**COUNCIL OF
THE EUROPEAN UNION**

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PRESS RELEASE

3088th Council meeting

Economic and Financial Affairs

Brussels, 17 May 2011

President **György MATOLCSY**
Minister for National Economy of Hungary

P R E S S

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Main results of the Council

The Council adopted a recommendation on the nomination of Mario Draghi as ***President of the European Central Bank****, to succeed Jean-Claude Trichet. The recommendation will be submitted to the European Council, which will decide on it at its meeting on 23 and 24 June.*

The Council adopted a decision on financial assistance to ***Portugal****.*

Loans amounting to EUR 26 billion will be granted under the European Financial Stability Mechanism (EFSM), as part of a EUR 78 billion package of financial assistance and on the basis of a programme negotiated with the Portuguese authorities by the Commission and the IMF, in liaison with the ECB. The three-year programme will involve reforms to Portugal's labour and product markets, its financial sector and its public finances, with the reduction of its government deficit below 3 % of gross domestic product by 2013.

The Council also reviewed implementation of the economic adjustment programme for ***Ireland****, approving technical amendments to the conditions underpinning financial assistance under the EFSM.*

Taking stock of work on legislative proposals dealing with ***economic governance****, the Council examined how negotiations with the European Parliament could proceed on certain issues so as to reach an overall agreement next month, as planned.*

The proposals, which are part of the EU's response to the challenges posed by the sovereign debt crisis, the proposals are aimed at enhancing budgetary discipline in the member states and addressing macroeconomic imbalances within the EU, and more specifically in the euro area.

The Council reached agreement on a draft regulation on ***short selling*** *and credit default swaps, introducing transparency requirements and harmonising the powers that national regulators may use in exceptional situations.*

It also adopted conclusions on ***climate change****, confirming the latest figures on fast-start finance provided for climate mitigation and adaptation measures in developing countries, and assessing the prospects for scaled-up financing after 2012.*

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

ECONOMIC AND FINANCIAL AFFAIRS

DEVELOPMENT COOPERATION

PARTICIPANTS

Belgium:	
Mr Didier REYNDERS	Deputy Prime Minister and Minister for Finance and Institutional Reforms
Bulgaria:	
Ms Boryana PENCHEVA	Deputy Prime Minister and Minister for Finance
Czech Republic:	
Mr Miroslav KALOUSEK	Minister for Finance
Denmark:	
Mr Jeppe TRANHOLM-MIKKELSEN	Permanent Representative
Germany:	
M. Jörg ASMUSSEN	State Secretary
Estonia:	
Mr Jürgen LIGI	Minister for Finance
Ireland:	
Mr Michael NOONAN	Minister for Finance
Greece:	
Mr Theodoros N. SOTIROPOULOS	Permanent Representative
Spain:	
Ms Elena SALGADO	Second Deputy Prime Minister and Minister for Economic Affairs and Finance
France:	
Ms Christine LAGARDE	Minister for Finance
Italy:	
Mr Giulio TREMONTI	Minister for Economic Affairs and Finance
Cyprus:	
Mr Charilaos STAVRAKIS	Minister for Finance
Latvia:	
Ms Ilze JUHANSONE	Permanent Representative
Lithuania:	
Ms Ingrida SIMONYTE	Minister for Finance
Luxembourg:	
Mr Luc FRIEDEN	Minister for Finance
Hungary:	
Mr György MATOLCSY	Minister for National Economy
Mr András KÁRMÁN	State Secretary
Malta:	
Mr Tonio FENECH	Minister for Finance
Netherlands:	
Mr Jan Kees de JAGER	Minister for Finance
Austria:	
Ms Maria FEKTER	Federal Minister for Finance
Poland:	
Mr Jan VINCENT-ROSTOWSKI	Minister for Finance
Portugal:	
Mr Fernando TEXEIRA DOS SANTOS	Minister for Finance
Romania:	
Mr Dan LAZAR	State Secretary
Slovenia:	
Mr Franci KRIŽANIČ	Minister for Finance

Slovakia:

Mr Ivan MIKLOŠ	Deputy Prime Minister and Minister for Finance

Finland:

Mr Jyrki KATAINEN	Minister for Finance

Sweden:

Mr Anders BORG	Minister for Finance

United Kingdom:

Mr George OSBORNE	Chancellor of the Exchequer

Commission:

Mr Olli REHN	Member

Other participants:

Mr Vittorio GRILLI	Chairman of the Economic and Financial Committee
Mr Lorenzo CODOGNO	Chairman of the Economic Policy Committee

ITEMS DEBATED

ECONOMIC GOVERNANCE

The Council took note of a report from the presidency on progress in negotiations with the European Parliament on a package of legislative proposals on economic governance.

Taking note of the views expressed by delegations, the presidency called on all parties to remain constructive and show the degree of flexibility that will be necessary to enable an agreement to be reached in June, as called for by the European Council.

The proposals set out to strengthen economic governance in the EU – and more specifically within the euro area – as part of the EU's response to the challenges highlighted by recent turmoil on sovereign debt markets. The Council reached agreement on a general approach in March, opening the way for the negotiations with the Parliament.

The aim of the proposals is to enhance budgetary discipline in the member states and broaden the surveillance of their economic policies, thus implementing the recommendations of a task force chaired by the President of the European Council, Herman Van Rompuy[1].

The package consists of:

– a draft regulation amending regulation 1466/97 on the surveillance and coordination of member states' budgetary and economic policies;

– a draft regulation amending regulation 1467/97 on the excessive deficit procedure;

– a draft regulation on the enforcement of budgetary surveillance in the euro area;

– a draft regulation on the prevention and correction of macroeconomic imbalances;

– a draft regulation on enforcement measures to correct excessive macroeconomic imbalances in the euro area;

– a draft directive on requirements for the member states' budgetary frameworks.

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[1] Final report of the task force, 21 October 2010: http://www.consilium.europa.eu/uedocs/cms_Data/docs/pressdata/en/ec/117236.pdf

Four of the proposals deal with reform of the EU's Stability and Growth Pact, enhancing the surveillance of fiscal policies, introducing provisions on national fiscal frameworks, and applying enforcement measures for non-compliant member states more consistently and at an earlier stage. The other two proposals target macroeconomic imbalances within the EU.

SHORT SELLING AND CREDIT DEFAULT SWAPS

The Council agreed a general approach on a draft regulation on short selling and credit default swaps[1] (6823/3/11 REV 3).

This will enable the presidency, on behalf of the Council, to start negotiations with the European Parliament, with a view to reaching agreement at first reading.

The draft regulation is aimed at harmonising rules for short selling and certain aspects of credit default swaps. It introduces common EU transparency requirements and harmonises the powers that regulators may use in exceptional situations where there is a serious threat to financial stability.

For details, see press release 10232/11.

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[1] The short selling of securities is a practice whereby an investor sells a security he doesn't own with the intention of buying it back when the price has fallen.
A credit default swap is a financial instrument with the characteristics of an insurance, guaranteeing the creditworthiness of a loan.

TAXATION OF SAVINGS INTEREST

The Council held an orientation debate on how to proceed with a proposal aimed at strengthening the provisions of the EU's directive on the taxation of savings interest.

The presidency indicated that it would consider how to take the matter forward in the light of progress made.

The proposed amendments to directive 2003/48/EC are intended to prevent the directive's circumvention, reflecting changes to savings products and developments in investor behaviour since it was first applied in 2005. They are aimed at enlarging the directive's scope to include not only interest payments but all savings income, as well as products that generate interest or equivalent income.

FINANCIAL SECTOR TAXATION

The Council took note of an interim report on financial sector taxation, as discussed by its high-level working party for tax issues.

It asked the Commission to present before the summer an impact assessment on various options for financial sector taxation, and the working party to continue work on this subject and to report back as appropriate.

The Council also took note of a report, established by the Economic and Financial Committee, providing a factual overview of financial levies and taxes in the member states.

Financial sector taxation (10071/11)

The report on financial sector taxation examines two options in particular, namely a financial transactions tax and a financial activities tax. It points out that any taxation should be neutral and that the sector should not be overburdened. It reiterates the request made by delegations for further clarification of the purpose of such a tax, which could be aimed at serving as a source of revenue, a financial sector contribution to the costs entailed by the financial crisis, a way of curtailing risky financial activities or a means of heading off future financial crises. The report recalls that delegations' have urged that the risk of relocation to financial centres outside the EU should be curtailed.

Bank levies (*9918/11*)

The EFC report provides a factual overview of the introduction by member states of systems of levies and taxes. It assesses short-term issues resulting from their implementation, in particular spill-over effects and the double charging of cross-border financial institutions. Ten member states have already introduced systems of levies and taxes, with four more currently in the process of doing so. The report notes that most levies are being introduced with a certain flexibility towards an EU-wide solution at a later stage.

NOMINATION OF THE PRESIDENT OF THE EUROPEAN CENTRAL BANK

The Council adopted a recommendation on the nomination of Mario Draghi (Italy) as President of the European Central Bank, to succeed Jean-Claude Trichet, whose term of office expires on 31 October.

The Council's recommendation will be submitted to the European Council, which will consult the European Parliament and the ECB, with a view to adopting a final decision at its meeting on 23 and 24 June.

BANK STRESS TESTS - BACKSTOP MEASURES

The Council approved a statement setting out guiding principles on backstop measures to support financial institutions revealed to be vulnerable by this year's EU-wide stress tests.

It agreed that all member states would have in place credible backstop mechanisms at the time of the publication of the results, expected next month, and set deadlines for addressing any vulnerability revealed by the stress tests, with a stated preference for private sector solutions.

The statement can be found here.

IRELAND - DECISION MODIFYING ECONOMIC POLICY CONDITIONS

The Council adopted a decision modifying the conditions underpinning financial assistance to Ireland under the European Financial Stability Mechanism (EFSM), with a view to preparing the disbursement of a second loan instalment.

This follows a review by the Commission and the IMF, in liaison with the European Central Bank, of progress made by Ireland in implementing its economic adjustment programme, approved last November.

Given the revised economic outlook and policy priorities of the government elected on 25 February, the proposed changes to the economic policy conditions were viewed as necessary to ensure the smooth implementation of the programme.

The Council decision is based on regulation 407/2010 and amends decision 2011/77/EU, adopted in December.

On 28 November, ministers gave the go-ahead for an EUR 85 billion package of financial assistance, following a request submitted by the Irish authorities, with EUR 22.5 billion provided under the EFSM.

FINANCIAL SUPPORT FOR PORTUGAL

The Council adopted a decision granting financial assistance to Portugal.

The EU will provide loans amounting to EUR 52 billion as part of a EUR 78 billion package of financial assistance, with EUR 26 billion respectively granted under the European Financial Stability Mechanism (EFSM) and European Financial Stability Facility. The IMF will provide around EUR 26 billion under its Extended Fund Facility.

The EFSM loan will have a maximum average maturity of 7.5 years and a margin of 215 basis points on top of the EU's cost of funding. About EUR 12 billion have been earmarked to support banks.

The aid will be provided on the basis of a three-year policy programme for the period up to mid-2014, which was negotiated with the Portuguese authorities by the Commission and the IMF, in liaison with the European Central Bank.

For details, see press release 10231/11.

CLIMATE CHANGE

The Council adopted the following conclusions:

"The Council:

RECALLS the commitment under the Cancún Agreements to submit information on the resources provided to fulfill the fast start finance commitment by developed country parties to the UNFCCC Secretariat by May 2011, 2012 and 2013; ENDORSES the updated final report from the EFC/EPC on fast start finance provided in 2010 and details of specific actions supported by this finance; and EMPHASISES that this report confirms that the EU and its Member States have mobilised EUR 2.34 billion in fast start finance in 2010 as part of a broader commitment to provide EUR 7.2 billion cumulatively over the period 2010-12.

1. TAKES NOTE of the Final Report of the UN Secretary General's Advisory Group on Climate Finance (AGF); RECALLS the invitation to Commission and the EFC/ EPC for further work on the basis of the AGF; TAKES NOTE of the Commission's staff working document 'Scaling up international climate finance after 2012'; CONCURS with the overall conclusion that it will be challenging but feasible to meet the commitment by developed countries to jointly mobilising USD 100 billion per year by 2020, in the context of meaningful mitigation action and transparency on implementation, to enable and support enhanced action on mitigation, including substantial finance to reduce emissions from deforestation and forest degradation (REDD-plus), adaptation, technology development and transfer and capacity-building; and CALLS on the current and incoming COP Presidencies to ensure that the conclusions of the AGF and other relevant reports are discussed within the UNFCCC process; and seeks agreement on a process for taking forward the conclusions and recommendations in an open and transparent manner to secure progress at COP17.

2. EMPHASISES that a combination of public finance, including innovative sources, and private sources, alongside increased lending and leveraging by financial institutions (multilateral and bilateral) is essential to delivering this amount of funding and RECALLS that private funding will be, via appropriate policy frameworks, a major source of the necessary investments; RECOGNISES that a robust carbon market is required, which drives the carbon price necessary for low-carbon investment, to achieve global mitigation objectives in an efficient way and to support the level of private and public sources required.

3. HIGHLIGHTS that in the above context it will be important to strive for predictability and continuity in international climate finance, and to work towards the identification of a path for scaling up climate funding from 2013 to 2020; UNDERLINES that this path will depend on climate actions taken in developing countries as well as further progress in the international negotiations.

4. RECOGNISES the importance of public finance in supporting climate-related investments in developing countries; ACKNOWLEDGES the fiscal difficulties for governments that increased public funding may involve; and UNDERLINES that new and innovative sources of revenue, including some of those considered in the AGF report, may be necessary to scale-up public finance in light of budgetary constraints while recognising that these sources come at an opportunity cost; ACKNOWLEDGES the need for further consideration of the different sources, including on how best to implement and combine them; and STRESSES that it will be up to each Member State to determine the use of such revenues in accordance with national budget rules and policy.

5. HIGHLIGHTS that some instruments, such as the expansion of a robust and transparent global carbon market, including sectoral carbon market mechanisms, and carbon pricing of global aviation and maritime transportation have the potential to generate large financial flows; UNDERLINES that effective implementation of these instruments would require significant coordination in the relevant international fora; WELCOMES the initiative taken by G20 Finance Ministers to conduct further analysis on mobilising sources of climate change finance.

6. CONSIDERS that the carbon pricing of global aviation and maritime transportation is a potential source of revenues that would also generate the price signal necessary to efficiently achieve emission reductions from these sectors; CONSIDERS that further work is needed in IMO and ICAO to develop without delay a global policy framework that avoids competitive distortions or carbon leakage.

7. CONFIRMS the important role that the private sector already plays in providing finance for climate-related investments in developing countries and STRESSES that this role should be strengthened; EMPHASISES that the main prerequisite for further scaling up such private flows will be improved general business and policy frameworks in developing countries.

8. HIGHLIGHTS that as a complement to these improvements, public instruments may be needed to leverage private finance for climate actions in developing countries and that further work will be needed to improve their design where appropriate, in particular a further assessment of the possible risks to government budgets and taxpayers and options to minimise or cap these risks; WELCOMES the information note on the 12 April Joint JWG-EGIF workshop on leveraging private finance and ENCOURAGES a continuation of this public-private sector dialogue in collaboration with the relevant public and private sector stakeholders.

9. UNDERLINES the important role of multilateral development banks and other public financial institutions, including the EIB, in broadening the sources of and access to climate finance; RECOGNISES their catalysing role in channelling funds from public and private sources to important climate investment projects ("crowding-in"), and their provision of technical assistance as well as financial and sector expertise alongside funding; LOOKS FORWARD to the establishment of an effective and efficient Green Climate Fund.

10. UNDERLINES that a public finance contribution to the commitment made needs to be consistent with sound and sustainable public finances and delivered within a sound governance framework which ensures an efficient implementation on the basis of performance-based parameters.

11. RECALLS that in order to ensure effectiveness and efficiency, climate finance should continue to apply the principles of aid effectiveness as reflected in the Paris Declaration on Aid Effectiveness; UNDERSCORES that it will be important to have a single climate-compatible development strategy covering both adaptation and mitigation aspects, including REDD+; STRESSES that the scaling up of climate finance will require that recipient countries are able to effectively absorb increased funding, in particular in terms of administrative capacity; EMPHASISES that, to this end, climate finance should continue to be used to support administrative and institutional capacities for implementation, most notably in terms of planning and public finance management capacities.

12. RECOGNISES the monitoring of public finance and estimation and accounting of private financial flows as major challenges in the context of long-term climate finance and ENCOURAGES further proposals from the Commission and relevant international organisations, notably OECD and other relevant organisations regarding methodological options.

13. INVITES the EFC and EPC to continue working on these issues in cooperation with other relevant working groups, notably analysing the possible contribution from the different sources under consideration, as well as a potential pathway for scaled up finance after 2012, and to report back as needed, to prepare the EU position for the UNFCCC COP17 from 28 November – 9 December 2011."

INFORMAL MEETING IN GÖDÖLLÖ – G-20 MINISTERS' MEETING

The Council took note of the outcome of:

- an informal meeting of EU finance ministers and central bank governors held in Gödöllö (Hungary) on 8 and 9 April;

- a G-20 meeting of finance ministers and central bank governors held in Washington DC on 14 and 15 April.

EU DRAFT BUDGET FOR 2012

The Council took note of the presentation by the Commission of its draft for the EU's general budget for 2012[1].

Some delegations considered the Commission proposal not to be in line with the national fiscal consolidation measures and argued for further efforts to limit the increase of the EU's 2012 budget. Other delegations regarded the draft budget as a starting point for the discussions and stressed the need to continue implementing EU programmes in particular in the cohesion area.

It asked the Permanent Representatives Committee to examine the draft, with a view to enabling the Council to establish its position.

On 15 February, the Council established its priorities for the 2012 budget (*5895/11*). These will be used by the incoming Polish presidency as a reference in negotiations with the European Parliament and the Commission later in the year.

In the draft budget, the Commission proposes a total of EUR 132.7 billion in payments (+ 4.9% compared with 2011) and EUR 147.4 billion in commitments (+ 3.7%). Payments represent 1.01% of EU gross national income and commitments 1.12%.

The Council is expected to establish its position on the draft budget at the end of July, and the Parliament at the end of October. If their positions diverge, a three-week conciliation process will start on 1 November.

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1 http://ec.europa.eu/budget/library/biblio/documents/2012/DB2012/DB2012_docI_pol_pres_en.pdf

MEETINGS IN THE MARGINS OF THE COUNCIL

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

- ***Informal dialogue with the European Parliament***

Representatives of the Council and the European Parliament held an informal meeting on 16 May. The meeting focused on economic governance and on issues related to sovereign debt.

- ***Ministerial meeting on the European Stability Mechanism***

Ministers attended a meeting on 16 May on the preparation of a European Stability Mechanism to ensure the financial stability of the euro area.

- ***Ministerial meeting on financial assistance for Portugal***

Ministers attended a meeting on 16 May to prepare financial assistance for Portugal[1].

- ***Euro Group***

Ministers of the euro area member states attended a meeting of the Euro Group on 16 May.

- ***EIB annual governors meeting***

Ministers met in their capacity as governors of the European Investment Bank for the annual EIB governors' meeting.

- ***Ministerial dialogue with EU candidate countries***

Ministers held an informal meeting with their counterparts from the EU candidate countries: Turkey, Croatia, the former Yugoslav republic of Macedonia, Montenegro and Iceland. The meeting focused on the candidate countries' economic policies.

Conclusions of the meeting can be found in *9654/1/11 REV 1*.

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[1] Statement: http://www.consilium.europa.eu/uedocs/cms_Data/docs/pressdata/en/ecofin/122011.pdf
See also page 14.

OTHER BUSINESS

– Financial assistance from sources outside the EU

At the request of the Polish minister, the Council discussed the procedure to be followed in the event of a member state seeking precautionary financial assistance from sources outside the EU, such as the IMF.

– Romania: fiscal notification

The Romanian minister presented his country's fiscal plans, in the light of a reservation expressed by Eurostat on the quality of the data reported in its notification of statistical data for 2010.

OTHER ITEMS APPROVED

ECONOMIC AND FINANCIAL AFFAIRS

Energy and climate change - Economic aspects

The Council adopted conclusions on the economic aspects of energy and climate change issues, stressing the significant investments required to move to a low-carbon economy and the need to consider all options to mobilise public and private finance.

Taking note of the Commission's communication 'A Roadmap for moving to a competitive low carbon economy in 2050' as a starting point for discussions on cost-effective pathways, the conclusions recall that the EU-wide energy market will be key to delivering EU energy and climate change objectives.

The conclusions can be found in 9902/11.

OECD green growth strategy - EU terms of reference

The Council approved EU terms of reference on the OECD green growth strategy, which is aimed at fostering economic growth and development while ensuring that natural assets continue to provide essential ecosystem services.

The terms of reference support the OECD position that market-based instruments should be at the heart of implementing green growth strategies. They call for a stable, coherent and predictable market-oriented policy framework, which is required to provide the certainty needed for longer-term private investment.

EU joint transfer pricing forum - Council conclusions

The Council adopted conclusions welcoming a communication from the Commission (*5845/11*) on the work undertaken by the EU joint transfer pricing forum between April 2009 and June 2010.

Endorsing the guidelines on low value adding intra group services, the Council considers that their implementation should contribute to reducing tax disputes within the EU and to improving the functioning of the internal market.

The EU joint transfer pricing forum is an expert group, created by the Commission in 2002, in order to reduce the high compliance costs and to avoid the double taxation that easily arises in the case of cross-border intra-group transactions.

The conclusions can be found in *8480/11*.

Removing cross-border tax obstacles for EU citizens

The Council adopted conclusions, on the basis of a communication from the Commission, on removing cross-border tax obstacles for EU citizens.

The conclusions take note of the most relevant complaints made by EU citizens about cross-border tax obstacles, as identified in the communication, and recognise the importance of ensuring that citizens do not face tax obstacles when exercising the freedoms provided by the EU's internal market.

The conclusions can be found in *9830/11* + *COR 1*.

Taxation of parent companies and subsidiaries

The Council agreed a general approach on a draft directive recasting existing rules on the common system of taxation applicable in the case of parent companies and subsidiaries of different member states (*8619/11*).

<u>DEVELOPMENT COOPERATION</u>

European consensus on humanitarian aid - Action plan

The Council adopted conclusions on the mid-term review of an action plan for the implementation of the European consensus on humanitarian aid.

It welcomed the progress made in implementing the action plan since its adoption in 2008 and agreed to pursue further efforts on the effectiveness of humanitarian aid, consistency in EU humanitarian aid and its interaction with other policies, as well as on strengthening the EU's contribution to the international humanitarian system.

The conclusions can be found in 9687/11.

EU voluntary humanitarian aid corps

The Council adopted conclusions on the creation of an EU voluntary humanitarian aid corps.

The conclusions are a response to a proposal to set up a European voluntary humanitarian aid corps (*17065/10*). The Council welcomed this in its conclusions, but underlined that such a corps should be cost-effective, should build upon existing national and international voluntary schemes without duplicating them, and be focused on addressing concrete needs and gaps in the humanitarian field.

The conclusions can be found in 9692/11.