aimed at establishing EU rules for monitoring and supervising the risks posed by such funds, whilst allowing fund managers to market their funds, subject to compliance with strict requirements.

The Council decided to authorise Germany, Italy, Austria and the UK to apply a reversal of tax liability for the payment of VAT on mobile telephones and integrated circuit devices as a means of better ***tackling VAT fraud****.*

In preparation for the October European Council, it also approved a report on ***levies and taxes on financial institutions****.*

CONTENTS[1]

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- Where declarations, conclusions or resolutions have been formally adopted by the Council, this is indicated in the heading for the item concerned and the text is placed between quotation marks.
- Documents for which references are given in the text are available on the Council's Internet site (http://www.consilium.europa.eu).
- Acts adopted with statements for the Council minutes which may be released to the public are indicated by an asterisk; these statements are available on the Council's Internet site or may be obtained from the Press Office.

PARTICIPANTS

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Mr Bernard CLERFAYT	State Secretary
Bulgaria:	
Mr Boyko KOTZEV	Permanent Representative
Czech Republic:	
Mr Tomáš ZÍDEK	Deputy Minister for Finance
Denmark:	
Mr Claus HJORT FREDERIKSEN	Minister for Finance
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Mr Jörg ASMUSSEN	State Secretary
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Mr Jürgen LIGI	Minister for Finance
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Mr Rory MONTGOMERY	Permanent Representative
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Mr Angel TORRES	General Secretary
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Mrs Christine LAGARDE	Minister for Finance
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Mr Charilaos STAVRAKIS	Minister for Finance
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Mr Raimundas KAROBLIS	Permanent Representative
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Romania:	
Mr Alexandru NAZARE	State Secretary
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Sweden:	
Mr Anders BORG	Minister for Finance
United Kingdom:	
Mr Mark HOBAN	Financial Secretary to the Treasury

Commission:	
Mr Olli REHN	Member
Mr Algirdas ŠEMETA	Member
Mr Michel BARNIER	Member

Other participants:	
Mr Jean-Claude TRICHET	President of the European Central Bank
Mr Philippe MAYSTADT	President of the European Investment Bank
Mr Thomas WIESER	Chairman of the Economic and Financial Committee
Mr Lorenzo CODOGNO	Chairman of the Economic Policy Committee

ITEMS DEBATED

ALTERNATIVE INVESTMENT FUNDS - HEDGE FUNDS

The Council reached agreement on a draft directive on the management of hedge funds and other alternative investment funds, with a view to concluding negotiations with the European Parliament so as to enable the text to be adopted at first reading.

The draft directive is aimed at:

– establishing a harmonised framework for monitoring and supervising the risks that alternative investment fund managers (AIFM) pose to their investors, to counterparties, to other market participants and to the stability of the financial system;

– allowing AIFM to provide services and to market funds throughout the EU single market, subject to compliance with strict requirements.

It is intended to fulfil commitments made by the EU at the G-20, as well as the European Council's pledge to regulate all market operators whose activities might pose a risk to financial stability.

There is already a large degree of consensus on the text, and the Council highlighted its intention to conclude the negotiations in the near future, on the basis of its agreement.

COMBATING TAX FRAUD - ADMINISTRATIVE COOPERATION

The Council examined a draft directive aimed at strengthening cooperation between the member states in the field of direct taxation.

It asked the Permanent Representatives Committee to oversee further technical work with a view to enabling it to reach political agreement at its meeting on 17 November.

The draft directive sets out to enable the member states to better combat tax fraud and tax evasion in the light of greater taxpayer mobility and a growing volume of cross-border transactions. One of a number of measures implementing the EU's anti-fraud strategy, launched in 2006, it provides for an overhaul of directive 77/799/EEC, on which administrative cooperation has been based since 1977.

It is aimed at fulfilling the member states' growing need for mutual assistance – especially via the exchange of information – in order to better assess taxes due.

The Council's discussion focused on provisions regarding the automatic exchange of information on certain categories of income and capital .

VAT FRAUD - MOBILE TELEPHONES AND ELECTRONIC DEVICES

The Council reached political agreement on a draft decision aimed at enabling certain member states to better tackle fraud with regard to the payment of value-added tax (VAT) on mobile telephones and integrated circuit devices and their components.

The decision will:

- by derogation from article 193 of directive 2006/112/EC: allow Germany, Italy and Austria to implement, on an optional and temporary basis, a reversal of tax liability as regards the payment of VAT on domestic supplies of those products;

- by amendment to decision 2007/250/EC: extend the period of validity of an existing authorisation for the United Kingdom.

The aim is to close off certain forms of tax fraud, in particular so-called carousel schemes whereby goods are traded several times by different suppliers without VAT being paid to the tax authorities. Applying a "reverse charge" principle, the draft decision will allow, until 31 December 2013 in all four countries, liability for the payment of VAT on those goods to be shifted from the supplier (as normally required by EU rules) to the customer.

EXCESSIVE DEFICIT PROCEDURE - LITHUANIA AND ROMANIA

The Council examined a communication from the Commission assessing measures taken by Lithuania and Romania, in response to recommendations it issued on 16 February, in order to bring their government deficits back below of 3% of gross domestic product (GDP), the reference value set by the EU treaty.

The Council shared the Commission's view that, according to the information that is currently available:

- both Lithuania and Romania have until now acted in accordance with its recommendations, and are making satisfactory progress in correcting their deficits;
- no further action under the excessive deficit procedure is therefore necessary at this stage.

Both member states have been subject to excessive deficit procedures since July 2009, when the Council issued recommendations on corrective action to be taken, though in both cases, it has since extended the deadline for correction of the deficit, from 2011 to 2012. Assessment by the Council follows a 16 August deadline for corrective action.

FOLLOW-UP TO INFORMAL MINISTERIAL MEETING IN BRUSSELS

The Council took note of the outcome of an informal meeting of EU finance ministers and central bank governors that took place in Brussels on 30 September and 1 October.

The following issues were discussed at the meeting: the International Accounting Standards Board; reform of the International Monetary Fund and G-20 issues; the economic outlook; global financial regulation; the outlook and risks for financial markets; credit rating agencies; financial regulation and supervision in the EU and the United States, the so-called Basel III[1] agreement on capital requirements for banks; bank levies and crisis resolution funds; financial transaction taxes.

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[1] Basel Committee on Banking Supervision

PREPARATION OF G-20 MINISTERIAL MEETING

The Council endorsed EU terms of reference for a meeting of G-20 finance ministers and central bank governors that is due to take place in Gyeongju (South Korea) from 21 to 23 October, in the run-up to the G-20 summit in Seoul in November.

Issues to be discussed at Gyeongju include the reform of the international financial system, the global framework for growth, and International Monetary Fund quota and governance reform. The terms of reference set out priorities for the EU as a whole and its members at the G-20 ministerial meeting.

HIGHER EDUCATION

The Council took note of a joint report from the Economic Policy Committee and the Commission regarding public expenditure on tertiary education (*doc. 14639/10*).

It adopted the following conclusions:

"The Council of 14 May 2008 invited the EPC and the Commission "to continue their sectoral analysis, with a view to assessing in more detail the efficiency and effectiveness of public spending on R&D and education. Given the strong relationship between higher education and productivity as well as growth, it would be desirable to develop appropriate performance measurement tools in order to assess its efficiency and effectiveness."

Further to this call, the EPC and the Commission carried out an analysis of efficiency and effectiveness of public expenditure on tertiary education. The analysis comprises quantitative and qualitative elements, and country-specific information was obtained by means of a detailed peer review of tertiary education systems in Member States.

The Council notes the close collaboration between Finance and Education Ministries in analysing the tertiary education systems in the EU and welcomes this fruitful working method. Co-operation between economic and education policy makers is essential to maximise the contribution of ECOFIN to higher education reform.

The Council WELCOMES the Joint Report and HIGHLIGHTS the main findings:

- That improving the efficiency and effectiveness of public expenditure on tertiary education would also require action at the earlier levels of education which lay the foundations needed by students to advance to, and progress in, tertiary education. Interventions at these earlier stages may therefore be very cost-efficient.
- That reform of tertiary education systems in particular governance aspects, has the potential to raise the effectiveness of public expenditure, which currently accounts for the bulk of resources devoted to tertiary education. Tertiary education systems are more efficient when tertiary education institutions have basic autonomy and flexibility, in particular staff policy and financial autonomy. Higher levels of autonomy, accompanied by appropriate mechanisms to ensure accountability, can help increase education and research productivity provided the right conditions are in place, such as financial incentives for good staff and student performance, sufficient ability to attract and retain qualified staff, sufficient capacity to meet demand and adequate levels of resources (from public and private sources).

On Tertiary education financing,

- Efficiently-designed tertiary education systems are a necessary pre-condition, but will not be sufficient to achieve excellence in the long run if funding is not adequate. In this respect, attention should be given to the fact that population ageing may bring additional pressure to bear on tertiary education financing for three main reasons. First, it will raise the need for periodic education and retraining, as working lives gradually lengthen. Second, education and training will become increasingly important in achieving the productivity growth needed to ensure strong economic growth. Finally, future costs of tertiary education will also increase in line with the expected upturn in enrolment due to higher participation rates.
- The extent of public funding varies across the EU, but it remains a key consideration in the few tertiary education systems where the issue of private funding may be most important. The case for an increase in private funding sources is considerably stronger in situations where limited public funding acts as an excessive constraint on the number of students or reduces spending per student to levels which risk jeopardising the quality of teaching and the acquisition of skills by students.
- The balance between private and social returns to tertiary education could set the basis for public subsidisation of higher education. Private returns to tertiary education tend to be high (although differing across disciplines, institutions and gender) as well as social returns.
- A private contribution to the costs of tertiary education is generally justified by the high private returns that accrue to individuals. If increases in tertiary education funding come from higher student fees, it is critical that a well-functioning system of grants and/or loans is set up to ensure access for poorer students.
- Concerns for equality of access to tertiary education, however, have to be addressed and they are unlikely to be alleviated solely by policies to subsidise tuition fees at the tertiary level. Efforts to address this should start at the preschool level of education.

The Council RECOGNISES there is a strong need for highly qualified labour in the EU and reaffirms its commitment to the Europe 2020 benchmark to increase the share of population having completed tertiary education or equivalent. In the horizon to 2020, the policy focus should be on increasing the success rate and on reducing graduation time, both without lowering academic standards.

The Council NOTES that labour market and education policies are closely intertwined: returns to education are lower when labour markets are less rewarding of high skills, even though these skills may be needed to strengthen the growth potential from a long-run perspective. Lifelong learning policies which allow tertiary education institutions to cater for the needs of the working population are essential in view of ageing populations. Currently the bulk of education continues to take place before the mid-20s and at the same time people are expected to remain active for longer.

The Council UNDERLINES that, taking into account the urgent need for a period of substantial budgetary consolidation, enhancing the efficiency and effectiveness of public spending on tertiary education by improving cost efficiency and governance (including through performance-based budgeting) is very important.

The Council INVITES the relevant Member States to consider the highlighted reforms and the Commission to factor these findings into its analysis and proposals in the frame of the Europe2020 strategy, and to take account of their implications in all relevant EU policies aimed at supporting job creation, promoting technological progress and enhancing the long-term potential growth of the European economy."

NATIONAL BUDGETARY FRAMEWORKS

The Council took note of a report from the Economic Policy Committee on the exchange of best practises with regard to national budgetary frameworks (*doc.* *14614/10*).

It adopted the following conclusions:

"The Council WELCOMES the report "National fiscal frameworks: exchange of best practice" presenting some common features of successful national experiences in the Netherlands, Sweden and Austria.

The Council NOTES that work is underway to establish a regular assessment and peer review of Member States' fiscal frameworks in line with the 18 May Conclusions."

LEVIES AND TAXES ON FINANCIAL INSTITUTIONS

The Council approved a report to the European Council, with a view to its meeting on 28 and 29 October, on levies and taxes on financial institutions.

Levies and taxes are amongst the measures being examined as part of a new crisis resolution framework for the financial industry. They could also help ensure that the industry makes a fair contribution to the consolidation of public finances in the wake of the financial crisis, thereby relieving the pressure on taxpayers.

At both G-20 and EU levels, it has been underscored that in any future financial crisis, should a further crisis occur, taxpayers' money should not be used to cover bank losses.

In this context, a number of member states have imposed levies on banks or are in the process of doing so. However, the nature of those levies differs from one country to another, creating a risk of competitive distortions and multiple charging of banks that operate in several member states. The Commission therefore recommends that general principles be agreed on so as to enable a coordinated approach.

As regards financial sector taxation, work is less advanced. The idea of a financial transactions tax was proposed in 1972 by economist James Tobin, and interest in this has re-emerged in the wake of the financial crisis. An alternative idea, that of a financial activities tax, was recently suggested by the International Monetary Fund.

The Council's report, requested by the European Council in June, calls for consideration to be given to the impact of other measures that are currently being introduced – in particular new capital and liquidity requirements and funding measures for deposit guarantee schemes – so as to avoid overburdening the financial industry and to safeguard the flow of credit to the economy.

On bank levies, the report suggests that:

– in the short term, attention should focus on ensuring a minimum level of coordination, and in particular on eliminating the multiple charging of banks that operate in several member states;

– in the medium term, the setting up of crisis resolution structures should be discussed on the basis of proposals from the Commission.

On financial sector taxation, the report takes note of a communication from the Commission. Possible options could be examined by the Council.

MEETINGS IN THE MARGINS OF THE COUNCIL

The following meetings were held in the margins of the Council:

– ***Task force on economic governance***

Ministers attended a meeting on 18 October of a task force on economic governance chaired by the President of the European Council, Herman Van Rompuy.

– ***Euro Group***

Ministers of the euro area member states attended a meeting on 18 October of the Euro Group.

– ***Ministerial breakfast meeting***

At a breakfast meeting, ministers took note of the outcome of the annual meetings of the International Monetary Fund and the World Bank, held in Washington on 8 and 9 October, and of the presentation by the Commission of the main elements of a forthcoming communication on financial crisis management. They also discussed the budgetary situation in Hungary and in Poland.

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Over lunch, ministers discussed International Monetary Fund quota and governance reform.

OTHER ITEMS APPROVED

ENVIRONMENT

North-East Atlantic Ocean region - Protection against pollution

The Council approved the conclusion of a protocol to an international cooperation agreement for the protection of the coasts and waters of the North-East Atlantic against pollution (*doc. 14476/10*).

The agreement creates a mechanism to ensure cooperation between the contracting parties in the event of a pollution accident, and requires them to establish and implement their own emergency plans.

Auctioning of greenhouse gas emission permits

The Council decided not to oppose adoption by the Commission of a regulation establishing the timing, administration and other aspects of how greenhouse gas emission permits will be auctioned within the EU's emissions trading system (*doc. 12798/10*).

Whilst at present, emission certificates are allocated free of charge within the ETS, from 2013 onwards energy-intensive industries will be required to purchase a share of their permits at auctions. On entering the ETS in 2012, aviation operators will also have to buy a part of their certificates.

The draft regulation is subject to the regulatory procedure with scrutiny. This means that, now that the Council has given its consent, the Commission may adopt the regulation unless the European Parliament objects.