WORLD NEWS

EU SUMMIT Savings agreement hailed as triumph for Gordon Brown but Britain may be consigned to slow lane as 'hard core' head for integration

Banking secrecy sacrificed in deal to end tax dodges

BY STEPHEN CASTLE AND ANDREW GRICE
in Feira, Portugal

EUROPEAN UNION leaders yesterday defied expectations by agreeing to set up the first common EU system to combat cross-border tax evasion.

After more than two years of fraught negotiation the breakthrough, viewed as a symbolic first step towards aligning tax systems, came at a summit meeting in the Portuguese town of Feira. The deal came after Austria was persuaded to abandon its objections in exchange for a move towards ending the political isolation imposed on Vienna in protest at the inclusion of a far-right party in Austria's ruling coalition.

The resolution of the savings tax row, which at one stage left Britain isolated, was welcomed by Tony Blair because the terms of the agreement saw off the prospect of a compulsory minimum rate of withholding tax – deductions at source on investment income – which would have threatened the City of London's lucrative eurobond market.

Instead the deal, which is aimed at preventing tax-dodging savers from exploiting the different tax systems in the EU by lodging their money abroad, turns on ending banking secrecy. The British government now backs this move wholeheartedly.

The final obstacle was overcome at the eleventh hour when Austria's reservations, based on a domestic legal commitment to banking secrecy, were fudged. For the first time countries will have to divulge information on bank customers to other member states, and eventually secrecy, one of the oldest principles of banking in some states will be scrapped.

Portuguese PM Antonio Guterres: Praised Vienna

The Prime Minister of Portugal, Antonio Guterres gave a clear indication of the payback deal offered to Austria when he praised Vienna's approach and said there would be an "initiative" to modify the political sanctions. "As soon as I have the consensus of the 14 member countries it will be made public," he said.

A statement from Mr Guterres before the end of the month is expected to lead to a formal monitoring of the situation in Austria with a view to lifting sanctions next year if the verdict is positive.

Despite the euphoria over yesterday's agreement there are plenty of opportunities for it to unravel and several countries are privately sceptical about its prospects. The terms stipulate that Europe as a bloc will start next year to negotiate with countries such as Switzerland and the USA in an attempt to secure a worldwide banking information exchange agreement. If that is successful Europe will implement the savings tax directive from 2003, but only if there is unanimous agreement among member states to proceed.

The countries who intend to opt at that stage for a withholding tax – Austria and Luxembourg and possibly three others – will have to scrap it within seven years in favour of information exchange.

The last-minute compromise gives Vienna the right to maintain its banking secrecy laws for all its residents. While there is a long-term intention to provide information on Europeans investing in Austria but living abroad, the government in Vienna said it could not do so "at this stage" – giving it another opportunity to wreck the package at a later date.

Mr Blair hailed the breakthrough as a "personal triumph" for the Chancellor, Gordon Brown, and said it would not have happened without his "quite extraordinary skills and persistence". He said he hoped the Feira summit would finally end the mindset under which EU negotiations were seen as "Britain versus the rest of Europe".

Mr Brown said Britain's interests had been fully protected by the agreement and no withholding tax would be imposed on the UK. "Fourteen European countries have signed up to the principle of exchange of information. Fifteen have signed up to further progress being made."

Mr Guterres said that the deal on tax was "very important for the credibility of the EU" adding that it was inconceivable to have a single currency and a single market without having coordination on tax.

■ The European Commission will send legal warnings to 120 banks and banking federations next week alleging they operated a cartel setting fees for changing euroland currencies, Mario Monti, the European competition chief, said yesterday.

EC President Romano Prodi, right, with Javier Solana, the EU foreign policy chief, in Feira, Portugal, yesterday *Luis D'orey/Reuters*

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Leaders push for a two-speed Europe

A PUSH to allow groups of EU countries to embark on closer integration, potentially consigning others such as Britain to the slow lane, was backed by European leaders yesterday and is now destined to form the centrepiece of the Union's new governing treaty.

Although the details will have to be fleshed out over the next six months, the plans for more flexibility are seen by several countries, including France and Germany, as a sign of new momentum.

Britain, which has enjoyed recent success in forging new bilateral alliances with countries

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such as Spain, has been suspicious of the initiative. But at a summit meeting in Feira, Tony Blair agreed that "provisions on closer co-operation" will be on the agenda for the treaty negotiations at the Inter-Governmental Conference.

With both Paris and Berlin backing the plans, some see this as the beginning of a new hard-core of European countries as committed to integration as the original six states which founded the community.

Others dispute that a shared commitment exists between France, Germany, Italy and the Benelux trio, and believe it will encourage more complex alliances. However, even the threat of a new inner core on important issues could change the politics of the EU and put pressure on reluctant integrationists.

Under the Amsterdam treaty, member states can already forge ahead in groups, providing that more than half of the 15 member states are on board and that their ideas are not vetoed by any of the others.

EU leaders need to streamline their decision-making process this year to pave the way for the union's enlargement to the east, possibly increasing in size to 28 countries. Several possible reforms are being considered, including requiring initiatives to have the backing of fewer member states – perhaps five or six, a symbolic number for those wishing to hark back to the integrationism of the original Europe. The alternative is that the veto provisions be scrapped altogether.

Jacques Chirac, the French president, said: "Enlargement leads to a European union of countries whose cultures, standards of living and economic and social problems are very different. If you do not want the union to break down or reduce to the level of the lowest common denominator, you must have a system for certain countries to show the way ahead."

The decision, highlighted by the Portuguese presidency as a significant achievement, sparked immediate fears of a two-speed Europe. Romano Prodi, the European Commission president, sought to damp down the alarm, arguing that "enhanced co-operation should always leave the door open for any country that would like to participate".