

Achievements in the areas of taxation and customs

2004-2009

INTRODUCTION

At the start of its 5 year mandate, the Commission defined its strategic objectives to be the promotion of prosperity, solidarity, freedom and security, and a stronger Europe in the world.

As a tool to implement these strategic objectives, the Commission proposed a new start for the Lisbon strategy, with concrete actions aimed at making Europe a more attractive place to invest and work, to promote knowledge and innovation, and to shape policies that allow European businesses to create more and better jobs.

Taxation and customs policies have played a significant role in the attainment of these objectives. They have contributed to raising the efficiency of our economies and the competitiveness of our companies. They also have the potential to support other Community policy areas by, for example, encouraging a more efficient use of natural resources, boosting trade and supporting knowledge and innovation.

The following is an outline of the way in which I have oriented taxation and customs policies to serve the broad goals which the Commission has pursued since 2004, illustrated by extracts from speeches I have delivered on this wide range of issues.

I. CONTRIBUTION OF TAXATION AND CUSTOMS TO THE IMPLEMENTATION OF THE LISBON STRATEGY GOALS.

1.1. Removing tax and customs obstacles for operators in the Internal Market

Removing tax obstacles and simplifying customs procedures, thus reducing administrative burdens, are efficient ways to help operators in the internal market. Many initiatives have been adopted in the area of direct (individual and corporate) taxation, indirect taxation (VAT and excise duties) and in the field of customs. However, although I tried to **reduce the cost to business of paying taxes**, the question of **how much tax they should pay** is left entirely to Member States to decide. (see Annex 1)

1.2. Direct (individual and corporate) tax area

In the direct (individual and corporate) tax area, I have developed a twin-track strategy for removing tax obstacles in the internal market.

In the short term, I have proposed **targeted measures**. These include both tax policy co-ordination initiatives and specific improvements to existing directives like the parent subsidiary directive, determining rules on dividend taxation. Tax policy **co-ordination actions** address tax obstacles in the internal market in specific areas. National **exit taxation** rules have been amongst those targeted in order to avoid double taxation when individuals or companies move their business assets to another Member State, tax treatment of **losses** incurred in other Member States, and **anti-abuse measures** in the area of direct taxation in order to strike a proper balance between the public interest of combating abuse and the need to avoid disproportionate restrictions on cross-border activity within the EU.

Proper co-ordination and co-operation between Member States can enable them to attain more effectively their tax policy goals and protect their tax bases whilst ensuring the elimination of discrimination and double taxation or double non-taxation.

In 2007 the ECOFIN Council adopted conclusions supporting the Commission's approach and endorsing the principle of coordination. In 2008, the ECOFIN Council adopted a resolution on exit taxation to avoid double taxation when individuals or businesses transfer their business assets from one Member State to another.

Removing tax obstacles and reducing administrative burden for associated companies' intra-group cross border activities has also been a priority. When associated companies trade across borders, it is not always easy for them or for the tax administrations to determine the correct price to be applied for intra-group supplies of goods and services. Differences between Member States' **transfer**

pricing rules may impact on the proper functioning of the internal market and lead to additional administrative burdens on taxpayers. Taxpayers may even be taxed twice on the same income.

The **Joint Transfer Pricing Forum** (consisting of business and administration representatives) has, with the support of my services, made considerable progress in improving and approximating transfer pricing rules. As a result, I made proposals for three soft law instruments which have been adopted by the Council: a code of conduct to facilitate the elimination of double taxation, which has been revised in 2009 after three years of operation, a code of conduct to standardise documentation that multinationals provide to tax authorities on their cross-border intra-group transactions and guidelines to facilitate advance pricing agreements.

In the long-term, I consider that a comprehensive solution should be sought whereby most of the tax obstacles faced by EU firms when operating in the internal market could be eliminated through the adoption by Member States of a common set of rules for the calculation of their tax bases whilst retaining freedom to set their own tax rates. I have therefore set in train the preparatory work for such a project.

If companies could apply such a common EU-wide set of rules for company tax purposes, they would not encounter many of the tax obstacles that they currently face when they do business in more than one Member State in the EU. They would have lower compliance costs and less administrative burdens.

1.3. Value Added Tax (VAT)

With regard to VAT, although there are harmonised rules at EU level designed to facilitate activities in the internal market, companies and individuals doing business in several Member States still face more significant administrative burdens than those operating in a single Member State. My objective has therefore been to reduce the administrative burden on traders operating cross-border and thus contribute to the Commission's objective of reducing by 2012 the administrative burden on trade by 25%. To this end I took the following initiatives:

- In 2005 I presented a proposal on the place of supply of services which supplemented two earlier proposals from 2003 and 2004 designed to introduce major simplifications for businesses. This so-called "VAT package" was adopted by the Council in 2008. As a result, simplified rules entered into force on 1 January 2010 for **the refund of VAT** to taxable persons not established in the territory of the country but established in another Member State and for the rules governing the **cross border supplies of services between businesses (B2B)**. In addition, by 2015, a **one-stop-shop scheme** will be implemented for cross-border supplies to final consumers (B2C) in the e-commerce, telecommunication and broadcasting sectors. Companies will be able to submit their VAT returns electronically to the tax authorities of the Member State where they are established and the information will be transmitted automatically to the Member States of consumption (where the tax will be due). This system, which avoids the necessity to

register and submit separate returns to the tax authorities in different Member States, represents a fundamental facilitation for EU business. Moreover, once in operation it can potentially be expanded to cover other cross border activities.

- In 2007, I made a proposal to modernise and simplify the **VAT rules for supplies of financial and insurance services**. The existing VAT legislation in this field (which was introduced in 1977) is badly in need of updating. The definitions of VAT exempt financial and insurance services are outdated and both the industry and Member States face difficulties in interpretation which increasingly need referral to the European Court of Justice. In addition, the proposal will allow these institutions to manage the costs of non deductible VAT by allowing them to opt for taxation and by clarifying and extending the tax exemption for cost sharing arrangements in cross border situations. This will provide the necessary legal and budgetary security for Member States and ensure a level playing field for financial and insurance services in the Internal Market as far as VAT treatment is concerned.

- In 2009, the Commission adopted my proposal to change the VAT Directive in respect to the **invoicing rules**. The aim is to increase the use of electronic invoicing, reduce burdens on business, support small and medium sized enterprises (SMEs) and help Member States to tackle fraud. The proposal simplifies, modernises and harmonises the VAT invoicing rules. In particular, it eliminates the current barriers to e-invoicing in the VAT Directive by treating paper and electronic invoices equally, allows for the electronic storage of invoices and introduces a harmonised storage period. If all businesses move to an e-invoicing system, the expected savings should add up to 18 billion euros per year across the EU.

- In 2009, I set out, in a Commission Communication, a clear position on VAT grouping schemes with a view to ensure a coherent application of the VAT grouping option across the EU. The objective is to allow to consider taxable persons who, while legally independent, are closely bound to one another by financial, economic and organisational links as one single taxable person. This would be a major simplification for taxpayers.

1.4. Infringement procedures

Because of the need to obtain unanimous agreement in the Council for tax legislation the process of adopting proposals in the tax area is understandably slow. As a result the importance of *infringement procedures* and judgments of the Court of Justice of the European Communities further to requests for preliminary rulings as a means of eliminating tax-related restrictions in the Internal Market has increased significantly during the period 2004-2010.

Infringement procedures also represent an invaluable instrument to profit from the European citizens' input. They are the first ones to assess Member states' application of EC law and, by means of complaints, they can help the Commission to perform its role as guardian of the Treaty.

Thanks to the activity of my services in monitoring national tax legislations and in responding to complaints, the role of the Commission as guardian of the Treaty has

resulted in many obstacles to the Internal Market being dismantled, in particular in the areas of dividend taxation, pension taxation and car taxation.

1.5. Modernising our Customs environment

Customs today are facing a dual challenge: the need to facilitate trade while protecting the Community, its citizens and companies from the risks inherent in international trade. Forty years after its creation, it was time to modernise the European Customs Union and make it better equipped to face the new challenges posed by economic globalisation.

Under my mandate, the Commission launched a major reform of the EU customs environment, with a view to making customs work better, faster and cheaper. The European Parliament and Council adopted in 2008 the Commission's proposal for a Modernised Customs Code, and endorsed the e-Customs Decision. This package simplifies customs legislation, streamlines customs processes and procedures, and will create a paperless environment for customs and trade from 2010. It is a model of better regulation in the EU.

Thanks to the introduction of pan-European customs systems, all customs transactions in Europe will be accessible to any customs administration in the EU. Coupled with EU-wide electronic risk analysis, public authorities will be better equipped to combat fraud and all sorts of trafficking. Companies will also work better thanks to simpler legislation which will facilitate compliance, in particular for small and medium-size enterprises. Moreover the work of companies and public authorities will be faster and cheaper, because electronic customs declaration will become the rule.

In addition, the reform of EU Customs has paved the way for the subsequent introduction of a Single Window concept which will allow traders to submit once only and to a single point all the data necessary for registering a commercial transaction (customs, agricultural and sanitary measures, commercial restrictions, environmental requirements, etc.). The intention is that all government agencies involved should have electronic access to this data and common internet portals will provide all the information necessary for importers and exporters in their day-to-day business.

Moreover, for one single import operation, all the customs clearance operations and payment of tax will be carried out at the customs office which is closest to the importer's premises. Physical checks on the goods will be performed at the most appropriate point in the supply chain. This will be a major facilitation for EU companies which import raw materials for their production sites in the EU, or import and export final products for their clients in or outside the EU. These are innovative solutions for gaining time and efficiency.

It has required considerable investment by the Commission and the Member States to create the first interoperable customs system in the world but the result is that benefits for companies could be as high as 2.5 billion euros per year once the system is fully operational.

Finally, in order to further improve the efficiency of Customs administrations and maintain their ability to provide a first-class service to EU citizens and companies, I have agreed with the Member States a strategy based on renewed strategic objectives for customs. This strategic framework will involve a coordinated approach to develop new working methods and competences for customs beyond 2013.

1.6. Computerisation of the excise movement and control system

In February 2008 I proposed a new directive on the general arrangements for products subject to excise duty (alcoholic beverages, tobacco products and mineral oils) which was adopted by the Council of Ministers later that year. It introduces a new Excise Movement Control System (EMCS), which will be operational from 1 April 2010. This will simplify the procedure for the commercial movement of excise goods and will also help to better tackle excise fraud by creating a faster and more efficient means of information exchange between excise authorities.

FIGHT AGAINST TAX FRAUD AND TAX EVASION

Combating **tax fraud and tax evasion**, which deprives Member States of their tax revenues and leads to significant distortions in the functioning of the internal market to the detriment of honest traders, has been high on the EU's political agenda over the last four years. Today this problem is more acute than ever as governments are facing other strains on their revenue as a result of the global financial crisis. Within a globalised environment and, more particularly within an internal market without frontier controls and allowing free movement of goods and capital, it is essential that Member States work together to combat fraud and evasion in the areas of VAT and direct taxation. For its part the Commission also has a role to play in ensuring that there is an adequate legal and operational framework within which Member States can co-operate. In May 2006, therefore, I launched a **European strategy to improve the fight against fiscal fraud**.

1.7. Fight against VAT fraud

Fraud has been a particular concern in the area of VAT where criminals have exploited the intra-community system to defraud Member States of substantial revenue. The situation was such that, from 2004 to 2006, there was an intense debate in the Council as to **whether this system should be radically overhauled** either by introducing taxation of intra-community supplies or a generalised reverse charge system. In the end, this debate was inconclusive and I therefore decided to concentrate on **strengthening the legal and administrative capacity** of the national tax administrations in preventing or detecting VAT fraud and in recovering taxes. The main goal is to ensure that tax administrations receive quick and accurate information

on cross-border transactions and optimize the use they make of it without creating disproportionate administrative burdens for legitimate trade.

At the end of 2008, after two years of intense and fruitful discussions with Member States, business representatives and VAT experts, I presented a **legislative action plan** setting out a series of measures to be adopted by the Commission. Each of them should bring added value, but it is only the implementation of the whole package that should provide the tax authorities with an adequate framework for combating VAT fraud. Since then I have made several legislative proposals implementing this action plan, the most important being the proposal to **recast entirely the regulation on administrative cooperation in the field of VAT**. The aim of this proposal is to extend and reinforce the legal framework for the exchange of information and cooperation between tax authorities. One of the key elements in this respect is the creation of a legal base to set up **Eurofisc**: a common operation structure allowing Member States to take rapid action in the fight against cross-border VAT fraud. I also proposed measures to combat specific fraud issues very quickly after they arose. In particular, in September 2009, I proposed the application of **reversed charge VAT** on carbon emission allowances and four categories of goods subject to fraud, in order to allow Member States to act against VAT carousel fraud in a consistent manner across Europe. In December 2009 the ECOFIN Council agreed, subjects to the opinion of the European Parliament, to implement a general option for carbon emission allowances whilst maintaining the possibility for country specific derogations in other areas.

Besides this legislative work, substantial work has been carried out on **the operation of trans-European IT systems** in order to ensure a quick and effective communication between national tax IT systems. In total, the number of messages exchanged between national administrations tripled during my mandate to reach 70 million messages exchanged a month. This was achieved notably thanks to the support of the Fiscalis 2007 programme (44 million € during the period 2003-2007) and the Fiscalis 2013 programme (158 million € during the period 2008-2013), aimed at stimulating administrative cooperation between national tax administrations.

1.8. Excise fraud

In the area of excise duties, in 2008 I made a proposal to strengthen the fight against fraud and to remove certain unnecessary tax obstacles to the movement of excise goods (alcoholic beverages, tobacco products and energy products) within the EU. The proposal, adopted by the Council at the end of 2008, will provide a legal framework for the use of a computerised system to monitor the movement of excise goods prior to the payment of duty. This will make the fight against excise fraud more effective, by allowing for better targeted and more risk-based controls.

1.9. Tax evasion in the direct tax area

The 2008 tax evasion cases in Liechtenstein have clearly demonstrated the importance of international cooperation in the area of direct taxation.

The entry into force in 2005 of the provisions of the Savings Taxation Directive and of related agreements concluded with Switzerland, Liechtenstein, Monaco, Andorra and San Marino and 10 dependent or associated territories of the United Kingdom and The Netherlands, should certainly be considered as a major step forward in this process. The provisions of the Directive aim at ensuring that, through the exchange of information between tax authorities or transitionally, by means of a withholding tax with revenue sharing, savings income in the form of interest payments received by individuals resident in the EU are taxed in accordance with the laws of the Member State of residence, wherever this income is obtained. I have also started exploratory talks with other non-EU financial centres such as Singapore, Hong-Kong and Macao with a view to including them in the Community approach to savings taxation. Norway and Iceland have also expressed their interest in joining the network.

After three years of operation, I put forward, in 2008, a proposal whose main purpose was to close the loopholes which have been identified in the Directive. I have proposed to extend the scope of the Directive to income obtained through investments in some innovative financial products with capital protection and in certain life insurance products. I have also proposed to improve the Directive by including under its scope interest payments which are channelled through intermediate tax-exempted structures (such as trusts and foundations).

Moreover, I proposed, in early 2009, to strengthen the provisions of the mutual assistance directive in the direct tax area in order to promote the exchange of information between Member States tax authorities. One of its main elements is to prevent bank secrecy being invoked as a reason to refuse co-operation between tax administrations of different Member States.

Progress for improved transparency and exchange of information within the EU should open new possibilities for negotiations with third countries.

In parallel, I have also developed a policy aimed at promoting good governance in tax matters through closer cooperation with third countries, including tax havens and international financial centres. The strategy is focused on the promotion of the principles of transparency, exchange of information and fair tax competition in the relations between EU Member States and third countries. The financial crisis in 2008 triggered a world-wide movement and made the whole world aware of the losses created by the tax havens. In February 2008 the Liechtenstein scandal broke out and it pointed to the evident that tax avoidance and tax fraud cannot be tolerated anymore. In April 2008, the G20 announced the "end of the era of bank secrecy". This movement helped the European Commission to enlarge the scope of its actions. As a response to the G20 conclusions on tax havens, in April 2009, I put forward a long term strategy to promote good governance in tax matters internally within the EU and externally. More than 18 actions have been identified to ensure that words transform into concrete results. These actions have internal and external dimensions.

Internal aspects:

As already explained above, in order to strengthen good governance in the tax area within the EU, the Commission has proposed amendments to three important pieces of

legislation, namely the savings taxation directive, the administrative co-operation directive and the recovery directive.

Furthermore, in order to promote fair tax competition, my services have continued to provide significant support to the work carried out in the Council Code of Conduct Group against harmful tax practices in business taxation within the EU. Under the Code, 24 measures have been assessed during the period 2004-2008, out of which 5 have been considered harmful and therefore been removed. At the end of 2008, the Council reaffirmed the commitment of the Member States to tackle harmful tax competition through the Code and agreed on a new work programme for the period beyond 2008.

External dimension

In order to reinforce good governance in tax matters towards third countries, several instruments are at our disposal. One of them is the negotiation of agreements with third countries which include the standards of Article 26 of the OECD Model Convention, to exchange tax information on request. This provides for tax information exchange even when the requested country has no domestic tax interest, where the behaviour of the taxpayer would not be subject to criminal sanctions, and to remove bank secrecy as an impediment to the exchange of information.

In 2008, the Commission has started negotiations on an Agreement with Liechtenstein in order to incorporate cooperation under the OECD standards. This country has moved from a position of complete non-cooperation to a position now where it is prepared to exchange information in cases of tax evasion and to renounce bank secrecy as a reason to refuse cooperation. After concluding the negotiations with Liechtenstein, it will be important to open discussions with Andorra, Monaco, San Marino and Switzerland on a similar scope as the agreement with Liechtenstein.

As far as other countries outside the EU are concerned, I have always insisted that EU partners formally agree to the principles of good governance when they sign relevant agreements with the Community and Member States. The ECOFIN Council of May 2008 adopted the appropriate wording to be included in the appropriate agreements.

As far as developing countries are concerned, there are financial incentives which were made available under the 10th European Development Fund to a number of Caribbean and Pacific countries in return for adopting the principles of good governance and the monitoring of some of these commitments is about to begin.

It is of course important to have the support of the EU member states to these actions. Not only because no Commission proposal will pass without their agreement but also because the Member States have their own bilateral contacts with third countries and they will need to apply the international standards at bilateral level as well.

Tax evasion and fraud are problems which have been around for too long and steps have been taken to improve the situation. The actions we take at EU level are good steps but we need the major players, like US or China or Russia to be on board, to share our objectives and use their powers to force problematic jurisdictions into the right direction.

1.10. Recovery of tax claims

Once a Member State has established that, in cases where a taxpayer is in another Member State, a tax is due, it has to ask for the assistance of this other Member State to recover the amounts due. Even if the amounts of tax recovered grew six fold between 2003 and 2008, these amounts are still far too low in proportion of the total amount of tax that could be recovered. This is why I proposed in February 2009 a Directive to **reinforce mutual recovery assistance** which received political approval from the ECOFIN Council in January 2010.

SUPPORTING OTHER COMMUNITY POLICIES

Taxes or duties influence the price that consumers pay for goods or services and can therefore be an important economic instrument to support other Community policies. During my mandate, I have tried as much as possible to use taxation policies as a support to Community policies in the areas of environment, energy, health, research, employment and trade.

1.11. Combating Climate change and ensuring rational energy use

The 2007 Spring Council fixed very ambitious objectives for Europe: by 2020, we should reduce CO2 emissions and energy consumption by 20 % and ensure 20% of energy consumption comes from renewables.

As energy taxation can have a role to play in favour of a more energy-efficient and environment friendly energy consumption, I have pursued a policy of developing initiatives to enhance sustainable prosperity, notably by the use of indirect taxation for environmental, energy and transport policy objectives. Taxes on energy consumption are an ideal instrument to make polluters pay for the environmental cost they create. By increasing the price for "polluting" goods or services, they raise consumer's awareness and may lead to a change in their behaviour.

Already in 2005 I put forward a proposal to allow Member States to introduce differential rates of **taxation of commercial diesel** aimed at addressing the environmental damage caused by "tank tourism". This phenomenon is caused by the existing differences in national tax rates on diesel used by trucks that leads truck drivers to alter their routes in order to benefit from the low tax rates applied in certain Member States.

In 2006 I reviewed the **derogations for reduced excise duty rates** granted to certain Member States under the Energy Tax Directive and decided not to propose any extension for those derogations that expired in 2006 and that were no longer in line with Community environmental, energy and transport policies.

Subsequently a Green Paper on market-based instruments for environment and energy related policy purposes was adopted in March 2007 and was the subject of a broad public consultation. As an outcome of this consultation, I have launched preparatory work for a **green tax package** which will contain recommendations and proposals concerning the **role of taxation in energy and environmental policy**. The purpose would be to use taxation as a tool to reinforce the "polluter pays" principle while introducing tax incentives for green services or products. This package should also ensure that taxation is used more effectively and coherently in combination with other instruments like the EU emission trading scheme.

The other tax instrument which can have a role to play in reducing CO₂ emissions is **Car taxation**. In 2005, I made a proposal to favour the use of less polluting cars by making part of the tax base of both Registration and annual circulation taxes directly related to the carbon dioxide emissions of passenger cars. The proposal also aimed to prevent double taxation of European citizens transferring their cars to another Member State. The Council has failed to reach agreement on the proposal, but in the meantime, the majority of Member States have introduced CO₂ elements in their car taxation rules. Unfortunately this has been done in an uncoordinated fashion and therefore risks creating further segmentation of the internal market.

1.12. Supporting health policy

Smoking is still the biggest single form of avoidable death in the Community and one of the leading causes of illness and mortality in the EU. Taxation is part of an overall strategy of prevention and dissuasion which also includes other measures intended to reduce demand. Also one has to consider the cross-border aspects of tobacco purchasing. It is very difficult to give concrete data however a study carried out for the Commission in 2005 estimated that approximately 13% of the tobacco consumed in the EU is not purchased in the State where it is used. 4% to 5% consists of legitimate cross-border shopping and 8% to 9% of illicit trade. However in some major markets in the EU this rises to more than 20%.

In the area of tobacco taxation, I made a proposal in 2008 to gradually increase the EU minimum **taxation levels on cigarettes** and fine cut tobacco. The proposal aimed at contributing to reduce tobacco consumption by 10% within the next 5 years. At present, there are considerable differences in taxation levels between the lowest and the highest taxing Member States. By increasing the minimum tax levels, differences between Member States' tobacco taxation levels would decrease and so help to tackle intra-EU tobacco smuggling which undermines both the revenue and the health objectives of Member States that impose high taxes to deter smoking. The ECOFIN Council of Ministers reached a political agreement on the draft Directive on 10 November 2009.

I consider it as a great success that the Council, one year after the Commission proposal was presented, adopted the proposal in 2009. The final deal reached in Council was very close to the original proposal of the Commission. With the new provisions, which will be

applicable from 1 January 2014, the monetary minimum excise rate will increase to 90 euros per 1000 cigarettes and the proportional minimum to 60% of the weighted average sales price, from 64 euros per 1000 and 57% at present. The compromise allows for transitional arrangements until 1 January 2018 for member states that have not yet achieved, or only recently achieved, the current minimum rates, namely Bulgaria, Greece, Estonia, Latvia, Lithuania, Hungary, Poland and Romania;

Tobacco excise

Many governments have introduced [excise taxes](#) on cigarettes in order to reduce the consumption of cigarettes. These revenues many times are used to finance programs to reduce tobacco consumption or simply balance the budget deficit.

Substantial scientific evidence shows that higher cigarette prices result in lower overall cigarette consumption. Most studies indicate that a 10% increase in price will reduce overall cigarette consumption by 3% to 5%. Youth, minorities, and low-income smokers are two to three times more likely to quit or smoke less than other smokers in response to price increases.

The European Community has a history of more than 30 years of regulating the taxes on tobacco products. On 12 February 2002 the Council of the European Union adopted Directive 2002/10/EC as regards the structure and rates of excise duty applied on manufactured tobacco. This Directive sets, amongst others, the required incidence of excise duty on the retail selling price of cigarettes at 57%, and also establishes that the overall minimum excise duty shall not be less than 64 € per 1000 cigarettes of the price category most in demand from 1 July 2006. Eight of the ten countries, which joined the European Community in May 2004, have obtained additional transition periods to obtain these rates.

The prevalence of smoking is a major public health concern in Europe, given the links between tobacco consumption and a significant proportion of cancers, cardiovascular and respiratory diseases. The number of smokers in the population is high, at about a third of the Community population, and the health impact is similarly significant, with about 500,000 smoking related deaths per year in the Community. Smoking also has established health effects on non-smokers, particularly on vulnerable groups.

My fellow Commissioner responsible for public health, Ms Vassiliou has proposed quite a few initiatives to reduce tobacco consumption. Taxation can largely contribute to this policy.

When I took office, I also had to face realities: the internal market did not function properly in this respect. The cross-border shopping of cigarettes (i.e. German-Luxemburg border) due to the gap in prices was increasing. Furthermore, the illicit movement of cigarettes from third countries to the EU was of serious concern. Counterfeit cigarettes, mainly from China have reached the European black markets. It is very difficult to give concrete data however a study carried out for the Commission in 2005 estimated that approximately 13% of the tobacco consumed in the EU is not purchased in the State where is used. 4% to 5% consists of legitimate cross-border shopping and 8% to 9% of illicit trade. However in some major markets in the EU this rises to more than 20%.

Given the health and internal market concerns, it became clear that the tobacco directives needed to be revised.

In 2007, we launched a public online consultation seeking views from stakeholders on the current EU tax legislation on tobacco and on the direction of possible changes. The consultation was of interest to all stakeholders, in particular, businesses involved in the manufacturing and distribution of tobacco products, health organisations, government administrations, non governmental organisations and other organisations representing consumers.

The broad consultation confirmed that the system needed some changes. The Commission's proposal had several objectives but there were two which were fundamentally very important:

- First, to ensure the smooth operation of the single market

Substantial differences in tax and price levels of tobacco products lead to considerable cross-border shopping and Intra-Community smuggling and consequently undermined the budgetary and health objectives of the Member States and therefore entail a distortion of the functioning of the internal market. An analysis of the prices and excise rates for cigarettes in the EU showed that for example, in 2006 cigarettes belonging to the Most Popular Price Category were nearly seven times as expensive (all taxes included) in the United Kingdom compared to Latvia.

A study carried out for the Commission in 2005 estimated quite a large scale legitimate cross-border shopping and illicit trade.

The Commission therefore proposed to gradually increase till 2014 the EU minimum taxation levels on cigarettes with the objective to reduce those tax differentials within the EU and therefore contribute to reducing cross border shopping and to tackling Intra-Community smuggling.

- Second, to pay particular attention to health policy considerations

Taxation forms part of an overall strategy of reducing tobacco consumption. According to the World Bank, price increases in tobacco products are the most effective single intervention to prevent smoking.

We expected that the proposed increase in the EU minimum taxation levels should reduce consumption of cigarettes by 10% over the next 5 years. In order to not overburden those Member States which still have derogations to reach the EU minima, the proposal foresees additional 1 or 2 year transitional periods.

In addition, the Commission proposed to bring the excise duties for fine-cut smoking tobacco used for hand-rolled cigarettes in line with excise duties for cigarettes.

In the period 2002 to 2006 the quantities of cigarettes released in the EU-25 decreased by more than 10%. However, the quantities of fine-cut tobacco increased by around 10% in the same period. The gap between the level of taxation of cigarettes and fine-cut tobacco gave rise to product substitution (there are situations today where the tax level on hand-rolled cigarettes is less than 30% of the tax level of cigarettes). From a health point of view, both products are harmful and, consequently, there is little justification for significant differences in the minimum rates for these products at the Community level.

The Commission proposal was adopted and submitted to Council and the European Parliament in June 2008. I expected difficult debates on the proposals both in the Council and the European Parliament. I had to also take into account that the tobacco industry will try to influence the decision making at European and government level. My personal observation is that since the leading tobacco companies have different interests (some of them are against any increase, others for substantial increase to ensure dominating position of expensive cigarettes on the market) their lobbying could perhaps divide the members states but they could not influence the final outcome as good as they could have with a more organised way.

The debate in the Council was as expected: member states with higher taxes would advocate for higher increase than as proposed by the Commission, meanwhile other members states (mainly which joined in 2004 and Greece) tried to have more moderate increase. The lower taxing member states argued that the increase would further increase the smuggling of tobacco products from third countries and thus causing great loss for the national budgets. The other camp of member states however considered, especially those which have borders with lower taxing member states that without higher increase the cross border shopping will be reinforced and it will damage their health policies and budget revenues.

Under these circumstances, it was clear that the Commission proposal was realistic. The proposed increase from 64 euros on MPPC to 90euros to all cigarettes will increase prices to the necessary level. We proposed 90 euro because it was the average level in the EU 27 in 2008.

1.13. Supporting R&D policy

In order to support the EU's policy objective of raising R&D investment to 3% of GDP by 2010 I published in 2006 a Communication advising Member States on how best to use tax incentives in favour of R&D within the EU treaty framework. In particular, the Communication clarified the legal conditions for Member State R&D tax incentives arising from EU law, notably relevant European Court of Justice (ECJ) jurisprudence on the EU Treaty freedoms and State aid rules, and highlighted general design features for R&D tax treatment and incentives based on analysis of best practices.

1.14. Supporting employment and EU competitiveness

Since 1999 a number of Member States have applied, on a temporary legal basis, reduced rates for certain labour intensive services with a view to assessing their utility in creating employment and reducing the black economy. This experiment has been prolonged and the scope enlarged so that by 2008 there were 18 Member States participating. It has served to prove that no real distortions occur in the Internal Market when Member States apply reduced rates on an optional basis to locally delivered services.

Consequently, I made a proposal in 2008 to enable all Member States who so wish to apply VAT reduced rates for locally supplied labour intensive services (housing sector, minor repairs of goods, restaurants, domestic and personal care services, gardening services etc). This proposal which was adopted by the Council in May 2009, gives more flexibility to Member States when it comes to the application of reduced VAT rates in sectors where they could stimulate job creation. Even more importantly, Member States who currently have the possibility to apply reduced rates for labour intensive services will not be obliged to abolish them in 2010 thus avoiding possible negative impacts on employment.

After a long and difficult debate the ECOFIN Council reached agreement on this issue in March 2009 as part of the European Economic Recovery Plan. The ensuing Directive entered into force on 1 June 2009.

1.15. Supporting trade policy

By definition, customs policy implements our common trade policy. Here also, there was a potential for reform. In particular, at the beginning of my mandate, I undertook the major task of reviewing the rules of origin applied in the EC preferential trade regimes, in order to adapt them to a paperless environment, and to meet the EU economic and development policy objectives in the field of trade.

I launched a complete revision of the **rules of origin** for the Generalised System of Preferences (GSP), the EU unilateral trade arrangement which gives preferential tariff treatment to imports from developing countries. The aim of the proposal is to make the rules simpler and more development-friendly, allowing beneficiary countries, and in particular Least Developed Countries, a better access to the preferences on offer, while at the same time improving management and control procedures in order to better combat fraud. A proposal should be adopted by the Commission this year, paving the way for the introduction of new origin rules into the other EC preferential arrangements.

Ensuring a good management of the Customs Union is also essential for the daily operation of our international trade. Last year, the Member States customs administrations processed 175 million customs declarations. To make this possible, the Commission is managing core activities like the daily on-line publication of customs tariffs, management of import quotas and customs duties suspensions, and tariff classification. As a result the Commission's tax and customs website records 13 million

consultations by traders or citizens every month, which places it as the most visited of all Commission websites.

Today, no-one can imagine the EU without the Customs Union, which is the basis of the Single Market. The Commission is playing a crucial role in ensuring that, despite the recent entry of 12 new Member States into the Union, the Customs administrations of the EU continue to act as though they were one. This would not be possible without the support of our Customs 2007 and Customs 2013 programmes, which finance cooperation and coordination activities for Member States and candidate countries' administrations.

In addition, customs policy is an integral part of the EU trade negotiation agenda. Under the label of Trade facilitation, major progress was achieved in the Doha Development Agenda negotiations for the creation of a common set of rules for customs clearance, and common objectives to modernise customs procedures and practices. Trade facilitation is also an objective of the EU bilateral relations with third countries, be it in the negotiation of Association or Free Trade Agreements or in the context of Partnership and Cooperation Agreements.

For example, long queues of lorries at the EU borders with Russia have been a nightmare for traders in the past years. I have therefore initiated an EU-Russia strategy to improve customs procedures and logistics, in order to facilitate trade while combating fraud. Early in 2009, a first concrete result was achieved with the establishment of a pilot project on the exchange of pre-arrival information from the EU to Russia, aiming at speeding up customs clearance while applying selective, risk-based control of goods in Russia. This is the first step in a deeper reform process in that country.

On the other hand, the provision of capacity building and exchange of best practice to support customs reform is an important tool to enhance the trading capacity of developing countries. The Customs Blueprints that I have published last year provide valuable guidance in that context.

III. MAKING EUROPE A SAFE AND SECURE PLACE WHILST FACILITATING LEGITIMATE TRADE AT OUR EXTERNAL BORDERS

Since the foundation of the Customs Union in 1968, customs activity has gone through a fundamental metamorphosis from its traditional role of collecting state revenue. The present role of customs is not only to safeguard the financial interests of the Community and its Member States, but also to protect the Community from unfair and illegal trade, to ensure the security and safety of the Community and its residents, and to protect the environment, whilst maintaining a proper balance between customs controls and the facilitation necessary to encourage legitimate business activity.

Today's Customs are facing a rapidly changing environment: evolving production and consumption patterns, increasing international trade, global threats such as terrorism, organised crime, climate change and new hazards like growing trade in dangerous and counterfeited goods.

In this context, the mission of our customs authorities is to ensure at all times the balance between protecting society and facilitating trade through the management of the supply chain, at the external border as well as within the EU. Customs alone have information about every movement of goods imported into or exported from the EU, and they alone have developed the sophisticated systems and methods to control all types of goods.

During my mandate, I have focussed on two priorities: deepening and enhancing the fight against counterfeiting and piracy, and securing the international supply chain.

Counterfeiting and piracy affect the competitiveness of EU companies by undermining their comparative advantage based on innovation and creativity. In addition, counterfeiting has become more and more a threat to the security and safety of European citizens. Customs seizures show continuously increasing numbers of counterfeited medicines and foodstuffs entering the EU market. In 2008 the number of articles detained (178 million) doubled compared to 2007. Among those, 20 million were potentially dangerous to the health and safety of European consumers.

The 2005-2008 Action plan establishing a customs response to counterfeiting brought some good results by increasing cooperation with industry and our major trading partners, in particular China and the US. In 2007, the first joint EU-US enforcement operation called INFRASTRUCTURE resulted in the seizure of over 360 000 counterfeit strategic electronic items. In 2008, the MEDI-FAKE action in major EU ports and airports led to the seizure of 34 million illegal medicines during a two-month period. This shows that better cooperation between authorities is essential to win the fight against counterfeiting on an industrial scale. But this is not enough.

A second anti-counterfeiting customs action plan for the years 2009 to 2012 will be adopted by the Council early this year with a view to strengthening the appropriate legislation, enhancing information-sharing including on internet sales of fakes, improving cooperation between the customs authorities and rights-holders and cooperation with third countries. For example, the implementation of an EC-China Action Plan on the customs enforcement of IPR, signed in January 2009, will be a test case of our common ability to better control and prevent the exportation of fake products from China.

My second priority was to enhance **the security of the international supply chain**. In reaction to the terrorist attacks on 9/11, the international customs community had to respond to this new security threat by securing the supply chain in order to avoid a major disruption of international trade. Mirroring the security initiative of the World Customs Organisation (WCO), the EC introduced a Security amendment to the Community Customs Code encompassing a series of measures to tighten security around goods crossing international borders. The measures aim at ensuring faster and better-targeted checks. They introduce three major changes to the legislation:

- A **Common Risk Management Approach** based on a mechanism for setting uniform Community risk-selection criteria for controls, supported by computerised systems. Specific actions were developed to improve risk management relating to

domains such as safety and health, drug precursors, environment and consumer protection.

- High standard security criteria for traders have entered into force on 1 January 2008. Reliable traders (Authorised Economic Operators) respecting those criteria benefit from trade facilitation measures.

- After a transitional period, traders will be required to provide customs authorities with electronic information on goods prior to import to, or export from, the European Union (pre-arrival/pre-departure information) in order to help customs authorities to better target controls.

In addition, to ensure both smooth trade flow between the EU and some of its important neighbouring trading partner and a high level of security of the supply chain, agreements have been signed with Switzerland and Norway to ensure the application of equivalent security measures by these partners.

In parallel to that, the entry into force of the new cash control rules have marked a big step in the combat against terrorist financing and money laundering: as from 15 June 2007, travellers entering or leaving the EU are required to make a declaration to customs authorities if they are carrying €10,000 or more in cash.

By definition, the international supply chain starts or ends outside the EU. International cooperation is therefore essential to secure the whole chain. During my mandate, the EC has also enhanced its presence on the international stage by becoming a Member of the World Customs Organisation (WCO). This facilitates the promotion of the European model and standards, for the benefit of EU traders and citizens.

In this context, I have supported the development of the WCO SAFE Framework of Standards to Secure and Facilitate Global Trade, which defines worldwide standards to enhance the security of the supply chain. My services and I have put a lot of efforts in obtaining reciprocity and mutual recognition of security standards from the EU's main trading partners, like Switzerland, Norway, the US, China and Japan. This is essential to facilitate trade for reliable traders.

In addition to these two priorities, there are two other areas where I have started to develop the customs contribution to protecting the health and safety of EU citizens.

First, we have stepped up the fight against illicit import of drug precursors. These are chemical substances used in the legal production of consumer products, such as medicines, soaps, perfumes or biocides. But they are also frequently used for the manufacture of illicit drugs such as cocaine, heroin, ecstasy and methamphetamines. The EU continues to be reported as a key world manufacturer of synthetic drugs while it does not produce drug precursors. Effective EU border management against dangerous synthetic drug precursor consignments can therefore help to cut down such drug supply. In 2009, the signature of the EU-China cooperation agreement in order to better target customs controls has constituted a major progress in the fight against illicit imports, given that China is reported as the main producer of precursors. A similar agreement should be concluded with Russia in the coming year.

Second, **product safety** has become high on the consumer protection agenda. The EU legislation foresees a role for customs authorities in filtering dangerous products at importation. My services have organised coordination actions with other authorities (e.g. health, veterinary and market surveillance) in the EU in order to improve goods controls, but more should be done in the future. The same is valid as regards the control of goods endangering the environment.

IV. BETTER REGULATION

The EU has put in place a programme to reduce the unnecessary administrative burdens by 25% by 2012. There are two flagship initiatives in the tax and customs area which represent a major part of the burden reduction exercise. The implementation of the **modernised customs code and a paperless customs environment** will generate benefits for traders estimated at € 2.5 billion per year. I expect that the proposed **modification of the rules on VAT invoicing** should save businesses up to €18bn a year.

As far simplification is concerned, there have been several important proposals which will make the life of citizens and business easier. New rules on tax and duty free imports entered into force on 1 December 2008. From that date, travellers benefit from a nearly doubled monetary allowance and more generously calculated limits for certain beverages when importing goods in their personal luggage into the European Union. For its part, the 'VAT package' introduces new and simpler rules for services which should act as an incentive for businesses to provide services throughout the Community.

Finally, **the recasts of the Sixth VAT Directive and of the Capital Duty Directive** were adopted by the Council and are good examples of the Commission's policy to introduce simpler and better legislation.

V. CONCLUSIONS

During the last 5 years, many important taxation and customs proposals were adopted by the Commission, the Council and the European Parliament. A number of other proposals were adopted by the Commission and are still under discussion in the other Institutions.

Although, I believe there is no need for an across the board harmonisation of Member States' tax systems, I have made proposals aimed at approximating or, where needed, harmonizing national legislations, with the main goal of removing the existing tax obstacles to cross-border activities in the Internal Market. This, together with a comprehensive strategy to prevent and combat tax fraud and evasion, should help to increase the competitiveness of our businesses, safeguard the revenue of national governments, and secure and create jobs.

Taxation is also an important instrument to support other Community policies such as environment, energy and transport policies. The tax proposals which have been tabled or adopted contribute to the Commission's general objective to provide for more growth and

jobs and to ensure that Member States can finance their social, economic and environment policies.

In the area of customs, in particular when facing the security challenges brought about by the terrorist attacks of 2001 in the US, and subsequently in Madrid and London, my objective has been to find a balance between increased security for EU citizens and more trade facilitation for legitimate traders. My services have therefore helped steer the Customs Union through some unprecedented reforms, laying the strategic foundations for its future development. With the approval and support of the Council and the European Parliament, I have identified and set ambitious strategic objectives for the future development of customs activity in the European Union after 2013.

Annex 1:

"How can taxation policy best serve the objectives of growth, jobs and competitiveness?"

Speech given at the PSE Lisbon Network Meeting, Brussels, 9 October 2008

The subject of this meeting is very topical and important for the Commission as a whole and for me in particular as a Commissioner for taxation and customs policy.

I want to focus on three issues:

- *First, what should the EU's tax policy priorities be?*
- *Second, what role should the EU have?*
- *And third, how should we approach tax competition?*

So first, let's look at what our priorities should be.

For the European Commission and for me, the priority is the Lisbon strategy, the strategy of growth, jobs and competitiveness. The Lisbon objectives are of paramount importance. The future of Europe and of its integration depend on the rate of growth and the quantity and quality of new jobs.

If we are not able to compete successfully with the US, Japan, China, Russia and India, we cannot play a decisive role in shaping the future of mankind and cannot meet the

expectations of our citizens who want better life, more security and solidarity, and who want sustainability.

If we want to make Europe a more attractive place in which to invest and to work, we should make business able to take full advantage of the single market, which is the largest competitive single market in the world. If we want to make the single market function smoothly, we have to eliminate those tax obstacles that are induced by the 27 different tax systems. Simplification of tax rules, whenever possible, tax harmonisation where and when appropriate, coordination where and when necessary, and cooperation between the Member States and their tax authorities can promote competitiveness, growth and employment.

I fully understand and respect that governments insist on their tax-sovereignty. But tax-sovereignty should not have a detrimental impact on the competitiveness of our economy. It should not be a handicap for the Community in comparison to the USA, Japan, or China.

The question is: what tax policy initiatives would bring us closer to achieving the Lisbon objectives? What measures would result:

- in the reduction of the tax cost of economic restructuring;*
- in the elimination of double taxation in cross-border business activities;*
- in the reduction of compliance costs and administrative burden, in other words the reduction of red tape;*
- and, more generally, in the removal of tax obstacles to cross-border economic activities.*

I do believe that all these objectives would help our companies to face international competition.

The next question that logically follows: what role can the European Union play in the promotion of these objectives?

Of course, it is up to each individual Member State to shape a proper tax environment — an environment that is conducive to competitiveness, growth and jobs.

But the EU can play a useful and important supporting role. Perhaps a more sophisticated role, than one may think.

I know that some Member States have the feeling that “Brussels”, the Commission, wants to harmonise everything.

But it is certainly not the case. The Commission does not want to harmonise anything in the field of taxation for the sake of harmonisation. We only try to promote harmonisation in specific fields where it will result in a better functioning of the internal market, in the reduction of compliance-costs and administrative burdens, in higher growth, more jobs and enhanced competitiveness.

Regulations and directives have their place. But they are not always the best way to achieve our objectives. We frequently put much greater emphasis on soft law, on coordination and cooperation.

If coordination of national policies can be achieved without harmonised legislation, then so much the better. But in some cases, legislation will clearly continue to be the best option.

So let us look at what we are doing to promote our objectives. Let's look at the four priority areas I mentioned:

First, reducing the tax cost of economic restructuring.

To do this, the Council agreed to amend the Merger Directive a few years ago. It now covers a wider range of companies, including those established under the European Company Statute, and a wider range of operations.

The amended Directive makes cross-border economic restructuring easier. Consequently, it allows companies to react more quickly to market developments.

Second, reducing or eliminating double taxation in cross-border business.

We achieved progress towards this aim with our proposal for a Code of Conduct on the way the Arbitration Convention should work. This was based on the work of the EU's Joint Transfer Pricing Forum, which brings together transfer-pricing experts from the private sector and the national tax authorities.

Thanks to this soft-law initiative, the Member States have agreed to effectively eliminate double taxation due to transfer-pricing adjustments within three years. And they have committed themselves to ensuring that, during the resolution of cross-border disputes, tax collection can be suspended under the same conditions as in domestic appeals and litigation.

Third, simplifying tax systems in order to reduce compliance costs.

To simplify compliance with VAT regulations, the Commission has proposed an amendment to the sixth VAT Directive.

The one-stop shop system would allow traders to fulfil all their VAT obligations for all EU wide activities in the Member State where they are established.

Traders could use a single VAT number for all supplies throughout the EU and make their VAT declarations via a single electronic portal. The declarations would then be submitted automatically to the various Member States where the traders supply goods or services.

Lastly, removing the tax obstacles to cross-border economic activities.

A number of initiatives are in the pipeline to achieve this on a wider scale.

In the long term, the most ambitious and the most significant measure would be the introduction of a common consolidated corporate tax base for all EU-wide economic activities.

I want to emphasise that the envisaged harmonisation would only cover the tax base and would not relate to tax rates. Setting the rates would remain entirely in the competence of the Member States.

A common consolidated corporate tax base would promote transparency, clarity and simplification.

It would bring a reduction in compliance costs.

It would allow cross-border offsetting of profits and losses.

And it would solve the current tax problems linked to cross-border activities and the restructuring of groups of companies.

The Commission's services are currently working on the detailed technical aspects of this proposal.

In the short term, our main priority is to help Member States make their tax systems compatible with each others' and with the EC Treaty.

Over the past few years, the impact of judgments of the European Court of Justice on Member States' direct tax systems has attracted a lot of attention.

I think much of the fall-out from recent Court rulings could have been avoided if Member States had been more pro-active.

They should have made sure that their tax rules did not discriminate against residents from other Member States and did not restrict the exercise of freedom of movement for goods, persons, capital and services in the single market.

I am not suggesting that as a result we need to lay down uniform harmonised tax rules at Community level. What is needed is to coordinate national rules in such a way that the Member States achieve their national tax policy objectives in compliance with Community law.

Coordination should ensure that Member States eliminate discrimination and international double taxation, both of which have no place in a true single market.

It can also eliminate unintentional double non-taxation and can strengthen tax systems against tax avoidance and evasion.

The Commission will continue to put its views forward in this area through communications and other soft law initiatives.

The Member States should cooperate with each other. Only if they are prepared to do so and put the coordinated solutions they agree into effect can they collectively regain the fiscal sovereignty they want to retain.

I believe this is much more effective than waiting for the Court to strike again.

Now let me come to my last point: the EU approach to tax competition.

In the last decades, the process of globalisation and integration has increased capital mobility. In a race to attract ever increasingly mobile tax bases and business activities, many governments have engaged in international tax competition.

Since the mid-1990s, both the Organisation of Economic Co-operation and Development (OECD) and the European Union have pursued policies aimed at removing the "harmful" features of tax competition. In the European Union, where the creation of the Internal Market has fostered economic integration, the issue of improved tax co-operation has attracted the attention of policymakers and economists.

It can be said, as a general remark, that the EU approach, following the decisions of the Verona informal ECOFIN Council of April 1996, has been a response to the process of globalisation.

As you very well know, these discussions have led to the adoption of the "tax package", which includes the "Code of Conduct on Business Taxation" and "the Directive on taxation of savings". This Directive was agreed by Member States in 2003 to prevent undesirable distortions of competition, which are incompatible with the internal market, in cases where the investment choices are driven by tax avoidance reasons rather than by an appreciation of the intrinsic qualities of the offer of financial institutions. Without co-ordinated action, taxpayers in the EU could take advantage of differing national tax systems to avoid their tax obligations concerning interest payments received in a Member State other than the one of residence. I have been pleased to note the strong interest showed by the European Parliament in the ongoing Commission initiatives for reviewing and updating the savings tax mechanism and I appreciate the encouragement received from the Resolution adopted on 2 September to put forward proposals aimed at improving the effectiveness of the Directive.

In the context of the "Code", the Member States and the Commission have worked together with a view to tackling the harmful features of national tax regimes for business taxation.

Under the EU approach, tax competition is considered unfair when tax policies deliberately attempt to "poach" the tax bases of other jurisdictions. In such a situation, some tax payers can act as free riders, who benefit from public spending in their home country but avoid contributing to its financing.

The rationale for countering harmful tax competition has found specific supplementary motivations in the European Union. In fact, the proper functioning of the Internal Market and the state aid rules have added some special characteristics to the European approach.

Under the Code of conduct on business taxation, tax measures are regarded as potentially harmful where they provide for a significantly lower effective level of taxation, including zero taxation, than those levels which generally apply in the Member State in question. The Code stipulates, inter alia, several criteria characterising a

"harmful" measure. These range, for instance, from the discrimination of residents vis-à-vis non-residents to the lack of transparency of the tax advantages and the fact that the advantages are granted without any real economic activity and substantial economic presence.

Therefore, the Code of Conduct aims at the elimination of "predatory practices" or beggar-thy-neighbour policies. Such "tax base poaching" has little to do with a legitimate public choice concerning the level of taxation and public services. Similarly, it is difficult to argue in favour of forms of tax competition that are based on lack of transparency, on schemes without real economic activity or on the violation of internationally agreed principles.

It is my opinion that the work conducted under the Code has been successful. Over 100 tax regimes have been considered harmful within the framework of the Code of Conduct. It has at times been difficult and delicate but it has in effect led to the dismantling of almost all harmful tax measures in Member States and their dependent or associated territories.

In this respect, I am convinced that the application of the Code, in general, has led to more transparency, co-operation and fair tax competition within the EU. Furthermore, the Code results can, in principle, be considered as part of the EU acquis which cannot be disregarded by future EU members or by third countries in their relations with EU Member States.

Let me turn now to the fears increasingly raised by the tax authorities of a number of Member States and mentioned in your discussion paper. It concerns the evolution of the general corporate tax regimes in the EU.

Taxation is one of the expressions of the sovereignty of public authorities in order to finance public goods. The exercise of such national sovereignty responds to constitutional principles whereby the tax burden reflects democratically chosen social models.

In the context of attaining the primary objective of fair economic competition, there are two important limits to tax competition. First, tax competition should not endanger the correct allocation of resources and, therefore, economic integration. Second, as I have already pointed out, tax competition should not be harmful. In fact, the behaviour of competitive tax systems should not imply distortions of resource or revenue allocations. In such situations, tax competition will act as an obstacle to integration in the Internal Market and to the financing of the social models.

The present situation raises a number of concerns for the current EU tax policy:

- *If a process of tax competition results in less capital tax revenues (the so called "race to the bottom"), this raises concerns about the sustainability of the European social model in the long term. Total tax revenues may become insufficient for the provision of public goods and particularly social expenditure.*

- *Alternatively, total tax revenues and public spending may be kept constant by shifting the tax burden to less mobile tax bases, such as labour, with negative consequences on employment.*
- *As a result, this process could lead to hampering the redistribution of income and it raises, overall, equity concerns.*

As pointed out by your discussion paper, we have observed in the EU a sharp fall of statutory corporate income tax rates. But this decline has been accompanied by a broadening of the tax base and a consequential relative stability of corporate tax revenues.

The economic literature reveals that in the presence of multi-national firms capable of shifting profits abroad through transfer pricing, thin capitalisation or other means, it is optimal for Governments to reduce the statutory rates, in order to reduce the incentives to shift profits abroad and to broaden the tax base to meet the revenue constraints.

This can be one of the explanations for the rate-cutting and base-broadening tax reforms observed in most European countries during the past two decades.

Governments do not compete in this framework for capital or foreign direct investment flows, but for profits or taxing rights. There is evidence in the economic literature of profit shifting among EU countries and towards third countries. In contrast, tax competition seems to have a smaller impact on the location of real investment.

Understanding what is the true purpose of tax competition, attracting real factors and/ or paper profits, is relevant for policy because the solutions to deal with each possible type of tax competition can be different. If tax competition were aimed especially at attracting real factors, probably a good solution would be the approximation or even the harmonisation of national tax systems.

The analysis of empirical data reveals that until now the divergence in taxation rates has had a limited role in influencing the localisation of investment in the EU.

There are several factors determining the choice of localisation of firms. According to recent surveys conducted among businesses, the taxation level is considered as being only the seventh most important factor influencing the choice of firms, well below other elements such as access to markets, investment climate, labour cost, presence of an educated labour force, quality of infrastructure and public services.

Therefore, if tax competition is primarily aimed at attracting profits, rates approximation is not necessarily the right solution in the present context (the solution should perhaps depend on the specific mechanisms to shift profits mostly used by firms to avoid taxes).

All in all, regarding general tax regimes, the interpretation of empirical data supports the idea that the current position of the Commission in favour of a harmonised tax base and the prudent stance with regard to rates' harmonisation or minimum tax rates in the corporate tax area is justified.

Nevertheless, in view of the rapidly evolving situation in the EU countries, the Commission will continue to monitor developments in tax competition in view of the concerns mentioned above.

To conclude, I believe that the constructive approach we are proposing can significantly improve the tax environment for all taxpayers, and make the EU a more favourable place to live and to operate.

Of course, it is not easy to reach agreement within the EU on any tax proposals and initiatives, but we are confident of success. Each issue demands the most appropriate approach. There is a lot of work to be done, and it will not be easy, but if we want to improve the Single Market, and to fulfil the Lisbon objectives, we must persevere – after all, I think you will agree the potential benefits are well worth it!

Speech 2: Taxation in Europe: Conference on tax matters for Central European financial and accounting professionals, Budapest, 11 June 2009

"Tax harmonisation in the EU and the economic crisis"

I am honoured to have been invited to address this distinguished audience and to introduce two days of high-level reflection on taxation in Europe. I have been asked to present my views on "Tax harmonisation in the European Union and the economic crisis". Therefore, I will deal with:

- *first, the challenges posed by the economic crisis to tax policy*
- *and then the need for harmonisation as well as co-ordinated measures at EU level, in particular, some words:*
 - (1) *on the EU policy of co-ordinating Member States tax systems;*
 - (2) *on the Common Consolidated Corporate Tax Base*
 - (3) *and finally on the importance to promote good governance in tax matters.*

Please allow me to focus today on the area of direct taxation so that I will not touch the question of harmonisation of indirect taxation.

The global economy is in the midst of the worst recession in decades. The financial crisis has turned into a global economic crisis. This calls for co-ordinated international action to mitigate the effects of the crisis and to rebuild the confidence of consumers and companies. With the European Economic Recovery Plan, the Commission set the path for co-ordinated action in the European Union.

Aid for the financial sector and the need for fiscal stimulus to fight the crisis are resulting in a significant increase in government expenditures. At the same time, due to the economic downturn tax revenues are in decline putting pressure on financing government's budgets. This will lead to a steep increase in public debt.

Fortunately, we have reformed the application of the Stability and Growth Pact some years ago to better take into account the cyclical conditions of our economies. Now, we have the flexibility to let automatic stabilisers work in this time of economic downturn.

Additionally, the deepest recession for decades required discretionary action to counter the fall in demand and the loss of credibility in our credit institutions. A lot of Member States that were able to do so took this responsibility.

However, responsible policy making also has to ask how the increase in debts will be repaid in the future. Because of the rising debt the room for manoeuvre in government budgets is getting tighter and tighter if we forget to divert our course once our economies will be back on the path of growth.

It is clear, respecting the Stability and Growth Pact will be one of the major challenges in the years to come. We all know that there is basically no alternative to consolidation in the light of the already existing problems of demographic change that are especially severe in the EU.

To consolidate government's budgets with cuts in expenditure alone will be quite difficult. The revenue side will be of equal importance. It is likely that an increase in the tax burden cannot be avoided.

We should keep an eye on the compatibility of these measures with enabling structural changes and economic growth. The promotion of a favourable business environment is at the heart of the Lisbon strategy for growth and employment.

Meeting the Lisbon objectives implies ensuring that Europe is made a more attractive place on the international stage in which to invest and work; promoting knowledge and innovation; and shaping policies that allow European businesses to create more and better jobs.

Therefore, financing governments' budgets in an efficient, robust, and fair way will be a major task in the future. Not only because of the economic crisis but also because other challenges remain equally important.

Does the reaction to the crisis require more harmonisation at the EU level?

There is a large consensus on the fact that the lack of multilateral supervision and regulation has contributed to the financial crisis. The Spring European Council concluded that prudential rules, crisis management arrangements and the supervisory framework concerning financial markets must be strengthened at the national, European and global levels.

To do so, the Spring European Council agreed to adopt swiftly several proposals from the Commission on strengthening EU financial sector regulation and supervision to address regulatory gaps concerning the financial markets.

As a follow-up, two weeks ago, the Commission proposed in a Communication on Financial Supervision in Europe to create a new European Systemic Risk Council and a new European System of Financial Supervisors which will supervise respectively the financial system as a whole and each financial institution individually. Legislation to embody these proposals will follow in the autumn.

But, is a higher degree of harmonisation and co-ordination of national policy actions also the right answer to the crisis in the tax area?

As you know, the main responsibility for direct taxation essentially rests with each individual Member State. Provided they respect Community law, Member States are free to design their national tax systems according to their priorities and preferences.

In addition, any proposal for Community action needs to take full account of the principles of subsidiarity and proportionality. There should only be action at European level where action by individual Member States could not provide an effective solution.

Furthermore, EU legislative proposals on taxation require the unanimity rule within the Council.

The Lisbon Treaty, which needs to be ratified by all EU Member States, does not change the allocation of competences between the Member States and the European Union in the domain of taxation.

When there is a European added value, tax measures have to be taken at Community level to make full use of the Single Market, to dismantle tax obstacles, to improve European competitiveness, to defend national taxing rights as well as to prevent tax fraud and tax avoidance.

I strongly believe that a common EU approach in the area of direct taxation can contribute to overcome the economic crisis and consolidate public finances. Therefore, the Commission's approach entails both harmonisation and co-ordination measures.

Harmonisation means replacing national provisions in one area by common EU legislation. Co-ordination means keeping national laws but rendering the different national laws compatible with the Treaty and with each other.

Let us look in more details to the key EU priorities in the area of direct taxation, namely the co-ordination of Member States' tax systems, the setting up of a harmonised corporate tax base as well as the promotion of good governance in tax matters.

Most of the time, the Commission seeks to promote co-ordination rather than harmonisation.

The Commission is of the opinion that a more co-ordinated approach at the EU level and more effective administrative co-operation between Member States could significantly improve the performance of tax systems. This could help to keep economic activity and "mobile" assets (such as capital and companies) within the European Union, while avoiding the risk of concentrating the tax burden on less mobile bases like labour.

This distinguished audience is well aware of the impact of judgments of the European Court of Justice on Member States' direct tax systems.

The European Court of Justice case law has illustrated how the tax treatment of losses in cross-border situations, exit taxation, withholding taxes on cross-border income and anti-abuse rules can constitute tax obstacles to the Single Market, to mention a few examples.

In these domains, we still encounter situations where individual or corporate taxpayers risk being subject to discrimination or suffering double taxation. Conversely, from a Member State perspective, there is a greater potential in cross-border situations for inadvertent non-taxation or abuse and hence erosion of tax bases. These problems have only been partly addressed in Member States' bilateral tax treaties which, in addition, sometimes fail to take into account the EU dimension.

The Commission believes such problems may often best be resolved through tax policy co-ordination, rather than through unilateral measures only. The objective of the co-ordination initiative launched in December 2006 (and followed up by a number of more specific initiatives) is to ensure, as mentioned earlier, that the Member States' direct tax rules would not only be compliant with the EC Treaty obligations but also with each other.

More specifically we want to:

- remove discrimination and double taxation;*
- prevent inadvertent non-taxation and abuse;*
- reduce the scope for tax avoidance and evasion as well as*
- reduce compliance costs associated with being subject to more than one tax system.*

The discussions on co-ordination have had a promising start. In March 2007, the ECOFIN Council unanimously endorsed the principle of co-ordination. Since then there have already been several technical meetings between interested Member States on exit taxes, cross-border donations to charities and anti-abuse rules, some of which have already brought about concrete results. In this regard, I should in particular mention the adoption by the Council of a Resolution on co-ordinated arrangements for exit taxation on the 2nd of December 2008.

The Resolution is a very welcome and important step forward in removing tax obstacles to the proper functioning of the Internal Market by ensuring the elimination of double taxation of transfers of business assets from one Member State to another. Although it does now depend on concrete action by individual Member States to implement their commitments, such tangible results prove that progress can be made in the area of direct taxation through co-ordination.

In the near future, we intend to present further initiatives in the co-ordination area on a range of issues such as withholding taxes on cross-border income and inheritance taxes

While rendering their direct tax systems compatible with Community law, Member States can find satisfactory solutions to the mismatches between the different national provisions. The success of the co-ordination initiatives will depend on EU Member States' willingness to co-operate and invest in common solutions. Of course, the Commission acknowledges that there are limits to what can be achieved through co-ordination. This is why we are also studying other solutions.

The most ambitious long term harmonisation measure on which the Commission is working is the introduction of a Common Consolidated Corporate Tax Base (CCCTB). A CCCTB would enable companies operating in the Single Market to follow the same rules for calculating their tax bases in different Member States of the European Union.

You will remember that the CCCTB would have six main advantages:

- (i) reducing the compliance costs of companies operating across the Single Market;*
- (ii) eliminating transfer pricing requirement within an EU consolidated group;*
- (iii) allowing for cross-border loss relief;*
- (iv) simplifying many international restructuring operations;*
- (v) avoiding many situations of double taxation and*
- (vi) removing many discriminatory situations and restrictions.*

However, it is not the intention of the Commission to harmonise corporate tax rates. The Commission will also propose the CCCTB to be optional.

The CCCTB is a very complex project and there are still some technical issues to be resolved. Nevertheless, rest assured we are working hard on these.

As already mentioned, with the current financial and economic crisis, national budgets and tax systems are under increased threat. Every cent for national authority is important.

In a world where money moves freely, "tax havens" as well as insufficiently regulated international financial centres that refuse to accept the principle of transparency and information exchange can facilitate or even encourage tax fraud and tax avoidance, which negatively affect the tax sovereignty of other countries and undermine their tax revenues.

Fair and efficient tax systems not only play an essential role in ensuring a level playing field for economic relations, trade and investment; but also provide the financial basis for all public spending.

This signifies that good governance in the tax area is not only an essential means of combating cross-border tax fraud and tax evasion; but good governance can also strengthen the fight against money laundering, corruption and the financing of terrorism.

For this reason, the need for international tax co-operation and common standards has now become a regular item on the agenda of discussions in international fora.

You will remember that the G20 Leaders agreed at their summit in London on the 2nd of April "to take action against non-cooperative jurisdictions, including tax havens" in order to protect their public finances and financial systems.

As you may know, as a result of this increasing pressure at international level, many jurisdictions have reacted recently by expressing their willingness to apply international standards of transparency and information exchange from now on. This was inconceivable a few months ago!

I very much welcome this significant progress and I express the hope that the commitments from third countries will be swiftly implemented with EU Member States.

Following on from the G20 meeting, on the 28th of April, the European Commission adopted a Communication on promoting good governance in tax matters. By good governance, we mean the application of principles of transparency, information exchange and fair tax competition. The EU finance ministers briefly discussed the Communication at the ECOFIN meeting in May and [good progress is being made in technical discussions]/[I was very pleased with the Council Conclusions at Tuesday's ECOFIN council which supported our work in this are]* Delete one of these depending on outcome of 9 June ECOFIN.*

The Communication is designed to identify the particular EU contribution to good governance in the area of direct taxation, both within the EU and beyond. It entails both harmonisation and co-ordination measures.

The first important message is that good governance should be strengthened in the tax area within the EU. For example, the Communication calls on Member States to swiftly adopt three legislative proposals. Those are proposals for Directives on administrative co-operation, mutual assistance in the recovery of taxes and savings taxation.

I wish to stress here a specific point on the new Directive proposal on administrative co-operation in the field of taxation that the Commission presented on the 2nd of February this year. The proposal contains a provision according to which bank secrecy could not be used by a Member State to block requests for information from another Member State relating to certain non-residents. This is entirely in line with the international consensus on tax information exchange.

I would like also to underline the importance of the review of the savings taxation Directive. The refinements which are suggested by the Commission seek to improve the Directive, so as to better ensure the taxation of interest payments which are channelled through intermediate tax-exempted structures, including trusts, foundations or other vehicles like those established in Liechtenstein that were used in the fraud cases reported by the press in 2008.

The proposal also aims to extend the scope of the Directive to income equivalent to interest obtained through investment in some innovative financial products as well as in certain life insurances products.

Each of the amendments proposed by the Commission has been inspired by the wish to reconcile as far as possible three objectives:

- *improving the effectiveness of the measures;*
- *improving transparency of the markets and their operators as well as*
- *keeping implementing costs for economic operators limited and proportionate.*

I am personally convinced that all three Directives on administrative co-operation, mutual assistance and on savings are essential steps to significantly improve the smooth functioning of national tax systems within the Internal Market and to protect tax revenues at the same time. It would also be a clear political message to third countries, by putting an end to the criticism that the EU might appear to require more from third countries than from its own Member States. In other words, the EU should pave the way.

The second important message of the April Communication is that the coherence between EU policies towards third countries needs to be improved. The deepening of economic relations between the EU and its partner jurisdictions should always be accompanied by commitments to good governance principles.

Finally, the Communication proposes ways of ensuring more coherence between Member States' individual policy positions in the international tax arena. This would include, where appropriate, a co-ordinated response to jurisdictions that refuse to apply good governance principles.

I believe that we are engaged in a new era of world-wide co-operation and shared values in the tax area. Agreements with as many third countries as possible on common principles of co-operation and transparency in tax matters should help EU Member States and their partners to balance the need to protect their revenues and their social and public spending policies with the need to open up their economies so as to promote growth and jobs.

I am also convinced that we need to give a clear message on our commitments to the principles of good governance in tax matters and our preparedness to go forward with a common position, which promotes transparency as well as tax co-operation and takes into account the specific priorities of the European Union.

The time is now right for Member States and third countries to work together, to encourage and support the move that has now started towards a broader acceptance of international standards of tax co-operation.

I believe that the constructive approach we are following can help to overcome the economic crisis and to consolidate public finances. Indeed the tax measures we are proposing should improve the tax environment for all taxpayers and make the EU a more favourable place to live and to operate.

The Commission's approach entails both harmonisation and co-ordination measures. The key priorities are in the short term the promotion of good governance in tax matters and the co-ordination of Member States' tax systems. In the long run, we intend to introduce a harmonised corporate tax base.

The promotion of good governance should help Member States to defend national taxing rights by preventing tax fraud and tax avoidance. The co-ordination of Member States'

tax systems and the introduction of a Common Consolidated Corporate Tax Base will help to dismantle tax obstacles and to make full use of the Single Market.

Of course, it is not easy to reach agreement within the EU on any tax proposals and initiatives, but we are confident of success. Each issue demands the most appropriate approach. There is a lot of work to be done, and it will not be easy, but if we want to improve the Single Market, and thereby contribute to the Lisbon strategy and put Europe back on the path of growth, we must persevere – after all, I think you will agree the potential benefits are well worth it!

Thank you for your attention.

Speech 3: January 2009

VAT Fraud and invoicing

I would like to inform you that today the Commission agreed to send to the Council, the Parliament and the European Economic and Social Committee a proposal to review the VAT rules on invoicing.

This proposal is part of the EU strategy to better combat VAT fraud and is a key element of the Commission Action Programme to reduce burdens on business by 25% by 2012.

Due to the many options available to Member States in implementing national VAT invoicing rules, these rules are excessively complicated and disparate. This has led to unnecessary administrative burdens on businesses operating cross-border. However it did not help Member States to tackle fraud, including the detection of carousel fraud.

In today's important initiative on new invoicing rules, the Commission puts forward much simpler, harmonised, modern and comprehensive rules with a view to reducing burdens on business; increasing the use of electronic invoicing; promoting small and medium sized enterprises; and helping Member States tackle fraud.

Reduction of burdens on business will mainly be obtained by means of equal treatment of paper and electronic invoices. A Commission study has measured that a move to a 100% e-invoicing system for all businesses could save up to a maximum of 18 billion Euro. The Commission therefore proposes to eliminate current barriers to e-invoicing in the VAT Directive, mainly by removing the conditions linked to transmission of invoices in order to ease the strict requirements on e-invoicing regarding authenticity and data integrity. The proposal also addresses difficulties businesses face in respect of the conditions relating to the issue, the content and the storage of an invoice, particularly the electronic storage of invoices by removing many of the options available to the Member States.

To help SMEs, the Commission proposes to widen the use of simplified invoicing, notably for small value invoices (up to €200) but also in certain situations where the risk of fraud is reduced (mainly in business to consumer transactions). Moreover, the Commission gives Member States the option to introduce an SME oriented cash accounting scheme

under which the tax becomes due only when the invoice is paid. These measures complement the Small Business Act that was adopted by the Commission in June last year.

Finally, the proposal supports the EU coordinated policy to combat VAT fraud by ensuring that businesses report any intra-Community transaction to tax administrations in the month of that transaction, thereby abolishing the current possibility to report it the following month. This will provide tax authorities with the details on cross border movements of goods sooner. As a consequence, Member States will be able to detect carousel fraud earlier than is currently possible.

Those proposed measures take up the real concerns of the business Community but also those of the tax administrations that were expressed during the preparatory work carried out by my services.

I therefore call Member States to rapidly start discussions on the proposal in order to reach adoption of the new rules as soon as possible.

I thank you for your attention.

<p>Speech 4: International conference on the Modernised Customs Code, Budapest, 9-11 March 2005</p>
--

I am pleased to share with you my vision of how customs in general and a modernised Customs Code in particular can contribute to the strategy of the EU.

As you are aware the Customs Union has been the core of the European integration; and since 1992 when it was adopted the Customs Code has been the pillar of the internal market.

Since then, the world has changed and so have the needs of traders. The EU is facing new challenges. There has been a sharp decline in the level of customs duties. Some of the current customs procedures are so complicated that they penalise traders who are doing business in more than one MS. In some cases, the current Code leaves some margin of interpretation which may result in divergent application of the common rules. We are entering the digital era; all Member States have developed IT systems for electronic declarations. E-Europe and e-government demand e-customs. The current code however is based on the principle of paper declarations. Consequently, we need a modernised Customs Code. And the European Commission is firmly committed to modernisation

We need a simpler structure, a more coherent terminology, fewer articles and simpler rules as well as common rules with fewer exceptions.

Some weeks ago the Commission adopted its strategy for the next five years. The three key objectives in this strategy are: prosperity, solidarity, security. These are what 450 million citizens are expecting from the Union.

What are the major challenges that the EU should face today and in the years to come? One is apparently the global competition between the major players of the world economy. The rate of economic growth which is a sine qua non condition of prosperity, which provides the financial resources for social cohesion and for the protection of the environment depends largely on the level of competitiveness.

Another major challenge that the EU has to face and properly address is the growing variety of threats to our security. The question is: can customs reinforce competitiveness and security? Can customs help to reach these two objectives which a priori look contradictory? The answer is yes! And the keys to the solution are: the proper functioning and the security of the internal market.

Customs legislation should eliminate the administrative burdens and should provide a level playing field, for example equal conditions for businesses in each and every Member State.

Customs administration should facilitate trade transactions. Companies should do business in compliance with the legal framework and the administrative requirements. Partnership and close cooperation is needed between customs administration and the business sector. All players: the legislators – including the Commission-, the customs administrations and the companies should think in European or even in global dimensions.

In recent years regulatory barriers to the free movement of goods and services have been gradually eliminated. Common rules have been put in place which enhance business with third countries. But our customs rules and procedures need to be modernised in order to promote a real partnership between customs and businesses and to benefit fully from all the advantages that new technologies can offer.

Outdated or unnecessarily complicated legislation, rules that are open to divergent interpretation penalise businesses operating in the EU and beyond. SMEs which provide a large proportion of jobs are particularly exposed to these problems.

The modernised Customs Code should and will adapt customs legislation to the needs of European businesses operating globally. It will improve the functioning of the internal market by simplifying customs treatments and processes, by creating a level playing field for businesses independently of the Member State in which they operate and by leaving as little room as possible for divergent interpretation and implementation.

The modernised Customs Code should and will provide a legal base for introducing Information and Communication Technologies in customs treatment and processes in compliance with e-government practices. It will provide for a Single Window/One-Stop-Shop offering businesses one single access-point for trade transactions allowing traders to save time and money in their daily business, to facilitate compliance for traders and law enforcement for customs administrations.

Since 11 September 2001, customs legislations, customs policy and their implementation are aimed at strengthening the security of the EU and its external borders. Without setting new obstacles in the way of legitimate trade, EU customs should provide an effective instrument to combat terrorism. But EU customs should also play a key role in combating counterfeiting which does not only harm our economies but endangers more and more the health and safety of the consumers.

The European Commission is encouraging:

a) Cooperation between the customs authorities of the Member States.

This should imply risk assessment using electronic information received in advance of the arrival of the cargo and security checks as early as possible before exportation. This new approach has already been approved by the Council and the European Parliament and soon will be published as an amendment to the current Customs Code.

b) Enhanced cooperation with border agencies.

This should imply electronic exchange of information between customs authorities and border agencies as well as other administrations.

c) Partnership between traders and customs authorities

It implies the Authorised Economic Operator scheme which allows to certify operators for security purposes.

These principles are well reflected in the draft modernised Community Customs Code in which the Commission proposes a number of measures to tighten security around goods crossing international borders.

These measures will result in faster and better targeted checks which will reconcile the demands for trade facilitation and improved security.

Combating security risks like terrorism and counterfeiting needs a closer cooperation between the EU and third countries with special attention to our major trading partners.

The EU/US agreement and cooperation on container security has been a very important step. But the Commission is working on the strengthening of security in the whole supply chain. To achieve this target, the Commission is planning to conclude similar agreements with other major trading partners. We are also strengthening cooperation with the WCO for this purpose.

The EU/China agreement on customs cooperation with special reference to combating counterfeiting has been another major step aimed at strengthening the safety of our citizens against counterfeit products, more than 60% of which come from China. We seek similar agreements with other countries in order to cut counterfeiting at its roots.

This is the last event in a long process of consultations aimed at the elaboration of a modernised Community Customs Code. The last before the Commission finalises the draft proposal which will hopefully be adopted by the Council, by the European Parliament with a supportive opinion of the ECOSOC. The Commission is open to your comments, remarks and suggestions. That is exactly what we expect from this seminar.

Speech 5: First International Conference on Tax Law, Valencia, 21 May 2009

"Tax Policy for maintaining jobs and serving the future economy"

I feel honoured to have been invited to address such a distinguished audience and to conclude this high level conference on direct taxation in a global economy.

I would like to present to you some of the tax policy initiatives of the European Commission, some proposals aimed at tackling the global financial and economic crisis.

I strongly believe that tax policy coordination, closer cooperation between Member States and their tax authorities and harmonized tax measures where appropriate can protect the legitimate tax revenue of Member States by combating tax avoidance, evasion and fraud, can reduce the scope of black and grey economy, can maintain jobs and can help to create new jobs.

They can support Small and Medium-size Enterprises which are particularly vulnerable in the crisis, can contribute to the consolidation of the economy and can enhance competitiveness.

I understand that this conference has been focusing on direct taxation but I hope you would not mind if I elaborate on some European Commission initiatives in the field of indirect taxation which can also contribute to tackling the global economic crisis.

Let me start with a very timely issue, with our fight against tax avoidance, tax evasion and tax fraud which result in an estimated loss of 200-250 bn Euro a year on Community level.

Our general answer is the promotion of good governance in tax matters, that is the promotion of transparency, exchange of information and fair tax competition.

Our point of departure is that good governance in tax matters should be strengthened first within the European Union as we cannot require more from third countries than from our own Member States.

On the 2nd of February this year the European Commission adopted Draft Directives on administrative cooperation and mutual assistance for the assessment of taxes and their recovery.

The key element is certainly a provision according to which bank secrecy cannot be invoked any more by Member States to reject requests for information of tax purposes from other Member States relating to their resident tax payers.

On the 28th of April the European Commission adopted a Communication on promoting good governance in tax matters that is the implementation of transparency, exchange of information and fair tax competition on a global scale.

The Communication urges Member States to improve coherence of their policies in their relations with third countries. The deepening of economic cooperation should always be accompanied by commitments to the principles of good governance in tax matters.

Coherence should also include, where appropriate, coordinated response to jurisdictions that refuse to apply the principles of good governance in tax matters.

These initiatives of the European Commission received a strong political support from the G20 Summit in London which explicitly declared that the era of bank secrecy is over and expressed the determination of the G20 group to introduce sanctions against uncooperative jurisdictions.

On the eve of the G20 Summit nearly 40 jurisdictions from all over the world including 5 non-EU member European countries declared their commitment to the OECD standards of transparency and information exchange and expressed their willingness to cooperate in tax matters. Now the question is the implementation of these commitments. After the London Summit I had talks with the Secretary General of OECD and we agreed that OECD and European Commission will closely monitor together how formerly non-cooperative jurisdictions and tax havens will fulfil their commitments in practice.

Now we expect the first substantive discussion on the Draft Directives and the Communication on ministerial level at the June ECOFIN.

Now I would like to focus on another major field of potential tax evasion, the taxation of savings.

Before 2005 it was easy to avoid taxation of savings as Member States of the European Union did not tax the saving income of non-resident taxpayers.

On 1st of July 2005 the Savings Taxation Directive entered into force. It enabled the taxation of savings income received abroad in accordance with the rules of the residence country of the taxpayer.

Savings Taxation Directive is the first example of growing transparency though automatic information exchange as paying agents should send information on the savings income paid to non-residents to the tax authorities of the residence country of the beneficiary.

However 3 Member States are allowed for a transitional period to retain an increasing percentage of withholding tax (15 – 20 -35 %) and transfer 75 % of it to the country of residence of the beneficiary instead of exchanging information.

The provisions of the Savings Taxation Directive have been extended by bilateral agreements between the European Commission and 5 non-EU-member European countries plus 10 dependent and associated territories of United Kingdom and Netherlands (the 5 and 6 of the ten retain withholding tax).

A provision in the Savings Taxation Directive suggests to review the functioning of the system in every third year. Accordingly in September 2008 the European Commission presented a report which identified the shortcomings and loopholes of the Directive. In November the report was followed by a Proposal to amend the Directive in order to close the loopholes.

The proposed major changes are:

- to extend the Directive to payments channelled through intermediate tax-exempted structures (foundations and trusts) like it happened in the Liechtenstein case;

- to extend the Directive to income from other so-called innovative financial products like capital guaranteed bonds and from life insurances.

On the 24th of April the European Parliament approved the European Commission's proposal which is now on the table of ECOFIN. Technical discussions are well advanced in the Council and the Czech Presidency is expected to present a progress report on them to the June ECOFIN meeting.

If we achieve substantial progress we would start consultations with the 5+10 and I hope they will maintain cooperation even under the new conditions.

We have started negotiations with Norway as it has indicated its willingness to join to the savings taxation arrangement.

Last year we also launched exploratory talks with 3 Asian financial centres (Hong-Kong, Macao, Singapore) about their participation. They showed reluctance to exchange information.

However soon after the G20 Summit the Financial Secretary of Hong-Kong came to Brussels and expressed their inclination to cooperate and to exchange information.

My expectations are that:

- we reach agreement within the European Union this year and the 5+10 will join next year

- Norway, Hong-Kong, Macao and Singapore will also join next year.

Speaking about our fight against tax fraud I have to refer briefly to an important initiative of the European Commission in the indirect taxation area. This is our strategy against VAT fraud.

In 2006 we proposed 3 options to combat VAT fraud:

- the generalized reverse charge system

- *the taxation of intra-community supply*
- *the better use of conventional methods*

as the first and second innovative (radical) options did not get majority support we decided to champion the third option which would cover:

- *more effective control;*
- *improved cooperation between our tax authorities;*
- *more rapid exchange of information on transactions;*
- *free access to the data base of each others;*
- *e-invoicing*

we are presenting these proposals one by one to the ECOFIN. Some of them have already been adopted.

I want to elaborate briefly on another European Commission initiative in the indirect taxation area which helps to maintain jobs and even to create new ones. This is the extended use of reduced VAT rates.

Concerning the scope of reduced VAT rates, there are two diametrically opposing schools of thinking:

- *a rather small but stubborn group of Member States (Germany, Denmark and some of the flat tax countries) considers reduced VAT rates as a loss of revenue; they are strongly against any extension*
- *the majority of Member States consider reduced VAT rates as an efficient instrument to promote specific policy purposes (employment, environmental, cultural, public health etc.); they are for appropriate application, including reasonable extension*

Apart from the antagonism between the 2 groups, there are some common denominators on EU level

- *the application of reduced VAT rates should be optional and not mandatory*
- *the application of reduced VAT rates should not distort competition in the IM/SM (they can be more freely applied on locally supplied services while reduced rates on goods would result in cross-border shopping!)*

After more than 12 years of intensive debates the ECOFIN in March adopted the proposal of the European Commission and now all Member States are allowed to apply reduced VAT rates on permanent basis on:

- *small repairs (clothes, shoes, watches, bicycles, etc.)*
 - *renovation of private dwellings*
 - *home care services*

- *hairdresser services*
- *restaurant services*
- *audio books*

all these items appear now on Annex III. of the VAT Directive. Consequently those Member States which applied reduced VAT rates (5-6%) on some of these items but on the basis of derogations valid until the end of 2010 should not have to return to standard rate of 20-25 % what would have resulted in thousands of Small Businesses going bankrupt and in the loss of tens of thousands of jobs.

So this decision on the extended use of reduced VAT rates has given support to SME-s, has maintained a large number of jobs and may even has helped to create new jobs.

Now I would like to speak about a proposal which is in the pipeline of my Cabinet and my services but which would not be appropriate to be presented to the Commission and to the ECOFIN Council.

It is the CCCTB which is closely related to the Lisbon Strategy as it would enhance competitiveness, would reduce compliance costs and administrative burdens on businesses.

- *today the 27 Member States use 27 different methods to calculate the tax base*
- *this handicaps the European Union vis a vis the United States where the 50 federal states use the same method to calculate the tax base*
- *to introduce one single method to calculate the tax base in all 27 Member States would have a number of advantages:*

it would reduce the compliance costs of companies that are operating across the SM

it would eliminate transfer pricing requirement within an EU consolidated group

it would allow cross-border loss relief

it would simplify international restructuring operations

it would avoid double taxation

it would remove discrimination

- *the proposal has got support from at least 20 Member States and particularly, strong support from Germany, France, Austria, Benelux, Italy and Spain; from the European Parliament; from the European Economic and Social Committee; from the business community.*

A few Member States however are opposing or at least have reservations:

Ireland and the United Kingdom are concerned about their tax sovereignty; my answer is that as our proposal would not touch the Corporate Tax Rates which would remain in the competence of Member States, tax sovereignty would not be infringed upon; some of the

flat tax countries are concerned that the harmonized base would be less broad but with more exemptions and exceptions than their currently used Corporate Tax Base my answer is that the Commission wants a common base which is as broad and as simple as possible, free of exemptions and exceptions:

- however having in mind the Irish Referendum and the position of Ireland it would not be wise to risk the ratification of the Lisbon Treaty with a heated debate on the CCCTB.

- so we can wait and use the time to prepare more deep going impact assessment to prove that the CCCTB would benefit European business and foreign investments in Europe, it would enhance competitiveness and would help the recovery of European Economy after the crisis will be over.

This distinguished audience is well aware of the impact of judgments of the European Court of Justice (ECJ) on Member States' direct tax systems.

The European Court of Justice case laws have illustrated how the tax treatment of losses in cross-border situations, exit taxation, withholding taxes on cross-border income and anti-abuse rules can constitute tax obstacles to the Single Market, to mention just a few examples.

In these domains, we still encounter situations where individual or corporate taxpayers risk being subject to discrimination or suffering double taxation. Conversely, from a Member State perspective, there is a greater potential in cross-border situations for inadvertent non-taxation or abuse and hence erosion of tax bases. These problems have only been partly addressed in Member States' bilateral tax treaties which, in addition, sometimes fail to take into account the EU dimension.

The Commission believes such problems may often best be resolved through tax policy co-ordination, rather than through unilateral measures only. The objective of the co-ordination initiative launched in December 2006 (and followed up by a number of more specific initiatives) is to ensure that the Member States' direct tax rules would not only be compliant with the EC Treaty obligations but also with each other.

More specifically we want to:

remove discrimination and double taxation;

prevent inadvertent non-taxation and abuse;

reduce the scope for tax avoidance and evasion as well as

reduce compliance costs associated with being subject to more than one tax system.

The discussions on co-ordination have had a promising start. In March 2007, the ECOFIN Council unanimously endorsed the principle of co-ordination. Since then there have already been several technical meetings between interested Member States on exit taxes, cross-border donations to charities and anti-abuse rules, some of which have already brought about concrete results. In this regard I should in particular mention the adoption by the Council of a Resolution on co-ordinated arrangements for exit taxation on the 2nd December 2008.

The Resolution is a welcome and important step forward in removing tax obstacles to the proper functioning of the Internal Market by ensuring the elimination of double taxation of transfers of business assets from one Member State to another. Although it does now depend on concrete actions by individual Member States to implement their commitments, such tangible results prove that progress can be made in the area of direct taxation through co-ordination.

In the near future, we intend to present further initiatives in the co-ordination area on a range of issues such as withholding taxes on cross-border income and inheritance taxes

Of course, the Commission acknowledges that there are limits to what can be achieved through co-ordination but it believes that there is an added value in working at EU level. While rendering their direct tax systems compatible with Community law, Member States can find satisfactory solutions to the mismatches between the different national provisions.

The success of the co-ordination initiatives will depend on EU Member States' willingness to co-operate and invest in common solutions. The Commission for its part is willing to assist Member States in developing such co-ordinated solutions, as it is convinced that this could significantly improve the performance of tax systems which in turn can help to keep economic activity and 'mobile' assets in the EU.

To conclude, I believe that the constructive approach we are proposing can significantly improve the tax environment for all taxpayers, and make the EU a more favourable place to live and to operate.

Of course, it is not easy to reach agreement within the EU on any tax proposals and initiatives, as unanimity is needed, but we are confident of success. Each issue demands the most appropriate approach. There is a lot of work to be done, and it will not be easy. But if we want to improve the Single Market, and thereby contribute to the Lisbon strategy, if we want to put Europe back on the path of higher rate of growth, more jobs and enhanced competitiveness, the potential benefits are well worth it!

Thank you for your attention.

Speech 6: Press Conference, 13 November 2008, Brussels

Review of the Savings Taxation Directive

Today the Commission agreed to send to the Council and Parliament a proposal to amend the Savings Taxation Directive with a view to close loopholes in the existing legislation and consequently to eliminate tax evasion. Recent tax evasion cases have clearly demonstrated the importance of international cooperation in the area of direct taxation, with a view to preventing fraud and evasion linked to cross-border financial investments.

Tax fraud and tax evasion deprive Member States of essential financial resources. Today this problem is more acute than ever as governments will be facing the first effects of the financial crisis. While well-off individuals tend to benefit most from the existing loopholes in the Savings Tax Directive, the first victims of tax fraud and tax evasion are the least mobile workers and consumers who could face higher taxation levels that the Member States introduce to compensate their losses.

The introduction in 2005 of the Savings Taxation Directive, together with the related agreements concluded with five non-EU European countries and with 10 dependent or associated territories of the Netherlands and the United Kingdom should certainly be considered as an important step in the process to tackle tax evasion and tax fraud.

As you know, since 2005, the Savings Directive ensures that paying agents either report interest income received by taxpayers resident in other EU Member States or levy a withholding tax on the interest income received. A paying agent is every person who pays interest to individuals in the framework of a professional activity such as a financial institution, a bank or an independent asset manager.

The Commission proposal seeks to improve the Directive, so as to better ensure the taxation of interest payments which are channelled through intermediate tax-exempted structures and to extend the scope of the Directive to income equivalent to interest obtained through investments in some innovative financial products and in certain life insurance products.

The choice is left to the Member States or jurisdiction of residence of the interest recipients whether or not to tax that type of income.

In this sense, the directive and the accompanying agreements are nothing else than a tool for enabling both EU Member States and the participating non-EU jurisdictions to exercise their taxation rights concerning their residents.

The first report on the operation of the directive that the Commission issued in September led to the conclusion that within the limited scope unanimously agreed by the Council in 2003, the Directive proved to be effective. However, it also concluded that at present it is relatively easy for individuals to circumvent it:

- either by using interposed entities and arrangements such as foundations or trusts which are not taxed on their income;

- or by rearranging their portfolio of financial products in such a way that income which is equivalent to interest from debt-claims obtained through investments in some innovative financial products as well as in some life insurance products remains outside the formal definition of interest payment.

Therefore, today's proposal contains two main elements.

***First**, the Commission proposes to improve the Directive so as to better ensure taxation of interest payments which are channelled through intermediate tax-exempted structures.*

For instance, if a bank within the EU pays interests to a trust in Switzerland or in Hong-Kong and if it knows, under the anti-money-laundering provisions, that the effective

beneficial owner of the trust is an individual resident in the Union, the bank will be required to apply the provisions of the Directive at the time of the payment to the trust as if this payment was directly made to this individual.

*For interest payments made to untaxed intermediate structures **established within the EU**, including some non-charitable trusts and foundations, all those structures will be obliged to apply the provisions of the Directive (exchange of information or withholding tax) **upon receipt** of any interest payment from any upstream economic operator wherever established, for the benefit of an EU individual*

For instance, if an untaxed trust established within the EU receives interests from an economic operator (bank, financial institution, independent professional) wherever established, it will be obliged to apply the provisions of the Directive (exchange of information or withholding tax) upon receipt of the payment, regardless of the actual distribution of any sum to the individual beneficial owner.

***Second**, in order to avoid circumvention of the Directive by investing savings in income equivalent to interest but not in the scope of the Directive, the Commission proposes **extending the scope of the Directive to income substantially equivalent to interest** in terms of risks, flexibility and agreed return on investment, such as income obtained through the investment in some **innovative financial products** with capital protection, as well as in **certain life insurance products** where the mortality or inability risk is merely ancillary, compared to the main purpose of obtaining a return on the capital invested.*

In order to preserve the competitiveness of EU financial operators in the global market particular care has been taken to limit any additional administrative burden on EU market operators. That's why we provide compliance lists through new Annexes.

Once Member States agree on the ways of closing existing loopholes, I expect the Council will ask the Commission to examine the willingness of non-EU countries and jurisdictions participating in the mechanism to update their respective agreements in a similar way. However, it is premature to speculate today on how they will react to our approach, as the EU first needs to reach a unanimous agreement internally.

I would like however to stress that it is to all parties' interest to go further in extending the geographical scope of measures equivalent to those of the Savings Taxation Directive. The application by key non-EU financial centres of measures equivalent to those applied by Member States and third parties participating in the savings taxation mechanism will ensure a level playing field for financial intermediaries throughout the world. It will improve the degree of confidence and mutual respect which is absolutely necessary to overcome and prevent difficult crises like the one which is presently severely affecting the global financial markets.

As you already know, following the request of the ECOFIN Council, the European Commission has launched discussions with selected important financial centres, namely Hong Kong, Singapore and Macao.

Formal negotiations will start shortly with Norway, at its request, whilst other jurisdictions like Bermuda and Iceland have shown interest in participating in the savings taxation arrangements.

The proposal put forward by the Commission will be sent now to the Council (ECOFIN), to the European Parliament and to the European Economic and Social Committee.

The French Presidency of the Council has already ensured that Ministers of Finances will have a first discussion on the proposal at the next ECOFIN meeting on 2 December.

I expect to receive the opinion of the European Parliament and the European Economic and Social Committee by April 2009, before the closing of the parliamentary sessions for the EP elections. I also expect the Czech Presidency to undertake the necessary steps and make significant progress at the June 2009 ECOFIN.

The respect of this tight timetable could lead to the final adoption of the amending directive by the Council still during 2009, in time for allowing paying agents to adapt their information systems for the actual application of the new provisions from 2012. I believe that the current financial crisis that we are experienced will create the necessary political momentum and we will achieve agreement in the Council. The issue is very important and the times emerging.

I thank you for your attention.

<p>Speech 7: Annual conference of the European Environmental Bureau, Brussels, 26 September 2008</p>

I want to express my thanks to John Hontelez, the Secretary General of the European Environmental Bureau and his colleagues for the invitation to participate in this Conference and for the possibility to introduce the discussion of this high level panel.

I am happy to see that a number of Member States are represented here on the panel which have either already acquired significant experience with the use of market-based instruments for environmental purposes or are to introduce such measures in the near future.

Introducing the debate I would like to outline what the Commission thinks about the use of Market Based Instruments for environmental purposes and for promoting a low-carbon economy.

Our concept is based on the results of a public consultation on a Green Paper that we launched last year on the internet. You can find the outcome of the debate on our website.

Our aim is to review the current Energy Taxation Directive to make it fully compatible with the energy and climate change goals of the European Union. (20 % increase of energy efficiency; 20 % decrease of CO2 emission 20 % share of renewables in the energy mix and 10 % share of biofuels in the total fuel consumption by 2020).

I would like to table the amended Energy Taxation Directive and an envisaged proposal to apply reduced VAT rates on services promoting energy efficiency, on energy saving

household appliances and environment friendly materials in the framework of a Green Tax Package to the Council at the end of the year.

Another proposal which is already on the table of the Council would change the structure of car taxation introducing a CO2 emission element into the tax base.

The fiscal instruments of the Green Tax Package would complement the Emission Trading System which would replace the free allocation of CO2 emission permits with mostly auctioned permits.

These fiscal instruments would also promote the attainment of individual CO2 emission targets for Member States in sectors outside the Emission Trading System and the so called effort sharing regulation as well as the specific targets for the use of renewables.

What are the objectives in the focus of the review of Energy Taxation Directive which currently fails to treat the different energy products in a modern, efficiency and environment oriented way but rather sets levels of taxation in compliance with the historic practice of Member States? The N°1 objective is to strike a proper balance between higher energy efficiency and lower Co2 emissions.

In order to promote energy savings, taxation should be based partly on the energy content of each individual energy product, offering an incentive for increased energy efficiency.

However, to reduce CO2 emissions in line with the Kyoto Protocol and in compliance with the targets of the EU's integrated Energy and Climate Change Strategy the tax base should also reflect the level of CO2 emissions.

So the energy taxes should integrate both the energy content and the CO2 emission in the tax base.

I want to emphasize that we should avoid the duplication of burden. Therefore only one of the two instruments – either Emission Trading System or CO2 taxation - shall apply.

Emission Trading System excludes the so called small installations because for them the administrative burden of measuring emissions would be too costly. Therefore Member States should apply equivalent measures to such installations which can and should be taxation

As far as tax rates are concerned, Member States will have to adjust their rates in a way that helps them to attain the individual targets set by the European Council.

In line with the climate change strategy, biofuels will not be subject to CO2 tax but will only be taxed on the basis of their relatively low energy content. That will give some tax and price advantage to biofuels over the fossil fuels.

To conclude: the planned changes to the Energy Taxation Directive and the use of other fiscal instruments (like VAT differentiation) will ensure full alignment with the energy and climate change strategy

Mentioning the VAT, we are just now working on a review of the application of reduced VAT rates. Part of this review may be the extension of the application of reduced rates to energy saving services, materials and household appliances.

At the same time we are considering the possibility to abolish the use of reduced VAT rates on environmentally harmful products like pesticides and fertilizers.

I am looking forward to the discussion of this panel and the questions from the floor, which will certainly provide us with useful information, views and experiences that Member States have in this field.

Speech 8: Lunch with European business, Hong Kong, The China Club, 18th November 2005

First of all, I want to express my sincere thanks to the European Chamber of Commerce in Hong Kong, and especially its Chairman, Horst Geicke, for the invitation and for offering me the opportunity to address the European business community in Hong-Kong.

In 1996 I already had the pleasure to visit Hong Kong as the Minister for Foreign Affairs of Hungary. Now I am pleased to be here in a different capacity, as a member of the European Commission, Commissioner for Taxation and Customs policy.

I have, once again, been struck by the extraordinary dynamism, the willingness to modernise, and to adapt to new challenges that is so evident here in Hong Kong. This was immediately apparent to me in the changes in the skyline I saw as I came in from the airport yesterday - the huge new second tower of the International Financial Centre and the other new bank buildings that are emblematic of Hong Kong's emergence as a global financial and services centre – "Asia's World City."

In the space of a decade Hong Kong has recovered from the Asian Financial Crisis; diversified away from an industrial production base; and become a entrepot and service centre not just for Southern China but the world.

Now, I am pleased to be here again in my capacity as a Member of the European Commission, Commissioner for Taxation and Customs policy.

I assume that a main interest of European business here is to have a clear view on the future of Europe in a globalised world. It is with great pleasure that I will share with you my views, focusing on how the policies under my portfolio (taxation and customs) can contribute to the goals of growth, jobs and competitiveness while preserving our social achievements and our environment, the so called Lisbon Agenda.

But above all, I would like to listen to you. I need to know what your concerns and expectations are. How European business in this part of the world perceives the Union and its economic performance. You have a unique viewpoint here - being Europeans

established in the pre-eminent services centre of the East Asian region, intermediating global commerce between East and West, here at the portal to the Pearl River Delta which is the export powerhouse of the world right now.

Some experts have already started to mourn the European Union and have started to prepare for its funeral. In particular after the “no” to the European Constitution in the referenda in France and The Netherlands. The European Union has so far not been able to come to an agreement on the Financial Perspectives for the period of 2007-2013.

Others argue that, like many times in the past, Europe will overcome the difficulties. I belong to this group of people. I even believe that going through a so-called crisis provides the occasion for an in-depth and enriching reflection and allows to “better jump” when the time is ripe to do so.

I am speaking to you at a point in the life of the European Union, which is not the easiest one. It is true. But we should not over dramatise the situation. Look around the planet: are we, Europeans, so unfortunate?

Of course, some European Member States are confronted with economic problems, with high unemployment rates, with increasing deficits. Citizens are complaining, demonstrating in the streets. Look at the situation in France, one of the MS where social discontent led to the rejection of the European Constitution. They protest about globalisation, they want jobs, security and a cleaner environment. They want a future for their kids!

We all agree on the goals. But not necessarily on the means.

Some blame the recent enlargement. But the enlargement is not the reason but much more the victim of the economic problems inside the EU. Recession started well before the enlargement actually took place in 2004.

One of the real challenges for the EU is the current international economic environment characterised by the fast increasing and ever sharper competition from other economic powers like, in particular, China, but also the US, Japan, Russia, India or the Far East in general.

China’s trade surplus with the EU could well reach 120 billion € in 2005! In the last five months China’s exports to the EU increased by 19% - while imports from the EU increased only 3%. These developments are having real social impacts in sectors where China has a comparative advantage, like the textile sector. Just think of the crisis with the Chinese textiles that the Union faced very recently!

The new competitive pressures coming from China and India create fears but also open up possibilities. All this needs an appropriate policy response.

Operating in a globalised economy is indeed a major challenge. But this is as true for Europe as it is for our major partners. Chinese imports from the US and Japan increased only by 1% and 3% respectively over the past five months whereas exports from China to these countries increased by 21% and 12% respectively.

Nevertheless, for China the enlarged 25 member EU has now become the most important trade partner – total EU-25 trade with China is greater than with any other partner (it moved ahead of even the USA last year).

As far as Hong Kong is concerned, the EU is Hong Kong's third trading partner – behind the US and Japan. But in terms of investment capital and flows, and in numbers of companies established in (or with regional headquarters in Hong Kong) the EU is the largest commercial partner of Hong Kong.

Rather than a problem, the new international economic environment should be seen as an opportunity: new markets have their doors open. The EU industry has to boost its ability in upmarket products. This requires investment in new, efficient and clean technologies and major efforts in research, knowledge and innovation. In this regard I have been pleased to learn that Hong Kong investors are expressing particular interest in investing in the new members of the EU as bases from which they can serve the whole EU single market.

In addition, there are other common international challenges like climate change, and epidemics, and poverty, and famine in the third world, not to talk about global threats such as organised crime and international terrorism.

The European Union does have a great deal of responsibility not only for the future of Europe but also for the future of the world. In order to spread its drive and determination for change beyond its borders, the EU needs to solve its internal problems

The EU and its MS have committed themselves to increasing the competitiveness of companies doing business in Europe.

In this context, the main political commitment of the Barroso Commission is to strengthen its engagement to a process of structural reforms of Member States' economies. Growth, employment and competitiveness deserve priority attention in view of the disappointing performances in several Member States within the EU in recent years. This is what the new "Strategy of Growth and Jobs", launched in the Spring of this year, is about.

Despite progress, the current economic and social policies have not yet delivered social justice for all EU citizens with 19 million unemployed. Low growth and widening gaps between the rich and the poor characterize several areas of Europe. If we do not act immediately, our European social and environmental model could become unaffordable, given the international competition and our ageing population.

Let me now focus on my portfolio, taxation and customs policy.

I will start with customs -I am the Commissioner for the European Customs Union and the EU is the largest single trading block in the world. Customs cooperation and issues like counterfeiting, the promotion of trade facilitation and the security of the international supply chain have been the main subjects during my trip this week, both in China and in Hong Kong.

Customs today have a dual role to play. To enhance the competitiveness of EU companies by facilitating the environment in which traders operate and at the same time

to enhance the safety and security of the Community by combating counterfeit, fraud, drugs trafficking, organised crime in general and terrorism in particular. Setting a balance between these two apparently contradictory goals has to be our guiding principle.

Globalisation and trade liberalisation have had very concrete effects on how companies and administrations operate. The volumes of goods moving across the EU external borders are constantly increasing. The complexity of the modern supply chain and the increasing volume of just-in-time deliveries require easily available information on international trade transactions for supplier, buyers, carriers, customs authorities and other border agencies.

The increasing information technologies throughout the supply chain have created a new business environment. Traders expect low customs related transaction costs and rapid clearance of goods and customs have to provide an appropriate response to these expectations.

This is why, under my initiative, the Commission will very soon propose new legislation: the simplification and the modernization of the Community Customs Code and a decision on electronic customs. These will be my major initiatives in the “customs part” of my portfolio during my mandate.

The simplified and modernised Customs Code will provide the legal base for the introduction of e-customs which will make customs controls smoother, quicker and more effective.

Electronic customs declarations will become the rule; paper based procedures will belong to the past.

The EU’s international trade will be facilitated by streamlined and simplified customs procedures and rules, pan-European electronic systems of communication and close cooperation of all the authorities involved in import or export transactions.

This simplification vector of the reform will counterbalance the increase in security and control measures that was triggered by the 9/11 terrorist attacks. In particular, the EU has introduced this year a new legislation – the Security Amendment to the Customs Code. This legal instrument aims at ensuring an efficient and trade friendly control of goods entering and leaving the EU territory.

The EU has also actively contributed to the adoption of the Framework of Standards this year under the World Customs Organisation and intends to pursue the promotion of these standards with its trading partners.

Furthermore, the Commission is promoting international cooperation with the customs authorities of its major trading partners, the most recent example being precisely the entry into force this year of the Customs Cooperation Agreement with China.

I had the honour to open this week the first meeting of the Joint Customs Cooperation Committee under this agreement and the opportunity to discuss with the Chinese Customs Commissioner, Mr Mu, a number of customs cooperation matters. We both have high expectations about our future cooperation.

I also had the honour of meeting Vice Premier, Mrs Wu Yi, with whom I had a very fruitful exchange of views on the relations between the EU and China which should result in a partnership addressing our shared concerns regarding the global scale of counterfeit.

Here in Hong Kong, the focus of my visit has been on customs cooperation as well. We have one of the oldest Customs Cooperation agreements with Hong Kong which dates back to 1999. I opened today the 6th meeting of the Joint Committee and had a fruitful discussion with Mr Tong, Commissioner for Customs and Excises.

Another example of successful international cooperation was the signature last year of an agreement with the US on the security of sea-containers. I know that the ports of Hong Kong, Shanghai and Shenzhen are now also operating under a Container Security Initiative with the US.

Yesterday, I had the great opportunity to visit the Kwai Chung port of Hong Kong. This facility, I understand, deals with more container units than any other in the world, and – a testimony to Hong Kong efficiency – also has the fastest container turnaround and transshipment rates in the world.

Faced with all the containers coming from China, I was convinced, if I still had any doubts about it, that only by cutting off the production of counterfeit can we expect to successfully combat this global plague. Even the best risk assessment and the most efficient controls on earth would not allow a proper response to the global flood of faked products.

The fight against counterfeit and piracy is indeed very high on my agenda. Under my initiative, the Commission adopted in October a Communication on the response by Customs to the problem of counterfeiting and piracy. Customs are generally recognised to intercept some 70% of all the counterfeited products seized worldwide.

The Communication proposed an Action Plan (to be endorsed by the Council of Ministers) which is structured around three main pillars: (1) reinforced control through better legislation and operational controls, (2) cooperation with business and (3) international cooperation.

The Communication underlined the new health and security threats posed by counterfeit and the new methods used by organised networks, in particular through the use of transshipment routes to disguise the true origin of faked items. Ongoing practical coordination and exchanges of views on how to detect and control these transshipment routes is one of the various values added that the EC-HK customs cooperation process is already achieving.

The 103 million counterfeited and pirated goods seized in 2004 by EU Customs represented an increase of more than 12% compared to 2003 and 1000% compared to 1998. But these seizures are only the tip of the world's "fake iceberg".

Legitimate Business and Customs have to work closely together in order to have any chance of success against increasingly professional counterfeit products. In many areas, business is very active and Customs need to support such efforts.

Among the initiatives that need to be promoted in the EU, I can mention:

a) Memoranda of understanding to promote co-operation with key players such as shipping lines, express carriers, airlines

b) working with business to produce practical guides for customs and promote targeted actions in high risk areas (the pilot container security project being implemented between Rotterdam, Felixstowe, Shanghai and Hong Kong ports is a good example of this)

c) regular meetings and seminars with business to focus joint efforts

d) training for business on customs requirements

Public campaigns and other means of informing the consumers and raising awareness of citizens to the new threats of this phenomenon are crucial because as long as there is demand, there will be production and supply.

Now I will turn briefly to taxation policy, the other part of my portfolio.

Let me start by reminding you that we often refer to the Internal Market as the No. 1 achievement of the European integration. And rightly so because with its 450 million consumers it is the largest competitive single market in the world. But we should be aware of the fact that our Internal Market is not functioning properly. Among the remaining hurdles you can find the tax obstacles.

Consequently, the main priority of the EU's tax policy is to remove those obstacles. Our tax policy aims at improving the tax environment for cross-border business in the European Union. We should introduce tax initiatives to encourage the Member States and companies to spend more on research and development and to support environment-friendly technologies and energy policy.

In order to give you an insight into our tax-policy, I will briefly elaborate on a few concrete initiatives.

In the field of direct taxation one of the major obstacles for companies operating in more than one MS, is the fact that in the 25 countries there are 25 different methods of calculating the corporate tax-base. It results in major administrative burdens, in huge compliance costs, in lack of transparency. Consequently, it obviously has a negative impact on the competitiveness of business in the EU.

In order to cope with this problem, we have started to work on a proposal to introduce a common consolidated corporate tax base which is one of my main projects. The business community is strongly supportive for obvious reasons and the overwhelming majority of the EU Member States show a great deal of openness. It is a medium-term priority and we have a long way to go. It is one of my main projects.

In the field of indirect taxation our slogan is simplification. The One Stop Shop proposal aims to ease the VAT compliance burden on economic operators who carry out activities in other Member States but have no establishment there. The proposal would permit traders to fulfil all their VAT obligations for their EU-wide activities in the Member State

where they are established. The business community is supportive and so are most of the Member States.

Two other VAT proposals aim at simplification in the field of services. One would cover the cross-border services from business to business, the other the cross-border services from business to consumers.

I will finally say a few words on a recent Commission proposal on car-taxation which is close to my heart. Indeed it is an excellent example of the combination of different policy objectives.

Currently there are 16 MS that levy registration tax on cars. The amount varies from a symbolic 100 Euro to 16 thousand. But in 9 MS there is no registration tax. This situation results in the fragmentation of the car market, and therefore has a negative impact on the competitiveness of the European car industry. In addition, citizens moving to and settling down in another MS with their cars, are often exposed to double taxation as they may have to pay registration tax even on a car that has already been taxed in the country of origin. Furthermore, currently in most of the MS, taxation is not related to the level of CO₂ emissions of cars.

The new proposal would gradually abolish the registration tax, integrating it into the annual circulation tax over a time-frame of 5-10 years. It would explicitly rule out double taxation. By 2008 25% and by 2010 50% of the total tax on cars would depend on the CO₂ emission of the engine.

This proposal – if adopted – would reduce the fragmentation of the car-market, put an end to double taxation and encourage the car industry to produce cleaner engines. The proposal is therefore car industry-friendly, citizen-friendly and environment-friendly. (Since I know that the level of air pollution in China is an increasing issue, this could be also relevant to Hong Kong and Southern China.)

Another very important taxation issue is that of promoting transparency in financial and tax matters. This is an issue the European Community has been promoting for a number of years and on which it has been particularly active at the OECD Global Forum on Taxation this week in Melbourne. The Commission has encouraged at the Forum third countries and territories to adopt the OECD standards of transparency and effective exchange of information. Further, you are certainly aware of the Savings Tax Directive and of relevant agreements concluded, namely with Switzerland. The aim is the extension to certain other financial centres of equivalent measures to the Savings Tax Directive.

On behalf of the Commission I can assure you that we will continue to work to provide the best possible environment for industry and trade, for business. We are determined to respond efficiently to increased security and safety threats, to fight fraud, counterfeiting and piracy.

Here in this fascinating city where the World Trade Organisation's Sixth Ministerial Conference will occur next month I hardly need to remind you that we are all committed to facilitating world trade in a spirit of liberalisation.

The European Union is at a major crossroad. The right way to go is to choose an avenue of partnership, where both the EU and its major trading partners can share the benefits of the new opportunities.

Speech 9: Transatlantic Business Dialogue, Security and Trade Facilitation

It is a great pleasure for me to speak to your important group today. I believe that there has probably never been such a strong need for dialogue and joint action between business and decision makers on both sides of the Atlantic than in this beginning of the 21st century.

The topic of this conference requires the world's two largest trading blocks to actively work together and show to the world that progress is possible in both tackling security risks and promoting world trade.

Firstly, let us look at security and combating terrorism. Both the EU and the US have suffered serious attacks and we know the dangers to our democratic values today are probably as high as they have ever been.

Terrorism, whether it occurs on our doorstep or elsewhere in the world, ultimately affects any citizen on the planet. So for me, the keywords to counter terrorism are engagement and co-operation.

Since 9/11, the EU and the US have been strengthening their policies and activities, as well as their cooperation in the field of homeland security. Homeland security in EU jargon means "Justice and Home Affairs" when it deals with people but it also includes the security role of customs, thus covering the control of goods. I am responsible in the European Commission for the latter and my colleague and Vice-President of the European Commission, Franco Frattini, deals with the former.

I sometimes have the impression that there is a perception on the other side of the Atlantic that the EU cares less about the threat of terrorism than the US does. I can ensure you that this is a wrong perception: the EU is as committed to enhancing security for its citizens as the US.

Both sides have a common understanding of the risks and threats. Like in many other areas of transatlantic cooperation, we share the goals but not necessarily the means to achieve those goals. We share the values and democratic principles but not always the way to implement them. This reality explains why the Kyoto Protocol has been a cause of tension since 1997, the differences in the Doha Round and periodic trade disputes.

This reality is also reflected in our joint search for reaching a balance between security and fundamental freedoms and between security and trade facilitation.

The governments of the 27 Member States of the European Union now have very active counter-terrorism policies, both within and outside Europe. The EU Counter-terrorism Strategy is structured along four strands: prevention, protection, pursuit and response. The EU, and the European Commission in particular, is firmly engaged in the protection of critical infrastructure, the fight against violent radicalisation and terrorist recruitment, bioterrorism, radiological threats, explosives detection technologies, Internet and terrorism and crisis management. The European Commission is an important provider of assistance for countering terrorism to some 80 countries around the world, in particular in the fields of border management and the financing of terrorism.

One area of particular concern is the threat posed by terrorism and organised crime to the international trading system. This is one of the priority areas for me as Commissioner responsible for Customs policy.

It is impossible to deal with threats posed to the international trade system unilaterally. Unilateral tools cannot serve the ultimate goal which is to respond to a global challenge.

*That is why the EU supports the **SAFE Framework** of Standards to Secure and Facilitate Global Trade, which was adopted in 2005 by the World Customs Organisation. This lays down the principles for worldwide supply chain security. It is being further developed and shall be the common basis of our governments' action to secure the supply chain worldwide while facilitating legitimate trade.*

The WCO common SAFE Standards are also supported by the US. Actually, the EU and the US had an excellent cooperation in the WCO in drawing up these standards.

We are implementing the WCO Framework through the customs-related security legislation enacted by the European Community in 2005 and 2006. Our economic operators and customs administrations will have to fulfil binding requirements for each and every import or export operation. Considering the number of transactions that this implies for a major trading block like the EU, the effort is considerable. In return we must ensure that traders investing in increased security receive tangible benefits in return. Benefits should include reduced clearance times and less inspections of their goods at the borders.

But governments can only impose such a burden to their constituencies if a number of conditions are met.

First, the quest for improved security shall be compatible with the principles on which our societies are built: democracy, the respect of human rights and fundamental freedoms. Improved security shall also be compatible with other policy objectives such as economic development, trade facilitation and freedom of movement.

Second, our security requirements on trade must be the subject of harmonised rules and common standards, in order to avoid a multiplication of different rules around the world,

which unnecessarily block legitimate international trade and results in unnecessary costs.

This is why it is important that any trade-related security legislation implemented by the countries which are members of the WCO be as close as possible to the organisation's model of standards. Only by implementing globally applicable or at least comparable rules, will countries be able to secure international trade in a balanced and effective manner.

As a result, the European Community will from now on vigorously pursue the conclusion of agreements with its main trading partners for the mutual recognition of security measures, control results and authorised economic operators programmes.

The US is obviously a key priority in this respect and in particular for the mutual recognition of trade partnership programmes such as CT-PAT (Customs-Trade Partnership Against terrorism) and our own AEO (Authorised Economic Operator) programme. We are engaged in close co-operation with the US Administration on strengthening the supply chain and plan pilot projects on the mutual recognition of Authorised Economic Operators and the US C-TPAT to be launched early this year. I believe that if we get this right it will mean that recognised EU and US businesses can benefit from reduced customs checks on both sides of the Atlantic. This will cut down compliance costs and give greater supply chain security. Apart from reducing red-tape, it will also free up customs resources from checking high volume legitimate trade to concentrate upon the higher risk traffic.

Companies also have to secure their own activities and installations. The security measures newly imposed by the Community Customs law focus on the public-private partnership, and encourage traders to carry out more self-assessment and self-policing, thus leading to less direct customs interventions. It proves that increasing security while facilitating legitimate trade is possible if reliable economic operators are closely involved at a very early moment in the supply chain. The experience so far in implementing this approach is positive: companies show significant interest because the scheme also brings more efficiency and can reduce costs. I hope that it will encourage other countries to proceed in this way.

We believe this approach will bring much greater benefits than ideas like the draft law on 100% scanning of containers presently before the US Senate, which would be a major step-back for the coordinated approach I have just presented. You may have seen the letter I wrote to the Secretary General of the Department of Homeland Security in which I set out my views on this subject. This is the main reason for my visit and I have had meetings with Secretary Chertoff and other interlocutors in the US Administration as well, and, most importantly, in Congress where there is more enthusiasm about this unrealistic and costly initiative.

The technology to analyse the scanned images of millions of containers is not yet available and no country has the staff to process these images. Whilst we welcome development work to enable computer analysis of these images, it will take time to develop. It will also require a long testing period because of the risks involved if we get it wrong.

The EU via the port of Southampton in the United Kingdom is working with the US on a pilot project to examine the benefits of 100% scanning and the evaluation of these results will help us to see whether this approach will bring real security benefits or whether we can get more for our money by investment in other actions.

Container scanners are useful only for certain types of devices and, as we see from Iraq where terrorists are turning to chemical weapons, perhaps not necessarily those that will pose the most likely threat. Bioterrorist devices will be particularly difficult to identify.

We believe that the 100% scanning initiative is likely to cost billions of dollars to EU and US businesses. This is not just the cost of the equipment or of restructuring port activities, but also the cost of delays to international trade. If the US starts 100% scanning there is also a very strong risk that the requirement will be introduced in other parts of the world.

Our experience indicates that a risk based approach to controls provides a more guaranteed way of getting results. What is important is co-operation with business to ensure information is available at the right place and time and that both sides, customs and business, work together. At the very least I believe that the Senate should first examine the results of the scanning pilot project before seeking to adopt a new law which would perhaps do permanent damage to world trade and provide a false impression of increased security to US citizens.

I conclude on this point by indicating that we are also developing co-operation with countries like China. The Commission, together with the UK and the Netherlands, is working on a Pilot project with Chinese customs on Smart and Secure Trade Lanes. This project will test end-to-end supply chain security by addressing both customs legislation and technology, like e-seals or smart containers. The final objective is to apply the system, if workable, to all the Community ports.

Let me now move on to another issue of serious concern which threatens our economic growth and investment and the safety of citizens around the world: counterfeiting and piracy.

In Europe we have developed a comprehensive set of laws and procedures, including customs-related to tackle this rapidly increasing phenomenon. But, like security, it is a global problem and one where close co-operation is needed between the EU and the US.

When I speak of close co-operation between us, I must stress that business has to be at the core of this co-operation. Our experience shows that serious business involvement is crucial when it comes to achieving results.

Our seizure figures show a dramatic recent increase in seizures of fakes by customs in the EU. In the first nine months of 2006, 209 million articles were seized which represents a 280% increase over the seizures for the whole of 2005 (75 million articles).

I do not need to stress the threat counterfeiting and piracy poses to the economy as a whole but I do believe the health and safety risks and consequences need to be more widely known. In the EU we seize many dangerous counterfeit goods ranging from food and drink products through insulin or pregnancy testing kits to pharmaceuticals such as

fake avian flu medicine. In the first nine months of 2006, seizures of fake medicines tripled in comparison to 2005 (1.6 million articles).

There is evidence that terrorist organisations are financed by counterfeiting and piracy, in close relation with international networks of organised crime.

We are working actively with US Customs in this area. We saw some welcome developments in the EU-US cooperation in this field as a follow-up to the successful Vienna Summit. I particularly welcome the adoption of the EU-US IPR Action Strategy to combat piracy and counterfeiting in third countries, which has an essential customs enforcement component. We have also adopted a Joint Customs Action Plan for IPR Enforcement.

We have been together in successful initiatives at the G8, OECD and WTO on the enforcement of intellectual property rights and the fight against piracy and counterfeiting. We need to further strengthen cooperation in this field.

A key target is to improve co-operation with business via a number of very practical initiatives. This will help both sides to learn from each other and adapt quickly to new risk trends in what is a fast moving illegal industry. The exchange of risk information is already taking place. We are now working together on tools to assist business to work with the authorities to protect their and society's interests from this dangerous traffic. I have great hopes for this work.

Let me close by returning to my opening remarks. I said at the beginning that to counter terrorism, engagement and co-operation between governments and businesses are needed. I would also add creativity. We constantly need new ideas and solutions so that, one day, we will finally be a step ahead of the terrorists and criminals that threaten our way of life!

Thank you very much for your attention. I look forward to hearing your thoughts on the issues I have raised or other items of mutual concern.

Speech 10: World Customs Organisation conference on Combating counterfeit medicines, Baku, 8-9 February, 2007

I would like to thank the WCO for giving me the opportunity to speak at this important event on behalf of the European Commission and in particular on behalf of Commissioner Kovács, European Commissioner in charge of taxation and customs.

Commissioner Kovács has asked me to express his regrets for not being able to participate in this event and has asked me, as his Deputy Head of Cabinet, to represent him.

I would also like to thank the Azerbaijani authorities for their warm welcome and hospitality.

My intervention will have a particular focus on the European Union and on Customs.

Let me start by mentioning some data. The statistics collected by the customs authorities of the Member States of the EU, which are then compiled, analysed and published by the European Commission, have shown an increase of 1000% in the seizures of faked goods at the external borders of the EU from 1998 to 2004. In 2005, EU Customs seized more than 75 million articles and there was an increase of 20% of customs cases over the 2004 figure.

*The Commission's preliminary figures for the Customs seizures of fakes at EU borders for the first nine months of 2006 show an unprecedented increase in the number of fakes seized in comparison to previous years. **More than twice as many fakes were seized in these nine months than in the whole of 2005. Pharmaceuticals seizures have tripled to more than 1.6 million articles** (against 560 thousand in 2005) with a wider range of products being seized than ever before. Although Viagra remains a firm favourite, antibiotics, cardio-vascular medicine, avian flu treatment, anti-cholesterol tablets and many other medicines are involved.*

*The analysis of the data shows that long gone are the days when counterfeit activity was focusing on luxury items. In recent years, we have seen in the **EU a growing danger from fakes**. The dangers are becoming daily more widespread and putting increasingly at stake the health, security and lives of consumers.*

We are talking about not only counterfeit medicines, but also counterfeit foodstuffs, car parts, plugs, children's toys, etc.

But fake medicines remain definitely one of the most dangerous forms of counterfeit. Let me give the example of a seized fake cardio-vascular medicine which consisted of a mixture of brick dust, the yellow paint used to mark roads and furniture polish to give it a nice shiny final touch.

Fake Aids, insulin or pregnancy testing kits, children's milk substitutes really show the total lack of scruples of the criminals involved.

I would like to stress the extrapolation of this aspect, when those affected are the most vulnerable ones. I'm talking about those who due to their social situation and lack of medical coverage are compelled to obtain medicines outside the official channels. I am also thinking of the African populations which are victims of both widespread Aids and of fake HIV medicines! Unfortunately African consumers are an easy target for fraud organisations and counterfeiting has already led to the death of many people in Africa. The sad reality is that 30% of medicines sold in Africa are estimated to be counterfeited! And this value is probably under-estimated.

We are facing international criminal organisations whose ingenuity in avoiding customs controls continues to develop. The analysis of the 2005 and preliminary 2006 statistics, show that customs are stopping more but smaller consignments. This trend puts more pressure on customs resources and makes customs' life more difficult. The complexity of

transport routes represents an additional challenge. The growth in internet sales also has an obvious impact.

Let me illustrate again: in 2006, UK Customs stopped 350 kg of fake pharmaceuticals, which were dispatched from China, transiting through the United Arab Emirates and the UK with as final destination the Bahamas. The order was placed in Canada via internet!

Customs are usually right at the forefront and seize more fakes than other enforcement agencies and over the years have built up a high degree of expertise. Their role is of paramount importance.

Taking into account the speed and the dimension of the counterfeit phenomenon, it is clear that all available tools should be put at the disposal of Customs. It is also clear that fighting against counterfeit is not a battle that Customs can win on its own.

Customs need to cooperate with other enforcement agencies and with business.

And the EU cannot respond to this problem on its own either. No country can. We need to work together both within the EU and with our partners around the world to stop the flow of fakes.

Basing myself on the experience of the many Customs actions carried out by EU MS, I would like to take a few minutes to highlight what we find to be some of the key issues where customs actions could make a significant impact.

I will also mention a few concrete initiatives, which we have been taking since the launching by the European Commission in October 2005 of an Action Plan on a Customs response to counterfeiting and piracy, which was then endorsed by the MS

First, it is necessary to have **robust IPR legislation** in place which can be used by business and customs to provide a solid platform for enforcement. A Directive on the Enforcement of IPR within Europe was adopted in 2004 as was new Community Customs legislation bringing more legal clarity, giving stronger powers to Customs and improving exchange of information with business. The Commission has recently proposed to reinforce the Enforcement Directive through penal sanctions, including hefty prison sentences where health and security are at stake or criminal organisations involved.

The link to other legislation should also not be forgotten. The general law to control medicines is often used to prohibit the sending of medicines to individuals via the post. This can prove an effective additional weapon to protect consumers. The same of course goes for a well licensed distribution and retail network for pharmaceuticals. We have a number of initiatives underway in this respect, including a project on distribution channels for medicinal products, but today I would like to focus on the customs side.

Second, solid legislation is vital but is useless if it is not efficiently implemented.

A big problem Customs face in a world where trade flows are developing extremely quickly is often matching resources to the problem. Even in the EU where we have more than 140 000 customs officials it is not easy to control our annual 1800 million tonnes of international trade.

Governments often focus customs controls more upon revenue collection or anti-narcotics controls, and - particularly at the present time - on security issues. It is therefore important that **Governments are alerted to the important safety and security threats linked to IPR violations.**

Inter-agency co-operation needs to be stepped up. We have been concerned for some time over the fact that Customs can stop goods at the borders but we need to go deeper and **cut out production at its root** and stop fakes being sold. This requires other agencies to take action.

Pharmaceuticals illustrate this point very well. The traffic is difficult to stop, much of it is **internet** based, which means it is mobile and difficult to pin down. Fake medicines in Europe are often imported in small quantities so stopping them at the border does not really have an impact on the traffic. We need to get at the producers and the distributors as well as closing down illegal internet sites.

Third, if Customs are to find fake pharmaceuticals, **information from business is the best chance** they have to target controls to look for this very small needle in what is a very large haystack.

Customs are professionals at controlling goods but no administration can be expert in all the different areas involving counterfeit and pirated goods. We need to build up an **information exchange mechanism to ensure customs know who to contact** when they stop suspect goods and also need to ensure that the legislation enables business to take **quick and effective action**. The fact that the 2005 data shows an important increase of right-holders requests for intervention is particularly promising.

Fourth, in a globalised world characterised by an ever increasing international trade, the issue of **international customs co-operation has also to be given top priority**. **In this respect, WCO's role is of high importance**, and so is the role of the other international organisations involved in the fight against this scourge (WIPO, WHO, Interpol, etc).

Under the EU Customs Action Plan on Counterfeit, we have already or are currently implementing **5 major types of actions**:

- **Coordinated and targeted time limited Operational Customs Actions** are being launched at major ports and airports in Europe. A recent action carried out at major ports has already led to the seizure of more than 90 maritime containers.

- A **Task Force** of top European Customs Experts has been set up to improve the targeting of controls, in close co-operation with right-holders, industry sectors and experts from third countries. Particular emphasis is placed on high risk goods, such as pharmaceuticals.

- We are in the process of adopting a **major change to the Customs law** which will introduce, among others, better Community level Risk Management. This will enable the EU customs administrations to share risk information in real time and better target high risk consignments.

- We are setting up a simple **information procedure to enable rightholders to provide intelligence** to the competent authorities quickly and easily and will enable European ports and airports to receive rapidly intelligence from industry.

- **At international level**, we are strengthening our operational contacts with the **USA** through a series of concrete customs initiatives. In particular, we are setting up a system of sharing of intelligence on latest trafficking patterns and dangerous consignments. We also envisage sharing best practice through exchange of customs officials and joint customs operations. We are further strengthening our operational co-operation with **China**. Commission and MS' Customs experts have carried out with Chinese Customs joint targeted controls at Chinese ports and airports. This concern is also taken into account in the EU's cooperation with its neighbours through the ENP Action plans. This is the case in particular for Azerbaijan.

I hope I have given you some food for thought on this subject.

The EU experience is just one among others. There are many ways to tackle this problem. However, one thing is for sure is that the criminals will always adapt to keep one step ahead of the enforcement agencies. We really need therefore to share our experiences and pool our resources to combat this traffic.

We therefore welcome the fact that the WCO is working not only on keeping this problem on the political agenda but also making realistic efforts to improve controls in practice. The WCO is also very active in "spreading the word" thus promoting awareness-raising.

The WCO says that counterfeiting and piracy is the black sheep of globalisation. This reminds me of Mr Kovács' words: "I have two devils in my portfolios. Tax fraud for taxation and counterfeit for customs".

A successful strategy has to be global and cross-sectoral. International cooperation is vital and so is cooperation with business. Information, education and awareness-raising are key tools.

We are all in the same boat and the battle will be tough. Let's kill the black sheep! Let's kill the customs devil!

Thank you for your attention.

Speech 11: Address to the American Chamber (AmCham) of Commerce to the EU

"Customs measures to ensure security and safety"

I would like to start by thanking the American Chamber of Commerce for inviting me to speak today. I know that the members of American Chamber follow closely several subjects in my portfolio as Commissioner for Taxation and Customs Union and I am here to exchange views on some key issues. More specifically, I would like to explain what we are doing in the field of customs to respond to the major challenges faced by society in relation to security and safety.

Customs around the globe have a major role to play in ensuring the security and safety of the international supply chain. Customs also play a major part in the fight against trans-border crime and terrorism and, like the United States, we work closely with economic operators.

Customs are in a privileged position to detect and seize illegal goods like drugs, explosives or even nuclear, biological or chemical weapons. They also have a key role in controlling materials, like nuclear waste or drug precursors that are used to manufacture dangerous products.

On the other hand, Customs must facilitate legitimate trade and offer the best possible service to traders. Customs must allow manufacturers to place their products on the world market as cheaply and quickly as possible. Here I am talking about legitimate manufacturers... My views are very different when it comes to manufacturers of counterfeit medicine or fake baby milk powder. Control and facilitation - for customs this is not always an easy marriage.

Customs need to strike the right balance - facilitating trade (by speeding up border controls) whilst ensuring the security of citizens (by carrying out more efficient controls).

Let me start with the legal framework in the EU. We have taken concrete measures to address the increasing threat of terrorism as regards trade in goods. The so-called Security Amendments to the Community Customs Code adopted in 2005 fulfil the double role of increasing security and facilitating trade. The legislation provides for the involvement of reliable economic operators at a very early stage in the supply chain. The economic operator who is ready to contribute to the security of his part of the supply chain gets benefits in return like less controls and priority treatment by customs.

The system focuses very much on public-private partnership, encouraging increased self-assessment and self-policing by trade, leading to less direct customs-interventions. Trade must also provide information on goods that enter and leave the EC prior to their arrival or departure in order to enable customs to carry out security-related risk analysis. Customs can then concentrate efforts on the unknown players and high-risk consignments in the supply chain.

So much for the theory, but what are we doing concretely to enhance the security of the trade supply chain? As I've said already, the overall aim is to facilitate legitimate trade whilst maintaining an acceptable level of controls to guarantee the safety of our citizens and protect the EU's financial and economic interests. We are engaged in a number of inter-related actions to achieve this. In particular, I have here in mind the electronic customs initiative and the modernisation of the Community Customs Code and linked to both, further measures specifically in the field of security.

The Implementing Provisions for the security amendments to the Community Customs Code adopted in December 2006 include, amongst others, detailed provisions related to the Community-wide framework for risk management and the criteria for joining our AEO (Authorised Economic Operator) programme. This programme is now fully implemented as of 1 January, in a uniform manner in all 27 Member States.

Other measures for tightening security around goods crossing international borders are the new rules on pre-arrival and pre-departure declarations. In July 2009, economic operators will be obliged to provide information prior to importation or exportation. This measure jointly with the computerised risk management systems will allow for real-time exchange of risk related information between Member States, before the movement of the goods takes place. This will lead to the quicker release of no-risk consignments and allow resources and controls to be focussed on high-risk consignments. Linked to the implementation of the AEO programme, we believe this package of measures provides the necessary balance between facilitation and security.

The security features of the AEO, according to the joint assessment with US Customs and Border Protection are equivalent to those of the US trade partnership programme, known as C-TPAT, with the major difference that the US programme does not cover exports.

I'm sure you have all heard of our efforts to agree with the United States on the mutual recognition of our respective AEO and C-TPAT programmes. The future EU-US Mutual Recognition Arrangement, which we expect to be able to be implemented by mid-2009, will provide businesses on both sides of the Atlantic with tangible benefits and will lead to trade facilitation for compliant traders willing to invest in security.

Let me say a few words on the timetable for further cooperation with our colleagues in the United States Customs Border Protection. The Roadmap towards Mutual Recognition of Trade-Partnership Programmes was agreed at the first Transatlantic Economic Council last November and has now been officially endorsed by the joint EU-US Customs Committee, which met on 6 March.

In this context, it has already been agreed that the legal framework establishing mutual recognition should be endorsed and signed by the end of 2008. Its implementation should therefore be possible by mid 2009. We are ambitiously working towards achieving this goal and with support at the highest political level, we are confident the deadlines will be met.

The EC is also looking to conclude similar agreements with partners. We strongly believe that by joining efforts with the administrations of third countries, we can achieve better results than by working alone.

Here, I should point out that not all measures developed by some countries, are in line with the philosophy of reciprocity and mutual recognition, as advocated by the World Customs Organisation.

The new US legislation on 100% scanning is an example. If implemented as proposed, customs in all foreign ports would be obliged to scan all cargo containers exported to the United States. While the EU is supportive of measures that aim at improving security, we strongly believe that measures have to be effective. Scanning of all containers,

independent of the risk of the individual consignment, would, if implemented, create major disturbances in our security and trade relations while only creating a false illusion of security.

Further, customs do not have the staff to check so many scans, more than 2.3 million containers pass between the EU and the United States each year. We know that our customs colleagues, including from the United States, share our view and hope therefore that this measure will not be implemented in the way it is proposed.

Another concern we now have relates to a new intended initiative by the US, the so-called 10 +2 initiative. The US published in January a Notice of proposed Rulemaking entitled Importer Security Filing and Additional Carrier requirements in the Federal Register. A public consultation was launched with the deadline of today. The intention is to require importers to submit 10 additional data elements and carriers 2 additional data elements 24 prior to loading on a US-bound vessel.

It is true that the argument used is that these additional elements would improve targeting. They are therefore consistent with a risk-based approach, contrary to the 100% scanning concept. However, we are very much concerned with the unilateral nature of this initiative and have submitted accordingly the views of the Community and its 27 Member States in response to the public consultation.

The introduction of such additional elements would only be worthwhile if adopted globally. The launching of yet another unilateral initiative is at odds both with bilateral and global efforts to improve long-term security of the international supply chain and would have a negative impact on businesses.

I am personally convinced that we should all aim at implementing security measures that are reciprocal and complement instead of hinder other countries' measures. All measures need to respect trade's legitimate request for global and compatible rules that facilitate trade while enhancing supply chain security. The EC undertakes major efforts to act along these lines and I would hope that we can find many allies in this respect.

I strongly believe that mutual recognition and a multi-layered risk-based approach is the most effective response to cargo security and we are therefore strongly committed to making quick progress on this with our American partners. I understand that this opinion is shared by many on both sides of the Atlantic.

I should also address here, the question of safety. For the European Union, like for the US, ensuring their citizens' safety is a priority. On both sides of the Atlantic, this requires our full attention and demands targeted action. The initiative to intensify EU-US cooperation relating to the safety of imported consumer products has been endorsed by the Transatlantic Economic Council, and a high level expert group has been put in place and is examining ways for co-operation in this important area to the benefit of the citizens on either side of the Atlantic.

Within this context it is important to indicate that Customs authorities are ideally placed to detect imported goods that represent a threat to people's safety at an early stage, well before they are placed on the market. This can be contaminated food as well as dangerous toys or unsafe electrical equipment. Performing this task requires good

collaboration and exchange of relevant information on such goods between customs and the authorities competent for the respective product sector. Current actions at Community level focus on enhancing these aspects, which includes facilitation of transatlantic collaboration with the US customs administration.

Still on the subject of safety, let me now turn to one of my pet subjects, or should I say pet-hates, counterfeit and piracy. The economic cost of Intellectual property theft is well known. Counterfeiting affects the competitiveness and innovation of business around the world and increasingly, it is perceived by experts to carry significant safety concerns. Customs are on the frontline to combat this illicit trade and are well placed to see the growing diversity of fake products. In many cases, these fake products represent a real danger to the health and safety of our citizens.

So, despite impressive border enforcement results; in 2006, customs seized 128 million articles at the border, there is no room for complacency. Studies indicate that counterfeiting and piracy are growing and the Commission is committed to tackling the problem through all possible means.

We are promoting initiatives to strengthen cooperation between legitimate industry and customs. We are also engaged in developing cooperation with our major trading partners. With the United States, the cooperation is articulated around five main themes, including the strengthening of information exchange and collaboration on joint border initiatives.

In this framework, the Commission and the U.S. Customs and Border Protection (CBP) recently announced the results of Operation INFRASTRUCTURE, which took place in November/December 2007. Operation INFRASTRUCTURE was the first anti-counterfeiting operation undertaken by Customs and Border Protection (CBP) and the European Union and resulted in the seizure of over 360,000 counterfeit integrated circuits bearing over 40 different trademarks.

This operation highlighted the commitment of customs in the United States and the EU to collaborate in the fight against counterfeit and piracy and to tackle a difficult sector that represents serious safety issues. The integrated circuits and network components seized during the operation could have been destined for any kind of application from banal kitchen appliances to critical components in hospital life support systems. To be frank, the end-use for the items seized was not known, though it is disturbing to note that the seizures by our American colleagues actually included fake military graded components.

We will continue to build upon this operation and a growing cooperation with our U.S. colleagues to combat the global trade in fake goods.

Customs cooperation with China is also an essential element of our strategy to increase IPR enforcement. Although the problem of IPR infringements in China far exceeds the issue of customs intervention, the strengthening of administrative cooperation between Customs should lead to better enforcement and offer a visible sign at the political level of the EU's willingness to support China's efforts in this area. Towards the end of January, I visited China and agreed with my counterparts on a concrete Joint Action Plan on IPR customs enforcement.

It includes specific commitments to establish a working group to study the flow of counterfeit goods between China and the EU, as well as plans to establish direct contact points and exchange officials between the two sides.

As some of you know, the fight against counterfeiting and piracy has been one of my main priorities since I arrived at the Commission. I have always maintained that customs had and still has a crucial role to play in protecting our citizens as well as our economic interests from this parasitical menace. However, it is clear that customs can only deal with part of the problem and I welcome the many initiatives in other areas that are being launched.

For example, President Barroso opened last week in Brussels a very successful event – the global anti-counterfeit summit - organised by the Authentics Foundation. The primary goal of the foundation is to educate consumers about the real cost of fakes, which in addition to health and safety implications, includes money laundering, drug cartels, paramilitary involvement, organised crime and child labour. Raising the awareness of consumers to these less savoury aspects is essential if the demand for fakes is ever to be reduced. I understand this event was a great success and will hopefully inspire more and more such actions in the future.

To conclude, I would like to stress that in order to effectively achieve their mission – that of ensuring at the same time smooth trade operations and the security of the international supply chain – customs have to work hand in hand with the business community.

Thank you for your attention.

Speech 12: Commemoration of the 40th anniversary of the European Customs Union, Paris, 4 July 2008

Dear Minister, Honourable Members of the European Parliament, dear Director-Generals, Customs Colleagues,

The anniversary of our Customs Union serves to remind us of the big step that one sector of Europe made on the 1st of July 1968. A historical step towards the creation of the European Union, and of the Single Market as we know it today.

Let me therefore thank the French Presidency for hosting this very special event.

As today we are considering what sort of Europe we want for ourselves and for our children, let us not forget that, forty years ago, a handful of Member States initiated an enormously successful experience of concrete, and peaceful, integration in Europe. By abolishing their internal tariff borders and creating one common external border, the founding Member States created the conditions for their economic prosperity. They paved the way for the free circulation of goods, services, capital and people across Europe.

Today, the European Customs Union is certainly more than a tariff free zone. The Customs Union is about one single set of rules applied equally from Dublin to Bucharest. The Customs Union is about 27 administrations working together as one. This Customs Union is the biggest free market space in the world, where businesses can trade and consumers can buy products in any Member State without having to pay customs duties or undergo systematic controls. This is a major achievement of which we must be truly proud.

Today, the Customs Union serves two main objectives. First, to make Europe a better place in which to do business, by facilitating the rapidly growing legitimate trade, the operations of European companies, in particular small and medium-sized ones, so that they can compete successfully on the world market, and create growth and jobs. Second, it must provide Europe's 500 million citizens with the protection they expect from the risks posed by international trade. This is the dual challenge Customs is confronted with in its daily work, and now I would like to elaborate on this second aspect.

More than ever, Customs should protect our citizens from the dangers they can't see themselves: drug precursors, devices of terrorism, dangerous products, diseased animals and other health and safety risks.

The dangers of counterfeiting and piracy are a particular challenge. Counterfeiting does not only damage the revenue of legitimate manufacturers and the innovation of companies, or the revenue of the State, but it also puts at risk the health, the safety, and even the life of our citizens. Customs plays an important role in blocking these fake products before they reach consumers.

Customs men and women do an excellent job, 24 hours a day, every day of the week. During the Action Week that was organised in early June in anticipation of this anniversary, I saw with my own eyes, in Rotterdam, Frankfurt and Röske at the border between Hungary and Serbia, the extent to which we can rely on highly motivated and professional customs officers, who do their job in an intelligent and efficient way, with the support of modern technologies and smart control equipment.

Two weeks ago, the European Parliament acknowledged the considerable achievements of the customs authorities of the Member States, and of the European Commission, over the last 40 years. This acknowledgment is important because the role of customs remains difficult and, regrettably, it is sometimes not as highly valued as it should be. The campaign for the 40th anniversary, to which all Member States have contributed, will certainly raise the awareness amongst citizens of the work done by Customs at the external borders of the EU, and the positive impact this has.

Victor Hugo once said that "forty" is the old age of youth. Indeed, forty years give a certain maturity which enables us not only to look back and assess our achievements, it also provides us with the experience to improve and develop in the future.

'Future' is, indeed, the key concept of the Paris Declaration which will be endorsed today. Now that we have initiated the necessary changes to our customs environment, with the Modernised Community Customs Code and the Electronic Customs initiative, it is the right time to reflect on how to maintain high performing customs administrations. Faced with a rapidly changing and challenging environment, Customs authorities must be able to continue to provide a first-class service to EU citizens and companies.

I hope that our ambitious project on the future of customs will deliver forward-looking and effective planning of resources, which the Commission, Member States and traders need to make Customs work better, faster and cheaper. This does not mean less resources for Customs, but the proper allocation of resources where they are needed, keeping in mind that any single customs office is responsible for protecting the whole EU territory.

I am very satisfied that in the last two months, the Council of Ministers and the European Parliament gave their indispensable political support to the Commission's efforts to create a future for customs, at the service of our community.

In this context, it is important that Community customs enhance cooperation with other governmental agencies, with traders, and also with other customs authorities in the world.

In reality, EU customs are at the end of a supply chain which starts in a third country. It is therefore essential to promote international customs enforcement standards, and a global alignment of customs procedures, such as the World Customs Organisation Security Framework, or the Multilateral Anti-counterfeiting Trade Agreement. There is also scope for bilateral cooperation with our main trading partners, like the US, China, Switzerland and others.

I would like to conclude by once again expressing my satisfaction with our achievements in making the European Customs Union a model of successful integration among 27

countries. I also think that we are now well equipped to make our customs environment more responsive to the challenges of economic globalisation.

Now, let me invite all the European customs officers to join the anniversary celebrations and participate in the different events organised in the 27 Member States. This year is theirs!

Speech 13: Conference of the Confederation of Swedish Enterprises, Stockholm, 15 June 2009

"European Tax Systems co-ordinated for Growth"

I feel honoured to have been invited to address such a distinguished audience and to introduce a high-level debate on the need to co-ordinate European tax systems in order to get out of the recession and to stimulate economic growth.

The global economy is in the worst recession in decades. The financial crisis has turned into a global economic crisis.

Aid for the financial sector and the need for fiscal stimulus to fight the crisis are resulting in a significant increase in government expenditures. At the same time, due to the economic downturn tax revenues are in decline putting pressure on financing government's budgets.

To consolidate government's budgets with cuts in expenditure alone will be difficult. Financing governments' budgets in an efficient, robust, and fair way will be a major task in the future.

When appropriate, measures have to be taken at Community level to make full use of the Single Market, to dismantle tax obstacles, to promote fair tax competition, to defend national taxing rights as well as to prevent tax fraud and tax avoidance.

In order to help the economy, we are working hard to improve the European VAT legislation.

In this area the Commission has already presented to the Council a number of proposals amending the Community VAT legislation all of which could contribute, directly or indirectly, to our common objective of reinvigorating economic activity and growth in the EU.

Reduced VAT rates are among the instruments that some Member States prefer to deploy to boost economic activity and to support the recovery of the European economy. The position of the Commission is that, in targeted areas where the functioning of the internal

market is not affected by the optional use of reduced VAT rates, this instrument can certainly be in the policy tool box of Member States. Their actual use however should be left at the discretion of the Member States themselves, depending on their socio-economic and budgetary situation and their political preferences.

In this respect, I very much welcome the adoption, after long and difficult negotiations in the Council, of a Directive modifying the Community rules on reduced VAT rates. As of 1 June 2009, when the Directive entered into force, all Member States are allowed, on a permanent basis, to apply reduced VAT rates to certain local labour intensive services, such as for example some small repair services, hair-dressing, home-care, renovation of private dwellings and restaurants services. These are all services where the application of reduced VAT rates has particular potential to safeguard or to create jobs, boost the activity for SMEs and reduce the black economy, all of which I think are of utmost importance in the current circumstances of severe economic downturn and increasing unemployment. In our proposal concerning reduced VAT rates we focused on labour intensive and locally supplied services. But we also included the application of reduced VAT rates on audio-books which was a Swedish proposal and was adopted by the ECOFIN Council.

At the end of 2007 I proposed new rules for VAT rules on financial and insurance services. Let me just mention the three main objectives of the proposal.

First, there is a need to increase legal certainty for all concerned, from the business sector to national tax administrations and thereby to reduce their administrative burden in correctly applying the VAT exemption of financial and insurance services. Enhanced legal certainty will secure the taxing rights of Member States and reduce opportunities for aggressive tax planning.

Second, we want to ensure a more consistent application of the tax across all 27 Member States and to deliver a level playing field in the internal market for financial and insurance services, at least as far as VAT is concerned.

Third, to allow businesses to manage better the impact of non-deductible VAT on their activities, whilst ensuring equal access to tax relief across the internal market. This will assist the competitiveness of our financial and insurance services. Today this is even more important than when the proposal was first made.

The proposals have been discussed extensively in the Council under successive presidencies. Good progress is being made and I hope that the Swedish Council Presidency will continue to treat this file as priority.

In January of this year the Commission adopted a proposal to amend the VAT rules on invoicing. The aim of the proposal is to increase the use of electronic invoicing, reduce burdens on business, support small and medium sized enterprises and help Member States to tackle VAT fraud. The proposal simplifies, modernises and harmonises the VAT invoicing rules. In particular, it eliminates the current barriers to e-invoicing in the VAT Directive by treating paper and electronic invoices equally. The proposal is a key element of the Commission's Action Programme to reduce burdens on business by 25% by 2012, and is part of the Commission's strategy to combat VAT fraud more efficiently.

The Commission proposal puts forward much simpler, more modern and comprehensive rules for invoicing, whilst allowing tax administrations effective means of control. The equal treatment of paper and electronic invoices will allow businesses to move to a 100% e-invoicing system and to save up to 18 billion euros across the EU.

The proposal reflects the real concerns of the business community as indicated in their replies to the public consultation conducted last year. Furthermore, an opinion of the High Level Group of Independent Stakeholders advising President Barroso on the reduction of administrative burdens in October last year also showed a demand for all the VAT aspects of invoicing to be looked at more widely. So whilst it addresses the VAT obstacles which hamper the up-take of electronic invoicing, it also addresses difficulties that businesses face in respect to issuing and storing, especially electronically storing, of invoices, as well as discrepancies of the content of invoices.

In 2008 the Council adopted a very important new piece of Community legislation, the so called "VAT package", which is due to enter into force as from the 1st January 2010. It will imply important changes in the legislation concerning the place of supply of services and in the procedure for refund of VAT incurred by businesses in a Member State where they are not established.

The Commission's services are fully aware of the need for a smooth and timely transposition of these 2 directives in the national legislation of the Member States and are working closely with them in order to help them transposing this new legislation in a coordinated way.

I understand that all these questions will be examined in more technical details, later during this Conference.

In the current financial and economic crisis, national budgets and tax systems are under increased threat. Every cent is important. In a world where money moves freely, "tax havens" as well as insufficiently regulated international financial centres that refuse to accept the principle of transparency and information exchange can facilitate or even encourage tax fraud and tax avoidance, which negatively affect the tax sovereignty of other countries and undermine their tax revenues.

Therefore we should promote the application of principles of transparency, information exchange and fair tax competition inside and outside the EU. Good governance in tax matters is not only an essential means of combating cross-border tax fraud and tax evasion; but good governance can also strengthen the fight against money laundering, corruption and the financing of terrorism.

For this reason, the need for international tax co-operation and common standards has now become a regular item on the agenda of discussions in international fora, like the April meeting of the G20 Leaders.

As a follow-up, on the 28th of April, the European Commission adopted a Communication on promoting good governance in tax matters.

The EU finance ministers briefly discussed the Communication already at the ECOFIN meeting in May and I was very pleased with the Council Conclusions at the last week ECOFIN meeting which supported our work in this area.

I very much welcome the emerging broad international consensus on the need to enhance administrative co-operation and mutual assistance in the tax area and to apply the OECD standard which provides inter alia that exchange of information can no longer be refused on the sole ground that the information is held by financial institutions. It is in harmony with the conclusions of the G20 Summit which declared that the era of bank secrecy is over.

In order to ensure more coherence between Member States' individual policy positions in the international tax arena and the good governance principles, we need, where appropriate, a co-ordinated response to jurisdictions that are not cooperative, that refuse to apply the principles of good governance.

In order to strengthen good governance in the tax area within the EU, the Commission has proposed amendments to three important pieces of legislation, namely the savings taxation directive, the administrative co-operation directive and the recovery directive. Discussions have progressed within the ECOFIN Council.

I believe that the constructive initiatives of the Commission can help to overcome the economic crisis and to consolidate public finances.

Such measures should help Member States to defend national taxing rights by preventing tax fraud and tax avoidance, to dismantle tax obstacles and to make full use of the Single Market.

Of course, it is not easy to reach agreement within the EU on any tax proposals and initiatives, due to the rule of unanimity, but we are confident of success. Each issue demands the most appropriate approach. There is a lot of work to be done and if we want to improve the Single Market, and thereby put Europe back on the path of growth, we must preserve – after all, I think you will agree - the potential benefits are well worth it!

I am sure you will have interesting and inspiring debates during this two days and I look forward to new ideas on how better co-ordinate tax systems to promote economic growth.

Thank you for your attention.