EUROPEAN COMMISSION

SECRETARIAT-GENERAL

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Strasbourg, 8 March 2016

TEXTE EN

MINUTES

of the 2158th meeting of the Commission

held in Brussels

(Berlaymont)

on 24 February 2016

(morning)

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Single sitting: Wednesday 24 February 2016 (morning)

The sitting opened at 9.42 with Mr JUNCKER, President, in the chair.

Present:

Mr JUNCKER	President	
Mr TIMMERMANS	First Vice-President	Items 1 to 8 (in part)
Ms GEORGIEVA	Vice-President	
Mr ŠEFČOVIČ	Vice-President	
Mr DOMBROVSKIS	Vice-President	
Mr KATAINEN	Vice-President	
Mr OETTINGER	Member	
Ms MALMSTRÖM	Member	
Mr MIMICA	Member	
Mr ARIAS CAÑETE	Member	
Mr VELLA	Member	
Mr ANDRIUKAITIS	Member	
Mr AVRAMOPOULOS	Member	
Ms THYSSEN	Member	
Mr MOSCOVICI	Member	Items 1 to 8 (in part)
Mr STYLIANIDES	Member	
Mr HOGAN	Member	Items 1 to 7
Lord HILL	Member	
Ms BULC	Member	
Ms BIEŃKOWSKA	Member	
Ms JOUROVÁ	Member	
Mr NAVRACSICS	Member	Items 1 to 7 (in part)
Ms CREȚU	Member	
Ms VESTAGER	Member	
Mr MOEDAS	Member	

<u>Absent</u>:

Ms MOGHERINI	High Representative / Vice-President
Mr ANSIP	Vice-President
Mr HAHN	Member

The following sat in to represent absent Members of the Commission:

Mr MANSERVISI	Chef de cabinet to Ms MOGHERINI	
Ms CHAPUIS	A member of Mr ANSIP's staff	
Mr KARNITSCHNIG	Chef de cabinet to Mr HAHN	Items 1 to 7

The following also sat in:

Mr SELMAYR	Chef de cabinet to the PRESIDENT	
Mr ROMERO REQUENA	Director-General, Legal Service	
Mr PESONEN	Director-General, DG Communication	
Mr SCHINAS	Head of the Spokesperson’s Service and Chief Spokesperson of the Commission	
Ms METTLER	Head of the European Political Strategy Centre	Items 1 to 7
Mr SWIEBODA	European Political Strategy Centre	Items 8 and 9
Ms MARTÍNEZ ALBEROLA	Deputy Chef de cabinet to the PRESIDENT	
Mr THOLONIAT	Adviser in the PRESIDENT’s Office	Items 1 to 7
Mr KASEL	Adviser in the PRESIDENT’s Office	Items 7 (in part) to 9
Mr DELVAUX	Adviser in the PRESIDENT’s Office	Item 9
Mr LAHTI	Chef de cabinet to Mr DOMBROVSKIS	Items 7 and 8
Mr FELKE	Deputy Chef de cabinet to Mr MOSCOVICI	Item 7
Ms SCOPPIO	Adviser in Mr MOSCOVICI's Office	Item 8
Ms HERBOWSKA	Deputy Chef de cabinet to Mr NAVRACSICS	Items 7 (in part) to 9
Mr PAQUET	Deputy Secretary-General	Items 7 and 8
Ms ANDREEVA	Commission Spokesperson’s Service	

Ms BUCHER	DG Economic and Financial Affairs	Item 7
Mr QUEST	Director-General, DG Taxation and Customs Union	Item 8

Secretary: Mr ITALIANER, Secretary-General, assisted by Mr AYET PUIGARNAU, Director in the Secretariat-General.

1. AGENDAS
(OJ(2016) 2158/FINAL; SEC(2016) 103/FINAL)

The Commission took note of that day's agenda and of the tentative agendas for forthcoming meetings.

2. WEEKLY MEETING OF CHEFS DE CABINET
(RCC(2016) 2158)

The Commission considered the Secretary-General's report on the weekly meeting of Chefs de cabinet held on Monday 22 February.

3. APPROVAL OF THE MINUTES AND SPECIAL MINUTES OF THE 2156TH AND 2157TH MEETINGS OF THE COMMISSION (10 AND 17 FEBRUARY)
(PV(2016) 2156 AND /2; PV(2016) 2156, 2ND PART; (PV(2016) 2157 AND /2; PV(2016) 2157, 2ND PART)

The Commission approved the minutes of its 2156th and 2157th meetings.

4. WRITTEN PROCEDURES, EMPOWERMENT AND DELEGATION OF POWERS

4.1. WRITTEN PROCEDURES APPROVED
(SEC(2016) 104 ET SEQ.)

The Commission took note of the Secretariat-General's memoranda recording decisions adopted between 15 and 19 February.

4.2. EMPOWERMENT (SEC(2016) 105 ET SEQ.)

The Commission took note of the Secretariat-General's memoranda recording decisions adopted between 15 and 19 February.

4.3. DELEGATION AND SUBDELEGATION OF POWERS (SEC(2016) 106 ET SEQ.)

The Commission took note of the Secretariat-General's memoranda recording decisions adopted under the delegation and subdelegation procedure between 15 and 19 February, as archived in D*e*cide.

4.4. SENSITIVE WRITTEN PROCEDURES (SEC(2016) 107 AND /2)

The Commission took note of the sensitive written procedures for which the time limit expired between 22 and 26 February and of the finalisation written procedure initiated following the weekly meeting of Chefs de cabinet on 22 February.

5. ADMINISTRATIVE AND BUDGETARY MATTERS (SEC(2016) 108)

ADMINISTRATIVE MATTERS
(PERS(2016) 15)

DG HEALTH AND FOOD SAFETY – APPOINTMENT OF AD14/15 PRINCIPAL ADVISER
(PERS(2015) 48 TO /5)

The Commission had before it applications under Article 29(1)(a)(i) and (iii) and 29(1)(b) of the Staff Regulations for the post of Principal Adviser in DG Health and Food Safety for secondment in the interests of the service to the Consumers, Health, Agriculture and Food Executive Agency (Chafea) under Articles 37(a) and 38 of the Staff Regulations (PERS(2015) 48).

It took note of the opinions of the Consultative Committee on Appointments of 16 September and 8 December 2015 (PERS(2015) 48/2 to /5).

The Commission proceeded to compare the applicants' qualifications for the post. It also considered their ability, efficiency and conduct in the service. On a proposal from Ms GEORGIEVA, in agreement with the PRESIDENT after consulting Mr ANDRIUKAITIS and Mr KATAINEN, it then decided:

– to appoint Ms Véronique WASBAUER as Principal Adviser in DG Health and Food Safety;

– to second her in the interests of the service under Articles 37(a) and 38 of the Staff Regulations to the Consumers, Health, Agriculture and Food Executive Agency (Chafea) where she would take up duties as Director as a member of the temporary staff for a period of four years renewable once.

This decision would take effect on a date to be determined.

6. INTERINSTITUTIONAL RELATIONS (RCC(2016) 23)

The Commission took note of the record of the meeting of the Interinstitutional Relations Group (IRG) held on Friday 19 February (RCC(2016) 23).

It paid particular attention to the following points.

6.1. HORIZONTAL ISSUES

i) Inter-Institutional Working Group on resources of decentralised agencies
(point 1.1 of the IRG record)

The Commission approved the line set out in SPI(2016) 8, /2 and /3.

ii) Commission Work Programme 2016 – Withdrawals of pending proposals – Publication of the list of withdrawals in the *Official Journal of the European Union*
(point 1.2 of the IRG record)

The Commission decided to confirm the withdrawal of 13 of the 20 proposals pending listed in the Annex to its Work Programme for 2016, adopted on 27 October 2015, and to publish the list of the 13 proposals withdrawn in the *Official Journal of the European Union*, following the line set out in SI(2016) 59.

6.2. LEGISLATIVE MATTERS

iii) Trilogue meeting
(point 3.1 of the IRG record)

– Reduction of national emissions of certain atmospheric pollutants and amendment of Directive 2003/35/EC (Directive) – GIRLING report – 2013/0443 (COD)

The Commission took note of the information in SI(2016) 60.

iv) European Parliament dossiers - February I part-session
(point 3.2 of the IRG record)

Ordinary legislative procedure – First reading

– European network of Employment Services, workers' access to mobility services and the further integration of labour markets (Regulation) – BECKER report – 2014/0002 (COD)

The Commission took note of the compromise text in SP(2016) 108, further to note SI(2015) 481, which it had already approved on 2 December 2015.

– Introduction of emergency autonomous trade measures for the Republic of Tunisia (Regulation) – DE SARNEZ report – 2015/0218 (COD)

The Commission approved the line set out in SP(2016) 109.

6.3. RELATIONS WITH THE EUROPEAN COUNCIL AND THE COUNCIL

v) Programming of Council business
(SI(2016) 64)

The Commission took note of the information in SI(2016) 64 on the Council meetings between 25 February and 9 March.

vi) Non-legislative dossiers
(point 4.1 of the IRG record)

– *Ghana country fiche on migration*

– *Côte d'Ivoire country fiche on migration*

– *Nigeria country fiche on migration*

– *Sénégal country fiche on migration*

– *Mali country fiche on migration*

The Commission approved the line set out in SI(2016) 49/2, SI(2016) 50/2, SI(2016) 51/2, SI(2016) 52/2 and SI(2016) 53/2.

– Authorisation for the Commission to open negotiations on behalf of the European Union for the renewal of the Protocol setting out the fishing opportunities and the financial contribution provided for by the Sustainable Fisheries Partnership Agreement between the European Union and the Union of Comoros (recommendation for a Council Decision)

The Commission approved the line set out in SI(2016) 55.

– *International Maritime Organisation (IMO) – Council Shipping Working Party – Joint European Union submissions* (SWD(2016) 11, SWD(2016) 12 and SWD(2016) 29)

The Commission approved the line set out in SI(2016) 61.

vii) Outcome of and follow-up to the European Council meeting (Brussels, 18 and 19 February)
(SI(2016) 63)

The PRESIDENT reported on the European Council meeting held the previous week and the main outcomes. He presented in particular the decision by the Heads of State and Government meeting within the European Council concerning the new arrangement for the United Kingdom in the European Union.

The Commission took note of this information.

6.4. RELATIONS WITH PARLIAMENT

viii) Non-legislative dossier
(point 5.1 of the IRG record)

– European Semester for economic policy coordination – Employment and Social Aspects in the Annual Growth Survey 2016 – RIBEIRO report – 2015/2330 (INI)

The Commission took note of SP(2016) 111 and /2.

– Agreement between the European Union and Philip Morris International in the fight against contraband and counterfeit cigarettes

The Commission took note of document SP(2016) 80/3.

ix) Action taken on non-legislative resolutions adopted by Parliament at its November II part-session
(point 5.6.1 of the IRG record)

The Commission approved documents SP(2016) 105 and /2 on the action taken on the non-legislative resolutions adopted by Parliament at its November II part-session, for transmission to Parliament.

x) Action taken on non-legislative resolutions adopted by Parliament at its December I part-session
(point 5.6.2 of the IRG record)

The Commission approved document SP(2016) 115 on the action taken on the non-legislative resolutions adopted by Parliament at its December I part-session, for transmission to Parliament.

7. POLICY DEBATE ON THE FEBRUARY PACKAGE OF THE 2016 EUROPEAN SEMESTER – ASSESSMENT OF THE PROGRESS MADE ON STRUCTURAL REFORMS, PREVENTION AND CORRECTION OF MACROECONOMIC IMBALANCES, AND RESULTS OF IN-DEPTH REVIEWS UNDER REGULATION (EU) 1176/2011

2016 EUROPEAN SEMESTER – DRAFT COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT, THE COUNCIL, THE EUROPEAN CENTRAL BANK AND THE EUROGROUP – ASSESSMENT OF THE PROGRESS MADE ON STRUCTURAL REFORMS, PREVENTION AND CORRECTION OF MACROECONOMIC IMBALANCES, AND RESULTS OF IN-DEPTH REVIEWS UNDER REGULATION (EU) 1176/2011 (COM(2016) 95 TO /3 DRAFT; SWD(2016) 71; SWD(2016) 72; SWD(2016) 73; SWD(2016) 74; SWD(2016) 75; SWD(2016) 76; SWD(2016) 77; SWD(2016) 78; SWD(2016) 79; SWD(2016) 80; SWD(2016) 81; SWD(2016) 82; SWD(2016) 83; SWD(2016) 84; SWD(2016) 85; SWD(2016) 86; SWD(2016) 87; SWD(2016) 88; SWD(2016) 89; SWD(2016) 90; SWD(2016) 91; SWD(2016) 92; SWD(2016) 93; SWD(2016) 94; SWD(2016) 95; SWD(2016) 96; RCC(2016) 25)

Mr DOMBROVSKIS presented the results of the Commission's work as part of a new cycle of coordination of economic and budgetary policies under the European Semester, assessing the progress made by Members States in implementing their structural reforms and preventing or correcting any macroeconomic imbalances. He warmly thanked the departments that had contributed to this substantial work and welcomed the depth and relevance of the analyses contained in the documents presented that day – the country reports and the accompanying draft policy communication.

He explained that the draft communication summarised the conclusions of the country reports in which the Commission provided a full assessment of each Member State's economic and social situation and the challenges it faced. He stated that, in this process, the Commission made use of the full range of expertise at its disposal and relied on the permanent dialogue it had established with the Member States. He also highlighted that the country reports, which were on a par with those of the International Monetary Fund (IMF) and the Organisation for Economic Co-operation and Development (OECD), served as a basis for the conclusions drawn up in the context of the macroeconomic imbalance procedure and for the country-specific recommendations which the Commission would send to Member States in May.

Mr DOMBROVSKIS stressed the three main messages revealed by these in-depth reviews. The first was the continued economic recovery in the EU, although there had been an accumulation of risks in recent months and external developments which had begun to weigh on financial markets and confidence indicators, against a background of unemployment that, although falling, was still high in some Member States, particularly for young people and the long-term unemployed. The second message related to Member States' visible but limited efforts to implement the country-specific recommendations over recent years. He noted that, despite many good examples, the reforms required had not all been implemented, particularly in the service sector. Finally, the third message concerned the progress achieved in correcting economic imbalances that made it possible to envisage certain Member States leaving the macroeconomic imbalance procedure (MIP), even though others continued to require specific attention.

For the latter, it was even more urgent and necessary to continue to implement the measures designed to foster recovery and confidence, particularly by stimulating investment and productivity, by making sure that the labour market and social protection system supported the necessary adjustments while guaranteeing social cohesion, and by continuing upward convergence efforts in the key areas of education and skills, business environment, and managing public finances and public administration. He noted that that was the main role of the European Semester, in which the Commission played a very large part.

Concerning the macroeconomic imbalance procedure, Mr DOMBROVSKIS suggested that the Commission simplify the categories, as promised in its October 2015 communication on the completion of economic and monetary union (EMU) by reducing them from six to four.

He briefly presented the results of the in-depth reviews of the 18 Member States and referred to their individual positions with regard to the macroeconomic imbalances. He considered that the resulting package was balanced and he specified that it also took into account the integrated nature of the cycle of economic governance conducted at EU level.

While welcoming the fact that a policy debate had been held that day and the communication would be adopted at a later stage, Mr DOMBROVSKIS nonetheless noted the constraints of the prescribed timetable and what he considered the unduly short interval between the publication of the country reports and the adoption of the specific recommendations. In addition, the timetable of the other EU institutions also had to be taken into consideration, which was why he wanted the communication to be adopted as quickly as possible.

Mr MOSCOVICI noted that, in the country reports, the Commission argued for a doubling of efforts in terms of structural reforms and investment in order to promote growth and employment. On this basis, the Commission and the Member States could engage in constructive dialogue on the necessary reforms, whether with Governments, parliaments or other stakeholders, in order to ensure that the recommendations were relevant, that there was agreement on the analysis underpinning them and that they could ultimately be taken into account in the decision-making process. Consequently, he recommended that these reports be published as soon as possible.

As regards the macroeconomic imbalance procedure, Mr MOSCOVICI underlined the importance of continuing to assert the Commission's political authority in economic surveillance by making the best use of the existing instruments and the amendments made to the application of this procedure.

For the Member States which had taken sufficient action to rectify the economic imbalances identified, the Commission was proposing a lifting of the macroeconomic imbalances procedure (MIP). Many economic and social challenges remained for these Member States, however, and these would be the subject of specific recommendations in May, still within the framework of the European Semester.

For the Member States in which there had been found to be macroeconomic imbalances, and even excessive imbalances, the Commission intended to step up its surveillance to ensure that the most appropriate policy response was adopted. He explained that this surveillance would take the form of enhanced dialogue with the national authorities, together with expert missions and regular monitoring reports which would be discussed with these authorities. He added that the scope, frequency and intensity of the monitoring would be adjusted according to the seriousness and nature of the imbalances found.

Mr MOSCOVICI said that, in both cases - macroeconomic imbalances and excessive macroeconomic imbalances - the national authorities concerned would be expected to take decisive action to tackle the underlying causes of these phenomena identified and prevent the situation from deteriorating further.

Ms THYSSEN recalled that, following the publication of the growth forecasts, the Commission had emphasised the main trends emerging in employment and social policy in its country reports and in its communication. She highlighted the signs of recovery in Europe, especially the fall in unemployment and the rise in employment in most sectors of the economy and age groups within the working-age population. In particular, she pointed out that the youth employment situation had improved, and young people now had better access to education and training. Thanks to these positive developments, the employment rate had returned to its 2008 level and the target of 75% employment in 2020 remained achievable, as long as current trends continued.

She said that the unemployment rate for the Union as a whole was now 9%, the lowest it had been since June 2009. Although youth unemployment was tending to fall more rapidly, at 19.7% it was unfortunately still much too high. However, she emphasised the positive effects of the Youth Guarantee, which was beginning to bear fruit, with a 3% reduction in youth unemployment over the period of a year in the worst affected Member States, namely Italy, Spain and Portugal, although she acknowledged that this was not yet the case in Greece and Croatia.

Ms THYSSEN expressed dismay, however, that 25% of the EU population were still at risk of poverty and social exclusion, a rate which – although falling in some Member States – made it impossible to achieve the targets set for 2020. She explained that these trends were partly the result of reforms in the economic and social field.

Finally, mentioning the areas where progress had been made, she said that almost half a million young people had found work in 2015 and that the Member States had stepped up their reforms to improve the transition from education to employment. She also noted the Member States' support for the Commission initiative on long-term unemployment, which could benefit as many as 10 million unemployed people.

As regards the areas in which further efforts were required, she referred first and foremost to the need to reduce labour market segmentation between workers with a high level of social protection and those who were less well protected. She explained that many Member States still had to modernise and simplify their legislation so that workers could benefit gradually from an appropriate level of protection. Secondly, she stressed the need to encourage job creation by easing the tax burden on labour. She returned to the third point, raised earlier, about the persistence of high levels of poverty, saying that consideration should be given to using social support systems and specific accompanying measures to ensure adequate salary levels. Fourthly and finally, she considered that greater involvement of the social partners in drawing up economic and social policy still needed to be encouraged in many Member States.

Ms THYSSEN concluded her remarks by stating that improvements in the way social indicators were included in the Commission's analysis of the economic and social situation of the individual Member States made a substantial contribution to the general balance and comprehensive nature of the assessments set out in the country reports.

In the course of the discussion that followed, the Commission raised the following key points:

General aspects

– the quality of the Commission's analysis in its communication and the reports; the maturity gained by the European Semester exercise, and the more inclusive way in which it was prepared by the Commission's departments;

– general support for the package; its value in guiding Member States' policies for reforming and modernising their economies; the smooth operation of the European Semester, which encouraged the Member States in their structural reforms, but also the need to continue on this path, as further efforts were called for;

– a welcome for the closer link which had been established between the use of the Structural funds and the country-specific recommendations in the context of the European Semester, on the one hand, but regret that the Member States did not benefit sufficiently because they failed to meet the ex-ante conditionality requirements, on the other;

– a suggestion that still more vigorous action should be taken to promote the integration of services into the internal market;

- approval of the improvements made, particularly to the social dimension of the exercise; satisfaction that, for example, questions such as the pay gap between men and women and the efficiency of the judiciary had been explicitly mentioned in the context of the European Semester, alongside criteria like the quality of health care systems and access to good quality care;

- a call to step up the fight against poverty – both in the Union and across the world – and inequality, which was on the increase, especially in the poorest Member States and in southern Europe;

- appreciation that mention had been made of the economic and social integration of migrants; the need for a discussion on the budgetary cost of welcoming refugees; the importance here of taking into account the net impact, including on consumption, trade, etc.; the case for defining carefully the budgetary margin allowed for financing measures for refugees, in particular to prevent Member States from eating into their official development assistance budgets;

- satisfaction that this European Semester cycle was addressing the obstacles to investment, which the current Commission was also tackling systematically; in this regard, the importance of following an approach that was centred on the internal market; mention of the role that European funds could play in plugging the gaps in investment;

- for some Member States, the change in the parameters for analysis because of the recent downward revision of the OECD's growth forecasts, particularly for the euro area, and the need to place even greater emphasis on competitiveness; questions as to why certain international bodies were advocating an expansive monetary policy;

- the suggestion that the Commission hold a fresh in-depth discussion on the principles of European fiscal surveillance policy;

The macroeconomic imbalances procedure (MIP)

– general approval for the Commission's analysis; support for simplification of the categories of macroeconomic imbalances and the relevant follow-up;

– the suggestion that the country reports should focus more on analysing trends rather than just the results recorded at one particular time, for example in the case of Member States' government debt; this would allow a more dynamic assessment of the situation of the Member States;

– the need for communication measures to concentrate on messages that were simple and easily understood; the suggestion that the Commission's representation offices hold an information campaign for journalists to explain why Member States were placed in a particular category or at a particular stage of the procedure;

– a reminder to observe strict equality of treatment between the Member States;

– the need to find ways of encouraging Member States to do more to correct their macroeconomic imbalances, and to manage the imbalances of the large Member States, which could have an impact across borders.

Responding to the discussion, Mr DOMBROVSKIS admitted that the Commission might have to adapt its economic forecasts following the OECD's analysis that the risks to global economic stability were growing. As regards the OECD's calls for expansionist fiscal policies, he pointed out that this was precisely the direction being taken by the European Central Bank in its monetary policy.

Mr MOSCOVICI drew attention to the growing convergence between the analyses of the OECD and those of the Commission. He pointed out, too, that the Commission did not just take a snapshot of the economic situation of each country, but also took full account of the underlying trends. More generally, he stressed the importance of assessing every Member State's economy in an objective but rigorous fashion.

Ms THYSSEN felt that it might be necessary for the Commission to make more references to the issue of growing inequality in its assessment of the economic situation, so that more attention could be paid to this trend, which had so far proved impossible to reverse.

The PRESIDENT wound up the policy debate by noting that the country reports should be finalised and published no later than Friday 26 February and that the Commission's policy conclusions would be adopted at its meeting on 8 March. He pointed out that the markets would also react to these assessments and therefore asked the Members of the Commission to treat the information in the country reports as strictly confidential until their official publication.

On a proposal from the PRESIDENT, the Commission agreed that the communication on the policy conclusions, currently set out in COM(2016) 95/3 draft, would be adopted at the meeting on 8 March.

It also agreed that the country reports currently set out in Commission staff working documents SWD(2016) 71 to SWD(2016) 96 would be finalised by no later than Friday 26 February, and sent the same day to the European Parliament, the Council, the European Central Bank, the Eurogroup and the Member States concerned.

The Commission took note of the results and conclusions of the policy debate.

8. POLICY DEBATE ON THE ACTION PLAN TOWARDS A SINGLE EU VAT AREA
(SEC(2016) 109; RCC(2016) 22)

At the request of the PRESIDENT, Mr DOMBROVSKIS introduced this policy debate by reiterating that the action plan on VAT currently being drafted followed on from the wide-ranging initiatives the Commission had adopted in 2015 to make business tax arrangements fairer and more efficient.

He went on to explain that VAT was a significant source of revenue for the EU and its Member States, amounting to €976 billion in 2014, or 17.5% of total tax revenue. However, cross-border fraud was responsible for tax losses of €50 billion every year. For this reason, it was urgent, especially at a time of budgetary constraints, to initiate a political discussion on reforming the current VAT regime to resolve this situation. Such a reform would help alleviate the administrative burden on small and medium-sized enterprises (SMEs), particularly digital businesses, while adapting European rules on VAT to technological progress as they related to the free movement of goods and services within the internal market.

He explained that the EU should focus as a priority on modernising the way in which VAT was applied to cross-border products and services. The current system, which was introduced in the 1990s, had originally been designed as a transition to a definitive system based on the principle of taxing goods and services in their country of origin ('principle of taxation at the place of origin'). In the meantime, a transitory system had been set up based on the principle of taxation at the country of destination. In addition, various inconsistencies resulting from the gradual introduction of the regime in force needed to be removed.

Mr MOSCOVICI confirmed that the action plan on VAT was one of the Commission's priorities for 2016. In accordance with its work programme, the action plan would include initiatives on VAT rates, a proposal on VAT for electronic commerce and a communication on the definitive intra-Community VAT regime. He explained that, based on that day's policy debate, the action plan would be presented to the Commission for adoption on 16 March.

He went on to describe in greater detail the various options submitted to the Commission for examination in order to move towards an intra-Community VAT regime that was straightforward, efficient, fraud-proof and fully adapted to the single market. As indicated in the background note to this policy debate, he reminded the Commission Members that they were invited to give their views on two major questions: the first on the most robust and straightforward definitive VAT regime for the single market, and the second on the best way of providing a framework for the extra flexibility in terms of VAT rates from which the Member States would be able to benefit.

Mr MOSCOVICI then presented the options, based on the principle of taxation at destination, that were being put forward to address the first question. The first option would consist of a system taxing cross-border transactions as if they were domestic (option 1), which would have the advantages of simplicity and compliance with the demands of the single market and could be introduced gradually, while allowing an EU VAT Area to be created. He was personally in favour of this solution.

The second option would consist of a reverse charge system (option 2) which, despite a number of clear advantages, would in his view be less efficient. Nonetheless, he noted the desire on the part of some Member States to move towards such a system at EU level and their intention to conduct a pilot test of this on a national basis in the near future. While warning against the significant risk, in his eyes, of the single market being fragmented by this kind of system, he was prepared to support an analysis.

As regards the second question, namely the best way of providing a framework for the extra VAT-rate flexibility for Member States under a system based on the destination principle, he described the two possible approaches, while underlining the overall aim of ensuring that the internal market continued to function efficiently. He referred firstly to the possibility of enlarging and updating more regularly the list of goods and services that qualified for reduced rates (option 1) and, secondly, replacing this list with a set of criteria and principles to regulate VAT levels (option 2). He expressed a personal preference for the latter option, which would give greater freedom to Member States, would be more compliant with the subsidiarity principle and would be better suited to the Commission's aim of ‘better lawmaking’.

Mr DOMBROVSKIS also presented his assessment of the advantages and disadvantages of the various solutions described. Although option 1, consisting of taxation of cross-border transactions, would require a high degree of trust and cooperation among Member States' tax authorities, he remarked that this already applied, to a limited extent, with the one-stop shop established for electronic services. With regard to option 2, consisting of a reverse charge system or taxation at the retail stage, he felt that, although this would indeed help eliminate certain types of VAT fraud, for example ‘carousel’ fraud, it could give rise to other harmful phenomena, such as the creation of black markets.

He referred to the ‘middle way’ consisting of keeping the current system and making some improvements to it to combat fraud, but believed this would most likely be of limited effectiveness. For this reason, like Mr MOSCOVICI, he preferred a system based on taxation of cross-border transactions (option 1).

On the more complex issue of rates, Mr DOMBROVSKIS warned of the possible ‘de-harmonisation’ of VAT rates, which would have a number of negative consequences, such as unfair tax competition between Member States and retail tourism to Member States offering the most favourable rates on a given product. In addition, he felt the greater autonomy as regards reduced rates that the Member States would enjoy if the current list were abandoned could eventually have the unwanted effect of an overall drop in taxation on consumption, just when the Commission was encouraging Member States to shift the tax burden from labour to consumption. He was therefore more in favour of regularly enlarging and updating the list of reduced rates (option 1), a method that would be both more predictable and better able to ensure the necessary coordination within the EU.

In the course of the discussion that followed, the Commission raised the following key points:

- the merits of shaping the political debate on the reform of the intra-Community VAT regime by presenting an action plan in good time; a reminder that VAT was both one of the central pillars of the single market and a significant source of revenue for Member States, while bearing in mind that it accounted for 10-12% of the EU's overall budget resources;

- consequently, the importance of moving towards a modern framework that facilitated intra-Community trade; the possibility of devising a system that was as straightforward as possible and compatible with digital products and services; and the need to carefully weigh the advantages and disadvantages of each of the options presented;

- regarding the choice of definitive VAT regime, the expression of support for option 1, namely the effective taxation of cross-border transactions, deemed to be the most effective way of combating fraud; the need for trust between the Member States' tax authorities if this option was chosen, a difficulty that could be overcome; the further need to ensure that the cooperation framework was as simple as possible for companies carrying out cross-border transactions; the need, above all, to avoid an excessive administrative burden, whereby all companies would be required to register with the tax authorities in each Member State;

- regarding the possibility of a reverse charge system (option 2), a recommendation by some of those present to await the outcome of the pilot tests some Member States wished to conduct to assess its viability at European level, without ruling out any options as yet; a reminder of the discussions that were held on this issue during the January Economic and Financial Affairs Council and of the need for Council unanimity on fiscal policy issues; the concerns nonetheless expressed by others regarding the practical problems that would inevitably be encountered if such a system were to be implemented across

Europe;

- regarding the approach to VAT rates, the need for reform in this area; the importance of treating the Member States equally, whilst ensuring that the system that was introduced did not give rise to unfair competition in the European Union;

- in any event, the importance of (i) keeping the minimum standard rate applicable to all Member States, (ii) ensuring that reduced rates were maintained for goods and services with a social purpose, whilst allowing them to be possibly applied to resource-efficient products and services and to those in the renewable-energy sector, and (iii) confirming the continued application of the zero rate, for Member States already benefiting from it, for certain essential products, such as foodstuffs, water, certain pharmaceutical products and medical equipment;

- in the light of the above, a preference was expressed for the list of goods and services eligible for reduced rates to be extended and reviewed regularly (option 1); others expressed the view that abandoning this list (option 2) would have the benefit of offering Member States greater flexibility, thereby avoiding long and complex negotiations every time the list was updated; whilst others expressed concern that this increased flexibility inside a common system might be difficult to manage, both technically and politically;

- general acknowledgement of the future action plan as a tax-fraud-prevention tool for Member States; the need to ensure that VAT fell within the scope of the Directive on the fight against fraud to the Union's financial interests, which would make it possible to investigate and prosecute cross-border VAT fraud;

- lastly, as regards communication, the complex and sensitive nature of these issues in all Member States; the consequent need to explain the scope of the planned reform very clearly and to highlight specifically the decision to keep the zero rate; the need to emphasise that the main purpose of the Action Plan was to launch a process of political reflection.

Mr MOSCOVICI thanked the members of the Commission for their contributions to the policy debate, noting that these issues would be examined further in the coming weeks. He nevertheless put forward a number of points as an initial response to the opinions expressed during the discussion. Whilst he noted the clear preference for the effective taxation of cross-border transactions (option 1), he did however confirm the need to take due account of the positions expressed by those in favour of a reverse charge system. He stated that he would monitor closely developments in the Council regarding the work on the pilot projects certain Member States wished to conduct to assess the viability of such a system, noting that no options had been ruled out as yet.

As regards the choice of VAT rate, he noted that there was some agreement concerning the criteria to be met, although no clear preference could be observed in terms of the best approach to adopt to achieve this aim. He therefore suggested that certain aspects of the two approaches could be examined again in the coming days and weeks, in particular to identify more specifically the criteria and principles that would apply to reduced rates so as to set out as clearly and simply as possible the greater room for manoeuvre Member States would have if the current list were to be abandoned. He stated that he was aware of the challenges that would have to be overcome at national level if this were to happen, but stressed that the Commission had a responsibility to contribute to the general interest of the Union.

The PRESIDENT confirmed the extreme complexity of any negotiations to change the list of products and services eligible for reduced VAT rates, partly due to the particularly sensitive nature of certain products depending on the Member State, and partly due to the need for Council unanimity on fiscal policy issues. He did however refer to the specific case of electronic books, expressing his view that their status should be clarified for the purposes of possibly applying a reduced VAT rate.

He thanked Mr DOMBROVSKIS and Mr MOSCOVICI for their presentations and explanations provided during the meeting and noted that the College would be kept informed of developments over the coming weeks.

The Commission took note of the results and conclusions of the policy debate and of the background note SEC(2016) 109.

9. OTHER BUSINESS

LATEST DEVELOPMENTS CONCERNING THE EU-CANADA COMPREHENSIVE ECONOMIC AND TRADE AGREEMENT (CETA)

Ms MALMSTRÖM reported on the possibility of making an announcement in the coming days concerning the successful completion of talks on the Comprehensive Economic and Trade Agreement (CETA) between the European Union and Canada, for which negotiations had been long and difficult. She explained that the completion of the legal assessment of the draft agreement was a major step towards its ratification. She noted that this was extremely good news for the Union, as the CETA would create opportunities for the Union and would also include all of the key aspects of its new approach to investment protection. She provided a brief overview of these aspects, noting how they differed from the current system, particularly in terms of Investor-State Dispute Settlement (ISDS). She welcomed the Canadian Government’s openness in that regard, which had made progress possible.

She added that this positive development would help boost the Union’s efforts to rally support for its approach from its global trading partners. She noted that the progress made in the negotiations with Canada proved that the Union was not alone in its desire to reform the ISDS and sent a clear signal to all countries wanting to negotiate a trade agreement with the EU that the EU was determined to defend its fairer, more transparent and more independent approach to investment protection and dispute settlement, as it had done with Vietnam.

Ms MALMSTRÖM ended her presentation by describing the next steps in the inter-institutional process between then and the adoption of the agreement by the EU and expressed her hope that the Comprehensive Economic and Trade Agreement could be signed by both parties at the EU-Canada Summit in October 2016.

The Commission took note of this information.

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The Commission's other discussions on certain agenda items are recorded in the special minutes.

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The meeting closed at 12.37.