

## **Work programme of the European Union Economic and Financial Affairs Council during the Spanish Presidency**

The work programme prepared by the Spanish Presidency for the Economic and Financial Affairs Council (ECOFIN) aims to address the needs and challenges of the current economic situation. There is no doubt that the economic crisis from which we are gradually beginning to emerge has been one of the deepest and most widespread in history. The resolute and coordinated action of the economic authorities in various countries has prevented both the collapse of financial markets and an even more pronounced depression of the real economy, and the subsequent social cost of increased unemployment and poverty. Signs of stabilisation and recovery are beginning to appear. However, the greatest challenge in the coming months will be to outline an ambitious exit strategy, in both the short and long term, that takes into account two dimensions. The first refers to overcoming the dependence on extraordinary public financial and fiscal measures. The second dimension is the promotion of measures that favour sustainable, stable, and balanced growth. The economic work plan of the Spanish Presidency aims to concentrate on these two dimensions, both internally and externally, so as to lay the foundations for a solid recovery and to prevent the recurrence of a crisis of this magnitude.

### **Exit strategies: Examination of the withdrawal of public incentives**

Despite the incipient stabilisation of the economy, the nascent recovery needs to be consolidated and strengthened. For this reason, until confidence has been fully restored and the recovery is self-sustained, extraordinary government support measures for the economy must not be withdrawn. However, the time has now come to design appropriate exit strategies from these measures, as circumstances permit, and before new imbalances arise. Important work has already been done in recent months to study how to shape these exit strategies, which must be the starting point for the Spanish Presidency.

Exit strategies for the withdrawal of extraordinary support measures will require unprecedented coordination, at both the European and international level, due to the degree of linkages between sectors, markets, and countries.

However, exit strategies must not only be defined as the withdrawal of exceptional policies, but also as the adoption of new measures that will

promote a more stable, balanced, and sustainable growth, which will be founded on the principles of employability, sustainability, and balanced growth. *Measures designed to produce significant impact in these areas are currently being introduced. These measures include the strengthening of the financial sector and an ambitious and in-depth review of the Lisbon Strategy, with a view to shaping the future of the European economy in 2020.* Progress on the Internal Market agenda must also contribute towards a more solid recovery. In order to accomplish these goals, the Council will carry out a mutual assessment of the application of the Service Directive.

In the **field of finance**, a detailed follow-up of financial markets (liquidity conditions, confidence levels, issuing capacity...) must set the standard for the gradual withdrawal of the extraordinary measures adopted.

Looking ahead, balanced development of the financial system will require improvement in the quality of financial regulation and supervision, together with greater financial integration. With these objectives in mind, three priorities of the Spanish Presidency within the areas of finance can be singled out:

- Continuing the promotion of the Larosière agenda to reform the financial system within Europe and setting in motion the creation of the European Systemic Risk Council and of the European Supervisory Authorities.
- Striving for the approval of important ongoing legislative reforms, which will increase the quality of financial regulation and supervision. Specifically, we highlight the importance of making progress on the Alternative Investment Funds Managers Directive, and the effort to increase the quality of capital for credit institutions and investment services companies. Remuneration policies compatible with satisfactory and efficient risk management should also be promoted.
- Promoting a joint European response as far as the management of the crisis is concerned

In the **field of public finance**, the Stability and Growth Pact is the most appropriate instrument for directing and supervising fiscal consolidation. The Spanish Presidency will contribute towards the efficient administration of the Pact in both its dissuasive and preventive facets. The need for budgetary consolidation strategies over an extended period of time means that it is advisable to strengthen the national budgetary frameworks, respecting the institutional aspects of each Member State. These instruments of fiscal discipline play a vital role in providing the

consolidation effort with credibility and in transmitting this credibility to the markets.

### **EU 2020: Coordination of long-term growth policies**

In addition to the withdrawal of extraordinary public incentives, Europe needs a new long-term strategy which, together with a successful exit from the crisis, lays the foundations for a new period of healthy growth, transforming the challenges to be faced over the next ten years into opportunities. Economic interdependence at a European Union and international level and the need to strengthen the competitiveness of the European economy, in an increasingly globalised context, requires agreement on the priorities on which national and European Union policies and reforms should focus over the coming years. Additionally issues such as improvements in the channels of communication of these policies to the general public and mechanisms to facilitate coordination in the various fields must be addressed.

The EU 2020 strategy must be oriented to enhance the potential of European growth. But higher growth in itself is not enough; it is also important for such growth to be sustainable, meaning that growth should incorporate sustainability on three levels: fiscal, social, and environmental. This implies tackling the economic effects of an ageing population, which is creating challenges for public finances and for social welfare systems. It also means the need to absorb the high levels of unemployment resulting from the crisis, while generating quality employment and a dynamic labor mobility. Finally, meaningful progress must be made in the fight against climate change by developing a more energy efficient and low-carbon economy, with the aim of improving the quality of life of current and future generations.

Finally, a framework for clear and efficient governance is needed for the new strategy and in particular with efficient supervisory mechanisms and appropriate coordination of Member States policies. The new strategy must also encourage coordination and synergies between the structural reforms of Member States and the policies of the EU itself, with the European Investment Bank (EIB) playing a key role in their execution, and concentrating on those policies with a greater potential impact on growth.

### **Strengthening the external dimension of the EU: G-20 and Climate Change**

The Spanish Presidency will make every possible effort to strengthen coordination of the EU with the rest of the world, in particular through the G-20 process. In this forum, the new Framework for Strong, Sustainable

and Balanced Growth represents a unique opportunity to increase the influence of the EU in the design of the international economic system that will arise after the crisis. In particular, we should contribute to this process at the global level the synergies and the experience derived from the multilateral supervisory systems that we have promoted over the years at a European level.

The G-20 must continue its work in two essential areas to which it has already devoted special attention: International Financial Institutions (IFIs) and the strengthening of the international financial system. As for the IFIs, the IMF has and will continue to play a key role in this area; The IMF is in the process of seeing its resources increased and progress is being made to strengthen its governance system. As for Development Banks, the Presidency period will be essential in order to reach agreements guaranteeing that these institutions will be able to maintain adequate activity levels until the economic recovery is fully in effect. As for the reinforcement of the international financial system, although progress has been made in many essential aspects, there are still areas where further work is necessary (the strengthening of the prudential supervisory framework, review of remuneration standards, and specific problems of entities known as "too big to fail"). The work of the Financial Stability Board (FSB) will be essential in these efforts.

The foreign dimension of the EU also requires the strengthening of our capacity to promote cooperation and development abroad. The Spanish Presidency will oversee most of the negotiation of the EIB external mandates with the European Union institutions involved. Likewise, relations with Euro-Mediterranean countries will be strengthened during the Euromed ECOFIN and the ministerial meeting of the FEMIP.

Finally, on Climate Change, the Spanish Presidency will contribute to implement and develop the Copenhagen Accord agreed on December 18th 2009. Financial contributions to support mitigation and adaptation measures in developing countries are a central element in international negotiations on climate change. An essential task of the ECOFIN Council will be to discuss the European contribution to the Copenhagen commitment to mobilize US\$ 100 billion a year by 2020 to address the needs of developing countries. In particular, we will continue to work on identifying potential sources of finance to meet this goal. As for international public financing against climate change, during the Presidency, we will also analyze how to divide up fairly, among Member States, the contributions finally committed by the EU, taking into account payment capacity in the case of less prosperous Member States.

Related to this point and as explained below, the Spanish Presidency considers it a priority to boost the discussions and negotiations of the

Proposal to modify the Directive on the taxation of energy products, as a way to enhance environmental protection and to the fight against climate change. .

### **Taxation: The fight against fraud**

The meeting of the G-20 held in London in April 2009 and the efforts made by the OECD in order to increase the transparency of tax systems, with particular attention being paid to tax havens, have given a renewed political momentum to the fight against tax fraud within a framework that the European Union has defined as “good governance in tax matters”. In this context, achieving international transparency raises two kinds of challenges for the European Union: internal cooperation in the relations between Member States, and increasing transparency in foreign relations.

The Spanish Presidency will thus pay special attention to the cooperation of Member States in the fight against tax fraud. These efforts will be made in the fields of both direct and indirect taxation.

In the field of **direct taxation** the priority will be to work on three Directive proposals linked to the fight against tax evasion and to the achievement of appropriate rules governing transparency. The **Savings Taxation Directive** will expand its scope, both objectively (incorporating a larger number of taxable incomes), and subjectively (incorporating certain entities and legal instruments whose effective beneficiaries are natural persons), thus contributing towards increased efficiency and fairness of taxation on savings. The **Directive on Administrative Cooperation** will imply the adoption by all Member States of the OECD standards for the exchange of information and, therefore, the end of bank secrecy in the European Union, and it will impose a new general framework on the exchange of information on taxation that will allow the adaptation of the current regulation to the kind of automatic information we need, so that a modern efficient tool will be available in the fight against fraud. Finally, the **Directive on Mutual Assistance for Tax Recovery**, will improve the tools for recovery of debts that require assistance of other Member States, if either the debtors or their assets are within these states.

If these legislative proposals are to be effective, it is also necessary for the EU to reach **anti-fraud agreements with third-countries** (a political agreement with Liechtenstein will be used as a model for negotiations with Andorra, Monaco, San Marino, and Switzerland). During the Spanish Presidency, we will try to achieve the signing of agreements that comply with OECD standards on transparency and information exchange.

Finally, within the field of coordination in direct taxation, the Spanish Presidency will seek to achieve a commitment on **anti-abuse clauses**. This will be a joint effort by Member States on matters of direct taxation in which problems may appear as a consequence of the fundamental rights contemplated in the Treaty of the EU and of the satisfactory operation of the internal market, and which may also put an end to the infringement procedures opened by the Commission. Likewise, a report will be presented to the Council on follow-up work on the application of the **Code of Conduct for Business Taxation** corresponding to the period of the Spanish Presidency (Report of the Council). This code of conduct refers to the suppression of tax measures that have or may have a significant harmful influence on business activities within the Union because of the tax competition they create. During the Presidency, the subgroup working on the Code of Conduct will continue its task. This subgroup is in charge of debating anti-abuse issues, such as those related with outbound and inbound dividends.

Likewise, the Spanish Presidency will boost administrative cooperation in the fight against fraud in the field of indirect taxation. In order to do so it will strive to promote the work to make **EUROFISC** a decentralised network for the exchange of information on VAT fraud among Member States. The EUROFISC network is based on an early warning mechanism and a multilateral risk analysis platform. Moreover, the Presidency will work on the new proposal of a **Directive on VAT electronic invoicing rules**, an important element of administrative simplification and cost reduction for businesses.

Likewise, the Spanish Presidency will strengthen administrative cooperation in the field of Excises, promoting the implementation of the **Excise Movement Control System (EMCS)**, a new computerised system **for monitoring movements of excise goods** by electronic means, through the interconnection of customs agencies of various Member States and operators.

### **Towards a more efficient taxation system**

The Spanish Presidency will also ensure that fiscal coordination leads to a more efficient taxation system in various fields. A well designed taxation system can make a decisive contribution to the promotion of energy efficiency, which is indispensable if sustainable long-term growth is to be achieved. The Spanish Presidency will thus give precedence to the proposals of Directives pursuing energy efficiency objectives. It is therefore important to make progress in the modification of the Directive establishing

a new framework for the taxation of energy products on the basis of environmental criteria. In this context, during the Spanish Presidency the proposal for the **modification of the Directive on the taxation of energy products** will be addressed.

As for the VAT, work will be encouraged with respect to the interpretation of new rules of location, together with the taxation of financial services and insurance, and the Special Scheme for Travel Agencies.

Finally, in order for public finances to have a revitalising effect on the economy, it is necessary to take into account the Community budget rules, an essential element of the Union's daily activities. The entry into force of the Lisbon Treaty requires the modification of some budget rules.

Firstly, the Spanish Presidency will push forward the negotiation of the Financial Regulation Review proposal, which will be presented by the Commission during this semester. This regulation includes the rules on the drafting, approval, execution, and monitoring of the European Union budget, and Spain's objective will be to take a closer look at simplification, transparency, and rigour in the execution of the budget.

Secondly, the Spanish Presidency will promote the necessary work in order to adapt to the Lisbon Treaty, as soon as possible, the rules applicable to the Union budget.

In short, the next six months will pose significant challenges to the EU in economic and financial issues. The ECOFIN therefore has a considerable task ahead of it in order to successfully exit from the unprecedented economic crisis and at the same time lay the foundations of sustainable and stable growth for the future and of a more social, more competitive, and more environmentally committed Europe.