**BACKGROUND**[1]
Brussels, 7 October 2016

# ECONOMIC and FINANCIAL AFFAIRS COUNCIL
# Tuesday 11 October in Luxembourg

The Council is expected to adopt conclusions on the financing aspects of **climate change**, ahead of a UN climate change conference in November.

It will discuss the VAT aspects of a proposal addressing **fraud against the EU budget** by means of criminal law. It is expected to adopt conclusions on **tax transparency** and to approve a taxation agreement with **Monaco**.

The Council will discuss policy challenges for **healthcare** systems in relation to fiscal sustainability.

It will discuss Basel Committee **banking reforms** and implementation of EU **banking union**.

Also on the agenda are the follow-up to the autumn **G20 and IMF** meetings and lessons learned from the 2016 **European Semester** policy monitoring process.

~ ~ ~

The **Eurogroup** will meet on Monday 10 October at 15.00. It will discuss implementation of Greece's economic adjustment programme, preparation of the member states' draft budgetary plans for 2017 and healthcare expenditure in relation to fiscal sustainability.

At a breakfast meeting on Tuesday at 9.00, ministers will discuss the **economic situation**. The Commission will provide an update on the excessive deficit procedures for **Portugal and Spain**. Ministers will be updated on work to improve the predictability and transparency of the **Stability and Growth Pact**, the EU's fiscal rulebook. They will also discuss a proposal for a European fund for sustainable development as part of the EU's plan for **investment in third countries**.

The Council meeting is scheduled to start at 10.30.

***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.

## Fraud against the EU - VAT aspects

The Council will be briefed on negotiations on a proposal against fraud ("PIF directive"), three days ahead of a debate by the Justice and Home Affairs Council.

It will hold an exchange of views.

The draft directive sets out to address fraud against the EU's budget by means of criminal law.

The JHA Council is primarily responsible for the dossier. The Economic and Financial Affairs Council will discuss VAT-related aspects.

When the proposal was tabled in 2012, a majority of member states considered that VAT fraud should be excluded from its scope. Protection mechanisms are in place at national level and only a small portion of VAT revenues are transferred to the EU budget. However, in a 2015 judgement (C-105/14 Ivo Taricco and others), the Court of Justice confirmed that VAT represents a source for the EU budget.

Recent discussions have shown that including at least serious forms of VAT fraud in the scope of the directive is now more generally accepted within the Council. However, a number of member states are still opposed.

## Implementation of banking union

The Commission will provide a brief update on implementation of the EU's banking union, as part of a routine review made at Council meetings.

The banking union is aimed at placing Europe's banking industry on a sounder footing, whilst ensuring that non-viable banks are resolved without recourse to taxpayers' money. Launched in 2012 to address the bank-sovereign nexus in Europe, it is part of a longer-term plan for financial integration. Involving a transfer of responsibility to the EU level, it currently comprises the 19 countries of the euro area whilst 7 other member states have also indicated their intention to join.

The banking union currently consists of two main initiatives, the single supervisory mechanism (SSM) and the single resolution mechanism (SRM). These are based on a regulatory framework, the "single rulebook", which applies to all 28 member states.

On 1 January 2016, the SRM became operational and the single resolution fund (SRF), a component of the SRM, entered into force.

As of 27 September 2016:

- 20 member states, including all 19 current members of the banking union, had ratified an intergovernmental agreement (IGA) on the SRF;
- the transfer to the SRF of 2015 bank contributions was complete, in line with the IGA;
- 14 of the 19 banking union member states had signed a loan facility agreement on bridge financing for the SRF.

As concerns the single rulebook, on 27 September 2016:

- 27 of the 28 member states had fully transposed a directive on bank recovery and resolution;
- 27 of the 28 member states had fully transposed a directive on deposit guarantee schemes.

  - Banking union

## G20 and IMF meetings

The presidency and the Commission will report on a G20 finance ministers meeting and annual IMF meetings that are being held in Washington DC from 6 to 9 October 2016.

## Climate change

The Council is expected to adopt conclusions on the financing aspects of climate change, ahead of a UN climate change conference in November.

The 22nd conference of the parties (COP22) to the UN framework convention on climate change will be held in Marrakesh from 7 to 18 November 2016. The draft conclusions constitute the EU's mandate for the conference as concerns the financing aspects.

The Environment Council on 30 September 2016 adopted conclusions in preparation for the conference, covering the more general aspects. It also agreed to speed up the ratification of an agreement reached at COP21 in Paris in December 2015 that sets a new framework for global action on climate change.

The Marrakesh conference will discuss the details of the Paris agreement and prepare for implementation of all its provisions.

These cover the reduction of emissions ("mitigation"), adaptation to climate change and support for developing and most vulnerable countries. Key issues include scaling-up action before 2020 and ensuring financial flows.

The Paris agreement is a global, legally binding instrument. 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. It sets out to help countries deal with climate impacts (adaptation) and recover from such impacts (loss and damage). Countries must submit national climate actions plans to reduce emissions, which will gradually increase in ambition over time. Under the plans, "nationally determined contributions" must be communicated every five years and the parties must report on implementation.

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 towards the $100 billion goal. A figure quantifying the member states' 2015 contributions will be announced before COP22.

The draft conclusions recall that scaled-up amounts of public finance were announced by the EU and its member states at COP21 for the coming years. They highlight the need for a fair sharing of the burden amongst developed countries and for the participation of a broader range of contributors. Whilst funds will be mobilised from a wide variety of sources, public finance will continue to play a significant role.

- Environment Council meeting of 30 September 2016

## European Semester - Lessons learned

The Council will discuss challenges for the "European Semester" annual policy monitoring process in the light of lessons learned from the 2016 exercise.

The chairman of the Economic and Financial Committee (EFC) will report on discussions in the EFC and the Economic Policy Committee.

The European Semester involves simultaneous monitoring of the member states' economic, fiscal and employment policies during a roughly six-month period every year. It was introduced in 2011 as part of a economic governance reform undertaken in response to the euro crisis.

In the light of policy guidance from the European Council each year in March, the member states present:

- national reform programmes for their economic and employment policies;
- stability/convergence programmes for their fiscal policies.

The European Semester concludes in July with the adoption of country-specific recommendations to the member states.

It is a process that covers a broad range of policy areas involving several Council configurations and preparatory committees.

The 2017 European Semester will start in November 2016 with the publication by the Commission of its annual growth survey.

## Health systems and fiscal sustainability

The Commission will present a report on health systems and fiscal sustainability, prepared jointly with the Economic Policy Committee.

The Council will discuss challenges and policy options presented in the report.

It will ask the Economic and Financial Committee to prepare draft conclusions for the Council's meeting on 8 November 2016.

The report presents an analysis of healthcare and long-term care systems in the member states. It assesses how to contain spending pressures through efficiency gains, in order to maintain access to good quality services in a fiscally sustainable manner.

The member states face growing pressures driven by tight fiscal constraints, demographic pressures and technological advances. As a result, total spending on healthcare and long-term care absorbs a growing share of total resources in the economy and constitutes a significant share of public expenditure.

The report updates the findings from a report issued in 2010. It reflects health policy reforms undertaken by the member states since then and includes for the first time an analysis of long-term care.

## Banking reform - Basel committee

The Commission will update the Council, under "other business", on negotiations on post-crisis banking reform undertaken by the Basel Committee on Banking Supervision.

In a speech on 29 September 2016, Commission vice-president Valdis Dombrovskis said the reform should avoid a significant increase in overall capital requirements shouldered by Europe's banking sector.

At the Council's meeting on 12 July 2016, a number of member states expressed concerns regarding the potential impact of the reform. The Council adopted conclusions reiterating support for the Basel Committee's work, and called on it to carefully assess the design and calibration of the reform.

The Basel Committee is a forum of supervisory authorities aimed at enhancing cooperation and improving bank supervision worldwide. It prepares guidelines intended to foster convergence towards common approaches and standards.

Established in 1975, it currently has 28 members, including the EU and some of its member states. Its secretariat is based in Basel.

- Basel Committee on Banking Supervision
- July 2016 Council conclusions on finalising the Basel Committee post-crisis banking reform
- Valdis Dombrovskis speech to European Banking Federation September 2016 conference

## Tax transparency

The Council is expected to adopt, without discussion, conclusions on further measures to enhance tax transparency and prevent tax abuse.

The conclusions come in response to a July 2016 Commission communication on possible EU action following the April 2016 Panama Papers revelations.

They highlight the need to prevent the large-scale concealment of funds, which hinders efforts to clamp down on tax evasion, money laundering and terrorist financing.

Tax evasion and tax avoidance deprive public budgets of billions of euros in revenues each year, distort competition between businesses and erode fairness in tax systems. SMEs, which are the main source of employment in Europe, end up paying proportionately more taxes than larger companies that engage in aggressive tax planning. Tax avoidance can also increase the tax burden on labour, as governments compensate for the lost revenue by increasing taxes elsewhere.

The Commission recommends a coordinated approach to tackling tax abuse, at both EU and international levels. It cites progress made so far, which is already improving the tax environment for citizens and businesses in Europe.

Loopholes remain however and further action envisaged by the Commission includes:

- harnessing the link between measures to prevent money laundering and tax transparency rules;
- improving information exchange on beneficial ownership, so as to increase transparency about who owns companies and trusts;
- increased oversight of enablers and promoters of aggressive tax planning;
- promoting good tax governance standards worldwide;
- improving the protection of whistle-blowers.

The G20 in July 2016 called on the OECD and the Financial Action Task Force (FATF) to make proposals to improve implementation of international transparency standards. The FATF is an international body working on money laundering and terrorist financing issues.

- September 2016 draft conclusions on measures to enhance tax transparency
- July 2016 Commission communication on measures to enhance tax transparency

## Taxation agreement - Monaco

The Council is expected to approve, without discussion, the conclusion of an agreement with Monaco aimed at improving tax compliance by private savers.

The agreement will require EU member states and Monaco to exchange information automatically as a means of preventing tax evasion.

It will give their tax administrations improved cross-border access to information on the financial accounts of each other's residents.

The agreement upgrades a 2004 agreement that obliged Monaco to apply measures equivalent to those in an EU directive on the taxation of savings income.

The agreement was signed in Brussels on 12 July 2016.

- Press release on the signing of the 2016 EU-Monaco taxation agreement

## Other items

Under "other business", the Council will be updated as concerns:

- negotiations on post-crisis **banking reform** undertaken by the Basel committee on banking supervision (see separate item above);
- work on legislative proposals on **financial services**.

Without discussion, it is expected to:

- adopt conclusions on measures to enhance **tax transparency** (see separate item above);
- approve the conclusion of a taxation agreement with **Monaco** (see separate item above).

- September 2016 secretariat note on progress on financial services legislative dossiers