COUNCIL OF
THE EUROPEAN UNION

EN

13571/07 (Presse 217)

PRESS RELEASE

2822nd Council meeting

Economic and Financial Affairs

Luxembourg, 9 October 2007

President **Mr Fernando TEIXEIRA DOS SANTOS**
Minister of State, Minister for Finance of Portugal

P R E S S

Rue de la Loi 175 B – 1048 BRUSSELS Tel.: +32 (0)2 281 9776 / 6319 Fax: +32 (0)2 281 8026
press.office@consilium.europa.eu http://www.consilium.europa.eu/Newsroom

Main results of the Council

The Council adopted a decision closing the ***excessive deficit procedure*** *it opened last year with regard to the* ***United Kingdom****, as well as a renewed recommendation to the* ***Czech Republic*** *on measures to correct its excessive deficit.*

It adopted conclusions setting out further steps, at both EU and national levels, for the development of ***financial stability*** *arrangements. The conclusions include common principles for cross-border financial crisis management and a roadmap for enhancing cooperation and preparedness and for reviewing the tools for crisis prevention, management and resolution.*

The Council adopted conclusions on two issues related to ***public finances****, dealing with:*

- *how to improve the effectiveness of the EU's stability and growth pact. The conclusions emphasise that member states that have not yet reached the medium-term objective set for their national budgets should speed up the pace of deficit and debt reduction and allocate any higher-than-expected revenues to this end;*

- *the reform and modernisation of public administration. The conclusions highlight the importance of such initiatives in enhancing competitiveness, delivering better services, achieving better value-for-money and ensuring the control of government expenditure, and thus meeting the objectives of both the Lisbon strategy for growth and jobs and the stability and growth pact.*

*The Council adopted conclusions on "***flexicurity***" (flexibility and security on labour markets), the EU's "***better regulation***" initiative and the* ***clearing and settlement*** *of securities transactions.*

It also approved, without discussion, the EU's second action ***programme for health*** *with a budget of EUR 321.5 million for the 2008-2013 period.*

CONTENTS[1]

[1]
- Where declarations, conclusions or resolutions have been formally adopted by the Council, this is indicated in the heading for the item concerned and the text is placed between quotation marks.
- 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.

OTHER ITEMS APPROVED

PARTICIPANTS

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

Belgium:	
Mr Jean DE RUYT	Permanent Representative
Bulgaria:	
Mr Plamen Vassiler ORESHARSKI	Minister for Finance
Czech Republic:	
Mr Miroslav KALOUSEK	Minister for Finance
Denmark:	
Mr Claus GRUBE	Permanent Representative
Germany:	
Mr Peer STEINBRÜCK	Federal Minister for Finance
Estonia:	
Mr Raul MÄLK	Permanent Representative
Ireland:	
Mr Bobby MCDONAGH	Permanent Representative
Greece:	
Mr Georgios ALOGOSKOUFIS	Minister for the National Economy and Finance
Spain:	
Mr Pedro SOLBES MIRA	Second Deputy Prime Minister and Minister for Economic Affairs and Finance
France:	
Ms Christine LAGARDE	Minister for Economic Affairs, Finance and Employment
Italy:	
Mr Tommaso PADOA SCHIOPPA	Minister for Economic Affairs and Finance
Cyprus:	
Mr Michalis SARRIS	Minister for Finance
Latvia:	
Mr Oskars SPURDZIŅŠ	Minister for Finance
Lithuania:	
Ms Valentinas MILTIENIS	Deputy Minister for Finance
Luxembourg:	
Mr Jean-Claude JUNCKER	Prime Minister, "Ministre d'Etat", Minister for Finance
Mr Jeannot KRECKÉ	Minister for Economic Affairs and Foreign Trade, Minister for Sport
Hungary:	
Mr János VERES	Minister for Finance
Malta:	
Mr Tonio FENECH	Parliamentary Secretary, Ministry of Finance
Netherlands:	
Mr Wouter Jacob BOS	Deputy Prime Minister, Minister for Finance
Austria:	
Mr Wilhelm MOLTERER	Vice Chancellor and Federal Minister for Finance
Poland:	
Ms Katarzyna ZAJDEL-KUROWSKA	Undersecretary of State, Ministry of Finance
Portugal:	
Mr Fernando TEIXEIRA DOS SANTOS	Ministro de Estado, Minister for Finance
Romania:	
Ms Alice BITU	State Secretary, Ministry of the Economy and Finance

Slovenia:	
Mr Andrej BAJUK	Minister for Finance
Slovakia:	
Mr Maroš ŠEFČOVIČ	Permanent Representative
Finland:	
Mr Jyrki KATAINEN	Deputy Prime Minister, Minister for Finance
Sweden:	
Mr Anders BORG	Minister for Finance
United Kingdom:	
Ms Jane KENNEDY	Financial Secretary to the Treasury
Commission:	
Mr Joaquin ALMUNIA	Member
Mr Charlie McCREEVY	Member

Other participants:	
Mr Philippe MAYSTADT	President of the European Investment Bank
Mr Xavier MUSCA	Chairman of the Economic and Financial Committee
Mr Joe GRICE	Chairman of the Economic Policy Committee

ITEMS DEBATED

THE ECONOMIC SITUATION AND FINANCIAL STABILITY

The Council held an exchange of views on the economic situation and financial stability, on the basis of a report from the economic and financial committee and further to discussion by ministers at an informal meeting in Porto on 14 and 15 September.

The Council agreed on a work programme, which runs until the end of 2008, aimed at reviewing, along with the EU's international partners, how to further improve transparency, valuation process and risk management in financial markets.

EXCESSIVE DEFICIT PROCEDURE

United Kingdom: closure of the procedure

The Council adopted a decision, under article 104(12) of the treaty, abrogating the decision it took in January 2006 on the United Kingdom's excessive government deficit under article 104(6).

The excessive deficit procedure was opened with regard to the UK following a government deficit in the 2004-05 financial year that amounted to 3.2% of gross domestic product (GDP) and a Commission forecast for the deficit to widen in the 2005-06 and 2006-07 financial years.

In January 2006, the Council also addressed a recommendation to the UK, under article 104(7) of the EC treaty, on measures needed in order to bring its deficit below the maximum threshold of 3% of GDP set by the treaty by the 2006-07 financial year at the latest. These included a 0.5% of GDP structural improvement in the budget balance between 2005-06 and 2006-07.

In the 2006-07 financial year, according to data provided by Eurostat, the UK reduced its government deficit to 2.7% of GDP, which is below both the 3% threshold and the 2.8% projection set by the UK in the December 2005 update of its convergence programme. Compared with 2005-06, the improvement in the structural balance is estimated at 0.7% of GDP.

For 2007-08, the Commission's 2007 spring forecast projects the deficit to be reduced to 2.6%, which is higher than the 2.3% deficit projection set by the UK in the December 2006 update of its convergence programme but in line with the projection published in the UK's March 2007 budget. For 2008-09, the Commission's spring forecast projects a further decline to 2.4%, on a no-policy-change basis.

The Council concluded that the UK's deficit has been brought below the 3% of GDP threshold in a credible and sustainable manner, although by a rather modest path of fiscal consolidation.

Czech Republic: new recommendation on measures to correct its excessive deficit

The Council adopted a recommendation addressed to the Czech Republic, under article 104(7) of the treaty, on measures needed to bring its government deficit below the maximum threshold of 3% of gross domestic product (GDP) set by the treaty.

The excessive deficit procedure was opened with regard to the Czech Republic following a government deficit in 2003 that amounted to 12.9% of GDP (6.6% if a major one-off operation related to state guarantees is excluded).

In July 2004, the Council issued a recommendation, under article 104(7) of the EC treaty, setting out measures for correction of the deficit by 2008, with deficit targets of 5.3% of GDP for 2004, 4.7% for 2005, 3.8% for 2006 and 3.3% for 2007.

In January 2005, the Council concurred with the Commission's assessment that the Czech Republic had taken effective action regarding measures to achieve the deficit target for 2005.

However, the Czech Republic's updated convergence programme, presented in March of this year following elections in June 2006, set deficit projections of 4.0% of GDP for 2007, 3.5% for 2008 and 3.2% for 2009, thus missing the 3% threshold not only in 2008, but also in 2009. So in July, the Council adopted a decision, under article 104(8) of the treaty, establishing that action taken by the Czech Republic was proving inadequate for bringing its deficit below the 3% threshold.

Given that the Czech Republic is not a member of the euro zone, the steps of the excessive deficit procedure provided for by article 104(9) and 104(11) do not apply.

Special circumstances – i.e. the size of the deficit and the structural shift in the economy following the Czech Republic's accession to the EU – were considered to exist in July 2004 when the Council issued its initial recommendation, thus allowing for correction of the deficit in the medium term, namely by 2008.

The Council however considered there to be no reason to extend the deadline further. It recommended that the Czech government bring the deficit below the 3% of GDP threshold by 2008 at the latest, with a 0.75% structural improvement in the budget balance between 2007 and 2008.

PUBLIC FINANCES

Improving the effectiveness of the stability and growth pact - ***Council conclusions***

The Council adopted the following conclusions:

"Ministers discussed the Commission's Communication on Public finances in EMU-2007. They agreed that ensuring progress towards sustainable fiscal positions is a key priority, in line with the preventive arm of the Stability and Growth Pact (SGP) and the three-pronged sustainability strategy, so as to prepare also for the impending budgetary impact of ageing populations. Against the background of favourable economic conditions, the budgetary situation has significantly improved in most EU Member States, but there is a need to make sure that the positive momentum of fiscal adjustment is maintained. The SGP provides the appropriate framework and should be fully implemented. All countries not yet at their medium-term objective (MTO), should speed up the pace of deficit and debt reduction and allocate higher-than-expected revenues to this objective. In particular, Member States of the euro zone or ERM II should pursue an annual adjustment in cyclically adjusted terms, net of one-off and other temporary measures, of 0.5 % of GDP as a benchmark. The adjustment effort should be higher in good times.

Recalling their conclusions of October 2006, Ministers confirmed the importance of national fiscal rules and institutions, including monitoring mechanisms, in the attainment of sound budgetary positions. In particular, they acknowledged that rules-based multiannual fiscal frameworks at national level could help to ensure adherence to medium-term budgetary plans, including by controlling expenditure. In line with the Code of Conduct, information on national fiscal frameworks and relevant innovations in national rules and institutions should continue to be reported in the annual updates of the Stability and Convergence Programmes (SCPs). Ministers recall the importance of domestic ownership, including the appropriate involvement of national Parliaments.

Ministers confirmed that long-term fiscal sustainability, notably the future impact of ageing, should better be taken into account in the medium-budgetary objectives (MTOs). The Council invites the Commission to continue its work on the criteria and modalities for taking into account the resulting implicit government liabilities in the definition of MTOs, to be discussed early in 2008. The next round of long-term projections in the course of 2009 presents an opportunity to put these arrangements into place. The agreement should be reached in time to give Member States the opportunity to present their MTOs in the updates of the SCPs to be submitted in the autumn of 2009 in line with the Pact, which provides for a revision of the MTOs every four years.

To improve fiscal surveillance, the Commission is invited to develop its regular assessment of national fiscal policies by a more comprehensive analysis of the overall macroeconomic situation, including the building up of macroeconomic imbalances and their interaction with fiscal positions. The Commission should pursue its work to improve the tools for measuring the underlying fiscal position of Member States, notably with a view to avoid pro-cyclical fiscal policies in good times. Moreover, the SCPs should specify how medium-term budgetary objectives will be met, including the extent to which further measures are required to fill the gap between the medium-term targets and fiscal trends under existing and already implemented policies. "

The quality of public finances: Modernisation of public administration - ***Council conclusions***

The Council adopted the following conclusions, following on from discussion by ministers at an informal meeting in Porto on 14 and 15 September.

"The Council discussed Member States' experiences of modernising public administrations in the context of the quality of public finances. All Member States are undertaking initiatives to reform their public administration with a view to improving efficiency and effectiveness, and various approaches have been developed in line with national needs. This is illustrated in the report presented by the Economic Policy Committee and the Commission. These initiatives have been undertaken in four main areas: a greater performance orientation of public budgets, a re-organisation of public administrations, reforms in human resource management and improved use of ICT tools.

Ministers underlined that the modernisation of public administration can play an important role in enhancing competitiveness, delivering better services, achieving better value for money and ensuring the control of government expenditure. Public administration reforms can thereby contribute to meet the objectives of both the Lisbon Strategy and the Stability and Growth Pact and Ministers of Finance can play a leading role in modernising public administration. Reforms should therefore be subject to a regular analysis and exchange of best practices in particular in the context of the Lisbon National Reform Programmes in line with national priorities.

In this context, the Council considers that national systems to measure efficiency and evaluate reforms in the public sector need to be improved. It invites the EPC and the Commission to step up their efforts to improve the analysis, methodology and the measurement of the quality of public finances, including the efficiency and effectiveness of public expenditures and revenue structures, as well as of major public sector reforms. Ministers also re-iterated their June 2007 request for Member States to step up efforts in the provision and subsequent analysis of COFOG, level II data. The Council will come back to the issue of public spending efficiency and effectiveness, in particular related to specific spending categories such as social spending, education and R&D, in Spring 2008."

BETTER REGULATION - IMPROVING COMPETITIVENESS - *Council conclusions*

The Council adopted the following conclusions:

"Following the launch of the Commission's exercise to measure administrative costs associated with EU rules and the March 2007 European Council's agreement to reduce the administrative burden arising from EU legislation by 25% by 2012, and the invitation to Member States to set their own national targets of comparable ambition within their spheres of competence by 2008, the Council (ECOFIN) discussed the progress that has been made to date and the future actions required.

Reducing the burdens of EU legislation requires a strong joint effort by the EU Institutions and Member States. The Council therefore welcomes that since its consideration of Member States' specific experiences of administrative burdens in October 2006, several Member States are now actively seeking ways to reduce national burdens, including through measuring burdens. A number of countries have adopted concrete national reduction targets of comparable ambition to the European-level target. The Council also recalls the European Council's invitation to complete all the fast track actions by the end of 2007. It invites the Commission to communicate to Member States the method and criteria used to identify priority actions and fast-track procedures.

The Council emphasizes that a substantial reduction in administrative burdens should enable companies to raise their productivity levels. In this respect, the Council:

– welcomes the progress made both at Member States and EU level towards reducing administrative burdens in the EU, including through measurement, as part of the wider better regulation agenda and the Lisbon Strategy for Growth and Jobs;

– encourages the Member States that have not yet done so to set their own national targets of comparable ambition to the European-level target within their spheres of competence by 2008, taking into account the different starting points and traditions, in line with the invitation of the 2007 European Council;

– encourages the Commission to present proposals in order to reduce administrative burdens at EU level, while safeguarding the wider objectives and benefits of legislation and regulation, in parallel with the measurement exercise and in line with the Action Plan for Reducing Administrative Burdens in the EU and to develop the impact analysis of the reduction of administrative burdens.

– calls on the Commission to ensure that the needs of SMEs and newly created enterprises, on which regulation and administrative burden may weigh disproportionately heavily, are fully considered in the context of the better regulation agenda and the reduction of administrative burdens;

– invites the Commission, in consultation with the Member States, the European Parliament and all other relevant stakeholders, in the context of the forthcoming Strategic Review of Better Regulation in early 2008, to review how the existing better regulation tools, including the analysis of administrative costs in impact assessments, are effectively applied in practice across the board by the Commission, Council and Member States to new proposals and existing legislation, especially those which are relevant to the internal market, and whether there could be scope for further improvements in their quality.

The Council (Ecofin) will consider the specific issue of statistical burdens in November on the basis of the report by the Commission. It will consider the further progress made on all aspects of better regulation in early 2008 ahead of the Spring European Council, drawing upon the Strategic Review of Better Regulation which will include an overview of the adopted and planned reduction measures."

FLEXIBILITY AND SECURITY ON LABOUR MARKETS - *Council conclusions*

The Council adopted the following conclusions:

"1. The rapidly changing global economy, structural change and ageing populations present both opportunities and challenges for the European economies. Policy makers need to find the right responses to achieve both flexibility and security, which in the right policy environment can be mutually reinforcing and can become a useful tool to increase a country's international competitiveness.

2. Within the context of the renewed Lisbon Strategy for Growth and Jobs, the flexicurity approach shows that the European social models can be successfully modernised. The Council welcomes the Communication from the Commission "Towards Common Principles of Flexicurity".

3. The flexicurity approach provides a good platform to develop comprehensive strategies that enhance overall labour market flexibility and support workers' mobility, while also enhancing workers' security through the promotion of job creation, comprehensive lifelong learning strategies, assistance in transitions, and adequate support by social systems.

4. Higher employment and better opportunities for all can be delivered together with flexibility and security. An appropriate degree of flexibility can contribute to employment creation. The best way to maximise the benefits and the opportunities from globalisation is to equip people with the means to manage and take advantage of change. Labour markets and modern social security and educational systems that allow all to participate and progress are at the core of such an approach based on 'social bridges'. The responsibility for measures needed to increase employability lies with governments, social partners and individuals. Active labour market policies, particularly for the most disadvantaged, which aim to improve job creation and people's employability, upgrade and update their skills, and provide active help with job search may, when efficiently designed, help to increase employment and sustainable economic growth, and form an important part of flexicurity.

5. Some measures associated with flexicurity have substantial budgetary costs. However, high flexicurity-related expenditure does not in itself automatically lead to more effective outcomes. Flexicurity can and should go hand in hand with sound public finances. These complementing objectives should be pursued by focusing on improving results, while containing overall expenditure levels. Flexicurity strategies should therefore take into account the trade-offs and complementaries between different public spending priorities, the cost effectiveness and efficiency of the proposed measures, and the budgetary pressures associated with ageing populations. In particular in the context of demographic change, policy-makers need to pay attention to safeguarding the long-term sustainability of public finances. Finally, successful and socially-inclusive labour markets are built on a comprehensive set of policies, including those that go beyond the labour market such as ensuring macroeconomic stability and growth, flexible goods, services and capital markets, increasing the efficiency and effectiveness of public spending and an appropriate business environment.

6. There is no single model of flexicurity that can be exported to all Member States. The establishment of a set of common principles and the identification of best practices on flexicurity should help each Member State to set its own tailored priorities for developing employment and social policies taking into account their initial conditions, their own traditions and institutional set-up.

7. Such policies need to be developed in the context of making work pay, by taking into account that tax structures and interactions with different benefit systems have an impact on the labour market and labour supply. Flexicurity strategies should aim at a system of integrated active and passive policies that enhance employment chances and improve incentives to work in order to avoid creating unemployment and inactivity traps, especially for the working poor, while at the same time enabling an efficient allocation of labour. When developing such policies, all economic agents, both public and private, should be actively involved.

8. Also, the national evaluation of flexicurity strategies has to be developed, based upon comprehensive and more comparable data on costs and benefits. More systematic and independent evaluation of policies at national level could help to strengthen the cost-effectiveness and efficiency of flexicurity strategies as well as identify which policies should be phased out.

The Council:

– welcomes the approach of the Commission Communication promoting integrated policies to enhance both labour market flexibility and employment security as well as social inclusion while respecting the very different situations in Member States, and notes that flexibility and security can be mutually reinforcing in the right policy environment.

– considers that other factors outside the labour market, notably educational systems, macroeconomic stability and growth, reforms in goods, services and capital markets, and an appropriate business environment are also key for creating appropriate conditions for successful social policy reforms.

– considers that the implementation of flexicurity strategies must remain fully compatible with sound and financially sustainable budgetary policies and complementary spending priorities. Great attention should be paid to the cost-effectiveness of measures.

– takes note that integrated reform efforts have better overall effects. When implementing flexicurity strategies policy makers should avoid creating disincentive effects and long-term welfare dependence, by creating appropriate overall work incentives and making work pay.

– invites the EPC and the Commission to closely follow the implementation of flexicurity strategies within the framework of the Growth and Jobs strategy, in particular by monitoring its budgetary impact and deepening the analysis of the cost-effectiveness and efficiency of measures in the context of the flexicurity strategy of each country as a whole."

DIALOGUE WITH THIRD COUNTRIES ON ECONOMIC ISSUES

The Council was briefed by the Commission on dialogue with the EU's main international partners as regards macroeconomic, financial and regulatory issues.

It held an exchange of views on developments in strategic dialogues aimed at enhancing convergence, cooperation and mutual understanding between international partners and contributing to the facilitation of market access and to promoting macroeconomic stability.

The presidency suggested that the Council be regularly updated on these dialogues.

FINANCIAL SERVICES

Clearing and settlement - *Council conclusions*

The Council adopted the following conclusions, following on from discussions by ministers at an informal meeting in Porto on 14 and 15 September:

"The reality of a single European securities market is not compatible with a fragmented European post-trading sector. Achieving competitive, efficient and safe pan-European post trading arrangements is becoming more and more critical.

Efforts have been made to achieve greater efficiency, integration and safety in post-trading arrangements in the EU, both by the private and public sectors, namely by means of: (i) the industry Code of Conduct for clearing and settlement signed in November 2006; (ii) the European Central Bank's initiative to set up TARGET2-Securities; (iii) the work on dismantling the fiscal and legal barriers to securities market integration (Giovannini barriers); and (iv) the efforts of the European System of Central Banks (ESCB) and the Committee of European Securities Regulators (CESR) to promote the safety and soundness of European post-trading arrangements such as by means of standards.

In November last year, the ECOFIN Council agreed to carry out a set of strategic discussions in autumn 2007 and spring 2008 to review the state of play of the aforementioned initiatives, with a view to considering further policy action necessary so as to ensure progress in all key areas.

On the basis of the report presented in July by the European Commission – "Improving the Efficiency, Integration, and Safety and Soundness of Cross-border Post-trading Arrangements in Europe" – and following the exchange of views at the Informal ECOFIN meeting in Porto, the Council:

- AGREES that the continuous fragmentation of the European securities post-trading sector leads to unnecessarily high costs, especially for cross-border securities transactions in the EU, which constitutes a considerable competitive disadvantage for European capital markets.

- WELCOMES the progress already achieved in certain key areas while stressing the need for further substantial progress.

With regard to the implementation of the Code of Conduct, the Council:

– WELCOMES the entry into force of the areas relating to price transparency and to access and interoperability segments, and the positive results achieved so far, and emphasises that more progress is needed on price comparability.

– LOOKS FORWARD to the entry into force of the third area of the Code – service unbundling and accounting separation by the end of 2007 – and stresses the need to continue monitoring closely the implementation of the Code of Conduct.

In respect of TARGET2-Securities, the Council:

– WELCOMES the fact that the ECB is proceeding along the lines of the Council conclusions of February 2007 and conducting a public consultation process on the general principles, nature and scope of TARGET2-Securities. Further decisions on the development phase can be expected in spring 2008 and ECOFIN Ministers will be kept informed before any further decisions are taken.

Concerning the removal of legal and fiscal barriers identified in the "Giovannini Report", the Council:

– AGREES that their removal is a key priority and considers that concrete actions and a timeframe should be proposed promptly by the Commission on the basis of the work of the advisory groups taking into account the views and responsibilities of the Member States; and the Financial Services Committee is INVITED to provide guidance to ensure progress and to monitor development.

As to the work on ESCB/CESR "Standards for Securities Clearing and Settlement in the EU", the Council:

– RECOGNISES that the investor protection and prudential safety of the post-trading sector, including its risk-management aspects, are important issues to be discussed and that concrete action, including for example by agreeing on the standards or regulatory measures, should be considered as a complement for the Code of Conduct on risks and financial stability.

– REQUIRES the FSC to deepen its work on the scope, legal basis and contents of the standards giving due consideration to the importance of ensuring a level playing field; and together with the Commission propose ways forward on this subject to be submitted to the Council in early spring 2008.

The various ongoing initiatives should proceed in a coherent manner, not in isolation. All the measures mentioned above, if implemented well, will contribute to the creation of a far more efficient European securities market infrastructure."

EU arrangements for financial stability - *Council conclusions*

The Council adopted the following conclusions following on from discussions by ministers at an informal meeting in Porto on 14 and 15 September:

"Following the work priorities established by the ECOFIN Council of October 2006 and the discussion at the informal meeting of EU Finance Ministers and Central Bank Governors in Porto in September 2007, the Council AGREED to take further steps, at the EU and national level, to develop the arrangements for cross-border financial stability within the EU. These steps are based on recommendations from the Economic and Financial Committee and take into account the state of financial integration in the EU and existing stability arrangements. The Council AGREES that further actions should be taken to ensure that arrangements for financial stability are in line with evolving financial markets and that the EU obtains the full benefits of financial integration. In particular, the Council

RECOGNISES that:

- integration contributes positively to overall performance of the EU financial sector and promotes financial stability; in this context, the number of large cross-border banking groups has substantially increased, which improves the efficiency of financial services, including for businesses and consumers across the EU;

- the EU framework for prudential supervision and crisis management and resolution must allow a quick response to cross-border systemic financial crises and their implications;

- financial stability in the EU is a common concern for all Member States and must be safeguarded on the basis of close co-operation; and

- preparation in advance is necessary for an effective safeguarding of financial stability across borders, while allowing for flexibility to deal with specific circumstances.

AGREES on common principles that will be the basis for co-operation among national authorities in preserving financial stability within the EU. These principles, set out in Annex I, should be respected in the management of any cross-border financial crisis with potential systemic implications. They constitute a consistent and sound basis for responding to any financial crisis situations in the EU, specifying the overarching considerations for cross-border cooperation, taking into account that quick actions may be needed to safeguard financial stability.

INVITES, in order to enhance procedures for co-operation and preparedness of authorities in the EU, the Economic and Financial Committee to prepare for spring 2008, an extended Memorandum of Understanding (MoU) that will build on the EU MoU signed in 2005 between Heads of Competent Banking Supervisory Authorities, Central Banks Governors and Finance Ministers in the EU. The new MoU will include:

– the common principles;

– a common analytical framework for the assessment of systemic implications of a potential crisis to ensure the use of common terminology in assessing the systemic implications of a cross-border financial crisis by all relevant authorities; and to enhance the availability of timely assessments among authorities that will facilitate the decision-making in a crisis situation. The EU Central Banks, Supervisory Authorities and Finance Ministries are INVITED to use this framework by the end of 2008; and

– common practical guidelines for crisis management to reflect a common understanding of the steps and procedures that need to be taken in a cross-border crisis situation.

ENCOURAGES authorities in different Member States that share financial stability concerns to start developing, as soon as possible, voluntary cooperation agreements consistent with the extended EU wide MoU and building on cross-border supervisory arrangements for crisis prevention. These agreements would focus on the principles and procedures in detail - taking into account particular needs of crisis management in a specific cross-border context. To facilitate the conclusion of these agreements, the Council INVITES the Economic and Financial Committee to develop concrete examples by spring 2008.

WELCOMES the progress made by the EU Member States with their national arrangements for financial stability, in particular that *Domestic Standing Groups* have been put in place in most EU Member States. These groups bring together competent Supervisory Authorities, the National Central Banks and the representatives from relevant Ministries within a Member State for stability and crisis management purposes to enhance preparedness of authorities through the exchange of information, development of tools and also by conducting crisis simulation exercises. The Council INVITES all Member States to develop such Domestic Standing Groups.

RECOGNISES the need to facilitate cooperation and information exchange among authorities; and the need to enhance the availability of the tools that are necessary to preserve financial stability in Member States and to ensure their functioning across-border between relevant parties. To this end, the Commission is INVITED, in close co-operation with Member States, to examine possible enhancements, and where necessary propose regulatory changes as follows to:

– clarify the nature and extent of the legal obligations for Supervisory Authorities Central Banks and Finance Ministries to exchange information and to cooperate and in this context: increase information rights and *involvement of host countries*; clarify the role of *consolidating supervisors* and facilitate the timely involvement of relevant parties in a crisis situation; and consider including in the *mandates of national supervisors*, a task to cooperate within the EU and to take into account the financial stability concerns in all Member States;

– analyse the feasibility of reducing barriers to cross-border transfer of assets while defining appropriate safeguards for entities transferring the assets; and analyse the feasibility of revising rules for the winding-up of banking groups to include joint *insolvency proceedings* for cross-border groups while providing sufficient safeguards to all stakeholders of the group or its part being reorganised or wound-up; and

– improve interoperability of *Deposit Guarantee Schemes (DGS)*, by removing the inconveniences in the current arrangements, and clarify the practical implications of DGS to absorb and share any financial burdens.

INVITES the Commission, without prejudice to its assessment on a case by case basis and respecting Commission competences, working together with Member States, to endeavour to clarify when a major banking crisis could be considered by the Commission such as to provoke a 'serious disturbance of the economy' within the meaning of Article 87(3)(b) of the EC Treaty and state aid rules; and INVITES the Commission to consider streamlining procedures focusing on how state aid enquiries under such critical circumstances can be treated rapidly.

INVITES the Economic and Financial Committee and the Financial Services Committee to monitor and report regularly to EU Finance Ministers on the progress in all the above areas, as reflected in a strategic roadmap presented in annex 2. The EFC will test all the elements to be introduced in an EU wide crisis simulation exercise in spring 2009 and report to ECOFIN Ministers on its conclusions in autumn 2009.

LOOKS FORWARD to the enhancement of the Lamfalussy framework in the context of its forthcoming review in December 2007, on the basis of the reports by the Inter-Institutional Monitoring Committee, the Commission and the Financial Services Committee, including on financial supervision in the EU. In this context, the above conclusions will be taken into account so as to ensure coherence between the arrangements for crisis prevention and crisis management.

Annex I: Common Principles for cross-border financial crisis management

Member States agree on a set of common principles to be followed in the management of any cross-border financial crisis, which involves at least one banking group which (i) has substantial cross-border activities and (ii) is facing severe problems which are expected to trigger systemic effects in at least one Member State; and (iii) is assessed to be at risk of becoming insolvent. The common principles are the following:

1. The objective of crisis management is to protect the stability of the financial system in all countries involved and in the EU as a whole and to minimise potential harmful economic impacts at the lowest overall collective cost. The objective is not to prevent bank failures.

2. In a crisis situation, primacy will always be given to private sector solutions which as far as possible will build on the financial situation of a banking group as a whole. The management of an ailing institution will be held accountable, shareholders will not be bailed out and creditors and uninsured depositors should expect to face losses.

3. The use of public money to resolve a crisis can never be taken for granted and will only be considered to remedy a serious disturbance in the economy and when overall social benefits are assessed to exceed the cost of recapitalisation at public expense. The circumstances and the timing of a possible public intervention can not be set in advance. Strict and uniform conditions shall be applied to any use of public money.

4. Managing a cross-border crisis is a matter of common interest for all Member States affected. Where a bank group has significant cross-border activities in different Member States, authorities in these countries will carefully cooperate and prepare in normal times as much as possible for sharing a potential fiscal burden. If public resources are involved, direct budgetary net costs are shared among affected Member States on the basis of equitable and balanced criteria, which take into account the economic impact of the crisis in the countries affected and the framework of home and host countries' supervisory powers.

5. Arrangements and tools for cross-border crisis management will be designed flexibly to allow for adapting to the specific features of a crisis, individual institutions, balance sheet items and markets. Cross-border arrangements will build on effective national arrangements and cooperation between authorities of different countries. Competent authorities in the Member States affected by a crisis should be in a position to promptly assess the systemic nature of the crisis and its cross-border implications based on common terminology and a common analytical framework.

6. Arrangements for crisis management and crisis resolution will be consistent with the arrangements for supervision and crisis prevention. This consistency particularly refers to the division of responsibilities between authorities and the coordinating role of home country supervisory authorities.

7. Full participation in management and resolution of a crisis will be ensured at an early stage for those Member States that may be affected through individual institutions or infrastructures, taking into account that quick actions may be needed to solve the crisis.

8. Policy actions in the context of crisis management will preserve a level playing field. Especially, any public intervention must comply with EU competition and state-aid rules.

9. The global dimension will be taken into account in financial stability arrangements whenever necessary. Authorities from third countries will be involved where appropriate.

Annex II: Strategic Roadmap for strengthening EU arrangements for financial stability

1. Procedures and principles to enhance co-operation and preparedness

– October 2007: adoption by EU Finance Ministers and Central Banks Governors of common principles for cross-border crisis management with the objective to have the common basis for financial crisis management between relevant authorities in the EU.

– End 2007: Member States to decide whether to include an EU-dimension in the national mandates of supervisory authorities, i.e. a requirement to cooperate and to take into account financial stability concerns in all Member States (to be recalled in the context of the 'Lamfalussy' review).

– Member States are encouraged to develop and sign specific 'voluntary co-operation agreements' between authorities in different Members States as soon as possible; and the Economic and Financial Committee will provide examples of such agreements by the spring 2008.

– Spring 2008: EU Supervisory Authorities, Finance Ministries and Central Banks to sign an extended EU wide MoU, which will be built on the 2005 MoU and will include common principles on crisis management including on the sharing of fiscal burden; and a common analytical framework. An annex will include practical guidelines for crisis management.

– End of 2008: authorities in Member States will use the common analytical framework for assessing a cross-border financial crisis.

– 2007-2009: the Commission to propose ways to clarify cooperation obligations including possible amendments to EU-banking legislation, especially to: clarify the existing obligations for Supervisory Authorities, Central Banks and Finance Ministers to exchange information and to cooperate in a crisis situation; increase the information rights and involvement of host countries; clarify the role of the consolidating supervisors and facilitate the timely involvement of relevant parties in a crisis situation; and examine whether, to this end, legislative changes are necessary, including to reinforce the legal requirements for supervisory collaboration and information sharing. Progress report by the Commission to the EFC by the end of 2007. Commission proposal end 2008; and adoption by EP/Council by the end of 2009.

– 2009: the Economic and Financial Committee to conduct an EU wide crisis simulation exercise in spring 2009 to test the proposed arrangements and to report to ECOFIN Ministers on its conclusions in autumn 2009.

2. Review the tools for crisis prevention, management and resolution

– 2008: the Financial Services Committee and the Commission to identify specific obstacles to use of the tools in cross-border situations and propose changes, to ensure the availability of relevant tools at the national level and the functionality of tools for crisis management and resolution taking into account the cross-border dimension.

– 2008: the Commission and Member States shall work towards clarifying when a banking crisis could be considered by the Commission as "*a serious disturbance for the economy*" (under the Treaty and State aid rules) and the Commission to consider streamlining procedures focusing on how State aid enquiries under critical circumstances can be treated rapidly.

– 2007-2009: the Commission to assess the possible extension of the scope of the present EU-Directive on winding up of credit institutions to include insolvent subsidiaries with the objective to increase the efficiency, the optimal reorganisation and winding up of cross border banking groups taking due consideration of the interests of all stakeholders concerned. The Commission to launch a public consultation October 2007; legal study of obstacles mid 2008; and release a Commission Green Paper by end 2008.

– 2007-2009: work started in spring 2007 to be continued by the Commission with the objective to clarify EU Deposit Guarantee Schemes Directive, especially: practical agreement and clarification of the scope of the Directive and tasks of DGS, 'topping-up', information exchange between schemes, reducing pay-out delays and improving depositor information. Deposit Guarantee Schemes and relevant authorities in Member States will be involved. Final results are expected by March 2009.

– 2007-2009: alongside the review of the winding up Directive followed by Commission proposal mid-2009, the Commission to perform a feasibility study on reducing barriers for cross-border asset transferability while introducing appropriate safeguards within banking, insolvency and company law, taking into account that the reallocation of assets in a crisis affects the ability of stakeholders in different legal entities to pursue claims. The overall objective is to reinforce the primacy of private solutions, avoid counter-productive ring-fencing of assets, and facilitate a smooth management of a crisis. "

OTHER BUSINESS

- Galileo satellite navigation system - Additional financing

The Council held an exchange of views on proposals from the Commission for the additional public financing of Galileo, the EU's global satellite navigation system.

It reaffirmed the importance of Galileo for the EU and acknowledged the need to pursue the discussion at a later meeting.

Several delegations expressed opposition to any modification of the EU's current financial framework as a means of providing additional public funding, and called for other solutions to be explored, whilst others recommended that alternatives be examined in order to enable the Council to reach a positive decision.

Galileo, launched in 2001, has accumulated a delay of five years on its initial calendar and is currently facing a number of difficulties, in particular with regard to industrial governance and the transfer of risk to the private sector.

MEETINGS IN THE MARGIN OF THE COUNCIL

Eurogroup

Ministers of the Euro area member states attended a meeting of the eurogroup on 8 October.

Ministerial breakfast meeting on the economic situation

Ministers held a breakfast meeting to discuss the economic situation in the EU, in the light of an assessment by the Commission, and were debriefed on the eurogroup meeting held on 8 October.

*

* *

Over lunch, ministers discussed the role of investment in enhancing interaction with the Mediterranean region.

OTHER ITEMS APPROVED

ECONOMIC AND FINANCIAL AFFAIRS

Globalisation adjustment fund

The Council gave a favourable opinion to a transfer of appropriations within the EU's general budget for 2007 *(11986/07)* in order to mobilise funds for the European globalisation adjustment fund (EGF) in support of EU workers affected by company failures *(13072/07)*.

The aim of the transfer is to mobilise EUR 3.8 million to cover the first two requests since the EGF started operating on 1 January 2007. Both applications concern the French automobile sector and relate to suppliers of Peugeot-Citroën and Renault. The requested contributions amount to EUR 2.5 million and EUR 1.2 million respectively. Both applications are aimed at assisting workers made redundant to reintegrate the labour market.

The EGF is an instrument accessible to all EU member states by which the EU supports workers affected by redundancies resulting from changes in world trade patterns. It complements actions taken at national, regional and local level. *(See Official Journal of the EU L 406 of 30.12.06).*

The total amount available for the EGF is EUR 500 million per year, to be financed through under-spending in the EU's general budget.

Rum from French overseas departments - Reduced rate of excise duty

The Council adopted a decision authorising France to extend the application of a reduced rate of excise duty on rum produced in its overseas departments in order to safeguard the activity of the industry *(12293/07).*

The reduced rate will be applicable until 31 December 2012 to traditional rum produced from sugar cane harvested in the place of manufacture, having an alcoholic strength by volume of 40 % vol. or more, and limited to an annual quota of 108 000 hectolitres of pure alcohol.

The reduced rate can not be lower than 50 % of the standard national excise duty on alcohol.

Before June 2010, an assessment will be made of whether the reasons justifying the granting of the reduced rate still exist.

The decision, which repeals decision 2002/166/EC, constitutes a derogation to EU common tax provisions.

EXTERNAL RELATIONS

Euro-Mediterranean ministerial meeting on migration

The Council adopted draft EU guidelines for the first Euro-Mediterranean ministerial meeting on migration, to be held in Algarve, Portugal on 18 - 19 November. The draft guidelines will be finalised after negotiations with the Mediterranean partner countries.

Democratic Republic of Congo - Restrictive measures

The Council adopted a common position *(12686/07)* amending common position 2005/440/CFSP on restrictive measures against the Democratic Republic of Congo (DRC), in order to reflect amendments introduced by United Nations Security Council resolution 1771(2007).

The common position extends until 15 February 2008 the restrictive measures currently in force and provides for an exemption to the arms embargo for training and assistance for police and army units in the provinces of North and South Kivu and in the Ituri district.

Following the adoption of UNSC resolution 1596(2005) in April 2005, the Council adopted common position 2005/440/CFSP implementing the resolution by imposing an arms embargo, a visa ban to prevent entry into or transit through the EU and a freeze of funds and economic resources for persons and entities who act in violation of the arms embargo.

Resolution 1596 has since been modified by resolutions 1649(2005), 1698(2006) and 1771(2007), and common position 2005/440/CFSP has been adapted accordingly.

EU/Moldova - Partnership and cooperation agreement - EU enlargement

The Council adopted a decision approving the conclusion of a protocol to the EU/Moldova partnership and cooperation agreement in order to take account of the accession to the EU of Bulgaria and Romania on 1 January 2007 *(11754/07)*.

EU/South Africa agreement - EU enlargement

The Council adopted a decision authorising the signing and provisional application of a protocol to the EU/South Africa agreement on trade, development and cooperation in order to take account of the accession to the EU of Bulgaria and Romania on 1 January 2007 *(13038/07)*.

EU/South Africa cooperation council

The Council took note of preparations and confirmed the draft agenda of the eighth meeting of the EU/South Africa cooperation council, which will take place in Pretoria on 10 October.

JUSTICE AND HOME AFFAIRS

Agreement with Moldova - Facilitation of short-stay visas

The Council adopted a decision authorising the signature of an agreement with the Republic of Moldova on the facilitation of the issuance of short-stay visas *(12758/07)*. It decided to consult the European Parliament on a proposal for the conclusion of the agreement.

Court of Auditors' report on management of the European refugee fund - ***Council conclusions***

The Council adopted the following conclusions:

"1. The Council welcomes the report of the Court of Auditors concerning the European Refugee Fund with a reference amount of 216 million Euro for the period 2000-2004 and the recommendations made therein. It notes with satisfaction that the Court was able to conclude that the Fund produced some positive changes in national efforts, mainly with regard to testing innovatory projects and integrating their results into national strategies.

2. The Council notes the Court's observations on problems relating to statistical data and recalls the recent adoption of Regulation (EC) No 862/07 of the European Parliament and of the Council on Community statistics on migration and international protection and repealing Council Regulation (EEC) N° 311/76 on the compilation of statistics on foreign workers.1 This Regulation establishes common rules for the collection and compilation of Community statistics on, among other categories, administrative and judicial procedures and processes in the Member States relating to asylum and other forms of international protection. The new rules aim at harmonising the different mechanisms currently used by Member States for producing statistics in order to better develop, implement and monitor common asylum and international protection legislation. They also aim at reinforcing the exchange of statistical data on asylum and international protection and to improve the quality of community statistical collections and outputs.

---

1 OJ L 199, 31.7.2007, p. 23.

3. Concerning the definition of the target groups, the Council agrees with the Court's finding on the lack of clarity as regards the definition of the key terms and recalls the adoption of Council Directive 2004/83/EC on minimum standards for the qualification and status of third country nationals or stateless persons as refugees or as persons who otherwise need international protection and the content of the protection granted 4 and of Council Directive 2001/55/EC on minimum standards for giving temporary protection in the event of a mass influx of displaced persons and on measures promoting a balance of efforts between Member States in receiving such persons and bearing the consequences thereof 5. With the adoption and implementation of these instruments, the categories falling within the target groups of the European Refugee Fund have being specified, as can be seen in Decision N° 573/2007/EC of the European Parliament and of the Council establishing the European Refugee Fund for the period 2008 to 2013 as part of the General programme 'Solidarity and Management of Migration Flows' and repealing Council Decision 2004/904/EC 6.

4. While noting that the Court recommends more clarity and precision in defining the eligible actions in the Member States, the Council recalls that, under Decision N° 573/2007/EC, eligibility rules have been further specified, this should enable a better functioning of the European Refugee Fund in the future."

BUDGET

Amendment to the preliminary draft budget for 2008

The Council approved letter of amendment no. 1 to the EU's draft general budget for 2008 and instructed the presidency to draw up budgetary documents and to forward them to the European Parliament. *(13315/07)*

---

4 OJ L 304, 30.9.2004, p. 12.

5 OJ L 212, 7.8.2001, p. 12.

6 OJ L 144, 6.6.2007, p. 1.

TRADE POLICY

Anti-dumping - Peroxosulphates from China, Taiwan and the United States

The Council adopted a regulation imposing a definitive anti-dumping duty and collecting definitively the provisional duty imposed on imports of peroxosulphates (persulphates) originating in China, Taiwan and the United States *(12771/07)*.

AGRICULTURE

Sugar sector - Reform of the common market

The Council adopted regulations amending a temporary scheme for the restructuring of the EU's sugar industry *(13133/07)* and certain provisions of the common market organisation in the sugar sector *(13254/07)*, in accordance with a political agreement reached by the Council, by qualified majority, on 26 September.

Both regulations are intended to enter into force before 31 October.

The common organisation of the sugar market underwent a reform in 2005, coupled with a temporary restructuring scheme, applicable until 2010. In the light of the results of the first marketing year, with the renunciation of quotas having failed to reach the levels originally expected, the Commission submitted to the Council a proposal to encourage the renunciation of a further 3,8 million tonnes with the aim of reaching a total of 6 million tonnes by 2010.

The main features of the regulations are as follows:

– Undertakings that have already made renunciations for the 2008/2009 marketing year will be able to submit an additional request for renunciation for this period, in order to avoid an uncompensated reduction which the Commission may implement in 2010 if voluntary renunciations are insufficient (two-phase procedure);

– Beet producers will be able to take the initiative to give up their quotas, up to a percentage not exceeding 10% of the undertaking's quota;

– Beet producers will receive additional aid of EUR 237.5 per tonne of the quota given up for the 2008/2009 marketing year, renewable under certain conditions for the following marketing year and retroactive so as not to penalise producers who took the decision to give up during the first two years of the reform;

– Undertakings that give up part of their quota in 2008/2009 will be exempted from paying a restructuring levy in respect of the part of the quota that was subject to preventive withdrawal during the 2007/2008 marketing year.

HEALTH

Second programme of Community action in the field of health*

The Council adopted a decision establishing a second programme of action in the field of health, approving all the amendments proposed by the European Parliament at second reading (*PE-CONS 3640/07 + 13131/07 ADD 1).*

The programme is established for the period from 1 January 2008 to 31 December 2013 on the basis of a budget of EUR 321.5 million.

See press release *13629/07*.

STATISTICS

Labour force sample survey

The Council adopted a regulation requiring member states to provide the Commission with national statistical data related to wages *(3644/07)*, amending regulation 577/98 on the organisation of a labour force sample survey.

APPOINTMENTS

Committee of the Regions

The Council adopted a decision appointing for the remainder of the current term of office, which runs until 25 January 2010:

(a) as full members:

– Mr Francesco SCOMA, Deputato regionale dell'Assemblea Regionale Siciliana (change of mandate),

as proposed by the Italian Government,

– Mr Co VERDAAS, gedeputeerde in de provincie Gelderland,

– Ms Johanna MAIJ-WEGGEN, Commissaris der Koningin in de provincie Noord-Brabant,

– Mr Léon FRISSEN, Commissaris der Koningin in de provincie Limburg,

– Mr Rob BATS, gedeputeerde in de provincie Drenthe,

as proposed by the Netherlands Government,

and

– Mr Franci ROKAVEC, župan Občine Litija,

– Mr Franci VOVK, župan Občine Dolenjske Toplice,

– Ms Irena MAJCEN, županja Občine Slovenska Bystrica (change of mandate),

– Mr Aleš ÿERIN, podžupan Mestne občine Ljubljana,

– Ms Jasmina VIDMAR, članica občinskega sveta Mestne občine Maribor,

as proposed by the Slovenian Government,

and

(b) as alternate members:

– Mr Sante ZUFFADA, Consigliere della Regione Lombardia.

as proposed by the Italian Government,

– Ms Carla PEIJS, Commissaris der Koningin in de provincie Zeeland,

– Mr Sjoerd GALEMA, gedeputeerde in de provincie Friesland,

– Mr Joop BINNEKAMP, gedeputeerde in de provincie Utrecht,

– Mr Dick BUURSINK, gedeputeerde in de provincie Overijssel,

as proposed by the Netherlands Government,

and

– Mr Antón ŠTIHEC, župan Mestne občine Murska Sobota,

– Mr Blaž MILAVEC, župan Občine Sodražica,

– Mr Jure MEGLIČ, podžupan Občine Tržič,

as proposed by the Slovenian Government.