Europaudvalget 2010-11
EUU alm. del Bilag 243
Offentligt

# Answers to questions from the EP Special Committee on the Financial, Economic and Social Crisis (CRIS)

**1.** Latvia believes that the Europe 2020 Strategy should also focus on the dimension of economic cohesion, including measures aimed at promoting competitiveness of less developed rural areas.

It is important for Latvia to ensure that convergence between the developed and less developed EU regions is promoted at the EU level by supporting and implementing measures aimed at the following:

– Economic cohesion;
– Development of infrastructure;
– Availability of basic services to residents;
– Development of EU internal market.

It is also important for Latvia to have EU-level measures and support aimed at improving the competitiveness, productivity, efficiency and modernisation of rural enterprises (especially SMEs), as well as fostering diversification of rural economy and promoting employment in rural areas. Latvia also points out that in the context of promoting development of the rural areas, it is necessary to address at the EU level the issue of equal competition for all EU farmers.

Effective functioning of the EU single market is an undeniable priority for Latvia. In the period between January and October 2010, Latvia's exports to EU Member States accounted for 71% of the total exported goods and 49% of the total exported services.

Latvia holds the opinion that drafting and implementing single-market policy at the EU and national level should focus predominantly on horizontal measures (legislative and other instruments) that may facilitate better functioning of the EU single market and a higher degree of integration of the 27 Member States' markets:

– Simplification of legislation and reduction of the administrative burden;

– Diminishing and eliminating legislative fragmentation at the national level, especially where differences have a direct impact on cross-border activities (e.g., barriers stemming from differences in consumers' rights, tax administration systems, technical requirements applied to goods and services by certain EU Member States, etc.). EU regulations, where applicable and possible, unlike the directive pertaining to single market, in almost all instances provide a legal framework that practically excludes potential fragmentation. In case of such a draft directive, it is important for the single market to have in place horizontal measures that provide for complete harmonisation;

– Strengthening the position of SMEs. Latvia supports activities aimed at improved access to the capital markets by SMEs;

– Latvia supports the Commission's proposal to review the directives pertaining to accounting standards. Latvia believes that simplification of EU's and national legislation that governs accounting is one of the main measures that must be implemented in order to reduce the administrative burden on small enterprises.

– Latvia supports the proposed VAT strategy that has been included in the Single Market Act; furthermore, Latvia welcomes harmonisation of VAT rates to the highest possible degree. VAT-related differences between the Member States, differences in rates, exceptions, reservations and special provisions applicable to cross-border transactions – these are the factors that have a negative impact on the development of the single market; they also impose an additional administrative burden and additional costs on entrepreneurs.

– Strengthening of the digital market. Effective involvement (expansion) of Latvian entrepreneurs in the digital market would put them on equal footing with their Western European counterparts and thus would eliminate Latvia's so-called geographic disadvantage;

– Attraction and absorption of funds from the EU Cohesion Fund and other financial instruments funded from the EU budget (TEN-T, TEN-E, KIP, Marco Polo, ITS, etc.), as well as from the national budget is of great importance in developing and strengthening the basic infrastructure (energy, transport and communications).

Latvia supports the initiative to establish an EU patent system as long as it is a well considered and sustainable rather than a hurried solution.

It is especially important for Latvia to have an integrated European energy market that includes the Baltic energy market in the common European market. Likewise, it is of great importance to develop energy technologies and to introduce innovations along with measures aimed at energy efficiency. BEMIP (Baltic Energy Market Interconnection Plan) is one of Latvia's most important priorities, especially with regard to infrastructure. Therefore, we greatly appreciate the fact that BEMIP is also treated as a priority at the European level.

Latvia calls for additional discussions regarding involvement of agricultural enterprises in the production of energy.

Latvia believes that it is important to strengthen the EU's external dimension, to continue the process of global trade liberalisation and to strengthen entrepreneurs' competitiveness in external markets in order to facilitate exports.

**2.** This issue is of great importance in terms of the liquidity of state funds. Any changes that reduce the amount of the EU financing available to Latvia would simultaneously increase the need for additional financing.

In order to estimate the impact of EU's self-financing mechanism on the total cash-flow in Latvia and the EU, it is necessary to acquire additional and more detailed information about the mechanism: What institutions would be responsible for emitting the bonds? Who would be legally responsible for undertaking liabilities? What (if any) would be the impact on the Member States' payments to the EU budget? Who would issue guarantees for the mechanism? What would be its impact on EU financial mechanisms?

**3.** Please note that the possibility and necessity to introduce the aforementioned tax is currently being discussed at the EU level. Besides, the European Commission has indicated in its communication on taxation of the financial sector that the financial transaction tax would have to be introduced globally since introduction of the tax only within the EU would prompt certain financial market segments to be relocated to other countries that do not have such a tax. Exposure to other risks is also possible.

At the same time, we would like to point out that the EC report of 19 October 2009 on reviewing the EU budget mentions the financial transaction tax (the European Commission proposes to introduce the tax at the international level) as a new potential EU resource. The financial transaction tax as a new type of resource has not been discussed at the EU level; therefore, agreement on this matter has not been reached. It is possible that discussion regarding potential new types of EU resources will resume in the summer of 2011, when the European Commission presents its proposals regarding the multi-annual EU budget after 2013.

Taking into account the aforementioned considerations, Latvia does not support introduction of the financial transaction tax neither at the Latvian nor EU level.

In addition, we would like to point out that as of 1 January 2011, Latvia has introduced the financial stability duty, which to a certain extent is a duty on financial transactions.

**4.** Latvia believes that the EU should continue to focus on adhering to the principles of solidarity and on instruments whose aim is to equalise the disparities in the revenues of EU Member States. Latvia would also like to emphasise that a higher level of effectiveness in terms of policy implementation can be achieved through purposeful implementation of the Cohesion Policy, which in the future should be focused on addressing the social and economical problems encountered in less developed regions.

Taking into account the differences in social and economic development among various EU Member States and regions, as well as considering the diverse challenges encountered by them in dealing with the consequences of the financial and economic crisis, implementation of the Europe 2020 Strategy will largely depend on regional/national development strategies that have been developed through collaboration between regional and local partners and that provide economic growth incentives adapted to the specifics of territorial development and thus contribute to the implementation of territorial cohesion.

In the context of the EU budget, more attention should be paid to implementing specific priorities under the Europe 2020 Strategy in the EU Member States and regions that are lagging behind the rest of the Member States in terms of development and that have limited fiscal possibilities to finance the substantial structural reforms within the framework of the Europe 2020 Strategy.

**5.** On 7 September 2010, the Council endorsed an agreement with the European Parliament on reforming the EU framework for financial supervision. This reform will establish a new basis for supervision in Europe and will eliminate deficiencies that were exposed during the financial crisis. The European Systemic Risk Board, which will provide macro-prudential oversight of the financial system, and three other European authorities for supervision – namely, the European Banking Authority, the European Insurance and Occupational Pensions Authority, and the European Securities and Markets Authority – became operational on 1 January 2011.

Latvia supports the legislative initiative of the European Commission which is planned to be made public in the mid-2011 and which will provide a unified procedure for the preventing, managing and resolving the crisis in the financial sector. Currently, public consultations are held regarding the technical aspects of the initiative.

The Council has also endorsed changes in the manner in which the EU's Stability and Growth Pact is implemented in order to allow the European Semester (new cycle of monitoring and coordinating the EU's economic policy) to be introduced as of 1 January 2011. The European Semester will improve coordination of the Member States' economic policies and will help to strengthen budgetary discipline, macroeconomic stability and growth in line with the EU's 2020 Strategy.

On 29 September 2010, the European Commission presented six legislative initiatives. Four of them are related to fiscal issues and are aimed at strengthening the Stability and Growth Pact;

the aim of the other two is to ensure a timely identification and prevention of macroeconomic imbalance.

In October 2010, the Council decided to establish a permanent mechanism for overcoming the crisis and thus ensuring financial stability in the euro area. Ministers of the ECOFIN agreed to establish a permanent European Stability Mechanism, which as of 2013 will replace existing mechanisms, such as the European Financial Stability Facility and the European Financial Stabilisation Mechanism. By March 2011, Ministers for Finance and the European Commission have to finalise work on the intergovernmental arrangement setting up the future mechanism. Latvia supports the European Stability Mechanism; however, it is essential to have strict regulations for receiving assistance within this framework.

**6.** The planned and partially implemented reform in supervising the financial sector regulations (Basel III in the banking sector, Solvency II in the insurance sector, establishment of European financial monitoring institutions and the European Systemic Risk Board, etc.) is broad. However, we believe that instead of increasing the number of areas subject to the reform, it is necessary to draft high-quality legislation that would also focus on mutual coordination of measures and requirements.

Currently, the Resolution of the European Parliament does not envisage mutual coordination of measures and requirements; for example, it does not allow concurrently to demand stability of the financial sector, especially the banking sector, and to encourage investments. If Basel III calls for stricter capital and liquidity regulations, the ability to fund economic development will be restricted. Discussions are limited to estimating the restrictive effect of the Basel III regulations. The aim to improve the accessibility of financial services to the poor contradicts the principles of risk management, and the subprime mortgage crisis in the United States vividly illustrates the possible consequences of implementing such an approach. Impact assessment should contain the analysis of side effects; for example, stricter regulations for banks will encourage shadow banking. This effect is only generally addressed in some documents, and there are no proposals for solving this problem. Furthermore, there is the risk that on the macro level, stability will not be ensured because the risk will move from a regulated sector to an unregulated or less regulated sector.

We think that at present greater attention should be paid to protecting consumer interests and educating consumers regarding financial services.

**7.** The International Monetary Fund (IMF) and organisations of the World Bank Group (WB) are currently in the reform implementation phase; that is, since 2008 these institutions have drafted initiatives for administrative and quota reform, and after receiving approval from the management of these institutions, they are being implemented.

The IMF quota and administrative reform is being regarded as a sound basis for IMF to become a stronger institution that will promote global financial stability and growth, as well as provide the IMF with sufficient financial resources. The IMF quota and administrative reform is also a sound basis for institutional legitimacy and efficiency of the IMF. Recent financial crises proved that the IMF should even further strengthen its mandate for surveillance (both bilateral and multilateral), and within the framework of consultations set forth in Article IV of the Financial Sector Assessment Programme it should focus on surveillance in countries that have a systemically important financial sector.

The World Bank Group voice reform envisages double majority voting by Member States', an increase in general capital, as well as significant institutional and administrative reforms in order to ensure that when there is an increased need for WB resources, institutions will be able to fulfil their mandate effectively. In view of the World Bank's aim to reduce barriers for national development in the post-crisis world and the overall goal of the World Bank to reduce poverty, the new Post-Crisis Strategy, which will be discussed at the spring meeting of the IMF and the WB held in April 2011, defines several strategic spheres for the work of the WB. These goals include discussions on the role of the WB in creating social safety nets in the poorest Asian and African countries, providing food, dealing with infrastructure-related matters, developing the investment environment and private sector, as well as issues related to public administration. The initiative of the WB aims to strengthen the capacity to offer technical assistance and transfer experience to countries with an average level of income. The WB will focus on strengthening internal administration by assessing progress and capacity of the WB, and by continuing to implement measures for preventing corruption.

A significant integral element of the IMF and the WB reforms is the need to strengthen their coordination and cooperation with international institutions and discussion forums such as G20 and the UN.

As to the WB, the interests of the Republic of Latvia are represented in the WB Nordic and Baltic countries group consisting of Denmark, Estonia, Finland, Iceland, Latvia, Lithuania, Norway and Sweden. Within the IMF, our interests are addressed in the IMF Nordic - Baltic Monetary and Financial Committee. The cooperation and coordination within the framework of the aforementioned groups has been very good because it is based on a high level of economic, political and cultural integration within the region.

None of the countries within the group is represented in the G20; however, taking into account the fact that the IMF and the WB take part in the preparation process for the G20 summits and meetings at the ministerial level, the group benefits from regular exchange of information about important and relevant issues.