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Opening Statement to the Joint Committee on Finance, Public Expenditure and Reform in relation to the ECOFIN Council Agenda on 11 July 2017
Paschal Donohoe TD, Minister for Finance & Public Expenditure & Reform
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INTRODUCTION

Good morning all.

I would like to thank the Chairman and Committee members for inviting me to speak to you in advance of the next Ecofin Council of Ministers meeting which will take place on Tuesday 11 July in Brussels.

This is the first meeting of the Estonian Presidency and will be my second Council to attend since my appointment as Minister for Finance, having attended the June Council in Luxembourg.

In light of these developments, I think this is a useful opportunity to discuss the issues that are currently before Finance Ministers at the ECOFIN Council.

JUNE ECOFIN

In your invitation, you asked if I would also provide a brief overview of the proceedings of the June Ecofin Council so I will address that item first.

That meeting took place in Luxembourg on 16 June, the day after my appointment as Minister for Finance, and was the last under the Maltese Presidency.

The June agenda included discussions relating to;

- The reduced VAT rate for electronically supplied publication, otherwise known as e-Publications or e-Books;
- The General Reverse Charge Mechanism, which for the benefit of members I will explain shortly;
- Strengthening of the Banking Union and risk-reduction measures, and;
- An update on the current financial services legislative proposals.

On the non-legislative part of the meeting there was discussions on;

- Non-Performing Loans;
- The fight against the financing of terrorism;
- The Capital Markets Union;
- The Contribution to the June European Council meeting on the European Semester 2017, and finally;
- The implementation of the Stability and Growth Pact.

As usual for the final meeting of a Presidency, it was a busy agenda.

E-books

The first item on the agenda was a proposal to amend the Council Directive dealing with a reduced VAT rate for e-Publications.

At present, the EU VAT Directive prevents Member States from applying the same VAT rates to e-publications as currently applies to physical publications. The result is a less favourable VAT treatment of e-publications in most Member States.

For this reason, the modernisation of VAT on e-commerce proposals published by the Commission on 1 December 2016 includes provision to grant all Member States the possibility to apply the same VAT rates to electronically supplied publications as Member States currently apply to printed publications.

Furthermore, the proposal also allows all Member States to apply a zero or super-reduced VAT rate - below 5%- to publications in either format.

Up to now only Member States who applied such treatment to physical publications on and since 1 January 1991 could avail of zero or super-reduced rating.

Unfortunately, no agreement was reached on this matter.

Reverse Charge Mechanism

The second item dealt with a proposal to amend the Directive on the common system of VAT, specifically relating to the temporary application of a generalised reverse charge mechanism in relation to supplies of goods and services above a certain threshold.

This item was last discussed at the March Ecofin.

The current EU VAT Directive provides for sectoral reverse charge mechanisms to apply in certain circumstances where known fraud exists.

However, it is proposed to introduce a generalised reverse charge mechanism which extends the reverse charge to all supplies of goods and services in a Member State, and not just to a specific sector.

Under the reverse charge mechanism, the person liable for payment of VAT to the tax authorities is the consumer and not the supplier.

This is an anti-fraud mechanism.

As with the e-books proposal, no agreement was reached on this matter either, as they both require unanimity to proceed.

The matters will now fall to the Estonian Presidency to address.

Banking and Financial Services

Ministers also discussed a number of legislative proposals that dealt with strengthening the Banking Union and also dealt with risk-reduction measures.

Two of the proposals – namely a draft directive on the ranking of unsecured debt instruments in insolvency proceedings, relating to bank creditor hierarchy

and a draft regulation on transitional arrangements to phase in the regulatory capital impact of the International Financial Reporting Standard 9– were agreed by Minsters.

The first General Approach seeks to harmonise the ranking of unsecured debt instruments across Europe- in other words establish a common hierarchy for the repayment of creditors when an institution is resolved.

The second General Approach introduces transitional arrangements to phase in the impact on bank capital of IFRS 9 - an accounting standard which comes into effect on 1st January 2018; and to phase out the exemption of Sovereign Bonds, from the Large Exposure rules, which are due to expire on 31st December 2017.

This means that the Presidency can commence discussion on these draft proposals with the European Parliament as soon as soon as the Parliament has approved its own negotiating stance.

The Council noted the progress made by working parties on the remaining four draft proposals.

These are:

- Proposal for amending the existing regulations and directives on bank capital requirements;
- Proposal for a directive amending the directive on bank recovery and resolution as regards the loss-absorbing and recapitalisation capacity of banks;

- Proposal for a regulation amending regulation 806/14 on the EU's single resolution mechanism as regards the loss-absorbing and recapitalisation capacity of banks; and
- Proposal for a regulation establishing a European deposit insurance scheme.

The first three proposals - issued by the Commission in November 2016 - are aimed at reducing risk in the financial system by making banks more resilient to external shocks.

They are designed to incorporate into EU law standards agreed at the global level by the Basel Committee on Banking Supervision and the Financial Stability Board.

The final proposal sets out to establish an EU-level insurance scheme to strengthen the protection of bank deposits.

Work will now continue at a technical level on these proposals.

On the remaining portion of the agenda, Ministers were also informed on the state of play as regards:

- Work aimed at tackling high levels of non-performing loans in Europe;
- The Mid-term review of the Capital Markets Union Action Plan; and
- Progress made on the implementation of the action plan for strengthening the fight against terrorist financing.

As the Council will return to the first two topics in July with a view to adopting draft Council conclusions, I will say more about these two items later.

Let me now turn to the remaining two items on the June ECOFIN agenda – namely;

- The contribution to the European Council meeting on 22-23 June 2017: European Semester 2017; and
- The implementation of the Stability and Growth Pact.

The EU Semester refers to the EU economic governance rules and related monitoring.

This is an annual cycle of economic and budgetary policy guidance which culminates in the adoption of Country Specific Recommendations, or CSRs, addressed to each Member State.

The Council discussed and approved the recommendations on each Member States' Country Specific Recommendations.

This is a routine part of the Annual EU Semester process and, following ECOFIN, these recommendations were endorsed by the European Council on 22-23 June, and will be adopted at the July ECOFIN Council.

In general, we are broadly satisfied with the policy guidance contained in the three country specific recommendations addressed to Ireland.

Finally, ECONFIN was asked to approve the draft Council decisions to abrogate the Excessive Deficit Procedures of Portugal and Croatia.

Both countries outlined the progress made with respect to their economies and welcomed the abrogation of the Excessive Deficit Procedure.

The Council also agreed to launch a significant deviation procedure for Romania as part of the preventive arm of the Stability and Growth Pact, with a view to correcting its significant deviation from the structural adjustment path towards the medium-term-budgetary-objective.

JULY ECOFIN

Next week's meeting will be the first Ecofin Council under the Estonian Presidency.

I am sure we would all wish them well for their first term.

I would like to remind you that this is a draft agenda; and there can still be changes between now and the meeting, in terms of content and the order of the discussion.

On the legislative side of the agenda, Ministers will be informed, as usual by the Presidency, of the state of play on the Current Financial Services Legislative Proposals.

Mandatory Disclosure of Tax Schemes

The Commission will make a presentation about its recently published proposal on the mandatory disclosure of tax schemes by tax advisors.
The proposal would require tax advisors to disclose to tax authorities when they market or promote tax planning schemes which meet certain "hallmarks".

The disclosures would be shared with all other Member States under existing information exchange mechanisms.

The logic for that proposal is that tax authorities would be made aware of arrangements that may constitute tax avoidance and therefore be able to carry out more detailed audits or introduce legislative changes to close down loopholes.

The proposal stems from the recommendation in the OECD BEPS Action 12 report that sets out best practice recommendations for such mandatory disclosure rules.

This is a Commission proposal that has not been contributed to yet by Member States.

Ireland and other Member States will now examine the proposal in detail and discuss it at Council working parties under the Estonian Presidency.

These technical discussions have not yet begun.

The Presidency have not made this proposal one of their tax priorities but the Commission will be eager for agreement to be reached in the coming months.

Ireland already has mandatory disclosure rules in place, one of only four Member States to have such rules.

A Government decision in September 2016 confirmed Ireland's support in principle for all Member States agreeing a Directive to introduce similar rules to the extent that they are in line with the BEPS Action 12 report.

The Estonian Presidency

Turning to the non-legislative side of the agenda, there are effectively three topics down for consideration.

The first item will be a Presentation of the work programme of the Estonian Presidency which will be given by the Estonian Finance Minister Mr Toomas Toniste as is usual at the start of the Presidential term.

The main overall objectives of the Estonian presidency are;

- An open and innovative European Economy;
- A safe and secure Europe;
- A digital Europe and free movement of data;
- An inclusive and sustainable Europe.

The Presidency views an open and innovative European economy as developing a business environment, which supports knowledge-based growth and competitiveness.

They are also committed to the principle of better regulation and will examine opportunities for e-solutions.

Mid-Term Review of Capital Markets Union Action Plan

The second item will be on the topic of the Commission Mid-Term Review of the Capital Markets Union Action Plan where Ministers will seek to adopt draft Council conclusions which we generally support.

This item featured at the June Council, as I mentioned earlier.

The Mid-Term Review, published on 8 June 2017, details the progress made so far and sets out timelines for new actions in the coming months.

Ireland is broadly supportive of Capital Markets Union project and welcomes the continued efforts of the Commission to implement the action plan, including through this Review, which shows that significant progress has been made across many measures.

The Capital Markets Action Plan has the potential to increase the sources of finance for Irish businesses and investors.

The creation of larger and deeper capital markets in Europe would be of benefit to our financial services industry as well.

The majority of the proposed new priority measures will in our view help achieve these objectives.
It is generally the case that the cumulative effect of many measures will have an impact rather than any single measure being transformative by itself.

Non-Performing Loans

Finally, the Report of the expert group of the Financial Services Committee Sub-group on Non-Performing Loans, or NPLs, will be presented to Ministers followed by an exchange of views.

The Council will then also be asked to adopt draft conclusions.

From an Irish perspective, notwithstanding progress made and the strong pace of reductions in each of 2014, 2015 and 2016 pressure remains on Irish banks to reduce non-performing loans at a faster pace.

Impaired loans in Ireland have fallen by approximately 63% from a peak of €85 billion at the end of 2013; and in 2016 alone, fell by approximately 25%.

The momentum of this reduction in non-performing loans has continued into 2017.

Ireland is broadly supportive of proposed measures which cover nineteen policy proposals across four core areas of;

(1) Supervision;
(2) Insolvency and legal frameworks;
(3) Development of secondary markets; and
(4) Restructuring of the banking sector.

The aim of the proposals are to;

- Introduce consistent and strong supervision of non-performing loans;
- Improve the legal frameworks and efficiency across the EU;
- Enhance the consistency of approaches on secondary markets; and
- Assist Member States setting up Asset Management Companies.

However, we do have some concerns in relation to specific elements of the proposals. For example, that restructuring activity will be disincentivised in favour of forced loan sales, or that possible changes to legal and insolvency frameworks would need to make allowance for the independence of our courts system and our common law framework.

The draft conclusions make it clear that the matter will be reviewed after six months and then kept under regular review.

Accordingly, we are broadly supportive of the draft Council conclusions.

CONCLUSION

Chairman and members of the Committee, I trust you found the summary of last month's Ecofin meeting and the outline of this month's Ecofin agenda informative.

I believe they give a good insight into the current issues before the Council.

I would like to thank you for your attention and, at this point, I will be happy to respond to any questions or observations that Members may have.

ENDS