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3324th Council meeting

Economic and Financial Affairs

Luxembourg, 20 June 2014

President **Gikas Hardouvelis**
Minister for Finance of Greece

P R E S S

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Main results of the Council

The Council agreed an amendment to EU tax rules in order to prevent the ***double non-taxation*** *of corporate groups deriving from hybrid loan arrangements.*

This will close a loophole that currently allows corporate groups to exploit mismatches between national tax rules so as to avoid paying taxes on some types of profits distributed within the group. An amending directive will be adopted without further discussion at a forthcoming meeting.

The Council approved draft country-specific recommendations to the member states on their ***economic and fiscal policies****, as well as a specific recommendation for the eurozone as a whole. The texts will be forwarded to the June European Council and adopted in July, under this year's European Semester.*

The Council adopted decisions closing excessive deficit procedures for ***Belgium****, the* ***Czech Republic****,* ***Denmark****, the* ***Netherlands****,* ***Austria*** *and* ***Slovakia****, thus confirming that they have reduced their deficits below 3% of GDP, the EU's reference value for government deficits.*

As a consequence, 11 of the EU's 28 member states now remain subject to the excessive deficit procedure, down from 24 during a 12 month period in 2010-11.

A large number of procedures were opened subsequent to the global financial crisis and recession of 2008 and 2009, and the Council's recommendations under the excessive deficit procedure have set out to support a return by governments to sound fiscal positions.

The Council approved a recommendation in favour of a proposal to allow ***Lithuania to join the euro area*** *on 1 January 2015. It agreed with the Commission's assessment that Lithuania has achieved a high degree of sustainable convergence and therefore fulfils the necessary conditions for adoption of the euro as its currency. The proposal will be referred to the European Council before a final decision is taken in July.*

The Council approved conclusions on:

– *implementation of a code of conduct aimed at eliminating situations of* ***harmful tax competition****, in the light of a six-monthly report;*

– *a draft directive on the* ***taxation of energy*** *products;*

– *a draft directive on the establishment of a* ***standard VAT return*** *with the aim of reducing the administrative burden on SMEs.*

CONTENTS[1]

[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.

FOREIGN AFFAIRS

ENLARGEMENT

INTERNAL MARKET

JUSTICE AND HOME AFFAIRS

FISHERIES

APPOINTMENTS

PARTICIPANTS

Belgium:	
Mr Koen GEENS	Minister for Finance , with responsibility for the Civil Service
Bulgaria:	
Mr Dimiter TZANTCHEV	Permanent Representative
Czech Republic:	
Mr Andrej BABIŠ	First Deputy Prime Minister and Minister for Finance
Denmark:	
Ms Margrethe VESTAGER	Minister for Economic Affairs and the Interior
Germany:	
Mr Wolfgang SCHÄUBLE	Federal Minister for Finance
Estonia:	
Mr Jürgen LIGI	Minister for Finance
Ireland:	
Mr Michael NOONAN	Minister for Finance
Greece:	
Mr Gikas HARDOUVELIS	Minister for Finance
Spain:	
Mr Luis DE GUINDOS JURADO	Minister for Economic Affairs and Competitiveness
France:	
Mr Michel SAPIN	Minister for Finance and Public Accounts
Croatia:	
Mr Boris LALOVAC	Minister for Finance
Italy:	
Mr Pier Carlo PADOAN	Minister for Economic Affairs and Finance
Cyprus:	
Mr Harris GEORGIADES	Minister for Finance
Latvia:	
Mr Andris VILKS	Minister for Finance
Lithuania:	
Mr Rimantas ŠADŽIUS	Minister for Finance
Luxembourg:	
Mr Pierre GRAMEGNA	Minister for Finance
Hungary:	
Mr Mihály VARGA	Minister for the National Economy
Malta:	
Mr Edward SCICLUNA	Minister for Finance
Netherlands:	
Mr Jeroen DIJSSELBLOEM	Minister for Finance
Austria:	
Mr Michael SPINDELEGGER	Vice-Chancellor and Federal Minister for Finance
Poland:	
Mr Mateusz SZCZUREK	Minister for Finance
Portugal:	
Ms Maria Luís ALBUQUERQUE	Minister for Finance
Romania:	
Mr Liviu VOINEA	Minister delegate for Budget
Slovenia:	
Mr Rado GENORIO	Permanent Representative

Slovakia:	
Mr Peter KAŽIMÍR	Deputy Prime Minister and Minister for Finance
Finland:	
Mr Pilvi-Sisko VIERROS-VILLENEUVE	Permanent Representative
Sweden:	
Mr Anders BORG	Minister for Finance
United Kingdom:	
Ms Nicky MORGAN	Financial Secretary to the Treasury and Minister for Women
Commission:	
Mr Olli REHN	Vice President
Mr Michel BARNIER	Member
Mr Algirdas ŠEMETA	Member
Mr Janusz LEWANDOWSKI	Member

Other participants:	
Mr Werner HOYER	President of the European Investment Bank
Mr Thomas WIESER	President of the Economic and Financial Committee
Mr Hans VIJLBRIEF	President of the Economic Policy Committee
Mr Benoit COEURÉ	Member of the Executive Board of the European Central Bank

ITEMS DEBATED

EU DRAFT BUDGET FOR 2015

The Council took note of the presentation by the Commission of its draft for the EU's general budget for 2015. It held an exchange of views.

The Council asked the Permanent Representatives Committee to examine the draft, with a view to enabling it to establish its position.

The Commission's draft provides for payments totalling €142.1 billion (+ 4.9% compared with 2014) and commitments amounting to €145.6 billion (+ 2.1%).

On 18 February, the Council set out its priorities for the 2015 budget (*5852/14*). These will be used by the incoming Italian presidency as the basis for negotiations with the European Parliament and the Commission later in the year.

The Council is expected to adopt its position on the draft budget in September, and the Parliament in late October. If their positions diverge, a three-week conciliation process will start on 28 October.

COMPANY TAXATION - PARENT SUBSIDIARY DIRECTIVE

The Council agreed an amendment to EU tax rules aimed at preventing the double non-taxation of corporate groups deriving from hybrid loan arrangements[1] (*10419/14*).

This will close a loophole that currently allows corporate groups to exploit mismatches between national tax rules so as to avoid paying taxes on some types of profits distributed within the group.

The amendment to the parent-subsidiary directive (2011/96/EU) will prevent double non-taxation by providing that the member state of the parent company would only refrain from taxing profits from the subsidiary to the extent that such profits are not deductible by the latter.

For details, see press release 9402/14.

[1] Hybrid loan arrangements are financial instruments that have characteristics of both debt and equity.

EUROPEAN SEMESTER - COUNTRY-SPECIFIC RECOMMENDATIONS

The Council approved, under this year's *European Semester*, draft recommendations to 26 member states[1] on the economic policies set out in their national reform programmes, as well as draft opinions on each member state's fiscal policies, as presented in their stability/convergence programmes (*10809/14*).

The Council also approved a specific draft recommendation on the economic policies of the euro area member states (*10808/14*).

The texts will be forwarded to the General Affairs Council on 24 June, with a view to the European Council meeting on 26 and 27 June. Similar preparations were made by the Employment, Social Policy, Health and Consumer Affairs Council on 19 June as concerns the member states' employment policies, and the whole package is due to be adopted in July.

For details, see press release 11088/14.

Furthermore, the president of the Economic and Financial Committee reported on the outcome of a pilot exercise carried out on the ex-ante coordination of economic policy reforms (*11066/14*).

[1] All except Cyprus and Greece, which are subject to macroeconomic adjustment programmes. To avoid duplication, there are no country-specific recommendations for these two countries.

EXCESSIVE DEFICIT PROCEDURE

– *Belgium, Czech Republic, Denmark, Netherlands, Austria and Slovakia*

The Council adopted decisions closing the excessive deficit procedures for Belgium, the Czech Republic, Denmark, the Netherlands, Austria and Slovakia, confirming that these countries have reduced their deficits below 3% of GDP, the EU's reference value for government deficits.

The decisions were adopted under article 126(12) of the Treaty on the Functioning of the European Union. They abrogate decisions the Council took in December 2009 and July 2010, under article 126(6) of the treaty, on the existence of excessive deficits in the six countries.

For details, see press release 11089/14.

– *Methodology for the assessment of "effective action"*

The Council endorsed terms of reference following a review of the methodology used under the EU's excessive deficit procedure for assessing "effective action" taken by member states in response to Council recommendations.

The revised methodology will from now on be used by the Commission when assessing whether action taken by a member state can be deemed "effective action".

Under the excessive deficit procedure, the Council makes recommendations to member states whose general government deficit exceeds 3 % of GDP or whose general government debt is higher than 60 % of GDP and not diminishing at a satisfactory pace, with a view to correcting the deficit.

The review, carried out by the Economic and Financial Committee, looked into instruments and methods that the Commission uses when assessing whether a member state has complied with the Council's recommendations. Improvements have sought, amongst other things, to improve transparency.

To this end, all relevant data used by the Commission, including data on the yields of discretionary fiscal measures, will be shared with the member states in a timely manner, enabling them to replicate the calculation underlying the Commission's assessments and recommendations in the context of the excessive deficit procedure.

ACCESSION BY LITHUANIA TO THE EURO AREA

The euro area member states (meeting within the Council) adopted a recommendation in favour of a proposal to allow Lithuania to join the currency union on 1 January 2015.

They agreed with the Commission's assessment that Lithuania has achieved a high degree of sustainable convergence and therefore fulfils the necessary conditions for adoption of the euro as its currency.

The Council is expected to adopt the decision in July, after consulting the European Parliament and following a discussion in the European Council on 26 and 27 June.

Lithuania is thus set to become the 19th member of the euro area.

The Council recommendation draws on two-yearly reports from the Commission and the European Central Bank on the readiness of non-euro member states to adopt the euro.

The reports confirm the compatibility of Lithuania's legislation with EU treaty provisions and with the statute of the European system of central banks. They confirm the progress made by Lithuania in fulfilling the convergence criteria – namely price stability, the government's budgetary position, exchange rate stability and long-term interest rates – and several other factors.

The reports and proposals are based on article 140 of the Treaty on the Functioning of the European Union, which requires a qualified majority of euro area member states for a decision by the Council.

OTHER BUSINESS

– ***On-going work on legislative dossiers***

The Council took note of on-going work on legislative dossiers.

– ***Bank resolution***

The Council discussed the preparation of implementing legislation on contributions to be paid by banks to resolution funds established under recently-agreed rules on bank resolution.

MEETINGS IN THE MARGINS OF THE COUNCIL

The following meetings were held in the margins of the Council:

– ***ESM board of governors meeting***

The board of governors of the European Stability Mechanism held a meeting on 19 June.

– ***Eurogroup***

Ministers of the euro area member states attended a meeting of the Eurogroup on 19 June.

– ***Ministerial breakfast meeting***

Ministers held a breakfast meeting to discuss the economic situation.

OTHER ITEMS APPROVED

ECONOMIC AND FINANCIAL AFFAIRS

Code of conduct on business taxation

The Council adopted the following conclusions:

"With regard to the Code of Conduct (Business Taxation), the Council:

– welcomes the progress achieved by the Code Group during the Hellenic Presidency as set out in its report (doc. *10608/14* FISC 95 ECOFIN 586);

– asks the Group to continue monitoring standstill and the implementation of the rollback as well as its work under the Work Package 2011;

– invites the Commission to inform Switzerland on the outcome of discussions in the Group, as set out in the report;

– invites the Group to continue its consideration of the draft guidance on Hybrid Entity and Hybrid Permanent Establishment Mismatches;

– invites the Group to continue to analyse the third criterion of the Code of Conduct as contained in the existing mandate;

– invites the Group to assess or consider all patent boxes in the EU, including those already assessed or considered before, by the end of 2014, ensuring consistency with the principle of equal treatment, also against the background of international developments, including those in relation to the OECD BEPS initiative;

– invites the Group to report back on its work to the Council by the end of the Italian Presidency."

Energy taxation

The Council took note of a report on progress on a draft directive on the taxation of energy products and electricity, and endorsed conclusions set out at the end of the report (*10417/14*).

The proposal is aimed at restructuring directive 2003/96/EC on energy taxation in order to align it more closely with EU energy and climate objectives.

Standard VAT return

The Council took note of a report on progress on a draft directive establishing a standard VAT return, and endorsed conclusions set out at the end of the report (*10276/14*).

The proposal is aimed at reducing burdens on businesses, particularly SMEs, and removing important obstacles to cross-border trade by standardising the information required on VAT returns in different member states.

Taxation - Reports to the European Council

The Council endorsed two six-monthly reports to the European Council:

– a report on tax issues; and

– a report on tax issues by finance ministers participating in the *Euro Plus Pact*[1].

[1] Concluded in March 2011 by 23 of the 27 member states, the *Euro Plus Pact* is aimed at strengthening economic policy coordination with a view to improving competitiveness and enabling a greater degree of convergence.

FOREIGN AFFAIRS

Association with Turkey

The Council established the EU position for the 52nd EU-Turkey Association Council, to be held in Luxembourg on 23 June.

ENLARGEMENT

Relations with Montenegro

The Council established the EU position for the fifth Stabilisation and Association Council with Montenegro, which will meet in Luxembourg on 24 June.

INTERNAL MARKET

Type-approval of motor vehicles

The Council approved the position to be taken by the EU within the United Nations Economic Commission for Europe (UNECE) in support of technical progress adaptations to a number of UNECE regulations. It includes the UN regulation on retrofit emission control devices for heavy duty vehicles, as well as amendments to the UN consolidated resolution on the construction of vehicles *(10592/1/14 REV 1)*.

The UNECE develops, at international level, harmonised requirements intended to remove technical barriers to the trade in motor vehicles and systems with a view to increasing the level of safety and environmental protection.

JUSTICE AND HOME AFFAIRS

New psychoactive substances

On the basis of a joint report from Europol and the European Monitoring Centre for Drugs and Drug Addiction (EMCDDA), the Council requested that the risks, including the health and social risks, caused by the use of, the manufacture of, and traffic in 4,4'-DMAR (4-methyl-5-(4-methylphenyl)-4,5-dihydrooxazol-2-amine), the involvement of organised crime and possible consequences of control measures, be assessed, in accordance with decision 2005/387/JHA[1] on the information exchange, risk assessment and control of new psychoactive substances.

The General Secretariat of the Council will notify this request to the EMCDDA.

FISHERIES

Partnership with Liberia - New protocol

The Council adopted a decision authorising the Commission to open negotiations on a sustainable fisheries partnership agreement (FPA) and protocol with the Republic of Liberia.

The FPA and protocol should be in line with regulation 1380/2013 on the Common Fisheries Policy (CFP) [2] and with the Council's March 2012 conclusions on the external dimension of the CFP.

Tuna stocks are expected to constitute the main fishing resource covered by this FPA and protocol.

APPOINTMENTS

Committee of the Regions

The Council appointed Mr Arno KOMPATSCHER, Mr Raffaele CATTANEO and Mr Augusto ROLLANDIN (Italy) as members of the Committee of the Regions for the remainder of the current term of office, which runs until 25 January 2015 *(10843/14)*.

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1 OJ L 127, 20.5.2005.
2 OJ L354, 28.12.2013, p. 22.