



**COUNCIL OF
THE EUROPEAN UNION**

Brussels, 13 July 2007

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NOTE

from :	General Secretariat of the Council
to :	Delegations
Subject :	Report on the meeting of the Committee on Economic and Monetary Affairs held in Strasbourg on 12 July 2007

The meeting was chaired by Ms BERÈS (PSE, FR).

I. Exchange of views with Mr Teixeira dos Santos, Portuguese Finance Minister

- Presentation of the Presidency Programme

Mr TEIXEIRA DOS SANTOS made a speech, the text of which can be found in the annex hereto.

In the subsequent exchange of views, several Members raised points of concern regarding the strength of the euro. According to Mr Teixeira dos Santos, in the context of general trends the development was in no way out of line. The solution was not to devalue but to carry out structural reform. Asked about the Stability and Growth Pact and consolidation of the budgets, he stressed the fundamental importance of having financial stability in public finances as well. Globalisation and the ageing population were two factors which had to be considered in this context. He pointed out that no country challenged the Stability and Growth Pact, and noted that Mr Sarkozy had expressed

France's wish to comply with the Pact. Saying that he did not have an opinion on the French administration's internal choices, he noted that while the French reform program might involve some immediate costs in budget returns, it complied with the Stability and Growth Pact.

Mr Sarkozy had undertaken to present a program in September and the Presidency would work with France just as it would work with any other State within the euro zone. Regarding the convergence criteria, several Members raised the matter of inflation in the new Member States and considered that their specific economic situations must be taken into account. Mr Teixeira dos Santos stressed that accession to the euro zone was decided by the rules of the Treaty, and that those rules must be followed. Amendment of the criteria would require amendment of the Treaty. As regards the Integrated Guidelines, which encompassed the broad economic policy guidelines and the employment guidelines, a debate would be initiated. The work would be carried out in cooperation with the future Slovene Presidency, and it was to be hoped that there would be a result at the Spring European Council under that Slovene Presidency. Noting that the Commission would make a proposal on how to involve ECON in the discussions, he undertook to come before the Committee again at the end of September or the beginning of October to give an account of the state of play, if the Committee wished. Regarding the Lisbon Strategy, he said that enormous efforts at coordination had been made, and that the Commission was taking stock of progress and would draw horizontal conclusions. In reply to a comment that the objectives of the Lisbon Strategy should be binding, Mr Teixeira dos Santos stressed that the process should stay in the hands of the Member States and it should not be felt that the reforms were imposed by Brussels. As regards the Lamfalussy process, the Presidency was awaiting the report on the Inter-institutional Monitoring Group. Members expressed doubts that agreement on Solvency II would be reached very quickly. Mr Teixeira dos Santos stressed the importance of reaching agreement as quickly as possible and hoped that all parties would cooperate. It would be a clear signal of leadership if the EU managed to reach agreement rapidly. Asked about the labour market, Mr Teixeira dos Santos said that it would essentially be dealt with by the Ministers for Labour, but the Ecofin Council would watch developments and continue the debate on flexicurity. He did not believe that there was one flexicurity model that fitted all; every country had to find its own practical model. There had to be a fair balance between flexibility and security. Regardless of the debate on flexicurity it was important that a country which had planned reforms did not delay carrying them out.

II. Adoption of an opinion

Opinion on Airport capacity and ground handling: towards a more efficient policy

Rapporteur: Mr Purvis (PPE-DE, UK)

The opinion was adopted with the following amendments: 1, 4, 6, 8-10, 12, 13, 16 with an oral amendment, 18, 22 and 23. The original texts of the following paragraphs were adopted: 5, 14, 19, and 20.

III. Date and place of next meeting

10 and 11 September 2007, Brussels

Annex: Speech by Mr Teixeira dos Santos



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ANNEX

**ADDRESS TO THE ECON COMMISSION OF THE EUROPEAN PARLIAMENT
BY THE CHAIR OF THE ECOFIN COUNCIL,
MINISTER FERNANDO TEIXEIRA DOS SANTOS**

12 JULY 2007

President Berès, Members of Parliament, Ladies and Gentlemen,

It is with great commitment and satisfaction that I come here today to present the Work Programme and main priorities of the Portuguese Presidency for the Ecofin Council.

I have come here not just to fulfil tradition, but for reasons extending far beyond that, to clarify the strategic objectives that we aim to achieve and the lines of action that will allow us to achieve those objectives, supported on the conviction that we will achieve the results that will allow us to meet the expectations of our citizens only through close cooperation with the European Parliament and Council.

Europe can only hold its own if it continues to grow economically strong. The European economy has been strengthened and continues to grow at a sustained rate, aided by the international context, but also driven by the structural reform and budgetary consolidation processes that are being implemented. This dynamism must be bolstered in order to drive long-term growth and employment.

We can not ignore that the **globalisation process** creates new opportunities and new challenges that Europe must not only face but, primarily, anticipate, so that it can strategically position itself in the international arena, taking up the leadership in critical matters and influencing the definition of international standards and good practices.



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To address these demands, as well as the **demographic challenge** of ageing, while preserving the European Union's social dimension, we must, therefore:

- Direct Economic Policy toward growth and stability;
- Better legislate to strengthen competitiveness;
- Move forward to full completion of the European Internal Market.

This was the backdrop against which the Portuguese Presidency established the main priorities for the Ecofin Council, which, as you know, are integrated with the common objectives and priorities that have been defined in conjunction with Germany and Slovenia for the 18-month period from January 2007 to June 2008. Our aim through this common stance is to ensure greater consistency, sustainability and convergence vis-à-vis the work to be carried out by the Ecofin Council.

One of the main priorities concerns the Quality of Public Finances and the Sustainability of public policies.

The improvement of the quality of public finances in Member States, through the strengthening of the budgetary framework and public expenditure and revenue efficiency and effectiveness, is essential to guaranteeing the sustainability of economic and social policies and economic growth rooted in solid foundations.

More than using fiscal instruments to try to manage the business cycle, we must concentrate on ensuring sustainable social policies and on choosing a composition of public expenditures and revenues that promotes human capital formation, innovation, and R&D - the key ingredients for sustained competitiveness and economic growth.

Therefore, the quality of public finances and the improvement of public sector efficiency and effectiveness, rank very high on the agenda of the Portuguese Presidency of the European Union.



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The Portuguese Presidency will focus on the institutional aspects of the quality of public finances, assigning particular importance to the role that modern and efficient general government plays in the development of a competitive business environment – in line with the Lisbon Strategy – and, accordingly, the contribution it makes to improving competitiveness, economic growth and citizens' well-being.

On the other hand, the modernisation of public administrations is at the core of the preventive arm of the Stability and Growth Pact, because an efficient administration with good governance, clear evaluation procedures and accountability of management, is the best way to ensure control over expenditure at the macro level.

Therefore, the impact that modernization has on improving the efficiency of the State and fostering competitiveness and growth shall be an analytical focal point in the Portuguese Presidency.

Proceeding with the rigorous implementation of the **Stability and Growth Pact**, with particular focus on improving the efficiency of its preventive arm, is another of the priorities of the Portuguese Presidency. As widely recognised, the results of the corrective arm of the Pact have clearly improved and it is now the time to take advantage of favourable economic conditions to improve the functioning of the preventive arm.

It is clear that the two arms are interdependent. Once an excessive deficit has been corrected, it will be not enough to remain somewhat below the limit of 3% of GDP. It is necessary to keep reducing the deficit towards the medium term objective in order to rapidly guarantee a sufficient safety margin against economic downturns, being also an opportunity to improve the quality and the long term sustainability of public finances.



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Accordingly, we will analyse in the coming months the appropriate measures to improve the effectiveness of the preventive mechanisms foreseen in the Pact. Ultimately the effectiveness of its preventive arm will determine the very success of the Pact.

The **Enlargement of the euro area** is another important item in the Ecofin Council agenda. In this regard, I am particularly pleased for the Ecofin Council having approved already under the Portuguese Presidency, and with the favourable opinion of the European Parliament, the legislative acts that will allow Cyprus and Malta to adopt the euro from 1 January 2008.

Another very relevant theme in the Portuguese Presidency is the **Lisbon Strategy for growth and employment**.

The current favourable economic climate should contribute to accelerating the implementation of the structural reforms in line with the Lisbon Strategy.

The process of multilateral surveillance shall be the object of specific focus during the Portuguese Presidency. This process comprises the assessment of the national reform programmes; identifying the progress achieved, particularly in relation to the reorientation of policies in order to bolster research and innovation, especially among SME's; improving the business environment; investment in human capital; the modernization of labour markets; improving energy efficiency and strengthening the internal market.

In tandem, and in close collaboration with the forthcoming Slovenian Presidency, the debate on the new cycle of the Lisbon Strategy shall be initiated. This debate will lay a solid foundation for the definition, at the Spring European Council, of the new Integrated Guidelines, encompassing the Broad Economic Policy Guidelines and the Employment Guidelines.



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Complementing this vast programme of structural reforms, the **mid-term review of the European Growth Initiative** will be carried out during our Presidency. This will be an opportunity to emphasize the role of the EIB as the strategic partner of Member States in supporting SME's engaged in research and innovation and supporting the qualification of human capital, as well as strengthening this instrument's liaison with the Lisbon Strategy.

The accomplishment of significant progress in the field of "**better regulation**" constitutes a key vector of the Lisbon Strategy, fundamental in fostering productivity, competitiveness, competition and innovation. We shall seek, therefore, building on the work of preceding Presidencies, to promote a legislative and regulatory environment that is more favourable to economic activity, minimising the administrative burden for enterprises, particularly SME's.

The full **completion of the Internal Market** is also essential to ensuring a Europe that is competitive on a worldwide scale.

In the field of **taxation**, the Portuguese Presidency plans to provide specific impetus to the **definition of a European Union strategy for fighting tax fraud and evasion**, which are phenomena that undermine competition rules at the European and national levels, deteriorating the quality of public finances and jeopardising the pursuit of the Lisbon Strategy's objectives. To feed the debate at the EU level, we shall hold an international conference on this subject on 28 September. The participants in the conference shall include, in addition to the Member States and the European Commission, economic operators and international experts. Allow me, President Berès to take this opportunity to invite you to participate in this conference.

Moreover, we think that the **contribution of tax policies to the improvement of environmental protection** must be enhanced. Accordingly, the Portuguese Presidency intends to stimulate the debate on initiatives that guarantee continuity in the endeavour to fight climate change and comply



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with EU targets for global reductions in greenhouse gas emissions. In this context, and based on the fact that environmental and energy principles and concerns must be foremost in sectors such as road transport and passenger cars, the Portuguese Presidency plans, amongst other initiatives, to give new impetus to the work on the **proposed car taxation directive**.

Another relevant subject is the modernization and simplification of common rules on taxation. In this regard, the Portuguese Presidency will seek to obtain approval for the so-called “**VAT package**”.

The application of **reduced VAT rates** will likewise be examined during our Presidency, on the basis of the communication and proposal that the Commission has just presented.

Strengthening the internal market also requires further **integration of financial markets**, since integrated and efficient financial markets are essential to ensuring a better allocation of resources, providing more favourable investment conditions and driving economic growth.

In this context, with a view to achieving significant progress on the European Union's strategy for financial services, the main priorities of the Portuguese Presidency are the following:

- To seek agreement on the **Solvency II Directive**:

This Directive is essential for the European insurance sector, since it will oblige more efficient risk-management practices in this sector, enhancing the financial soundness of insurance undertakings and the protection of policyholders and beneficiaries. Europe may take a leadership role in this matter and the Portuguese Presidency intends to advance as quickly as possible on this “dossier”. We deem it fundamental to ensure that this advance occurs under ample liaison with the European Parliament. In this vein, we aim to maintain close contact, regularly informing Parliament of the development of work in the Council and, likewise, collecting information on the work being performed by the Parliament. Thus, we hope that an agreement between the European Parliament and the Council on this Directive is possible at the first reading.



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- Another priority is to enhance the efficiency of regulatory and supervisory structures. Particularly relevant in this context is the **review of the Lamfalussy process**, which should be terminated by the end of the year – namely on the basis of the final report of the Inter-Institutional Monitoring Group, which is expected in autumn 2007.
- To deepen the **financial stability** framework, with the objective of improving the efficiency of crisis-management and resolution mechanisms - in particular through adequate coordination between authorities. This shall likewise be a focus of debate during our Presidency, based on the report being drawn up by the EFC working group chaired by Mr. Per Callesen;

The Ecofin Council will further analyse during our Presidency the following issues in the financial market field:

- The enhancement of market integration in relation to **clearing and settling securities transactions**, closely monitoring the application of the code of conduct and analysing the issues related to the safety and soundness of systems, to the Target 2 Securities project and the progress made in removing legal and tax obstacles;
- Promote the completion of the **Single Payments Area within the European Union**, on the basis of the agreement between the European Parliament and the Council, at the first reading of the Directive on payment services in the internal market;
- The deepening of the **retail financial services market** integration, so that consumers take full advantage of the benefits of the single market;
- The development of the European **venture capital** industry, identifying existing obstacles, on the basis of the Commission's work, with a view to future initiatives in this field;
- More in-depth **regulatory dialogue** with the European Union's main worldwide partners; in this regard, the mutual recognition of accounting standards, without the need for reconciliation, is of particular relevance in EU/USA transatlantic dialogue.



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I also highlight, in a more institutional context, the so-called Comitology “dossier”, where we hope to be able to reach an agreement at the first reading in the European Parliament. As you are also aware, we are working on a set of financial sector Directives that require adjustment in order to encompass the new regulatory procedure with scrutiny. This entails putting into practice last year’s agreement on the Comitology procedure, and no problems of principle are expected, only the need to clarify a few technical doubts that still prevail. We have already, as it happens, opened a dialogue with the President, Ms. Bérès, which will be developed bearing in mind the common end objective of an agreement at first reading.

The quality of statistics is another aspect that I would like to emphasize, since this is fundamental in a context of improving the coordination of economic policy and with regard to the operation of the internal market. We shall seek to promote, in this field, the production of high-quality, reliable and significant statistical information, taking into consideration the principles of the European Statistics Code of Practice. In this respect, I welcome the agreement with the European Parliament of the European Community’s Statistical Programme for 2008 - 2012.

Finally, as regards **budgetary issues**, I would like to highlight that the main priority of the Portuguese Presidency is to ensure agreement with the European Parliament leading to the approval of the budget for 2008, so as to guarantee the financing of the European Union’s policies and priorities through the annual budget procedure, within the framework of the Inter-institutional Agreement of budgetary discipline and sound financial management.



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Dear Members of the European Parliament,

These are the priorities that will characterize the agenda of Ecofin for the next six months. Periods of hard though challenging and clearly compensatory work bode, in which we shall seek, in a spirit of institutional collaboration, to achieve the objectives we have set for our Presidency.

The European Union has to be equal to the opportunities that an increasingly global and competitive world daily poses and be able to meet the challenges generated by this demanding and permanently evolving environment. I am certain that a policy guaranteeing the sustainability of economic and social policy, as well as sound economic growth and job creation, will contribute to raising the confidence of our citizens in the future, particularly young people, thus fostering their ever more active participation in the construction of a stronger and more competitive Europe showing ever more solidarity. In other words, a Europe that, with the contribution of all, starting with the representatives of the European peoples here gathered today, continues to be a paradigm of Peace, Well-being and Prosperity.

Thank you very much.