Update on the ETUC positions on the completion of EMU considering the most recent Commission proposals

Adopted at the Executive Committee of 18 – 19 December 2018

Introduction

Following the Five Presidents' report released in June 2015, laying down the way for "Completing Europe's Economic and Monetary Union", the White paper on the "Future of Europe" of March 2017, the "Reflection paper on the deepening of the Economic and Monetary Union" published in May 2017, and the package on the deepening of Europe's Economic and Monetary Union issued in December 2017, The European Commission released two Regulations on the establishment of a European Investment stabilisation Function, and on the establishment of a Reform Support Programme. Furthermore, with the ambition to make digital companies enter the realm of the European Union standards, the Commission published a Council Directive laying down rules relating to the corporate taxation of a significant digital presence.

The ETUC made several suggestions and assessments on EMU reforms in the "ETUC Position Paper: A European Treasury for Public Investment" adopted at the ETUC Executive Committee on 15-16 March 2017, in the "Reflection paper on the Deepening of the Economic and Monetary Union – ETUC assessment (ETUC position)" adopted at the ETUC Executive Committee on 13-14 June 2017 and in the "Assessment of the EMU package (ETUC position)" adopted at the ETUC Executive Committee on 13-14 December 2017.

I. On the Proposal for a Regulation on the establishment of a European Investment Stabilisation Function

The European economy, contrary to the recent European Commission statement, is not yet out of the crisis. Although private investment has recovered its pre-crisis level as share of GDP, total investment is still below its pre-crisis level. Indeed, public investment is now stabilising at a very low level after a continuous decrease since 2008. This translates to a lower number of hours worked both in the European Union and the euro area compared to 2008 levels.

The ETUC, in March 2017, suggested the implementation of a Treasury at the European level to finance public investment. Other proposals have been raised, notably by the International Monetary Fund[1] and the Organisation for Economic Co-operation and Development[2].

They all share the view that the completion of the European Economic and Monetary Union requires the implementation of a fiscal capacity as a mean to ensure stable and sustainable economic development to prevent liquidity or solvency crises.

The ETUC considers as positive the European institutions' recent efforts to stimulate growth and employment in Europe, especially through the launch of the Investment Plan for Europe (Juncker plan). However, the total amount loaned for investment has barely reached 5% of total investment in the European Union since the beginning of the programme.

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[1] N. Arnold, B. Barkbu, E. Ture, H. Wang & J. Yao (2018), "A Central Fiscal Stabilization Capacity for the Euro Area", IMF Staff Discussion Note, SDN/18/03.

[2] J. Stráský & G. Claveres (2018), "Stabilisation policies to strengthen Euro area resilience", OECD Economics Department Working Papers, No. 1492, OECD Publishing, Paris

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According to the European Investment Bank (EIB), EU investment in infrastructure is 20% below its pre-crisis level and 34% of the municipalities are reporting infrastructure investment levels below their needs.
EU infrastructure investment should be no less than 335 billion euros per year, according to the EIB[3]. The "ETUC plan for investment, sustainable growth and quality jobs" remains valid as an investment rise of 2% of the European GDP per year would amount to about 300 billion euros annually.

The ETUC thinks that a Treasury[4] could be the right tool for future institutional and economic improvement while fixing some economic governance issues and boosting public investment, in line with the United Nations Sustainable Developments Goals.

The proposal made by the European Commission is more modest. The mechanism at stake will not enable Member States to access European funding for public investment purposes on a permanent basis but only in the event of large asymmetric shocks. The new European Investment Stabilisation Function will provide back-to-back loans guaranteed by the EU budget of up to EUR 30 billion, coupled with a grant-like component to cover the full costs of the interest. However, although accessing the scheme only in crisis time, an additional feature compared to the ETUC proposal appears: a grant-like-component to cover interest expenses. Moreover, as stated in the proposal for a Regulation, “in the future”, the European Stability Mechanism (ESM) or its legal successor in the form of a European Monetary Fund could take up a role in support of macro-economic stabilisation”. Further debates and discussions could be launched on employment issues, such as the possibility to implement an unemployment re-insurance scheme at the European level.

According to the proposal, Member States could access funding for public investment during large asymmetric shocks. The stabilisation function is designed for euro area Member States and should be open to non-euro Member States which have entered the exchange rate mechanism II. However, it will be limited by strict eligibility criteria based on compliance with decisions and recommendations under the fiscal and macro-economic surveillance framework[5]. Activation, which should be considered as automatic, will be based on a double employment trigger.

The loans which the Commission could grant under this proposed instrument to Member States are a function of a fixed ceiling of EUR 30 billion. Such loans constitute contingent liabilities for the EU budget in case a Member State defaults on a loan repayment granted under the scheme. The interest rate subsidy would be financed by a Stabilisation Support Fund endowed with annual national contributions based on the share of each euro area Member State's national central bank in the monetary income of the Eurosystem. The same benchmark would be used for non-euro area Member States participating in the exchange rate mechanism (ERM II).

The ETUC, while noticing the curative approach for the implementation of a fiscal capacity and the limited amount at disposal for stabilising public investment levels in Member States in time of asymmetric shocks, sees in the Stabilisation Investment Function and the Stabilisation Support Fund, as the skeleton of a more decisive policy instrument for enabling the European Union to develop on a sustainable basis. The ETUC considers this as a modest but positive step towards closer euro area integration. However, the ETUC is concerned that the ex-ante conditionalities as well as the administrative constraints could prevent access to the scheme of some Member States in trouble.

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[3] *EIB, From recovery to sustainable growth, Investment report 2017/2018.*

[4] *ETUC Position Paper: A European Treasury for Public Investment, adopted at the ETUC Executive Committee on 15-16 March 2017.*

[5] *Taking into account the European Commission communication on “Making the best use of the flexibility within the existing rule of the Stability and Growth Pact”, January 2015.*

The last Council and Euro Summit conclusions regrettably do not mention an agreement on this specific tool. However, it refers however to the need for "a budgetary instrument for convergence and competitiveness for the euro area, and ERM II Member States on a voluntary basis" which would be part of an EU budget. The European Investment Stabilisation Function should be a component of it.

II. On the Proposal for a Regulation on the establishment of the Reform Support Programme

The Reform Support Programme builds on the legacy of the Structural Reform Support Programme. However, the Structural Reform Support Programme was limited to the technical assistance to Member States for implementing structural reforms. Its budget was EUR 142,8 million.

The new instrument gives Member States a financial incentive to implement the structural reforms recommended by the Commission in the context of the European Semester, despite the fact that trade unions' involvement in debating structural reforms is still lacking in some Member States and implies a lack of ownership. Participation in the program is voluntary with no co-financing required from the Member States. The Member States themselves can request funding from the reform implementation instrument and then agree a reform roadmap expected within maximum three years with the Commission. The progress on reform timetables will then be reported in the National Reform Programs, which are part of the European Semester. The Commission will assess whether the reform has been satisfactorily implemented. If the assessment is positive, the Commission will make the payment.

The Reform Support Programme will be granted EUR 25 billion. EUR 22 billion will be devoted to the Reform Delivery Tool to provide financial support for key reforms identified in the context of the European Semester. EUR 0,84 billion will be devoted to the Technical Support Instrument to help Member States design and implement reforms and to improve their administrative capacity and EUR 2,16 billion will be devoted to a Convergence Facility that will provide dedicated financial and technical support to Member States that have made demonstrable steps towards joining the euro.

The ETUC, while supporting technical support for policy implementation and the proposal for a Convergence Facility to support non-euro Member States to join the euro, disagrees with the approach. A conditional approach is already present within the European Semester as "A failure to implement the recommendations might result in further procedural steps under the relevant EU law and ultimately in sanctions under the SGP and the MIP. These sanctions might include fines and/or suspension of up to five European Funds, namely the European Regional Development Fund (ERDF), the European Social Fund (ESF), the Cohesion Fund (CF), the European Agricultural Fund for Rural Development (EAFRD) and the European Maritime & Fisheries Fund (EMFF)[6]." In addition, the Fiscal Compact envisages the possibility of the Court of Justice of the European Union intervening in the event of non-compliance with binding judgments and the possibility of fines.

The ETUC therefore thinks that enough conditionalities are present to make Member States implement structural reforms and respect fiscal rules within the European Economic Governance framework. Therefore, it rejects the first pillar of the reform support programme, i.e. the reform delivery tool. The ETUC fears that this new policy instrument is a revival of the "pact for competitiveness" that trade unions vigorously fought in the past.
Additionally, nowhere are the expected structural reforms promoted are clearly defined.

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[6] *See "The legal nature of Country Specific Recommendations", European Parliament, June 2017.*

Finally, the technocratic procedures foreseen highlight the lack of political accountability (the European Commission solely deciding which structural reforms will financially be promoted and whether they have been successfully implemented) and this is not democratically satisfactory. The ETUC would favour financial support disbursements based on economic and social developments and upward convergence needs.

III. Council Directive laying down rules relating to the corporate taxation of a significant digital presence

The ETUC took positions on the expected Common Consolidated Corporate Tax Base and public Country-by Country Reports[7] for large multinational companies to curb tax avoidance. It also supports the implementation of a minimum corporate tax rate in the European Union of 25%.

On 15 March 2018, Members of the European Parliament voted overwhelmingly in favour of two reports on the Common Corporate Tax Base (CCTB) and the Common Consolidated Corporate Tax Base (CCCTB). On 21 March 2018, the European Commission set out two proposals for taxing digital companies where value is created. The definition of the digital permanent establishment is presented in the proposal for a Council Directive laying down rules relating to the corporate taxation of a significant digital presence. It defines a digital platform deemed to have a taxable digital presence or a virtual permanent establishment in a Member State if it fulfils one of the following criteria: it exceeds a threshold of EUR 7 million in annual revenues in a Member State; it has more than 100,000 users in a Member State in a taxable year or over 3000 business contracts for digital services are created between the company and business users in a taxable year.

Meanwhile, the proposal for a Council Directive on the common system of a digital services tax on revenues resulting from the provision of certain digital services suggests an interim tax on certain revenue from digital activities ensuring that those activities which are currently not effectively taxed would begin to generate immediate revenues for Member States.

The tax will apply to revenues created from activities where users play a major role in value creation such as revenues created from selling online advertising space and/or data generated from user-provided information and/or from digital intermediary activities which allow users to interact with other users and which can facilitate the sale of goods and services between them. Tax revenues would be collected by the Member States where the users are located and will only apply to companies with total annual worldwide revenues of EUR 750 million and EU revenues of EUR 50 million.

Although a digital service tax would address a small part of the problem (very low tax rates and revenue-based tax claims as opposed to general business activities), the ETUC considers that the new definition of a permanent digital presence provides a good basis for discussion on the way to a proper integration of digital companies within the CCCTB system. Opportunities for tax avoidance that result from operating digital business models must be identified and prevented with priority. All kinds of tax avoidance strategies by digital companies must be combatted – not only those that are tackled by the instrument of “digital permanent establishment”. Above all, however, the ETUC demands that the demands and recommendations of the European Parliament following its investigations into money laundering, tax evasion and tax evasion be rigorously and rapidly met. We also insist on the introduction of a true European financial transaction tax, which includes all types of securities and financial derivatives in the tax base.

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[7] *ETUC position on the Common Consolidated Corporate Tax Base (CCCTB), adopted at the Executive Committee Meeting of 14-15 December 2016*

The last Council's conclusions do not mention an agreement on this issue. The new Franco-German proposal would still impose a 3% levy, but not cover data sales and online platforms since it would be focused on advertising revenues. This is a step in the wrong direction compared to the Commission proposal.