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Economic and Financial Affairs

Brussels, 16 November 2004

President **Gerrit ZALM**
Deputy Prime Minister and Minister for Finance of the Netherlands

P R E S S

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Main Results of the Council

The Council took note of the latest information regarding revisions by ***Greece*** *of the data it had previously provided for assessment of its budgetary situation. It called with urgency on the Greek government to comply fully with the requirements of budgetary discipline.*

The Council reached political agreement on the harmonisation of ***cash controls*** *at the EU's external frontiers aimed at helping to combat terrorist financing.*

It also debated the main issues raised in the review of the ***Stability and Growth Pact*** *and agreed to re-discuss them at a forthcoming meeting with a view to enabling the review to be concluded next year.*

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- 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 abovementioned Council Internet site or may be obtained from the Press Office.

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PARTICIPANTS

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

Belgium:	
Mr Didier REYNDERS	Minister for Finance
Czech Republic:	
Mr Zdeněk HRUBÝ	Deputy Minister for Finance
Denmark:	
Mr Thor PEDERSEN	Minister for Finance
Germany:	
Mr Hans EICHEL	Federal Minister for Finance
Estonia:	
Mr Taavi VESKIMÄGI	Minister for Finance
Greece:	
Mr Georgios ALOGOSKOUFIS	Minister of Economic Affairs and Finance
Spain:	
Mr Pedro SOLBES MIRA	Minister for Economic Affairs
France:	
Mr Nicolas SARKOZY	Ministre d'Etat, Minister for Economic Affairs, Finance and Industry
Ireland:	
Mr Brian COWEN	Minister for Finance
Italy:	
Mr Rocco Antonio CANGELOSI	Permanent Representative
Cyprus:	
Mr Iacovos KERAVNOS	Minister for Finance
Latvia:	
Mr Oskars SPURDZIŅŠ	Minister for Finance
Lithuania:	
Mr Algirdas BUTKEVIČIUS	Minister for Finance
Luxembourg:	
Mr Jean-Claude JUNCKER	Prime Minister, Ministre d'Etat, Minister for Finance
Mr Jeannot KRECKĖ	Minister for Economic Affairs and Foreign Trade, Minister for Sport
Hungary:	
Mr Tibor DRASKOVICS	Minister for Finance
Malta:	
Mr Richard CACHIA-CARUANA	Permanent Representative
Netherlands:	
Mr Gerrit ZALM	Deputy Prime Minister, Minister for Finance
Mr Joannes Gerardus WIJN	State Secretary for Finance
Austria:	
Mr Karl-Heinz GRASSER	Federal Minister for Finance
Poland:	
Mr Miroslaw GRONICKI	Minister for Finance
Portugal:	
Mr Orlando CALIÇO	State Secretary for Tax Affairs

Slovenia:	
Mr Dušan MRAMOR	Minister for Finance
Slovakia:	
Mr Ivan MIKLOŠ	Deputy Prime Minister and Minister for Finance
Finland:	
Mr Antti KALLIOMÄKI	Deputy Prime Minister, Minister for Finance
Sweden:	
Mr Pär NUDER	Minister for Finance
United Kingdom:	
Mr Gordon BROWN	Chancellor of the Exchequer

Commission:	
Mr Joaquín ALMUNIA AMANN	Member
Ms Michaele SCHREYER	Member

Other participants:	
Mr Philippe MAYSTADT	President of the European Investment Bank
Mr Jan Willem OOSTERWIJK	Chairman of the Economic Policy Committee
Mr Caio KOCH-WESER	Chairman of the Economic and Financial Committee

ITEMS DEBATED

STABILITY AND GROWTH PACT

– ***Review of the Stability and Growth Pact***

The Council held a policy debate on the main issues raised in the review of the EU's Stability and Growth Pact. It requested the Economic and Financial Committee (EFC) to continue work on these issues and report back with a view to enabling it to conclude the review at the beginning of next year.

The review of the Pact is being conducted in the light of a communication issued by the Commission in September that assesses the Pact's role, after five years of implementation, in the co-ordination of the Member States' budgets. This follows the Court of Justice's ruling on 13 July in case C-27/04 (Commission against Council) that clarified respective roles in application of the fiscal framework.

The Commission's communication examines how the Stability and Growth Pact could respond to shortcomings through greater emphasis in recommendations on economic developments and through increased focus on safeguarding the sustainability of public finances.

It assesses how the various instruments for EU economic governance could be applied so as to enhance the contribution of fiscal policy to economic growth and to support progress towards realising the economic reform strategy that the European Council set at Lisbon in March 2000. The communication also suggests possible improvements in enforcement of the fiscal framework.

The Council requested the EFC to continue work on the following issues in the light of the debate:

– Avoidance of pro-cyclical policies, ie. symmetric implementation over the economic cycle;

– Better definition of the national medium-term budgetary objective;

– Making the debt criterion more operational;

– Improving the implementation of the excessive deficit procedure;

– Taking structural reforms into account;

– Improving governance.

– ***Revisions of Greek budget data - Council conclusions***

The Council adopted the following conclusions:

"The (Ecofin) Council welcomed the report by Eurostat on Greece's deficit and debt data for the period since 1997. The Council commended the Greek authorities for their co-operation in clarifying Greece's budgetary statistics and in bringing them into line with the ESA 95 requirements.

The decision on Greece's adoption of the euro in June 2000 was based inter alia on statistical data compiled by the Greek authorities which had been validated by Eurostat. Ministers acknowledged that part of the revisions reflect the uncertainties in the transition to the new ESA95 methodology introduced at the time of the March 2000 fiscal notification. Revised and more complete data show that budgetary deficits have been consistently above the reference value. Moreover, the debt to GDP ratio has been revised upwards; it has not sufficiently diminished and approached the reference value as Treaty Article 104 requests.

It is of paramount importance that the Greek government complies fully and rapidly with budgetary discipline in support of the single currency. Ministers encourage the Greek authorities to live up to their commitment under the excessive deficit procedure to take sufficient corrective measures. Ministers will assess the excessive deficit situation of Greece at the earliest opportunity based on a Commission recommendation.

Ministers stated their intention to return to the question of accountability and possible future action to prevent the re-occurrence of such an event, based on a Commission report. Ministers mandated the Economic and Financial Committee (EFC) to examine such a report closely and report quickly to the Ecofin."

FINANCIAL FRAMEWORK FOR 2007-2013

– ***Own resources***

– ***Correction of budgetary imbalances***

The Council held a policy debate on the Commission's proposals for modifying, under the EU's financial framework for the 2007-13 period, the system of own resources for the financing of the EU budget and the mechanism used for the correction of imbalances in budgetary contributions by the Member States.

The proposals consist of a draft Decision on the own resources system and a draft Regulation on the correction of budgetary imbalances, as well as a report on operation of the own resources system.

As concerns the new financial framework, the Presidency's aim is for the European Council to define, at its meeting on 17 December, principles and guidelines for further work aimed at achieving political agreement next year; the Council's contribution on the own resources issue will be used as input for those principles and guidelines.

Concluding the debate, the President noted that:

– A broad majority of delegations are favourable to the idea of switching to a GNI-based system from the current system based on VAT receipts.

– Delegations did not express support for the Commission's idea of introducing a new tax-based EU own resource.

– A broad spectrum of views were expressed on the Commission's proposal for the establishment of a generalised correction mechanism.

Own resources

As regards own resources, the Commission considers that although the current system has provided sufficient and stable financing for the Community, it lacks transparency and provides only limited financial autonomy. The Commission proposes three options for the future:

- Maintaining the present system unchanged;

- A GNI-based system that would involve abolishing the VAT resource;
- A system financed by tax-based resources.

The Commission concludes in favour of a system using a larger share of tax-based resources and using a more limited GNI resource (maximum 40% of the budget) as the residual resource. It proposes not to create a new tax but to use a percentage of specific existing national taxes, either a share of energy tax or of VAT or corporate income tax.

Correction of budgetary imbalances

Concerning the mechanism for correction of excessive net contributions to the EU budget - which is currently used for the United Kingdom budget rebate - the Commission proposes to extend its use to other Member States.

The mechanism would apply when the budgetary balances of net contributors exceed 0.35% of their GNI; they would be refunded at a maximum rate of 66% to be reduced automatically if the refund exceeds a maximum of 7.5 billion euros. All Member States would participate in the financing of the total corrections and transitional measures would be provided for the UK and other Member States for a period of four years.

LISBON ECONOMIC REFORM STRATEGY - Council conclusions

The Council adopted the following conclusions:

"The following conclusions focus on the economic aspects of the Lisbon process. They are part of the follow-up to the European Council Conclusions of 4-5 November, which underline the three dimensions of the Lisbon strategy.

The Ecofin Council broadly welcomes the Report of the High-Level Group chaired by Mr Wim Kok. The Council agrees the direction of the Lisbon strategy "is right and imperative, but much more urgency is needed in its implementation". While some progress has been made, the Council also agrees that the challenges facing Europe are greater now than in 2000.

In discussing the Report, Ministers stress, in particular, the following elements and invite the Commission, when preparing their comprehensive proposals on the mid-term review, to pay regard to them:

- **Achieving higher growth and employment should be at the centre.** Ministers agree that the Lisbon agenda "has become too broad" and Europe must now prioritise and "focus on growth and employment to achieve the Lisbon strategy". Higher growth and employment are conducive to social cohesion and environmental sustainability, and are necessary to help deal more easily with ageing-related fiscal challenges. Ministers also welcome the reference in the Report on the need for a macroeconomic framework supportive of stability and growth.

- **Reforms aimed at accelerating Europe's employment and productivity growth.** Ministers broadly endorse the five priority areas as identified by the High Level Group. Within these priority areas, Ministers underlined in particular: (i) creating a knowledge society – the importance of R&D and innovation, better framework conditions and overcoming the outstanding problems for a Community Patent; (ii) completing the internal market – more effective competition and a single market for services; (iii) creating the right climate for entrepreneurs – regulatory reform and improving access to risk capital; (iv) reforming labour markets – increasing flexibility, including through working more hours on a life-time basis, rebalancing the concept of job security and taking action on benefit reforms; and (v) enhancing environmental sustainability – eco-innovations. Ministers urge strict compliance with the implementation calendar of the Internal Market Strategy.

- **Political ownership and leadership.** Ministers agree that policy-makers must sharpen their commitment to, and ownership of, the Lisbon strategy and accept their national responsibility in promoting the implementation of the agreed reforms to stimulate growth and employment. National governments and the Commission must take "the political lead that is so vitally required." There should also be better involvement of national parliaments and social partners with respect to the Lisbon strategy.

- **The central role of the BEPGs and of multilateral surveillance**. Ministers welcome the reference in the Report to the Broad Economic Policy Guidelines (BEPGs). The BEPGs, by the power of the Treaty, are at the centre of the economic policy co-ordination process. They provide the framework for policy recommendations and the framework for the monitoring of their implementation. Employment guidelines that are consistent and coherent with the BEPGs also have a central role in delivering the objectives of the Lisbon process. Ministers invite the Commission to pay attention to maintaining, and where possible, to strengthening the key process of multilateral surveillance.

- **Increasing accountability.** Ministers agree that greater emphasis on benchmarking national performance can strengthen the accountability of Member States for implementing reform. Ranking of Member States' absolute performance and progress over a recent period against core and instrumental economic targets has a part to play, carried out carefully, accompanied by qualitative assessment and reflecting initial structural conditions, as well as the reforms which have taken place in the Member States. Improvements to the structural indicators should provide for more accurate monitoring of Member State performance.

Ministers also insist on the following issues:

- **Strengthening governance.** The national action programmes, proposed by the High-Level Group, in principle, could help to strengthen the governance of the strategy, with Member States setting out clear and specific commitments to the labour, product and capital market reforms needed to deliver higher growth and employment. If adopted, these programmes should be used in a streamlined and consistent governance framework, based, as proposed by the Report, on the agreed recommendations in the BEPGs as adopted by the Ecofin Council.

- **Points on which additional emphasis is needed.** The opportunity provided by growth must be used to pursue fiscal consolidation more actively. Policy actions must be consistent with the strengthening of quality and sustainability of public finances, including the modernisation of the welfare state. Continued efforts are also necessary to increase external openness, also in a multilateral context, as an important spur to growth, employment and productivity by increasing competition and lowering barriers to entry and increasing incentives for innovation.

- **A sustained focus on the core objectives**. Ministers insist that in focusing on growth and employment, underpinned by a clear set of headline targets, the list of objectives and targets should not be subject to continued pressure to expand, leading to a dilution of coherence and consistency in implementation.

The Ecofin Council will closely examine the proposals to be presented by the Commission on the mid-term review, and invites the Economic Policy Committee, in this regard, to assist it in the preparation of its contribution to the 2005 Spring European Council."

FINANCIAL SERVICES

– ***Financial integration - Council conclusions***

The Council adopted the following conclusions:

"The Council:

– reaffirms its invitation to the Commission to take full account of the FSC's May 2004 report in its future plans on financial integration;

– restates the relevance of the conclusions of 2 June 2004, in particular that it supports an approach to further integration of the financial sector based on systematic analysis of remaining obstacles and the impact of tackling this obstacles, and that "the emphasis should be on convergence of supervision and implementation. Non-legislative action should be taken where possible and appropriate, and new legislation should be introduced where necessary";

– in particular, emphasises that full and consistent implementation and effective enforcement by the Member States must have top priority;

– notes with satisfaction the progress made on the short term priorities set out in the May 2004 FSC report, including on further convergence of supervisory practice, the development of a financial stability framework at the EU level and the enhancement of corporate governance;

– stresses the importance of completing the current proposals in the area of financial services, like the Capital Adequacy Directive for banks and investment firms, the 8th Company Law Directive on Statutory Audit, the 3rd Money Laundering Directive, the Reinsurance Directive and Accounting Standards;

- takes note of the preparatory work done by the Commission to prepare its priorities for future work and welcome the Commission’s efforts to actively consult market participants, including end-users, by having set up sectoral expert groups and a network of experts charged with formulating policy recommendations from a user perspective (FIN-USE);

– invites the Commission to examine further issues affecting financial market integration and stability, including the functioning of deposit guarantee schemes in the context of integrating financial markets;

– requests that all future legislative proposals be accompanied by thorough impact assessment."

– ***Review of Lamfalussy framework* - Council conclusions**

The Council adopted the following conclusions:

"The Council finds that experience, while still limited to date, shows the introduction of Lamfalussy framework to have been successful, meeting its key objectives. The application of the framework has generated additional momentum to, and increased the flexibility of the legislative process in allowing it to respond to technological change and market developments, by adopting implementing rules on a faster and more flexible basis. It has also paved the way for more effective supervisory co-operation and convergence. The Council welcomes the positive contribution of improved transparency, through open and early consultation of market participants, while recognising that consultation processes have put significant demands on the expertise available with market participants.

The Council notes with satisfaction that this positive evaluation is shared by all three institutions involved in the legislative process, which have also decided to extend its application to the banking and insurance sector, based on appropriate guarantees for inter-institutional balance.

Financial markets and services continue to develop, and at a much faster pace than ever before, as they exploit new technology and innovate. The introduction of the Euro and the pursuit of the Lisbon economic reform agenda have combined with the continuing development of financial markets to accelerate the pace of European financial integration. The Council considers the Lamfalussy approach an important element in the overall regulatory stance developed to face this challenge. This framework should therefore continue to be applied, in the context of a dynamic and open dialogue between all institutions and bodies concerned and market participants - such an ongoing dialogue should aim to address any shortcomings and ensure that the Lamfalussy approach remains capable of meeting future challenges.

Therefore, the Council:

– Stresses the need to enhance the Lamfalussy framework and to achieve sufficient flexibility in the way securities markets are regulated, in order to respond to rapidly changing market developments and innovations;

– Emphasizes the need to bear constantly in mind the original reasons behind the four level split in the Lamfalussy framework, as well as the respective roles of the different parties in the process and the need for political accountability;

– Stresses the necessity of finding the appropriate balance between the need for speed in the legislative process and the need to ensure the quality of the legislation and the practical implementation and enforcement;

– Considers that the development of Level 3, including enhancing supervisory co-operation and convergence of supervisory practices, and full and consistent implementation as well as enforcement of adopted legislative measures are crucial for the delivery of the benefits of the Lamfalussy framework to market participants;

– Agrees that, in light of the extension of the Lamfalussy framework to all financial sectors, the Mandate of the Inter-Institutional Monitoring Group should be extended to cover the new areas of banking, insurance and occupational pensions. New members should therefore be nominated to take account of the new mandate of the group. Its working arrangements and the duration of its mandate should be agreed by the European Parliament, the Commission and the Council."

VAT - SIMPLIFIED OBLIGATIONS FOR BUSINESSES

The Council took note of the presentation by the Commission of legislative proposals aimed at simplifying business obligations relating to value-added tax.

The objective is to ease VAT compliance for businesses that have no base in Member States where they carry out their activities, by using a "one-stop" declaration system and an extension of the reverse-charge arrangement for declaring VAT. Under the Commission's proposals, when a business carries out a taxable transaction in a Member State where it is not based:

– either the customer would account for the VAT under the reverse-charge arrangement and the seller would have no obligation to fulfil in the Member State of taxation;

– or the seller would be liable to pay the tax and could, if he/she so chooses, make a VAT declaration in the Member State where he/she is based.

The proposals consist of:

- a draft Directive amending Directive 77/388/EEC with a view to simplifying VAT obligations;

- a draft Directive laying down detailed rules for the refund of VAT provided for in Directive 77/388/EEC for taxable persons not established in the country of taxation but in another Member State;

- a draft Regulation amending Regulation 1798/2003 as regards administrative co-operation under the “one-stop” scheme and the refund procedure for VAT.

CASH CONTROLS TO COMBAT TERRORIST FINANCING

The Council reached a political agreement on a proposal for a Regulation on controls of cash entering or leaving the Community. A common position will be adopted without further discussion at a forthcoming Council meeting, after finalisation of the text, and forwarded to the European Parliament for a second reading under the co-decision procedure.

The agreement was reached by qualified majority, with the Italian delegation voting against.

The Regulation is aimed at improving the effectiveness of Directive 91/308/EEC on the prevention of the use of the financial system for the purpose of money laundering – which is currently under review in order to better combat terrorist financing – by providing a common system for cash controls at the EU's external frontiers.

It is also aimed at implementing the recommendations of the Financial Action Task Force on Money Laundering set up at the initiative of the G7 at a summit at Paris in 1989.

The Council decided to set at 10 000 euros the threshold above which natural persons will be required to declare cash when crossing the EU's external frontiers. It also decided to retain a provision requiring that information provided in written, oral and electronic declarations be recorded and processed by national authorities.

OTHER BUSINESS

– ***European Action for Growth***

The Council was briefed by the Commission and by the President of the European Investment Bank (EIB) on implementation of the European Action for Growth launched by the European Council last December.

The European Action for Growth is aimed at improving competitiveness and employment in Europe, as well as the enlarged EU's growth potential, through higher investment in both physical and human capital. Complementing the economic reform strategy laid down by the European Council at Lisbon in March 2000, it covers two broad areas:

- trans-European network infrastructure (TENs) including transport, telecommunications and energy;

- innovation, research and development, including environmental technology.

The Action for Growth assumes the part-financing of projects under national budgets, with contributions from the EU and the EIB and enhanced co-ordination of public resources, with a view to better mobilisation of financing from the private sector.

The European Council in December invited the EIB to promote financial instruments aimed at leveraging private capital, Member States to complement the Action using national measures, and the Commission to redirect expenditure where appropriate towards growth-enhancing investment in physical and human capital and knowledge.

– ***Reduced VAT rates***

At the request of the French delegation, the Council examined the issue of reduced value-added tax rates as regards labour-intensive services and restaurant services.

It took note of the Commission’s intention to present shortly a working document.

The Commission’s proposed in July 2003 a general review of reduced VAT rates, but various attempts at enabling a compromise on the various issues involved have yet to draw sufficient support within the Council.

The Council agreed to reexamine the dossier at its meeting on 7 December, in the light of the Commission’s working document.

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EVENTS IN THE MARGINS OF THE COUNCIL

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

- Breakfast discussion on differences in welfare levels in the EU and the United States;
- Lunch meeting with the EFTA countries on ageing populations;
- Ministerial dialogue with the EU candidate countries.
  During the meeting, Ministers adopted the following conclusions:

(1) "On 16 November 2004, the Economic and Finance Ministers of the EU and the candidate countries, along with representatives of the Commission and the European Central Bank and representatives of the Central Banks of the candidate countries, met for their sixth economic policy dialogue meeting. They focused in particular on the economic situations in Bulgaria, Romania and Turkey, but also took great pleasure in warmly welcoming Croatia to the dialogue for the first time in view of the decision of the European Council on 18 June 2004 to grant Croatia the status of candidate country.

(2) Ministers noted that the economic gap between the EU and Bulgaria, Romania and Turkey is significant. Living standards, as measured by GDP per capita at PPP, are less than one third of the level prevailing in the former EU-15, and about half of the average level in the new Member States. Catching up with the rest of Europe in terms of income levels and productivity will thus be a long-term challenge, even though the growth performance in these three countries in recent years has been strong.

(3) In 2003 real GDP growth reached 4.3% of GDP in Bulgaria, 4.9% in Romania and 5.8% in Turkey. Growth in Turkey, which has been fluctuating sharply for many years, now seems on a more stable path. The improved growth performance of all three economies in recent years demonstrates the gains to be made from pursuing credible and sound macroeconomic policies and growth-enhancing structural reforms.

(4) With regard to fiscal policy, Ministers noted that the 2004 fiscal notifications show that the general government deficits generally shrank in 2003 as compared to 2002. The plans for the current year foresaw, at the time of the fiscal notification at the beginning of this year, a widening of the deficits in the case of Bulgaria and Romania and a further reduction in the case of Turkey. However, strong growth of the economies and government revenues since then in all three countries will lead most likely to better results than foreseen in March and than last year's balances. Consequently, the expected outcomes for 2004, as witnessed in the Autumn 2004 Commission forecasts, will instead show significant and welcome improvements of government budgets in all candidate countries, vis-à-vis 2003 and also vis-à-vis the forecasts made in the March notifications. In Bulgaria and Turkey, positive primary balances contributed to overall falling deficit and debt figures, whereas in the case of Romania the primary balance rose in 2003 and was one of the elements why the debt and deficit levels did not fall further.

(5) Despite the considerable progress made, economic policy challenges facing these countries remain substantial. So as to preserve stability in support of high and sustainable growth, Ministers underlined that these three candidate countries will need to address as appropriate the remaining macroeconomic imbalances – relating mainly to inflation, the rate of credit growth, government deficits and current account deficits. Romania and Turkey have made significant progress in bringing down their high levels of inflation of past years. Maintaining a focus on enhanced price stability and further disinflation is of the utmost importance in these two countries in the coming years. Exchange-rate strategies should remain consistent with other macroeconomic policies and economic convergence. Ministers also considered that a high level of ambition for fiscal consolidation and the sustainability of the fiscal stance over the medium term, and a rigorous implementation of wage moderation (including for the public sector), will contribute to sustained strong economic growth.

(6) Ministers also consider that the Action Plan on economic, monetary and financial statistics for the candidate countries adopted in May 2003 is a top priority for the statistical offices in the candidate countries. Statistical offices should be accorded the necessary resources to fulfil the Plan. Ministers invite the EFC to follow-up on the priorities.

(7) Ministers noted the considerable progress in the three countries on structural reforms and welcomed the many achievements, as well as the plans and commitments to further reform. Ministers considered that, building on the positive results achieved, it will be crucial to sustain the reform efforts, secure effective implementation and avoid the risk of backtracking on individual reforms already achieved. This will create the conditions for sustained growth, enhance convergence and secure or complete macroeconomic stabilisation.

(8) Having said this, Ministers noted that the candidate countries will also need to address the remaining deep-rooted structural problems that may impair their capacity to stay on a path of strong growth. In this context, Ministers welcomed the report prepared by the Economic Policy Committee on the structural challenges facing three candidate countries (Bulgaria, Romania and Turkey) following the request of the Ecofin Council in its 2003 Ministerial Dialogue with the candidate countries. Ministers consider that structural reforms should focus on increasing the trend rate of growth and aim at employment creation; the candidates also need to continue strengthening the financial framework and architecture.

(9) Ministers agreed that common challenges facing all three countries include the accomplishment of privatisation and advancing the restructuring agenda; the improvement of the business environment to stimulate investment and enhance competitiveness; further institution building; strengthening legal certainty (including contract enforcement); combating corruption; agricultural reform; and, the reform of labour markets and intensification of efforts to integrate the shadow economy into the formal sector.

(10) Ministers also identified particular structural reform challenges facing the candidate countries individually. Bulgaria should continue to address in particular the high level and structure of unemployment. Romania should specifically strengthen the business environment and continue to address the issue of tax and energy sector arrears. Turkey should continue to focus on achieving sustainability of public finances, advance privatisation and reform the labour market and the agricultural sector.

(11) In conclusion, Ministers agreed that candidate countries should continue their reform efforts in pursuance of the Copenhagen economic criteria. Ministers underlined their commitment towards continuing, with the support of the Economic and Financial Committee and the Economic Policy Committee and the Commission, the surveillance of progress with economic, budgetary and structural policies in all candidate countries. Ministers will meet again in the second half of 2005 to continue their dialogue. Also, the dialogue at the level of the Economic and Financial Committee and their counterparts will continue in 2005."

OTHER ITEMS APPROVED

ECONOMIC AND FINANCIAL AFFAIRS

Community's own resources

The Council adopted a Regulation on the system of the Community's own resources with a view to update the financial rules and to amend the management of traditional own resources that are recovered by Member States *(12463/04)*.

TAXATION

Cooperation on excise duties *

The Council adopted a Regulation and a Directive on cooperation in the field of excise duties aiming at strengthening the exchange of information between Member States.

The Regulation lays down a set of conditions and procedures to enable administrative authorities to better prevent fraud and distortion of competition in movements of excisable products *(12863/04 and 12911/04 ADD 1)*.

The Directive amends Directive 77/799/EEC concerning mutual assistance in the field of direct taxation, certain excise duties and taxation of insurance premiums and amends Directive 92/12/EEC on the holding, movement and monitoring for products subject to excise duty (*12878/04)*.

Both new legal instruments will come into force on 1 July 2005 and will aim to cater for the new administrative cooperation needs resulting from increasing economic integration within the internal market.

ENLARGEMENT

Support for agriculture and rural development - Bulgaria and Romania

The Council adopted a Regulation adapting the Community's support for pre-accession measures for agriculture and rural development (SAPARD) in light of the experience gained during the initial phase of its implementation and to take account of the new situation arising from the EU's recent enlargement, following which Bulgaria and Romania remain the sole beneficiaries of the SAPARD instrument (*12750/04*).

EXTERNAL RELATIONS

China – Agreement on cooperation in customs matters *

The Council adopted a Decision authorising the approval on behalf of the European Community of an agreement with China on cooperation and mutual administrative assistance in customs matters *(12639/04 and 12640/04 ADD 1)*.

Under the agreement both parties undertake to develop customs cooperation, involving exchange of information and coordination between their customs authorities.

The agreement also includes provisions for reciprocal administrative assistance in order to prevent and to combat any breach of customs legislation.