

Conclusions of the Vienna European Council (11 and 12 December 1998)

Caption: On 11 and 12 December 1998, the Vienna European Council signals its agreement for a strategy on the future development of the European Union to be known as the ‘Vienna Strategy for Europe’ and looks, in particular, at questions concerning employment and growth, the preparations for the implementation of the Amsterdam Treaty and justice and home affairs (JHA).

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Vienna European Council (11 and 12 December 1998) Presidency Conclusions

The European Council met in Vienna on 11 and 12 December 1998 to discuss the main issues and challenges facing the European Union. It began its proceedings with an exchange of views with Mr José María GIL-ROBLES, President of the European Parliament, on the main subjects for discussion.

Its discussions on employment, growth and stability also benefited from the exchange of views between the Troika and the social partners which had taken place the day before.

A meeting was held with the Heads of State or Government and the Ministers of Foreign Affairs of the Central and Eastern European countries and Cyprus participating in the accession process.

The European Council expressed its gratitude to the former Federal Chancellor of Germany, Helmut Kohl, for his outstanding contribution to the development of the European Union and decided to award him the title "Honorary Citizen of Europe".

I. Vienna Strategy for Europe

1. European integration has gained new momentum. The single currency is about to be launched. Coordinated efforts to promote employment have produced encouraging results. The enlargement process is well under way. As the millennium draws to a close, the Union will have to strengthen its ability to serve its citizens.

2. At Cardiff, the European Council initiated a broad debate on the future development of the European Union. The Pörschach meeting emphasised the need for a strong and effective Union. In this spirit, the Vienna European Council has identified four issues of primary concern to European citizens where rapid and effective action is necessary. It has therefore agreed on the following "Vienna Strategy for Europe":

Promoting employment, economic growth and stability

- Report to the Cologne European Council on the development of a European Employment Pact in the framework of the Luxembourg process.
- Reinforcement of mechanisms for economic policy coordination; review of instruments and experience at the Helsinki European Council.
- Political agreement on the key elements of the tax policy package; report to the Helsinki European Council.
- Improvement of the international financial architecture; report to the Cologne European Council.
- Promotion of investment in European infrastructure and in human capital; report to the Cologne European Council.

Improving security and the quality of life

- Implementation of the Action Plan on establishing an area of freedom, security and justice; review at the special meeting of the European Council in Tampere.
- Improvement of the citizens' access to justice; review at the Tampere meeting.
- Reinforcement of European Union action in the field of human rights; report to the Cologne European Council.

- Integration of environment and sustainable development in European Union policies; review at the Helsinki European Council.

Reforming the Union's policies and institutions

- Political agreement on the Agenda 2000 package in March 1999 in order to achieve its final adoption before the European Parliament elections in June 1999.

- Decision at the Cologne European Council on how and when to tackle the institutional issues not resolved at Amsterdam.

- Improvement of the functioning of the Council; review at the Helsinki European Council.

- Internal reform of the Commission; report by the President of the Commission to the Cologne European Council.

- Effective fight against fraud; review of progress at the Helsinki European Council.

Promoting stability and prosperity throughout Europe and in the world

- Dynamic continuation of accession negotiations and preparations, and the submission of progress reports by the Commission on candidate countries in view of the Helsinki European Council.

- Effective application of the new Common Foreign and Security Policy (CFSP) instruments following the entry into force of the Amsterdam Treaty (High Representative, CFSP planning and early warning unit, improved decision-making mechanisms); review at the Helsinki European Council.

- Preparation of the first Common Strategies on Russia, Ukraine, the Mediterranean Region and the Western Balkans; first adoption at the Cologne European Council.

- Continuation of reflection on the development of a European security and defence policy; examination at the Cologne European Council.

Building on these elements, the European Council will, at its meeting in Helsinki, adopt a "Millennium Declaration" on the Union's priorities for future years.

II. Human Rights

3. On the occasion of the 50th anniversary of the adoption of the Universal Declaration of Human Rights, the European Council reaffirms the primary importance which it attaches to this Declaration. The Universal Declaration is a cornerstone in the edifice built after World War II for the protection and promotion of human rights at the national, regional and global level, and is the foundation for advancing and ensuring human dignity worldwide.

4. The European Union, which is founded on the principles of liberty, democracy, respect for human rights and fundamental freedoms and the rule of law, shares the values in which the Declaration is rooted and bases its action on those values.

5. The European Council endorses the European Union declaration on human rights of 10 December 1998 and invites the Council, the Commission and the Member States to examine how best to implement the concrete measures suggested.

6. The European Council underlines the need to combat all manifestations of racism, xenophobia and antisemitism, both in the European Union and in third countries. It emphasises the role of the Monitoring

Centre on Racism and Xenophobia in this regard. The European Council invites the Commission to draft proposals for its Cologne meeting for measures to counter racism in the candidate countries and invites the Member States to consider taking similar measures inside the Union.

In this context, the European Council welcomed the Swedish Government's intention to hold an international conference in Stockholm to spread knowledge about the Holocaust.

III. Employment, Growth, Stability and Economic Reform

7. The birth of the euro on 1 January 1999 constitutes a milestone in the process of European integration. The single currency will strengthen Europe's capacity to foster employment, growth and stability.

8. The introduction of the euro will lead to the creation of one of the largest currency areas in the world. This will imply global responsibilities for the Union and the necessity to speak with one voice and to be effectively represented.

9. The single currency reinforces the need for economic policy coordination. In the run-up to Economic and Monetary Union, instruments have been developed:

- to coordinate macroeconomic policies;
- to improve the effectiveness of national employment policies;
- to accelerate reform in product, service and capital markets.

10. Much has already been achieved: robust economic growth, low inflation and falling interest rates. Employment growth has gained momentum with 1.7 million jobs created during the last year. The balance between fiscal and monetary policies has evolved in a way supporting sustainable growth.

11. Further efforts are nevertheless required to strengthen existing instruments and forge them into a coherent strategy for employment, growth, stability as well as economic reform evolving towards a European Employment Pact within the framework of the Luxembourg process.

A. Economic and Monetary Union: A Major Step Ahead

(i) Birth of the euro

12. The European Council notes with great satisfaction that the transition to the third stage of Economic and Monetary Union on 1 January 1999 will be achieved smoothly in spite of turbulence on the world financial markets. This is the result of prudent economic policies in the context of EMU which must be continued.

13. The European Council is particularly pleased to note that:

- all Community secondary legislation necessary for the entry into force of the third Stage of EMU will have been adopted before the end of the year;
- the irrevocable conversion rates for the euro, consistent with the procedure set out in the technical annex to the Joint Communiqué of 2 May 1998, will be adopted on 31 December at a special session of the Council (ECOFIN);
- the Danish krone and the Greek drachma will participate in the new exchange rate mechanism as of 1 January 1999.

(ii) Europe as a Global Player

Speaking with one Voice

14. The introduction of the euro will be a major event for the international monetary system. It is imperative that the Community should play its full role in international monetary and economic policy cooperation within fora like the G7 and the International Monetary Fund. The European Council endorses the report of the Council on the external representation of the Community, which foresees that the President of the ECOFIN Council, or if the President is from a non-euro area Member State, the President of the Euro 11, assisted by the Commission, shall participate in meetings of the G7 (Finance) (see Annex II). The ECB, as the Community body competent for monetary policy, should be granted observer status at the IMF board. The views of the European Community/EMU on other issues of particular relevance to the EMU would be presented at the IMF board by the relevant member of the Executive Director's office of the Member State holding the euro Presidency, assisted by a representative of the Commission. The European Council invites the Council to act on the basis of a Commission proposal incorporating this agreement.

15. The coherence and effectiveness of the Community require that it shall be able to speak with one voice on issues of particular relevance to economic and monetary union. The European Council encourages the Commission, the Council and the Member States to take the necessary action to ensure a timely and effective preparation of common positions and common understandings which can be presented to third parties in international fora.

Strengthening the International Financial System

16. The European Council welcomes the report on strengthening the international financial system, which shows that Member States share a common outlook on the appropriate responses to the global financial crisis. Europe should play a decisive role in elaborating a new international monetary and financial system along the lines set out in the report. The IMF is the cornerstone of the international monetary and financial system, and it needs to strengthen its cooperation with other actors, including the World Bank. Consideration should be given to the strengthening and/or transformation of the Interim and Development Committees of the IMF and the World Bank. The European Council emphasises the necessity of strengthening the regulatory focus on risk management and prudential standards in financial sector institutions, in particular examining the implications arising from the operation of leveraged international financial organisations, including hedge funds. It emphasised the key importance of observing international financial rules in off-shore centres. The European Council requests the Council to prepare a report on improvements in the functioning of the international financial system for the European Council in Cologne. This report should also look at wider implications of globalisation.

17. The financial and economic crisis has demonstrated the need to strengthen social safety nets in emerging market economies. The European Council welcomes the fact that the European Union is the source of more than half of economic aid in the world. These resources need to be targeted so as to enhance needed structural and social reforms.

(iii) Strengthening internal economic coordination

Better Coordination of Economic Policies

18. Economic policies in the EMU must be based on close coordination involving all actors, including, where appropriate, European social partners. The European Council is pleased to note that a framework for a well-functioning economic and monetary union, including the Stability and Growth Pact and procedures for economic policy cooperation, is in place, and that policy coordination within the Euro-11 and the ECOFIN Council, as well as the dialogue with the European Central Bank, is progressing well. The Council now has a fully-fledged annual coordination process, which entails monitoring and surveillance mechanisms for the Stability and Growth Pact, national employment action plans and structural policies in the markets for goods

and services.

19. The European Council emphasises that it will be necessary to both deepen and strengthen economic policy coordination, within the agreed framework, in order to ensure the success of EMU and to support sustainable job-creating growth. Appropriate and coordinated responses to economic challenges are needed in Member States and at the Union level, encompassing budgetary and monetary policies as well as structural policies and taking into account wage developments.

20. The European Council invites the Council (ECOFIN) to report to it in Helsinki on how economic policy coordination has functioned in the third Stage of EMU.

Tax policy

21. The European Council welcomes the report of the Council on reinforced tax policy cooperation and emphasises the need to combat harmful tax competition. Cooperation in the tax policy area is not aiming at uniform tax rates and is not inconsistent with fair tax competition but is called for to reduce the continuing distortions in the single market, to prevent excessive losses of tax revenue or to get tax structures to develop in a more employment-friendly way.

22. In particular, the European Council:

- welcomes the fact that the work of the Code of Conduct Group has proceeded satisfactorily and encourages the Group to conclude its work at the latest by the Helsinki European Council;
- asks the Commission to submit a study on company taxation to the Council in accordance with the ECOFIN Council conclusions;
- invites the Council to pursue work on the proposals for a Directive on the taxation of savings and for a Directive on interest and royalties with a view to reaching agreement before the Helsinki European Council;
- welcomes the intention of the Commission and the Council to begin talks with third countries on problems concerning the taxation of interest income; and
- encourages the Council to pursue its work on a framework for energy taxation on the basis of the ECOFIN Council report, also taking into account its implications for the environment.

23. The European Council invites the Council to submit to it a second progress report on tax policy cooperation in time for the European Council in June 1999.

24. With regard to the decision of 1991 on the tax-free sales for intra-Community travellers, the European Council asks the Commission and the Council (ECOFIN) to examine by March 1999 the problems which could arise with regard to employment and to address on the basis of proposals from the Commission possible means of tackling these problems, including the possibility of a limited extension of the transitional arrangements.

Economic reform

25. The European Council welcomes the progress made under the Austrian Presidency on taking forward the economic reform agenda and meeting the requirements set down at Cardiff. The European Council welcomes the receipt of the national Progress Reports on structural reform. It looks forward to the assessment of those Reports and peer review between Member States, as a further step to improving the Broad Economic Policy Guidelines. Furthermore, the European Council welcomes the intention of the Internal Market Council to evaluate the Progress Reports in order to complement the considerations of the

ECOFIN Council from a single market perspective.

B. Sustainable Employment For Europe

1. Towards a European Employment Pact

26. Employment is the top priority of the European Union. It is the best way of providing real opportunity for people and combating poverty and exclusion effectively, thereby serving as the basis for the European social model.

27. The European Council notes with satisfaction the substantial progress that has been achieved in creating jobs and reducing unemployment. It applauds the efforts made by Member States in implementing the 1998 Guidelines.

28. For the first time since 1992 the unemployment rate has fallen below 10%. This is a positive development. More needs to be done. Employment policy has to be embedded into a comprehensive approach, encompassing macroeconomic policies directed towards growth and stability, economic reform promoting competitiveness, and the Employment Guidelines, which are designed to improve employability, adaptability, equal opportunities and job creation in existing and new enterprises.

29. Good progress has been made as demonstrated in the Joint Employment Report. The multilateral surveillance of the implementation of the Employment Guidelines is an essential element of the Luxembourg process. The use of benchmarks as well as the highlighting of good practices have proved to be successful tools of evaluation. However, this process needs to be reinforced. This calls for additional verifiable objectives and deadlines, both at European and national level, common performance and policy indicators as well as a consistent statistical basis as key elements on the way to a European Employment Pact within the framework of the Luxembourg process. This also calls for an increased involvement and responsibility of the social partners.

(i) The employment guidelines for 1999

30. The European Council welcomes the Commission's proposal for Guidelines for 1999 and endorses the outcome of the Joint Meeting of the ECOFIN and Labour and Social Affairs Councils on those guidelines.

31. When revising their National Action Plans, Member States should pay particular attention to the following:

- achieving tangible progress in promoting equal opportunities between women and men, in particular using benchmarks and a gender mainstreaming approach;
- making a reality of the concept of lifelong learning, in particular setting a national target for participants benefiting from such measures;
- fully exploiting the potential of the service sector and industry-related services, in particular information technology and the environmental sector;
- creating a climate in which business, especially small businesses, can flourish;
- examining tax-benefit systems in order to provide incentives for the unemployed and inactive to take up work or training opportunities and for employers to create new jobs;
- supporting older workers to increase their participation in the labour force;
- promoting social inclusion and equality of opportunity for disadvantaged groups.

(ii) Strengthening the Luxembourg process

32. In order to support the commitments set out in the National Action Plans, Member States are urged to define policies and set themselves additional quantified targets and deadlines at national level wherever appropriate.

33. The European Council welcomes the progress achieved on common performance and policy indicators and the Commission's report on comparable statistics as being of crucial importance for effective and transparent monitoring and evaluation, both at national and Union level and invites the Commission and Member States to reach an agreement on the definition of all relevant indicators in time for the European Council in Cologne.

34. The 1999 reports on the implementation of the National Action Plans should be submitted for examination by mid June 1999 and the Commission should make its proposal for the Joint Employment Report and the new Employment Guidelines for the year 2000 before September 1999. The European Council also asks the Council to look for greater synergy between the Employment Guidelines and the Broad Economic Policy Guidelines.

35. In addition, the Commission is invited in 1999 to present in a Spring package a communication on mainstreaming employment policies at Community level based on Article 127 of the EC Treaty as amended by the Treaty of Amsterdam and an updating of the report on "Europe as an economic entity". Furthermore, the Commission is invited to allow those Member States who so desire to experiment with reduced VAT rates on labour intensive services which are not exposed to cross-border competition.

36. The European Council recommends that the reform of the European Social Fund be used to strengthen support for the employment strategy and for the qualification of human resources.

37. For the future success of the Luxembourg process a broad and intensive dialogue between all the actors involved, i.e. the Council, the Commission, the European Parliament, Social Partners, the European Central Bank and the European Investment Bank, is of prime importance, contributing to the overall strategy for employment, growth and stability.

38. Social Partners have an important responsibility in the employment process. This aspect is recognised in the report of the High Level Expert Group on economic and social implications of industrial change. The European Council invites the Commission and Member States to take its recommendations into account. The European Council also notes with satisfaction that Social Partners expressed their willingness, at the recent "Mini-Summit" convened in Vienna on 4 December 1998, to develop their own agenda on modernising work organisation.

2. A favourable environment for employment

(i) Investing for jobs

39. Investment in infrastructure and the financing of innovative projects are important elements of the strategy to stimulate growth, employment and competitiveness. The European Council takes note of the communication by the Commission entitled "Government investment in the framework of economic strategy", which suggests that Member States should review the structure of their budget with a view to enhancing the relative share of investment. The European Council invites the Council to review progress on Trans-European Networks (TENs), in particular on the 14 priority projects in transport, as well as the development of growth-enhancing projects in telecoms and information technology with the aim of speeding up the implementation of these projects. This review should include ways to enhance financing arrangements also involving the European Investment Bank drawing on its experience under the Amsterdam

Special Action Programme.

40. The European Council also recognises the importance of the development of a functioning European market for risk-capital, as well as the development of new forms of financing, involving the private sector as well as the public sector. The European Council invites Member States to report on how they are implementing the risk capital action plan.

41. The European Investment Bank has maintained the momentum of its lending operations in favour of sound investment projects, including those in priority sectors under its Amsterdam Special Action Programme, such as investments in education, health and urban environment projects.

42. In this context, the European Council invites the Bank to consider an accelerated release of funds for risk capital operations, within the ceiling of ECU 1 billion expected initially to be reached by 2000, the objective being that these operations will take place in all Member States. This could include in particular an early doubling of the resources allocated to the European Technology Facility.

43. The European Council invites the Bank to review existing financing arrangements for environmental projects in the Union and in applicant countries, taking due account of the employment effects of such projects.

(ii) Investing in innovation and human capital

44. Growth, competitiveness and employment are crucially dependent on research and innovation. The European Council therefore welcomes the agreement on the 5th Framework Programme for Research and Technological Development.

45. To strengthen the innovative capacity of the Union, education and training are of particular significance. The European Council welcomes the adoption of common positions by the Council on the "Socrates" and "Leonardo da Vinci" action programmes.

46. Member States and the institutions of the European Union also need to address the concerns of the young people of Europe in a more general fashion, thus sending a positive political message to the citizens of Europe. The European Council therefore welcomes the initiatives to put the issue of youth participation on the agenda of the EU institutions. The European Council invites the Council to arrive rapidly at a common position on the Youth Programme.

(iii) Internal market and financial services

Internal market

47. Continued progress has been achieved in the efforts to modernise, extend and simplify the Single Market in accordance with the Action Plan. Necessary new legislation has been adopted, in particular the Regulation on free movement of goods. The European Council welcomes the Commission's intention to continue to monitor progress within the Single Market through the Scoreboard.

48. Further simplification and improvement of legislation at both Community and national level is required in order to make internal market rules easier to apply and thereby more effective. The European Council stresses the importance of economic and regulatory reform as a coherent policy for the Single Market and competitiveness in order to enhance economic growth and employment.

49. Full and correct implementation of Community legislation is essential to the functioning of the internal market. The European Council notes that, in spite of considerable progress, a deficit still exists in respect of transposition of Community rules in the Member States. Renewed efforts must be made to transpose the

remaining legal acts without any further delay.

50. The European Council invites the Internal Market Council to present a report on the evaluation of the Single Market Action Plan assessing what has been achieved as well as launching a debate on future action with regard to the Single Market. Future priorities should include better regulation/simplification, consumer protection, financial services, state aids, tax policy cooperation, standardisation and a well functioning principle of mutual recognition as well as structural reforms as discussed at Cardiff.

Financial Services

51. The European Council stresses the importance of the financial services sector as a motor for growth and job-creation, but also the challenges due to the introduction of the single currency. It therefore welcomes the Commission's initiative for a framework for action and the establishment of a High-Level Group. It asks for a Council report to the European Council in Cologne on the necessary steps towards a single financial market. It also underlines the necessity of maintaining a high level of consumer protection.

Century Date-Change Problem

52. The European Council welcomes the Commission's report on this problem and urges Member States to implement timely plans for the protection of their own infrastructure and to continue to raise awareness across all sectors, focusing in particular on the public sector and small and medium-sized enterprises.

53. The relevant authorities in Member States are urged to examine closely the implications of the problem of supply-chain failures outside the EU, to elaborate contingency plans to address this, and to exchange information with their counterparts in other Member States. It calls on the Commission to convene a meeting of representatives of the public infrastructure providers from the Member States to establish whether the cross-border dependencies within the EU in areas such as transport, energy and water supply are being adequately addressed and to recommend appropriate action where required to the next European Council.

IV. Agenda 2000

54. The twin objectives of Agenda 2000 are to equip the Union with more effective policies and to set an appropriate financial framework within which to develop them. Achieving these objectives involves confronting a number of important political choices about the future direction of such policies and the necessary reforms as the Union prepares to make a success of its future enlargement. This must be done in a spirit of solidarity, while ensuring similar budgetary rigour at the level of the Union as applied at national level.

55. Work on the basis of the Commission's proposals, the own resources report and contributions made by Member States, has resulted in substantial progress being made since the Cardiff European Council. This work is reflected in the Council report and the debate in the European Council. The Commission's proposals and the report from the Council constitute a good basis for further work. The key elements for a final settlement have now been identified. In a number of areas, a measure of common ground has emerged. Work has also pinpointed those policy areas where a common understanding will have to be found as part of the process of narrowing down the parameters of the negotiation in moving towards a final overall agreement.

56. The negotiations have now moved into the final phase. The European Council:

- reiterates its firm commitment to reach overall agreement on Agenda 2000 at the European Council in Brussels on 24-25 March 1999;
- regards Agenda 2000 as a package on which agreement can only be reached as a whole;

- calls for a careful examination of all the elements and positions which have emerged from the discussion in view of reaching an overall agreement; and
- invites all Member States to make their full contribution to achieving a fair, balanced and acceptable outcome based on solidarity and budgetary rigour.

57. The European Council welcomes the readiness of the European Parliament and the Council to ensure a thorough consideration of the legislative texts in time to achieve their final adoption before the next European Parliamentary elections in June.

V. Enlargement

58. The European Council had a thorough discussion on all aspects of the enlargement process. It welcomes the fact that the overall enlargement process launched in Luxembourg is now well under way. The European Council welcomes the Commission's first Regular Progress Reports on the basis of its conclusions in Luxembourg and Cardiff and endorses the annexed Council conclusions of 7 December 1998 on European Union enlargement. The European Council stresses that each country will continue to be judged on its own merits. The European Council invites the Commission to present its further progress reports in view of the Helsinki European Council.

59. The European Council notes with satisfaction that the six Accession Conferences with Cyprus, Hungary, Poland, Estonia, the Czech Republic and Slovenia have entered into substantive negotiations and reached the first concrete results. It urges the Council, the Commission and the candidate countries to maintain the momentum in order to permit intensive negotiations in the first half of 1999.

60. The European Council also welcomes progress in preparation for accession negotiations with Romania, Slovakia, Latvia, Lithuania and Bulgaria as described in the Commission's reports. It notes that the transition from the multilateral to the bilateral phase of the analytical examination of the *acquis* as from the beginning of the next year will confer new dynamism to the process and thus foster preparation for negotiations.

61. The European Council welcomes Malta's decision to reactivate its application for European Union membership and takes note of the intention of the Commission to present at the beginning of next year an updating of its favourable opinion of 1993.

62. The European Council reiterates the Union's willingness to continue to provide pre-accession aid throughout the process. It welcomes the broad political agreement, in the terms of the Council's report on Agenda 2000, on the pre-accession instruments which remains however subject to overall agreement on Agenda 2000.

63. The European Council underlines the great importance it attaches to the further development of relations between the EU and Turkey taking forward the European Strategy to prepare Turkey for membership. In this context it recognises the central role of the further implementation of the European strategy in line with its conclusions in Luxembourg and Cardiff.

64. The European Council took note of the work of the European Conference as a forum for political consultation on questions of general concern to the participants. One meeting at Foreign Ministers level will take place in 1999.

65. The European Council will consider the future role and membership of the European Conference at Helsinki in the light of a report by the Council on the work in the Conference and other fora engaged on similar work. Meanwhile it confirmed the invitation of Switzerland as a "member elect".

VI. Environment and Sustainable Development

66. The European Council reaffirms its commitments made in Luxembourg and Cardiff to integrate

environment and sustainable development into all Community policies in view of the Amsterdam Treaty. It welcomes the initial reports received from the Transport, Energy and Agriculture Councils on this aspect and invites them to continue their work with a view to submitting comprehensive strategies in these sectors, including a timetable for further measures and a set of indicators, to the Helsinki European Council. The European Council recognises that it will be important to ensure that environmental integration is adequately treated in the decisions to be made on agricultural and structural policies within the context of Agenda 2000 taking note of the progress reported so far.

67. It invites the Council to further develop this work in other Community policies, particularly in the Development, Internal Market and Industry Councils. The Council should also put emphasis on cross-sectoral issues such as climate change and the environmental dimension of employment and enlargement. In this context, the European Council welcomes the Council Conclusions on accession strategies for the environment, and on nuclear safety in the context of enlargement of the European Union.

68. The Commission is invited to submit a progress report on mainstreaming of environmental policy in time for the Cologne European Council, particularly taking into account the use of environmental appraisals for its major policy proposals.

69. The European Council will review overall progress on integrating environment and sustainable development at its meeting in Helsinki in order to link the sectoral strategies developed by the various formations of the Council, a coordinated report on indicators presented by the Commission, and the global assessment of the 5th Environmental Action Programme.

70. Climate change is one of the most challenging environmental problems for the next decades. Work on common and coordinated policies and measures within the Community should be intensified with a view to domestic action providing the main means of meeting the Kyoto commitments. The European Council welcomes the Buenos Aires Plan of Action and underlines the importance of its implementation for an early ratification of the Kyoto Protocol. A comprehensive EU strategy on climate policy should be considered by the Cologne European Council on the basis of a report by the Commission.

VII. Preparing the Implementation of the Amsterdam Treaty

71. The European Council reaffirms the importance it attaches to a full functioning of the Amsterdam Treaty as soon as it enters into force. It welcomes the progress achieved so far in the preparatory work and underlines the need to finalise urgently the necessary measures including in the important area of Justice and Home Affairs.

72. The European Council took note of the draft Statute for Members of the European Parliament and invites the institutions involved to ensure the necessary follow-up.

73. Regarding the Common Foreign and Security Policy, the European Council agrees that the Secretary-General of the Council and High Representative for the CFSP will be appointed as soon as possible and will be a personality with a strong political profile. The European Council takes note of the work undertaken by the Council concerning the establishment of a Policy Planning and Early Warning Unit within the General Secretariat.

74. The European Council invites the Council in accordance with the recommendations in its report to prepare common strategies on Russia, Ukraine, the Mediterranean region, taking specifically into account the Barcelona Process and the Middle East Peace Process, as well as on the Western Balkans, on the understanding that the first common strategy will be on Russia. When identifying further subjects for common strategies, thematic subjects should also be considered.

75. The European Council invites the Council to bring forward, in agreement with the WEU, the completion of arrangements for enhanced cooperation under the Protocol on Article 17 of the Treaty on European Union, as amended by the Amsterdam Treaty, so that these may come into effect on the Treaty's entry into

force.

76. The European Council welcomes the new impetus given to the debate on a common European policy on security and defence. The European Council considers that in order for the European Union to be in a position to play its full role on the international stage, the CFSP must be backed by credible operational capabilities. It welcomes the Franco-British declaration made on 4 December 1998 in St Malo. The reinforcement of European solidarity must take into account the various positions of European States, including the obligations of some Member States within Nato.

77. It welcomes the intention of the WEU to conduct an audit of the assets available for European operations.

78. The European Council invites the incoming Presidency to further this debate in the wake of discussions in the WEU Ministerial in Rome on 16 November and in the General Affairs Council held on 7 December. The European Council will examine this issue in Cologne on 3 and 4 June 1999.

VIII. Subsidiarity

79. The European Council reaffirms its determination to ensure full application of the principle of subsidiarity. Decisions should be taken as closely as possible to the citizens of the Union. Subsidiarity and proportionality are legally binding principles, enshrined in Article 3b of the EC Treaty, which the Institutions must respect fully.

Recalling the discussions held at the informal meeting in Pörschach, it agrees that:

- the institutions shall be guided as from now by the criteria and practices contained in the "subsidiarity and proportionality Protocol" which will be annexed to the EC Treaty when the Amsterdam Treaty comes into force;

- the Commission's annual "Better law-making" report should be the basis for reporting on and examining developments over the past year; future reports should be presented in good time to allow for thorough discussion in the various institutions and bodies concerned (European Parliament, Council, Committee of the Regions, COSAC, Economic and Social Committee) and, therefore, for optimum preparation of the European Council;

- the Council should conduct an orientation debate on future Green and White Papers from the Commission in the light of the principle of subsidiarity, not undermining in any way the Commission's right of initiative;

- before the Commission proposes a significant new piece of legislation, it should examine whether other Community legislation already existing on the same issue needs to be modified or consolidated, or repealed if no longer justified;

- in accordance with Article 189 of the EC Treaty, the European Parliament, the Council and the Commission must safeguard fully the principle according to which directives shall be binding, as to the result to be achieved, upon each Member State to which they are addressed, but shall leave to the national authorities the choice of form and methods;

- pursuant to Article 190 of the EC Treaty, legislative acts adopted by the competent institutions should state the reasons on which they are based, with a view to justifying their compliance with the principles of subsidiarity and proportionality.

80. The European Council in December 1999 will review the results of the above-mentioned elements as well as the experiences with the full application of the protocol on subsidiarity and proportionality.

IX. Improving the Functioning of the Institutions

81. The European Council held a discussion about the future of the institutions of the European Union, especially against the background of the future enlargement and on the basis of the informal discussions in October in Pörschach. The European Council:

- agrees that the first priority remains the ratification of the Amsterdam Treaty. It will decide at the Cologne European Council on how and when to tackle the institutional issues not resolved by this Treaty, which have to be resolved before enlargement;
- welcomes the progress report and the measures already taken by the General Affairs Council in order better to organise its work and to adopt more efficient procedures, in particular with the aim of devoting more time to its important horizontal functions. It invites the General Affairs Council to complete this task by the Helsinki European Council;
- agrees that the number of Council formations should be reduced and welcomes the Council's recommendations;
- looks forward to the report that the President of the Commission is preparing on the internal reform of the Commission;
- notes with satisfaction that the report from the Secretary-General on the functioning of the Council in the perspective of an enlarged Union will be presented at the beginning of 1999.

82. The European Council reaffirms the importance it attaches to the efficient fight against fraud, corruption and other criminal activity affecting the Union's financial interests. It invites all Community institutions and bodies as well as Member States to take part in that fight with determination. The European Council welcomes the presentation by the Commission of a proposal to establish a European Fraud Investigation Office. It takes note of the fact that this proposal calls for an independent interinstitutional office which will be asked to conduct investigations into fraud detrimental to the Community budget both in the Member States and within the Community institutions and bodies. It invites the institutions to examine this proposal with a view to taking a decision without delay and in any case before the Cologne European Council. A review of the fight against fraud will take place at the Helsinki European Council.

X. Justice and Home Affairs

83. The European Council endorses the Action Plan drawn up by the Council and the Commission on establishing an area of freedom, security and justice, which opens a new dimension for action in the field of Justice and Home Affairs after the entry into force of the Amsterdam Treaty and which sets a concrete framework for the development of activities in these fields. It urges the Council to start immediately with the implementation of the 2-year priorities defined in this Action Plan.

84. The European Council calls for particular attention to be paid to the creation of a European Judicial Area, in accordance with the Treaty of Amsterdam, endowed with the necessary instruments for effective judicial and police cooperation, in particular within the Schengen area, to the further development of the role of Europol as an operational tool for the Member States to fight organised crime and to the development of an overall migration strategy.

85. In the field of asylum and immigration the European Council recalls the need for global solutions as regards temporary protection and a system for European solidarity. It urges the Council to pursue its work on temporary protection, European solidarity, Eurodac, rules on third country nationals and an overall migration strategy. In this context the European Council welcomes the Council's decision to establish a High Level Working Group on Asylum and Migration.

86. The European Council stresses the importance of rapidly integrating Schengen into the European Union. It calls especially for solutions on the allocation of legal bases to the Schengen acquis and on the integration of the Schengen Information System and of the Schengen Secretariat into the framework of the EU. The European Council welcomes the fact that the negotiations with Iceland and Norway are close to conclusion.

87. The European Council welcomes the entry into force of the Europol Convention and the taking up of the activities of Europol in the near future, thus creating the conditions for enhanced police cooperation in the fight against all important forms of organised crime.

88. It calls on the Council to solve the remaining questions relating to the draft Convention on mutual legal assistance in criminal matters.

89. The European Council examined the report on the implementation of the Action Plan on the fight against organised crime endorsed at its meeting in Amsterdam. Aware that significant progress has been achieved, it underlines that additional work still needs to be undertaken, especially as regards rapid ratification of the relevant Conventions by Member States. Building on the Action Plan, it calls for a strengthening of EU action against organised crime in the light of the new possibilities opened by the Amsterdam Treaty. It also welcomes the elaboration of a comprehensive strategy for the prevention of organised crime and calls for concrete measures to be taken as a follow-up to that strategy.

90. The European Council examined the report on drugs and drug-related issues. It invites the institutions to develop further an integrated and balanced post-1999 drugs strategy taking into account the new possibilities offered by the Amsterdam Treaty. Full use should be made of the expertise of the European Monitoring Center for Drugs and Drug Addiction, as well as Europol in this context. The European Council welcomes the development of various regional cooperation initiatives and urges that those related to Latin America and Central Asia be carried forward without delay. On the international level, full support has to be given to implementing the UNGASS orientations.

91. The European Council invited the Council to consider ways and means to reinforce security of external borders of the Union and in this context the proposal for a conference on security in the Adriatic and Ionian Sea region.

92. The European Council welcomes the initiatives on the protection of children. In particular child pornography on the Internet was recognised as a global problem requiring a coordinated approach also at international level, especially at the United Nations. The Council is called upon to ensure an effective follow-up to these initiatives at European and international level.

93. The special meeting of the European Council to be held on 15 and 16 October 1999 in Tampere will evaluate progress achieved and give further guidance to the actions of the Union in the fields of Justice and Home Affairs.

XI. Northern Ireland

94. The European Council recognises the importance of maintaining the momentum created by the historic agreement reached in Belfast on 10 April and of seizing the opportunities created by that agreement. It reiterates its determination, which is fully shared by the Parliament and the Commission, that the Union should continue to play an active part in promoting lasting peace and prosperity in Northern Ireland and reaffirms the conclusions of the Cardiff European Council in that regard.

XII. Sport

95. Recalling the Declaration on Sport attached to the Treaty of Amsterdam and recognising the social role of sport, the European Council invites the Commission to submit a report to the Helsinki European Council with a view to safeguarding current sports structures and maintaining the social function of sport within the Community framework.

96. The European Council underlines its concern at the extent and seriousness of doping in sports, which undermines the sporting ethic and endangers public health. It emphasises the need for mobilisation at European Union level and invites the Member States to examine jointly with the Commission and

international sports bodies possible measures to intensify the fight against this danger, in particular through better coordination of existing national measures.

XIII. External Issues

Switzerland

97. The European Council warmly welcomes the successful outcome of the negotiations with Switzerland on a global and balanced package of seven important sectoral agreements. This package of agreements will broaden and further strengthen the already close links with Switzerland.

International Trade / WTO

98. The European Council reiterates its commitment to the WTO as the basis for the EU's commercial policy and the main framework for further trade liberalisation. It reaffirms its support for comprehensive, wide-ranging WTO negotiations starting from 2000, and invites the Council and Commission to intensify work in order to secure agreement to this objective at the Third WTO Ministerial Conference to take place towards the end of 1999.

Transatlantic Relations

99. The European Council looks forward to the EU-Canada and EU-US Summits on 17 and 18 December as further steps in broadening and deepening transatlantic relations. It welcomes the progress made in implementing the Transatlantic Economic Partnership through the establishment of an action plan with the US. It reiterates the importance it attaches to the further development of bilateral trade relations with the US within the framework of the multilateral trading system, and underlines the continuous need to respect fully the provisions of the WTO Dispute Settlement Understanding in the settlement of bilateral disputes. In this context, the European Council takes the firm view that the viability of the multilateral trading system depends on parties to it avoiding recourse to unilateral action damaging to the WTO dispute settlement system which lies at the heart of this trading system.

South Africa

100. The European Council discussed the progress made in the negotiations with South Africa on a comprehensive trade development and cooperation agreement. It noted that although very considerable progress has been made a few points still remain open. It underlined the political importance of this agreement in the spirit of the meeting with President Mandela in Cardiff. The European Council invites the Council, based on a compromise proposal of the Commission, to bring these negotiations to a successful conclusion as soon as possible and at the latest before the European Council in March. This will require efforts on both sides.

South-East Europe

101. The European Council recalls the close interest which the European Union has in the political and economic development of all the countries of South-East Europe and in the stability and prosperity of the region as a whole. The EU makes a major contribution to these objectives through, on the one hand, the enlargement process involving a number of countries concerned and, on the other hand, the regional approach involving countries of the Western Balkans. The European Council expresses its determination to pursue these objectives.

Western Balkans

102. The European Council emphasises the need for full and immediate compliance by both sides in the Kosovo crisis with UNSC Resolutions 1160, 1199, 1203 and 1207 in order to achieve a peaceful settlement. Deploring the lack of commitment by both Parties to support the negotiation process, it urges the

Government of the FRY and the leadership of the Kosovo Albanians to show the flexibility in the talks necessary for agreement to be reached on the future status of Kosovo. It reaffirms the EU's determination, as demonstrated by the active efforts of the EUSE Wolfgang Petritsch, to support the political process, to contribute to humanitarian efforts and, as soon as the parties have reached such an agreement, to assist reconstruction in Kosovo, including through a donors' conference.

103. Convinced that democracy in the FRY is crucial for peace and stability in the Balkans, the European Council condemns the crackdown on independent media and reiterates the EU's insistence on democratic reform and free media in the FRY. It also demands full cooperation with the International Criminal Tribunal for former Yugoslavia. The European Union will continue actively to encourage and support President Djukanovic and the elected government in the ongoing course of reform in Montenegro intended to promote a democratic and modern society.

104. With a view to the forthcoming meeting of the Peace Implementation Council in Madrid (15-16 December), the European Council calls on all parties involved to make their contribution to further progress towards normalisation in Bosnia and Herzegovina, especially in the area of refugee return. It reaffirmed its continuing strong support for the efforts of the High Representative, Carlos Westendorp.

105. The European Council welcomes FYROM's contribution to stability in the region and calls on the new Government in Skopje to continue the course of economic and political reform as well as cooperation between the ethnic communities.

106. The European Council takes note of some encouraging developments in Croatia's attitude to refugee return. It urges the Croatian government to continue its efforts to implement fully all its commitments, notably on refugee return, media and the election law.

107. The European Council welcomes the adoption of a new constitution by the Albanian people as a necessary step towards political stability. It calls on all parties, in particular the Democratic Party, to participate in the democratic and parliamentary institutions. The European Council emphasises that the EU stands ready to support the reform efforts of the Albanian government, not least in the field of public security and the economy.

108. The European Council stresses the importance it attaches, in the EU's relations with all these countries, to conditionality in the framework of the EU's regional approach.

Northern Dimension

109. The European Council welcomed the Interim Report on a Northern Dimension for the Policies of the European Union submitted by the Commission. It underlined the importance of this subject for the internal policies of the Union as well as its external relations, in particular towards Russia and the Baltic Sea region. It emphasised the need for further exchange with all countries concerned on the development of a concept on the Northern Dimension and invited the Council to identify, on the basis of the Commission's interim report, guidelines for actions in the relevant fields. It welcomes the Finnish initiative to arrange, in cooperation with the European Commission, a conference on the topic during the second half of 1999.

110. With respect to the problem of spent nuclear fuel and nuclear waste in Northwest Russia the European Council noted the results of the EU-Russia Summit in Vienna. It welcomed the common understanding that a number of outstanding questions have to be addressed in intensifying efforts to resolve this major environmental problem.

Russia

111. The European Council had an in-depth discussion on the situation in Russia. It welcomes the Council's progress report on the development of a comprehensive EU policy towards Russia. It reaffirms Russia's importance as a strategic partner to the Union as demonstrated by the EU-Russia Summit in Vienna on 27

October. It stresses the Union's solidarity with Russia and its people during the present economic crisis. That crisis is multi-faceted. So too must be the response of the EU and the rest of the international community. The European Council underlines the Union's readiness to help Russia in overcoming the crisis through credible and sustained market-based reforms, while respecting urgent social needs, and a continued commitment to democracy including freedom of the media, the rule of law, and respect for human rights.

112. The European Council welcomes the efforts already made to refocus the Union's assistance to Russia accordingly, notably in taking forward the implementation of the Partnership and Cooperation Agreement. It urges the Council to decide as soon as possible on food aid to Russia, accompanied by adequate control mechanisms. It asks the Council to continue its work on a comprehensive EU policy by determining how EU priorities should be taken forward, and in what time-scale.

Newly Independent States

113. The European Council also expressed its concern at the deteriorating economic situation in the Newly Independent States, particularly those with close financial or trade links with Russia. It therefore invites the European Commission to provide a report to the Council on these developments, including proposals on ways and means of addressing these economic issues, not only within the framework of the existing assistance programmes at its disposal, but also through the Partnership and Cooperation Agreements as they come into force.

Ukraine

114. The European Council reaffirmed the fundamental importance it attaches to the partnership linking the European Union and Ukraine. It welcomed the strengthening of this relationship in the framework of the Partnership and Cooperation Agreement and the successful Summit held in Vienna in October 1998.

115. The European Council encourages the Ukrainian Government to pursue economic reforms consistently and in a determined way, and assures it of the EU's support. It also reaffirms its support for Ukraine's decision to close the Chernobyl nuclear power station by the year 2000 in line with the G-7 Memorandum of Understanding.

Euro-Mediterranean Partnership

116. The European Council reaffirmed the importance it attaches to the Euro-Mediterranean Partnership and stressed its satisfaction with the on-going multi-faceted dialogue in this forum. The third Euro-Mediterranean Ministerial meeting in Stuttgart in April 1999 will permit the Union and its Mediterranean Partners to continue the successful work and give new impetus to the Partnership.

Middle East Peace Process

117. The European Council, recalling its conclusions of Cardiff, welcomed the new momentum in the Peace Process created by the Wye River Memorandum of 23 October 1998. While noting the progress made to date by both sides in implementing the Memorandum, the European Council deplores the recent violence, mutual recrimination and the setting of new conditions which threaten to unravel the fragile progress since Wye. The European Council calls on the parties to show restraint, to refrain from unilateral acts and to implement fully, in time and in good faith, the remaining provisions and thereby contribute to the rebuilding of the confidence essential to the completion of the Peace Process on the basis of Oslo and Madrid.

118. At the recent Washington Conference on Middle East peace and development, the EU - as the largest collective donor to the Palestinians - reaffirmed its determination as demonstrated by the active efforts of the EUSE Miguel Moratinos to make its political and economic contribution to the success of the Peace Process in all its tracks in complementarity with the US and other parties involved.

Cyprus

119. The European Council confirms its support for the efforts of the UN Secretary-General towards a comprehensive settlement in Cyprus and in particular for the process being developed by his Deputy Special Representative with the goal of reducing tensions and promoting progress towards a just and lasting settlement based on the relevant UNSC decisions.

Iraq

120. The European Council discussed the situation with regard to Iraq. It condemns Iraq's failure once again to meet fully its commitments to cooperate with UNSCOM. It pledges its strong support for UNSCOM and the IAEA and called upon Iraq to comply with Security Council Resolutions and to provide the full cooperation necessary to allow the Security Council, on the basis of a report by the Secretary-General of the United Nations, to proceed with a comprehensive review.

Great Lakes Region

121. The European Council notes that the aggravation and the internationalisation of the armed conflict in the Democratic Republic of Congo, as well as the current military reinforcement on the ground pose a serious threat to the stability indispensable to the development of the whole region. The European Council reaffirms its support for the principles of territorial integrity and sovereignty of the Democratic Republic of Congo and of its neighbouring countries and calls for an immediate cessation of hostilities, a withdrawal of foreign troops from the DRC and for negotiations of all the concerned parties, with a view to an urgent political solution to the conflict. The European Council welcomes the efforts to this end at the African-French Summit in Paris. It reaffirms its support for the work of EUSE Aldo Ajello. The Union further calls on the leaders of the region to respect human rights and humanitarian law.

East Timor

122. The European Council hopes that the encouraging results of the negotiations between Portugal and Indonesia under the auspices of the UN Secretary-General will be followed by tangible progress on the ground, notably through a real and substantial reduction in the Indonesian military presence in the territory, the liberation of Timorese leader Xanana Gusmão as well as of all political prisoners and the establishment in East Timor of a permanent UN presence. The European Council is of the view that a definitive solution to the East Timor question will not be possible without free consultation to establish the real will of the East Timorese people.

Macao

123. The European Council stresses the positive manner in which the transition process in Macao is evolving. It expects that the implementation of the Sino-Portuguese Joint Declaration of 1987 will contribute to a smooth transfer of responsibilities on 20 December 1999 and that full respect for the high degree of autonomy of the future Special Administrative Region will continue to guarantee the preservation of the specific social, economic, juridical and cultural identity of Macao. The European Council is confident that the relations and cooperation ties maintained between the Union and Macao will be enhanced, making a positive contribution to the progress and stability of the territory.

Hurricane Mitch

124. The European Council declares its solidarity with the people of Central America who have been hit by the dramatic consequences, casualties and material damage caused by Hurricane Mitch. Beyond the emergency aid sent to the area by the European Union and its Member States, the European Council invites the Commission to submit urgently to the Council an Action Plan for cooperation on the reconstruction of the area. It invites the Council to convene a special meeting with the Central American countries to discuss it. The European Council invites the Council and the Commission to consider the possibilities for reducing the burden of external debt on the countries concerned.

Annex I

Resolution of the European Council

As the 21st century approaches, with a destructive war having come to an end barely two generations ago, the peoples of this continent can look back on an unparalleled success story in the shape of European unification.

An historic moment is fast approaching, with the introduction of the single European currency, and it shows us that the course of history can often be decisively shaped by the committed action of individuals.

That was never truer than of Dr Helmut Kohl and his work as Federal Chancellor over the past 16 years.

Deeply imbued with home values and marked by his youthful experiences during the war and in the post-war period, he remained steadfastly committed to the basic convictions acquired early in life. Above all, his firm belief that ever closer economic and political union in Europe was a force for peace and that it was possible for his homeland to be reunified in that framework was vindicated by the epoch-making events of his term of office. With the same dedication he set to work to heal the damaging divide that split our continent in two.

In the tireless pursuit of these his fundamental political aims, he never allowed himself to be deflected by setbacks, doubts or opposition.

His dependability, honesty, perseverance, warmth and sensitivity make Dr Helmut Kohl for us, his colleagues, a model of the successful politician who yet manages to retain a human face. The secret of his great achievements on behalf of Europe and European integration lies not least in these qualities.

The creation of German unity and the consolidation of European unification, culminating in Economic and Monetary Union, are Dr Helmut Kohl's life's work.

For that life's work, we, the Heads of State or Government of the European Union and the President of the European Commission, offer him our sincere gratitude and our heartfelt appreciation

The Vienna European Council has therefore decided that
the former Federal Chancellor Dr Helmut Kohl
Member of the German Bundestag
is to be awarded the title

"Honorary Citizen of Europe".

Vienna, 11 December 1998

Annex II

Report to the European Council on the state of preparation for Stage 3 of EMU, in particular the external representation of the Community

1. After several years of intense preparation, the European Union is ready to enter into Stage 3 of EMU on 1 January 1999. Eleven of its Member States will adopt the euro as their currency. Significant work has been accomplished in reaching convergence. The Ecofin Council has also developed, for approval by the Heads of State or Government, the framework for a well functioning economic and monetary union, including the Stability and Growth Pact and procedures for economic policy co-ordination (see annex). The outstanding topic where decisions remain to be taken concerns the external representation of the Community. At the Luxembourg European Council of December 1997, the Heads of State or Government gave an important impetus to this work, and in Cardiff, they asked "the Council to take the necessary measures to ensure the

external representation of the euro area Member States in an effective manner".

2. In its work on external representation, the Council has benefited from substantial help of the Commission and the ESCB/ECB in their respective fields of competence. In particular, it has been seized with a Commission proposal on "the representation and position-taking of the Community at international level in the context of Economic and Monetary Union".

3. The external representation in Stage 3 of EMU will imply changes in the current organisation of international fora. Therefore, third countries and institutions will need to be persuaded to accept the solutions proposed by the European Union. The Council considers that a pragmatic approach might be the most successful which could minimise the adaptation of current rules and practices provided, of course, that such an approach resulted in an outcome which recognised properly the role of the euro.

4. It follows from the Treaty that a distinction has to be made between the representation:

- of the Community at international level as regards issues of particular relevance to economic and monetary union (Article 109(4)), and

- on matters which do not belong to the Community competence, but on which it may be appropriate for Member States to express common understandings.

5. As regards the first indent of paragraph 4 - the representation of the Community at international level as regards issues of particular relevance to EMU - the Council believes that, while trying to reach early solutions pragmatically with international partners, these solutions should be further developed over time adhering to the following principles:

- the Community must speak with one voice;

- the Community shall be represented at the Council / ministerial level and at the central banking level;

- the Commission "will be involved in the Community external representation to the extent required to enable it to perform the role assigned to it by the Treaty".

As regards the second indent - matters which do not belong to Community competence - the Council considered it useful to develop pragmatic solutions for the external representation.

6. In developing those pragmatic solutions, the Council concentrated its work on three important areas:

- representation at the G7 Finance Ministers' and Governors' Group;

- representation at the International Monetary Fund;

- composition of Ecofin delegations for missions to third countries.

1. Representation at the G7 Finance Ministers' and Governors' Group

7. Regarding the European Central Bank's participation in the representation of the Community at the G7 Finance Ministers' and Governors' Group, non-European partners have already accepted that the President of the ECB attends meetings of the Group for the discussions which relate to EMU, eg. multilateral surveillance, exchange-rate issues, and for agreement of the relevant sections of the published Statement.

8. Regarding the representation of the Community at ministerial level on EMU issues, the Council agreed to suggest to the other G7 partners to have the President of Ecofin, or if the President came from a non-euro area Member State, the President of the Euro 11 at the table. If the President came from a non-G7 euro area state, he/she would attend in addition to the euro area Ecofin members already present.

In a transitional phase, one of the euro area ministers who are involved in the G7 Group on a permanent basis will, for the sake of greater continuity, provide support for the President of the Ecofin/Euro 11 on a rotating basis for a term of one year.

9. Regarding the Commission's participation in the representation of the Community, the Council agreed to suggest to the other G7 partners that a Commission representative shall be a member of the Community delegation in the capacity of providing assistance to the President of Ecofin/Euro 11.

10. In light of the decisions on the previous paragraphs, further consideration will be given to attendance at preparatory (Deputy) meetings. The Council agreed that as an integral part of Community representation at the G7 Group, there should be an informal preparation on EMU issues in the Euro 11 before meetings. The Council also outlined the need for an efficient communication network between its members.

To this end, the possibility to set up a modern network of communication tools (audio and video conferences) between the fifteen Economic and Finance Ministries, the European Commission, the ECB and the Secretariat of the Economic and Financial Committee will be studied and carried forward urgently. This of course cannot be used for adoption of any legally binding legislative acts.

11. Solutions found for the G7 Finance Ministers' and Governors' Group will provide a basis for finding solutions for other groupings.

12. The Council recognised that the G7 Group quite often will discuss international issues which go beyond the competence of the Community and beyond the particular interest of the 11 Euro area Member States, and concern all Member States. Even on these issues, which fall to Member State competence, it may be appropriate to formulate and present common understandings. The discussions and formulation of common understandings at recent Ecofin meetings on such topics as Russia and the international financial system might serve as a model. Those common understandings shall in any case be the basis of positions to be taken in the G7 Group and other groups.

2. Representation at the International Monetary Fund

13. The Council considers that pragmatic solutions for presenting issues of particular relevance to EMU may have to be sought which do not require a change in the Articles of Agreement of the IMF:

- a first necessary step has already been taken; the IMF Executive Board agreed to grant the ECB an observer position at that Board;

- secondly, the views of the European Community / EMU would be presented at the IMF Board by the relevant member of the Executive Director's office of the Member State holding the Euro 11 Presidency, assisted by a representative from the Commission.

3. Composition of Ecofin/Euro 11 delegations for missions to third countries

14. The composition of Ecofin/Euro 11 delegations for missions to third countries may vary with the circumstances and the objectives. It is the responsibility of the President of the Council/Euro 11 to make the necessary arrangements.

Annex to Annex II

Report to the European Council on economic policy-co-ordination

The need for economic policy co-ordination

1. The move to Stage 3 of Economic and Monetary Union will link the economies of the Member States adopting the euro more closely together. They will share a single monetary policy and a single exchange

rate. Economic policies and wage determination, however, remain a national responsibility, subject to the provisions of Treaty Article 104c and the Stability and Growth Pact. To the extent that national economic developments have an impact on inflation prospects in the euro area, they will influence monetary conditions in that area. It is for this basic reason that the move to a single currency will require closer Community surveillance and co-ordination of economic policies among euro-area Member States. Moreover, close co-ordination should aim at an appropriate balance of the policy mix so as to contribute to the achievement of the Community objectives set out in Treaty Article 2.

2. Economic and monetary interdependence with non-participating Member States will also be strong; they all participate in the single market. The need to ensure further convergence and the smooth functioning of the single market therefore requires all Member States to be included in the co-ordination of economic policies. Interdependence will be especially strong for those non euro-area Member States which will participate in the new exchange rate mechanism.

Agreement on economic policy co-ordination

3. The Council (Eco/Fin) recognised the need for enhanced co-ordination of national economic policies and considered the issue in detail in its report to the European Council meeting in Luxembourg in December 1997. The latter endorsed this report and issued a Resolution on, inter alia, economic policy co-ordination in stage 3 of EMU. In addition, the European Council meeting in Cardiff last June, considering that the full benefits of EMU and the European single market for all Europe's citizens can be achieved only by a strategy to promote employment through increased competitiveness and economic and social cohesion within a framework of macro-economic stability, set out the essential elements of the European Union's strategy for further economic reform to promote growth, prosperity, jobs and social inclusion and welcomed the determination of Member States to ensure effective co-ordination of their economic policies.

Areas for economic policy co-ordination

4. In the meantime, nearly all elements of economic policy co-ordination have been put in place and are being tried out. The arrangements are proving to be successful, particularly since the Council is embarking on a full-fledged annual co-ordination process. While respecting the principle of subsidiarity, it will give full attention to national economic developments and policies including wage policies with a view to their contribution to the achievement of the Community objectives. It will concentrate on those policies which have the potential to influence monetary and financial conditions throughout the euro area, the exchange rate of the euro, the smooth functioning of the internal market, and investment, employment and growth conditions in the Community.

This includes:

- close monitoring of macro-economic developments in Member States to ensure sustained convergence,
- close monitoring of exchange-rate developments of the euro and other EU currencies in the recognition that, in general, these should be seen as the outcome of all other economic policies,
- strengthened surveillance of budgetary positions and policies in accordance with the Treaty and the Stability and Growth Pact,
- the monitoring of nominal and real wage developments with reference to the broad economic policy guidelines,
- the close examination of national employment action plans (NAP's), dealing in particular with active labour market policy in accordance with the employment policy guidelines and the exchange of best practice,
- monitoring of Member States' structural policies in labour, product and services markets, as well as of cost

and price trends, particularly insofar as they affect the chances of achieving sustained non-inflationary growth and job creation.

Modalities for economic policy co-ordination

5. The Council will apply the Treaty instruments for economic policy co-ordination fully and effectively. Its activity will centre on the broad economic policy guidelines, adopted in accordance with Article 103(2). They will be developed into an effective instrument for ensuring sustained convergence of Member States. Economic policies and developments in each Member State and in the Community will be closely monitored in the framework of multilateral surveillance according to Article 103(3), and measured against the broad economic policy guidelines.

If necessary, and according to Article 103(4), the Council will make recommendations to a Member State whenever its economic policies are not consistent with the broad economic policy guidelines or risk jeopardising the proper functioning of EMU.

6. In order to take account of the special needs of coordination for Member States participating in the euro area, the Euro 11 Group was created and has met in fruitful dialogue several times. In September 1998, also the non-participating Member States were invited in order to discuss matters of common concern.

7. The harmonious economic development of the Community in Stage 3 of EMU will also call for continuous and fruitful dialogue between the Council and the European Central Bank, involving the Commission and respecting all aspects of the independence of the ESCB. The Council and the Euro 11 Group have started such a dialogue and stand ready to engage in it further when needed.

8. In order to stimulate a fruitful dialogue and to inform them about the stability-oriented macro-economic policy framework, the European Social Partners were invited by the Ecofin Council for a regular exchange of views.

Implementing the new arrangements for economic policy co-ordination

9. In addition to the regular work on the broad economic policy guidelines, the Council started this spring to closely review the national employment action plans. Guided by the Cardiff European Council, the Council will moreover establish a light procedure, under which Member States and the Commission will produce short reports at the end of the year, each within their areas of competence, on product and capital markets. While fully respecting subsidiarity, this procedure will help exchange best practice and complement the information already available in national employment action plans and stability/convergence programmes. It is being implemented for the first time this year.

10. In accordance with the 1 May declaration, this summer the Council looked closely into actual and prospective developments in Member States' budgetary policies. At present, the Council is examining the stability and convergence programmes with a view to their consistency with the broad economic policy guidelines and the requirements of the Stability and Growth Pact and the commitments of the Council's 1 May declaration.

11. The results of the analysis of these different reports should feed into the annual update of the broad economic policy guidelines and contribute to making them an effective instrument at the heart of the economic policy co-ordination process.

12. Continued efforts are necessary to implement the guidelines fully and to take appropriate account of the new policy environment upon the transition to stage 3 of EMU. The ambition to ensure effective co-ordination of economic policies will imply a more active involvement of all participants in this process, including the ministers meeting in the Euro 11 Group, the Council and the Heads of State or Government.

Annex III

Council Conclusions on European Union Enlargement

(General Affairs Council, 7 December 1998)

The Council welcomes the Commission's first Regular Progress Reports on the basis of the conclusions of the Luxembourg and Cardiff European Councils. The Council notes that the assessment of the Commission was based on the same objective accession criteria as defined by the European Councils in Copenhagen and Madrid and as used in the opinions delivered by the Commission in July 1997, and considers that the methodology of the Commission allowed an objective, balanced and fair analysis of the state of progress. The Council welcomes the substantial progress made by candidate countries in their preparations for membership and encourages them to continue with their efforts throughout the accession process. It noted that although progress in the adoption of the *acquis* varies considerably between countries and between sectors, the difference between those with whom negotiations have begun and the other candidates has generally narrowed. It also noted the Commission's views on the variable progress made by a number of countries, including some with which negotiations have been opened, towards meeting the Copenhagen criteria. The Council noted the particular progress made by Latvia and Lithuania and the new situation in Slovakia following the elections which augurs well for its integration into European structures. It also noted the progress made by Bulgaria and the reform efforts being made by Romania. It encouraged all candidates to intensify their preparations for membership. The Commission's analysis with regard to Turkey was generally shared by the Council which noted the need for particular efforts by Turkey to ensure the rule of law in a democratic society according to the Copenhagen criteria and the relevant conclusions of European Councils; it also stressed the importance of further developing relations with this country on a sound and evolutionary basis. In this process the Council reaffirms the importance of the European Strategy for Turkey. The Council recalled the great importance which it attaches to the treatment of minorities, an area which needs continued attention. The Council underlines the need for the rhythm of legislative approximation to be accelerated and matched by the development of corresponding implementation capacity. The transposition of the *acquis* is not sufficient in itself but must be followed by effective implementation and enforcement. Therefore the development of administrative and judicial capacities is a crucial aspect of preparation for accession and the existence of credible and functioning structures and institutions an indispensable pre-condition for future membership.

The Council highlighted the need for special attention to be paid, in advance of accession, to the effective application of all elements of the single market *acquis* including the establishment of a functioning system of state aid control. Policies should be pursued to foster economic and social convergence. Other sectors requiring attention include the environment, the nuclear sector and justice and home affairs. In this context the Council recalled the primary importance of the enhanced pre-accession strategy for the central and eastern European countries and the specific pre-accession strategy for Cyprus. The role of the Association Agreement bodies in monitoring the adoption and implementation of the *acquis* was also reaffirmed. The Council encouraged the Commission to continue to pay particular attention to helping candidates with which negotiations have not yet begun to intensify their preparations for membership and encouraged those candidates to make full use of the catch-up facility. It expressed its satisfaction that the Accession Partnerships have already enabled the candidate countries of central and eastern Europe and the Union to focus on priorities and to align them with available resources. This approach will be reinforced by the availability of two new pre-accession instruments from 2000 onwards and will increase the need for a clear link between resources and priorities. The Council welcomed the extension of the mandate of the Technical Assistance and Information Exchange Office (TAIEX) to cover the entire *acquis*. The Council noted with satisfaction that the European Conference, decided in Luxembourg, has, in its first two meetings, already proved to be a successful multilateral forum in the framework of the enlargement process. The Council noted the Commission's intention to present, early next year, an update of its favourable 1993 Opinion on Malta's application for membership with a view to appropriate follow-up by the Council. The Council generally endorsed the Commission's report, including the analysis in the composite paper. The Council noted the Commission's intention to propose the opening of negotiations with Latvia before the end of 1999, if the momentum of change is maintained. It also noted the Commission's view that the important progress made by Lithuania should allow the Commission to propose the opening of negotiations if recent decisions are tested in practice. Furthermore, it noted the Commission's view that the new situation in Slovakia

following the elections allow for the prospect of opening negotiations on condition that the regular stable and democratic functioning of its institutions is confirmed. The Council welcomed the intention of the Commission to present it with further progress reports next year. However, at this stage the Council did not make any recommendations to the European Council to extend the accession negotiations.

Annex IV

Documents Submitted to the Vienna European Council

- Resolution of the European Council awarding the title of Honorary Citizen of Europe to the former Federal Chancellor Dr Helmut Kohl, Member of the German Bundestag. (SN 5336/3/98)
 - Report to the European Council on the state of preparation for Stage 3 of EMU, in particular the external representation of the Euro area (13693/98)
 - Report by the Council (ECOFIN) to the European Council in Vienna on strengthening the international financial system (13692/98)
 - Progress report from the Council (ECOFIN) to the European Council on Reinforced Tax Policy cooperation (13349/98)
 - 1998 Joint Employment Report (13720/98 + ADD 1 + COR 1(en))
 - Draft Guidelines for Member States' Employment policies, 1999 (13721/98)
 - Commission report on ways of improving the comparability of statistics to monitor and value progress under the European employment strategy established in view of the European Council in Vienna (13931/98)
 - Managing change: Final report of the high level group on economic and social implications of industrial change (13947/98)
 - Communication from the Commission on Government investment in the framework of economic strategy (13914/98)
 - Employment perspectives in the informatics society (13907/98)
 - Commission communication: How the European Union is tackling the Year 2000 Computer problem (13560/98)
 - AGENDA 2000: Council Progress report to the European Council (13621/98 AGENDA 229
- ADD 1 Interinstitutional Agreement
ADD 2 Structural Funds
ADD 3 Agriculture
ADD 4 Pre-accession
ADD 5 Trans-European Networks and Loan Guarantee Fund
- Enlargement: Council conclusions of 7 December 1998 on European Union Enlargement (13944/98)
 - Environmental integration and sustainable development in the common agricultural policy (13091/98)
 - Follow-up to the conclusions of the European Council of Cardiff: Report to the European Council of Vienna on integrating the environment and the sustainable development into the transport policy of the Community (13811/98)
 - Report to the European Council on environmental integration and sustainable development within the area

of energy policy (13805/98)

- CFSP: common strategies (13943/98)
- Report from the General Affairs Council to the European Council on subsidiarity (13951/98)
- Commission report: Better Lawmaking 1998 - A shared responsibility (13940/98)
- Progress report from the General Affairs Council to the European Council on improvements in the Council functioning and working methods (13952/98)
- Action plan of the Council and the Commission on how best to implement the provisions of the Treaty of Amsterdam establishing an area of freedom, security and justice (13844/98)
- Report on Drugs and Drug related issues (12334/1/98 + COR 1 (en))
- Progress report on the combating of organised crime (11571/4/98 REV 4)
- Commission communication: A Northern dimension for the policies of the Union (13768/98)