

Interparliamentary Conference on Stability, Economic Coordination and Governance in the European Union (SECG) 29-31 October 2017, Tallinn

Presidency Summary

The Interparliamentary Conference on Stability, Economic Coordination and Governance in the European Union took place on 29-31 September 2017 at the Tallinn Creative Hub, within the framework of the parliamentary dimension of the Estonian Presidency of the Council of the European Union (EU). 172 representatives from 26 Member States, the European Parliament (EP), the European Commission, Norway, and Montenegro attended the Conference. Two of the four sessions were dedicated to the debate on the future of Europe, specifically on the future of the Economic and Monetary Union (EMU) and on the EU finances. Other sessions looked at the measures of stimulating and stabilising the economies and the efficiency of tax collection. **Mr Eiki Nestor**, President of the Riigikogu, opened the conference and **Mr Remo Holsmer**, Deputy Chairman of the Finance Committee of the Riigikogu, chaired the sessions.

SESSION I: The future of the EMU. The Treaty on Stability, Coordination and Governance (Fiscal Compact) and the EU legal framework

The first session was dedicated to the future of the EMU. Key principles and European Commission initiatives were introduced, which aim to stimulate social and economic convergence, tackle financial vulnerabilities and bolster stabilisation capacity. Also, implementation of the existing rules of the Fiscal Compact and its substance within the EU legal framework were discussed.

Mr Valdis Dombrovskis, Vice-President of the European Commission for the Euro and Social Dialogue, in his address focused on deepening and strengthening the EMU. In order to achieve an efficient, transparent and democratic EMU, close cooperation between national parliaments, governments and EU institutions is important. The Commission has the right to propose new initiatives, but much of the responsibility and many of the tools still remain primarily at the national level.

The Commissioner pointed out that the EU and member states have already addressed many weaknesses, the economy is growing again and unemployment has fallen to its lowest level in eight years. But social and economic divergences across the EU still exist and economies are vulnerable. The Commission will present its specific proposals on how to make the EMU perform better on 6 December. The reform package will be driven by three key principles: 1) completing the EMU isn't an end in and of itself, but a way to provide jobs, growth, social fairness, economic convergence and financial stability; 2) responsibility and solidarity - risk reduction and risk sharing have to go hand in hand; 3) openness to all EU member states, transparency and accountability. There are both short and long-term initiatives until 2025, but the most immediate priority of the Commission is to complete the Banking Union and the Capital Markets Union. In conclusion, the Vice-President noted that although the proposed new instruments and governance methods would support growth and strengthen resilience, it is important to implement existing rules.

In his keynote speech, the Chair of the Committee on Economic and Monetary Affairs of the EP **Mr Roberto Gualtieri** focused on the EMU reform and possible changes in the EU legal framework. Legacies of the crisis are still there, but the present political and economic context offers a solid base for discussions and is favourable for completing the EMU. It is important to keep in mind two lessons that the crisis and

the recovery period taught us. First, quality and flexibility are indispensable when it comes to policies. Second, there is a lack of sufficient instruments to fully address Europe's cyclical and structural problems.

In order to overcome challenges and absorb possible future crises, Mr Gualtieri pointed out six areas that EU should focus on – crisis management; macroeconomic stabilisation; economic policy convergence; fiscal surveillance and coordination; provision of European common goods and financial integration. He welcomed the Commission's initiatives in those areas, but emphasised the importance of democratic scrutiny at the European level. Amongst many of the Commission's initiatives, Mr Gualtieri supported the idea of incorporating the ESM into the EU legal framework; creating an unemployment benefit scheme and a rainy-day fund; giving additional pre-accession assistance to non-euro area member states; and appointing a Commissioner as the Eurogroup president. However, in his view incorporation of the Fiscal Compact into Union law in its current form is unnecessary and counterproductive. In conclusion, Mr Gualtieri underlined the need for an ambitious MFF for the next cycle.

During the **exchange of views**, 19 representatives of national parliaments and of the EP took the floor. A large majority of the delegates agreed on the need to complete the EMU to ensure economic and social convergence, for resilience against crises and to facilitate growth. In this respect, stronger fiscal policy, structural national reforms, coordination of economic policies and investments were mentioned as the most important tools. Moreover, key principles should be flexibility, transparency and inclusiveness. The majority of the delegates also agreed that rules have to be efficient and the existing rules have to be implemented by the member states.

In particular, some delegates asked to move on concretely with the Commission's plan to turn the ESM into the European Monetary Fund and with the corporate income tax initiative. On the other hand, some delegates were sceptical about the Commission's plan to set up the Ministry of Economic Affairs and Finance.

Furthermore, some delegates mentioned the importance of focusing more on the private sector, especially on SMEs, to find out which mechanism facilitates their growth and investments better.

In response, **Mr Dombrovskis** once again stressed the Commission's key principles – flexibility, transparency, openness and convergence. Regarding the concrete proposals, the member states have the key to make them work as soon as possible. In addition, **Mr Gualtieri** mentioned the need for balancing different interests and taking into account the development of technologies. Currently, Europe is facing dual challenges. Improving competitiveness and innovative capacity, while serving society.

The co-chair of the session **Mr Jürgen Ligi**, member of the Finance Committee of the Riigikogu, stressed that deepening the EMU should go hand in hand with better implementation and supervision of the already existing rules. He was also sceptical about the rhetoric on deepening the flexibility of the rules. In addition, more attention should be paid to the quality of public spending and to supporting private investments. In conclusion, member states have to acknowledge that fiscal rules don't cause crisis, but present strict rules are the consequence of the low financial and budgetary discipline in some member states.

Session II: National reforms, financial assistance and investment programmes: objectives, performance, outcome and perspectives

The session focused on the assessment of measures that stimulate economic growth and provide financial stability.

Mr Ardo Hansson, Governor of the Estonian central bank, highlighted in his keynote speech the need to continue with the structural reforms in order to ensure the flexibility and resilience of economies. He stressed that productivity growth has decreased, as many national governments have failed to exercise

sufficient fiscal discipline and to undertake structural reforms needed to promote growth and income convergence. Mr Hansson said that the smooth functioning and resilience of the euro area requires reforms that foster private sector cross-border risk sharing through financial integration. It is the duty of national authorities to strengthen the automatic stabilisers and to improve the ability of the private sector to manage shocks. Therefore, it is crucial to overcome resistance to reforms. Furthermore, reforms should be supported by well-designed and time consistent incentive mechanisms on the EU level. However, Mr Hansson stressed the necessity not to weaken the national responsibility when discussing the delivering of new powers to the EU or euro area.

The Governor also pointed out that despite large transfers to some regions for a considerable period of time, there are persistent and significant productivity differences within the EU member states. He indicated that weakly designed financial assistance might be counterproductive, as large transfers may have had a negative impact on regional long-run productivity growth by undermining the incentives for change.

In her keynote speech, Deputy Secretary-General of the OECD **Ms Mari Kiviniemi** focused on the OECD views on the reform priorities in Europe. According to the OECD report, it is crucial to focus on measures that support economic growth and help to overcome the challenges related to globalisation. The speaker stressed the importance of completing the implementation of Europe's energy, telecom and digital single markets. This will lead to more investments, productivity and growth in general. Moreover, completing the Banking Union helps to ensure that financial resources are channelled to productive ends, with a special focus on SMEs. Ms **Kiviniemi** stressed that the EU needs to support its citizens better in times of globalisation through more effective up-skilling, re-training, guidance and job-search support for the youth and the long-term unemployed. Suitable education policies and lifelong learning programmes would facilitate a better transition of workers between jobs and the adoption of new technologies.

The co-chair of the session **Mr Roberto Gualtieri** agreed that investments in the EU are necessary and the capacity of the structural reforms needs to be improved.

15 representatives of national parliaments took the floor during the **exchange of views**. The majority of delegates underlined the need for structural reforms and the importance of financial recovery. A number of examples of how member states have carried out structural reforms were given.

Session III: Collecting taxes efficiently

A series of examples of how national tax authorities administrate taxes in terms of efficiency and effectiveness were set out at this session. Furthermore, current taxation challenges from the European Commission perspective were handled as well.

Keynote speaker **Mr Dmitri Jegorov**, Undersecretary for Tax and Customs Policy at the Estonian Ministry of Finance, focused on the Estonian perspective of efficient and effective tax collection. He pointed out that compared to many other countries Estonia spends only 40 cents to collect 100 euro of taxes. This makes the Estonian tax administration one of the most effective and efficient in the world. **Mr Jegorov** stressed the need for a meaningful tax policy, which is crucial for the successful administration of taxes, because complex and burdensome tax systems result in high compliance costs for taxpayers and in non-compliance. Simple administration of a complex tax system is almost impossible. He pointed out that prerequisites for successful tax administration are, *inter alia*, an uncomplicated and transparent legal framework, process-based management, a service-oriented approach and the use of modern technology.

Director for Indirect Taxation and Tax Administration of the Directorate-General for Taxation and Customs Union **Ms Maria Teresa Fábregas** in her keynote speech pointed out that tax collection is and will remain the primary responsibility of the national authorities. Nevertheless, the Commission considers enhancing the efficiency of tax collection as a priority. Therefore, modernising and simplifying tax rules are at the core of the Commission initiatives to make it easier for citizens and businesses to understand how to comply with the taxation rules. According to Ms Fábregas, simplified tax rules and a modern tax system help to create a more integrated and fair internal market. In order to stimulate investment, innovation and entrepreneurial initiative in the EU, it is crucial to develop the right business environment and suitable tax policy. Furthermore, measures proposed by the Commission in the area of value added tax (VAT) in order to facilitate cross-border trade for e-commerce, combat VAT fraud, ensure fair competition for EU businesses, were introduced. Ms Fábregas called on the member states to participate in an open, well-structured and strategic dialogue with the Commission in the area of taxation.

In addition, the co-chair of the session **Mr Philippe Dallier**, Vice-President of the French Senate and member of its Finance Committee, shared his views regarding tax administration in France and shared best practices on how the collaborative economy platforms can be used as tools for administrating taxes.

During the **exchange of views**, 14 representatives of national parliaments and of the EP took the floor. A series of examples of how national tax authorities administrate taxes in terms of efficiency and effectiveness were given. A large majority of the delegates welcomed the EU activities in the field and stressed the need for further cooperation, however, some delegates pointed out the necessity to find a balance between the fiscal sovereignty of the member states and the activities of the EU in taxation.

SESSION IV: EU in change: challenges for the EU budget

The last session focused on the future EU budget to overcome challenges and deliver added value for the EU. The size and aim of the EU budget, also the reform of revenues and the next Multiannual Financial Framework (MFF) were discussed.

Mr Günther H. Oettinger, European Commissioner for Budget and Human Resources, in his keynote speech focused on the future of EU finances. The EU budget is facing two major problems: an income gap and an expenditure gap. The withdrawal of the UK means losing an important net contributor and, at the same time, the EU has to respond to new expectations and challenges. However, the essence of the EU budget remains – providing added value. According to the Commissioner, the EU budget helps to deliver on things that matter for Europeans and delivers results that uncoordinated national spending cannot. At the same time, the principles of subsidiarity and proportionality must be followed. In general, Mr Oettinger pointed out key principles of the future EU budget – efficiency, simplification and flexibility.

When it comes to next MFF, the Commission will present its proposal in May 2018 and hopes that the member states will start negotiations as soon as possible. However, Mr Oettinger is of the opinion that in the future discussions over the next MFF should start earlier to ensure full cooperation and consultations at all levels. In conclusion, Mr Oettinger stressed that the EU is a union of solidarity, and that policy makers, particularly net payers, must communicate to their citizens the value of the EU and how much money goes back into their country through investments, services and procurements.

Ms Isabelle Thomas, Member of the Committee on Budgets of the EP, emphasised that despite the relatively small size of the EU budget, the value added and the achievements over the years have been remarkable. In the future, expenditures must correspond with the Union objectives and, therefore, the main question is how to balance traditional needs and new challenges. A constantly reduced budget will not allow reaching the goals that have been set.

Furthermore, Ms Thomas gave a brief overview of the EP resolution on the draft general budget of the EU for the 2018. For the EP, the core priorities are sustainable growth; jobs, in particular youth employment; security and climate change. Also, the budget should increase around 20% to respond to challenges, and the foreseeability and flexibility of financing instruments are crucial. The speaker is of the opinion that in the light of new MFF, a reform of revenues is possible.

She also raised the democratic accountability and legitimacy question. In recent years, more expenditures have moved outside the EU, which has also lessened the supervisory scope of the national parliaments and the EP over expenditure.

In conclusion, Ms Thomas emphasised that the budget is something developed together, national parliaments have to play an important role and communicate clearly what their expectations are towards the EU.

During the **exchange of views**, 20 representatives of national parliaments and of the EP took the floor. There was broad consensus that the EU budget must deliver European added value and it is more a political issue than a question of accounting. Since the EU is facing new challenges (migration, defence, security, climate change, innovation) and one net contributor is leaving the EU, the challenge of doing more with less was recognised.

Moreover, delegates underlined the importance of prioritisation and flexibility of the budget. Regarding the size of the budget after Brexit, some delegates supported decreasing the budget and making it more efficient. Others, referring to new challenges, stressed the need to increase contributions of the member states. Also, improving the capability of tax collection in the EU and enhancing export were mentioned as possible revenue sources. Some delegates stressed the importance of continuing with the Cohesion Funds and supporting agriculture, as it is the question of solidarity and also beneficial for all member states, even for net contributors.

In his concluding remarks, **Mr Oettinger** drew attention to the fact that the EU budget is in the service of all member states. When negotiating the budget, all the policies are equally important. Regarding continuing with the Cohesion Funds, he mentioned conditionality and cooperating more with national parliaments. Also, he stressed that national parliaments should communicate the benefits of the EU budget to their citizens better. **Ms Thomas** shared the view that every member state has their own priorities, but emphasised that all are equally important. In conclusion, she is of the opinion that finding a common way is possible through efficiency and transparency.

The co-chair of the session **Mr Märt Kivine**, Special Representative to the Estonian Government for the EU budget negotiations for 2018, recalled three important aspects for the discussion. First, member states should not forget the monetary anchor at the end of the convergence process, namely the single currency. Second, the EU is the perfect structure to deal with new challenges that go beyond national abilities, but the current budget framework isn't able to address those challenges. And, last but not least, budget rigidity may impose legitimacy risks to the claims that the EU budget should be increased.