Council of the European Union

PRESS
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BACKGROUND[1]
Brussels, 4 November 2019

ECONOMIC AND FINANCIAL AFFAIRS COUNCIL
Friday, 8 November in Brussels

Ministers will meet at 8:00 with their ***EFTA*** *counterparts from Iceland, Liechtenstein, Norway and Switzerland. The discussion will focus on the economic situation and sustainable finance.*

They will then hold a short breakfast meeting, starting at 9:00, to receive a debrief the Eurogroup meeting of 7 November.

At 9:30, ministers of finance will hold a joint policy debate on the importance of effective and high-quality education and training to achieve a strong economic base for Europe.

The ECOFIN Council is scheduled to start at 12:30.

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The Council is expected to adopt conclusions on climate finance, in view of the COP25 conference which will be held in Madrid from 2 to 13 December 2019. The Council is also expected to adopt conclusions on EU statistics.

Ministers will discuss the state of play on the work concerning digital taxation, focusing in particular on the latest developments in the international context. They will also seek an agreement on the excise duty package and two VAT-related legislative files: the transmission and exchange of VAT-relevant payment data and the special VAT scheme for small enterprises.

The Council will also be debriefed by the Presidency and the Commission on recent G20 and IMF meetings, receive a presentation of the 2019 annual report of the European Fiscal Board and adopt a Council recommendation on the appointment of a member of the ECB executive board.

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Proceedings will start on 7 November at 11.30 with a meeting with the ***social partners****, focusing on the importance of effective and high-quality education and training to achieve a strong economic base for Europe. Representatives of the EU institutions, the incoming 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 investment and innovation, the selection process of a new ECB executive board member. The Commission will present its Autumn economic forecast. The Eurogroup will then meet in an 'inclusive format' (27 member states) to discuss the state of play of different workstreams related to the EMU reform.*

***Press conferences*:**

- after the Eurogroup meeting *(Thursday evening)*;
- after the joint debate of finance and education ministers *(Friday noon)*
- at the end of the Council *(Friday afternoon).*

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

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Joint debate with education ministers on education and training

Ministers of finance and education will hold a joint policy debate on the above topic with the aim at:

– exchanging views on the role of education and training in achieving long-term sustainable growth

– sharing experiences and practices in promoting quality, efficiency and effectiveness of education and training.

The importance of education and training, and human capital has been widely recognised at EU level. Education and training have already been part of the Europe 2020 strategy and the role of education, skills and lifelong learning has been highlighted in the 2019 Country Specific Recommendations (CSR's). The European Council's Strategic Agenda for 2019 - 2024 emphasises the importance of education and training for both the economy and society, and calls for investment in people's skills and education to be stepped up.

Figures show that high quality education and training bring benefits to both individuals and society. The employment rate of adults with a university degree is about 9 percent higher than for those with upper secondary education only. A well-educated workforce helps to boost productivity and growth, increasing the standard of living for all.

The education system in Europe is funded mostly by public money which often raises the question about the efficiency and the effectiveness of the spending. These are assessed against the attainment, quality and inclusiveness of education and training. The EU average educational attainment in the EU in the age group 30-34 increased from 31% in 2008 to 41% in 2018, whereas, in terms of quality the EU achievers scores are at the average level in the Programme for International Student Assessment (PISA).

Against this background and on the basis of a Presidency issues note, ministers will be invited to have an exchange of views on the basis of the following questions:

- Which challenges are the most pressing for your country when it comes to the efficiency and effectiveness of education and training?
- Which policies do you see as most promising when promoting efficiency, effectiveness, inclusiveness and equality in education and training?
- How can high-quality learning outcomes, high levels of educational attainment and equality be achieved simultaneously?
- What could be the role of European cooperation in promoting efficiency, effectiveness and high quality of education and training, and how could European societies anticipate future upskilling and reskilling needs?

Excise duties

The Council will discuss the review of the excise duty rules applicable in the EU. Ministers will be called on to agree on the following proposals:

- the directive on the structures of excise duty on alcohol and alcoholic beverages;
- the directive on general arrangements for excise duty;
- the regulation on administrative cooperation on the content of electronic registers.

Excise duties are indirect taxes on the sale or use of specific products, such as alcohol, tobacco and energy. The revenue from these taxes goes entirely to the country to which they are paid. Since 1992, EU countries have had in place common rules to make sure that excise duties are applied in accordance with the same principles and to the same products everywhere in the EU. This helps prevent trade distortions in the Single Market, contributes to fair competition between businesses and reduces administrative burden for companies and tax authorities.

In addition to the harmonisation of minimum rates of excise duty (which are not subject to a revision for the time being), EU law also sets out common provisions which apply to products subject to excise duty. On 25 May 2018, the Commission proposed a series of new rules on excise duties, covering both the general arrangements on excise duties and the structure of excise duties on alcohol.

The Council discussed the package of measures at its ECOFIN meetings in March and May 2019 but some issues required further work before agreement could be reached on these dossiers.

Harmonisation of structures of excise duties on alcohol and alcoholic beverages

The main objective of this proposal is to update the rules governing structures of excise duty on alcohol within the EU in order to improve business environment and reduce costs for small alcohol-producing businesses.

The proposal puts in place a uniform certification system in the EU for confirming the status of independent small producers, recognizable in all EU countries.

Small producers of beer and ethyl alcohol currently benefit, under specific conditions, from the regime of reduced rates. The draft Directive will extend such regime also to producers of other fermented beverages and intermediate products across the EU.

The text also increases the threshold for lower strength beer that can benefit from reduced rates from 2,8% volume to 3,5% volume. This change will encourage more innovation and the development of new products and should encourage consumers to choose low-strength alcoholic beverages over standard ones, thereby reducing alcohol intake.

Ministers will seek to reach a political agreement on this file by settling the remaining outstanding issue relating to the exemption from excise duty or reduced rates for small home distilleries.

While all delegations now agree that the directive should foresee the possibility for member states to exempt from or apply reduced rates of excise duties to alcohol distilled by private individuals from fruit for their private use, the maximum volume of home-made alcohol that could be subject to the exemption remains open. In its latest compromise text, the Presidency suggests to set the limit at 50 litres per year and per household.

General arrangements for excise duty and administrative cooperation on the content of electronic registers

The aim of these proposals is to align the EU excise and customs procedures, so as to improve the freedom of movement for excise goods released for consumption in the single market while ensuring that correct tax is collected by the member states. It also aims to reduce the administrative and legal burden for small companies. The proposals contain a number of measures to streamline and simplify the processes covering export and import interaction and intra-EU movements of excise products.

The directive on general arrangements for excise duty sets out, among others, the guidance for amounts of excise duty goods that private individuals are allowed to acquire for their own use and transport from one member state to another without being taxed.

The Presidency intends to aim for an agreement on the basis of its compromise proposal, as it considers that technical work on the text is completed.

VAT rules for small enterprises

The Council will seek to reach a political agreement on a reform of the VAT rules applicable to small businesses.

The purpose of the proposal, published in January 2018, is to reduce administrative burden and compliance costs for small enterprises and to help create a fiscal environment which facilitates SME's growth and the development of cross-border trade.

Ministers will be called to agree on a compromise proposal put forward by the Finnish presidency which consists of two main building blocks:

- amendments to the VAT directive which aim at revising and simplifying rules on VAT exemption for small enterprises so that they can use the VAT exemption across the EU.
- amendments to the regulation on administrative cooperation in the field of VAT to improve administrative cooperation between tax authorities concerning the application of the updated VAT rules for SMEs.

The main outstanding issue is the level of the national and EU annual turnover thresholds for the application of VAT exemption for SMEs. The compromise text foresees a national annual turnover threshold of EUR 85 000, and an EU annual turnover threshold of EUR 100 000.

Exchange of VAT-relevant payment data

The Council will seek to reach a general approach on new rules on the transmission and exchange of VAT-relevant payment data.

The reform aims at facilitating tax fraud detection by member states' authorities and at complementing the recently agreed VAT regulatory framework for e-commerce. The new rules would enable member states to collect in a harmonised way the records made electronically available by the payment service providers, to set up a new central electronic system for the storage of the payment information and for the further processing of this information by national anti-fraud officials.

Ministers will be called to agree on a compromise proposal put forward by the Finnish presidency which consists of two legislative texts:

- amendments to the VAT directive putting in place requirements on payment service providers to keep records of cross-border payments related to e-commerce. This data will then be made available to national tax authorities under strict conditions, also covering data protection.
- amendments to a regulation on administrative cooperation in the area of VAT. These amendments set out the details on how national tax authorities will cooperate, in this area, to detect VAT fraud and control compliance with VAT obligations.

ECB executive board - nomination of a new member

The Council is expected to adopt a recommendation to the European Council on the nomination of a new member of the executive board of the European Central Bank.

Following his call for applications at the October 2019 Eurogroup meeting, the President of the Eurogroup received one candidature: Germany has proposed Isabel Schnabel, professor at the University of Bonn and member of the German Council of Economic Experts.

The European Council will take a formal decision on the appointment, after having consulted the European Parliament and the ECB's Governing Council.

The new member will succeed Sabine Lautenschläger, who decided to step down as of 31 October 2019, for a non-renewable 8-year term.

The Council needs a 'reinforced' qualified majority to adopt the recommendation. This requires the support of 72% of euro-area member states (i.e. 14 out of 19), representing 65% of the population of the euro-area. (Legal basis: article 283(2) of the Treaty on the Functioning of the European Union.)

Appointment of the ECB executive board - Council infographic

Digital taxation

Ministers will take stock of the state of play of the work undertaken during the Finnish Presidency concerning the ongoing OECD discussions regarding tax challenges arising from the digitalisation of the economy. They will also exchange views on the way forward in this policy area.

The exchange of views will follow up on the ECOFIN debate of May 2019 during which ministers discussed current international tax reforms and assessed possibilities to prepare negotiations in the OECD. At the time, ministers broadly supported continuing discussions on these matters at EU level, with a view to exchanging ideas on options discussed in the OECD, analysing their impact on the tax revenues and businesses of member states and seeing whether issues common to member states could be identified. Following up on that, the Finnish Presidency has held six rounds of discussions at technical level until now.

The OECD has taken up work in the framework of its "Task Force on digital economy" and has published an interim report in March 2018 which provides an analysis of value creation across new and changing business models in the context of digitalisation and the tax challenges they present.

Since then, the task force has intensified its work on the basis of concrete proposals and public consultations have been conducted. The OECD published a detailed work programme to address the tax challenges arising from the digitalisation of the economy. The programme was endorsed by the G20 Finance meeting in Fukuoka on 9 June 2019.

The ongoing OECD development consists of two work streams:

- Pillar 1 examines rules concerning the reallocation of profits of digitalized businesses by determining new rules on where tax should be paid and what portion of profits should be taxed in a particular jurisdiction.
- Pillar 2 explores the design of a system to ensure that internationally operating companies pay a minimum level of tax aiming to protect the countries' tax base from base erosion and profit shifting.

The work in the OECD has intensified during past months and the aim of the OECD is to have a political agreement on the overall architecture of the reforms by January 2020 and a final report by the end of 2020.

On the basis of a state of play document ministers will be invited to exchange views on the way forward proposed by the presidency, namely:

- examine initial findings on EU law compatibility of the solutions discussed at OECD level, before the end of the year;
- work on impact analyses, currently being carried out by the Commission, as a matter of priority;
- examine certain elements discussed at OECD level in order to find commonalities for EU member states.

2019 Annual report of the European Fiscal Board

The Chair of European Fiscal Board, Niels Thygesen, will present the EFB annual report on the implementation of the EU fiscal framework in 2018.

The EFB annual report provides an analysis of fiscal policy surveillance and coordination in the euro area and aims at informing relevant stakeholders, mainly the Commission, in their attempt to strengthen and improve the EU's fiscal framework. In particular, the report offers a backward-looking assessment of the implementation of the Stability and Growth Pact (SGP) in 2018 and a forward-looking analysis on improvements to the EU fiscal framework.

The reports explains that growth in 2018 was in line with original plans and relatively robust, although slowing compared to strong momentum of 2017. The structural primary surplus increased marginally, but expenditure was higher than planned and net expenditure grew twice as fast as potential output, signalling fiscal loosening in the euro area. Relatively favourable economic conditions and sustainability challenges called for a neutral fiscal stance in the euro area, with appropriate country differentiation. Yet many high-debt countries missed an opportunity to build buffers.

Regarding the SGP implementation in 2018, standard indicators pointed to significant deviations in several countries while the Commission used additional elements of discretion and refrained from drawing conclusions or taking action. National independent fiscal institutions played a useful role in some countries, but should be reinforced through minimum standards. The EFB found new evidence in the 2018 experience to support its proposal to simplify and reform the EU fiscal governance framework, as presented in its recent assessment of EU fiscal rules.

EU statistics

The Council is expected to adopt conclusions on 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.

Climate finance - COP 25

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

The 25th conference of the parties (COP25) to the UN framework convention on climate change will be held in Madrid from 2 to 13 December 2019. The conclusions will constitute a mandate for the EU's negotiators as concerns the financing aspects.

The COP25 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 conclusions emphasize the continued commitment of the EU and its member states to achieve the goal set for industrialised country to contribute $100 billion per year by 2020 and through to 2025. By 2025, the parties will set a new collective quantified goal. In this regard, the conclusions note the EU's commitment to engage in these discussions as of November 2020.

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 €21.7 billion in 2018 (up from €20.4 billion in 2017). Since 2013, the EU's and member states' contribution has more than doubled since 2013.

The draft conclusions stress the importance of an urgent and ambitious implementation of the Paris Agreement. They call for swift and ambitious progress on making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development. In this regard, they highlight the recent progress achieved in legislative reforms at EU level on sustainable finance (taxonomy, benchmarks, disclosures).

The overarching mandate for the COP25 was adopted in the form of Council conclusions on climate change at the Environment Council of 4 October 2019.

Council conclusions on climate change, 4 October 2019

G20 and IMF meetings in Washington - follow up

The Presidency and the Commission will report on international finance meetings held in Washington DC, in October 2019, namely:

- a G20 finance ministers and central bank governors meeting on 17-18 October featuring discussions on the risks to the global economic outlook, international taxation, stablecoins, the G20 Compact of Africa as well as exchanges on quality infrastructure investment, debt sustainability and financing of universal health coverage;
- IMF annual meetings, on 14-20 October, bringing together central bankers, ministers of finance and development, parliamentarians, private sector executives, representatives from civil society and academics to discuss issues of global concern, including the world economic outlook, poverty eradication, economic development, and aid effectiveness.

Other items

Financial services legislation

Under 'other business', the Council will be updated regarding work on legislative proposals.

November 2018 progress report on financial services legislative proposals

Stablecoins

The Presidency will inform ministers about a draft joint statement of the Council and the Commission on stablecoins to be agreed at the December ECOFIN.

Taxation - non-cooperative jurisdictions

The Council is due to adopt, without discussion, an update to the EU list of non-cooperative jurisdictions. It should agree to remove Belize from the EU list. In addition, the Council should find North Macedonia compliant with all commitments on tax cooperation.

Council webpage on the EU list of non-cooperative jurisdictions

Capital markets union

The Council is due to adopt without discussion a set of legislative reforms contributing to the capital markets union. The texts concern:

- examine initial findings on EU law compatibility of the solutions discussed at OECD level, before the end of the year;
- transparency obligations for sustainable investments;
- a new prudential framework for investment firms (directive and regulation);
- a harmonised framework for covered bonds (directive and regulation);
- a regulation promoting access to SME growth markets.