

DÁIL ÉIREANN

AN COISTE UM FHORMHAOIRSIÚ BUISÉID

COMMITTEE ON BUDGETARY OVERSIGHT

Dé Céadaoin, 13 Márta 2019

Wednesday, 13 March 2019

The Select Committee met at 1.30 p.m.

MEMBERS PRESENT:

Deputy Maria Bailey,	Deputy John Lahart,
Deputy Richard Boyd Barrett,	Deputy Michael McGrath,
Deputy Declan Breathnach,	Deputy Jonathan O'Brien,
Deputy Thomas P. Broughan,	Deputy Eamon Ryan.
Deputy Lisa Chambers,	

DEPUTY COLM BROPHY IN THE CHAIR.

Business of Joint Committee

Chairman: Today the committee will meet the Director General, Mr. Carlos Martínez Mongay, and representatives from the European Commission to discuss the European Commission's Country Report Ireland 2019 and the European Semester. Before we do so, I propose we go into private session to deal with some committee business.

The select committee went into private session at 1.37 p.m. and resumed in public session at 2.03 p.m.

Scrutiny of European Commission Country Report Ireland 2019 and European Semester

Chairman: I remind members and guests to turn off their mobile telephones as the interference from them affects the sound quality and transmission of the meeting. I welcome the Director General, Mr. Carlos Martínez Mongay, back to the committee as he has been here previously. He is accompanied today by Ms María José Doval Tedín, Mr. Stefan Kuhnert, Mr. Gerry Kiely, Mr. Patrick O'Riordan and Mr. Willem Noë. I thank them all for being here today.

The purpose of today's meeting is to discuss with the Commission the country report for Ireland 2019, which was recently published as part of the European Semester. This is an annual process and ensures that member states comply with the EU economic policy recommendations before national budgets are adopted. Our committee fits into its work ensuring that as well.

We are interested in learning more about the EU Semester, the Commission's views on its country specific recommendations and on the economy in general. It is a good opportunity to have that exchange of views.

Before we get into that exchange of views and ask Mr. Carlos Martínez Mongay to make his opening statement, I draw his attention to the position on privilege. I advise him that by virtue of section 17(2)(l) of the Defamation Act 2009, witnesses are protected by absolute privilege in respect of their evidence to the committee. However, if they are directed by the committee to cease giving evidence on a particular matter and they continue to so do, they are entitled thereafter only to a qualified privilege in respect of their evidence. They are directed that only evidence connected with the subject matter of these proceedings is to be given and they are asked to respect the parliamentary practice to the effect that, where possible, they should not criticise nor make charges against any person or entity by name or in such a way as to make him, her or it identifiable.

Members are reminded of the long-standing parliamentary practice to the effect that they should not comment on, criticise or make charges against a person outside the Houses, or an official either by name or in such a way as to make him or her identifiable.

I invite Mr. Carlos Martínez Mongay to make his opening statement.

Mr. Carlos Martínez Mongay: It is my pleasure to be here today to exchange views on the country report for Ireland. This is the third time the committee has given me the opportunity to address it. Last year, the committee invited me to present the country specific recommendations adopted by the Council.

The country report for Ireland was published by the Commission on 27 February, together with the country reports of the other member states. On the same day, the Commission also adopted a communication summarising the main findings in the 28 reports.

The country reports are mid-way in the cycle of the European Semester. As the committee will be aware, the European Semester is the process within which member states co-ordinate their economic policies. The current cycle started on 21 November last year with the adoption by the Commission of the annual growth survey, the alert mechanism report, the draft joint employment report and the recommendations for the euro area. For the committee's convenience, we have distributed a few slides supporting this presentation. The European Semester cycle is shown in Figure 1. I do not propose to go through the slides and figures, as I did last year, but I can come back to them, if need be, during the question and answer session.

We open the dialogue phase with the authorities and the stakeholders in order to prepare the country specific recommendations of this year. My presence here today is part of this dialogue phase.

Before summarising the findings in the country report, let me highlight a distinctive feature of the current European Semester cycle that the current European Semester cycle runs in parallel with the negotiations of the Multiannual Financial Framework, MFF, for the period 2021 to 2027. As the committee will be aware, this is the moment when the EU establishes the public investment priorities for the coming ten years. This is the reason the Commission considers this as an opportunity to reinforce the synergies between economic policy co-ordination within the European Semester and the allocation of EU funds.

This year, the European Semester is putting a particularly strong focus on identifying and prioritising national and regional investment needs to guide the programming of cohesion policy projects. In practical terms, this means that all country reports have included a specific annex on investment areas that the Commission considers a priority for the European Regional Development Fund, ERDF, and the European Social Fund Plus over the period 2021 to 2027. This annex will serve as a basis for the dialogue between member states and the Commission in view of programming these funds. In this regard, I am happy to announce that my colleagues responsible for regional and social funds are coming to Dublin on 20 March to present this Annex D to the Irish authorities and the stakeholders. The analysis of investment needs, however, is not just confined to this annex. The Commission has also identified the priority areas for public and private investment in each country. These priority areas are the ones that underpin inclusive and sustainable economic growth and intense job creation. Let me finish this introduction by confirming that this is not the only event to discuss the findings of the country reports with the authorities and social and economic stakeholders. I will have the pleasure of meeting many stakeholders tomorrow when a Commission team will present the findings of the country report in the European Commission representation here in Dublin.

Let me now turn to the main findings of the report for Ireland. As with past editions, the report provides an analysis of the economic and social situation in the country. Starting with the macroeconomic framework, I emphasise that the current economic policy co-ordination cycle takes place in a context of sustained but less dynamic economic growth in Europe. Although the European economy is expected to grow for the seventh year in a row in 2019, the pace of growth is projected to moderate and the outlook is subject to major uncertainty. Ireland is not an exception. Economic growth in Ireland was robust in 2018 supported by strong labour market developments and construction investment. Real GDP growth, however, is forecast to moderate in 2019 and 2020, although compared with many other member states it will remain solid.

The growth profile and composition can be found in figure 2 of my accompanying submission detailing the growth forecast. This benign outlook is clouded by heightened uncertainty, mostly related to external factors such as the terms of the UK's withdrawal from the European Union and changes to the international taxation and trade environment.

Since I have mentioned Brexit, let me highlight that the publication of the country reports occurred this year just 30 days ahead of the deadline for the UK's withdrawal from the EU. Despite the closeness of the deadline, the terms of the UK's future relations with the EU were uncertain at the moment of preparing and publishing the report. This again led us to avoid speculations in the report about possible scenarios and, instead, we use a technical assumption of the *status quo* in respect of trading relations between the EU and the UK. The vote yesterday in the British Parliament has not much clarified the situation. I understand there is a vote today and probably another tomorrow, so we are still in an uncertain environment. The Commission very much regrets the outcome of the vote yesterday. We are, to some extent, disappointed that the UK Government has been unable to ensure a majority for the withdrawal agreement concluded by both parties in November.

Returning to the contents of the report, labour market outcomes remain favourable, with the unemployment rate approaching pre-crisis levels. As the labour market tightens, however, skills shortages are becoming increasingly apparent in fast growing sectors, most notably for information and communication technology and highly skilled professionals in the construction and property sectors. Against this background, wage growth is picking up. This could be a sign of an economy operating at its potential. This is the reason we have indicated that the Irish economy could show some signs of overheating. In this context, it is worth highlighting that we observe a relatively low rate of labour market participation, notably by women, and also in voluntary part-time work, which could show the existence of underused human capacity.

Moving to a more detailed summary of the main findings, I would like to recall that within the macroeconomic imbalances procedure, Ireland was identified last year as recording macroeconomic imbalances, although they were not considered excessive. As has been the case of other member states where the possible existence of risks of macroeconomic imbalances were identified in the alert mechanism report in November, the report for Ireland undertakes an in-depth review of possible macroeconomic imbalances. A summary of the decisions and the different allocations of the member states in the macroeconomic procedure and the Stability and Growth Pact can be found in the accompanying document. The report finds that Ireland continues to face macroeconomic imbalances related to the large stocks of private and public debt and net external liabilities. Challenges remain despite notable improvements on the back of robust economic growth and policy action.

In particular, public debt relative to GDP is diminishing, but remains vulnerable to unfavourable shocks. In addition, as also highlighted by this committee in the recent post-budget report, the reliance on potentially volatile revenues and recurrent overspending in healthcare put the long-term sustainability of public finances at risk. In the context of a strong cyclical position, better than expected tax revenue intakes provide an opportunity for accelerating debt reduction and building up buffers against adverse future shocks. Private indebtedness is further reducing, with the private debt to GDP ratio being below the macroeconomic imbalance procedure threshold when we discount the effects of multinational corporations. Household debt relative to gross disposable income, however, continues to be among the highest in the European Union. This makes Irish households vulnerable to negative income shocks. Figure 4 in the accompanying document provides information on private indebtedness, its evolution

and composition.

Vulnerabilities in the financial sector are declining. Domestic banks have significantly reduced non-performing loans. This reduction has taken place through portfolio sales and restructuring activities. Banks have also remained profitable and well capitalised. Although these findings are positive, the report also concludes that long-term arrears continue to be relatively high. More than half of total non-performing loans have been in arrears for more than two years and relate to mortgages. The net international investment position of the country, although highly negative, continues to improve. It is difficult to determine to what extent this points to a vulnerability. The investment position of Ireland is strongly influenced by the presence of multinational companies and the International Financial Services Centre. In such a case, the possible vulnerabilities would not strongly affect the domestic sector. In the area of housing, we observe that the broad range of measures implemented by the Government to tackle the undersupply of housing are bearing fruit. Housing supply is rapidly recovering, although it is true it is from low levels and still falling short of demand. As a result, house price inflation remains high, although it has recently moderated.

Where investment is concerned, and investment has a prominent role in the report this year, let me summarise the main investment priorities identified in the report. The report concludes that more investment in research and development, skills and digitalisation would address the lagging productivity of domestic firms. It could also address the sizeable regional differences in competitiveness, productivity and skilled labour that exist in Ireland, mostly due to the concentration of multinationals around Dublin. In addition, more investment in clean energy, transport, water, broadband and housing, as well as to decarbonise sectors with high emissions, could foster sustainable growth. Decarbonisation is important, not only for its environmental benefits, but also because a lack of action could involve costs by 2030. In general, but also in the context of Brexit, the report considers that Ireland could benefit from diversifying its maritime transport and energy connections with continental Europe.

Last but not least, access to employment for all jobseekers could foster inclusive growth. Here, the lack of sufficient affordable childcare is weighing on women's labour market participation. In addition, rising homelessness requires continued attention. It is worth emphasising that the national development plan addresses many of these investment needs by increasing the capital investment effort to €116 billion over the period 2018 to 2027. Moreover, the announced future jobs programme may help to increase the productivity of small and medium-sized enterprises. Nonetheless, incentivising private investment in areas such as clean energy, transport, housing and skills remains a challenge.

The report also includes the customary assessment of the progress on implementing the country-specific recommendations. The conclusion is that some progress has been made.

To sum up, the economic outlook for Ireland remains positive but it is clouded by heightened external risks. The implemented structural reforms oriented towards enhancing the resilience of the Irish financial system and the rainy day fund may provide a buffer to future external shocks. However, the strong dependence on the activities of a limited number of multinational firms, the efficiency of healthcare expenditure and closing remaining investment gaps remain challenges. Let me recall that the publication of the country reports marks the start of the dialogue between the Commission and member states on policy options to address identified challenges. I am, therefore, very interested to hear the committee's views on our new report for Ireland. I remain ready to answer any questions the committee may have.

Chairman: Thank you very much for that interesting statement. I call Deputy Lahart.

Deputy John Lahart: I thank Mr. Martínez Mongay and his team and, in particular, I thank him for speaking to us in his second language, which we appreciate. I have several questions. Does Mr. Martínez Mongay have a view in regard to future ECB interest rate rises, given we read something recently in regard to the susceptibility of mortgage holders here, particularly early mortgage holders who are on tracker rates, to increased ECB rates? Mr. Martínez Mongay might give us a view and a timeline for that.

A figure Mr. Martínez Mongay may not be able to give us now, but which is important, concerns reports the committee has received recently suggesting Ireland is going to rely more and more on an immigrant workforce, especially in the construction industry. A counter-balancing fact in that regard would help in terms of what number of the Irish labour force are working in the other 26 or 27 EU states. It would be politically useful to let people know it is not just a one-way flow but works two ways.

We have had the Irish Fiscal Advisory Council at the committee on a number of occasions. It tells us the implementation of the common consolidated corporate tax base, CCCTB, would have even more negative consequences for our economy than Brexit. Mr. Martínez Mongay might speak to that.

A repeated theme in presentations to this committee, which we take on board and listen to, concerns Ireland's perceived overdependence on and vulnerability to corporation tax receipts from a small number of multinational companies. Does Mr. Martínez Mongay think this issue could be adequately addressed by siphoning off more tax income into the rainy day fund that has been established?

To some degree, and I mean this very respectfully, it is interesting to hear the Commission's report because it chimes with a number of reports the committee receives and with a number of themes that arise in them, such as the over-reliance on corporation tax, overspending on health and, if that continues, future volatility in public spending. We know all that but what is the Commission's suggested solution? These reports are very interesting but what do we do? What advice does the Commission give the Government? On the over-reliance on corporation tax, for example, what does Mr. Martínez Mongay suggest we do? What policy changes does he suggest, apart from things like the rainy day fund?

Mr. Martínez Mongay highlights non-performing loans, which is fine from an accountant's point of view and very objective, and I agree we should be dealing with non-performing loans. However, many of these are mortgages of people who are in their homes. If they are put out of their homes, they have to rent homes at colossally high rents, particularly in Dublin, so they just go from the frying pan into the fire. There is a particular context to this and I am not sure if the Commission appreciates that enough. It is one thing talking clinically about non-performing loans but there are realities and people who live behind those loans. It has been the practice and objective of successive Irish Governments to keep people in their homes. Will Mr. Martínez Mongay speak to that?

Mr. Carlos Martínez Mongay: I thank Deputy Lahart. He asked several questions, some of which do not belong to the remit of the Commission.

Deputy John Lahart: That is what I was afraid of.

Mr. Carlos Martínez Mongay: In particular, with regard to possible actions by the ECB

on interest rate policy, as the Deputy knows, the Commission usually does not comment on decisions taken by the ECB. I can refer to what Mr. Draghi said a few days ago. The ECB follows economic developments very closely and is aware of developments, not only in the real economy, but also concerning inflation. In my view, it will be taking all of this information into account which it comes to the normalisation of monetary policy. I suppose, therefore, that the ECB will adjust its interest rate policy in accordance with the economic environment. We have to take into account that sometimes the impact of monetary policy on the specific conditions concerning mortgages in a country is not passed on immediately or fully. It depends on the policies of the banks. The business models of the banks depend on a series of macroeconomic and financial stability policies implemented by the supervisor. This would be good news in a case where an economy recovered very quickly and would allow the normalisation of interest rates by the ECB. In my view, according to what Mr. Draghi explained some days ago, it will go hand in hand simultaneously with the macroeconomic environment.

I know information on the number of Irish nationals living outside Ireland and EU nationals living in Ireland exists but I do not have it with me. We will be very pleased to send this information to the committee. I have seen the information for a number of countries and it exists in the same way on the number of EU nationals living in Ireland.

With regard to the implementation of the CCCTB, the Commission's idea on this proposal has been to avoid a race to the bottom in which companies in the EU can use different criteria to define the corporate tax base to elude or avoid taxation. I do not think the introduction of the CCCTB would be more harmful than other shocks. It depends on how the entire system would adapt. The proposal the Commission has in mind on homogenising and harmonising the corporate tax base is precisely to avoid a race to the bottom whereby we would have the opposite effect to what we want, namely, that, in principle, it would stabilise the levels of tax revenues that are necessary to finance expenditure.

If I understood correctly the question on the rainy day fund, the idea and the goal of the authorities is to use extra revenues in good times so as to be able to have more expenditure or less taxation in bad times.

Deputy John Lahart: Is it an effective way to reduce our perceived vulnerability or reliance?

Mr. Carlos Martínez Mongay: Indeed. One of the vulnerabilities of the Irish economy is that it is more open and, therefore, subject to external shocks. The fund would show that the economy, the Government and the public finances are sound enough to compensate or fight against these shocks without endangering sustainability. It is important to reduce vulnerabilities.

What we must do in the context of the report, not only here but in general - and this is why I am here - is listen to views on our analysis. People do not need to agree with the analysis but we would like to understand their views on various issues. We want to open a period of dialogue during which there will be an exchange between the Commission and the various stakeholders, including the authorities and the parliaments, in which we try to arrive at a common diagnosis and from there we can agree on certain policies. This should be reflected in the national reform programme which, if I am not mistaken, will be discussed and presented to the Parliament. The Government will present its policy proposals to address the diagnosis on the vulnerabilities and challenges that have been identified by the report.

On rents, the report contains very clear analysis and warns about the fact that rents have increased by more than 20%. This is linked to the fact, also identified in the report, that it is clear there is an undersupply of housing, which affects not only the price of new houses but also rents. The report draws the attention of the authorities and the Government to this in order that policies are discussed to increase the supply of housing. It is clear the reduction of non-performing loans is not intended to put people on the streets but to help them to reduce or repay mortgages and, at the same time, support the profitability of the banks.

Deputy Thomas P. Broughan: I welcome the Deputy director general and his colleagues. Is the full report not, to some extent, a total cop-out in the context of our country having to deal with Brexit? We are following what is happening in the British Parliament on an hourly basis and we cannot believe that we are in the situation in which we find ourselves. We will have a debate on Brexit later this evening in which a number of us will speak. The report's projections are based on the status quo but surely that is a total cop-out. This is a cataclysmic event for our country because our economy is so intertwined with the British economy. The publication this morning of the suggested no-deal British tariffs has caused grave anxiety and anguish in our farming and business communities.

Mr. Martínez Mongay mentioned growth. In recent years we have the amazing growth figure of 7%, which is a lot higher than all of our EU partners but we have projections from the Central Bank, the Irish Fiscal Advisory Council and other bodies that brief us that it could collapse to zero by 2020. We are faced with an existential threat to our economy but this is not apparent in the report as far as I can see. It is as if this is not going to happen.

This morning, our Sinn Féin colleagues asked about a redress fund to support businesses and farmers. People have asked for the rainy day fund to be utilised in this regard. We almost certainly will have a second budget if there is a no-deal Brexit in the coming weeks. Is it not the case, therefore, that this report does not address the challenge we face? That challenge is absolutely profound. A part of the other economy to which I refer is located on our island. We are so intertwined in every conceivable way with the UK and its destiny. This connection is literally within our families. This is the probably the biggest challenge in the 100 years since Independence and certainly since the Second World War. I do not see that reflected in the report.

The overall assessment at the end of the report draws attention to public and private debt. These levels remain elevated. We have our concerns about the levels of household debt, private sector debt and the national debt, which, of course, resulted from the imposition of certain policies on our country by the EU in the period after 2011. We are still facing that. In addition, we have to address the situation relating to Brexit. That seems to be the report's fundamental final assessment. We are very aware of the high levels of private debt. Much of it seems to relate to housing. Why is the Commission not prepared to state the case much more strongly and say that the housing market in this economy is dysfunctional? Many of us regard it as a completely dysfunctional market that is not delivering a fundamental, basic economic product at affordable prices for the public. Throughout our history, we have gone from boom to bust to boom and so on. It is the people we represent who suffer. Why has the Commission not been much more strong on that? Why does it not state that Ireland needs to sort out its dysfunctional housing market?

The report indicates that 79% of recommendations have been delivered on to some extent in different budgets and through the actions of various Governments since 2011. What stands out in the other 21% of recommendations that the Government has blithely ignored? On a brief final point, wealth inequality is addressed on page 9 of the report. Again, it is related to the

property market. The Commission puts us among the most unequal countries in the 28 member states - 27 if Brexit happens. Is it not a very profound situation where we score so relatively badly in that area? Is this a situation the Commission should highlight more?

Those are some of my concerns about the report. I thank our guests for the report. It is very stimulating and interesting and echoes many of the briefings we get from our domestic agencies.

Mr. Carlos Martínez Mongay: I thank the Deputy. I will start with the most important question, the first one the Deputy asked. Why did we prepare this report without looking at Brexit? We saw what happened yesterday, and the committee is aware of all the uncertainties we face regarding what may happen today, tomorrow and in the coming days. The Deputy would agree that it is extremely difficult to consider alternative scenarios at the current juncture. We simply do not know. As such, instead of preparing one report per scenario, we have assumed that the economic relationships between the European Union and the UK will not change. In other words, that there will not be disruptions in trade or fundamental changes in the way it takes place. That will be the case if the coming two or three years are a transition period, but we do not know. I agree with the Deputy that there is a risk and this has been clearly highlighted in the report. We note that there is a downside risk, which is the possibility of a no-deal Brexit or any other alternative scenario concerning the relationship between the EU and the UK.

I agree that in some months we may have to reconsider a number of priorities or challenges. In the meantime, does this imply that the report is not useful or does not address fundamental issues? I would not say that. With or without Brexit, we will have these problems. One of the problems highlighted in the report is the low productivity of domestic indigenous companies, which calls for a series of policies related to skills, human capital and knowledge capital. This challenge will need to be addressed in any case.

Another issue that will be fundamental in any case is the need to maintain sound public finances. Again, I refer to the rainy day fund and the need for buffers in order to improve the resilience and reduce the vulnerabilities of the Irish economy. These challenges will always be there with or without Brexit. Moreover, tackling these challenges will make it easier to deal with unfavourable Brexit scenarios. That is why we felt we did not need to consider all the alternative scenarios; we simply do not know. We preferred to work on the basis of a kind of central scenario in order to analyse the various challenges and issues for the Irish economy and the problems in every market. We know that to a large extent all of this is conditional on the kind of Brexit that materialises. Even today, we do not know.

We are aware of the impact that the imposition of certain tariffs by the UK may have. The Commission has already made a series of preparations in order to make trade as fluid as possible in the worst-case scenario. This decision has been taken unilaterally by the Commission. The Government is also taking steps and considering a series of measures to reduce the frictions in trade in that case.

Public and private debt is still high. We have to be aware of this because if levels of debt are too high before a shock, there will not be room for manoeuvre in dealing with it. The Deputy says that the housing market is dysfunctional. I do not think we even suggest this possibility in the report. We state that there is an insufficient supply of housing and that this sometimes relates to the shortages of skills in the country's labour market. Ultimately, whether or not a market is dysfunctional depends on the regulatory framework. We also recognise that the Government has taken a series of steps to reduce regulatory barriers that could prevent the develop-

ment of the sector.

The Deputy asked about country-specific recommendations for which progress in implementation has been more limited. I refer to measures related to the sustainability of public finances, particularly measures to increase the cost-effectiveness of healthcare. Expenditure in that regard has increased rapidly without clear improvements in the quality or clear reasons behind this increase, such as ageing or the fact that diseases have become more significant. This relates the Deputy's first question. We still find that there have not been sufficient measures to stimulate the productivity of domestic firms. By becoming more productive, Ireland can even tackle the increase in tariffs. These are the two areas in which we think the progress has been more limited.

Deputy Jonathan O'Brien: Two of the questions I was going to ask were posed by previous speakers. I will not repeat them. I want to touch on Deputy Lahart's comments regarding non-performing loans, which are raised as a concern in the report. The Deputy put it very well when he stated that there is political consensus in this State. While we recognise non-performing loans as an issue, how they are being addressed is a concern to many of us. Those loans are being sold to vulture funds and there is a feeling among all political parties that we should do everything we can to help the indebted mortgage holders involved to remain in their properties. To do otherwise would only worsen the housing situation. We need to find a balance in continuing to reduce the number of non-performing loans while not impacting on the housing crisis. We need to find the right policy to get to grips with that.

Mr. Martínez Mongay mentioned the rainy day fund. I have concerns about that fund. I am a member of one of the parties that opposed its establishment. We have already outlined some of the reasons for our opposition. We are in the middle of a crisis across many sectors, particularly housing and health. We do not believe it is prudent to establish a rainy day fund at this time. We also have concerns regarding the legislation the Government used to establish the fund. That legislation provides for withdrawals from the fund in three circumstances: to remedy exceptional circumstances; for capital injection into the banking sector; and to support major structural reforms. Our reading of the legislation is that the rainy day fund cannot be used as a stabilisation mechanism. It is not countercyclical; it cannot be used on general spending above the expenditure benchmark. While it can be used for the purposes set out in the legislation, the only definition of "exceptional circumstances" we can find relates to terrorism and migration flow. We have concerns, therefore, that in order to withdraw money from the fund, we would need to seek approval from the European Commission. Despite repeated requests, there has been no indication from the Government whether any discussions have taken place with the European Commission on our ability to withdraw from the fund. I ask Mr. Martínez Mongay for his analysis on that.

The Commission's report refers to the need to underpin the national development plan by means of a robust monitoring system, adequately resourced Departments and a sound system of project selection. Does this mean that the European Commission has concerns regarding the existing monitoring system? Does the reference to adequately resourced Departments relate to personnel, finances, skills or labour? What resources need to be put in place? In light of the reference to a sound system of project selection, are there concerns about our current project-selection systems?

Mr. Carlos Martínez Mongay: Perhaps in my introductory statement should have given more detail on non-performing loans. The report makes clear reference to the measures the authorities have introduced to provide support to vulnerable borrowers in arrears. We are not

saying the level of non-performing loans must be reduced at any cost. Vulnerable borrowers must be protected. I thought that was clear in the report, but I take note that perhaps it is not that clear. There is also a need to alleviate the impact of the working out of non-performing loans on households facing severe difficulties. I agree that the reduction of the number of non-performing loans must balance both concerns - on the one hand, the profitability and the soundness of the financial sector, and , on the other, the situation of vulnerable borrowers.

On the use of the rainy day fund, the flexibility clauses the Deputy mentioned - these exceptional clauses - are on in addition to the flexibility embedded in the Stability and Growth Pact. The Deputy mentioned that this rainy day fund could be used in cases of economic disruption or shocks. In such instances, the economy goes from the positive phase of the cycle, as now, to a kind of recession. In that context, the Stability and Growth Pact has enough flexibility when calculating the expenditure benchmark. It is not only for exceptional circumstances, the flexibility can also kick in depending on the phase of the cycle. It is not the same. The restrictions on expenditure imposed by means of the benchmark are not the same for a country which is at the medium-term objective, which is the case for Ireland, with a declining debt, which is also the case for Ireland, and, for example, which could be the case for Ireland ahead of a shock. If going from a positive or zero-output gap to a negative output gap, the matrix that the Commission uses in agreement with the member states allows for much more room for manoeuvre than in the other case, even without any of these exceptional circumstances.

Deputy Jonathan O'Brien: Can the funding be used on general expenditure without the permission of the European Commission?

Mr. Carlos Martínez Mongay: In the next round on the country-specific recommendations, the European Commission will inform a country - it might not be Ireland - to keep the increase of expenditure net of discretionary revenue, what we call the expenditure benchmark, below a set percentage. On the one hand, this percentage depends on the fiscal position of the country. On the other hand, it depends on the country's position in the cycle. If a country enters into recession and its output gap becomes negative, the requirements are less restrictive than they are in the case of a country with very high growth and a positive output gap. A country with a high level of debt might be very far from the medium-term objective of structural equilibrium. This kind of flexibility is already embedded in the pact.

Deputy Jonathan O'Brien: Okay. I also asked about the national development plan.

Mr. Carlos Martínez Mongay: Yes. Very briefly, we are not concerned about specific monetary selections. We are saying that it is important to be able to identify investment priorities. The country report contributed to this identification. We expect to have a discussion with the authorities. Perhaps the priorities we are proposing are not exactly the priorities the authorities are perceiving. The report states that the national development plan should be used precisely in order to finance these priorities, including housing.

Chairman: We will move on to Deputy Eamon Ryan.

Deputy Eamon Ryan: I thank Mr. Martínez Mongay for coming in with his country report. I seem to recall that he was here last year. This is very much appreciated as a useful part of our process. I have a slight difficulty because I might be repeating some of the things I said last year. That is the nature of politics. My particular problem is that when I go home to my beloved wife this evening - it will be late because we work hard in politics - I will kiss her on the cheek and she will ask me what I did today and I will have to say "Well, honey, I discovered

that you are under-utilised, underused human capacity”. Is her work less important than mine?

Mr. Carlos Martínez Mongay: When we talk about the low participation of women, we are not talking about someone’s personal decision to do certain things. We are talking about the extent to which all the means exist for people to take their personal decisions. I do not think we are simply saying that women who do not work are under-utilised. We are flagging the fact that in this country, women’s participation in the labour market is lower than it is in other countries. In principle, this is a personal social choice, but we are asking to what extent there are barriers that could prevent women from participating in the labour market. Perhaps this is a way to summarise something in a sentence which we understand to be much more complex than that. We are not flagging at all that women who decide-----

Deputy Eamon Ryan: I have a problem. I think the Commission is flagging that. I think the Commission wants to pursue and promote certain policies. I agree fully with Mr. Martínez Mongay that we should not interfere in the choices of individuals. Every family and every situation is different. I would be in no way judgmental, although that language is judgmental against my wife. The Commission should stop saying that she is underused human capacity. More importantly, we should be neutral in the choices people make. My fear is that the economic aspect of the Commission’s decision-making promotes intervention in individual choices in a way that favours one decision above another. If we continue that for 20 or 30 years, my concern is that when my children reach the age when they have to decide what to do, they could be in an environment in which it is impossible to make the choice. I am worried that one option will have been favoured over the other to the extent that it is economically impossible to decide to choose one of those options. If the Commission promotes everyone working as much as possible, an environment will be created in which the price of housing increases to that extent that it will be impossible to make a free choice. My children will not be able to live in this city if every household is a dual-income household and house prices increase to reflect that. I am concerned that the Commission could interfere in freedom of choice in a way with which I do not agree.

Mr. Carlos Martínez Mongay: I think the Deputy is assuming several things. He is assuming that if people work more, supply constraints will be created as well. I do not see the case for that. I do not think it is bad *per se* if people work more, or participate more in the labour market. As I have said, for me it is bad when somebody wants to participate in the labour market but cannot do so because certain constraints do not allow this to happen.

Deputy Eamon Ryan: True.

Mr. Carlos Martínez Mongay: This is what worries me.

Deputy Eamon Ryan: What worries me is that by individualising our tax system without individualising our social welfare system, we have made things increasingly difficult. There are various reasons behind every choice. Every family is best placed to make its own choice. We should not be interfering. Everything the Commission does comes from a philosophy that originated in countries with declining populations. Ireland has a very young population. Perhaps that is one of the reasons for certain differences. We have a dramatically younger population than any other European country. There are all sorts of different circumstances here. Everything I read from the Commission and the OECD involves promoting labour market activation at all costs as a big priority. They do not value non-market labour work. They never mention it; they never support it. They never suggest we should set up an economic model that protects such work, which I consider to be most valuable. It is clear that this is the Commis-

sion's orientation. I disagree with it as a recommendation.

Mr. Carlos Martínez Mongay: I understand that the Deputy disagrees with the Commission, but I would like to understand what he disagrees with it on. I think the final goal of any policymaker - the Commission or a national government - is to increase living standards while keeping the best possible egalitarian distribution of income. In principle, these are two objectives which are generally agreeable for almost everybody.

Deputy Eamon Ryan: I disagree with the fundamental economic analysis that does not see caring work as labour market participation.

Mr. Carlos Martínez Mongay: I have not finished. This is the first thing. We understand that in order to improve living standards, it is good that people participate in the labour market. The only thing we are saying is not that everybody should participate in the labour market, or be obliged to participate in it, but that if there are barriers to people participating in the labour market, they should be dismantled. That is basically different.

Deputy Eamon Ryan: I do not want to labour that point. I have two others to make. I understand that the Commission cannot influence the decision-making of the European Central Bank. This country's housing crisis is a critical problem, particularly in our cities. If we are to move to change our housing model, we need a model of cost-rental housing that involves using public land in the market to build publicly-owned housing for long-term rental, with the cost of construction being covered by the rental agreement over 20 years. We are being restricted in that regard by the EUROSTAT assessment of whether this constitutes State borrowing, or what the nature of the borrowing is. If we are to solve our housing problem, it is critical that we do not simply rely on increasing the volume of private market housing to be sold, or indeed on going back to the old social housing model. The cost-rental model exists in places like Vienna and Holland, where EUROSTAT historically allowed this kind of borrowing to take place. Now I am informed that it is being stopped or restricted. Does the Commission have any influence in allowing such models of financing public affordable rental housing?

Mr. Carlos Martínez Mongay: The Commission does not have any preference concerning the ownership model of the housing market in different member states. We know that in certain member states where certain social choices were made, there is a majority of people who are owners. In certain member states, including Spain and Portugal if I remember correctly, the number of owners is clearly above 80% and is close to 90%. Some countries in central Europe have gone more for the rental market model. That means that 50% of the households are renting. The Commission has no preference or view as to whether renting or home ownership is better. The question is to understand what is behind the dynamics of prices in both the owner and rental models. That is the important thing. We need to know if there are bottlenecks in supply, whether it is in land, whether there are regulatory constraints that prevent housing in one way or the other for either ownership or renting. The Commission is trying, in the country report, to identify why house prices grow faster in one country than others, whether there is a problem in demand or supply and, if there is a problem in supply, from where it comes. It tries to identify whether it is from regulatory issues, labour shortages or whatever. That is what we try to do.

On social housing, the report on Ireland has highlighted the shortages that exist in the provision of social housing in the country in spite of the efforts of the Government, which plans to build something like 20,000 units, but where the demand is much higher still. In Ireland's case, we see a lag in the supply catching the demand.

Deputy Eamon Ryan: I am a Green Party member and the European institutions have done a very good job on the 2030 climate package, the governance structure and shared targets. Mr. Martínez Mongay is right to say, and the Irish Fiscal Advisory Council has said the same, that one of Ireland's big fiscal risks is not meeting our climate targets. The council estimated it as high risk with high impact. If the witness does not have the information to hand, will he report back to us within our semester system as to what the Commission's best estimate is for the fiscal risk to Ireland from 2025 to 2030, based on current projections for climate emissions? As part of our own process in assessing our national energy and climate action plan under the governance rules, it would be very useful to have a Commission estimate of the level of compliance costs, not merely fines but also the use of credits and other mechanisms. Can Mr. Martínez Mongay give me a best Commission estimate for the risk over the next ten years?

Mr. Carlos Martínez Mongay: All I can say honestly is that I do not have this information to hand. I know there is a clear risk, which is not small in monetary terms. I do not know if my colleagues have data in this regard but I will contact my colleagues in climate and environment and ask them about channelling this information to the Deputy.

Deputy Eamon Ryan: I appreciate that, it would be very useful as part of our iterative process.

Chairman: We would like that to be supplied to the whole committee as well.

Deputy Richard Boyd Barrett: I thank everyone on the Commission team for their work and their presence. Following on from Deputy Broughan's references to Brexit, there is something slightly surreal today about discussing the economic situation in Ireland with an assumption, technical or otherwise, that things remain the same when there is a very significant chance that we are going to get a shock. I would like to know what the Commission representatives can say on what discussions they have had about Europe's response in the event of that shock. It may be limited but I would like to know.

Today, for example, Britain has laid out some of its stall in respect of what it intends to do. One element of that, the tariffs, in terms of east-west trade would be extraordinarily damaging to certain export sectors here, particularly beef. Something that everyone in this country would like to know is whether there will be extraordinary and substantial assistance from the European Union in the event that Ireland takes a massive hit because of those tariffs.

The second aspect of that issue, which is even more important, relates to the North-South Border issue. Today there was welcome news from Britain, notwithstanding the tariffs threat which is a very big problem, to the effect that it does not intend to put tariffs, checks or controls North-South in the event of a crash-out Brexit. Europe has played its cards pretty close to its chest on this. We have asked the Government repeatedly what Europe will do in the event of a crash-out. While we all hope there will be a deal, if not we need to know whether Europe will insist on checks, controls, and border infrastructure from North to South to protect the integrity of the European Single Market. That would be very damaging and must not happen. There will be active resistance to it and it would endanger the peace in this country in a very serious and existential way. Can Mr. Martínez Mongay shine any light on that, given that Britain has, on that point at least, laid out its stall? Can Europe do likewise?

The reports are very interesting and I agree with much of their analysis in terms of the broad brushstrokes that are identified as needing investment, the imbalances, debt situation, housing situation, health overspends and some of the key areas such as decarbonisation and childcare.

However, I find it a little bit rich, to be honest, for Europe to point out the things of which most of us are aware when many of the imbalances and deficits result precisely from demands the Commission put on us in the post-2008 period during the troika programme. Has Mr. Martínez Mongay any comment on that? If one takes the deficit in public housing, to which he rightly alludes, while the crisis in public housing pre-dated 2008, the actions of the troika, which included the Commission, directly impacted on it. Our public housing programme came to a complete standstill for effectively a decade because of demands the troika put on us. Even now, in relation to our capacity to catch up in that area or in the areas of childcare or decarbonisation, the €5 billion or so that we are paying out in debt repayments on a grossly inflated debt because of the Commission's rules, seriously hampers our ability to address those capital infrastructure deficits. What does the witness have to say on that? Particularly in light of Brexit, does he not think that Ireland deserves a bit of a debt interest holiday on some of that excessive debt in order that we would actually have the funds to deal with some of these very significant deficits?

The country report referred to skills shortages, bottlenecks and possible overheating relating to that. Has Mr. Martínez Mongay any comment on wages and precarity? He mentioned childcare, and I agree with him-----

Chairman: You are over time, Deputy.

Deputy Richard Boyd Barrett: -----but has he anything to say about wages and precarity? The big obstacles to people returning to work include low levels of pay, lack of job security and so on. They hamper people making the decision to go back into the workplace, which we clearly need in a whole number of sectors Mr. Martínez Mongay has rightly identified.

Mr. Carlos Martínez Mongay: I thank the Deputy. On Brexit, I could go to the long list of measures and decisions the Commission has taken but they are public. We can provide them to the Deputy. In terms of the framework of the preparedness, the Commission has identified a number of sectors and issues, including air transport, electricity and financial markets, in which contingency plans should be implemented. The Commission has distributed a series of documents at the sectoral and country levels to raise awareness among Governments but also the private sector in order to prepare for this possibility. I saw the statement from the Minister the day before yesterday precisely enumerating the number of preparedness measures the Irish Government is taking. It is clear that the private sector must also get ready for this possibility.

I would not try to discuss now the kind of measures that could be taken within the treaties while preserving the essence of the treaties and doing what the treaties allow us to do even, as mentioned by the Minister for Finance, Deputy Donohoe, in respect of state aid. In particular, the agrifood sector was mentioned but I do not believe this is the moment to determine or explain what measures could be taken. Let us see exactly what is going on, the magnitude of the shock and then decide the kind of measures are needed, within the treaties because the treaties also envisage derogations while preserving the principles of the treaties and, in particular, the functioning of the Single Market. It is possible to do many things within this framework.

Few institutions are more aware of the importance of the Irish Border. Since the beginning, the chief negotiator has established as a priority the need to prevent a hard border in Ireland. That is the reason we have the backstop as one of the principles, together with the guarantees of preserving the rights of the citizens. The Commission will do as much as it can do. In terms of the governments of the other member states, there would be collective action but I am sure the Commission will do and is doing all it can to avoid a hard border.

It is difficult for me to agree with the Deputy that the current situation in Ireland is due to the demands of the troika during the time of the programme. I will give my reasons for saying that. First, the housing bubble burst, the housing market collapsed, the construction sector collapsed and access to markets in Ireland was cut. As the Deputy said, the troika then came lending money to Ireland, incidentally at interest rates that were not particularly high. As I said, it would be premature to say what the member states would be ready to do in the future in terms of the situation of Brexit. I do not believe that the current situation of Ireland, which is not very bad - that is clearly spelled out in the report - is because of the requirements of the troika. The requirements of the troika have nothing to do with the undersupply of childcare or other issues which simply reflect choices to be made within the budget and which must be made in every country when preparing the budget.

Concerning the skills shortages, what we are saying, and I tried to explain this in my introduction, is that we see those in a number of sectors and in particular sectors that require higher skill levels. In addition, we have said there are labour shortages in sectors such as construction, which also require certain skills. At the same time, we see that wages are increasing and therefore, we conclude on the basis of our calculations, which are made within the framework of the commonly agreed methodology - the same methodology that applies to every member state - that Ireland is in the positive phase of the cycle. At the same time, the report acknowledged something the Deputy mentioned. What we observe is that on one hand, the participation of certain groups of the population is low and we therefore should eliminate the barriers while on the other, the report refers to the fact that the number of people in Ireland who are working part-time on an involuntary basis is also high, which would suggest that perhaps there is still some labour underutilisation. That is the analysis we make of the cyclical position of the country.

Deputy Lisa Chambers: I thank the Commission team for being here to take questions from us. My first question is on the attempts to reform EU tax policy and the suggestion that we would move towards a qualified voting majority in respect of EU tax policy. Can Mr. Martínez Mongay outline to the committee the justification for that? How does he reconcile that proposal with the subsidiarity rule?

Mr. Carlos Martínez Mongay: First, taxes are collected in order to finance expenditure, including the support of childcare and healthcare. That is the purpose of taxes. It is also to support borrowers in the housing market or to provide social housing. The decision to raise taxes is because we want to finance expenditure but sometimes we see there is a mismatch between the expenditure and the taxes that should be collected to finance it.

Second, we should not forget that all of us in the Single Market have a series of freedoms - the freedom of movement, of people and of goods, services and capital. What the Commission wants to avoid is that we end up in a kind of competition across the member states in order to attract capital one from the other instead of creating the conditions for an efficient allocation of capital within the Single Market. At the same time, the Commission fully respects subsidiarity. The Commission usually does not determine how much tax a member state must collect out of all the possible options, but of course sometimes subsidiarity has to be consistent with the general principle of maintaining the Single Market and preserving the four freedoms.

Deputy Lisa Chambers: With respect, having been a member of the European Union since 1973 and having always protected the Single Market and adhered to the four freedoms and the values inherent in them, this is an area of concern for Ireland. Tax policy is a matter of member state competence. It always has been. There have been suggestions here, perhaps due to the paranoia of dealing with Brexit, that in return for the solidarity offered in the Brexit process

pressure will come upon Ireland to be more flexible in reforming EU tax policy. I certainly hope this is not the case.

Mr. Carlos Martínez Mongay: This is the first time I have heard something like that.

Deputy Lisa Chambers: It has been reported in the papers right across the European Union, so it has been discussed.

Chairman: That is unnecessary leakage.

Deputy Lisa Chambers: With respect, I understand that the Chair is chairing the meeting but it is my question. It is more of a statement. This is part of the conversation happening in this member state. We must learn lessons from Brexit. We should not take the sentiment among citizens of member states, or how they view the European Union, its reach and the changes it proposes, for granted. While we might rubbish those suggestions, this is a concern, whether reasonable or not. We should never disregard those concerns because they can take root and cause problems further down the line. We have learned a very important lesson from the Brexit process here in Ireland: not to disregard the concerns of citizens. It is something to bear in mind as we move forward and discuss those issues as a Union and as a community. This is an area of particular concern for Ireland and would be quite contentious if it was to progress in the manner that some member states would like it to. I would like to put that on the record.

I know Mr. Martínez Mongay has been asked this question by other members of the committee. We have been pressing our own Government to answer questions about the discussion happening at Commission level about the financial aid that would be available to Ireland in the event of a no-deal hard Brexit. I share Deputy Boyd Barrett's surprise that the report on Ireland is based on the continuation of the *status quo*. We are in the Brexit bubble and it is part of our daily discussions, and the hope of maintaining the *status quo* is dwindling. In that context, the report may not stand the test of time. Things could change in the next several weeks. They are changing almost on an hourly basis. We in Ireland will be looking to the European Union and the Commission for support if things go badly. Reports came today of the tariff regime the UK is planning to impose in the event of a no-deal Brexit. If that comes to pass, our agriculture, agri-food and beef sectors will be decimated in a matter of weeks. We are really worried. I would like to ask the Commission what financial aid will be available to us the day after it happens, if it happens.

Chairman: As is tradition in most committees, I wish to take account of the fact that Mr. Martínez Mongay has answered this question before. As such, in answering it I ask him to take account of what he has already said and answer as concisely as possible.

Mr. Carlos Martínez Mongay: I was going to be very concise. With respect to Deputy Chambers' previous remarks, I assure her that I am taking good notes. This is the idea of coming before this committee. I want to hear from Irish representatives. I am only an official, but as an official I will bring their concerns to my political masters.

It is true that we should not forget what is behind Brexit.

Deputy Lisa Chambers: Absolutely.

Mr. Carlos Martínez Mongay: There are many factors behind Brexit. It is not easy to identify a single element, but there are people who felt-----

Deputy Lisa Chambers: Unhappy.

Mr. Carlos Martínez Mongay: More than unhappy, they felt left behind. It was not a question of happiness. It was a more substantive question. What is the best way to help these people? Is it helping companies to pay very few taxes? Alternatively, is it helping people get the skills to transfer from one position in the labour market to another or from one sector to another, or to help their children to get a good education? This is part of the picture we should not forget. The committee will grant me that it would be premature to say what kind of financial support the Commission and the EU will be ready to grant. I have read about all the measures the Irish Government has in mind. They are not quantified in the statement. As such I have referred to the possibility of flexibility within the treaties, but to say anything now would be premature. Things could change in 24 hours.

Deputy Lisa Chambers: Flexibility is great, and we will need flexibility in applying state aid rules within our own country. Separately to that, is it the intention of the Commission to provide some financial assistance, even if Mr. Martínez Mongay cannot quantify it? Is that being discussed?

Mr. Carlos Martínez Mongay: I cannot answer this question, simply because we do not know if it will even be needed.

Deputy Lisa Chambers: That leads me on to my final question. In regard to the multi-annual financial framework, MFF, which is currently being discussed, Ireland is very concerned about the potential for cohesion funding and funding for the Common Agricultural Policy to be reduced. This is even more of a concern in the context of Brexit, because we will need more assistance on those programmes. In discussing the MFF, will the Commission take into consideration the extra demands that Brexit will bring and seek to maintain and sustain funding to those programmes?

Mr. Carlos Martínez Mongay: In the MFF discussions we will be discussing the key indicators we have to use to distribute the funds. This is not just a discussion for the Commission, but also the member states. This is being discussed in the EU Council. The Commission does not represent a single member state. The Commission makes a proposal and this proposal is discussed with the member states around a table similar to this one.

Deputy Lisa Chambers: On a point of clarification, what is the status of those discussions?

Mr. Carlos Martínez Mongay: We do not have the figures yet.

Deputy Lisa Chambers: I thank Mr. Martínez Mongay.

Chairman: Deputy Boyd Barrett hung on to ask a supplementary question, so I will allow him back in.

Deputy Richard Boyd Barrett: I have one very specific question. The housing crisis is the most acute domestic crisis we face at the moment. I cannot emphasise enough how bad it is for a huge number of people, whether they are on housing lists or are working and cannot afford market prices or market rents. Along with public housing, one of the big issues for us is affordable housing. What freedom and latitude do we have to develop an affordable-purchase scheme where prices will be below market prices? I ask because fiscal treaty rules say one cannot distort the market. However, we must distort the market if we are going to deliver affordable housing because the market is dysfunctional and the average Dublin house price is

€450,000, which is completely unaffordable for normal working families. Unless we can sell State-provided affordable houses for approximately €200,000, we cannot deliver affordable housing. Is there a problem from the perspective of the Commission and European rules with us providing below-cost, below-market affordable housing?

Mr. Carlos Martínez Mongay: The Commission has nothing to do with regulating social housing except with respect to competition rules. Competition rules and, in particular, state aid rules do not apply to money going from a government to consumers and households. It applies to money going from a government to companies. In principle, I do not see why the Commission would raise a problem if someone in Ireland decided to subsidise part of a house price as long as the subsidy went to the household, not a company. Another matter is how one finances the cost of this. That is a choice that is made within the budget. For example, within the budget, one may decide to prioritise investment in highways, social housing and childcare. This is a decision that is in the Government's hands, not of the Commission.

Chairman: Before we conclude, I want to touch on an issue myself. In fact, Deputy Lisa Chambers alluded to it in her contribution. It is the question of taxation and subsidiarity in respect of Mr. Martínez Mongay's comments. I am a very strong pro-European and a strong believer in the EU. I appreciate that Mr. Martínez Mongay's job as an official is to convey views from member states back to the political side of it. The support Ireland has received in relation to Brexit is magnificent. However, it is a two-way street. It is not support of the EU for Ireland's position. Rather, it is Ireland as an equal member of the European Union having a position which benefits all member states. There is no expectation of any *quid pro quo*. We must be genuinely careful about the fact that stories are always out there about why things are being done. My firm belief is that the negotiations on the European side went well and a good withdrawal deal, which has now unfortunately been rejected by the British Parliament, was arrived at because it was in the interests of all member states to arrive at that common position.

Having put that marker down, I have to say that the way the Commission thinks about taxation is a real problem. We are not a federal state. We are a collection of states which work together. It is a long-standing principle of that arrangement that subsidiarity, in particular in the tax area, is crucial. I will point out where my thinking on this comes from. I appreciate Mr. Martínez Mongay speaking repeatedly in his contribution about a race to the bottom by inducements or whatever. There is also a feeling among smaller member states that there is a power grab by the top. As such, the economic policies that are most beneficial for the larger member states are being progressed by the Commission because there is a benefit in the ability to reduce subsidiarity. The point I make to Mr. Martínez Mongay ties in particularly with where we are going with the future direction of Europe. It is that type of thinking that turns the European citizenry off. It is the type of feeling that there is a centralisation whereby one or two larger member states make pronouncements of their view and that is then quickly mirrored in what the Commission states as its view. I am thinking of one or two particular leaders of large European countries who have quite a bit of difficulty running their own states. Every time they encounter those difficulties, they seem to think it is appropriate to pronounce on how they would like to run the Continent of Europe, as if they were presidents of that. When one then hears that mirrored by the Commission, however, it is an example of the type of thing the Commission should be guarding against, in particular in the area of taxation.

It is a sovereign right of a member state to control taxation. All we are looking for as a country when we talk about this is the respecting of that right. That is why I was very glad to see the digital tax go the way of the dodo the other day. It was a lesson in what happens when

there is an attempt to bully smaller member states with certain proposals. I will let Mr. Martínez Mongay come back on that.

Mr. Carlos Martínez Mongay: I take good note of the Chairman's concerns. It is difficult to discuss perceptions. I know that small member states sometimes have the perception that the Commission only looks at large member states whereas I can tell the Chairman that at the same time, a number of big member states complain about the Commission looking I do not know where. We do not look at the small member states or the big member states. I do not know where we look. The Commission looks at what the Commission has to look at, namely the treaties. Its role is to guarantee that the treaties are implemented. In this regard, one need only look at the discussion and debate on industrial policy where the Commission is considered to be against the interests of certain European champions. The Commission is precisely trying not to get out from the treaties. It is trying to apply the treaties which, at the end of the day, are what member states have signed. This is what they signed, not the Commission.

We are aware that the European Union is not a federal state. However, we are also aware that the taxation of companies is becoming a capital issue. This is related to a number of changes that are taking place at a global level in technology. The idea behind the digital tax is that certain companies are clearly escaping the obligation to contribute to the common good while at the same time using the common good. This is important to keep in mind. We are not a federal state but we were not a federal state when we decided to harmonise VAT either. However, the member states decided at a given moment that there was a need to harmonise indirect tax in order to underpin the functioning of the Single Market. When we see the mobility of certain tax bases and the fact that certain companies are able to shift the tax base from one country to another, a certain degree of harmonisation is needed. These companies are using the Single Market, which is a high-level rental market, to make profits to which they do not contribute. Taking into account all the social needs in our countries, it was worth considering the possibility of harmonising certain tax bases and certain taxes. It is true that the ECOFIN rejected the proposal, but at the same time we have a very good technical document, which has been acknowledged by everybody as being technically good, to allow the member states who want to implement it to do so. As I said, however, the needs are there and we need to finance those needs to avoid inequality going out of control and so on. I have to accept the ECOFIN result the other day but at the same time we need to consider all these issues collectively because these companies which do not have a flag are using certain tax circumscriptions to avoid paying taxes and contributing to the common good.

Chairman: Thank you. We could discuss this for a very long time.

Mr. Carlos Martínez Mongay: I know.

Chairman: We could have an entire session on it alone but I am conscious of time. I acknowledge the time the Director General has given to our committee today to answer all the questions. I thank his colleagues also for coming in to us. This almost annual engagement with our committee is always incredibly welcome. It is very informative for us as a committee. I hope the witnesses got a lot out of it as well in terms of hearing our members' views.

As there is no further business the meeting is adjourned.

The joint committee adjourned at 3.55 p.m. until 2 p.m. on Wednesday, 27 March 2018.