Council of the
European Union

PRESS
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BACKGROUND[1]
Brussels, 4 July 2014

ECONOMIC and FINANCIAL AFFAIRS COUNCIL
Tuesday 8 July in Brussels

A dialogue on macroeconomic issues between the social partners (employers and trade unions at EU level and representatives of public enterprises and SMEs), on the one hand, and the presidency troika, Commission, European Central Bank and president of the Eurogroup, on the other, will be held on Monday 7 July, starting at 11.00.

The ***Eurogroup*** *will meet on Monday at 15.00. This will be followed by a meeting of the board of governors of the European Stability Mechanism, scheduled for 19.00.*

On Tuesday at 9.00, ministers will hold a breakfast meeting to discuss the economic situation and related policy issues.

The Council, starting at 10.30, is due to adopt ***country-specific recommendations*** *to the member states on their economic and employment policies, following endorsement by the European Council.*

It will adopt an amendment to EU tax rules to prevent ***double non-taxation*** *for corporate groups with parent companies and subsidiaries in different member states.*

The Council will be briefed by the Commission on the preparation of implementing legislation on contributions to be paid by banks to resolution funds established under recently-agreed rules on ***bank resolution****.*

It will be updated by the Commission on the state of negotiations with third countries in the field of ***savings taxation****.*

The Italian presidency will present its ***work programme****, and the Council will discuss a forthcoming mid-term review of the* ***Europe 2020 strategy*** *for growth and jobs.*

During an informal meeting scheduled for 12.30, ministers will be updated by the European Central Bank and the European Banking Authority on the ongoing asset quality review and stress tests for banks, the results of which will be announced in the autumn.

Press conferences:

- after the Eurogroup meeting *(Monday evening)*;
- at the end of the Council *(Tuesday afternoon).*

Press conferences and public deliberations: http://video.consilium.europa.eu/
Video coverage: http://tvnewsroom.consilium.europa.eu
Photographic library: www.consilium.europa.eu/photo

[1] This note has been drawn up under the responsibility of the press office.

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Presidency work programme

The Italian presidency will present a work programme on economic and financial matters for the duration of its term of office, which runs from July to December 2014 (*doc. 11285/14*). The Council will hold an exchange of views.

The programme sets out the following objectives:

- *Economic policy*: the presidency will put forward a new European economic policy agenda based on structural reforms and investments in growth and jobs. It will continue work on deepening economic and monetary union along the lines set out in the report "Towards a genuine Economic and Monetary Union"[2].

- *Banking union*: the presidency will oversee further steps towards banking union, in particular the start of the single supervisory mechanism, due to take place in November, the process of establishing a single resolution board and the ratification of the related intergovernmental agreement by the participating member states. It will also steer the Council's oversight of and communications relating to the finalisation of the agreed comprehensive balance sheet assessment and follow-up actions at national and European levels.

- *Financial services*: priorities include strengthening the regulation of financial markets, with a view to facilitating credit flows to the real economy and maintaining confidence in the functioning of financial markets and intermediaries. The presidency will advance negotiations on all legislative dossiers, aiming in particular to finalise legislation on the creation of a new category of pooled funds for long-term investments, "European Long-Term Investment Funds". It will also aim to finalise a new regulatory framework for the prevention of money laundering and terrorist financing. It will seek agreement within the Council on possible improvements to the functioning of the European System of Financial Supervision and work on a proposed regulation aimed at restoring confidence in benchmarks, and on updating legislation on payment systems in order to reduce fragmentation among member states.

- *Taxation*: the presidency will seek to finalise discussions on a proposed directive aimed at extending the automatic exchange of information between tax administrations in line with new international standards. It will monitor negotiations with third countries on the revision of agreements on savings taxation. Discussions will continue on improvements to administrative cooperation in the field of VAT, on amending the parent-subsidiary directive and on mismatches caused by hybrid structures. Building on OECD work on tax base erosion and profit shifting and on parallel work at EU level, discussions will continue on taxation of the digital economy. The presidency will pursue discussions on improvements to the VAT system, notably proposals on a standard VAT return and the VAT treatment of vouchers, and will work for an agreement on energy taxation and on a proposed financial transaction tax.

EU2020 strategy for growth and jobs

The Council will hold a policy debate on the forthcoming mid-term review of Europe's 2020 strategy. On the basis of a presidency note (*doc. 11362/14*) and a letter from the president of the Economic and Financial Committee (*doc. 11360/14*), it will discuss how the strategy can better contribute to growth and employment, as well as its role in the EU's annual economic and fiscal policy monitoring process, the *European Semester*.

The European Council in March assessed implementation of the strategy in the light of a communication by the Commission (*doc. 6713/14*), which takes stock of the of the EU 2020 headline targets and initiates the mid-term review. In May, the Commission launched a public consultation to feed into its work on the review; it is expected to present concrete proposals in early 2015.

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2 http://www.consilium.europa.eu/uedocs/cms_Data/docs/pressdata/en/ec/134069.pdf

In a recent discussion in the Economic and Financial Committee on the strategy review, it was emphasised that the economic crisis has weakened the potential for growth and employment in Europe which, together with the attention focused on short-term actions to address the crisis, has made it more difficult to achieve the longer term objectives of the strategy. The current juncture provides a window of opportunity for the implementation of structural reforms aimed at increasing economic growth and employment. The broad-based strategy with five headline targets linked directly to the challenges continues to be largely valid despite the mixed progress so far and the likely difficulties in reaching them all in 2020.

The Council is expected to discuss ways to improve the effectiveness of policy measures to achieve the 2020 targets and promote growth and how implementation of the strategy can be improved through the *European Semester*.

More generally, in order for the Council to contribute to the mid-term assessment, the presidency will organise debates in several Council configurations during the second half of this year. It will prepare a synthesis report to be endorsed by the European Council in December. The synthesis report will provide guidance for subsequent Commission proposals aimed at improving implementation of the strategy.

The Europe 2020 strategy, adopted in June 2010, contains five headline goals on employment, education, social inclusion, innovation and climate/energy:

- ensuring sustainable public finances whilst preserving investment and social welfare;
- establishing inclusive and efficient labour markets;
- promoting a sustainable economy;
- further strengthening the EU's internal market;
- fully exploiting the reciprocal benefits of foreign trade and openness.

The strategy was a central element of the EU's response to the global economic crisis. It involves the enhanced coordination of economic policies, whilst correcting the shortcomings of the Lisbon strategy, which it replaced.

Taxation of savings income - Agreements with third countries

The Commission will inform the Council on the state of ongoing negotiations with Switzerland, Liechtenstein, Andorra, Monaco and San Marino on upgrading their agreements with the EU on the taxation of savings income

The Council gave a mandate to the Commission in May 2013 to negotiate amendments to these agreements, which are intended to enable member states to better clamp down on tax fraud and tax evasion.

The aim is to ensure that the five countries continue to apply measures that are equivalent to those laid down in the EU's directive on the exchange of information on savings incomes, which was updated in March[3], taking into account international developments in this area.

The negotiations with Switzerland, Liechtenstein, Andorra, Monaco and San Marino follow a call by the European Council for them to commit fully to implementing a new single global standard for the automatic exchange of information, developed by the OECD and endorsed by the G20.

The EU directive requires the member states to exchange information automatically so as to enable interest payments made in one member state to residents of other member states to be taxed in accordance with the laws of the state of tax residence.

The amendments introduced in March reflect changes to savings products and developments in investor behaviour since the directive came into force in 2005. They enlarge the directive's scope to include all types of savings income, as well as products that generate interest or equivalent income, and provide a "look-through" approach for the identification of beneficial owners[4].

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[3] Press release 7524/14.

[4] i.e. "reasonable steps" shall be taken "to establish the identity of the beneficial owner".

Bank resolution - Contributions by banks

The Commission, under "other business", will update the Council on the preparation of implementing legislation that will determine the contributions to be paid by banks to resolution funds5 established under a recently-agreed directive on bank recovery and resolution directive (BRRD) and a draft regulation on the single resolution mechanism (SRM).

Under the new rules, banks will have to make annual contributions; these will be calculated on the basis of their liabilities, excluding own funds and covered deposits, and adjusted for risk. The Commission is due to adopt a delegated act and a proposal for an implementing act according to article 94(7) of the BRRD and article 66(3a) of the SRM regulation, respectively. These acts will specify how to calculate banks' contributions, in particular how to account for risk and what the relation should be between the flat rate (i.e. that which all banks must pay) and the risk-adjusted rate.

The Commission has confirmed its intention to conclude its work on the two acts in September. The Council already discussed the matter at its meeting on 20 June.

The delegated act will enter into force only if no objection is expressed by the European Parliament or by the Council within three months (extendable by a further three months at the initiative of the Parliament or the Council). It can however enter into force earlier than that if both institutions inform the Commission that they will not object. As for the implementing act, it will be adopted by the Council on the basis of a proposal by the Commission.

The Commission is already consulting with member states and the Parliament to ensure that the delegated act can enter into force rapidly once adopted.

The directive on bank recovery and resolution was adopted by the Council on 6 May. Member states have until 31 December 2014 to transpose it into national law6. The SRM regulation is scheduled for adoption by the Council in mid- July and publication in the Official Journal at the end of July. The regulation will be applicable from 1 January 20167.

Other issues

European Semester – Recommendations on economic and employment policies

The Council is due to adopt, without discussion, under this year's *European Semester*:

- recommendations to 26 member states[8] on the economic policies set out in their national reform programmes, as well as opinions on their fiscal policies, as presented in their stability/convergence programmes (*docs 11055/1/14 + 10809/3/14 + 10810/1/14*); and
- a specific recommendation on the economic policies of the member states of the euro area (*doc. 10808/14*).

Adoption of the texts will conclude this year's *European Semester*. The texts were approved in draft form by the Council on 20 June (economic and fiscal policies) and 24 June (overall), and endorsed by the European Council on 26 and 27 June.

The *European Semester* involves simultaneous monitoring by the Commission of the member states' economic, employment and fiscal policies during a six-month period every year. In the light of policy guidance from the European Council in March, the member states present their national reform programmes and stability/convergence programmes annually in April.

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5 The single resolution fund for member states participating in the banking union; national funds in other EU countries.

6 See press release *9510/14*.

7 See press release *8273/14*.

8 All except Cyprus and Greece, which are subject to macroeconomic adjustment programmes. To avoid duplication, there are no country-specific recommendations for these two countries.

The national reform programmes contain a macroeconomic scenario for the medium term, national targets for implementing the "Europe 2020" strategy for jobs and growth, identification of the main obstacles to growth, and measures for concentrating growth-enhancing initiatives in the short term.

The stability and convergence programmes[9] set out medium-term budgetary objectives, the main assumptions about expected economic developments, a description of fiscal and economic policy measures, and an analysis of how changes in assumptions will affect fiscal and debt positions.

Based respectively on articles 121(2) and 148(4) of the Treaty on the Functioning of the European Union and articles 5(2) and 9(2) of regulation 1466/97, the country-specific recommendations and opinions require a qualified majority for adoption by the Council. The euro area recommendation, based on articles 121(2) and 136 TFEU, requires a qualified majority of euro area member states.

Company taxation - Parent-subsidiary directive

The Council is due to adopt, without discussion, an amendment to EU tax rules in order to prevent the double non-taxation of dividends distributed amongst corporate groups deriving from hybrid loan arrangements[10] (*docs 10996/14* + *11291/14* + *11291/14 ADD 1*).

The aim is to close a loophole that currently allows corporate groups to exploit mismatches between national tax rules so as to avoid paying taxes on some types of profits distributed within the group.

Political agreement on the amendment was reached at the Council's meeting on 20 June. The envisaged amendment is part of a broader proposal that the Council agreed to split in order to enable early adoption of the new rule on hybrid loans, whilst allowing work to continue on another aspect, namely the introduction of a common anti-abuse provision.

The proposed amendment to the EU's parent-subsidiary directive[11] will enable member states to avoid losses in tax revenues from corporate groups. Furthermore, it will help create a level playing field between groups with parent companies and subsidiaries located in different member states and those that have all entities based in a single member state.

Member states will have until 31 December 2015 to transpose the amending provision into national law.

Based on article 115 of the Treaty on the Functioning of the European Union, the proposal requires unanimity for adoption by the Council.

[9] Euro area member states present stability programmes, those member states that don't use the euro present convergence programmes.

[10] Hybrid loan arrangements are financial instruments that have characteristics of both debt and equity.

[11] Directive 2011/96/EU