



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

**Vienna, 17-18 September 2018**

Summary of the Presidency

The Interparliamentary Conference on Stability, Economic Policy Coordination and Governance (SECG) in the European Union took place at the Austria Center Vienna from 17 to 18 September 2018 within the framework of the Parliamentary Dimension of the Austrian EU Presidency. Some 200 delegates from 27 Member States, the European Parliament, the European Economic and Social Committee, Turkey, Montenegro and Norway took part in the conference. The conference was opened by President of the Austrian National Council Wolfgang Sobotka and President of the Austrian Federal Council Inge Posch-Gruska. The conference was chaired by Karlheinz Kopf, Chairman of the Finance Committee of the Austrian National Council.

### **Opening of the conference**

**Wolfgang Sobotka**, President of the Austrian National Council, stressed that each of the four sessions was to focus on a topic that would shape the future of the EU. Discussions at parliamentary level are essential to ensure that ideas and reflections in the Member States are communicated at EU level, he said. Mr. Sobotka underlined that investment, innovation and education are particularly important as drivers for a competitive Europe, taking into account the global situation. The US, China, Europe and other economically strong regions compete with each other, but protective and punitive tariffs cannot offer a positive outlook for the future. Competitiveness must be engineered by tapping one's own resources, for example, innovation and investment in education, which lay the essential groundwork. Consequently, Europe must be sure it can rely on its well-trained and well-educated future generations. It is also important to motivate young people to go into business, research and science, thereby ensuring that Europe remains a global engine for development, he said.

**Inge Posch-Gruska**, President of the Austrian Federal Council, emphasised the role of her political body as an interface between the EU and its citizens. The Austrian Federal Council, and in particular its European Affairs Committee, is highly committed to both EU affairs and to actively exercising its subsidiarity rights; the Federal Council therefore sees itself as a chamber for the future and for Europe, she said. Ms. Posch-Gruska also addressed the issue of the citizens' trust in the EU, which has suffered in recent years in the wake of various crises. In order to regain this trust, the EU must become resilient and crisis-proof, without losing sight of its citizens' well-being. The European Union's true strength lies in balancing economic and social aspects, by showing that economic growth, employment policy and social policy go hand in hand.

The Chairman of the Austrian National Council's Finance Committee **Karlheinz Kopf** underlined that the Interparliamentary Conference on SECG has become a well-established forum for the exchange of experience and opinions among members of the national parliaments of the EU and the European Parliament, as well as representatives from the candidate countries.

Thematically, the conference covers a broad range of topics related to financial, budgetary and economic policy issues. Certain challenges have arisen out of the complexity of the various mechanisms that emerged after the outbreak of the financial crisis in 2008. As necessary as these mechanisms are in a heterogeneous community of nations, such as the EU or in a common currency area, it is also essential to ensure that the rules and regulations are subject to ongoing improvement and, where possible, simplification – but not to become watered down. Regulations and figures are masking the possibilities, opportunities and risks that affect the EU's ability to position itself in a world marked governed by global competition.

The EU's new Multiannual Financial Framework is a key instrument in this context and the negotiations must be conducted with great circumspection in times of scarce financial resources. The tension between competitiveness through innovation, quality and education on the one hand, and pressure from global competition on the other provided the framework for the selection of topics for the conference, he pointed out.

**Margarete Schramböck**, Federal Minister for Digital and Economic Affairs, emphasised that the motto of the Austrian Presidency "A Europe that Protects" should not only be understood in the context of security and fighting illegal migration, but also in terms of ensuring prosperity and competitiveness. Europe is still a leading trading power and the world's largest single market, but its influence is waning. In order to survive in global competition and to create the best conditions for success for the next generations, progress must be made on innovation and digitisation.

Accordingly, a new industrial policy is needed in Europe, one that includes environmental and consumer protections, as well as one that is in line with global markets. Companies are the ones who create jobs, she said, urging a further deepening of the Digital Single Market. However, the focus must be on creating ideal conditions, especially for small and medium-sized enterprises. However, the acquisition of digital competence is essential for everybody; consequently, boosting digital skills throughout the EU is a must. The minister also cited the dual vocational education system in Austria as a model.

### **Session 1: Implementation of the EU Fiscal Governance Framework**

The first session focused on the current state of play, as well as on the challenges and opportunities for further developing the EU's fiscal governance framework.

**Niels Thygesen**, Chairman of the European Fiscal Board, pointed out that the fiscal rules originally laid down in the Treaty of Maastricht were primarily aimed at ensuring the long-term sustainability of public finances. In particular, changes were made following the outbreak of the global economic and financial crisis, which additionally allowed fiscal policy measures to facilitate the short-term stabilisation of the economic cycle.

The euro zone has been undergoing a phase of strong growth since 2017, often exceeding expectations and leading to a high degree of capacity utilisation in the economy. The current fiscal rules are highly flexible; however, this degree of flexibility is no longer needed. According to Mr. Thygesen, it is crucially important to use this boom period to build up fiscal reserves aimed at bolstering crisis resilience. Accordingly, the European Fiscal Board currently recommends a neutral fiscal orientation for the euro currency area, but the European Commission's forecast is indicative of an expansionary orientation for 2018 and 2019. Mr. Thygesen warned that this expansionary fiscal orientation is partly driven by those euro Member States with high levels of debt.

**Gottfried Haber**, Vice-President of the Austrian Fiscal Advisory Council, also stressed the importance of a stabilising, anti-cyclical fiscal policy, saying that the strategic discussion must go beyond the mere question of compliance with fiscal rules. Moreover, the individual Member States should be given a greater margin of manoeuvre. According to Mr. Haber, investments should also be given greater consideration under the current rules, however, without this leading to a watering down of the fiscal rules. Simplification could, for example, mean a stronger focus on the growth of government spending, but it is important to bear in mind that

the indicators on which the rules are based can often only be measured approximately and are subject to major revisions, he said.

The discussion of a central stabilisation instrument for the euro area must take distribution aspects into account and, to a certain extent, be separate from the Stability and Growth Pact. Keeping in mind the definition of long-term sustainable projects, the Member States should be given the necessary fiscal leeway to implement them. In addressing the role of national parliaments, Mr. Haber stressed the importance of the fiscal policy framework at sub-national level and of ensuring maximum transparency regarding the fiscal impact of legislative measures.

The Co-Chair **Othmar Karas** recalled the considerable challenges posed to the European Union by the financial and economic crisis, which was successfully overcome thanks to joint action taken by the Member States. However, the lessons of the crisis have not yet been learned, and the deepening of the Economic and Monetary Union and the completion of the Banking Union need to progress further. The European Semester is central to achieving the common fiscal policy a monetary union requires, Mr. Karas stated. The right problems are often addressed in the course of the European Semester, but the Member States do not sufficiently implement the recommendations. Therefore, it is necessary to strengthen the European Semester and to make it more efficient, but also at the same time to reduce its complexity. Mr. Karas recommended that the national parliaments step up the technical interparliamentary cooperation that takes place within the context of the European Semester.

In the course of the subsequent **exchange of views**, several parliamentarians called for the fiscal rules to provide sufficient leeway for investment and to counteract the negative consequences of sometimes overly strict regulations. Other participants, on the other hand, called for strict compliance with the rules and criticised the excessively expansionary fiscal orientation in parts of the euro currency area against the backdrop of the major challenges that remain. In addition, periods of economic growth should be used to implement necessary structural reforms. The importance of completing the Banking Union was stressed by several participants, but at the same time a rapid reduction in the remaining risks to the banking sector is also needed. Some MEPs pointed out that the focus must always be on the living conditions of the population, calling for an expansion and strengthening of the Economic and Monetary Union's social pillar.

In response to the exchange of views, **Othmar Karas** praised the debate as particularly positive and fact-oriented. He also stressed the importance of the social pillar and advocated the continuation of the process begun in Gothenburg. He expressed his appreciation of the concern expressed by some delegates about the protection of national rights, but in order to ensure rapid response capabilities, for example by establishing the ESM as a joint fiscal backstop for the Banking Union, consideration should be given to relaxing the unanimity principle.

**Gottfried Haber** noted the broad agreement among the parliamentarians on the importance of fiscal rules and investment in research and development. Clearly defined fiscal rules are the best way to ensure the greatest possible individual leeway for Member States.

According to **Niels Thygesen**, the current highly flexible fiscal rules are particularly important for successful crisis management, but the improved economic situation has opened up opportunities for simplifying the regulatory framework. When it comes to the Banking Union, a combination of risk reduction on the one hand and risk sharing on the other is necessary, he said.

## **Session 2: Investment, innovation and education as drivers for a more competitive Europe**

**Iliyana Tsanova**, Deputy Managing Director of the European Fund for Strategic Investments (EFSI), presented the Fund's activities. EFSI was established in the wake of the 2008 financial and economic crisis to channel additional investment into the economy. To date, it has generated € 335 billion in investment, thereby significantly contributing to easing the credit crunch experienced primarily by small and medium-sized enterprises. Around 700,000 SMEs in all Member States of the European Union have benefited from the fund.

According to Ms. Tsanova, Europe's great challenge is in financing new, innovative companies that require new financing instruments. Europe is too small and too fragmented for individual states to mobilise sufficient risk capital. Traditionally, there has been too much reliance on banks and loans for investments, rendering it often impossible to turn research results into new products, she stated. Different sets of rules and standards, as well as language barriers, pose additional hurdles for innovative, cross-border companies. In addition, European companies are hesitant when it comes to acquiring new ideas, she pointed out.

The need for investment in key strategic and technological areas, as well as for innovation, energy and sustainable infrastructure is certainly very great. The next financial framework will be geared toward addressing these issues; however, it will also be necessary to create the proper political framework, Ms. Tsanova recommended. It is incumbent on national governments to remove bureaucratic obstacles to digitisation and invest accordingly in training and lifelong learning. Digitisation will undoubtedly have an enormous impact on our lives, and it is important to tackle the challenges it entails.

Consequently, the EU is faced with the challenge of overcoming its technological deficits, and at the same time building on its own innovative strength. It is important to seize all opportunities in order to gain innovation leadership. According to Ms. Tsanova, the right approach is to combine the 14 total financial instruments into the InvestEU programme. However, the question is to what extent certain regions should be allowed to experience stronger development. Nevertheless, there is no alternative to creating several regional centres of technological development – “Silicon Valleys for Europe” – she said.

The variety of challenges facing the EU can be summed up in the term “modernisation”, according to MEP **Nils Torvalds**. The world is currently in the midst of a third large-scale modernisation wave, which is marked by globalisation, the digital revolution and heightened international competition. The reaction has been the wide-spread attitude that a good offense is the best defence, said Mr. Torvalds. Accordingly, all Member States are looking to invest in innovation and new technologies. However, the EU is faced with the question of how to overcome its internal differences, and how to prevent certain regions from falling further behind economically and in education. For Mr. Torvalds, the answer lies in creating an EU budget with enough leeway that makes the necessary investments possible and strikes the proper balance.

**Margarida Marques**, Member of the Portuguese Assembly of the Republic and co-chair of the session, underlined that there is already consensus on the importance of investment, innovation and education. The question now is how this consensus can be further developed in the new Multiannual Financial Framework. Ms. Marques also stressed that there must be a regional balance, i.e. access for all European regions on equal terms, for example within the InvestEU programme. Achieving a value-added in all new programmes, such as the Investment Council, is also essential, she stated.

The subsequent **discussion** focused on the question of how EU Member States can move from their very different starting points toward a common investment and research policy. There is hope for the upcoming EU Financial Framework, which is to significantly increase funding for research, innovation and education. It is important, particularly for the smaller and economically weaker Member States, that the upcoming framework programme provide them with a balanced and equal access to funding. This goes for Horizon Europe, the follow-up programme to Horizon 2020, as well as for EU investment subsidies. Horizon Europe and InvestEU must not overlap, but rather should be designed as complementary instruments, urged one participant. The project aimed at creating an EU innovation advisory council was welcomed on the condition that it provide added value to the Research Advisory Council already in existence. Its remit must be to ensure that the results of innovative research find their way to businesses.

There was general agreement on the fact that Europe needed a new industrial policy, but that increased investment in education and innovation was necessary. The deepening of the Single Market was also linked to the question of mobility. The EU must speak with one voice if it wishes to keep up with the United States and Asia in international competition, and it must focus on its own strengths, according to the general tenor of the debate.

### **Session 3: Combating tax evasion**

This session presented the main actions and initiatives at EU level aimed at fighting tax evasion and outlined the main challenges for the future.

**Pierre Moscovici**, Commissioner for Economic and Financial Affairs, Taxation and Customs, began his remarks by stating that combating tax evasion and tax fraud is an important objective for the European Commission. Each and every taxpayer must pay the correct amount of tax at the right place; this is essential for social cohesion and economic stability in the European Union. He stressed that much had already been achieved in this area, particularly in recent years, pointing to tax transparency measures (e.g. the automatic exchange of information on financial accounts and country by country reporting), measures aimed at preventing aggressive tax planning (adoption of the Anti-Tax Avoidance Directive) and measures to combat VAT fraud. In December 2017, a list of tax havens was drawn up, which, while not perfect, constitutes a step in the right direction.

Mr. Moscovici identified three priority areas as important objectives for the future. The European Commission has presented a new proposal to introduce the Common Consolidated Corporate Tax Base (CCCTB), which would significantly improve the framework conditions for companies in the EU and would constitute an effective instrument for combating the practice of profit shifting and abuse of the tax system in the EU. Another important objective, he said, was the introduction of digital business establishments, which in the longer term would be the most appropriate solution for adequately taxing digital companies. The third priority area, according to Mr. Moscovici, is the transition to qualified majority voting in the area of taxation, as the current unanimity principle significantly slows down further progress.

In his introductory statement, **Hubert Fuchs**, State Secretary in the Austrian Federal Ministry of Finance, also pointed out that combating tax evasion is key to ensuring a fair tax system. It was therefore also one of the objectives of the Austrian EU Presidency to make further progress in this area. Austria is playing a leading role, but measures in this area cannot be

limited to one country, making cooperation at EU and OECD level essential. Mr. Fuchs as well stressed that a great deal has already been achieved in recent years. The taxation of the digital economy is also an important issue. In a first step, a digital tax could be introduced; in a further step the objective is the establishment of digital business premises. Mr. Fuchs also stated that introducing the CCCTB is an important goal for the future.

Member of the German Bundestag **Hans Michelbach**, who co-chaired this session with Karlheinz Kopf, commended the Austrian Presidency's focus in this area. He underlined how important fiscal justice is in ensuring cohesion in democratic societies and preventing the damage caused to local companies who pay their taxes correctly. He welcomed the measures already implemented, while at the same time calling for an evaluation of their effectiveness.

During the **exchange of views among the parliamentarians**, there was broad agreement that combating tax evasion was an important objective and that further action was needed in this area. The objective mentioned by Mr. Moscovici of abolishing the unanimity principle in tax matters was welcomed by some participants, but some also highlighted the difficulty of implementation. Several parliamentarians asked the Commission to carry out an evaluation of the measures implemented to date. Some also called for more attention to be paid to VAT fraud in e-commerce. Many participants also mentioned that the recently adopted tax reform in the US necessitated a coordinated response from the European Union on the issue of corporate taxation.

In his reply, **Pierre Moscovici** thanked the speakers and expressed his confidence that further progress is possible, as there is visibly the political will to do so. He analysed that the measures implemented so far have worked well; the introduction of the CCCTB is particularly important for the future, and he took a positive view of the publication of country by country reports. **Hubert Fuchs** noted that the CCCTB had to be linked to minimum tax rates, and he said that he would welcome the publication of the country by country reports, as this could generate public pressure. **Hans Michelbach** was also confident that further progress is possible, as the issue is in the interest of all countries. A digital tax should be introduced quickly, but it was important to bear in mind that it should primarily be imposed on large digital companies and not on SMEs.

#### **Session 4: Digitisation and its impact on employment**

**Milena Angelova**, Vice-President of the European Economic and Social Committee, drew attention to the rapid and fundamental changes in the workplace brought about by digitisation. Concerted action is needed to manage these changes; digitisation and automation destroy jobs, but they also create new ones and fundamentally transform many job profiles; she said. It is incumbent on the Member States, social partners and EU institutions to shape this transformation to the benefit of the workforce.

The number of both low and high-wage jobs is increasing, while the middle segment is losing ground, said Ms. Angelova. Digitisation can bring with it new freedoms and opportunities for workers, but can also lead to reduced job quality, fragmented career paths and less social protection. For that reason, it is important to adapt collective bargaining practices to take these changes into account.

Furthermore, Ms. Angelova pointed out the necessity of changing education and further training systems to accommodate this new digital reality. A growing imbalance can already be seen in

that many people are searching for work, while employers are still finding it very difficult to find qualified employees. At the same time, however, existing skills are not being sufficiently tapped. For that reason Ms. Angelova believes that a paradigm shift in education is indispensable; she also called for a job-training campaign that would not leave anyone behind. The education system must more closely connect education and employment, and enable lifelong learning. Instead of the rote learning of information as practiced in the past, it is now increasingly important to promote soft skills, such as problem-solving and critical thinking.

The European Economic and Social Committee has devoted particular attention to how best to seize the opportunities of digitisation. For Ms. Angelova, it is imperative that the European social model be maintained, and that digitisation be a factor enabling it to continue to function. For that reason it is important to continue to make people the priority. Essentially, the EU and its Member States already have the necessary instruments in place in order to take the relevant political decisions, she said.

In her keynote, **Maria João Rodrigues**, Member of European Parliament, pointed out that the digital revolution has already begun to affect all areas of our lives. Production and supply chains are being increasingly dominated by artificial intelligence. The workplace is undergoing massive transformations as a result, for example with digital platforms that create new, atypical employment opportunities. This means that more and more people have been left without the appropriate social and labour-law protections, Ms. Rodrigues warned. Europe must confront these challenges. “A Europe that Protects,” to quote the motto of the Austrian EU presidency, also includes social protections. We must not allow a portion of the workforce to fall through the cracks of the social system due to the digitisation of the workplace.

Responses are already being drawn up, said the MEP. The EU Commission is currently working on a proposal for a new labour law directive. According to Ms. Rodrigues, the answer to the question of how to finance comprehensive social protections for the 21<sup>st</sup> century must be sought in changes to the current tax systems. She also clearly came out in favour of a digital tax, saying that she was convinced that financing a social system for everybody was possible if the big players contributed their share.

During the **debate**, there was a consensus among MEPs that far-reaching changes are already taking place in the world of work and the labour market as a result of digitisation, robotics and artificial intelligence. The effects are reflected in an increasingly flexible organisation of working time and in the increase in atypical forms of employment and part-time work. There was also agreement that this development requires new policy strategies.

One key question for the parliamentarians was how social and pension systems could be secured in the long-term. Digitisation cannot be an end unto itself, but must secure the rights of workers and access to the social system for everybody, was a comment made by a number of participants. Several parliamentarians pointed out the risks that digitisation entails, such as an unequal access to digital resources, a hollowing out of workers’ social rights and a worsening of working conditions.

In their interventions, the parliamentarians were also in agreement that all areas of society, not just policymaking, needed to become involved in order to tap the potential of digitisation and to cushion its negative impacts. For that reason, social partners continue to be relevant, many pointed out. The general tenor was also that education systems must be capable of teaching young people the necessary skills in order to survive in the digital workplace. Lifelong learning must also be part of the answer.



It is also essential to avoid splitting society and creating a digital divide at all costs, be it in access to education, ensuring coverage for rural areas or enabling equal opportunity both between generations and between the sexes, as many parliamentarians emphasised.