Council of the European Union

PRESS

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BACKGROUND[1]
Brussels, 3 November 2017

ECONOMIC AND FINANCIAL AFFAIRS COUNCIL
Tuesday 7 November in Brussels

*Ministers will meet at 8.30 with their **EFTA** counterparts from Iceland, Liechtenstein, Norway and Switzerland. Discussion will focus on how to make economic growth inclusive.*

*They will then hold a breakfast meeting, starting at 9.30, to discuss the **economic situation**. Ministers will also discuss a Commission review of the EU's **single supervisory mechanism** for banks and a common EU candidate for the position of secretary general of the **World Customs Organisation**. The Council is scheduled to start at 10.30.*

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*The Council will be called on to agree on proposals to revamp VAT rules so as to better support **electronic commerce** and online businesses.*

*It will discuss proposals aimed at strengthening **financial supervision** and encouraging capital market integration.*

*The Court of Auditors will present its annual report on management of the **EU budget**, on the basis of which discharge of the 2016 budget will be decided. Other items on the agenda include EU **statistics** and the autumn **G20 and IMF** meetings.*

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*Proceedings will start on Monday 6 November at 11.30 with a meeting with the **social partners**, focusing on the macroeconomic outlook and the further development of the EU's economic and monetary union. Representatives of the EU institutions and the presidency will meet a delegation of employers, trade unions, public enterprises and SMEs at European level.*

*On Monday 6 November at 14.00, the ministers of Estonia, Latvia and Lithuania will sign a memorandum of understanding on the creation of a **pan-Baltic capital market**. This initiative is aimed at attracting investment by combining the strengths of the three Baltic states.*

*The **Eurogroup** will meet on Monday 6 November, starting at 15.00. It will discuss the eurozone aspects of the EU's banking union and public investment in human capital. The Eurogroup will then meet in an 'inclusive format' (27 member states) to prepare for the Euro Summit in December. It will discuss completion of the banking union and fiscal governance in the euro area.*

Press conferences:

- after the Eurogroup meeting *(Monday evening)*;
- at the end of the Council *(Tuesday lunchtime).*

Eurogroup agenda highlights

Press conferences and public events by video streaming

Video coverage in broadcast quality (MPEG4) and photo gallery

1 This note has been drawn up under the responsibility of the press office.

VAT on electronic commerce

The Council will be called on to agree on a proposed revamp of VAT rules to better support electronic commerce and online businesses.

Member states broadly support the draft package (a directive and two regulations). However, some have asked for further technical work and several have reservations.

The proposals are aimed at making it easier to buy and sell goods and services online. They are part of the EU's 'digital single market' strategy.

The aim is also to improve the collection of VAT on digital services.

In October 2017, the European Council called for the 'digital single market' to be prioritised and for "an effective and fair taxation system fit for the digital era"

The proposals establish an EU-wide portal ('one-stop shop') to reduce the costs of complying with VAT requirements for business-to-consumer transactions. They require VAT to be paid in the member state of the consumer, ensuring a fairer distribution of tax revenues amongst member states.

Additionally, the drafts make online platforms liable for collecting VAT on the distance sales that they facilitate. This was not foreseen in the Commission's proposals, but has become an essential provision of the package. VAT fraud for such sales is estimated at €5 billion per year. Most goods that are imported for distance sales enter the EU VAT-free, resulting in unfair competition for EU businesses.

The one-stop shop would relieve online traders of having to register for VAT in each of the member states in which they sell goods. According to the Commission, such obligations cost businesses around €8 000 for every EU country into which they sell; the proposals would enable administrative burdens for companies to be reduced by 95%. The one-stop shop would generate an overall saving of €2.3 billion for businesses, the Commission estimates, and a €7 billion increase in VAT revenues for member states.

For start-ups and SMEs, the proposals foresee two exceptions:

- below €10 000 in yearly cross-border online sales, a business would be able to continue applying VAT rules used in its home country;
- below €100 000 in yearly cross-border online sales, simplified rules would apply for identifying where customers are based.

To prevent VAT fraud, the proposals remove an exemption for consignments from outside the EU worth less than €22. Around 150 million small consignments are thus imported free of VAT. The current system is open to abuse where imported goods are undervalued in order to benefit from the exemption. Whereas EU businesses are disadvantaged by having to apply VAT whatever the value of the goods sold.

Although the package has broad support, several member states have reservations on specific aspects. These include:

- the implementation date for the first set of simplification rules;
- implementation issues related to making online platforms liable for collecting VAT on distance sales;
- the 'import one-stop shop' for distance sales of imported goods, and the elimination of the VAT exemption for imports of small consignments;
- the monthly period for VAT returns set for the 'import one-stop shop'.

Ministers will also be asked to confirm an agreement identified for administrative cooperation issues. This involves deleting two provisions: one would have required member states to conduct administrative enquiries if at least three other member states request it; the other would have allowed fees to be charged for collecting VAT on behalf of other member states.

One member state has yet to complete the process of consulting its parliament.

The Council will require unanimity to adopt the package, after consulting the European Parliament. (Legal basis: article 113 of the Treaty on the Functioning of the European Union.) The Parliament's opinion is expected in November 2017.

- October 2017 draft VAT e-commerce package
- October 2017 note on the VAT e-commerce package

Financial supervision - European supervisory system

The Commission will present proposals aimed at strengthening financial supervision and encouraging capital market integration in Europe.

Ministers will hold an exchange of views, on the basis of a presidency issues note, in order to provide guidance for technical work.

A number of member states have criticised the proposals.

The proposed reforms set out to enhance regulatory and supervisory convergence so as to enable financial markets to operate more effectively and to better address new challenges. The aim is also to further capital market integration following the United Kingdom's departure from the EU. Changes to supervisory relations with non-EU countries will ensure better management of all financial sector risks.

The package of proposals amends:

- the mandate, governance and funding of the EU's three financial supervisory authorities (European Banking Authority, European Insurance and Occupational Pensions Authority, European Securities and Markets Authority);
- a number of financial services regulations (on venture capital, social entrepreneurship and long-term investment funds, financial benchmarks, company prospectuses, markets in financial instruments and insurance and reinsurance activities);
- the composition and organisation of the European Systemic Risk Board, which monitors stability risks for the financial system as a whole.

The European Securities and Markets Authority would receive extended powers, becoming the direct supervisor of certain market sectors. It would have a greater role in coordinating investigations into market abuse. More generally, the reforms support the EU’s plan to develop a capital markets union by the end of 2019.

New governance arrangements include the creation of executive boards for the three European supervisory authorities. Their funding would become independent from national supervisors so as to boost their autonomy.

Whereas some member states support the proposed reforms, a number of others are critical. In their view, the proposals don't reflect the results of the Commission's public consultation, and are insufficiently justified by its impact assessment. Concerns have also been expressed about the complexity of the proposals, and the additional burden this will place on market players.

The proposed regulations and directives require a qualified majority for adoption by the Council, in agreement with the European Parliament. (Legal basis: articles 53(1), 62 and 114 of the Treaty on the Functioning of the European Union.)

- November 2017 issues note on the review of the European system of financial supervision
- 2017 proposal for a regulation on the European supervisory authorities
- 2017 proposal for a directive on markets in financial instruments and insurance
- 2017 proposal for a regulation on the European Systemic Risk Board

G20 and IMF meetings

The presidency and the Commission will report on international finance meetings held in Washington DC between 12 and 15 October 2017, namely:

- a meeting of G20 finance ministers and central bank governors;
- IMF annual meetings.

The G20 meeting featured a discussion on the state of the global economy, a G20 compact with Africa, international financial institutions, financial regulation, taxation issues and the outlook for the forthcoming Argentinian G20 presidency. It was the last G20 ministerial meeting of the German G20 presidency, with Argentina taking over on 1 December 2017.

At a meeting of the international monetary and financial committee, part of the IMF annual meetings, the EU Council presidency delivered a statement on the global economy, prospects and challenges.

EU budget - Court of Auditors report

The president of the Court of Auditors, Klaus-Heiner Lehne, will present the Court's annual report on management of the EU's general budget.

Ministers may hold an exchange of views.

The report, issued on 28 September 2017, confirms a sustained improvement in the estimated level of error in payments from the EU budget. Covering the budget for 2016, it finds it to contain fewer errors across all areas of spending than in the past.

For 2016, the Court upgraded its opinion on payments to "qualified" for the first time since it began to provide an annual statement of assurance in 1994. And as for each year since 2007, it gave a clean opinion on the reliability of the accounts.

On the basis of the report, it will be decided whether to issue a discharge for implementation of the 2016 budget.

The Council is scheduled to issue a recommendation on 20 February 2018. It will then be for the European Parliament to decide if it can grant the discharge to the Commission.

EU budgetary spending totalled €136.4 billion in 2016, approximately 1% of EU gross national income and 2% of total public spending in the member states.

For expenditure the Court found an estimated 3.1% overall rate of error in 2016, compared with 3.8% for 2015 and 4.4% for 2014. This is not a measure of fraud, inefficiency or waste; it is an estimate of the money that should not have been paid out because it was not used fully in accordance with EU rules.

Managing the EU budget is the responsibility of the Commission, along with other EU institutions and bodies. But for roughly two-thirds of expenditure – principally on agriculture and cohesion policy – that responsibility is shared with the member states.

- Court of Auditors report on implementation of the EU's 2016 budget

Statistics

The Council will discuss an annual package of governance measures for EU statistics.

It is expected to adopt conclusions on progress achieved in cooperation on statistics and further prospects.

Key issues in the draft conclusions include:

- quality assurance of statistical output, in particular a revision of the European statistics code of practice;
- progress related to information requirements in the EU's economic and monetary union (improvements in coverage, availability and timeliness of data, completion of methodological work, participation in G20- and IMF-led initiatives;
- 'structural' statistics, such as those used for the EU's excessive deficit procedure and macroeconomic imbalances procedure.

The draft conclusions also review new initiatives, related for instance to the dissemination of experimental statistics, the methodology underpinning data used for the excessive deficit procedure and the enhancement of data on financial real estate indicators.

EU policies rely on a variety of statistics that require the timely submission of high quality socio-economic statistical data. Since 2006, the Council has once a year taken stock of work to assess statistical needs and improve statistics. In 2009, an initiative was launched to modernise the European statistical system (ESS).

The ESS is a partnership between Eurostat, the EU's statistical authority, and national statistical institutes and authorities. Its mission is to provide reliable and comparable statistics at EU level.

In 2016, Eurostat and the European Central Bank signed a memorandum of understanding on how to work together to improve the quality of statistics and ensure their comparability.

- October 2017 draft conclusions on EU statistics (13146/17)

Other items

The Council will discuss the following under 'other business':

- **Financial services**: the Council will be updated regarding work on legislative proposals;
  - October 2017 note on financial services legislative proposals
- **Non-performing loans**: the Commission will describe the potential impact of a proposal on restructuring and insolvency with regard to measures to address non-performing loans in the banking sector. It will also explain how the proposal interacts with other work strands in relation to insolvency.

  The November 2016 proposal is aimed at enabling companies in financial difficulty to restructure early on in order to prevent bankruptcy and avoid laying off staff. It sets out to ensure that entrepreneurs get a second chance after a bankruptcy, and to provide more effective and efficient insolvency procedures throughout the EU.
  - 2016 proposal for a directive on restructuring and insolvency
- **Non-cooperative jurisdictions in taxation matters**: the Council will be updated regarding work to establish an EU list of non-cooperative jurisdictions.

  This initiative will contribute to ongoing efforts to prevent tax fraud. The Council is due to finalise the list by the end of 2017.

Without discussion, the Council is expected to:

- amend its 10 October 2017 conclusions on **climate change**, specifying the €20.2 billion contribution made by the EU and its member states in 2016 to help developing countries reduce their greenhouse gas emissions and cope with the impact of climate change.
    - Press release on 2016 EU and member state financial contributions to climate finance
- adopt conclusions on the EU's 'balance of payments' facility for **financial assistance** to member states in difficulty;
    - October 2017 draft conclusions on the EU's balance of payments facility
- adopt conclusions on the development of **customs IT systems**, calling on stakeholders to explore new approaches for their development and operation.
    - October 2017 draft conclusions on the development of customs IT systems