

Paolo Gentiloni

Economy

Hearing due to be held on Thursday 3 October at 09.00 hours.

European Parliament committee responsible: Economic and Monetary Affairs (ECON).

Paolo Gentiloni, the designated Commissioner for Economy, was Italian Prime Minister from 2016 to 2018. Since 2001, he has been a Member of the Chamber of Deputies, elected in the Lazio region, and at the beginning of 2019, he became the President of the Italian Democratic Party, which he co-founded in 2007. Prior to serving as Prime Minister, he held the post of Minister of Foreign Affairs and International Cooperation in the government led by Matteo Renzi (2014-2016). He was a Member of the Committee on Foreign Affairs (2013-2014), and was Minister of Communications in the government led by Romano Prodi (2006-2008). As Prime Minister, he was also acting Minister



for Regional Affairs and Autonomy between 2017 and 2018.

Born in Rome in 1954, Paolo Gentiloni holds a degree in political science from La Sapienza University in Rome. Before entering politics, he worked as a journalist for almost 15 years, becoming the director of the monthly journal *La Nuova Ecologia* at a young age. He started his political career as spokesperson for the Mayor of the City of Rome, and as Councillor for Tourism and the Jubilee (1993-2000). He was subsequently the spokesperson for the Daisy Party (Margherita) between 2002 and 2007 and was appointed chair of the bicameral broadcasting services (RAI) supervisory committee (2005-2006).

This is one of a set of Briefings designed to give Members of the European Parliament an overview of major issues of interest in the context of the hearings of the Commissioners-designate. The full set of Briefings can be found at: https://epthinktank.eu/commissioner_hearings_2019

Background

In the context of [economic and monetary union](#), the framework for the coordination and surveillance of Member States' respective economies has 'soft' and 'hard' features, the former resting on consensus-building and peer-pressure, the latter on material sanctions. The sovereign debt crisis highlighted that the 'hard' framework, established with the [Maastricht Treaty](#) in 1992 and enhanced with the [stability and growth pact in 1997](#), was incomplete. It was therefore reformed from 2011 to 2013 with a [series of regulations and directives](#) (known as the 'six-pack' and the 'two-pack'). In addition, the – intergovernmental – [Treaty on Stability, Coordination and Governance](#) reinforced the pact and required Member States to enshrine binding fiscal rules in national law.

Another ramification of the crisis was a significant increase in public and private debt levels, and a [decrease in investment](#) in almost all EU Member States. The resulting 'investment gap' impacted negatively the Union's economic recovery and international competitiveness. To tackle this problem, the European Union took action by means of the [European Investment Bank](#) and the July 2015 [investment plan for Europe](#) initiative.

Taxation and customs matters were taken at a slower pace. Indeed, their frameworks were adopted gradually as from the beginning of the European Economic Community, but globalisation, the adoption of new technologies and recent tax scandals have brought new issues to the fore, which need to be addressed.

Recent developments

The purpose of the European Commission's **investment plan** was to mobilise and support additional private investment. This was achieved mainly through the [European Fund for Strategic Investments](#) (EFSI) proposed in January 2015. Originally endowed with €16 billion in guarantees from the EU budget and €5 billion from the European Investment Bank (EIB), EFSI aims to encourage private investors to participate in new investment projects, by taking on part of the risk through a first-loss liability. The promising beginnings of the Fund encouraged the EU institutions to extend its duration until 2020 and to increase its financial capacity. For the period after 2020, the programme is to continue under an expanded scope and a new name: InvestEU.

In the field of **tax policy**, the EU and Member States had to update the tax framework to respond to the challenges related to the fight against tax fraud, new business models, technological development, and introduce disincentives to tax avoidance. Changes were proposed, concerning direct taxation (especially corporate tax coordination), indirect tax (especially value added tax, VAT) as well as transversal issues, such as transparency and external strategy for effective taxation. A number of files were adopted by the end of the previous term, while some are still under discussion.

In the field of **customs**, the most critical development of the last legislative period was the first change to the [Union Customs Code](#) (UCC), after over 20 years of service. Adopted in October 2013, it modernised and streamlined customs procedures throughout the EU and introduced a number of information technology (IT) systems to support harmonised implementation of customs rules and to reduce the administrative burden on legitimate trade.

Priorities and challenges

The **European Semester** is the framework for economic and fiscal policy coordination within the EU. First applied in 2010 in the wake of the sovereign debt crisis and revamped by the Commission in 2015, it allows EU countries to discuss their economic and budget plans and monitor progress at specific times throughout the year. The challenge identified for the new Commission is to contribute to integrate the [United Nations Sustainable Development Goals](#) into the aims of the Semester.

Another challenge identified for the future Commission is to ensure the proper application of the **Stability and Growth Pact**, while using the full [flexibility](#) allowed in its rules, in order to strike an

appropriate balance between fiscal responsibility and a more growth-friendly fiscal stance in the [euro area](#). The President-elect added that this aim must go hand in hand with the general endeavour towards diminishing the current high levels of debt, both public and private, which impede growth.

Regarding the action plan for the implementation of the EU's social pillar, the President-elect has included in her political guidelines, the prospect of establishing a European **Unemployment Benefit Reinsurance Scheme**, possibly shaped as an automatic institutional mechanism that would act as a shock absorber in the event of external shocks. From a [social point of view](#), such a mechanism would alleviate the burden of unemployment by providing income security and, at the same time, it would demonstrate European solidarity in a visible and tangible way to citizens.

Since its launch in November 2014, the **investment Plan for Europe** has showed considerable success in mobilising private investment across the EU. Yet, investment levels in the EU remain below pre-crisis levels. The Commission therefore identified a need to provide for an extended EU investment programme under the new multiannual financial framework (MFF), catering for multiple objectives in terms of simplification, flexibility, synergies and coherence across relevant EU policies. Building on the success of EFSI, the [InvestEU programme](#), expected to run from 2021 onwards, aims to bring together diverse EU financial instruments within a single structure, making EU funding for investment projects in the EU simpler, more efficient and more flexible. Given that climate neutrality is included in the Commission's overall objectives, the Commissioner-designate is entrusted with setting up and implementing the **Sustainable Europe Investment Plan**.

Taxation efforts will have to ensure, through multiple initiatives, [fair and fraud-proof regimes](#) in a global environment. Priorities include digital and environmental taxation (e.g. review of the Energy Taxation Directive and a proposal on a carbon border tax), the update of corporate taxation through the proposed common consolidated corporate tax base, and the finalisation of the reboot of the VAT framework.

Alongside taxation, increased trade volumes, new production patterns, and changing technologies, as well as the United Kingdom's expected withdrawal from the EU represent additional challenges to the proper functioning of the **customs union**. The Commission's priorities will be to work closely with the Member States on the full implementation of the Union Customs Code, including putting in place the appropriate digital systems. In addition, it will work towards adopting an integrated European approach to reinforce risk management, in cooperation with Member States, to ensure controls are effective.

European Parliament

Treaty basis and European Parliament competence

Economic policy is the subject of Articles 120 to 126 of the Treaty on the Functioning of the European Union (TFEU). Parliament is a co-legislator in economic governance matters (ordinary legislative procedure).

Taxation is a shared competence under Articles 110 to 115 of the TFEU. Under a special legislative procedure, Council acts unanimously and the European Parliament is consulted. Article 116 TFEU provides for a mechanism to overcome distortions in conditions for competition in the internal market when they cannot be overcome by consultation of the Member States. Articles 326 to 334 TFEU provide for enhanced cooperation in those areas not covered by exclusive competences.

For customs union matters, the EU has exclusive competence under Articles 30 to 33 TFEU. Customs tariffs are adopted by the Council on the basis of Article 31 TFEU. Customs cooperation in the EU is governed by the ordinary legislative procedure (Article 33 TFEU). Common commercial policy meanwhile is an exclusive EU competence (Articles 206 and 207 TFEU); regulations are adopted using the ordinary legislative procedure.

Negotiators for Parliament and Council [reached a partial agreement](#) in March 2019 on the **InvestEU programme proposal**, excluding budgetary figures and other elements that will not be finalised until overall agreement on the new MFF is reached. Setting financial amounts for these programmes will be a priority in the context of an overall agreement on the new MFF.

With regard to the **European Semester**, the 2014-2019 European Parliament adopted multiple own initiative resolutions, in the context of (i) the Annual Growth Survey (AGS), and (ii) the employment and social aspects in the AGS. In this context, it called for Member States to continue to pursue growth-friendly fiscal consolidation and to implement productivity-enhancing and socially balanced structural reforms. It also called on the Commission (i) to address the lack of proper democratic accountability in EU economic governance; (ii) to develop an EU framework to ensure that all investments under the investment plan stimulate sustainable growth; (iii) to take measures to assist SMEs and start-ups, to improve employment sustainability and quality, and to tackle youth unemployment and long-term unemployment; and lastly (iv) to address the consequences of the ageing of the EU population.

European Parliament [work](#) in the field of **taxation** over the last term focused on proper enforcement and monitoring of the implementation of provisions recently updated and for additional updates as appropriate, to keep up with new forms of tax fraud and the pace of global digital development as well as continuing to update the framework, involving in particular the modernisation of the corporate tax, the VAT and the international frameworks, namely in the context of work to address [tax] base erosion and profit-shifting, known as BEPS2.

The European Parliament discussed **customs** on a number of occasions during the last term. Recent examples include the legislative procedure on the Union's legal framework for customs infringements and sanctions, which remains [blocked](#) due to opposition in Council, and the [resolution](#) on tackling the challenges of Union Customs Code implementation, adopted in January 2017. In February 2019, Parliament also adopted a [resolution](#) on strengthening the competitiveness of the internal market by developing the EU Customs Union and its governance.

FURTHER READING

D'Alfonso A., Delivorias A., Sapala M., Szczepański M., Zachariadis I., [Economic and Budgetary Outlook for the European Union 2019](#), EPRS, European Parliament, January 2019

Bassot E., [Unlocking the potential of the EU Treaties: An article-by-article analysis of the scope for action](#), EPRS, European Parliament, 2019.

Remeur C. and Dobрева A., [The fight against tax fraud](#), EPRS, European Parliament, January 2019.

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