Council of the
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***PROVISIONAL VERSION***

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# OUTCOME OF THE COUNCIL MEETING

3454th Council meeting

## Economic and Financial Affairs

Brussels, 8 March 2016

President **Jeroen Dijsselbloem**
Minister for Finance of the Netherlands

**P R E S S**

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# CONTENTS[1]

## ITEMS DEBATED



## OTHER ITEMS APPROVED



[1]
- Where declarations, conclusions or resolutions have been formally adopted by the Council, this is indicated in the heading for the item concerned and the text is placed between quotation marks.
- Documents for which references are given in the text are available on the Council's Internet site (http://www.consilium.europa.eu).
- Acts adopted with statements for the Council minutes which may be released to the public are indicated by an asterisk; these statements are available on the Council's Internet site or may be obtained from the Press Office.

## ITEMS DEBATED

## MEASURES TO PREVENT CORPORATE TAX AVOIDANCE

There was strong support within the Council for a political agreement to be reached on a draft directive on the exchange of tax-related information on the activities of multinational companies.

The directive will be adopted once the European Parliament has given its opinion and the United Kingdom has lifted its parliamentary scrutiny reservation. The presidency noted that the compromise discussed by the Council could be acceptable and that no further technical work is required.

The directive will implement, at EU level, an OECD recommendation requiring multinationals to report tax-related information, detailed country-by-country, and requiring national tax authorities to exchange that information automatically.

It is the first element of a package of proposals issued by the Commission in January 2016 to strengthen EU rules preventing corporate tax avoidance. The package builds on recommendations approved by the OECD in autumn 2015 to address corporate tax base erosion and profit shifting (BEPS).

Press release on March 2016 Council stance on tax-related information on multinationals

## BANKING UNION

The Council took stock of progress on the EU's banking union:

– The Commission provided a brief update of implementation of the banking union;

– The presidency reported on progress made within an ad hoc working group on the strengthening of the banking union.

The banking union involves a transfer of responsibility for banking policy from the national to the EU level. Launched in 2012 in response to the eurozone crisis, it comprises the 19 countries of the euro area, whilst 7 other member states have indicated their intention to join.

It currently consists of two main initiatives, the single supervisory mechanism (SSM) and the single resolution mechanism (SRM). These are based on a regulatory framework, the "single rulebook", that applies to all 28 member states.

On 1 January 2016, the SRM became operational and the single resolution fund (SRF), a component of the SRM, entered into force.

### Strengthening

The ad hoc working group was established in January 2016 to examine all issues related to the strengthening of the banking union. It is currently examining:

– a proposed third "pillar", involving a European deposit insurance scheme;

– measures outlined in a communication from the Commission, aimed at reducing risks in the banking sector.

The Council is expected to return to the issue of strengthening banking union at its meeting on 17 June 2016.

### Implementation

Regarding implementation, the Council has regularly reviewed the situation since mid-2015.

As concerns the single rulebook, a few member states are still expected to fully transpose directives on the recovery and resolution of failing banks and on deposit guarantee schemes.

Banking union member states were due, by 31 January 2016, to have filled the SRF with contributions collected from their banks in 2015. On 4 February, the single resolution board (SRB) reported that the transfer was almost complete.

Banking union member states are furthermore required to conclude loan facility agreements with the SRB, providing national credit lines for SRF bridge financing. Six member states have already signed such agreements, and others are expected to do so by the end of March 2016.

The Council will continue to monitor progress in implementation.

Banking union

Proposal for a regulation for a European deposit insurance scheme

Commission communication on completion of the banking union

## FISCAL SUSTAINABILITY

The Council adopted the following conclusions:

"The Council (ECOFIN),

1. WELCOMES the Commission's "Fiscal Sustainability Report 2015", which updates and enhances the multidimensional approach for assessing fiscal sustainability, based on short-, medium- and long-term challenges.

2. WELCOMES the fact that fiscal risks over the short term have receded since the Fiscal Sustainability Report 2012 with no EU country among those 26 analysed[1] appearing to be at high risk. On the other hand, UNDERLINES that vulnerabilities are still present, also in light of recent developments. In particular, for a number of EU countries the high or increasing debt levels continue to represent important sources of vulnerability that might generate fiscal risks should financial market instability increase.

3. WELCOMES the inclusion of the debt sustainability analysis to enrich conclusions on public debt sustainability in the medium-term. STRESSES that 11 of the 26 EU countries analysed face high medium-term fiscal sustainability risks and 5 countries facing medium risk under the assumption of no policy changes, mainly due to elevated government debt levels, exacerbated in some cases by projected age-related public spending.

4. NOTES that one country of the 26 appears to be at high long-term sustainability risk, and 14 countries at medium risk, primarily due to projected rising cost of ageing. RECOGNISES that the long-term indicator has to be seen in conjunction with the other sustainability indicators notably because it does not incorporate any specific debt level requirement.

[1] The Fiscal Sustainability Report 2015 analyses all EU countries that are not under a macroeconomic adjustment programme

5. HIGHLIGHTS that the appropriate combination of policies to deal with the fiscal sustainability challenge should be embedded in the overall EU three-pronged strategy consisting of reducing government debt, increasing productivity and employment and reforming pension, health care and long-term care systems, depending on the main reasons behind the specific challenges faced by Member States. EMPHASISES that windfalls from the low interest rate environment should primarily be used to reduce debt ratios or to compensate for the effect of persisting exceptionally low inflation on the debt ratio, especially in those Member States with high government debt, but also possibly for investments or structural reforms, depending on the country's fiscal position.

6. UNDERLINES that even in cases where the Commission analyses point to low fiscal sustainability risks in the medium and long-term, Member States need to ensure sustainable fiscal positions, which allow coping with possible shocks over the economic cycle, in line with the Stability and Growth Pact. REAFFIRMS that adherence to the EU fiscal rules, including the debt rule, is necessary to ensure sustainable debt levels.

7. UNDERLINES that, given demographic challenges, comprehensive reforms have a substantial positive impact on long-term fiscal sustainability, as evident from the 2015 Ageing Report. REAFFIRMS the need to continue appropriate policy action on all age-related areas taking into account country-specific situations and avoiding measures that reverse sustainability-enhancing reforms already undertaken. This entails a prompt and comprehensive implementation of the country specific recommendations issued under the European Semester. STRESSES that further steps are still needed by Member States, though to varying degrees, to raise the effective retirement age, including by avoiding early exit from the labour market and by aligning the retirement age, necessary contribution period or pension benefits with life expectancy. Moreover, recalling its Conclusions of 7 December 2010, INVITES Member States to balance the increasing need for universal health care and long-term care in the coming decades with the need to reduce high public debt levels. This highlights the need to assess the performance of health and long term care systems and implement the necessary reforms to improve the quality of public finances in order to achieve a more efficient use of public resources and provision of high quality health and long term care.

8. CALLS ON Member States, especially those found at high sustainability risk over the medium term, to focus attention on sustainability- and growth-oriented fiscal strategies in their upcoming Stability and Convergence Programmes; and INVITES Member States and the Commission to take into account these sustainability findings in their analyses and recommendations in the framework of the European Semester. These strategies and developments of the sustainability of public finances will continue to be regularly assessed by the Council and the Commission, including by incorporating new developments in macroeconomic conditions, fiscal policies and structural reforms, notably in the areas of pension, healthcare and long-term care systems.
9. INVITES the Commission to undertake its regular in-depth overall assessment of the sustainability of public finances by early 2019 using the updated age-related expenditure projections in the forthcoming 2018 Ageing Report, while regularly updating the Commission's sustainability assessment in between. In connection with the Ageing report, INVITES the Commission and Member States to further analyze new demographic developments, including the effect of large migration flows on macroeconomic conditions and public finances. The Economic Policy Committee should on the basis of the in-depth overall assessment report back to the Council."

2015 fiscal sustainability report

## INTERNATIONAL FINANCE MEETINGS

The presidency and the Commission reported on a meeting of G20 finance ministers and central bank governors held in Shanghai on 26 and 27 February 2016.

The Shanghai meeting was the first such event to be held under the Chinese G20 presidency. The agenda covered the global economy, growth strategies, investment, international financial architecture, financial regulation, taxation, terrorist financing and climate issues.

Additionally, the Council asked the Economic and Financial Committee to finalise preparations for the spring 2016 meetings of the G20 and IMF.

These will be held in Washington, D.C. between 13 and 17 April 2016.

February 2016 G20 finance ministers meeting in Shanghai

## ECONOMIC GOVERNANCE – COUNTRY REPORTS

The Council held an exchange of views on implementation of the "European Semester", the EU's annual policy monitoring process.

The Commission presented reports on the economic policies of the member states, and its assessment of implementation of their 2015 country-specific recommendations. It also reported on measures taken to remove barriers to investment.

Ministers agreed that implementation remains poor, and resolved to improve the situation. Progress is substantial for only 7% of country-specific recommendations, whilst more than half are implemented in only a limited manner or not at all. As concerns investment, ministers agreed to address the challenges such as bottlenecks in the business environment and administration, and sector-specific regulations. They insisted on the importance of assessing implementation of the country-specific recommendations annually, in order to draw conclusions, raise national awareness and implement reforms effectively in each country. They agreed to discuss implementation each year in the Council.

The country reports analyse the economic and social challenges that member states are facing and monitor their policy reforms. The findings are intended to feed into economic and fiscal policy programmes that the member states will submit to the Commission in April 2016.

For 18 member states[1] identified as experiencing macroeconomic imbalances, the reports present the findings of in-depth reviews. These member states are Austria, Belgium, Bulgaria, Croatia, Estonia, Finland, France, Germany, Hungary, Ireland, Italy, the Netherlands, Portugal, Romania, Slovenia, Spain, Sweden and the United Kingdom.

The 2016 European Semester will conclude with the adoption of new country-specific recommendations in July. The European Council will provide policy guidance in March, in the light of the overall macroeconomic situation.

Country reports under the 2016 European Semester

[1] Country reports will be published at a later stage for Cyprus and Greece, as they are subject to macroeconomic adjustment programmes and therefore already under enhanced surveillance.

**OTHER BUSINESS**

– ***Financial services***

The Council was updated as concerns work on legislative proposals on financial services.

March 2016 secretariat note on progress on financial services legislative dossiers

## MEETINGS IN THE MARGINS OF THE COUNCIL

### - Eurogroup

The Eurogroup met on Monday 7 March 2016. It adopted statements on Cyprus's economic adjustment programme and on implementation by the euro area member states of their draft budgetary plans for 2016. It also discussed the first review of Greece's programme, as well as Eurogroup transparency and the use of benchmarking by member states in the context of economic convergence.

March 2016 Eurogroup statement on Cyprus

March 2016 Eurogroup statement on the follow-up to draft budgetary plans for 2016

Eurogroup main results

### - Ministerial breakfast

Ministers held a breakfast meeting to discuss the economic situation.

## OTHER ITEMS APPROVED

### *ECONOMIC AND FINANCIAL AFFAIRS*

**Business taxation – Code of conduct**

The Council adopted conclusions on the strengthening of a code of conduct aimed at eliminating measures that can create situations of unfair tax competition.

The code of conduct is used in assessing the harmfulness of tax measures adopted, or that are in the process of being adopted, by the member states. A working group oversees its implementation.

In 2013, the European Council called for the code process to be strengthened. Since then, work has been undertaken to reform the scope and governance of the working group.

The Council's conclusions foresee an enhancement of the governance, transparency and working methods of the group.

Efficiency will be improved by speeding up the assessment of potentially harmful tax regimes, and by an earlier and more frequent involvement of the Council. Information to the public on the group's ongoing and past work will be enhanced.

The presidency intends a further decision to be taken by the end of June 2016 on the revision of the group's mandate.

March 2016 draft Council conclusions on the code of conduct on business taxation

**Excise duties – Manufactured tobacco**

The Council adopted conclusions on a report from the Commission assessing, under its "REFIT" (regulatory response and performance) programme, directive 2011/64/EU on the structure and rates of excise duty applied to manufactured tobacco.

The Council called for efforts to be made to simplify and clarify the structure of excise duties on manufactured tobacco.

Under directive 2011/64/EU, some products, such as e-cigarettes, do not fall into any of the categories of products subject to excise duty. The conclusions set out a way forward for handling such issues.

The Council considers that any amendments to the directive should be proportionate to the objectives sought. They should also aim to reduce tax fraud.

The Commission issued its December 2015 report for two reasons:

- directive 2011/64/EU is part of the Commission's REFIT programme;
- such reporting is a statutory four-yearly requirement under directive 2011/64/EU on the structure and rates of excise duty applied to manufactured tobacco.

2016 Council conclusions on the structure and rates of excise duty on tobacco

**Economic governance – Recommendation to the euro area**

The Council adopted a recommendation on the economic policies of the euro area, under the "European Semester", the EU's annual policy monitoring process.

It recommended, essentially:

– the pursuit of sound economic policies;

– implementation of labour, product and services market reforms;

– the pursuit of fiscal policies in full respect of the Stability and Growth Pact, the EU's fiscal rules, with the objective of a broadly neutral aggregate fiscal stance in the euro area in 2016 and with a view to reducing public debt in 2017;

– facilitating the gradual reduction of banks' non-performing loans and improving insolvency proceedings for businesses and households;

– working towards completion of the EU's economic and monetary union.

It is the first time that a recommendation for the euro area is prepared at an early stage of the European Semester. The aim is to take greater account of eurozone issues when approving country-specific recommendations later on. The European Council endorsed the draft at its meeting on 18 and 19 February 2016.

The 2016 European Semester will conclude with the adoption of the new country-specific recommendations in July.

March 2016 draft Council recommendation on the economic policy of the euro area

Explanatory note on March 2016 recommendation on the economic policy of the euro area

**Taxation - France - Motor fuels**

The Council adopted a decision authorising France to apply reduced levels of taxation to unleaded petrol and gas used as motor fuels (5929/16 + 6131/1/16 REV 1).

The decision, taken under article 19 of directive 2003/96/EC, will allow French administrative regions to apply differentiated reductions under certain conditions until 31 December 2017.

***BUDGETS***

**European social fund - Youth action teams**

The Council adopted the following conclusions on the European Court of Auditors' special report entitled "Commission's support of youth action teams: redirection of ESF funding achieved, but insufficient focus on results" (6257/16):

"THE COUNCIL OF THE EUROPEAN UNION:

(1) WELCOMES the Special Report from the European Court of Auditors (hereafter referred to as "the Court") and the Commission's observations;

(2) UNDERLINES that the challenging youth unemployment situation can to a great extent be explained through structural socio-economic problems which require the implementation of structural reforms based on an integrated cross-sectorial approach and with financial support combining different funds, such as the European Regional Development Fund (ERDF) and the European Social Fund (ESF); this, however, does not preclude more sectorial short-term measures, e.g. to address skills mismatches;

(3) STRESSES that the youth action teams (YATs) were a political initiative, taken at the highest political level, aimed at raising awareness about the urgent need to address the dramatic youth unemployment situation which developed in the aftermath of the post 2008 economic crisis;

(4) CONSIDERS that, given the legal, financial and administrative framework in place, using existing well-performing programmes through a fast redirection of the 2007-2013 ESF operational programmes (OPs) was a suitable way forward, given that about EUR 10 billion of unallocated ESF funds were still available at the end of 2011 in the eight Member States targeted by the YATs' initiative;

(5) STRESSES the importance of the Court's performance audits, but UNDERLINES that the parameters used by the Court should be without prejudice to political decisions taken by other EU institutions within their respective competences;

(6) STRESSES that YATs have been instrumental in paving the way for new initiatives to combat youth unemployment, including the Youth Guarantee (YG), the Youth Employment Initiative (YEI) and the improved 2014-2020 legal framework for the ESF, and that all these new initiatives to combat youth unemployment are only starting to produce results;

(7) BELIEVES that the YATs therefore contributed positively to the fulfilment of the expectations raised at the informal European Council of 30 January 2012;

(8) NOTES the finding by the Court that YATs made limited specific proposals and that the advisory role of the Commission was hampered by the level and quality of the information available to it;

(9) NOTES that some of the findings of the Court appear to be factually incorrect, REGRETS that the Court did not cross-check the information received from the Commission with the concerned Member States, and INVITES the Commission and the Court in future audits to consult the responsible national authorities in order to avoid a different interpretation of the information available;

(10) ACCEPTS the Court's recommendations, but CONSIDERS also that the new European Structural and Investment Funds (ESIF) legal framework for 2014-2020 already addresses most of the recommended requirements:

- Article 30 of the Common Provisions Regulation (CPR) requires that requests for amendment of OPs submitted by a Member State are duly justified and in particular set out the expected impact of the changes on achieving Europe 2020 objectives;

- Article 50 of the CPR requires annual implementation reports to set out key information on the implementation of the OPs and their priorities by reference to the financial data, common and programme-specific indicators and quantified target values;

- Article 125 of the CPR requires the managing authorities to provide the monitoring committee with all the necessary information, in particular data relating to the progress of the operational programme in achieving its objectives, financial data and data relating to indicators and milestones;

(11) CALLS on the Commission and Member States, for future initiatives of this kind, to:

- take due account of the possibilities and constraints given by the political and legal contexts, as well as the availability of the corresponding financial resources at EU and Member State level;

- formulate the targets set and resources applied in a specific, adequate and transparent way;

- where relevant, given shared management responsibilities, cooperate more closely when transmitting and communicating data to be used;

- ensure that minimum plausibility and reliability checks are systematically carried out, especially given the risk of unreliable or incorrect statements being included in updates and reports being provided by the Commission or Member States."

## *REGIONAL DEVELOPMENT*

### EU cohesion policy - Amounts to be covered by the EU or the member states

The Council decided not to object to a Commission regulation laying down conditions and procedures to be applied to determine whether irrevocable amounts paid under EU cohesion policy are to be borne by the EU budget or by member states (5740/16).

The regulation concerns expenditure made under the European regional development fund, the European social fund, the cohesion fund and the European maritime and fisheries fund.

It is a delegated act pursuant to article 290 of the Treaty on the Functioning of the EU. It now can enter into force, unless the European Parliament objects.

***PROVISIONAL VERSION*** 8 March 2016

## ***AGRICULTURE***

### Pesticides - Maximum residue levels

The Council decided not to oppose the adoption of regulations updating regulation 396/2005 as regards maximum residue levels (MRLs) for:

- Cydia pomonella Granulovirus (CpGV), calcium carbide, potassium iodide, sodium hydrogen carbonate, rescalure and Beauveria bassiana strain ATCC 74040 and Beauveria bassiana strain GHA (5209/16 + 5209/16 ADD 1)
- captan, propiconazole and spiroxamine (5248/16 + 5248/16 ADD 1 + 5248/16 ADD 2)
- atrazine (5216/16 + 5216/16 ADD 1 + 5216/16 ADD 2)
- chlorantraniliprole, cyflumetofen, cyprodinil, dimethomorph, dithiocarbamates, fenamidone, fluopyram, flutolanil, imazamox, metrafenone, myclobutanil, propiconazole, sedaxane and spirodiclofen (5307/16 + 5307/16 ADD 1+ 5307/16 ADD 2)
- cyazofamid, cycloxydim, difluoroacetic acid, fenoxycarb, flumetralin, fluopicolide, flupyradifurone, fluxapyroxad, kresoxim-methyl, mandestrobin, mepanipyrim, metalaxyl-M, pendimethalin and tefluthrin (5218/16 + 5218/16 ADD 1 + 5218/16 ADD 2).

Regulation 396/2005 establishes the MRLs permitted in products of animal or vegetable origin intended for human or animal consumption. These include levels that are specific to particular foodstuffs intended for human or animal consumption, as well as a general limit that applies where no specific level has been set.

MRL applications are communicated to the European Food Safety Authority (EFSA) which issues a scientific opinion on each intended new MRL. In the light of this opinion, the Commission proposes a regulation to establish a new MRL or to amend or remove an existing MRL, modifying the annexes of regulation 396/2005 accordingly.

The Commission regulations are subject to the regulatory procedure with scrutiny. The Commission may now adopt them, unless the European Parliament objects.