Chamber of Deputies of the Grand Duchy of Luxembourg

Interparliamentary Conference on Stability, Economic Coordination and Governance in the European Union

9-10 November 2015

Presidency summary

Session I: The Social Dimension of Economic Governance

The first discussion panel, chaired by the President of the Chamber of Deputies of Luxembourg, H.E.Mr **Mars Di Bartolomeo**, was devoted to the social dimension of economic governance. H.E.Mr Di Bartolomeo, who gave the opening speech to the conference, recalled that the social dimension of Europe is one of the priorities of the Luxembourg Presidency. He called for "re-centring the European project around the social dimension, if we want to avoid a social divide and a disengagement from or even opposition to the European project by our citizens", at a time when Europe is faced with "major social difficulties" such as unemployment, especially among young people, the rise in inequalities, poverty or even material deprivation. "The social dimension should lie at the very heart of all European policy", he declared, calling for each European action, directive and regulation to be "evaluated in light of the social dimension".

Mr Nicolas Schmit, Minister for Labour, Employment and the Social and Solidarity Economy raised the issue of Europe's democratic legitimacy. For him, this is the weakest point of the European project because citizens "get lost in European economic policies". The Minister called for a renewal of social dialogue, as the European project is a "political project which requires the support of the European people and citizens". Yet, this project has many "overly technical, excessively technocratic" aspects, he stated. The consequence of this is that opponents to European integration monopolise the debate and repoliticise it by default. "Therefore, it is urgent to take back possession of the true political dimension of Europe", especially at a time when "the economic crisis has led to a social crisis" and economic and social convergence has made way for growing divergence", declared the Minister. Although real progress has been made thanks to solidarity instruments such as the European Stability Mechanism (ESM), the Banking Union, and the Economic and Monetary Union (EMU), the Minister appealed for the implementation of "true socio-economic governance".

For Nicolas Schmit, it is necessary to relaunch productive investment in order to boost growth, promote competitiveness and reboot innovation. However, it is also necessary to relaunch social investments, “the impact of which on social cohesion, employment and innovation, as well as on economic competitiveness, is considerable". The issue of employment shall be placed at the heart of our policies because employment "is not an adjustment variable". The Minister highlighted the need for a "European budget better focused on real needs" in order to carry out reforms in this context. He again appealed for the establishment of a political decision-making body (a social Eurogroup, the first issue of which was held on the sidelines of the EPSCO Council of 5 October 2015), the definition of an economic policy for the Eurozone "which goes beyond the mere juxtaposition of national policies", the creation of mechanisms for debate and democratic control and proper impetus for renewed social dialogue. Mobility can contribute to the recovery, but it also has negative effects. It must be ensured that it becomes a success for everyone. Therefore it is necessary to frame it by giving a social basis to mobility.

Mr Bart Vanhercke, Director of the European Social Observatory, then presented the interim report of a study on the social dimension of the European Semester, which he prepared with Mr Jonathan Zeitlin, Professor at Amsterdam University, on the initiative of the Chamber of Deputies. The study helped to highlight the fact that the social dimension has been "partial but progressive" in the years 2011-2014 of the European Semester.

The 2015 cycle of the Semester saw the introduction of a certain number of innovations, such as the reduction in the number of country-specific recommendations (CSR), on the initiative of the Juncker Commission, which also marked a closer link between social inclusion and employability. Although, ultimately, there are fewer CSR concerning social aspects and employment, the decline of social CSR is less clear, declared Bart Vanhercke. Social aspects are "mainstreamed" in other recommendations, he indicated. In conclusion, the study appealed, in particular, for the CSR to not be overly normative and take account of European objectives and values as a whole (horizontal social clause).

The sociologist **Mr Louis Chauvel**, Professor at the University of Luxembourg and specialist in inequalities between generations and social classes, focused his presentation on the sustainability of the European socio-economic project and "the deep and increasingly persistent challenges of a social Europe". Although in the Europe of 6 and of 15 Member States, there was still a salaried middle class and the central question was the construction of a Welfare State, the agenda of the Europe of 28 is "much more complex", explained the speaker. "This implies that the preliminary bases of good socio-economic governance are increasingly underachieved", he declared. As an example, he cited the problems of the ageing population, "demographic marginalisation", retirement pensions and healthcare systems. Thus, according to Prof. Chauvel, the Europe of 28 has become a new socio-economic phenomenon also in terms of economic inequalities, with no solution found as yet. Prof. Chauvel concluded by stating that "enlargement has been a good thing", but that "ten years later, what we are missing is deepening".

Of the **discussion** that followed, one can remember that some delegates stressed the importance of better including social partners in the work of the European Union and to reflect more on the social dimension of the European economic governance. Similarly, the social impact of economic policies following the financial crisis must be analysed. A common base of social rights is needed, as well as a European minimum wage, a social Eurogroup and concrete propositions for long-term unemployed. However, there is a contrast between the “triple social A” and recent calls to strengthen economic and monetary policy. While social divergence increases within Member States and between countries, it is essential to formulate European social policies that could reverse the trend.

Session 2: Parliamentary Scrutiny of the European Economic Governance

The second panel was chaired by Mr **Alex Bodry**, Vice-President of the Committee on Finance and Budget of the Chamber of Deputies, and focused on parliamentary scrutiny of the European economic governance, strengthened in response to the Eurozone crisis, and in particular on the reinforcement of the executives.

Mr Bodry referred to a “genuine democratic deficit” whilst pointing out that the Lisbon Treaty is often described as the “Treaty of Parliaments”, but that it is far from it in reality. Moreover he stated that although economic governance has been boosted in response to the crisis, the intergovernmental structure set up as a matter of urgency 'reduces flexibility' of national Parliaments in terms of budget.

Mr Bodry also underlined the fact that the European Parliament is a co-legislator only in three out of twelve legislative processes related to EMU. This is the case despite it being 'the principal instrument of democratic scrutiny and political accountability within the EU framework', and it has become the co-legislator in respect of legislation on multilateral surveillance under the Lisbon Treaty. Regarding the adoption of more sensitive measures, Mr Bodry pointed out that the European Parliament is 'consulted, or even just informed'. He finally stressed that given that the EMU is subject to the principle of democratic accountability, the direct representatives of citizens must be associate with the adoption and scrutiny of all public policies with no exceptions.

With regard to the”Five Presidents’ Report”, which seeks to deepen EMU and to enhance parliamentary involvement and scrutiny, Mr Bodry expressed his concern about the implementation of new independent structures composed of appointed experts, referring in particular to the European Advisory Committee on Budget, which was recently set up by the European Commission, and to national competitiveness councils, put forward by the Council of the EU.

Furthermore, Mr Bodry welcomed the fact that the European Central Bank (ECB) and the European Parliament have set up a dialogue on monetary policy.

Concerning the ESM, Mr Bodry regretted that the adjustment and intervention plans of the ESM were decided only by the Ministers for Finance of the Eurozone, that the European Parliament had no say on this matter and that national Parliaments were only consulted.

In conclusion, Mr Bodry pointed out the urgency of strengthening interparliamentary cooperation. He believed that the crisis has clearly highlighted the inevitable need to strengthen the coordination of economic policy between Member States and to increase cooperation between national Parliaments and the European Parliament. Mr Alex Bodry is of the opinion that the additional value of interparliamentary conferences is to compensate for a lack of scrutiny and make concrete contributions.

Mr Yves Mersch, Executive Board Member of the European Central Bank, announced that in his eyes the implementation of the Maastricht Treaty was a failure, and that ensuring necessary scrutiny and sanctions in the areas of national responsibility of Member States, where there was no interference from the EU, did not work. The response to the crisis had therefore been to set stricter rules in terms of budgetary and fiscal policy and to establish the Banking Union. However, he pointed out that this was implemented through regulations at EU level and national Parliaments have largely been excluded from the debates, even if some decisions impinged on their prerogatives.

Moreover, Mr Mersch underlined that there must be a reflection on work sharing and on scrutiny. He distinguished three levels: the European level of decision-making (monetary policy), the national level and the shared European and national level.

Mr Mersch also highlighted the fact that the responsibility of national Parliaments lies in the field of taxation. In order to transfer such powers to European level, it would be necessary to amend the Treaties, but this will not happen due to EU governments' fear of an electoral backlash. Finally, he pointed out the existing confusion among European citizens regarding the accountability of European decision-making, which leads to the need for more "legibility" and information for the public.

The second panellist Mr **Ralf Jansen**, General Counsel of the ESM made clear that his institution is not a European institution but rather an intergovernmental institution, resulting of an agreement between the 19 Member States of the Eurozone. Moreover, Mr Jansen underlined that national Parliaments are closely involved with ESM decision-making and that Ministers for Finance, who form the Governing Council of the ESM, are accountable to national Parliaments. To conclude, Mr Jansen pointed out that the "Five Presidents' Report" proposes a future integration of the ESM into the EU legal framework.

Mr Roberto Gualtieri, Chairman of the Committee on Economic and Monetary Affairs of the European Parliament, underlined that the legal framework of tax policy supervision must be strengthened. He pointed out that there is a need to establish more legitimacy and democratic control, as well as a clear division between national and European responsibilities. Mr Gualtieri stated that democratic control cannot be only exercised through the control of national budgets but that supervision at the European level is strongly needed. To do this, he underlined the need to change the Treaties. Finally, he concluded that it is necessary to improve the instruments and regulations of the European economic governance and that parliamentary scrutiny must be done in cooperation with the European Parliament.

The last panellist of the session, **Mr Kai Jan Krainer**, Vice-Chairman of the Committee on Finances of the Austrian *Nationalrat*, considered that budgetary sovereignty of national Parliaments is affected by new budgetary rules. Regarding the European Semester he believed that it is distrustful of national decision-making. Finally, he stated that taxation should be harmonised at European level so as to prevent tax evasion, even if this would mean Treaty change.

In the **discussion** that followed, a majority of parliamentarians underlined the strong democratic deficit of the European economic governance. Some delegates underlined that in order to solve this democratic deficit, the cooperation between national Parliaments and the European Parliament must be enhanced. Moreover, some delegations pledged for a more formalised dialogue between national Parliaments and the European Parliament. In this context, representatives also stressed the need to better inform European citizens on the mechanisms of the European economic governance.

Concerning the “Five Presidents’ Report”, some delegations pointed out that this report was not going far enough as it is not giving any concrete measures on how to improve the intergovernmental method. Finally, a handful of delegations pointed out that the Country Specific Reports should focus on outcomes rather than policies and that fiscal and macro-economic convergence between Member States wasneeded.

Session 3: Fair Tax Competition

The third panel was led by **Mr Eugène Berger**, Chair of the Finance and Budget Committee of the Chamber of Deputies, and focused on fair tax competition. Mr Berger underlined the need to strengthen the fiscal coordination of Member States and to define actions at a high level of governance, in order to prevent the use and development of offsets between tax systems and to allow a fairer tax competition. He cited the "innovative initiatives" taken in recent years by the EU and the international institutions in this context: the amendments to the Parent-Subsidiary Directive in order to tackle abuse and double non-taxation, the agreement on the automatic exchange of information on cross-border tax rulings in October 2015, the establishment of the European Parliament's TAXE Special Committee or the Base Erosion and Profit Shifting (BEPS) Action Plan of the OECD.

Mr Bernardus Zuijdendorp, Head of Unit Company Taxation initiatives at DG TAXUD of the European Commission, presented the Commission’s Tax Transparency Package and Action plan for a fair and efficient corporate taxation as well as the recent agreement on automatic exchange of information on tax rulings. Mr Zuijdendorp emphasised the need to restore the link between taxation and the place where the economic activity takes place, as one of the most important aspects of the Commission's action plan. He also mentioned that new steps would be taken on tax anti-avoidance, notably on the revival of the Common Consolidated Corporate Tax Base (CCCTB) and on implementation of the BEPS Action Plan.

Prof. **Alain Steichen** from the University of Luxembourg distinguished between static tax competition, which occurs when companies put jurisdictions in competition, and dynamic tax competition, which consists of the reaction of jurisdictions to attract companies. In this field, the strategies of multinationals consist in shifting profit or/and in shifting production. Prof. Steichen considered that fair tax competition roots in a system where investment decisions are taken considering productivity before and after tax, where fairness is sought among taxpayers and common welfare is enabled by a benevolent State. To the contrary, predatory tax competition appears when economic efficiency is considered at the light of the couple “spending – taxes”, where fairness is sought between Member States and common welfare is endeavoured by a Leviathan State. He also advised against introducing moral considerations into legal deliberations on taxation.

Mr Alain Lamassoure, Chair of the TAXE Special Committee of the European Parliament, presented four findings identified by the Committee. Firstly, European integration has stopped commercial and monetary wars on the continent; however, Europeans still wage a fiscal war in order to attract seats of multinationals. Mr Lamassoure argued that each Member State is a tax haven for someone else, while some countries are more questionable than others. He criticised the multiplicity of tax regimes, which allows for inacceptable tax shopping. Secondly, recommendations have to be made at European and international levels. He added that it is not normal that Member States did not apply rules, such as transparency, loyalty and fairness, which are applied in other fields. Thirdly, Mr Lamassoure said that the "golden rule" is to tax profit where economic activity is carried out. He added that tax competition is healthy, but that it has to apply to the rate and not to the base; a CCCTB is therefore necessary. Further, he stated that modalities for fair competition, transfer pricing and intellectual property have to be introduced, as well as country-by-country reporting for multinationals. Fourthly, Mr Lamassoure outlined the challenge of the digital economy. He observed that the OECD did not make concrete proposals in this field. He questioned the means available to tax the added-value of certain digital companies. Mr Lamassoure underlined that the digital economy needs legal rules, for instance for data protection, but also tax rules, as he argued that 28 "Google taxes" would be absurd.

Assistant Prof. **Maarten de Wilde** from the Erasmus University of Rotterdam outlined the way companies react to the different tax systems of Member States in order to optimize their after-tax profit. He made clear that trade-off exists between coordination and autonomy but also between autonomy and efficiency. Prof. de Wilde raised the issue of a transfer of sovereignty to the European Union in the tax field, for instance for an EU corporate tax, which could contribute to a tax system which is beneficial to all. Prof. de Wilde mentioned the risk of bringing the effective tax rate to 0% in the long-term in the current tax competition framework. Further, he argued on how fairer tax competition could be instrumental for investment and growth and outlined alternative tax systems.

In the following **discussion**, a majority of delegates thanked the Presidency for putting the topic of fair tax competition on the agenda of the Conference and praised the concrete results reached at EU level on tax rulings and at OECD level on BEPS, while calling for further ambitious measures to tax profit where it is made and to increase transparency. Delegates also agreed on the fact that fair tax competition is a topic which strongly moves public opinion. In this context, while voices criticised Luxembourg for its past role, it was made clear that other Member States and the United States have also to engage in efforts to level the playing field.

Furthermore, many delegates considered that abolishing tax competition should not be the objective sought. Several members of the Conference underlined that tax competition is necessary and that fiscal autonomy has to be guaranteed. They advocated in this sense for competition on rates and for agreeing on a common tax base.

To this regard, a delegate considered that the Commission's investigations, using the state aid procedure in order to tackle harmful tax competition, shows the relevance of making progress on CCCTB. Some members of the Conference argued however that coordination should remain at a higher governance level, for instance at the OECD, in order to ensure a levelled playing field, while guaranteeing fiscal autonomy.

Several delegates highlighted the importance of insuring sufficient revenue to state budgets in times of fiscal consolidation and of high pressure on social systems.

Members of the Conference called to introduce country-by-country reporting for some features of multinational corporations. A delegate recalled that the complexity of tax regimes is a push factor for tax optimisation, while another referred to the risk of double-taxation of benefits.

The Financial Transaction Tax was mentioned by several speakers as a parallel to the current stalemate in CCCTB negotiations or as an example to avoid, as being allegedly responsible of making EU economies less competitive. Another delegate reminded the importance of keeping in consideration the contrasting situations of Euro and non-Euro Member States.

Session 4: Growth and the Economic and Monetary Union

Growth and EMU were at the core of the fourth panel, chaired by **Mr Henri Kox**, Vice-President of the Chamber of Deputies and member of the Committee on Finance and Budget. The Prime Minister of Luxembourg **Mr Xavier Bettel** has underlined that growth “is not an end in itself”, but that it helps creating jobs and reducing unemployment. According to the Prime Minister, growth has to be inclusive and can only by sustainable if it is social. Regarding the European Fund for Strategic Investments, Mr Bettel considered that politics have to support any initiative in favour of economic recovery. He stressed the necessity for governments to invest, warning against the consequences of reducing investment in social matters. The Prime Minister welcomed the launch of the Juncker Plan, which aims at mobilizing €315 billion investment over three years. “In Europe, we tend to be faint-hearted on investment as a private individual, when lacking guarantees”, continued Mr Better. While in the United States, a businessman may fail but will try again, he will be “branded as a loser” in Europe. Finally, the Prime Minister evoked transparency on tax rulings required by the European Commission. He called upon all Member States to participate and insisted on the necessity of having common rules, reminding that Luxembourg has abolished bank secrecy and fully participates in the exchange of information. “Europe has also to invest more on technology”, he said. “If it doesn’t, other continents will overtake it largely”. On rulings, it is fundamental to set common rules also at the international level in order to create a “level playing field”, he argued.

Mr Pascal Saint-Amans, Director of the Center for Tax Policy and Administration of the OECD firstly insisted on the reviewed growth previsions by his institution (1.8% in 2017, 1.9% in 2018). The Eurozone “will do better” because of certain factors such as the decrease in oil prices, but “it doesn’t do good enough”, summarized Mr Saint-Amans. In 2015, growth has been revised downwards, as public investment slowed down. This is why the Juncker Plan is important, he said. The G20 analysed the efforts of countries to detect most inclusive measures, as inequalities undermine efforts for growth. Therefore, reducing inequalities has to be the goal of countries’ strategy plans, he stated. The meeting of Finance ministers of the OECD in Lima reached an agreement on the fight against Base Erosion and Profit Shifting. “If we want to guarantee an absolutely healthy environment, it is necessary to end harmful tax competition”, declared Mr Saint-Amans. Principles shared by all countries have to be implemented in order to reach a “level playing field”, putting all jurisdictions at a same level. The digitalization of the economy and fair taxation are challenges, he recalled. Luxembourg has made significant progress in the fight against bank secrecy and has supported the BEPS initiative; he reminded that this has been “recognised by the whole international community”.

Mr Ambroise Fayolle, Vice-President of the EIB and responsible for the European Fund for Strategic Investments, explained that the governing bodies foreseen by the Investment Plan are nearly in place. Indeed, the "steering board" has been set up at the end of July. The Investment committee consisting of eight experts (including four women) has still to be set up. At the end of October, 27 projects on infrastructure and innovation (managed by the European Investment Bank) have been approved by the Board of Directors of the EIB, for a total of €4 billion. Mr Fayolle explained that the projects are located in 13 countries, relate to eight fields and generate €20 billion investment. Regarding SMEs, loans of €2 billion produce €17 billion investment. The selected projects are dynamic and address the sustainability criteria. They concern the fields of renewable energies, industry, health and water treatment. For more modest projects, own funds have to be provided. Mr Fayolle argued that the objective is to answer to market failures and to be as near as possible to the reality on the ground.

Ms Outi Slotboom, Head of Unit Policy co-ordination and strategic planning at DG ECFIN of the European Commission, noted that Europe "exits the crisis". In her view, the EU is in a "start" position to deepen EMU. She welcomed the "first signs" of an upturn in growth. "If a country faced problems today, nobody would question Eurozone stability", she said. The "Five Presidents' Report" of 22 June outlined a plan to strengthen EMU. In this context, the European Commission published a recent communication on 21 October regarding measures to be taken in order to complete EMU, in particular, in a first phase, on the renewal of the European Semester, as soon as 2016.

From the subsequent **discussion**, it can be noted, that some delegates acknowledged the ambition of the Juncker roadmap and that investment has to be reoriented towards ecological transition.

In his reaction to the interventions, Mr Fayolle stated that projects relating to sustainable development are well represented. The propositions aim at reducing the investment deficit and at making cross-border investment more fluid. Ms Slotboom insisted on the importance of transparency and of clearly determined rules. Mr Saint-Amans explained that the BEPS initiative consists partly of executive measures, which will not be adopted by Parliaments. Regarding the United States, he recalled that not only Delaware poses a problem. He argued that the new OECD rules will apply to all states where revealing the name of beneficiaries is not yet necessary.

Adoption of the Rules of Procedure of the SECG Conference

The Rules of Procedures of the Conference have been adopted by consensus with one single modification to the initial proposal of the Troika. At point 7.2., the following wording has been added: "and must be in accordance with the framework set by the Conference of Speakers of the EU Parliaments" (the formulation is taken from the Rules of Procedure of the Interparliamentary Conference for the CFSP and the CSDP).