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2407th Council meeting

- ECOFIN -

Brussels, 12 February 2002

President : **Mr Rodrigo DE RATO Y FIGAREDO**

Second Deputy Prime Minister and Minister for Economic Affairs of the Kingdom of Spain

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CONTENTS [1]

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[1] Where declarations, conclusions or resolutions have been formally agreed by the Council, this is indicated in the heading for the item concerned and the text is placed between quotation marks.

ITEMS APPROVED WITHOUT DEBATE

For further information call 02-285.84.15, 02-285.61.94 or 02-285.68.08

PARTICIPANTS

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

Belgium:	
Mr Didier REYNDERS	Minister for Finance
Denmark:	
Mr Thor PEDERSEN	Minister for Finance
Mr Henrik FUGMANN	State Secretary, Ministry of 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
France:	
Mr Laurent FABIUS	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 Henri GRETHEN	Minister for Economic Affairs
Netherlands:	
Mr Gerrit ZALM	Minister for Finance
Austria:	
Mr Karl-Heinz GRASSER	Federal Minister for Finance
Portugal:	
Mr Guilherme OLIVEIRA MARTINS	Minister for Finance
Mr Rodolfo LAVRADOR	State Secretary for the Treasury and Financial Affairs
Finland:	
Mr Sauli NIINISTÖ	Minister for Finance
Sweden:	
Mr Bosse RINGHOLM	Minister for Finance
Mr Sven HEGELUND	State Secretary to the Minister for Finance
United Kingdom:	
Mr Gordon BROWN	Chancellor of the Exchequer

* * *

Commission:	
Mr Frits BOLKESTEIN	Member
Mr Pedro SOLBES MIRA	Member

* * *

Other participants:	
Mr Wim DUISENBERG	President of the European Central Bank
Mr Philippe MAYSTADT	President of the European Investment Bank
Mr Johnny ÅKERHOLM	Chairman of the Economic and Financial Committee
Mr Jean-Philippe COTIS	Chairman of the Economic Policy Committee

PREPARATION FOR THE EUROPEAN COUNCIL IN BARCELONA

The Council heard a presentation of the:

- Commission's summary report on the Lisbon strategy by Commissioner Solbes,
- Commission's report on the functioning of product and capital markets by Commissioner Bolkestein,
- preparation of the 2002 Annual Report on Structural Reforms by the President of the Economic Policy Committee, Mr Cotis,
- preparatory work on the Broad Economic Policy Guidelines undertaken at the Economic and Financial Committee, by its President Mr Akerholm.

After a brief orientation debate the Presidency announced that it will draft a "Key Issues Paper" in co-operation with the Commission which will take into account the contributions of other Council formations, to be submitted for approval to the Council on 5 March as the basic contribution of the Council to the Barcelona European Council.

STABILITY AND GROWTH PACT - EXAMINATION OF UPDATED STABILITY AND CONVERGENCE PROGRAMMES

The Council examined the updated Stability Programmes for Germany, Greece, Spain, France, Ireland, Italy and Portugal, and the convergence programme for the United Kingdom, in the context of the Stability and Growth Pact. It adopted the opinions reproduced below and decided to place them in the public domain. In the case of Portugal and Germany, the Council also adopted statements which can be found after the respective opinions below. On this latter aspect, the Commission entered a statement into the Council minutes [1].

[1] Statement by the European Commission:

"1. The Commission takes note of the statement of the Council, including the decision to close the early-warning procedure.

2. The Commission welcomes the commitments of Germany and Portugal, which respond to the substance of the concerns in the Commission Recommendation for an early-warning.

3. The early-warning mechanism is an essential part of the preventive elements of the Stability and Growth Pact. In order to prevent the occurrence of an excessive deficit, the Commission will use the early-warning mechanism if and when the budgetary positions of Member States diverge significantly from the medium-term budgetary objective or the adjustment path towards it."

– *GERMANY - Council opinion on the updated Stability Programme, 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 co-ordination of economic policies[1], and in particular Article 5(3) thereof,

Having regard to the recommendation of the Commission,

After consulting the Economic and Financial Committee,

HAS DELIVERED THIS OPINION:

On 12 February 2002 the Council examined the updated stability programme for Germany which covers the period 2001-2005. The Council notes that the new update broadly complies with the requirements of the revised "code of conduct on the content and format of stability and converge programmes"[2], although there is some need for improvement, notably regarding the use of rounding.

The Council notes that the estimated deficit outcome for 2001 (2.6% of GDP) is clearly higher than projected in the October 2000 update (1½ % of GDP). The Council acknowledges that this important nominal divergence can be explained by the weakening in growth, with 2001 GDP growth more than two points below the projections of the October 2000 update of the programme. While the federal government implemented the budget as planned, the Council notes that the deficit outcome of other levels of government, including social security, is higher than estimated.

The baseline macro-economic scenario of the updated programme expects annual output growth of 1¼ % in 2002; for the period 2003-05 annual average output growth is estimated to accelerate to some 2½ %; the general government finances are expected to improve from a deficit of 2½ % of GDP in 2001 to a balanced position in 2004 and 2005. The Council notes that with the presentation of the annual economic report on 30 January 2002, the German authorities now consider the alternative scenario contained in the programme to be realistic. It is in line with the Commission Autumn Forecast for 2001 and 2002. For the years 2003 to 2005 it assumes an annual growth rate of 2.25% on average. The Council concurs that this lower-growth scenario is plausible. Even this scenario is conditioned on a favourable external and internal environment, notably the expected pick-up of world economic growth, continued wage moderation and enhanced structural reform efforts, especially in the labour market.

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[1] OJ L209/1, 2.8.1997

[2] *Revised Opinion of the Economic and Financial Committee on the content and format of stability and converge programmes*, endorsed by the Ecofin Council on 10.7.2001.

The Council considers that, if growth turns out lower than expected , there is a risk that the general government deficit in 2002 comes even closer to the 3% of GDP reference value than in 2001. Therefore, the Council welcomes the German government's determination to ensure that the 3% of GDP reference value will not be breached. To this end, the government intends to closely monitor budgetary developments at all levels of government in 2002, including the States (*Länder*) and the social security system; and to implement the budgetary plans for this year carefully in order to avoid any further deterioration in the deficit. It is also prepared to find the most appropriate ways to counter any shortfall; and to avoid any measures likely to lead to a further deterioration in the government deficit.

The German government has confirmed its intention to take all appropriate measures to reach a close to balance budget position by 2004, in accordance with previous commitments, so as to comply with the requirements of the Stability and Growth Pact from that year onwards. This may require, once the economic recovery is established, discretionary measures in addition to those included in the 2001 updated stability programme.

Sound public finances should be supported by the decisive implementation of structural reforms geared at improving the growth potential of Germany, in particular in the labour market and in social security and benefit systems. This is all the more important as the German economy is still burdened with the financing of the reunification process, and, despite its large size, remains highly vulnerable to external shocks.

The Council urges the German authorities to ensure strict budgetary implementation at all levels of government. As shown once again by the budgetary outcomes for 2001, this will be crucial to attain the projected deficit targets. While the Council welcomes the recently implemented change to the law on budgetary principles, stating that all levels of government should contribute to the achievement of the medium-term budgetary targets, the mechanism enshrined therein is not yet sufficient to guarantee compliance with mutually agreed objectives by all levels of government. The Council therefore welcomes the intention of the federal government, through agreements with the regional authorities, to make every effort to ensure that the above mentioned budgetary objectives are met.

The Council notes with satisfaction that the German authorities will continue in their efforts to bring the debt level down below the Treaty's reference value. However, in view of the significant pressures for increased public spending due to an ageing population, the slow decline in the debt ratio remains a source of concern given the need to ensure the sustainability of public finances. If debt reduction is to make a noticeable contribution towards meeting the budgetary cost of ageing populations, a balanced budget position must be reached as soon as possible. In addition to intensified budgetary consolidation efforts the recently implemented reform of the pension system is a step in the right direction. This needs to be complemented by structural reforms geared towards a rise in labour market participation rates, particularly of women and older workers. Such measures should be enacted as soon as possible, given that the budgetary impact of ageing populations will take hold soon.

The 2001 update does not contain projections on the long-term sustainability of public finances in line with the revised Code of Conduct. The programme provides detail on the recent pension reform. While these reforms are a step in the right direction, further reforms may be needed in the future. Raising employment rates, especially amongst women and older workers, will form a key part of any overall strategy to prepare for ageing populations. The key challenge facing Germany is to achieve a position of budget balance and thereafter to sustain it over the very long-run."

Statement by the Council on the budgetary situation of Germany

"1. The Council considers that the early-warning mechanism is an essential part of the Stability and Growth Pact. The Commission, when issuing on 30.1.2002 a recommendation for a Council recommendation with a view to giving early warning to Germany in order to prevent the occurrence of an excessive deficit, has thereby acted in accordance with the provisions of the Stability and Growth Pact.

2. The Council welcomes the commitments of the German government; it
   - confirms its endeavour to ensure that the 3 % of GDP reference value for the general government deficit will not be breached; to this end, the government intends to closely monitor budgetary developments at all levels of government in 2002, including the States (*Länder*) and the social security system;
   - will implement budgetary plans for this year carefully, avoiding to take discretionary measures that could aggravate the budgetary position and using any budgetary room for manoeuvre to reduce the deficit;
   - confirms that a close to balance position will be reached by 2004, in accordance with previous commitments; this may require, once the economic recovery is established, discretionary measures in addition to those included in the 2001 updated stability programme;
   - will, through agreements with the regional authorities, make every effort to ensure that the above commitments are met;
   - notes that the debt ratio is projected to decline over the period of the programme.

3. In the light of these commitments by the German government, the Council considers that it has effectively responded to the concerns expressed in the Commission recommendation, and therefore the recommendation is not put to vote and the procedure is closed.

4. The Council is unanimous in taking this decision."

– *GREECE - Council opinion on the updated Stability Programme, 2001-2004*

"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 of the Commission,

After consulting the Economic and Financial Committee,

HAS DELIVERED THIS OPINION:

On 12 February 2002 the Council examined the 2001 update of the stability programme of Greece, which covers the period 2001-2004.

Real GDP growth remained robust in 2001, at 4.1%, although lower than projected in the 2000 stability programme, as a result of the deterioration in the external environment. Inflation resurgence under the impact of increasing energy prices in 2000 started to decelerate since the Summer 2001 but the improvement might weaken in the coming months. The general government accounts are estimated by the updated programme to reach a 0.1% of GDP surplus in 2001 (including non budgeted UMTS receipts of 0.4% of GDP) instead of 0.5% of GDP as projected in the 2000 stability programme.

The updated stability programme projects annual real GDP growth of around 4% in yearly average for the period 2002-2004 as against 5.4% in the 2000 stability programme. The Council considers the projected real GDP growth, which should be underpinned by high private and public investment, as attainable. The Council notes that the budgetary projections remain in surplus throughout the period of the programme in both actual and cyclically-adjusted terms and that they respect the close to balance or surplus requirement of the Stability and Growth Pact.

The Council notes that the government debt ratio is currently expected to decline from 99.6% of GDP in 2001 to 90.0% of GDP in 2004 instead of 84.0% of GDP as projected in the 2000 stability programme. The Council also notes that the improvement in the government balance in the period from 2002 to 2004 primarily relies on the steady reduction in interest payments; in contrast, no retrenchment in current primary expenditure is expected. Furthermore, the ratio of the general government primary surplus to GDP, although reaching a high level until 2004, progressively declines throughout the period. The Council strongly encourages the Greek authorities to set promptly a clear binding norm for current primary expenditure as it was recommended in its opinion on the 2000 stability programme[2].

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[1] OJ L 209, 2.8.1997
[2] OJ C 77, 9.3.2001

The Council considers it is appropriate to keep high primary surpluses above 6 percent of GDP and to pursue, if necessary, further budgetary adjustment effort, taking into account the high level of debt. In the short-term, vigilance should be maintained regarding price developments in particular with respect to the forthcoming wage negotiations. Furthermore, taking into consideration the still very high level of the government debt ratio, as well as the perspective of increasing budgetary costs stemming from the ageing population, the Council urges the Greek government to take advantage of the current favourable macroeconomic situation to reduce the government debt as fast as possible. The Council notes that the debt reduction foreseen in the programme is much slower than what would be warranted by expected GDP growth and the projected primary surplus. The Council invites the authorities to provide more detailed information on financial operations in future programme updates in order to allow a better understanding of debt developments.

The Council notes that strengthening structural reforms is a key economic policy objective of the updated programme; the Council considers that although considerable progress has been made in recent years in this area, implementation of structural reforms must continue in the product, services and labour markets in order to enhance the efficiency of markets and the competitiveness of the economy; the Council encourages the government to proceed to the necessary reforms rapidly. The Council welcomes the intention of the government to implement reforms in the area of budgeting and management of expenditure in the public sector.

The Council welcomes the information provided in the updated programme on long-term sustainability of public finances. The Council considers that there is a serious risk of budgetary imbalances emerging in the future due to the ageing population and that there is a need to reform the public pension system. The Council notes that no progress was made in this area in 2001 and that the updated programme does not include any specific plans or timetable for pension reform. The Council recommends that the government proceeds to the reform of the pension system with no further delay."

– *SPAIN - Council opinion on the updated Stability Programme, 2001-2005*

"THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty establishing the European Community,

Having regard to Council regulation (EC) N° 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),

Having regard to the recommendation of the Commission,

After consulting the Economic and Financial Committee,

HAS DELIVERED THIS OPINION:

On 12 February 2002 the Council examined Spain's updated stability programme covering the 2001-2005 period. The information provided in the updated programme is broadly in line with the revised "C*ode of conduct on the content and format of stability and convergence programmes*[2]". Nevertheless more complete information regarding long-term projections would have been desirable.

The Council notes with satisfaction that implementation of the previous update has been broadly on track despite weaker growth. After a deficit of 0.3% of GDP in 2000, the target of a general government balanced budget in 2001 is expected to have been reached and the debt ratio objective overachieved. The achievement of the fiscal targets for 2001 was helped by stronger than planned containment of expenditure and higher than expected nominal GDP.. Taking into account the worsening in the international environment, the update centrally projects GDP growth slowing to 2.4% in 2002 but to resume at a 3% rate, close to potential, from 2003. Although somewhat optimistic in the short term, the medium-term outlook is plausible, given recent performance and the ongoing catching-up process. The inflation projection also seems attainable, helped by the recent agreement among social partners aimed at wage moderation, though it would be advisable to end indexation in wage bargaining in line with last year's Council Opinion.

Budgetary consolidation for the period 2002-05 is based on primary current expenditure restraint and lower interest charges while government investment is set to increase and the tax burden to moderate slightly. Despite the current economic slowdown, the update extends a balanced budget target to 2002 (and 2003) and targets small surpluses in 2004 and 2005, of 0.1% and 0.2% of GDP respectively. The debt ratio is set to continue declining, reaching 50% of GDP by 2005.

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1 OJ L 209, 2.8.1997.

2 *"Revised Opinion of the Economic and Financial Committee on the content and format of the stability and convergence programmes"*, endorsed by the Ecofin Council on 10.7.2001.

The medium-term budgetary projections overall appear prudent, with cautious estimates of revenue growth and reductions in interest charges, giving some room of manoeuvre in case less positive developments materialise; intentions on implementing the necessary control of primary current expenditure are not, however, detailed.

The targets in the programme, including their evaluation in cyclically-adjusted terms, respect the “close-to-balance or surplus” objective of the Stability and Growth Pact throughout the period. The Council therefore considers that the updated Stability Programme is in conformity with the provisions of the Stability and Growth Pact, with the targets indicating respect of the objective with an increasingly comfortable margin. The fiscal stance, defined as the change in the cyclically-adjusted balances, implies a mild tightening, broadly in line with the recommendations in the 2001 Broad Economic Policy Guidelines.

The Council welcomes important developments in Spain’s institutional budgetary setting, notably the recently approved General Law of Budgetary Stability and the 2002 budget reforms which have transferred important tax and spending powers to regional authorities. Although the Council does not advocate any specific form regarding the necessary internal co-ordination between central and territorial governments, the involvement of all government sub-sectors in maintaining budgetary discipline is welcome, and it is important that the existing co-ordination should also operate efficiently under the new arrangements.

Structural reforms implemented in 2001 essentially stem from the package approved in June 2000 aiming at further deregulating markets and strengthening the competition authority.

The Council notes that the updated programme does not give more detailed information on measures to be taken to strengthen the long-term sustainability of the public finances. This is of particular concern given Spain’s exposed demographic profile and the adverse budgetary consequences of ageing. The risk of serious imbalances in the long term cannot be excluded unless appropriate measures are implemented. The budgetary impact of ageing is not adequately reflected in the update’s projections of pension expenditure and social security contributions which extend only to 2015. The announced intention to reform the pension system lacks a detailed calendar. The Council considers that the pension system measures adopted in April 2001 did not represent the significant positive reforms advocated in its Opinion on the previous update. The main measure recently adopted to deal with ageing is the social security fund created in 2000, assets of which are planned to reach at least 1% of GDP by 2004.

Finally, the Council welcomes the important role to be played by other structural policies, particularly in the market for goods and services, in ensuring non-inflationary employment-oriented growth. These measures are consistent with the Broad Economic Policy Guidelines. Those implemented so far should be closely monitored and if necessary strengthened."

– *FRANCE - Council opinion on the updated Stability Programme, 2003-2005*

"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 co-ordination of economic policies[1], and in particular Article 5(3) thereof,

Having regard to the recommendation of the Commission,

After consulting the Economic and Financial Committee,

HAS DELIVERED THIS OPINION:

On 12 February 2002 the Council examined the updated Stability Programme of France which covers the period 2002-2005.

The 2001 update of the stability programme projects real GDP growth at 2.3% in 2001 and 2.5% in 2002. From 2003 to 2005, the projections are based on two macroeconomic scenarios: a "cautious" scenario in which GDP growth averages 2.5%, considered to be the current level of potential growth, and a "favourable" scenario where real GDP growth accelerates to 3%. The general government deficit is estimated to remain unchanged in 2001 and in 2002 at 1.4% of GDP, the level reached in 2000. From 2003 to 2005, according to the cautious scenario, the government deficit should decline to 1.3% of GDP in 2003 and 0.5% of GDP in 2004; the government balance is expected to be attained in 2005. The budgetary adjustment would be faster should the favourable scenario materialise, a government balance being expected in 2004, turning into a 0.3% of GDP surplus in 2005. The general government debt estimated at 57.1% of GDP in 2001 is projected to be lowered in 2005 to 52.9% of GDP in the cautious scenario and to 51.8% of GDP in the favourable scenario.

The Council considers that the macroeconomic projections encompass downside risks in the short term: in more recent forecasts, real GDP growth is expected not to exceed 2% in 2001 and 1.5% in 2002; consequently, the Council notes that the government deficit in 2002, the starting year of the projections is likely to be less favourable than initially expected. Regarding following years, the Council considers the "cautious" scenario, in which real GDP growth averages 2.5% from 2003 to 2005, as the more plausible one.

[1] OJ L 209, 2.8.1997

The Council notes that, in the cautious scenario, the general government deficit is projected to be reduced significantly only from 2004; the reduction projected for 2003 is marginal and the deficit for that year will stay rather at the same level as in 2000. The deficit remains roughly unchanged in 2000-2003 also in cyclically adjusted terms. In spite of a higher than expected deficit in the first few years, a balanced position is still reached in 2005. Nevertheless, this is one year later than recommended in the opinion of last year. The Council therefore urges the French authorities to use every opportunity to reach a balanced position in 2004.

The budgetary objectives included in the 2001 update of the stability programme respect the requirement of close to balance or in surplus of the Stability and Growth Pact in 2004 and 2005, although only in the latter year a balance in cyclically-adjusted terms is expected. However, the underlying budgetary position provides a safety margin to avoid breaching the 3% of GDP threshold as from 2001 despite the downside risks in the macro-economic projections.

The French budgetary strategy is based on predetermined multi-annual spending norms, in real terms; the Council commends such a strategy, considering that a clear binding norm for expenditure secures a transparent budgetary adjustment. However, the Council notes that, with macroeconomic developments in line with official expectations, respect of the spending norm as it was set in the 1998 stability programme for the period 2000-2002 would have broadly ensured the projected reduction in the general government deficit for the same period, despite the implementation of the tax reform. In particular, the Council notes that, in 2002, expenditures are planned to increase slightly faster than recommended in the 2001 Broad Economic Policy Guidelines. The Council welcomes, however, that the multi-annual spending norm for the period 2003-2005 has now been reduced to 4%. The Council encourages the French authorities to fully respect this norm.

The Council welcomes the intention to make any reduction in the tax burden after 2003 conditional on real GDP growth and on the attainment of a close to balance or in surplus budgetary position.

The target of moving towards a budgetary balanced position is a necessary step to placing public finances on a more sustainable footing in view of the budgetary burden arising from ageing population in France. The Council notes that the strategy outlined in the 2001 updated programme to prepare for this challenge needs more ambition. The Council considers it necessary that France makes as soon as possible further progress in the reform of the pension system."

– *IRELAND - Council opinion on the updated Stability Programme, 2002-2004*

"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 of the Commission,

After consulting the Economic and Financial Committee,

HAS DELIVERED THIS OPINION:

On 12 February 2002 the Council examined the 2001 update of Ireland's stability programme, which covers the period 2002-2004. The update broadly complies with the revised "code of conduct on the content and format of stability and convergence programmes"[2], although some data are not in line with EU standards. The Council notes that the macroeconomic scenario in the update envisages a deceleration from record real GDP growth of 11.5% in 2000 to just under 7% in 2001 followed by below 4% in 2002 and a recovery to Ireland's medium-term sustainable growth rate of about 5 to 6 percent thereafter.

The general government surplus for 2001 is expected to be close to 1.5% of GDP, more than 2.5 percentage points lower than budgeted, and this is largely blamed on the economic downturn. The Council regrets that this under-performance has apparently resulted in a downward shift in the projected path for the general government balance in the new update from 2002 onwards. The Council notes that the budgetary path in the new update does not follow the previous approach of high surpluses and a further reduction of the debt ratio. The update targets a surplus of 0.7% of GDP in 2002 (0.2% of GDP excluding the transfer from the Central Bank, which seems unlikely to qualify as a credit item) and small deficits in 2003 and 2004 of 0.5% and 0.6% of GDP respectively. The debt ratio is expected to broadly stabilise at the very low level of 34%. The Council notes with concern that the move to a small deficit in 2003-2004 coincides with the recovery to the medium-term sustainable growth rate. However, the Council acknowledges that these deficits incorporate important conditional "technical provisions" for unspecified future budget measures and increasingly large contingency provisions "against unforeseen developments".

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1 OJ L209, 02.08.1997

2 *Revised Opinion of the Economic and Financial Committee on the content and format of stability and converge programmes*, endorsed by the Ecofin Council on 10.7.2001.

The Council observes that, according to the projections in the stability programme, the overall revenue ratio falls over the period (in spite of a broadly stable tax burden), while the expenditure ratio shows a steady increase (including contingency provisions). The Council notes that the recent rates of increase in current and capital spending, motivated by a desire to tackle infrastructural needs and public service deficiencies, cannot be sustained without appropriate action on the revenue side.

While the Council found that the budgetary projections in previous stability programmes fully respected the requirements of the Stability and Growth Pact, it notes with concern that the projections in the new update, including their evaluation in cyclically-adjusted terms, might not respect the close-to-balance requirement of the Pact from 2003. In the event that the contingency provisions incorporated in the targets for 2003-2004 are not used, the close-to-balance objective would be broadly respected throughout the programme period. The Council therefore urges the Irish authorities to ensure that compliance with the Pact is continued throughout the programme period. The Council notes that there is a margin to avoid breaching the 3% of GDP deficit threshold throughout the programme period.

The Council recalls that, on 6 November 2001, in its conclusions on economic and budgetary developments in Ireland in the wake of the Recommendation of 12 February 2001[1], it had stressed the need for continued vigilance on the fiscal stance, given the experience of overheating. In particular, it had advocated a broadly neutral budget for 2002. Based on the targets in the updated programme, the change in the cyclically-adjusted balance for 2002 points to a broadly neutral fiscal stance, in line with its November conclusions. The Council notes that the targeted outcome for the general government balance in 2002 is subject to a number of risks. The Council urges the Irish authorities to ensure that the budgetary stance for 2002 is broadly neutral.

The Council welcomes further progress in the important areas of tax reform and infrastructural investment to relieve supply constraints, as described in the update. However, it regrets that the new update does not present any plans to introduce a medium-term framework to guide public spending or to improve expenditure control. The Council recommends that the Irish authorities address these issues urgently, as requested in the broad economic policy guidelines agreed for 2001.

The Council considers that Ireland is in a good position to meet the budgetary costs of ageing populations. However, the long-term sustainability of public finances should not be taken for granted as public spending on pensions and health care is expected to rise significantly in coming decades. The move towards a structural deficit in the programme, if confirmed, would imply a halt to the recent strong gains in the long-term sustainability of the public finances. The Council nevertheless notes with satisfaction the broad-based strategy to prepare for ageing populations, and in particular that 1% of GNP continues to be set aside as the annual contribution to the National Pensions Reserve Fund."

[1] OJ L69, 10.03.2001

– *ITALY - Council opinion on the updated Stability Programme, 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 co-ordination of economic policies[1], and in particular Article 5 (3) thereof,

Having regard to the recommendation of the Commission,

After consulting the Economic and Financial Committee,

HAS DELIVERED THIS OPINION:

On 12 February 2002 the Council examined Italy's updated stability programme, which covers the period 2001-2005.

The new update broadly complies with the requirements of the revised "code of conduct on the content and format of stability and convergence programmes"[2], although some minor inconsistencies exist in the aggregation of expenditures and revenues in ESA 95 terms.

The Council welcomes Italy's commitment to continue to secure high primary surpluses throughout the programme period, while allowing for some easing in the tax burden. It further notes with satisfaction the confirmation of the previous updated programme's objectives for the general government balance in 2002 and 2003. It welcomes in particular the balanced budget in the latter year. Notwithstanding lower than expected growth and in compliance with the 2001 BEPGs, the projected deficit for 2001 only slightly exceeds the original objectives. While acknowledging the market related difficulties in meeting the privatisation objectives, the Council regrets, that the reduction of the debt ratio below 100% of GDP is now postponed by one year in contrast with Italy's commitments since 1998.

The programme's macroeconomic scenario assumes an acceleration of real GDP growth already at the end of 2001, with a further strengthening in 2003 and beyond, when economic growth is expected to steady at around 3%. This is supported by structural reforms. However, in the short term, the macroeconomic scenario is based on external assumptions which do not sufficiently reflect the deterioration in the global economic outlook observed during 2001. Hence, the Council observes that the risks to the macroeconomic scenario are mainly on the downside.

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1 OJ L209 of 2.8.1997.

2 *Revised Opinion of the Economic and Financial Committee on the content and format of stability and converge programmes*, endorsed by the Ecofin Council on 10.7.2001.

The budgetary targets in 2002 and 2003 rely heavily on one-off measures, in particular the sale of publicly-owned real assets, while few details are provided on the planned sizeable reduction in non-interest expenditure in percentage of GDP over the programme period. The Council remarks that the extensive recourse to one-off operations in a cyclical downturn should be complemented by measures aimed at restraining primary current expenditures, which need to be clarified.

The Council observes that the projected medium-term budgetary position of close to balance or in surplus from 2003 onwards is in line with the requirements of the Stability and Growth Pact. The Council notes that there is a margin to avoid breaching the 3% of GDP deficit threshold throughout the programme period.

The Council considers it essential that the balanced fiscal position over the medium term is achieved as planned and that the required high levels of primary surpluses in the order of 5% of GDP are secured by measures aimed at a lasting reduction of primary current expenditures. The careful design and timely implementation of such measures is all the more important in the light of the challenges arising from the planned reform of taxation, which should result in a further significant reduction of the tax burden. The Council urges Italy to adopt rules allowing for a more effective monitoring and control of current outlays at all levels. It further recommends that Italy stand ready to keep fiscal consolidation on course after 2003 in the event that the programme’s high trend growth assumptions are not supported by actual developments.

The Council observes that Italy’s capacity to absorb age-related imbalances depends crucially on maintaining high primary surplus over the long term and large increases in labour force participation rates. Reforms of the pension system so far helped to contain the growth in pension expenditures. The Council encourages Italy to accelerate the implementation of the pension reform to control expenditure and to promote supplementary private pension provisions, as stated in the programme. Moreover it notes the key importance of labour market reforms and of accelerating the reduction in the debt ratio, in view of the necessity to increase participation ratios and provide in advance for competing claims on public resources."

– ***PORTUGAL - Council opinion on the updated Stability Programme, 2002-2005***

"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 co-ordination of economic policies[1], and in particular Article 5(3) thereof,

Having regard to the recommendation of the Commission,

After consulting the Economic and Financial Committee,

HAS DELIVERED THIS OPINION:

On 12 February 2002 the Council examined the updated stability programme for Portugal which covers the period 2002-2005. The updated programme projects general government finances to improve from a deficit of 2.2 % of GDP in 2001 to a balanced position in 2004, with a small surplus is expected in 2005. The government gross debt is expected to decrease from 55.9% of GDP in 2001 to 51.9% in 2005. The Council notes that the new update broadly complies with the requirements of the revised "code of conduct on the content and format of stability and converge programmes"[2].

The Council notes that the estimated deficit outcome for 2001 (2.2% of GDP) is clearly higher than projected in the January 2001 update (1.1 % of GDP). The Council acknowledges that this important nominal divergence is partly due to the slowdown in the economy, with 2001 real GDP growth around 1¼ percentage points below projections of the January 2001 update of the programme. However, the Council also notes that lower growth can explain only a part of the shortfall relative to the target. Factors not related to the growth slowdown contributed to this, notably an underestimation of the revenue losses implied by the reform of direct taxes implemented in 2001 and lower-than-projected efficiency gains in tax collection and administration, as well as less favourable developments in current primary expenditure. The Council acknowledges that the Portuguese government took, in a corrective budget adopted in June 2001, measures with a view to curtailing expenditure growth. These measures, which amounted to 0.6% of GDP, were, however, not sufficient to offset the shortfall in tax revenues in order to meet the deficit target set in the previous update of the programme.

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[1] OJ L209/1, 2.8.1997

[2] *Revised Opinion of the Economic and Financial Committee on the content and format of stability and converge programmes*, endorsed by the Ecofin Council on 10.7.2001.

The baseline macro-economic scenario of the updated programme expects output growth to accelerate from 1¾ % in 2002 to 3% in the last two years of the programme, yielding annual average growth of some 2½ %. This seems realistic in view of the current imbalances in the Portuguese economy, with the necessary adjustment process likely to dampen output growth in the medium term. Given the strong rise in unit labour cost in recent years and its adverse effects on the external competitiveness of the Portuguese economy, the needed increase in export growth is not likely to be strong enough to make up for the shortfall in domestic demand. The Council considers that, for these reasons, the cautious line taken by the programme regarding the medium-term outlook for the Portuguese economy appears appropriate.

The Council notes that the Portuguese authorities maintain their intentions to balance the budget by 2004, as planned in last year's update and as recommended in the BEPGs. In cyclically adjusted terms the government accounts would move into a small surplus in 2004. Portugal would thus comply with the requirements of the Stability and Growth Pact from 2004 on. The Council welcomes the confirmation of a balanced budget target for 2004. While acknowledging that achieving a balanced budget target in 2004 requires a considerable effort, the Council considers it necessary and encourages the Portuguese government to pursue it with determination. Once economic recovery is established, the Portuguese government should strengthen its efforts to move rapidly towards its medium-term objective of a zero deficit in 2004. This will require strict respect in the budgets for 2003 and 2004 of the 4% capping rule for growth of nominal current primary expenditure in general government, and may also require additional discretionary measures.

The Council notes that the budgetary outcome for 2001 departed from the Portuguese budgetary path towards a "close to balance or in surplus" position. The Council welcomes the intentions of returning to such a path in 2002 and considers that the budgetary objective for that year must be met. The Portuguese government should closely monitor budgetary developments in 2002. It should implement its budgetary plans for this year carefully in order to secure an improvement in the deficit. Therefore, any measures likely to lead to a further deterioration in the government deficit should be avoided, and any revenue shortfall other than explained by slower than expected economic growth should be compensated by additional measures. Given that Portugal has not yet achieved a sufficient safety margin against breaching the 3% of GDP deficit threshold, deviations from the objective must be timely addressed.

The Council urges the Portuguese authorities to ensure strict budgetary implementation for all sectors of government. Moreover, a number of important reforms have been announced in the programme update, particularly in some areas with a direct impact on public finances, whose timely and determined implementation will be paramount for a successful implementation of the budgetary consolidation strategy.

The Council notes that the debt ratio remains clearly below the 60% ceiling, but has been revised upwards throughout the programme period. Only part of this revision can be explained by the developments of the government deficit and GDP growth. The Council invites the authorities to provide more detailed information on financial operations in future programme updates in order to allow a better understanding of debt developments.

The Council notes that the sustainability of government finances should be strengthened in light of the budgetary costs of ageing populations. If debt reduction is to make a noticeable contribution towards the sustainability of government finances, the target of a balanced budget position by 2004 must be reached. In addition, structural reforms are necessary to strengthen the financial sustainability of the pension system. The Council notes with satisfaction that the reform of the pension system recently agreed by the social partners goes in the right direction. The main challenge facing Portugal is to complete the process of pension reform and to continue with the reforms of the health care sector."

Statement by the Council on the budgetary situation of Portugal

"1. The Council considers that the early-warning mechanism is an essential part of the Stability and Growth Pact. The Commission, when issuing on 30.1.2002 a recommendation for a Council recommendation with a view to giving early warning to Portugal in order to prevent the occurrence of an excessive deficit, has thereby acted in accordance with the provisions of the Stability and Growth Pact.

2. The Council welcomes the commitments of the Portuguese government; it

- confirms its endeavour to ensure that the 3 % of GDP reference value for the general government deficit will not be breached; to this end, the government intends to closely monitor budgetary developments at all levels of government in 2002 in order to meet the budgetary targets as set down in the stability programme;
- will implement the budgetary plans for this year carefully, avoiding to take discretionary measures that could aggravate the budgetary position and using any budgetary room for manoeuvre to reduce the deficit; any revenue shortfall, other than explained by slower than expected growth, should be compensated by additional measures;
- confirms that a balanced position will be reached by 2004, in accordance with previous commitments;
- notes that the debt ratio is projected to decline over the period of the programme.

3. In the light of these commitments by the Portuguese government, the Council considers that it has effectively responded to the concerns expressed in the Commission recommendation, and therefore the recommendation is not put to vote and the procedure is closed.

4. The Council is unanimous in taking this decision."

– ***UNITED KINGDOM - Council opinion on the updated Convergence Programme, 2000-01 to 2006-07***

"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 9 (3) thereof,

Having regard to the recommendation of the Commission,

After consulting the Economic and Financial Committee,

HAS DELIVERED THIS OPINION:

On 12 February 2002 the Council examined the updated Convergence programme of the United Kingdom which covers the period 2000/2001 to 2006/2007. The programme envisages a government deficit of 0.2 % of GDP in 2001/2002, a deficit of 1.1% in 2002/2003 rising to 1.3% of GDP in 2003/04 before falling to 1% of GDP in the two final years of the programme; 2005/06 and 2006/07. The Council considers it appropriate that the programme stresses the securing of macroeconomic stability supported by sound monetary and fiscal policies and continued structural reform.

The programme is built upon a macro-economic framework showing GDP growth of 2¼% in 2001 and the same in 2002, rising to 3% in 2003 before returning to growth, at trend, of 2½% in 2004. The Council considers the macro-economic forecasts and the trend growth assumption of 2½% to be realistic. It notes, the projections in the programme for the public finances are, for reasons of caution, based on a lower assumption for trend growth namely 2¼%.

With respect to inflation and interest rates, the United Kingdom continues to fulfil the convergence criteria with some margin. The Council notes that the monetary framework of inflation targeting, with operational responsibility for interest rate changes given to the Bank of England, has been an important condition for securing low inflation expectations. The Council notes that under the current policy framework, the programme projects the UK inflation target to be achieved over the programme period. The United Kingdom has fulfilled the convergence criterion on the long-term interest rate for some time. This helps confirm the credibility given to the UK's stability oriented framework for macroeconomic policy. The Council recommends that the United Kingdom continue with the stability-oriented policies with a view to securing exchange rate stability which, in turn, should help reinforce a stable economic environment.

[1] OJ L209, 2.8.1997

The general government finances are, in the current year, 2001/2002, expected to be close to balance, in actual and also in cyclically-adjusted terms, thus fulfilling the requirements of the Stability and Growth Pact. However, the Council notes that a projected deficit of a little more than 1 % of GDP emerges in 2002/03 and persists, around that level, in the remaining years of the plan to 2006/07. A deficit of around 1% of GDP now emerges one year earlier than in the previous update, largely as the result of temporary economic factors (including a lower level of GDP than previously projected, and lower financial company profits) .The Council acknowledges that, in the medium term, this 1% of GDP deficit persists in the projections, both unadjusted and cyclically adjusted, as a result of the use of a very cautious trend growth assumption of 2.25% per annum from 2003-2004 onwards and as a result of addressing the low level of government investment - as suggested in the 2001 BEPGs. However, in view of a sustained deficit of 1% of GDP, or thereabouts, which is based on a very cautious growth assumption, it notes the requirements of “close to balance or surplus in the medium term” contained in the Stability and Growth Pact. Therefore the Council encourages the government to be alive to any deterioration in public finances that would take them away from the terms of the Stability and Growth Pact and, if necessary, to take remedial action. The Council appreciates that the debt to GDP ratio is low and falling. Gross debt relative to GDP falls from 40% in 2000-2001 to the low level of 36,3% by 2006-2007.

The Council notes that the programme provides an assessment of the long-term outlook of the public finances and a description of policies that could be addressed to minimise the impact of ageing. The Council considers that the UK, with a low and falling debt to GDP ratio, is in a good position to meet the consequences of ageing populations and welcomes that the public finances are sustainable on current policies.

The Council welcomes the structural reforms included in the programme. It notes, with approval, that the progress on economic reforms should help to raise productivity performance and secure further improvements in the labour market."

UPDATE OF THE EURO CHANGEOVER

The Council took note of an oral presentation by Commissioner Solbes on the latest information concerning the successful changeover to the euro. The Council welcomed the progress achieved and looked forward to a further oral report at its March 5 meeting and, at the end of the period of dual circulation, a written report on the changeover to be submitted to the Barcelona European Council.

The Council noted in particular that:

- following an extremely successful initial changeover period, almost all cash transactions are now conducted in euros;
- the introduction of the euro notes and coins has not led to any discernible inflationary pressures;
- there have been only very few instances of counterfeiting of euro notes, and these have been of extremely poor quality.

The Council also acknowledged that the successful introduction of euro notes and coins could not have been achieved without the meticulous preparation undertaken by the Commission, Member States and economic operators, as well as the swift acceptance of the new notes and coins by the public.

OWN RESOURCES

The Council welcomed the fact that all Member States had completed ratification procedures for the Council Decision [1] of 29 September 2000 on the system of EC own resources and that this decision will enter into force on 1 March 2002.

In keeping with the timetable agreed by the European Council in Berlin, this decision should take effect from 1 January 2002. The Council accordingly recalled that differences in own resources resulting from the late entry into force will be corrected with retrospective effect as from 1 January 2002, or 1 January 2001 as the case may be, in accordance with the provisions of the new own resources decision.

1 Decision 2000/597/EC,EURATOM - OJ L 253 of 7 November 2000.

BUDGETARY FRAMEWORK FOR ENLARGEMENT

The Council had a constructive exchange of views on the financial aspects of the Commission's communication on a common financial framework for the accession negotiations in the light of a preliminary report approved by the Permanent Representatives Committee and additional information presented by Commissioners Verheugen and Schreyer outlining the political context and technical background to the Commission's suggested approach.

The debate focused in particular on the feasibility of the financial package in view of the objective of concluding accession negotiations successfully within the financial framework agreed at Berlin, in accordance with the present *acquis* and according to the timeframe agreed by the European Councils in Nice and Laeken. Issues raised in the debate included the overall level of expenditure envisaged, the question of agricultural direct payments, the balance between direct aid and restructuring elements, the absorption capacity of new Member States regarding structural assistance and the principle of granting budgetary compensation after enlargement.

The Council noted that the discussion had provided useful guidance for the Commission as an input for its work in preparing draft common positions for the financial aspects of enlargement with the candidate countries.

LUNCH ITEMS

Over lunch the Council was debriefed on the outcome of the Eurogroup meeting of the previous evening and heard a report from the Commission and the Member States concerned on the state of negotiations with third countries and dependant territories on the taxation of savings. The Council also heard a report from the President of the EIB on his institution's initiatives on growth, and discussed, at the UK's request, the financing of development.

ITEMS APPROVED WITHOUT DEBATE

The documents whose references are given are available on the Council's Internet site http://ue.eu.int Acts adopted that include statements in the minutes which may be released to the public are indicated by an asterisk; these statements may be obtained by following the procedure indicated above or from the Press Office.

ECOFIN

Excise duty on manufactured tobacco products *

The Council adopted modifications to Directives 92/79/CEE, 92/80/CEE and 95/59/CEE concerning excise duty applied to manufactured tobacco and entered statements by Sweden and the Commission into the minutes.

The aim of the new provisions is to reduce the considerable discrepancies which still exist between Member States in the taxation of tobacco products and, through greater convergence between the tax rates applied in the Member States, help reduce fraud and smuggling within the Community.

VAT on *e*-commerce

The Council reached political agreement, pending and subject to the opinion of the European Parliament on changing the legal base of the regulation from article 95 of the Treaty (QMV) to article 93 (unanimity) on amending Regulation (EEC) 218/92 on administrative co-operation in the field of VAT and on amending the sixth Council Directive 77/388/EEC on VAT arrangements for certain services supplied by electronic means, as well as subscription-based and pay-per-view radio and television broadcasting.

The objective of the amendments is to create a level playing field for taxing digital *e*-commerce in accordance with the principles agreed at the 1998 OECD Ministerial Conference and to make compliance as easy and straightforward as possible. The proposal mainly concerns the supply over electronic networks (i.e. digital delivery) of software and computer services generally, plus information and cultural, artistic, sporting, scientific, educational, entertainment or similar services. The new legislation will ensure that when these services are supplied for consumption within the European Union, they are subject to EU VAT, and that when these services were supplied for consumption outside the EU, they are exempt from VAT. A temporary interim solution will provide for a simplified revenue reallocation mechanism pending the introduction of an electronic solution as soon as possible and no later than 3 years after implementation of the Directive.

The changes modernise the existing VAT rules to accommodate the emerging electronic business environment and to provide a clear and certain regulatory environment for all suppliers, located within or outside the EU. The proposal also contains a number of facilitation and simplification measures aimed at easing the compliance burden of business.

RELATIONS WITH CANDIDATE COUNTRIES

Participation in Community programmes - General terms and conditions

In the case of the Czech Republic *(Doc. 5631/02)*, Slovakia *(Doc. 5669/02)*, Latvia *(Doc. 5925/02)* and Estonia *(Doc. 5927/02)*, the Council agreed for the relevant Association Councils to adopt, by means of the written procedure, decisions on the general terms and conditions for the participation of these countries in Community programmes. For Hungary that same decision had already been taken on 17 December 2001 and for Slovenia on 22 January 2002.

The framework decision is part of the discussions on an enhanced pre-accession strategy. The new method should improve substantially the present system, whereby participation in Community programmes is decided on a case-by-case basis, resulting in longer deadlines due to the adoption of specific Association Council decisions and entailing delays in concrete participation in programmes. Since 1997, over 100 such decisions have been taken by the various Association Councils.

The framework decision will establish a number of general principles:

- the possibility for the country in question to participate in all programmes which, under the basic internal act, are open to the CCEE;
- the requirement of a financial contribution to be made to the Community budget;
- participation of representatives of those countries (as observers) on programme committees;
- the fact that projects submitted by the CCEE would be subject to the same conditions as those of the Member States.

On the Community side, definition of the specific terms and conditions, in particular the financial contribution, for participation in each individual programme will be determined by the Commission in collaboration with the authorities of the country concerned. The Commission is hereby assisted by a special committee appointed by the Council. As a result, once the framework decisions are in force there will no longer be any need for ad hoc Association Council decisions.

Three years after the entry into force of the framework decision and every three years thereafter the Commission will submit to the Council an overall assessment of implementation of the decision, accompanied, if appropriate, by proposals.

Slovakia and Estonia - Participation in the Fiscalis programme

The Council adopted two decisions on the position to be taken by the Community respectively within the EU-Slovakia Association Council and the EU-Estonia Association Council concerning the participation of Slovakia and Estonia in the Fiscalis programme.
(Doc. 5738/02 and Doc.5921/02).

The decisions, setting out the terms and conditions for these two countries to participate in that programme, will subsequently be adopted by the relevant Association Councils by written procedure.

Fiscalis is a programme of Community action to reinforce the functioning of indirect taxation systems in the internal market. It was established by Decision No 888/98/EC on 30 March 1998.

Estonia - Establishment of a Joint Consultative Committee

The Council agreed for the EU-Estonia Association Council to adopt, by means of the written procedure, a decision with regard to the establishment of a Joint Consultative Committee.
(Doc. 5892/02)

The Joint Consultative Committee will assist the Association Council with a view to promoting dialogue and co-operation between the economic and social interest groups in the European Community and in Estonia. It will be composed of six representatives of the Economic and Social Committee of the European Communities and six representatives of economic and social interest groups from Estonia.

Cyprus/ Malta - Negotiations on trade concessions

The Council adopted directives for the Commission to negotiate additional mutual agricultural trade concessions with Cyprus and Malta.

<u>RELATIONS WITH EFTA</u>

Norway - Renewal of tariff concessions for 2002 for certain processed agricultural products

The Council adopted a regulation renewing for 2002 certain concessions in the form of Community tariff quotas for certain processed agricultural products originating in Norway *(Doc. 15482/01)*.

Council Regulation (EC) No 1416/95 of 19 June 1995 opened tariff quotas for 1995 for certain processed agricultural products in favour of Norway. These autonomous transitional measures were needed to take account of the trade arrangements for processed agricultural products which existed between the new Member States which joined the Community in 1995 (Austria, Finland, Sweden) and Norway. Since 1995 these autonomous measures have been renewed each year.

RELATIONS WITH THE ACP STATES

Fiji - follow-up to consultations pursuant to Article 96 of the Cotonou Agreement

The Council agreed on the text of a letter to be sent to the President of the Republic of the Fiji Islands concerning the follow-up to the consultations held in accordance with Article 96 of the Cotonou Agreement. The letter takes into account recent developments in Fiji and reactions from international partners to these developments. It is recalled that the consultations which Fiji were concluded on 12 April 2001. An earlier letter was sent by the European Union on 27 November 2001.

In its November letter the European Union recorded the progress made by Fiji in its return to democracy and stated its intention to gradually resume co-operation, subject to certain conditions. Following the Commonwealth Ministerial Action Group's decision of 20 December 2001 to lift Fiji's suspension from the Councils of the Commonwealth, the European Union, in its latest letter, considers it appropriate to proceed to the implementation of all projects intended for financing under the 7^{th} and 8^{th} EDF. Furthermore, it announces an up-coming letter of notification on the amount of funds which will be made available to Fiji under the 9^{th} EDF as well the start of discussions on the programming of these resources in preparation of the Country Strategy Paper and the National Indicative Programme.

ANTI-DUMPING

Polysulphuride polymers from the US - Termination of proceedings

The Council adopted a regulation terminating the anti-dumping procedure concerning imports of polysulphuride polymers originating in the United States of America *(Doc. 5512/02)*.

Under Regulation (EC) 1965/98 the Community had imposed in September 1998 definitive anti-dumping duties on polysulphuride polymers originating in the US. These duties were imposed following a complaint lodged by the sole Community producer of polysulphuride polymers, Akcros Chemicals GmbH & Co KG, Germany. On 20 July 2001, the same company withdrew its complaint and requested the Commission to repeal the measures, following its decision to cease production of the product concerned. In accordance with Regulation (EC) No 384/96 a proceeding may be terminated where the complaint is withdrawn, unless such termination would not be in the Community interest. Subsequent Commission investigations have not proved that such a termination would be against the Community interest. The anti-dumping proceeding is therefore terminated.

ENVIRONMENT

Sixth Environment Action Programme - Convening of the Conciliation Committee

The Council, noting that it is unable to accept all of the European Parliament's amendments to its common position on the draft Sixth Community Environment Action Programme, decided to convene the Conciliation Committee in accordance with the co-decision procedure laid down by the Treaty.

The proposal sets out key objectives and targets in the areas of climate change, nature and biodiversity, environment, health and the quality of life, natural resources and waste, and identifies a number of actions to achieve them, including by legislation, voluntary agreements and improved information and involvement of consumers, enterprises and public bodies.

HEALTH

Community Action Programme on Public Health - Convening of the Conciliation Committee

The Council, noting that it is unable to accept all of the European Parliament's amendments to its common position on the draft Community action programme in the field of public health (2001-2006), decided to convene the Conciliation Committee in accordance with the codecision procedure laid down by the Treaty.

The six-year programme is aimed at improving health information and knowledge, ensuring a rapid response to health threats and addressing health determinants. It will replace eight existing Community action programmes and complement national policies in this field.

INTERNAL MARKET

Marketing of short chain chlorinated paraffins - Convening of the Conciliation Committee

The Council, noting that it is unable to accept all of the European Parliament's amendments to its common position on restrictions on the marketing and use of short-chain chlorinated paraffins (SCCPs) for metalworking and leather finishing, decided to convene the Conciliation Committee in accordance with the codecision procedure laid down by the Treaty.

The draft modification of the directive on the marketing and use of certain dangerous substances and preparations results from of a risk assessment of SCCPs which found there to be potential risks to the environment.

FISHERIES

Recovery of cod stocks in the Irish Sea

The Council adopted a regulation establishing measures applicable for 2002 for the recovery of cod stocks in the Irish Sea. *(Doc. 5250/02)*

This regulation puts in place measures to protect adult cod during the 2002 spawning season. The most important means for achieving this objective is an area closure which should be in force before the traditional fishing season starts on 14 February. It also contains provisions to avoid practical difficulties encountered in certain fisheries as a result of technical measures introduced to protect cod. This regulation has been proposed following scientific advice from the International Council for the Exploration of the Sea in 1999 that indicated that the quantity of mature cod then present in the Irish Sea was at an historically low level.

EU/USA negotiations

The Council authorised the Commission to negotiate with the government of the United States of America with a view to concluding a Governing International Fisheries Agreement (GIFA).