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COMPET 265  
ENV 334  
EDUC 249  
RECH 227  
ENER 199  
JAI 472  
FSTR 112  
REGIO 144  
GENDER 92  
ANTIDISCRIM 85

**NOTE**

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From:	General Secretariat of the Council
To:	Permanent Representatives Committee (part 2)/Council
Subject:	COUNCIL EXPLANATORY NOTE Accompanying document to Council Recommendations to Member States under the European Semester 2020

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Delegations will find here attached the post EFC version of the draft Explanatory note accompanying the Council recommendations to Member States under the European Semester 2020.

# Draft post-EFC

## COUNCIL

### EXPLANATORY NOTE

#### Accompanying document to Council Recommendations to Member States under the European Semester 2020

Article 2-ab(2) of Council Regulation (EC) No 1466/97 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies<sup>1</sup>, which makes part of the section on ‘Economic dialogue’, states that ‘The Council is expected to, as a rule, follow the recommendations and proposals of the Commission or explain its position publicly.’

In respect of this ‘comply or explain rule’ the Council hereby presents the following explanations to changes agreed to Commission Recommendations for Country-Specific Recommendations (CSRs) on Member States in the context of the 2020 European semester on which the Commission is in disagreement.

The Council has also agreed to a number of additions as well as factual or technical changes to recommendations with the full support of the Commission (\*).

## BELGIUM

### *Recital 23*

#### **Commission text:**

To foster the economic recovery, it will be important to front-load mature public investment projects and promote private investment, including through relevant reforms. As expressed in its 2021-2030 National Energy and Climate Plan (NECP), Belgium has significant investment needs in sustainable transport, notably to tackle congestion and electric mobility. Before the crisis, Belgian regions had announced major multi-annual transport infrastructure plans. Major investment is taking place in suburban rail around Brussels, signalling, port and cross-border rail connections.

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<sup>1</sup> OJ L 209, 2.8.1997, p. 1.

\* Text that has been modified but differs from the Commission’s position appears in *italics* and deleted text in strikethrough.

The NECP also identified important investment needs in renewable and flexible power generation, interconnections, smart grids, storage and in energy efficiency to meet European energy targets, to realise Belgium's commitment to fully phasing out nuclear energy by 2025 and to renovate 80% the building stock which was built before the introduction of energy norms. In contrast to the relatively high private research and development (R&D) intensity, the public R&D intensity remains slightly below that of most Member States with a similar level of economic development. Belgium risks lagging behind in 5G deployment as it is not planning to assign the 5G pioneer bands within the deadlines provided in Union legislation. In March 2020, the Belgian authorities opened a public consultation for temporary national licenses for the 200 MHz of available spectrum in the band 3.6-3.8 GHz as a temporary solution. The programming of the Just Transition Fund for the period 2021-2027 could help Belgium to address some of the challenges posed by the transition to a climate neutral economy, in particular in the territories covered by Annex D to the country report. This would allow Belgium to make the best use of that fund.

#### **Agreed text:**

To foster the economic recovery, it will be important to front-load mature public investment projects and promote private investment, including through relevant reforms, *which would also help industrial transition*. As expressed in its 2021-2030 National Energy and Climate Plan (NECP), Belgium has significant investment needs in sustainable transport, notably to tackle congestion and electric mobility. Before the crisis, Belgian regions had announced major multi-annual transport infrastructure plans. Major investment is taking place in suburban rail around Brussels, signalling, port and cross-border rail connections. Significant investments are also underway in Brussels metro, tram and bus infrastructure. The NECP also identified important investment needs in renewable and flexible power generation, interconnections, smart grids, storage and in energy efficiency to meet European energy and climate targets, to realise Belgium's legal commitment to fully phasing out nuclear energy by 2025 and to renovate 80% of the building stock which was built before the introduction of energy norms. In contrast to the relatively high private research and development (R&D) intensity, the public R&D intensity remains slightly below that of most Member States with a similar level of economic development. Belgium risks lagging behind in 5G deployment as it is not planning to assign the 5G pioneer bands within the deadlines provided in Union legislation. In March 2020, the Belgian authorities opened a public consultation for temporary national licenses for the 200 MHz of available spectrum in the band 3.6-3.8 GHz as a temporary solution. The programming of the Just Transition Fund for the period 2021-2027 could help Belgium to address some of the challenges posed by the transition to a climate neutral economy, in particular in the territories covered by Annex D to the country report. This would allow Belgium to make the best use of that fund.

**Explanation:**

Industrial transition is one of the major priorities for Belgium. It links with EU strategies adopted in March 2020 and the Belgian position paper adopted recently.

**BULGARIA***CSR I***Commission text:**

In line with the general escape clause, take all necessary measures to effectively address the pandemic, sustain the economy and support the ensuing recovery. When economic conditions allow, pursue fiscal policies aimed at achieving prudent medium-term fiscal positions and ensuring debt sustainability, while enhancing investment. Mobilise adequate financial resources to strengthen the resilience, accessibility and capacity of the health system, and ensure a balanced geographical distribution of health workers.

**Agreed text:**

In line with the general escape clause, take all necessary measures to effectively address the pandemic, sustain the economy and support the ensuing recovery. When economic conditions allow, pursue fiscal policies aimed at achieving prudent medium-term fiscal positions and ensuring debt sustainability, while enhancing investment. Mobilise adequate financial resources to strengthen the resilience, accessibility and capacity of the health system, and ensure a balanced ~~geographical~~ *regional* distribution of health workers, matching population needs.

**Explanation:**

The National Health Card of Bulgaria defines and plans on a territorial basis the needs of the population from accessible outpatient and hospital medical care and the implementation of the national health policy. The term “regional” is consistent with the cross-cutting approach of the work of the Social Protection Committee.

## BULGARIA

### *Recital 20*

#### **Commission text:**

To COVID-19 put an additional burden on the Bulgarian health system, already characterised by limited accessibility stemming from low public financing, limited health insurance coverage, a low number of nurses, and an uneven geographical distribution of health workers. There is therefore scope for strengthening the overall resilience, accessibility and capacity of the Bulgarian health system. Providing more care (general and specialist) in ambulatory settings, also with use of teleconsultations, would release hospitals, while testing and treatment should be available for all, independently of health insurance status. Proper access to health workers and their services should be ensured over the whole territory. Integration of primary, long-term and community care is crucial for the elderly and the most vulnerable groups.

#### **Agreed text:**

In COVID-19 put an additional burden on the Bulgarian health system, already characterised by limited accessibility stemming from low albeit increasing public financing, limited health insurance coverage, a low number of nurses, and an uneven ~~geographical~~ *regional* distribution of health workers. There is therefore scope for strengthening the overall resilience, accessibility and capacity of the Bulgarian health system. Providing more care (general and specialist) in ambulatory settings, also with use of teleconsultations, would release hospitals, while testing and treatment should be available for all, independently of health insurance status. Proper access to health workers and their services should be ensured over the whole territory, matching population needs. Integration of primary, long-term and community care is crucial for the elderly and the most vulnerable groups.

#### **Explanation:**

The National Health Card of Bulgaria defines and plans on a territorial basis the needs of the population from accessible outpatient and hospital medical care and the implementation of the national health policy. The term “regional” is consistent with the cross-cutting approach of the work of the Social Protection Committee.

## CYPRUS

### Recital 26

#### Commission text:

Tackling aggressive tax planning is key to improving the efficiency and fairness of tax systems, as acknowledged in the 2020 euro area recommendation. Spill-over effects of taxpayers' aggressive tax planning strategies call for coordinated national action to complement Union legislation. The economic evidence suggests that Cyprus' tax rules are used for aggressive tax planning purposes. Cyprus has taken steps to address this by implementing international and European initiatives and taking some additional national measures. However, features of the system such as the absence of withholding taxes on outbound dividend, interest and royalty payments by Cyprus-based companies to third country residents, and the corporate tax residency rules, continue to facilitate aggressive tax planning. The Notional Interest Deduction scheme needs to be closely monitored. Finally, the 'Scheme for Naturalisation of Investors in Cyprus by Exception' and the 'Residence by Investment Scheme' have been listed by the OECD as having a potentially high risk for being misused.

#### Agreed text:

Tackling aggressive tax planning is key to improving the efficiency and fairness of tax systems, as acknowledged in the 2020 euro area recommendation. Spill-over effects of taxpayers' aggressive tax planning strategies call for coordinated national action to complement Union legislation. The economic evidence suggests that Cyprus' tax rules are used for aggressive tax planning purposes. Cyprus has taken steps to address this by implementing international and European initiatives and taking some additional national measures. However, features of the system such as the absence of withholding taxes on outbound dividend, interest and royalty payments by Cyprus-based companies to third country residents, and the corporate tax residency rules, may continue to facilitate aggressive tax planning . The Notional Interest Deduction scheme needs to be closely monitored. Finally, the 'Scheme for Naturalisation of Investors in Cyprus by Exception' and the 'Residence by Investment Scheme' have been listed by the OECD as having a potentially high risk for being misused. *Cyprus has prepared and submitted for legal vetting, draft laws introducing withholding taxes on dividend, interest and royalty payments to countries included in Annex I of the EU list of non-cooperative jurisdictions for tax purposes. Cyprus has also prepared and submitted for legal vetting, introduction of corporate tax residency test based on incorporation, in addition to the existing management and control. The effectiveness of these measures in tackling aggressive tax planning will need to be assessed.*

#### Explanation:

The addition completes the recital and ensures consistency with similar recommendations to other Member States.