BACKGROUND[1]
Brussels, 5 November 2018

ECONOMIC AND FINANCIAL AFFAIRS COUNCIL
Tuesday 6 November in Brussels

Ministers will meet at 9:00 with their ***EFTA*** *counterparts from Iceland, Liechtenstein, Norway and Switzerland. The discussion will focus on challenges and opportunities of fintech for the financial sector and economic growth.*

They will then hold a breakfast meeting, starting at 10:00, to discuss the ***economic situation*** *and the* ***annual report of the European Fiscal Board****. The Council is scheduled to start at 11:00.*

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The Council will hold an exchange of views on the digital services tax and discuss the progress achieved in the negotiations so far.

The Court of Auditors will present its annual report on management of the **EU budget**, on the basis of which discharge of the 2017 budget will be decided. The Council will adopt conclusions on the climate finance aspects of the preparations of the COP 24 and on EU statistics. The presidency and the Commission will report on the October **G20 and IMF** meetings.

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Proceedings will start on Monday 5 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, the presidency and the two upcoming presidencies will meet a delegation of employers, trade unions, public enterprises and SMEs at European level.*

The ***Eurogroup*** *will meet at 15.00 in its regular format. It will discuss euro-area aspects of the banking union and financial stability in the EMU. It will also take stock of draft budgetary plans. The Eurogroup will then meet in an 'inclusive format' (27 member states) to prepare for the Euro Summit in December. It will discuss in particular further steps for the completion of the banking union and the European deposit insurance scheme, as well as the reform of the European Stability Mechanism.*

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

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

Digital services tax

Ministers are expected to take stock of the progress achieved in the negotiations on the digital services tax.

The digital services tax (DST) was proposed by the Commission on 21 March 2018, as part of a "digital taxation package". It is meant as an **interim solution** aimed at addressing the most urgent gaps and loopholes in the taxation of digital activities, while ensuring a level playing field for all businesses.

According to the Commission's proposal, the DST would apply to companies with total annual worldwide revenues of €750 million and annual EU revenues of €50 million. The DST would be applied a rate of 3%. The Commission has estimated that under such parameters, member states could generate about €5 billion in revenues per year.

Following the discussion on digital taxation at the informal ECOFIN meeting of 8 September 2018, the Presidency noted member states' interest in **exploring possibilities for ensuring a fair taxation of the digital economy**. At technical level, the text of the proposal was thoroughly discussed and **progress was achieved on a number of issues**, including definitions, tax collection, or administrative cooperation.

In this context, the Presidency has submitted two issues for discussion by the Council, in order to obtain guidance for further work at technical level:

- **the scope of taxable services:** the Commission has proposed that the revenues from targeted advertising, making available to users of multi-sided digital interface and sale of user data should qualify as taxable revenues. The Presidency wants to confirm that this proposed scope is acceptable for the Council or to see whether there is consensus on excluding the sale of user date from the DST scope. ;
- **the sunset clause:** considering the interim nature of the DST, all delegations agree that the directive should expire once the comprehensive solution at global level is in place. Ministers are asked to choose whether the directive should have a fixed expiry date upon which the DST expires automatically or whether the temporary application of the DST should be linked to developments at G20/OECD level.

Current tax rules were designed for the traditional economy and do not apply to activities that require no physical presence in the country where customers are. As a result, businesses active in the digital sector are perceived not to pay their fair share of taxes in all countries where they are active.

For the time being there is no agreement at international level on how to respond to such challenges. The OECD has taken up work on this issue and has published an interim report in March 2018. Its "Task Force on digital economy" aims at producing a final report by 2020. As some EU member states have started taking unilateral measures to address the problem, which could create double taxation disputes and distortions within the EU's single market, the issue has been taken up at EU level.

The challenges of the digital economy were discussed at an EU summit on digital issues held in Tallinn in September 2017. In October, the European Council highlighted the "need for an effective and fair system of taxation for the digital era", while the Council adopted conclusions on "responding to the challenges of taxation of profits of the digital economy" in December.

As a follow up, the Commission put forward a package of measures to better address taxation of the digital economy. In addition to the DST, the Commission published a proposal for a directive and a Commission recommendation on corporate taxation of significant digital presence, as well as a communication on "a modern, fair and efficient taxation standard for the digital economy". In the framework of the May 2018 Presidency digital taxation roadmap, it was agreed to give priority to Council's discussions on the DST.

October 2018 presidency note to the Council on the digital services tax

Climate finance - COP 24

The Council will be called on to adopt conclusions on the financing aspects of climate change ahead of a UN climate change conference.

The 24th conference of the parties (COP24) to the UN framework convention on climate change will be held in Katowice (Poland) from 3 to 14 December 2018. The conclusions will constitute a mandate for the EU's negotiators as concerns the financing aspects.

The Katowice conference will follow up on a global agreement reached at COP21 in Paris in December 2015, with a focus on implementation of the commitments and the completion of the Paris Agreement Work Programme.

The Paris agreement is a global instrument that contains both legally binding and voluntary elements. It was signed in New York in April 2016 by 195 countries, including the EU and its 28 member states, and more countries have signed since then.

The agreement seeks to keep the increase in the global average temperature to well less than 2°C above pre-industrial levels, and to pursue efforts to limit it to 1.5°C. Countries submit national action plans to reduce greenhouse gas emissions ('mitigation'), which will gradually increase in ambition over time. Under the plans, 'nationally determined contributions' are communicated every five years and the parties must report on implementation.

The agreement also sets out to help developing countries and the most vulnerable countries deal with the impact of climate change ('adaptation') and recover from such impacts (loss and damage).

As concerns the financing aspects, the Paris agreement commits industrialised countries to continue providing finance to assist developing countries. Other countries are also encouraged to provide (or to continue to provide) support.

The goal set for industrialised country contributions is $100 billion per year by 2020. By 2025, the parties will set a new collective quantified goal.

The EU and its member states have committed to scale up their contribution. They remain the largest provider of public climate finance and have contributed €20.4 billion in 2017.

The draft conclusions focus on making better use of available resources, in particular private finance. The text calls for swift and ambitious progress on making finance flows consistent with the objectives set by the Paris agreement and stresses the importance of carbon pricing in shifting financial flows towards green and sustainable investments.

The overarching mandate for the COP24 was adopted in the form of Council conclusions on climate change at the Environment Council of 9 October 2018.

Council conclusions on climate change, 9 October 2018

Report on implementation of 2017 budget

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, which was issued on 4 October 2018, covers the EU's budget for 2017. It gives a clean opinion on the reliability of the 2017 accounts of the European Union.

The Court concludes that the revenue for 2017, taken as a whole, was legal and regular, as in previous years. As regards payments, it issues for the second year in a row a qualified (rather than an adverse) opinion.

There has been a sustained improvement in the estimated level of error in payments over the last few years, from 4.4% in 2014 to 2.4% in 2017. Moreover, in 2017, over half of the audited expenditure examined was free from material error.

Problems remain where payments from the EU budget are made to beneficiaries based on their declarations of costs previously incurred, such as in rural development and cohesion.

The Court's assessment will be the basis for a discharge to be given to the Commission for implementation of the 2017 budget. The Council is expected to issue a recommendation in February 2019. It will then be for the European Parliament to decide if it can grant a discharge to the Commission.

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.

EU spending totalled €137.4 billion in 2017. This amounts to around 0.9% of EU gross national income and represents approximately 2% of total public spending in EU Member States.

Court of Auditors report on implementation of the EU's 2017 budget

EU statistics

The Council is expected to adopt conclusions on the use of European official statistics in the context of the EU's economic governance framework.

Council conclusions on EU statistics are part of a yearly exercise, where the Council examines reports prepared by various EU statistical bodies and institutions. The conclusions review progress achieved on the priorities for EU statistics that the Council established the previous year, and provide guidance on further work. In particular, they look into statistics used for the excessive deficit procedure, surveillance of macroeconomic imbalances, and structural statistics.

High quality, comparable and reliable statistics are of key importance to EU economic policy-making, and in particular for the EU economic surveillance procedures. 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 the framework of 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.

G20 and IMF meetings in Bali - follow up

The presidency and the Commission will report on international finance meetings held in Bali, in October 2018, namely:

- a G20 finance ministers and central bank governors meeting on 11-12 October;
- IMF annual meetings, on 12-14 October.

The G20 meeting featured discussions on the risks to the global economic outlook, the international financial architecture, as well as exchanges on the financing of infrastructure development and the G20 compact with Africa. It was the last G20 ministerial meeting under the Argentinian presidency, with Japan taking over on 1 December 2018.

Other items

Financial services legislation

Under 'other business', the Council will be updated regarding work on legislative proposals. The Commission will also report on the implementation of adopted legislation.

November 2018 progress report on financial services legislative proposals

Taxation - non-cooperative jurisdictions

The Council is due to approve, without discussion, amendments to its conclusions of December 2017 on the EU's list of non-cooperative tax jurisdictions.

These include the removal of Namibia from the list, which is contained in annex I of the conclusions. As Namibia has made commitments at a high political level to remedy EU concerns, it will be moved to annex II of the conclusions and the implementation of the commitments will be carefully monitored.

31 October 2018 note on changes to the EU list of non-cooperative jurisdictions

Council webpage on the EU list of non-cooperative jurisdictions

December 2017 Council conclusions on the EU list of non-cooperative jurisdictions

VAT rates for electronic publications

The Council is expected to adopt a proposal allowing member states to apply reduced, super-reduced or even zero VAT rates to electronic publications.

The directive will align VAT rules for electronic and physical publications, thereby contributing to the EU's 'digital single market' plan. The new rules will apply temporarily, pending the introduction of a new, 'definitive' VAT system.

Text of the e-publication directive presented for adoption, 30 October 2018

Reduced VAT for e-publications - Council webpage