BUSINESSEUROPE

THE DIRECTOR GENERAL

Professor Edward Scicluna
Minister for Finance
Ministry of Finance
30, Maison Demandols
South Street
Valletta VLT 1102
Malta

8 June 2017

Dear Minister, Dear Colleague,

Further Efforts Still Required to Improve the EU's Investment Climate

We have all welcomed the improvement in the EU's economy during recent months. Our Spring Economic Outlook, which I am pleased to attach ahead of its public release in the coming days, shows that our member federations expect growth of 1.9% in the EU for 2017, around 0.3 percentage points higher than we had forecast last autumn. For 2018, we expect growth to continue at a similar pace.

We particularly welcome the fact that growth is becoming more broad-based both across countries and sectors, with the improving availability, and lower cost of finance, particularly for SMEs in many member states, having a positive impact on companies' investment decisions.

We see the potential for stronger growth if political and economic developments are supportive. Investment is expected to see some improvement (2.7% for both 2017 and 2018), in particular as companies increasingly reach the limits of their current production capacity.

However at the current rate of investment growth, it would take up to 2024 to close the existing investment gap compared to pre-crisis levels. Many businesses still see policy uncertainty and geopolitical tensions as significant concerns. For a stronger increase of investment we need to see, in particular, improvements in the business environment, and the implementation in Member States of the right product and labour market reforms. More broadly, as our outlook highlights, further efforts to reduce barriers to global trade, complete EMU and implement the capital markets union can also play a role in increasing supporting long-term investment and growth.

I wanted to take this opportunity to focus on a number of areas in the field of **taxation** which the Ecofin Council is currently working on which can play an important role in improving the EU's investment environment and help close the current investment gap.

We very much welcome the political agreement made at the May Ecofin Council regarding a Double Taxation Dispute Resolution Mechanism, and hope that this can be rapidly implemented across the EU. Far too many European companies still face double

taxation when two or more member states claim taxes on the same income which damages the business and investment environment in Europe.

The Dispute Resolution Mechanism will help to ensure that disputes are resolved more quickly and decisively and, by providing companies with a more certain and transparent tax environment, accelerate EU investment, and promote jobs and growth.

We now hope the Ecofin Council can demonstrate similar leadership in rejecting two Commission proposals that risk harming the EU investment climate and would bring no discernible benefits.

- Firstly, BusinessEurope supports the European Commission's objective to fight tax fraud and evasion but we believe the Commission's proposal for the EU to unilaterally require **public country-by-country reporting** of tax and financial information would damage this objective as well as undermining EU competitiveness. In particular, the proposal would undermine the role of the tax authorities who have the expertise, and, supported by the EU as well as broader OECD agreement in this area, the information to properly enforce tax rules. By requiring public disclosure of country by-country reporting (CBCR) information, the EU could expose resident companies to the risk of misinterpretation of data, which may lead to unjustified reputational issues. Moreover, it may jeopardise the willingness of other countries who have signed up to the OECD proposal to share taxpayers' country-by-country reporting information. In particular, public CBCR raises the risk that EU parented or listed MNEs would be required to make more information available than their competitors.

  Considering the above mentioned issues, we are concerned that public CBCR could put companies with an EU presence at a competitive disadvantage and damage the attractiveness of the EU as an investment destination.

- Secondly, we urge the Ecofin Council, and in particular, the group of countries looking to develop a **Financial Transactions Tax**, to bring to an end the uncertainty that this ill-conceived proposal is bringing to the EU's investment climate. As the majority of Member States have already recognised, by increasing the cost of raising finance in the EU given the higher transaction costs and lower market liquidity for equity, corporate bonds and commodities, the imposition of an FTT risks dampening investment at exactly the point in time that the recovery needs to be supported. A clear message from finance ministers that they reject the FTT would be a strong signal of Europe's commitment to attracting investment both from home and abroad.

Yours sincerely,

Markus J. Beyrer