6877/03 (Presse 61)

2493rd Council meeting

- ECONOMIC AND FINANCIAL AFFAIRS -

Brussels, 7 March 2003

President : **Mr Nikos CHRISTODOULAKIS**

Minister for Economic Affairs and Finance of the Hellenic Republic

Internet: http://ue.eu.int/
E-mail: press.office@consilium.eu.int

For further information call 32 2 285 95 48 – 32 2 285 68 08

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ITEMS APPROVED WITHOUT DEBATE

ECOFIN

EXTERNAL RELATIONS

ESDP

PARTICIPANTS

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

Belgium:	
Mr Didier REYNDERS	Minister for Finance
Denmark:	
Mr Thor PEDERSEN	Minister for Finance
Germany:	
Mr Hans EICHEL	Federal Minister for Finance
Mr Caio Kai KOCH-WESER	State Secretary, Federal Ministry of Finance
Greece:	
Mr Nikos CHRISTODOULAKIS	Minister for the National Economy and Finance
Spain:	
Mr Rodrigo DE RATO Y FIGAREDO	Second Deputy Prime Minister and Minister for Economic Affairs
Mr Luis DE GUINDOS JURADO	State Secretary for Economic Affairs
Mr Estanislao RODRÍGUEZ-PONGA Y SALAMANCA	State Secretary for Finance
France:	
Mr Francis MER	Minister for Economic Affairs, Finance and Industry
Ireland:	
Mr Charlie McCREEVY	Minister for Finance
Italy:	
Mr Giulio TREMONTI	Minister for the Economy and Finance
Luxembourg:	
Mr Jean-Claude JUNCKER	Prime Minister, Minister for Finance
Mr Luc FRIEDEN	Minister for the Treasury and the Budget
Mr Henri GRETHEN	Minister for Economic Affairs
Netherlands:	
Mr Hans HOOGERVORST	Minister for Finance
Mr Steven van EIJCK	State Secretary for Finance
Austria:	
Mr Karl-Heinz GRASSER	Federal Minister for Finance
Portugal:	
Ms Manuela FERREIRA LEITE	Ministra de Estado, Minister for Finance
Finland:	
Mr Sauli NIINISTÖ	Minister for Finance
Sweden:	
Mr Bosse RINGHOLM	Minister for Finance
Mr Jens HENRIKSSON	State Secretary to the Minister for Finance
Mr Claes LJUNGH	State Secretary to the Minister for Finance
Mr Karin RUDEBECK	State Secretary to the Minister for Finance
United Kingdom:	
Mr Gordon BROWN	Chancellor of the Exchequer

*   *   *

<u>Commission</u>:

Mr Frits BOLKESTEIN	Member
Mr Pedro SOLBES	Member
Ms Michaele SCHREYER	Member

*   *   *

<u>Other participants</u>:

Mr Philippe MAYSTADT	President of the European Investment Bank
Mr Johnny ÅKERHOLM	Chairman of the Economic and Financial Committee
Mr Jan Willem OOSTERWIJK	Chairman of the Economic Policy Committee
Mr Tomasso PADOA-SCHIOPPA	Member of the Executive Board of the European Central Bank
Ms Dawn PRIMAROLO	Chair of the Code of Conduct Group

ITEMS DEBATED

PREPARATION OF THE "SPRING" EUROPEAN COUNCIL (BRUSSELS, 20-21 MARCH 2003)

In order to provide input to the Spring European Council (Brussels 20-21 March 2003), the ECOFIN examined and adopted a number of contributions, in particular the Key issues paper on the Broad Economic Policy Guidelines (BEPGs) for 2003 and, closely linked to it, the Annual Report on structural reforms. The ECOFIN also examined and adopted a report on strengthening the co-ordination of budgetary policies. Finally, as well as the EPSCO Council on the eve of the ECOFIN meeting, the Council endorsed two joint Council-Commission reports on pensions and on strategies for the future of health care.

– ***Key issues paper on BEPGs***

The Council held an exchange of views and adopted the Key Issues Paper on the Broad Economic Policy Guidelines (BEPGs) for 2003 and decided to forward it to the European Council on 20-21 March 2003.

Moreover, on the basis of the adopted Key Issues Paper and the Council discussion, the Presidency decided to work in co-operation with Member States in order to integrate elements of a document presented by the United Kingdom delegation, with a view to reaching an agreement on a text at the next General Affairs Council on 19 March. This Council meeting will be mainly devoted to prepare the Spring European Council of 20-21 March 2003.

The text of the Key Issues Paper, as adopted by the Council, is the following:

" I. Introduction and main messages

On the eve of its enlargement, the European Union is confronted with **several challenges:**

- **Economic growth** has turned out weaker than anticipated a year ago, and the outlook is clouded by economic uncertainties and global political risks. However, our economies remain resilient and we recognize the imperative for higher growth. To this end, and in order to strengthen confidence, we are determined to further pursue sound macroeconomic policies combined with steps to accelerate labour, product and capital market reforms. In this context, our top priorities are **reforming employment systems** and fostering **entrepreneurship and innovation**.

- We are committed to attaining the targets for **employment rates** agreed by the Lisbon and Stockholm European Councils. To this end, each Member State should pursue reforms in tax and benefit systems, improve wage formation systems, modernise employment protection legislation, improve the effectiveness of active labour market programmes and labour mobility, and take measures to increase labour supply.

- Europe has an entrepreneurial deficit, especially in knowledge-based sectors. In order to improve framework conditions for **entrepreneurship and innovation**, we must take measures to facilitate market entry and exit, improve access to finance and know-how, improve regulation and reduce administrative burdens. We must also pursue concrete measures in the direction of increasing EU investments in innovation, knowledge and R&D, and lifting barriers to the economy-wide application of technology.

- Despite progress in recent years, further **budgetary and structural reforms,** including addressing the challenges stemming from ageing populations**,** are necessary in order to secure the long-term sustainability of public finances while improving their quality and increasing the long-term growth potential of European economies.

- The European Union **enlargement is a major challenge for the coming years and** makes it necessary to reinforce the policy co-ordination procedures and review the EU system of economic governance for acceding countries to be effectively integrated into the process of economic policy coordination.

The Broad Economic Policy Guidelines (BEPGs) are the central instrument for economic policy co-ordination. The Treaty provides for the consistency of the Employment Guidelines with the BEPGs, and the current streamlining exercise should increase the **efficiency and ensure coherence of the various policy co-ordination processes**.

The BEPGs should be concise. They set out the economic policy strategy and priority actions for the EU and for each member country covering a three-year time-span. In this framework, and where appropriate, recommendations on economic reforms should be accompanied by specific deadlines.

II. Macroeconomic policies

In the current environment, economic policies in the EU should be oriented towards the restoration of confidence and economic growth by a determined implementation of the agreed economic policy strategy: the 2003 Spring European Council should reaffirm its commitment and strengthen the implementation and enforcement of the Stability and Growth Pact, give credibility and a new impetus to the Lisbon process, and highlight the mutually reinforcing links between sound macroeconomic and structural policies.

Particular attention should be paid to the aggregate policy stance of the euro area. It is important that our message is clear to both the markets and citizens, namely that the future of "our Europe" depends on our concerted efforts for a better coordination of our policies and on our determined effort to implement structural reforms.

In the context of weak economic growth, Member States should maintain budgetary discipline in line with the Stability and Growth Pact. They should:

- achieve and maintain **budgetary positions of close to balance** or in surplus over the economic cycle. Those euro area Member States that are not yet there, should annually improve their cyclically-adjusted budget position by at least 0.5% of GDP;

- let the **automatic stabilizers** operate fully within the Stability and Growth Pact; and

- improve the **quality and sustainability of public finances** as part of a medium-term oriented strategy.

EU Member States should implement policies contributing to price stability, including, for example, closer wage monitoring.

At the same time, and in order to effectively support the design and monitoring of policies, efforts must be directed towards **improving statistics and analytical tools**, and enhancing their credibility and comparability over time, countries and regions.

III. Priorities for structural reform policy

Medium-term economic performance throughout the EU rests on **raising growth potential** through more effective structural reforms. Attaining employment objectives, strengthening social and economic cohesion and reconciling economic development with environmental pressures all depend largely on restoring growth prospects by aggressively pursuing the Lisbon reform agenda. While some progress was achieved during 2002, a delivery gap remains and there is a real danger of losing steam and not reaching the Lisbon targets. Our efforts need to be intensified and should be focused particularly in the following areas:

1. Entrepreneurship and small firms

Europe has an entrepreneurial deficit, especially in knowledge-based sectors. The potential contribution that new entrepreneurs and small businesses can make to employment, growth and regional development is not fully realised. At the same time, it is important to work on improving the overall business environment for European industry. In this context, it is important to:

- Facilitate **entry and exit mechanisms** by reviewing further bankruptcy and insolvency procedures, improve **access to finance** and know-how, so as to generate a supportive environment for entrepreneurship and for SMEs to start-up and grow;

- **Improve regulation** and reduce administrative burdens at the Community and national levels, based on an active contribution from all institutions to simplify, clarify and update the body of Community and national law; undertake comprehensive **impact assessment** of proposed legislation and policy initiatives to ensure that each Commission proposal includes an analysis of its potential impact on industrial competitiveness and the functioning of competition in the market;

- Encourage diffusion of best practices on good **corporate governance**, so as to strengthen economic efficiency and improve confidence.

2. Connecting and completing European markets

The EU is today increasingly interdependent and connected, and every effort must be made to ensure that bottlenecks to such integration are removed. Despite progress in achieving a true internal market, efforts need to be intensified in a number of areas: network industries, financial markets, services, improvement of the transposition rate of Internal Market directives in line with the targets set in Stockholm and Barcelona and reduction of state aid. Reforms should be aimed at:

- **Enhancing competition**, by strengthening the role of independent **competition authorities** and sectoral regulators in investigating markets as well as responding to cases, tackling insufficient competition in newly liberalized markets;

- Continuing efforts for **reducing state aid** and enhancing its effectiveness by ensuring that it is targeted at genuine market failures; this involves simplifying and modernising the state aid regime, and ensuring that the regime supports growth in every region of the EU;

- Safeguarding the funding of **services of general economic interest**, ensuring that EU state aid and competition rules do not endanger the provision of public services and equally that Member States' financing arrangements do not distort the market for tradable services;

- Liberalising the Single Market in Services, with the Commission completing the **Internal Market Strategy for Services** by proposing a range of measures designed to overcome previous and existing difficulties in ensuring a single market in tradable services;

- Rapid implementation of the liberalisation agreements in **energy** (electricity and gas), ensuring completion of interconnection commitments, pursuing the liberalisation of rail and air **transport,** and working towards adopting guidelines and accompanying financial rules on Trans-European Networks with a view to making better use of existing infrastructure and filling in the missing links in Europe's key infrastructure and encouraging investment in basic infrastructures through *inter alia* joint public-private initiatives;

- Completing the **Financial Services Action Plan**, whose component measures must be written into legislation by 2005, through proper and effective implementation of existing Directives and ensuring that remaining measures are proportionate and cost-effective, with every effort made to achieve an integrated securities market by end 2003; working towards reducing barriers to the creation of a genuine **European risk capital market**, capable of supporting entrepreneurship, and examining *inter alia* the existing obstacles for investments by institutional investors (pension funds) in venture capital markets;

- In the field of **taxation**, following the political agreement on the taxation of savings, work must now rapidly progress in order to complete the adoption of the tax package.

3. Building the knowledge-based economy

Medium-term growth performance in Europe depends on tapping new sources of growth. Technology and human capital are key in this respect, and the challenge is to develop policies that harness their potential and help transform Europe into a knowledge-based economy. In this respect we must pursue concrete measures in the direction of increasing EU investments in innovation, knowledge and R&D, lifting barriers to the application of technology, thereby translating innovations into economy-wide productivity gains, and efficient investment in human capital. This involves:

- Creating the framework conditions for increased and effective investments in **research** on frontier technologies, improving conditions in order to raise **private R&D** investment and approach the 3% of GDP target for R&D, and encouraging innovative activities through co-operation among universities, research centres and business; pursuing the creation of the Information Society in Europe, through the realisation of the **e-Europe** programme, with special attention to the role of the telecommunications sector;

- Providing the right incentives in order to facilitate the translation of research and innovation into economic value-added by reaching an agreement on the adoption of a transparent, non-discriminatory and not costly **Community patent**, developing an appropriate intellectual property regime and furthering reforms that facilitate technology adoption and diffusion throughout the economy;

- Reforming European systems of **education and training**, with an emphasis on basic skills, life-long learning, developing digital literacy, ensuring high quality standards and efficient use of resources.

4. Reforms for more and better jobs, reinforcing social cohesion

The Lisbon and Stockholm European Councils have set clear targets for employment rates. Attaining these objectives requires improvements in the functioning of goods, services, capital and labour markets; an appropriate mix of demand and supply side policy instruments; as well as changes in cultural and social factors, especially concerning female and older workers' participation. It is therefore important to provide a clear signal of the need for continued labour market reform in order to tackle Europe's employment deficit. At the same time, welfare systems should be preserved, modernised and reinforced. European states must achieve social solidarity through more sustainable social protection systems**.** This involves:

- **Reforms in benefit systems**, so that they promote participation in the labour force and tackle poverty and unemployment traps, addressing issues such as the conditionality of benefits, eligibility, duration, replacement rate, availability of in-work benefits, use of tax credits, administrative systems; **tax systems reform**, in interaction with benefit systems, with a view to increasing labour demand and labour market participation, in particular of those with low earning prospects;

- Improvements in **wage formation systems,** so that they take into account the relationship between wage developments, price stability and labour market conditions, thereby allowing an evolution of wages according to productivity developments and skills differentials and modernising **employment protection legislation**, by relaxing overly restrictive elements that affect labour market dynamics, while respecting the role of social partners in accordance with national practice;

- Improving the effectiveness of **active labour market programmes,** by better follow-up and monitoring;

- **Improvement in labour mobility,** over occupations, sectors, regions and across borders, thereby achieving a better match between supply and demand, for example by improving transparency and recognition methods between systems of vocational education as well as by pursuing ongoing work on the transferability of social security rights;

- Increasing labour supply in all relevant groups – older people, women, immigrants and young people also with a view to fiscal sustainability. Notably, encouraging **active ageing,** by cost-effectively discouraging early retirement incentives and stepping up efforts to increase opportunities for older workers, for instance, legislating partial retirement formulas; lifelong learning; reducing barriers and disincentives for female labour force participation by, *inter alia*, improving the provision of childcare facilities;

- Enhancing the **qualitative aspects of work**, by *inter alia* examining health and safety issues in the workplace. Investing in quality in work is a necessary complement to policies aimed at increasing participation rates and reducing unemployment;

- **Streamlining** all dimensions of economic and employment policy as from the 2003 Spring European Council and implementing the reformed **Employment Strategy** which should be outcome-oriented, producing fewer and better guidelines;

- Efficiently and equitably tackling the challenges posed by the dramatic demographic changes through the implementation of further reforms of **pension systems** in terms of financial sustainability, adequacy and adaptability to new needs, based on the joint report on pensions, and on follow-up work to exchange experiences and best-practices;

- Examining the impact of ageing on the sustainability, accessibility and quality of **health care systems** and long-term care for the elderly**,** sharing of information and best practice;

- Improving and streamlining the **overall framework for social protection policies** (including pensions, inclusion, health care) through a greater emphasis on the modernisation and sustainability of social protection systems and the identification of best practice, while maintaining flexibility and respecting differences between policies.

5. Sustainable development

Since 2001, when the Göteborg European Council introduced an environmental dimension in the Lisbon strategy, emphasis has been placed on the importance of the integration of environmental with economic and social policies in the context of sustainable development as well as on the acceleration of the Cardiff procedure for the integration of environmental demands in sectoral policies. As regards **environmental sustainability** our focus should be on:

- Completing work on the adoption of the **taxation of energy products** directive in order to improve energy efficiency and promote the use and competitiveness of renewable energy sources; promoting **renewable energy sources** and energy efficiency in a cost-efficient manner and with minimum distortionary effects;

- Tackling obstacles to the **take up of environmental technologies** by completing and adopting the relevant action plan and encouraging member states to take measures for its implementation;

- Enhancing the Cardiff process for the **integration of environmental considerations in all policies** and actions, and promoting the use of **economic tools** in order to get the prices right; reforming subsidies with considerable negative impact on the environment; reducing distortions in the **choice of transport modes** so that prices better reflect their costs to society;

- Reviewing and implementing the European **Strategy for Sustainable Development**; tackling the **external dimension** of sustainable development, by ensuring the EU implements its commitments from Doha, Monterrey, and the World Summit on Sustainable Development (Johannesburg); continuing and enhanced efforts to fulfil the **Kyoto commitments,** in particular further reductions of greenhouse gas emissions;

A very important aspect of sustainable development is the long-term **sustainability of public finances**. This involves besides measures to tackle the demographic challenges - especially with respect to pension and health care systems - upgrading the assessment of the sustainability of public finances in the context of the Stability and Growth Pact, and in particular, improving the quality and comparability of long run budgetary projections."

– *EPC Annual report on structural reforms*

The Council endorsed the Economic Policy Committee (EPC) Annual Report on structural reforms. *(doc. 6922/03)*

The report notes where progress has been achieved but also draws attention to areas where progress has been less satisfactory and where efforts need to be reinforced.

The current Report was underpinned by a peer review of structural reform in the product, capital and labour markets of each Member State, in co-operation with the Commission. This year, the scrutiny focused on early retirement schemes as the special topic.

The first pages of the Report summarise its key messages. These cover a variety of areas but the underlying essence is as follows:

- Progress with structural reform has continued in 2002. Countries have taken a number of further measures.
- The benefits of these and previous reforms are starting to come through, as shown, for example, in the pleasing resilience of EU labour markets at a time of difficult world conditions.
- Nevertheless, the pace of reform has undoubtedly slackened.
- As a result, reform is now too slow and insufficient. The pace needs to be quickened substantially if the Lisbon objectives are to become within reach.

– *Report on "Strengthening the co-ordination of budgetary policies"*

The Council adopted a report on "Strengthening the co-ordination of budgetary policies" and decided to forward it to the European Council, as follows:

"The Council acknowledges the need to improve continuously economic policy co-ordination with a view to strengthen the growth potential of the European economies and to prepare better for medium-term challenges. It recalls the December 1997 Luxembourg European Council Resolution which calls for enhanced economic policy co-ordination to give full attention not only to close monitoring of macroeconomic developments and to surveillance of budgetary policies, but also of Member States' structural policies in labour, product and services markets as well as of cost and price trends.

Against this background, the Council welcomes the Commission Communication on strengthening the co-ordination of budgetary policies as a valuable contribution within the framework established by the Treaty (Article 104), secondary legislation in the form of the Stability and Growth Pact, and the "Code of conduct" on the content and format of stability and convergence programmes. It agrees with the Commission that there is no need to change either the Treaty or the Stability and Growth Pact, nor to introduce new budgetary objectives or rules.

The Council shares the Commission's view that the four-year experience with budgetary policy co-ordination has highlighted some areas where further improvements could be made or clarification was needed with regard to an effective application of the Stability and Growth Pact. A pragmatic approach seems appropriate which, while abiding by the Pact's rules, could take reasonable account of specific situations. The Council considers that:

1. The monitoring of nominal balances continues to be essential, in particular in countries which are close to or above the 3% reference value; hence Member States' Stability and Convergence Programmes must continue to present nominal data. Compliance with the close to balance or in surplus requirement of the Stability and Growth Pact should be assessed in cyclically-adjusted terms; one-off measures should be considered on their own merits on a case-by-case basis. The estimation of cyclically-adjusted budget balances would be made using the methodology endorsed by the Council on 12 July 2002.

2. Countries with deficits exceeding the close to balance or in surplus Stability and Growth Pact requirement must improve their cyclically-adjusted budget position. In making an assessment, one-off measures will be considered on their own merits on a case-by-case basis. The Eurogroup agreed on 7 October 2002 to commit those euro area Member States whose deficits exceed the close to balance or in surplus requirement to a minimum annual reduction of 0.5% of GDP.

3. Pro-cyclical budget policies in good times have been one of the major flaws in the implementation of the Stability and Growth Pact in the past, in particular in countries that had not reached the close to balance or in surplus position. Automatic stabilisers should operate symmetrically over the cycle and, to this end, Member States shall avoid pro-cyclical policies, especially when growth conditions are favourable. To ensure this, all existing procedures should be used to the fullest.

4. The Code of conduct provides guidance to assess at the national level the conformity of Stability and Convergence programmes with the close to balance or in surplus requirement of the Stability and Growth Pact. Particular attention shall be paid to country-specific circumstances, in particular to (i) the long-term sustainability of public finances, (ii) sufficient safety margins at all times, including an allowance for automatic stabilisers to operate fully without breaching the 3% of GDP reference value and (iii) the coherence between the evolution and quality of the public finances in the Stability and Convergence programmes and the close to balance or in surplus requirement.

5. Greater attention must be paid to the longer-term sustainability of public finances. One important way of securing the longer-term sustainability of public finances is the determined pursuit of the comprehensive strategy to meet the challenges of ageing populations agreed by the European Council in Stockholm. The assessment of the sustainability of public finances should be upgraded. In particular, the quality and comparability of long-run budgetary projections should be improved.

6. The pace of decline in public debt plays an important role in budgetary surveillance, especially in highly indebted countries. In conformity with the Treaty provisions, the excessive deficit procedure should contribute to ensuring a satisfactory pace of debt reduction.

7. Greater attention should be paid, within the overall constraints of the Stability and Growth Pact, to the quality of public finances with a view to raising the growth potential of the EU economies in conformity with the Lisbon agenda."

It is recalled that the Barcelona European Council noted that the Commission would present proposals for strengthening economic policy co-ordination in time for the Spring 2003 European Council. The Commission adopted a Communication, focussing on co-ordinating budgetary policies, in November 2002. ECOFIN held a first exchange of views on the basis of an EFC report on 18 February and asked the EFC to prepare a draft report from ECOFIN to the European Council. The Council's report responds to the Commission's Communication.

– ***Adequate and sustainable pensions***

The Council endorsed the joint Council-Commission report on adequate and sustainable pensions and decided to forward it to the European Spring Council. *(Doc. 6527/2/03 REV 2 + ADD 1)*

It is recalled that the "Employment Social Policy Council" (EPSCO) also endorsed this report on 6 March.

The report shows that Member States are moving towards financially sustainable pension systems that will be able to provide adequate pensions in the future. All of them have started reform processes and a large number of countries sees the need for further reforms in order to safeguard the long-term sustainability of their pension systems as well as sound public finances.

The report stresses the need for Member States to improve incentives for older workers to remain longer on the labour market and to strengthen the financial basis of pension systems through increased public and private funding. In view of the fact that ageing will start to produce its effects on pension systems within the next ten years it calls upon Member States to put in place credible and effective strategies and to give clear signals to citizens about what they can expect and what they have to do to achieve an adequate living standard in retirement.

It is recalled that several European Council, from Lisbon to Barcelona, have highlighted the challenge of an ageing population and its implications for the maintenance of adequate and sustainable pensions. This challenge was underlined in the conclusions of the Stockholm European Council in March 2001, which laid the ground for the open method of co-ordination on pensions. This process was finally launched by the Laeken European Council in December 2001 on the basis of eleven common objectives under the three headings: safeguarding the capacity of systems to meet their social objectives, maintaining their financial sustainability and meeting changing societal needs.

– ***National strategies for the future of health care and care for the elderly***

The Council endorsed the joint Council-Commission report on supporting national strategies for the future of health care and care for the elderly and decided to forward it to the Spring European Council. *(Doc. 6528/03 + COR 1(en))*

This report takes up the three broad goals endorsed by the Barcelona European Council (March 2002): access for all regardless of income or wealth; a high level of quality of care; financial sustainability of care systems. It addresses a number of common challenges and issues such as new technologies and treatments, improved well-being and patient information and demographic ageing. The report draws the main conclusions from the analysis of the member States' responses and proposes future steps.

It is recalled that the EPSCO Council also endorsed this report on 6 March.

VOTING MODALITIES IN THE GOVERNING COUNCIL OF THE EUROPEAN CENTRAL BANK (ECB)

The Council took note of a legislative text on a Recommendation on the voting modalities of the ECB's Governing Council and noted reservations by Finland and the Netherlands.

The Council also approved a draft statement to be entered in the minutes of the Council at the adoption of the Decision, as follows:

> "The Council confirms that the model established in its Decision on voting modalities in the Governing Council of the European Central Bank should not be seen as a precedent for the future composition and decision-making process of other Community Institutions."

The aim of the Recommendation is to maintain the Governing Council's capacity for efficient and timely decision-making in an enlarged euro area. According to the text, the number of governors having voting rights has to be smaller than the overall number of governors in the Governing Council.

The Recommendation aims at putting a ceiling on the size of the Governing Council (at 21) by introducing a system of rotation for the voting rights. This system of rotation would be based on a classification of countries into three categories depending on their size, as defined by GDP and banking activity.

It is recalled that, with the Treaty of Nice, a new Article 10.6 has been added to the Statute of the European System of Central Banks and of the European Central Bank. It provides: "Article 10.2 of the Statute may be amended by the Council meeting in the composition of the Heads of State or Government, acting unanimously either on a recommendation from the ECB and after consulting the European Parliament and the Commission, or on a recommendation from the Commission and after consulting the European Parliament and the ECB. The Council shall recommend such amendments to the Member States for adoption. These amendments shall enter into force after having been ratified by all the Member States in accordance with their respective constitutional requirements..." Article 10.6 has to be read in conjunction with the Declaration on Article 10.6 of the Statute of the European System of Central Banks and of the European Central Bank which was annexed to the Treaty of Nice.

This declaration provides: "The Conference expects that a recommendation within the meaning of Article 10.6 of the Statute of the European System of Central Banks and of the European Central Bank will be presented as soon as possible".

In view of the above, the ECB submitted a Recommendation for a Council Decision on an amendment to Article 10.2 of the Statute. The recommendation was adopted by the Governing Council of the ECB by unanimity and was published in the *Official Journal of the European Union.*

STABILITY AND GROWTH PACT

In the context of the cycle of reviewing Member States' updated stability and convergence programmes, the Council examined a third package of stability programmes, relating to Luxembourg and Portugal.

This exercise takes place in accordance with the Stability and Growth Pact agreed at the Amsterdam European Council in June 1997, which requires Member States to present annually updated stability or convergence programmes to the Council and the Commission. The aim of these updated programmes is to provide information on how Member States intend to meet the objectives of the Pact, in particular the medium term goal of budget close to balance or in surplus. They also provide an indication of how the Member States have complied with the relevant recommendations of the Broad Economic Policy Guidelines (BEPGs).

As regards Luxembourg and Portugal, the Council examined the recommendations issued by the Commission on 19 February 2003 and approved opinions for them, on the basis of work carried out by the Economical and Financial Committee (EFC). The Council decided to place the opinions in the public domain.

– ***COUNCIL'S OPINION ON THE UPDATED STABILITY PROGRAMME OF LUXEMBOURG (2001-2005)***

"THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty establishing the European Community,

Having regard to Council Regulation (EC) No 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies [1], and in particular Article 5(3) thereof,

Having regard to the recommendation of the Commission,

[1] OJ L 209, 2.8.1997

After consulting the Economic and Financial Committee,

HAS DELIVERED THIS OPINION:

On 7 March 2003 the Council examined the updated stability programme of Luxembourg, which covers the period 2001-2005. The programme does not fully comply with the requirements of the Code of Conduct on the content and format of the programmes endorsed by the ECOFIN Council on 10 July 2001; in particular it has been transmitted with a six-week delay. The programme partly conforms with the recommendations of the BEPGs.

In 2002, real GDP growth decelerated further to an estimated 0,5%, from 1,0% in 2001, which is well below the forecast included in the 2001 stability programme. The slowdown is to a large extent due to adverse developments in financial services, which accounts for around a quarter of total value added. On the basis of a cautious macro-economic scenario, which assumes a somewhat more muted recovery of economic activity than in the Commission Autumn 2002 forecast, real GDP growth is expected to pick up only gradually, to around 3% in 2005.

The Council notes that government finances deteriorated markedly in 2002 as revenues decelerated in response to the combined impact of the tax reform and the economic slowdown, while expenditure growth remained very strong. Consequently, the general government budget balance is expected to show a deficit of 0,3% of GDP in 2002, a sharp deterioration compared to the large surplus of 6,1% of GDP in 2001 [1]. The general government balance is projected to remain in deficit by 0,3% of GDP in 2003, to deteriorate slightly further in 2004 to a deficit of 0,7% of GDP, and to reach a position close to balance in 2005, with a slight nominal deficit of 0,1% of GDP. The underlying general government balance is expected to remain positive over the horizon covered by the stability programme. Consequently, the Council considers that Luxembourg continues to be in conformity with the requirement of the stability and growth pact to reach a budgetary position of close to balance or in surplus in the medium term.

[1] More recent data communicated on 1 March show that the central government deficit in 2002 was only 0,1% of GDP, resulting in a general government surplus of 2,6% of GDP in 2002. However, this information came too late to be reflected in the Commission's appraisal.

The Council notes that sound management of public finances continues to be the guiding principle of the 2002 update; the Council welcomes the main elements of the budgetary framework currently in place, which inter alia encompasses the use of cautious macro-economic projections as the basis for budgetary policy, as well as the principle to let net public sector lending be positive, to achieve a balanced budget for central government, and not to let the rise in current expenditure exceed the growth of total expenditure. The Council welcomes the reduction of the tax burden through the implementation of tax reform while aiming for a sound budgetary position in the medium term; in this context it encourages a future government to adhere to real expenditure ceilings that are compatible with achieving a budgetary position close to balance or in surplus in the medium term.

However, the Council expresses some concern over the rapid deterioration of the budget balance of the central government, which only accounts for part of the general government sector. The balance of central government was still in surplus by 2,6% of GDP in 2001 but is projected to register a deficit of 2,2% of GDP in 2002 and of 2,1% of GDP in 2003, while the central government deficit is expected to deteriorate further to 2,8% of GDP in 2004 and 2005. The Council notes that this is partly due to revenue shortfalls in response to the economic slowdown, while central government expenditure is projected to increase rapidly; although the starting position of public finances in Luxembourg is extremely sound, a continued fast increase of current expenditure might become a factor of risk should economic growth in the medium term slow significantly.

On the basis of current policies, the Council considers that public finances in Luxembourg are in a good position to meet the projected costs of an ageing population. However, the Council notes that the assessment of the sustainability of public finances in Luxembourg is very sensitive to developments as regards the number of cross-border workers. The Council considers that the commitment to sustain a balanced budget position in coming years is broadly appropriate in light of the projected budgetary impact of ageing populations, and welcomes measures to improve the attractiveness of third pillar private pensions."

– ***COUNCIL'S OPINION ON THE UPDATED STABILITY PROGRAMME OF PORTUGAL (2003-2006)***

"THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty establishing the European Community,

Having regard to Council Regulation (EC) No 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and co-ordination of economic policies[1], and in particular Article 5 (3) thereof,

Having regard to the recommendation by the Commission,

After consulting the Economic and Financial Committee,

HAS DELIVERED THIS OPINION:

On 7 March 2003 the Council examined the updated stability programme for Portugal, which covers the period 2003-2006. The updated programme projects general government finances to improve steadily, from a deficit of 2.8% of GDP in 2002 to a deficit of 0.5% of GDP in 2006. Government gross debt is expected to decrease from 58.8% of GDP in 2002 to 52.7% in 2006.

The Council notes that the updated programme broadly complies with the requirements of the revised "code of conduct on the content and format of stability and converge programmes". The updated programme was adopted by the government on 20 December and presented to parliament, which discussed it and adopted early in January a declaration of approval by a large majority, including the support of the main opposition party. The updated programme was then formally submitted to the Commission. The Portuguese authorities have thus effectively kept the commitment made to the Council on 5 November, in the framework of the recommendation under Article 104(7), to present before the end of the year an updated stability programme. The Council considers that the economic policies as reflected in the planned measures in the programme update broadly comply with the 2002 Broad Economic Policy Guidelines.

The update's macroeconomic scenario shows a small acceleration of GDP growth to 1.3% in 2003 (from an estimated growth rate of 0.7% in 2002), which in the light of the most recent information available, pointing to a further deceleration in economic activity in the second half of 2002, looks somewhat optimistic. For the period 2004-2006, the macroeconomic scenario presented in the programme update appears plausible as far as the pace of economic growth is concerned (an average growth rate of close to 3% per year). The planned measures of structural reform should generate beneficial supply-side effects, allowing the economy to rely on greater export strength.

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[1] OJ L 209/1, 2.8.1997.

The Council considers that regaining an appropriate level of external competitiveness is of paramount importance for Portugal in the light of the level of inflation and real wage developments over the last years. To that end, securing wage moderation and sustained increases in productivity are key requirements, also as a way to secure a decline in inflation. In this context, the Council welcomes the government's guideline to use, from 2003 onwards, the average inflation forecast for the euro-area as the benchmark for wage negotiations, as well as the freezing of most wages in the government sector in 2003. This latter measure should have favourable spill-over effects in the private sector of the economy.

On 5 November 2002, in the light of a government deficit of 4.1% of GDP in 2001, the Council decided that an excessive deficit existed in Portugal and issued a recommendation to Portugal according to Article 104(7) of the Treaty. In the terms of this recommendation, the Portuguese authorities were urged to

(i) implement with resolve their budgetary plans for 2002 which aim at reducing the deficit to 2.8% of GDP in that year. The Council established a deadline of 31 December 2002 for the Portuguese government to take all necessary measures to bring the excessive deficit to an end;

(ii) adopt and implement the necessary budgetary measures to ensure that the government deficit in 2003 is further reduced clearly below 3% of GDP and that the government debt ratio is kept below the 60% of GDP reference value.

The Council notes with satisfaction that, according to preliminary figures, the general government deficit has been reduced below 3% of GDP in 2002, in spite of weaker-than-anticipated growth. The Council acknowledges the firm resolve of the Portuguese government in pursuing budgetary consolidation. Budgetary developments in the further course of 2002 turned out less favourable than expected in the rectifying budget adopted in June, mainly due to the further weakening in economic activity, but also to lower-than-expected proceeds from sales of government property. As a consequence, and with a view to reducing the deficit as recommended by the Council, the Portuguese authorities adopted a number of one-off measures at the end of the year, which in total are estimated to have raised additional revenue of about 1½% of GDP.

The Council notes that substantial challenges remain in 2003 to achieve the deficit target of 2.4% of GDP and to put the deficit on a downward trajectory. Two factors appear particularly critical in this regard. First, in the light of recent economic data confirming the marked slowdown in economic activity in the second half of 2002, the programme's assumption for GDP growth of 1¼% for 2003 appears somewhat optimistic, and further budgetary tightening might be necessary. Second, additional measures to be taken in 2003 may be necessary as the beneficial impact of the one-off measures implemented in 2002 wears off. The Council therefore urges the Portuguese authorities to ensure that the deficit remains well below 3% of GDP in 2003. A sustained correction of the budgetary imbalance should help the revival of economic confidence. Moreover, the Council considers that an early and determined implementation of the comprehensive and ambitious programme of structural reform envisaged in the stability programme update should be conducive to greater confidence, enabling a faster recovery of economic growth.

The Council acknowledges the projected improvement in the underlying balance by more than ½% of GDP per year, taking the underlying deficit from about 3½% of GDP in 2002 to a situation close-to-balance by 2005, in line with the commitments taken by Portugal in the recommendation adopted by the Council on 5 November 2002. In 2003, however, the improvement in the underlying deficit amounts to approximately 2 percentage points of GDP, the adjustment effort being considerably higher due to the need to replace the one-off measures adopted in 2002. The consolidation strategy envisaged is thus front-loaded and in compliance with the objectives of the Stability and Growth Pact.

The Council also notes with satisfaction that the consolidation strategy adopted rests mainly on the restraint of government expenditure, to be achieved partly by tighter control of the public sector wage bill, and partly by the effects of a comprehensive programme of structural reform. Such a strategy is in line with the general recommendations of the Broad Economic Policy Guidelines. The Council urges the Portuguese authorities to ensure that the implementation of this strategy offsets the revenue losses caused by the announced gradual phasing-in of a substantial lowering in corporate taxes, thereby leading to an underlying budgetary position close-to-balance at the end of the period. In this context, the Council draws attention to the potential budgetary risks associated with a significant tax reduction that is not matched by firm control over government expenditure, which could be facilitated by implementing expenditure ceilings. A sensitivity analysis suggests that in the event of the low growth scenario considered in the programme update materialising, the actual balance may deteriorate significantly in the absence of offsetting discretionary measures. In addition, the Council reaffirms that the commitment made by the Portuguese authorities to continue to improve the collection of government data is key to ensure an effective budgetary surveillance. The Council notes that while remaining below the 60% of GDP reference value, the government debt ratio has increased in recent years. The Council welcomes the Portuguese authorities' intentions to bring the debt level down to 52.7% of GDP by 2006, unwinding the sharp deterioration registered between 2000 and 2002. The reduction in the debt ratio over the programme period is to be achieved by the gradual improvement of the primary surplus, together with the assumption of no major net financial operations taking place in the coming years.

On the basis of current policies, the risk of unsustainable public finances in the light of ageing populations cannot be excluded. If debt reduction is to make a noticeable contribution towards meeting the budgetary cost of ageing populations, then reaching a balanced position by 2006 is essential; this should be part of an ambitious three-pronged strategy to meet the long-term budgetary consequences of ageing and may have to include the running of surpluses. Running sound public finances over the long run will allow to achieve a significant reduction of the debt ratio prior to the budgetary impact of ageing populations taking hold. Therefore determined implementation of the structural reforms in order to curb the growth of age-related expenditure, to broaden the tax bases, and to increase the overall growth potential of the economy, is essential to achieve long-term stability."

TAX ISSUES

– *Tax Package*

With the exception of a general reservation from the Italian delegation related to the draft savings Directive and a reservation from the Portuguese delegation related to the draft Directive on Interest and Royalties, the Council reached an agreement on the text of the two draft Directives.

The Council agreed to return to the discussion of this issue at its next ECOFIN Council on 19 March 2003, with a view to adopting the "package" before the European Council on 20-21 March 2003.

– *Energy taxation*

The Council also decided to postpone the discussion on this item at its meeting on 19 March 2003.

It is recalled that this Directive aims at fixing minimum levels of taxation at Community level for all energy products, including electricity, natural gas and coal.

COMMUNITY BUDGET ISSUES

– ***Discharge procedure for 2001***

The Council adopted the Recommendation on the discharge and the observations accompanying it and agreed to send them to the European Parliament within the framework of the discharge procedure. *(Doc. 6026/03 + COR 1 + COR 2)*

It is recalled that, according to Article 276 of the Treaty, the European Parliament, acting on a Recommendation of the Council, shall give a discharge to the Commission in respect of the implementation of the budget.

The Commission shall take all appropriate steps to act on the observations in the decisions giving discharge by the European Parliament as well as comments accompanying recommendations on discharge adopted by the Council.

– ***Guidelines for the EU Budget for 2004***

As regards the guidelines for the 2004 EU budget, the Council adopted the following conclusions:

"1. The Council underlines the fact that the budgetary procedure for 2004 will be marked by two important challenges. This budget will be the first one adopted in accordance with the provisions of the new Financial Regulation and its establishment will require dealing with a new presentation on the basis of the "Activity Based Budgeting" method. It will also be the first budget that takes fully into account the forthcoming enlargement in the course of the year 2004.

2. The Council recalls that the Interinstitutional Agreement of 6 May 1999 constitutes its basis for work and that it will apply it to the full. In this context, it stresses the necessity of complying with the Financial Perspective. Expenditure must remain within the limits fixed by the Financial Perspective and sufficient margins must be maintained under all the ceilings of the various Headings, except under Heading 2, for the purpose of sound financial management and notably to cater for unforeseen circumstances.

3. The Council stresses once again the importance of keeping a tight grip on payment appropriations for 2004, which should reflect a level of budgetary rigour similar to that being applied at national level.

   The level of payment appropriations entered in the budget should be based on realistic forecasts while being sufficient for fulfilling the different commitments undertaken by the European Union, in particular as regards the European Council of Berlin of March 1999. It should take into account past uptake and the genuine possibilities for future uptake of appropriations, while endeavouring to maintain a reasonable relationship between commitment appropriations and payment appropriations.

   Therefore, the Council reiterates its request to the Commission to equip itself with suitable instruments for improving its budget forecasts. In this context, it recalls the joint declaration of the European Parliament, the Council and the Commission of 25 November 2002 on the implementation profile for the budget 2003 and the action plan to put an end to abnormal outstanding commitments.

4. The Council regrets the overbudgetising of payments in the budgetary procedure of the last three years, which resulted in a significant surplus each year. The Commission should carry out as soon as possible a preliminary assessment of the 2002 surplus and explore the necessary measures to prevent a significant surplus from recurring. This should be taken into consideration by the Commission when preparing the preliminary draft budget for 2004.

5. The Council stresses the importance of taking into account in an appropriate way the consequences of enlargement. In this context, it underlines the need to facilitate a smooth transition from an European Union of fifteen Member states to an European Union of twenty five Member States.

   One of the Council's main priorities is the implementation, through the budget for 2004, of the financial conclusions drawn by the European Council of Copenhagen of December 2002 in order to achieve the accession of the ten new countries under the best circumstances. It recalls the need for a swift completion of the technical adjustment of the Financial Perspective to cater for enlargement in accordance with point 25 of the Interinstitutional Agreement of 6 May 1999.

   In order to facilitate this approach, the Council invites the Commission to present a preliminary draft budget for 2004 including all the financial elements required for having a comprehensive overview of a budget for 2004 covering the needs for twenty five Member States, while ensuring comparability with the 2003 budget. This should be done without prejudice to the final procedure to be used for the adoption of the budget for 2004.

6. The Council considers that the excellent spirit of co-operation prevailing in the work of the preparation of the budget during the previous three years, was a key factor in the smooth working of the budgetary procedure and emphasises the importance of continuing the good collaboration between the two arms of the budgetary authority and the Commission, especially on such a crucial budgetary procedure.

7. The Council welcomes the implementation of the new Financial Regulation; in particular as regards the presentation of the budget for 2004 on the basis of the "Activity Based Budgeting" principles (ABB), which will lay the foundation for all budgetary work from now on.

   It recalls that this budget should also be established in the light of the principles of sound financial management as defined in the new Financial Regulation which foresees inter alia the strengthening of the principle of individual financial management responsibility, and also the setting of objectives and the obligation to provide to the budgetary authority all information as well as the corresponding evaluation results together with the preliminary draft budget.

8. As regards certain specific Headings of the Financial Perspective, the Council identifies the following elements as crucial in preparing the 2004 budget:

   - the Commission is invited to take into account, in the autumn letter of amendment if necessary, the financial consequences of a possible agreement on the mid-term review of the CAP. As regards the financing of expenditure related to rural development, particular attention should be given to an accurate level of payment appropriations in 2004;

   - while fully respecting the commitments undertaken by the European Council of Berlin of March 1999 and in order to avoid an overbudgetising of payment appropriations in the field of Structural Funds, an appropriate level of payment appropriations should be fixed taking into account in particular the consequences in terms of payment appropriations of the closure of the programmes related to the 1994-1999 period and the state of implementation of the programmes related to the 2000-2006 period. The Council calls on the Commission to communicate as soon as possible its forecast of possible decommitments resulting from the closure procedure for programmes related to the 1994-1999 period.

     It welcomes the work initiated by the Commission on the simplification of the procedures in the field of Structural Funds aiming at facilitating the implementation of the programmes in respecting of the legislation in force.

     It recalls that the consequences of the reform of the Common Fisheries Policy on Heading 2, adopted in December 2002, should be budgetarily neutral and based on reallocations of appropriations.

- as regards Heading 3 (internal policies), sufficient margins should be maintained under this Heading. It highlights the importance of the measures relating to the conclusions of the Lisbon European Council of March 2000.

  Particular attention should be given to the financing of actions within available resources concerning immigration and external border co-operation and control.

  Noting the increasing number of agencies, it considers that the financial consequences should be carefully examined in the context of the budgetary procedure for 2004 on the basis of appropriate information provided to the budgetary authority.

- in determining budget allocations under Heading 4 (external action), it underlines the need for setting priorities linked to the evolution of the international context and leaving sufficient margins under this Heading. Particular account should also be taken of the Community's development policy and information on contributions of international bodies.

  It recalls the conclusions of the Copenhagen European Council of December 2002 on the enlarged Union and its neighbours.

  It welcomes the increase of the budget allocations concerning the Common Foreign and Security Policy (CFSP) in 2003. It considers that appropriate funding should be allocated in 2004. It recalls the need for the European Union to be able to finance its priorities and all joint actions and stresses in this respect the importance of adequate figures presented by the Commission in its preliminary draft budget.

- due to the constraints of Heading 5 (administrative expenditure), institutions are invited to establish rigorous draft estimates using, as much as possible, the redeployment of existing resources in order to leave sufficient margins under this Heading. In this context, the institutions should also be encouraged to strengthen their arrangements for interinstitutional co-operation. Taken together, these measures should result in budgetary savings and efficiency gains.

  It underlines the fact that the draft estimates presented by the institutions should clearly identify all costs related to the enlargement, in particular in the field of buildings and staff resources.

It attaches great importance to the Commission's reform programme, including its financial implications, which should be guided by the principle of budgetary discipline. It furthermore recalls the principle of budgetary neutrality that was retained for the creation of executive agencies and European offices.

- on the eve of the forthcoming enlargement, it considers appropriate that an assessment of the implementation of the pre-accession aid financed under Heading 7 and its effectiveness should be made. To this end, the preliminary draft budget for 2004 should be accompanied by information about past implementation of pre-accession aid in each candidate country.

  It underlines the need to determine accurate estimates for future payment appropriations in this Heading.

9. The Council wishes these guidelines to be taken into account during the budget procedure, particularly in the preparation of the preliminary draft budget for 2004."

It is recalled that the budgetary procedure for 2004 will be marked by two important challenges: this budget will be the first one adopted in accordance with the provisions of the new Financial Regulation and it will also be the first budget that takes fully into account the forthcoming enlargement in the course of the year 2004.

One of the Council's main priorities is the implementation, through the budget for 2004, of the financial conclusions drawn by the European Council of Copenhagen of December 2002 in order to achieve the accession of the ten new countries under the best circumstances. The Council therefore invites the Commission to present a preliminary draft budget for 2004 including all the financial elements required for having a comprehensive overview of a budget for 2004 covering the needs for twenty five Member States, while ensuring comparability with the 2003 budget. This should be done without prejudice to the final procedure to be used for the adoption of the budget for 2004.

ANY OTHER BUSINESS

– ***VAT: cross-border passenger air transport***

Under this item, the Council heard an oral presentation by the German delegation concerning the application of the VAT legislation to cross-border passenger air transport.

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During an informal working breakfast, the Ministers held an open and practical discussion on key issues surrounding pension systems, on the basis of a Presidency working paper.

Over lunch, the Council took note of the request by the Italian delegation to deal with the question of milk quotas for Italy.

ITEMS APPROVED WITHOUT DEBATE

ECOFIN

Follow-up report on the 2000 financial year
(doc. 6025/03)

The Council adopted Conclusions on the follow-up report on the 2000 financial report. The Council commented on a number of sectors such as Own Resources, CAP, Structural measures, Internal policies, External aid, Pre-accession-aid, Administrative expenditure, Financial instruments and banking activities, Special reports of the Court of Auditors.

Recommendations on the discharge of the budget 2001

The Council adopted a series of Recommendations on the discharge in respect of the implementation of the budget for the financial year 2001to be given to the

- Administrative Board of the European Foundation for the Improvement of Living and Working Condition *(doc. 5999/03)*
- Management Board of the European Centre for the Development of Vocational Training *(doc. 6000/03)*
- Director of the European Agency for Reconstruction *(doc. 6001/03)*
- Director of the European Training Foundation *(doc. 6002/03)*
- Director of the European Monitoring Centre on Racism and Xenophobia *(doc. 6006/03)*
- Director of the European Monitoring Centre for Drugs and Drug Addiction *(doc. 6007/03)*
- Director of the European Environment Agency *(doc. 6008/03)*
- Director of the Translation Centre for the Bodies of the European Union *(doc. 6009/03)*
- Director of the European Agency for Safety and Health at Work *(doc. 6010/03)*
- Director of the European Agency for the Evaluation of Medicinal Products *(doc. 6011/03)*.

Court of Auditors' Special report on INTEGRA

The Council adopted Conclusions on the Special report No 3/2002 of the Court of Auditors concerning the Community Initiative Employment - Integra. The Council underlines the positive contribution of INTEGRA at national level and agrees with the Court of Auditors on the need for an effective transfer of good practice to make sure the results are mainstreamed into the relevant policies.

Its recalled that, launched in 1996 as a new fourth strand of the Community initiative "Employment and development of human resources" for the programming period 1997 to 1999, INTEGRA aimed at promoting measures to improve the access to the labour market and the employability of vulnerable groups who find themselves excluded from it, or at risk of being excluded from it.

Court of Auditors' Special Report on local actions for employment

The Council adopted Conclusions on the Court of Auditors' Special Report No 4/2002 on local actions for employment. The Report analyses the Commission's policy formulation and information gathering functions in the area of local employment and also the Commission's management of innovative projects which it directly funded in the period 1994 to 2001.

The Council, whilst acknowledging the difficulty of fully evaluating local employment initiatives across the EU due to the lack of a common definition of local employment policy and the wide variety of approaches pursued in the Member States, is not, however, in favour of a common definition which would apply equally across the Member States. This would unduly restrict their capacity to respond to local conditions and would undermine the principle of subsidiarity.

The Council emphasises the importance of local development of employment as a horizontal priority in the European Social Fund Regulation and welcomes the Commission's intention to ensure appropriate dissemination of the results of the activities of the Fund. Local action should continue to contribute to the achievement of the Lisbon employment rate targets as part of the European Employment Strategy.

EXTERNAL RELATIONS

Discharge for the management of the European Development Fund for 2001

The Council adopted Recommendations to the European Parliament on the discharge to be given to the Commission regarding the management of the 6th, 7th and 8th European Development Funds for the 2001 financial year, as well as a statement of assurance on the subject from the Court of Auditors which will also be forwarded to the Parliament.

In its Recommendations, the Council notes that the overall implementation by the Commission of the operations of the EDF during 2001 has been satisfactory.

Management of consultants working in ACP States and in OCTs

The Council adopted a Decision allowing for 2.7 million euros to be deducted from the interest on the funds deposited in the cash accounts of the European Development Fund to finance the costs of internalising the management system for individual consultants working in the ACP States and Overseas Countries and Territories for a period of four years.

ESDP

Capabilities - EU Capability Development Mechanism

The Council approved a document on "Defining the EU Capability Development Mechanism (CDM)", in accordance with the mandate of the December 2000 Nice European Council on this issue.

The Nice European Council set out three aims for the mechanism: i) to enable the EU to monitor and facilitate progress towards the honouring of undertakings to achieve the overall capability goal, in both quantitative and qualitative terms; ii) to enable the EU to evaluate and, if necessary, to review its defined capability goals in order to meet the requirements of the full range of Petersberg tasks in the light of changing circumstances; iii) to help achieve consistency between the pledges undertaken in the EU framework and, for the countries concerned, the force goals agreed to in the context of NATO planning or the Partnership for Peace.

The mechanism should promote transparency, simplicity and clarity, enabling comparisons between the commitments of Member States and ensure a continuous and regular evaluation of progress as well as the flexibility necessary to adapt the commitments to newly identified needs.

The mechanism will also contribute to ensuring consistency between the pledges undertaken in the EU framework and, for the countries concerned, the Force/Partnership goals agreed to in the context of NATO planning or the PARP, as well as to ensuring mutual reinforcement of the EU's capability goals and those of NATO where they overlap, including those arising from the Defence Capabilities Initiative. Furthermore, it should avoid unnecessary duplication of procedures and of information requested.