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from: Luxembourg Minister for Finance

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Delegations will find attached the work programme of the Luxembourg Presidency of the Council.

Work programme of the Luxembourg Presidency of the ECOFIN Council

Introduction

Luxembourg is due to take over the Presidency of the Council of the European Union on 1 January 2005. In keeping with its traditions and convictions, Luxembourg will make the most of its six-month Presidency to serve the Union and carry the European integration process forward. As in the past, the Luxembourg Presidency will work closely with the European Parliament, the Commission and the General Secretariat of the Council in fulfilling all of its tasks.

Economic and financial context

In an improving yet uncertain economic and financial environment, the ECOFIN Council is duty bound to contribute to restoring confidence among economic agents – primarily to boost internal demand, and also further to improve the external competitiveness of the European Union's enterprises.

This context is bound to make the necessary structural reforms easier to accept and thus contribute to restoring the sustainability of public finances, thereby promoting investment, growth and employment.

Priorities of the Luxembourg Presidency

Strengthening the European Union also means providing it with the resources to become a knowledge-based society that can rely on a competitive economy and can also fulfil the social and environmental ambitions of its citizens. That is the **objective of the Lisbon process** and of its **mid-term review**, which the Presidency is preparing to submit to the European Council in March on the basis of a policy paper from the Commission. The aim will be to relaunch the strategy, built around its three component pillars (economic, social and environmental), by identifying a limited number of priorities. Simplifying the way the process is governed will make the issues involved easier to perceive for everyone.

Alongside the mechanisms specific to the Lisbon strategy, the **completion of the internal market** remains an essential engine for European economic growth. There can therefore be no let-up in efforts to expedite and improve the transposition of directives. Furthermore, the emergence of new economic powers makes the establishment of a genuine, efficient and integrated European internal market necessary in order to be able to respond to competition at global level.

Strengthening the economic governance of EMU and clarifying the implementation of the Stability and Growth Pact are two other major objectives of the Luxembourg Presidency. The Presidency intends to bring the review of the Pact to a successful conclusion by seeking to reach agreement on its precise content in March.

Achieving any kind of progress in the European integration process requires adequate financial resources. The strategic three-year programme for 2004-2006 provides for political agreement on the **2007-2013 financial perspective** by June 2005. The Presidency intends to organise its work with a view to achieving that June 2005 strategic objective. This approach will make it possible (a) to adopt the various legislative instruments relating to the next financial framework by the end of 2005 and (b) to complete in 2006 the indispensable preparatory work required to implement the new generation of Community programmes as of 2007.

The review of the Stability and Growth Pact

The Commission has pointed up the need to review the rules governing the Stability and Growth Pact (SGP), which has been in operation for five years now; in its communication of 3 September 2004, the Commission highlighted a number of possible avenues to be explored for strengthening the economic governance of EMU and clarifying the implementation of the SGP.

During the second half of 2004, the Netherlands Presidency succeeded in identifying policy guidelines on the basis of the Commission communication.

The Luxembourg Presidency intends to build on these foundations and bring the review of the SGP to a successful conclusion by seeking to reach agreement on the precise content of each of the chapter headings identified by the ECOFIN Council, which are as follows:

- symmetrical implementation of the SGP throughout the economic cycle, avoiding pro-cyclical policies;
- better definition of medium-term national budgetary objectives;
- more effective application of the debt criterion;
- improved implementation of the excessive deficit procedure;
- consideration of structural reforms;
- improved governance of the SGP.

To the Presidency's mind, SGP review should be completed at the spring European Council meeting and to result in adjustments to the regulations and code of conduct governing its application.

Mid-term review of the Lisbon process

The strategic goal set by the European Council at its meeting in Lisbon in March 2000 was for the European Union to become "the most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion".

At its meeting in March 2005, the European Council is due to carry out a mid-term review of the Lisbon process on the basis of a Commission policy paper to appear in early February.

In particular, the Luxembourg Presidency plans to use this mid-term review to:

- take stock of the strategy;
- refocus priorities;
- improve governance and implementation of the strategy;
- establish a specific communication strategy by target group.

As was highlighted in the Kok report, reforms to modernise the European social and economic model are indispensable in order to attain the goal of the Lisbon strategy: the sustainable well-being of citizens. That purpose can be fulfilled only by developing synergies among its three constituent pillars: the economy, the social aspect and the environment. The Luxembourg Presidency is anxious to preserve that original feature of the strategy.

The Lisbon strategy is the most ambitious socio-economic reform undertaking of recent years. The changes Member States hope it will achieve are such that they cannot be expected to be completed by 2010. The Luxembourg Presidency proposes to confirm 2010 as the date by which all Member States will have implemented the reforms in all areas of the strategy with enough impetus to demonstrate a notable change of trend.

The establishment of a European area of knowledge is of particular significance. Through its various dimensions – the information society, innovation, research, education, training and lifelong learning – enterprises will acquire new competitive advantages and citizens can make the most, throughout their life, of the opportunities afforded them as service consumers by modern society to benefit from services provided on the internet by the public and private sectors and to adapt to labour market requirements.

As part of the governance of the strategy and in order to rationalise existing processes, the Presidency wishes to expand and build on the idea put forward in the Kok report to establish national action programmes. These would contribute added value in the form of:

- a comprehensive picture of government action as regards implementation of the Lisbon objectives;
- greater consistency, since they would require each government to strengthen interministerial cooperation among areas covered by the strategy; this would also help to bring synergies more clearly to the fore;
- increased governmental responsibility, insofar as governments would have to commit themselves not only before their European partners but also before their national parliament, social partners, civil society and public opinion;
- differentiation as between Member States by granting governments a measure of flexibility in prioritising objectives.

This new instrument can be effective only if it is monitored and existing processes are rationalised. Agreement on reducing the number of reports Member States have to produce on a regular basis is also desirable.

The Luxembourg Presidency will further propose that a debate be launched on the ways and means of streamlining the open method of coordination and improving its monitoring. The Presidency believes that the litmus test of the smooth functioning of the open method of coordination will be the degree of convergence in Member States' implementation of the objectives as defined in the Community action plans.

In addition to reviewing the number and governance of processes, the Presidency intends, between now and the spring European Council meeting, to begin a wide-ranging debate on taking greater account of young people in the Lisbon priorities. While the aim is not to create a new instrument, existing measures devoted to young people and to balancing the effort of solidarity between generations should be brought together within the strategy.

Financial perspective for 2007–2013

Since its inception in 1988, the financial perspective has fully met its objectives: orderly progression of Community expenditure, budgetary discipline and a smoother annual budgetary procedure. Recognition of this success and the wish for it to continue have led Member States and the European Parliament to conclude that the instrument should be given a formal status by enshrining it in the draft Constitutional Treaty under the title of "multiannual financial framework". The European Council took this into account in adopting the three-year strategic programme for 2004–2006. This programme provides in particular that the Council's work will be conducted with a view to achieving political agreement on the package of proposals relating to the next financial perspective in June 2005.

As pointed out in the strategic programme, this deadline was not set by chance. It is designed to make it possible, first, to adopt the various legislative instruments relating to the next financial framework by the end of 2005 and, second, to complete in 2006 the indispensable preparatory work for implementing the new generation of Community programmes as of 2007. Furthermore, the date of June 2005 ensures that clarity and security will prevail in the 2007 budgetary procedure. To the mind of the Luxembourg Presidency, the reasons underpinning the schedule of work decided by the European Council have lost none of their force and relevance. Accordingly, the Presidency intends to organise work during the first half of 2005 in such a way as to ensure that the Union's strategic objective of reaching political agreement in June of that year is resolutely pursued. In this connection, two focal points should be emphasised while taking full advantage of the substantive work carried out by the Netherlands Presidency. First, the Luxembourg Presidency, like its predecessor, will leave the financial components of the package of proposals to bodies that have horizontal competence and will concentrate on achieving gradual convergence of national positions. Second, the Presidency will press for sectoral discussions on all legislative proposals concerning the financial perspective to continue actively in order to put the United Kingdom Presidency in a position to conclude the various legislative procedures.

Structural issues: competitiveness and growth

The Luxembourg Presidency intends to continue and enhance the integrated competitiveness and growth approach, with the support of a European Commission that will have been reorganised with that in mind. The Presidency's aims will include integrating policies, exploiting synergies and assessing the impact of legislation on competitiveness.

In this context, over and above its normal tasks in preparation for the spring European Council, the Ecofin Council will be required to discuss structural issues. The following will thus be on the agenda:

- a report on trade imbalances at global level and the possible delocalisation of manufacturing industry;
- a report on social protection and social inclusion;
- a report on the economic impact of population ageing.

Lastly, a debate will be devoted to the use of budgetary instruments in the environmental field.

Better regulation

Reviving growth also means promoting the deployment of economic activities. In this respect, efforts to improve the regulatory environment must succeed if the long-term competitiveness of the European economy is to be ensured.

The Luxembourg Presidency intends to continue the work started a year ago in the area of what is commonly referred to as "better regulation". It will begin by focusing on the legislative simplification of the *acquis* and the impact assessment of legislation in preparation and/or under negotiation.

The Netherlands Presidency has completed a preliminary exercise involving the identification and proposal of simplification measures. Member States are expected to be consulted on a new list of simplification proposals during the first half of 2005.

Systematic use, by the Commission, the Council and the European Parliament, of impact assessments for substantial amendments to Community legislation could have a quite significant effect on the European Union's decision-making. The Luxembourg Presidency will assess the results of a pilot project on these issues and will also take account of work in progress at the Commission on developing an integrated impact assessment methodology.

Likewise the Presidency will seek to achieve progress in implementing the institutional agreement on "better regulation" within the high-level technical group bringing together the Council, the Commission and the EP, to lend consistency to the ongoing effort. In coordination with the preceding and forthcoming Presidencies, the Luxembourg Presidency has identified better regulation as a Presidency priority in two joint letters, further to a recommendation in the Kok report. The issue will certainly be included in the future contribution from the Commission that is to provide the basis for the mid-term review of the Lisbon strategy due in March 2005.

Financial services

The Luxembourg Presidency is anxious that there should be no let-up in the Ecofin Council's effort to complete the internal market in financial services. In the field of financial services, a prime concern will be to establish close links with the European Parliament in order to achieve maximum progress in areas for which policy guidelines have already been agreed by the Ecofin Council.

The Presidency's goal is to establish political agreement with the European Parliament on the Directive on capital adequacy requirements for banks and investment firms by end of first reading.

The same applies to the proposal for a Directive of the European Parliament and of the Council relating to the statutory audit of annual accounts and consolidated accounts and amending Council Directives 78/660/EC and 83/349/EEC, further to the general approach adopted by the Ecofin Council on 7 December 2004.

This instrument will considerably expand the scope of the former 8th Directive (of 10 April 1984) on the approval of persons responsible for carrying out the statutory audits of accounting documents, notably by:

- improving the quality of the audit;
- providing for stringent public supervision of the profession;
- improving cooperation between supervisory bodies.

It is therefore a major initiative for further guaranteeing the reliability of company financial statements.

The reinsurance Directive is another dossier to which the Presidency will devote particular attention. The Presidency will attach special importance to having regular exchanges of views with the European Parliament with a view to reaching political agreement on this proposal as well with the European Parliament by end of first reading.

In addition to making progress on these texts – which had already reached an advanced stage under the previous Presidencies – the Luxembourg Presidency intends to carry discussions forward on another proposal, designed to bolster confidence in the financial information published by companies: the planned amendments to the accounting Directives (Directive 78/660/EEC and Directive 83/349/EEC – the "4th and 7th Directives"). The discussions started within the Council at the end of the Netherlands Presidency will be continued with a view to adopting political guidelines at the Ecofin Council meeting in June.

Lastly, the Luxembourg Presidency looks forward to being able to conduct a policy debate on future strategy relating to financial services.

Combating money laundering and terrorist financing

The Luxembourg Presidency believes that, alongside the efforts undertaken by other Council configurations, the Ecofin Council has a major role to play in combating money laundering and terrorist financing.

The Presidency will concentrate more specifically on seeking political agreement on the 3rd Directive in this area.

Likewise, the Presidency will seek to conclude the current discussions relating to the draft Regulation on controls of cash entering or leaving the European Union.

In addition, as soon as the European Commission has forwarded to the Council the draft Regulation on wire transfers, the Presidency will start work without delay on this dossier, which aims to align Community legislation on the special recommendations of the FATF on combating terrorist financing.

Furthermore, the Presidency will examine proposals for improving provisions on freezing the assets of suspect persons and entities.

Taxation

In line with the European Commission's strategic programme of June 2000 aiming to improve the operation of the VAT system within the context of the Internal Market, the Luxembourg Presidency will work actively towards achieving priority objectives identified in the programme, namely the simplification, modernisation and more uniform application of current rules.

Discussions will be started on the implementing measures for the 6th VAT Directive, the streamlining of simplification and anti-abuse derogations and the recasting of the Directive, with a view to reaching consensus by the end of June. The Luxembourg Presidency will also endeavour to break the deadlock in the negotiations on the structure of reduced rates (as the experimental VAT scheme for labour-intensive services is due to expire in December 2005).

The Luxembourg Presidency also intends to start work on the Directive on motor vehicle tax which will shortly be submitted to the Council.

As regards excise duties, work will continue on Articles 7 to 10 of Directive 92/12/EEC. A discussion on the report on alcoholic beverages will also be held within the relevant working party.

With respect to direct taxation, the Luxembourg Presidency proposes to monitor the procedure for entry into force of Council Directive 2003/48/EC of 3 June 2003 on taxation of savings income in the form of interest payments.

If necessary, the Luxembourg Presidency will organise a debate on the future organisation of discussions on taxation in the light of proceedings in the Working Party on Tax Questions, the High-Level Working Party and the Code of Conduct Group.

At the same time, the Luxembourg Presidency will resume the discussions regarding the amendment to Directive 2003/49/EC on a common system of taxation applicable to interest and royalty payments made between associated companies of different Member States, with a view to reaching political agreement by June.

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