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Economic and Financial Affairs

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President **Hartwig Löger**
Federal Minister for Finance

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• Documents for which references are given in the text are available on the Council's internet site (<http://www.consilium.europa.eu>).
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ITEMS DEBATED

VAT FRAUD – SHORT-TERM FIXES

The Council agreed on four adjustments to the EU's current VAT rules to fix specific issues pending the introduction of a new VAT system:

- call-off stock. The proposals provide for a simplified and uniform treatment for call-off stock arrangements, where a vendor transfers stock to a warehouse at the disposal of a known acquirer in another member state;
- the VAT identification number. To benefit from a VAT exemption for the intra-EU supply of goods, the identification number of the customer will become an additional condition;
- chain transactions. To enhance legal certainty in determining the VAT treatment of chain transactions, the proposals establish uniform criteria;
- proof of intra-EU supply. A common framework is proposed for the documentary evidence required to claim a VAT exemption for intra-EU supplies.

These adjustments will apply from 1 January 2020.

The Council will adopt the directive once the European Parliament has given its opinion.

[Text of agreed VAT 'quick fix' package](#)

VAT FRAUD – 'REVERSE CHARGE' MECHANISM

The Council agreed a proposal that will allow derogations from normal VAT rules in order to better prevent VAT fraud.

The proposed directive will allow member states that are most severely affected by VAT fraud to temporarily apply a generalised reversal of VAT liability. This generalised 'reverse charge' mechanism involves shifting liability for VAT payments from the supplier to the customer.

Member states will only be able to use the generalised reverse charge mechanism (GRCM) for domestic supplies of goods and services above a threshold of €17 500 per transaction. The mechanism will only apply until 30 June 2022 and will be subject to very strict technical conditions. For example, in a member state that wishes to apply this measure, 25% of the VAT gap must be due to carousel fraud. Among other requirements, the member state will have to establish appropriate and effective electronic reporting obligations on all taxable persons, in particular those to which the mechanism would apply.

The generalised reverse charge mechanism may only be used by a member state once it meets the eligibility criteria and its request has been authorised by the Council. The application of this measure is also subject to strict EU safeguards.

See the [press release](#).

[VAT reverse charge mechanism - Council webpage](#)

ANTI-MONEY LAUNDERING PRUDENTIAL SUPERVISION

The Commission presented its proposal to strengthen the role of the European Banking Authority (EBA) in supervising EU financial institutions, so as to better address money laundering and terrorist financing threats.

Ministers stressed the importance of proper implementation of EU rules on anti-money laundering and enhancing cooperation between anti-money laundering and prudential supervisors so as to create an efficient monitoring framework.

Work on the Commission's proposal will now continue at technical level. Longer term reforms, as set out in the Commission's communication, will be considered in parallel.

Recent scandals involving money laundering in some EU banks have raised concerns that anti-money laundering (AML) rules are not always supervised and enforced effectively across the EU, creating risks for the integrity and reputation of the European financial sector, as well as for the financial stability of those banks.

The recent cases of breach or alleged breach of AML rules have prompted calls for action at the highest political level. In his letter of 25 June 2018 to the President of the European Council, the Eurogroup President highlighted the "importance of enhancing the current monitoring of the implementation of anti-money laundering measures". The issue was also taken up in the framework of the Franco-German Meseberg declaration.

In this context, the Commission proposal, presented on 12 September, aims in particular to:

- ensure consistent investigation of breaches of anti-money laundering rules;
- give the EBA a last resort competence to address decisions directly to individual financial operators;
- enhance the quality of supervision through common standards and coordination among national supervisory authorities.

In parallel, the Commission set up, in May 2018, a joint working group which included the SSM and European supervisory authorities, with the aim of improving the current framework for cooperation between anti-money laundering and prudential supervisors. The joint working group is also to be seen in the light of the Eurogroup President's call to prepare a report which would serve as a basis for further measures by the end of 2018.

The European rules on anti-money laundering and terrorist financing have been considerably strengthened in recent years, with two consecutive reforms being adopted since 2015. The latest revision of the AML directive, the fifth AMLD, was adopted in April 2018 and is due to be transposed at national level by January 2020.

[Letter by Eurogroup President to the European Council President ahead of the Euro Summit, 25 June 2018](#)

[Commission communication on strengthening the framework for AML supervision](#)

[Commission's proposed amendments to the ESA review](#)

[Council page on fight against money laundering and terrorist financing](#)

EUROPEAN SEMESTER 2018 - LESSONS LEARNED

The Council took stock of the 'European Semester' annual policy monitoring process in the light of lessons learned from the 2018 exercise.

Ministers agreed that the 2018 process represented an improvement compared to previous years, but there was still scope for making it smoother and more effective. It was also noted that the calendar for the next exercise would be very challenging due to the possible overlap of the European elections in May 2019.

The European Semester involves simultaneous monitoring of the member states' economic, fiscal and employment policies during a period of approximately six months each year. Covering a broad range of policy areas, it involves several Council configurations and preparatory committees.

The 2019 European Semester will start in November 2018 with the Commission's publication of its annual growth survey.

G20 MEETING IN BUENOS AIRES

The Council finalised preparations for international finance meetings to be held in Bali (Indonesia), namely:

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

The presidency will participate on behalf of the EU, together with the Commission and the European Central Bank.

The G20 meeting will feature 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 will be the last G20 ministerial meeting under the Argentinian presidency, with Japan taking over on 1 December 2018.

OTHER BUSINESS

Financial services

The presidency updated ministers regarding work on legislative proposals in the field of financial services. The Commission also reported on the state of play of implementation of adopted legislation.

[September 2018 progress report on financial services legislative proposals](#)

MEETINGS IN THE MARGINS OF THE COUNCIL

– ***Eurogroup***

Ministers of the eurozone member states attended a meeting of the Eurogroup on 1 October.

The Eurogroup held a thematic discussion on the role of national automatic stabilisers. Ministers exchanged views on how national policies could enhance the automatic stabilisers and shared their national experiences in this area.

Ministers then took stock of the recent exchange rate developments.

Under miscellaneous issues, the Italian finance minister updated the Eurogroup on ongoing preparations of Italy's draft budgetary plans for 2019.

In an inclusive format, the Eurogroup discussed the reform of the European Stability Mechanism, as mandated by the Euro Summit meeting in June this year. The Eurogroup is expected to agree 'on a term sheet for the further development of the ESM' by December 2018.

[Eurogroup main results](#)

– ***Ministerial breakfast***

Ministers held a breakfast meeting to discuss the economic situation in the EU.

OTHER ITEMS APPROVED

ECONOMIC AND FINANCIAL AFFAIRS

VAT rates for electronic publications

The Council reached agreement on a proposal allowing member states to apply reduced, super-reduced or even zero VAT rates to electronic publications.

The directive is aimed at aligning 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.

For more information, see the [press release](#).

VAT fraud - administrative cooperation

The Council adopted measures to strengthen administrative cooperation in order to better prevent VAT fraud.

The regulation will improve the exchange and analysis of information shared by the member states' tax administrations and with law enforcement bodies. It will also strengthen Eurofisc, a network of national tax officials for the exchange of information on VAT fraud, jointly processing and analysing all relevant data.

A political agreement on the text was reached at the Council meeting of 22 June 2018. The Parliament issued a positive opinion on the text on 3 July 2018.

For more information, see the [press release](#).

Taxation - non-cooperative jurisdictions

The Council approved a number of amendments to its conclusions of December 2017 on the EU's list of non-cooperative tax jurisdictions.

These include the removal of Palau from the list, which is contained in annex I of the conclusions. As Palau 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.

In addition, Liechtenstein and Peru will be removed from annex II of the conclusions following the positive assessment of the reforms implemented by both jurisdictions.

For more information, see the [press release](#).

Optional reverse charge mechanism - period of application

The Council reached a general approach on a draft directive aiming at prolonging until 30 June 2022:

- the possibility for member states to apply the reverse charge mechanism to combat existing fraud in a number of specific sectors, and
- the possibility to use the quick reaction mechanism to combat fraud.

The necessary unanimity agreement was reached on the basis of the text of the Commission proposal, as submitted on 25 May 2018 ([12659/18](#))

Derogations to common system of VAT

The Council adopted implementing decisions authorising the following derogations to the common system of value added tax:

- a derogation authorising Hungary to exempt from VAT taxable persons whose annual turnover is no higher than the equivalent in national currency of €48 000 at the conversion rate of its accession ([10892/18](#)).
- a derogation authorising Hungary to limit to 50% the right to deduct the VAT on expenditure related to passenger cars not wholly used for business purposes ([11895/18](#)).
- a derogation authorising Latvia to designate the recipient of the supplies as the person liable for payment of VAT in the case of supplies of ferrous and non-ferrous semi-finished metals ([11373/18](#)).
- a derogation authorising Austria to completely exclude VAT 'borne on goods and services from the right to deduct VAT when the goods and services in question are used for more than 90 % for the private purposes of a taxable person or of his employees, or, more generally, for non-business purposes or non-economic activities' ([12032/18](#)).
- a derogation authorising Spain to apply a reduced rate of excise duty to electricity directly supplied to vessels berthed in ports, other than private pleasure craft, provided that the minimum levels of taxation are respected ([11795/18](#)).

Safe-keeping duties of depositaries

The Council confirmed that it had no intention of objecting to two delegated acts submitted by the Commission, supplementing directives 2009/65/EC and 2011/61/EU, as regards safe-keeping duties of depositaries.

The amendments are aimed at clarifying the obligations of depositaries where they delegate safe-keeping functions to third parties, in particular as regards asset segregation ([11204/18](#) and [11205/18](#)).

Capital requirements for credit institutions - liquidity coverage requirements

The Council confirmed that it had no intention of objecting to the delegated act submitted by the Commission on 13 July 2018, supplementing regulation (EU) 575/2013, as regards the liquidity coverage requirements for credit institutions.

Based on initial experience with the application of the liquidity coverage ratio (LCR) and based on discussions with member states, the Commission decided to make certain limited amendments to the LCR Delegated Regulation to improve its practical application and ensure that its objectives could be achieved.

The most important change is the full alignment of the calculation of the expected liquidity outflows and inflows on repurchase agreements, reverse repurchase agreements and collateral swap transactions with the international liquidity standard as developed by the Basel Committee. The delegated act also amends the treatment of liquid assets held with third-country central banks and implements the unwind mechanism for the calculation of the liquidity buffer and sets the new criteria for simple, transparent and standardised (STS) securitisations ([11203/18](#)).

JUSTICE

Cooperation agreement between Eurojust and Tunisia

The Council took note of Eurojust's proposal to launch formal negotiations with the intention of entering into a cooperation agreement with Tunisia ([12234/18](#)).

For more information: [Eurojust website](#)

HOME AFFAIRS

Counter-terrorism - Western Balkans

The Council approved the signature, on behalf of the EU, of the joint action plan on counter-terrorism for the Western Balkans. This plan aims to strengthen regional cooperation in the field of counter-terrorism by focusing on a series of objectives to be reached by 2020. These include countering violent extremism, information exchange, combating money laundering and strengthening protection of citizens and infrastructures.

The signing is scheduled to take place during the JHA ministerial meeting in Tirana (Albania) on 4-5 October 2018.

INTERNAL MARKET AND INDUSTRY

Regulation on cash controls

The Council adopted a regulation aimed at improving controls on cash entering or leaving the Union. This follows an agreement reached with the European Parliament in June ([PE-CONS 49/18](#)).

For more information, see the [press release](#).

ENLARGEMENT

European Court of Auditors' Special Report No 7/2018 - pre-accession assistance to Turkey

The Council adopted conclusions on the European Court of Auditors' Special Report [No 7/2018](#) entitled 'EU pre-accession assistance to Turkey: Only limited results so far' ([12261/18](#)).

The Court of Auditors has issued recommendations regarding the design and effectiveness of the EU pre-accession assistance (IPA) to Turkey.

The recommendations are the following:

- increase the use of political and project conditionality,
- better target IPA funds, in particular in the areas of rule of law and fundamental rights,
- improve the sector approach assessments,
- improve monitoring of project performance, and
- reduce backlogs by applying indirect management selectively.

In its conclusions, the Council takes good note of these recommendations and invites the Commission to fully implement them.

In line with its previous conclusions on Enlargement and Stabilisation and Association process, the Council also recalls that the general focus of IPA should remain on key priorities, such as rule of law and fundamental rights, and enhanced coherence between the financial assistance and the overall progress made in the implementation of the pre-accession strategy.

AGRICULTURE

Placing on the market and use of feed: amendments to some language versions

The Council adopted a regulation correcting annexes IV, VI and VII to regulation 767/2009 on the placing on the market and use of feed, and correcting certain language versions of annexes II, IV, V and VI to that regulation (11713/18).

The changes are meant to correct manifest errors and omissions appearing in the initial regulation, and some of its language versions.

TRADE AND CUSTOMS

Council decision on the EU position in the United Nations Economic Commission on customs questions

The Council adopted a decision establishing the position to be taken on the Union's behalf in the United Nations Economic Commission for Europe (UNECE) Working Party on customs questions affecting transport and, possibly, at the United Nations Economic Commission for Europe Inland Transport Committee in connection with the envisaged adoption of a new Convention on the facilitation of border crossing procedures for passengers, luggage and load-luggage carried in international traffic by rail ([11892/18](#)).

Council decision on the EU position in the EU-CTC Joint Committee on the simplification of formalities in trade in goods and on a common transit procedure

The Council adopted a decision establishing the position to be taken on the Union's behalf in the EU-CTC Joint Committee established by the Convention of 20 May 1987 on the simplification of formalities in trade in goods and in the EU-CTC Joint Committee established by the Convention of 20 May 1987 on a common transit procedure ("the Joint Committees") in connection with the envisaged adoption by each of the Joint Committees of a decision as regards the invitation to the United Kingdom of Great Britain and Northern Ireland ("the United Kingdom") to accede to, respectively, the Convention on the simplification of formalities in trade in goods and the Convention on a common transit procedure ("the Conventions") ([12139/18](#)).

Council decision on the EU position in the EU-CTC Joint Committee on a common transit procedure on amendments to the Convention

The Council adopted a decision establishing the position to be taken on the Union's behalf in the EU-CTC Joint Committee on common transit ("the Joint Committee") in connection with the envisaged adoption by the Joint Committee of a decision amending a number of annexes in Appendix III to the Convention of 20 May 1987 on a common transit procedure ("the Convention")([12141/18](#)).

TRANSPORT

Operation of air services - wet lease

The Council adopted a general approach on a draft regulation amending regulation 1008/2008 on common rules for the operation of air services in the Community ([12346/18](#)). The amendment relates to wet-lease arrangements.

HEALTH

WHO Framework Convention on Tobacco Control

The Council agreed on the EU position on agenda item 8.8 of the Eighth session of the Conference of the Parties (COP8) to the Framework Convention on Tobacco Control (FCTC).

The COP8 session will be held on 1-6 October 2018 in Geneva, Switzerland. Agenda item 8.8 concerns possible amendments to the rules of procedure of the Conference of the Parties.
